

**Senate Standing Committee on Economics**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates

1 June – 3 June

**Question: BET 256**

**Topic: Government Bonds**

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**Senator Eggleston asked:**

1. Has it been more challenging to sell government bonds? Has there been any change in the market for retail bonds?
2. How is the mortgage-backed bond market operating since the Global Financial Crisis? Has this resulted in a reduction in funding costs for smaller banks and lenders?

**Answer:**

1. Conditions in global and domestic financial markets have been more volatile since the onset of the global financial crisis in 2008. However issuance of Australian Government bonds has proceeded smoothly, supported by an active program to promote the bonds to investors. Demand for the bonds has been assisted by the strength of the Australian economy, the fiscal outlook and the Government's balance sheet. The Government does not currently issue retail bonds, however it will soon launch the trading of Commonwealth Government Securities on a securities exchange.
2. The Australian residential mortgage-backed securities (RMBS) market has continued to operate since the onset of the global financial crisis, assisted by Government investments in RMBS to support competition in lending for housing and small business. Market conditions improved in the latter part of 2009 and the first part of 2010, with increased participation by private sector investors in new issuance and a decrease in margins in both the primary and secondary markets.

Domestic RMBS market conditions deteriorated earlier this calendar year, primarily due to the weakening in global credit markets arising from sovereign debt concerns in Europe. This weakening resulted in widening pressure on margins across all credit products, including RMBS.

The Government's investments in RMBS have maintained access by smaller banks and lenders to this source of funds and so helped them to continue to lend in competition with the major banks.