

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

10 – 11 February 2010

Question: aet 37

Topic: MYEFO – Government Debt

Hansard Page: Written

Senator EGGLESTON asked:

1. MYEFO released in November 2009 contained forecasts of the peak in net government debt. However, it did not publish figures on forecasts of gross debt. What is the peak in gross debt and when will it occur?
2. What is the cumulative interest bill the government will pay on its net debt between 2008-09 and the date at which it is expected to be repaid?
3. What is the average interest rate to be paid on the government debt?
4. What is the maximum amount of interest which is forecast to be paid in any one year during the life of the debt both in \$ amount and as a percentage of total Budget payments
5. MYEFO released in November 2009 showed a substantially improved economic outlook relative to the May Budget forecasts but at the same time showed an increase in government spending of \$4.1 billion over the forward estimates. Why will spending increase even though the economic outlook has improved?
6. Forecasts published in MYEFO of November 2009 show that economic growth will return to 4% in 2011-12 - above the potential growth rate of around 3.5% - yet the budget will remain in deficit until 2013-14. Why will the government continue its wasteful deficit spending long after the need has passed?

Answer:

1. The Government's key fiscal aggregates are based on Australian Bureau of Statistics' (ABS) accrual Government Finance Statistics (GFS) concepts and definitions. The 2005 ABS GFS does not include the concept of gross debt, but it defines net debt as equal to (deposits held plus proceeds from advances plus borrowing) minus (cash and deposits plus investments plus advances outstanding). That is, net debt is the total interest bearing liabilities of the Commonwealth, less the debt-like assets held by the Commonwealth.

The main contributor to the interest bearing liabilities that make up net debt on the Government's balance sheet is Commonwealth Government Securities outstanding. As at 2009-10 MYEFO, Commonwealth Government Securities on issue were expected to peak as a share of GDP at 17.3 per cent in 2011-12.

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2. Please refer to the response provided to the Senate Standing Committee on Economics question no. aet 78.
3. The stock of Commonwealth government securities (CGS) on issue is the result of debt issuance activities over a long period of time. The interest rate paid on individual debt securities was set by financial market conditions at the time they were issued for that type of security and its term to maturity. The average interest rate on the stock of CGS will change from day to day as new debt is issued and as existing debt matures.

The Australian Office of Financial Management (AOFM) Annual Report 2008-09 provides data on the interest expense both in dollar and average yield terms for CGS on issue (*AOFM Annual Report 2008-09*, Table 2, page 24). The average effective interest rate on CGS on issue during 2008-09 was 5.82 per cent.

4. Please refer to the response provided to the Senate Standing Committee on Economics question no. aet 78.
5. Variations to the underlying cash balance estimates are set out on page 41 of the 2009-10 MYEFO.

Explanations of material variations to government spending in the 2009-10 MYEFO are also provided on an expense basis. For explanations of the variations in the Australian Government's expense estimates since the 2009-10 Budget, please see pages 53-56 of the 2009-10 MYEFO. In 2009-10, one of the main drivers of the increase in estimated cash payments was due to expected higher GST collections, associated with the stronger economy, which was paid directly to the States. Abstract from GST revenue, payments fell over the forward estimates.

6. The Government's fiscal strategy is outlined on pages 29-32 of the 2009-10 MYEFO.