



Independent fiscal institutions: the Australian experience

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Presentation outline

1. Purpose of Australian PBO
2. Rationale for Australian PBO
3. Roles of Australian PBO
4. Performance of the Australian PBO
5. History of fiscal strategy in Australia
6. Australia's fiscal performance
7. Fiscal strategy post-May 2014
8. Conclusions



1. Purpose of Australian PBO

- To inform the Parliament by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of policies
- The PBO does not provide policy advice
- The Parliamentary Budget Officer is an independent statutory officer of the Parliament

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2. Rationale for Australian PBO

- To provide a more level playing field for non-government parties and independent parliamentarians
- To improve the accuracy of election commitment costings
- To improve the transparency of budget information and fiscal policy settings
- PBO not established due to any fiscal crisis

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3. Roles of Australian PBO

a) Services to parliamentarians

- Costings of policy proposals; may be confidential except in election caretaker period
- Budget analyses and information; may be confidential
- Submissions to parliamentary inquiries; must be published

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3. Roles of Australian PBO

b) Public reports

- After a general election, report publicly on the budget impact of election commitments of parliamentary parties
- Publish own research on the budget and fiscal policy settings

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4. Performance of the Australian PBO

- The playing field is now more level
 - Strong demand from non-government parties for PBO costings and budget analyses
- Election commitment costings are now more accurate
 - In 2013 for the first time for many years no “black holes” were found in parties’ costings
- Transparency has been improved
 - PBO post-election report of election commitments
 - PBO reports, eg on Structural Budget Balance

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5. History of fiscal strategy in Australia

a) Legislative requirements

- *Charter of Budget Honesty Act 1998*
 - Government must uphold budget transparency and fiscal responsibility
 - Must publish a fiscal strategy
 - Strategy must be based on sound fiscal management and medium-term sustainability

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5. History of fiscal strategy in Australia

b) Strategy pre-2008

- Maintain budget balance, on average, over the economic cycle
 - Maintain surpluses in periods of economic growth
 - Tax capped as a share of GDP at 1996-97 level
 - Improve net worth over the medium to longer term

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5. History of fiscal strategy in Australia

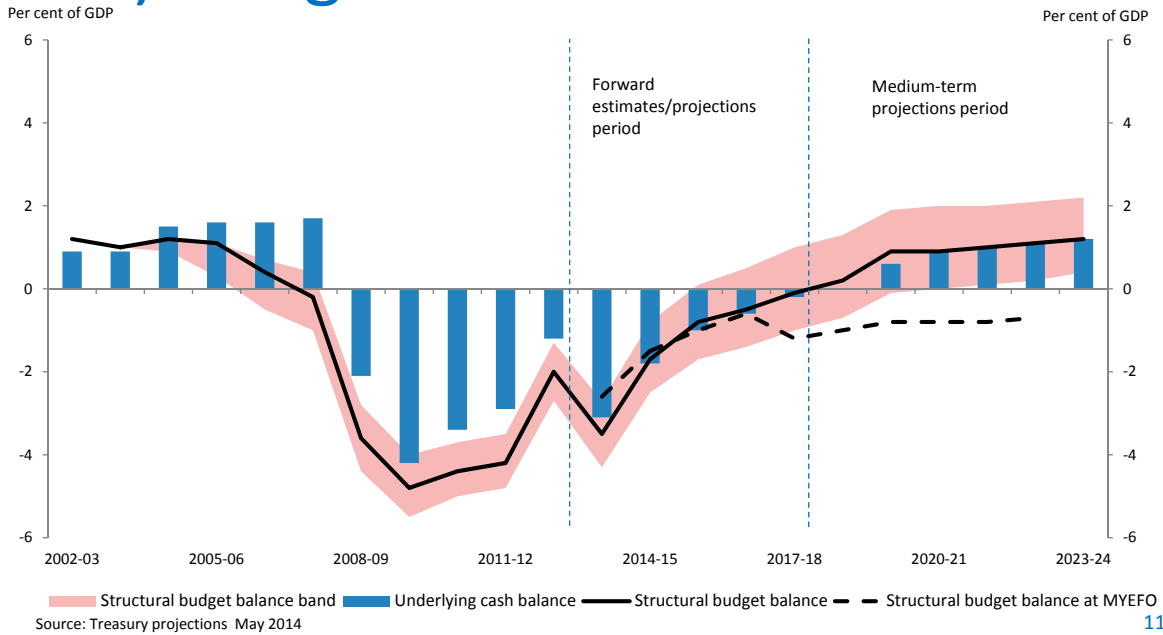
c) Strategy 2008 - 2013

- Achieve budget surpluses on average over the medium term
 - Tax capped as a share of GDP on average below 2007-08 level
 - Improve net financial worth over the medium term
 - Post-GFC, real growth in spending capped at 2 per cent a year until budget returns to surplus

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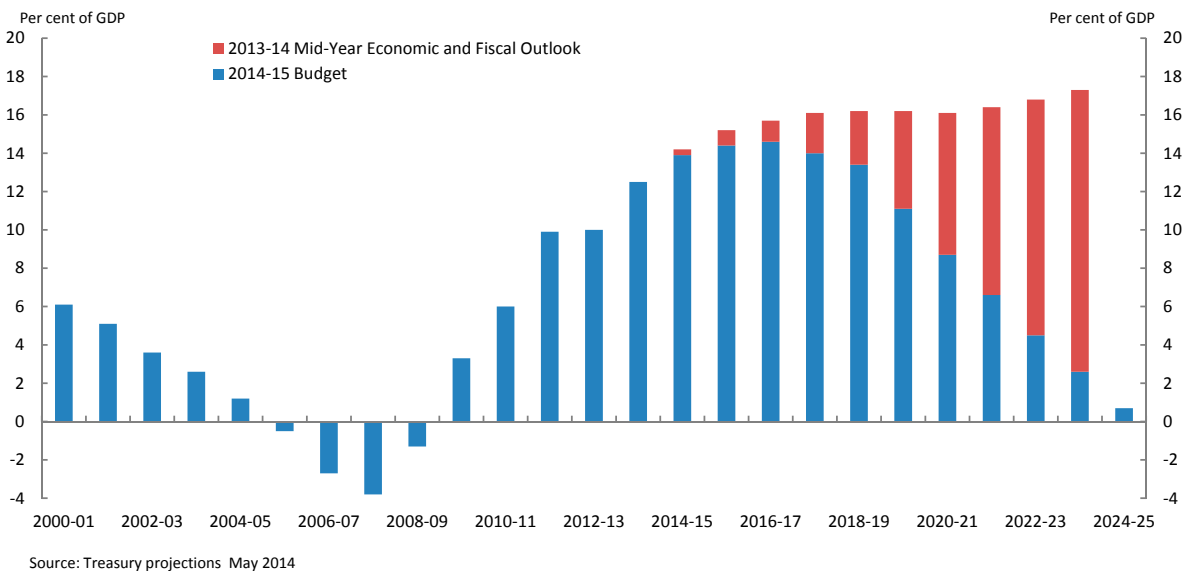
6. Australia's fiscal performance

a) Budget balances



6. Australia's fiscal performance

b) Net debt





7. Fiscal strategy post-May 2014

a) The strategy

- Achieve budget surpluses, on average, over the economic cycle with a surplus of at least 1 per cent of GDP by 2023-24
 - Increase investment to boost productivity and workforce participation
 - Reduce the Government's share of the economy to free up resources for private investment
 - Reduce debt and improve the Government's net financial worth

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7. Fiscal strategy post-May 2014

b) Rationale

- Increased productivity and workforce participation essential for economic growth
- Surpluses necessary to reduce net debt
- Low net debt necessary as a buffer against economic shocks – Australia is an open and exposed economy
- Flexible to facilitate macroeconomic stability

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7. Fiscal strategy post-May 2014

c) Independent monitoring

- Recent National Commission of Audit recommendation that the PBO:
 - Assess fiscal policy and monitor Government decisions against the fiscal rules
 - Report progress against the fiscal rules following release of final budget outcome each year
- To date there has been no Government response to this recommendation

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8. Conclusions

- Fiscal rules and roles of independent fiscal institutions vary between jurisdictions
- No single model is suited to all political environments
- Fiscal rules and independent fiscal institutions are not necessarily alternatives
- Australian experience shows they may complement each other

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