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UPDATES

Power Balance in Asia: The Coalition perspective, Address to the Lowy Institute

Malcolm Turnbull recently gave a speech at the Lowy Institute on the Coalition's perspective on the relationship between China and Australia. "Well ...

[Read the Full Article](#)

PORTFOLIO MEDIA RELEASES

THE STATE GUARANTEE - A BAD SITUATION MADE WORSE BY SWAN

25TH MARCH 2009

This is a classic example of where the Rudd Government has made a global Financial Crisis far worse because of bad policy decisions.

The unprecedented steps taken by the Treasurer today to guarantee State Government borrowing has come about because of two significant events in the last six months.

Firstly this issue is a direct consequence of the Government guarantee on funding announced last October and the failure of the Government to properly price the use of the wholesale funding guarantee by Australian banks.

In short the fact that Banks could use the Commonwealth Guarantee in competition with the States own issuance made the semi-government market more expensive for the States and it made it harder for the States to fund themselves.

This is confirmed by the fact that the States first raised this with the Commonwealth Government last October. Far from decisive action it is Rudd Government hubris at its worst.

Secondly there was a significant deterioration in the semi government market after Queensland had its credit rating downgraded on 20 February this year. The gap between Queensland's paper and that of AAA states is around 10-15 basis points. **So Wayne Swan's pricing proposal clearly favours States that have been downgraded.**

Market expectations are that Queensland will be the biggest State borrower between now and June 2010 (an expected \$30 billion with 50% being refinanced debt).

The major concerns of the Opposition are that:

1. The Commonwealth Guarantee is not capped
2. The price for less than a AAA issuance provides no incentive for States to exercise fiscal discipline, that is that States can spend all they want lose their AAA credit rating and it costs them far less than what the market is charging
3. Most funding decisions by Loan Council will be made out of session
4. This places further potential pressure on the Commonwealth AAA rating
5. There is, again, no exit strategy for the Government's direct intervention in the market.

This means further consequences will flow as the Government tries to unwind this government guarantee.

Most debt, like Commonwealth debt, will be borrowed from overseas. We need full transparency from all governments in disclosing who the beneficial owners are of this massive taxpayer debt.

The Opposition will closely consider the Bill when it is presented to the Parliament.

-ends-

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