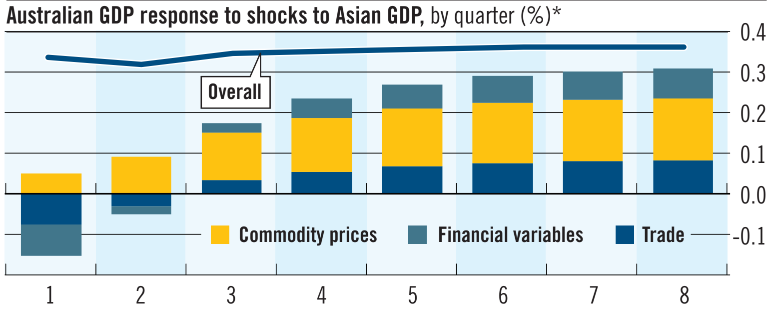
Connected

Australian GDP response to shocks to Asian GDP, by quarter (%)*



*Accumulated Australian GDP response to a 1% shock to emerging Asia GDP SOURCE: IMF

Region to power economy's growth

Asia-Pacific

Adrian Rollins
Economics correspondent

The economy could expand by up to 20 per cent in the next decade solely as a result of vigorous Asian growth, the International Monetary Fund says.

In an upbeat assessment of the nation's prospects, the IMF found that Australia was drawing major benefits from its increasingly close integration with emerging Asian economies, and that these were likely to increase over the next 10 years.

In an update on the Asia-Pacific region published yesterday, the fund affirmed forecasts that the economy would grow by 3 per cent this year and 3.5 per cent in 2012, with much of the momentum coming from its trade with China, India and other developing economies.

It found that in the past decade emerging Asia had supplanted the US as the biggest external influence on the Australian economy.

According to the IMF, between 1991 and 2010 a 1 per cent shift in US gross domestic product (GDP) was associated with a 0.4 per cent move in Australian growth, while growth shocks from emerging Asia had a negligible impact.

But if the time frame is narrowed to between 2000 and 2010, growth shocks from the US are no longer significant, while a 1 per cent change in Asian GDP resulted in a 0.33 per cent shift in Australian growth.

The fund said the change had occurred because of Asia's increasing economic weight and Australia's intensifying trade with the region.

With the region as a whole forecast to grow 7 per cent in both 2011 and 2012, including annual expansion of 9.5 per cent in China and 8 per cent in India, the IMF said this augured well for Australia.

IMF modelling of the relationship between Australia and emerging Asia found that if the region's real GDP increased by 50 per cent over the next 10 years this alone could drive a 20 per cent expansion in the local economy, because of increased trade and higher prices for commodities.

Even if Asian growth was to become more balanced, away from the present heavy reliance on export-led growth, the benefits to Australia would be substantial at about 10 per cent, according to the fund.

"The long-term trend of continued growth in emerging Asia bodes well for Australia," the IMF said. "Should emerging Asia continue to grow notably faster than the world average, the impact on Australia will be even larger than in the past.

"This larger impact reflects both the increase in emerging Asia's economic size and Australia's growing integration with emerging Asia."

Hefty penalties may be

Over-contribution

Fleur Anderson and
Bianca Hartge-Hazelman

The federal government is close to relaxing its hard-line approach to one of the most unpopular rules of superannuation which imposes taxes of as much as 93 per cent on people who put too much money into their super.

Federal Treasury is about to finalise an urgent report into the issue, and its recommendations could have a financial impact on the 2011 budget.

The government's solution to the excess contributions controversy, which saw almost 50,000 people breach their annual contributions limits last financial year, is expected to give some leeway to those who can prove the breach was accidental or inadvertent.

Treasury is working on a range of long-term and short-term options, including proposals for what the government describes as "big ticket" changes. The 100,000 people who have paid $180 million in penalties to the Tax Office since 2007 will not get retrospective relief from the tax.

The tax and superannuation industry has been encouraged by a sympathetic reception from Assistant Treasurer Bill Shorten, who commissioned the Treasury report.

"I had to pay excess contribution tax so I'm more than sympathetic; I'm annoyed," Mr Shorten told a Taxation Institute conference last month.

Taxpayers are allowed to deposit up to $25,000 or $50,000 in pretax income, depending on whether they are under 50 or over 50, and a further $150,000 in after-tax income or $450,000 over three years.

People usually contribute these large after-tax deposits only once or twice in a lifetime, after selling a house or business.

The punitive 93 per cent tax rate on the contributions over those amounts is a result of the imposition of a 15 per cent contributions tax, a 46.5 per cent

Assistant Treasurer Bill Shorten.

top marginal tax rate and a 31.5 penalty tax.

Taxation Institute tax counsel Robert Jeremenko said although the Australian Taxation Office already had the power to waive the tax penalties at it own discretion, so far tax commis-

Blow-out in budget deficit

From page 1

he brings down his fourth budget. "If you are losing up to three-quarters of a per cent from growth [as a result of natural disasters at the start of the year] in 2010-11, then growth is below trend," he said.

Mr Swan said the impact of the global financial crisis on the federal budget was not widely understood, nor the very different circumstances of the economy in a second historic resources boom.

"What a lot of people don't get – because we came through the recession and the financial crisis as well as we did – is that there is still a hangover of that, which no one ever wants to acknowledge," he said.

"There are the revenue impacts of it, the fact that it has produced the cautious consumer, the wealth and income effects and the fact that there are a lot of accumulated losses building up in the system which are weighing heavily on revenue.

"The hangover of the global financial crisis is that we've still got revenue write-downs from 2008-09 and onwards through five years of $110 billion. That includes [the peak in lost revenue] in 2010-11 of $30 billion.

"On top of that we've got the front-end loading of our spending to get over the crisis, plus we've also got the revenue effects of a softer economy all happening in 2010-11."

The grim budget outlook is backed by Canberra-based consultancy Macroeconomics, which has warned that unexpectedly low capital gains and company tax receipts, along with the strong dollar, have hurt government revenues and will push the deficit this financial year to $47.1 billion, $6.4 billion greater than forecast by the government in its Mid-Year Economic and Fiscal Outlook.

Director Stephen Anthony predicted the deficit would shrink to $14.1 billion in 2011-12 – still almost $2 billion more than estimated by Treasury – before the delivery of a small $160 million surplus in 2012-13.

Mr Swan's arguments come as the government continues to try to explain why it is taking such a tough approach to spending in next month's budget when economic conditions remain soft.

He argues that during the height of the earlier mining boom, the Coalition presided over 10 interest rate rises and was "spending really strongly at the top of the boom".

But the government was now dealing with an economy where the Australian dollar was 30¢ higher on average than it had been at that time – with a huge impact on non-mining sector profitability – and where a big investment pipeline already risks creating capacity constraints and, as