

Attachment F

DEBT STATEMENT

Following its recent amendment, the *Charter of Budget Honesty Act 1998* ('the Charter') requires the release of a Debt Statement, providing information on current and projected debt on issue in order to increase the transparency of government borrowing. This statement relates to Government stock and securities on issue, known as Commonwealth Government Securities (CGS).

This statement also includes details regarding Government spending on climate change and the extent to which this spending has contributed to debt.

Commonwealth Government Securities issuance

The Government finances its activities either through receipts or by borrowing. When receipts fall short of payments, the Government borrows by issuing CGS to investors.

Even when CGS issuance is not required to finance the government's activities, successive governments have continued to issue CGS for policy purposes, such as to maintain a liquid CGS market. A well-functioning CGS market supports the Treasury Bond futures markets (used by financial institutions to manage interest rate risk), supports the corporate bond market by providing a risk-free benchmark, and provides a low-risk investment vehicle.

The Australian Office of Financial Management (AOFM) is the agency responsible for issuing CGS and the management of the Government's financing activities. The AOFM currently issues three types of securities:

- **Treasury Bonds:** medium- to long-term securities with a fixed annual rate of interest payable every six months;
- **Treasury Indexed Bonds (TIBs):** medium- to long-term securities for which the capital value of the security is adjusted for movements in the Consumer Price Index. Interest on TIBs is paid quarterly, at a fixed rate, on the adjusted capital value; and
- **Treasury Notes:** short-term securities generally maturing within six months of issuance.

All new CGS issuance is undertaken in Australian dollars. There is a very small amount of foreign currency denominated debt securities on issue remaining from issuance undertaken before 1988. Most of these securities mature in March 2017.

Within these three broad categories of CGS, issuance is undertaken into a limited number of maturities (known as lines). Each of these lines has a fixed maturity date (the date on which the Government repays the principal it has borrowed) and, for

Treasury Bonds and TIBs, a coupon rate (the annual fixed interest rate paid on the security).

Concentrating CGS issuance into a limited number of lines (rather than issuing securities with a specific time value, such as 10 years) ensures each line is sufficiently large that it can be easily traded in the secondary market. Maintaining a limited number of liquid lines promotes demand for CGS, and assists in lowering borrowing costs.

From 2008 to 2013, CGS issuance was subject to a legislative limit (Box 1).

Box 1: History of the legislative debt limit

In July 2008, the *Commonwealth Inscribed Stock Act 1911* (CIS Act) was amended to impose a limit on the face value of Government stock and securities on issue (with some exceptions) of \$75 billion.

The legislative limit was increased in February 2009, with the introduction of a 'special circumstances' provision. Once a 'special circumstances' declaration was made, the Treasurer was able to issue an additional \$125 billion in CGS, effectively raising the limit to \$200 billion.

At the time of the 2011-12 Budget, the limit was increased to \$250 billion and the 'special circumstances' provision was removed from the CIS Act. The final increase of the limit to \$300 billion took place at the time of the 2012-13 Budget.

On 10 December 2013, the CIS Act was amended to remove the legislative debt limit. The CIS Act still requires the Treasurer to issue a direction stipulating the maximum face value of relevant stock and securities that may be on issue. On 11 December 2013, the Treasurer directed that the maximum face value of relevant stock and securities that may be on issue is \$500 billion.

Estimates and projections of CGS on issue

Estimates and projections of CGS on issue are published in both face value and market value terms in this statement.

The **face value** of CGS on issue is the amount that the Government pays back to investors at maturity, independent of fluctuations in market prices.¹ The total face value of CGS on issue changes when new securities are issued, or when securities are repurchased or reach maturity.

1 For TIBs, the final repayment amount paid to investors includes an additional amount owing to inflation accretion over the life of the security. This amount is not included in the calculation of face value.

The **market value** of CGS represents the value of CGS as traded on the secondary market, which changes continuously with movements in market prices. Consistent with external reporting standards, the market value of CGS on issue is reported on the Australian Government general government sector balance sheet. Changes in the market price of CGS will have an impact on the value of net debt.

Table 1 contains projections of the face value (end-of-year and within-year peak) and the market value (end-of-year) of CGS on issue. As required by the Charter, Table 1 reports projections of CGS on issue subject to the Treasurer's Direction. The Treasurer's Direction specifies the maximum face value of stock and securities that can be on issue, with some exceptions specified in the CIS Act.

When considering these projections, it is important to note that the AOFM publishes an issuance strategy for the budget year only. Projections beyond the budget year are based on a set of technical assumptions and will vary with changes to these assumptions and budget estimates and projections.

Table 1: Estimates and projections of CGS on issue subject to the Treasurer's Direction^(a)

	2013-14 \$b	2014-15 \$b	2015-16 \$b	2016-17 \$b
Face value - within-year peak(b)	320	370	420	460
Per cent of GDP(b)	20.3	22.7	24.6	25.7
<i>Month of peak(b)</i>	<i>Jun-14</i>	<i>Apr-15</i>	<i>Jun-16</i>	<i>Feb-17</i>
Face value - end of year	310	360	400	430
Per cent of GDP	19.7	22.1	23.4	24.0
Market value - end of year(c)	330	370	410	450
Per cent of GDP	20.9	22.7	24.0	25.2

(a) The face and market value of CGS published in this table are rounded to the nearest \$10 billion.

(b) The precise within-year timing of cash receipts and payments is not known. Projected peaks of CGS on issue are therefore subject to considerable uncertainty.

(c) The Treasurer's Direction applies only to the face value of CGS on issue. This table shows the equivalent market value of CGS that are subject to the Treasurer's Direction. These figures will differ from the estimates and projections published in Table B2: Australian Government general government sector balance sheet that refer to total CGS on issue.

Source: Australian Office of Financial Management.

The face value of CGS on issue subject to the Treasurer's Direction is reported weekly on the AOFM website.

The face value of CGS on issue subject to the Treasurer's Direction is expected to reach a within-year peak of around \$320 billion in 2013-14, an increase of around \$20 billion since the 2013 PEFO. Over the forward estimates, the face value of CGS on issue subject to the Treasurer's Direction is projected to rise to a within-year peak of around \$460 billion in 2016-17.

Drivers of the increase in CGS on issue since the 2013 PEFO

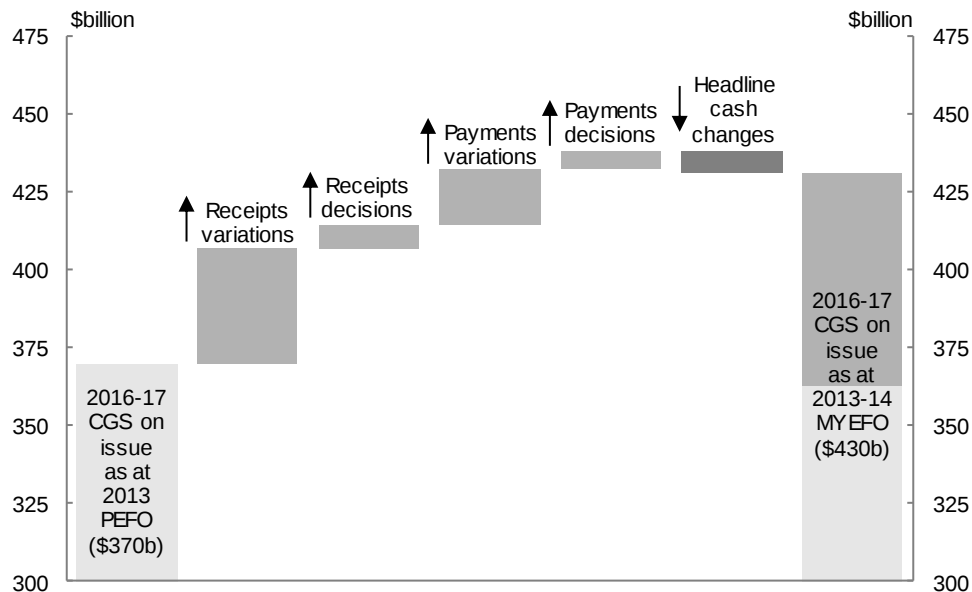
Chart 1 shows the change in the projected end-of-year face value of CGS on issue in 2016-17, between the 2013 PEFO (around \$370 billion) and the 2013-14 MYEFO (around \$430 billion).

The majority of the increase in the face value of CGS on issue since the 2013 PEFO can be attributed to a deterioration in the underlying cash balance as a result of parameter and other variations. There has been a smaller deterioration in the underlying cash balance as a result of policy decisions since the 2013 PEFO.

Further details on the changes to the underlying cash balance since the 2013 PEFO can be found in *Part 3: Fiscal Outlook*.

The Government's decision to close the Clean Energy Finance Corporation has reduced the headline cash deficit over the forward estimates, reducing required CGS on issue.

Chart 1: 2016-17 face value of CGS on issue subject to Treasurer's Direction — reconciliation from the 2013 PEFO to 2013-14 MYEFO

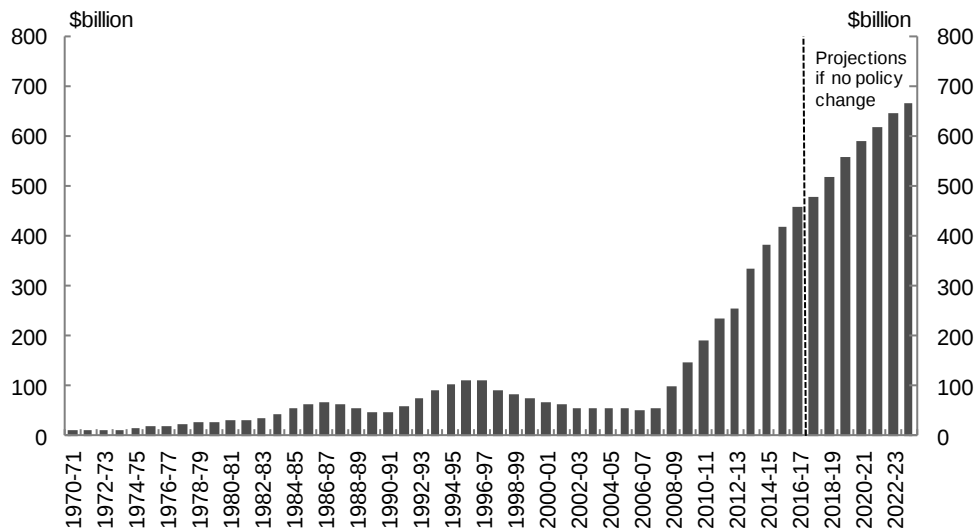


Note: End-of-year data. Projections of the face value of CGS on issue are published to the nearest \$10 billion. As such, numbers may not add due to rounding.
Source: 2013 PEFO and Treasury.

Commonwealth Government Securities on issue from 1970-71 to 2023-24

Chart 2 shows the historical total face value of CGS on issue (including securities excluded from the Treasurer's Direction) from 1970-71 to 2012-13, and shows projections to 2023-24.

Chart 2: Total face value of CGS on issue 1970-71 to 2023-24



Notes: This chart shows the total amount of CGS on issue including that held on behalf of the States and the Northern Territory, but excludes Commonwealth holdings. Data to 2016-17 are published in Appendix D: Historical Australian Government data.

Source: Australian Office of Financial Management and Treasury projections.

The total face value of CGS on issue has varied significantly over time. In level terms, the largest decrease since 1970-71 occurred between 1996-97 and 2006-07, when the face value of CGS on issue roughly halved from \$111.1 billion to \$53.3 billion.

The total face value of CGS on issue has increased rapidly from \$55.4 billion at the end of 2007-08 to \$257.4 billion by the end of 2012-13 and is projected to continue to increase substantially to 2023-24, reaching \$667 billion (around 26 per cent of GDP) if there is no policy change.

Drivers of the change in net debt since PEFO

Australian Government general government sector net debt is equal to the sum of deposits held, government securities (at market value), loans and other borrowing, minus the sum of cash and deposits, advances paid and investments, loans and placements.

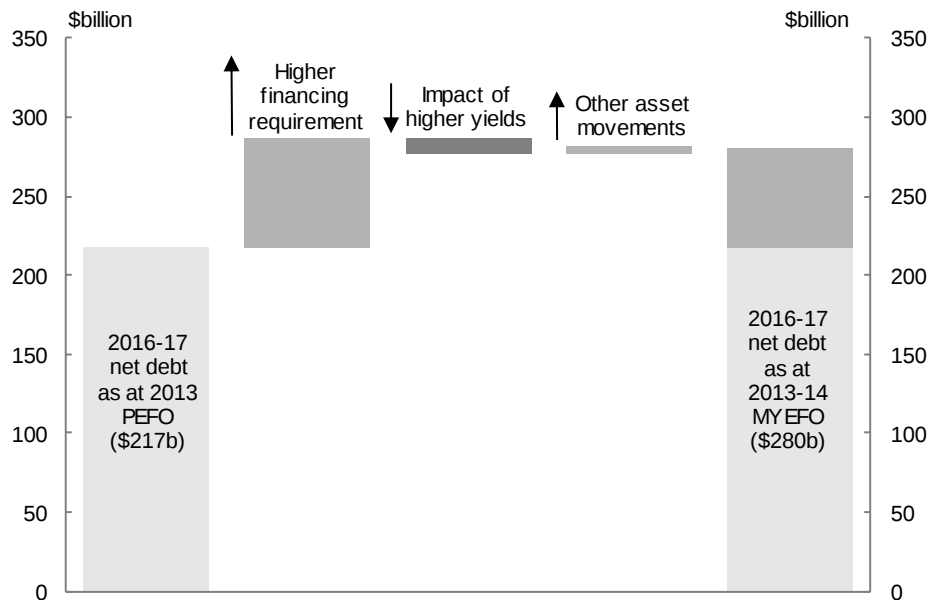
Table 2 shows the liabilities and assets included in the calculation of net debt, as reflected on the balance sheet over the forward estimates.

Table 2: Liabilities and assets included in net debt from 2013-14 to 2016-17

	Estimates		Projections	
	2013-14 \$m	2014-15 \$m	2015-16 \$m	2016-17 \$m
Liabilities included in net debt				
Deposits held	182	182	182	182
Government securities	335,066	382,357	419,027	458,125
Loans	12,708	12,163	11,985	11,957
Other borrowing	1,496	1,372	1,311	1,223
Total liabilities included in net debt	349,452	396,074	432,506	471,487
Assets included in net debt				
Cash and deposits	2,720	2,811	2,991	3,124
Advances paid	39,807	45,152	50,347	57,346
Investments, loans and placements	115,405	116,989	120,078	130,527
Total assets included in net debt	157,932	164,953	173,417	190,997
Net debt	191,520	231,122	259,089	280,490

Chart 3 shows the reconciliation of net debt in 2016-17 between the 2013 PEFO and the 2013-14 MYEFO. The projected level of net debt in 2016-17 is \$280.5 billion (15.7 per cent of GDP), which is \$63.2 billion higher than at the 2013 PEFO.

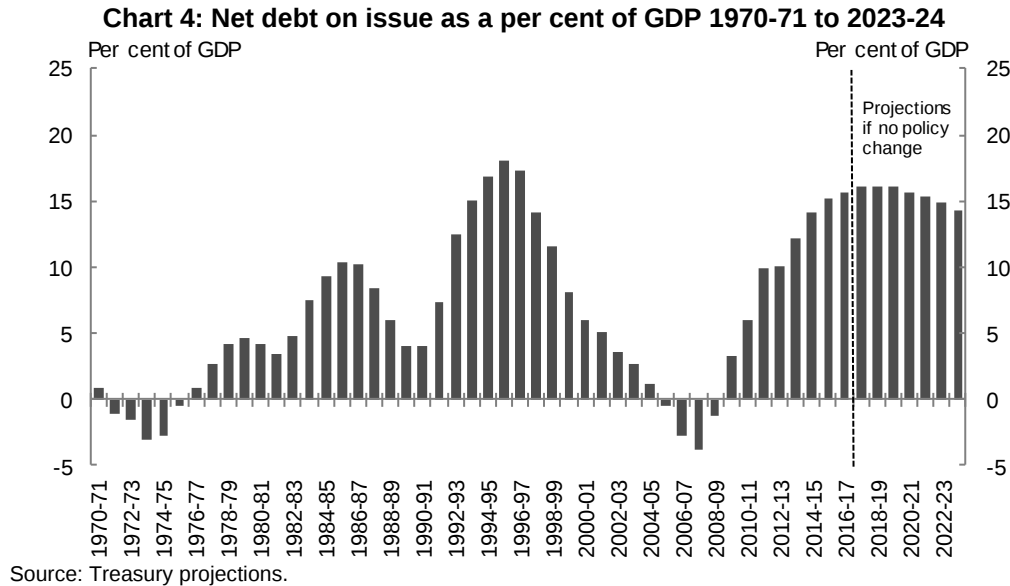
The main factor contributing to the increase in net debt is the higher expected issuance of CGS relative to the 2013 PEFO of around \$60 billion in face value terms as a result of the increased financing requirement. This is partially offset by revaluation of the projected CGS on issue of around \$9 billion owing to an increase in expected yields and hence a decrease in the market value of CGS.

Chart 3: 2016-17 net debt — reconciliation from the 2013 PEFO to 2013-14 MYEFO

Source: 2013 PEFO and Treasury.

Net debt from 1970-71 to 2023-24

Chart 4 shows net debt from 1970-71 and estimates and projections to 2023-24.



Breakdown of CGS currently on issue

Table 3 provides a breakdown of the CGS on issue by type of security as at 5 December 2013.

Table 3: Breakdown of CGS on issue by type of security

	On issue as at 5 December 2013	
	Face value \$m	Market value(a) \$m
Treasury Bonds	270,889	284,967
Treasury Indexed Bonds	17,001	21,320
Treasury Notes	9,000	8,962
Total CGS subject to Treasurer's Direction(b)	296,890	315,250
Other stock and securities	4,588	8,194
Total CGS on issue	301,477	323,444

(a) The Treasurer's Direction applies only to the face value of CGS on issue. This table shows the equivalent market value of CGS that are subject to the Treasurer's Direction.

(b) The same stock and securities that were excluded from the previous legislative limit are excluded from the current limit set by the Treasurer's Direction. These exclusions, outlined in subsection 51JA(2A) of the CIS Act, are:

- stock and securities issued in relation to money borrowed under the *Loan (Temporary Revenue Deficits) Act 1953*;
- stock and securities loaned by the Treasurer under a securities lending arrangement under section 5BA of the *Loans Securities Act 1919*, or held by or on behalf of the Treasurer for the purpose of such an arrangement;
- stock and securities invested under subsection 39(2) of the *Financial Management and Accountability Act 1997*; and
- stock and securities on issue as at the start of 13 July 2008, other than Treasury Fixed Coupon Bonds.

Source: Australian Office of Financial Management.

Treasury Bonds

Treasury Bonds are medium- to long-term debt securities that carry an annual rate of interest fixed over the life of the security, payable every six months. Bonds with these characteristics are often referred to as nominal bonds.

Table 4 lists Treasury Bonds on issue as at 5 December 2013, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 5 December 2013 there were 19 Treasury Bond lines on issue, with a weighted average term to maturity of around 5.7 years and the longest maturity extending to April 2033.

The April 2033 Treasury Bond, first issued on 19 November 2013, increased the length of the nominal yield curve by four years to over 19 years.

Table 4: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 5 December 2013 \$m	Timing of interest payments(a)		
5.50	15-Dec-13	7,949		15 Dec	
6.25	15-Jun-14	13,299	Twice yearly	15 Jun	15 Dec
4.50	21-Oct-14	12,000	Twice yearly	21 Oct	21 Apr
6.25	15-Apr-15	14,798	Twice yearly	15 Apr	15 Oct
4.75	21-Oct-15	13,900	Twice yearly	21 Oct	21 Apr
4.75	15-Jun-16	21,200	Twice yearly	15 Jun	15 Dec
6.00	15-Feb-17	18,798	Twice yearly	15 Feb	15 Aug
4.25	21-Jul-17	15,700	Twice yearly	21 Jul	21 Jan
5.50	21-Jan-18	19,100	Twice yearly	21 Jan	21 Jul
5.25	15-Mar-19	17,348	Twice yearly	15 Mar	15 Sep
4.50	15-Apr-20	19,197	Twice yearly	15 Apr	15 Oct
5.75	15-May-21	18,700	Twice yearly	15 May	15 Nov
5.75	15-Jul-22	17,500	Twice yearly	15 Jul	15 Jan
5.50	21-Apr-23	19,800	Twice yearly	21 Apr	21 Oct
2.75	21-Apr-24	11,600	Twice yearly	21 Apr	21 Oct
3.25	21-Apr-25	7,400	Twice yearly	21 Apr	21 Oct
4.75	21-Apr-27	10,200	Twice yearly	21 Apr	21 Oct
3.25	21-Apr-29	6,500	Twice yearly	21 Apr	21 Oct
4.50	21-Apr-33	5,900	Twice yearly	21 Apr	21 Oct

(a) Where the timing of an interest payment falls on a non-business day, the payment will occur on the following business day.

Source: Australian Office of Financial Management.

Treasury Indexed Bonds

Treasury Indexed Bonds (TIBs) are medium- to long-term debt securities that have a capital value which is adjusted for movements in the CPI. Interest is paid quarterly, at a fixed rate, on the CPI-adjusted capital value. At maturity investors receive the CPI-adjusted capital value of the security.

Table 5 lists Treasury Indexed Bonds on issue as at 5 December 2013, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 5 December 2013 there were six TIB lines on issue, with a weighted average term to maturity of around 9.4 years and the longest maturity extending to August 2035.

Part 3: Fiscal outlook

The August 2035 Treasury Indexed Bond, first issued on 26 September 2013, increased the length of the real yield curve by five years to 22 years.

Table 5: Treasury Indexed Bonds (TIBs) on issue

Coupon Per cent	Maturity	On issue as at 5 December 2013 \$m	Timing of interest payments(a)				
4.00	20-Aug-15	3,196	Quarterly	20 Aug	20 Nov	20 Feb	20 May
4.00	20-Aug-20	4,773	Quarterly	20 Aug	20 Nov	20 Feb	20 May
1.25	21-Feb-22	3,000	Quarterly	21 Feb	21 May	21 Aug	21 Nov
3.00	20-Sep-25	5,450	Quarterly	20 Sep	20 Dec	20 Mar	20 June
2.50	20-Sep-30	3,050	Quarterly	20 Sep	20 Dec	20 Mar	20 June
2.00	21-Aug-35	2,100	Quarterly	21 Aug	21 Nov	21 Feb	21 May

(a) Where the timing of an interest payment falls on a non-business day, the payment will occur on the following business day.

Source: Australian Office of Financial Management.

Treasury Notes

Treasury Notes are short-term debt securities (generally less than six months) used primarily to meet within-year financing requirements resulting from differences in the timing of receipts and payments. The volume of Treasury Notes on issue will vary over the course of the year, depending on the size and profile of the within-year funding flows. Given this, there may be times when there will be no Treasury Notes on issue.

The face value of Treasury Notes on issue as at 5 December 2013 was \$9 billion. Table 6 lists the Treasury Notes on issue as at 5 December 2013. Treasury Notes do not pay a coupon, but they are issued at a discount – the face value received at maturity is higher than the price paid at issuance.

Table 6: Treasury Notes on issue

Maturity	On issue as at 5 December 2013 (\$m)	Timing of interest payment(a)	
24-Jan-14	5,500	At maturity	24 Jan
21-Feb-14	2,000	At maturity	21 Feb
7-Mar-14	1,500	At maturity	7 Mar

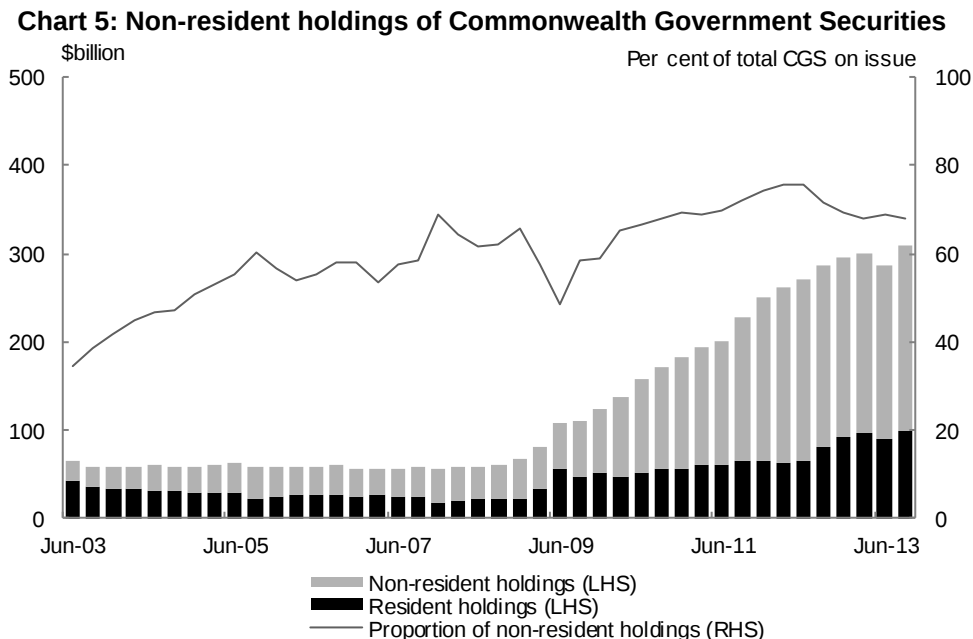
Source: Australian Office of Financial Management.

Non-resident holdings of CGS on issue

The ability to purchase CGS is not restricted to Australian residents. As at the September quarter 2013, 67.9 per cent of total CGS on issue was not held by residents of Australia (Chart 5).

The proportion of CGS held by non-residents remains around historically high levels, having risen significantly since 2009. This is likely to have been driven by the build-up of foreign currency reserves in some countries, and the increasing tendency for these reserves to be invested outside of the major currencies (such as the yen, the US dollar and the euro).

The historically high proportion of non-resident holdings of CGS may also have been driven by a relative rise in investor confidence in the Australian sovereign debt market, owing to the relative weakness of economies and public finances of many other developed countries. This is also contributing to demand for the Australian dollar.



Interest on CGS

The Government's interest expense over the forward estimates mostly relates to the cost of servicing the stock of CGS on issue. The Government's interest expense in 2013-14 is estimated to be \$14.9 billion at the 2013-14 MYEFO, of which \$13.5 billion relates to CGS on issue (see Note 10 in Appendix B for further details).

Estimates of the interest expense for CGS on issue consist of the cost of CGS already on issue and future CGS issuance. The cost of CGS already on issue uses the actual interest rates at the time of issuance. The cost of expected future issuance of CGS is based on the prevailing market rates across the yield curve at the time of an estimates update.

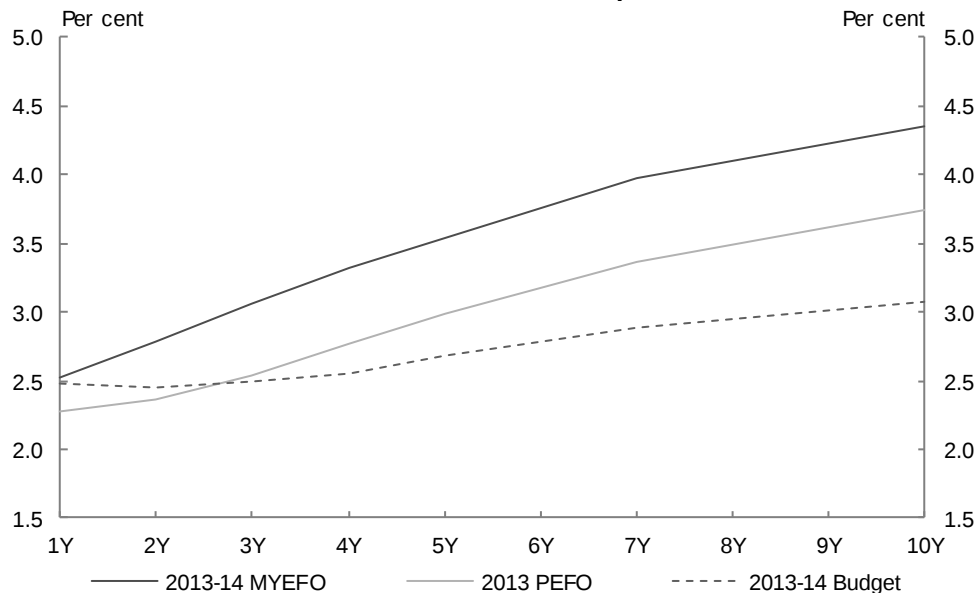
Table 7 shows the Government's estimated interest expense, interest income and net interest expense over the forward estimates.

Table 7: Interest expense, interest income and net interest expense

	2013-14	2014-15	2015-16	2016-17
	\$m	\$m	\$m	\$m
Interest expense	14,926	16,390	18,184	19,224
Per cent of GDP	0.9	1.0	1.1	1.1
Interest income	3,730	4,060	4,364	4,680
Per cent of GDP	0.2	0.2	0.3	0.3
Net interest expense	11,196	12,330	13,820	14,544
Per cent of GDP	0.7	0.8	0.8	0.8

The assumed market yields at the 2013-14 MYEFO result in a weighted average cost of borrowing of around 3.9 per cent for future issuance of Treasury Bonds in the forward estimates period, compared with around 3.5 per cent at the 2013 PEFO. Chart 6 shows the yield curve assumptions underpinning the 2013-14 Budget, the 2013 PEFO and the 2013-14 MYEFO.

Chart 6: Yield curve assumptions



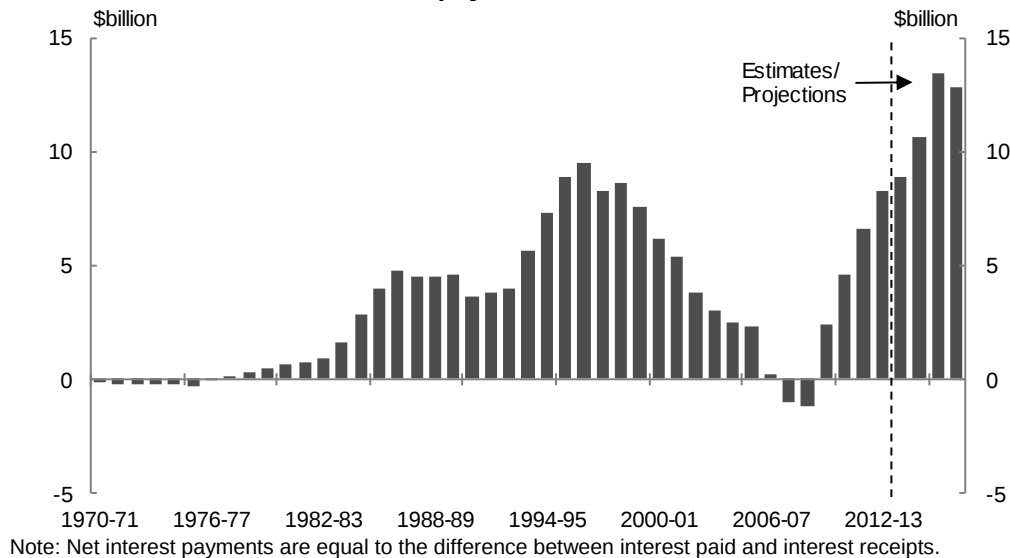
Source: Australian Office of Financial Management.

Table 8 shows the estimated interest expense on CGS on issue over the forward estimates. This interest expense increases over the forward estimates as a result of the projected rise in CGS on issue.

Table 8: Interest expense on CGS

	2013-14	2014-15	2015-16	2016-17
	\$m	\$m	\$m	\$m
Interest expense on CGS	13,455	14,954	16,741	18,027
Per cent of GDP	0.9	0.9	1.0	1.0

Chart 7 shows net interest payments from 1970-71 to 2016-17.

Chart 7: Net interest payments from 1970-71 to 2016-17

Climate spending

The Government's spending on climate change is shown on an aggregated basis in Table 9.

Table 9: Climate spending from 2013-14 to 2016-17

	2013-14	2014-15	2015-16	2016-17
	\$b	\$b	\$b	\$b
Climate spending(a)	5.55	1.40	0.95	1.00

(a) Spending in this table is on a headline cash balance basis; that is, payments and net cash flows from investments in financial assets for policy purposes, as well as estimated interest receipts associated with Clean Energy Finance Corporation investments.

In 2013-14, the primary drivers of climate spending are:

- the free permit buyback facility provided as part of the Jobs and Competitiveness Programme and the Energy Security Fund;
- funding for investment by the Clean Energy Finance Corporation;
- the Australian Renewable Energy Agency (ARENA), which supports research and development of renewable energy and related technologies; and
- spending across a range of programmes that formed part of the carbon tax package, including the Clean Technology Programmes, the Biodiversity Fund and the Coal Sector Jobs Package.

Part 3: Fiscal outlook

From 2014-15 onwards, the key drivers of climate spending are:

- the Direct Action Plan, primarily the Emissions Reduction Fund;
- the Australian Renewable Energy Agency;
- departmental funding for the Clean Energy Regulator; and
- previously committed expenditure in the Biodiversity Fund and the Clean Technology Programmes, noting these programmes will no longer be eligible for new applications beyond 2013-14.

The figures provided above relate to spending only, consistent with the requirements for the debt statement. However, for further context, it should be noted that carbon tax receipts from the sale of permits are estimated to be \$7.2 billion in 2013-14 and \$1.7 billion in 2014-15, based on the carbon tax discontinuing effective from 1 July 2014, consistent with government policy. There are also receipts from the effective carbon taxes on fuel and synthetic greenhouse gases.

Impact of climate spending on debt

Receipts and debt are not specifically allocated to particular spending programs. In this context, there are multiple approaches that could be taken to consider the extent to which spending on climate change has contributed to debt.

One approach is to assume that the proportion of climate spending being financed through new debt (as opposed to receipts) is equivalent to climate spending as a proportion of total spending. Table 10 shows the impact of climate change spending on debt using this approach.

Table 10: Impact on debt — climate spending as a proportion of total spending^{(a)(b)}

	2013-14	2014-15	2015-16	2016-17
Climate spending (per cent of total spending)	1.3	0.3	0.2	0.2
Change in face value of CGS from previous year (\$b)	53	50	40	40
Contribution to change in face value of CGS from climate spending (\$b)	0.70	0.16	0.09	0.09

(a) The calculation of spending in this table is on a headline cash balance basis; that is, payments and net cash flows from investments in financial assets for policy purposes, as well as estimated interest receipts associated with Clean Energy Finance Corporation investments.

(b) Calculations of the change in the face value of CGS on issue use data from 2013-14 onwards rounded to the nearest \$10 billion and are total CGS on issue.

Additional debt disclosures for the 2014-15 Budget

In the 2014-15 Budget, the Government will enhance disclosure around the proportion of the budget being allocated to capital purchases and recurrent expenditure. This will improve the transparency of budget papers, particularly in relation to funding critical infrastructure.