Question: BET 366

Topic: Government Borrowing & the Private Sector

Hansard Page: Written

Senator EGGLESTON asked:

1. Does government borrowing in the capital markets have an impact on the quantity and cost of finance available to the private sector? Would you agree that Australia fails to save sufficient funds to meet all investment and needs, and that the shortfall must be provided by offshore investors? Is the volume of funds available to Australia from offshore effectively unlimited, or are there constraints imposed by a reduced willingness of offshore investors to acquire exposure to A$ assets? If the volume of funds is not unlimited, is it possible for government borrowings to "crowd out" private sector borrowings?

Answer:

The impact of government borrowing on private sector borrowing depends, among other things, on the level of spare capacity in the economy.

The Australian Government's net debt is low by global standards and is expected to peak at 6.0 per cent of GDP in 2011-12, less than one tenth of the major advanced economies.

In the March Quarter 2010, Australia's business investment was 15.4 per cent of GDP, above the average level of 13.6 per cent of GDP since 1990, and is expected to rise considerably over the next two years.

Australia's national saving over recent years has been close to the OECD average as a share of GDP, while national investment has been significantly above the OECD average. The resultant current account deficits — the difference between national investment and national saving, which must be funded from foreign saving — reflect high investment in Australia rather than low saving. More detailed analysis is provided in a recent article in Treasury's Economic Roundup, Issue 1, 2010 (Garton et al, 'Australia's current account deficit in a global imbalance context').

In general Australia is able to access external finance readily, as we are a small open economy and our borrowing represents a small proportion of global financial markets. However, the global financial crisis has highlighted the potential for global capital markets to fail and for access to finance to be disrupted.