

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates 3-5 June 2008

**Question: bet 61**

**Topic: Consumer Price Index/ Terms of Trade**

**Hansard Page: E5-6**

**Senator Coonan asked:**

**Senator COONAN**—I realise in the presentation there are a lot of decisions that have to be made, but if the change is ostensibly due to recent terms of trade increases why would Treasury not use the gross national income deflator or the real net national disposal income deflator?

**Mr Martine**—I would have to take that question on notice.

**Senator COONAN**—Yes. As I have said, I appreciate that judgements have to be made about this when you are looking to present the budget, but I think they are important questions in order to understand your thinking.

**Senator RONALDSON**—I wonder whether the minister has got a view on that.

**Senator Sherry**—No. I am happy to take it on notice as well.

**Senator BUSHBY**—In taking it on notice, if you consider that either of those two measures are broader than CPI and would tend to encompass all of government expenditure better, but also incorporate the terms of trade effect, so if you could incorporate that as well—

**Senator Sherry**—I am happy to incorporate that in the answer on notice.

**Senator COONAN**—I am curious to know why this change that we have discussed was not flagged more prominently in the budget papers, that you have to get to page 6 of paper 10 to understand or find mention of the change.

**Mr Martine**—Statement 10 is where we provide the historic series.

**Senator COONAN**—Yes, the historic account.

**Mr Martine**—There may be a reference in statement 3, but I may be wrong there.

**Senator COONAN**—Would you like to take that on notice?

**Mr Martine**—I can take that on notice.

**Answer:**

As well as a strong conceptual case to use the CPI to obtain a measure of real government spending (see answer to question bet. 60), it is also appropriate for practical purposes as the CPI is widely understood and readily available. The public is more likely to understand resources measured in terms of real consumption possibilities (proxied by the CPI basket), rather than a ‘whole-of-economy’ basket. The outlook for CPI is also provided in Statement 2, Budget Paper No. 1. The gross national income and net national disposable income deflators are less well known and not published explicitly in the National Accounts.

## **Senate Standing Committee on Economics**

### **ANSWERS TO QUESTIONS ON NOTICE**

#### **Treasury Portfolio**

Budget Estimates 3-5 June 2008

Deflating payments by CPI instead of the non-farm GDP deflator is of primary relevance to the presentation of historic growth trends which are included in Statement 10, Budget Paper No. 1. The actual indexation of government programs (which feeds into the budget bottom line) remains unchanged. In Statement 10, payments are deflated by both CPI and the non-farm GDP deflator to calculate real growth rates. These real growth rates are also used in Statement 3, Budget Paper No. 1. Real growth rates for functional expenses across the forward estimates are calculated using CPI and this is noted in Statement 6, Budget Paper No. 1 (page 6-3).