

Department of Treasury and Finance

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Mr John Hawkins
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Department of the Senate
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Dear Mr Hawkins

INQUIRY INTO THE GUARANTEE OF STATE AND TERRITORY BORROWING APPROPRIATION BILL 2009

On behalf of the Tasmanian Government, I am writing to express the State's strong endorsement for the Australian Government's guarantee of State and Territory borrowings, and hence the *Guarantee of State and Territory Borrowing Appropriation Bill 2009*.

Historically, the credit markets' perception of relative risk has led to State-issued debt being priced between the Commonwealth and banking sector. In the early stages of the global financial crisis, lenders were attracted to the high quality credit offered by sovereign borrowers, such as the Australian States.

However, the Australian Government's wholesale funding guarantee for authorised deposit-taking institutions, which was announced in October 2008 in response to emerging concerns with the refinancing capacity of the Australian banking sector, elevated the banks above the States as they could rely on the Commonwealth's AAA rating.

As the banks issued large volumes of guaranteed debt, they absorbed the weak demand in credit markets. This crowding out effect made it very difficult for the States to raise sufficient money in the credit market.

While the experience of each State has differed according to their debt maturity structures and funding requirements, this crowding out effect has meant the States and Territories have generally had difficulty accessing credit markets to raise sufficient funding to sustain both ongoing public sector activities and capital investment programs.

In Tasmania's case, the State's central financing authority, the Tasmanian Public Finance Corporation (Tascorp), had actively changed its funding and asset mix over the past three years which left it well-placed to manage these difficult circumstances. Tascorp was able to raise money in relatively small amounts through various sources, including a small tender in early March, which covered its refinancing needs for the first half of 2009.

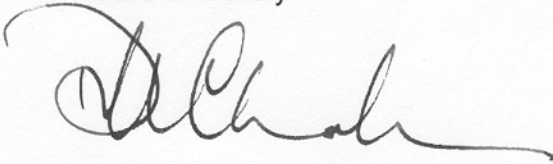
However, this position was unsustainable, as Tascorp needs to raise around \$1.5 billion from the markets over the next three years. Without the guarantee, this borrowing requirement would be very difficult given the current state of global credit markets and expected new issuance by the Australian Government and other sovereign borrowers. Tasmania — along with several other States and Territories — may have eventually found itself exposed to refinancing and liquidity risks by borrowing in shorter term markets and selling liquid assets to meet debt maturities and client demand for new lending.

Given this, Tasmania strongly supports the policy intent underlying the Bill.

Tasmania believes that it would be prudent to withdraw the wholesale funding guarantee at the earliest opportunity when liquidity improves in global credit markets. This will be an important indicator of the Australian Government's confidence in global credit markets and the stand-alone funding capacity of the banking sector, and an important step in restoring the historical credit market relationships.

Thank you for the opportunity to provide a submission to this Bill which is critical to supporting the funding requirements of the Australian States and Territories.

Yours sincerely



D W Challen
SECRETARY

10 June 2009

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