'Off budget' spending adds to inflation pressure

John Kehoe *Economics editor*

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The International Monetary Fund and economists say the proliferation of the federal government's so-called "off budget" funds to invest in the energy grid, industry and housing risk adding to inflation pressures.

Labor took to the election a pledge to set up a range of energy and social infrastructure funds that will be seeded with borrowed money and add about $50 billion to government gross debt over coming years.

These include the $20 billion Rewiring the Nation Corporation [https://www.afr.com/link/follow-20180101-p5axwn] to fund cheap loans to energy companies to rebuild and modernise the energy grid, the $15 billion National Reconstruction Fund to diversify industry and [https://www.afr.com/link/follow-20180101-p5b54a]the $10 billion Housing Australia Future Fund for new social and affordable homes.

Treasurer Jim Chalmers. **Alex Ellinghausen**

The International Monetary Fund's review of Australia's economy said last week [https://www.afr.com/policy/economy/imf-urges-australia-to-restrict-tax-breaks-for-the-family-home-20230201-p5cgz6] that further spending restraint would be required in the May budget – in line with a commitment from Treasurer Jim Chalmers [https://www.afr.com/politics/federal/little-room-for-budget-handouts-chalmers-warns-20230205-p5chyp].

The IMF also said so-called "off budget" or "below the line" outlays via investment vehicles also needed to be rolled out judiciously, to avoid adding to inflation.

"Strong aggregate demand and the tight labour market warrant continued focus on fiscal consolidation in the near term," the IMF said.

"Saving of expected revenue overperformance and judicious implementation of spending programs, notably infrastructure investment, would help in containing demand pressures and inflation.

"Implementation of below-the-line activity through newly created investment vehicles (National Reconstruction Fund, Rewiring the Nation, and Housing Australia Future Fund) should be phased appropriately, and, more broadly, a proliferation of such vehicles should be avoided."

Labor and Coalition governments have used the "off budget" vehicles to conceal spending because the funds do not detract from the "underlying cash balance" that treasurers and the media focus on.

These include the $29.5 billion of equity in the National Broadband Network by the Rudd-Gillard Labor governments, and the Coalition's $14.5 billion for the Australian Rail Track Corporation, $5.9 billion for the Snowy 2.0 hydropower project and $5 billion for the Northern Australia Infrastructure Facility. [https://www.afr.com/link/follow-20180101-p5c3vz]

Former Treasury economist Stephen Anthony said the funds needed a stricter cost-benefit analysis by an independent agency such as the Productivity Commission.

"These federal funds, combined with the states' infrastructure spending and another mining boom are contributing to the shortages in construction," he said. "In the context of an inflation fight, it's not a good cocktail."

The little-talked-about "headline cash balance" that includes the government funds is forecast to have a cumulative deficit of $228.9 billion over the five years to 2025-26, $47 billion worse than the underlying cash balance that most commentators focus on.

Rich Insight economist Chris Richardson said the widening gap between the headline and underlying cash balances over the past 15 years showed politicians were increasingly "hiding" spending by using a "loophole".

"The idea of the off-budget vehicles was they earn a commercial rate of return," Mr Richardson said.

"The NBN and other funds under both sides of politics have failed that test."

Mr Richardson was less worried about the inflation consequences, saying only a small portion of the funds were spent in a single year.

"The extra bit that goes into the economy is a small portion of the fund."

Dr Chalmers' office was contacted for comment on Monday.

Shadow treasurer Angus Taylor said the IMF's warning was timely.

"The Treasurer can indulge in all the spin he likes, but the reality is the money still needs to be borrowed and the impact will still be felt across the economy," he said.

"This will make the task of taming inflation harder and certainly will not make the job of the Reserve Bank any easier."

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John Kehoe is Economics editor at Parliament House, Canberra. He writes on economics, politics and business. John was Washington correspondent covering Donald Trump's election. He joined the Financial Review in 2008 from Treasury. *Connect with John on Twitter. Email John at jkehoe@afr.com*