

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates

1 June – 3 June 2010

**Question: BET 44**

**Topic: Terms of Trade – Structural Budget**

**Hansard Page: E41 (02/06/2010)**

**Senator BUSHBY asked:**

**Senator BUSHBY**—I have a couple of final questions on this. You mention you had done some work on the structural budget deficit this year. Would the structural budget balance be above or below the actual underlying cash balance for 2009-10 and 2010-11—that is, is the structural element of the budget expansionary or contractionary?

**Dr Gruen**—We may need to take that on notice because it will depend on the assumption you make, particularly for the terms of trade. Obviously the unemployment rate is much closer to our assumed full employment rate than we had thought it would be. We would have to take it on notice.

**Senator BUSHBY**—Are you aware of whether any other organisations produce structural deficit estimates for Australia?

**Dr Gruen**—I think the OECD does.

**Mr T McDonald**—The OECD and IMF do and Access Economics also does. Just one thing on the Access Economics estimates, I think they are in the *Budget monitor*. One of the things that the most recent *Budget monitor* has done is make a significant adjustment to the assumption that they make for the underlying or structural terms of trade estimate—quite substantially, as far as I can understand. That has an impact on their estimates as well.

**Senator BUSHBY**—Bearing in mind that impact, what do those other organisations say has happened to Australia's structural deficit over the last year?

**Mr McDonald**—Again there are questions of timing on this. I do not have the latest OECD ones because they have only just come out last week. The IMF estimate—

**Senator BUSHBY**—Can you take it on notice to provide the latest ones that came out last week?

**Mr McDonald**—Yes. The most recent ones from the IMF, which predate the budget and so are not necessarily directly comparable, are moving from in 2008 -0.6, 2009 -0.4, 2010 -4.9 and 2011 -3.5. That is covering all levels of government, state and federal and acts as a percentage of potential GDP, I think. Access Economics estimates—these are in financial years, starting in 2008-09—are -2.3, 2009-10 -3, 2010-11 -2.3, 2011-12 -0.8 and 2012-13 -0.6. I guess the point to note there, though, is that a key element, as you are saying before, of a structural balance budget estimate is what your estimate of the underlying cash balance is. Access Economics, and again this budget monitor predated the budget, including the savings features in the budget, had an actual underlying cash balance of -0.5.

**Mr Gruen**—In 2012-13.

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**Mr McDonald**—In 2012-13, which is only slightly different to the structural budget.

**Answer:** The most recent OECD estimates of Australia's structural budget balance are contained in Economic Outlook 87, released in May 2010.

Table: OECD General Government Structural Budget Balance estimates  
(Per cent of potential GDP)

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
General Government cyclically-adjusted balance	0.1	-3.3	-2.5	-1.9
General Government underlying balance	0.3	-3.0	-2.7	-2.1

Note that the IMF estimate for 2009 should be -4.0 per cent of potential GDP, rather than -0.4 recorded in the Hansard.