



Australia's Low Pollution Future Fact Sheet

Long Timeframes and the Global Financial Crisis

The modelling focuses on the medium to long-term transformation of the Australian economy. Market fluctuations, such as the current global financial crisis, will not materially affect the analysis.

Transforming the Australian economy over the medium to long term

The report uses policy scenarios to explore how the Australian economy might change in response to emission pricing. Changes are analysed relative to a reference scenario in which no new policies are introduced.

Like much long-term economic analysis, including that presented in the *Intergenerational Report* (Australian Government, 2007), the modelling focuses on medium to long-term trends in the economy rather than short-run fluctuations.

The actual path of Australian and global economic growth from now out to 2050 will be affected by a wide range of factors. Business cycles and economic shocks, such as the current global financial crisis, will have a substantial impact on the economy in the short term. However, the crisis is unlikely to change the long-run trajectory of the Australian economy. As the modelling is concerned with medium and long-run trends, the financial crisis will not materially affect the analysis in this report.

The modelling measures *changes* in the economy resulting from mitigation policies. In principle, even if the reference scenario was different, the direction and scale of these changes should not be significantly different.

The results would be sensitive to changes that affect the distribution of economic activity between high and low-emission activities. This is why the analysis has been carefully constructed to incorporate the Treasury's best current estimates of longer run trends in the sectoral distribution of output in the Australian and global economies.