STATEMENT 7: BUDGET FUNDING

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The Government's net debt reduction programme, which commenced in 1996, will continue in 2002-03. The reduction in net debt will continue to be managed in line with the objective of maintaining the viability of the Commonwealth Government Securities (CGS) market.

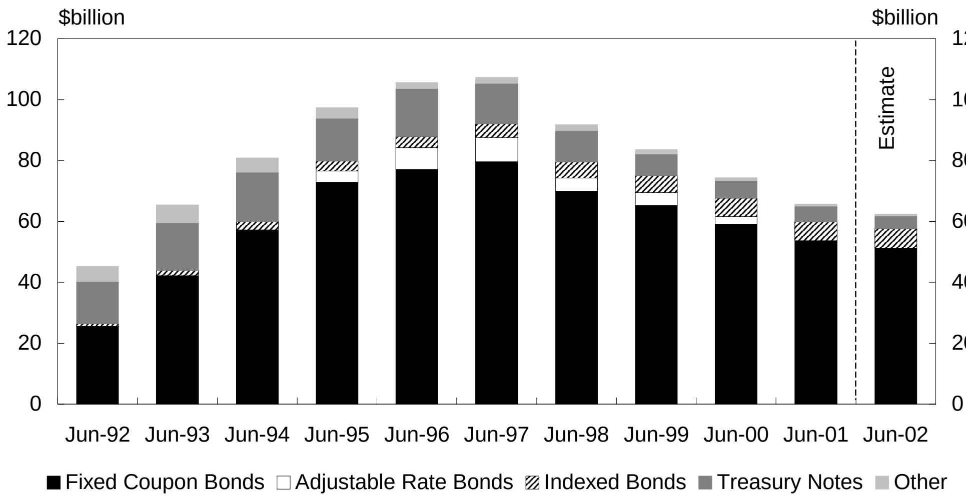
NET DEBT

Commonwealth general government net debt is expected to fall by $4.4 billion in 2002-03. Between 1996-97 and the end of 2002-03, net debt is projected to have fallen by $62 billion. Further substantial reductions are projected in the Budget out-years. Trends in Commonwealth general government net debt are discussed in further detail in Statement 2.

GROSS DEBT

Chart 1 depicts CGS on issue at end-June in recent years and forecast to be on issue at end-June 2002.

Chart 1: Commonwealth government securities on issue



The reduction in net debt has been managed in line with the objective of maintaining the viability of the CGS market and its supporting infrastructure. Consistent with this approach, reductions in CGS on issue have lagged the reduction in net debt. This has been achieved primarily by holding surplus budget proceeds not applied to the redemption of CGS as financial assets.

The reduction in Commonwealth net debt has raised questions by some market participants about the future viability of the CGS market. The Government acknowledges these concerns and is carefully considering them, taking the views of key stakeholders into account.

While the Government considers these issues, it will continue the approach to debt management adopted in recent years. This strategy has been aimed at maintaining the length and efficiency of the yield curve and maintaining liquidity in key benchmark stocks.

DEBT ISSUE AND CONVERSION

In line with the objective of managing the reduction in net debt, a modest gross issuance programme is planned for 2002-03.

A new benchmark Treasury Bond with a 2015 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 a smooth progression of available stocks to move into the ten-year bond futures contract.

Gross Treasury Bond issuance is expected to be around $2 billion to $3 billion in 2002-03. It is expected that the bulk of the issuance will be targeted at the new benchmark stock.

It is expected that a series of Treasury Bond conversions will be offered in 2002-03. Conversions assist in maintaining a liquid and efficient market for Treasury Bonds and allow existing holders of Treasury Bonds the opportunity to convert their holdings into more liquid benchmark lines. The frequency of conversion tenders will depend on market interest. Details of conversion tenders will be announced one week prior to the date on which a conversion tender will be held.

A tender for the issue of $50 million of Treasury Indexed Bonds is planned for 23 May 2002. Indexed issuance of $200 million is planned for 2002-03. Further details concerning indexed issuance, including expected dates for the conduct of indexed bond tenders in 2002-03, will be announced prior to the start of the new financial year.

There are to be a number of changes to issuance arrangements for Treasury Notes — these changes will take effect immediately. Currently, there is a relatively regular programme of Treasury Note issuance, with a minimum volume of $3 billion in Treasury Note outstandings maintained at all times, regardless of Commonwealth funding needs. In addition, Treasury Note issuance is concentrated into fixed maturity dates which broadly coincide with peak Commonwealth revenue collection dates which occur in the months of January, April, July and October each year.

In future, Treasury Note issuance will be limited to that required for Commonwealth within-year funding purposes. This is expected to result in less regular issuance of

Treasury Notes than currently. There could also be extended periods when there will be no outstanding Treasury Notes on issue. In addition, Treasury Note issuance will no longer be concentrated into fixed maturity dates — Treasury Notes will be issued to dates consistent with the most efficient cash management outcomes for the Commonwealth. Treasury Notes will continue to be offered by tender as at present. However, the Commonwealth will reserve the right to issue Treasury Notes on any business day of the week — current practice is to conduct tenders for Treasury Notes only on a Wednesday.

The new arrangements have been discussed with financial market participants and are expected to provide for enhanced flexibility in the management of the Commonwealth's within-year cash flows as well as reduce the grossing up of the Commonwealth's balance sheet and the need to invest surplus funds.