

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

29 May – 31 May 2012

Question: BET 131

Topic: Purchase of Government Debt

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Senator JOYCE asked:

Senator JOYCE: You have an involvement in central banks. I imagine you will have the involvement of central banks with agreements to buy off each other. Is Australia also involved in the purchase of government debt off other countries?

Dr Parkinson: I would have to take that on notice. I do not think we do.

Dr Gruen: They have a portfolio.

Dr Parkinson: They have a portfolio of foreign assets.

Dr Gruen: Foreign government bonds.

Dr Parkinson: I should be clearer. Senator, you asked whether they buy from one another or are buying into the market. I would have to take that on notice. I think the foreign central banks here are buying in the market. I am not sure what the RBA does.

Dr Gruen: The RBA has a portfolio of foreign assets. They have holdings of major sovereign debt. I think this is all in their bulletin. There is a fair bit of detail in their own accounts.

Senator JOYCE: You do not know how much?

Dr Gruen: We could find this out for you. Australia does not have very large holdings of foreign reserve assets. As you would know, China now holds \$3 trillion in foreign sovereign debt, much of which is in the US. But China is not the only one. Korea and Japan also have very large holdings. We have always had very small holdings, so it is very different from that. But the Reserve Bank reserves the right to intervene in the foreign exchange market when it thinks it is the appropriate thing to do. That is part of the reason they hold foreign assets. I want to make one point from an earlier part of this discussion. There was a discussion you were having with Dr Parkinson about how much of a buffer was sensible. I want to draw your attention to the advice of the chief executive officer of AOFM. He made the point that, where for policy reasons a debt cap is considered desirable, it would be 'prudent from an operational perspective to set it at a level \$40 billion to \$60 billion higher than the peak projected within year CGS on issue'. His advice was that it makes sense to set the cap \$40 billion to \$60 billion higher than your projected peak.

Answer:

The Reserve Bank of Australia (RBA) purchases foreign government debt in the market. No foreign government debt is purchased directly from central banks.

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The RBA's outright holdings of foreign government debt (in Australian dollars) at 15 June 2012 are as follows:

- US \$8.7 billion
- Germany \$6.7 billion
- Canada \$1.6 billion
- France \$1.5 billion
- Japan \$0.6 billion
- Netherlands \$0.3 billion
- Asian bond fund, which comprises government debt of Hong Kong, Singapore, China, Korea, Indonesia, Thailand, Malaysia and the Philippines \$0.4 billion
- Supranational (for example, World Bank, Asian Development Bank) \$1.4 billion

In addition, the RBA holds government debt under repurchase agreements, as follows:

- US \$4.4 billion
- Germany \$5.2 billion
- Japan \$1.1 billion