Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 345

Topic: Current Account Deficits

Hansard Page: Written

Senator EGGLESTON asked:

1. Budget Paper no. 1 states that:

… large current account deficits do expose us to risks in the event of a reversal in capital inflows. The global financial crisis has highlighted the potential for global financial markets to fail and for access to finance to be disrupted.

All other things being equal, would lower government spending tend to mitigate these risks? What actions is the government taking to mitigate these risks?

Answer:

As noted in the 2010-11 Budget (Budget paper No. 1, page 4-21), the Government's medium-term fiscal strategy will help ensure adequate national saving. Achieving surpluses on average over the medium term means that the Australian Government will not be contributing to the current account deficit over time. The Government's proposal to increase the superannuation guarantee rate from 9 to 12 per cent would also be expected to boost national saving.

Improving the quality of financial regulation internationally is also critical in limiting Australia's exposure to external financing risks. While Australia's robust system of prudential regulation was a key reason why the Australian financial system entered the global financial crisis in better shape than the systems of comparable countries, Australian financial institutions were affected by the closure of offshore funds markets – which stemmed from regulatory failures overseas. A key focus of Australia's involvement in the G-20 is to strengthen global financial regulation.

It should be noted that foreign investors' willingness to continue financing Australia's CADs over a long period owes substantially to Australia's strong track record in macroeconomic management – in particular, a strong fiscal position – and structural reform. With regard to the Commonwealth, it has the highest possible credit ratings for both foreign and domestic currency denominated debt from Standard & Poor's (AAA) and Moody's (Aaa), which crucially remained unchanged during the global financial crisis – reflecting the Commonwealth's sound fiscal position. The Commonwealth's net debt is expected to be 2.9 per cent of GDP in 2010-11, well below the 9.5 per cent average for the major advanced economies in 2010.