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PREFACE

This publication presents comprehensive tables, graphs, commentaries, a feature article and technical notes. It is primarily a reference document, providing a broad basis for analysis and research on the Australian finance sector.

The publication includes statistics on the finance sector enterprises; the finance industry and its role and contribution to the economy in terms of financial intermediation, use of the labour force, labour costs, and contribution to Gross Domestic Product (GDP); some globalisation indicators; and data about the financial markets. The publication also includes statistics on interest rates, exchange rates and Australian Stock Exchange (ASX) indexes and selected international comparisons.

This publication is still under development. The next issue will be released in October 2000 (containing data up to the financial year ended the previous June). The ABS welcomes comments and suggestions on financial data items for inclusion in future releases of this publication. These comments should be addressed to the Director, Balance of Payments, Australian Bureau of Statistics, PO Box 10, Belconnen, ACT, 2616.

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INSTITUTIONAL ARRANGEMENTS AND POLICY

Following publication of the Campbell Report in 1981[1], the Australian finance sector and the financial markets have experienced almost two decades of deregulation both of the participants and in the operations of financial markets. The Campbell Committee made recommendations regarding the following policy areas:

- changes to policy for macroeconomic management;
- removing direct controls on interest rates and portfolio composition;
- strengthening regulations to preserve stability; and
- removal of entry barriers.

In the area of macroeconomic management, the Campbell Report recommended a tender system for the issue of government securities, which was adopted for T-Bonds in 1982. The recommendation to lift Loan Council control on the borrowing by 'market' public authorities was implemented for large semi-government authorities in July 1983. In late October 1983 the arrangements applying to foreign exchange settlements between Australian banks and the Reserve Bank of Australia (RBA), and to dealing between banks and their customers, were changed, and the banks were given the freedom to hold both foreign exchange abroad and limited open spot positions. Subsequently, on 9 December 1983, the Government announced the floating of the Australian dollar. These changes implemented the Campbell recommendations to dismantle the fixed exchange rate and exchange control arrangements. September 1984 saw implementation of the recommendation to abolish minimum holdings of government securities by life companies and superannuation funds. In January 1985, monetary targets were abolished in response to a recommendation to use broader monetary and credit aggregates as alternatives to M3 monetary policy targets.

Regarding controls on interest rates and portfolio composition, quantitative lending controls were largely removed in June 1982; the savings bank specified asset requirement was reduced in August 1982; maturity controls were abolished in August 1984; and the prime assets ratio (PAR) replaced the liquid government securities (LGS) convention in May 1985.

To strengthen the system, the RBA announced in April 1986 that external auditors would be used in bank supervision; in August 1988 the RBA introduced consolidated, risk weighted capital requirements for banks; the *Banking Act 1945* was amended in December 1989 to allow introduction of prudential requirements by regulation; and in 1992 the

1 Australian Financial System Inquiry 1981 (Mr J.K. Campbell, Chairman)

Financial Institutions Scheme commenced and the Australian Financial Institutions Commission was established for the prudential supervision of building societies and credit unions.

Sixteen new licences were issued to foreign banks in 1985 with the removal of entry barriers. In 1992 foreign bank branches were allowed to widen their operations to include all banking activities except retail deposits, and from December 1993 they could also raise offshore funds through non-bank subsidiaries to remove withholding tax disadvantages.

In summary, the 1980s and early 1990s saw barriers to entry to the financial system removed, foreign exchange controls removed and the foreign exchange market deregulated, and direct controls removed on participants' lending activities and lending rates as well as on their asset portfolios. Foreign banks have established in Australia, Australian banks have increased their overseas activities, and foreign exchange market turnover in Australia now exceeds $50 billion a day.

In 1996 the Government established the Financial System Inquiry (the Wallis Committee) which reported in 1997[2]. The recommendations from that Committee's report continue the process of regulatory reform in the Australian financial system. From 1 July 1998 the new financial regulatory framework came into effect. Under the new structure a single prudential supervisor, the Australian Prudential Regulation Authority (APRA) was established to take over responsibility for the supervision of banks, life and general insurance companies and superannuation funds. The Australian Securities and Investments Commission (ASIC) assumed responsibility for market integrity and consumer protection across the financial system. The Reserve Bank retained responsibility for monetary policy and the maintenance of financial stability, including stability of the payments system. The Payments System Board of the Reserve Bank was established on 1 July 1998 to promote both the safety and efficiency of the system.

From 1 July 1999 building societies and credit unions have been supervised by APRA. From that date APRA has supervised the benefit funds of friendly societies under the *Life Insurance Act 1995*, while health benefit funds of friendly societies are regulated by the Private Health Insurance Administration Council under the *National Health Act 1959*. Prior to 1 July 1999 building societies, credit unions and friendly societies were regulated under State legislation. From 1 July 2000 it is expected that APRA will transfer administration of self-managed superannuation funds to the Australian Taxation Office.

Another recent policy measure has been the passage of the *Taxation Laws Amendment Act (No 2) 1999* which: widened the application of the Offshore Banking Unit (OBU) regime (with several new OBUs declared

2 Financial System Inquiry Final Report, March 1997 (Mr Stan Wallis, Chairman)

since then); widened exemption from interest withholding tax for corporate issuers; relaxed the thin capitalisation provisions on Australian subsidiaries of foreign banks; and exempted certain investments in the United States from Foreign Investment Fund measures.

All of these regulatory and policy changes have been targeted at increasing competition and improving market efficiency while maintaining the integrity and security of Australia's financial system.

SUMMARY MARKET INDICATORS

Credit market

Total credit market outstandings (i.e., demand in organised credit markets by the non-financial sectors from unrelated parties, excluding trade credit) rose $161 billion (11%) during 1999 to reach $1,503 billion at 31 December 1999. Net transactions provided $109 billion of the increase; the balance was due to valuation changes. Private non-financial corporations continued to be the sector demanding most credit, raising $62 billion of the net new transactions, with two-thirds of the raisings being through equity issues in Australia. Households also demanded access to significant new credit, raising $48 billion, with three-quarters of that amount raised in loans from resident banks.

For the second year in a row national general government was a net repayer of credit, largely through net redemptions of its bonds on issue but also by reducing the amount of short term security on issue. State and local government was also a net repayer of credit, with net repayments of loans (largely owing to the State central borrowing authorities).

See the *Credit market* section of *Chapter 3, Financial Markets.*

Stock market

Equities trading on the Australian Stock Exchange has increased considerably over the past five years. The number of transactions in 1999 was up 52% on the previous year to reach 10.2 million trades, more than double the level in 1993–94. The number of shares traded in 1999 was 114.0 billion, up 51%. The value of shares traded was also up in 1999 to $306.9 billion (up 20%). See the *Stock market* section of *Chapter 3, Financial Markets*.

Money market

Interest rates in the money market rose during 1999, with 11.00am call rates up from 4.80% to 5.01% by 31 December 1999, and bank-accepted 90 day bill rates up from 4.80% to 5.65%. Money market securities include bills of exchange and promissory notes (one name paper). Banks remained the largest issuers of short-term debt securities in 1999, with the amount on issue rising 15% to $176 billion. Banks also increased their holdings of short-term paper, but at a lower rate (up $10 billion or 10%) to increase banks' net indebtedness in this market. On the other hand, while private non-financial corporations increased slightly the total amount of their short term paper (mainly bills), they also significantly

Money market *continued*

increased holdings of banks' one name paper to reduce their net debt in short term instruments by $10 billion overall. The rest of the world increased its net investment in these short-term securities by $9 billion.

See the *Money market* section of *Chapter 3, Financial Markets.*

Bond market

Outstandings in the bond market fell slightly (3%) during 1999 to be $354 billion at 31 December 1999. National general government was the sector to show the most significant decline in bonds outstanding, down 17% to $80 billion at year end. Turnover in national government bonds also declined on the previous year.

The most significant increases in bond outstandings held by residents was for bonds issued by banks, up 15% to $62 billion, and other bonds issued offshore by non-residents, up 9% to $38 billion at 31 December 1999.

See the *Bond market* section of *Chapter 3, Financial Markets*.

Foreign exchange

Australia's over the counter (OTC) foreign exchange market is the world's ninth largest, and the Australian dollar is the world's seventh most actively traded currency, with over half the trading by resident dealers being transacted with banks abroad. The Australian foreign exchange market is also the largest financial market in Australia, with average daily turnover during 1999 of $53 billion, down 26% on the previous year's very high $71 billion. Turnover had peaked at a daily average of about $90 billion over the five months from June 1998 to October 1998, when the Australian dollar was at its lowest level against the United States dollar since mid 1986, but decreased to around $70 billion a day by June 1999 and fell further in the latter part of 1999. See the Foreign exchange section of *Chapter 3, Financial Markets*.

Derivatives

Australia's exchange traded interest rate derivatives market in 1999 was down 2% on the previous year but is still the seventh most heavily traded in the world. Ten year bonds and 90-day bills accounted for the slip in volume, while the 3 year bond futures and options both rose. The all ordinaries share price index futures and options also posted volume gains in 1999.

The OTC interest rate derivatives market in Australia is less significant both globally and locally than the exchange traded business. Unlike the OTC market for foreign exchange which has more than half of the business undertaken with banks overseas, only one fifth of the turnover in interest rate products is with banks abroad.

Funds under management

The total funds under management with Australian investment managers, or being managed by managed funds institutions in Australia, at 31 December 1999 was $646 billion, up 15% on the previous December, and up more than 60% on the level three years earlier at 31 December 1996. The consolidated assets of managed funds institutions account for $550 billion of these assets at 31 December 1999, with the remaining $96 billion being funds managed by Australian investment managers on behalf of a range of domestic investors and overseas clients. See *Chapter 4, Funds under management*.

FEATURE ARTICLE

AUSTRALIA'S INTERNATIONAL BANKING STATISTICS

INTRODUCTION

For many years the Bank for International Settlements (BIS) has been publishing a range of statistics relating to the cross-border investment positions of banks. The series have expanded over time as the policy concerns have evolved, extending from purely international banking statistics to include data on international securities markets as well.

The BIS international banking statistics are organised around two basic collection approaches. The first is 'locational', collecting quarterly data based on the residence of all banking offices located within a reporting economy. That is, all offices within a reporting economy report on their own (unconsolidated) business, without regard to whether the business is either owned by a foreign parent/head office, or whether it maintains branches or subsidiaries abroad. The reporting therefore includes cross-border positions with affiliated entities abroad. These data align broadly, in terms of the concept of residency of counterparties, to the residency concept that underlies the international statistical standards for balance of payments (BOP) and international investment position (IIP) statistics[1]. Today 24 economies report international banking and securities information quarterly to the BIS.

The second approach is to collect 'consolidated' banking statistics from 18 major industrialised countries on a worldwide consolidated basis. Some of these countries already report on a quarterly basis, with most expected to do so for data ended from December 1999. The consolidated reporting measures international bank assets according to the country of ownership of the banks, including the cross-border claims on and liabilities to individual countries of all the offices world wide of those head offices in reporting countries, but excluding positions between different offices of the same bank.

Until fairly recently, Australia has not had in place the data collections necessary to support either of the BIS reporting requirements.

Expanded Australian Bureau of Statistics (ABS) data collection

The ABS for many years has been publishing a wide variety of international investment statistics. The published data include the quite detailed requirements for international investment position statistics recommended in the IMF's *Balance of Payments Manual* (BPM5)[2]. These statistics include the type of investment capital (direct, portfolio, reserve assets, other), the investment instrument used to make the investment (bond, money market instrument, loan etc.), the domestic sector issuing the instrument or holding the claim on a non-resident, the original contractual maturity of the investment, the drawings and repayments under certain instruments, and the investment income earned on these various instruments.

1 International Monetary Fund, Balance of Payments Manual, Fifth Edition, Washington DC, 1993

2 op. cit.

In addition, the ABS also publishes total foreign assets and liabilities by the industry of the Australian issuer or holder.

Foreign debt assets and liabilities are published by domestic sector further split between public and private ownership, and for liabilities, by where the instruments were issued (Australia or abroad). Debt assets and liabilities are also published by currency and residual maturity.

Finally, fairly broad dissections of instrument detail within the types of capital identified in BPM5 are also classified by the country of counterparty for both investment transactions and the international investment position.

Few countries match the detail provided for Australia's international investment position statistics.

Recent international focus on financial crises around the world, and prospects for anticipating, preventing or ameliorating the impact of future crises, have all emphasised the need for transparency in many areas of policy and statistical measurement. Among these has been the focus on the external positions of financial institutions. The BIS data provide information not only on the exposure of individual economies financial institutions to debtor economies (already largely available from Australia's statistical system), but also by aggregation the liability of debtor economies to the global banking system. (The BIS reporting is currently from 18 of the main creditor countries).

The global benefits of Australia being able to participate in BIS reporting are recognised. As part of the redevelopment of the ABS Survey of International Investment (SII), to meet the requirements of implementing the recommendations of then new international statistical standards for balance of payments (BOP) and international investment position (IIP) statistics[3], the prospects of meeting some BIS requirements from additional cross-classifications of the IIP data were considered. The additional financial instrument detail being collected by the ABS from the September quarter 1996, and the identification of non-resident financial intermediary counterparties for some of those instruments, meant that much of the BIS locational statistics requirements could be met.

The ABS did not immediately take on board the requirements for consolidated global reporting by banks in its collections. Consolidated reporting is required for certain prudential regulatory purposes, and it is on this basis that the BIS consolidated reporting requirements were developed. In Australia's context, with a changing regulatory framework, it was decided not to pursue expanded statistical reporting until the future prudential reporting requirements were known. The ABS is now

3 op. cit.

Expanded Australian Bureau of Statistics (ABS) data collection *continued*

working with both the Reserve Bank of Australia and the new banking supervisor, the APRA, to develop longer term coordinated data collection arrangements across the finance and insurance industry.

What the Australian locational data adds to the BIS statistics

While a detailed analysis of Australia's international investment statistics is already possible, this form of analysis is not quite the same as provided in BIS statistical summaries, and therefore does not readily lend itself to aggregations of debtor country liabilities across the global banking system.

International users can currently analyse the BIS international banking statistics to observe the total liabilities of individual countries to the banking systems in the BIS reporting countries. As well as being a good and cost effective way to get the information, such creditor database approaches are often seen as more reliable and more timely than accessing debtor country information on a consistent basis.

By adding Australia's data to the BIS system, its users will have ready access to Australia's information on a basis consistent with the other reporting economies, and obtain an improved perspective on the total liabilities of many other economies to the global banking system. The following examples illustrate the improvements that clients will see once the Australian data are included in the BIS data sets.

Australia's BIS tables

The BIS has reviewed sample ABS output locational banking statistics and has concluded that it will be adequate to satisfy BIS reporting requirements in future and be included in the published BIS banking statistics in the second half of 2000 for use in analyses of the global banking system.

Table A below presents the international claims of Australia's depository corporations i.e., Australia's 'bank' claims against the rest of the world, that meet the broad requirements for locational claims information to be reported to the BIS. While most of the country details can be shown for total claims, once the information is cross-classified by instrument, many of the country cells need to be suppressed to protect the confidentiality of the businesses providing the information.

The BIS also requests that these data be further cross-classified by the currency of the claims. The ABS data can only be cross-classified by currency at the total instrument level and not also by country.

There are some limitations to the data footnoted on the tables. In particular, a bank/non-bank split of foreign liability issuers can only be provided for loans and deposits and permanent debt liabilities held in a direct investment relationship (the key focus of the banking statistics analysis and which accounts for two-thirds of Australian bank claims on the rest of the world).

Table A shows that while we have significant bank claims against New Zealand (which is not a BIS reporting economy) much of Australian banks' foreign claims are against BIS reporting economies. Comparison with these countries' BIS data may help improve the understanding and analysis of the information, and also offers some prospect of improving the quality of information being compiled.

As would be expected, most of the Australian bank claims on the rest of the world are denominated in foreign currencies, and the US dollar and the UK pound are the most significant of these.

To complete its picture of the 'international' position of Australian banks, the BIS asks not only for the banks claims on and liabilities to non-residents, but also for foreign currency positions with residents. This information, shown as memorandum items to tables A and B, is only available for resident deposits (about US$7 billion) and loans to residents (US$10 billion).

A INTERNATIONAL CLAIMS OF AUSTRALIAN DEPOSITORY CORPORATIONS—AS AT 30 SEPTEMBER 1999(a)

	Total all instruments			Loans and deposits				
	Total	On banks(b)	On non-banks(b)	Total	On banks(b)	On non-banks(b)	Debt securities	Other assets
Economy	$USm	$USm	$USm	$USm	$USm	$USm	$USm	$USm
Belgium and Luxembourg	n.p.	n.p.	—	n.p.	n.p.	—	—	—
Brunei	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	—	—
Canada	131	n.p.	n.p.	107	n.p.	n.p.	24	—
Central America and Caribbean	258	182	76	n.p.	n.p.	76	n.p.	—
Chile	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	—	—
China, Peoples Republic of	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.
Fiji	n.p.	n.p.	—	—	—	—	—	n.p.
France	73	73	—	45	45	—	n.p.	n.p.
Germany	1 568	n.p.	n.p.	1 474	n.p.	n.p.	n.p.	n.p.
Greece	1	1	—	2	2	—	—	—
Hong Kong (SAR of China)	843	458	385	746	361	385	n.p.	n.p.
Indonesia	169	97	72	n.p.	n.p.	72	—	n.p.
Ireland, Republic of	n.p.	n.p.	—	n.p.	n.p.	—	—	—
Italy	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	—	—
Japan	549	432	117	294	177	117	85	169
Korea, Republic of	237	n.p.	n.p.	162	n.p.	n.p.	n.p.	n.p.
Malaysia	60	38	22	50	28	22	n.p.	n.p.
Mexico	—	—	—	—	—	—	—	—
Netherlands	159	n.p.	n.p.	142	n.p.	n.p.	n.p.	n.p.
New Zealand	4 516	3 757	759	3 358	2 599	759	348	810
Papua New Guinea	336	52	284	n.p.	n.p.	284	—	n.p.
Philippines	93	n.p.	n.p.	30	n.p.	n.p.	n.p.	n.p.
Singapore	2 746	2 566	180	2 547	2 367	180	n.p.	n.p.
South Africa	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	—	—
Sweden	n.p.	n.p.	—	n.p.	n.p.	—	n.p.	—
Switzerland	96	96	—	n.p.	n.p.	—	—	n.p.
Taiwan	18	n.p.	n.p.	n.p.	n.p.	n.p.	—	n.p.
Thailand	166	2	164	n.p.	n.p.	164	—	n.p.
United Kingdom	9 386	8 335	1 051	5 086	4 035	1 051	27	4 273
United States of America	7 555	5 420	2 135	3 811	1 676	2 135	304	3 440
Africa n.e.s.	206	165	41	206	165	41	—	—
America n.e.s.	44	n.p.	n.p.	44	n.p.	n.p.	—	—
Asia n.e.s.	n.p.	n.p.	n.p.	90	n.p.	n.p.	—	n.p.
Europe n.e.s.	193	n.p.	n.p.	193	n.p.	n.p.	—	—
Oceania n.e.s.	34	n.p.	n.p.	n.p.	n.p.	n.p.	—	n.p.
International capital markets	n.p.	n.p.	—	n.p.	n.p.	—	n.p.	n.p.
Unallocated	3 636	5 211	902	3 163	3 907	902	773	1 269
Total	33 073	26 885	6 188	21 550	15 362	6 188	1 561	9 961
Of which								
Australian dollars	4 948	3 135	1 813	4 193	2 380	1 813	n.p.	n.p.
Foreign currency	28 125	23 750	4 375	17 351	12 976	4 375	n.p.	n.p.
United States dollars	14 057	10 443	3 614	10 057	6 443	3 614	549	3 451
Euro	267	n.p.	n.p.	214	n.p.	n.p.	n.p.	n.p.
Japanese yen	457	402	55	142	87	55	n.p.	n.p.
United Kingdom pound	6 393	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	4 268
Swiss franc	140	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.
Other	6 811	6 249	562	4 718	4 156	562	n.p.	n.p.
Memorandum item								
Foreign exchange claims on residents	9 729	n.a.	n.a.	9 729	n.a.	n.a.	n.a.	n.a.

(a) Includes all financial instruments except derivatives.

(b) A non-resident bank/non-bank split is only available for loans, currency and deposits, and direct investment permanent debt securities.

Source: ABS international investment and financial accounts statistics.

B INTERNATIONAL LIABILITIES OF AUSTRALIAN DEPOSITORY CORPORATIONS—AS AT 30 SEPTEMBER 1999(a)

	Total all instruments			Loans and deposits				
	Total	To banks(b)	To non-banks(b)	Total	To banks(b)	To non-banks(b)	Debt securities	Other liabilities
Economy	$USm	$USm	$USm	$USm	$USm	$USm	$USm	$USm
Belgium and Luxembourg	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.
Brunei	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	—	—
Canada	215	208	7	n.p.	n.p.	7	—	n.p.
Central America and Caribbean	n.p.	n.p.	n.p.	5	n.p.	n.p.	n.p.	n.p.
Chile	—	—	—	—	—	—	—	—
China, Peoples Republic of	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	—	n.p.
Fiji	n.p.	n.p.	n.p.	24	n.p.	n.p.	n.p.	—
France	563	533	30	199	169	30	n.p.	n.p.
Germany	2 895	n.p.	n.p.	1 715	n.p.	n.p.	n.p.	n.p.
Greece	5	n.p.	n.p.	5	n.p.	n.p.	—	—
Hong Kong (SAR of China)	8 541	7 926	615	1 869	1 254	615	6 244	428
Indonesia	179	45	134	179	45	134	—	—
Ireland, Republic of	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	3
Italy	39	n.p.	n.p.	n.p.	n.p.	n.p.	—	n.p.
Japan	6 945	5 956	989	3 705	2 716	989	1 823	1 417
Korea, Republic of	622	n.p.	n.p.	n.p.	n.p.	n.p.	—	n.p.
Malaysia	337	271	66	305	239	66	n.p.	n.p.
Mexico	n.p.	n.p.	—	—	—	—	—	n.p.
Netherlands	4 294	4 264	30	n.p.	n.p.	30	n.p.	489
New Zealand	1 472	1 216	256	817	561	256	108	547
Papua New Guinea	102	26	76	102	26	76	—	—
Philippines	329	n.p.	n.p.	329	n.p.	n.p.	—	—
Russian Federation	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	—	—
Singapore	7 300	4 556	2 744	6 004	3 260	2 744	n.p.	n.p.
South Africa	45	n.p.	n.p.	41	n.p.	n.p.	n.p.	n.p.
Sweden	36	36	—	n.p.	n.p.	—	—	n.p.
Switzerland	610	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	224
Taiwan	360	187	173	n.p.	n.p.	173	—	n.p.
Thailand	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	—	—
United Kingdom	37 908	32 591	1 753	9 850	8 097	1 753	18 840	9 218
United States of America	28 653	23 810	2 533	11 684	9 151	2 533	10 219	6 750
Africa n.e.s.	11	1	10	11	1	10	—	—
America n.e.s.	1	n.p.	n.p.	n.p.	n.p.	n.p.	—	n.p.
Asia n.e.s.	682	627	55	n.p.	n.p.	55	—	n.p.
Europe n.e.s.	403	n.p.	n.p.	n.p.	n.p.	n.p.	n.p.	255
Oceania n.e.s.	n.p.	n.p.	30	n.p.	n.p.	30	n.p.	—
International capital markets	25 084	25 084	—	—	—	—	n.p.	n.p.
Unallocated	16 362	23 864	3 291	10 897	9 430	3 291	35 247	4 440
Total	143 993	131 201	12 792	47 741	34 949	12 792	72 481	23 771
Of which								
Australian dollars	56 643	51 430	5 213	13 641	8 428	5 213	19 298	23 705
Foreign currency	87 350	79 771	7 579	34 100	26 521	7 579	53 183	67
United States dollars	59 641	53 563	6 078	n.p.	n.p.	6 078	36 075	n.p.
Euro	2 122	n.p.	n.p.	72	n.p.	n.p.	2 049	—
Japanese yen	7 948	7 211	737	4 381	3 644	737	3 567	—
United Kingdom pound	4 348	n.p.	n.p.	1 274	n.p.	n.p.	3 074	—
Swiss franc	1 002	1 002	—	52	52	—	950	—
Other	12 289	11 635	654	n.p.	n.p.	654	7 469	n.p.
Memorandum item								
Foreign exchange liabilities to residents	7 177	n.a.	n.a.	7 177	n.a.	n.a.	n.a.	n.a.

(a) Includes all financial instruments except derivatives.

(b) A non-resident bank/non-bank split is only available for loans, currency and deposits, and direct investment permanent debt securities.

Australia's BIS tables

Table B shows that for loans and deposits liabilities to banks abroad, the BIS reporting area is very significant. Such liabilities to non-banks abroad are predominantly concentrated in the BIS reporting area but confidentiality for many of the individual countries means that the significance is not obvious.

Unlike the Australian bank claims, in the Australian bank liabilities the Australian dollar is much more significant. Much of the deposit liabilities and virtually all of the equity, trade credit and miscellaneous account liabilities (together shown as 'other' liabilities) to the rest of the world are denominated in Australian dollars. A little over one quarter of the debt security liabilities are denominated in Australian dollars. Within the foreign currency liabilities, the US dollar and Japanese yen account for over three quarters of the position.

Comparing BIS information with Australia's liabilities to and claims on the world banking system

The BIS 'banking' system covers the reporting by depository corporations other than the central banks of reporting economies. This broad concept of banks is consistent with the depository corporations sector in ABS statistics. The term 'banks' is used in this context in the remainder of this article.

The BIS data also cover all forms of financial instruments (debt and equity) covered in BPM5 recommendations for IIP statistics except financial derivatives (which are the subject of separate BIS investigation and reporting).

The BIS reporting of locational statistics therefore currently captures most of the liabilities of Australian residents to BIS-reporting depository corporations. At 30 September 1999 the BIS estimated the level of such Australian liabilities at US$75 billion. This compares with the total Australian liabilities to the rest of the world of US$144 billion as measured by the ABS. The differences between the two measures relate largely to the scope and coverage of the BIS data. In particular, it indicates the extent of liabilities to investors other than BIS banks.

The differences between the ABS and BIS locational data sets can be best illustrated by first focussing on those elements in the data sets that are similar. Australian bank loan and deposit liabilities to non-resident bank creditors (almost all BIS banks) at 30 September 1999 was US$34.9 billion (see table B above), which is US$0.8 billion below the level of claims identified by BIS reporting banks. Most of this difference is expected to be in the definition of 'loans' used by the BIS. These differences primarily relate to securities repurchase agreements and trade bills.

The BIS definition of loans includes bank claims under securities repurchase agreements (or repos) and certain trade bills. In ABS statistics, repurchase agreements are regarded as outright securities transactions. That is, if an Australian bank sells a Commonwealth Government security under repo to a BIS bank, the ABS records the security transaction as an increase in Australian Government liabilities to the rest of the world, whereas the BIS will show the cash proceeds of the transaction as a loan extended to the Australian bank until the securities are returned for cash. The Australian repo market is large, with $3,000 billion or so in annual turnover. The average amount outstanding in the Australian repo market was probably about US$25 billion to US$30 billion in mid 1999[4], of which about US$1 billion may have been booked with offshore counterparties (although the amount at any point may be much larger or lower).

Trade bills, for example, bills of exchange drawn by foreign suppliers on resident companies to cover Australian imports, and which are accepted by Australian banks, will be recorded as securities liabilities in ABS statistics. In the BIS data, these amounts are classified as loan liabilities of the Australian banks. The BIS reporting bank holders will record Australia as the final debtor based on either the residency of the drawee (the BIS recommended treatment) which may also imply attributing the liability to the sector of the drawee as well, or the residency of the accepting bank. In either case it will be Australia, but it is probable that many of the reporting banks will classify the positions as claims on Australian banks. It is the Australian banks' acceptance of the bills that makes them an acceptable security in the international bill market. At 30 September 1999 Australian banks accepted bill liabilities to the rest of the world were about US$9.3 billion, some of which will have been held by BIS reporting banks.

BIS 'loan' claims against non-bank Australian residents (i.e., all claims except for securities) were reported at US$14.1 billion at 30 September 1999. In contrast, ABS data show only about US$6 billion in the more specific instrument for loan liabilities to banks in the BIS reporting area. Part of the difference between ABS and BIS measures may again lie in BIS reporting banks classifying some of Australia's substantial bill liabilities to the sector of the drawee (i.e., the Australian importer) rather than to the sector of the reporting bank. Part of the difference will also lie in the repo activity of Australian insurance and pension funds 'selling' securities under repurchase agreements that BIS banks will report as loans to Australia. Part of the difference lies in the trade credit and other liabilities of Australian non-bank debtors (totalling US$7 billion) that are partly captured in the BIS definition of loans and for which the ABS cannot separately identify bank creditors from other creditors.

4 Based on data on repo outstandings shown in the *1999 Australian Financial Markets Report* published by Australian Financial Markets Association.

The BIS reporting banks show debt securities and other claims against issuing banks in Australia of only US$14 billion at 30 September 1999. At the same time in ABS data for Australian banks, security liabilities to BIS reporting areas of about US$70 billion are measured (out of total bank security liabilities to all countries of US$72.5 billion shown in table B). These amounts include Australian bank accepted bill liabilities to the rest of the world (US$9.3 billion). Other liabilities of Australian banks amount to a further $23.8 billion, again with most of the amount owed to BIS countries. However, the ABS cannot identify the type of non-resident holder of any of these securities or other claims. In some cases, the securities are held by nominees on behalf of unidentified non-resident clients. In other cases, the securities are issued into international capital markets and the country of holder of the security is not known. However, in most cases the securities will be held by non-resident institutional investors (for example, insurance corporations and pension funds) rather than BIS banks.

The debt securities and other claims of BIS reporting banks against non-banks in Australia are only US$11.8 billion at 30 September 1999. However, the debt securities liabilities of Australian non-banks to the rest of the world, which are not part of the BIS reporting system, are very much larger at about US$78 billion. The ABS cannot identify the BIS bank holders of these securities. Much of the debt is issued into international capital markets. A significant proportion is issued domestically and held by nominees on behalf of non-residents, again without identification of the sector of the non-resident. It is probable that most of the debt securities will be held by non-bank investors. Some of the debt is also held outside the BIS reporting area. Much of the residual 'other' liabilities of non-banks in Australia are for trade credit which has been extended by suppliers and will not be in the BIS reporting system.

On the Australian claims side, in the ABS data the reported loan and deposit claims of Australian banks on banks in identified BIS reporting areas are US$10.6 billion (out of total loan and deposit claims against all foreign banks of US$15.4 billion shown in table A above). In addition, there are claims of US$0.4 billion that can only be allocated to broad continent groupings (which may be positions with BIS reporting areas) and a further US$1.1 billion that is not allocated to any specific country (i.e., it is reported as 'other'). These results compare with a slightly higher BIS-reported 'deposit' liability of US$17.7 billion to Australian banks. Once again, the BIS data will include liabilities under repos (where the BIS bank has sold securities to Australian banks under a commitment to repurchase them), and may include bill liabilities of non-residents that are held by Australian banks as securities but that have been accepted by BIS banks.

BIS banks identify 'deposit' liabilities of US$10.8 billion to non-bank Australian residents. The ABS identifies deposit claims by these residents of only US$1.6 billion. Again, the repo liabilities of BIS banks to Australian insurance corporations and pension funds will boost the BIS total, as will Australian export bills reported in ABS data as securities

Comparing BIS information with Australia's liabilities to and claims on the world banking system *continued*

holdings, but if accepted by a BIS bank will be reported as BIS bank liabilities. Some part of the difference may also relate to households in Australia maintaining bank accounts abroad, which are not captured in ABS measures of Australia's foreign assets.

Further information

For further information about these banking statistics and future reporting to the BIS of the information included in the tables in this article as well as data on a 'nationality' basis (reflecting the ownership of the Australian resident banks), please contact Michael Davies on Canberra 02 6252 5601, or fax 02 6252 6164 or email michael.davies@abs.gov.au.

CHAPTER 1 THE ROLE OF THE FINANCE SECTOR AND MARKETS IN THE AUSTRALIAN ECONOMY

INTRODUCTION

The Australian financial sector performs a pivotal role in providing credit to all other sectors in the Australian economy. How well it performs that role (i.e., how well the system works) can determine how well the rest of the Australian economy fares in both the short and longer term. Australia has experienced the impact of credit contractions in the past, and more recently observed the implications of financial crises in other economies in the region and further abroad. A well functioning financial sector is essential in financing the operations of the local economy through both intermediation (i.e., borrowing the money from one sector to on-lend to another) and through auxiliary financial services such as securities broking and loan flotation, where the financial enterprise arranges the smooth processes of funding but does not step between the borrower and lender.

WHAT IS THE FINANCE SECTOR?

In this publication the **finance sector** is defined in terms of the 1993 edition of the *System of National Accounts* (SNA93), published under the auspices of the Commission of the European Communities, the International Monetary Fund, the Organisation for Economic Cooperation and Development, the United Nations, and the World Bank. The sector consists of all resident corporations principally engaged in financial intermediation (i.e., incurring liabilities in order to acquire financial assets through market transactions), or in auxiliary financial activities closely related to financial intermediation. The composition of the finance sector is shown below:

- Financial Corporations:
  - Central bank
  - Depository corporations:
    - Banks
    - Other depository corporations
  - Insurance corporations and pension funds:
    - Life insurance
    - Pension funds (generally superannuation funds in Australia)
    - Other insurance corporations
  - Other financial corporations:
    - Central borrowing authorities
    - Financial intermediaries n.e.c.
    - Financial auxiliaries

The central bank is essentially the Reserve Bank of Australia (RBA), although the classification also covers the regulation of the financial system (which includes the prudential supervision of banks, life and general insurance companies, superannuation funds, building societies, credit unions and friendly societies) undertaken by the Australian Prudential Regulation Authority (APRA). Banks includes all institutions registered under the *Banking Act 1959*, while other depository

corporations covers building societies, credit co-operatives, money market corporations, pastoral finance companies, finance companies, general financiers and cash management trusts.

Financial intermediaries n.e.c. includes corporations, other than depository and insurance corporations and pension funds, engaged in financial intermediation. These intermediaries raise funds in forms other than deposit liabilities and include common funds, financial unit trusts, securitisers, investment companies, co-operative housing societies and other corporations involved in financial leasing, hire purchase and the provision of personal and consumer credit.

Financial auxiliaries do not engage in financial intermediation but in closely related activities. They include securities brokers, loan brokers, flotation corporations, insurance brokers, and other corporations that arrange on a fee for service basis, but do not stand as principal in, a variety of financial hedging transactions.

The **finance and insurance industry** (Division K in the Australian and New Zealand Standard Industrial Classification, or ANZSIC) is defined somewhat differently but essentially includes the same units as the finance sector, and for the analyses in this publication the sector and industry are treated synonymously although they are identified separately in some tables. The finance sector is defined to include all *institutional units*, which will be separate legal entities, engaged primarily in the activities of finance. The finance and insurance industry, on the other hand, is defined in terms of all *management units* engaged in the activities of finance.

Management units may be formed by their owners for practical management purposes across several legal entities within a group corporate structure, or be components of a single legal entity. Generally, the supervision and other reporting and regulatory arrangements in place in Australia mean that, overwhelmingly, the management units that should be assigned to the finance and insurance industry will be legal entities that are also institutional units that should be assigned to the finance sector, and the sector and industry can be viewed synonymously. In practice, the ABS register of businesses has classified some head office operations of non-financial corporations to the finance industry so that some business survey measures (principally counts of the number of very small businesses appearing to be engaged in finance industry activities) are affected, but none of the principal measures of finance industry activity is affected.

In some contexts (such as considering the phenomenon of the City of London as a centre for global finance) a wider perspective needs to be taken to incorporate not only the finance sector but also the business services that support its operation. A range of such non-financial businesses, classified in ABS statistics both to their appropriate industries in ANZSIC and to the non-financial sector, are engaged in communications, computing, accounting, legal and other business support services that are essential to the operation of the Australian

WHAT IS THE FINANCE SECTOR? *continued*

finance sector. While the activities of these industries are covered in a range of ABS publications, this publication's focus is on the finance sector and does not incorporate statistics for other business services. Input-output tables are useful in understanding the extent to which these industries support the finance and insurance industry.

THE FINANCE AND INSURANCE INDUSTRY AND THE REAL ECONOMY

A strong and growing finance sector also adds value to the financial intermediation and support processes, employing residents in Australia. In the 18 years since the Campbell Report was published, the finance and insurance industry's value added (in volume terms) has grown strongly, up 157% compared to economy-wide growth of 83% in the same period. Over each of the last five calendar years the finance and insurance industry has grown more quickly than the economy as a whole, and in 1999 both year on year growth and through year growth for this industry were much higher than for Australia as a whole.

1.1 FINANCE AND INSURANCE INDUSTRY VALUE ADDED, CHAIN VOLUME MEASURES(a)

	1981	*1995*	*1996*	*1997*	*1998*	*1999*
Finance and insurance						
Industry value added ($m)	14 833	29 105	31 210	33 905	36 042	38 049
Year on year growth (%)	5.8	6.0	7.2	8.6	6.3	5.6
Share of GDP (%)	4.5	5.7	5.9	6.1	6.2	6.3
Total						
Gross domestic product ($m)	331 391	510 446	530 748	551 293	579 470	604 914
Year on year growth (%)	3.9	4.4	6.1	3.9	5.1	4.4

(a) At basic prices. Reference year for chain volume measures is 1997–98.

Source: Australian National Accounts: National Income, Expenditure and Product (Cat. no. 5206.0).

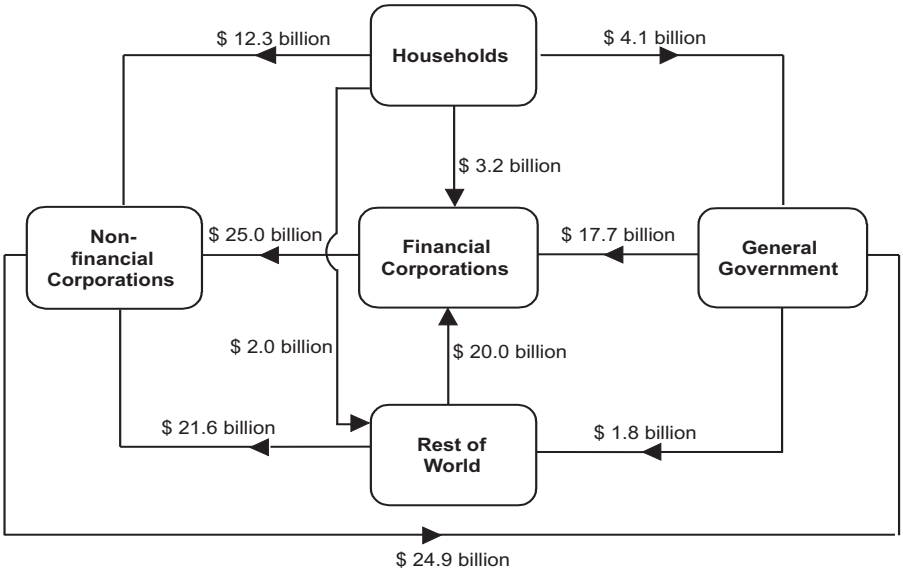
The finance and insurance industry employs over 300,000 people, providing job opportunities and productivity growth. In the last five years, output per hour worked in the industry (in chain volume terms, with reference year 1997–98) has increased by 33%, well above the economy wide average of 16%. Few industries can match that performance. See *Chapter 7, Industry indicators*, for more details.

THE FINANCIAL SYSTEM

The financial system in Australia can be thought of as having three overlapping components. The first component consists of financial enterprises (such as banks) and regulatory authorities, the Reserve Bank and the APRA. The second consists of financial markets (for example, the bond market) and their participants (issuers such as governments, and investors such as superannuation funds). The third is the payments system—that is, the cash, cheque and electronic means by which payments are effected—and its participants (for example, banks). The interaction of these components enables funds for investment or consumption to be made available from savings in other parts of the national or international economy. The following diagram provides an overview of the flows of capital through the financial system. It illustrates the net financial flows between sectors during 1999. The arrows show the net flow

from lenders to borrowers. For example, there is a $3.2b net flow from households to financial corporations. There is also a $12.3b net flow from households to non-financial corporations.

INTER-SECTORAL FINANCIAL FLOWS DURING THE YEAR 1999



In the global financial market, Australia has been a net importer of financial capital in every year since 1972–73 (and in most years prior to then as well), and the diagram above illustrates the large flows in 1999 from the rest of the world to both financial and non-financial corporations. The nature of that inflow has changed over time as the finance industry has been deregulated and the finance sector has played a larger role in intermediating the inflows. See *Chapter 6, International accounts and globalisation indicators*, for more details.

Subsequent chapters provide a summary of the structure and activities of the three financial system components as they function currently. However, the structure and activities will continue to evolve as a result of both changing regulatory arrangements and deregulatory processes.

CHAPTER 2 FINANCIAL ENTERPRISES

Financial enterprises are institutions which mainly engage in financial intermediation and provision of financial services, for example, by taking deposits, borrowing and lending, providing superannuation, supplying all types of insurance cover, leasing, and investing in financial assets.

For national accounting purposes, financial corporations are grouped into Depository corporations, Life offices, Pension funds, Other insurance corporations, Central borrowing authorities and Financial intermediaries. Depository corporations are those which are included in the Reserve Bank of Australia's broad money measure (see *Money supply measures* in *Chapter 5, Money and the payments system*, for more details). The Reserve Bank itself is a depository corporation; authorised depository institutions are those supervised by APRA and include banks, building societies and credit unions; non-supervised depository corporations registered under the Financial Corporations Act include merchant banks, pastoral finance companies, finance companies and general financiers; and cash management trusts are also included in depository corporations. Life insurance corporations and Pension funds cover the statutory funds of life offices, separately constituted pension funds (generally superannuation funds in Australia), approved deposit funds, friendly societies and long-service-leave boards. The other financial institutions cover health, export and general insurance companies, common funds, mortgage, fixed interest and equity unit trusts, issuers of asset-backed securities, economic development corporations, cooperative housing societies and credit union leagues.

Table 2.1 shows the relative size of these groups of financial enterprises in terms of their financial assets. This table has been compiled on a consolidated basis, that is, financial claims between institutions in the same grouping have been eliminated. The total is also consolidated, that is, financial claims between the groupings have been eliminated. For this reason, and because there are a number of less significant adjustments made for national accounting purposes, the statistics in this summary table will differ from those presented later in this chapter and published elsewhere.

2.1 FINANCIAL ASSETS OF FINANCIAL INSTITUTIONS

	Depository Corporations								
	Reserve Bank	*Banks*	*Other*	*Life insurance corporations*	*Pension funds*	*Other insurance corporations*	*Central borrowing authorities*	*Financial intermediaries n.e.c.*	***Consolidated total***
At 31 December	*$b*	*$b*	*$b*	*$b*	*$b*	*$b*	*$b*	*$b*	*$b*
1995	37.5	394.8	132.2	n.a.	n.a.	n.a.	n.a.	n.a.	**n.a.**
1996	42.8	505.1	143.5	134.0	233.6	43.9	97.6	103.5	**1 304.0**
1997	41.0	549.8	166.9	156.0	279.3	57.6	97.5	144.6	**1 492.7**
1998	45.3	619.1	175.4	165.6	315.6	63.0	95.2	142.6	**1 621.8**
1999	49.1	683.2	178.2	176.6	385.3	65.5	92.7	187.7	**1 818.3**

Source: Australian National Accounts: Financial Accounts (Cat. no. 5232.0).

BANKS

Before 1959, central banking business was the responsibility of the Commonwealth Bank. The *Reserve Bank Act 1959* established the Reserve Bank of Australia as the central bank. From 1959 the Reserve Bank was responsible for the supervision of commercial banks; from 1 July 1998 APRA assumed responsibility for bank supervision. From that date the Reserve Bank retains responsibility for monetary policy and the maintenance of financial stability, including stability of the payments system.

Banks are the largest deposit-taking institutions in Australia, taking 71% of all deposits held in Australia and 70% of all deposits made by Australian residents as at 31 December 1999. At the end of December 1999 there were 50 banks operating in Australia. All are authorised to operate by the *Banking Act 1959*. Four major banks: the Australia and New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation, account for nearly two thirds of the total assets of all banks. These four banks provide widespread banking services and an extensive retail branch network throughout Australia. The remaining banks provide similar banking services through limited branch networks often located in particular regions. As at 30 June 1999, banks operated 5,358 branches and 6,528 agencies. Of the total branches, 3,047 were located in metropolitan areas. Banking facilities were also available at 2,852 metropolitan agencies throughout Australia. Banking services were also provided at 2,724 giroPOST locations and 9,387 automatic teller machines throughout Australia.

The banking subsector is also the largest contributor to Australia's credit market, holding 35% of all debt and equity liability outstandings of non-financial domestic sectors as at 31 December 1999. The rest of the world is the next largest extender of credit to these non-financial sectors, holding 22% of the outstandings at end December 1999.

As at 31 December 1999, $34.6 billion of banks' issued equity (at market prices) was held by non-resident investors. This amounted to 30% of total bank equity capital on issue, up from 28% three years earlier, and 21% six years ago.

The liabilities and financial assets of the Reserve Bank are set out in table 2.2. The liabilities and financial assets of the banks operating in Australia are shown in table 2.3.

2.2 RESERVE BANK OF AUSTRALIA, FINANCIAL ASSETS AND LIABILITIES

	Amounts outstanding at 31 December			
	1996	*1997*	*1998*	*1999*
	$b	*$b*	*$b*	*$b*
	ASSETS			
Monetary gold and SDRs	4	1	1	1
Currency and deposits	—	6	6	14
One name paper	7	3	4	1
Bonds	32	31	34	33
Other accounts receivable	—	—	—	—
Loans and placements borrowed	—	—	—	—
Total assets(a)	**43**	**41**	**45**	**49**
	LIABILITIES			
Currency and deposits	34	30	34	36
Unlisted shares and other equity(b)	8	11	12	9
Other accounts payable	1	2	1	2
Total liabilities	**43**	**43**	**47**	**47**

(a) Excludes non-financial assets (e.g. fixed assets, property, inventories, etc.).

(b) Estimates based on net asset values. Assets do not equal liabilities as all other figures are reported at market values.

Source: Australian National Accounts: Financial Accounts (Cat. no. 5232.0).

2.3 BANKS(a), FINANCIAL ASSETS AND LIABILITIES

	Amounts outstanding at 31 December				
	1995	*1996*	*1997*	*1998*	*1999*
	$b	*$b*	*$b*	*$b*	*$b*
	ASSETS				
Currency and deposits	23	28	23	28	26
Acceptance of bills of exchange	13	60	63	70	71
One name paper	11	11	9	10	13
Bonds(b)	24	20	15	17	21
Derivatives	n.a	10	13	16	16
Loans and placements	295	330	373	417	472
Equities	18	23	26	32	32
Prepayments of premiums and reserves	n.a	1	1	1	1
Other accounts receivable	12	22	27	28	32
Total assets(c)	**395**	**505**	**550**	**619**	**683**
	LIABILITIES				
Currency and deposits	243	274	297	339	353
Acceptance of bills of exchange	n.a	47	51	51	50
One name paper	44	54	57	76	95
Bonds(b)	34	43	54	54	62
Derivatives	n.a	12	15	15	17
Loans and placements	15	13	13	14	34
Equity	58	71	91	105	109
Other accounts payable	15	30	22	27	32
Total liabilities	**410**	**543**	**599**	**681**	**751**

(a) Does not include the Reserve Bank of Australia.

(b) The 1995 bond figure includes derivatives.

(c) Excludes non-financial assets (e.g. fixed assets, property, inventories, etc.).

Source: Australian National Accounts: Financial Accounts (Cat. no. 5232.0).

BANKS *continued*

For further details on the activities of the banking subsector, see both the monthly *Reserve Bank Bulletin* and the monthly *Australian Banking Statistics,* published by APRA, which include many regular monthly tables on bank assets and liabilities, including by individual banks; 5 quarterly tables on lending to business, global consolidated group capital, impaired assets and off-balance sheet business; and 2 annual tables on bank branches and agencies in Australia.

OTHER DEPOSITORY CORPORATIONS

In addition to banks, financial institutions such as building societies, credit unions and merchant banks play an important part in the Australian financial system. In the Australian Financial Accounts, non-bank deposit-taking institutions are defined as those with liabilities included in the Reserve Bank's definition of broad money. Financial enterprises classified to this subsector are cash management trusts plus corporations registered in categories A to G of the *Financial Corporations Act 1974*.

Regulation of some of these institutions was provided for by the Commonwealth and State legislation. Part of the regulatory framework is provided by the *Financial Corporations Act 1974* under which non-bank financial institutions with assets in excess of $1 million are registered. Under the Act, information and statistics on their operations are provided to the Reserve Bank.

In each State and Territory there was legislation designed to regulate the activities and monitor the solvency position of particular types of financial institutions which operated as financial cooperatives. In July 1992, the Australian Financial Institutions Commission was established to promote Australia-wide standards for the prudential supervision of building societies and credit unions. Supervision of building societies and credit unions was transferred to APRA on 1 July 1999. From that date APRA has referred to banks, building societies and credit unions as authorised depository institutions.

Table 2.4 shows the total assets and liabilities for the subsector by instrument.

There are eight categories of other depository corporations. Table 2.5 shows the total assets of each category of non-bank deposit-taking institution.

2.4 OTHER DEPOSITORY CORPORATIONS, TOTAL ASSETS AND LIABILITIES

	Amounts outstanding at 31 December			
	1996	*1997*	*1998*	*1999*
	$b	*$b*	*$b*	*$b*
	ASSETS			
Currency and deposits	7	7	9	11
Bills of exchange	8	9	10	8
One name paper	5	8	11	12
Bonds	7	10	4	6
Derivatives	5	6	7	8
Loans and placements	104	116	122	122
Equities	5	6	7	6
Other accounts receivable	3	4	6	7
Total assets(a)	**144**	**167**	**175**	**178**
	LIABILITIES			
Currency and deposits	61	72	94	96
Bills of exchange	2	3	4	1
One name paper	23	30	25	23
Bonds(b)	26	31	27	27
Derivatives	5	6	7	8
Loans and placements	9	10	8	7
Equities	15	16	16	17
Other accounts payable	4	6	6	6
Total liabilities	**145**	**174**	**186**	**185**

(a) Excludes non-financial assets (e.g. fixed assets, property, inventories, etc.).

(b) Includes bonds issued in Australia and offshore.

Source: Managed Funds, Australia (Cat. no. 5655.0).

2.5 OTHER DEPOSITORY CORPORATIONS, TOTAL ASSETS

	Amounts outstanding at 31 December				
	1995	*1996*	*1997*	*1998*	*1999*
	$b	*$b*	*$b*	*$b*	*$b*
Permanent building societies	12	10	11	12	13
Credit cooperatives	15	16	18	19	19
Authorised money market dealers	6	n.a	n.a.	n.a.	n.a
Money market corporations	54	61	73	66	61
Pastoral finance companies	3	3	3	—	—
Finance companies(a)	33	35	40	66	68
General financiers	11	13	15	—	—
Cash management trusts	6	10	14	21	23
Total	**140**	**148**	**174**	**184**	**183**

(a) After 1997 the Pastoral finance company, Finance company and General financier figures are combined in the RBA Bulletin.

Source: Australian Financial Institutions Commission; Reserve Bank of Australia; Managed Funds, Australia (Cat. no. 5655.0).

The other depository corporations subsector is the third largest contributor (after the banks and the rest of the world) to Australia's credit market, holding 8% of all debt and equity liability outstandings of non-financial domestic sectors as at 31 December 1999.

As at 31 December 1999, $4.6 billion of other depository corporations' issued equity (at market prices) was held by non-resident investors. This amounted to 27% of the sector's total equity capital on issue, down from 31% three years earlier.

Permanent building societies are usually organised as financial cooperatives. They are authorised to accept money on deposit. They provide finance principally in the form of housing loans to their members. They are registered with the Reserve Bank under the *Financial Corporations Act 1974* as category A financial corporations.

Credit cooperatives mainly lend for purposes other than housing. They are registered under the *Financial Corporations Act 1974* as category B financial corporations.

Authorised money market dealers (category C financial corporations) were authorised by the Reserve Bank to buy and sell debt securities in the Official Short-term Money Market. The Bank supported them by offering them an end-of-day repurchase facility. In return, the authorised dealers had to be willing traders in approved securities and adhere to other requirements of the Reserve Bank. These arrangements came to an end on 9 August 1996 when the Reserve Bank withdrew all facilities from authorised dealers.

Money market corporations are similar to wholesale banks, and for this reason they are often referred to as merchant or investment banks. They have substantial short-term borrowings which they use to fund business loans and investments in debt securities. They are registered as category D financial corporations.

Pastoral finance companies incur liabilities to lend to rural producers. They are category E financial corporations. Finance companies (category F financial corporations) borrow mainly on financial markets, for example by issuing debentures. They lend these funds to both businesses and persons. Their lending to businesses is sometimes called commercial lending and covers, for example, financial leasing of vehicle fleets. Their lending to persons is often in the form of instalment credit to finance retail sales by others. In contrast with finance companies, general financiers (category G financial corporations) are funded by their parent or another member of their company group. For example, a general financier within a motor vehicle manufacturing group will lend to the group's dealers to finance their inventory of vehicles.

Cash management trusts are investment funds which are open to the public. They invest the pooled monies of their unit holders mainly in money-market securities such as bills of exchange. As with other public unit trusts, their operations are governed by a trust deed and their units

OTHER DEPOSITORY CORPORATIONS *continued*

are redeemable by the trustee on demand or within a short time. They are not subject to supervision by APRA or registered under the *Financial Corporations Act 1974*.

LIFE OFFICES

Life insurance corporations offer termination insurance and investment policies. Termination insurance includes the payment of a sum of money on the death of the insured or on the insured receiving a permanent disability. Investment products include annuities and superannuation plans. As at 31 December 1999, the life insurance industry in Australia consisted of 37 direct insurers and 6 reinsurers. As with the banking industry, the life insurance industry is dominated by a few very large companies holding a majority of the industry's assets.

Life insurance corporations are supervised by APRA (previously the Insurance and Superannuation Commission) under the *Life Insurance Act 1995*. The Act came into effect on 1 July 1995, replacing the *Life Insurance Act 1945*. The main differences between the two Acts are that the 1995 Act promotes increased consumer protection measures and places greater requirements on office bearers. APRA has increased monitoring and investigative powers. Life insurance corporations are also required to maintain minimum levels of solvency and capital adequacy.

The operations of life insurance corporations can be split effectively into two parts. The statutory funds contain policy owner monies that are invested according to policy owners' expectations. Total assets in statutory funds of Australian life insurers are shown in table 2.6. The shareholders' funds must be held separately and distinct from the statutory funds and, as its name suggests, money in this account can be invested to the benefit of the shareholders.

2.6 LIFE INSURANCE CORPORATIONS, FINANCIAL ASSETS AND LIABILITIES

	Amounts outstanding at 31 December			
	1996	*1997*	*1998*	*1999*
	$b	*$b*	*$b*	*$b*
	ASSETS			
Currency and deposits	9	7	11	10
Bills of exchange	8	7	7	5
One name paper	14	16	13	14
Bonds	33	44	47	48
Loans and placements	8	8	11	11
Equities	60	71	72	85
Other accounts receivable	3	3	5	4
Total assets(a)	**134**	**156**	**166**	**177**
	LIABILITIES			
Loans and placements	1	1	2	4
Listed and unlisted equity	5	10	42	39
Net equity in reserves	80	76	71	64
Net equity of pension funds	58	72	84	99
Other accounts payable	—	6	4	3
Total liabilities	**144**	**165**	**202**	**208**

(a) Excludes non-financial assets (e.g. fixed assets, property, inventories, etc.).

Source: Managed Funds, Australia (Cat. no. 5655.0).

SUPERFUNDS

Superannuation funds (called pension funds in ABS financial statistics) have been established to provide retirement benefits for their members. Members make contributions during their employment and receive the benefits of this form of saving in retirement. In order to receive concessional taxation treatment, a pension fund must elect to be regulated under the *Superannuation Industry (Supervision) Act 1993*. These funds are then supervised by APRA. Public sector funds, being funds sponsored by a government employer or government controlled business enterprise, are exempt from direct APRA supervision.

A regulated fund must have an approved trustee or provide old age pensions under its governing rules. An election to be regulated under the Act is irrevocable. As at December 1999 there were approximately 203,000 superannuation funds regulated under the Act.

Most superannuation funds are excluded funds that have less than five members (also known as the self-managed or 'do it yourself' funds) with the balance either open to the general public or sponsored by an employer. Funds are employer-sponsored if an employer contributes to the fund on behalf of an employee. Employer-sponsored funds generally have closed memberships restricted to the employees of particular companies. Industry funds, such as those operated by trade unions or industry associations, are also considered to be employer-sponsored funds.

It is expected that, from 1 July 2000, the Australian Taxation Office will assume responsibility for administering most of the self-managed superannuation funds.

Approved deposit funds (ADFs) were established in 1984 to encourage long-term savings for retirement by allowing employees to roll over all or part of their eligible termination payments within the pension system instead of taking their benefit in cash. With the introduction of the *Superannuation Industry (Supervision) Act 1993*, eligible termination payments can now be rolled over into complying superannuation funds, complying ADFs or eligible annuities. Separate statistics on ADFs were published until June 1995. The introduction of Retirement Savings Accounts in 1997 also now allows these payments to be deposited in capital guaranteed pension savings accounts operated by financial institutions without trustees. The diminished role of ADFs within the pension system as a result of these developments is the major reason for ceasing to publish separate statistics on their operations.

The assets of superannuation funds are shown in table 2.7. They include unfunded pension claims by superannuation funds on the Commonwealth Government where these have been formally recognised in accounting systems. The assets in the table do not include any provision for the pension liabilities of Australian governments to public sector employees in respect of unfunded retirement benefits. The ABS estimate for these outstanding liabilities at 31 December 1999 was $134.0 billion.

2.7 SUPERANNUATION FUNDS, FINANCIAL ASSETS

	Amounts outstanding at 31 December			
	1996	*1997*	*1998*	*1999*
	$b	*$b*	*$b*	*$b*
Currency and deposits	14	19	25	28
Bills of exchange	4	5	5	5
One name paper	10	7	7	10
Bonds	23	28	34	33
Loans and placements	7	11	13	16
Equities	109	129	141	185
Unfunded superannuation claims	3	4	5	6
Net equity of pension funds in life office reserves	58	72	84	99
Other accounts receivable	4	4	4	4
Total assets(a)	**234**	**279**	**316**	**385**

(a) Excludes non-financial assets (e.g. fixed assets, property, inventories, etc.).

Source: Australian National Accounts: Financial Accounts (Cat. no. 5232.0).

OTHER INSURANCE CORPORATIONS

This sector includes all corporations that provide insurance other than life insurance. Included are general, fire, accident, employer liability, household, health and consumer credit insurers. Table 2.8 sets out the total financial assets and liabilities of the Other insurance corporations sector.

Private health insurers are regulated by the Private Health Insurance Administration Council under the *National Health Act 1959*. At 30 September 1999 there were 49 private health insurers, including health benefit funds of friendly societies. Other private insurers are supervised by APRA under the *Insurance Act 1973*. At 30 September 1999 there were 161 insurers supervised by APRA. In addition, there were 15 public sector insurers at 30 September 1999.

2.8 OTHER INSURANCE CORPORATIONS, FINANCIAL ASSETS AND LIABILITIES

	Amounts outstanding at 31 December			
	1996	*1997*	*1998*	*1999*
	$b	*$b*	*$b*	*$b*
	ASSETS			
Currency and deposits	3	3	5	6
Bills of exchange	2	2	2	2
One name paper	2	3	3	3
Bonds	13	18	15	15
Loans and placements	4	7	8	9
Equities	15	18	22	23
Other accounts receivable	6	7	8	8
Total assets(a)	**44**	**58**	**63**	**66**
	LIABILITIES			
Bonds on issue	—	1	1	—
Loans and placements	1	1	1	2
Listed shares and other equity	6	8	9	5
Unlisted shares and other equity	7	6	13	13
Prepayment of premiums	39	42	47	46
Other accounts payable	6	7	9	11
Total liabilities	**58**	**65**	**80**	**77**

(a) Excludes non-financial assets (e.g. fixed assets, property, inventories, etc.).

Source: Australian National Accounts: Financial Accounts (Cat. no. 5232.0).

CENTRAL BORROWING AUTHORITIES

Central borrowing authorities (CBAs) are institutions established by each State and Territory Government primarily to provide finance for public corporations and quasi-corporations and other units owned or controlled by those governments, and to arrange investment of the units' surplus funds. The CBAs borrow funds, mainly by issuing securities, to on-lend to their public sector clientele. However, they also engage in other financial intermediation activity for investment purposes, and may engage in the financial management activities of the parent government.

Table 2.9 shows the total assets and liabilities held by the CBAs for the most recent four years.

2.9 CENTRAL BORROWING AUTHORITIES, FINANCIAL ASSETS AND LIABILITIES

	Amounts outstanding at 31 December			
	1996	*1997*	*1998*	*1999*
	$b	*$b*	*$b*	*$b*
	ASSETS			
Currency and deposits	2	2	2	2
Holdings of bills of exchange	4	6	6	8
One name paper	3	7	6	6
Bonds	3	2	2	3
Derivatives	1	2	2	2
Loans and placements	83	78	77	71
Other accounts receivable	1	1	1	1
Total assets(a)	**98**	**98**	**95**	**93**
	LIABILITIES			
Drawings of bills of exchange	—	—	—	—
One name paper	6	6	6	12
Bonds	78	78	77	69
Derivatives	1	2	2	2
Loans and placements	5	6	7	7
Equity	—	—	—	—
Other accounts payable	3	2	2	2
Total liabilities	**94**	**94**	**94**	**92**

(a) Excludes non-financial assets (e.g. fixed assets, property, inventories, etc.).

Source: Australian National Accounts: Financial Accounts (Cat. no. 5232.0).

FINANCIAL INTERMEDIARIES NOT ELSEWHERE CLASSIFIED (N.E.C.)

This subsector comprises all institutions that meet the definition of a financial enterprise and have not been included elsewhere. It includes:

- economic development corporations owned by governments;
- cash, mortgage, equity and fixed interest common funds;
- mortgage, fixed interest, balanced and equity public unit trusts;
- wholesale trusts;
- securitisers;
- investment companies;
- cooperative housing societies;
- corporations registered in category J of the *Financial Corporations Act 1974*; and
- housing finance schemes established by State Government to assist first home buyers.

FINANCIAL INTERMEDIARIES NOT ELSEWHERE CLASSIFIED (N.E.C.) *continued*

In addition to enterprises which engage directly in intermediation, the subsector also includes enterprises which undertake activity closely associated with intermediation such as:

- fund managers;
- insurance brokers; and
- arrangers of hedging instruments such as swaps, options and futures.

Tables 2.10 and 2.11 show the financial assets and liabilities of financial intermediaries n.e.c.

2.10 FINANCIAL INTERMEDIARIES N.E.C., LIABILITIES

	Amounts outstanding at 31 December			
	1996	*1997*	*1998*	*1999*
	$b	*$b*	*$b*	*$b*
Drawings of bills of exchange	3.9	4.3	4.3	7.3
One name paper issued in Australia	3.0	0.7	1.0	1.2
One name paper issued offshore	1.5	1.3	2.8	6.9
Bonds, etc issued in Australia	7.5	12.7	13.3	20.8
Bonds, etc issued offshore	10.5	9.5	11.5	10.4
Loans and placements	32.7	38.1	46.5	50.4
Listed shares and other equity	7.5	30.4	13.2	31.1
Unlisted shares and other equity	29.4	35.4	43.0	53.8
Other accounts payable	1.6	2.3	2.1	2.7
Total liabilities	**97.6**	**134.7**	**137.8**	**184.5**

Source: Australian National Accounts: Financial Accounts (Cat. no. 5232.0).

2.11 FINANCIAL INTERMEDIARIES N.E.C., FINANCIAL ASSETS

	Amounts outstanding at 31 December			
	1996	*1997*	*1998*	*1999*
	$b	*$b*	*$b*	*$b*
Currency and deposits accepted by	4.1	5.1	7.0	8.2
Banks	2.5	2.8	3.1	3.5
Other depository corporations	1.5	2.3	3.9	4.7
Rest of World	0.1	—	—	—
Holdings of bills of exchange accepted by	8.6	9.1	6.8	5.4
Banks	8.6	9.1	6.8	5.4
One name paper issued by	16.8	19.0	12.9	13.8
Private non-financial corporations	2.9	1.7	0.3	0.3
National public non-financial corporations	0.1	0.9	0.7	—
Banks	5.8	5.0	5.4	5.5
Other depository corporations	6.0	8.6	5.2	1.7
Central borrowing authorities	0.2	0.2	0.8	5.9
National general government	1.6	2.4	0.4	0.3
Rest of world	0.3	0.1	0.1	0.1
Bonds, etc issued by	12.3	10.8	9.8	9.2
Private non-financial corporations	0.6	0.3	0.5	1.7
National public non-financial corporations	0.1	0.5	0.6	0.6
State and local public non-financial corporations	—	0.1	—	—
Banks	2.4	3.7	2.0	3.3
Other depository corporations	0.2	0.2	0.5	0.1
Other insurance corporations	—	0.1	—	—
Central borrowing authorities	5.9	4.4	3.1	0.4
National general government	1.1	1.5	0.8	0.2
Rest of world	2.1	—	2.3	2.9
Loans and placements borrowed by	27.9	33.7	43.4	55.0
Private non-financial corporations	—	4.6	7.1	7.9
State and local public non-financial corporations	4.8	0.2	0.1	—
Other depository corporations	0.2	0.5	0.7	0.8
Life insurance corporations	0.1	0.2	0.2	0.3
Pension funds	0.1	0.2	0.2	0.3
Central borrowing authorities	—	—	0.2	0.1
State and local general government	1.1	1.1	0.7	0.5
Households	16.6	25.1	32.0	41.8
Rest of world	4.8	1.9	2.2	3.2
Equities issued by	33.4	65.1	60.1	92.3
Private non-financial corporations	21.2	25.6	30.4	40.8
National public non-financial corporations	—	19.6	3.0	21.0
Banks	6.7	6.3	9.3	8.0
Other depository corporations	0.1	0.1	0.1	0.1
Other insurance corporations	0.2	0.7	1.1	1.2
Rest of world	5.2	12.9	16.1	21.3
Other accounts receivable	0.4	1.8	2.7	3.8
Total assets(a)	**103.5**	**144.6**	**142.6**	**187.7**

(a) Excludes non-financial assets (e.g. fixed assets, property, inventories, etc.).

Source: Australian National Accounts: Financial Accounts (Cat. no. 5232.0).

Economic development corporations are owned by governments. As their name implies, these bodies are expected to finance infrastructure developments mainly in their home State or Territory.

Common funds are set up by trustee companies and are governed by State Trustee Acts. They allow the trustee companies to combine depositors' funds and other funds held in trust in an investment pool. They are categorised according to the main types of assets in the pool, for example, cash funds or equity funds.

Public unit trusts are investment funds open to the Australian public. Their operations are governed by a trust deed which is administered by a management company. Under the *Managed Investments Act 1997*, the management company has become the single responsible entity for both investment strategy and custodial arrangements; the latter previously had been the responsibility of a trustee. These trusts allow their unitholders to dispose of their units relatively quickly. They may sell them back to the manager if the trust is unlisted, or sell them on the Australian Stock Exchange if the trust is listed. Public unit trusts are categorised according to the main types of assets in the pool; for example, property or equity. Only those which invest primarily in financial assets—mortgages, fixed interest, futures or equity securities—are included here.

Wholesale trusts are investment funds that are only open to institutional investors—life insurance corporations, superannuation funds, retail trusts, corporate clients, high net worth individuals—due to high entry levels (e.g. $500,000 or above). They may issue a prospectus, but more commonly only an information memorandum. Only those which invest in financial assets are included here.

Securitisers issue debt securities which are backed by specific assets. The most common assets bought by securitisation trusts/companies are residential mortgages. These mortgages are originated by financial institutions such as banks and building societies, or by specialist mortgage managers. Other assets can also be used to back these securities, such as credit card receivables and leases. Securitisers generally pool the assets and use the income on them to pay interest to the holders of the asset-backed securities.

Investment companies are similar to equity trusts in that they invest in the shares of other companies. However, investors in investment companies hold share assets, not unit assets.

Cooperative housing societies are similar to permanent building societies. In the past they were wound up after a set period, but now they too are continuing bodies. They raise money through loans from members (rather than deposits) and provide finance to members in the form of housing loans. Over recent years many cooperative housing societies have originated mortgages on behalf of securitisers.

FINANCIAL INTERMEDIARIES NOT ELSEWHERE CLASSIFIED (N.E.C.) *continued*

Corporations registered in category J of the *Financial Corporations Act 1974* are classified to this subsector because their liabilities are not included in the Reserve Bank's definition of broad money.

Fund managers, insurance brokers and arrangers of hedging instruments are classified as financial auxiliaries as they engage primarily in activities closely related to financial intermediation, but they themselves do not perform an intermediation role. Auxiliaries primarily act as agents for their clients (usually other financial entities) on a fee for service basis, and as such the financial asset remains on the balance sheet of the client, not the auxiliary. However a small portion of the activities of auxiliaries is brought to account on their own balance sheet, and these amounts are included in the previous tables.

CHAPTER 3 FINANCIAL MARKETS

Financial markets are used by participants to either raise funds (for example, by issuing securities) or invest savings (by buying securities and other financial assets). The major markets in the Australian financial system include the share market, bond market and money market. Descriptions and tables indicating prices and activity in various financial markets are provided below.

A significant influence in financial markets is the participation of institutional investors which control large pools of investment funds. These pools are accumulated by collective investment institutions and are often managed on a fee-for-service basis by investment managers. A summary of the activities of these institutions is also provided.

CREDIT MARKET

Credit may be defined broadly as funds provided to those seeking to borrow. However, analytically useful measures of credit usually exclude borrowing by financial enterprises because their main role is as an intermediary, i.e. they borrow in order to lend. Also, lending and borrowing between related enterprises, such as between companies in the same group or between government agencies within a jurisdiction, are often excluded from credit measures because transactions between these bodies are usually not undertaken via a formal market. Similarly, some types of financial instrument, such as trade debts, are not considered to be part of an organised market. All of these types of transactions are omitted from table 3.1 which presents a summary of the demand for credit in Australia by the non-financial sectors. It includes raisings by the issue of both debt and equity securities.

3.1 DEMAND FOR CREDIT

	Net transactions during year(a)			
	1996	*1997*	*1998*	*1999*
	$b	*$b*	*$b*	*$b*
Funds (including equity) raised on conventional credit markets by				
National general government	6	–14	–9	–12
State and local general government	–8	–4	0	–4
National public non-financial corporations	0	17	–2	18
State and local public non-financial corporations	0	–2	–1	–2
Private non-financial corporations	36	55	38	62
Households	28	36	41	48
Total	**62**	**88**	**66**	**109**

(a) Positive numbers indicate an increase in borrowings. Negative numbers indicate debt repayment.

Source: Australian National Accounts: Financial Accounts (Cat. no. 5232.0).

CREDIT MARKET *continued*

Table 3.2 shows indicative interest rates for bank borrowing and lending. Another view of activity in the credit market is provided below under *Lending by financial institutions.*

3.2 BANK RETAIL DEPOSIT AND LENDING RATES

						As at 31 December
	1994	*1995*	*1996*	*1997*	*1998*	*1999*
	% p.a.	*% p.a.*	*% p.a.*	*% p.a.*	*% p.a.*	*% p.a.*
Bank deposit rates						
Six month fixed deposit	7.00	6.70	6.30	4.00	3.70	4.20
Cash management accounts(a)	5.50	5.90	4.10	3.30	3.00	3.00
Bank lending rates						
Housing loans—variable	10.50	10.50	8.25	6.70	6.50	6.80
Small business loans—variable	10.65	11.15	10.25	8.75	7.55	7.70
Credit cards	15.20	16.70	16.20	15.30	15.30	15.30

(a) Accounts from $20,000 to less than $100,000.

Source: Reserve Bank of Australia Bulletin.

LENDING BY FINANCIAL INSTITUTIONS

The lending activities of financial institutions are grouped together for statistical purposes into four major types of lending—housing, personal, commercial and leasing. Table 3.3 shows the size of commitments by financial institutions for the four types of lending. It should be noted that, although commitments are firm offers of finance made by institutions that have been accepted by borrowers, not all commitments are taken up by borrowers.

3.3 FINANCE COMMITMENTS, SUMMARY

	1994	*1995*	*1996*	*1997*	*1998*	*1999*
Type of lending	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Secured housing for owner occupation						
Construction and purchase of dwelling	48 017	41 384	46 428	53 113	55 683	71 760
Alterations and additions	3 436	3 463	3 412	2 811	2 661	3 263
Total secured housing commitments	51 453	44 847	49 840	55 924	58 344	75 023
Personal						
Fixed loan facilities	18 093	19 763	21 050	22 068	21 476	21 489
Revolving credit facilities	9 208	11 183	12 166	18 404	21 758	27 459
Total personal finance commitments.	27 302	30 943	33 219	40 473	43 233	48 946
Commercial						
Fixed loan facilities	50 315	55 278	69 829	87 482	90 738	87 610
Revolving credit facilities	49 920	63 890	76 411	86 132	80 442	72 429
Total commercial finance commitments	100 236	119 169	146 239	173 615	171 180	160 039
Lease finance commitments	6 323	6 572	7 284	8 189	9 328	9 261
Total	**185 314**	**201 531**	**236 582**	**278 201**	**282 085**	**293 269**

Source: Housing Finance for Owner Occupation, Australia (Cat. no. 5609.0), Lending Finance, Australia (Cat. no. 5671.0)..

COMMERCIAL FINANCE

The statistics in tables 3.4 and 3.5 measure commitments, made by significant lenders (banks, finance companies, money market corporations, etc.) to lend to government, private and public enterprises, non-profit organisations and individuals for investment and business purposes.

3.4 COMMERCIAL FINANCE COMMITMENTS(a) BY TYPE OF LENDER

	1994	*1995*	*1996*	*1997*	*1998*	*1999*
Type of lender	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
All banks	74 947	89 063	107 799	131 644	134 264	138 642
Finance companies	7 143	7 602	7 986	7 169	4 786	4 236
Money market corporations	12 753	14 939	23 831	25 788	22 669	10 105
Other lenders(b)	5 391	7 563	6 619	9 015	9 458	6 754
Total	**100 236**	**119 169**	**146 239**	**173 615**	**171 180**	**160 039**

(a) Includes both fixed loan facilities and new and increased lending commitments under revolving credit facilities.

(b) Includes permanent building societies, general financiers and pastoral finance companies.

Source: Lending Finance, Australia (Cat. no. 5671.0).

3.5 FIXED COMMERCIAL FINANCE COMMITMENTS, BY PURPOSE

	1994	*1995*	*1996*	*1997*	*1998*	*1999*
Purpose	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Construction	4 862	5 467	7 396	9 433	9 122	8 741
Purchase of real property(a)	18 011	18 431	20 551	29 224	28 019	31 795
Purchase of plant and equipment	6 868	7 162	7 943	9 738	7 390	7 717
Refinancing	7 288	9 128	12 880	12 153	11 512	9 377
Other purposes	13 285	15 092	21 063	26 940	34 698	29 979
Total	**50 315**	**55 278**	**69 829**	**87 482**	**90 738**	**87 610**

(a) Purchase of real property includes those finance commitments to individuals for the purchase of dwellings for rental or resale.

Source: Lending Finance, Australia (Cat. no. 5671.0).

HOUSING FINANCE

Table 3.6 shows the number and value of secured housing commitments for owner occupation by purpose and type of lender.

3.6 SECURED HOUSING FINANCE COMMITMENTS(a), BY PURPOSE AND TYPE OF LENDER

	1994	*1995*	*1996*	*1997*	*1998*	*1999*
	CONSTRUCTION OF DWELLINGS					
	no.	no.	no.	no.	no.	no.
Dwelling units						
Banks	89 905	60 914	55 097	61 940	61 086	69 525
Permanent Building Societies	5 329	3 342	3 276	3 151	3 860	3 896
Other lenders(b)	4 024	3 550	4 460	6 220	7 188	7 166
Total	99 258	67 806	62 833	71 311	72 134	80 587
	$m	$m	$m	$m	$m	$m
Value of commitments						
Banks	7 601	5 616	5 301	6 601	7 206	9 370
Permanent Building Societies	514	324	368	392	526	543
Other lenders(b)	364	320	438	700	891	901
Total	8 479	6 260	6 103	7 697	8 623	10 816
	PURCHASE OF NEWLY ERECTED DWELLINGS					
	no.	no.	no.	no.	no.	no.
Dwelling units						
Banks	22 578	18 126	18 070	19 949	17 980	17 822
Permanent Building Societies	1 416	647	357	272	260	309
Other lenders(b)	1 417	1 549	2 689	4 092	3 398	1 059
Total	25 411	20 322	21 116	24 313	21 638	19 190
	$m	$m	$m	$m	$m	$m
Value of commitments						
Banks	2 232	1 873	2 012	2 478	2 345	2 623
Permanent Building Societies	145	62	41	34	32	49
Other lenders(b)	129	161	282	433	440	150
Total	2 508	2 093	2 334	2 945	2 817	2 822
	PURCHASE OF ESTABLISHED DWELLINGS(c)					
	no.	no.	no.	no.	no.	no.
Dwelling units						
Banks	366 017	294 430	318 116	314 455	307 224	359 270
Permanent Building Societies	24 852	19 329	19 428	15 464	15 070	16 577
Other lenders(b)	16 738	29 065	46 871	57 800	55 818	64 582
Total	407 607	342 824	384 415	387 719	378 112	440 429
	$m	$m	$m	$m	$m	$m
Value of commitments						
Banks	33 437	28 346	31 198	34 496	36 230	48 229
Permanent Building Societies	2 144	1 704	1 897	1 576	1 607	1 854
Other lenders(b)	1 450	2 985	4 894	6 402	6 407	8 038
Total	37 032	33 032	37 989	42 472	44 243	58 122
	TOTAL					
	no.	no.	no.	no.	no.	no.
Dwelling units						
Banks	478 500	373 470	391 283	396 344	386 290	446 617
Permanent Building Societies	31 597	23 318	23 061	18 887	19 190	20 782
Other lenders(b)	22 179	34 164	54 020	68 112	66 404	72 807
Total	532 276	430 952	468 364	483 343	471 884	540 206
	$m	$m	$m	$m	$m	$m
Value of commitments						
Banks	43 271	35 831	38 509	43 575	45 781	60 223
Permanent Building Societies	2 804	2 093	2 304	2 001	2 164	2 447
Other lenders(b)	1 942	3 461	5 612	7 537	7 739	9 090
Total	48 017	41 384	46 428	53 113	55 683	71 760

(a) Excludes alterations and additions.

(b) Includes mortgage managers.

(c) Includes refinancing.

Source: Housing Finance for Owner Occupation, Australia (Cat. no. 5609.0).

STOCK MARKET

The Australian stock market provides a mechanism for trading equities (shares), units in trusts, options, and some fixed-interest securities, through a computing network, with buyers and sellers located anywhere in the country.

It is operated nationally by Australian Stock Exchange Limited (ASX), which is responsible for the day-to-day running and surveillance of stock market trading. Trading is electronic, conducted using the Stock Exchange Automated Trading System (SEATS).

Total turnover in exchange traded shares in 1999 was $307 billion, up 20% on the previous year and more than double the turnover five years earlier. The total market capitalisation of companies listed on the ASX increased 10% during 1999 to reach $652 billion by 31 December 1999.

ASX classifies listed companies according to their major activity and produces indexes based on these classifications. Table 3.7 summarises the performance of the major indexes.

3.7 STOCK MARKET INDEXES(a)

						As at 31 December
	1994	*1995*	*1996*	*1997*	*1998*	*1999*
All ordinaries	1 890.9	2 202.4	2 361.3	2 548.8	2 745.3	3 116.8
Banks—Finance	2 527.8	3 267.8	3 965.4	5 353.8	6 281.3	6 564.2
All industrials	2 741.0	3 276.0	3 660.8	4 367.3	4 923.6	5 387.3
All resources	1 255.2	1 393.0	1 366.2	1 098.8	965.4	1 343.4

(a) Base 31 December 1979 = 500.

Source: Australian Stock Exchange, Monthly Index Analysis.

EQUITY MARKET

Table 3.8 shows the market value of Australian shares and units in trusts on issue—both listed and unlisted. It shows the amount on issue by sector of issuer and sector of holder of equities and units.

3.8 THE EQUITY MARKET(a)

	Amount on issue at 31 December				
	1995	*1996*	*1997*	*1998*	*1999*
	$m	*$m*	*$m*	*$m*	*$m*
Total equities and units in trusts	**717 533**	**804 538**	**949 952**	**1 094 729**	**1 247 206**
ISSUED BY					
Private non-financial corporations(b)	355 879	397 080	416 022	453 797	565 827
National public non-financial corporations(b)	27 939	28 297	69 432	106 544	115 480
State and local public non-financial corporations(b)	106 987	103 573	102 179	104 737	105 899
Central Bank(c)	9 858	7 973	10 994	12 387	8 544
Banks (b)	61 612	75 039	97 910	111 601	116 426
Other depository corporations	15 435	15 356	16 020	15 681	17 284
Life insurance corporations(b)	3 102	7 834	11 069	43 081	39 481
Other insurance corporations	12 150	12 924	14 054	22 039	18 096
Central borrowing authorities(c)	250	221	180	30	30
Financial intermediaries n.e.c.	29 188	41 647	73 926	65 330	98 126
Rest of world	94 730	114 594	138 166	159 502	162 013
HELD BY					
Private non-financial corporations	83 568	92 842	98 424	109 268	94 972
National public non-financial corporations	756	793	857	775	1 166
State and local public non-financial corporations	38	50	62	60	71
Banks	21 410	28 758	32 966	39 052	39 198
Other depository corporations	3 839	4 646	5 639	6 611	5 985
Life insurance corporations	68 603	60 358	71 419	73 821	85 950
Pension funds	67 622	105 581	129 272	140 597	185 405
Other insurance corporations	11 280	15 897	18 533	22 389	23 571
Central borrowing authorities	—	—	5	6	6
Financial intermediaries n.e.c.	27 924	43 155	73 234	69 123	105 509
National general government	40 424	36 145	65 838	85 508	77 392
State and local general government	109 139	106 828	105 479	108 145	108 025
Households	100 100	108 017	126 288	178 276	222 193
Rest of world	182 830	201 468	221 938	261 098	297 763

(a) Includes units in trusts.

(b) The estimated market values for the unlisted shares component are considered to be of poor quality.

(c) Net asset values used for unlisted shares.

Source: Australian National Accounts: Financial Accounts (Cat. no. 5232.0).

For more details on the Australian equities market, see various ASX publications. Also see the annual *Australian Financial Markets Report*, published by the Australian Financial Markets Association, which includes details of share turnover (volume, value and trade numbers), new equity capital raisings, number and market capitalisation of listed companies, liquidity ratios, and market concentration.

MONEY MARKET

Liquidity management by Australian corporations, financial institutions and governments is conducted through an informally arranged market for deposits, loans and placements, and by issuance, purchase and sale of short-term debt securities. Rates in the market at end December of the last six years are shown in table 3.9.

3.9 SHORT-TERM MONEY MARKET RATES

						As at 31 December
	1994	*1995*	*1996*	*1997*	*1998*	*1999*
	% p.a.	*% p.a.*	*% p.a.*	*% p.a.*	*% p.a.*	*% p.a.*
11am call	7.03	7.51	6.21	5.03	4.80	5.01
Bank-accepted bills—90 days	8.15	7.42	5.99	5.07	4.80	5.65

Source: Reserve Bank of Australia Bulletin.

Money market securities have an original term to maturity of less than one year, often 90 or 180 days. They are issued by borrowers at a discount to face value, and carry no income payment other than the repayment of face value at maturity. To enhance liquidity, money market securities conform to standardised attributes concerning risk and discount rates. Because of the standardisation, the securities of different issuers are often combined in the one parcel of securities for trading purposes. There are two types of securities: bills of exchange and promissory notes (or one name paper), both of which are covered by the *Bills of Exchange Act 1909*. The risk of default of a bill of exchange is reduced by an acceptor or endorser adding their name to the security for a fee. Most bills of exchange traded in the market are bank-accepted bills. Promissory notes are issued by institutions whose credit worthiness is equal to or better than that of banks: the Commonwealth Government issues Treasury Notes, State Governments and large corporations issue commercial papers and banks issue negotiable certificates of deposit. Table 3.10 shows the amount on issue, by sector of issuer and sector of holder, of the various types of money market securities.

3.10 SHORT-TERM DEBT SECURITIES

	Amounts outstanding at 31 December			
	1996	*1997*	*1998*	*1999*
	$b	*$b*	*$b*	*$b*
Total short-term debt securities	**248.2**	**266.5**	**296.2**	**329.0**
ISSUED BY				
Private non-financial corporations	62.3	68.6	71.0	73.0
National public non-financial corporations	3.9	4.4	4.2	3.3
State and local public non-financial corporations	0.2	0.3	0.6	0.0
Banks	117.2	123.0	152.3	175.9
Other depository corporations	25.5	33.5	28.9	25.2
Central borrowing authorities	6.5	6.8	6.7	12.7
Financial intermediaries n.e.c.	8.6	10.8	16.7	25.8
National general government	17.4	14.7	11.3	7.9
Households	2.5	2.3	2.6	3.3
Rest of World	4.1	2.0	1.9	1.9
HELD BY				
Private non-financial corporations	10.4	11.6	18.5	30.0
National public non-financial corporations	0.8	0.7	0.4	0.6
State and local public non-financial corporations	0.4	0.4	0.3	0.1
Central bank	6.7	3.1	3.8	0.9
Banks	87.4	86.8	104.9	115.1
Other depository corporations	13.2	17.7	21.8	20.8
Life insurance corporations	21.7	22.7	19.6	18.5
Pension funds	13.7	11.8	12.3	14.8
Other insurance corporations	3.7	4.2	4.8	4.8
Central borrowing authorities	7.9	12.9	12.0	14.2
Financial intermediaries n.e.c.	25.6	32.5	28.3	29.6
Households	5.2	4.8	5.6	7.0
Rest of world	51.2	56.9	63.7	72.5

Source: Australian National Accounts: Financial Accounts (Cat. no. 5232.0).

For more details on the Australian money market, see the annual *Australian Financial Markets Report*, published by the Australian Financial Markets Association, which includes details of negotiable and transferable instruments by type of instrument, turnover volume and counterparties, liquidity ratios, maturity profiles and market concentration

BOND MARKET

Bonds are issued with original terms to maturity of one or more years. Usually the investors are paid a set periodic interest, called a coupon, for the life of the bond and receive their initial investment back at maturity. Some bonds have variable interest rates, some have principal repayments indexed, and there is a small amount of zero-coupon or deep discount securities which are issued at a discount to face value. Governments, trading enterprises and financial institutions issue bonds to finance long-term requirements. For these entities, the bond market generally provides a cheaper source of funds than borrowing from banks and other financial institutions. Table 3.11 shows the market yields at end December for a range of bonds.

3.11 BOND MARKET, MARKET YIELDS

	As at 31 December					
	1994	*1995*	*1996*	*1997*	*1998*	*1999*
	% p.a.	*% p.a.*	*% p.a.*	*% p.a.*	*% p.a.*	*% p.a.*
Treasury bonds						
3 years	10.07	7.44	6.58	5.49	4.64	6.47
5 years	10.06	7.78	6.96	5.72	4.77	6.70
10 years	10.04	8.18	7.37	6.09	5.01	6.96
NSW T-corp bonds						
3 years	10.28	7.52	6.71	5.64	4.59	6.81
5 years	10.32	7.87	7.08	5.97	5.13	7.07
10 years	10.44	8.44	7.62	6.37	5.41	7.32
Finance company debentures						
2 years	9.40	7.20	6.00	5.10	4.50	6.05
3 years	9.80	7.40	6.30	5.40	4.70	6.35

Source: Reserve Bank of Australia Bulletin.

The main issuers of bonds are the Commonwealth Government and State Governments through their central borrowing authorities. Issues by Commonwealth, State and local public trading enterprises may be guaranteed by their respective governments. This provides the bond issue with a higher credit rating, meaning that the market will purchase the bonds at a lower yield. Corporate bonds are issued only by very large private trading and financial enterprises. The amounts outstanding on bonds at end December of the last four years are shown in table 3.12.

3.12 THE BOND MARKET

	Amounts outstanding at 31 December			
	1996	*1997*	*1998*	*1999*
	$b	*$b*	*$b*	*$b*
Total bonds	**332.2**	**359.6**	**363.8**	**353.5**
ISSUED BY				
Private non-financial corporations	19.1	24.2	29.8	31.2
National public non-financial corporations	6.2	5.6	7.4	6.0
State and local public non-financial corporations	0.2	0.1	—	—
Banks	42.8	54.1	54.1	62.3
Other depository corporations	26.8	33.0	28.1	27.6
Other insurance corporations	0.2	0.8	0.5	0.4
Central borrowing authorities	82.9	83.0	82.2	74.4
Financial intermediaries	22.8	26.5	30.1	33.3
National general government	105.0	99.8	96.6	80.1
Rest of world	26.2	32.5	35.0	38.1
HELD BY				
Private non-financial corporations	0.7	0.9	2.2	2.3
National public non-financial corporations	0.3	0.4	0.4	—
State and local public non-financial corporations	0.3	0.8	0.5	0.3
Central bank	31.8	30.6	34.2	32.6
Banks	20.1	15.1	17.4	20.5
Other depository corporations	8.2	12.5	4.4	6.5
Life insurance corporations	33.5	44.2	47.0	48.1
Pension funds	23.3	28.1	33.8	32.4
Other insurance corporations	13.1	18.2	15.5	15.3
Central borrowing authorities	7.8	6.7	7.0	8.3
Financial intermediaries n.e.c.	17.2	15.0	15.1	11.4
Households	20.6	11.9	13.9	12.4
Rest of world	155.3	175.1	172.1	163.3

Source: Australian National Accounts: Financial Accounts (Cat. no. 5232.0).

For more details on Australian bond markets, see the annual *Australian Financial Markets Report*, published by the Australian Financial Markets Association (AFMA), which includes details by type of bond, turnover volume and counterparties, liquidity ratios, maturity profiles and market concentration. The AFMA report also includes details on the Australian repurchase agreements market which is predominantly conducted using bonds.

FOREIGN EXCHANGE MARKET

The foreign exchange market is the means whereby currencies of different countries can be bought and sold. In October 1983, the Commonwealth Government decided to float the Australian dollar, allowing its value to be determined by market forces with few exchange controls and little Reserve Bank intervention. Prior to 1983, the Australian dollar was pegged to a basket of currencies which were weighted according to their trading significance to Australia.

Table 3.13 shows the value of the Australian dollar against major currencies at end December of the last six years.

3.13 VALUE OF AUSTRALIAN DOLLAR, AGAINST MAJOR CURRENCIES(a)

						As at 31 December
	1994	*1995*	*1996*	*1997*	*1998*	*1999*
United States dollar	0.7704	0.7372	0.7948	0.6614	0.6174	0.6404
United Kingdom pound	0.4934	0.4784	0.4771	0.3972	0.3690	0.3966
Japanese yen	76.96	74.89	90.32	85.39	72.43	65.59
German deutschmark	1.21	1.06	1.23	1.17	1.03	1.24
Euro	n.a.	n.a.	n.a.	n.a.	n.a.	0.63

(a) Rate given is the midpoint between the buying and selling rates.

Source: Average of Daily Exchange Rates (Cat. no. 5654.0).

Currencies are traded for many reasons: because of exporting or importing requirements, investing or borrowing overseas, arbitraging (i.e. taking advantage of short-term discrepancies in rates) or speculating on possible exchange rate movements with a view to making a profit. Table 3.14 shows daily averages of foreign exchange turnover in Australia against all currencies.

3.14 FOREIGN EXCHANGE TURNOVER AGAINST ALL CURRENCIES, DAILY AVERAGES(a)

	1994	*1995*	*1996*	*1997*	*1998*	*1999*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*
Transactions by foreign exchange dealers(b)						
Outright spot(c)	16 140	16 282	22 070	24 275	26 861	16 354
Outright forward(d)	1 438	1 809	2 494	3 435	4 250	2 893
Swaps	27 611	28 464	36 137	34 032	37 623	31 451
Options	535	550	1 419	1 830	1 798	1 825
Total	**45 724**	**47 105**	**62 120**	**63 572**	**70 532**	**52 524**

(a) Figures given are the average daily turnover for the calendar year.

(b) Australian banks and non-bank financial intermediaries authorised to deal in foreign exchange.

(c) An outright spot transaction is one for receipt or delivery within two business days.

(d) An outright forward transaction is one for receipt or delivery in more than two business days.

Source: Reserve Bank of Australia Bulletin, based on information supplied by foreign exchange dealers.

For further details on foreign exchange turnover in Australia and foreign currency exchange rates per A$ at end of period, see tables F.7 to F.9 in the monthly Reserve Bank *Bulletin*. For details of period average exchange rates for selected currencies see table 7 in the monthly ABS publication *International Trade in Goods and Services, Australia* (Cat no. 5368.0) and table 38 in *Balance of Payments and International Investment Position, Australia* (Cat no.5302.0).

DERIVATIVES MARKET

Australia's exchange traded interest rate derivatives market in 1999 was down 2% on the previous year but is still the seventh most heavily traded in the world. While 3 year bond futures and options trading was up, 90 day bills and 10 year bonds futures and options experienced falls in volume in 1999.

DERIVATIVES MARKET
continued

The over-the-counter (OTC) interest rate derivatives market in Australia is less significant both globally and locally than the exchange traded business. Unlike the OTC market for foreign exchange with more than half of the business undertaken with banks overseas, only one-fifth of the turnover in interest rate products is with banks abroad.

3.15 EXCHANGE TRADED FUTURES AND OPTIONS

	1998		*1999*		
	Annual volume	*Average daily volume*	*Annual Volume*	*Average daily volume*	*Change in average volume*
	'000s contracts	*'000s contracts*	*'000s contracts*	*'000s contracts*	*%*
Futures					
All ordinaries SPI	3 678	14.5	3 820	15.0	3.0
90-day bank bills	7 735	30.5	7 184	28.3	–7.0
3-year bonds	10 486	41.3	10 787	42.5	3.0
10 year bonds	5 641	22.2	5 346	21.0	–5.0
Other	44	0.2	46.0	0.2	6.0
Total futures turnover	27 584	108.6	27 183	107.0	–2.0
Options					
All ordinaries SPI	847	3.3	1 237	4.9	48.0
90-Day Bank Bills	770	3.0	453	1.8	–40.0
3-year bonds	224	0.9	289	1.1	22.0
10-year bonds	354	1.4	243	1.0	–29.0
Other	157	0.6	388	1.5	150.0
Total options turnover	2 352	9.3	2 610	10.3	11.0
Total	29 936	117.9	29 793	117.3	–0.5

Source: Sydney Futures Exchange.

Turnover in the exchange traded futures and options was valued at $10,183 billion in 1998–99, up 5% on the previous year and up 42% on 1994–95 volumes.

Turnover in the OTC interest rate derivatives markets (foreign exchange is discussed in the previous section) was $1,157 billion in 1998–99, up 14% on the previous year due largely to higher swaps volume, but down 29% on turnover four years ago due to a much lower activity in forward rate agreements.

For more details on the Australian exchange traded derivatives market see the monthly *SFE Bulletin* published by the Sydney Futures Exchange. See also the annual *Australian Financial Markets Report*, published by the Australian Financial Markets Association, which includes details of exchange traded and over-the-counter derivatives markets by instrument, turnover volume and counterparties, maturity profiles and market concentration.

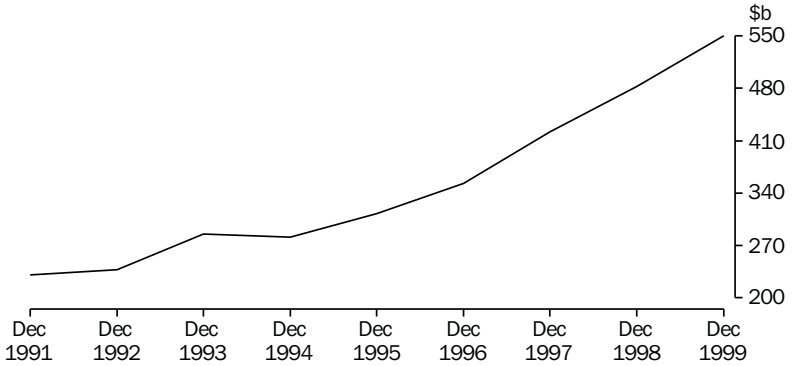
Also see the report *Central Bank Survey of Foreign Exchange and Derivatives Market Activity*, published in May 1999 by the Bank for International Settlements. It includes a range of global data on OTC derivatives markets, including foreign exchange and interest rate derivatives, as well as data for the Australian dollar and the Australian markets.

CHAPTER 4 FUNDS UNDER MANAGEMENT

MANAGED FUNDS

The term "managed funds" is used loosely in the financial community to embrace two broad types of institutions. The first are collective investment institutions (such as life insurance companies) which buy assets on their own account. The second are investment or fund managers, which act as investment agents for the collective investment institutions as well as others with substantial funds to invest. Investment managers have relatively small balance sheets because most of the assets they acquire are purchased on behalf of clients. The significant growth in managed funds (see graph 4.1) has been a major development in the financial sector over the last decade.

4.1 MANAGED FUNDS, Consolidated Assets



Source: Managed Funds, Australia (Cat. no. 5655.0).

Collective investment institutions

As the name implies, collective investment institutions pool the funds of many small investors and use them to buy a particular type or mix of assets. The asset profile can be structured to satisfy individual investor requirements regarding, for example, the degree of risk, the mix of capital growth and income, and the degree of asset diversification. Collective investment institutions comprise the following:

- life insurance corporations;
- pension and approved deposit funds;
- public unit trusts;
- friendly societies;
- common funds; and
- cash management trusts.

Funds of a speculative nature that do not offer redemption facilities—for example, agricultural and film trusts—are excluded.

Collective investment institutions *continued*

To derive the total assets of collective investment institutions in Australia on a consolidated basis, it is necessary to eliminate the cross investment between the various types of institution. For example, investments by superannuation funds in public unit trusts are excluded from the assets of superannuation funds in a consolidated presentation.

Although statistics for each of these institutions were presented in Chapter 2, the accompanying tables summarise their consolidated position (i.e. after the cross investment between the institutions has been eliminated). Table 4.2 shows their assets by type of institution and table 4.3 shows assets by type of investment.

4.2 ASSETS OF MANAGED FUNDS, BY TYPE OF COLLECTIVE INVESTMENT INSTITUTION—1999(a)

Type of institution	*Total* $m	*Cross invested* $m	*Consolidated* $m
Life insurance corporations(b)	177 453	14 436	163 017
Pension funds	291 406	44 778	246 628
Public unit trusts	116 673	12 884	103 789
Friendly societies	6 236	246	5 990
Common funds	7 853	184	7 669
Cash management trusts	22 585	—	22 585
Total assets	**622 206**	**72 529**	**549 678**

(a) As at 31 December 1999.

(b) Investments by pension funds which are held and administered by life insurance corporations are included under life insurance corporations.

Source: Managed Funds, Australia (Cat. no. 5655.0).

4.3 MANAGED FUNDS, CONSOLIDATED ASSETS

	As at 31 December					
	1994	*1995*	*1996*	*1997*	*1998*	*1999*
Type of asset	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Cash and deposits(a)	20 199	22 588	24 933	27 927	27 927	40 637
Loans and placements	15 883	15 944	17 013	20 736	20 736	26 162
Short-term securities(a)	31 706	33 483	42 618	52 223	52 223	58 148
Long-term securities	51 847	55 503	57 115	64 194	64 194	75 302
Equities and units in trusts	77 857	92 591	104 443	124 443	124 443	163 228
Land and buildings	36 474	37 037	40 282	45 719	45 719	60 957
Assets overseas	38 883	44 588	53 397	69 485	69 485	106 652
Other assets	8 482	11 380	13 493	17 272	17 272	18 591
Total assets	**281 330**	**313 113**	**353 295**	**421 997**	**421 997**	**549 678**

(a) Bank certificates of deposit held by public unit trusts are included in 'cash and deposits'.

Source: Managed Funds, Australia (Cat. no. 5655.0).

Investment Managers

A further development within the managed funds industry is the emergence of specialist investment managers. They are employed on a fee-for-service basis to manage and invest in approved assets on their clients' behalf. They usually act for the smaller collective investment institutions such as public unit trusts. They are not accessible to the small investor. Investment managers provide a sophisticated level of service, matching assets and liabilities. They act in the main as the managers of pooled funds, but also manage clients' investments on an individual portfolio basis.

A considerable proportion of the assets of collective investment institutions, particularly the statutory funds of life insurance corporations and assets of pension funds, is channelled through investment managers. At 31 December 1999, $415 billion, or 67% of the unconsolidated assets of collective investment institutions, were channelled through investment managers, with the balance being directly invested by the institutions. Table 4.4 shows the total unconsolidated assets of each type of collective investment institution and the amount of these assets invested through investment managers.

Investment managers also accept money from investors other than collective investment institutions. At 31 December 1999, investment managers invested $96 billion on behalf of government bodies, general insurers and other clients, including overseas clients.

4.4 ASSETS INVESTED THROUGH INVESTMENT MANAGERS—1999(a)

Source of funds	*Unconsolidated assets of managed funds* $m	*Assets invested with investment managers* $m
Statutory funds of life insurance corporations(b)	177 453	139 728
Pension and approved deposit funds	291 406	171 410
Public unit trusts	116 673	71 625
Friendly societies	6 236	4 651
Common funds	7 853	5 284
Cash management trusts	22 585	21 938
Total managed funds assets	**622 206**	**414 636**
Government	. .	7 213
Charities	. .	1 017
Other trusts	. .	23 009
General Insurance	. .	17 458
Other sources	. .	27 349
Total other sources assets	**.. .**	**76 046**
Funds from Australian sources	. .	490 682
Funds from overseas sources	. .	20 126

(a) As at 31 December 1999.

(b) Includes both superannuation and ordinary business.

Source: Managed Funds, Australia (Cat. no. 5655.0).

For more details see *Managed Funds, Australia* (Cat. no. 5655.0)—issued quarterly.

CHAPTER 5 MONEY AND THE PAYMENTS SYSTEM

The payments system supports trade and commerce in a market economy. Notes and coin are one means of payment. Liquid balances held at financial institutions are also available potentially for transactions needs, under cheque and other forms of transfer facilities, and thus add to the money supply.

From 1 July 1998 a new financial regulatory framework came into effect, in response to the recommendations of the Financial System Inquiry (the Wallis Committee). Under these arrangements the Reserve Bank has stronger regulatory powers in the payments system in accordance with the *Payments Systems (Regulations) Act 1998*, to be exercised by a Payments System Board within the Bank.

MONEY

Australia has a decimal system of currency, the unit being the dollar, which is divided into 100 cents. Australian notes are issued in the denominations of $5, $10, $20, $50 and $100 and coins in the denominations of 5c, 10c, 20c, 50c, $1 and $2. $1 and $2 notes were replaced by coins in 1984 and 1988 respectively, and 1c and 2c coins ceased to be issued from 1 February 1992. Table 5.1 shows the value of notes on issue at the last Wednesday of June. Table 5.2 shows the value of coin on issue at the same time points.

5.1 VALUE OF AUSTRALIAN NOTES ON ISSUE—LAST WEDNESDAY IN JUNE

	1994	*1995*	*1996*	*1997*	*1998*	*1999*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*
$1	21	20	19	19	19	—
$2	69	49	48	47	47	46
$5	313	332	337	351	361	379
$10	634	614	583	601	617	639
$20	1 795	1 848	1 868	1 837	1 804	1 850
$50	6 837	7 193	7 928	8 912	9 523	10 356
$100	7 907	8 482	8 399	8 297	9 280	10 282
Total	**17 576**	**18 530**	**19 182**	**20 064**	**21 651**	**23 552**
Percentage change	7.4	5.5	3.5	4.6	7.9	8.8

Source: Reserve Bank of Australia.

5.2 VALUE OF AUSTRALIAN DECIMAL COINS ON ISSUE—LAST WEDNESDAY IN JUNE

	1994	1995	1996	1997	1998	1999
	$m	$m	$m	$m	$m	$m
1c	23.5	23.1	22.8	22.6	22.5	22.4
2c	32.0	31.3	30.7	30.3	29.9	29.7
5c	92.9	98.6	102.6	106.8	111.5	117.3
10c	98.0	98.0	97.5	98.8	101.9	107.2
20c	134.0	136.0	138.7	142.7	147.5	154.5
50c	188.8	197.2	204.8	210.3	214.9	224.5
$1	263.1	300.4	328.0	351.8	364.7	380.6
$2	415.9	445.0	468.9	492.0	518.0	551.9
Total	**1 284.2**	**1 329.6**	**1 394.0**	**1 455.1**	**1 510.9**	**1 588.1**
Percentage change	6.0	6.5	4.8	4.4	3.8	5.1

Source: Reserve Bank of Australia.

MONEY SUPPLY MEASURES

The money supply, as measured and published by the Reserve Bank, refers to the amount of cash held by the public plus deposits with specified financial institutions. The measures range from the narrowest category, money base, through to the widest category, broad money, with other measures in between. The measures mainly used are as follows.

- Money base comprises holdings of notes and coin by the private sector, deposits of banks with the Reserve Bank, and other Reserve Bank liabilities to the private sector.
- M3 is defined as currency plus bank deposits of the private non-bank sector.
- Broad money is defined as M3 plus borrowings from the private sector by non-bank financial intermediaries (including cash management trusts) less their holdings of currency and bank deposits.

The money supply under each of these measures at end December of the last six years is shown in table 5.3.

5.3 MONEY SUPPLY MEASURES

						As at 31 December
	1994	1995	1996	1997	1998	1999
	$m	$m	$m	$m	$m	$m
Money base	23 765	24 958	33 043	29 962	31 926	29 732
M3	262 064	286 243	313 435	333 599	358 762	394 884
Broad money	313 938	341 113	372 700	400 461	434 029	463 698
Percentage change in broad money	8.8	8.7	9.3	7.4	8.4	6.8

Source: Reserve Bank of Australia.

PAYMENTS SYSTEM

Following recommendations by the Financial System (Wallis) Inquiry, the Payments System Board was established within the Reserve Bank on 1 July 1998. The Payments System Board has responsibility for determining the Reserve Bank's payments system policy, under the powers set out in the *Payments Systems (Regulation) Act 1998*. The payments system has separate components for settling large amounts and retail amounts.

The High Value Clearing System (HVCS) was implemented in August 1997. The HVCS allows all holders of Reserve Bank exchange settlement accounts to settle large value payments through a system designed to process a high volume of transactions. On 1 March 1999 the Payments System Board announced the easing of restrictions on eligibility for holding exchange settlement accounts. APRA-supervised institutions and some institutions not supervised by APRA potentially now have access.

Initially, the settlement of payments was on a net deferred basis, where settlement of interbank obligations was not completed until 9a.m. on the day following the sending of payment instructions. This was changed to a real-time gross settlement (RTGS) basis on 22 June 1998. This new settlement basis, where payments are settled immediately, contributes substantially to the reduction of settlement risk and systemic risk in the Australian payments system.

Additionally, the Board has declared the Reserve Bank Information and Transfer System (RITS) and the Austraclear System (FINTRACS) to be approved RTGS systems.

About 80% of the value exchanged in the payments system is cleared via the HVCS.

Table 5.4 highlights the growth of publicly available electronic access points into the payments systems. The major growth has been in the number of EFTPOS terminals in Australia as more retailers provide a means to transfer funds electronically at the point of sale. This enables their customers to use debit cards as well as credit cards.

5.4 ELECTRONIC ACCESS POINTS—END JUNE

	1994	*1995*	*1996*	*1997*	*1998*	*1999*
	no.	*no.*	*no.*	*no.*	*no.*	*no.*
Automatic teller machines	6 008	6 775	7 718	8 567	9 014	9 387
EFTPOS terminals	43 950	85 234	136 645	189 161	243 253	265 391

Source: Australian Payments Clearing Association Limited, 1999 Annual Report.

CHAPTER 6 INTERNATIONAL ACCOUNTS AND GLOBALISATION INDICATORS

International accounts statistics cover the closely related and integrated statistics on Australia's balance of payments and international investment position. The diagram on the next page presents the broad structure and relationship of these statistics.

Australia's balance of payments provides a statistical statement that systematically summarises the economic transactions between residents of Australia and residents of other countries. 'Residents', who may be people or businesses, need not be Australian nationals. Transactions cover the provision (changes in ownership) of goods, services, income, and financial claims on and liabilities to the rest of the world, and entries (such as gifts) classified as transfers that offset the provision of real and financial resources without anything provided in exchange.

Statistics about Australia's international investment position provide the balance sheet of the stock of foreign financial assets and liabilities of Australian residents. They integrate the balance sheet positions with information on increases and decreases in the levels of these assets and liabilities as a result of the changes due to transactions (investment flows, including reinvestment of earnings) as shown in the financial account of the balance of payments, together with the other changes that affect either the value of the stock (price, exchange rate) or the volume (other adjustments) of the stock of financial assets and liabilities.

EXPORTS AND IMPORTS OF FINANCIAL AND INSURANCE SERVICES

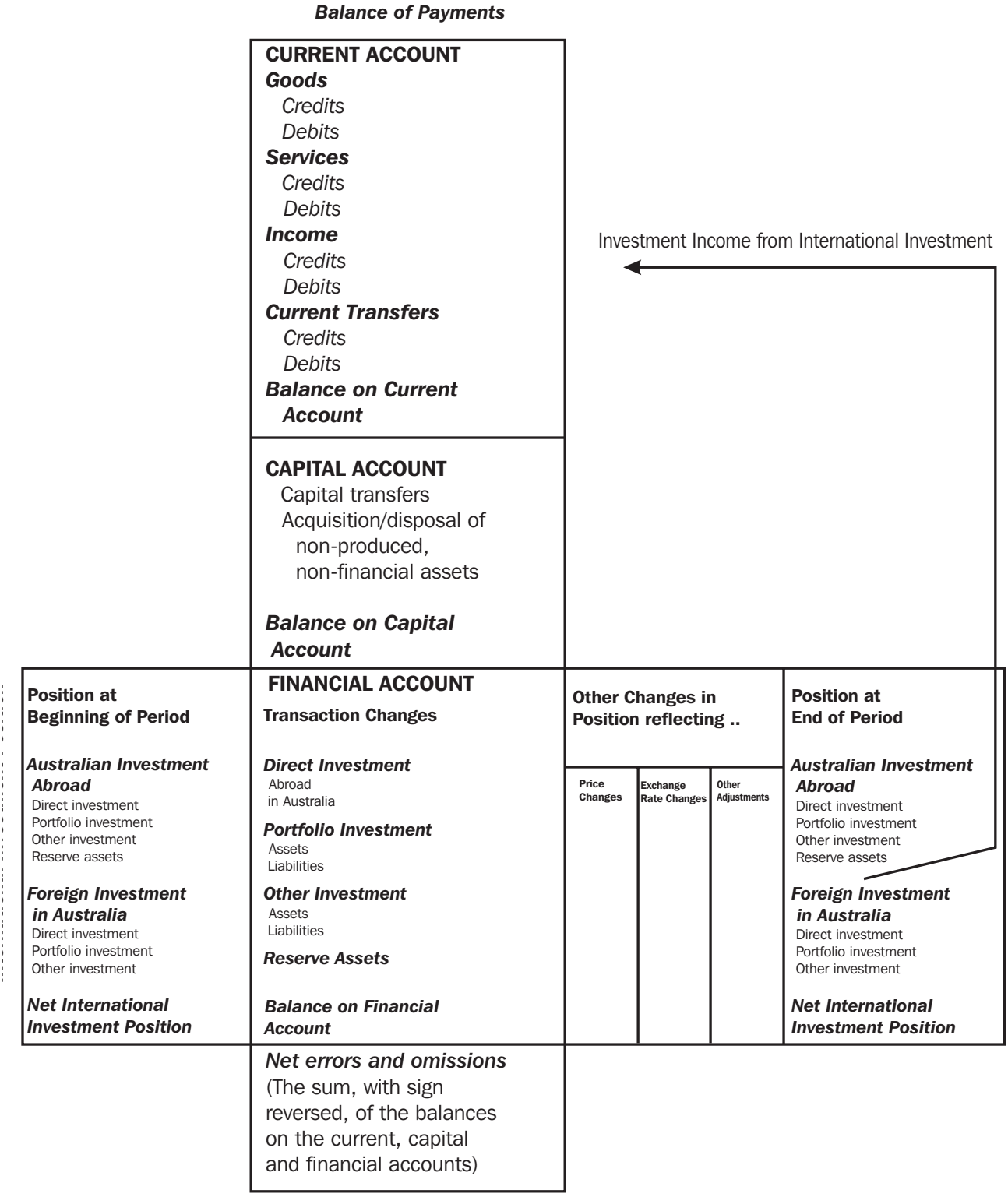
Financial services cover financial intermediation services and auxiliary services conducted between residents and nonresidents. Included are commission fees for letters of credit, lines of credit, financial leasing services, foreign exchange transactions, consumer and business credit services, brokerage services, underwriting services, arrangements for various forms of hedging instruments. Auxiliary services include financial market operational and regulatory services.

Insurance services covers the provision of insurance to nonresidents by resident insurance enterprises and vice versa. Included are services provided for freight insurance on imported and exported goods, services provided for other types of direct insurance (including life and non-life), and services provided for reinsurance.

Financial and insurance services credits has maintained a relatively constant share of services except over the last three years, representing approximately 6% of total services credits. This is up on the share achieved in the mid 1990s of about 5.5%.

Financial and insurance services debits, as a percentage of total services debits, has declined steadily from 8% in 1994 to 5% in 1999.

Table 6.1 presents information on Australia's international transactions relating to financial and insurance services for the latest six years.


Balance of Payments
CURRENT ACCOUNT
Goods
Credits
Debits
Services
Credits
Debits
Income
Credits
Debits
Current Transfers
Credits
Debits
Balance on Current Account
Investment Income from International Investment
CAPITAL ACCOUNT
Capital transfers
Acquisition/disposal of non-produced, non-financial assets
Balance on Capital Account
Position at Beginning of Period
Australian Investment Abroad
Direct investment
Portfolio investment
Other investment
Reserve assets
Foreign Investment in Australia
Direct investment
Portfolio investment
Other investment
Net International Investment Position
FINANCIAL ACCOUNT
Transaction Changes
Direct Investment
Abroad
in Australia
Portfolio Investment
Assets
Liabilities
Other Investment
Assets
Liabilities
Reserve Assets
Balance on Financial Account
Other Changes in Position reflecting ..
Price Changes
Exchange Rate Changes
Other Adjustments
Position at End of Period
Australian Investment Abroad
Direct investment
Portfolio investment
Other investment
Reserve assets
Foreign Investment in Australia
Direct investment
Portfolio investment
Other investment
Net International Investment Position
Net errors and omissions
(The sum, with sign reversed, of the balances on the current, capital and financial accounts)

6.1 EXPORTS AND IMPORTS OF FINANCIAL AND INSURANCE SERVICES

	1994	1995	1996	1997	1998	1999
	$m	$m	$m	$m	$m	$m
Credits (exports)						
Total services	19 394	21 776	23 704	24 907	25 684	27 307
Insurance services	532	614	722	806	850	873
Financial services	568	550	617	678	710	732
Total finance and insurance services	1 100	1 164	1 339	1 484	1 560	1 605
Percent of total services credits	5.7	5.3	5.6	6.0	6.1	5.9
Debits (imports)						
Total services	–21 111	–23 083	–23 755	–25 396	–27 515	–28 403
Insurance services	–1 050	–1 064	–1 038	–963	–919	–929
Financial services	–625	–576	–461	–448	–452	–498
Total finance and insurance services	–1 675	–1 640	–1 499	–1 411	–1 371	–1 427
Percent of total services debits	7.9	7.1	6.3	5.6	5.0	5.0

Source: Balance of Payments and International Investment Position, Australia (Cat. no. 5302.0).

INTERNATIONAL INVESTMENT

The Australian finance sector plays a variety of international investment roles—all part of an increasing globalisation in finance. It plays an intermediation role by acquiring funds from abroad (increasing its gross and net foreign debt) to on lend to customers in Australia. It also acquires funds within Australia to on lend to foreign customers (increasing its gross foreign assets and reducing its net foreign debt).

The sector also acquires branches and subsidiaries abroad to directly provide banking and other financial services to foreign markets as well as to improve the international network it can provide to support the activities of its domestic customers. Similarly, since the deregulation of the domestic financial market in the mid 1980s, foreign banks and other finance sector participants have established branches and subsidiaries in Australia to service the domestic market.

This chapter looks at some of the aspects of the globalisation of the Australian finance sector.

FOREIGN DEBT

Foreign debt is a subset of the financial obligations that comprise a country's international investment position. It includes all the non-equity components of the net international investment position, that is, all assets and liabilities other than equity securities and other equity capital.

The level of borrowing and other non-equity liabilities by Australian residents at a particular date can be equated with Australia's foreign debt liabilities. The level of Australian lending abroad and other non-equity assets at the same date are deducted from the level of borrowing to arrive at Australia's net foreign debt.

The level of financial corporations net foreign debt at 30 September 1999 was $155 billion, up 8.6% on 30 September 1998 ($143 billion). The increase during the 12 months to September 1999 resulted from net financial transactions of $14 billion.

The net foreign debt of Australian private financial corporations has increased 4 fold in the past decade as the increasingly globalised sector has funded domestic borrowing requirements. Over that same period, the net foreign debt of private non-financial corporations has fallen by 4% as corporations increasingly used the finance sector to source funds rather than borrowing directly offshore. This trend has continued into the late 1990s. In the three years to 30 September 1999, Australia's private non-financial corporations increased their gross debt from all sources by about $90 billion (30%) but only $6 billion of that increase came directly from offshore, and the rest was raised through domestic financial institutions.

Table 6.2 presents data on Australian financial corporations international transactions for the latest six years. Table 6.3 shows the level of net foreign debt of financial corporations.

6.2 FOREIGN DEBT OF FINANCIAL CORPORATIONS, TRANSACTIONS

	1994	*1995*	*1996*	*1997*	*1998*	*1999(a)*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*
Assets						
Public	2 127	–1 189	–5 430	–4 109	3 988	47
Private	787	–1 657	–3 247	–5 620	–2 342	–3 974
Total	2 914	–2 846	–8 677	–9 729	1 646	–3 927
Liabilities						
Public	517	4 165	–3 985	–3 134	–4 689	–4 541
Private	1 214	16 221	18 648	17 929	18 820	17 917
Total	1 731	20 386	14 663	14 795	14 131	13 376
Net foreign debt						
Public	2 644	2 976	–9 414	–7 242	–702	–4 494
Private	2 000	14 563	15 401	12 310	16 478	13 943
Total	4 644	17 539	5 987	5 068	15 776	9 449

(a) 1999 figures are as at 31 September.

Source: Balance of Payments and International Investment Position, Australia (Cat. no. 5302.0).

6.3 FOREIGN DEBT OF FINANCIAL CORPORATIONS, LEVELS

						As at 31 December
	1994	*1995*	*1996*	*1997*	*1998*	*1999(a)*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*
Assets						
Public	–25 600	–28 044	–27 430	–33 331	–32 565	–30 385
Private	–30 294	–34 922	–41 177	–51 482	–57 257	–59 410
Total	–55 894	–62 966	–68 607	–84 813	–89 822	–89 795
Liabilities						
Public	55 192	62 425	49 931	46 006	42 992	37 407
Private	87 100	104 395	134 574	165 399	194 538	207 515
Total	142 292	166 820	184 505	211 405	237 530	244 922
Net foreign debt						
Public	29 592	34 382	22 501	12 675	10 428	7 021
Private	56 806	69 473	93 397	113 917	137 281	148 104
Total	86 398	103 855	115 898	126 592	147 709	155 125

(a) Figures are as at 31 September for 1999.

Source: Balance of Payments and International Investment Position, Australia (Cat. no. 5302.0).

FOREIGN EQUITY AND THE FINANCE SECTOR

A decade ago, foreign equity in the Australian finance sector was about $13 billion, with two thirds of that investment in the form of direct equity investment in branches and subsidiaries. A decade on, at 31 December 1999, total foreign equity investment in the Australian finance sector had risen five fold to $60 billion, but with two thirds of that investment now contributed by portfolio investors acquiring smaller (less than 10%) interests in resident financial institutions. Table 6.4 shows, for the past decade, the level of foreign equity investment in the Australia finance sector (direct and portfolio investment) as well as the direct equity investment abroad by the Australian finance sector.

6.4 AUSTRALIAN FINANCE SECTOR INTERNATIONAL EQUITY INVESTMENTS

	Foreign equity investment in Australia			*Australian direct equity investment held in direct investment groups abroad*		
	Direct investment equity	*Portfolio investment equity*	*Total foreign equity*	*By direct investment enterprises in Australia*	*By Australian owned enterprises*	*Total direct equity abroad*
As at 31 December	*$b*	*$b*	*$b*	*$b*	*$b*	*$b*
1989	9	4	13	—	6	6
1990	11	5	16	—	10	10
1991	11	6	17	—	10	10
1992	11	6	17	—	10	10
1993	12	10	22	—	13	13
1994	13	11	25	—	12	12
1995	16	13	29	—	15	15
1996	18	16	34	2	15	16
1997	19	24	43	2	19	21
1998	19	37	56	3	23	26
1999	19	42	60	—	22	22

Source: Balance of Payments and International Investment Position, Australia (Cat. no. 5302.0) and unpublished data.

The Australian finance sectors' direct equity investment abroad has increased nearly four fold in a decade from $6 billion at 31 December 1989 to reach $22 billion by 31 December 1999. While at 31 December 1999 there were 19 foreign finance subsidiaries in Australia which had established direct investment subsidiaries and branches overseas, forming part of the Australian finance sector's direct equity investment abroad, Australian majority owned finance enterprises still hold 96% by value of these overseas branches and subsidiaries.

Table 6.5 shows the degree of foreign investment for the bank, other depository, and other financial institutions subsectors of the finance sector, together with country shares in that foreign investment.

Foreign equity investment in the finance sector, as a percentage of the equity on issue by the sector, is 22% at 31 December 1999. The foreign equity participation in banks and other depository institutions is higher, at 30% and 27% respectively, while for other financial subsectors the percentage is much lower, in part due to no foreign equity investment in State and Territory central borrowing authorities and lower levels of equity investment in life insurance corporations.

The United Kingdom and the United States of America are the largest sources of foreign equity investment in the Australian finance sector, each holding about one quarter of the foreign equity in the sector at 30 June 1999.

Table 6.5 shows the degree of foreign investment for the bank, other depository, and other financial institutions subsectors of the finance sector, together with country shares in that foreign investment.

6.5 OWNERSHIP OF EQUITY IN AUSTRALIAN FINANCE SECTOR(a)

				Value of equity at end of period
YEAR ENDED DECEMBER	**1996**	**1997**	**1998**	**1999**
Banks				
Amount issued(b)	75.1	97.9	111.6	116.4
Amount held by rest of the world	17.3	24.1	31.7	34.5
Percentage foreign ownership	23.0	24.6	28.4	29.6
Non-bank deposit taking institutions				
Amount issued(b)	15.3	16.0	15.7	17.3
Amount held by rest of the world	4.5	5.8	4.2	4.6
Percentage foreign ownership	29.4	36.3	26.8	26.6
Other financial institutions(c)				
Amount issued(b)	62.6	99.3	130.4	155.7
Amount held by rest of the world	11.8	16.6	21.2	24.1
Percentage foreign ownership	18.8	16.5	16.3	15.5
Total finance sector				
Amount issued(b)	153.0	213.2	257.7	289.4
Amount held by rest of the world	33.6	46.3	57.1	63.2
Percentage foreign ownership	22.0	21.7	22.2	21.8
YEAR ENDED JUNE	**1995–96**	**1996–97**	**1997–98**	**1998–99**
Amounts held by the rest of the world by country				
Banks				
United Kingdom	5.6	8.0	9.5	n.y.a.
United States	5.3	5.6	7.6	n.y.a.
Japan	0.7	1.0	1.2	n.y.a.
Other countries	2.5	4.7	10.4	n.y.a.
Total	**14.1**	**19.2**	**28.7**	**33.4**
Non-bank deposit taking institutions				
United Kingdom	0.5	0.2	0.3	n.y.a.
United States	1.0	1.2	1.2	n.y.a.
Japan	1.9	1.4	1.3	n.y.a.
Other countries	1.8	1.9	2.2	n.y.a.
Total	**5.2**	**4.7**	**5.0**	**4.3**
Other financial institutions				
United Kingdom	3.4	3.4	4.2	n.y.a.
United States	1.7	2.3	3.5	n.y.a.
Japan	0.7	0.6	0.5	n.y.a.
Other countries	4.5	6.5	12.5	n.y.a.
Total	**10.4**	**12.8**	**20.7**	**20.3**
Total finance sector				
United Kingdom	9.5	11.6	14.0	n.y.a.
United States	8.0	9.1	12.3	n.y.a.
Japan	3.3	3.0	3.0	n.y.a.
Other countries	8.8	13.1	25.1	n.y.a.
Total	**29.7**	**36.7**	**54.4**	**58.0**

(a) Excludes Reserve Bank of Australia.

(b) The estimated market values for the unlisted shares component are considered to be of poor quality.

(c) Includes life offices, superannuation funds, State and Territory Central Borrowing Authorities, and other financial institutions.

Source: Balance of Payments and International Investment Position, Australia (Cat. no. 5302.0); Australian National Accounts: Financial Accounts (Cat. no. 5232.0).

CHAPTER 7 INDUSTRY INDICATORS

This chapter presents an overview of the current structure and performance of the finance and insurance industry. Care should be taken when analysing industry-specific data. Differences in the frequency, scope, statistical units and methodologies of the various ABS collections used to compile the statistics will affect the degree to which comparisons can be made.

EMPLOYMENT, EARNINGS AND COSTS IN FINANCE AND INSURANCE

Persons employed includes any person undertaking paid work. Persons who have a job or a business, but were absent from work in the reference week, are also considered to be employed. Average weekly earnings include award, over-award, workplace and enterprise bargaining payments, and overtime pay.

The Wage Cost Index (WCI) is a pure price index designed to measure changes over time in wage and salary rates of pay. Index numbers for the WCI are compiled from hourly wage and salary rates for a representative sample of employee jobs within a sample of employing organisations. By following a sample of jobs over time, and by maintaining a fixed weighting pattern, the wage cost indexes are unaffected by, for example, shifts in the distribution of employees across occupations and industries, and between full-time and part-time jobs. Thus, unlike other ABS earnings measures such as the Average Weekly Earnings series, the WCI does not measure changes in average (per employee) wage payments.

Table 7.1 shows the number of persons employed and the average weekly earnings in the finance and insurance industry and its relation to the workforce as a whole for the latest six years. Over this period, the number of persons employed in the finance and insurance industry has risen 3.5%, from 311,000 to 322,000. However, the proportion of persons employed in the finance and insurance industry as a percentage of total persons employed has declined, from 3.9% in November 1994 to 3.5% in November 1999. Influences contributing to this decline will include technology developments requiring fewer people to undertake certain activities, and the outsourcing of some activities.

Over the six years, average weekly earnings in the finance and insurance sector increased 27% from $613.40 to $779.20. Total average weekly earnings for the same period increased only 13%. Some of the difference will be because "jobs lost" over this period will be dominated by lower paid employees. Average weekly earnings in the finance and insurance industry exceeded the Australian average weekly earnings for each year.

WCI data are available for the latest three years only. In December 1999, the WCI for the finance and insurance sector was recorded at 107.9, slightly higher than all industries at 107.0.

7.1 EMPLOYMENT AND EARNINGS IN FINANCE AND INSURANCE

	1994	1995	1996	1997	1998	1999
Persons employed(a)						
Finance and insurance ('000)	310.6	311.3	318.7	308.4	332.5	321.6
Total persons employed ('000)	8 025.1	8 335.1	8 383.6	8 514.7	8 651.0	9 046.8
Percentage of total (%)	3.9	3.7	3.8	3.6	3.8	3.5
Average weekly earnings(b)						
Finance and insurance ($)	613.4	692.6	734.6	806.4	807.0	779.2
Total average weekly earnings ($)	541.5	554.3	570.0	592.7	603.7	613.3
Percentage of total (%)	113.3	124.9	128.9	136.0	133.7	127.0
Wage cost index(c)						
Finance and insurance	n.a.	n.a.	n.a.	101.0	104.7	107.9
All industries	n.a.	n.a.	n.a.	100.8	103.9	107.0

(a) As at end November.

(b) Total earnings as at end November.

(c) Total hourly rates of pay (excluding bonuses) as at end December.

Source: Labour Force, Selected Summary Tables, Australia (Cat. no. 6291.0.40.001); Average Weekly Earnings, States and Australia (Cat. no. 6302.0); Wage Cost Index, Australia (Cat. no. 6345.0).

TOTAL FACTOR INCOME

Total factor income represents the value added by factors, labour and capital, in the process of production and is equivalent to gross domestic product less taxes plus subsidies on production and imports.

Table 7.2 shows factor income broken down by profits (referred to as gross operating surplus and gross mixed income) and the wages income of employees of the finance and insurance industry, and for the Australian economy.

The table shows that the finance and insurance sector experienced a steady growth in wages, averaging 7% growth per annum since 1992–93. The total industry annual average for the same period was 6%. The table also shows that finance and insurance industry profits have remained relatively stable over the past six years, though 1998–99 profits were up 14.6% on the previous year. The finance and insurance industry growth for 1998–99 was well above the average all industries growth of 7.7%.

7.2 TOTAL FACTOR INCOME

	1993–94	1994–95	1995–96	1996–97	1997–98	1998–99
	$m	$m	$m	$m	$m	$m
Finance and insurance						
Compensation of employees	12 564	13 306	14 674	15 690	16 541	18 670
Profits (GOS(a) and GMI(b))	12 569	11 365	11 405	11 850	13 624	15 373
Total finance and insurance	25 133	24 671	26 079	27 540	30 165	34 043
All industries						
Compensation of employees	212 131	226 904	242 347	258 797	270 267	288 110
Profits (GOS(a) and GMI(b))	185 849	192 893	207 015	213 390	230 714	240 839
Total	397 980	419 797	449 362	472 187	500 981	528 949

(a) Gross Operating Surplus in current prices.

(b) Gross Mixed Income in current prices.

Source: Australian System of National Accounts (Cat. no. 5204.0).

PERFORMANCE RATIOS

The relative performance of industries can be analysed using a combination of quantitative estimates and performance ratios. The derivations of the performance ratios shown in table 7.3 are as follows:

- profit margin is operating profit before tax as a percentage of sales of goods and services plus interest income plus other operating income;
- return on assets is operating profit before tax as a percentage of total assets; and
- interest coverage is the number of times that businesses can meet their interest expenses from their earnings before interest and tax.

In 1997–98, the finance and insurance sector profit margin of 27.8% exceeded the all industries profit margin of 8.9%. For the same period, the finance and insurance sector's return on assets was below the industry average at 3.0% compared to 4.7%. The interest coverage was also below the industry average at 1.9 times compared to 2.7 times.

7.3 INDUSTRY PERFORMANCE RATIOS

	1996–97	*1997–98*
Finance and insurance		
Profit margin (%)	32.0	27.8
Return on assets (%)	3.2	3.0
Interest coverage (times)	2.0	1.9
All industries		
Profit margin (%)	9.0	8.9
Return on assets (%)	4.5	4.7
Interest coverage (times)	2.6	2.7

Source: Business Operations and Industry Performance, Preliminary (Cat. no. 8142.0).

CHAPTER 8 INTERNATIONAL COMPARISONS

This chapter presents international comparisons on key indicators such as interest rates, share price indexes and other financial indicators. Care should be taken when analysing the data. Differences in the frequency, scope, statistical units and methodologies of the various statistical agencies collections used to compile the statistics will affect the degree to which comparisons can be made.

INTEREST RATES

Table 8.1 presents data on selected overseas prime lending or at call interest rates. The interest rates have remained relatively stable for most of the listed countries. Significant increases due to the financial crisis were identified for Indonesia and Thailand, followed by less dramatic increases for Malaysia and Singapore.

8.1 OVERSEAS MARKET INTEREST RATES

	1995	*1996*	*1997*	*1998*	*1999*
	% p.a.	*% p.a.*	*% p.a.*	*% p.a.*	*% p.a.*
United States of America	8.50	8.25	8.50	7.75	8.50
United Kingdom	7.61	7.00	8.25	6.75	6.50
Japan	1.63	1.63	1.63	1.50	1.38
Hong Kong (SAR of China)	8.27	8.50	9.50	9.00	8.50
Singapore	6.00	6.00	6.50	5.50	5.00
Indonesia	13.50	10.34	44.16	36.63	10.96
Malaysia	6.10	6.40	7.00	5.25	2.55
Thailand	16.00	14.00	14.25	2.25	1.50
New Zealand	9.00	8.00	8.32	3.80	5.00
Australia(a)	7.50	6.00	5.00	4.75	5.00

Source: Reserve Bank of Australia Bulletin.

SHARE PRICE INDEXES

Table 8.2 summarises the performance of major international share price indexes all rebased to 31 January 1985 =100. Significant increases were recorded in the year to 31 December 1999 for each of the Hang Seng, up 506.5 points (69%) to 1,242.6, the Dow Jones Industrial up 180.0 (25%) and the Straits Times up 130.4 (78%).

8.2 SHARE PRICES INDEXES, INTERNATIONAL COMPARISON(a)

						As at 31 December
	1994	*1995*	*1996*	*1997*	*1998*	*1999*
All Ordinaries (Australia)	247.3	284.8	313.5	338.3	363.8	407.6
Dow Jones Industrial (United States of America)	298.0	397.7	501.1	614.6	713.5	893.5
FT Industrial Ordinary (United Kingdom)	239.7	273.1	285.6	333.9	360.5	422.0
Nikkei 225 (Japan)	164.5	165.7	161.4	127.2	115.4	157.9
Hang Seng (Hong Kong SAR of China)	600.1	738.0	985.4	785.5	736.1	1 242.6
Straits Times (Singapore)	268.7	271.9	266.0	183.5	167.1	297.5

(a) 31 January 1985 = 100.

Source: Reserve Bank of Australia Bulletin.

OTHER FINANCIAL INDICATORS

Table 8.3 presents data on the international liquidity and the accounts of monetary and other financial institutions of selected countries.

International liquidity includes monetary authorities' holdings of SDRs, reserve position in the International Monetary Fund and foreign exchange. Foreign exchange includes monetary authorities' claims on nonresidents in the form of foreign bank notes, bank deposits, treasury bills, short and long term government securities and other claims useable in the event of balance of payments need. Monetary authorities comprise central banks and, to the extent that they perform monetary authorities' functions, currency boards, exchange stabilisation funds and treasuries.

Data on monetary authorities measure the stock of reserve money comprising currency in circulation, deposits of the deposit money banks and deposits of other residents (apart from the central government) with monetary authorities.

Data on deposit money banks measure the stock of deposit money. Deposit money banks comprise commercial banks and other banks that accept transferable deposits, such as demand deposits.

8.3 FINANCIAL INDICATORS BY SELECTED COUNTRIES—1999(a)

	United States	*United Kingdom*	*Japan*	*Hong Kong*	*Singapore*	*Australia*
	$USb	*$USb*	*$USb*	*$USb*	*$USb*	*$USb*
International liquidity						
Monetary gold	11.1	5.1	1.2	0.0	n.a.	0.7
Special drawing rights	10.4	0.5	2.6	0.0	0.1	0.1
Reserve position in IMF	18.0	5.2	6.3	0.0	0.4	1.6
Foreign exchange	32.2	23.6	283.1	96.2	76.3	20.5
Deposit money banks						
Assets	808.8	1 872.7	n.a.	482.3	57.3	18.8
Liabilities	1 264.3	1 895.0	n.a.	378.5	53.0	88.3
Monetary Authorities						
Foreign assets	72.3	35.8	198.0	89.0	75.3	25.2
Claims on central government	505.9	45.6	436.4	n.a.	n.a.	9.6
Reserve money	571.1	47.6	602.3	30.2	10.4	20.9
Foreign liabilities	0.2	34.3	n.a.	0.0	n.a.	0.1
Central government deposits	24.1	n.a.	91.3	54.8	36.1	6.4
Other items (net)	–16.6	–0.4	66.2	–29.1	28.8	7.5
Deposit money banks						
Reserves	61.1	9.5	98.8	4.2	4.0	3.3
Foreign assets	259.0	1 837.9	763.9	482.3	57.9	29.9
Claims on central government	218.7	14.3	739.5	21.4	17.7	15.1
Claims on private sector	4 247.7	1 682.0	5 519.2	n.a.	90.0	348.4
Demand deposits	588.1	(b)1 443.3	1 657.2	10.8	11.5	66.2
Time and savings deposits	2 005.0	n.a.	3 753.6	328.8	84.0	199.7
Money market instruments	662.3	n.a.	n.a.	14.3	n.a.	n.a.
Foreign liabilities	481.7	1 802.6	520.0	378.5	53.5	88.3
Bonds	241.5	n.a.	424.0	n.a.	n.a.	n.a.
Central government deposits	47.2	n.a.	n.a.	0.5	0.9	3.6
Other items (net)	869.4	302.9	821.9	3.3	19.7	46.2
Monetary survey(c)						
Foreign assets (net)	–95.4	36.8	442.0	188.2	78.8	–33.2
Domestic credit	7 461.8	1 747.0	6 914.0	220.7	70.7	370.4
Money	1 343.5	(d)1 481.7	2 160.8	22.0	17.9	82.3
Quasi-money	4 116.4	n.a.	3 753.6	328.8	84.0	199.7
Money market instruments	872.9	n.a.	n.a.	14.3	n.a.	n.a.
Bonds	244.5	n.a.	424.0	n.a.	n.a.	n.a.
Other items (net)	789.1	302.1	888.2	–12.8	47.6	55.1

(a) Data for Australia and Hong Kong are all as at end December 1999. For Singapore and Japan, international liquidity statistics are per December 1999 but the other series are as at November 1999. The United States international liquidity statistics are as at December, but the other series are as at October or November. The UK series are as at March 1999.

(b) Includes time and savings deposits.

(c) Refer to Glossary for further information on the components of the monetary survey.

(d) Includes quasi-money.

Source: International Finance Statistics, International Monetary Fund.

EXPLANATORY NOTES

INTRODUCTION

1 This publication presents comprehensive details of Australia's financial sector and markets. It includes statistics on finance sector enterprises; the finance and insurance industry and its role and contribution to the economy in terms of financial intermediation, use of the labour force, labour costs and contribution to GDP. Also included are some globalisation indicators, exchange rates, interest rates and Australian Stock Exchange indexes.

2 The tables contain mainly ABS data, although data from other sources are included. For ABS sourced data, the publication name and catalogue number are included in the footnotes of the tables. If the data are from other sources, the source organisation's name is included in the footnotes.

THE CLASSIFICATION OF FINANCIAL INSTITUTIONAL SECTOR AND SUBSECTORS

3 The institutional sectors are based on the *Standard Economic Sector Classifications of Australia 1998* (Cat. no. 1218.0) and are the same as the sectors used in national income and expenditure accounts.

4 The basic unit that is classified by sector is the institutional unit, which is defined as an economic entity that is capable, in its own right, of owning assets, incurring liabilities and engaging in economic activities and transactions with other entities. *Financial enterprises* represent one of the broad domestic institution sectors.

5 Financial corporations comprise all resident corporations and quasi-corporations mainly engaged in financial intermediation and provision of auxiliary financial services. For example, they borrow and lend; provide superannuation, life, health or other insurance services, or financial leasing services; or they invest in financial assets. Holding companies with mainly financial corporations as subsidiaries are also included, as are market non-profit institutions that mainly engage in financial intermediation or production of auxiliary financial services. Mostly these enterprises are incorporated but large unincorporated enterprises such as unit trusts and superannuation funds are included in this sector if they qualify as "quasi-corporations" i.e., they engage in market production and function as if they are corporations.

6 This broad sector is broken down into eight sub-sectors:

- Central Bank;
- Banks;
- Other depository corporations;
- Life insurance;
- Pension funds;
- Other insurance corporations;
- Central borrowing authorities; and
- Financial intermediaries and auxiliaries n.e.c.

7 The first three of these are called deposit-taking institutions because their liabilities (except their liabilities for debt securities) are defined as broad money by the Reserve Bank.

8 *Central Bank*. The only entities in this subsector are the Reserve Bank of Australia and the Australian Prudential Regulation Authority (APRA). The central bank sub-sector is responsible for:

- monetary policy development;
- issuing of national currency;
- custodian of the country's international reserves;
- custodian of reserve deposits;
- provision of banking services to government; and
- regulation of the financial system.

9 *Banks*. In these statistics the only entities in this subsector are those financial corporations and quasi corporations licensed by APRA to operate as a bank. Development banks and State banks were included in this subsector for the periods in which they existed.

10 *Other depository corporations*. This subsector comprises all depository corporations with liabilities included in the Reserve Bank's definition of *broad money*, other than the RBA and those corporations that are categorised as banks. Financial corporations classified to this subsector are cash management trusts and corporations registered in categories A to G of the Financial Corporations Act (i.e., permanent building societies, credit co-operatives, authorised money market dealers, money market corporations, pastoral finance companies, finance companies and general financiers). Category C—authorised money market dealers—was abolished with effect from August 1996.

11 *Life insurance*. This subsector comprises all insurance corporations registered as life insurers with APRA, and friendly societies. These institutions are important as repositories of long-term household savings.

12 *Pension funds*. This subsector comprises all superannuation funds that are regarded as complying funds for the purpose of the *Superannuation Industry (Supervision) Act 1993* and other autonomous funds established for the benefit of public sector employees. Superannuation funds with all of their assets invested with insurance offices are included. Like the life insurance subsector, the subsector is a major repository for household savings.

13 *Other insurance corporations*. This subsector includes all corporations that provide insurance other than life insurance. Included are general, fire, accident, employer liability, household, health and consumer credit insurers. Also included is the Export Finance Insurance Corporation.

THE CLASSIFICATION OF FINANCIAL INSTITUTIONAL SECTORS AND SUBSECTORS *continued*

14 *Central borrowing authorities*. This subsector includes all central borrowing authorities, which are institutions established by each State and Territory Government primarily to provide finance for public corporations and quasi-corporations and other units owned or controlled by those governments, and to arrange investment of the units' surplus funds.

15 *Financial intermediaries and auxiliaries n.e.c.* This subsector comprises all institutions that meet the definition of a financial enterprise and are not included above. It includes:

- economic development corporations owned by governments;
- common funds including cash common funds;
- mortgage, fixed interest, equity and balanced public unit trusts;
- wholesale trusts;
- issuers of asset-backed securities;
- cooperative housing societies;
- corporations registered in category J of the Financial Corporations Act (mainly credit union leagues);
- housing finance schemes established by State Government to assist first home buyers;
- fund managers;
- stock brokers;
- stock exchanges;
- insurance brokers; and
- arrangers of hedging instruments such as swaps, options and futures.

THE CLASSIFICATION OF FINANCIAL INSTRUMENTS

16 The definitions of the financial instruments are identical for assets and liabilities. The instrument classification distinguishes instruments issued by residents from those issued by non-residents by grouping all claims on non-residents against "rest of world"

Cash and deposits

17 *Currency* covers notes (the liability of the Reserve Bank) and coin (the liability of the Commonwealth Government). *Deposits* are customers' account balances with domestic deposit-taking institutions (central bank, banks and other depository corporations) and non-resident deposit-taking institutions. Also included are units issued by cash management trusts and withdrawable share capital of building societies. (Bonds, debentures, unsecured notes and transferable certificates of deposit issued by deposit-taking institutions are classified to the instruments *long term debt securities other than* shares. Negotiable certificates of deposit issued by banks are classified to *short term debt securities other than shares)*.

18 The ABS does not make a distinction between deposits and loans for balances and transactions between deposit-taking institutions. For practical reasons, all balances and transactions related to deposits and loans between such institutions are classified as deposits.

19 *Loans* are borrowings which are not evidenced by the issue of debt securities. They are not usually traded and their value does not decline even in a period of rising interest rates. Examples are an overdraft from a bank, money lent by a building society with a mortgage over a property as collateral, and a financial lease agreement with a finance company. Repurchase agreements between deposit-taking institutions are also treated as loans rather than as purchases and sales of debt securities.

20 *Placements* are customers' account balances with entities not regarded as deposit-taking institutions. Examples are account balances of State and local public non-financial corporations with their central borrowing authorities, of public sector pension funds with their State Treasuries, and 11am money placed with corporate treasuries.

21 Debt securities are divided into short term and long term using the original rather than the remaining term to maturity of the instruments. *Short-term securities* are those with an original term to maturity of one year or less. Issuers of promissory notes and bills of exchange may negotiate rollover facilities which allow them to use these instruments as sources of floating-rate long-term funds. However, in these statistics, the existence of rollover facilities is not treated as converting what are legally short-term instruments into long-term instruments. That is, the ABS classifies the instrument according to the contracted term at the time of the original drawdown rather than anticipating use of the rollover facility.

22 There are two types of short-term securities reported:

- bills of exchange; and
- one-name paper.

23 Both types are issued to investors at a discount to face value. Professional traders call these short-term instruments *money market securities* and trade them in minimum parcels of $10 million. Except for promissory notes they are traded on well established secondary markets. Treasury notes are inscribed but the other instruments in this category are bearer securities.

24 *Bills of exchange* are an unconditional order drawn (issued) by one party, sent to another party (usually a bank) for acceptance and made out to, or to the order of, a third party, or to bearer. It is a negotiable instrument with an original term to maturity of 180 days or less. Although merchant banks were the promoters of the bill market in Australia, today almost all bills are bank accepted or endorsed because investors expect bills to be the obligation of a first-class credit.

25 *One-name paper* includes promissory notes, Treasury Notes and certificates of deposit issued by banks.

26 *A promissory note*—also called *commercial paper* in the professional market—is a written promise to pay a specified sum of money to the bearer at an agreed date. It is usually issued for an original term between 30 and 180 days and is sold to an investor at a simple discount to the value shown on the face of the document. A promissory note is not accepted by a bank and unlike a bill of exchange is not endorsed by the parties which sell it in the market.

27 *Treasury Notes* are inscribed instruments issued by the Commonwealth Government and have an original maturity of five, thirteen of twenty-six weeks.

28 *Bank certificates* of deposits are similar to promissory notes except that the drawer is a bank rather than (say) an industrial company. Bank-issued certificates of deposit with an original term to maturity of one year or less are called negotiable certificates of deposit.

29 Long-term debt securities have an original term to maturity of more than one year. Each consists of a document that represents the issuer's pledge to pay the holder, on a date which at the time of issue is more than one year in the future, the sum of money shown on the face of the document. Until that future date the issuer usually promises to pay interest to the holder twice-yearly at a rate which is fixed, linked to an index or linked to a reference rate (such as the bank bill rate). These securities are traded in the wholesale over-the-counter (OTC) market by telephone and through private screen brokers.

30 Long-term debt securities are frequently borrowed by market makers to cover short positions. Where identified, stock loans of this nature are treated in these statistics as an issue of securities.

31 There are two types of long-term debt securities reported:

- bonds etc; and
- derivatives.

32 Bonds etc include:

- Treasury bonds issued by the Commonwealth Government;
- various series of inscribed stock which are issued by the central borrowing authorities and other government-owned corporations. These are known as *semi-government securities* by professional traders;
- debentures, transferable certificates of deposit, and unsecured notes, which are collectively called *corporate securities* or *medium-term notes* by professional traders;
- asset-backed bonds including mortgage-backed bonds; and
- convertible notes prior to conversion.

33 *Derivatives* are a special type of financial instrument whose value depends on the value of an underlying asset, an index or a reference rate. Examples are swaps, forwards, futures and options. In these statistics, derivatives are treated as debt securities irrespective of the nature of the underlying asset.

34 *Insurance technical reserves* represent policyholders' claims on life insurance businesses and superannuation funds. These technical reserves are calculated by deducting all repayable liabilities from the value of total assets, and comprise the following four components.

35 *Household claims on technical reserves of life office and pension funds* represent households' net equity in, or claims on, the reserves of life offices and pension funds. In the case of life offices, it equates in large measure with the net policy liabilities of life offices to households. For life offices organised as mutual societies, residual net worth is also included. In the case of pension funds, it represents the funds' obligations to members including any surplus and reserves.

36 P*ension fund claims on life office reserves* represent pension funds' net equity in, or claims on, life office reserves. A significant number of pension funds invest their members' contributions in the statutory funds of life offices. These investments are typically held as unit-linked insurance or investment policies.

37 *Reserves and prepayments of general insurers* represent policy holders' net equity in, or claims on, the reserves of general insurance offices. This equates to prepayments of premiums and reserves held to cover outstanding claims.

38 *Unfunded public sector superannuation claims* represent the liabilities of the general government sector to public sector employees in respect of unfunded retirement benefits. In the absence of formal recognition of these liabilities in government accounts, the ABS has developed a set of historical estimates for outstanding liabilities and changes in liabilities for national accounting purposes.

39 *Shares and other equity* include:

- shares quoted on ASX;
- shares of unlisted companies;
- convertible notes after conversion;
- preference shares;
- net equity of foreign head offices in their Australian branches;
- shares issued by non-residents;
- growers' equity in marketing schemes; and
- units issued by public unit trusts.

40 Units are included in this instrument because they have some of the characteristics of equities, such as entitlement to a share of the profits and—on liquidation—the residual assets of the trust.

41 *Other accounts receivable/payable* cover any other claims by resident and non-resident counterparties that do not fit into the foregoing categories, such as trade credit and interest accruals.

42 Synthetic financial products are classified according to their strict legal form. For example, so-called synthetic shares take the legal form of unsecured notes and pay interest equal to the cash dividend of a particular share. Such instruments are classified as long-term debt securities rather than equities.

SOURCES OF DATA

43 Financial data in this publication are derived mostly from statistical surveys conducted by the ABS. Other data sources include APRA, the Reserve Bank of Australia, Australian Stock Exchange and the Royal Australian Mint.

44 *Central Bank*. The Reserve Bank provides a full balance sheet each quarter. However, there are timing and other differences with other information available to the ABS. To achieve the necessary consistency between the different data sources, the ABS has used counterpart information extensively in preparing the estimates for this sub-sector. Accordingly, the information presented in this publication for the Reserve Bank does not reflect the legal position of the Bank. The main data difficulties are as follows:

- some items on the RBA's balance sheet are valued as at the Wednesday closest to the end of the quarter. This is inconsistent with information provided both by the Commonwealth Department of Finance and the commercial banks which close off their accounts on the last working day of the quarter. Because of the large sums passing through the RBA's accounts, this difference in accounting period would have caused timing errors in the financial accounts had RBA data been used; and
- the RBA records entries in the Commonwealth Government's account when cheques are presented for payment but the Commonwealth Department of Finance makes these entries in its books when the cheques are drawn, which is likely to be several days earlier. Because of the large amounts involved, banking float at the start and end of each quarter is from time to time a serious problem in this sub-sector.

45 *Banks*. At the end of each quarter each bank provides a full balance sheet which consolidates only the activities of its domestic banking businesses. (Other domestic businesses of banks—such as their finance companies—report separately and are classified to the appropriate subsector.)

46 *Other depository corporations*. Most of the other depository corporations report to the Reserve Bank as at the last day of each month. The smaller credit cooperatives and general financiers are permitted to report as at the last day of each quarter. The Reserve Bank provides the ABS with statistics based on these statutory returns. However, these returns do not include information about shareholders' funds. This information is collected quarterly by the ABS from the larger corporations. However, for building societies and credit unions, from the March quarter 1995, the ABS has used data collected by the Australian Financial Institutions Commission. All cash management trusts report to the ABS monthly.

47 *Life insurance offices*. The ABS Survey of Financial Information collects balance sheet information from the large life offices. This information is supplemented by data provided by APRA, which requires all privately owned life insurance offices to provide it with assets and liabilities information quarterly. Large friendly societies provide quarterly balance sheet information to the ABS.

48 *Pension funds*. The largest pension funds (both public and private sector) provide quarterly balance sheet information in the APRA *Survey of Superannuation Funds*. These data are supplemented by an ABS collection from professional fund managers, which report the asset breakdown of the pension funds they manage. The collection is designed to enable the elimination of double counting. APRA provides quarterly estimates of assets of small ('excluded') pension funds. These collections, together with data provided by the major life offices and APRA, provide almost complete coverage of the assets of pension funds.

49 *Other insurance corporations*. All private general insurance companies are required to provide a quarterly statement of assets and liabilities to APRA. The ABS uses this information, supplemented by its own quarterly survey of government-owned general insurers. Data for health insurance companies are estimated from annual statistics provided by the Private Health Insurance Administration Council (PHIAC).

50 *Central borrowing authorities*. Data are provided to the ABS on a quarterly basis by all central borrowing authorities.

51 *Financial intermediaries and auxiliaries n.e.c.* Credit union leagues and other Category J financial corporations report quarterly to the Reserve Bank, which provides this information in aggregate form to the ABS.

52 Data for listed and unlisted unit trusts that are open to the general public and are not cash management, trading or property trusts are obtained from an ABS quarterly survey of all public unit trusts.

53 Issuers of asset-backed securities provide quarterly balance sheet data to the ABS.

SOURCES OF DATA *continued*

54 The various government-owned financial institutions included in this sector provide quarterly balance sheet information to the ABS.

55 Security brokers' own-account holdings of financial assets are estimated.

56 SNA93 states explicitly that the national accounts should record transactions on an accrual basis (as opposed to a cash or 'due for payment' basis), to reflect the time when economic value is transferred rather than when cash relating to the transaction is paid or falls due for payment.

57 SNA93 states that assets and liabilities are to be valued using a set of prices that are current on the date to which the balance sheet relates and that refer to specific assets. These prices should be observable prices on markets whenever such prices are available for the assets and liabilities in question.

58 In these statistics tradeable securities, which include shares listed on ASX and debt securities traded on organised markets, are valued at market prices.

59 Other securities are assigned estimated market values. For example, equity not listed on ASX is valued on the basis of value of total assets of the enterprise in question less the value of any repayable liabilities.

60 Respondents to ABS surveys are asked to mark each derivative contract to net market value. Such values may result in a net asset or liability value being recorded for the contract.

61 Deposits, loans and other accounts payable/receivable are recorded at their face value.

62 Insurance technical reserves of life and general insurance corporations are valued on the basis of the values recorded by the corporations in question.

63 Insurance technical reserves of pension funds are valued on the basis of the market value of total assets (including non-financial assets) of the funds less any repayable liabilities.

RELATED STATISTICS

64 Related ABS publications which may also be of interest include:

- *Australian System of National Accounts* (Cat. no. 5204.0)—issued annually
- *Australian National Accounts: National Income, Expenditure and Product* (Cat. no. 5206.0)—issued quarterly
- *Australian National Accounts, Financial Accounts* (Cat. no. 5232.0)—issued quarterly
- *Average Weekly Earnings, States and Australia* (Cat. no. 6302.0)

RELATED STATISTICS

- *Balance of Payments and International Investment Position, Australia* (Cat. no. 5302.0)—issued quarterly
- *Balance of Payments and International Investment Position, Australia* (Cat. no. 5363.0)—issued annually
- *Housing Finance for Owner Occupation, Australia* (Cat. no. 5609.0)—issued monthly
- *Lending Finance, Australia* (Cat. no. 5671.0)—issued monthly
- *Managed Funds, Australia* (Cat. no. 5655.0)—issued quarterly
- *Wage Cost Index, Australia* (Cat. no. 6354.0)—issued quarterly

EFFECTS OF ROUNDING

65 Any discrepancies between totals and sums of components in the tables are caused by rounding.

ABBREVIATIONS, SYMBOLS AND OTHER USAGES

ABS	Australian Bureau of Statistics
ADFs	Approved Deposit Funds
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australia Stock Exchange
b	billion
billion	thousand million
BIS	Bank for International Settlements
BOP	Balance of Payments
BPM5	International Monetary Fund's Balance of Payments Manual, Fifth Edition
CBA	Central Borrowing Authority
CVM	Chain Volume Measures
FRA	Forward Rate Agreements
GDP	Gross Domestic Product
GMI	Gross Mixed Income
GOS	Gross Operating Surplus
HVCS	High Value Clearing System
IIP	International Investment Position
IMF	International Monetary Fund
LGS	Liquid Government Securities
n.a.	not available
NCD	Negotiable Certificates of Deposit
n.e.c.	not elsewhere classified
n.p.	not published
OBU	Offshore Banking Units
OTC	Over-the-counter
p.a.	per annum
PAR	Prime Asset Ratio
RBA	Reserve Bank of Australia
RITS	Reserve Bank Information and Transfer System
RTGS	Real-Time Gross Settlement
SDRs	Special Drawing Rights
SII	ABS Survey of International Investment
SPI	Share Price Index
WCI	Wage Cost Index
. .	not applicable
—	zero or rounded to zero
m	million

GLOSSARY

Accrual accounting The accounting process of recording flows at the time when economic value is created, transformed, exchanged, transferred or extinguished. This means that financial flows which imply a change of ownership are entered when ownership passes.

Approved deposit fund An indefinitely continuing fund which is maintained by an approved trustee and which is established to receive employees' eligible termination payments.

Arm's length Balances and transactions between unrelated entities negotiated solely on normal commercial criteria. For example, loans to private corporate trading enterprises from banks are arm's length borrowings but loans from members of the same enterprise group are not.

Asset-backed security A debt security which is backed by specific assets (such as mortgages over real estate) rather than the general credit-worthiness of the issuing entity.

Assets overseas Assets overseas include physical assets located overseas and financial claims on non-residents. Respondents to the ABS Survey of Financial Information are requested to report assets at their market value.

Average weekly earnings Average weekly earnings statistics represent average gross (before tax) earnings of employees and do not relate to average award rates nor to the earnings of the 'average person'.

Bank certificates of deposit A certificate of deposit is similar to a promissory note except that the drawer is a bank. Most bank-issued certificates of deposit with an original term to maturity of one year or less are negotiable certificates of deposit (NCD). Transferable certificates of deposit with an original term to maturity greater than one year are included in long term assets.

Bearer securities Debt securities for which the issuer does not maintain a register of current holders. Settlement of transactions (trades) may be effected by delivery.

Bills of exchange A bill of exchange is an unconditional order drawn (issued) by one party, sent to another party for acceptance and made out to, or to the order of, a third party, or to bearer. It is a negotiable instrument with an original term to maturity of 180 days or less. Although merchant banks were the promoters of the bill market in Australia, today almost all bills are bank accepted. Acceptance of a bill obliges the acceptor to pay the face value of the bill to the holder upon maturity.

Broad money Broad money is a money supply measure defined as M3 plus borrowings from the private sector by non-bank financial intermediaries (including cash management trusts) less their holdings of currency and bank deposits.

Capital account An account within the national income and expenditure and the balance of payments accounts which shows the funds accumulated during the period by each of the sectors for the purchase of assets together with the estimates of how this money is spent.

Cash and deposits Cash covers notes and coin on hand. Deposits are credit account balances with deposit-taking institutions as defined by the Reserve Bank. These are banks and cash management trusts and all corporations registered under the *Financial Corporations Act 1974* except for intra-group financiers and retailers. Bonds, debentures, notes and transferable certificates of deposit issued by deposit-taking institutions are classified as long term assets and negotiable certificates of deposit issued by banks as bank certificates of deposit.

Cash management trusts A cash management trust is a unit trust which is governed by a trust deed, is open to the general public and which generally confines its investments (as authorised by the trust deed) to financial securities available through the short term money market. Cash management trusts issue units in the trust that are redeemable by the unit holder on demand.

Central borrowing authority A statutory body, often called a Treasury Corporation, established by the State or Territory government to borrow on its behalf and on behalf of its trading enterprises, and to on-lend the funds raised to those bodies. Most borrowing authorities also manage liquid assets on behalf of Government bodies.

Common fund An investment fund established by a trustee company to accept monies it holds in trust and other monies invested by the public. Cash common funds are similar to cash management trusts except that they do not issue units nor do they necessarily issue prospectuses.

Consolidation The accounting process of adding together transactions or balance sheet items excluding those between entities in the same subsector, company group, or level of government. For example, a loan from one private corporate trading enterprise to another is eliminated from the consolidated total assets and liabilities of the private non-financial corporation and sector because no asset or liability exists outside the subsector.

Conventional credit markets Those which are reasonably open to all potential borrowers. Excludes, for example, loans arranged between related entities.

Conventional financial instruments

- Currency and deposits
- Bills of exchange
- One name paper
- Bonds etc
- Loans and placements
- Equity

Counterparting The process of taking the asset record of a sector and using it as the liability record of the counterparty sector, or vice versa.

Counterparty For a market transaction to occur there must be a willing buyer and a willing seller. To the buyer, the seller is the counterparty, and vice versa.

Currency swaps Currency swaps involve an exchange of specified amounts of two different currencies with subsequent repayments, which include cash flows associated with both interest and principal, over time according to predetermined rules.

Debt security A financial instrument that evidences the issuer's promise to repay the principal at face value on maturity. It may be issued to investors at a discount, and/or the issuer may promise to pay interest (usually at six month intervals) to the holders. Unlike shares, debt securities do not confer on the holders ownership rights in the issuing entity.

Deep-discount bonds Deep-discount bonds are bonds under which periodic cash flows are made that cover some of the interest liability during the life of the instrument but the amount is substantially below market interest.

Derivative instrument A special type of financial instrument whose value depends on the value of an underlying asset, an index or reference rate. Examples are swaps, forwards, futures and options.

Discount securities Debt securities which are issued to investors for less than the value appearing on the face of the security. Holders are not paid interest but rather receive capital gains (the difference between the purchase price and the face value of the security).

Dividends Dividends are a form of property income to which shareholders become entitled, once declared, as a result of placing funds at the disposal of corporations.

Domestic credit Domestic credit consists of claims on central government, official entities, private sector, other banking institutions and non-bank financial institutions.

Due for payment The accounting basis used for financial items in the national income and expenditure accounts, the financial accounts and the balance of payments. Financial claims are recognised when they become due rather than on the date of actual settlement.

Equities and units in trusts Equities and units in trusts comprise shares traded on an organised stock exchange, shares in unlisted companies, convertible notes after conversion, preference shares and units issued by both listed and unlisted unit trusts. Trust units are included in this classification because they have important characteristics of equities, such as entitlement to a share of the profits and of (on liquidation) the residual assets of the trust.

Face value The value that appears on the face of a debt security being the amount that the issuing entity promises to pay the holder when the security matures. Also known as the nominal or par value.

Financial asset An asset which has a counterpart liability in the books of another accounting entity.

Financial transactions account The account which shows transactions in financial claims between institutional sectors.

Foreign assets (net) Foreign assets (net) is the sum of foreign assets less the sum of foreign liabilities.

Forward rate agreements (FRAs) Forward rate agreements (FRAs) are arrangements in which two parties, in order to protect themselves against interest rate changes, agree on a notional interest rate to be paid on a specified settlement date on a notional amount of principal that is never exchanged; the only payment that takes place relates to the difference between the agreed FRA rate and the prevailing market rate on the settlement date.

Friendly societies These are mutual organisations whose members originally came from specific crafts or religions. They aim to provide their members with a wide range of cradle to grave services. Examples of these are: life, health disability, funeral and general insurances; investment services; financial services similar to those provided by credit unions; and retirement and travel services.

Futures A Futures contract is an agreement to buy/sell a standard quantity of a commodity—such as gold, $US or bank bills of exchange—on a specific future date at an agreed price determined at the time the contract is traded on the futures exchange.

Gross domestic product (GDP) The total market value of goods and services produced in Australia within a given period after deducting the cost of goods and services used up in the process of production but before deducting allowances for the consumption of fixed capital. Thus gross domestic product, as here defined, is 'at market prices'. It is equivalent to gross national expenditure plus exports of goods and services less imports of goods and services.

Inscribed stock Debt securities whose issuer maintains a register of current holders. Accordingly, settlement of transactions (trades) in these securities is effected by assignment (marked transfer), not delivery.

Institutional sectors Transactor units are grouped into four broad domestic institutional sectors: non-financial corporations, financial corporations, general government and households. In addition to these, all non-residents which currently have financial transactions or positions with Australian residents are grouped together in the rest-of-the-world sector.

Interest rate swaps Interest rate swaps consist of the exchange of cash flows related to interest rates of different character; for example fixed rate payments for floating or variable rate payments, fixed rate payments in one currency for floating rate payments in another currency, or one kind of floating rate payment for another.

M3 M3 is a money supply measure which comprises currency plus bank deposits of the private non-bank sector.

Monetary gold Monetary gold constitutes gold owned by the Reserve Bank and other institutions subject to the Reserve Bank's effective control and held as a financial asset and as a component of foreign reserves.

Money base Money base is a money supply measure which comprises holdings of notes and coins by the private sector, deposits of banks with the Reserve Bank, and other Reserve Bank liabilities to the private sector.

Net lending The residual item in the capital account which shows each sector's net acquisition of financial assets. In concept it is the same as the change in financial position in the financial account.

Non-resident A unit is non-resident if its centre of economic interest is not in the domestic economic territory (i.e., it operates abroad)

Novation The transfer of an entity's rights and obligations under a contract to a new counterparty.

One name paper One name paper includes promissory notes, treasury notes and certificate of deposits issued by banks.

Options Options are contracts that give the purchaser the right, but not the obligation, to buy (a 'call' option) or to sell (a 'put' option) on a particular financial instrument or commodity at a predetermined price (the 'strike' price) within a given time span (American Option) or on a given date (European Option).

Primary and secondary markets Investors which purchase securities from the issuer (or from a member of the issuer's dealer panel) are said to buy in the primary market. If these securities are subsequently sold by those investors, the sales are said to occur in the secondary market.

Public unit trust A trust which issues units to the general public within Australia for the purpose of investing the pooled monies. A public unit trust must have registered a prospectus with the Australian Securities and Investments Commission and be governed by a trust deed between its management company and a trustee company. The units may or may not be listed on the Australian Stock Exchange.

Quasi-money Quasi-money comprises time, savings and foreign currency deposits of resident sectors other than central government.

Real interest Real interest is the difference between nominal interest and an amount equal to the loss of purchasing power on the monetary value of the principal during the accounting period.

Residents of Australia Residents are those entities that have a closer association with the territory of Australia than with any other territory. Examples are: general government bodies; financial and trading enterprises and non-profit bodies producing goods or services or both within the territory of Australia; and persons whose centre of interest is considered to lie in Australia. (For a precise definition see *Balance of Payments and International Investment Position, Australia: Concepts, Sources and Methods* (Cat. no. 5331.0) paragraphs 2.10 to 2.11.) Any entity which is not deemed to be a resident of Australia is classified as a resident of the rest of the world, or non-resident.

Securities other than shares Securities other than shares consist of bills, bonds, certificates of deposit, commercial paper, debentures, tradeable (or offsetable) financial derivatives, and similar instruments normally traded in the financial markets.

Short selling Short selling refers to the practice of selling to another securities one does not have in portfolio. Borrowed securities are usually used to settle the trade.

Special Drawing Rights (SDRs) SDRs are international reserve assets created by the IMF and allocated to its members to supplement existing reserve assets. Transactions in SDRs are recorded in the financial accounts of the Central Bank subsector and the rest of the world sector.

Stock lending The terms securities lending or stock lending are used in securities markets to describe arrangements whereby issuers or asset-holders or both (called stock lenders) provide securities to other market participants (called stock borrowers) in return for a fee.

Subordinated debt Debt that is not repayable until other specified liabilities have been settled. For example, the subordinated debt of banks (also called second-tier capital) is not repayable until the demands of depositors for repayment have been satisfied.

Swaps Swaps are contractual arrangements between two parties who agree to exchange, according to predetermined rules, streams of payment on the same amount of indebtedness over time. The two most prevalent varieties are interest rate swaps and currency swaps. For example, an interest rate swap involves an exchange of interest payments of different character, such as fixed rates for floating rate, two different floating rates, fixed rate in one currency and floating rate in another etc.

Synthetic instrument A tailored financial product which combines a primary financial instrument (such as a parcel of bills of exchange) with a derivative instrument (such as a forward rate agreement).

Term to maturity In these statistics, debt securities are classified into short term or long term according to their original term to maturity (sometimes called tenor) not the time remaining until maturity. The original term to maturity is the time period from the issue of a security until the principal becomes due for repayment.

Transaction Active dealing in a financial instrument; for example, a sale of bonds.

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