

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates, 2 June – 4 June 2009

**Question: bet 168**

**Topic: Offshore Funding**

**Hansard Page: E68**

**Senator Joyce asked:**

**Senator JOYCE**—As a rate, is the general pressure on that offshore funding rising? The spreads might be decreasing, but is the overall rate going up?

**Dr Laker**—I would have to look at the most recent series. The rates have been coming down and the spreads have been coming down as well. More recently, we are seeing competition for funding between governments and banks. I will have to look at a series and get back to you on that.

**Answer:**

The Reserve Bank of Australia *Bulletin* June 2009, includes an article ‘The impact of the capital market turbulence on banks’ funding costs’. Graph 3 on page 7 of the article indicates that interest rates on new fixed rate and variable rate bonds issued in both the domestic and offshore markets fell from the high levels in mid-2008 through to the first quarter of 2009, reflecting the overall fall in interest rates, which has outweighed the effect of the higher bond spreads. Over recent months, bond spreads have been narrowing. Yields on variable rate bonds have remained around the levels of earlier 2009 while yields on fixed rate bonds have risen somewhat, reflecting the subsequent increase in longer-term interest rates. Graph 4 on page 9 shows major banks’ average funding costs over recent years broken down by long-term debt, short-term debt and deposits.