Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 14 – 15 February 2007

Question: aet 100

Topic: Corporate Sector Debt

Hansard Page: E49

Senator JOYCE asked:
One of the issues that you brought up is that you said that the corporate sector now has strong control of debt. Would it be a fair proposition to say that that is by reason of an accelerating share price more than a retirement of debt?

Mr Parker—I would have to take that on notice and go back and look at it.

Senator JOYCE—The proposition is that, if you are in an environment where interest rates are rising—and they rise by reason of what is happening overseas, macro-economic effects throughout the world—the only thing you should really talk about when you refer to a government is the differential between its interest rates and the United States interests rates, or another benchmark, rather than saying its interest rates are lower, its interest rates are high. If you talked about interest rates in a period when there is a trend up throughout the world, and we had a position where stock prices stagnated, then a company that had a high leverage would be in a completely different position now from, say, 10 years ago when obviously there would have been a trend of interest rates going down or a propensity for greater exposure.

Answer:

The overall 'gearing' or 'debt to equity ratio' of Australian companies has decreased substantially since the early 1990s. This is because the value of equity has grown faster than the value of debt, rather than reflecting an absolute reduction in debt. The ABS measure of the debit to equity ratio values both debt and equity at market prices. The rapid increase in the value of equity reflects increases in the price of equity, as well as new equity issues.