



STANDING COMMITTEE ON PUBLIC ACCOUNTS
Mr Ed Cocks MLA (Chair), Mr Michael Pettersson MLA (Deputy Chair),
Mr Andrew Braddock MLA

**Inquiry into Appropriation Bill 2023-2024 (No 2) and
Appropriation (Office of the Legislative Assembly) Bill 2023-2024 (No 2)
ANSWER TO QUESTION ON NOTICE**

Asked by Elizabeth Lee MLA:

Ref: Budget Review 2023-24, Page 112

In relation to: Average Borrowing Costs

1. Can the Treasurer provide a detailed breakdown of the assumptions, modelling and estimates that resulted in the average cost of borrowing being increased from 4.45% to 4.9%?

Yvette Berry MLA: The answer to the Member's question is as follows: –

There has been ongoing volatility in domestic interest rates over the 2023 calendar year due to uncertainty in relation to the outlook for both economic growth and inflation, as well as increasing geo-political risks. The volatility in domestic interest rates is demonstrated by the variability in the estimated Commonwealth 10-year borrowing cost over the period from end May 2023 to mid-January 2024 reflected in Figure 1.

Figure 1: Commonwealth 10-year Borrowing Cost



Source: Bloomberg

Figure 2 shows the Commonwealth yield curve, or their estimated borrowing costs for different maturity terms, on 17 January 2024 compared with their estimated borrowing costs at end May 2023, with an increase of +0.6% in their estimated 10-year borrowing cost over that period.

Figure 2: Commonwealth Yield Curve Comparison



Source: Bloomberg

As we do not forecast future interest rates, future borrowing rate expectations for the Budget assumptions are based on the Commonwealth’s 10-year Forward Curve plus an estimated interest rate margin.

The Commonwealth 10-year forward curve calculates what the implied 10-year interest rate is in 1-years’ time, 2-years’ time etc based on the Commonwealth’s current yield curve.

Image 1 below is the Commonwealth Forward Curve Matrix and shows the implied 10-year forward rates used for determining the 2023-24 Budget Assumptions.

Image 1: Commonwealth Forward Curve Matrix 2023-24 Budget Assumptions



Source: Bloomberg

Image 2 below is the Commonwealth Forward Curve Matrix and shows the 10-year forward rates used for determining the 2023-24 Budget Review Assumptions.

Image 2: Commonwealth Forward Curve Matrix 2023-24 Budget Review Assumptions

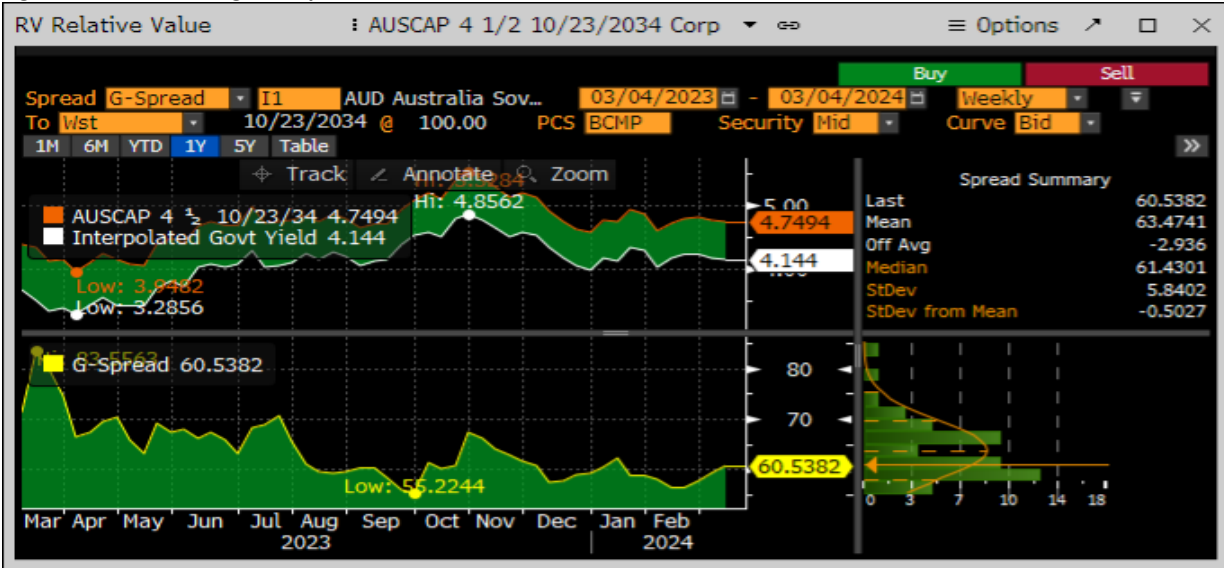
| Spot Tenors | Coupon | 3Mo | 6Mo | 1Yr | 2Yr | 3Yr | 4Yr | 5Yr | 10Yr | 15Yr | 30Yr |
|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 3Mo | 4.3615 | 4.0032 | 4.0254 | 3.5807 | 3.3890 | 3.8106 | 3.9899 | 4.3303 | 4.4131 | 5.1363 | 4.9055 |
| 1Yr | 4.1427 | 3.8650 | 3.7584 | 3.5771 | 3.5493 | 3.8641 | 4.0663 | 4.3943 | 4.4494 | 5.0221 | 4.9486 |
| 2Yr | 3.8633 | 3.7005 | 3.6225 | 3.5634 | 3.7030 | 3.9637 | 4.2270 | 4.4781 | 4.6526 | 4.9696 | 4.9491 |
| 3Yr | 3.7590 | 3.6853 | 3.6669 | 3.6596 | 3.8189 | 4.1016 | 4.3352 | 4.5592 | 4.8253 | 4.9578 | 4.9536 |
| 4Yr | 3.7603 | 3.7395 | 3.7348 | 3.7551 | 3.9540 | 4.2110 | 4.4283 | 4.6217 | 4.9084 | 4.9557 | 4.9526 |
| 5Yr | 3.8124 | 3.8141 | 3.8273 | 3.8729 | 4.0662 | 4.3061 | 4.5007 | 4.6666 | 4.9578 | 4.9546 | 4.9519 |
| 6Yr | 3.9013 | 3.9084 | 3.9266 | 3.9767 | 4.1656 | 4.3833 | 4.5550 | 4.6345 | 4.9672 | 4.9559 | 4.9515 |
| 7Yr | 4.0068 | 3.9963 | 4.0174 | 4.0714 | 4.2481 | 4.4433 | 4.5420 | 4.6631 | 4.9608 | 4.9550 | 4.9529 |
| 8Yr | 4.0898 | 4.0785 | 4.0990 | 4.1522 | 4.3138 | 4.4439 | 4.5764 | 4.7193 | 4.9578 | 4.9544 | 4.9526 |
| 9Yr | 4.1628 | 4.1508 | 4.1727 | 4.2182 | 4.3263 | 4.4830 | 4.6333 | 4.7616 | 4.9570 | 4.9540 | 4.9523 |
| 10Yr | 4.1913 | 4.1989 | 4.2091 | 4.2369 | 4.3698 | 4.5404 | 4.6771 | 4.7950 | 4.9564 | 4.9547 | 4.9520 |
| 12Yr | 4.2518 | | | | | | | | | | |

Source: Bloomberg

The ACT’s interest rate margin that is added to the estimated Commonwealth 10-year forward rates is based on an assessment of the ACT’s 10-year borrowing cost spread relative to the Commonwealth at the time the budget estimates are finalised.

As outlined in Figure 3 the estimated interest rate margin at the time of the 2023-24 Budget estimates was approximately +0.7%, but this interest rate margin had declined to approximately +0.6% for the 2023-24 Budget Review estimates.

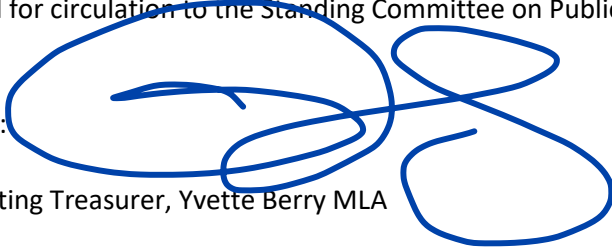
Figure 3: ACT Borrowing Cost Spread to Commonwealth



The average estimated cost of borrowing outlined in the Budget Papers is the average of the Budget and 3 forward years.

Approved for circulation to the Standing Committee on Public Accounts

Signature:

A handwritten signature in blue ink, consisting of several overlapping loops and curves, positioned over the signature line.

Date: 06/03/24

By the Acting Treasurer, Yvette Berry MLA