

Western Australian Treasury Corporation—

Ms J.M. Freeman, Chair.

Mr B.S. Wyatt, Treasurer.

Mr J. Collins, Chief Executive Officer.

[Witness introduced.]

The CHAIR: This estimates committee will be reported by Hansard. The daily proof *Hansard* will be available the following day. Members may raise questions about matters relating to the operations and budget of the off-budget authority. Off-budget authority officers are recognised as ministerial advisers. It is the intention of the Chair to ensure that as many questions as possible are asked and answered and that both questions and answers are short and to the point. The minister may agree to provide supplementary information to the committee, rather than asking that the question be put on notice for the next sitting week. I ask the minister to clearly indicate what supplementary information he agrees to provide and I will then allocate a reference number. If supplementary information is to be provided, I seek the minister's cooperation in ensuring that it is delivered to the principal clerk by Friday, 1 June 2018. I caution members that if a minister asks that a matter be put on notice, it is up to the member to lodge the question on notice through the online questions system.

I give the call to the Leader of the Opposition.

Dr M.D. NAHAN: What are the trends and costs of capital for the state—that is, the cost of borrowings? There are also a couple of other things the Treasurer could talk about.

The CHAIR: We will do just one question at a time; that would be good.

Dr M.D. NAHAN: It is a multilayered question!

Mr B.S. WYATT: I have no doubt there will be. This has been going for a long period of time. For quite a few years now there has been a trend to move a lot of our borrowings to longer term and that has effectively happened. I think it probably happened when the Leader of the Opposition was Treasurer. I will pass to Mr Collins for more specific details.

Mr J. Collins: After a period of declining interest rates, they stabilised for a time and in the last six months longer-term rates have started to lift as a result of pressure from the US. The cash rate in Australia was last reduced from 1.75 per cent to 1.5 per cent in August 2016. There have been periods of time when the market thought there would be further decreases and increases, and at the moment most of them are, but it is not expecting an increase until the end of 2019. That is not true of the US. The US is still expecting quite a few increases over a period of time, which has produced an interesting situation in that at the moment 10-year government rates in the US are 20 basis points above Australian government rates, and that has not happened on a sustained basis for a long time. That is a trend. Another trend that has emerged in probably the last nine months is that our margins to the other states have been contracting. That has been a benefit for us. Relative to Queensland, at one stage we were almost 20 basis points over it in the 10-year period of time and we are now in a position in which we are now closer to five basis points, so those margins have contracted, which has been really good. A couple of years ago we were the highest yielding of all the states in Australia and in some maturities our rates are now under Tasmania, South Australia and very close to Queensland. We have returned back to the pack in terms of the AA+-rated states. Turning to borrowing rates themselves, our longest dated issue, which we issued about a month ago at 10 and half years to 2028, yielded 3.38 per cent when we issued it and at the moment, when I last looked at it, it was about 3.37 per cent, so it is not really doing very much.

Dr M.D. NAHAN: The longer-term forecast, especially with the rising interest rates in the United States, will pull everybody else up, we would expect, especially with a 20 basis points differential. Where do we think the longer-term trends are going to be?

Mr J. Collins: Basically, the trends are probably rising, but not as fast as they will be in the US, because with the continued housing situation in Australia, and also wages being very, very soft, there is reason for the Reserve Bank of Australia not to lift the cash rate, so that will anchor short rates pretty close to where they are at the moment and longer-term rates, as the member is suggesting, will probably be influenced to some extent by US rates.

Mr D.C. NALDER: Have we got some of the book maturing over the next year or two actually on higher rates that will provide a benefit? Are there not some large facilities out there at the moment of higher yields?

Mr B.S. WYATT: Yes, there are. I will ask Mr Collins for the detail. It was something I was asking the other day for that very reason. There are some reasonable maturities in the next two years.

Mr D.C. NALDER: I saw that. Where did I see that?

Mr B.S. WYATT: Somewhere! I asked for that information the other day because of the contraction of the yield. I was keen to know what was coming up. Mr Collins will no doubt have those for the member in just a second.

Mr D.C. NALDER: I think there is a \$5 billion one in the next 12 or 18 months at about five per cent.

Mr J. Collins: As at the end of February, we had a \$4.7 billion maturity scheduled in October 2018. On Monday we had a \$1 billion floating-rate note maturity, which we have managed fairly well. We have some larger maturities. We had a \$6 billion maturity in July 2020.

[5.40 pm]

Mr D.C. NALDER: What is the current yield on that? They are high pieces of paper.

Mr J. Collins: The coupon on it is 2.5 per cent, but the yield is closer to the market rate.

Mr D.C. NALDER: I thought there were a couple that were higher that we would benefit from on maturity.

Mr J. Collins: I will get those back to the member. I have them here somewhere, but I have too many papers and I want to read out the right rates.

Mr D.C. NALDER: There was a recent report that showed them.

Mr B.S. WYATT: Does the member want that by way of supplementary information? I can get that to him if he wants it.

Mr D.C. NALDER: Yes.

Mr B.S. WYATT: Is it the maturities over the next two years and the rates they are paying?

Mr D.C. NALDER: Yes, the rates they are paying and what the market looks like it is going to be. I think there is a net benefit to the state.

The CHAIR: Can the minister outline that?

Mr B.S. WYATT: We will provide the member with the amount of maturities and when over the next two years.

[*Supplementary Information No A18.*]

Dr M.D. NAHAN: Is there any softening of the international market for debt? I refer to page 145, which deals with the investment program. Are there any changes in the trends for the overall foreign versus domestic cost of capital and access to capital? The government has been working on trying to get China in for a long time. Has it had any success?

Mr B.S. WYATT: I will ask Mr Collins to make comments about China in particular, but there is an effort within Treasury Corporation to get more interest in Europe and America for our debt. For the Leader of the Opposition's interest, that will be the effort of a trip that I will take in July. I will ask Mr Collins to make some comments about China.

Mr J. Collins: I think there are several aspects to the member's question. With regard to China, we are continuing to talk with North Asian entities and we have had success. A month ago we issued a new 2028 10-year bond and we had about 38 per cent offshore interest in that bond. It came from 11 different countries outside of Australia. A large percentage came from North Asia, where, as the member would be aware, we have had some efforts over the last few years and we have had some successes. We said before that 20 to 25 per cent of our paper was held offshore. That is probably still about the same, but prior to this issue we were not seeing the same offshore participation as that average would suggest. I think we are on our way back. We had \$3 billion worth of bids for \$1.3 billion worth of paper, so it was very well received.

The CHAIR: That completes the examination of the Western Australian Treasury Corporation.