Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

31 May – 2 June 2011

Question No: BET 272

Topic: Interest rate used to calculate net interest payment

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Senator Bushby asked:

Senator BUSHBY: I would appreciate, then, if you could take that on notice. What interest rate is used to calculate the net interest payment? It is a reasonably sophisticated approach, isn't it, looking at the issue of what is coming off and then—
Dr Parkinson: No, it is the interest rates that the debt is issued at. So when we issue debt today we issue it at a particular interest rate.
Senator BUSHBY: I know that, but in the forward estimates you have some debt coming off and you have to make assumptions, presumably, about—
Dr Gruen: I think we use the current yield curve. I could stand corrected. As I understand it, we use the yield curve at the time we are putting this together and a weighted average of the yield curve. We obviously issue at different maturities, so it will not just be the 10-year rate. It is a weighted average of the yield.
Senator BUSHBY: That is right, because some of it will come off and might go on for 18 months, depending on what—
Dr Gruen: Indeed, so I think that is what we do. But I stand to be corrected.
Dr Parkinson: We will take that on notice and get back to you.

Answer:

Public debt interest (PDI) estimates are calculated using the contract interest rates incurred on existing Commonwealth Government Securities (CGS) when issued and technical assumptions, based on prevailing market interest rates across the yield curve, for yields on future CGS issuance.

For more information on PDI, please refer to Note 10 in Budget Statement 9: *Budget financial statements* and Table 3 in Budget Statement 10: *Historical Australian Government Data*.