Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

29 May – 31 May 2012

Question: BET 230-231

Topic: General Government Borrowing

Hansard Page: Written

Senator JOYCE asked:

230. What interest rate does the government use to estimate its gross interest costs over the forward estimates?

Please provide the relevant interest rate for each financial year?

231. What interest rate does the government use to estimate its net interest costs over the forward estimates?

Please provide the relevant interest rate for each financial year?

Answer:

The major component of gross interest expenses is Public Debt Interest (PDI) on Commonwealth Government Securities (CGS).

The PDI estimates are calculated using the contract interest rates incurred on existing CGS when issued, and technical assumptions based on prevailing market rates across the yield curve, for yields on future CGS issuance.

The resultant weighted average yield on new issuance at the time of the 2012-13 Budget was calculated to be around 3.3 per cent across the forward estimates.

Net interest expenses are calculated as interest expenses less interest revenue. The interest rate for interest expenses is outlined above. The rate applied to interest revenue varies depending on the type of funding provided by the Government. Further information on the different types of interest revenue can be found in Note 5: Interest and dividend revenue in Statement 9 in Budget Paper No. 1 2012-13 (page 9-19).