

Statement 7: Debt Statement

The Debt Statement provides information on current and projected Government gross debt, estimated and projected net debt, interest costs related to Australian Government Securities (AGS) and details of climate spending, including the extent to which this spending has contributed to debt.

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Statement 7: Debt Statement

Overview

The Debt Statement provides information on current and projected Government gross debt, estimated and projected net debt, interest costs related to Australian Government Securities (AGS) and details of climate spending, including the extent to which this spending has contributed to debt.

The face value of AGS on issue (gross debt) subject to the Treasurer's Direction is expected to be around \$872 billion (44.8 per cent of GDP) at 30 June 2021, increasing to around \$1,138 billion (51.6 per cent of GDP) at 30 June 2024. Total AGS on issue is projected to stabilise as a share of the economy over the medium term.

The Treasurer has revised the Direction on the maximum total face value of AGS that can be on issue to \$1,200 billion.

Net debt is expected to be 36.1 per cent of GDP (\$703.2 billion) at 30 June 2021, increasing to a peak of 43.8 per cent of GDP (\$966.2 billion) at 30 June 2024. Net debt is then projected to decrease to 39.6 per cent of GDP by the end of the medium term.

Australian 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 AGS.

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

- **Treasury Bonds:** medium-term to long-term securities with a fixed annual rate of interest payable every six months.
- **Treasury Indexed Bonds (TIBs):** medium-term to long-term securities for which the capital value of the security is adjusted for movements in the consumer price index (CPI). Interest on TIBs is paid quarterly, at a fixed rate, on the adjusted capital value.
- **Treasury Notes:** short-term discount securities, which mature within one year of issuance. 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 requirements.

Within these three broad categories of AGS, issuance is undertaken into a limited number of maturities (known as lines). The number of lines on issue is determined by the AOFM as part of its debt portfolio management role. Each line 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 AGS issuance into a limited number of lines (rather than issuing securities with a specific tenor, such as 10 years) ensures each line is sufficiently large that it can be more readily traded in the secondary market. Strong liquidity in the secondary market is attractive to investors and intermediaries, promotes demand for AGS and assists in lowering borrowing costs. All AGS issuance is undertaken in Australian dollars.

The AOFM exercises operational independence in the execution of its duties. Its announced issuance program for each year is determined on the basis of maturing AGS, net new issuance required to fund the Budget and operational considerations.

Operational considerations often mean that the annual issuance program may not be equivalent to the financing task for a particular year. For example, the AOFM may decide there is merit in partially pre-funding the following year's financing task. Alternatively, the AOFM might choose to smooth issuance across several financial years in order to minimise changes in AGS supply from one financial year to the next.

The AOFM aims to maintain an AGS yield curve out to a 30-year benchmark bond. This facilitates a lower risk profile of maturing debt, broadens the investor base and helps to reduce the impact of interest rate volatility on budget outcomes. Since the onset of the COVID-19 pandemic, the AOFM has needed to balance its longer-term issuance with shorter-term issuance to meet the significant borrowing requirement. Further details on the AOFM's debt issuance program are available on the AOFM website at www.aofm.gov.au.

Estimates and projections of key debt aggregates

The level of current and projected Government debt on issue is commonly expressed in one of two ways: gross or net debt.

Gross debt measures the face value of AGS on issue at a point in time. While gross debt is measured in face value terms, estimates and projections of AGS on issue are published in both face value and market value terms in this Statement.

- The **face value** of AGS 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 AGS 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 growth over the life of the security. This amount is not included in the calculation of face value.

- The **market value** of AGS on issue represents the value of securities as traded on the secondary market, which changes continuously with movements in market prices (often quoted as a yield to maturity). Consistent with external reporting standards, the market value of AGS on issue is reported in the Australian Government general government sector balance sheet.

Net debt is equal to the sum of interest bearing liabilities (which includes AGS on issue measured at market value) less the sum of selected financial assets (cash and deposits, advances paid and investments, loans and placements). As net debt incorporates both selected financial assets and liabilities at their fair value, it provides a broader measure of the financial obligations of the Australian Government than gross debt.

Not all government assets or liabilities are included in the measurement of net debt. For example the Government's unfunded superannuation liability is not accounted for in net debt, nor are holdings of equities, for example those held by the Future Fund or the Government's equity investment in the NBN.

Estimates and projections of AGS on issue

Table 1 contains estimates of the face value (end-of-year and within-year peak)² and the market value (end-of-year) of AGS on issue.

The *Commonwealth Inscribed Stock Act 1911* (CIS Act) requires the Treasurer to issue a direction stipulating the maximum face value of relevant AGS that may be on issue. The Treasurer has revised the Direction on the maximum total face value of AGS that can be on issue to \$1,200 billion.

As required by the *Charter of Budget Honesty Act 1998*, Table 1 reports estimates of AGS on issue subject to the Treasurer's Direction.

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

² End-of-year values are estimates of AGS on issue at 30 June for the particular year. The precise timing and level of within-year peaks of AGS on issue cannot be determined with accuracy. The timing of the within-year peak is therefore reported to the given month in the particular year.

Table 1: Estimates of Australian Government Securities on issue subject to the Treasurer's Direction^(a)

	Estimates			
	2020-21 \$b	2021-22 \$b	2022-23 \$b	2023-24 \$b
Face value — end-of-year	872	1,016	1,083	1,138
Per cent of GDP	44.8	50.5	51.6	51.6
Face value — within-year peak(b)	886	1,020	1,115	1,183
Per cent of GDP(b)	45.5	50.7	53.1	53.7
Month of peak(b)	May-21	Jun-22	Apr-23	Apr-24
Market value — end-of-year(c)	978	1,124	1,191	1,244
Per cent of GDP	50.2	55.9	56.7	56.5

(a) 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 are outlined in subsection 51JA(2A) of the CIS Act.

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

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

Source: Australian Office of Financial Management.

The total amount of AGS on issue subject to the Treasurer's Direction is reported on the AOFM website and updated weekly.

In 2020-21, the end-of-year face value of AGS on issue subject to the Treasurer's Direction is expected to be around \$872 billion, compared with \$558 billion at the 2019-20 MYEFO. The end-of-year face value of AGS on issue subject to the Treasurer's Direction is expected to reach around \$1,138 billion in 2023-24.

In 2020-21, the face value of AGS on issue subject to the Treasurer's Direction is expected to reach a within-year peak of around \$886 billion. In 2023-24, this is estimated to rise to a within-year peak of \$1,183 billion.

Changes in AGS on issue since the 2019-20 MYEFO

Table 2 shows the change in the estimated end-of-year face value of AGS on issue subject to the Treasurer's Direction between the 2019-20 MYEFO and the 2020-21 Budget.

Gross debt is expected to be higher than estimated at the 2019-20 MYEFO across all years in the forward estimates. This is primarily driven by the deterioration in the underlying cash balance stemming from the Government's response to and impacts of the COVID-19 pandemic.

Table 2: Estimated AGS on issue subject to the Treasurer's Direction — reconciliation from the 2019-20 MYEFO to the 2020-21 Budget

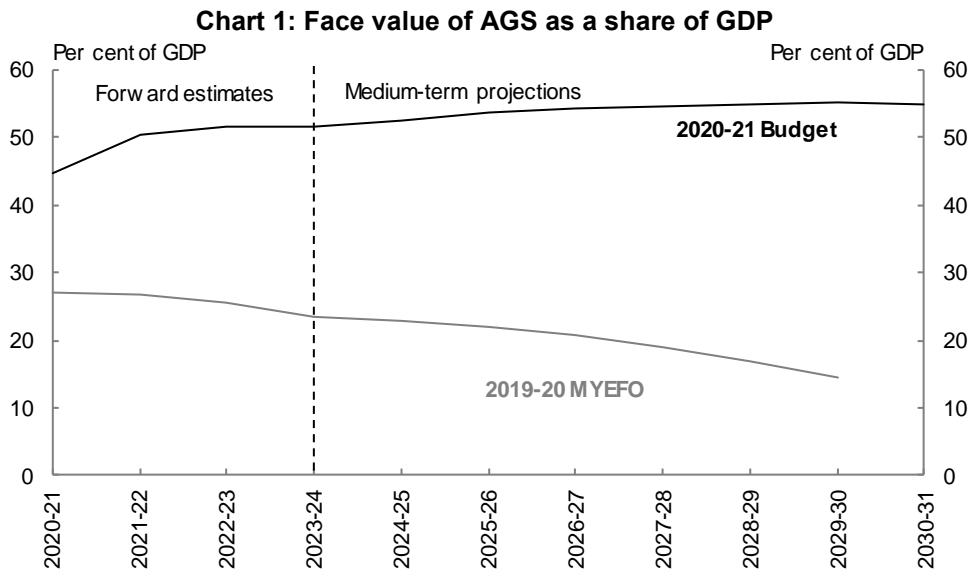
	Estimates		
	2020-21 \$b	2021-22 \$b	2022-23 \$b
Total face value of AGS on issue subject to the Treasurer's Direction as at 2019-20 MYEFO	558	576	576
Factors affecting the change in face value of AGS on issue from 2019-20 MYEFO to 2020-21 Budget(a)			
Cumulative receipts decisions	12.2	45.0	55.9
Cumulative receipts variations	73.6	128.1	189.4
Cumulative payment decisions	206.0	227.0	238.3
Cumulative payment variations	18.9	30.9	39.3
Cumulative change in net investments in financial assets(b)	17.1	29.0	4.6
Other contributors	-13.5	-20.2	-20.0
Total face value of AGS on issue subject to the Treasurer's Direction as at 2020-21 Budget	872	1,016	1,083

(a) Cumulative impact of decisions and variations from 2020-21 to 2022-23. Increases to payments are shown as positive, and increases to receipts are shown as negative.

(b) Change in net cash flows from investments in financial assets for policy and liquidity purposes.

Note: End-of-year data.

The total face value of AGS on issue is expected to rise over the forward estimates and into the medium term, before stabilising at around 55 per cent of GDP (Chart 1). The face value of AGS on issue is projected to reach 55.1 per cent of GDP at 30 June 2030, compared with the projection of 14.6 per cent of GDP at the 2019-20 MYEFO.

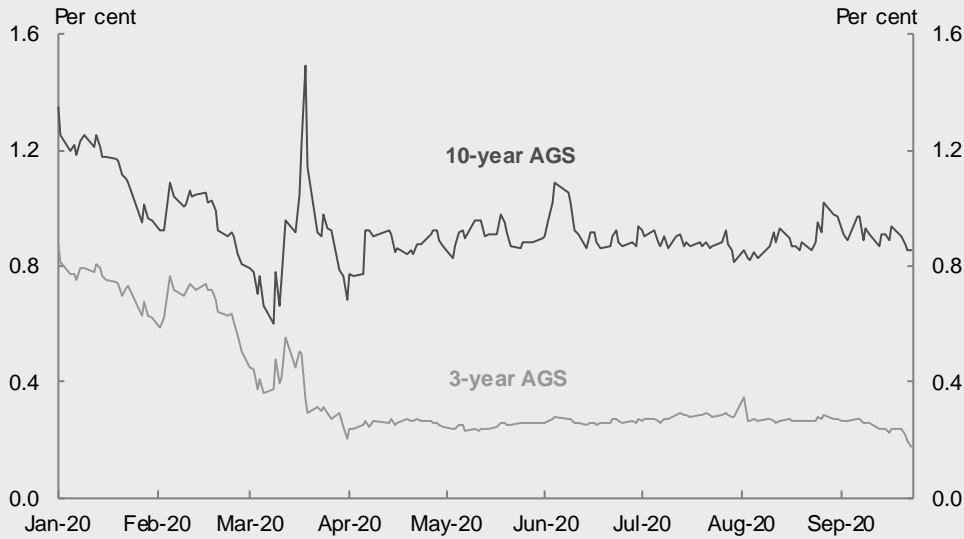


Source: Australian Office of Financial Management and Treasury projections.

Box 1: AGS market dislocation and recovery

The AGS market plays a crucial role in serving as a pricing benchmark for interest rates in the economy and for the overall operation of financial markets in Australia. The onset of the COVID-19 pandemic brought about temporary dysfunction in financial markets in Australia and globally, including the AGS market. Significant uncertainty surrounding the economic impact of the global pandemic led to extreme volatility in asset prices and widespread selling of assets as investors sought to raise cash. This was particularly focused on low-risk liquid assets such as AGS and resulted in excess supply in the secondary market, known as market congestion, and a sharp decrease in price (increase in yields) (Chart 2) and increase in spreads (the difference between the price intermediaries were willing to buy and sell AGS).

Chart 2: 3-year and 10-year AGS yields



Source: Yieldbroker.

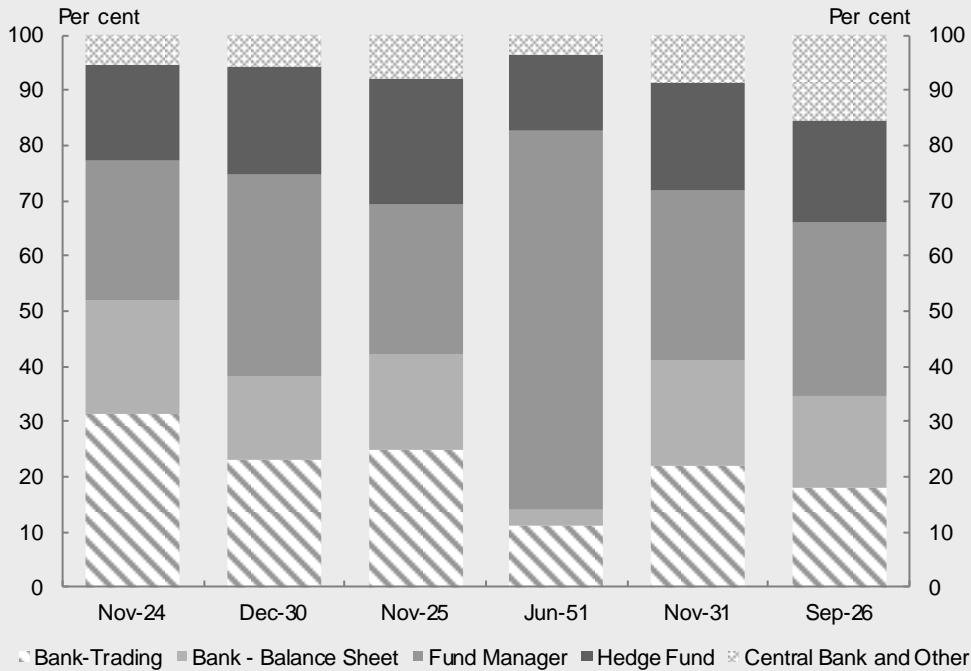
To help address this market dislocation, on 19 March 2020 the Reserve Bank of Australia (RBA) announced a range of measures to support the economy and financial markets. This included a government bond purchase program in secondary markets to achieve a target yield of 0.25 per cent for the 3-year Treasury Bond. These actions quickly proved successful, helping to clear market congestion with Treasury Bond yields falling steeply and the 3-year Treasury Bond yield remaining around the RBA's target since April. As at 25 September 2020, the RBA had purchased \$52.3 billion of AGS and \$11.1 billion of state and territory government issued securities, most of which occurred in March and April, reflecting the subsequent improvement in financial conditions and settlement of the AGS market. This improvement in the local market was reinforced by the actions of other central banks to address dysfunction in major global bond markets. Notably, the US Federal Reserve raised its daily target for purchases of US Treasury securities to as much as US\$75 billion during the height of global market turmoil in March.

Box 1: AGS market dislocation and recovery (continued)

The increase in liquidity and removal of dislocations paved the way for the AOFM to significantly ramp up AGS issuance to meet the Government’s financing task. While AGS yields have been at historic lows these have compared favourably internationally and led to investors, both domestically and offshore, seeking to buy AGS as safe assets as the global economic uncertainty continues. From 20 March to 25 September 2020, the AOFM issued more than \$290 billion in AGS, including over \$91 billion in Treasury Bonds and \$92 billion in Treasury Notes by tenders, and \$110 billion in Treasury Bonds by syndication. The syndications were used to establish six new Treasury Bond lines, with tenors ranging from four to 30 years.

The charts below show the quality and diversity of domestic and offshore investors that participated in the syndications and illustrate the continued strong support for short-term as well as long-term AGS despite the challenging economic conditions.

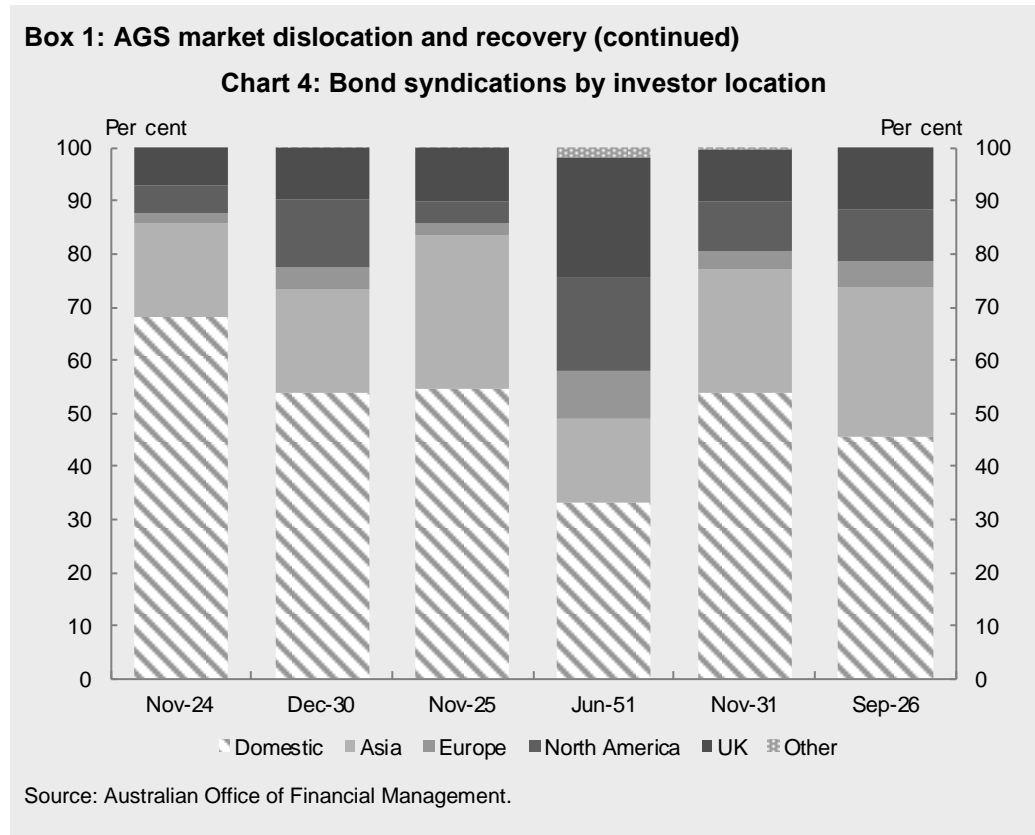
Chart 3: Bond syndications by investor type



Source: Australian Office of Financial Management.

Box 1: AGS market dislocation and recovery (continued)

Chart 4: Bond syndications by investor location



Breakdown of AGS currently on issue

Table 3 provides a breakdown of the AGS on issue by type of security as at 25 September 2020.

Table 3: Breakdown of current Australian Government Securities on issue

	On issue as at 25 September 2020	
	Face value \$m	Market value \$m
Treasury Bonds(a)	701,655	795,344
Treasury Indexed Bonds(a)	36,976	50,759
Treasury Notes(a)	64,000	63,981
Total AGS subject to Treasurer's Direction(a)(b)	802,631	910,084
Other stock and securities	6	6
Total AGS on issue	802,637	910,090

(a) The Treasurer's Direction applies only to the face value of AGS on issue. This table shows the equivalent market value of AGS 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 are outlined in subsection 51JA(2A) of the CIS Act.

Source: Australian Office of Financial Management.

The difference between face value and market value arises from current yields being different to the coupon rates which were set when bonds were first established.

Treasury Bonds

Table 4 lists Treasury Bonds currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 25 September 2020, there were 30 Treasury Bond lines on issue, with a weighted average term to maturity of around 7.7 years and the longest maturity extending to June 2051.

Table 4: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 25 September 2020		Timing of interest payments(a)		
		\$m				
1.75	21-Nov-20	17,721		Twice yearly	21-Nov	21-May
5.75	15-May-21	25,824		Twice yearly	15-May	15-Nov
2.00	21-Dec-21	16,398		Twice yearly	21-Dec	21-Jun
5.75	15-Jul-22	24,763		Twice yearly	15-Jul	15-Jan
2.25	21-Nov-22	26,500		Twice yearly	21-Nov	21-May
5.50	21-Apr-23	34,200		Twice yearly	21-Apr	21-Oct
2.75	21-Apr-24	32,900		Twice yearly	21-Apr	21-Oct
0.25	21-Nov-24	28,000		Twice yearly	21-Nov	21-May
3.25	21-Apr-25	32,400		Twice yearly	21-Apr	21-Oct
0.25	21-Nov-25	22,000		Twice yearly	21-Nov	21-May
4.25	21-Apr-26	33,400		Twice yearly	21-Apr	21-Oct
0.50	21-Sep-26	25,000		Twice yearly	21-Sep	21-Mar
4.75	21-Apr-27	29,700		Twice yearly	21-Apr	21-Oct
2.75	21-Nov-27	28,000		Twice yearly	21-Nov	21-May
2.25	21-May-28	29,700		Twice yearly	21-May	21-Nov
2.75	21-Nov-28	29,600		Twice yearly	21-Nov	21-May
3.25	21-Apr-29	32,000		Twice yearly	21-Apr	21-Oct
2.75	21-Nov-29	32,900		Twice yearly	21-Nov	21-May
2.50	21-May-30	35,400		Twice yearly	21-May	21-Nov
1.00	21-Dec-30	24,700		Twice yearly	21-Dec	21-Jun
1.50	21-Jun-31	24,500		Twice yearly	21-Jun	21-Dec
1.00	21-Nov-31	21,000		Twice yearly	21-Nov	21-May
1.25	21-May-32	16,200		Twice yearly	21-May	21-Nov
4.50	21-Apr-33	14,300		Twice yearly	21-Apr	21-Oct
2.75	21-Jun-35	8,550		Twice yearly	21-Jun	21-Dec
3.75	21-Apr-37	12,000		Twice yearly	21-Apr	21-Oct
3.25	21-Jun-39	9,100		Twice yearly	21-Jun	21-Dec
2.75	21-May-41	6,600		Twice yearly	21-May	21-Nov
3.00	21-Mar-47	13,300		Twice yearly	21-Mar	21-Sep
1.75	21-Jun-51	15,000		Twice yearly	21-Jun	21-Dec

(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

Table 5 lists TIBs currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 25 September 2020, there were 7 TIB lines on issue, with a weighted average term to maturity of around 10.2 years and the longest maturity extending to February 2050.

Table 5: Treasury Indexed Bonds on issue

Coupon Per cent	Maturity	On issue as at 25 September 2020		Timing of interest payments(a)				
		\$m						
1.25	21-Feb-22	6,840	Quarterly	21-Feb	21-May	21-Aug	21-Nov	
3.00	20-Sep-25	7,593	Quarterly	20-Sep	20-Dec	20-Mar	20-Jun	
0.75	21-Nov-27	5,350	Quarterly	21-Nov	21-Feb	21-May	21-Aug	
2.50	20-Sep-30	5,443	Quarterly	20-Sep	20-Dec	20-Mar	20-Jun	
2.00	21-Aug-35	4,250	Quarterly	21-Aug	21-Nov	21-Feb	21-May	
1.25	21-Aug-40	3,650	Quarterly	21-Aug	21-Nov	21-Feb	21-May	
1.00	21-Feb-50	3,850	Quarterly	21-Feb	21-May	21-Aug	21-Nov	

(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

Table 6 lists the Treasury Notes currently on issue. As at 25 September 2020 there were 11 Treasury Note lines on issue. Treasury Notes do not pay a coupon but instead are issued at a discount to their face value.

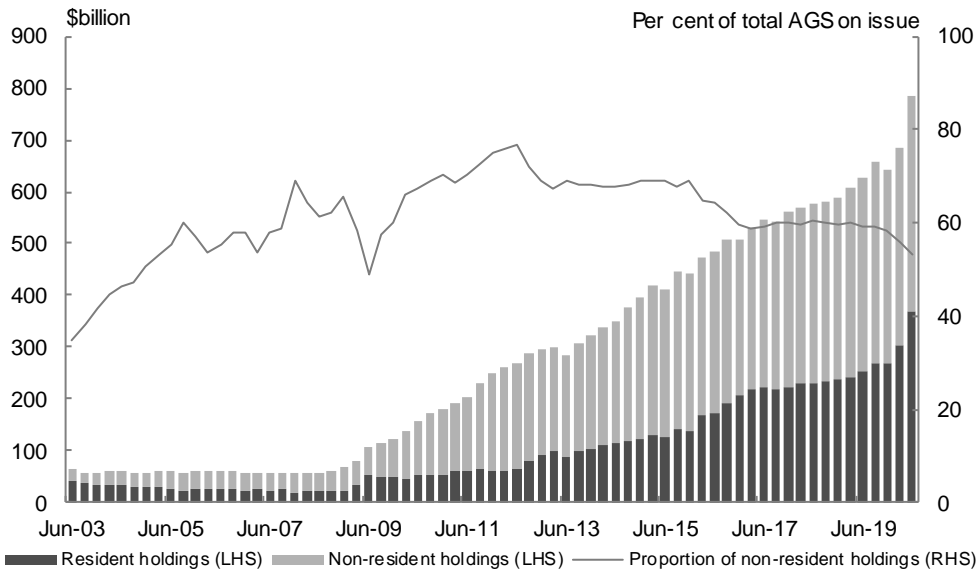
Table 6: Treasury Notes on issue

Maturity	On issue as at 25 September 2020		Timing of interest payment	
	\$m			
23-Oct-20	12,250		At maturity	23-Oct
13-Nov-20	10,000		At maturity	13-Nov
27-Nov-20	9,500		At maturity	27-Nov
11-Dec-20	9,500		At maturity	11-Dec
29-Jan-21	4,000		At maturity	29-Jan
26-Feb-21	5,000		At maturity	26-Feb
26-Mar-21	3,750		At maturity	26-Mar
23-Apr-21	3,000		At maturity	23-Apr
21-May-21	3,000		At maturity	21-May
25-Jun-21	3,000		At maturity	25-Jun
23-Jul-21	1,000		At maturity	23-Jul

Source: Australian Office of Financial Management.

Non-resident holdings of AGS on issue

As at the June quarter 2020, the proportion of non-resident holdings of AGS was around 53 per cent (Chart 5). This proportion is down from historical highs of around 76 per cent in 2012.

Chart 5: Non-resident holdings of Australian Government Securities

Note: Data refer to the market value of holdings.

Source: ABS Balance of Payments and International Investment Position, Australia June 2020, Australian Office of Financial Management, Reserve Bank of Australia.

Estimates and projections of net debt

Table 7 contains the liabilities and assets included in net debt over the forward estimates.

Net debt is expected to be \$703.2 billion (36.1 per cent of GDP) at 30 June 2021 and increase to \$966.2 billion (43.8 per cent of GDP) at 30 June 2024.

Table 7: Liabilities and assets included in net debt from 2020-21 to 2023-24

	Estimates			
	2020-21 \$m	2021-22 \$m	2022-23 \$m	2023-24 \$m
Liabilities included in net debt				
Deposits held	484	484	484	484
Government securities(a)	978,283	1,124,116	1,191,329	1,243,538
Loans	16,928	16,941	16,951	16,934
Other borrowing	18,893	19,565	19,572	18,899
Total liabilities included in net debt	1,014,588	1,161,106	1,228,335	1,279,855
Assets included in net debt				
Cash and deposits	5,780	6,009	6,707	6,035
Advances paid	87,054	89,173	90,646	71,727
Investments, loans and placements	218,509	253,798	231,192	235,924
Total assets included in net debt	311,343	348,981	328,544	313,687
Net debt	703,245	812,125	899,791	966,168

(a) Government securities are presented at market value.

Changes in net debt since the 2019-20 MYEFO

Table 8 shows the drivers of the change in net debt between the 2019-20 MYEFO and the 2020-21 Budget.

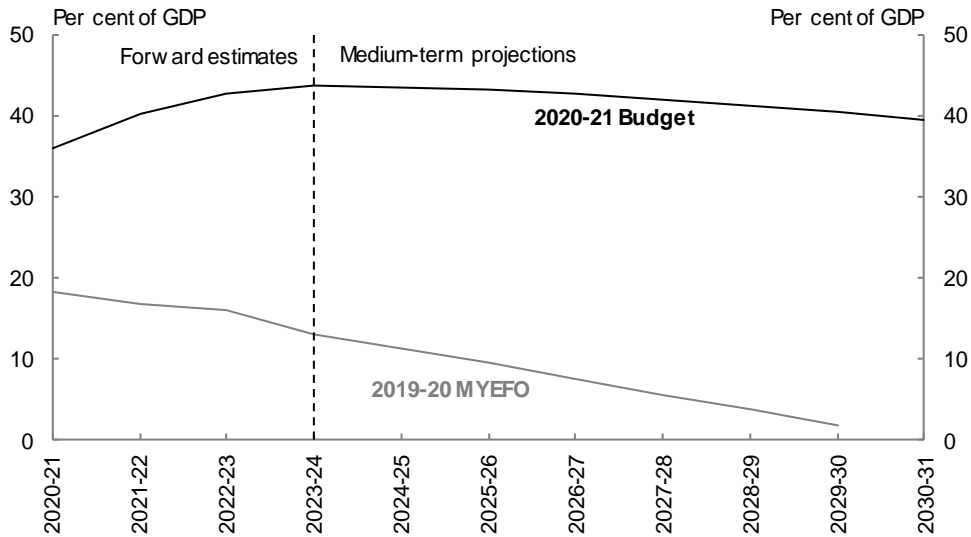
Net debt is expected to be higher than estimated at the 2019-20 MYEFO across all years in the forward estimates. This is primarily driven by the Government's increased borrowing requirements stemming from the response to and impacts of the COVID-19 pandemic.

Table 8: Net debt — reconciliation from the 2019-20 MYEFO to the 2020-21 Budget

	Estimates		
	2020-21	2021-22	2022-23
	\$b	\$b	\$b
Net debt as at 2019-20 MYEFO	379.2	364.5	360.8
Changes in financing requirement	322.8	454.2	523.3
Impact of yields on AGS	12.3	13.3	13.5
Asset and other liability movements	-11.1	-19.8	2.3
<i>Cash and deposits</i>	1.4	1.5	1.0
<i>Advances paid</i>	2.0	4.0	6.4
<i>Investments, loans and placements</i>	-14.6	-26.2	-5.5
<i>Other movements</i>	0.0	0.8	0.3
Total movements in net debt from 2019-20 MYEFO to 2020-21 Budget	324.0	447.6	539.0
Net debt as at 2020-21 Budget	703.2	812.1	899.8

Net debt is estimated to rise over the forward estimates, peaking at 43.8 per cent of GDP at 30 June 2024, before falling to 39.6 per cent of GDP by the end of the medium term (Chart 6). Net debt is projected to be 40.6 per cent of GDP at 30 June 2030, compared with the projection of 1.8 per cent of GDP at the 2019-20 MYEFO.

Chart 6: Net debt as a share of GDP



Source: Treasury projections.

Further details on the changes to the fiscal outlook, including the medium-term, since the 2019-20 MYEFO can be found in *Statement 3: Fiscal Strategy and Outlook*.

Interest on AGS

The interest costs related to AGS are presented in these statements in both cash and accrual accounting terms. The difference between the cash interest payments and accrual interest expense generally relates to the timing of when the interest cost is recognised.

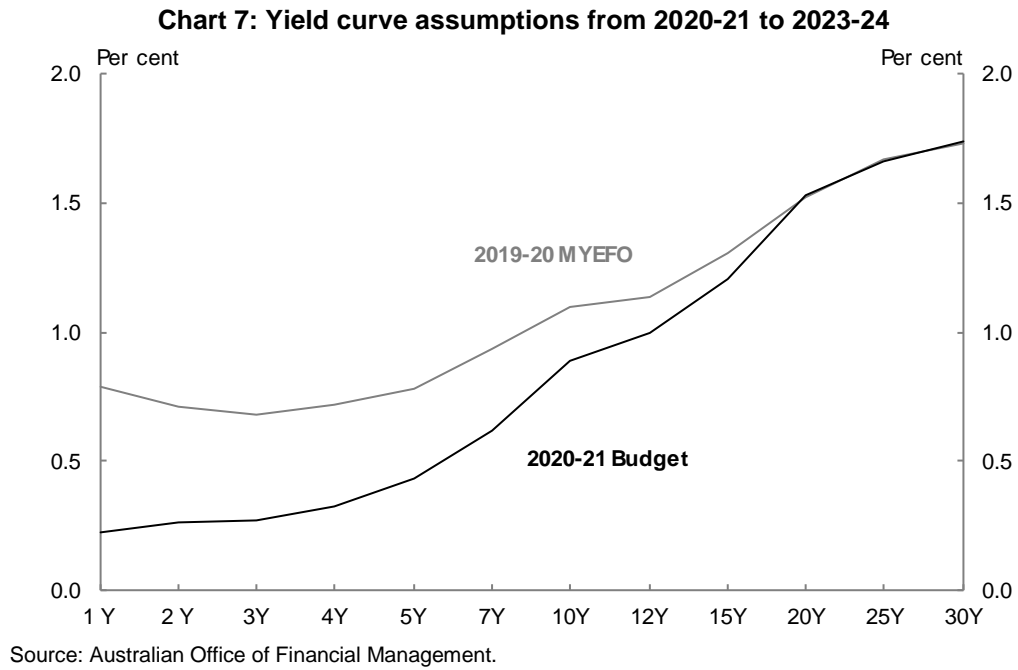
- **Interest payments** are recognised in the period when they are paid during the life of the security.
- **Interest expense** is recognised in the period in which an expense is incurred during the life of the security, rather when it is actually paid.

Estimates of the interest payments and expense of AGS on issue include the cost of AGS already on issue and future AGS issuance. The cost of:

- AGS already on issue uses the actual interest rates incurred at the time of issuance.
- The expected future issuance of AGS is based on the prevailing market rates across the yield curve at the time of a budget estimates update.

The assumed market yields for the 2020-21 Budget result in a weighted average cost of borrowing of around 0.8 per cent for future issuance of Treasury Bonds in the forward estimates, compared with around 1.1 per cent at the 2019-20 MYEFO.

Chart 7 shows the yield curve assumptions underpinning the 2019-20 MYEFO and 2020-21 Budget.



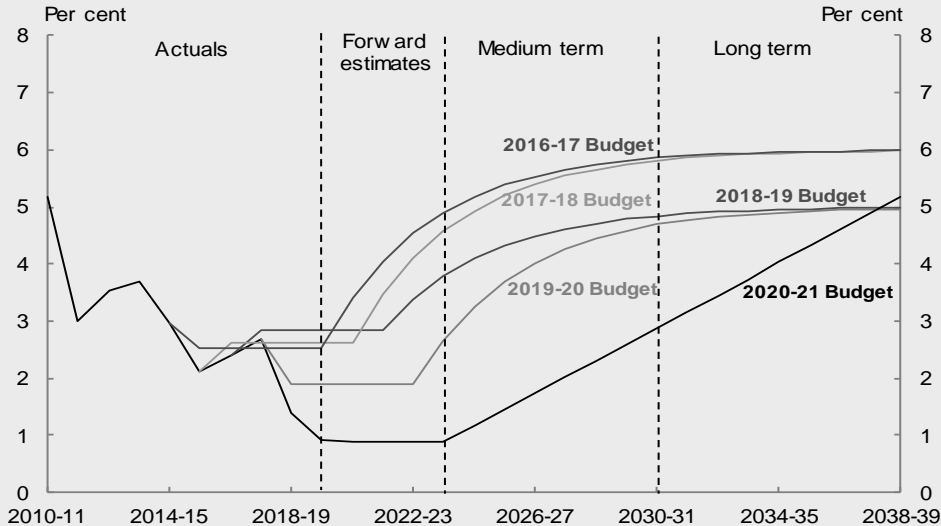
Box 2: Changes to the yield assumption underpinning medium-term fiscal projections

The medium-term fiscal projections incorporate a number of technical assumptions about future economic and fiscal conditions. A technical assumption is made about the path of yields on Government debt over the forward estimates and the medium term. The assumption is required to produce projections of public debt interest costs and therefore feeds into projections of the underlying cash balance and debt.

Over the forward estimates, the 10-year bond yield is assumed to remain fixed at the level observed prior to each economic and fiscal update.³ It is then assumed that the 10-year bond yield converges from the start of the medium term to a long-run 10-year bond yield of around 5 per cent (6 per cent until the 2018-19 Budget). This long-run rate is consistent with long-run nominal GDP growth and with the *Long-Term Cost Report* prepared by the Australian Government Actuary.

Prior to the 2020-21 Budget, the yield curve was assumed to converge by a quarter of the difference between the previous year’s yield and the long-run yield in each year over the medium term (Chart 8).

Chart 8: Convergence to long-run yield curve



Source: Treasury

For the 2020-21 Budget, the 10-year bond yield is assumed to converge in a linear fashion to the long-run yield. Under this assumption, the 10-year bond yield is assumed to reach the long-run rate 15 years after the end of the forward estimates. The slower return to the long-run yield curve is more consistent with the persistently low yields observed in recent years. As Chart 8 shows, there has been a trend decline in yields in recent years at each budget update. The new approach is also consistent with practice in other international institutions, such as the Office for Budget Responsibility in the United Kingdom and the New Zealand Treasury, which both use a linear convergence. For a further discussion on interest rates, see *Statement 4: Fiscal Policy and Economic Growth*.

Box 2: Changes to the yield assumption underpinning medium-term fiscal projections (continued)

Under the new yield assumption, the underlying cash balance is projected to improve by \$26.4 billion by 2030-31 compared with the previous assumption, reflecting lower projected public debt interest costs. Cumulative improvements in the underlying cash balance are also projected to impact on gross debt and net debt projections.

For sensitivity analysis around the impact of linear convergence over a faster or slower timeframe, see *Budget Statement 8: Forecasting Performance and Sensitivity Analysis*.

The Government's interest payments and expense over the forward estimates mostly relate to the cost of servicing the stock of AGS on issue.

The Government's total interest payments in 2020-21 are estimated to be \$17.2 billion, of which \$16.6 billion relates to AGS on issue (Table 9).

While gross debt estimates have increased significantly, interest payments on AGS in 2020-21 are only expected to increase by 0.1 per cent of GDP compared with the estimate at the 2019-20 MYEFO, reflecting historically low interest rates.

Table 9: Interest payments, interest receipts and net interest payments^(a)

	Estimates			
	2020-21 \$m	2021-22 \$m	2022-23 \$m	2023-24 \$m
Interest payments on AGS	16,623	17,083	16,746	17,526
Per cent of GDP	0.9	0.8	0.8	0.8
Interest payments	17,230	17,655	17,333	18,122
Per cent of GDP	0.9	0.9	0.8	0.8
Interest receipts	4,133	4,202	4,221	4,475
Per cent of GDP	0.2	0.2	0.2	0.2
Net interest payments ^(b)	13,097	13,453	13,113	13,647
Per cent of GDP	0.7	0.7	0.6	0.6

(a) Interest payments and receipts are a cash measure, with the relevant amount recognised in the period in which the interest payment is made or interest is received.

(b) Net interest payments are equal to the difference between interest payments and interest receipts.

The Government's interest expense in 2020-21 is estimated to be \$19.8 billion, of which \$16.7 billion relates to AGS on issue. Table 10 shows the Government's estimated interest expense, interest expense on AGS, interest income and net interest expense over the forward estimates.

3 Prior to the 2020-21 Budget, a snapshot of the daily spot rates was used to derive a fixed yield for the forward estimates. For the 2020-21 Budget, an average of daily spot rates was used instead to minimise the likelihood of locking in high or low yields during volatile periods.

Table 10: Interest expense, interest income and net interest expense^(a)

	Estimates			
	2020-21	2021-22	2022-23	2023-24
	\$m	\$m	\$m	\$m
Interest expense on AGS	16,724	17,334	17,743	17,781
Per cent of GDP	0.9	0.9	0.8	0.8
Interest expense	19,821	19,951	20,462	20,972
Per cent of GDP	1.0	1.0	1.0	1.0
Interest income	4,181	4,008	3,745	3,601
Per cent of GDP	0.2	0.2	0.2	0.2
Net interest expense(b)	15,640	15,943	16,717	17,371
Per cent of GDP	0.8	0.8	0.8	0.8

(a) Interest expense is an accrual measure, with the relevant amount recognised in the period in which the expense is incurred, but not necessarily paid.

(b) Net interest expense is equal to the difference between interest expenses and interest income.

Climate spending

The Government's climate spending is shown on an aggregated basis in Table 11.

Table 11: Climate spending from 2020-21 to 2023-24

	Estimates			
	2020-21	2021-22	2022-23	2023-24
	\$b	\$b	\$b	\$b
Climate spending(a)(b)	1.80	1.40	1.35	1.45

(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.

(b) These figures do not include expected repayments from the Clean Energy Finance Corporation over the forward estimates.

The key components of climate spending are:

- the Clean Energy Finance Corporation (CEFC), which invests in renewable energy, energy efficiency and low emissions technologies
- the Australian Renewable Energy Agency, which supports research and development of renewable energy and related technologies
- the Clean Energy Regulator, which administers legislation to reduce carbon emissions and increase the use of clean energy.

The above figures incorporate the Government's decision to provide \$3.5 billion over 15 years from 2018-19 for a Climate Solutions package, which provides incentives to support abatement activities across the economy. Climate spending also includes the Government's provision of a \$1.9 billion package over 12 years from 2020-21 to support the acceleration of technologies that will deliver lower emissions, increase investment, lower costs and create jobs to support the economic recovery. Climate spending in

2021-22 and 2022-23 is lower than estimated at the 2019-20 MYEFO, reflecting downward revisions in CEFC investments owing to changes in market conditions.

Impact of climate spending on debt

Climate spending is financed through either receipts or debt. This Statement assumes that the proportion of climate spending being financed through new debt (as opposed to receipts) is equivalent to the proportion of total spending financed by debt. This is shown in Table 12.

Table 12: Impact on debt — climate spending as a proportion of total spending

	Estimates			
	2020-21 \$b	2021-22 \$b	2022-23 \$b	2023-24 \$b
Climate spending(a)	1.80	1.40	1.35	1.45
Total Spending(b)	694	576	583	583
Climate spending (per cent of total spending)	0.3	0.2	0.2	0.2
Change in face value of AGS from previous year(c)	188	144	67	55
Contribution to change in face value of AGS from climate spending	0.49	0.35	0.16	0.14

(a) The calculation of climate 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 the Clean Energy Finance Corporation investments.

(b) The calculation of total spending in this table is on a headline cash balance basis — that is, total payments and net cash flows from investments in financial assets for policy purposes.

(c) Calculations of the change in the face value of AGS are calculated using total AGS on issue.