

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

26 February 2014

Question: AET 3032

Topic: Terms of trade

Hansard Page: page 101, 26 February 2014

Senator HERRERNAN asked:

3032. **Senator HEFFERNAN:** Well, you know, 1½. They are paying at the present time per working day—not per day; per working day—\$1 billion interest. At a historically low interest rate, they are paying \$1 billion interest. It seems to me that for the US the only way out of their \$17 trillion in public debt, \$5 trillion borrowed from their own pension fund, is to devalue their debt with inflation. You have made some assumptions with our terms of trade into the future. What are those assumptions in terms of the US financial position? If we are to lower our dollar, we are going to have to go to zero interest rates. Do you consider those sorts of assumptions in your consideration of the terms of trade?

Mr Heferen: A couple of things: the terms of trade assumptions are really a matter for our Macroeconomic Group colleagues, not for us.

Senator HEFFERNAN: Well, I am a busted farmer and I can figure it out.

Mr Heferen: Well, the way our economic forecast would work, we would take into account all the available information—

Senator HEFFERNAN: But the short answer is that you do not know—

Mr Heferen: Certainly, the external—

Senator HEFFERNAN: what the assumption is on the terms of trade. If we have to maintain our terms of trade, what is that going to do to the value of the Australian dollar vis-a-vis interest rates.

Senator Sinodinos: This is a very broad philosophical consideration.

Senator HEFFERNAN: No, it is the key to it.

Mr Heferen: The budget assumes that there is a gradual wind-down of the Australian dollar consistent with the terms of trade.

Senator HEFFERNAN: I accept that. So what does that say with the US debt position and the value of the US currency?

Mr Heferen: I do not know. We would have to take that on notice.

Senator HEFFERNAN: You ought to think about it.

Senator Sinodinos: We can take that on notice.

Mr Heferen: We will take it on notice.

Senator HEFFERNAN: You can take it on notice and I would like the answer

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Answer:

3032. Treasury's terms of trade forecasts are comprised of detailed models on the outlook for export and import prices. Longer term, the terms of trade assumptions rely on comprehensive supply and demand frameworks for Australia's key commodities while import prices rise in line with global inflation adjusted for the exchange rate.