

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

2015 - 2016

Department/Agency: Treasury

Question: SBT 392-393

Topic: Budget Balance

Reference: written - 30 October 2015

Senator: Wong, Penny

Question:

392. What is the illustrative sensitivity of the budget balance (impact on receipts and payments) due to a:

- a. 0.5 per cent decrease or increase in unemployment;
- b. 0.5 per cent decrease or increase in the consumer price index;
- c. 0.5 per cent decrease or increase in the wage price index;
- d. 0.5 per cent decrease or increase in employment

393. Has there been any advice provided to the Department of the Treasury, Department of the Prime Minister and Cabinet, the Minister for Finance, the Minister for Finance's office, the Treasurer, the Treasurer's office, the Prime Minister, or the Prime Minister's office in relation to:

- a. second-round effects in costings;
- b. whether they should be included in costings for the purposes of the budget; and
- c. what type of costings would they apply to, if they were included in costings for the purposes of the budget.

Answer:

392. Illustrative sensitivity analysis is undertaken jointly by the Department of Finance and the Treasury and presented in published budget documentation (for example, in the pages 7-14 to 7-19 of Budget Paper 1). This analysis shows the impact of the two scenarios: a permanent one per cent reduction in nominal GDP due to a fall in the terms of trade; and a permanent one per cent increase in real GDP driven by equal and ongoing increases in the participation rate and labour productivity. The scenarios step through the impact of key economic parameters as well as the budgets bottom line. As noted on page 7-19 the impacts can be interpreted as broadly symmetrical.

These illustrative scenarios present the sensitivity of the budget to changes in economic parameters in an integrated way in the context of specific economic shocks. Sensitivity analysis based on stand-alone changes in individual economic parameters has not been undertaken and would require a significant amount of Treasury resources, which are not available at this time.

393. Treasury provides advice on a range of matters related to the budget. The Secretaries to the Treasury and the Department of Finance have also issued advice on second round impacts and costings in the Charter of Budget Honesty Policy Costing Guidelines last issued in 2012.