

STATEMENT 7: BUDGET FUNDING

Contents

Net Funding Requirement	7-3
Debt Issuance Programme	7-4

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The Government's net debt reduction programme, which commenced in 1996, will continue in 2001-02.

NET FUNDING REQUIREMENT

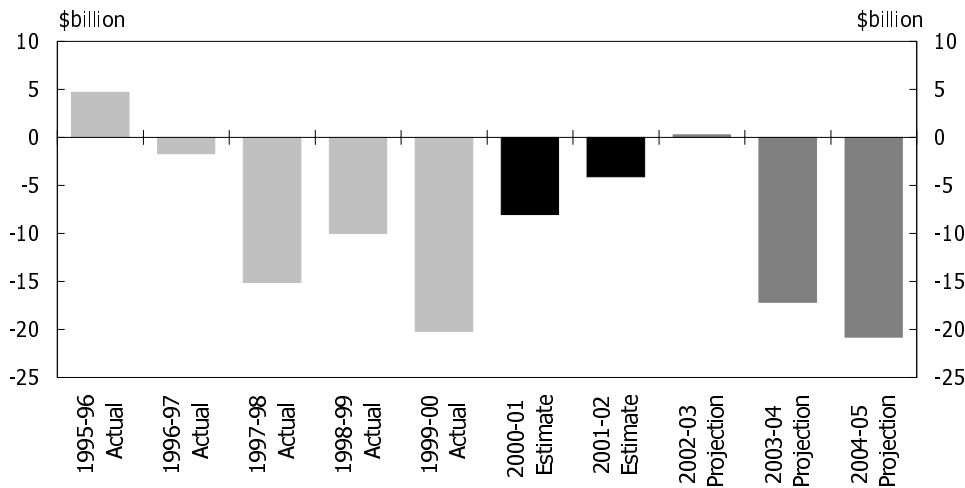
Commonwealth general government net debt is expected to be reduced by \$5.1 billion in the year ahead.

The Commonwealth has not borrowed, in net terms since 1995-96.

Aggregate net debt reduction since 1996-97, including the estimate for 2001-02, will total around \$60 billion. Trends in Commonwealth general government net debt are discussed in Statement 2.

The surplus funds available to reduce debt (sometimes referred to as the negative net funding requirement) are estimated to be \$4.1 billion in 2001-02.¹ This represents the funds the Commonwealth has over and above what is required to meet its budget obligations. Chart 1 depicts the net funding requirement in recent years and that projected for each year to 2004-05. The funds projected to be available to reduce net debt over the period 2001-02 to 2004-05 total over \$40 billion.

Chart 1: Net funding requirement



¹ This amount differs from the estimated fall in Commonwealth general government net debt, as the latter measure incorporates components such as net non-equity policy advances (such as the Higher Education Contribution Scheme) and the revaluation of selected financial assets and liabilities.

Consistent with the approach of recent years, the reduction in net debt will continue to be managed in line with the objective of maintaining the viability of the Commonwealth Government Securities (CGS) market and its supporting infrastructure. CGS outstandings will be maintained at levels consistent with this objective.

Maintenance of a liquid and efficient CGS market offers a number of advantages, including supporting the continued growth and development of domestic capital markets. This objective is also consistent with the Government's commitment to the further development of Australia as a centre for global financial services.

Surplus budget proceeds not applied to the redemption of CGS will continue to be held as financial assets.

DEBT ISSUANCE PROGRAMME

In line with the objective of maintaining a viable CGS market, a modest gross issuance programme is planned for 2001-02. The programme will primarily focus on maintenance of the length and efficiency of the yield curve and the build up and maintenance of liquidity in key benchmark stocks.

One further tender of Treasury Bonds is expected to be conducted prior to the end of the current financial year. Gross new Treasury Bond issuance is expected to be around \$2 billion to \$3 billion in 2001-02. As has been the case in recent years, issuance is expected to be weighted to the long-end of the curve.

A tender for the issue of \$75 million of Treasury Indexed Bonds is planned for 24 May 2001. Indexed issuance of \$200 million is planned for 2001-02. Further details concerning indexed issuance, including expected dates for the conduct of indexed bond tenders in 2001-02, will be announced prior to the start of the new financial year.

Treasury Notes will continue to be issued primarily to fund within-year mismatches in expenditure and receipts.