

ACT Legislative Assembly Select Committee on Estimates 2009-10

Economic Modelling on the Impact on the ACT Community if the ACT Budget Estimates and the Savings Targets are not reached over the Next Five Years

Loss of revenues and savings

Earlier advice provided to the Committee suggested that revenues collected under the forecasts estimated by the IMF could reduce the ACT's total revenue - that is from the Commonwealth and from own sources - by substantially more than the \$200 million lost from revised forecasts for the ACT's share of GST over the forward estimates period. A more precise figure would require access to the Commonwealth's and the ACT's revenue modelling. Additionally, the Committee has postulated a scenario where some or all of the savings needed to restore the budget to surplus by 2015-16 - \$356 million in the period to 2012-13 - are not realised.

A \$600 million or so increase in the ACT Budget deficit for the period to 2015-16 represents an increase in the deficit of about \$140 million a year before interest payments are calculated. The accumulations of such deficits would lead to a net debt for the Territory - exclusive of superannuation assets - of around \$400 million, again ignoring interest rate changes. This contrasts with the negative net debt figure of \$472 million included in the budget documents for the year ended 30 June 2010.

A \$400 million net debt for the general government would equate to about \$1300 per resident. It would lead to interest rate charges of around \$24 million a year by 2015-16. Neither of these figures is particularly worrisome. As a rule of thumb, governments should avoid accruing debt well before servicing costs approach 10 per cent of its revenues. Annual interest rate payments of \$24 million represents less than one per cent of ACT general government sector revenues of around \$4,000 million by 2015-16.

Net debt for the ACT of \$400 million caused by the impact of the recession would probably not cause rating agencies to change the AAA rating for the Territory. This is partly because the servicing of such debt from annual revenues is entirely manageable and because the Territory has additional assets set aside for superannuation which could be diverted to servicing debt. The situation might change if rating agencies believed that the budget was not being managed and that deficits were capricious.

National Accounts for March Quarter

The national accounts released on Wednesday provide the Committee with additional data to assess the state of the ACT economy and its likely impact on the ACT Budget.

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A positive Australian GDP growth rate for the March quarter was not particularly surprising. An important contribution from net exports was expected, partly because higher contract prices for minerals still applied to reasonably strong exports to China and partly because of the recovery of the agricultural sector. However, the strength of the contribution from net exports, 1.2 percentage points, was a surprise. Similarly, the 0.3 percentage point contribution from household final consumption expenditure was anticipated because of the Commonwealth's large transfer payments to that sector from the end of the December quarter. The fall in household savings ratio also fed into consumption.

The final consumption expenditure of the government sector was more modest than might have been expected. And there was yet no fillip from capital expenditure by state and territory governments in spite of the large infrastructure spending included in 2008-09 budgets.

While capital spending by the public sector will emerge over the period ahead, and while household consumption should remain robust until affected by rising unemployment, the June and following quarters will not benefit from the large net export contribution experienced in the three months to end March.

In fact, the strength of the national accounts for January-March is only apparent. Future accounts will better show the weakness anticipated by the Commonwealth's budget documents. The accounts suggest that the forecasts in that budget are on track.

Tony Harris

5 June 2009