



– **DAILY COMMENTARY** BY THE CURVE TEAM –

CONCERNS RAISED OVER BUDGET FORECASTS

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The Government's latest budget continues to dominate the headlines as we await the opposition's response later tonight. Doubts over whether or not the government can get it through parliament have already surfaced as ratings agencies voice their concerns over the forecasts underpinning the budget itself.

All three major rating agencies have now had their say on the budget. The general consensus is it hasn't altered the outlook for Australia's sovereign credit rating despite the budget returning to surplus earlier than expected.

One of the biggest concerns from the ratings agencies is around the forecasts that underpinned the improved budget outlook. Fitch Ratings primary analyst for Australia expressed concerns over the government's ability to get the budget through parliament before saying that *"the budget is based on optimistic revenue assumptions."* He then went on to say:

"The reliance on improved revenues, rather than policy proposals, to narrow the deficit poses some downside risk to the achievement of the government's surplus target."

Ratings agency Moody's also has concerns over the assumptions that are baked into the forecasts. Moody's vice president Marcin Petch said that *"a risk remains that the expectations for commodity prices are optimistic and uncertainty persists on whether wages growth will pick up significantly enough to support revenues."*

Finally S&P, who retained their negative outlook placed on Australia's AAA rating appeared a little more concerned with the international environment impact on the budget.

S&P said that *"global trade tensions, coupled with rising investor aversion to emerging markets in recent months, may dampen economic growth among Australia's key trading partners."* As a result *"risks to the government's plan for an earlier return to budget surpluses are significant,"* meaning that *"the outlook on the long-term Australian sovereign ratings remains negative for now to reflect these uncertainties."*

Their concerns are justified given that Australia's economic performance along with inflation outcomes have undershot not only the Treasury's expectations over the past few years but also the RBA's.

Across the ditch and out NZ counterparts are experiencing similar issues when it comes to forecasts. It has reached a point where the RBNZ lowered both its growth and inflation forecasts. The RBNZ Governor Adrian Orr went as far as saying *"the direction of our next move is equally balanced, up or down."*



If Australia's economy fails to evolve as the Australian Treasury and [RBA](#) expect, then they too may need to revisit their forecasts before too long.



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