STATEMENT 7: BUDGET FUNDING

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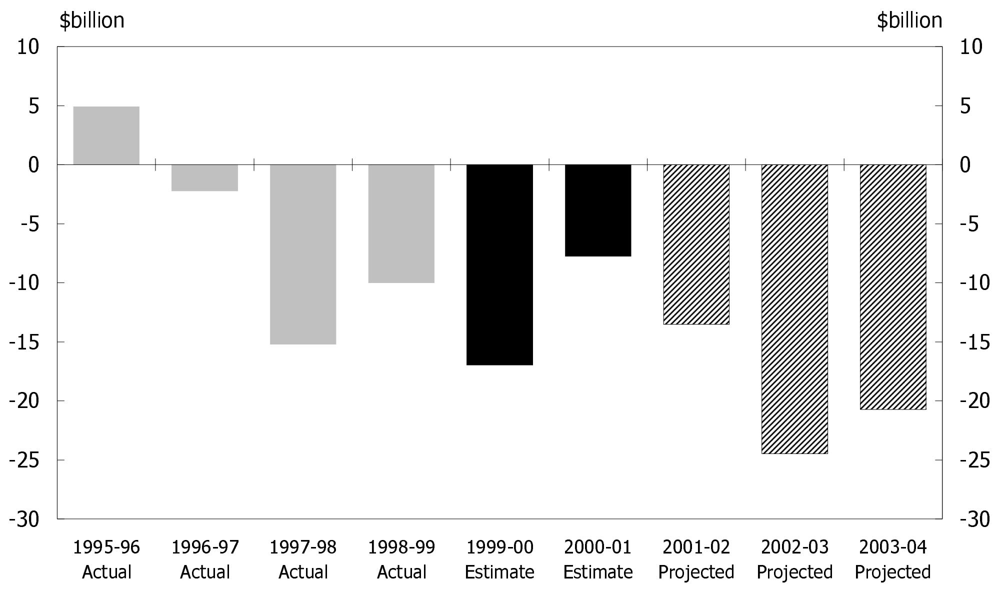
NET FUNDING REQUIREMENT

Commonwealth general government net debt is expected to be reduced by $8.9 billion in 2000-01. This represents a continuation of the net debt reduction which commenced in 1996 under the Coalition Government. From 1996-97 and including the estimate for 2000-01 net debt reduction will total $49.1 billion. Trends in Commonwealth general government net debt are discussed in Statement 1.

The negative net funding requirement — an estimated $7.8 billion in 2000-01 — 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 to 2003-04. The net funding requirement is projected to remain negative for each of the out-years. This means the Commonwealth is not expected to undertake any net borrowing through this period and will be able to continue to reduce net debt. The last year the Commonwealth had a positive funding requirement, and needed to borrow funds from the capital markets, was 1995-96.

Chart 1: Net Funding Requirement



The reduction in net debt will continue to be managed in line with the objective of maintaining the viability of the Commonwealth Government securities market and its supporting infrastructure. Maintenance of a liquid and efficient Commonwealth yield curve offers a number of important advantages, including supporting the continued growth and development of domestic capital markets. This objective is also consistent with the Government's commitment to the further development of Australia as a centre for global financial services.

FUNDING PROGRAMME

In line with this objective, and consistent with ongoing net debt reduction, a modest gross issuance programme is planned for the year ahead. The programme is primarily designed to maintain the length and efficiency of the yield curve and build and maintain liquidity in key benchmark stocks.

A new benchmark Treasury Bond with a 2013 maturity is expected to be issued prior to the end of the current financial year. This new benchmark will assist in maintaining the length of the yield curve and will ensure, in the longer term, a smooth progression of available stocks to move into the ten year bond futures contract. Gross new Treasury Bond issuance is expected to be around $3 billion to $4 billion in 2000-01 with a significant portion of the issuance being targetted at the new benchmark stock.

No further issuance of Treasury Indexed Bonds is planned for the remainder of the current financial year. A continuing modest indexed bond issue programme is envisaged for 2000-01. Treasury Notes will continue to be issued primarily to fund within-year mismatches in expenditure and receipts.

Further details as to issuance and net debt reduction strategies will be announced later in the year.