



# Costing Concepts: Policies impacting prices

Tags: [Mechanics](#)

28 April 2026

## Overview

This *Costing Concept* explains how the Parliamentary Budget Office (PBO) treats policy costings that have a mechanical and material impact to prices, and hence government payments where the payment rate is indexed to the Consumer Price Index (CPI).

It explains why PBO costing total impacts may look different from measures published in the Budget, even though the overall impact on the Budget is the same.<sup>1</sup>

## When does this approach apply?

The PBO applies this approach when the impact of the proposal on prices is *mechanical and material*.

Consistent with the Charter of Budget Honesty Policy Costing Guidelines, PBO costings do not include broader economic effects, such as impacts on economic growth, productivity, or employment.<sup>2</sup>

## Costings prepared as part of a budget

The preparation of government budgets involves a comprehensive update to forecasts of the economy, including gross domestic product (GDP), the labour market (employment, unemployment and wages) and the CPI. These forecasts incorporate the effects of new government policies.

For example, if the Budget included a policy that increased the rate of the Goods and Services Tax (GST):

---

<sup>1</sup> Further detail is available in the PBO Information paper, [Including broader economic effects in policy costings](#).

<sup>2</sup> The [Charter of Budget Honesty Policy Costing Guidelines](#) outlines the process for submitting and preparing policy costings during the caretaker period prior to a general election. The Guidelines also note that, “as a general rule, policy costings only take into account the direct behavioural effects of a policy change, and do not include broader economic or ‘second-round’ effects.”

- The CPI forecast will be revised upwards; and
- The higher CPI forecasts will increase the projected cost of government payments that are indexed to the CPI, such as the Jobseeker payment.

In this context, the Budget costing for the GST measure would not include these flow-on impacts to other payments and revenue, because they will be included indirectly through the updated economic forecasts. If these impacts were included in the costing then they would be counted twice.

### Costings prepared outside of a budget (PBO costings)

PBO costings are prepared outside of a budget, and economic forecasts are not updated as part of costings. Because of this, the PBO explicitly includes the impact of the higher CPI on government payments in our costings as well as the direct financial impact on the Budget of the policy.

Including these effects allows the PBO to present a more complete estimate of the fiscal impact of the proposal given the fixed economic forecasts PBO must use.

### Why published costing amounts may look different

As a result of the different approach, a costing published by the PBO may differ from the costing shown in a government budget for the same policy, but the overall impact on the Budget is the same.

The difference is how the financial impacts are presented:

- the Budget reflects price effects implicitly, through updated economic forecasts; and
- the PBO reflects price effects explicitly, as part of the components of the costing response.

### Calculating the impacts

The impacts of a CPI change on the various government payments is determined using *Build your own Budget*, the PBO's publicly available fiscal analysis tool.