Parliamentary Budget Office

ECR-2025-2074

Increase total funding available through the Australian Infrastructure Financing Facility for the Pacific	
Party:	The Coalition
Summary of proposal: The proposal would increase the total funding available for the Australian Infrastructure Financing Facility for the Pacific (AIFFP) by $2 billion, increasing from $4 billion to $6 billion. The proposal would start on 1 July 2025.	

Costing overview

The proposal would be expected to have a nil impact over the forward estimates period (see Table 1), as the current loan facilities are not fully utilised and are not expected to be exhausted until the medium term. As such, the additional $2 billion in loans are not expected to be drawn down until at least the medium-term.

The proposal would be expected to have an impact beyond the 2025-26 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2035-36 is provided at Attachment A. The fiscal and underlying cash balances impact reflects an increase in departmental cost to operate the loan facility, with a partial offset from administered revenue from the receipt of interest on loans. In addition, the headline cash balance impact includes loan principal transactions.

Consistent with the PBO Guidance 02/2015, public debt interest expense impacts have been included in this costing because it involves alternative finance.

The Parliamentary Budget Office (PBO) has not made any assessment as to whether the specified funding would be sufficient to meet the objectives of the proposal.

Table 1: Increase total funding available through the Australian Infrastructure Financing Facility for the Pacific – Financial implications ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	**Total to 2028-29**
Fiscal balance	-	-	-	-	**-**
Underlying cash balance	-	-	-	-	**-**
Headline cash balance	-	-	-	-	**-**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
- Indicates nil.

Key assumptions and methodology

The PBO has made the following assumptions in costing this proposal:

- Departmental costs would be the same as the departmental costs to expand the AIFFP in the October 2022-23 Budget[1] grown by Wage Cost Index 6 and adjusted for the efficiency dividend over the medium term.
- The drawdown of the additional $2 billion in loans commences in 2029-30 – after the existing allocation of loans are fully utilised. The $2 billion would also be distributed evenly over 10 years ($200 million per year).
- There would be sufficient demand for the loans over this period, and all funds would be allocated.
- AIFFP policy and guidelines have been applied as follows:
  - The interest rates applied are broadly in line with the World Bank International Bank for Reconstruction and Development lending rates. The 10-year Australian Government bond rate is used as a proxy for sovereign borrowing over the medium term.
  - The loans would be provided to countries that have a low risk of debt distress, ensuring there is no default. The loans are intended for sovereign lending, which includes governments, government-controlled entities, or entities guaranteed by the government.
  - Interest and principal repayments are not reinvested.
  - The average loan term is 20 years.

Financial implications were rounded consistent with the PBO's rounding rules.[2]

Data sources

The Department of Foreign Affairs and Trade provided the departmental funding, existing loans, and allocated loans over the forward estimates period, related to the Australian Infrastructure Financing Facility for the Pacific, as at 12 May 2025.

Australian Infrastructure Financing Facility for the Pacific (2025), Annual Update July 2023 – June 2024, Australian Infrastructure Financing Facility for the Pacific.

Commonwealth of Australia (2022) *Budget October 2022-23*, Commonwealth of Australia.

Commonwealth of Australia (2025) *Pre-election Economic and Fiscal Outlook 2025,* Commonwealth of Australia.

Rajah et al. (2019) *Ocean of debt? Belt and Road and debt diplomacy in the Pacific*, Lowy Institute, accessed 27 May 2025.

[1] *Australian Infrastructure Financing Facility for the Pacific measure* – the Government will improve the capacity of the Australian Infrastructure Financing Facility for the Pacific (the Facility) to support additional infrastructure investment in the Pacific and Timor-Leste, including providing an additional $25 million over 4 years from 2022–23 to the Department of Foreign Affairs and Trade to administer the Facility, including enhanced project and risk management capabilities. Budget October 2022-23 Budget Paper No. 2 page 110.

[2] https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules

Attachment A – Increase total funding available through the Australian Infrastructure Financing Facility for the Pacific – Financial implications

Table A1: Increase total funding available through the Australian Infrastructure Financing Facility for the Pacific – Fiscal balance ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	Total to 2028-29	Total to 2035-36
Revenue													
Administered non-tax													
Loan interest accrued	-	-	-	-	*9.1*	*17.8*	*26.2*	*34.1*	*41.6*	*48.8*	*55.5*	-	***233.1***
Total – revenue	**-**	**-**	**-**	**-**	**9.1**	**17.8**	**26.2**	**34.1**	**41.6**	**48.8**	**55.5**	**-**	**233.1**
Expenses													
Departmental													
Australian Infrastructure Financing Facility for the Pacific	-	-	-	-	*-9.2*	*-9.3*	*-9.5*	*-9.6*	*-9.7*	*-9.8*	*-10.0*	-	***-67.1***
Total – expenses	**-**	**-**	**-**	**-**	**-9.2**	**-9.3**	**-9.5**	**-9.6**	**-9.7**	**-9.8**	**-10.0**	**-**	**-67.1**
Total (excluding PDI)	**-**	**-**	**-**	**-**	**-0.1**	**8.5**	**16.7**	**24.5**	**31.9**	**39.0**	**45.5**	**-**	**166.0**
PDI impacts	**-**	**-**	**-**	**-**	***-4.2***	***-12.5***	***-20.3***	***-27.7***	***-34.7***	***-41.3***	***-47.4***	**-**	***-188.1***
Total (including PDI)	**-**	**-**	**-**	**-**	**-4.3**	**-4.0**	**-3.6**	**-3.2**	**-2.8**	**-2.3**	**-1.9**	**-**	**-22.1**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

\- Indicates nil.

Table A2: Increase total funding available through the Australian Infrastructure Financing Facility for the Pacific – Underlying cash balance ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	**Total to 2028-29**	**Total to 2035-36**
Receipts													
Administered non-tax													
Loan interest received	-	-	-	-	*9.1*	*17.8*	*26.2*	*34.1*	*41.6*	*48.8*	*55.5*	-	***233.1***
Total – revenue	**-**	**-**	**-**	**-**	**9.1**	**17.8**	**26.2**	**34.1**	**41.6**	**48.8**	**55.5**	**-**	**233.1**
Payments													
Departmental													
Australian Infrastructure Financing Facility for the Pacific	-	-	-	-	*-9.2*	*-9.3*	*-9.5*	*-9.6*	*-9.7*	*-9.8*	*-10.0*	-	***-67.1***
Total – payments	**-**	**-**	**-**	**-**	**-9.2**	**-9.3**	**-9.5**	**-9.6**	**-9.7**	**-9.8**	**-10.0**	**-**	**-67.1**
Total (excluding PDI)	**-**	**-**	**-**	**-**	**-0.1**	**8.5**	**16.7**	**24.5**	**31.9**	**39.0**	**45.5**	**-**	**166.0**
PDI impacts	**-**	**-**	**-**	**-**	***-3.2***	***-10.4***	***-18.4***	***-25.9***	***-33.0***	***-39.6***	***-45.9***	**-**	***-176.4***
Total (including PDI)	**-**	**-**	**-**	**-**	**-3.3**	**-1.9**	**-1.7**	**-1.4**	**-1.1**	**-0.6**	**-0.4**	**-**	**-10.4**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

Table A3: Increase total funding available through the Australian Infrastructure Financing Facility for the Pacific – Headline cash balance ($m)[(a)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	**Total to 2028-29**	**Total to 2035-36**
Receipts													
Administered non-tax													
Loan interest received	-	-	-	-	*9.1*	*17.8*	*26.2*	*34.1*	*41.6*	*48.8*	*55.5*	-	***233.1***
Loan principal repayments	-	-	-	-	*10.0*	*20.0*	*30.0*	*40.0*	*50.0*	*60.0*	*70.0*	-	***280.0***
Total – receipts	-	-	-	-	**19.1**	**37.8**	**56.2**	**74.1**	**91.6**	**108.8**	**125.5**	-	**513.1**
Payments													
Administered													
Loan principal funded	-	-	-	-	*-200.0*	*-200.0*	*-200.0*	*-200.0*	*-200.0*	*-200.0*	*-200.0*	-	***-1,400.0***
Total – administered	-	-	-	-	***-200.0***	***-200.0***	***-200.0***	***-200.0***	***-200.0***	***-200.0***	***-200.0***	-	***-1,400.0***
Departmental	-	-	-	-									
Australian Infrastructure Financing Facility for the Pacific	-	-	-	-	*-9.2*	*-9.3*	*-9.5*	*-9.6*	*-9.7*	*-9.8*	*-10.0*	-	***-67.1***
Total – payments	-	-	-	-	**-209.2**	**-209.3**	**-209.5**	**-209.6**	**-209.7**	**-209.8**	**-210.0**	-	**-1,467.1**
Total (excluding PDI)	-	-	-	-	**-190.1**	**-171.5**	**-153.3**	**-135.5**	**-118.1**	**-101.0**	**-84.5**	-	**-954.0**
PDI impacts	-	-	-	-	***-3.2***	***-10.4***	***-18.4***	***-25.9***	***-33.0***	***-39.6***	***-45.9***	-	***-176.4***
Total (including PDI)	-	-	-	-	**-193.3**	**-181.9**	**-171.7**	**-161.4**	**-151.1**	**-140.6**	**-130.4**	-	**-1,130.4**

(a) A positive number for the headline cash balance indicates an increase in receipts or a decrease in payments or net capital investment in headline cash terms. A negative number for the headline cash balance indicates a decrease in receipts or an increase in payments or net capital investment in headline cash terms.

\- Indicates nil.

Attachment B – Accounting treatment of loans

Budget impact[3]

The accounting treatment of loans differs across each budget aggregate. The underlying cash balance only captures actual flows of interest related to the loans (which include fees). The headline cash balance captures actual flows of principal as well as interest. The fiscal balance captures accrued interest and any write-offs related to the loans. The interest cost of financing these loans is captured in all budget aggregates, and is separately identified by the PBO.[4] Table B1 provides information about the detail provided in a costing. The provision of loans decreases the Australian Government's net worth if the liabilities issued (the value of Commonwealth Government Securities issued to finance the loans) are greater than the assets created (measured at their 'fair value' or price at which the loans could be sold).

Treatment of debt not expected to be repaid (DNER)

All budget aggregates take into account estimates of the share of loans not expected to be repaid when estimating the value of the concession that is being provided. If a portion of loans are not expected to be repaid, an allowance is made for the expected credit loss on the loans' outstanding balance. Such reductions, both when loans are issued and if loans are subsequently re-valued, are recorded in the budget under 'other economic flows', which are also reflected in net worth.

Table B1: Components of loan financial impacts in costing proposals

Budget item	Appears in	Comments
Interest accrued or received	All budget aggregates	Captures the interest accrued or expected to be received on the fair value of the debt. (The budget cannot include interest income on a debt that is not expected to be repaid.)
Write-offs	Fiscal balance	Debts forgiven, also known as mutually agreed write-downs, are expensed when they occur, reducing the fiscal balance. These transactions do not affect the cash balances as no cash flows occur.
Initial loan; principal repayments	Headline cash balance	Higher estimates of loans not expected to be repaid lowers principal repayments. These transactions are not included in the fiscal balance or underlying cash balance as they involve the exchange of one financial asset (loan) for another (cash).
Public debt interest (PDI)	All budget aggregates	The PDI impact is the cost of the change in the government's borrowing requirements to fund the loans. The net headline cash balance impact excluding PDI is used to estimate the proposal's impact on PDI payments.

[3] The PBO's treatment of these loans is consistent with the Department of Finance costing guidelines.

[4] This is in accordance with *PBO Guidance 02/2015* and the Charter of Budget Honesty Policy Costing Guidelines which specify that costings of proposals that 'involve transactions of financial assets' need to take into account the impact on PDI payments.