Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates, 2 June – 4 June 2009

Question: bet 58

Topic: **Value of Contingent Liability**

Hansard Page: **E31-32**

Senator Joyce asked:

Senator JOYCE—Can you tell me now what promises the government has made to make good on debts and what they add up to?

Dr Henry—What they add up to? I think I will have to take this on notice because I do not have the numbers in front of me, but just so that I am clear on what the question is, are you asking what is the total value of—

Senator JOYCE—What is the value of contingent liability that is out there?

Dr Henry—In respect to a number of guarantees, in particular the guarantee of liabilities of the Australian financial system—not all liabilities obviously but a significant proportion of the liabilities of Australia's financial institutions—we have said previously and it is recorded in the budget that the contingent liability is remote and unquantifiable.

Senator JOYCE—We have said it, they have accepted it, the bank believes it is real, the market believes it is real; what is the possible number? Somebody somewhere must have some idea of a possible number.

Dr Henry—I was asking, Senator, whether you were interested in knowing the total value of liabilities that are covered by the guarantee. That is not the same thing as trying to make an assessment of the contingent liability to our balance sheet.

Senator JOYCE—Can we get any sort of number on the table?

Dr Henry—I think there are numbers available on the value of liabilities covered by the guarantee.

Answer:

The Government has fully disclosed its contingent liabilities and assets in the Budget (Budget Statement 8 in Budget Paper No. 1 2009-10), as required under the Charter of Budget Honesty. The majority of liabilities are remote and unquantifiable.

The triggering of any of the Government's contingent liabilities depends on a range of circumstances that differ according to the specific liability. Because of these differing circumstances, there is no meaning that can be attached to the figure obtained by adding up the possible maximum values of each liability.

If called upon, the monetary value of some contingent liabilities can be readily quantified. Examples include deposits in authorised deposit-taking institutions covered under the Financial Claims Scheme. Other contingent liabilities cannot be readily quantified as their value will depend on a range of factors which cannot be predicted. Examples include indemnities related to the A5N1 and smallpox vaccines. For these contingent liabilities, there is no meaningful value that could be assigned to them for the purpose of calculating a total value of the Government's contingent liabilities.

It also is noted that the maximum value of any one particular liability that covers a number of entities is unlikely to be reached. For example, it is not likely that all providers of aged care accommodation bonds will be unable to pay bond balances to aged care residents at the same time.

Budget Statement 8 shows information on the value of liabilities covered by some specific guarantees. For example, as at 31 March 2009, deposits eligible for coverage under the Financial Claims Scheme in authorised deposit-taking institutions were estimated to be approximately $650 billion (see pages 8-26 and 8-27). As at 1 May 2009, deposits over $1 million in authorised deposit taking institutions covered by the Guarantee Scheme for Large Deposits and Wholesale Funding were estimated at $19.7 billion (pages 8-27 and 8-28). Wholesale funding of authorised deposit-taking institutions covered by the Guarantee Scheme was estimated at $104.1 billion as at 1 May 2009 (page 8-28).