

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 43

Topic: Terms of Trade

Hansard Page: E40-41 (02/06/2010)

Senator BUSHBY asked:

Senator BUSHBY—In estimating last year's structural deficit, what value did you use for the terms of trade? What did you assume was the natural level?

Mr T McDonald—The value for the terms of trade was the same as the end point of the medium-term fiscal projections. The easiest way to look at this is to refer to the *Intergenerational report*, because it is equivalent to where the terms of trade finishes in the *Intergenerational report* projections.

Senator BUSHBY—Does it have a figure?

Mr T McDonald—It does have a figure. One of the slight complications is that the terms of trade figures from year to year are comparable but need to be adjusted because the ABS rebases the national accounts to a different year because it is an indexed number.

Senator BUSHBY—You would have had to assume a figure as the normal terms of trade to do a structural deficit calculation.

Dr Gruen—We could take it on notice and give you an answer.

Senator BUSHBY—I do not know whether you can tell me this: is the terms of trade now higher or lower than last year's assumption?

Mr T McDonald—It is higher.

Senator BUSHBY—If you take that other question on notice it would be very good.

Dr Gruen—The question you would like the answer to is what the level was assumed to be here and what it is now in the comparable period.

Senator BUSHBY—And also what you would consider the normal level is now, yes. You are saying it would be adjusted. With structural deficit calculations you assume capacity and normally that is your growth and your unemployment rate, but in Australia, because it is a commodity country, we also do terms of trade. I want to know what the assumption is for the purpose of last year and whether that has changed.

Dr Gruen—Yes, indeed.

Mr T McDonald—I guess on the first part of that, what we said in last year's budget was that the terms of trade assumption that we used was consistent with the end point of the medium-term projections outlined in appendix B of statement 3, and that says that the phase-down assumes the terms of trade decline by around 15 per cent from the end of the medium-term projection periods by 2022-23. That end point, when we

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reach it, is later now. But that end point is consistent with the equivalent end point in the *Intergenerational report* for the terms of trade. I believe there is a chart that has that. We can take it on notice to see what extra we can provide.

Answer: The structural budget balance estimates published in last year's Budget assumed a structural terms of trade of 85, where 2006-07 is the base year.

The ABS has re-based the National Accounts to 2007-08. The equivalent structural terms of trade with 2007-08 as the base year is 80.6.