

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

2014 - 2015

Department/Agency: Treasury

Question: AET 214-218

Topic: Government debt

Reference: written - 06 March 2015

Senator: Dastyari, Sam

Question:

214. At what debt to GDP ratio does public debt negatively impact economic growth?
215. What percent of GDP is public debt now?
216. What is the public debt position of Greece?
217. What are the Greek and Australian bond rates? What does that say about market appetite for government securities in both countries?
218. How comparable are the Australian and Greek debt to GDP ratios?

Answer:

Question 214

The level at which public debt begins to harm economic growth is an empirical question, with different studies arriving at different conclusions. Prominent studies that have examined this issue include:

- Kumar, M and Woo, J, 2010, "*Public Debt and Growth*", IMF Working Paper No. 10/174.
- Panizza, U and Presbitero, A, 2014, "*Public debt and economic growth: Is there a causal effect?*", *Journal of Macroeconomics*, vol. 41(c), pp 21-41.
- Pescatori, A, Sandri, D, and Simon, J, 2014, "*Debt and Growth: Is there a Magic Threshold?*", IMF Working Paper No. 14/34.
- Reinhart, C and Rogoff, K, 2010, "*Growth in a Time of Debt*", *American Economic Review: Papers and Proceedings*, vol. 100(2), pp 573-578.

Question 215

Referring to the most recent IMF data for the purpose of making a consistent cross-country comparison in this series of questions, Australia's gross government debt was 34.3 per cent of GDP in 2014, while its net debt was 17 per cent of GDP.

Question 216

According to the IMF, Greece's gross government debt was 177.2 per cent of GDP in 2014. Greece's net government debt was 174.3 per cent of GDP.

Question 217

Referring to Bloomberg data at 15 April, Greek 10-year sovereign bond yields were 12.1 per cent while Australian 10-year sovereign bond yields were 2.29 per cent.

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Currently, debt markets are assigning a lower level of risk with holding Australian sovereign debt relative to Greek sovereign debt, and hence are willing to purchase Australian debt at a much lower yield.

Question 218

Comparisons can be found in the 2015 Intergenerational Report on page 53.