

**STATEMENT 6 — BUDGET FINANCING  
AND DEBT MANAGEMENT**

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## STATEMENT 6 — BUDGET FINANCING AND DEBT MANAGEMENT

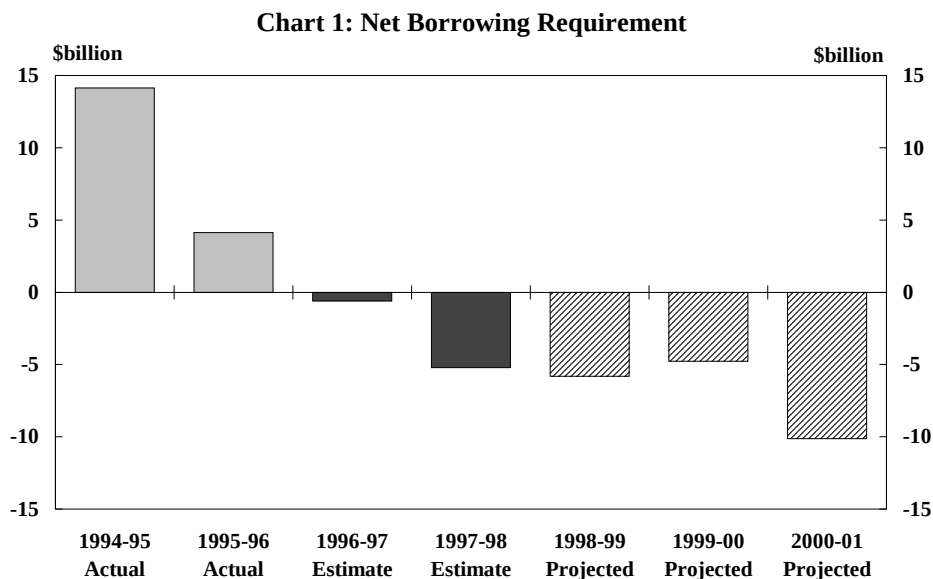
This Statement provides information on the Commonwealth's current and prospective budget financing programmes. A further reduction in the Commonwealth's borrowing requirement from the levels of recent years is in prospect for 1997-98 and the out-years.

### OUTLOOK FOR 1997-98 AND THE OUT-YEARS

#### Borrowing Requirement

In 1997-98, the Commonwealth is expected to repay \$5.2 billion of debt in net terms. This is the lowest net borrowing requirement since 1989-90. The negative net borrowing requirement reflects an estimated headline budget surplus of \$6.4 billion, more than offsetting an estimated \$1.2 billion in payments associated with Commonwealth public trading enterprise superannuation. (It is the net borrowing requirement that determines the Commonwealth's net call on capital markets.)

Chart 1 depicts the net borrowing requirement in recent years and that projected for each year out to 2000-01. The net borrowing requirement is projected to remain negative for each of the out-years. The negative net borrowing requirements for 1998-99, 1999-00 and 2000-01 are projected to be \$5.8 billion, \$4.8 billion and \$10.1 billion respectively.



The Commonwealth's gross borrowing requirement in 1997-98 is estimated to be \$5.5 billion after allowing for the refinancing of scheduled domestic debt maturities (excluding Treasury Notes) of \$10.5 billion and foreign currency debt repayments of \$0.2 billion.

#### **Debt Issue Programme for 1997-98**

The Commonwealth's aggregate debt issue programme for 1997-98 is estimated to be around \$6½ billion to \$7½ billion, somewhat larger than the minimum implied by the gross borrowing requirement. The programme provides flexibility to undertake some early repurchase of debt scheduled for maturity in out-years through the course of the year, if this is judged desirable. Early repurchase of out-year maturities can assist in the smoothing across financial years of the refinancing task associated with lumpy maturities and offers a number of additional advantages for management of the Commonwealth's funding risk.

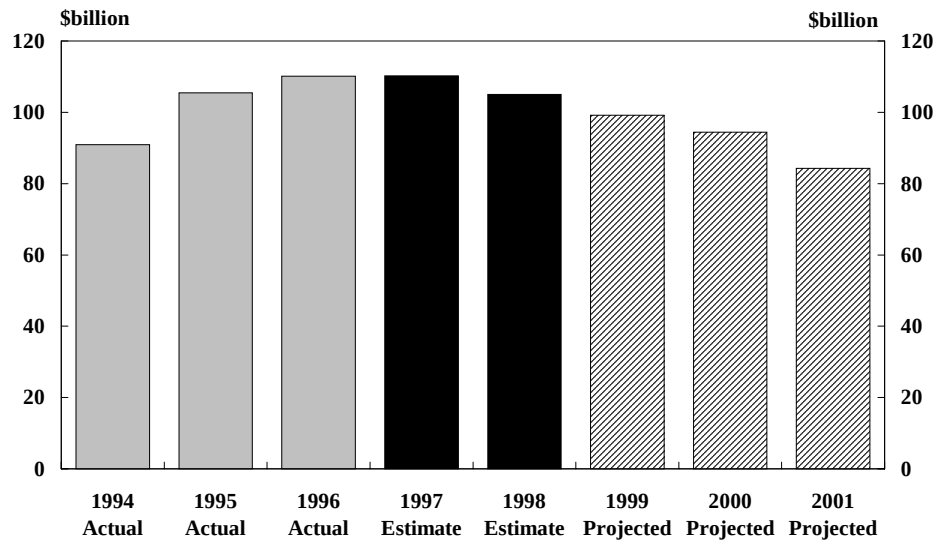
Within the aggregate programme of around \$6½ billion to \$7½ billion, Treasury Fixed Coupon Bond issuance is expected to be of the order of \$5 billion to \$6 billion, with Treasury Adjustable Rate Bond issuance around \$1 billion and Treasury Indexed Bond issuance around \$500 million to \$1 billion. No net change in the Treasury Note stock or in cash balances is planned for 1997-98. Consistent with portfolio management objectives, a new \$US exposure requirement of around \$3 billion is indicated. Relative cost will be an important consideration in choosing between domestic or offshore sourcing of \$US requirements. Any direct offshore issue would, of course, reduce the domestic issue programme.

A detailed announcement covering the Commonwealth's debt management operations in 1997-98 will be made in the new financial year. This will cover planned issuance strategies across each debt instrument, including indications as to possible new benchmark lines and early repurchase operations, and details of the broad risk management framework guiding the composition and conduct of the issuance programme.

## Stock of Commonwealth Government Securities (CGS) on Issue

Chart 2 shows the stock of CGS on issue in recent years and as projected for the period to end-June 2001.

**Chart 2: Commonwealth Government Securities  
on Issue at End-June<sup>(a)(b)(c)</sup>**



- (a) The stock of CGS on issue differs from the Commonwealth general government net debt measure referred to elsewhere in *Budget Paper No. 1*. Commonwealth general government net debt refers to a wider definition of government and a broader class of financial assets and liabilities but, unlike the stock of CGS on issue, excludes CGS issued for and on behalf of State and Territory governments.
- (b) Based on the face value of securities.
- (c) Excludes Commonwealth holdings of CGS.

The estimated negative net borrowing requirement for 1997-98 implies a reduction in the stock of CGS on issue over 1997-98. At end-June 1998, the face value of CGS on issue is estimated to be around \$105 billion, or around 19 per cent of GDP, compared with an estimated \$110 billion and 21 per cent of GDP at end-June 1997.

Further reductions in the stock of CGS on issue are projected in the out-years. Between end-June 1998 and end-June 2001, the volume of CGS on issue is projected to fall more than \$20 billion to around \$84 billion, or to about 13 per cent of GDP.

## EXPECTED OUTCOME FOR 1996-97

### Borrowing Requirement and Debt Issue Programme

Table 1 provides details of the net and gross borrowing requirement and associated debt issue programme in each of 1994-95, 1995-96 and the outcome currently expected for 1996-97.

**Table 1: Borrowing Requirement and Debt Issue Programme<sup>(a)</sup>**

|                                        | 1994-95<br>Actual<br>\$m | 1995-96<br>Actual<br>\$m | 1996-97<br>Estimate<br>\$b |
|----------------------------------------|--------------------------|--------------------------|----------------------------|
| Headline Budget Deficit(b)             | 11582                    | 5001                     | -0.8                       |
| PTE Superannuation Financing           | 1106                     | 1006                     | 1.0                        |
| Other Financing(c)                     | 732                      | -1040                    | -0.8                       |
| Change in Cash Balances(d)             | 722                      | -847                     | -                          |
| <b>Net Borrowing Requirement</b>       | <b>14142</b>             | <b>4120</b>              | <b>-0.6</b>                |
| <i>Plus:</i>                           |                          |                          |                            |
| Domestic Debt Repayments(e)            | 6531                     | 7732                     | 5.3                        |
| Overseas Debt Repayments(f)            | 1563                     | 1084                     | 0.8                        |
| <b>Gross Borrowing Requirement</b>     | <b>22236</b>             | <b>12936</b>             | <b>5.5</b>                 |
| <i>Financed as follows:</i>            |                          |                          |                            |
| Treasury Fixed Coupon Bond Issuance    | 19993                    | 7799                     | 7.0                        |
| Treasury Indexed Bond Issuance         | 545                      | 602                      | 0.6                        |
| Treasury Adjustable Rate Bond Issuance | 3700                     | 3400                     | 0.9                        |
| Treasury Notes (Net Issuance)          | -2002                    | 1135                     | -3.0                       |
| <b>Total Debt Issue Programme</b>      | <b>22236</b>             | <b>12936</b>             | <b>5.5</b>                 |

(a) Based on the face value of securities.

(b) Deficits increase the borrowing requirement; surpluses reduce the requirement.

(c) Includes difference between face value of securities and proceeds, net subscriptions to the IMF, proceeds and payments relating to swap transactions classified as financing transactions and other financing transactions not elsewhere identified.

(d) Change in cash balances held by the Commonwealth at the Reserve Bank. A reduction in cash balances reduces the borrowing requirement.

(e) Excludes the refinancing of Treasury Notes.

(f) \$A equivalent at exchange rate at time of transaction.

The Commonwealth is expected to have a negative net borrowing requirement of \$0.6 billion for 1996-97, \$1.3 billion less than estimated at budget time, reflecting:

- an estimated headline budget surplus of \$0.8 billion (at budget time the surplus was estimated to be \$0.5 billion); and
- \$0.8 billion in other financing transactions (assumed to be to zero at budget time), principally reflecting the receipt of monies from the IMF in respect of a maintenance of value adjustment to Australia's IMF quota and net receipts in respect of swap cash flows classified as financing transactions; partly offset by
- \$1.0 billion in payments associated with Commonwealth public trading enterprise superannuation (estimated to be \$1.2 billion at budget time).

The Commonwealth's gross borrowing requirement for 1996-97 is expected to be \$5.5 billion, after allowing for aggregate debt repayments of \$6.1 billion. The debt repayments include the early retirement of \$0.7 billion of Treasury Fixed Coupon Bonds that were due to mature in 1997-98. At this stage, no further issuance into the Commonwealth's long-term debt instruments (Treasury Fixed Coupon Bonds, Indexed Bonds and Adjustable Rate Bonds) is planned over the remainder of 1996-97. Treasury Notes will continue to be issued in line with the requirements of within-year financing.

Treasury Fixed Coupon Bonds have been the main funding instrument employed by the Commonwealth in 1996-97. Ten tenders have been held, raising \$7.0 billion. A new benchmark stock, a September 2009 line, was introduced in 1996-97, consistent with the objective of maintaining the length of the Commonwealth yield curve at around twelve to thirteen years.

Four tenders of Treasury Indexed Bonds have been conducted in 1996-97, raising an aggregate \$622 million. In line with the Commonwealth's continuing commitment to assist the development of the domestic market for indexed securities, issuance timing and volume through the course of the year have been tailored to meet identified market demand. In October 1996, a new 2020 capital indexed stock was launched via a \$250 million tender. In subsequent tenders, priority has been given to building up liquidity in the new 2020 line. However, it is planned to continue to issue also the 2015 line as demand and circumstances permit.

Consistent with the programme announced at budget time last year, a total of \$900 million of Treasury Adjustable Rate Bonds (TABs) has been issued in 1996-97. Three tenders have been conducted, with all issuance being into the October 2000 line. The TABs market continued to develop steadily through the year, with investor support underpinned by the Commonwealth's practice of managing issuance in line with identified demand.

Treasury Note issuance in 1996-97, as in prior years, has been directed primarily towards meeting the within-year funding task that arises from day-to-day mismatches in the timing of outlays and revenue. The volume of Treasury Notes outstanding at end-June 1997 is expected to be around \$13 billion, around \$3 billion lower than at end-June 1996.

Full details of the Commonwealth's debt and portfolio management operations in 1996-97, as well as historical data on debt issuance and portfolio composition in previous years, will be presented in the *Commonwealth Debt Management Report* for 1996-97, which is expected to be published in September 1997.