

14. OTHER PURPOSES

This category covers outlays on Public Debt Interest (PDI) and outlays to the six States, the NT, the ACT and local government. It also includes items classified to Natural Disaster Relief, the Contingency Reserve, and the Asset Sales functions.

14A. PUBLIC DEBT INTEREST

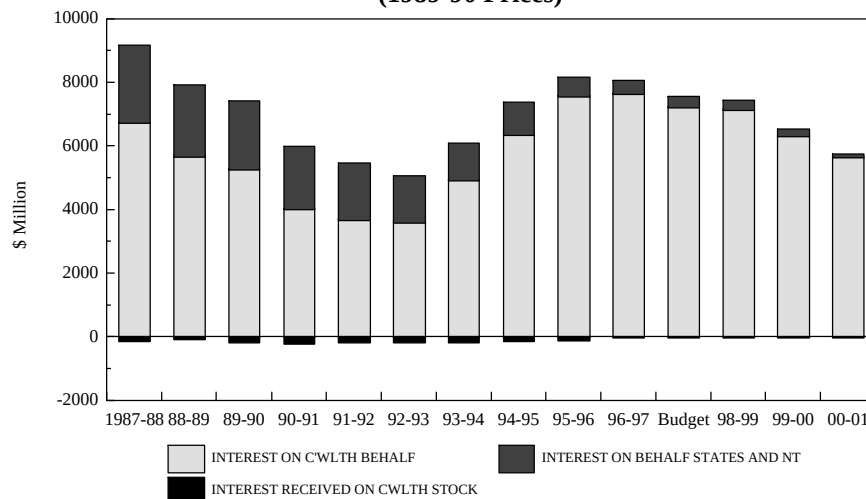
NATURE OF OUTLAYS

PDI outlays reflect the cost of servicing the stock of Commonwealth debt incurred to meet budget financing and other borrowing requirements. It does not include interest on instalment purchase of buildings, overpayment of tax and other interest not associated with borrowings.

The Commonwealth uses a range of debt instruments to meet this funding task. The main instrument is Treasury Fixed Coupon Bonds. Interest is also incurred in relation to Treasury Indexed Bonds, and floating interest rate instruments in the form of short term securities (5, 13 and 26 week Treasury Notes) and longer term Treasury Adjustable Rate Bonds.

The bulk of outlays for this function relate to the Treasury portfolio, with a very small component coming from the Finance portfolio.

Chart 1. Overview of Commonwealth Outlays on Public Debt Interest (1989-90 Prices)



TRENDS IN PUBLIC DEBT INTEREST OUTLAYS

Trends in PDI outlays are governed by the volume of outstanding Commonwealth debt, the average cost of debt service (the net effect of interest and exchange rate movements), the mix of debt instruments and the term structure of the debt. The balance of influence of these factors on the growth of total PDI outlays in real terms will vary over time.

During the early 1990s, the falling average cost of debt service (due to falling interest rates) outweighed the rise in the volume of debt, resulting in a fall in PDI outlays.

Volume and cost effects subsequently led to increases in PDI outlays until 1996-97, when lower interest rates dampened the growth in PDI outlays associated with the increased debt volume. PDI outlays are projected to fall in 1997-98 and over the forward estimates period in line with projected reductions in the volume of debt on issue.

Details on the volume of Commonwealth debt on issue in recent years, and as projected over the forward estimates period, are provided in *Statement 6*.

1997-98 AND FORWARD ESTIMATES

		1996-97 Estimate	1997-98 Budget	1998-99 Estimate	1999-00 Estimate	2000-01 Estimate
14A.1 Gross Interest Payments -						
For the Commonwealth	\$m	8874.0	8536.9	8674.2	7845.0	7190.6
	%		-3.8	1.6	-9.6	-8.3
For the States	\$m	470.2	391.2	319.8	259.0	117.4
	%		-16.8	-18.3	-19.0	-54.7
Sub-total	\$m	9344.2	8928.1	8994.0	8104.0	7308.0
	%		-4.5	0.7	-9.9	-9.8
14A.2 Interest Received	\$m	-23.0	-8.0	-7.0	-7.0	-2.0
	%		-65.2	-12.5	-	-71.4
TOTAL	\$m	9321.2	8920.1	8987.0	8097.0	7306.0
	%		-4.3	0.7	-9.9	-9.8

14A.1 GROSS INTEREST PAYMENTS

		1996-97 Estimate	1997-98 Budget	1998-99 Estimate	1999-00 Estimate	2000-01 Estimate
For the Commonwealth -						
Domestic & Overseas Borrowings (a)	\$m	9151.8	8711.8	8857.9	8037.5	7383.1
	%		-4.8	1.7	-9.3	-8.1
Other (b)	\$m	-277.8	-174.9	-183.7	-192.5	-192.5
	%		-37.0	5.0	4.8	-
Sub-total	\$m	8874.0	8536.9	8674.2	7845.0	7190.6
	%		-3.8	1.6	-9.6	-8.3
For the States -						
Borrowings for six States & NT (a)	\$m	439.9	362.9	294.5	238.5	101.6
	%		-17.5	-18.8	-19.0	-57.4
Savings Bank Agreements (c)	\$m	27.0	25.0	22.0	18.0	15.0
	%		-7.4	-12.0	-18.2	-16.7
Interest on Behalf of the ACT	\$m	3.3	3.3	3.3	2.5	0.8
	%		-	-	-24.2	-68.0
Sub-total	\$m	470.2	391.2	319.8	259.0	117.4
	%		-16.8	-18.3	-19.0	-54.7
TOTAL	\$m	9344.2	8928.1	8994.0	8104.0	7308.0
	%		-4.5	0.7	-9.9	-9.8

(a) Paid under the *Commonwealth Inscribed Stock Act 1911* and the *Loans Securities Act 1919*.

(b) Largely net interest receipts on the Commonwealth's swaps portfolio.

(c) Issued in the past by Queensland to the Commonwealth Savings Bank. Administered as Commonwealth Government security debt under the *Financial Agreement Act 1994*.

The decrease in PDI from 1996-97 to 1997-98 largely reflects the impact of the reduction in debt associated with the projected headline budget surplus in 1997-98.

The State and NT component of PDI is falling progressively as Commonwealth Government securities debt previously raised by the Commonwealth on their behalf are refinanced by the States and the NT on maturity.

14A.2 INTEREST RECEIVED

The main source of interest received is that paid to the Loan Consolidation and Investment Reserve (LCIR), a Commonwealth trust account which receives interest on its investments in Commonwealth securities. Interest paid by the Commonwealth to itself is offset against payments to provide meaningful outlay figures. The decrease in interest receipts from 1996-97 reflects reduced holdings of Commonwealth securities by the LCIR following maturities and the sale of stock from its portfolio.