

Part 4: Debt Statement

This Statement provides information on current and estimated Government gross debt on issue, estimated Government net debt and interest costs related to Australian Government Securities (AGS).

Gross debt is expected to be 42.5 per cent of GDP (\$852 billion) at 30 June 2021 and increase to 51.5 per cent of GDP (\$1,138 billion) at 30 June 2024. Gross debt is projected to stabilise at around 53 per cent of GDP in the medium term.

Net debt is expected to be 34.5 per cent of GDP (\$691.9 billion) at 30 June 2021, increasing to 43.0 per cent of GDP (\$951.7 billion) at 30 June 2024. Net debt is then projected to decrease to 38.3 per cent of GDP by the end of the medium term.

Australian Government Securities issuance

The Government finances its activities either through receipts or 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 exercises operational independence in the execution of its duties. Further detail on the AOFM's operations can be found in Budget Paper No.1 Statement 7: *Debt Statement* in the 2020-21 Budget and on the AOFM website at www.aofm.gov.au.

Estimates of AGS on issue

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

¹ For Treasury Index Bonds, the final repayment amount paid to investors includes an additional amount to reflect the impact of inflation over the life of the security. This additional amount is not included in the calculation of face value.

Part 4: Debt Statement

Table 4.1 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. Effective from 7 October 2020, the Treasurer directed that the maximum face value of AGS that can be on issue is \$1,200 billion. As required by the *Charter of Budget Honesty Act 1998*, Table 4.1 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.

Table 4.1: Estimates of AGS on issue subject to the Treasurer's Direction^{(a)(b)}

	Estimates			
	2020-21 \$b	2021-22 \$b	2022-23 \$b	2023-24 \$b
Face value — end-of-year	852	991	1,059	1,138
Per cent of GDP	42.5	48.7	50.2	51.5
Face value — within-year peak(c)	860	991	1,067	1,152
Per cent of GDP(c)	42.9	48.7	50.6	52.1
<i>Month of peak(c)</i>	<i>May-21</i>	<i>Jun-22</i>	<i>Apr-23</i>	<i>Apr-24</i>
Market value — end-of-year	954	1,094	1,163	1,241
Per cent of GDP	47.5	53.8	55.1	56.1

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

(b) The stock and securities that are excluded from the current limit set by the Treasurer's Direction are outlined in subsection 51JA(2A) of the CIS Act.

(c) 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.

Source: AOFM.

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

In 2020-21, the end-of-year face value of AGS on issue subject to the Treasurer's Direction is expected to be around \$852 billion, compared with \$872 billion at the 2020-21 Budget. 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.

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

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 \$860 billion. In 2023-24, this is estimated to rise to a within-year peak of \$1,152 billion.

Changes in AGS on issue since the 2020-21 Budget

Table 4.2 shows the change in the estimated end-of-year face value of AGS on issue subject to the Treasurer's Direction between the 2020-21 Budget and the 2020-21 MYEFO.

Compared with the 2020-21 Budget, gross debt is expected to be essentially unchanged at the end of the forward estimates. The positive impact on gross debt of improvements in the underlying cash balance has been offset by revisions to technical funding assumptions.

Table 4.2: Estimates of AGS on issue subject to the Treasurer's Direction — reconciliation from the 2020-21 Budget to the 2020-21 MYEFO

	Estimates			
	2020-21	2021-22	2022-23	2023-24
	\$b	\$b	\$b	\$b
Total face value of AGS on issue subject to the Treasurer's Direction as at 2020-21 Budget	872	1,016	1,083	1,138
Factors affecting the change in face value of AGS on issue from 2020-21 Budget to 2020-21 MYEFO(a)				
Cumulative receipts decisions	0.1	0.5	1.2	1.8
Cumulative receipts variations	-9.5	-16.5	-21.5	-22.1
Cumulative payment decisions	4.8	7.6	9.1	10.3
Cumulative payment variations	-11.3	-11.1	-11.7	-13.9
Cumulative change in net investments in financial assets(b)	-10.0	-10.9	-6.5	17.6
Other contributors	5.9	5.3	4.9	6.3
Total face value of AGS on issue subject to the Treasurer's Direction as at 2020-21 MYEFO	852	991	1,059	1,138

(a) Cumulative impact of decisions and variations from 2020-21 to 2023-24. Increases to payments are shown as positive, and increases to receipts are shown as negative.

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

Note: End-of-year data.

Detail on gross debt projections over the medium term can be found in Part 3: *Fiscal strategy and outlook*.

Breakdown of AGS currently on issue

Table 4.3 provides a breakdown of the AGS on issue by type of security as at 8 December 2020.

Table 4.3: Breakdown of current AGS on issue

	On issue as at 8 December 2020	
	Face value	Market value
	\$m	\$m
Treasury Bonds	722,934	806,312
Treasury Indexed Bonds	37,576	52,828
Treasury Notes	54,250	54,248
Total AGS subject to Treasurer's Direction(a)	814,760	913,389
Other stock and securities	6	6
Total AGS on issue	814,766	913,395

(a) The stock and securities that are excluded from the current limit set by the Treasurer's Direction are outlined in subsection 51JA(2A) of the CIS Act.

Source: AOFM.

Treasury Bonds

Table 4.4 lists Treasury Bonds currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 8 December 2020, there were 29 Treasury Bond lines on issue, with a weighted average term to maturity across all outstanding Treasury Bonds of around 7.9 years and the longest maturity extending to June 2051.

Table 4.4: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 8 December 2020		Timing of interest payments(a)		
			\$m			
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	29,000		Twice yearly	21-Nov	21-May
3.25	21-Apr-25	32,400		Twice yearly	21-Apr	21-Oct
0.25	21-Nov-25	26,500		Twice yearly	21-Nov	21-May
4.25	21-Apr-26	33,400		Twice yearly	21-Apr	21-Oct
0.50	21-Sep-26	28,000		Twice yearly	21-Sep	21-Mar
4.75	21-Apr-27	30,700		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	31,100		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	32,700		Twice yearly	21-Dec	21-Jun
1.50	21-Jun-31	26,500		Twice yearly	21-Jun	21-Dec
1.00	21-Nov-31	28,000		Twice yearly	21-Nov	21-May
1.25	21-May-32	20,700		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	9,600		Twice yearly	21-Jun	21-Dec
2.75	21-May-41	12,600		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: AOFM.

Treasury Indexed Bonds

Table 4.5 lists Treasury Indexed Bonds (TIBs) currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 8 December 2020, there were 7 TIB lines on issue, with a weighted average term to maturity across all outstanding TIBs of around 9.9 years and the longest maturity extending to February 2050.

Table 4.5: Treasury Indexed Bonds on issue

Coupon Per cent	Maturity	On issue as at 8 December 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	7,743	Quarterly	20-Sep	20-Dec	20-Mar	20-Jun	
0.75	21-Nov-27	5,650	Quarterly	21-Nov	21-Feb	21-May	21-Aug	
2.50	20-Sep-30	5,593	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: AOFM.

Treasury Notes

Table 4.6 lists the Treasury Notes currently on issue. As at 8 December 2020 there were 8 Treasury Note lines on issue. Treasury Notes do not pay a coupon.

Table 4.6: Treasury Notes on issue

Maturity	On issue as at 8 December 2020		Timing of interest payment	
	\$m			
11-Dec-20	9,500		At maturity	11-Dec
29-Jan-21	10,000		At maturity	29-Jan
26-Feb-21	8,500		At maturity	26-Feb
26-Mar-21	7,250		At maturity	26-Mar
23-Apr-21	5,500		At maturity	23-Apr
21-May-21	5,500		At maturity	21-May
25-Jun-21	5,500		At maturity	25-Jun
23-Jul-21	2,500		At maturity	23-Jul

Source: AOFM.

Estimates of net debt

Net debt is equal to the sum of interest bearing liabilities (which includes AGS on issue measured at market value) less the sum of financial assets (cash and deposits, advances paid and investments, loans and placements). As net debt incorporates selected financial assets and liabilities, 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.

Net debt is expected to be \$691.9 billion at 30 June 2021, compared with \$703.2 billion at the 2020-21 Budget. Over the forward estimates, net debt is projected to increase as a proportion of GDP from 34.5 per cent at 30 June 2021 to 43.0 per cent at 30 June 2024.

Changes in net debt since the 2020-21 Budget

Table 4.7 shows the drivers of the change in net debt between the 2020-21 Budget and the 2020-21 MYEFO.

Compared with the 2020-21 Budget, net debt is expected to slightly improve across the forward estimates. This primarily reflects the expected improvement in the underlying cash balance.

Table 4.7: Net Debt — reconciliation from the 2020-21 Budget to the 2020-21 MYEFO

	Estimates			
	2020-21 \$b	2021-22 \$b	2022-23 \$b	2023-24 \$b
Net debt as at 2020-21 Budget	703.2	812.1	899.8	966.2
Changes in financing requirement	-25.6	-31.2	-31.7	-6.3
Impact of yields on AGS	0.9	1.5	2.9	4.1
Asset and other liability movements	13.4	16.1	13.3	-12.3
<i>Cash and deposits</i>	-0.3	0.8	1.4	-1.6
<i>Advances paid</i>	-0.3	-0.2	0.0	-1.2
<i>Investments, loans and placements</i>	14.2	15.3	11.7	-10.1
<i>Other movements</i>	-0.1	0.1	0.3	0.6
Total movements in net debt from 2020-21 Budget to 2020-21 MYEFO	-11.4	-13.7	-15.5	-14.5
Net debt as at 2020-21 MYEFO	691.9	798.5	884.3	951.7

Detail on net debt projections over the medium term can be found in Part 3: *Fiscal strategy and outlook*.

Interest on AGS

The interest costs related to AGS are presented in this Statement 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.

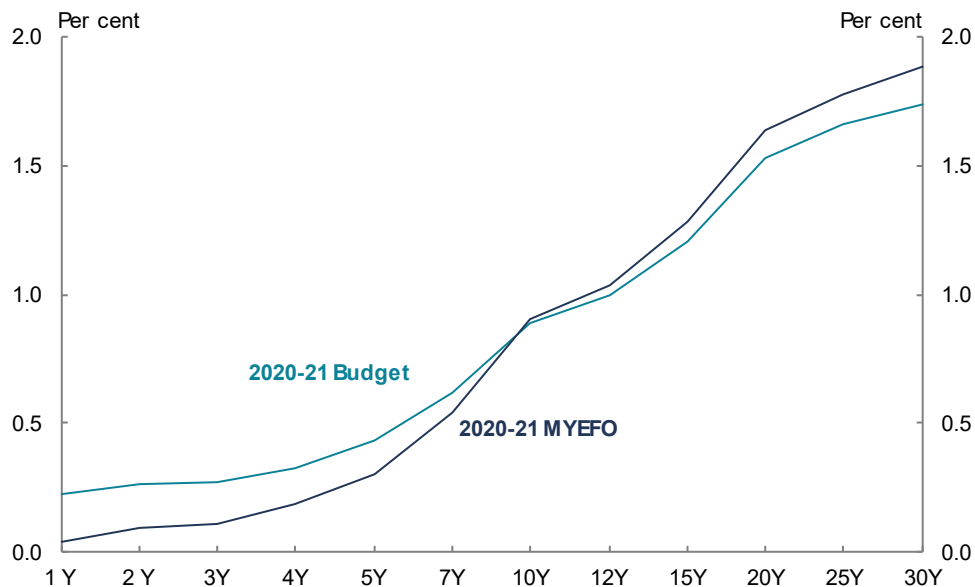
- **Interest payments** are recognised in the period when they are paid during the life of the security.
- **Interest expense** is recognised in the period in which an expense is incurred during the life of the security, rather than when it is actually paid.

Estimates of the interest payments and interest 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 at the 2020-21 MYEFO result in a weighted average cost of borrowing of around 0.9 per cent for future issuance of Treasury Bonds in the forward estimates period, compared with around 0.8 per cent at the 2020-21 Budget. Chart 4.1 shows the yield curve assumptions underpinning the 2020-21 Budget and 2020-21 MYEFO.

Chart 4.1: Yield curve assumptions for 2020-21 to 2023-24



Source: AOFM.

The Government's total interest payments in 2020-21 are estimated to be \$17.2 billion, of which \$16.7 billion relates to AGS on issue, essentially unchanged since the 2020-21 Budget (Table 4.8).

Table 4.8: Interest payments, interest receipts and net interest payments^(a)

	Estimates			
	2020-21	2021-22	2022-23	2023-24
	\$m	\$m	\$m	\$m
Interest payments on AGS	16,710	17,037	16,649	17,537
Per cent of GDP	0.8	0.8	0.8	0.8
Interest payments	17,174	17,521	17,150	18,038
Per cent of GDP	0.9	0.9	0.8	0.8
Interest receipts	3,709	3,562	3,603	3,937
Per cent of GDP	0.2	0.2	0.2	0.2
Net interest payments(b)	13,464	13,958	13,547	14,102
Per cent of GDP	0.7	0.7	0.6	0.6

(a) Interest payments and interest 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 total interest expense in 2020-21 is estimated to be \$20.6 billion, of which \$16.9 billion relates to AGS on issue. Table 4.9 shows the Government's estimated interest expense, interest expense on AGS, interest income and net interest expense over the forward estimates.

Table 4.9: 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	16,943	17,285	17,492	17,711
Per cent of GDP	0.8	0.9	0.8	0.8
Interest expense	20,596	19,822	20,107	20,758
Per cent of GDP	1.0	1.0	1.0	0.9
Interest income	4,161	3,852	3,651	3,616
Per cent of GDP	0.2	0.2	0.2	0.2
Net interest expense(b)	16,436	15,970	16,456	17,142
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.