



# **Finance Australia**

**2000–01**

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## INQUIRIES

- For further information about these and related statistics, contact the National Information Service on 1300 135 070 or Michael Davies on Canberra 02 6252 6688.

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## PREFACE

This publication presents comprehensive tables, graphs, commentaries, feature articles 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; some globalisation indicators; and data about the financial markets. The publication also includes statistics on interest rates, exchange rates and Australian Stock Exchange indexes and selected international comparisons.

Feature articles have been included on the venture capital survey conducted by the ABS at the request of the Department of Industry, Science and Resources and on measuring Australian foreign exchange exposure, including an article from the RBA on the foreign exchange exposures of Australian banks.

The ABS releases a supplementary brochure in April each year, *Finance Australia in Brief* (Cat. no. 5611.0.00.001), which contains key tables from this publication, updated with the most recent calendar year data.

For queries or comments on articles and financial data items in this publication or for inclusion in future releases, contact Michael Davies, Director, Balance of Payments, Australian Bureau of Statistics, PO Box 10, Belconnen, ACT, 2616, or email <michael.davies@abs.gov.au>.

## SUMMARY MARKET INDICATORS

**Credit market** Total credit market outstandings (ie, demand in organised credit markets by the non-financial sectors from unrelated parties, excluding trade credit) rose \$101.9b (6%) during 2000–01 to reach \$1,720.3b at 30 June 2001. Net transactions provided \$93b of the increase; the balance was due to valuation changes. Private non-financial corporations and the household sector raised \$57b and \$44b respectively of the new credit, down from \$65b and \$60b in 1999–00.

National general government was a net repayer of credit, largely through net redemptions of bonds on issue but also through a reduction in the amount of short term securities on issue from \$74.0b to \$69.4b. State and local government was a net issuer of debt, with net borrowings of loans and placements (largely by the State central borrowing authorities) increasing by \$1.3b.

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

**Stock market** The number of transactions on the Australian Stock Exchange in 2000–01 was down 7% on the previous year to 13 million trades. The number of shares traded in 2000–01 was 130.7b, down 23% on the previous year. The value of shares traded in 2000–01 was \$416.7b (up 15%).

See the *Stock market* section of *Chapter 3, Financial markets*.

**Money market** Interest rates in the money market fell during 2000–01, with 11.00am call rates down from 6.00% at 30 June 2000 to 5.00% by the end of 2000–01. Bank-accepted 90 day bill rates fell from 6.23% to 4.97%. Banks increased their net indebtedness in money market securities in 2000–01. They remained the largest issuers of short-term debt securities, with the amount on issue rising \$2.7b (2%) to \$113.3b. Banks also increased their holdings of short-term paper, (up \$1.2b or 3%). Private non-financial corporations decreased slightly the total amount of their short term paper (mainly bills) on issue. They significantly decreased holdings to reduce their net debt in short term instruments by \$8.1b overall. The rest of the world increased its net investment in these short-term securities by \$25.3b.

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

**Bond market** Australia's long term debt market has evolved, with the aid of regulatory reform and financial system deregulation, from a sophisticated and liquid government bond market to a wider market trading bonds from more issuers.



Bond market <i>continued</i>	<p>Outstandings in the bond market increased by 10% during 2000–01 to \$437.0b at 30 June 2001. The financial intermediaries n.e.c. sector showed a rise in bonds outstandings, up 27% to \$62.5b at year end, mainly through the issue of asset-backed securities. The banking sector also showed a rise in bonds outstandings, up 18% to \$85.4b.</p> <p>The most significant decline in bond outstandings by resident issuers was for bonds issued by national general government, down 11% to \$69.4b. Bonds issued by central borrowing authorities also fell, down 1% to \$72.8b at 30 June 2001.</p> <p>See the <i>Bond market section of Chapter 3, Financial markets.</i></p>
Foreign exchange	<p>The Australian foreign exchange market is the largest financial market in Australia, with average daily turnover during 2000–01 of \$77.4b, up 18% on the previous year's \$66.0b.</p> <p>There are 57 institutions authorised to deal in foreign exchange in Australia.</p> <p>See the <i>Foreign exchange section of Chapter 3, Financial markets.</i></p>
Derivatives	<p>Australia's derivatives market is one of the most sophisticated (in terms of diverse products and superior regulation) and competitive in the Asia Pacific region.</p> <p>Sydney Futures Exchange share price index (SPI) futures and options contracts are the most actively traded equity derivatives in Australia. The all ordinaries SPI futures posted a small volume gain in 2000, whereas SPI options volume fell. There is also a growing market for equity options and warrants on the Australian Stock Exchange.</p> <p>The most heavily traded interest rate derivatives are 90-day bank bill contracts. Bond futures and options are also actively traded. Turnover in these products has remained steady in recent years, but 2000 saw shifts from 10 year bonds futures to 3 year bonds futures, and from 10 year bonds options to 3 year bonds options.</p> <p>The Over the Counter (OTC) interest rate derivatives market in Australia is less significant both globally and locally than the exchange traded business. OTC equity derivatives turnover is quite small. The majority of OTC derivative trading involves foreign exchange, with swaps trading being the largest contributor to total OTC turnover.</p> <p>Unlike the OTC market for foreign exchange, which has more than half of the business undertaken with banks overseas, only one-fifth of the OTC turnover in interest rate products is with banks abroad.</p> <p>See the <i>Foreign exchange and derivatives sections of Chapter 3, Financial markets.</i></p>

Funds under management    The total funds under management with Australian investment managers, at 30 June 2001 was \$630.1b, up 13% on the previous June. The assets of managed funds institutions accounted for \$483.3b of the assets at 30 June 2001, with the remaining \$146.8b being funds managed by Australian investment managers on behalf of a range of domestic investors and overseas clients.

*See Chapter 4, Funds under management.*

#### SUMMARY MARKET INDICATORS

			Percentage change
	1999–2000	2000–01	%
<b>CREDIT MARKET</b>			
Total credit market outstandings(\$b)	1 618.4	1 720.3	6.0
Net transactions(\$b)	132.2	93.0	–30.0
<i>Funds raised by—</i>			
Private non-financial corporations(\$b)	66.8	56.7	–12.0
Households(\$b)	60.4	43.6	–27.0
National general government(\$b)	–11.0	–9.6	–9.0
<b>STOCK MARKET</b>			
Number of transactions(millions)	13.9	13.0	–7.0
Number of shares traded(millions)	169.5	130.7	–23.0
Value of shares traded(\$)	361.5	416.7	15.0
<b>MONEY MARKET</b>			
11am call(%p.a.)	6.00	5.00	–17.0
Bank-accepted bills—90 days(%p.a.)	6.23	4.97	–20.0
<i>Short-term debt securities—</i>			
Issued by banks(\$b)	110.6	113.3	2.0
Held by banks(\$b)	42.7	43.9	3.0
Issued by private non-financial corporations(\$b)	88.1	87.6	–1.0
Held by private non-financial corporations(\$b)	40.1	32.0	–20.0
Issued by rest of world(\$b)	2.3	2.9	26.0
Held by rest of world(\$b)	69.0	94.3	37.0
<b>BOND MARKET</b>			
Total bonds outstanding(\$b)	396.2	437.0	10.0
<i>Issued by—</i>			
Financial intermediaries n.e.c. (\$b)	49.2	62.5	27.0
Banks(\$b)	72.6	85.4	18.0
National general government(\$b)	78.1	69.4	–11.0
Central borrowing authorities(\$b)	73.9	72.8	–1.0
<b>FOREIGN EXCHANGE</b>			
Average daily turnover(\$b)	65.7	77.4	18.0
<b>DERIVATIVES</b>			
<i>Futures and options average daily volumes—</i>			
90-day bank bills(000's contracts)	38.1	(a)31.7	25.0
3-year bonds(000's contracts)	43.5	(a)50.2	26.0
10-year bonds(000's contracts)	21.6	(a)21.6	–4.0
<b>FUNDS UNDER MANAGEMENT</b>			
Total funds under management(\$b)	555.6	630.1	13.0
Managed funds institutions(\$b)	444.8	483.3	9.0
Other(\$b)	110.8	146.8	32.0

(a) Due to availability, the 2000–01 figures include data for the first six months of the year 2001.

## FEATURE ARTICLE

## VENTURE CAPITAL, 1999–2000

### INTRODUCTION

Venture capital is high risk capital directed towards new or young businesses with prospects of rapid growth and high rates of return. The aim of this type of investment is to accelerate the growth of these businesses. Venture capital can also be used for existing businesses for the purposes of developing a new product or process to revitalise its activities.

Considerable interest and growth in venture capital markets and changes in tax regimes for venture capital investment announced as part of the 1999 Federal budget prompted the ABS to undertake the Venture Capital Survey, 1999–2000. This survey was undertaken with the encouragement and assistance of the Department of Industry, Science and Resources and other Commonwealth agencies. The survey is being repeated for 2000–01, with results expected to be published in late 2001 or early 2002.

The survey has presented a significant challenge to the ABS and data providers. Concepts employed have been synthesised from terms used in the industry. Frequently, the same form of words has different nuances and accounting treatments; valuation practices can differ; methods of operation may follow different patterns; there are some differences between industry practices and the criteria used to evaluate projects applying for government assistance. The result is that the term 'venture capital' and associated data concepts have a range of meanings. In this survey, ABS has given self-description weight over administratively based definitions. The survey concepts were developed by the ABS in consultation with users, industry bodies and data providers.

The survey, of venture capital investment vehicles resident in Australia, collected standard accounting data (balance sheet, income and expenditure) of the vehicle, funding (commitments, drawdowns, return on capital) and investee company characteristics.

### Funds and sources of funds

The following table shows the number of investment vehicles which reported receiving funds from each type of source of fund. The totals are not the sum of the individual components as investment vehicles are able to source funds from more than one source. Committed capital refers to the overall capital of the fund. Drawdowns refer to the amount of capital that has been called on by investors and, in most cases, passed on to investee companies or used for management expenses. The 'not stated' category has been used for those companies that were unable to provide source details as their investors are shareholders.

Funds and sources of funds  
*continued*

During 1999–2000, investors committed \$5.0b to venture capital investment vehicles. The largest source of funds in terms of commitments was resident superannuation funds with 36% of commitments followed by other non-residents with 20%. The largest source of funds in terms of drawdowns was resident superannuation funds with 34% followed by other residents with 13%. Resident banks and private trading enterprises each accounted for 8% of the drawdown value.

#### S1.1 SOURCE OF FUNDS OF INVESTMENT VEHICLES—1999–2000

	Commitments by investors		Drawdowns from investors		Uncalled commitments
	Active investment vehicles	Value	Active investment vehicles	Value	Value
As at 30 June	no.	\$m	no.	\$m	\$m
Residents					
Banks	19	340	18	229	111
General government	6	120	5	60	61
Public trading enterprises	10	125	10	63	62
private trading enterprises	29	358	28	221	136
Superannuation funds	51	1 783	49	895	888
Life insurance offices	9	183	9	92	91
Trusts	12	88	12	50	38
Funds of funds	20	336	19	183	153
Other	56	418	56	343	75
Not stated(a)	18	199	18	199	–
<i>Total residents</i>	<i>(b)</i>	<i>3 950</i>	<i>(b)</i>	<i>2 335</i>	<i>1 615</i>
Non-residents					
Superannuation funds	6	24	6	21	3
Other	27	1 010	25	293	717
<i>Total non-residents</i>	<i>(b)</i>	<i>1 034</i>	<i>(b)</i>	<i>314</i>	<i>720</i>
<b>Total</b>	<b>127</b>	<b>4 984</b>	<b>127</b>	<b>2 649</b>	<b>2 335</b>

(a) Companies in which investors are shareholders.

(b) Investment vehicles can access funds from more than one source, therefore, the totals are not the sum of the individual component.

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

Asset and liabilities

The value of investment in venture capital investment vehicles was \$2.8b at 30 June 2000. Unlisted equity, mainly investment in companies, at \$1.4b was the major asset of investment vehicles.

## S1.2 VENTURE CAPITAL INVESTMENT VEHICLES, ASSETS AND LIABILITIES—1999–2000(a)

	Active Investment vehicles	Value
<i>As at 30 June</i>	<i>no.</i>	<i>\$m</i>
<b>Assets</b>		
Resident assets		
Cash and deposits	87	310
Debt securities	25	212
Listed equity	40	392
Unlisted equity	105	1 351
Other VC funds	6	67
Other equity	8	56
Other financial	53	75
Non-financial	19	12
<i>Total resident assets</i>	—	2 476
Non-resident assets		
Unlisted equity	23	198
Listed equity	9	74
Other	5	41
<i>Total non-resident assets</i>	—	313
<b>Total assets(b)</b>	<b>127</b>	<b>2 790</b>
<b>Liabilities</b>		
Borrowings	9	30
Other	67	80
<b>Total liabilities</b>	<b>69</b>	<b>110</b>
<b>Total net assets(c)</b>	<b>127</b>	<b>2 680</b>

(a) ABS has imputed a domestic balance sheet for cases where a local agent of a global venture capital fund manages, but does not legally own, the investment.

(b) Investment vehicles employ a variety of valuation methods.

(c) Net asset is not a reflection of the total capital that has been drawdown. Amounts drawdown are also used for management expenses of the investee company.

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

Financial operations      The following tables present venture capital project investment by investment vehicles. During the year, the investment portfolio increased \$596m. New projects added \$684m, followed by unrealised gains at \$245m and follow-on investments at \$165m, offset by exits and decreases in the value of initial public offers of \$353m and trade sales of \$137m. Write-offs recorded during this period were investments entered into in previous periods.

S1.3 VENTURE CAPITAL PROJECT INVESTMENT BY INVESTMENT VEHICLES—  
1999–2000

	<i>Investment vehicle</i>	<i>Value</i>
	<i>no.</i>	<i>\$m</i>
Investments at beginning of year	—	1 929
Additions to value during year		
New projects	82	684
Follow-on investments	48	165
Unrealised gains in investee companies	50	245
Exits and other decreases in value		
Trade sales	21	137
Initial public offers	13	353
Buyback	4	8
Write-offs	13	45
Investments at end of year	127	2 480

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

Management and performance fees were the major items of expenditure during the year for investment vehicles, accounting for 36% and 34% of total expenditure respectively. Management fees are charged regardless of results, whereas performance fees reflect the profitability of investments. Other outlays relate mainly to new investments: legal, accounting, registration expenses, etc. Income is mainly dividend and trust distributions. The following tables present income and expenditure, during the year, of investment vehicles.

S1.4 SELECTED INCOME AND EXPENDITURE OF INVESTMENT VEHICLES—  
1999–2000

	<i>Investment vehicles</i>	<i>Value</i>
	<i>no.</i>	<i>\$m</i>
Expenditure		
Management fees	76	57
Performance fees	10	52
Interest payments	11	3
Other outlays	67	42
Income		
Interest receipts	70	34
Other inflows	44	148

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

Investment levels by industry  
and location

A total of 127 investment vehicles reported \$2,480m investment in 651 investee companies, operating in a wide range of industries and activities. Finance and property investee companies accounted for the largest share of venture capital investment at \$560m (23%), followed by manufacturing and utilities investee companies at \$526m (21%). The following table presents data on the level of venture capital investment by industry.

### S1.5 INVESTEE COMPANIES BY INDUSTRY, LEVELS—1999–2000

As at 30 June	Investee companies		Value	
	no.	% share	\$m	% share
Agriculture and mining	84	12.9	167	6.7
Manufacturing and utilities	149	22.9	526	21.2
Construction	25	3.8	305	12.3
Trade and accommodation	66	10.1	212	8.5
Transport and communication	106	16.3	373	15.0
Finance and property	142	21.8	560	22.6
Government and community services	79	12.2	338	13.6
<b>Total</b>	<b>651</b>	<b>100</b>	<b>2 480</b>	<b>100</b>

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

The majority of investee companies were located in New South Wales and Victoria, with 245 investee companies (37%) located in New South Wales and 204 (31%) in Victoria. These accounted for 47% and 24% of total investment respectively. Investee companies located abroad accounted for 11% of total investment.

### S1.6 LOCATION OF INVESTMENT, LEVELS—1999–2000

As at 30 June	Investee companies		Value	
	no.	% share	\$m	% share
NSW	245	37.6	1 164	46.9
Vic.	204	31.3	598	24.1
Qld	43	6.6	210	8.5
WA	66	10.1	137	5.5
SA	16	2.6	46	1.9
Overseas	56	8.6	284	11.4
Other(a)	21	3.2	41	1.7
<b>Total</b>	<b>651</b>	<b>100.0</b>	<b>2 480</b>	<b>100.0</b>

(a) Includes Tasmania, Northern Territory and Australian Capital Territory.

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

New investments by industry, activity and stage of investment

At 30 June 2000, the value of new investments undertaken during 1999–2000 was \$974m, representing investment in 298 companies. Finance and property investee companies accounted for the largest share at \$262m (27%) followed by manufacturing and utilities investee companies at \$230m (24%). The following table presents data on the value at the end of the year of new venture capital investment by industry.

### S1.7 NEW INVESTMENT, BY INDUSTRY—1999–2000

<i>Value at 30 June</i>	<i>Investee companies</i>		<i>Value</i>	
	<i>no.</i>	<i>% share</i>	<i>\$m</i>	<i>% share</i>
Agriculture and mining	29	9.7	59	6.0
Manufacturing and utilities	55	18.4	230	23.6
Construction	30	10.1	57	5.9
Trade and accommodation	6	2.0	22	2.3
Transport and communication	56	18.8	173	17.8
Finance and property	89	29.9	262	26.9
Government and community services	33	11.1	171	17.5
<b>Total</b>	<b>298</b>	<b>100.0</b>	<b>974</b>	<b>100.0</b>

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

The activity which had the highest value of new investment at 30 June 2000 was IT, media, electronics and communications with \$884m (36%) followed by manufacturing and transport with \$686m (28%) and retail, services and real estate with \$87m (20%). The following table presents the value at the end of the year of new investment undertaken during 1999–2000 by type of activity.

### S1.8 NEW INVESTMENT, BY ACTIVITY—1999–2000

<i>Value at 30 June</i>	<i>Investee companies</i>		<i>Value</i>	
	<i>no.</i>	<i>% share</i>	<i>\$m</i>	<i>% share</i>
Manufacturing and transport	53	17.8	135	13.9
IT, media, electronic and communications	145	48.7	542	55.6
Retail, services and real estate	61	20.5	109	11.2
Biotech, pharmaceuticals and health	32	10.7	92	9.4
Energy and utilities	7	2.3	96	9.9
<b>Total</b>	<b>298</b>	<b>100.0</b>	<b>974</b>	<b>100.0</b>

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

Investment activity can occur at various stages of the establishment and operations of a business and include: seed (in business less than 18 months); early (in business less than 30 months); expansion; late (new product or product improvement); turnaround (financing during times of operational or financial difficulty); and buyout. During 1999–2000, new investment activity occurred predominantly in the expansion stage with a total value of \$406m (42%) at 30 June 2000, followed by the early stage with \$243m (25%).



### S1.9 NEW INVESTMENT, BY STAGE—1999–2000

<i>Value at 30 June</i>	<i>Investee companies</i>		<i>Value</i>	
	<i>no.</i>	<i>% share</i>	<i>\$m</i>	<i>% share</i>
Seed	30	10.1	33	3.4
Early	109	36.6	243	24.9
Expansion	109	36.6	406	41.6
Late	22	7.4	63	6.5
Turnaround	7	2.3	42	4.3
Buyouts/buyins	15	5.0	186	19.1
Unknown	6	2.0	1	0.0
<b>Total</b>	<b>298</b>	<b>100.0</b>	<b>974</b>	<b>100.0</b>

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

Further information      Further information about these venture capital statistics can be obtained from the ABS website at <[www.abs.gov.au](http://www.abs.gov.au)> or contact Tom Coogan on Canberra 02 6252 6976, or email <[tom.coogan@abs.gov.au](mailto:tom.coogan@abs.gov.au)>.



In the light of recent financial crises in a number of countries, international authorities have urged all countries to monitor and assess the vulnerabilities of their own economies by, for example, compiling balance sheets where these currently do not exist and by obtaining details of foreign exchange exposures. Such data assist in identifying weaknesses in the structure of external assets and liabilities. Accordingly, there is special interest in the extent to which Australia as a whole or particular sectors are vulnerable to unfavourable movements in the exchange rate.

While Australia is a net foreign currency denominated asset holder, this position is determined by the predominance of Australia's equity positions. The situation is quite different if we look at specific sectors of the Australian economy or look at debt assets and liabilities alone. For example, as at 31 March 2001, 64% (\$324b) of Australia's foreign debt liabilities of \$508b were denominated in foreign currencies, most notably \$US. At the same time, 65% (\$97b) of Australia's foreign debt assets (excluding reserve assets) of \$148b were foreign currency denominated.

Although data appear to show that some sectors of the Australian economy, such as depository corporations, have significant net exposure to exchange rate changes, many Australian enterprises, including depository corporations, engage in hedging activities which are designed to minimise or eliminate the risks associated with such exposures. The mitigating impact of these hedging activities does not show up directly in the statistics on foreign currency assets and liabilities.

One of the most common means that enterprises use to minimise risk from exposures — whether such exposures are connected to exchange rates, interest rates, commodity prices, or other factors — are derivative contracts. Derivative contracts are secondary instruments linked to, but separate from, specific financial instruments or indicators, and through which specific financial risk can be traded in its own right. Anecdotal evidence suggests that the most common types of derivative contracts used by Australian enterprises to hedge against foreign currency exposures are cross-currency interest rate swaps and forward foreign exchange contracts.

The Reserve Bank of Australia (RBA) recently undertook some preliminary investigations in this area by collecting appropriate data from the four major banks. The results of their investigation indicated that the four major banks 'are not taking foreign exchange exposure'. The results were included in an article 'Foreign Exchange Exposures of Australian Banks' which was published in the Reserve Bank Bulletin of August 2000. This article is reproduced in full below.

To obtain a more complete picture, the RBA and the ABS are collaborating on the conduct of a survey which will cover a wider range of enterprises, both financial and non-financial. The aim of the survey is to obtain a picture of foreign exchange exposure for the Australian economy as a whole, as well as for individual sectors within the economy.

Data being collected include:

- Total foreign currency denominated assets and liabilities at a point in time;
- the principal value of outstanding derivative contracts which have a bought (positive) or sold (negative) foreign currency component (or 'leg'); and
- expected foreign currency denominated payments and receipts for a 12 month period, arising from trade in goods and services.

This information is being collected from those entities with significant foreign currency denominated foreign assets and liabilities and/or significant foreign currency denominated payments or revenue from trade in goods or services.

Qualitative information on the broad hedging policies of enterprises, particularly in relation to changing economic conditions and variations in time horizons, is also being sought.

Results of the survey will be released at the end of this year by both the RBA and the ABS, along with analysis of the results.

*The article 'Foreign Exchange Exposures of Australian Banks', which was published in the Reserve Bank Bulletin of August 2000, is reproduced on the following pages with the permission of the Reserve Bank of Australia.*

# Foreign Exchange Exposures of Australian Banks

**Graph 1**

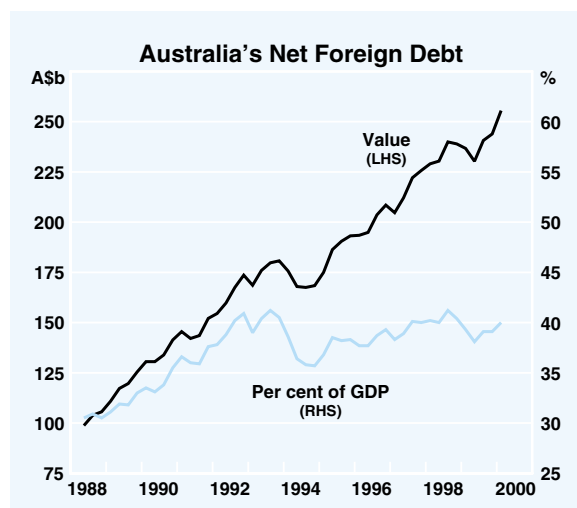
## Introduction

In the past few years, Australian banks have increased their use of offshore debt markets to diversify their funding. This has not led to an overall increase in banks' foreign currency exposures, however, because the debt is either raised in Australian dollars or hedged back to Australian dollars (through off-balance sheet transactions).

This note outlines banks' foreign debt activities and how they fit into the broader picture of Australia's foreign debt.

## The Structure of Australia's Foreign Debt

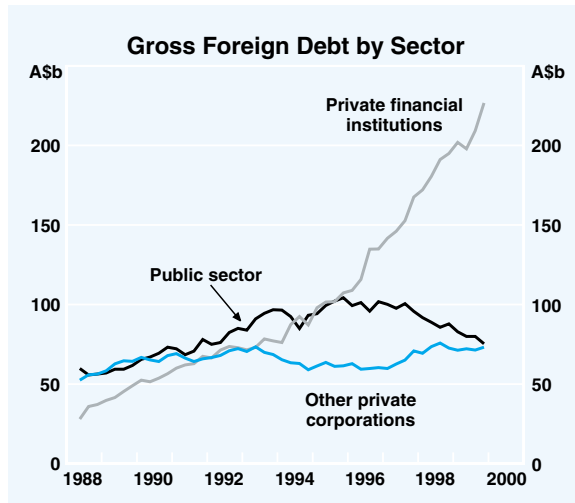
As a proportion of GDP, Australia's net foreign debt has been broadly steady throughout most of the 1990s, at around 40 per cent (Graph 1). The dollar value of debt has risen from \$130 billion to \$250 billion over the period. This latter figure represents the net of foreign debt liabilities of around \$380 billion and foreign debt assets of around \$130 billion.



Within the overall debt statistics, two relatively large sectoral shifts have been occurring:

- the public sector's call on national savings has declined sharply as both Commonwealth and State Governments moved to reduce, and eventually eliminate, budget deficits. From being relatively large issuers of debt in the early 1990s, steady progress in reining in fiscal spending meant that, by 1998, both tiers of government were running budgetary surpluses and were active repurchasers of their debt. In line with the overall reduction in

**Graph 2**



government debt, the amount held by foreigners fell by 25 per cent in the latter half of the 1990s to around \$75 billion (Graph 2).

- the rise in the dollar value of foreign debt has been accounted for almost entirely in issuance by financial institutions. Over the 1990s, foreign debt outstanding of the private financial sector grew from \$50 billion to around \$220 billion.

In contrast, foreign debt issued by private non-financial companies has shown little net change over the period, fluctuating around \$70 billion.

This change in the sectoral composition has altered the maturity profile of Australia's foreign debt. Because the financial sector raises most of its funds at shorter maturities than either the government or corporate sectors, as this sector's share of offshore financing has risen, there has been some overall shortening in the maturity of Australia's foreign debt. At the end of 1995, about 30 per cent of foreign debt was in short-term (less than 12 months) instruments; by the end of 1999, this proportion had increased to about 40 per cent. This rise has been due entirely to compositional effects. Within each sector, there was little change in the proportion of short-term debt (Table 1).

The question that arises is why an increasing proportion of Australia's foreign debt is being channelled through financial institutions, in particular the banking system. There are two main reasons for this.

The first has to do with the sectoral composition of the demand for credit in Australia. Over the 1990s, debt of households has increased at a much faster pace than business debt. The cumulative increase in the former was around 180 per cent, compared with 45 per cent for the latter. Households cannot approach capital markets (let alone foreign markets) directly to raise debt; they need to go through the banking system. The

**Table 1: Maturity of Australia's Foreign Debt**

	December 1995		December 1999	
	Share of total debt (%)	Proportion in short-term debt instruments (%)	Share of total debt (%)	Proportion in short-term debt instruments (%)
Public sector <sup>(a)</sup>	34	8	19	7
Depository corporations	41	55	56	59
Other	25	21	25	19
Total	100	31	100	39

(a) Excludes public sector depository corporations  
Source: ABS; RBA calculations

corporate sector, which could approach capital markets directly, has not had much need for debt and, in any event, has found it increasingly easy to issue debt domestically because of the growth of the corporate debt market.

A related issue is why banks have switched a greater proportion of their funding to offshore rather than simply funding the increased household demand for credit through domestic markets. Part of the answer here is that, given the overall savings/investment balance in Australia (which is reflected in the current account deficit) domestic borrowers would need to offer higher interest rates to meet their financing needs. Against this background offshore funding is comparatively attractive.

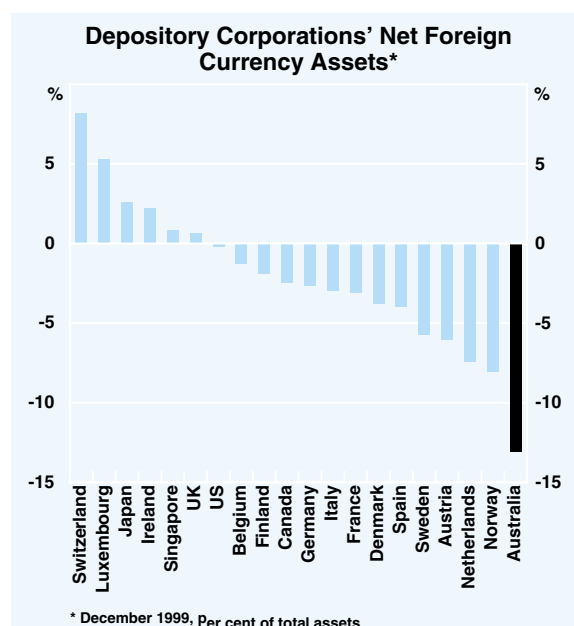
Secondly, the continuing impact of financial market deregulation and the development of new financing techniques has supported banks' moves into offshore funding. Deregulation has seen banks become more sophisticated in their funding. They have sought to diversify their funding across different types of instruments, and geographically. They have also sought to reduce costs of funding by using a range of capital and derivative markets to structure transactions, rather than relying on simple domestic instruments. For example, a bank-issued Australian dollar security, has embedded in it a given amount of credit risk, interest rate risk and currency risk, which means the bank needs to find a buyer who wants exactly this combination of risks. A more advantageous approach for the bank might be to use different markets, including offshore markets, to offer each of these risks separately, thereby increasing its potential funding base and lowering its funding costs.

The increased market share of foreign banks following deregulation has also biased funding to offshore, as subsidiaries of foreign banks in particular often find it cheaper to fund themselves through their offshore parents.

## Foreign Debt of the Banking Sector

At first glance, the amount of foreign debt issued by the Australian banking sector seems to compare unfavourably with most other developed countries. The Bank for International Settlements (BIS) compiles data on cross-border claims held by and against banks in the industrial countries and other major financial centres. They provide a fairly comprehensive and consistent data set on international banking business.<sup>1</sup> Net foreign currency liabilities represent around 13 per cent of Australian banking assets, higher than any other developed country (Graph 3). Taken by itself, this comparison might suggest that Australian banks are vulnerable to foreign currency risk – the possibility of losses if the local currency falls. This, however, is not the case.

**Graph 3**



While the Australian banking sector is carrying significant foreign currency exposure on its balance sheet, exposure to foreign exchange movements is negligible as the vast

1. Australia has not been included in the BIS collection in the past, but will be included from August 2000.

bulk of this exposure is hedged. This can be seen in banks' annual reports, which show that exposures to exchange rate movements are very small. Table 2 shows the daily Value-at-Risk (VaR) from exchange rate changes for the major Australian banks (see Box A for details on VaR). In 1999, the VaR of the major banks amounted to only 0.02 per cent of their banks' capital base. On this measure, Australia's banks run very small exposures to exchange rate changes compared with banks in some other countries.

**Table 2: Value-at-Risk of Major Banks**

	<b>Foreign exchange risk % of capital</b>	<b>Total market risk % of capital</b>
Australia	0.02	0.08
Canada	0.02	0.12
Netherlands	0.02	0.20
United Kingdom	0.03	0.16
United States	0.03	0.15
Japan	0.07	0.31
Germany	0.15	0.71

Source: Banks' Annual Reports, 1999

More generally, Australian banks do not take on large exposures to changes in other financial market prices either. Last year, the average daily level of total market risk for the four major banks amounted to just 0.08 per cent of their capital base, which is about half that of US banks and one-tenth that of German banks. This measure encompasses exposures to exchange rate movements, as well as banks' exposures to movements in interest rates, and equity and commodity prices.

How can the figures showing large foreign borrowings be reconciled with the fact that banks' exposure to currencies is very small? Part of the answer to this can be seen in foreign investment statistics published by the Australian Bureau of Statistics. These show that, of the \$220 billion in foreign debt issued by Australian depository corporations, about \$50 billion is used to hold foreign currency assets and another \$80 billion represents deposits or securities issued offshore but in Australian dollars. The net foreign currency exposure of depository corporations, before any hedging, is therefore down to about \$90 billion (Table 3).

This would still represent a significant part of banks' capital, yet as shown from the figures in Table 2 above, banks' net exposures are negligible. The rest of this note goes on to explain how banks hedge their exposures.

## Box A: Value-at-Risk

Value-at-Risk (VaR) measures the potential loss that an institution would incur in the event of relatively large adverse price movements. Statistical techniques are used to determine the severity of the adverse price movements to be applied. In the calculation, two underlying parameters are specified – the holding period and the desired statistical confidence interval. The holding period refers to the time frame over which changes in portfolio value are measured – is the institution concerned with the potential to

lose money over, say, one day, one month or one year? The confidence level defines the proportion of trading losses that are covered by the VaR amount. The figures in Table 2 are based on a one-day holding period and a 99 per cent confidence interval. They are calculated on a global-consolidated basis – that is, they include total exposures arising from each bank's Australian banking operations, offshore activities and non-bank subsidiaries. ✎



**Table 3: Composition of Depository Corporations' Foreign Debt**  
As at March 2000

	A\$b
Gross foreign debt	-220
Foreign currency assets <sup>(a)</sup>	50
Net foreign debt	-170
of which: A\$	-80
Net foreign currency debt	-90
(a) Includes both debt and equity assets	
Source: ABS	

## How do Banks Manage Exchange Rate Exposures?

Banks generally hedge their currency exposure in the derivative markets, predominantly using such instruments as cross-currency swaps and foreign exchange forwards (see Box B for details). These hedges are off-balance sheet items and, because they are contingent claims, will generally have no value at the time of origination. As a result, they are only recorded by the Australian Bureau of Statistics in Australia's International Investment Position when they acquire some value (either positive or negative). In the case of the BIS statistics on international debts of banks, they are not recorded at all.

Details of hedging transactions by banks are not published in their annual reports or in other publicly available information. The Reserve Bank has therefore asked the four major Australian banks to provide a snapshot of their on-balance sheet and off-balance sheet positions at the end of last year.<sup>2</sup>

The on-balance sheet exposure of the major banks to foreign currency risk at the end of

1999 was \$44 billion. Table 4 shows the instruments that they used to offset this exposure. Forward foreign exchange contracts and currency swaps each offset about \$21 billion of the on-balance sheet exposure. Negligible positions are held in either the options or futures markets.

**Table 4: Major Banks' Foreign Currency Exposures**

Positive = long position /  
Negative = short position

	A\$b
On-balance sheet exposure	-44
Off-balance sheet	
– Forward foreign exchange	21
– Currency swaps	21
– Futures	–
– Options	–
Net off-balance sheet exposure	42

## Who Assumes the Banking Sector's Foreign Currency Risk?

When an Australian bank hedges its foreign currency exposure, it does so by passing the risk to a counterparty willing to assume that risk. If the counterparty is another financial institution, it in turn may want to hedge its exposure to the exchange rate.

The counterparties to the major banks' off-balance sheet position are shown in Table 5.

The main points are as follows:

- around 30 per cent of the exposure of the major banks is laid off within the Australian banking sector. Several overseas banks operating in Australia are major market

2. The four major banks are the ANZ Banking Group, the Commonwealth Bank, the National Australia Bank and Westpac Banking Corporation. Together they account for two-thirds of all banks' domestic banking assets in Australia. Three banks reported data for end December 1999, the other for end May 2000.

**Table 5: Counterparties to Major Banks' Net Off-balance Sheet Position**

	A\$b
Domestic	
–Government	6
–Depository corporations	12
–Other financial corporations	7
–Non-financial corporations	15
Overseas corporations	2
Total	42

players in foreign exchange derivatives, and these may take risk from local banks and then shift it to other counterparties overseas. We would expect a broader survey of banks to show a higher rate of diffusion to the corporate, government and overseas sectors;

- a further 35 per cent of exposure is taken up by transactions with the Australian corporate sector. These counterparties would most likely be exporters, who wish to create foreign currency liabilities as a hedge against their foreign currency earnings. Other financial corporations, such as funds managers and pension funds account for about 15 per cent;
- the Government sector, including the Reserve Bank, takes up about 15 per cent of the exposure. While the Commonwealth Government no longer issues foreign currency debt and has not done so since 1987, it seeks to acquire foreign currency exposure for debt management purposes. It aims to have between 10 and 15 per cent of its debt portfolio exposed to foreign

currency movements, and therefore needs to assume this exposure through off-balance sheet transactions. It does this predominantly through the cross-currency interest rate swap market. Further, for portfolio and domestic market management purposes, the Reserve Bank undertakes foreign currency swaps which also provide the other side of banks' transactions. At December 1999, the RBA's foreign currency swaps position amounted to a little over \$20 billion. The RBA's forward foreign currency commitments under these swaps are fully hedged by its holdings of foreign currency assets.

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## Conclusion

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Banks are playing an increasingly important role in channelling foreign funds to Australia; their overseas borrowings now account for about 60 per cent of Australia's gross foreign debt. They, themselves, however, are not taking foreign currency exposure. Part of their borrowings are in A\$ and part of their foreign currency borrowings are used to fund foreign currency assets. The remainder is hedged through off-balance sheet transactions with corporations (who may be seeking to hedge foreign currency receipts), foreign-based institutions (who either have issued debt in Australian dollars or are seeking Australian dollar exposure) or the government sector (which may be seeking to maintain a small proportion of its liabilities in foreign currency as part of its debt management strategy). ❧

## Box B: Foreign Exchange Forwards and Swaps

There are a variety of financial instruments (or derivatives) that can be used to hedge foreign currency borrowings. Those used most commonly by Australia's banking sector are cross-currency swaps and forward foreign exchange contracts.

A *forward foreign exchange contract* is relatively simple; it involves buying or selling a currency for value at some forward date. By purchasing foreign currency forward, the borrower of foreign currency can lock in today the amount of domestic currency required to meet its future debt repayments.

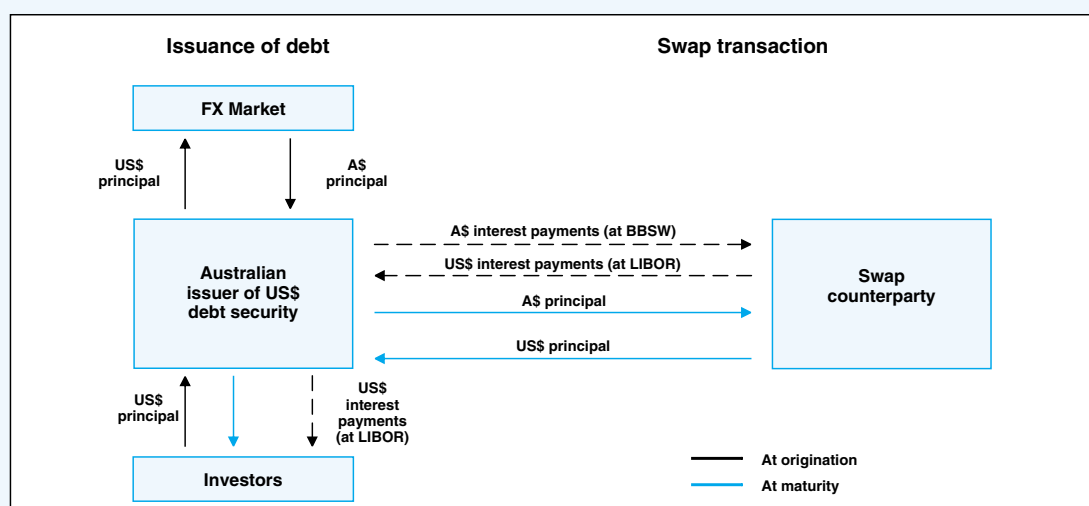
Cross-currency swaps are more complex. The figure shows what a typical *cross-currency interest rate swap* might look like.

Suppose an Australian institution issues floating rate US\$ debt into the offshore market. It then exchanges the US\$ for \$A in the spot market in order to purchase domestic assets. As its balance sheet will now consist of \$A assets funded by US\$ liabilities, the company will seek to hedge the foreign currency risk arising from this mismatch. To do this, it undertakes a cross-currency

interest rate swap with a counterparty. This involves the following steps:

- the borrower agrees to pay interest on an \$A principal at BBSW. In return, the company will receive interest payments on a US\$ principal at LIBOR.<sup>1</sup> The principal is set equal to the size of its US\$ borrowings, with the \$A equivalent calculated at the prevailing spot rate.
- the US\$ receipts under the swap are used to meet the repayments arising from the debt issue. The borrower will meet its obligations under the swap using cash flows generated by the \$A assets. Hence, there is no longer any foreign exchange risk associated with the financing of its business.
- at maturity, the borrower will exchange \$A for the US\$ principal, which it will use to repay its debt. Importantly, the size of the \$A principal will still be calculated from the original spot rate; the interim interest payments ensure that the present values of each leg of the swap are the same. ✎

Graph B1



- BBSW is the bank bill swap rate. LIBOR is the London interbank offer rate. Generally, a cross-currency swap will be quoted with a 'basis' over BBSW, either positive or negative, depending on the source of demand for hedging in the swaps market. Arbitrage between interbank and currency markets ensures that this is generally small.



## CHAPTER 1

## THE FINANCE AND INSURANCE INDUSTRY AND THE REAL ECONOMY

Australia's strong and growing finance and insurance industry (which includes all management units, which may be part of larger legal entities, engaged in the activity of finance) adds value through financial intermediation and support services, and is a significant employer in Australia. Over the last 17 years, coinciding with extensive financial deregulation, the value added (in volume terms) of the finance and insurance industry has grown strongly, up 142% compared to the economy-wide growth of 82% in the same period. By 2000–01 its share had increased to 6.3%, up 33% on its industry share 17 years ago.

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

	1994–95	1995–96	1996–97	1997–98	1998–99	1999–2000	2000–01
Finance and Insurance							
Industry value added (\$m)	30 427	31 460	32 063	33 368	37 613	38 657	40 436
Year on year growth (%)	6.0	3.4	1.9	4.1	12.7	2.8	4.6
All industries value added							
Total all industries value added (\$m)	506 448	52 355	548 815	573 244	603 447	629 212	641 371
Finance and insurance share (%)	6.0	5.9	5.8	5.8	6.2	6.1	6.3

(a) At basic prices. Reference year for chain volume measures is 1999–2000.

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

The finance and insurance industry employs 353,900 people, providing significant job opportunities. Over the six years to 2001, the number of persons employed in the finance and insurance industry rose 6.3% and average weekly earnings in the industry increased 28%. See *Chapter 7, Industry indicators*, for more details.

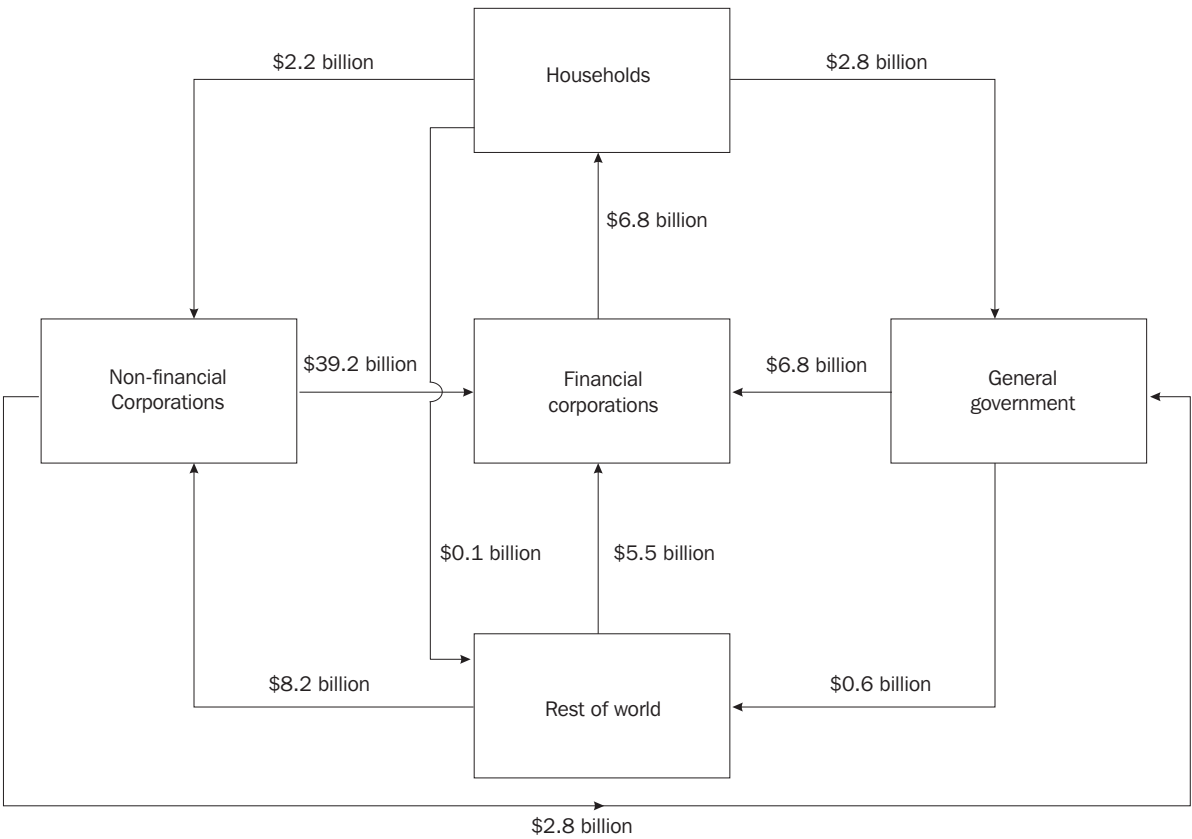
### THE FINANCIAL SYSTEM

The following diagram provides an overview of the flows of capital through the financial system. It illustrates the net financial flows between sectors during the year 2000–01. The sectors defined in the system cover all legal entities engaged primarily in like activities.

The arrows in the diagram below show the net flow from lenders to borrowers.

For example, there were net flows from financial corporations to non-financial corporations of \$39.2b, up from \$7.2b in 1999–2000. Financial corporations financed these flows by borrowing funds from households (\$6.8b), Australian governments (\$6.8b) and the rest of the world (\$5.5b).

INTER-SECTORAL FINANCIAL  
 FLOWS DURING THE YEAR  
 2000–01



Note: The arrows show the direction of net financial flows from lending sectors to borrowing sectors. The number relating to each arrow indicates the value of that net flow during the period. Other claims are omitted from the diagram. For this reason, inter-sectoral borrowing does not equal inter-sectoral lending.

## CHAPTER 2

## FINANCIAL ENTERPRISES

Financial enterprises are institutions which mainly engage in financial intermediation and the 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 insurance corporations, Pension funds, Other insurance corporations, Central borrowing authorities and Financial intermediaries nec. 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 the Australian Prudential Regulation Authority (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

At 30 June	<i>Depository Corporations</i>			<i>Life insurance corporations</i>	<i>Pension funds</i>	<i>Other insurance corporations</i>	<i>Central borrowing authorities</i>	<i>Financial intermediaries n.e.c.</i>	<b>Consolidated total</b>
	<i>Reserve Bank</i>	<i>Banks</i>	<i>Other</i>						
	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b
1996	35.6	474.0	145.0	123.8	208.5	45.9	100.2	98.1	<b>919.6</b>
1997	49.1	528.2	154.9	140.1	256.6	51.7	92.0	122.4	<b>1 029.0</b>
1998	45.1	581.5	170.6	157.5	297.3	60.7	95.5	165.3	<b>1 144.2</b>
1999	47.0	639.9	172.6	172.2	344.6	62.2	96.0	158.2	<b>1 218.3</b>
2000	51.1	723.9	190.7	191.4	416.5	71.0	91.3	213.2	<b>1 408.6</b>
2001	59.3	786.1	226.3	194.4	451.1	75.3	92.3	226.0	<b>1 505.7</b>

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

### BANKS

Between 1940 and 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, and from 1959 to 1998 the Reserve Bank was responsible for the supervision of commercial banks. From 1 July 1998, the Australian Prudential Regulation Authority (APRA) assumed responsibility for bank supervision while 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 and financial institutions in Australia. At the end of June 2001 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, National Australia Bank, Westpac Banking Corporation and the Commonwealth Bank of Australia, account for over half 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 2000, banks operated: 5,003 branches of which 2,838 were in metropolitan areas and 2,165 elsewhere; and 5,043 agencies of which 2,091 were in metropolitan areas and 2,952 elsewhere. As at 30 June 2001, banking services were provided at 2,821 giroPost locations and 11,915 Automatic Teller Machines (ATM) throughout Australia.

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 30 June					
	1996	1997	1998	1999	2000	2001
	\$b	\$b	\$b	\$b	\$b	\$b
ASSETS						
Monetary gold and SDRs	4	2	1	1	1	2
Currency and deposits	2	6	12	10	10	12
One name paper	4	5	4	3	1	0
Bonds	27	36	26	32	37	44
Other accounts receivable	—	—	—	—	—	—
Loans and placements borrowed	—	—	1	1	2	1
<b>Total assets(a)</b>	<b>36</b>	<b>49</b>	<b>45</b>	<b>47</b>	<b>51</b>	<b>59</b>
LIABILITIES						
Currency and deposits	26	39	33	34	31	30
Unlisted shares and other equity(b)	9	10	13	11	10	12
Other accounts payable	—	1	2	4	4	4
<b>Total liabilities</b>	<b>35</b>	<b>50</b>	<b>47</b>	<b>48</b>	<b>46</b>	<b>46</b>

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

(b) Estimates based on net asset values.

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

## 2.3 BANKS(a), FINANCIAL ASSETS AND LIABILITIES

	Amounts outstanding at 30 June					
	1996	1997	1998	1999	2000	2001
	\$b	\$b	\$b	\$b	\$b	\$b
ASSETS						
Currency and deposits	22	30	30	30	26	34
Acceptance of bills of exchange	62	61	66	69	76	78
One name paper	13	10	7	9	12	10
Bonds	16	21	16	21	22	24
Derivatives	12	12	15	16	25	32
Loans and placements	314	349	400	442	503	546
Equities	23	28	29	31	58	60
Prepayments of premiums and reserves	1	1	1	1	1	2
Other accounts receivable	11	18	18	21	—	—
<b>Total assets(b)</b>	<b>474</b>	<b>528</b>	<b>582</b>	<b>640</b>	<b>724</b>	<b>786</b>
LIABILITIES						
Currency and deposits	261	287	319	338	337	380
Acceptance of bills of exchange	50	48	52	54	54	52
One name paper	48	57	70	88	101	106
Bonds	38	48	58	60	73	85
Derivatives	12	12	14	16	26	27
Loans and placements	10	11	13	21	35	34
Equity	48	86	96	105	133	168
Other accounts payable	15	26	22	35	1	2
<b>Total liabilities</b>	<b>482</b>	<b>575</b>	<b>643</b>	<b>716</b>	<b>761</b>	<b>855</b>

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

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

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

BANKS *continued*

As at 30 June 2001, 45% of all bank deposit liabilities and loan assets were held at bank branches in New South Wales, well ahead of the State's share of Australia's population. Victoria held 24% of bank deposit/loan balances followed by Queensland with 15%. Table 2.4 shows loans and deposits (by deposits type) for each State and Territory as at 30 June 2001.

## 2.4 BANKS, DEPOSITS AND LOANS, BY STATE/TERRITORY, JUNE 2001

State and Territory	Deposits repayable in Australia					
	Current bearing interest	Current not bearing interest	Term and at call(a)	Other(b)	Total	Other lending(c)
	\$b	\$b	\$b	\$b	\$b	\$b
New South Wales	45	12	125	28	210	222
Victoria	24	5	57	18	105	130
Queensland	19	3	27	12	60	84
South Australia	5	1	11	5	21	28
Western Australia	8	2	15	6	30	50
Tasmania	1	—	1	1	3	5
Northern Territory	—	—	—	—	1	3
Australian Capital Territory	2	1	3	1	6	7
<b>Total</b>	<b>104</b>	<b>24</b>	<b>239</b>	<b>71</b>	<b>436</b>	<b>529</b>

(a) Includes 'Certificates of Deposits'.

(b) Includes statement savings, savings investment, passbook and school savings accounts.

(c) Includes all lending on Australian books except; loans to non-residents and financial institutions and holdings of securities issued by non-residents, financial institutions and the public sector.

Source: Australian Prudential Regulation Authority.

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. The Reserve Bank *Bulletin* includes many regular monthly tables on bank assets and liabilities. APRA's *Australian Banking Statistics* includes loans and deposits by State and Territory.

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, Other depository institutions are defined as those institutions other than banks with liabilities included in the Reserve Bank's definition of *broad money*. Non-bank institutions included in broad money are authorised depository institutions other than banks (building societies and credit cooperatives), corporations registered under the *Financial Corporations Act 1974* in categories D (money market corporations), E (pastoral finance companies), F (finance companies) and G (general financiers), and cash management trusts.

OTHER DEPOSITORY  
CORPORATIONS *continued*

Table 2.5 shows the total assets and liabilities for the subsector by instrument.

There are currently seven categories of other depository corporations. Table 2.6 shows the total assets of each category of non-bank deposit-taking institution.

Regulation of some of these institutions is provided for by 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 \$1m are registered. Under the Act, information and statistics on their operations are provided to the Reserve Bank.

2.5 OTHER DEPOSITORY CORPORATIONS, CONSOLIDATED ASSETS AND LIABILITIES

	Amounts outstanding at 30 June					
	1996	1997	1998	1999	2000	2001
	\$b	\$b	\$b	\$b	\$b	\$b
<b>ASSETS</b>						
Currency and deposits	7	9	9	9	8	10
Bills of exchange	7	9	10	9	10	13
One name paper	4	6	12	13	17	18
Bonds	12	8	5	4	6	12
Derivatives	6	5	7	7	12	14
Loans and placements	102	108	118	119	125	142
Equities	5	5	6	6	6	10
Other accounts receivable	3	4	5	6	7	8
<b>Total assets(a)</b>	<b>145</b>	<b>155</b>	<b>171</b>	<b>173</b>	<b>191</b>	<b>226</b>
<b>LIABILITIES</b>						
Currency and deposits	68	69	84	98	108	123
Bills of exchange	2	2	3	3	2	2
One name paper	24	26	29	25	30	39
Bonds(b)	24	27	28	25	26	28
Derivatives	6	5	7	7	12	14
Loans and placements	9	10	9	5	5	4
Equities	16	16	16	16	17	19
Other accounts payable	4	5	5	6	6	7
<b>Total liabilities</b>	<b>151</b>	<b>159</b>	<b>181</b>	<b>187</b>	<b>205</b>	<b>235</b>

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

(b) Includes bonds issued in Australia and offshore.

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

## 2.6 OTHER DEPOSITORY CORPORATIONS, TOTAL ASSETS

	Amounts outstanding at 30 June					
	1996	1997	1998	1999	2000	2001
	\$b	\$b	\$b	\$b	\$b	\$b
Permanent building societies	13	11	12	13	13	13
Credit cooperatives	15	17	18	20	22	24
Money market corporations	60	67	68	61	64	81
Pastoral finance companies	3	3	4	4	6	10
Finance companies	35	36	44	47	44	48
General financiers	11	14	17	18	21	24
Cash management trusts	8	12	19	22	25	29
<b>Total</b>	<b>150</b>	<b>160</b>	<b>180</b>	<b>185</b>	<b>194</b>	<b>229</b>

Source: APRA, Reserve Bank of Australia, Managed Funds, Australia (cat. no. 5655.0)

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.

Credit cooperatives — also known as credit unions — are similar to building societies. As their name implies, they are organised as financial cooperatives which borrow from and provide finance to their members. Credit cooperatives mainly lend for purposes other than housing.

Supervision of building societies and credit cooperatives was transferred to APRA on 1 July 1999, and from 1 July 2000 these institutions are no longer subject to the *Financial Corporations Act 1974*.

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 under the *Financial Corporations Act 1974*. By the end of September 2001 there were 92 money market corporations or merchant banks operating in Australia, accounting for around 5% of total financial intermediary assets. Of these assets, around 50% were held by foreign owned money market corporations in Australia.

OTHER DEPOSITORY  
CORPORATIONS *continued*

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. Typically they lend to corporate customers which buy products produced by member companies of their 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 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 INSURANCE  
CORPORATIONS

Life insurance corporations (life offices) 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 30 June 2001, the life insurance industry in Australia consisted of 42 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 under the *Life Insurance Act 1995*.

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 2.7. 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.

## 2.7 LIFE INSURANCE CORPORATIONS, FINANCIAL ASSETS AND LIABILITIES

	Amounts outstanding at 30 June					
	1996	1997	1998	1999	2000	2001
	\$b	\$b	\$b	\$b	\$b	\$b
<b>ASSETS</b>						
Currency and deposits	8	9	11	11	11	12
Bills of exchange	8	7	7	6	4	5
One name paper	10	14	12	17	14	10
Bonds	33	35	42	46	45	41
Loans and placements	7	7	11	10	12	10
Equities	55	65	70	76	100	110
Other accounts receivable	3	3	5	6	5	6
<b>Total assets(a)</b>	<b>124</b>	<b>140</b>	<b>158</b>	<b>172</b>	<b>191</b>	<b>194</b>
<b>LIABILITIES</b>						
Loans and placements	—	—	1	3	5	5
Listed and unlisted equity	5	9	35	35	39	48
Net equity in reserves	78	79	71	69	61	48
Net equity of pension funds	54	65	76	90	108	116
Other accounts payable	4	7	5	5	4	5
<b>Total liabilities</b>	<b>141</b>	<b>160</b>	<b>187</b>	<b>203</b>	<b>219</b>	<b>223</b>

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

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

### PENSION FUNDS

Pension funds 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* (SIS Act). These funds are supervised by either the Australian Prudential Regulation Authority (APRA) or the Australian Taxation Office (ATO). Public sector funds, being funds sponsored by a government employer or government controlled business enterprise, are exempt from direct APRA supervision.

The largest number of pension funds comprise self-managed superannuation funds (also known as 'do it yourself' funds). From 1 July 2000 the Australian Taxation Office assumed responsibility for regulating self-managed superannuation funds.

Self-managed superannuation funds are superannuation funds:

- that have fewer than five members;
- all members are trustees;
- all trustees are members;
- no member of the fund is an employee of another member of the fund, unless they are related; and
- no trustee receives remuneration for their services as a trustee.

## PENSION FUNDS *continued*

Corporate funds are funds sponsored by a single non-government employer, or group of employers. Industry funds generally have closed memberships restricted to the employees of a particular industry and are established under an agreement between the parties to an industrial award. Public sector funds are those funds sponsored by a public sector employer. Retail funds are pooled superannuation products sold through an intermediary to the general public. Funds with less than five members but which do not qualify as self-managed superannuation funds are known as small APRA funds.

In addition to separately constituted funds, the SIS Act also provides for special accounts operated by financial institutions earmarked for superannuation contributions, known as Retirement Savings Accounts, that also qualify for concessional taxation under the supervision of APRA. The liabilities represented by these accounts are liabilities of the institutions concerned and are included with the relevant institution in this chapter (for example retirement savings accounts operated by banks are included in bank deposits in table 2.3), but are also footnoted in table 2.8 for completeness.

The assets of pension funds are shown in table 2.8 and include unfunded pension claims by pension 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. At 30 June 2001 the ABS estimate for claims by households on Government for these outstanding liabilities was \$121.1b.

### 2.8 PENSION FUNDS, FINANCIAL ASSETS

	Amounts outstanding at 30 June					
	1996	1997	1998	1999	2000	2001
	\$b	\$b	\$b	\$b	\$b	\$b
Currency and deposits	13	17	22	28	27	32
Bills of exchange	4	5	5	7	6	6
One name paper	7	7	8	13	14	12
Bonds	25	26	30	31	36	36
Loans and placements	7	8	10	13	16	17
Equities	91	120	138	153	199	222
Unfunded superannuation claims	3	4	5	6	7	6
Net equity of pension funds in life office reserves	54	65	76	90	108	116
Other accounts receivable	4	4	4	4	4	4
<b>Total assets(a)</b>	<b>208</b>	<b>257</b>	<b>297</b>	<b>345</b>	<b>417</b>	<b>451</b>

(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.

OTHER INSURANCE  
CORPORATIONS *continued*

Private health insurers are regulated by the Private Health Insurance Administration Council (PHIAC) under the *National Health Act 1959*. At 30 June 2001 there were 44 private health insurers, including health benefit funds of friendly societies. Other private insurers are supervised by APRA under the *Insurance Act 1973*. As at June 2001 there were 154 insurers supervised by APRA. In addition, there were 13 public sector insurers at 30 June 2001.

2.9 OTHER INSURANCE CORPORATIONS, FINANCIAL ASSETS AND LIABILITIES

	Amounts outstanding at 30 June					
	1996	1997	1998	1999	2000	2001
	\$b	\$b	\$b	\$b	\$b	\$b
ASSETS						
Currency and deposits	3	4	5	5	5	5
Bills of exchange	1	1	2	2	2	2
One name paper	2	3	3	2	2	2
Bonds	16	15	17	16	19	22
Loans and placements	5	5	7	8	9	8
Equities	13	17	21	21	25	26
Other accounts receivable	6	7	8	8	9	10
<b>Total assets(a)</b>	<b>46</b>	<b>52</b>	<b>61</b>	<b>62</b>	<b>71</b>	<b>75</b>
LIABILITIES						
Bonds on issue	1	1	1	—	1	—
Loans and placements	—	1	1	2	1	1
Listed shares and other equity	6	8	7	6	4	10
Unlisted shares and other equity	9	11	12	13	14	11
Prepayment of premiums	35	39	44	45	49	51
Other accounts payable	7	8	10	10	10	11
<b>Total liabilities</b>	<b>58</b>	<b>67</b>	<b>74</b>	<b>75</b>	<b>80</b>	<b>84</b>

(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 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 central borrowing authorities borrow funds, mainly by issuing securities, and on-lend them 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 2.10 shows the financial assets and liabilities held by the central borrowing authorities for the most recent six years.



## 2.10 CENTRAL BORROWING AUTHORITIES, FINANCIAL ASSETS AND LIABILITIES

	Amounts outstanding at 30 June					
	1996	1997	1998	1999	2000	2001
	\$b	\$b	\$b	\$b	\$b	\$b
<b>ASSETS</b>						
Currency and deposits	1	2	2	3	1	1
Holdings of bills of exchange	4	5	5	8	6	6
One name paper	3	3	7	6	5	5
Bonds	4	2	2	3	3	5
Derivatives	1	1	2	3	4	4
Loans and placements	85	78	77	74	71	70
Other accounts receivable	2	1	1	1	1	1
<b>Total assets(a)</b>	<b>100</b>	<b>92</b>	<b>96</b>	<b>96</b>	<b>91</b>	<b>92</b>
<b>LIABILITIES</b>						
Drawings of bills of exchange	—	—	—	—	—	—
One name paper	4	4	6	8	7	7
Bonds	78	75	76	73	68	68
Derivatives	1	1	2	2	3	4
Loans and placements	7	6	6	9	7	9
Equity	—	—	—	—	—	—
Other accounts payable	3	3	3	2	2	1
<b>Total liabilities</b>	<b>95</b>	<b>89</b>	<b>93</b>	<b>94</b>	<b>87</b>	<b>90</b>

(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 Governments 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 2.11 and 2.12 show the financial liabilities and assets of financial intermediaries n.e.c.

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

	<i>Amounts outstanding at 30 June</i>					
	1996	1997	1998	1999	2000	2001
	<i>\$b</i>	<i>\$b</i>	<i>\$b</i>	<i>\$b</i>	<i>\$b</i>	<i>\$b</i>
Drawings of bills of exchange	3.7	3.9	3.9	4.1	6.8	5.6
One name paper issued in Australia	0.7	0.8	0.8	1.1	3.5	3.5
One name paper issued offshore	1.3	0.7	1.5	4.9	0.9	0.4
Bonds, etc issued in Australia	8.3	10.6	13.5	16.3	19.5	22.9
Bonds, etc issued offshore	5.8	8.3	10.8	11.4	24.3	32.5
Loans and placements	30.7	34.6	41.2	47.3	56.8	60.4
Listed shares and other equity	5.8	11.9	35.3	13.5	28.6	20.9
Unlisted shares and other equity	22.5	31.2	38.5	49.1	66.2	82.1
Other accounts payable	1.1	1.9	2.0	3.7	2.3	3.3
<b>Total liabilities</b>	<b>79.9</b>	<b>103.8</b>	<b>147.5</b>	<b>151.3</b>	<b>209.0</b>	<b>231.8</b>

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

## 2.12 FINANCIAL INTERMEDIARIES N.E.C., FINANCIAL ASSETS

	Amounts outstanding at 30 June					
	1996	1997	1998	1999	2000	2001
	\$b	\$b	\$b	\$b	\$b	\$b
Currency and deposits accepted by						
Banks	1.7	2.7	2.8	3.3	5.1	5.3
Other depository corporations	1.4	1.9	2.8	3.9	5.3	6.9
Rest of World	0.1	—	—	—	—	—
Total	3.1	4.6	5.6	7.2	10.4	12.2
Holdings of bills of exchange accepted by						
Banks	10.8	8.9	8.2	5.5	10.2	5.9
Total	10.8	8.9	8.2	5.5	10.2	5.9
One name paper issued by						
Private non-financial corporations	2.3	3.6	1.8	0.1	0.4	0.4
National public non-financial corporations	0.7	0.4	0.6	0.4	—	—
Banks	4.7	5.3	4.8	6.0	6.0	7.3
Other depository corporations	6.3	10.1	10.5	6.1	6.2	7.1
Central borrowing authorities	—	0.2	0.9	2.8	1.5	0.2
National general government	1.8	0.2	0.8	0.3	0.6	—
Rest of world	—	0.2	0.1	0.1	—	—
Total	15.8	19.9	19.4	15.7	14.7	15.1
Bonds, etc issued by						
Private non-financial corporations	0.2	0.1	0.2	0.8	2.1	4.1
National public non-financial corporations	0.8	0.5	0.7	0.8	1.0	0.6
Banks	2.3	4.7	5.3	4.0	1.3	3.4
Other depository corporations	2.2	1.3	0.3	0.5	0.8	0.7
Other insurance corporations	0.1	0.1	0.1	0.1	0.1	0.1
Central borrowing authorities	6.1	2.8	4.6	2.9	1.0	1.7
National general government	0.7	0.2	1.8	0.5	3.2	2.1
Rest of world	0.8	1.7	2.0	3.2	4.4	5.2
Total	13.2	11.3	14.9	12.8	14.0	18.0
Loans and placements borrowed by						
Private non-financial corporations	5.1	5.1	5.2	7.8	6.8	7.1
State and local public non-financial corporations	0.1	0.3	—	—	—	—
Other depository corporations	0.2	0.4	0.7	0.7	0.8	0.8
Life insurance corporations	0.1	0.1	0.2	0.2	0.3	0.3
Pension funds	0.1	0.1	0.2	0.2	0.3	0.3
Central borrowing authorities	—	—	—	0.1	0.1	0.1
State and local general government	—	0.9	0.9	0.6	0.3	0.1
Households	15.0	20.5	30.3	36.2	49.0	61.0
Rest of world	1.8	1.8	1.9	1.9	3.0	3.0
Total	22.6	29.2	39.4	47.9	60.1	72.8
Equities issued by						
Private non-financial corporations	18.5	25.4	28.5	33.7	46.1	49.1
National public non-financial corporations	—	—	23.6	3.4	17.2	3.4
Banks	3.3	8.1	8.8	8.0	11.5	15.9
Other depository corporations	0.1	0.1	0.1	0.1	0.1	0.1
Other insurance corporations	0.4	0.6	0.9	1.2	1.0	1.5
Rest of world	9.5	13.1	13.9	18.6	24.0	28.1
Total	31.9	47.3	75.9	65.0	100.0	98.2
Other accounts receivable	0.7	1.1	1.9	4.2	3.2	3.9
<b>Total assets(a)</b>	<b>98.1</b>	<b>122.4</b>	<b>165.3</b>	<b>158.2</b>	<b>213.2</b>	<b>226.0</b>

(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 summary markets table is included under summary market indicators on page x of this publication.

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 is 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

	<i>Net transactions during year(a)</i>					
	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
	\$b	\$b	\$b	\$b	\$b	\$b
Funds (including equity) raised on conventional credit markets by;						
National general government	7	-1	-15	-9	-11	-10
State and local general government	-12	-4	—	-3	-3	-4
National public non-financial corporations	—	2	12	—	18	3
State and local public non-financial corporations	-2	-2	-1	—	1	3
Private non-financial corporations	53	45	55	51	67	57
Households	31	29	42	43	60	44
<b>Total</b>	<b>77</b>	<b>70</b>	<b>93</b>	<b>81</b>	<b>132</b>	<b>93</b>

(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.

### 3.2 BANK RETAIL DEPOSIT AND LENDING RATES

	As at 30 June					
	1996	1997	1998	1999	2000	2001
	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.
Bank deposit rates						
Six month fixed deposit	6.55	4.65	4.15	3.70	4.80	3.65
Cash management accounts(a)	n.a.	3.75	3.20	2.90	3.90	3.25
Bank lending rates						
Housing loans — variable	9.75	7.20	6.70	6.50	7.80	6.80
Small business loans — variable	11.25	9.50	7.70	7.45	8.85	8.00
Credit cards	16.70	16.00	15.30	15.30	16.25	16.00

(a) Accounts of \$50,000.

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

	1995–96	1996–97	1997–98	1998–99	1999–2000	2000–01
Type of lending	\$m	\$m	\$m	\$m	\$m	\$m
Secured housing for owner occupation						
Construction and purchase of dwelling	43 678	49 978	54 663	61 498	74 952	74 571
Alterations and additions	3 510	3 039	2 779	2 821	3 321	3 110
Total secured housing commitments	47 188	53 017	57 442	64 319	78 273	77 681
Personal						
Fixed loan facilities	20 932	21 126	22 281	21 125	22 265	22 739
Revolving credit facilities	11 351	14 440	20 641	24 781	29 558	29 851
Total personal finance commitments.	32 284	35 568	42 921	45 905	51 823	52 592
Commercial						
Fixed loan facilities	64 317	75 977	91 220	91 119	93 960	99 133
Revolving credit facilities	75 016	78 560	81 268	80 937	74 965	84 327
Total commercial finance commitments	139 332	154 537	172 489	172 058	168 923	183 460
Lease finance commitments	7 106	7 378	8 983	9 517	7 900	6 022
<b>Total</b>	<b>225 910</b>	<b>250 500</b>	<b>281 835</b>	<b>291 799</b>	<b>306 919</b>	<b>319 755</b>

Source: Housing Finance for Owner Occupation, Australia (Cat. no. 5609.0); Lending Finance, Australia (Cat. no. 5671.0) and Commercial Finance, Australia (Cat. no. 5643.0.40.002).



## 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

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
<i>Type of lender</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
All banks	106 060	113 637	132 653	142 776	144 130	154 023
Finance companies	7 674	7 786	5 985	4 504	4 553	5 335
Money market corporations	18 689	26 198	23 965	16 468	12 324	12 591
Other lenders(b)	6 907	6 914	9 885	8 307	7 916	11 511
<b>Total</b>	<b>139 332</b>	<b>154 537</b>	<b>172 489</b>	<b>172 058</b>	<b>168 923</b>	<b>183 460</b>

(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

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
<i>Purpose</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Construction	6 574	7 436	10 862	8 024	9 373	8 002
Purchase of real property(a)	19 617	24 500	29 600	28 117	36 309	34 803
Purchase of plant and equipment	7 506	9 730	7 706	7 624	8 723	8 984
Refinancing	11 316	12 681	12 081	11 385	9 210	10 366
Other purposes	19 307	21 634	30 977	35 969	30 341	36 978
<b>Total</b>	<b>64 317</b>	<b>75 977</b>	<b>91 220</b>	<b>91 119</b>	<b>93 960</b>	<b>99 133</b>

(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

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
CONSTRUCTION OF DWELLINGS						
	no.	no.	no.	no.	no.	no.
Dwelling units						
Banks	56 535	58 191	63 325	62 464	65 673	44 127
Permanent Building Societies	3 404	2 880	3 732	3 787	3 276	2 491
Other lenders(b)	4 289	4 798	7 160	7 238	6 733	6 357
Total	64 228	65 869	74 217	73 489	75 682	52 975
	\$m	\$m	\$m	\$m	\$m	\$m
Value of commitments						
Banks	5 336	5 825	7 014	7 936	9 292	6 089
Permanent Building Societies	357	338	487	519	472	375
Other lenders(b)	396	482	877	901	849	929
Total	6 086	6 648	8 380	9 356	10 616	7 393
PURCHASE OF NEWLY ERECTED DWELLINGS						
	no.	no.	no.	no.	no.	no.
Dwelling units						
Banks	18 341	19 356	18 889	17 903	17 313	14 656
Permanent Building Societies	467	281	227	282	300	433
Other lenders(b)	2 007	3 415	4 154	1 963	920	2 589
Total	20 815	23 052	23 270	20 148	18 533	17 678
	\$m	\$m	\$m	\$m	\$m	\$m
Value of commitments						
Banks	1 917	2 276	2 402	2 483	2 666	2 322
Permanent Building Societies	50	33	30	37	49	49
Other lenders(b)	213	345	476	283	125	356
Total	2 177	2 654	2 907	2 802	2 840	2 734
PURCHASE OF ESTABLISHED DWELLINGS(C)						
	no.	no.	no.	no.	no.	no.
Dwelling units						
Banks	307 570	323 173	309 033	323 840	368 814	379 228
Permanent Building Societies	20 309	16 544	15 770	14 917	16 563	19 479
Other lenders(b)	38 598	52 799	59 883	55 779	69 546	85 497
Total	366 477	392 516	384 686	394 536	454 923	484 204
	\$m	\$m	\$m	\$m	\$m	\$m
Value of commitments						
Banks	29 563	33 383	34 883	41 089	50 919	50 889
Permanent Building Societies	1 889	1 660	1 617	1 678	1 825	2 244
Other lenders(b)	3 962	5 635	6 874	6 576	8 751	11 311
Total	35 414	40 677	43 374	49 343	61 493	64 443
TOTAL						
	no.	no.	no.	no.	no.	no.
Dwelling units						
Banks	382 446	400 720	391 247	404 207	451 800	438 011
Permanent Building Societies	24 180	19 705	19 729	18 986	20 139	22 403
Other lenders(b)	44 894	61 012	71 197	64 980	77 199	94 443
Total	451 520	481 437	482 173	488 173	549 138	554 857
	\$m	\$m	\$m	\$m	\$m	\$m
Value of commitments						
Banks	36 816	41 484	44 300	51 505	62 879	59 302
Permanent Building Societies	2 296	2 031	2 134	2 234	2 347	2 711
Other lenders(b)	4 566	6 464	8 229	7 760	9 725	12 556
Total	43 678	49 978	54 663	61 498	74 952	74 571

(a) Excludes alterations and additions.

(b) Includes mortgage managers.

(c) Includes refinancing.

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

## 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).

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 30 June					
	1996	1997	1998	1999	2000	2001
S&P/ASX 200	2 242	2 726	2 668	2 969	3 311	3 490
S&P/ASX 200 — Finance	3 230	4 919	5 751	6 504	7 431	9 457
S&P/ASX 200 — Industrials	3 360	4 302	4 689	5 188	5 792	5 999
S&P/ASX 200 — Resources	1 397	1 509	1 037	1 210	1 344	1 582

(a) Base 31 December 1979=500.

Source: Reserve Bank of Australian Bulletin.

## 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 30 June					
	1996	1997	1998	1999	2000	2001
	\$m	\$m	\$m	\$m	\$m	\$m
<b>Total equities and units in trusts</b>	<b>742.2</b>	<b>882.1</b>	<b>1 025.3</b>	<b>1 185.9</b>	<b>1 399.1</b>	<b>1 493.6</b>
ISSUED BY						
Private non-financial corporations(b)	369.5	433.6	423.2	505.4	615.5	657.4
National public non-financial corporations(b)	26.5	25.7	81.2	121.0	95.8	77.7
State and local public non-financial corporations(b)	106.4	103.6	104.1	105.7	103.1	98.8
Central Bank(c)	9.4	9.7	12.6	10.9	10.4	12.3
Banks(b)	57.3	92.5	103.6	112.7	138.2	177.3
Other depository corporations	16.0	15.9	15.8	16.5	16.8	18.7
Life insurance corporations(b)	5.4	9.1	35.9	33.2	39.7	48.7
Other insurance corporations	15.4	18.5	19.1	18.5	18.6	21.3
Central borrowing authorities(c)	0.2	0.2	0.2	0.2	—	—
Financial intermediaries n.e.c.	31.4	47.8	82.8	74.3	102.4	111.3
Rest of world	104.7	125.4	146.9	187.4	258.3	270.3
HELD BY						
Private non-financial corporations	83.7	97.2	99.1	114.7	158.4	160.2
National public non-financial corporations	0.7	0.9	0.7	0.8	1.9	5.4
State and local public non-financial corporations	—	—	0.1	0.1	0.1	0.1
Banks	26.6	33.9	35.7	47.8	63.3	68.6
Other depository corporations	4.4	5.4	5.6	6.1	6.0	9.9
Life insurance corporations	55.1	65.6	71.3	77.8	100.0	111.3
Pension funds	91.3	119.8	137.5	156.5	198.9	222.0
Other insurance corporations	13.3	17.2	21.0	22.2	24.8	26.2
Financial intermediaries n.e.c.	34.8	52.0	84.9	77.0	107.6	106.5
National general government	40.0	35.7	75.0	94.1	69.2	55.7
State and local general government	108.0	107.3	108.0	108.1	105.6	100.4
Households	93.4	131.7	146.2	193.9	234.6	273.9
Rest of world	190.5	215.5	240.2	286.9	328.4	353.5

(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 June of the last six years are shown in table 3.9.

### 3.9 SHORT-TERM MONEY MARKET RATES

	As at 30 June					
	1996	1997	1998	1999	2000	2001
	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.
11am call	7.51	5.57	5.07	4.80	6.00	5.00
Bank-accepted bills — 90 days	7.57	5.35	5.32	4.93	6.23	4.97

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 30 June					
	1996	1997	1998	1999	2000	2001
	\$b	\$b	\$b	\$b	\$b	\$b
<b>Total short-term debt securities</b>	<b>239.0</b>	<b>252.7</b>	<b>278.6</b>	<b>246.3</b>	<b>271.2</b>	<b>286.3</b>
ISSUED BY						
Private non-financial corporations	63.0	66.6	70.8	75.6	88.1	87.6
National public non-financial corporations	3.4	3.2	4.0	3.9	3.0	3.4
State and local public non-financial corporations	0.1	0.1	0.4	0.3	0.3	0.4
Banks	113.2	121.7	138.7	96.1	110.6	113.3
Other depository corporations	25.8	28.7	32.0	29.3	33.0	41.9
Central borrowing authorities	4.9	4.4	6.3	8.5	7.2	7.9
Financial intermediaries n.e.c.	7.4	8.8	12.2	19.8	18.0	20.9
National general government	15.4	13.4	10.3	7.7	5.8	5.1
Households	2.9	2.3	2.5	2.9	2.9	2.9
Rest of World	2.8	3.5	1.5	2.3	2.3	2.9
HELD BY						
Private non-financial corporations	10.7	11.0	13.4	24.7	40.1	32.0
National public non-financial corporations	0.9	1.5	0.6	0.8	0.4	0.4
State and local public non-financial corporations	0.5	0.5	0.5	0.2	—	0.2
Central bank	3.6	5.2	4.1	2.8	1.3	0.1
Banks	79.9	87.0	90.5	33.2	42.7	43.9
Other depository corporations	11.5	15.8	22.6	22.7	28.2	31.8
Life insurance corporations	18.3	20.2	18.1	22.7	17.6	15.1
Pension funds	11.0	12.1	13.1	19.8	19.7	18.0
Other insurance corporations	3.4	3.4	4.5	4.8	4.1	3.8
Central borrowing authorities	7.6	7.6	12.2	14.5	11.7	11.3
Financial intermediaries n.e.c.	28.3	32.3	33.7	30.9	31.8	32.4
State and local general government	—	0.1	0.2	0.1	0.2	0.3
Households	3.2	3.9	5.0	6.4	4.5	2.8
Rest of world	49.6	52.1	60.2	62.8	69.0	94.3

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 set, periodic payments, called coupons, over 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 significant 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 June for a range of bonds.

### 3.11 BOND MARKET, MARKET YIELDS

	As at 30 June					
	1996	1997	1998	1999	2000	2001
	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.
Treasury bonds						
3 years	8.33	5.93	5.25	5.63	5.97	5.55
5 years	8.59	6.44	5.38	5.90	6.05	5.78
10 years	8.88	7.05	5.58	6.27	6.16	6.04
NSW T-corp bonds						
3 years	8.45	5.94	5.40	5.89	6.29	5.88
5 years	8.74	6.51	5.58	6.24	6.42	6.13
10 years	9.16	7.23	5.86	6.61	6.60	6.24
Finance company debentures						
2 years	7.65	5.50	5.30	5.10	6.30	5.20
3 years	7.85	5.90	5.35	5.45	6.40	5.45

Source: Reserve Bank of Australia Bulletin.

The main issuers of bonds in Australia are still the Commonwealth Government and State Governments through their central borrowing authorities, although both the absolute size of these outstanding issues and their share of the total bond market have declined over the past three years, as budget surpluses and the sale of assets have reduced debt requirements. 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.

The corporate bond market (generally, issues by the very large private trading and financial enterprises), although relatively small, is increasing in popularity and expanding with both domestic and international institutions (in particular, European and North American banks have been large contributors) issuing significant amounts of debt securities on the Australian market.

The amounts outstanding on bonds at end June of the last six years are shown in table 3.12.

### 3.12 THE BOND MARKET

	Amounts outstanding at 30 June					
	1996	1997	1998	1999	2000	2001
	\$b	\$b	\$b	\$b	\$b	\$b
<b>Total bonds</b>	<b>312.7</b>	<b>347.0</b>	<b>354.6</b>	<b>358.8</b>	<b>396.2</b>	<b>437.0</b>
ISSUED BY						
Private non-financial corporations	19.5	23.7	25.9	32.3	42.7	48.5
National public non-financial corporations	6.0	5.6	6.8	6.5	8.5	12.7
State and local public non-financial corporations	0.2	0.2	0.1	—	—	0.1
Banks	37.7	48.2	57.7	58.3	72.6	85.4
Other depository corporations	24.4	28.5	30.0	24.0	26.8	29.0
Other insurance corporations	0.6	0.5	0.7	0.4	0.6	0.4
Central borrowing authorities	84.2	81.7	81.5	78.4	73.9	72.8
Financial intermediaries	15.7	22.2	29.3	34.9	49.2	62.5
National general government	100.0	109.1	97.1	87.9	78.1	69.4
State and local general government	0.1	0.2	0.2	0.2	0.4	0.4
Rest of world	24.2	27.1	25.2	35.9	42.2	54.5
HELD BY						
Private non-financial corporations	1.8	2.0	1.2	2.0	2.2	3.4
National public non-financial corporations	0.3	0.4	0.4	—	—	1.5
State and local public non-financial corporations	0.3	0.6	0.7	0.3	0.2	0.2
Central bank	26.5	35.7	26.4	30.1	36.9	44.0
Banks	16.4	20.5	16.0	21.6	22.3	24.5
Other depository corporations	12.4	10.4	6.6	4.2	6.9	13.1
Life insurance corporations	32.7	35.3	41.8	43.7	45.3	41.1
Pension funds	25.3	26.0	29.7	33.7	36.0	35.6
Other insurance corporations	15.6	15.3	16.7	18.0	18.8	21.9
Central borrowing authorities	9.9	8.3	7.9	8.3	8.9	10.0
Financial intermediaries n.e.c.	14.7	14.8	20.0	19.0	19.4	25.1
State and local general government	0.1	0.1	—	—	0.2	0.3
Households	15.7	15.1	14.0	13.7	12.4	10.4
Rest of world	140.8	162.9	173.8	163.4	186.7	206.1

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 June of the last six years.



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

	As at 30 June					
	1996	1997	1998	1999	2000	2001
United States dollar	0.7882	0.7451	0.6064	0.6559	0.6023	0.5061
United Kingdom pound	0.5102	0.4458	0.3634	0.4164	0.3961	0.3588
Japanese yen	85.56	84.96	85.78	79.26	63.31	62.98
German deutschmark	1.20	1.30	1.08	1.23	1.22	1.19
Euro	n.a.	n.a.	n.a.	0.64	0.63	0.60

(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)

	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
	\$m	\$m	\$m	\$m	\$m	\$m
Transactions by foreign exchange dealers(b)						
Outright spot(c)	20 693	23 641	28 659	32 540	22 753	27 281
Outright forward(d)	2 014	2 495	3 689	4 432	3 831	5 093
Swaps	28 437	35 390	36 452	37 903	36 620	41 865
Options	968	1 442	2 112	2 485	2 517	3 150
<b>Total</b>	<b>52 112</b>	<b>62 968</b>	<b>70 911</b>	<b>77 360</b>	<b>65 721</b>	<b>77 390</b>

(a) Figures given are the average daily turnover for the financial 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.8 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). For comments on the performance of Australian dollar during 2001, see *Statement on Monetary Policy*, Reserve Bank Bulletin, August 2001.

In terms of trading volumes the Sydney Futures Exchange (SFE) ranks as the largest futures and options exchange in the Asia-Pacific region, offering around the clock trading to over 70 derivatives products in Australasia and North America. SFE provides comprehensive Australian fixed interest, equity and commodity market coverage. Additional contracts are available via electronic trading links with the New York Mercantile Exchange (NYMEX) and the SFE's wholly owned subsidiary, the New Zealand Future and Options Exchange (NZFOE).

In September 2000, SFE demutualised to become a corporation limited by shares. As a result, a new Board of Directors was established to oversee the governance of SFE. The Board includes senior executives from the wider financial community. SFE Shares were listed on the Austock exempt market on 1 November 2000. The shares debuted at \$A1.72. The current timetable for an ASX listing is for the end of the first quarter of 2002.

Following approval from the New South Wales Supreme Court and Austraclear's shareholders, as well as clearance from the competition regulator, the Australian Competition and Consumer Commission, SFE merged its clearing operations with Austraclear, the centralised securities depository, and clearing and settlements organisation for all \$A denominated (non-Commonwealth Government) debt securities in December 2000. The merger created a centralised clearing and settlement service provider for the clearing of both derivatives and over-the-counter (OTC) debt products in Australia and New Zealand.

During the calendar year 2000, 31,277,000 futures and options contracts were traded at SPE, representing a 5.0% increase on the previous year. Average daily volume rose to 123,600 contracts, nominally valued at \$40.5b, 5.4% higher than the 1999 average daily volume. Total futures trading was up 6.3% on 1999 with 28,901,000 contracts traded, while options trades were down 9.0% to 2,375,600 contracts.

For the six months to June 2001, average daily volume rose to 145,600 contracts, with significant increases recorded in 3 year bonds futures.

The OTC interest rate derivatives market in Australia is less significant both globally and locally than the exchange traded business. The main OTC derivatives traded include: forwards, swaps, options, warrants, and repurchase agreements. These derivatives are specifically tailored for each customer and are traded and negotiated directly between banks and other financial institutions. And 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 ('000S CONTRACTS)

	1999		2000		January to June 2001	
	Annual volume	Average daily volume	Annual volume	Average daily volume	Six month trading Volume	Average daily volume
<b>Futures</b>						
SPI 200a/SPI	3 820	15.0	3 825	15.0	1 898	15.3
AUD	n.a.	n.a.	n.a.	n.a.	26	0.2
90 day bank bills	7 184	28.3	7 700	30.4	4 786	38.6
3 year bonds	10 787	42.5	12 359	48.9	7 808	63.0
10 year bonds	5 346	21.0	4 982	19.7	2 531	20.4
Agricultural	29	—	24	—	11	0.1
Electricity	8	—	2	—	—	—
Share futures	9	—	9	—	6	0.1
Total futures turnover	27 183	107.0	28 901	114.2	17 067	137.6
<b>Options</b>						
SPI 200a/SPI	1 237	4.9	1 099	4.3	273	2.2
90 Day Bank Bills	453	1.8	327	1.3	134	1.1
3 year bonds	289	1.1	319	1.3	229	1.8
10 year bonds	243	1.0	105	1.9	32	0.3
Total options turnover	2 610	10.3	2 376	9.3	994	8.0
<b>Total</b>	<b>29 793</b>	<b>117.3</b>	<b>31 277</b>	<b>123.6</b>	<b>18 061</b>	<b>145.6</b>

(a) Includes barley, canola and sorghum.

Source: Sydney Futures Exchange.

For more details on 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 (AFMA), which includes details of exchange traded and over-the-counter derivatives markets by instrument, turnover volume and counterparties, maturity profiles and market concentration.



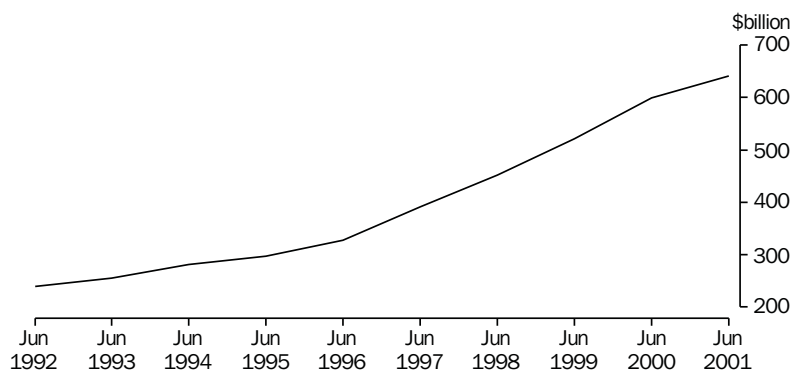
## CHAPTER 4

## 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. Table 4.3 shows where the funds are invested both in terms of Australia or abroad, and within Australia, by instrument (e.g., equities, bonds, etc). Offshore assets and Australian equities have increased their share of total assets, in part due, respectively, to exchange rate effects and the increasing share prices in Australia as well as to new investments.

4.1 MANAGED FUNDS, Consolidated Assets



Source: *Managed funds, Australia* (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.

Collective investment institutions *continued*

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

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—2001(a)

	<i>Total</i>	<i>Cross invested</i>	<i>Consolidated</i>
<i>Type of institution</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Life insurance corporations(b)	197 814	22 348	175 465
Pension funds	354 713	55 796	298 917
Public unit trusts	143 806	18 749	125 058
Friendly societies	5 967	437	5 530
Common funds	8 203	77	8 126
Cash management trusts	28 693	—	28 693
<b>Total assets</b>	<b>739 196</b>	<b>97 406</b>	<b>641 789</b>

(a) As at 30 June 2001.

(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

	<i>As at 30 June</i>					
	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
<i>Type of asset</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>	<i>\$m</i>
Cash and deposits(a)	22 965	28 562	35 421	36 825	38 988	44 156
Loans and placements	16 425	19 227	22 812	26 936	30 609	29 181
Short-term securities(a)	38 707	47 004	54 089	67 034	63 358	62 545
Long-term securities	55 234	59 246	66 039	70 625	72 187	65 758
Equities and units in trusts	94 192	117 994	130 837	152 199	194 105	230 561
Land and buildings	38 323	41 262	48 466	56 754	63 713	69 102
Assets overseas	48 011	62 446	77 658	90 769	115 115	119 142
Other assets	14 636	17 184	17 051	20 150	21 014	21 344
<b>Total assets</b>	<b>328 494</b>	<b>392 926</b>	<b>452 375</b>	<b>521 291</b>	<b>599 090</b>	<b>641 789</b>

(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 30 June 2001, \$483b, or 75% 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 30 June 2001, investment managers invested \$147b on behalf of government bodies, general insurers and other clients, including overseas clients.

#### 4.4 ASSETS OF MANAGED FUNDS, INVESTED THROUGH INVESTMENT MANAGERS—2001(a)

<i>Source of funds</i>	<i>Unconsolidated assets of managed funds \$m</i>	<i>Assets invested with investment managers \$m</i>
Statutory funds of life insurance corporations(b)	175 465	146 535
Pension and approved deposit funds	298 917	197 590
Public unit trusts	125 058	102 205
Friendly societies	5 530	3 483
Common funds	8 126	5 463
Cash management trusts	28 693	28 039
<b>Total managed funds assets</b>	<b>641 789</b>	<b>483 315</b>
Government	..	12 438
Charities	..	961
Other trusts	..	57 139
General Insurance	..	23 314
Other sources	..	32 243
<b>Total other sources assets</b>	<b>..</b>	<b>126 095</b>
Funds from Australian sources	..	609 410
Funds from overseas sources	..	20 724

(a) As at 30 June 2001.

(b) Includes both superannuation and ordinary business.

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





## 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.

5.1 VALUE OF AUSTRALIAN NOTES ON ISSUE(a)

	1996	1997	1998	1999	2000	2001
	\$m	\$m	\$m	\$m	\$m	\$m
\$1	19	19	19	—	—	—
\$2	48	47	47	46	46	45
\$5	337	351	361	379	397	431
\$10	583	601	617	639	646	662
\$20	1 868	1 837	1 804	1 850	1 917	2 014
\$50	7 928	8 912	9 523	10 356	11 188	12 055
\$100	8 399	8 297	9 280	10 282	11 240	11 961
<b>Total</b>	<b>19 182</b>	<b>20 064</b>	<b>21 651</b>	<b>23 552</b>	<b>25 434</b>	<b>27 168</b>
Percentage change	3.5	4.6	7.9	8.8	8.0	6.8

(a) As at last Wednesday in June.

Source: Reserve Bank of Australia, Annual Report.

### 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, which 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 non-bank sector.
- M3, is defined as currency plus bank deposits of the private non-bank sector plus all other bank deposits of the private non-bank sector.

MONEY SUPPLY MEASURES  
*continued*

- 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 June of the last six years is shown in table 5.2.

5.2 MONEY SUPPLY MEASURES

	As at 30 June					
	1996	1997	1998	1999	2000	2001
	\$m	\$m	\$m	\$m	\$m	\$m
Money base	24 546	34 108	31 424	31 752	28 085	29 590
M3	290 485	321 014	340 891	375 835	406 501	440 218
Broad money	349 665	383 561	406 539	451 524	480 135	518 116
Percentage change in broad money	10.2	9.7	6.0	11.1	6.3	7.9

Source: Reserve Bank of Australia Bulletin.

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 Australian Payments Clearing Association (APCA) was established in February 1992 to oversee and manage the development and operation of the Australian payments clearing system. Prior to the establishment of APCA, payments clearing had been managed through formal and informal agreements between participating financial institutions.

APCA currently manages three general clearing systems:

- The Australian Paper Clearing System (APCS), established in December 1993, responsible for clearing cheques and other paper instruments, including money orders, AUD travellers' cheques and warrants.
- The Bulk Electronic Clearing System (BECS), established in December 1994, responsible for processing large-volume electronic credit and debit transfers (for example batched payroll and social security payments).
- The Large Value Payments System consists of three large-value payments systems, the High Value Clearing System (HVCS) which was implemented in August 1997 and uses the SWIFT Payment Delivery System (PDS), the Reserve Bank Information and Transfer System (RITS), and Austraclears' Financial Transactions Recording and Clearance System (FINTRACS).

PAYMENTS SYSTEM  
*continued*

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 9am on the day following the sending of payment instructions. This was changed to a real-time gross settlement (RTGS) basis on 22 June 1998 and all of the large value payments systems are now approved RTGS systems. 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.

In August 2000, the Australian Competition and Consumer Commission (ACCC) authorised the establishment of the Consumer Electronic Clearing System (CECS), which was developed by APCA. This system will manage the clearance of all card-based transactions. Initially, however, CECS will cover only ATM and EFTPOS interchanges.

Table 5.3 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.

5.3 ELECTRONIC ACCESS POINTS

	1996	1997	1998	1999	2000	2001
	<i>no.</i>	<i>no.</i>	<i>no.</i>	<i>no.</i>	<i>no.</i>	<i>no.</i>
Automatic teller machines	7 178	8 182	8 814	9 387	10 818	11 915
EFTPOS terminals	107 702	164 199	218 330	265 391	320 372	362 848

*Source: Australian Payments Clearing Association, Annual Report.*

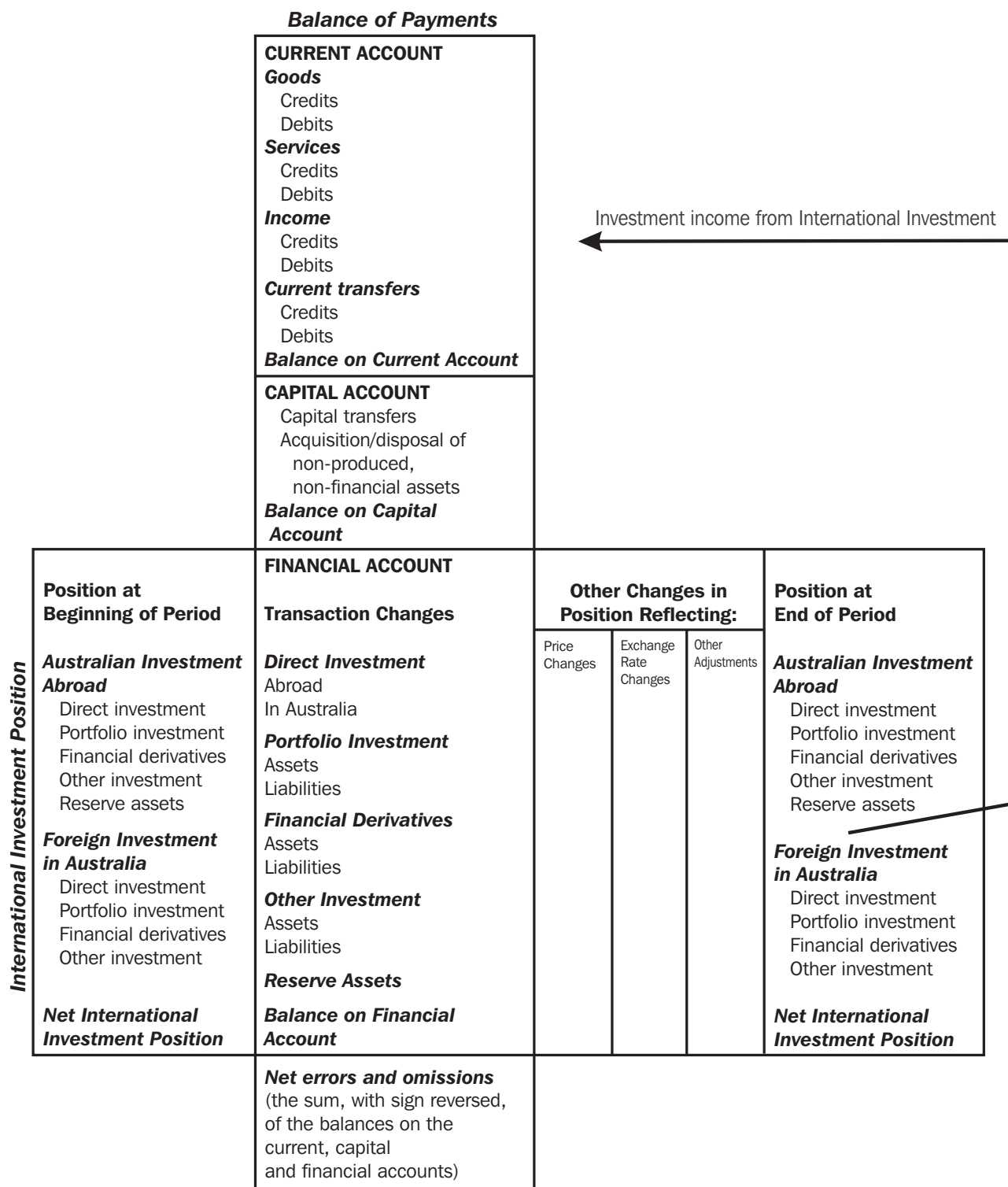


International accounts statistics cover the closely related and integrated statistics on Australia's balance of payments and international investment position. The diagram on the next page presents the broad structure and relationship of these statistics.

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 classified as transfers that offset the provision of real and financial resources without anything provided in exchange (such as gifts).

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.

RELATIONSHIP BETWEEN THE BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION STATEMENTS



## EXPORTS AND IMPORTS OF FINANCIAL AND INSURANCE SERVICES

Financial services cover financial intermediation services and auxiliary services conducted between residents and non-residents. 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 non-residents 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 constant share of total services export market has declined over the last four years, representing approximately 4.5% of total services credits in 2000–01. Financial and insurance services debits, as a percentage of total services debits, has declined steadily from 6.6% in 1995–96 to 4.4% in 2000–01.

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

6.1 EXPORTS AND IMPORTS OF FINANCIAL AND INSURANCE SERVICES

	1995–96	1996–97	1997–98	1998–99	1999–2000	2000–01
CREDITS (EXPORTS)						
	\$m	\$m	\$m	\$m	\$m	\$m
Total services	22 949	24 226	25 206	26 242	28 317	32 794
Insurance services	672	772	840	859	766	741
Financial services	577	634	713	716	747	747
Total finance and insurance services	1 249	1 406	1 553	1 575	1 513	1 488
	%	%	%	%	%	%
Percent of total services credits	5.4	5.8	6.2	6.0	5.3	4.5
DEBITS (IMPORTS)						
	\$m	\$m	\$m	\$m	\$m	\$m
Total services	–23 349	–24 152	–26 398	–28 026	–29 713	–32 233
Insurance services	–1 064	–1 012	–915	–922	–902	–902
Financial services	–472	–451	–442	–468	–527	–528
Total finance and insurance services	–1 536	–1 463	–1 357	–1 390	–1 429	–1 430
	%	%	%	%	%	%
Percent of total services debits	6.6	6.1	5.1	5.0	4.8	4.4

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).

INTERNATIONAL  
INVESTMENT *continued*

The sector also owns branches and subsidiaries abroad to directly provide banking and other financial services to foreign markets as well as to improve the international network the sector 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.

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 foreign debt liabilities to arrive at Australia's net foreign debt.

The level of financial corporations net foreign debt at 30 June 2001 was \$220.5b, up nearly 15% on 30 June 2000 (\$191.9b). The increase during the 12 months to 30 June 2001 resulted from net financial transactions of \$11.8b and valuation and other changes of \$16.8b.

The net foreign debt of Australian private financial corporations has increased more than four-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 only increased by 16% as corporations increasingly used the finance sector to source funds rather than borrowing directly offshore. In the three years to 30 June 2001, Australia's private non-financial corporations increased their gross debt by \$104b (28%), of which \$23b came directly from offshore, with the rest 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

	1995–1996	1996–1997	1997–1998	1998–1999	1999–2000	2000–2001
	\$m	\$m	\$m	\$m	\$m	\$m
Assets						
Public	–2 520	–3 998	–1 627	234	–3 227	–9 071
Private	–4 620	–4 272	–7 485	–5 242	–1 279	–3 624
Total	–7 140	–8 270	–9 112	–5 008	–4 506	–12 695
Liabilities						
Public	–4 959	–2 729	–5 301	–4 224	–6 016	–4 250
Private	18 828	21 109	20 036	21 856	48 109	28 762
Total	13 869	18 380	14 735	17 632	42 093	24 512
Net foreign debt						
Public	–7 479	–6 726	–6 929	–3 989	–9 243	–13 320
Private	14 208	16 836	12 552	16 614	46 830	25 138
Total	6 729	10 110	5 623	12 625	37 587	11 818

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

## 6.3 FOREIGN DEBT OF FINANCIAL CORPORATIONS, LEVELS

	As at 30 June					
	1996	1997	1998	1999	2000	2001
	\$m	\$m	\$m	\$m	\$m	\$m
Assets						
Public	–28 144	–26 853	–32 196	–31 178	–36 811	–47 809
Private	–36 149	–45 619	–58 762	–63 445	–67 841	–80 216
Total	–64 293	–72 472	–90 958	–94 623	–104 652	–128 025
Liabilities						
Public	56 472	48 213	41 392	37 284	34 001	32 605
Private	115 780	145 415	187 507	204 012	262 543	315 944
Total	172 252	193 628	228 899	241 296	296 544	348 549
Net foreign debt						
Public	28 328	21 360	9 196	6 107	–2 810	–15 205
Private	79 630	99 796	128 746	140 567	194 702	235 728
Total	107 958	121 156	137 942	146 674	191 892	220 523

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 \$16b, with 70% of that investment in the form of direct equity investment in branches and subsidiaries. A decade on, at 30 June 2001, total foreign equity investment in the Australian finance sector had risen more than four-fold to \$72b, but with two thirds of that investment now contributed by portfolio investors holding smaller (less than 10%) interests in resident financial institutions. Table 6.4 shows, for the past 12 years, 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 30 June	\$b	\$b	\$b	\$b	\$b	\$b
1990	10	4	13	—	8	8
1991	11	5	16	—	9	9
1992	11	5	16	—	11	11
1993	11	7	18	—	14	14
1994	12	10	22	—	16	16
1995	13	10	23	—	18	18
1996	16	12	28	—	17	18
1997	18	18	36	2	24	26
1998	19	28	48	3	28	30
1999	19	29	48	2	31	33
2000	19	34	53	1	39	40
2001	24	48	72	6	38	44

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

Table 6.4 also shows that the Australian finance sector's direct equity investment abroad increased nearly five-fold in the last decade, from \$9b at 30 June 1991 to \$44b at 30 June 2001. While at 30 June 2001 there were 22 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-owned finance enterprises still hold 86% by value of the sector's 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 19% at 30 June 2001. The foreign equity participation in banks and other depository institutions is higher, at 26% and 21% respectively, while for other financial subsectors the percentage is much lower (12%), 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, with the United Kingdom holding nearly 38% and the United States holding 27% of the foreign equity in the sector at 30 June 2000.

## 6.5 OWNERSHIP OF EQUITY IN AUSTRALIAN FINANCE SECTOR(a)

	As at 30 June				
	1997	1998	1999	2000	2001
<b>Banks</b>					
Amount issued (\$b)(b)	92.5	103.6	112.8	138.2	177.3
Amount held by rest of the world (\$b)	19.2	25.1	28.3	31.2	45.7
Percentage foreign ownership (%)	21	24	25	23	26
<b>Non-bank deposit taking institutions</b>					
Amount issued (\$b)(b)	15.9	15.8	16.5	16.8	18.7
Amount held by rest of the world (\$b)	4.5	4.3	4.0	3.7	4.0
Percentage foreign ownership (%)	29	28	24	22	21
<b>Other financial institutions(c)</b>					
Amount issued (\$b)(b)	75.7	138.0	126.2	160.8	181.3
Amount held by rest of the world (\$b)	12.3	18.2	15.8	17.9	22.3
Percentage foreign ownership (%)	16	13	12	11	12
<b>Total finance sector</b>					
Amount issued (\$b)(b)	184.1	257.4	255.5	315.8	377.3
Amount held by rest of the world (\$b)	36.1	47.7	48.1	52.8	71.9
Percentage foreign ownership (%)	20	19	19	17	19
<b>Of which amounts held by the rest of the world by country (\$b)</b>					
<b>Banks</b>					
United Kingdom	8.0	11.0	12.3	14.5	n.y.a.
United States of America	6.0	8.1	8.0	9.6	n.y.a.
Japan	1.0	1.0	1.1	1.0	n.y.a.
Other countries	4.2	5.0	6.9	6.0	n.y.a.
<i>Total</i>	19.2	25.1	28.3	31.2	45.7
<b>Non-bank deposit taking institutions</b>					
United Kingdom	0.2	0.2	0.2	0.1	n.y.a.
United States of America	1.2	1.0	1.2	1.1	n.y.a.
Japan	1.4	1.4	1.1	1.0	n.y.a.
Other countries	1.7	1.8	1.6	1.6	n.y.a.
<i>Total</i>	4.5	4.3	4.0	3.7	4.0
<b>Other financial institutions</b>					
United Kingdom	3.2	5.2	4.8	5.3	n.y.a.
United States of America	2.0	3.4	3.0	3.8	n.y.a.
Japan	0.5	0.4	0.5	0.5	n.y.a.
Other countries	6.6	9.2	7.4	8.3	n.y.a.
<i>Total</i>	12.3	18.2	15.8	17.9	22.3
<b>Total finance sector</b>					
United Kingdom	11.5	16.3	17.3	19.9	n.y.a.
United States of America	9.3	12.5	12.2	14.5	n.y.a.
Japan	3.0	2.8	2.7	2.6	n.y.a.
Other countries	12.4	16.0	15.9	15.9	n.y.a.
<i>Total</i>	36.1	47.7	48.1	52.8	71.9

(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) and *Australian National Accounts: Financial Accounts* (Cat. no. 5232.0).



## CHAPTER 7

## INDUSTRY INDICATORS

### EMPLOYMENT, EARNINGS AND COSTS IN FINANCE AND INSURANCE

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.

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 in the finance and insurance industry and their average weekly earnings. Over the six years to 2001, the number of persons employed in the finance and insurance industry rose 6.3%, from 322,900 to 353,900. The proportion of persons employed in the finance and insurance industry as a percentage of total persons employed declined, from 3.9% in May 1996 to 3.5% in May 1999, and has steadily increased over the last two years to 3.9% of total persons employed. Influences contributing to the increase in the proportion of people employed in the finance and insurance industry largely reflect decreases in persons employed in other sectors.

Over the six years to 2001, average weekly earnings in the finance and insurance sector increased 28% from \$684 to \$878. Total average weekly earnings for the same period increased only 17%. Some of the difference will be because “jobs lost” over this period were 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 four years only. In 2000–01, the WCI for the finance and insurance sector rose by 3.6%, slightly higher than the increase for all industries (3.4%).

## 7.1 EMPLOYMENT AND EARNINGS IN FINANCE AND INSURANCE

	1996	1997	1998	1999	2000	2001
Persons employed(a)						
Finance and insurance ('000)	322.9	317.9	324.6	302.4	336.7	353.9
Total persons employed ('000)	8 355.5	8 407.8	8 585.0	8 735.2	9 032.3	9 133.9
Percentage of total (%)	3.9	3.8	3.8	3.5	3.7	3.9
Average weekly earnings(a)						
Finance and insurance (\$)	684.1	757.8	804.2	783.5	823.6	878.2
Total average weekly earnings (\$)	564.4	577.8	596.2	611.1	634.7	662.6
Percentage of total (%)	121.2	131.1	134.9	128.1	129.8	132.5
Wage cost index(b)(c)						
Finance and insurance	n.a.	n.a.	101.5	105.0	108.5	112.4
All industries	n.a.	n.a.	101.2	104.4	107.4	111.1

(a) As at end May.

(b) Total hourly rates of pay (excluding bonuses) average annual index, financial year.

(c) Base of index is September Quarter 1997=100.

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).

## 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 7.2 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 1999–2000, the finance and insurance sector profit margin of 18.3% exceeded the all industries profit margin of 9.0%. However, the margin recorded a decrease of 7 percentage points on the previous year. For the same period, the finance and insurance sector's return on assets (1.5%) was below the industry average at (4.0%). The interest coverage was also below the industry average, at 1.5 times compared to 2.6 times.

## 7.2 INDUSTRY PERFORMANCE RATIOS

	1996–97	1997–98	1998–99	1999–2000(a)
Finance and insurance				
Profit margin (%)	32.0	27.8	25.3	18.3
Return on assets (%)	3.2	3.0	2.4	1.5
Interest coverage (times)	2.0	1.9	1.8	1.5
All industries				
Profit margin (%)	9.0	8.9	9.5	9.0
Return on assets (%)	4.5	4.7	4.5	4.0
Interest coverage (times)	2.6	2.7	2.8	2.6

Source: Business Operations and Industry Performance (Cat. no. 8140.0).

## 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 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 for six years on selected overseas 90 day interest rates. In 2001, interest rates have decreased significantly on the previous year for all markets except Indonesia, Malaysia and Thailand. These increases follow a period where these three economies experienced dramatic increases in 1997 (and again in 1998 for Indonesia) due to the regional financial crisis, followed by a period of decline up until 2000. Towards the end of June 2001, the official US interest rates were systematically reduced to stimulate the recovery of the US economy. All interest rates (excluding Indonesia) are now below the levels seen before the financial crisis.

#### 8.1 OVERSEAS MARKET INTEREST RATES(a)

	1996	1997	1998	1999	2000	2001
	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.
United States of America	4.91	5.16	4.39	5.20	5.69	3.55
United Kingdom	6.50	7.63	6.19	6.00	6.13	5.25
Japan	0.38	0.42	0.25	0.20	0.22	0.08
Hong Kong (SAR of China)	5.50	9.13	5.06	5.69	6.38	3.74
Singapore	3.06	7.19	1.63	2.51	2.50	2.13
Indonesia	—	25.77	41.32	12.63	12.22	16.91
Korea	13.30	25.00	7.70	7.35	7.14	5.57
Malaysia	7.32	9.02	6.48	3.15	3.15	3.29
Taiwan	5.70	8.30	6.45	5.45	5.55	3.90
Thailand	13.00	26.00	7.75	5.00	3.75	4.00
New Zealand	7.89	8.80	5.08	5.61	6.84	5.83
Australia(b)	7.57	4.35	5.32	4.93	6.23	4.97

(a) 90 day rate as at 30 June.

Source: Reserve Bank of Australia Bulletin.

### SHARE PRICE INDEXES

Table 8.2 summarises the performance of major international share price indexes. In the year to June 2001, the All Ordinaries increased 5% and the Dow Jones increased 1%. All other indexes listed in table 8.2 fell during 2000–01, the largest fall was recorded for the Hang Seng, 19%.

## 8.2 SHARE PRICES INDEXES, INTERNATIONAL COMPARISON(a)

	As at 30 June					
	1996	1997	1998	1999	2000	2001
All Ordinaries (Australia)	289.9	352.5	345.0	383.9	428.1	451.3
Dow Jones Industrial (United States of America)	439.4	596.3	695.7	852.6	811.9	816.2
FT Industrial Ordinary (United Kingdom)	277.1	303.1	384.8	407.4	372.8	323.2
Nikkei 225 (Japan)	187.9	171.8	132.0	146.2	145.2	108.1
Hang Seng (Hong Kong SAR of China)	807.4	1 113.3	625.9	991.4	1 183.6	955.5
Straits Times (Singapore)	275.5	238.5	128.0	260.1	244.5	207.1

(a) All indexes rebased to a common period of 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 non-residents 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 FOR SELECTED COUNTRIES — 2001(a)

	<i>United States</i>	<i>United Kingdom</i>	<i>Japan</i>	<i>Hong Kong</i>	<i>Singapore</i>	<i>Australia</i>
	<i>\$USb</i>	<i>\$USb</i>	<i>\$USb</i>	<i>\$USb</i>	<i>\$USb</i>	<i>\$USb</i>
International liquidity						
Monetary gold	11.1	3.6	1.1	n.a.	n.a.	0.7
Special drawing rights	10.4	0.4	2.4	n.a.	0.1	0.1
Reserve position in IMF	13.8	4.1	5.1	n.a.	0.3	1.2
Foreign exchange	29.0	35.5	347.9	115.1	75.6	17.4
Deposit money banks						
Assets	1 062.2	n.a.	n.a.	438.1	59.3	n.a.
Liabilities	1 415.7	n.a.	n.a.	296.9	62.4	n.a.
Monetary authorities						
Foreign assets	64.2	6.4	310.2	110.5	76.1	22.4
Claims on central government	544.6	20.7	488.9	n.a.	n.a.	9.2
Reserve money	603.7	40.3	541.4	28.3	10.0	15.2
Foreign liabilities	0.1	7.2	n.a.	9	n.a.	0.1
Central government deposits	24.3	-16.1	107.2	55.8	41.1	8.6
Other items (net)	-19.1	n.a.	263.4	-20.2	25.0	7.7
Deposit money banks						
Reserves	58.1	9.8	83.3	1.8	3.7	1.4
Foreign assets	425.4	2 161.2	732.1	438.1	59.1	27.4
Claims on central government	171.8	-16.7	929.9	29.9	20.9	7.7
Claims on private sector	4 888.5	1 861.4	4 350.9	257.9	91.0	310.7
Demand deposits	499.0	(b)1525.6	1 575.8	11.0	12.5	59.3
Time and savings deposits	2 311.7	n.a.	2 985.3	359.2	78.6	167.0
Money market instruments	874.3	n.a.	217.0	14.2	n.a.	n.a.
Foreign liabilities	561.1	2 163.7	494.8	296.9	62.2	88.5
Bonds	292.5	n.a.	293.5	n.a.	n.a.	n.a.
Central government deposits	2.2	n.a.	112.8	0.7	1.6	2.6
Other items (net)	1 115.2	329.7	785.8	21.1	19.9	35.3
Monetary survey(c)						
Foreign assets (net)	41.3	-3.3	547.6	243.1	72.2	-38.8
Domestic credit	8 611.7	1 872.9	5 947.2	231.2	72.6	321.9
Money	1 374.7	1 557.8	2 034.0	23.0	18.7	72.8
Quasi-money	4 960.1	n.a.	2 985.3	359.2	78.6	167.0
Money market instruments	1 119.3	n.a.	217.0	14.2	n.a.	n.a.
Bonds	295.3	n.a.	293.5	n.a.	n.a.	n.a.
Other items (net)	903.6	311.8	1 049.3	15.3	47.5	43.3

(a) Data for United Kingdom, Japan, Singapore and Australia are all as at end May 2001. For Hong Kong all series are as at April 2001. For United States all series are as at March 2001.

(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 — authorise 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.

**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.

**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 \$10m. 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 certificated 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 or 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 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** *Pension 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.

**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.

**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.

Cash and deposits *continued*

**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)
- *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
ACCC	Australian Competition and Consumer Commission
ADFs	Approved Deposit Funds
ADM	Australian Derivatives Market
ANZSIC	Australian and New Zealand Standard Industrial Classification
APCA	Australian Payments Clearing Association
APCS	Australian Paper Clearing System
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASX	Australia Stock Exchange
AUD	Australian Dollar
b	billion
BECS	Bulk Electronic Clearing System
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
CECS	Consumer Electronic Clearing System
CHES	Clearing House Electronic Subregister System
CVM	Chain Volume Measures
FBCS	Finance, Business and Communication Services
FBS	Finance and Business Services
FINTRACS	Financial Transactions Recording and Clearance System
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
m	million
n.a.	not available
NCD	Negotiable Certificates of Deposit
n.e.c.	not elsewhere classified
n.p.	not published
OBU	Offshore Banking Units
OCH	Options Clearing House
ONO	Overnight Options
OTC	Over-the-counter
p.a.	per annum
PAR	Prime Asset Ratio
PDS	Payment Delivery System
RBA	Reserve Bank of Australia

ABBREVIATIONS, SYMBOLS  
AND OTHER USAGES

*continued*

RITS	Reserve Bank Information and Transfer System
RTGS	Real-Time Gross Settlement
SDRs	Special Drawing Rights
SFE	Sydney Futures Exchange
SFECH	Sydney Futures Exchange Clearing House
SII	ABS Survey of International Investment
SPI	Share Price Index
WCI	Wage Cost Index
. .	not applicable
—	zero or rounded to zero

## APPENDIX

### LIST OF ARTICLES AND OTHER RELATED DOCUMENTS IN PREVIOUS RELEASES OF 5611.0

<i>Article</i>	<i>Issue</i>	<i>Page</i>
Institutional arrangements and policy	1999	viii–x
Australia's international banking statistics	1999	1–10
The role of the finance sector and markets in the Australian economy	1999	11–14
Equity capital raisings on the Australian Stock Exchange	1999–00	1–10
Business and communication services and the finance industry in Australia	1999–00	11–16
Information technology and telecommunications in Australia	1999–00	17–24

These articles are also located on the ABS website at <[www.abs.gov.au](http://www.abs.gov.au)>.





## GLOSSARY

<b>Accrual accounting</b>	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.
<b>Approved deposit fund</b>	An indefinitely continuing fund which is maintained by an approved trustee and which is established to receive employees' eligible termination payments.
<b>Arm's length</b>	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.
<b>Asset-backed security</b>	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.
<b>Assets overseas</b>	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.
<b>Average weekly earnings</b>	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'.
<b>Bank certificates of deposit</b>	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.
<b>Bearer securities</b>	Debt securities for which the issuer does not maintain a register of current holders. Settlement of transactions (trades) may be effected by delivery.
<b>Bills of exchange</b>	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.
<b>Broad money</b>	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.

<b>Call option</b>	An option in which the buyer has the right to buy shares at a predetermined price within a specified period of time.
<b>Capital account</b>	An account within the national income and expenditure and the balance of payments accounts which show 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.
<b>Cash and deposits</b>	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 <i>Financial Corporations Act 1974</i> 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.
<b>Cash management trusts</b>	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.
<b>Central borrowing authority</b>	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.
<b>Common fund</b>	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.
<b>Consolidation</b>	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.
<b>Conventional credit markets</b>	Those which are reasonably open to all potential borrowers. Excludes, for example, loans arranged between related entities.

<b>Conventional financial instruments</b>	<ul style="list-style-type: none"> <li>■ Currency and deposits</li> <li>■ Bills of exchange</li> <li>■ One name paper</li> <li>■ Bonds etc.</li> <li>■ Loans and placements</li> <li>■ Equity</li> </ul>
<b>Counterparting</b>	The process of taking the asset record of a sector and using it as the liability record of the counterparty sector, or vice versa.
<b>Counterparty</b>	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.
<b>Currency swaps</b>	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.
<b>Debt security</b>	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.
<b>Deep-discount bonds</b>	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.
<b>Deposit money banks</b>	Deposit money banks comprise commercial banks and other financial institutions that accept transferable deposits, such as demand deposits.
<b>Derivative instrument</b>	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.
<b>Discount securities</b>	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).
<b>Dividend reinvestment plan (DRP)</b>	A scheme by which shareholders can elect to reinvest the dividend which they receive into further shares in the company. The price at which new shares are brought is normally at a slight discount to the ruling market price.
<b>Dividends</b>	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.

<b>Domestic credit</b>	Domestic credit consists of claims on central government, official entities, private sector, other banking institutions and non-bank financial institutions.
<b>Due for payment</b>	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.
<b>Equities and units in trusts</b>	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.
<b>Face value</b>	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.
<b>Finance and Insurance Industry</b>	Includes all units mainly engaged in the provision of finance, in investing money in predominantly financial assets, in providing services to lenders, borrowers and investors, in providing insurance cover of all types, and in providing services to insurance underwriters and to people or organisations seeking insurance.
<b>Finance sector</b>	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.
<b>Financial asset</b>	An asset which has a counterpart liability in the books of another accounting entity.
<b>Financial transactions account</b>	The account which shows transactions in financial claims between institutional sectors.
<b>Foreign assets (net)</b>	Foreign assets (net) is the sum of foreign assets less the sum of foreign liabilities.
<b>Forward rate agreements (FRAs)</b>	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.

<b>Friendly societies</b>	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.
<b>Futures</b>	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.
<b>Gross domestic product (GDP)</b>	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.
<b>Initial public offering (IPO)</b>	When a company offers shares to the public and lists on the Stock Exchange.
<b>Inscribed stock</b>	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.
<b>Institutional sectors</b>	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.
<b>Interest rate swaps</b>	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.
<b>M3</b>	M3 is a money supply measure which comprises currency plus bank deposits of the private non-bank sector.
<b>Monetary authorities</b>	Monetary authorities refer to the national central bank and other institutional units that perform monetary authorities' functions and are included in the central bank subsector (currency boards, exchange stabilization funds, etc.).
<b>Monetary gold</b>	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.

<b>Monetary survey</b>	Monetary survey measures monetary authorities and deposit money banks' stock of narrow money, which comprises transferable deposits and currency outside deposit money banks, and quasi-money liabilities of these institutions, which comprises time, savings and foreign currency deposits.
<b>Money base</b>	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.
<b>Net lending</b>	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 transactions account.
<b>New float</b>	The launch of a company on the stock exchange.
<b>Non-resident</b>	A unit is non-resident if its centre of economic interest is not in the domestic economic territory (i.e., it operates abroad).
<b>Novation</b>	The transfer of an entity's rights and obligations under a contract to a new counterparty.
<b>One name paper</b>	One name paper includes promissory notes, treasury notes and certificate of deposits issued by banks.
<b>Options</b>	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).
<b>Payments clearing</b>	Payments clearing is the exchange of payment instructions for value between providers of payments services. Clearers provide the means for individuals and businesses to transfer value, one to the other, regardless of where the accounts are held.
<b>Placement</b>	An issue of new shares which are offered to select investors but can be offered to the wider public if approval is obtained from existing shareholders.
<b>Primary and secondary markets</b>	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.
<b>Public unit trust</b>	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.

<b>Quasi-money</b>	Quasi-money comprises time, savings and foreign currency deposits of resident sectors other than central government.
<b>Real interest</b>	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.
<b>Residents of Australia</b>	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 <i>Balance of Payments and International Investment Position, Australia: Concepts, Sources and Methods</i> (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.
<b>Rights issue</b>	An issue of new shares where the right to subscribe is offered only to existing shareholders in proportion to their existing holdings and at a price below the current market price.
<b>Securities other than shares</b>	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.
<b>Short selling</b>	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.
<b>Special Drawing Rights (SDRs)</b>	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.
<b>Stock lending</b>	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.
<b>Subordinated debt</b>	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.

<b>Swaps</b>	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.
<b>Synthetic instrument</b>	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).
<b>Term to maturity</b>	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.
<b>Transaction</b>	Active dealing in a financial instrument; for example, a sale of bonds.
<b>Venture capital</b>	Equity investment in a private company, for the short to medium-term with the potential of high capital gains on divestment and a high level of associated risk.









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<i>CPI INFOLINE</i>	For current and historical Consumer Price Index data, call 1902 981 074 (call cost 77c per minute).
<i>DIAL-A-STATISTIC</i>	For the latest figures for National Accounts, Balance of Payments, Labour Force, Average Weekly Earnings, Estimated Resident Population and the Consumer Price Index call 1900 986 400 (call cost 77c per minute).

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