

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Finance and Deregulation Portfolio

Department of Finance and Deregulation

Supplementary Estimates Hearing – October 2010

Outcome 1, Program 1.1

Topic: Intergenerational Report

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Senator Cormann asked:

Has the outlook here worsened over the last three years, and how much?
The question is: to what degree have recent spending decisions of the government either worsened or not helped resolve or address the challenge?

Answer:

Each of the three intergenerational reports released to date (in 2002, 2007 and 2010) has provided fiscal projections over a period of 40 years from the year of the report's release. The long-term fiscal outlook has been reported in terms of the 'fiscal gap', or the difference between the government revenue and spending as a proportion of GDP.

Each intergenerational report (IGR) has shown deterioration in the fiscal position over the projection period associated with the ageing of the population in particular. The 2010 IGR reported a fiscal gap (in deficit) after 40 years of 2¾ per cent of GDP. This is smaller than the comparable fiscal gap in the 2007 IGR of 3¼ per cent of GDP after 40 years.

The Government's fiscal strategy is incorporated in the fiscal projections in the 2010 IGR. Consistent with the fiscal strategy, the initial budget deficits are projected to diminish over the forward estimates period and the budget balance returns to surplus over the medium term before it starts to deteriorate over the longer term largely because of population ageing.

As reported in the 2010 IGR (page 41), without the fiscal strategy, ageing of the population would result in a wider fiscal gap at the end of the 40-year projection – 3¾ per cent of GDP rather than 2¾ per cent of GDP. Furthermore, the projected underlying cash deficit would be 3½ percentage points of GDP larger over 40 years than would be the case without the fiscal strategy.