Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 97

Topic: Government Borrowing

Hansard Page: E30 (03/06/2010)

Senator JOYCE asked:

Senator JOYCE—Is government borrowing in capital markets having an impact on the quantity and cost of finance available to the private sector?

Mr Lonsdale—Again, that is difficult for me to comment on. That would be something that I would have to consult on with our macroeconomic colleagues. I am not aware that that is happening.

Senator JOYCE—Could you take that one on notice.

Mr Lonsdale—I am happy to, yes.

Senator JOYCE—Thank you.

Answer:

The impact of government borrowing on private 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 around 6.0 per cent of GDP in 2011-12, less than one tenth of the major advanced economies. Net debt is then projected to fall to around 5.3 per cent of GDP by 2013-14, and to zero in 2018-19.

In the June Quarter 2010, Australia’s business investment was 14.4 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.

This question was also asked of the Governor of the Reserve Bank of Australia at the Committee’s 28 September 2009 hearing on Government economic stimulus initiatives (pages E14-15 of the Hansard):

> **Senator JOYCE**—Does the amount of Australian borrowing—government borrowing—force up the amount of interest rates and, if so, by how much?
>
> **Mr Stevens**—I take it that we are talking about the rates that the government actually pays to borrow at—
>
> **Senator JOYCE**—And also by reason of the government’s involvement in the market. Between the state governments and the federal government they were in there now for hundreds of billions of dollars. How much effect is that having on interest rates in Australia or is it having any effect at all?

Mr Stevens—I do not think that it is having a significantly large effect on the rates that they are actually paying at their tenders. As I said earlier, the 10-year yield in Australia is in the bottom half of the fives, I think, at the present. These rates go up and down but that is not materially different from the sorts of rates we have seen on average for a decade or so.

Senator JOYCE—Less than a per cent or more than a per cent or—

Mr Stevens—I think the effect, if any, is quite small. It is certainly not more than a per cent, no—much less, if anything.

Senator JOYCE—Is there any extent of government borrowings where it does have an effect, or are government borrowings irrelevant?

Mr Stevens—They are not irrelevant, but this is an area where over the years, in my memory at least, the studies which try to pin this down empirically find a pretty wide range of estimates and often they struggle to find much effect. I think that if we had much larger debt burdens, like 50 per cent of GDP or something like that, we would see a noticeable premium on Australian debt reflecting that, but I do not really think that one can claim that there is a significant measurable impact on these yields at present. These yields, presumably, embody the market’s expectation of all the things that are ahead.