



Australian Government

Australian Office of Financial Management

AOFM

2023 Asian Regional Forum on Investment Management of Foreign Exchange Reserves

A view from the issuance side

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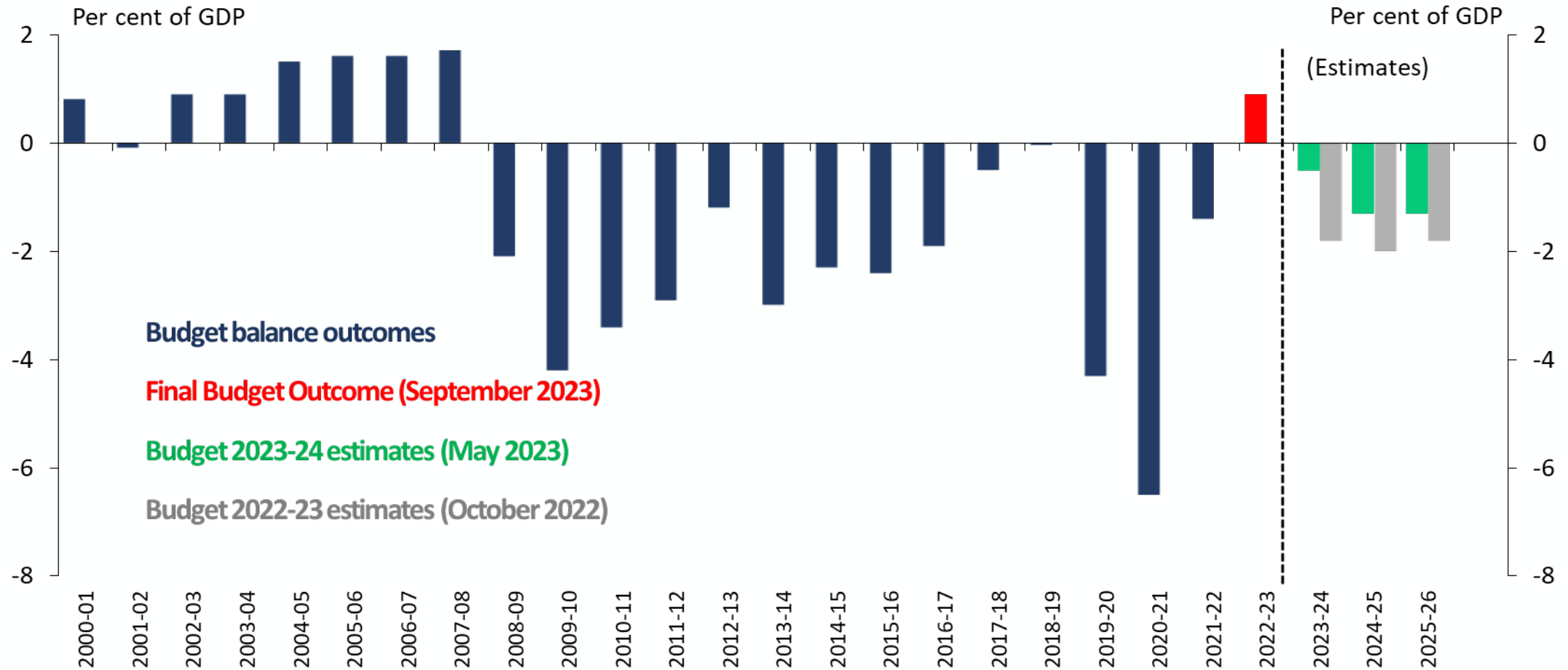
October 2023

A view from the Issuance Side - Australia's Perspective

- ▶ Australia's budget balance and debt management experience
- ▶ How does the AOFM make its bonds attractive for investors?
- ▶ How are ESG factors affecting Australia as a sovereign issuer?
- ▶ AOFM's approach to Sovereign Green Bond issuance

Australia's budget balance

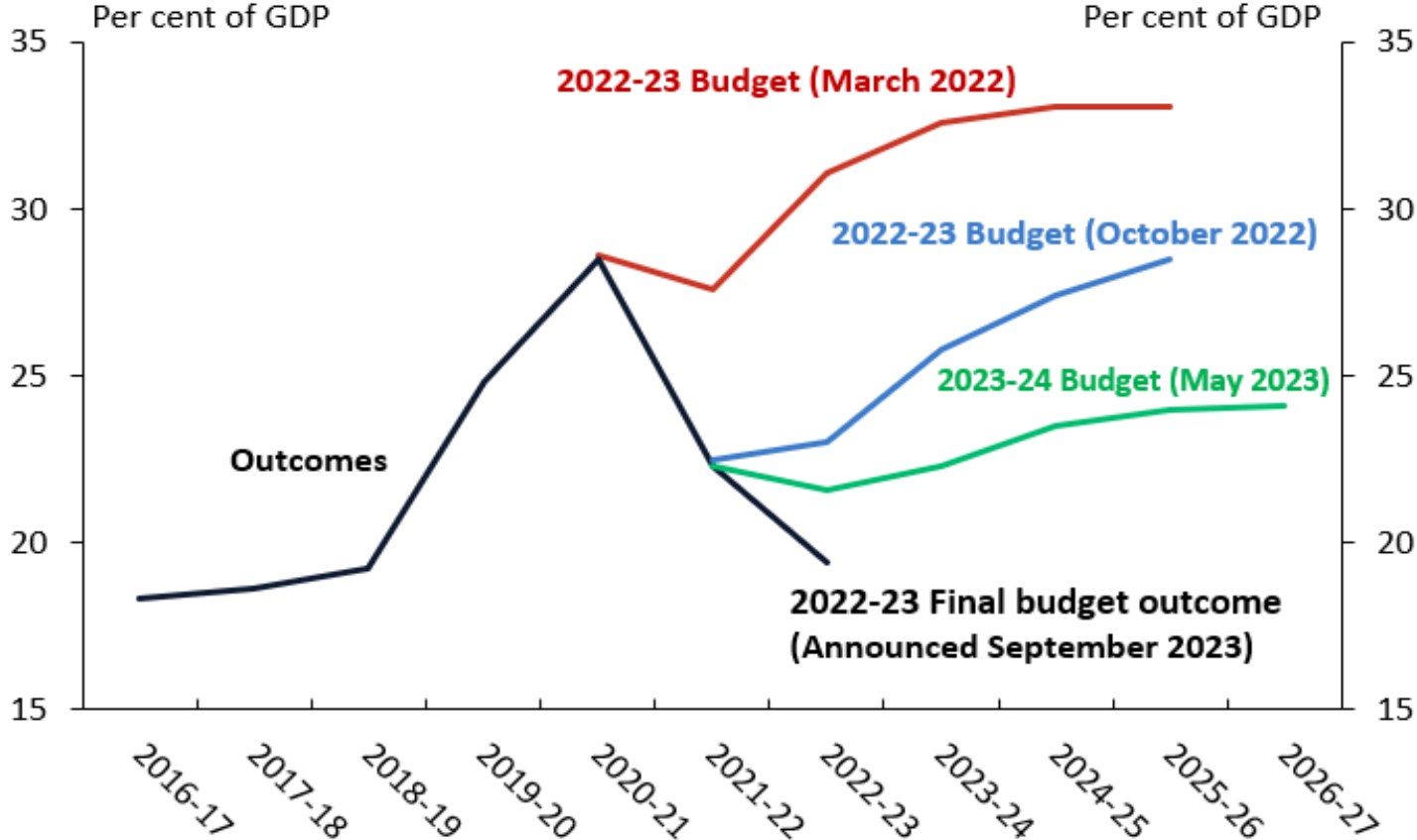
Underlying cash balance per cent of GDP



Source: Treasury – Budget 2023-24

Australia's debt management experience in the last 3 years

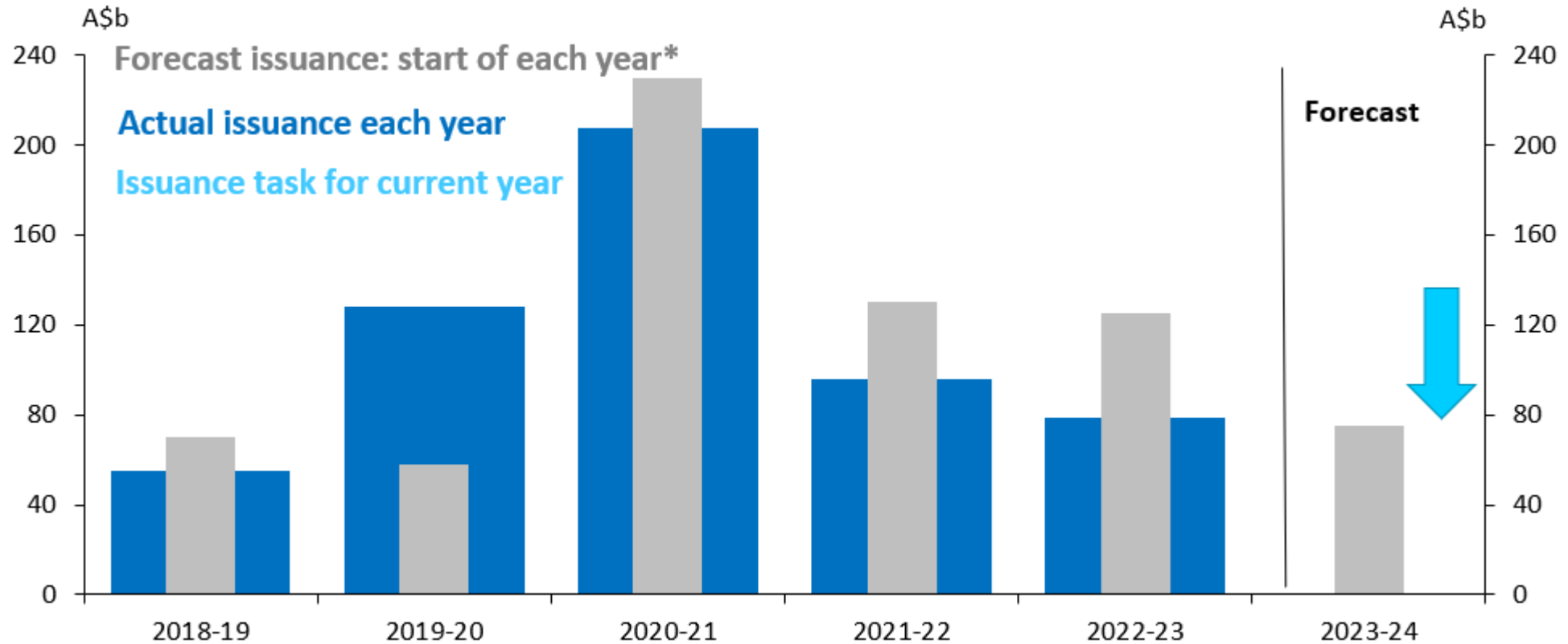
Australia's net debt position



Source: Treasury – Budget 2023-24.

Australia's debt management experience

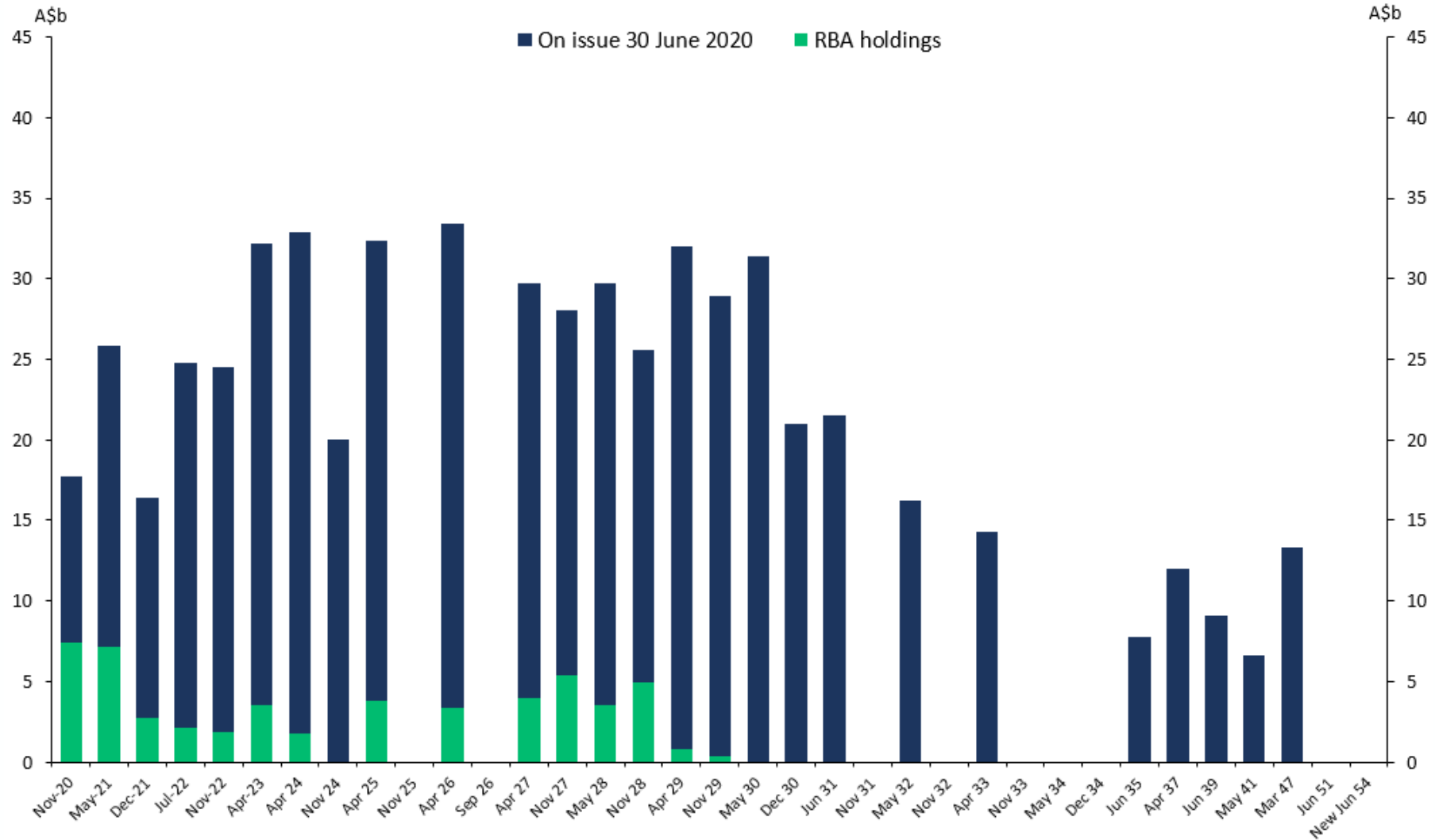
Managing the AOFM's annual issuance program



Source: AOFM. *initial forecasts are as at July of each year, except for 2020-21 which was January 2021.

Australia's debt management experience in the last 3 years

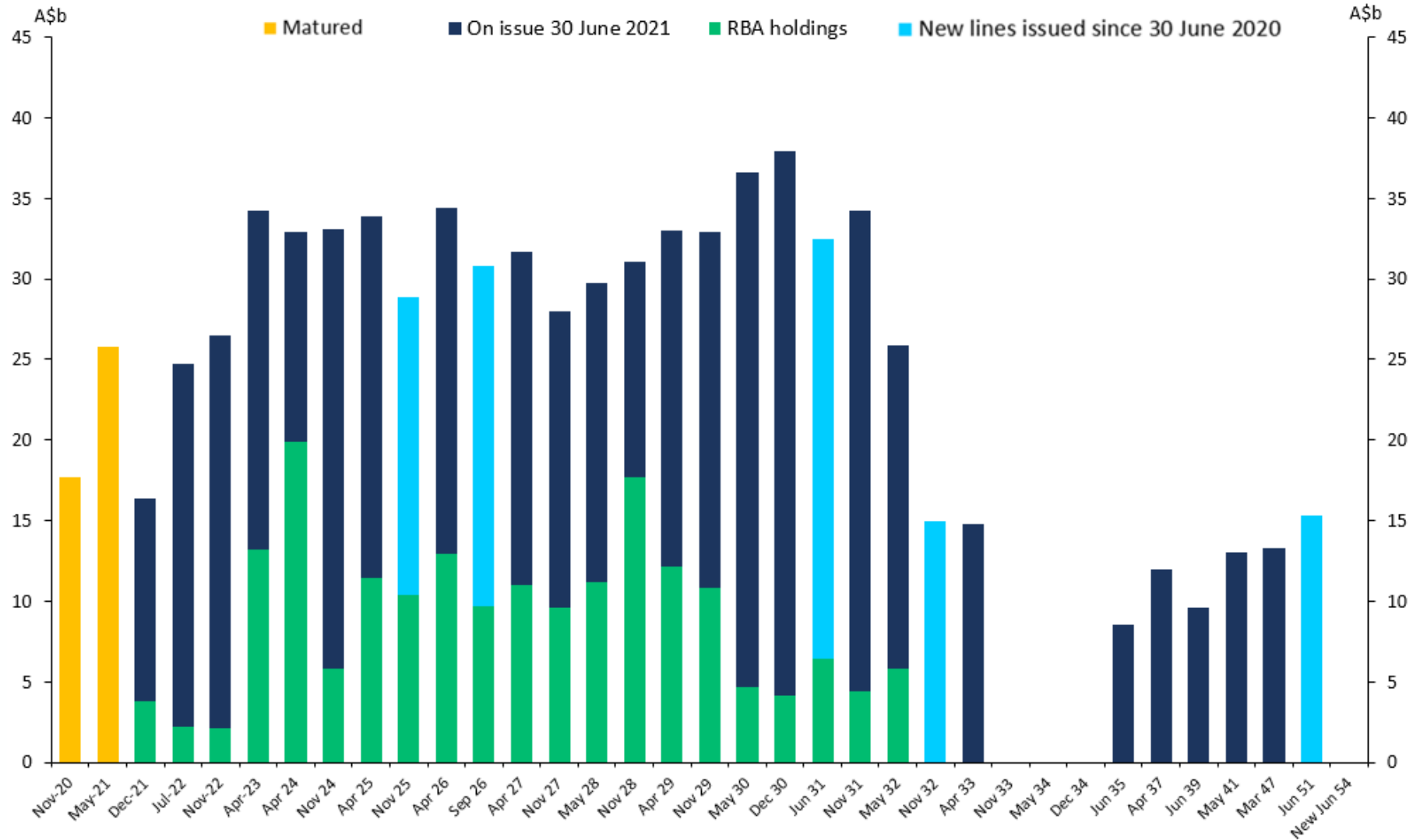
Treasury Bond on issue



Source: AOFM, RBA

Australia's debt management experience in the last 3 years

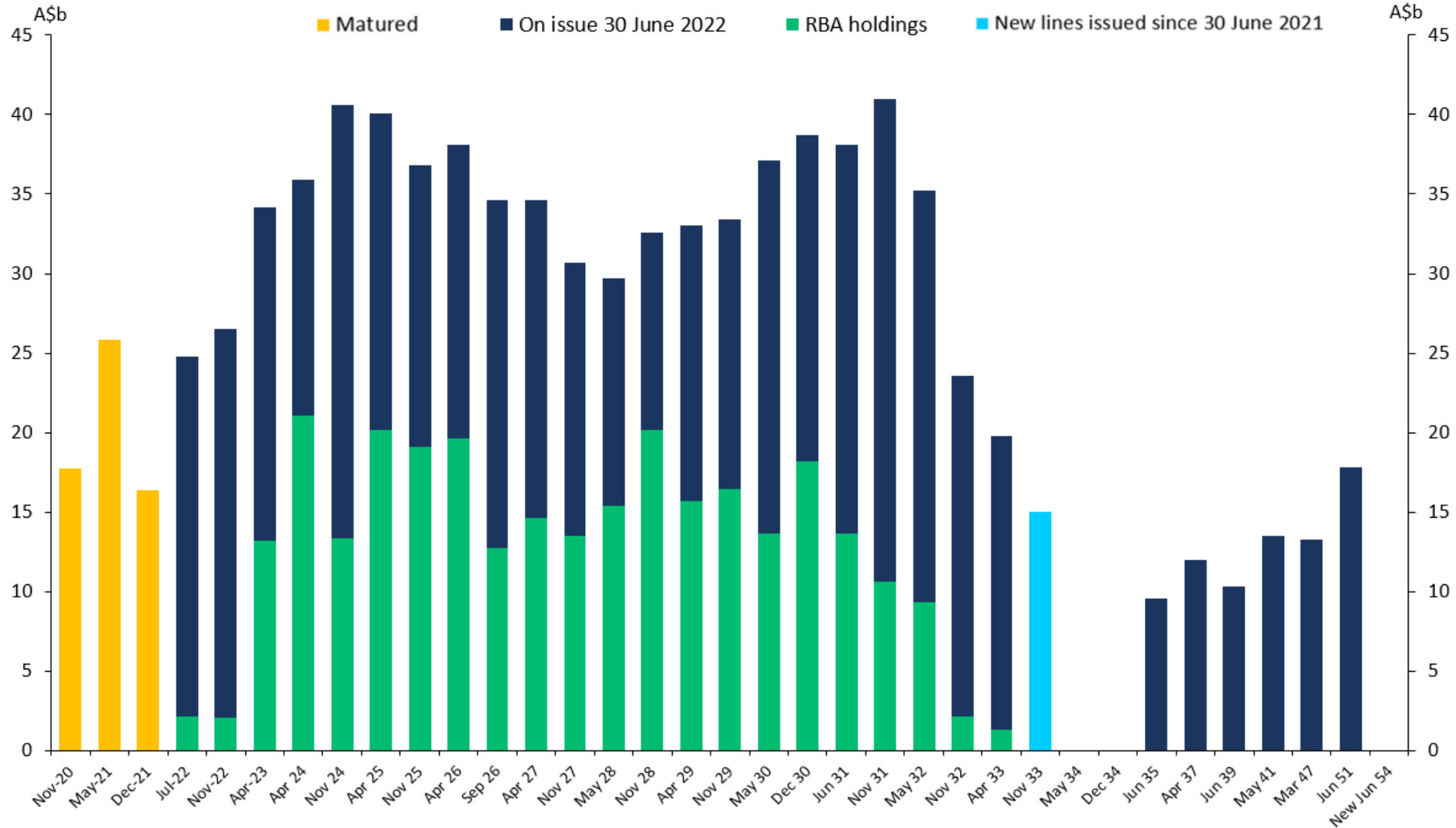
Treasury Bond on issue



Source: AOFM, RBA

Australia's debt management experience in the last 3 years

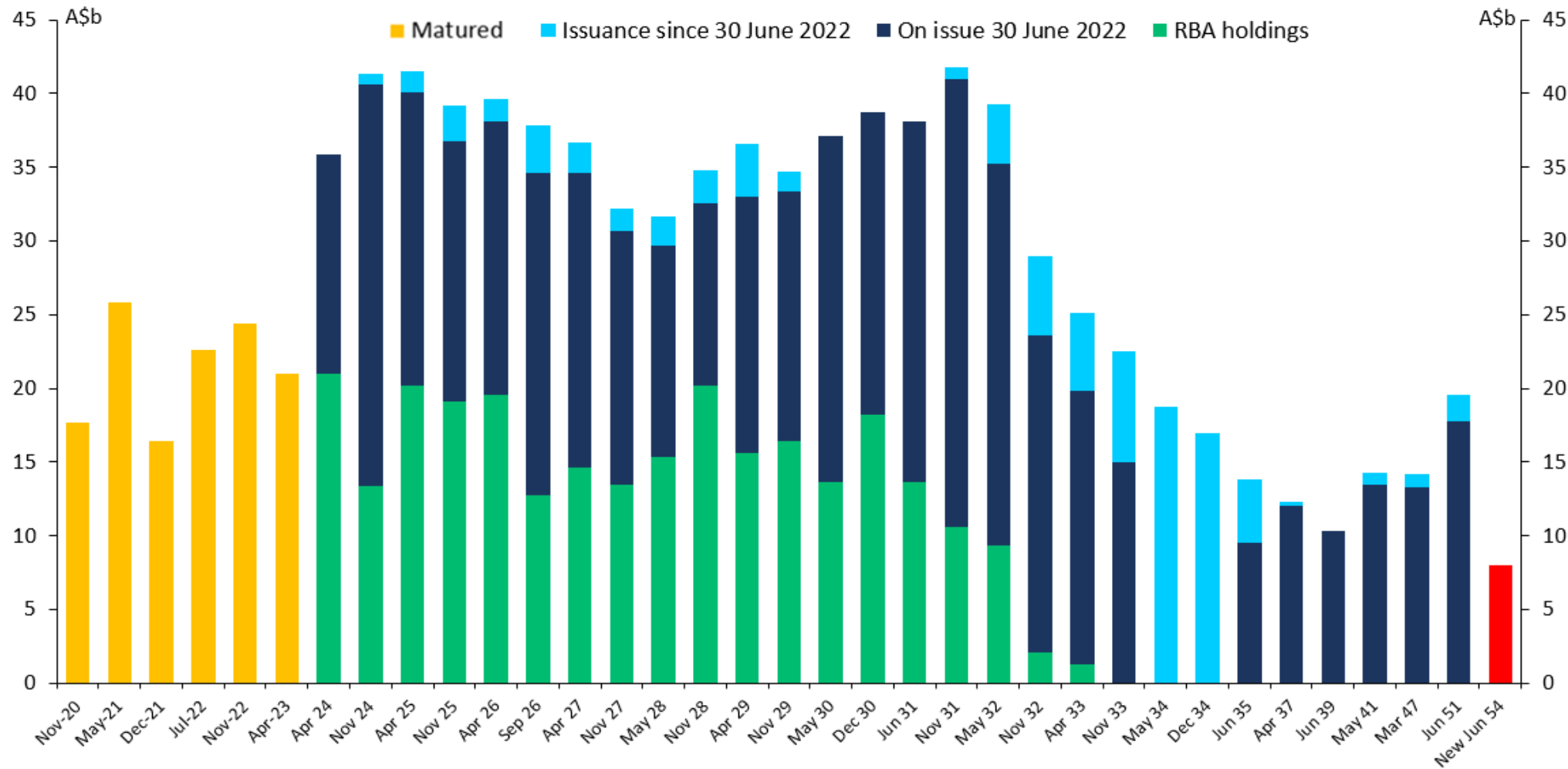
Treasury Bond on issue



Source: AOFM, RBA

Australia's debt management experience in the last 3 years

Treasury Bond on issue



Source: AOFM, RBA (as at 20 October 2023)

How does the AOFM make our bonds more attractive to investors?

Three important investor drivers: [Capital preservation, return and liquidity](#).

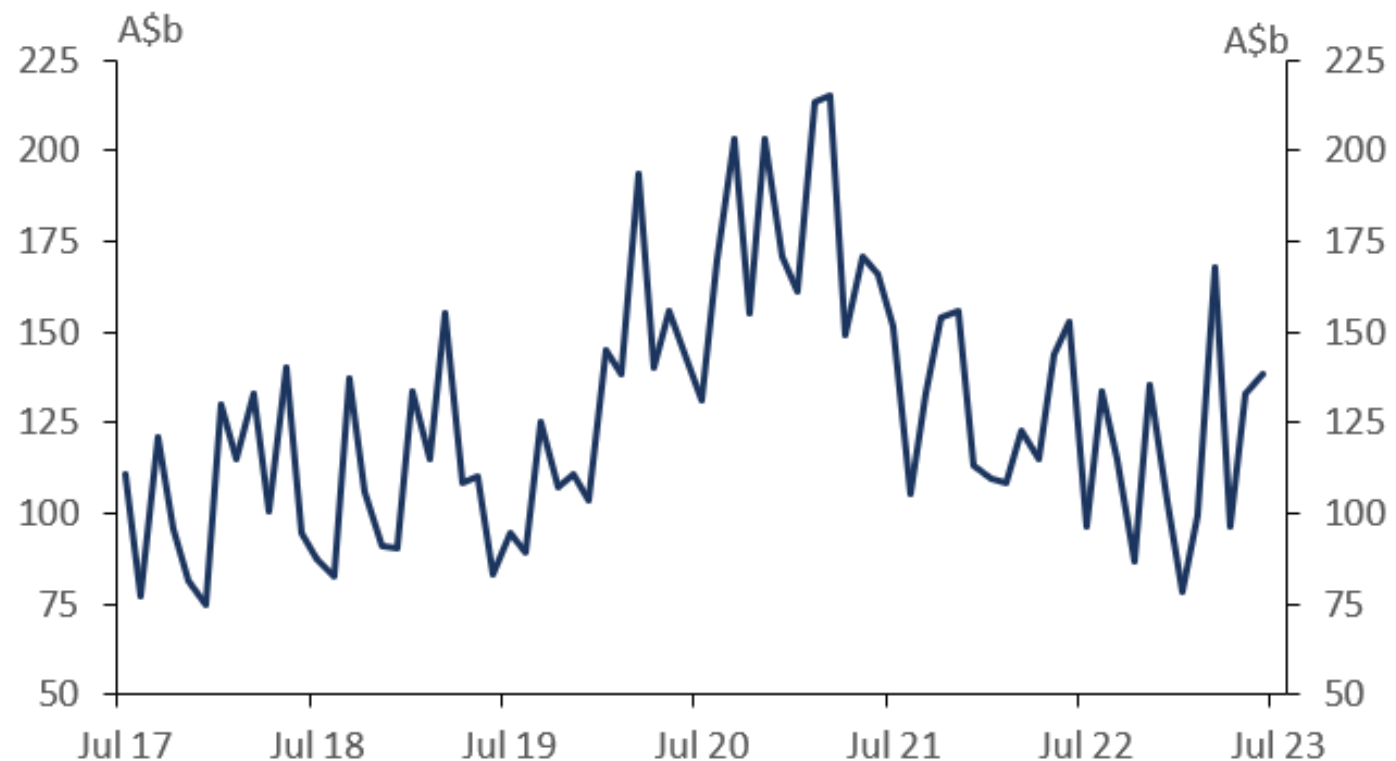
AOFM can only influence [liquidity](#)! Bond market liquidity is a key element of market Efficiency

What do we do?

- Flexible issuance program via weekly auctions and weekly reviews of market feedback. (No fixed issuance calendar)
- Large, liquid bond lines with maturities across a 30-year yield curve – new 30-yr bond line
- Focusing on maintaining a readily available stock of Treasury Bonds (the free float)
- A diverse investor base by geography and type
- Focus on building up new bond lines to a liquid benchmark size.
- Regular and active engagement with market intermediaries and our investor base with a focus on investor diversity.

How does the AOFM make our bonds more attractive to investors?

Treasury Bond liquidity - monthly turnover

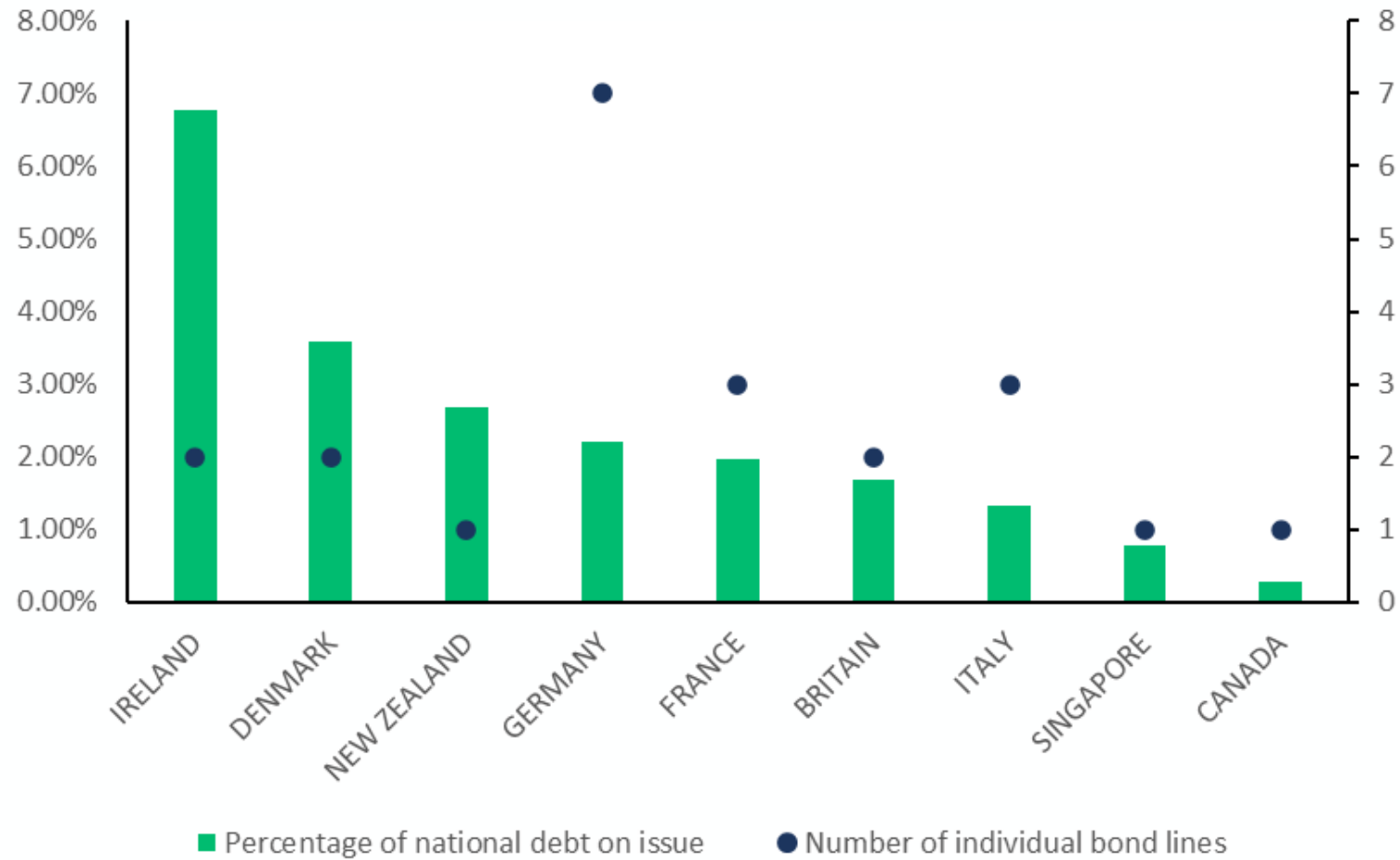


Source: AOFM.

The AOFM's approach to ESG and Green Bonds

- Prior to April 2023, the AOFM's approach was to gather investor feedback on ESG investment practices, monitor other sovereigns' green bonds and provide updates on Australia's climate policies.
- In April 2023, the Treasurer announced the Australian Government will introduce a Sovereign Green Bond program.
- The AOFM will work with the Australian Treasury to deliver the program.
- The Treasury will lead work on the Green Bond Framework, coordinate with government departments on eligible green expenditure, and produce post-issuance allocation and impact reporting.
- The AOFM is consulting with investors, selecting the tenor of bonds, marketing the bonds, and conducting issuance.
- **Green bonds will not impact the total stock of Australian Government debt as they displace issuance of other bonds.**

Green bonds share of national debt



Source: Treasury.

What Government Policies will the Green Bond Support?

Climate Change Mitigation

- Net zero emissions by 2050
- Reduce greenhouse gas emissions by 43% below 2005 levels by 2030
- Australian States have committed to net zero by 2050 or earlier
- Net Zero Authority

Climate Change Adaptation

- Transformation with decarbonisation and energy transition
- Manage physical impacts of climate change
- Build climate resilience

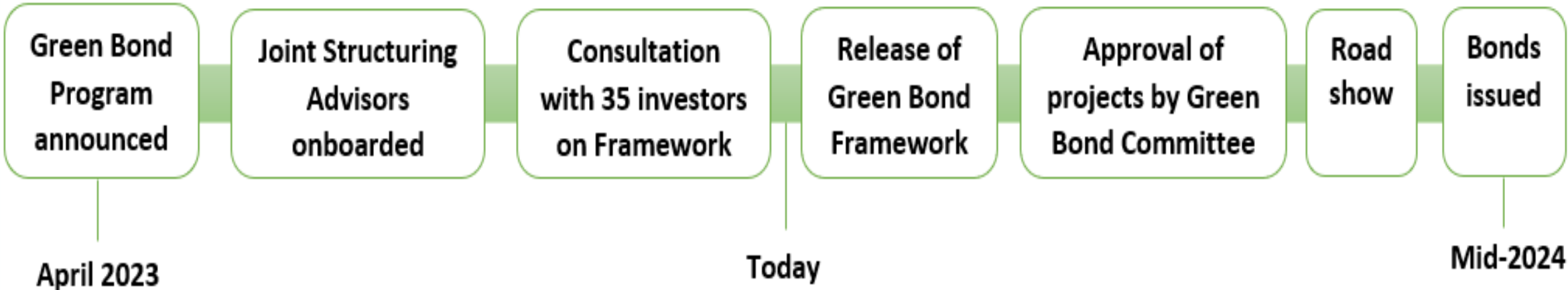
Improved environmental outcomes

- Protect 30 per cent of Australia's land and marine areas by 2030
- Zero extinction target
- Recover 3,200 GL of water across the Murray-Darling river system
- Recover 80% of all waste by 2030

AOFM Green Bonds and future steps

- The green bond program will form a part of the Government's Sustainable Finance Strategy.
- The Treasury and the AOFM are currently developing the Green Bond Framework, which will inform the selection of policy aligned climate-related spending.
- The Framework will be consistent with the International Capital Markets Association (ICMA) Green Bond Principles.
- The framework will detail:
 - the types of projects that green bonds will finance
 - arrangements for selecting and evaluating projects
 - how issuance proceeds will be managed
 - ongoing reporting on allocation of proceeds and impact of projects
- The AOFM and Treasury are engaging with investors to gather thoughts on these issues and specifics of the bond program.
- Green bond issuance is expected to begin in mid-2024.

Green Bond Progress and future steps



What do the Green Bonds hope to achieve?

- Australian recognises the urgent need to transition to a low carbon economy and is committing to investing in a range of targeted environmental mitigation and adaptation solutions to achieve this.
- The program will enable investors to back public projects that drive Australia's net zero transformation and support environmental objectives.
- Sovereign green bonds will boost the scale and credibility of Australia's green finance market and attract more green capital to Australia by increasing transparency around climate outcomes and the scale of green investments available.

What will the green bond look like?

- The green bond will be issued in Australian dollars.
- It will be in similar bond format as currently issued Australian Treasury bonds.
- Initial bond will be issued via syndication.
- The size of the initial bond syndication will be smaller than most other nominal bond syndications.
- There will be an ongoing program of issuance.
- The AOFM seeks to issue the bond line with a maturity that meet its purposes as well as investor demand.
- We will continue to take feedback from the investors around the maturity.

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