

Statement 7: Debt Statement

Using the Government's balance sheet to provide emergency support to limit the economic impact and long-term scarring stemming from the COVID-19 crisis was necessary and prudent. While the unprecedented support has resulted in a significant increase in debt, historically low interest rates mean the cost of servicing debt is relatively low. Furthermore, debt as a share of the economy remains low in comparison with other advanced economies.

Net debt is expected to be 34.2 per cent of GDP at 30 June 2022 and peak at 40.9 per cent of GDP (\$980.6 billion) at 30 June 2025, before decreasing to 37.0 per cent of GDP at 30 June 2032.

Details on debt projections over the forward estimates and medium-term can be found in *Statement 3: Fiscal Strategy and Outlook*.

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Statement 7: Debt Statement

Overview

The Debt Statement provides information on current and projected Government gross and 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 Government's strong track record of budget management enabled Australia to make effective use of the balance sheet during the COVID-19 pandemic. Prior to the pandemic, the 2019-20 MYEFO forecast that net debt would be 19.5 per cent of GDP (\$392.3 billion) at 30 June 2020, declining to 16.9 per cent of GDP (\$364.5 billion) at 30 June 2022 and 1.8 per cent of GDP by the end of the medium term at 30 June 2030. As a result of the Government's decisive action in providing unprecedented economic support in response to the COVID-19 pandemic, net debt is now expected to be 34.2 per cent of GDP (\$729.0 billion) at 30 June 2022, increasing to a peak of 40.9 per cent of GDP (\$980.6 billion) at 30 June 2025, before falling to 37.0 per cent of GDP by the end of the medium term.

The face value of AGS on issue (gross debt) subject to the Treasurer's Direction is expected to be around \$963 billion (45.1 per cent of GDP) at 30 June 2022, increasing to around \$1,199 billion (50.0 per cent of GDP) at 30 June 2025. Total AGS on issue is projected to stabilise as a share of the economy over 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 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 (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. 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 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.¹⁹ 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 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 of AGS on issue

Table 7.1 contains estimates of the face value (end-of-year and within-year peak)²⁰ and the market value (end-of-year) of AGS on issue.

19 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.

20 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.

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.

As required by the *Charter of Budget Honesty Act 1998*, Table 7.1 reports estimates of AGS on issue subject to the Treasurer’s Direction. On 7 October 2020, the Treasurer directed that the maximum face value of AGS that can be on issue is \$1,200 billion.

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 7.1: Estimates of AGS on issue subject to the Treasurer’s Direction^{(a)(b)}

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	\$b	\$b	\$b	\$b	\$b
Face value — end-of-year	829	963	1,058	1,134	1,199
Per cent of GDP	40.2	45.1	48.6	49.7	50.0
Face value — within-year peak(c)	841	963	1,058	1,139	1,220
Per cent of GDP(c)	40.8	45.1	48.6	49.9	50.9
<i>Month of peak(c)</i>	<i>May-21</i>	<i>Jun-22</i>	<i>Apr-23</i>	<i>Apr-24</i>	<i>Apr-25</i>
Market value — end-of-year	892	1,028	1,126	1,207	1,274
Per cent of GDP	43.3	48.2	51.7	52.9	53.2

(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.

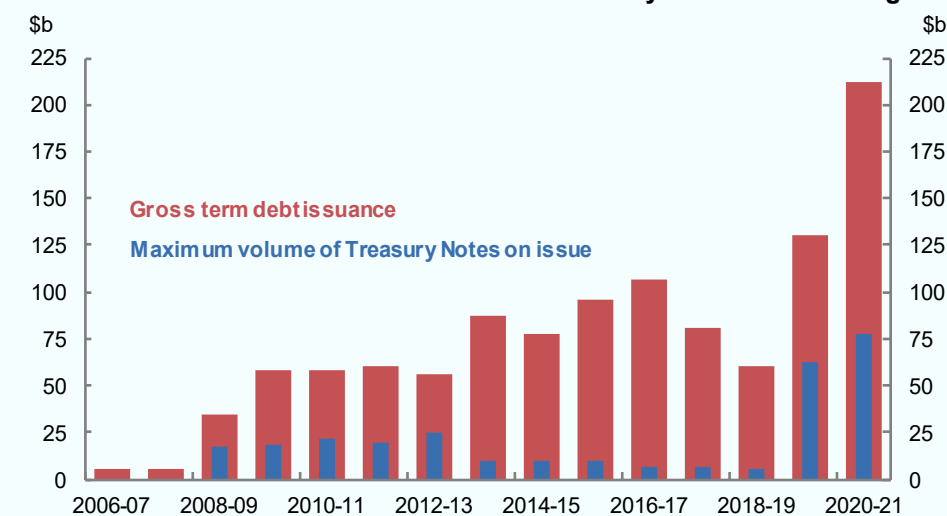
In 2021-22, the end-of-year face value of AGS on issue subject to the Treasurer’s Direction is expected to be around \$963 billion, compared with \$1,016 billion at the 2020-21 Budget. The end-of-year face value of AGS on issue subject to the Treasurer’s Direction is expected to reach around \$1,199 billion in 2024-25.

In 2021-22, the face value of AGS on issue subject to the Treasurer’s Direction is expected to reach a within-year peak of around \$963 billion. In 2024-25, this is estimated to rise to a within-year peak of \$1,220 billion.

Box 7.1: AOFM's issuance strategy during the COVID-19 pandemic

Prior to the pandemic, the largest Treasury bond issuance program was \$106 billion in 2016-17 (see Chart 7.1). For March to June 2020 alone, around \$90 billion of issuance was required and a total of more than \$250 billion was issued from March 2020 to March 2021. This meant there was no precedent to guide whether extremely large weekly bond issuance could be sustained. Early uncertainty was compounded by stress in global financial markets in mid-March 2020 which saw investors rapidly selling bonds in large volumes to meet liquidity needs.

The overriding objective of government cash management is to ensure the Commonwealth can meet its financial obligations at all times. A precautionary cash balance held at the Reserve Bank of Australia (RBA) and access to short-term funding markets (in the form of issuing Treasury Notes) act as a 'buffer' in times of unforeseen stress. During periods of extreme market turbulence, investors seek safety in short-term, low risk places to invest cash, such as Treasury Notes. Together, cash reserves and Treasury Note issuance allowed access to sufficient liquidity while the required bond issuance program was established.

Chart 7.1: Annual bond issuance and Treasury Notes outstanding

Source: AOFM and Treasury projections.

Box 7.1: AOFM's issuance strategy during the COVID-19 pandemic (continued)

The AOFM provided regular updates to funding markets as new information became available to facilitate a smooth build up in bond issuance over the year. The scale of the issuance task was such that bond issuance via competitive tenders alone was judged not to be sufficient. A significant increase in tender volumes was combined with a number of large syndicated issues, in which a panel of banks was engaged to place bonds directly with investors. At the same time Treasury Note issuance was increased to unprecedented levels. The RBA's unconventional monetary policy tools helped to ease market conditions and facilitate smooth absorption of bond issuance.

The Australian response to the extreme financing tasks, in terms of a balanced reliance on bond and Treasury Note issuance and the heavy use of syndications, was consistent with the approaches taken by many OECD countries.

There are a number of factors that meant Australia was well positioned to finance the Government's COVID-19 response: the starting point for issuance programs was low because of declining budget deficits leading into the pandemic; a previous focus on long-dated borrowing had reduced annual refinancing requirements; the Australian Government has the highest possible credit rating (AAA by all major agencies); the AGS market has a strong reputation amongst the international investor community; a relatively large number of banks service the market through the intermediary role; the Australian dollar is a well-understood and liquid currency; and the actions of the RBA ensured functionality of the AGS market.

The events of last year, while unforeseen and unprecedented, are reflective of the depth and strength of the Australian Government's access to global funding markets. Australia remains well positioned to deal with many possible future scenarios given the profile of the debt portfolio, a diverse investor base, strong funding market-facing institutions, and the Government's commitment to its Economic and Fiscal Strategy.

Changes in AGS on issue since the 2020-21 Budget

Table 7.2 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 2021-22 Budget.

Gross debt is expected to be lower across all years than estimated at the 2020-21 Budget. The improvement in gross debt is driven by the Government's decreased borrowing requirements resulting from the improvement in the underlying cash balance since the 2020-21 Budget.

Table 7.2: Estimated AGS on issue subject to the Treasurer’s Direction — reconciliation from the 2020-21 Budget to the 2021-22 Budget

	Estimates			
	2020-21 \$b	2021-22 \$b	2022-23 \$b	2023-24 \$b
Total face value of AGS on issue subject to the Treasurer’s Direction as at 2020-21 Budget	872	1016	1083	1138
Factors affecting the change in face value of AGS on issue from 2020-21 Budget to 2021-22 Budget(a)				
Cumulative receipts decisions	0.1	0.5	8.5	23.5
Cumulative receipts variations	-36.1	-66.7	-86.0	-107.5
Cumulative payment decisions	8.2	29.2	48.1	64.2
Cumulative payment variations	-24.8	-21.1	-17.2	-14.3
Cumulative change in net investments in financial assets(b)(c)	-42.2	-67.8	-36.0	-25.6
Other contributors(c)	51.9	72.9	57.7	55.7
Total face value of AGS on issue subject to the Treasurer’s Direction as at 2021-22 Budget	829	963	1,058	1,134

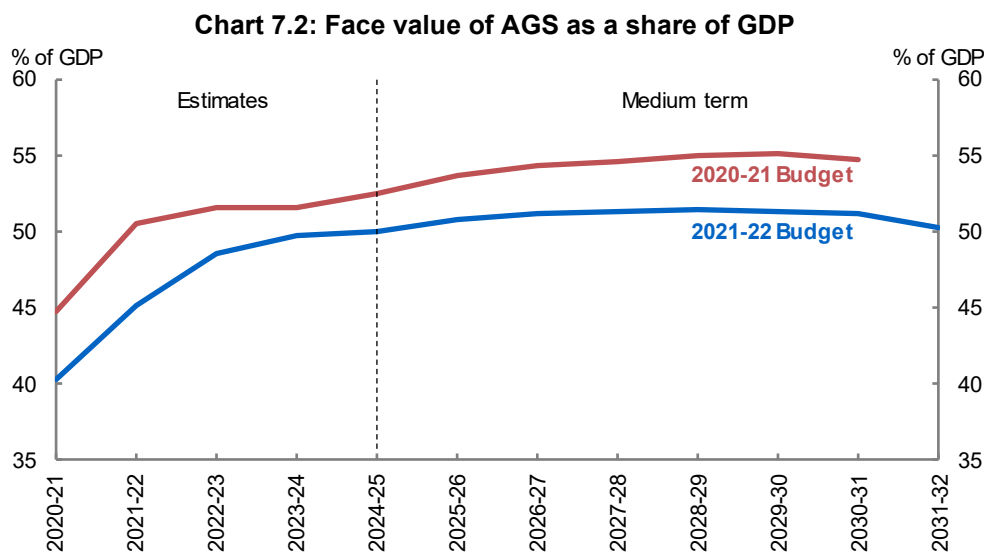
(a) Cumulative impact of decisions and variations from 2020-21 to 2023-24. Increases to payments are shown as positive and increases to receipts are shown as negative.

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

(c) AOFM has moved from primarily using term deposits to a cash management account for investing cash for short-term liquidity management. This has resulted in a decrease in investments, loans and placements and an increase in cash and deposits.

Note: End-of-year data.

The total face value of AGS on issue (gross debt) is expected to rise over the forward estimates and stabilise over the medium term at around 51 per cent of GDP. At the 2020-21 Budget, gross debt was projected to stabilise at around 55 per cent of GDP (Chart 7.2). Gross debt at the 2021-22 Budget is projected to be lower in each year of the forward estimates and medium term than projected at the 2020-21 Budget.



Source: AOFM and Treasury projections.

Breakdown of AGS currently on issue

Table 7.3 provides a breakdown of the AGS on issue by type of security as at 3 May 2021.

Table 7.3: Breakdown of current Australian Government Securities on issue

	On issue as at 3 May 2021	
	Face value \$m	Market value \$m
Treasury Bonds	764,434	815,848
Treasury Indexed Bonds	38,276	51,998
Treasury Notes	30,750	30,748
Total AGS subject to Treasurer's Direction(a)	833,459	898,595
Other stock and securities	6	6
Total AGS on issue	833,465	898,601

(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 7.4 lists Treasury Bonds currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 3 May 2021, there were 30 Treasury Bond lines on issue, with a weighted average term to maturity of around 7.6 years and the longest maturity extending to June 2051.

Table 7.4: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 3 May 2021		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	32,300		Twice yearly	21-Nov	21-May
3.25	21-Apr-25	33,900		Twice yearly	21-Apr	21-Oct
0.25	21-Nov-25	27,900		Twice yearly	21-Nov	21-May
4.25	21-Apr-26	33,400		Twice yearly	21-Apr	21-Oct
0.50	21-Sep-26	30,000		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	33,000		Twice yearly	21-Apr	21-Oct
2.75	21-Nov-29	32,900		Twice yearly	21-Nov	21-May
2.50	21-May-30	36,600		Twice yearly	21-May	21-Nov
1.00	21-Dec-30	36,900		Twice yearly	21-Dec	21-Jun
1.50	21-Jun-31	31,300		Twice yearly	21-Jun	21-Dec
1.00	21-Nov-31	32,000		Twice yearly	21-Nov	21-May
1.25	21-May-32	23,900		Twice yearly	21-May	21-Nov
1.75	21-Nov-32	14,000		Twice yearly	21-Nov	21-May
4.50	21-Apr-33	14,800		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	13,000		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 7.5 lists TIBs currently on issue, as well as the annual interest rate (the coupon) and the timing of coupon payments. As at 3 May 2021, there were 7 TIB lines on issue, with a weighted average term to maturity of around 9.5 years and the longest maturity extending to February 2050.

Table 7.5: Treasury Indexed Bonds on issue

Coupon Per cent	Maturity	On issue as at	Timing of interest payments(a)					
		3 May 2021 \$m	Quarterly	21-Feb	21-May	21-Aug	21-Nov	
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	6,100	Quarterly	21-Nov	21-Feb	21-May	21-Aug	
2.50	20-Sep-30	5,743	Quarterly	20-Sep	20-Dec	20-Mar	20-Jun	
2.00	21-Aug-35	4,350	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 7.6 lists the Treasury Notes currently on issue. As at 3 May 2021 there were five Treasury Note lines on issue. Treasury Notes do not pay a coupon.

Table 7.6: Treasury Notes on issue

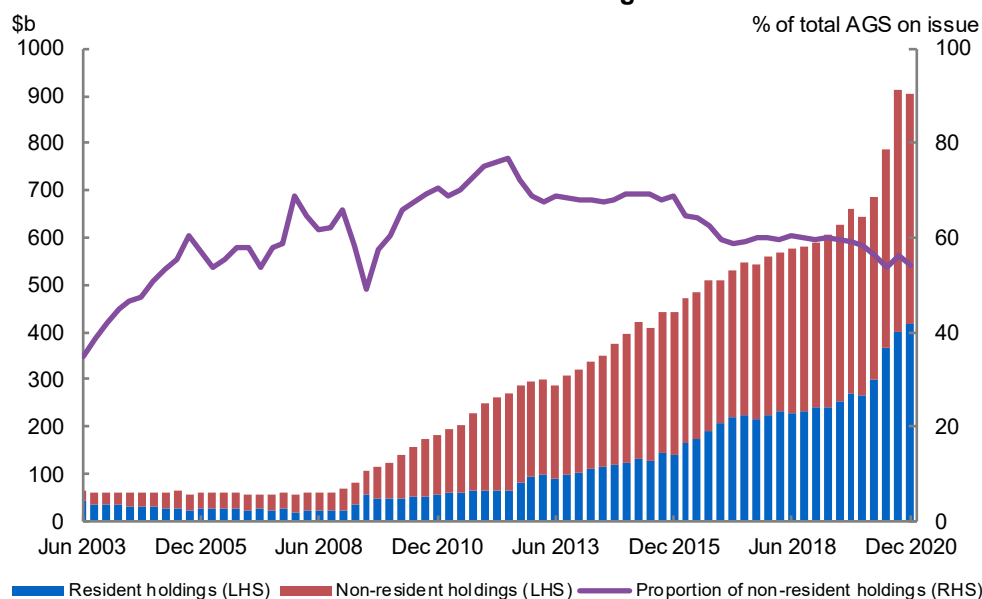
Maturity	On issue as at 3 May 2021		Timing of interest payment	
		\$m		
21-May-21		8,000	At maturity	21-May
25-Jun-21		8,500	At maturity	25-Jun
23-Jul-21		6,500	At maturity	23-Jul
27-Aug-21		4,250	At maturity	27-Aug
24-Sep-21		3,500	At maturity	24-Sep

Source: AOFM.

Non-resident holdings of AGS on issue

As at the December quarter 2020, the proportion of non-resident holdings of AGS was around 54 per cent (Chart 7.3). This proportion is down from historical highs of around 76 per cent in 2012.

Chart 7.3: Non-resident holdings of AGS



Note: Data refer to the repo-adjusted market value of holdings.

Source: ABS Balance of Payments and International Investment Position, Australia December 2020, AOFM, RBA.

Estimates and projections of net debt

Table 7.7 contains the liabilities and assets included in net debt over the forward estimates.

Net debt is expected to be \$729.0 billion (34.2 per cent of GDP) at 30 June 2022 and increase to \$980.6 billion (40.9 per cent of GDP) at 30 June 2025.

Table 7.7: Liabilities and assets included in net debt

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	\$m	\$m	\$m	\$m	\$m
Liabilities included in net debt					
Deposits held	484	484	484	484	484
Government securities(a)	891,811	1,028,091	1,126,277	1,207,245	1,274,052
Loans	16,345	16,125	16,091	16,073	16,101
Other borrowing	19,527	19,991	20,071	19,480	18,494
Total liabilities included in net debt	928,166	1,064,691	1,162,923	1,243,281	1,309,131
Assets included in net debt					
Cash and deposits(b)	46,693	61,795	43,691	42,473	40,883
Advances paid	82,235	85,655	88,321	76,384	77,706
Investments, loans and placements(b)	181,717	188,218	195,897	203,976	209,981
Total assets included in net debt	310,645	335,668	327,909	322,833	328,570
Net debt	617,521	729,023	835,015	920,448	980,561

(a) Government securities are presented at market value.

(b) AOFM has moved from primarily using term deposits to a cash management account for investing cash for short-term liquidity management. This has resulted in a decrease in investments, loans and placements and an increase in cash and deposits.

Changes in net debt since the 2020-21 Budget

Table 7.8 shows the drivers of the change in net debt between the 2020-21 Budget and the 2021-22 Budget.

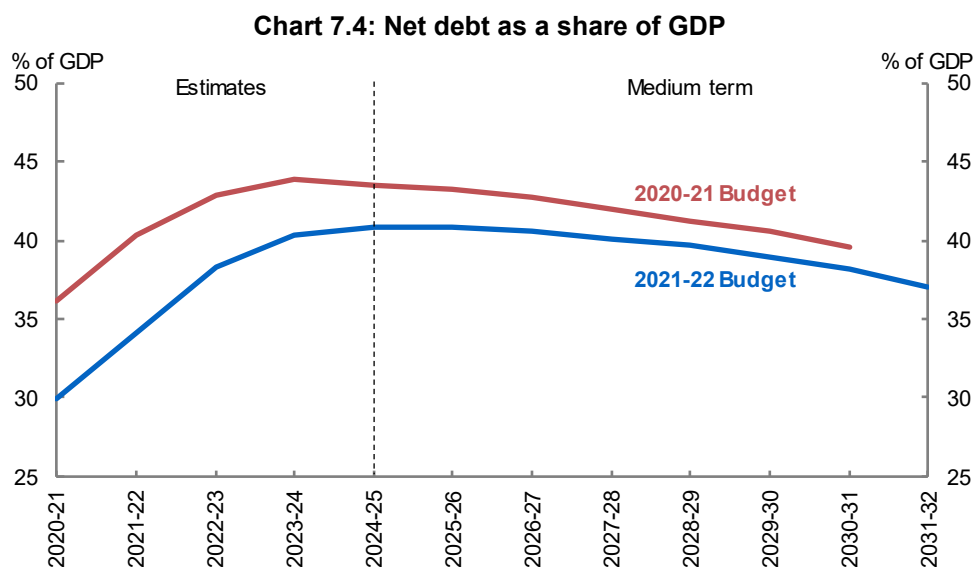
Net debt is expected to be lower than estimated at the 2020-21 Budget across all years of the forward estimates. The improvement in net debt since the 2020-21 Budget is driven by the Government's decreased borrowing requirements resulting from the improvement in the underlying cash balance and a decrease in the market value of AGS due to higher yields than were assumed at the 2020-21 Budget.

Table 7.8: Net debt — reconciliation from the 2020-21 Budget to the 2021-22 Budget

	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	-52.4	-62.9	-35.4	-10.8
Impact of yields on AGS	-34.1	-33.1	-29.7	-25.5
Asset and other liability movements	0.7	12.9	0.3	-9.4
<i>Cash and deposits(a)</i>	-40.9	-55.8	-37.0	-36.4
<i>Advances paid</i>	4.8	3.5	2.3	-4.7
<i>Investments, loans and placements(a)</i>	36.8	65.6	35.3	31.9
<i>Other movements</i>	0.1	-0.4	-0.4	-0.3
Total movements in net debt from 2020-21 Budget to 2021-22 Budget	-85.7	-83.1	-64.8	-45.7
Net debt as at 2021-22 Budget	617.5	729.0	835.0	920.4

(a) AOFM has moved from primarily using term deposits to a cash management account for investing cash for short-term liquidity management. This has resulted in a decrease in investments, loans and placements and an increase in cash and deposits.

Net debt is estimated to rise over the forward estimates, peaking at 40.9 per cent of GDP at 30 June 2025, before improving over the medium term to reach 37.0 per cent of GDP at 30 June 2032 (Chart 7.4). At the 2020-21 Budget, net debt was projected to be 39.6 per cent of GDP at 30 June 2031. Net debt at the 2021-22 Budget is projected to be lower in each year of the forward estimates and medium term than projected at the 2020-21 Budget.



Source: Treasury projections.

Further details on changes to the fiscal outlook, including the medium term, since the 2020-21 Budget 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.

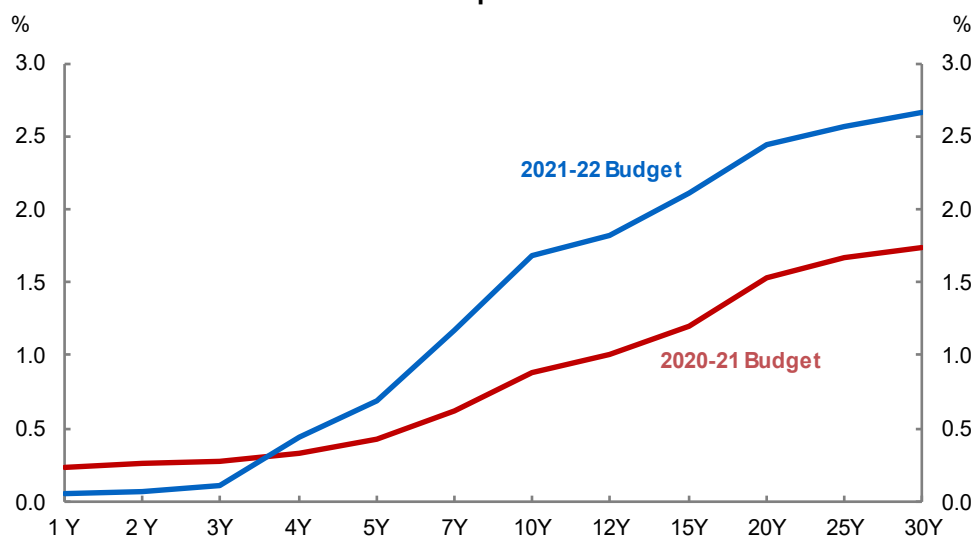
Estimates of the interest payments and expense of AGS on issue include the cost of AGS already on issue and future AGS issuance.

- 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 2021-22 Budget result in a weighted average cost of borrowing of around 1.6 per cent for future issuance of Treasury Bonds over the forward estimates, compared with around 0.8 per cent at the 2020-21 Budget. The increased weighted average cost of borrowing primarily reflects investor confidence in the strength of Australia's recovery and the outlook for growth and inflation.

Chart 7.5 shows the yield curve assumptions underpinning the 2020-21 Budget and the 2021-22 Budget. For the 2021-22 Budget, an average of daily spot rates was used to derive a fixed yield for the forward estimates to minimise the likelihood of locking in high or low yields during volatile periods.

Chart 7.5: Yield curve assumptions from 2021-22 to 2024-25



Source: AOFM.

The Government's total interest payments in 2021-22 are estimated to be \$17.8 billion, of which \$17.3 billion relates to AGS on issue (Table 7.9).

Interest payments on AGS are expected to remain broadly consistent as a share of GDP over the forward estimates and broadly in line with estimates at the 2020-21 Budget, reflecting historically low interest rates.

Table 7.9: Interest payments, interest receipts and net interest payments^(a)

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	\$m	\$m	\$m	\$m	\$m
Interest payments on AGS	16,658	17,319	17,519	19,573	20,354
Per cent of GDP	0.8	0.8	0.8	0.9	0.8
Interest payments	17,121	17,789	18,002	20,060	20,834
Per cent of GDP	0.8	0.8	0.8	0.9	0.9
Interest receipts	2,995	3,063	3,080	3,363	3,721
Per cent of GDP	0.1	0.1	0.1	0.1	0.2
Net interest payments ^(b)	14,126	14,727	14,922	16,698	17,113
Per cent of GDP	0.7	0.7	0.7	0.7	0.7

(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 2021-22 is estimated to be \$19.5 billion, of which \$18.2 billion relates to AGS on issue. Table 7.10 shows the Government’s estimated interest expense, interest expense on AGS, interest income and net interest expense over the forward estimates.

Table 7.10: Interest expense, interest income and net interest expense^(a)

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	\$m	\$m	\$m	\$m	\$m
Interest expense on AGS	17,041	18,164	19,085	20,548	21,841
Per cent of GDP	0.8	0.9	0.9	0.9	0.9
Interest expense	19,812	19,519	20,137	21,889	22,969
Per cent of GDP	1.0	0.9	0.9	1.0	1.0
Interest income	2,901	3,621	3,403	3,727	4,094
Per cent of GDP	0.1	0.2	0.2	0.2	0.2
Net interest expense(b)	16,911	15,898	16,734	18,161	18,875
Per cent of GDP	0.8	0.7	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 7.11.

Table 7.11: Climate spending from 2020-21 to 2024-25

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	\$b	\$b	\$b	\$b	\$b
Climate spending(a)(b)	1.4	1.9	1.5	1.9	1.4

(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 (ARENA), 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:

- \$1.6 billion package in the 2021-22 Budget to fund priority low emissions technologies
- \$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
- \$3.5 billion over 15 years from 2018-19 for the Climate Solutions package, which provides incentives to support abatement activities across the economy.

Climate spending is higher from 2021-22 onwards in the 2021-22 Budget compared to the 2020-21 Budget, primarily due to the new measures in the climate package and a reprofiling of CEFC funding reflecting the impact of COVID-19. Spending is lower in 2020-21 primarily due to the COVID-19 impact of markets conditions for the CEFC and ARENA.

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 7.12.

Table 7.12: Impact on debt — climate spending as a proportion of total spending

	Estimates				
	2020-21	2021-22	2022-23	2023-24	2024-25
	\$b	\$b	\$b	\$b	\$b
Climate spending(a)	1.4	1.9	1.5	1.9	1.4
Total Spending(b)	685	610	616	598	637
Climate spending (per cent of total spending)	0.2	0.3	0.2	0.3	0.2
Change in face value of AGS from previous year(c)	145	134	95	76	65
Contribution to change in face value of AGS from climate spending	0.3	0.4	0.2	0.2	0.1

(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.