

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

21 – 22 October 2009

Question: sbt 16

**Topic: Economic Stimulus - Treasury Analysis –
Consideration of Policy Options**

Hansard Page: E128

Senator BUSHBY asked:

Senator BUSHBY—...New question. Consider three policy options. One is the fiscal policy chosen and the monetary settings that have gone with that fiscal policy, so what we have actually experienced, which has been a cash rate target of three per cent at its lowest. Another would be no fiscal stimulus, and presumably a much lower cash rate target of one per cent. And a third would be a midpoint fiscal policy of half the size and a cash rate target of two per cent. My question is: has Treasury undertaken an analysis of such alternative scenarios, or anything similar?

Dr Henry—Not to my knowledge.

Senator BUSHBY—Is that something you would be able to do?

Dr Henry—In principle we could have a stab at it, but it would be quite a bit of work to undertake those scenarios.

Senator BUSHBY—I do not want to ask for anything that would be unreasonable, but if it is something that is reasonably able to be achieved, I would appreciate it if that could be done and provided.

Dr Henry—That sort of question is one that we would need to refer to the Treasurer for his consideration since it does go to the use of departmental resources to provide analysis. It is obviously for the Treasurer to make a judgement about whether that would be an appropriate use of the department's resources.

Senator Sherry—We will take it on notice.

Dr Gruen—In our prepared comments that we were requested to respond to, we did provide quantitative estimates of the impact of monetary policy through time. So in principle you could use those quantitative estimates to ask the question: had the cash rate been cut to two or one instead of three, what would have been the impact on growth of that outcome? I repeat something that I said at the previous hearings: at least according to our estimates, the near-term impact of the fiscal expansion was larger than the impact over the same period of the monetary easing. I went through that exercise last time. As a consequence of the fiscal easing growth over the year to the June quarter of 2009, our estimate was that it is 1.9 per cent stronger than it would otherwise have been. Our estimate of how much the cash rate cuts would have contributed to growth over that period is significantly less than that.

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Answer:

The Treasury briefing paper for the Senate Inquiry into the Economic Stimulus Package summarised estimates of the economic impact of discretionary fiscal policy action and monetary policy in response to the crisis. However, the paper did not provide estimates of the relationship between these policy tools. Preparation of such estimates would require resources of the Department to be re-allocated from higher priority tasks.