

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

31 May – 2 June 2011

Question No: BET 271

Topic: Net Debt

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Senator Bushby asked:

Senator BUSHBY: I do not disagree with that, particularly compared to those and most other OECD countries. But there are other OECD countries that are ahead of us. I am just curious as to why there are no comparisons with those who are in a better position than we are. I thought that might have been instructive. I will move on from there. I accept your answers and I will move on to something else. Still on debt, could you explain the process for calculating net interest payments. We have actually gone over that to some extent.

Senator CAMERON: Did Barnaby leave you that one?

Senator BUSHBY: We did talk about the difference between gross and net. I will not go into that again. But what I do want to know is: why do net interest payments continue to increase whilst the debt is falling in the budget papers?

Dr Gruen: Can you show me the page? This is really a question for Fiscal Group, but I may be able to help you.

Senator BUSHBY: It is Budget Paper No.1, table 3, page 10-8.

Dr Parkinson: This is net debt. We could take that on notice and come back to you. It will be relatively straightforward. One of the issues could be that gross debt on issue remains high and market interest rates have risen.

Senator BUSHBY: It could be assumptions about market interest rates.

Dr Parkinson: No. Remember that what we are looking at here is net debt. Net debt is gross debt on issue less the financial assets that we have built up.

Senator BUSHBY: Those factors that we have discussed.

Dr Parkinson: If the financial assets are essentially cash at the Reserve Bank, we will be earning a very minimal amount of interest on it, whereas we would still be paying market interest rates on the gross debt. It could have something to do with that.

Senator BUSHBY: I would appreciate it if you would take that on notice.

Dr Parkinson: We will take that on notice and get back to you. It is a straightforward question.

Senator BUSHBY: I am sure it is, but it was a curious thing to read that as net debt goes down the interest payments continue to rise. If there are assumptions about it—

Dr Gruen: It may also be that there is obviously debt maturity. So, to the extent that some of the things that are maturing have lower interest payments, what is left has—

Senator BUSHBY: I was going to say that if there are some assumptions about what might be happening with interest rates as debt comes off and goes on I would be interested in that as part of the answer as well.

Dr Parkinson: If our Fiscal Group colleagues were here they would be able to answer this for you off the top of their head. I am afraid I cannot do that.

Senator BUSHBY: I would appreciate, then, if you could take that on notice.

Answer:

Movements in the level of net debt reflect the combination of changes in the levels of both interest bearing assets and liabilities. For example, net debt falls over the forward estimates period published in the 2011-12 Budget in part because of the projected increase in student loans under the Higher Education Loan Program (HELP).

Although the projected increase in HELP assets reduces net debt, it increases net interest payments. This is because assets such as HELP do not earn real interest as the HELP loans are indexed by CPI. That is, the projected increase in HELP assets reduces net debt but increases net interest payments as the interest paid on government borrowing to finance these loans exceeds CPI.

A number of other factors, such as investments by the Australian Office of Financial Management (AOFM), are contributing to the increase in net interest payments over the forward estimates. For example, in 2013-14 and 2014-15, net interest payments rise due to a fall in interest receipts, reflecting the repayment of capital that was invested by the AOFM in Residential Mortgage Backed Securities.