Statement 8: Budget Funding

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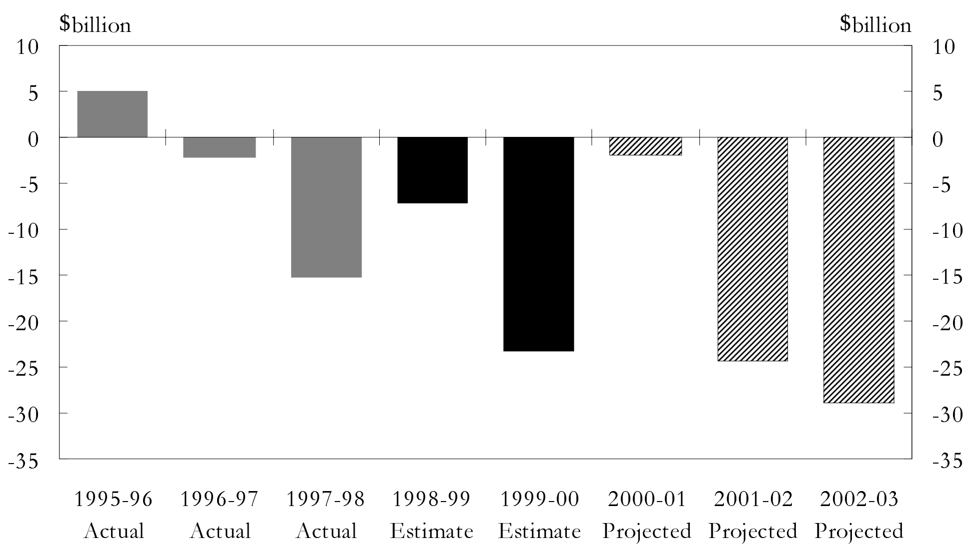
NET FUNDING REQUIREMENT

Commonwealth general government net debt is expected to be reduced by $20.5 billion in 1999-2000. This represents the largest ever single-year reduction in Commonwealth general government net debt. Further substantial reductions in Commonwealth general government net debt are projected through the forward estimates period. Trends in Commonwealth general government net debt are also discussed in Statement 1.

The capacity to reduce net debt primarily arises from running a budget surplus. This means no borrowing is required to fund the budget thus creating a negative budget funding requirement. In addition asset sales or net advances are not required to fund the budget and can be applied to retire debt. The negative net funding requirement — an estimated $23.2 billion in 1999-2000 — is the funds the Commonwealth has over and above what is required to meet its budget obligations. Where the government is able to fully fund all its requirements without recourse to borrowing, the net funding requirement is shown as 'negative'. Surplus funds are therefore available to reduce debt.

Chart 1 depicts the net funding requirement in recent years and that projected for each year out to 2002-03. The net funding requirement is projected to remain negative for each of the out-years. This means the Commonwealth is not expected to make any net call on the capital markets through this period. The last year the Commonwealth had a positive funding requirement, and hence needed to borrow funds from the capital markets, was 1995-96.

Chart 1: Net Funding Requirement



As noted in the 1998-99 Budget Papers, it is not envisaged that Commonwealth Government Securities (CGS) on issue will be reduced by the full extent of the reduction in net debt expected over coming years. The reduction in CGS on issue will be managed in line with the objective of maintaining the liquidity and efficiency of the Commonwealth yield curve. This will assist the continued growth and development of a range of domestic derivative and related markets and is consistent with the Government's commitment to the further development of Australia as a centre for global financial services. A range of financial management techniques will be utilised to maintain the desired volume of CGS on issue, while at the same time reducing net debt.

DEBT ISSUE AND REPURCHASE

Consistent with the objectives discussed above, a modest gross new issue programme of around $4 billion is planned in the year ahead, primarily designed to maintain the length of the yield curve and build and maintain liquidity in key benchmark stocks.

Treasury Bond issuance is expected to be around $4 billion in 1999-2000. As has been the case in recent years, issuance will be weighted towards the long end of the curve. A new benchmark stock is expected to be issued in the new financial year in order to maintain the length of the yield curve and to ensure, in the longer term, a smooth progression of stocks available to move into the ten year bond futures contract. At this stage, the expectation is that the new benchmark will have a 2013 maturity.

A Treasury Indexed Bond issue programme in line with the norms of recent years is presently envisaged for 1999-2000. However, over the course of 1999-2000 there is expected to be a run-down in the stock of Treasury Notes on issue of about $1 billion. Treasury Notes are the Commonwealth's primary debt instrument for managing within-year mismatches in expenditure and receipts.

A further programme of early debt repurchases is expected in 1999-2000. Details of the programme are yet to be finalised.