

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 20-21 February 2008

Question: aet 36

Topic: **First Home Saver Account –
Effect on Inflation**

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Senator COONAN asked:

Senator COONAN—The second question, and this was right back at the very beginning. Is the government's first homeowner's savers account likely to reduce inflation in the short term?

Dr Gruen—The details of the home savers account is really a revenue group issue but it will depend on when it is taken up. I am not fully on top of this but the legislation has to be prepared and the thing has to come into existence so—

Senator COONAN—So there is a fairly long lead time—

Dr Gruen—it is going to depend on that. It is going to depend on how long that is.

Senator Sherry—The date is 1 July. The discussion paper has been issued and obviously legislation does have to be prepared very quickly for a 1 July start-up date. I do not have the figures in front of me because it falls into another area. Then there is obviously a graduated take-up over time. I do not have those figures. I am happy to get them for you on notice because there is a projected cost to revenue which is based on a take-up.

Senator COONAN—You have made assumptions about the take-up, I do not know what they are. But my proposition was that it is not a short-term measure that would have any short-term effect on inflation? I think that is a fair comment.

Dr Gruen—I would have to check on the timing—

Senator COONAN—Would you do that for me?

Dr Gruen—Certainly. We can certainly get back to you on that.

Answer:

In the short term, First Home Saver Accounts (FHSAs) will reduce inflationary pressures to the extent that they lead to an increase in aggregate saving and, thereby, moderate growth in demand. Aggregate saving will increase to the extent that households increase saving out of their own incomes. First home buyers will have an increased incentive to save, as the Government's contribution will increase the returns on savings made through the accounts. Making precise estimates of the impacts on inflation would be extremely difficult, and Treasury has not attempted such analysis.

FHSAs should not impact on house prices in the short term, as there will generally be a minimum four-year period before account holders are able to access their savings for a deposit on a home purchase.