

Statement 7: Debt Statement

The Debt Statement provides information on Government gross debt, net debt, Australian Government Securities (AGS) issuance and interest costs over the forward estimates.

Gross and net debt as a share of GDP are expected to be lower than estimated at the Pre-election Economic and Fiscal Outlook (PEFO) each year over the forward estimates.

- Gross debt is estimated to be 37.3 per cent of GDP at 30 June 2023, increasing to 43.1 per cent of GDP at 30 June 2026.
- Net debt is estimated to be 23.0 per cent of GDP at 30 June 2023, increasing to 28.5 per cent of GDP at 30 June 2026.

Interest payments on AGS as a share of GDP are expected to be higher than at PEFO by the end of the forward estimates, driven by higher bond yields more than offsetting the lower issuance of AGS.

- Interest payments on AGS are estimated to be \$18.1 billion in 2022–23, increasing to \$31.7 billion by 2025–26. Over the 4 years to 2025–26, interest payments on AGS are expected to be \$12.0 billion higher than estimated at PEFO.

Statement 3: Fiscal Strategy and Outlook contains information on debt projections over the medium term. Statement 3 also improves transparency around government funding of climate action and the risks to the fiscal position from climate change.

Contents

Australian Government Securities on issue	217
Changes in AGS on issue since PEFO	218
Breakdown of AGS currently on issue.....	219
Treasury Bonds.....	220
Treasury Indexed Bonds	221
Treasury Notes	221
Non-resident holdings of AGS on issue	222
Net debt	223
Changes in net debt since PEFO	224
Interest on AGS	225
Appendix A: AGS issuance	227

Statement 7: Debt Statement

Australian Government Securities on issue

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 (also referred to as gross debt) is the amount that the Government pays back to investors at maturity, independent of fluctuations in market prices.²⁶ 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.

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 then Treasurer directed that the maximum face value of AGS that can be on issue is \$1,200 billion. The estimates of the face value of AGS on issue subject to the Treasurer's direction (end-of-year and within-year peak)²⁷ in each year of the forward estimates remain below \$1,200 billion.

Gross debt as a share of GDP is estimated to decrease in 2022–23. The decline is driven by the improved outlook for the underlying cash balance and strong nominal GDP growth in that year. Gross debt as a share of GDP then increases. This primarily reflects the deficit profile of the former Government as presented in PEFO. Higher yields, additional balance sheet commitments, and other changes to the fiscal outlook presented in *Statement 3: Fiscal Strategy and Outlook* also contribute.

Table 7.1 presents outcomes and estimates of AGS on issue.

26 For Treasury Indexed Bonds (TIBs), 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.

27 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 7.1: Estimates of AGS on issue subject to the Treasurer’s Direction^{(a)(b)}

	Actual		Estimates		
	2021-22 \$b	2022-23 \$b	2023-24 \$b	2024-25 \$b	2025-26 \$b
Face value – end-of-year	895	927	1,004	1,091	1,159
Per cent of GDP	39.0	37.3	40.8	42.5	43.1
Face value – within-year peak(c)	896	947	1,024	1,114	1,186
Per cent of GDP(c)	39.0	38.1	41.6	43.4	44.1
<i>Month of peak(c)</i>	<i>Jun-22</i>	<i>Apr-23</i>	<i>Apr-24</i>	<i>Apr-25</i>	<i>Apr-26</i>
Market value – end-of-year	848	878	963	1,056	1,127
Per cent of GDP	36.9	35.4	39.1	41.2	41.9

- 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: The Australian Office of Financial Management (AOFM).

Changes in AGS on issue since PEFO

Gross debt is expected to be lower across each year of the forward estimates than at PEFO. The improvement is primarily driven by the improved outlook for the underlying cash balance in the near term, partially offset by the impact of higher yields on AGS and additional balance sheet commitments.

An increase in yields increases the deficit via higher interest payments but also impacts the face value of AGS the AOFM needs to issue to meet the financing task. The majority of AGS issued by the AOFM are fixed-coupon bonds. As the coupon is fixed, when yields rise, the price investors pay the AOFM for the bonds falls so that the return on the bonds adjusts to the prevailing market yields. The AOFM must then issue more bonds to raise the same volume of funds.²⁸ It is estimated this dynamic has increased the face value of debt by \$30.8 billion over the forward estimates compared with PEFO.

Much of this impact is offset by a run-down of cash balances held by the AOFM. A lower-than-expected deficit in 2021–22 resulted in the AOFM effectively pre-funding some of the 2022–23 financing task. See the 2021–22 Final Budget Outcome for further detail.

²⁸ For example, on 7 October 2022 the AOFM issued into an existing bond line with a maturity of 21 November 2025 and coupon rate of 0.25 per cent. The face value of issuance was \$700 million, but the proceeds received by the Government was around \$636 million. The same bond line was issued on 6 August 2021 when yields were lower, and \$693 million was received for \$700 million of face value.

By the end of the forward estimates, gross debt as a share of the economy is expected to be 43.1 per cent of GDP at 30 June 2026, 1.6 percentage points lower than estimated at PEFO.

Table 7.2: Estimates of AGS on issue subject to the Treasurer’s Direction – reconciliation from PEFO to the 2022–23 October Budget

	2022-23	2023-24	2024-25	2025-26
	\$b	\$b	\$b	\$b
Total face value of AGS on issue subject to the Treasurer’s Direction as at 2022 PEFO	977	1,056	1,117	1,169
Factors affecting the change in face value of AGS on issue from 2022 PEFO to 2022-23 October Budget(a)				
Cumulative receipts decisions	-1.4	-3.9	-7.8	-13.1
Cumulative receipts variations	-57.3	-91.1	-114.8	-144.6
Cumulative payment decisions	2.5	4.2	10.2	22.9
Cumulative payment variations	15.1	37.2	63.1	92.2
Cumulative change in net investments in financial assets(b)	12.9	17.7	22.9	32.5
Other contributors	-22.0	-16.3	0.2	-0.2
Total face value of AGS on issue subject to the Treasurer’s Direction as at 2022-23 October Budget	927	1,004	1,091	1,159

a) Cumulative impact of decisions and variations from 2022–23 to 2025–26. 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.

Breakdown of AGS currently on issue

See Appendix A for a detailed summary of the different types of securities.

Table 7.3: Breakdown of current Australian Government Securities on issue

	On issue as at 14 October 2022	
	Face value	Market value
	\$m	\$m
Treasury Bonds	827,549	761,838
Treasury Indexed Bonds	37,785	44,592
Treasury Notes	27,000	26,863
Total AGS subject to Treasurer’s Direction(a)	892,334	833,293
Other stock and securities	5	5
Total AGS on issue	892,339	833,298

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

As at 14 October 2022, there were 28 Treasury Bond lines on issue, with a weighted average term to maturity of around 7 years and the longest maturity extending to June 2051.

Further information on the AOFM's strategy that has lengthened the weighted average term to maturity since 2010 can be found in Box 3.2 in Budget Paper No.1 *Statement 3: Fiscal Strategy and Outlook* in the 2021–22 Budget.

Table 7.4: Treasury Bonds on issue

Coupon Per cent	Maturity	On issue as at 14 October 2022		Timing of interest payments(a)		
		\$m				
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	35,900		Twice yearly	21-Apr	21-Oct
0.25	21-Nov-24	41,300		Twice yearly	21-Nov	21-May
3.25	21-Apr-25	40,100		Twice yearly	21-Apr	21-Oct
0.25	21-Nov-25	38,000		Twice yearly	21-Nov	21-May
4.25	21-Apr-26	38,100		Twice yearly	21-Apr	21-Oct
0.50	21-Sep-26	36,700		Twice yearly	21-Sep	21-Mar
4.75	21-Apr-27	36,700		Twice yearly	21-Apr	21-Oct
2.75	21-Nov-27	31,400		Twice yearly	21-Nov	21-May
2.25	21-May-28	29,700		Twice yearly	21-May	21-Nov
2.75	21-Nov-28	33,300		Twice yearly	21-Nov	21-May
3.25	21-Apr-29	33,700		Twice yearly	21-Apr	21-Oct
2.75	21-Nov-29	33,400		Twice yearly	21-Nov	21-May
2.50	21-May-30	37,100		Twice yearly	21-May	21-Nov
1.00	21-Dec-30	38,700		Twice yearly	21-Dec	21-Jun
1.50	21-Jun-31	38,100		Twice yearly	21-Jun	21-Dec
1.00	21-Nov-31	41,800		Twice yearly	21-Nov	21-May
1.25	21-May-32	38,400		Twice yearly	21-May	21-Nov
1.75	21-Nov-32	27,000		Twice yearly	21-Nov	21-May
4.50	21-Apr-33	22,200		Twice yearly	21-Apr	21-Oct
3.00	21-Nov-33	17,600		Twice yearly	21-Nov	21-May
2.75	21-Jun-35	9,550		Twice yearly	21-Jun	21-Dec
3.75	21-Apr-37	12,300		Twice yearly	21-Apr	21-Oct
3.25	21-Jun-39	10,300		Twice yearly	21-Jun	21-Dec
2.75	21-May-41	13,500		Twice yearly	21-May	21-Nov
3.00	21-Mar-47	13,600		Twice yearly	21-Mar	21-Sep
1.75	21-Jun-51	18,400		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

As at 14 October 2022, there were 7 Treasury Indexed Bond (TIB) lines on issue, with a weighted average term to maturity of around 10.1 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)					
		14 October 2022 \$m	Quarterly	20-Sep	20-Dec	20-Mar	20-Jun	
3.00	20-Sep-25	8,043	Quarterly	20-Sep	20-Dec	20-Mar	20-Jun	
0.75	21-Nov-27	6,500	Quarterly	21-Nov	21-Feb	21-May	21-Aug	
2.50	20-Sep-30	6,543	Quarterly	20-Sep	20-Dec	20-Mar	20-Jun	
0.25	21-Nov-32	3,950	Quarterly	21-Nov	21-Feb	21-May	21-Aug	
2.00	21-Aug-35	4,350	Quarterly	21-Aug	21-Nov	21-Feb	21-May	
1.25	21-Aug-40	4,250	Quarterly	21-Aug	21-Nov	21-Feb	21-May	
1.00	21-Feb-50	4,150	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

As at 14 October 2022, there were 9 Treasury Note lines on issue. Treasury Notes do not pay a coupon.

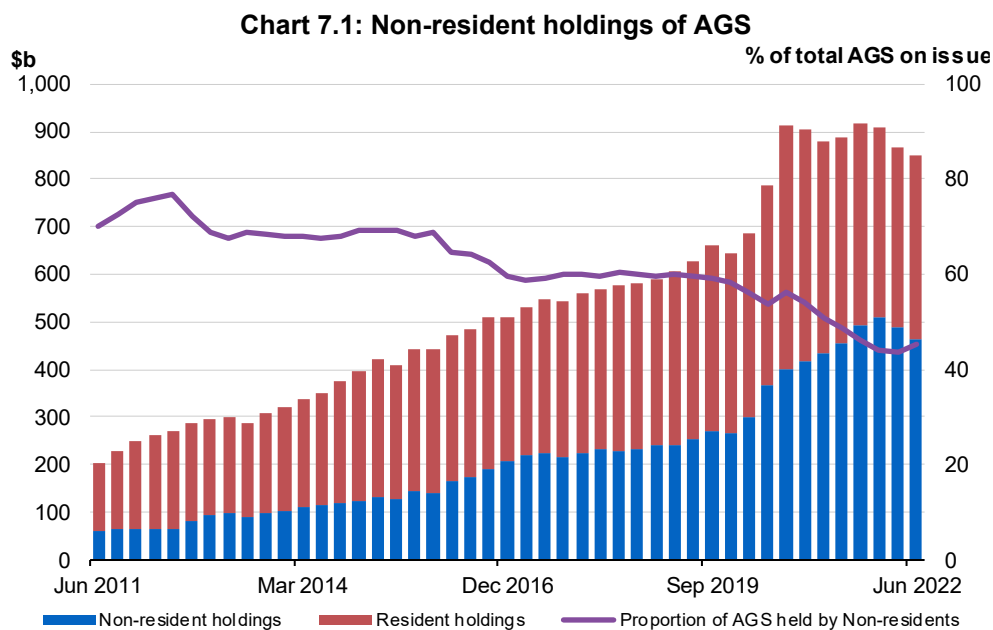
Table 7.6: Treasury Notes on issue

Maturity	On issue as at 14 October 2022		Timing of interest payment	
		\$m		
21-Oct-22	4,000	4,000	At maturity	21-Oct-22
11-Nov-22	4,500	4,500	At maturity	11-Nov-22
25-Nov-22	4,500	4,500	At maturity	25-Nov-22
16-Dec-22	3,000	3,000	At maturity	16-Dec-22
27-Jan-23	5,000	5,000	At maturity	27-Jan-23
10-Feb-23	3,500	3,500	At maturity	10-Feb-23
24-Feb-23	500	500	At maturity	24-Feb-23
10-Mar-23	1,500	1,500	At maturity	10-Mar-23
24-Mar-23	500	500	At maturity	24-Mar-23

Source: AOFM.

Non-resident holdings of AGS on issue

As at the June 2022 quarter, the proportion of non-resident holdings of AGS was around 45 per cent (Chart 7.1). This proportion is down from historical highs of around 76 per cent in 2012. Non-resident holdings of AGS have increased significantly over this time, but the proportion has fallen since the rate of buying by non-resident investors has not matched the rate of issuance. In addition, the Reserve Bank of Australia’s (RBA) bond purchase operations in 2020 and 2021 reduced the amount of AGS available to other investors, including non-residents.



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

Source: ABS Balance of Payments and International Investment Position, Australia June 2022, AOFM, RBA.

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 selected financial assets (cash and deposits, advances paid and investments, loans and placement). 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 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.

Table 7.7: Liabilities and assets included in net debt

	Actual		Estimates		
	2021-22 \$m	2022-23 \$m	2023-24 \$m	2024-25 \$m	2025-26 \$m
Liabilities included in net debt					
Deposits held	406	406	406	406	406
Government securities(a)	848,455	877,947	962,871	1,056,215	1,127,457
Loans	29,932	32,204	33,192	33,427	33,475
Other borrowing	19,194	18,997	18,340	17,347	15,985
Total liabilities included in net debt	897,988	929,554	1,014,809	1,107,396	1,177,322
Assets included in net debt					
Cash and deposits	94,763	54,975	68,350	79,676	72,967
Advances paid	73,119	76,622	75,412	79,894	83,616
Investments, loans and placements	214,456	225,772	236,975	245,029	253,954
Total assets included in net debt	382,338	357,369	380,736	404,599	410,536
Net debt	515,650	572,185	634,073	702,796	766,787

a) Government securities are presented at market value.

Changes in net debt since PEFO

Net debt is expected to be lower than estimated at PEFO across all years of the forward estimates by an amount larger than the improvement in gross debt. The larger improvement primarily reflects the decrease in the market value of AGS due to higher yields than were assumed at PEFO.

Table 7.8: Net debt – reconciliation from PEFO to the 2022–23 October Budget

	2022-23	2023-24	2024-25	2025-26
	\$b	\$b	\$b	\$b
Net debt as at 2022 PEFO	714.9	772.1	823.2	864.5
Changes in financing requirement	-54.3	-64.5	-49.1	-47.2
Impact of yields on AGS	-72.0	-60.4	-47.2	-31.8
Asset and other liability movements	-16.4	-13.1	-24.1	-18.6
<i>Cash and deposits</i>	-18.9	-19.0	-29.0	-21.5
<i>Advances paid</i>	9.9	8.2	7.1	5.8
<i>Investments, loans and placements</i>	-8.8	-4.8	-5.2	-6.4
<i>Other movements</i>	1.4	2.5	3.1	3.5
Total movements in net debt from 2022 PEFO to 2022-23 October Budget	-142.7	-138.0	-120.4	-97.7
Net debt as at 2022-23 October Budget	572.2	634.1	702.8	766.8

Interest on AGS

The interest costs related to AGS are presented 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.

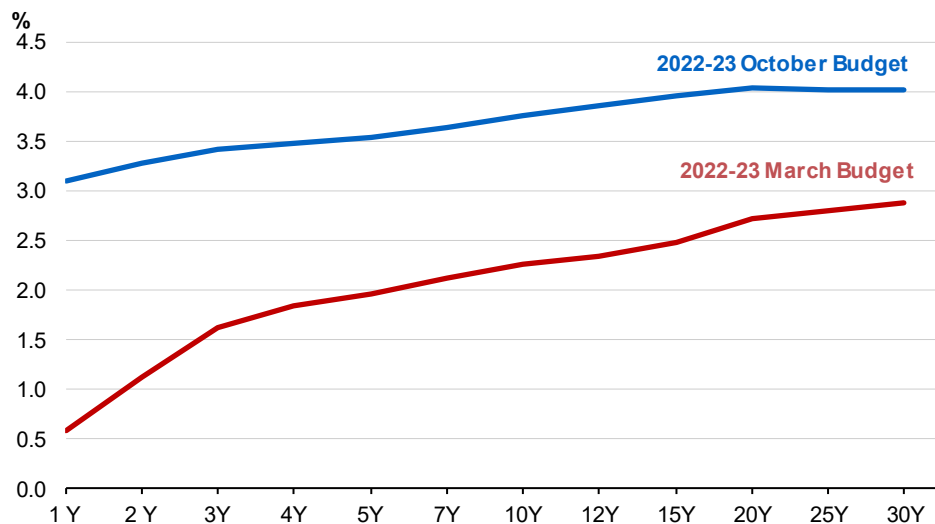
- **Interest payments** are recognised in the period when they are paid during the life of the security.
- **Interest expense** is recognised in the period in which an expense is incurred during the life of the security, rather than when it is actually paid.

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

- The cost of AGS already on issue reflects the actual yield at the time of issuance.
- The expected cost of future AGS issuance is based on a recent average of daily spot rates across the yield curve at the time of a budget estimates update.

Chart 7.2 shows the yield curve assumptions underpinning the March Budget and the October Budget. The recent increase in market yields has resulted in an assumed weighted average cost of borrowing of around 3.8 per cent for future issuance of Treasury Bonds over the forward estimates, compared with around 2.2 per cent at PEFO.

Chart 7.2: Yield curve assumptions from 2022–23 to 2025–26



Source: AOFM.

By the end of the forward estimates total interest payments will grow to \$32.6 billion in 2025–26, of which \$31.7 billion relates to AGS on issue (Table 7.9). Interest receipts have also increased significantly in 2022–23 and across the forward estimates. This is primarily driven by higher-than-expected earnings from the Future Fund, and higher earnings on cash deposits due to the rise in short-term interest rates.

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

	Actual		Estimates		
	2021-22 \$m	2022-23 \$m	2023-24 \$m	2024-25 \$m	2025-26 \$m
Interest payments on AGS	15,714	18,064	21,493	24,462	31,721
Per cent of GDP	0.7	0.7	0.9	1.0	1.2
Interest payments(b)	17,423	18,910	22,407	25,369	32,634
Per cent of GDP	0.8	0.8	0.9	1.0	1.2
Interest receipts	2,446	5,275	5,805	5,991	6,147
Per cent of GDP	0.1	0.2	0.2	0.2	0.2
Net interest payments(c)	14,977	13,635	16,602	19,378	26,487
Per cent of GDP	0.7	0.5	0.7	0.8	1.0

- 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) Interest payments include interest payments on AGS, loans and other borrowing, as well as interest payments on lease liabilities.
- c) Net interest payments are equal to the difference between interest payments and interest receipts.

Interest payments as a share of GDP in 2022–23 and 2023–24 are expected to remain consistent with PEFO. Over the remaining forward estimates years, interest payments as a share of GDP are expected to be higher than at PEFO as higher yields more than offset the expected lower issuance of AGS. By 2025–26, interest payments as a share of GDP rise above the 30-year average of just under one per cent.

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

	Actual		Estimates		
	2021-22 \$m	2022-23 \$m	2023-24 \$m	2024-25 \$m	2025-26 \$m
Interest expense on AGS	18,502	22,396	24,155	27,691	31,983
Per cent of GDP	0.8	0.9	1.0	1.1	1.2
Total interest expense(b)	19,944	26,188	27,140	34,586	35,295
Per cent of GDP	0.9	1.1	1.1	1.3	1.3
Interest income	4,452	8,192	7,476	6,899	7,153
Per cent of GDP	0.2	0.3	0.3	0.3	0.3
Net interest expense(c)	15,493	17,996	19,664	27,687	28,142
Per cent of GDP	0.7	0.7	0.8	1.1	1.0

- 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) Total Interest expense includes interest expense on AGS, loans and other borrowing, as well as interest expense on lease liabilities and other financing costs (including debt not expected to be repaid (DNER)).
- c) Net interest expense is equal to the difference between interest expenses and interest income.

Appendix A: AGS issuance

The 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.

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.