



## Standing Committee on Public Accounts

### **Inquiry into Annual and Financial Reports 2022-2023** **ANSWER TO QUESTION TAKEN ON NOTICE**

---

Asked by Elizabeth Kikkert MLA on 23 November 2023: Andrew Barr MLA took on notice the following question(s):

Reference: Hansard uncorrected proof transcript 23 November 2023 p 14

In relation to: Credit rating and interest rates

**Mr Barr:** No, we are not, no, we are possibly only talking about hundreds of thousands in difference but let me—depending on the scale of borrowing—give you an example. When we had a AAA credit rating we often paid a higher rate of interest than larger jurisdictions who had a AA+. So having AAA does not mean you get to borrow at a lower cost than jurisdictions that have—

**THE CHAIR:** On question on notice, could you please—that example, could you please just take that on notice of when that happened and is that the—what we—

**Mr Barr:** Yes, yes, I can grab—we can give you—

**THE CHAIR:** —borrowed and compare it to the other jurisdiction please, and what they borrowed at the time?

**Mr Barr:** Yes, but again—but it depends—it has to be at the same time.

**THE CHAIR:** Of course, but just take it on notice, please.

**Mr Barr:** Yes.

Andrew Barr MLA: The answer to the Member's question is as follows:—

The cost of borrowing is determined by a multitude of factors, in a given market, on any proposed issuance day. In concept, higher credit ratings may be interpreted by lenders more favourably, for a directly comparable bond issuance by an identical sub-national issuer on the same day. However, in practice, no perfect counterfactual exists to compare an ACT Government AAA rated issuance on one day, with the same issuance at the AA+ rating.

A simple 'day-after' type effect, by observing trading of 'existing' issuance on the secondary market over a few days, post-rating change, might reveal a shift of a handful of basis points, but it is not possible to untangle other market movements entirely from the market observations on those days, especially given no new borrowing had occurred.

For Australian semi-government debt issuers, and in particular smaller issuers, relative interest costs can be higher, even with the same credit rating as compared to the larger State Government debt issuers.

As the risk of default by an Australian semi-government debt issuer is very low, Australian capital market supply and demand dynamics and investors' assessed liquidity risks for issued bonds can have a more material impact on interest costs, with the relative pricing of new bond issuance transactions changing over time.

Approved for circulation to the Standing Committee on Public Accounts

Signature: 

Date: **5.12.23**

By the Treasurer, Andrew Barr MLA