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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.

Comments on the first issue of this publication have resulted in some changes being incorporated in this issue. Feature articles have been included on the wider communications and businesses services industries that support the finance industry; the role and significance of information technology and telecommunications in the economy and to the finance industry; and on equity investment, particularly covering the growth in household investment in equity securities. Another change that has been made is the addition of a summary table in the summary market indicators discussion to bring together the information on the various markets discussed in chapter 3. Additional detail, where available, has been included in each chapter, such as the geographic distribution of Australian banking.

While this publication will continue as an annual edition, a supplementary product *Finance Australia in Brief* will be released between each publication to update key indicators and to highlight any new developments in finance.

This publication remains under development and the ABS welcomes further comments and suggestions on articles or financial data items for inclusion in future releases. These comments should be addressed to the Director, Balance of Payments, Australian Bureau of Statistics, PO Box 10, Belconnen, ACT, 2616, or to bob.mccoll@abs.gov.au

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SUMMARY MARKET INDICATORS

Credit market

Total credit market outstandings (i.e., demand in organised credit markets by the non-financial sectors from unrelated parties, excluding trade credit) rose $168 billion (12%) during 1999–2000 to reach $1,567 billion at 30 June 2000. Net transactions provided $121 billion of the increase; the balance was due to valuation changes. Private non-financial corporations and the household sector demanded the most credit, both raising $59 billion of the net new transactions, with two-thirds of the raisings of private non-financial corporations being through equity issues in Australia. In contrast households raised 70% of the new credit through loans from resident banks.

For the third year in a row national general government was a net repayer of credit, largely through net redemptions of its bonds on issue but also by reducing the amount of short term securities on issue (the amount of one name paper on issue declined by 25%). State and local government was also a net repayer of credit, with net repayments of loans (largely owing to the State central borrowing authorities).

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

Stock market

Equities trading on the Australian Stock Exchange has increased considerably over the past five years and today Australia is the 13th largest national equities market in the world. The number of transactions in 1999–2000 was up 67% on the previous year to reach 13.9 million trades, four and a half times the level in 1994–95. The number of shares traded in 1999–2000 was 169.5 billion, up 93% on the previous year and almost four times the 1994–95 figure of 46.7 billion. The value of shares traded in 1999–2000 was $362 billion (up 28%), three times the figure of $118 billion achieved five years ago.

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

Money market

Interest rates in the money market rose during 1999–2000, with 11.00am call rates up from 4.80% at 30 June 1999 to 6.00% by the end of 1999–2000, and bank-accepted 90-day bill rates up from 4.93% to 6.23% by 30 June 2000. Money market securities include bills of exchange and promissory notes (one name paper). Banks' increased their net indebtedness in this market in 1999–2000. They remained the largest issuers of short-term debt securities, with the amount on issue rising $19 billion (12%) to $186 billion. Banks also increased their holdings of short-term paper, but at a higher rate (up $14 billion or 14%). On the other hand, while private non-financial corporations increased slightly the total amount of their short term paper (mainly bills) on issue, they also significantly increased their holdings of banks' one name paper to reduce their net debt in short-term instruments by $9 billion overall. The rest of the world increased its net investment in these short-term securities by $3 billion.

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

Bond market

Australia's debt securities market is the eleventh largest in the world. Within the Asia Pacific region (not including Japan) Australia ranks third. 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.

Outstandings in the bond market increased slightly (7%) during 1999–2000 to be $380 billion at 30 June 2000. The financial intermediaries sector showed the most significant rise in bonds outstanding, up 44% to $45 billion at year end. The banking sector also showed a rise in bonds outstanding, up 24% to $74 billion.

The most significant decline in bond outstandings by resident issuers was for bonds issued by national general government, down 11% to $78 billion. The second largest decline was for bonds issued by central borrowing authorities, down 7% to $74 billion at 30 June 2000.

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

Foreign exchange

In terms of average daily turnover, Australia's foreign exchange market is the world's ninth largest, and the Australian dollar is the world's seventh most actively traded currency, with over half the trading by resident dealers being transacted with banks abroad. Within the Asia Pacific region Australia's foreign exchange market was ranked 4th largest in 1998 behind Japan, Singapore and Hong Kong. The Australian foreign exchange market is also the largest financial market in Australia, with average daily turnover during 1999–2000 of $66 billion, down 15% on the previous year's very high $77 billion and down 7% on the turnover during 1997–98 of $71 billion. Turnover had peaked at a daily average of about $95 billion over the five months from June 1998 to October 1998, when the Australian dollar was at its lowest level against the United States dollar since mid 1986, but decreased to around $69 billion a day by June 1999 and fell further in the latter part of 1999.

In the first half of 1999 the top 10 domestic foreign exchange dealers accounted for 78% of all turnover. Some of the major participants include ANZ Banking Group, Chase Manhattan Bank, Commonwealth Bank of Australia, Deutsche Bank AG and Macquarie Bank Limited. The number of foreign exchange dealers has declined over the last five years from 75 in 1995 to 53 in 2000.

See the *Foreign exchange* section of *Chapter 3, Financial markets*.

Derivatives

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.

Sydney Futures Exchange share price index futures and options contracts are the most actively traded equity derivatives in Australia, and both the all ordinaries SPI futures and options posted volume gains in 1999. There is also a growing market for equity options and warrants on the Australian Stock Exchange.

The most heavily traded interest rate derivatives are 90-day bank bill contracts. Bond futures and options are also actively traded, however turnover in these products has remained steady in recent years.

Australia's exchange-traded interest rate derivatives market in 1999 was down 2% on the previous year. Ten-year bonds and 90-day bills accounted for the slip in volume, while the 3-year bond futures and options both rose.

The Over the Counter (OTC) interest rate derivatives market in Australia is less significant both globally and locally than the exchange traded business. In 1998 Australia ranked 16th in the world in terms of average daily turnover of OTC interest rate derivatives. 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.

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.

See the *Foreign exchange* and *derivatives* sections of *Chapter 3, Financial markets*.

Funds under management

The total funds under management with Australian investment managers, or being managed by managed funds institutions in Australia, at 30 June 2000 was $699 billion, up 15% on the previous June, and up more than 50% on the level three years earlier. The consolidated assets of managed funds institutions accounted for $590 billion of the assets at 30 June 2000, with the remaining $109 billion being funds managed by Australian investment managers on behalf of a range of domestic investors and overseas clients.

See *Chapter 4, Funds under management.*

SUMMARY MARKET INDICATORS

	Amounts outstanding at 30 June		
	1998–99	*1999–2000*	*Percentage change*
CREDIT MARKET			
Total credit market outstandings ($b)	1 399.0	1 567.0	12.0
Net transactions ($b)	81.4	121.0	49.0
Funds raised by			
Private non-financial corporations ($b)	51.0	59.0	16.0
Households ($b)	43.0	59.0	37.0
National general government ($b)	–9.0	–13.0	–44.0
STOCK MARKET			
Number of transactions (millions)	8.3	13.9	67.0
Number of shares traded (millions)	87.8	169.5	93.0
Value of shares traded ($)	282.8	361.5	28.0
MONEY MARKET			
11am call (% p.a.)(a)	4.8	6.0	25.0
Bank-accepted bills—90 days (% p.a.)	4.9	6.2	26.0
Short-term debt securities			
Issued by banks ($b)	166.3	185.6	12.0
Held by banks ($b)	103.4	117.8	14.0
Issued by private non-financial corporations ($b)	75.6	76.9	2.0
Held by private non-financial corporations ($b)	24.7	35.1	42.0
Issued by rest of world ($b)	2.3	2.0	–13.0
Held by rest of world ($b)	62.8	65.3	4.0
BOND MARKET			
Total bonds outstanding ($b)	353.1	379.5	7.0
Issued by			
Financial intermediaries n.e.c. ($b)	31.4	45.3	44.0
Banks ($b)	60.2	74.4	24.0
National general government ($b)	88.0	78.1	–11.0
Central borrowing authorities ($b)	78.8	73.5	–7.0
FOREIGN EXCHANGE			
Average daily turnover ($b)	77.4	65.7	–15.0
DERIVATIVES			
Futures and options average daily volumes			
90-day bank bills (000's contracts)	30.1	32.7(b)	9.0
3-year bonds (000's contracts)	44.5	53.1(b)	19.0
10-year bonds (000's contracts)	22.7	23.4(b)	3.0
FUNDS UNDER MANAGEMENT			
Total assets of managed funds ($b)	609.7	699.5	15.0
Consolidated assets of managed funds ($b)	522.4	590.4	13.0
Funds managed by Australian investment managers ($b)	87.3	109.1	25.0

(a) The 1999–2000 figure is for July 2000.

(b) The 1999–2000 figures are for the first six months of the year 2000.

FEATURE ARTICLE

EQUITY CAPITAL RAISINGS ON THE AUSTRALIAN STOCK EXCHANGE

INTRODUCTION

Equity capital played an increasing role during the last decade in financing the activities of Australian businesses. In particular, non-financial (trading) corporations, which in Australia account for over 70% of all equity on issue, lifted their equity liabilities to shareholders from less than 40% of their total liabilities at the end of the 1980s to over 60% by June 2000. At the beginning of the decade more than half their financing was provided in the form of loans and debt securities and this had fallen to one-third ten years later.

This article presents some summary statistics on the changing use of equity financing by non-financial corporations, looks at the evolution in the operations of the Australian Stock Exchange (ASX) to support better access to equity capital, and discusses the increasing tendency of Australian households to directly enter the equity markets.

THE USE OF EQUITY FINANCING BY NON-FINANCIAL CORPORATIONS

The following table shows that over the 1990s Australian trading corporations dramatically expanded their equity liabilities. While increases in share prices explain, to some extent, this increasing equity contribution to financing, it is only part of the story. The level of equity investment in non-financial corporations increased nearly four-fold, while the all ordinaries share price index only doubled.

S1.1 EQUITY FINANCING OF NON-FINANCIAL CORPORATIONS, $ BILLION

	As at 30 June										
	1990	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*
Total liabilities	531	557	570	690	735	775	834	909	998	1 117	1 223
Total equity liabilities	205	216	240	370	423	441	470	523	573	681	752
Equity share of liabilities (%)	39	39	42	54	58	57	56	58	57	61	61
Non-resident equity financing	85	91	95	105	135	142	160	177	181	219	246
Non-resident share of equity financing	41	42	40	28	32	32	34	34	32	32	33
Household equity investment	41	37	47	54	69	62	58	66	56	98	124
Household share of equity financing	20	17	20	15	16	14	12	13	10	14	16
Life insurance corporations and pension funds	37	41	49	55	65	75	86	106	103	116	139
Life/pension funds share of equity financing	18	19	20	15	15	17	18	20	18	17	18

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

Both non-residents and Australian households have increased their holdings of non-financial corporation equities three-fold over the course of the 1990s, while life insurance corporations and pension funds together increased their equity holdings four-fold. Together these sectors account for nearly two-thirds of the increase in non-financial corporation equity liabilities on issue. Much of the remaining increase has been in general government equity holdings (reflecting price increases for publicly owned corporations more than offsetting the impact of privatisations).

THE USE OF EQUITY FINANCING BY TRADING CORPORATIONS *continued*

Part of the increasing use of equity as a means of raising capital for trading corporations reflects a move away from high cost debt financing in the late 1980s and early 1990s. Part of the story is also explained by the privatisation activity in the 1990s which enabled formerly publicly owned trading corporations to access equity capital beyond that previously provided by governments.

THE AUSTRALIAN STOCK EXCHANGE

The Australian Stock Exchange (ASX) was formed on 1 April 1987 from the amalgamation of the six state capital city stock exchanges. The primary business of the ASX is to encourage markets in which investors and enterprises interact in the purchasing and selling of shares.

Initially, shares were traded "on the floor" but the high costs of such operations limited the extent to which shares could be efficiently traded. In October 1987, the Stock Exchange Automated Trading System (SEATS) was introduced, initially for trading in securities of 20 companies. SEATS is a continuous auction order book where brokers are able to make electronic bids or offers and report trade. It provides a single entry point to the trading system for brokers and has the capacity to handle over 300,000 trades per day.

By 30 June 1990, a total of 1,348 companies were covered by SEATS, with only 198 high-turnover stocks traded on the floor. By late 1990, the remaining companies were moved onto SEATS and the traditional trading floors closed. The exchange-traded warrants market was established and also covered by SEATS.

In 1994, a centralised clearing and settlements system was introduced—the Clearing House Electronic Subregister System (CHESS). CHESS is an electronic facility for settling share trading obligations. It trades on a delivery-versus-payment basis and manages the transfer of shares for all Australian-issued listed equity securities. In 1998, ASX's trading and settlement processes became fully automated with the closure of the options trading floor and the move to full automation of the Derivatives Trading Facility.

The accessibility and relatively low access costs for share trading today has assisted the ASX to set new records in share activity in recent years in terms of both turnover and equity capital raised. Potential buyers and sellers can easily access brokerage services to purchase and sell shares. Stock information is readily available on the Internet. The ASX has its own Internet site which includes market announcements and other stock exchange information.

THE AUSTRALIAN STOCK EXCHANGE *continued*

In March 1998, the ASX established the Enterprise Market (EM), an Internet-based service to facilitate capital raising for unlisted small and medium sized enterprises (SMEs). Traditionally, SMEs experienced difficulties in raising capital because of the cost of complying with prospectus requirements of the Corporations Law and the fragmented nature of the private equity market. The EM handles both equity and debt capital issues for non-listed businesses throughout Australia and can access investors from all over the world.

Share turnover

The following table shows that the number of trades in exchange-traded shares in 1999–2000 was 13.9 million, up 67% on the previous year and up 355% on the turnover five years earlier. The value of traded shares also increased significantly in the five year period, from $118 billion in 1994–95 to $361 billion in 1999–2000, up 206%. Interestingly, both the average value of each trade and the average number of shares in each trade fell over this period, consistent with a rising proportion of individuals owning shares and trading in smaller volumes.

S1.2 SHARE TURNOVER

	Number of shares	*Value*	*Trades*
	millions	*$m*	*'000*
1994–95	46 655	117 973	3 043
1995–96	67 731	158 802	3 974
1996–97	87 411	211 318	5 275
1997–98	80 284	243 146	6 314
1998–99	87 680	281 890	8 295
1999–2000	169 500	361 000	13 850

(a) Includes options and excludes warrants.

Source: Australian Financial Markets Association.

The next table shows that in the 10 year period 1990–91 to 1999–2000, total annual equity raisings increased $29.0 billion (440%) from $6.6 billion to $35.6 billion. The largest growth in equity capital raisings occurred in Initial Public Offers (IPOs). In 1990–91, new floats raised only $0.1 billion and represented less than 2% of total raisings, but nine years later in 1999–2000 IPOs had increased to $6.1 billion (from 183 new floats) or 17% of total raisings.

S1.3 EQUITY CAPITAL RAISINGS BY TYPE

	Rights issues	Placements	Reinvested Dividends	Options, calls, staff plans	Initial public offers	Total raisings
	$m	$m	$m	$m	$m	$m
1990–91	2 394	1 165	2 155	770	112	6 596
1991–92	2 626	2 598	2 157	819	3 756	11 975
1992–93	3 095	1 792	2 609	995	2 160	10 651
1993–94	3 053	6 726	3 325	1 658	8 130	22 892
1994–95	1 912	2 887	3 344	1 578	2 081	11 801
1995–96	3 492	2 105	3 441	1 321	4 960	15 319
1996–97	1 886	5 406	3 207	1 528	4 377	16 403
1997–98	3 812	3 715	3 619	2 541	15 157	28 843
1998–99	2 993	5 367	3 630	9 778	5 649	27 417
1999–2000	n.a.	n.a.	n.a.	n.a.	6 130	35 640

Source: Australian Stock Exchange.

In 1991–92, total raisings increased $5.4 billion (81.5%) to $12.0 billion, due mainly to the listings of: the Commonwealth Bank (which raised $1.3 billion); John Fairfax Group (raising $0.6 billion); and Australian Consolidated Press (raising $0.5 billion). In 1992–93 the equity capital market marked time with total raisings slightly down on the previous year.

In 1993–94, total capital raisings at $22.9 billion were double the raisings achieved in each of the previous two years. A total of $8.1 billion was raised by means of new floats, including $2.5 billion from the Woolworths Ltd float, $0.6 billion for the Seven Network and $0.2 billion contributed by both the Crown Casino and GEM Commercial Property Trust floats. Placements raised an additional $6.7 billion, a record high and nearly triple the placements in the previous year, due to: the Commonwealth Bank ($1.7 billion); Westpac ($0.6 billion); Lion Nathan ($0.3 billion); TNT ($0.2 billion); and Amcor ($0.1 billion). In 1993–94 the climate for new capital raisings was good, with real GDP growing by 4% (well above growth in the United States and other OECD countries), employment was rising, inflation was low and stable, the All Ordinaries share price index increased 14% and the ASX enjoyed then record trading volumes and high liquidity levels.

In 1994–95 and 1995–96, total raisings fell back from the strong showing in 1993–94. In 1996–97, a total of $16.4 billion in equity capital was raised on the ASX. The demutualisation of National Mutual Holdings, Colonial Ltd and Macquarie Bank together raised $7 billion. The third stage privatisation of the Commonwealth Banks raised $2.4 billion. Other contributors that year included the float of Westfield Australia Trust and Stadium Australia, both at $0.4 billion, and Infrastructure Trust of Australia and Orogen Minerals, both at $0.3 billion.

In 1997–98 a total of $28.8 billion was raised, up over 75% on the previous year. New floats was the largest contributor, representing 53% of total raisings, due mainly to the impact of the Telstra privatisation in November 1997 which raised $8.6 billion. Other significant contributors in 1997–98 included Telecom Corporation of New Zealand at $1.7 billion, NSW TAB Ltd at $0.9 billion and AMP at $0.6 billion.

Share turnover *continued*

Strong growth in equity raisings continued during 1998–99 resulting from the continued good performance in Australia's expanding capital markets fuelled by flourishing world equity markets, low interest rates and a competitive Australian dollar.

The first half of 1999–2000 saw a large number of smaller companies raising equity capital on the ASX, with strong investor confidence and consequent high demand for stock despite official interest rate rises which normally would have resulted in the slowing of equity market activity. Total raisings reached a new record high.

Equity capital raisings by ASX industry group

The next table shows that, in the six months ended 31 December 1999, there were a total of 2,306 equity raisings which raised $23.4 billion, of which 70% raised less than $50 million each. A total of 86 IPOs raised $13.6 billion or 58 percent of total capital raisings. Of these 86, 32 (37%) were Internet-related companies which raised approximately $619 million. Placements provided the second largest means for obtaining capital, raising $5.1 billion or 22% of total raisings.

Telecommunications was the industry to record the highest new capital raisings, with 164 raisings for $10.7 billion or 46% of capital raised. The first instalment of Telstra 2 accounted for $9.8 billion of the capital raised. In terms of quantity, diversified industrials was the industry group most active in the equity market, with a total of 336 companies raising $284 million.

S1.4 EQUITY CAPITAL RAISINGS BY TYPE AND ASX INDUSTRY GROUP

	6 months to 31 December 1999		
		Total raised	Percentage of total raisings
	no.	$m	%
Initial Public Offers	86	13 597	58.2
Rights issues	84	1 890	8.1
Placements	605	5 055	21.6
Other	1531	2 821	12.1
Total equity raisings	*2 306*	*23 363*	*100.0*
Gold	331	478	2.0
Other metals	171	527	2.3
Diversified resources	4	7	0.0
Energy	94	329	1.4
Total resources	*600*	*1 341*	*6.0*
Infrastructure and utilities	30	988	4.2
Developers and contractors	46	368	1.6
Building materials	78	210	0.9
Alcohol and tobacco	48	98	0.4
Food and household	53	419	1.8
Chemicals	10	40	0.2
Engineering	21	48	0.2
Paper and packaging	35	91	0.4
Retail	61	357	1.5
Transport	31	64	0.3
Media	157	2 267	9.7
Banks and finance	28	226	1.0
Insurance	42	475	2.0
Investment and financial services	270	1 413	6.0
Property Trusts	39	2 060	8.8
Telecommunications	164	10 681	45.7
Healthcare and Biotechnology	107	387	1.7
Miscellaneous industrials	124	1 150	4.9
Diversified industrials	336	284	1.2
Tourism and leisure	26	396	1.7
Total industrials	*1 706*	*22 022*	*94.0*
Total	*2 306*	*23 363*	*100.0*

(a) Excludes income securities.

Source: KPMG, Survey of the Australian Capital Markets.

The financial industry group accounted for 379 issues, which raised $4.2 billion or 18% of total capital raised. Banks and finance raised $0.2 billion, insurance $0.5 billion, investment and financial services $1.4 billion and property trusts $2.1 billion.

The value of capital raised by the financial group of industries had remained relatively stable for several years with $1.4 billion being raised in 1995–96, $1.3 billion in 1996–97, $2.1 billion in 1997–98 and $1.7 billion in 1998–99, before doubling to $4.2 billion in the first half of 1999–2000. The most active finance industry sub-sector was Property Trusts which raised half of the funds for the financial group in the six months to December 1999.

S1.5 IPO RAISINGS BY FINANCIAL-RELATED INDUSTRIES

	1994–95		1995–96		1996–97		1997–98		1998–99	
	$m	no.	$m	no.	$m	no.	$m	no.	$m	no.
Banks and Finance	0	0	438	1	10	1	0	0	0	0
Insurance	0	0	0	0	10	1	569	1	0	0
Investment and Financial Services	66	4	78	4	96	4	148	2	60	5
Property Trusts	26	1	923	6	1 173	7	1 344	12	1 674	7
Total financial	92	5	1 439	11	1 289	13	2 061	15	1 734	12
Total industries	2 081	60	4 960	49	4 377	73	15 157	72	5 649	49

Source: Australian Stock Exchange, KPMG.

Household share ownership in Australia

Direct household share ownership in Australia has increased substantially over the past decade, from $61 billion at 30 June 1990 to $237 billion at end June 2000. This four fold increase in direct household equity investment has seen share investments increase as a percentage of household assets from 4.6% in 1990 to 7.8% in mid 2000. Share investments as a proportion of the total financial assets of households, which excludes investment in land and homes, is now 20%, compared with less than 13% a decade ago.

Direct share ownership, which represents the shares that households legally own, and can decide whether to keep or trade is the only way of analysing household investment in equity. However, it is sometimes useful to also look at shares that are held by life insurance corporations and pension funds where, by and large, households are the beneficiaries of the investment. Even though the decision to buy, keep or sell the equities in these institutions' portfolios does not rest with households, household net worth is exposed to the equities market through these investments. The following table shows both the direct household equity investment as well as the institutional investments to which households are beneficiaries.

S1.6 EQUITY ASSETS HELD BY SELECTED SECTORS, $ BILLION

	As at 30 June										
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Life insurance corporations(a)	—	—	—	—	—	49	55	66	71	77	96
Pension funds(a)	46	51	60	68	82	80	91	120	138	153	190
Directly by households	61	57	71	87	111	91	91	130	145	193	237

(a) Life insurance corporations included with pension funds prior to 1995.

Household share ownership in Australia *continued*

Household share ownership as a proportion of household financial assets in the United Kingdom was historically higher than in Australia. In 1990, for example, the UK equity share of household investments was 17% compared with Australia's 13%. However, by the end of 1998 the gap had narrowed, with the share in Australia growing rapidly to 18% and in the UK reaching 20%. In the United States and Canada, household equity investments have been much higher, at 25% or so of household financial assets at the start of the 1990s, and increasing throughout the 1990s. In the United States in particular, the level of equity investment had increased to over a third of all household financial assets by mid-decade.

The increase in household investment in equities could come about from significant increases in the holdings of high net worth individuals, or through a broadening in the base of the share investing public, or both. It is therefore useful to look at not only the value of household equity investments, but also the participation of households in the market. The following information from a variety of ASX sources sheds light on this aspect of household investment activity.

In the latter part of the 1980s, only 9% of the Australian adult population held shares directly. By November 1999, a total of 41% of the Australian adult population (5.7 million Australians) held shares directly. A further 13% held shares indirectly, via a managed fund or personal superannuation (other than compulsory employer superannuation funds), taking the total to 54% (7.6 million) of the Australian adult population. This represents a significant increase on the previous year where 40% (approximately 5.5 million) of Australian adults held shares, of which 32% held shares directly. The second tranche of Telstra attracted 321,000 first-time investors, of which many were aged between 25 and 44 years. In comparison, ten years earlier 22% of the Australian adult population held shares, of which only 7% held shares directly.

S1.7 INDIVIDUAL SHARE OWNERSHIP IN AUSTRALIA

	As a proportion of the total adult population			
	Direct	*Indirect*	*Both (direct and indirect)*	*Total*
1991	7.3	9.9	4.6	21.8
1994	11.0	12.1	7.5	30.6
1997	11.9	13.6	8.5	34.0
1998	16.6	8.4	15.3	40.3
1999	15.5	13.1	25.1	53.7

Source: Australian Stock Exchange.

Household share ownership in Australia *continued*

A large proportion of individuals have entered the share market with a relatively small amount of initial capital ($10,000 or less) and more than 60% of direct shareholders hold a small number of stocks—three or less. The rise in the number of people holding shares both directly and indirectly is in part attributed to the growing popularity of investing in managed funds and contributing to personal superannuation.

The significant increase in household direct ownership of shares over the last ten years can also be attributed to the privatisation of public enterprises, the floating of high profile enterprises and the ease with which Australians can now invest in equity. The part privatisation of the Commonwealth Bank in 1992 added 80,000 first time investors to the stock market. In the same year floats by two prominent media companies, John Fairfax Group and Australian Consolidated Press, encouraged new investors into the market.

By September/October 1994 the proportion of adult Australians holding shares had jumped to 31%. Strong GDP growth, improving employment prospects and rises in the All ordinaries index contributed to this increase. Many new individual investors were also attracted to the stockmarket by companies like the Seven Network and Woolworths which floated during the year as well as the second part of the privatisation of the Commonwealth Bank.

In May 1997, a total of 34% of Australian adults held shares, of which 20% held shares directly. This result reversed a downward trend in individual share ownership experienced over the preceding two years which was mainly due to the small number of high profile listings and the decline in participation of small investors. During this time foreign investment increased to its highest level in five years to reach 32% of equity on issue in June 1996, due to stable domestic interest rates, competitive share prices and a low Australian dollar. The growth in individual share ownership in 1997 can be attributed to the strong sharemarket turnover in 1996–97 combined with the third stage privatisation of the Commonwealth Bank and the demutualisation of well-known entities such as National Mutual Holdings and Colonial Ltd.

The growth in private ownership was significantly boosted in 1997–98 with the first stage of the privatisation of Telstra in November 1997 which added almost 2 million shareholders, including 559,000 first-time shareholders. In 1998, the privatisation of NSW TAB and the demutualisation of AMP further increased direct individual shareholders, with the latter resulting in 730,000 first-time investors. A total of 40% of the Australian adult population held shares in October 1998, up 6 percentage points on the previous year.

S1.8 INTERNATIONAL SHARE OWNERSHIP—1999

	Percentage of adults owning shares	
	Direct	*Total (including indirect)*
Sweden	n.a.	66
Australia(a)	41	54
Canada	26	52
United States	32	48
United Kingdom	30	40
New Zealand	31	38
Germany	13	25

(a) Figure is as at November 1999.

Source: Australian Stock Exchange.

In 1999, Australia ranked highly in terms of the proportion of the adult population who own shares, comparing favourably with countries such as the United States, Canada, Germany, France, United Kingdom and New Zealand. The nation with the highest level of individual share ownership is Sweden at 66%.

The increasing value of equity capital being raised on the ASX has contributed to the rising popularity of share investors. Increasing public awareness of the flexibility and generally good performance of IPOs, combined with the relatively small amount of initial capital outlay and the ease with which shares can be divested make share investing a viable option for small investors. The wide variety of information sources, brokering choices and the Internet, with subsequent low transaction costs, contribute to the increasing popularity of share investment with Australian individuals.

FEATURE ARTICLE

BUSINESS AND COMMUNICATION SERVICES AND THE FINANCE INDUSTRY IN AUSTRALIA

INTRODUCTION

In some analyses of the finance industry (such as considering the phenomenon of the City of London as a centre for global finance) a wider perspective needs to be taken to incorporate not only the finance industry but also the business and communications services industries that both support its operation and are significant users of the financial services that the industry produces. A range of non-financial businesses, classified in ABS statistics both to their appropriate industries and to the non-financial sector, are engaged in communications, computing, accounting, legal, property and other business support services that are essential to the operation of the Australian finance industry. This article looks at the significance of all these industries in the Australian economy, compares this with the United Kingdom, and explores some of the linkages between the finance industry and the communications and business services industries.

Size of the finance and business services industries

In a 1993 analysis of the contribution of the United Kingdom financial services sector[1] to the UK economy, a broad definition of the finance and business services (FBS) sector was used which included banking, finance, insurance, property services (other than dwellings), and business services (such as accountancy and legal services).

Adding communications services to the support framework

A better current measure of the size and significance of an augmented finance industry would include not only business services but also communications services in the analysis (a FBCS industry aggregate). Telecommunications services in particular have become critical to the consolidation of international financial operations and the penetration of e-commerce, including the provision of on-line retail banking.

The following table presents Australia's industry gross value added for FBCS together with the relative contribution of this industry aggregate in Australia and its growth over the decade of the 1990s.

S2.1 INDUSTRY GROSS VALUE ADDED AT BASIC PRICES ($ MILLION), CURRENT PRICES

	Year ended June								
	1991	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*
Communication services	9 913	10 974	11 290	11 678	12 697	14 066	15 276	17 281	17 247
Finance and insurance	23 307	24 738	27 094	28 677	28 536	30 341	32 142	35 151	39 277
Property and business services	36 929	36 936	39 508	40 168	46 118	49 357	53 153	54 741	61 031
Total finance, business and communication services (FBCS)	70 149	72 648	77 892	80 523	87 351	93 764	100 571	107 173	117 555
Gross value added at basic prices	367 828	375 905	395 545	414 447	438 895	469 649	494 838	525 523	554 711
FBCS as a percentage of gross value added	19.1	19.3	19.7	19.4	19.9	20.0	20.3	20.4	21.2

Source: Australian System of National Accounts, 1998–99 (Cat. no. 5204.0).

1 *Bank of England Quarterly Bulletin (1993)* "Competition and Financial Centres in Europe: London as a Case Study".

Adding communications services to the support framework *continued*

The aggregate FBCS industry increased its share of industry value added by 16% over the 1990s, with the share to communications services rising 22% and the share to finance and insurance up 28%. No other individual industry or industry group recorded such a strong increase in its share of value added. While property and business services increased its share of value added a little more slowly (at about 8%) this was still faster than most other industries which were either increasing their relative significance more slowly, or indeed contracting in terms of their share of total industry. The exceptions were four service industries (accommodation, cafes and restaurants, health and community services, cultural and recreational services, and personal and other services). While individually each of these industries gained in relative significance more quickly than property and business services, they are each much smaller industries in terms of industry share, and collectively all four industries contribute about as much as property and business services.

Employment in FBCS industries

The significance to the Australian economy of the FBCS industries can also be considered in terms of the employment that the industries generate. The following table shows, for each of the main FBCS industries and their subdivision components, employment for the past 8 years together with growth in that employment and relative growth (share of total employment).

Employment in the FBCS industries has been very strong, growing by over 50% in the seven years to 2000 compared with economy wide growth of less than 20%. Employment in each of the broad industries within FBCS has also grown, although the finance component of the finance and insurance industry has shown a decline in employment due to the very strong productivity growth it has seen over the period, with output per hour worked increasing by nearly 50% compared with an economy wide increase of less than 20%.

The strong growth in FBCS employment has seen its share of total employment increase from less than 14% in 1993 to over 17% in 2000. Property and business services has shown the strongest increase in employment share.

S2.2 LABOUR FORCE, EMPLOYED PERSONS, AUSTRALIA

	Year ended June								
	1993	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*% change 1993 to 2000*
Communication services	122.9	133.4	146.1	164.4	151.9	151.1	149.3	175.0	42.4
Finance and insurance	*302.8*	*311.7*	*318.2*	*312.9*	*312.5*	*322.3*	*308.5*	*329.6*	*8.9*
Finance	186.2	189.5	202.6	185.1	186.3	193.5	168.6	174.5	–6.3
Insurance	63.0	59.5	55.5	60.8	54.2	58.7	55.7	67.8	7.6
Services to finance and insurance	53.6	62.7	60.1	66.9	72.0	70.2	84.3	87.4	63.1
Property and business services	*617.0*	*721.5*	*801.0*	*814.1*	*887.3*	*939.9*	*971.8*	*1 070.3*	*73.5*
Property services	106.2	108.4	111.7	110.0	109.8	113.6	127.5	129.3	21.8
Business services	510.8	613.1	689.3	704.1	777.5	826.3	844.3	941.1	84.2
Total FBCS	1 043.0	1 167.0	1 265.0	1 291.0	1 352.0	1 413.0	1 430.0	1 575.0	51.0
All industries	7 632.4	7 898.1	8 237.3	8 321.1	8 315.9	8 546.7	8 738.9	9 052.0	18.6
Industry share									
Finance and insurance	4.0	4.0	3.9	3.8	3.8	3.8	3.5	3.6	–8.3
Property and business services	8.1	9.1	9.7	9.8	10.7	11.0	11.1	11.8	46.3
Communication services	1.6	1.7	1.8	2.0	1.8	1.8	1.7	1.9	19.9
Total FBCS industries	13.7	14.8	15.4	15.5	16.3	16.5	16.4	17.4	27.3

Source: Labour Force, Selected Summary Tables, Australia (Cat. no. 6291.0.40.001).

Size of the finance and business services industries in the United Kingdom

The analysis of the City of London identified the broad FBS sector as contributing about 16.4% of UK gross domestic product at factor cost in 1992. The table below shows a similar calculation for the contribution of the broad UK sector from 1992 to 1998 at basic prices (including net taxes on production other than product taxes).

S2.3 UNITED KINGDOM GROSS VALUE ADDED AT BASIC PRICES (£ MILLION), CURRENT PRICES

	1992	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
Financial intermediation	37 239	39 635	45 421	42 726	42 730	43 852	47 107
Other real estate, renting and business activities	57 629	61 162	65 857	70 553	78 381	89 687	104 360
Total finance and business services (FBS)	94 868	100 797	111 278	113 279	121 111	133 539	151 467
Other industries	449 036	471 041	492 884	520 787	551 461	580 075	596 077
All industries	543 904	571 838	604 162	634 066	672 572	713 614	747 544
FBS as a percentage of gross value added	17.4	17.6	18.4	17.9	18.0	18.7	20.3

Source: The Blue Book, United Kingdom National Accounts, 1999, National Kingdom Office of National Statistics.

Size of the finance and business services industries in the United Kingdom *continued*

However, the FBS measure for the UK overstates somewhat the contribution of the sector because it does not deduct, from the estimates of the value added for finance and business industries, all of the inputs associated with financial intermediation services indirectly measured (or FISIM). These services cover the making of loans and the taking of deposits by financial intermediaries where the fee is implicit in the interest rate spread between loan and deposit rates. While the value of this service to industry is estimated, in total, for UK financial intermediation, and deducted as an adjustment from total industry value added, it is not distributed by industry. For broad comparison purposes, Australia's gross value added for FBS in financial year 1997–98, using the UK approach, would be about 17.6% of industry value added, a little lower than the UK average of 19.3% for 1997 and 1998.

The following table extends the UK analysis of this broad industry to include communications services. By 1998 this broad industry was contributing nearly a quarter of UK industry value added.

S2.4 UNITED KINGDOM GROSS VALUE ADDED AT BASIC PRICE (£ MILLION)

	1992	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*
Total finance and business services (FBS)	94 868	100 797	111 278	113 279	121 111	133 539	151 467
Communications	17 901	17 435	18 243	18 332	18 618	20 063	21 823
Total finance, business and communications services (FBCS)	112 769	118 232	129 521	131 611	139 729	153 602	173 290
FBCS as a percentage of gross value added	20.7	20.7	21.4	20.8	20.8	21.5	23.2

Source: The Blue Book, United Kingdom National Accounts, 1999, National Kingdom Office of National Statistics.

Australia's gross value added for FBCS, adjusted for FISIM to approximate the UK measure, was 21.0% in 1997–98, just behind the UK average of 22.4% for 1997 and 1998.

INTER-RELATEDNESS OF THE FINANCE AND SUPPORTING INDUSTRIES

A well functioning legal framework, and effective communications, legal and other business services are essential to a well functioning finance system and to growing employment opportunities across the wider FBCS industry grouping. These support mechanisms and industries are all "necessary" conditions for a growing and increasingly international finance industry.

The inter-relatedness of the industries can be seen a little more clearly through the analysis of the ABS's supply/use tables. The analysis that follows uses the commodity inputs into the finance and insurance industry and into each of its main support industries (communications and property and business services) from 1997–98 supply/use tables for Australia's national accounts. However, there are two caveats on the analysis. First, the estimates are not final and will be revised.

INTER-RELATEDNESS OF THE FINANCE AND SUPPORTING INDUSTRIES *continued*

Second, the analysis has assumed that certain commodities that are primary to the industries under analysis (FBCS) and input into the FBCS industries are produced by those same industries. In other words, secondary production of these services by industries other than FBCS industries is assumed to be zero. That assumption is certainly good for financial services, and is likely to be a sufficiently close approximation for the other services being considered.

Looking first at the finance and insurance industry, its total commodity inputs in 1997–98 were $19.2 billion. A substantial proportion of these commodities (over 40%) were finance and insurance services provided between businesses in the industry. Excluding these services and government charges (a further 5%) leaves about $10.0 billion of goods and services acquired by the finance and insurance industry from other industries. Over half (about 60%) were advertising services, communications services, and a wide range of other property and business services, indicating the very high degree of dependence of the finance and insurance industry on these other FBCS industries to support their operations. Looked at another way, the industries outside the FBCS grouping supplied only about one-fifth of the finance and insurance industry's requirements.

For the property and business services industry, after excluding both the services provided between businesses within the industry (nearly two-thirds of all commodity inputs to the industry) and government charges, about $24.1 billion of inputs remained in 1997–98. Just over 20% of these inputs were financial and insurance services, and about 15% were communications services. While the degree of inter-dependence on other FBCS industries is not as marked as for the finance and insurance industry (many other commodity inputs such as catering, transportation, machinery, books, newspapers etc. are involved as significant industry inputs for the property and business services industry), the finance and insurance and communications inputs are still very significant. Alternatively, industries outside the FBCS group supplied only about a quarter of property and business services requirements.

For the communications industry, after excluding its own industry's commodities (15% of total inputs) and government fees, about $11.1 billion of inputs remained. Finance and insurance services account for about 13% of these inputs, and property and business services accounted for over 30%, again indicating a very significant degree of interdependence. Alternatively, industries outside the FBCS group supplied about half the communications services requirements.

The following table summaries the input shares to the FBCS industries (excluding government charges) in 1997–98. It is probable that these input shares, and the high degree of interrelatedness between FBCS industries, would show similar relationships today—in fact the intensity of the relationship may have increased due to the increasing role of communications in the other FBS industries in the last couple of years.

S2.5 SUPPLY/USE—1997–98

	Industries using commodity inputs		
	Finance and insurance	*Property and business services*	*Communication services*
	Input Shares (%)	*Input Shares (%)*	*Input Shares (%)*
Commodities allocated to industry of primary production/s			
Finance and insurance	45	5	10
Property and business services(a)	30	65	25
Communication services	5	5	15
Other industry inputs	20	25	50
Total inputs	100	100	100

(a) Excludes ownership of dwellings.

Source: Unpublished details from 1997–98 second preliminary supply/use tables, ABS.

Another way of looking at the inter-relatedness of the FBCS industries is to look at the share of total industry inputs from these industries that go into FBCS industries. In other words, how much of the finance and insurance industry products consumed by businesses are consumed by FBCS businesses? For both the finance and insurance industry and the property and business services industry about 45% of all sales to business went to FBCS industries. For communications services, about a third of all business sales are to FBCS industries. Clearly, the interdependence within the FBCS group of industries is not only in terms of the necessary inputs to run these FBCS businesses, but also in terms of a very significant element of demand for their products that comes from these industries.

Conclusion

Just as for the City of London, Australia's finance industry relies heavily on key business and communication services inputs for its success and growth. In turn, those support businesses are significant clients of the finance industry. Innovation in the finance industry will be supported by innovation in the communications and other support businesses, and the finance industry's demand for those services at a high level will spur that innovation and growth.

This wider view of the FBCS industries and their role in the Australian economy will be reviewed and updated in future articles in this publication.

FEATURE ARTICLE

INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS IN AUSTRALIA

The Australian finance industry is under increasing pressure to provide more effective financial products and services to meet the needs of businesses and other consumers. New ways of conducting business are emerging as Australian business and household customers become more receptive to and more actively demand the provision of financial services via non-traditional means. Access to state of the art information technology and telecommunications (IT&T) is critical to the finance industry, both to enable the development of new financial products and services and to facilitate penetration of the markets for these services—if the customers do not have high quality IT&T infrastructure available to them they cannot access the new services.

The introduction of electronic services (e-commerce), Internet banking and on-line share trading has seen a growing interest in the export potential of financial services with the breaking down of geographical barriers and the adoption of a ‘one-stop’, flexible approach to accessing these type of services.

In mid-2000 AXISS Australia, established by the Australian Government in 1999, released a publication titled *Information Technology and Communications Infrastructure in Australia*. That publication provides a range of statistics and analysis on the IT&T market in Australia, and details the infrastructure in place to support business. Readers are referred to that infrastructure analysis, covering the communications and IT networks available in Australia and connecting Australia to the world, and the business name involved, and it is not repeated in this article.

This article looks at the IT&T market in Australia, its significance globally, its use by the finance industry and households. It also looks at some international developments.

The IT&T market in Australia

One way of considering, in a total sense, the scale of the IT&T market is to look at an economy’s total spending on IT&T. The size of the IT&T market in Australia is quoted on this basis, in *Digital Planet 2000* published by the World Information Technology and Services Alliance, at just under US$36 billion in 1999. Australia is placed fifth in the world in terms of the share of GDP that this scale of IT&T spend represents. IT&T spend in that publication is defined as all of the IT&T purchases undertaken in the economy together with the internal IT salaries and other expenditures, and equipment depreciation by businesses that are not producing IT&T goods and services for the market. The measure appears to exclude retail margins. The data sources for the *Digital Planet 2000* analysis included vendor supply analysis from interviews and surveys as well as data from a range of other sources.

The IT&T market in Australia *continued*

Using the latest official statistics, Australia's IT&T spend may be significantly higher than calculated in *Digital Planet*. In *Information Technology, Australia, Preliminary, 1998–99* (Cat. no. 8143.0) the IT&T sales by IT&T specialists and other businesses totalled $56.8 billion (with 99% of those sales from IT&T specialists), see table S3.1 below. This amount alone equates to about US$35.6 billion in 1998–99, the measure reported in *Digital Planet 2000*. In this comparison, it is assumed that the exports component of the IT&T sales (about $4.9 billion in 1998–99) is roughly equal to the direct import of IT&T goods and services by users that are not IT&T specialist providers. That is, of the $13.2 billion of IT&T imports in 1998–99, about $4.2 billion is assumed to be imports by businesses other than IT&T specialists. Imports include specialist software design (say for a financial institution in Australia) imported directly from abroad, licence fees to use software, hardware maintenance services, computer consultancy services etc. Together these services imports totalled about $1.0 billion in 1998–99. See table 12 in *Balance of Payments and International Investment Position, Australia, 1998–99* (Cat. no. 5363.0) for details. Imports also includes all of the hardware imports of IT&T goods. See table 3 in 8143.0 for details.

However, in addition to the sales of IT&T by businesses, the IT&T spend in the economy includes in-house software development as well as in-house use of IT&T specialists to support internal IT&T usage. In-house software development by government in 1997–98 was about $0.9 billion, a little higher than the $0.8 billion spent on in-house IT&T salaries (see table 5.1 in *Government Use of Information Technology, Australia, 1997–98* (Cat. no. 8119.0)). This in-house software development expenditure rises to about $1.2 billion in 1998–99, and to $1.5 billion in 1999–2000. In-house support for the operation of IT&T equipment would most likely increase this level of spend significantly for 1998–99 but the information is not available. Business expenditure on in-house IT&T salaries for all those industries not producing IT&T goods and services for the market was at least $2 billion in 1997–98 (see table 5.1 in *Business Use of Information Technology, Australia, 1997–98* (Cat. no. 8129.0)) and is likely to have risen in line with government spending in this area to be $2.6 billion in 1998–99 and over $3 billion by 1999–2000. This amount includes both in-house software development and internal user support. Businesses' in-house software expenditure has also grown by over 50% in that period and is probably about half of the in-house business. If government in-house software expenditure is also half of its in-house IT&T expenditure, then this would imply that government in-house internal user support was about $1.2 billion in 1998–99.

Equipment depreciation has been ignored in this article because it is difficult to assess the amounts involved and to generate an unduplicated measure when the IT&T sales measure already includes equipment sales.

The IT&T market in Australia *continued*

Bringing all of these elements of Australia's IT&T spend together, and assuming that any overstatement in direct imports of IT&T goods by end users is likely to be offset by understatement in the measurement of in-house support for IT users, in 1998–99 the total for Australia was probably about $62 billion (or US$39 billion). This level of IT&T spend represents over 10% of Australia's GDP and would move Australia well ahead of Sweden, New Zealand, United Kingdom and Columbia to rank first in the world in the *Digital Planet 2000* analysis. Even if none of the Australian imports are direct to end users (which is known to be incorrect) Australia would still rank first in the world table of IT&T spenders as a proportion of GDP. It is not known to what extent the rankings for other countries in the *Digital Planet 2000* analysis are also affected by measurement difficulty, including the addition of depreciation into the IT&T spends of other countries to boost their spending aggregates. However, it is reasonable to conclude that Australia's IT&T spend in relation to the size of its economy is very high in world terms, probably in the top few nations, and certainly only marginally behind any economy that might be ranked further ahead.

Table S3.1 also shows the scale of the IT&T activity in Australia in terms of the number of people employed in IT&T businesses. The 18,469 IT&T specialist businesses employed over 195,000 people at 30 June 1999. Interestingly, employment in the manufacturing, wholesale and telecommunications IT&T specialists has fallen nearly 20% overall from June 1996, with the largest fall in manufacturing (down 42%). The fall in manufacturing employment was in line with the fall in manufacturing IT&T sales. The fall in telecommunications employment (down 18%) was despite a 41% increase in IT&T sales during a time of falling prices, indicating very strong productivity improvement.

In contrast to the declining employment for the other broad industries, the computer services industries recorded a 37% growth in employment in the three years to June 1999, in line with a 33% increase in IT&T sales. Computer consultancy recorded the strongest growth in sales (up 77%), with an average business employment size of less than 5 employees. There were 13,018 computer services businesses (88% of the total) employing less than 5 people, and accounting for 32% of total employment in the industry, whereas the 56 largest firms employing 100 or more people accounted for 39% of the industry's total employment. See *Computing Services Industry, Australia, 1998–99* (Cat. no. 8669.0) for more details on this industry's structure and performance.

S3.1 INFORMATION TECHNOLOGY AND TELECOMMUNICATIONS ACTIVITY, EMPLOYMENT, INCOME AND EXPENSES

	Businesses at end June	Employment at end June	IT&T income	Total income	Wages and salaries	IT&T income per person employed
	no.	no.	$m	$m	$m	$'000
IT&T SPECIALISTS						
Manufacturing						
Computer and business machines	119	2 211	1 044.2	1 044.5	81.4	472.2
Telecommunication, broadcasting and transceiving equipment	51	4 457	1 074.9	1 362.1	253.8	241.2
Electronic equipment n.e.c.	73	2 540	471.7	499.7	85.4	185.7
Electronic cable and wire	24	806	245.5	272.0	38.4	304.6
Total	268	10 014	2 836.3	3 178.4	459.0	283.2
Wholesale trade						
Computers	1 398	24 316	12 501.3	13 241.7	1 297.5	514.1
Business machines and electrical and electronic equipment n.e.c.	561	10 865	*5315.3	6 193.8	643.6	489.2
Total	1 960	35 180	17 816.6	19 435.4	1 941.2	506.2
Telecommunication services	931	74 910	25 137.5	26 159.5	3 701.0	335.6
Computer services						
Data processing	261	7 118	n.p.	n.p.	n.p.	n.p.
Information storage and retrieval	*112	929	91.1	97.3	31.7	98.0
Computer maintenance	392	2 975	n.p.	n.p.	n.p.	n.p.
Computer consultancy	14 546	64 453	8 569.8	8 792.2	3 193.9	133.0
Total	15 310	75 476	10 398.5	10 647.9	3 739.3	137.8
Total	**18 469**	**195 580**	**56 188.9**	**59 421.2**	**9 840.5**	**287.3**
OTHER BUSINESSES						
Manufacturing						
Computer and business machines	16	120	4.7	22.0	3.8	39.3
Telecommunication, broadcasting and transceiving equipment	*6	n.p.	n.p.	n.p.	n.p.	6.5
Electronic equipment n.e.c.	134	5 079	n.p.	1 389.9	215.1	n.p.
Electric cable and wire	28	n.p.	n.p.	n.p.	n.p.	37.4
Total	184	7 956	125.6	2 350.1	357.2	15.8
Wholesale trade						
Computers	—	—	—	—	—	—
Business machines and electrical and electronic equipment n.e.c.	1 635	24 438	446.4	8 489.7	972.5	18.3
Total	1 635	24 438	446.4	8 489.7	972.5	18.3
Telecommunication services	—	—	—	—	—	—
Computer services	—	—	—	—	—	—
Total	**1 819**	**32 394**	**572.0**	**10 839.8**	**1 329.7**	**17.7**
ALL BUSINESSES						
Manufacturing						
Computer and business machines	135	2 331	1 048.9	1 066.6	85.2	450.0
Telecommunication, broadcasting and transceiving equipment	57	n.p.	n.p.	n.p.	n.p.	239.7
Electronic equipment n.e.c.	207	7 619	n.p.	1 889.7	300.4	n.p.
Electric cable and wire	52	n.p.	n.p.	n.p.	n.p.	98.3
Total	451	17 970	2 961.9	5 528.5	816.2	164.8
Wholesale trade						
Computers	1 398	24 316	12 501.3	13 241.7	1 297.5	514.1
Business machines and electrical and electronic equipment n.e.c.	2 197	35 303	*5 761.8	14 683.5	1 616.2	163.2
Total	3 595	59 618	18 263.1	27 925.2	2 913.7	306.3
Telecommunication services	931	74 910	25 137.5	26 159.5	3 701.0	335.6
Computer services	15 310	75 476	10 398.5	10 647.9	3 739.3	137.8
Total	**20 288**	**227 974**	**56 761.0**	**70 261.1**	**11 170.2**	**249.0**

Source: Information Technology, Australia, Preliminary, 1998–99 (Cat. no. 8143.0).

Finance and Insurance Industry use of IT&T

Finance and insurance businesses can now be connected by international networks that facilitate the transfer of documents and funds using various forms of electronic commerce. Access to technology and the ability to implement technological advancement is critical to the performance of Australia's finance sector.

In 1997–98, the Australian finance and insurance industry's use of information technology exceeded the total Australian industry average. A total of 74% of Australian finance and insurance businesses had PCs, compared to 63% of total businesses. Internet usage was also well above the average with finance and insurance businesses accounting for 39% Internet access, 37% email access, 34% web browser access and 12% web site/home page compared to 29%, 28%, 25% and 6% respectively for all businesses.

Of all the industries, the finance and insurance industry had the highest information technology and telecommunication (IT&T) expenses. In 1997–98, the finance and insurance industry spent $4.7 billion on new technology or 20% of total Australian IT&T expenditure, followed by the property and business services industry at $4.0 billion, manufacturing at $2.9 billion, communications at $2.8 billion, and wholesale trade at $2.7 billion.

S3.2 USE OF INFORMATION TECHNOLOGY—1997–98

	Finance and Insurance	*Total Australia*
NO. ('000)		
Businesses	18	603
USE OF INFORMATION TECHNOLOGY (%)		
PCs	74	63
LAN/WAN	27	20
Internet access	39	29
Email access	37	28
Web browser access	34	25
Web site/home page	12	6
INFORMATION TECHNOLOGY AND TELECOMMUNICATION EXPENDITURE ($M)		
Wages and salaries of in-house IT&T employees	957	3 942
Other IT&T expenses	3 752	19 638
Total IT&T expenses	4 709	23 580

Source: Business Use of Information Technology, Australia, 1997–98 (Cat. no. 8129.0).

The main benefits of Internet use identified by the finance and insurance industry were better access to information and services, ability to facilitate business across time zones and broader client exposure. Other benefits identified were improved customer satisfaction and reduced business costs.

Households

Australians are continuing to embrace the Internet for their personal finance activities. In the 12 months to May 2000, 2.3 million Australian households (33% of total households) had access to the Internet within the home. Households with higher incomes were more likely to have Internet access at home, 51% compared to 18%. Households in metropolitan areas were more likely to have the Internet connected at home, 37% of households compared to 26% outside metropolitan areas.

Australia's experience is similar to that of the United States and Singapore where use of home computers and access to the Internet are also increasing. In 1997, 81 million United States residents (30% of total population) had access to a computer within the home; of these 52% had Internet access. In the same period, 41% of Singaporean households had access to a home computer, increasing to 59% in June 1999. Access within the home to the Internet by Singaporean households increased dramatically, from 9% in 1996 to 42% in 1999.

S3.3 HOUSEHOLD ACCESS TO COMPUTERS OR THE INTERNET

	Households with access to a computer at home			*Households with access to the Internet at home*		
	May 1998	*May 1999*	*May 2000*	*May 1998*	*May 1999*	*May 2000*
	%	%	%	%	%	%
Household income						
$0–$49,999	27	30	37	6	10	18
$50,000 or more	68	70	75	28	39	51
Region						
Metropolitan areas	45	52	56	18	25	37
Other areas	37	39	51	8	17	26
Total	42	47	54	14	22	33

Source: Use of the Internet by Householders, Australia (Cat. no. 8147.0).

A total of 8% of Australian adults used the Internet to pay bills or transfer money in the three months to May 2000. While not significant when compared to other means of handling finances electronically, Internet usage is up four times from the rate of 12 months earlier. Security continues to be the main barrier for consumers in using the Internet for payment or transferring of funds.

S3.4 ADULTS MAKING SELECTED ELECTRONIC TRANSACTIONS

	May 1998	*May 1999*	*May 2000*
	%	%	%
Paid bills or transferred funds via the Internet	1	2	8
Paid bills or transferred funds via telephone	30	39	51
Paid bills or withdrew funds via EFTPOS	59	62	67
Transferred or withdrew funds via ATM	68	72	74

Source: Use of the Internet by Householders, Australia (Cat. no. 8147.0).

International developments

The development of technology and, in particular, on-line services has resulted in the breakdown of geographical restrictions allowing consumers easy access to services provided abroad. Within the region, Australia's main competition is with Singapore, Hong Kong and the United States. Other economies such as Malaysia and Taiwan are also developing similar strategies to develop on-line financial services facilities.

During the 1990s, the Singapore Government implemented a strategy to attract financial services, other business service enterprises and relocation of regional headquarters of overseas multinationals by offering incentives such as low taxation, infrastructure, co-investment opportunities, transparent regulation and an educated, disciplined workforce. The Singapore Government intends to take Singapore's stake further to become Asia's prime financial hub. Singapore is building a digital infrastructure that will provide disciplined broadband Internet access. This initiative, referred to as 'Singapore One', aims to establish Singapore as an e-commerce hub for Asia, connecting the 3 million residents of the island to the Internet.

The Hong Kong Government released its information technology strategy in 1998 which set out the Government's plans and programmes to assist the development of information technology to assist economic growth. Key points of the strategy include the establishment of a HK$5 billion Innovation and Technology Fund to provide finance for projects which will contribute to the improved use of innovation and technology in the hope of positioning Hong Kong as an Internet hub for the Asia Pacific region to produce, distribute and market goods more effectively. Other aims include enhancing Hong Kong's role as an international financial services centre by strengthening regulatory systems and developing new products and to focus on service provision to small and medium enterprises.

Malaysia is developing plans to build a Multimedia Super Corridor, however its domestic economic situation and financial situation as a result of the Asian financial crisis, has impacted on Malaysia's future plans.

International developments *continued*

In tune with developments abroad, Australia also has undertaken a number of initiatives, including the establishment of the Australian Centre for Global Finance (AXISS Australia), creation of the National Office for the Information Economy, whole-of-government approaches to on-line delivery, and initiatives such as the Building on IT Strengths programme. AXISS aims to make Australia a leading financial service centre in the Asia Pacific time zone. The Australian Stock Exchange (ASX) is also developing links with overseas exchanges to globalise the world's stock markets. This globalisation is likely to have a dramatic effect on Australia's domestic broking market, with the 24-hour share trading forcing greater competition within the market.

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 15 years, coinciding with extensive financial deregulation, the value added (in volume terms) of the finance and insurance industry has grown strongly, up 159% compared to the economy-wide growth of 72% in the same period. Over each of the last six years, in current price terms, the finance and insurance industry has grown more quickly than the economy as a whole and, in 1999–2000, both year on year growth and through year growth for this industry were much higher than for Australia as a whole.

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

	1984–85	*1994–95*	*1995–96*	*1996–97*	*1997–98*	*1998–99*	*1999–2000*
Growth measures, chain volumes(a)							
Industry value added ($m)	15 979	27 637	29 424	30 896	33 247	37 777	41 451
Year on year growth (%)	5.5	6.0	6.5	5.0	7.6	13.6	9.7
Industry value added at current prices(b)							
Finance and insurance	n.a.	28 536	30 341	32 105	35 907	37 777	41 615
Total all industries	n.a.	437 730	468 511	493 378	524 153	551 632	587 155
Finance and insurance share	n.a.	6.5	6.5	6.5	6.9	6.8	7.1

(a) At basic prices. Reference year for chain volume measures is 1998–99.

(b) At basic prices.

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

The finance and insurance industry employs over 329,600 people, providing job opportunities and productivity growth. In the last five years, output per hour worked in the industry (in chain volume terms, with reference year 1998–99) has increased by 41%, well above the economy wide average of 14%. Few industries can match that performance.

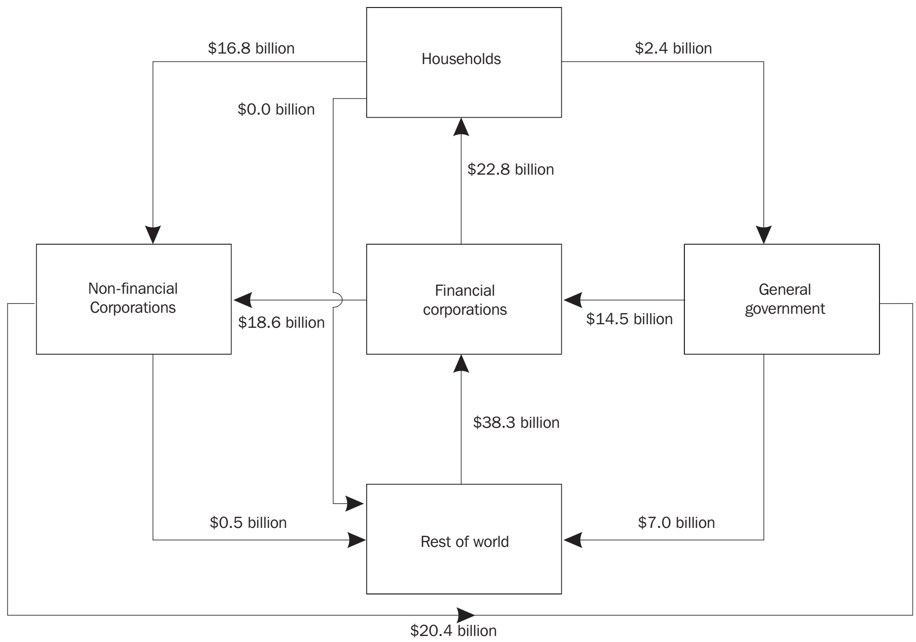
See *Chapter 7, Industry indicators*, for more details.

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 1999–2000. The sectors defined in the system cover all legal entities engaged primarily in like activities. The finance sector, so defined, can largely be considered analogous to the finance industry.

The arrows in the diagram below show the net flow from lenders to borrowers. For example, there were net flows from financial corporations to households of $22.8 billion and to non-financial corporations of $18.6 billion. Financial corporations financed these flows by borrowing funds from Australian governments ($14.5 billion) and borrowings by the rest of the world ($38.3 billion). There is also a $16.8 billion net flow from households to non-financial corporations, largely reflecting the increasing appetite of households for share investments.

INTER-SECTORAL FINANCIAL FLOWS DURING THE YEAR 1999–2000



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 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. 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

	Depository Corporations								
	Reserve Bank	*Banks*	*Other*	*Life insurance corporations*	*Pension funds*	*Other insurance corporations*	*Central borrowing authorities*	*Financial intermediaries n.e.c.*	***Consolidated total***
At 30 June	*$b*	*$b*	*$b*	*$b*	*$b*	*$b*	*$b*	*$b*	***$b***
1995	36.6	430.5	134.8	110.2	184.2	41.0	115.1	85.4	**854.5**
1996	35.6	474.0	145.0	123.7	208.5	45.8	100.2	98.1	**919.6**
1997	49.1	528.2	154.9	140.1	256.6	51.7	92.0	122.4	**1 029.0**
1998	45.1	581.5	170.6	157.5	297.3	60.7	95.5	165.3	**1 144.2**
1999	44.6	647.6	172.6	172.2	344.6	62.2	96.0	158.2	**1 223.2**
2000	51.1	731.3	180.3	184.1	405.4	68.1	89.7	199.0	**1 389.4**

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

BANKS

Over the last two decades the banking sector has undergone a revolution—the days of passbooks and face to face contact with bank staff are slowly ending. By the end of 1999 more than 80% of transactions were conducted outside bank branches, this figure will increase as more and more transactions are carried out electronically. The majority of Australian adults have access to and have embraced the age of electronic finance. By the end of 1999, 72% of all adults used automatic teller machines, 62% used EFTPOS, 41% were using the telephone to pay bills or transfer funds, and 4% of all adults were using the Internet for their banking and other financial needs.

Electronic banking has increased the convenience and speed of bank transactions. At the same time banks have broadened the range of services they offer to include funds management, personal financial services and advice and insurance.

Banks are the largest deposit-taking institutions in Australia, taking 70% of all deposits held in Australia and 62% of all deposits made by Australian residents as at 30 June 2000. At the end of June 2000 there were 50 banks operating in Australia. All are authorised to operate by the *Banking Act 1959*. Four major banks: the Australia and New Zealand Banking Group, Commonwealth Bank of Australia, National Australia Bank and Westpac Banking Corporation, account for nearly two-thirds of the total assets of all banks. These four banks provide widespread banking services and an extensive retail branch network throughout Australia. The remaining banks provide similar banking services through limited branch networks often located in particular regions.

The banking subsector is the largest contributor to Australia's credit market, holding 35% of all debt and equity liability outstandings of non-financial domestic sectors as at 30 June 2000. The rest of the world is the next largest extender of credit to these non-financial sectors, holding 22% of the outstandings at end June 2000.

At 30 June 2000, about 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. About a quarter of bank deposit/loan balances were held in Victoria (roughly in line with its population share). Table 2.4 shows the loans and deposits (by deposits type) for each State and Territory as at 30 June 2000.

As at 30 June 2000, $38 billion of banks' issued equity (at market prices) was held by non-resident investors. This amounted to 27% of total bank equity capital on issue, up from 21% three years earlier, and 23% six years ago.

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

2.2 RESERVE BANK OF AUSTRALIA, FINANCIAL ASSETS AND LIABILITIES

	Amounts outstanding at 30 June					
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
	$b	*$b*	*$b*	*$b*	*$b*	*$b*
ASSETS						
Monetary gold and SDRs	4	4	2	1	1	1
Currency and deposits	1	2	6	12	9	10
One name paper	1	4	5	4	3	1
Bonds	30	27	36	26	31	37
Other accounts receivable	—	—	—	—	—	—
Loans and placements borrowed	—	—	—	1	1	2
Total assets(a)	**37**	**36**	**49**	**45**	**45**	**51**
LIABILITIES						
Currency and deposits	25	26	39	33	34	31
Unlisted shares and other equity(b)	11	9	10	13	11	10
Other accounts payable	—	—	1	2	4	4
Total liabilities	**36**	**35**	**50**	**47**	**48**	**46**

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

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

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

2.3 BANKS(a), FINANCIAL ASSETS AND LIABILITIES

	Amounts outstanding at 30 June					
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
	$b	*$b*	*$b*	*$b*	*$b*	*$b*
ASSETS						
Currency and deposits	22	22	30	30	30	26
Acceptance of bills of exchange	56	62	61	66	70	76
One name paper	13	13	10	7	9	12
Bonds	18	16	21	16	21	21
Derivatives	15	12	12	15	16	18
Loans and placements	275	314	349	400	447	501
Equities	22	23	28	29	31	44
Prepayments of premiums and reserves	1	1	1	1	1	2
Other accounts receivable	10	11	18	18	23	32
Total assets(b)	**431**	**474**	**528**	**582**	**648**	**731**
LIABILITIES						
Currency and deposits	248	261	287	319	338	360
Acceptance of bills of exchange	45	50	48	52	54	55
One name paper	36	48	57	70	88	100
Bonds	34	38	48	58	60	74
Derivatives	13	12	12	14	16	19
Loans and placements	3	10	11	13	21	35
Equity	40	48	86	96	105	131
Other accounts payable	15	15	26	22	35	42
Total liabilities	**435**	**482**	**575**	**643**	**716**	**816**

(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*

The deposits and loans for the banks operating in each state and territory in Australia are given in table 2.4.

2.4 BANKS, DEPOSITS AND LOANS, BY STATE/TERRITORY—JUNE 2000(a)

	Deposits repayable in Australia					
	Current bearing interest	*Current not bearing interest*	*Term and at call(b)*	*Other(c)*	*Total*	*Other lending(d)*
State and Territory	*$b*	*$b*	*$b*	*$b*	*$b*	*$b*
New South Wales	36	10	128	23	197	200
Victoria	20	5	59	17	100	117
Queensland	16	3	25	10	54	77
South Australia	4	1	10	4	19	26
Western Australia	7	1	14	5	27	45
Tasmania	1	—	1	1	3	5
Northern Territory	—	—	—	—	1	3
Australian Capital Territory	2	1	2	1	6	7
Total	**86**	**21**	**240**	**61**	**407**	**479**

(a) Average of weekly figures.

(b) Includes 'Certificates of Deposits'.

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

(d) 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, including by individual banks; five quarterly tables on lending to business, global consolidated group capital, impaired assets and off-balance sheet business; and an annual table on bank branches and agencies in Australia. 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.

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.

OTHER DEPOSITORY CORPORATIONS *continued*

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 $1 million are registered. Under the Act, information and statistics on their operations are provided to the Reserve Bank.

2.5 OTHER DEPOSITORY CORPORATIONS, TOTAL ASSETS AND LIABILITIES

	Amounts outstanding at 30 June					
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
	$b	*$b*	*$b*	*$b*	*$b*	*$b*
			ASSETS			
Currency and deposits	6	7	9	9	9	8
Bills of exchange	8	7	9	10	9	10
One name paper	5	4	6	12	13	14
Bonds	12	12	8	5	4	6
Derivatives	6	6	5	7	7	8
Loans and placements	91	102	108	118	119	122
Equities	4	5	5	6	6	6
Other accounts receivable	4	3	4	5	6	7
Total assets(a)	**135**	**145**	**155**	**171**	**173**	**180**
			LIABILITIES			
Currency and deposits	64	68	69	84	98	106
Bills of exchange	2	2	2	3	3	2
One name paper	15	24	26	29	25	26
Bonds(b)	18	24	27	28	25	29
Derivatives	6	6	5	7	7	8
Loans and placements	15	9	10	9	5	6
Equities	16	16	16	16	16	17
Other accounts payable	3	4	5	5	6	7
Total liabilities	**140**	**151**	**159**	**181**	**187**	**202**

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

(b) Includes bonds issued in Australia and offshore.

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

2.6 OTHER DEPOSITORY CORPORATIONS, TOTAL ASSETS

	Amounts outstanding at 30 June					
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
	$b	*$b*	*$b*	*$b*	*$b*	*$b*
Permanent building societies	13	13	11	12	13	12
Credit cooperatives	14	15	17	18	20	19
Authorised money market dealers	8	4	n.a.	n.a.	n.a.	n.a.
Money market corporations	51	60	67	68	61	64
Pastoral finance companies	3	3	3	4	4	6
Finance companies	32	35	36	44	47	44
General financiers	10	11	14	17	18	21
Cash management trusts	6	8	12	19	22	24
Total	**137**	**150**	**160**	**180**	**184**	**190**

Source: Australian Financial Institutions Commission; Reserve Bank of Australia; Managed Funds, Australia (Cat. no. 5655.0); Monthly Statistics for Corporations Registered Under the Financial Corporations Act (1974) (Cat. no. 5647.0).

OTHER DEPOSITORY CORPORATIONS *continued*

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 June 1999 there were 100 money market corporations or merchant banks operating in Australia, accounting for around 5% of total financial intermediary assets. Of these assets, around 50% are held by foreign owned money market corporations in Australia.

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 OFFICES

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 2000, the life insurance industry in Australia consisted of 44 direct insurers and 6 reinsurers. As with the banking industry, the life insurance industry is dominated by a few very large companies holding a majority of the industry's assets.

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

The operations of life insurance corporations can be split effectively into two parts. The statutory funds contain policy owner monies that are invested according to policy owners' expectations. Total assets in statutory funds of Australian life insurers are shown in table 2.7. 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					
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
	$b	*$b*	*$b*	*$b*	*$b*	*$b*
ASSETS						
Currency and deposits	7	8	9	11	11	11
Bills of exchange	6	8	7	7	6	4
One name paper	7	10	14	12	17	13
Bonds	32	33	35	42	46	45
Loans and placements	6	7	7	11	10	11
Equities	49	55	65	70	76	95
Other accounts receivable	2	3	3	5	6	5
Total assets(a)	**110**	**124**	**140**	**158**	**172**	**184**
LIABILITIES						
Loans and placements	—	—	—	1	3	4
Listed and unlisted equity	3	5	9	35	35	42
Net equity in reserves	73	78	79	71	69	63
Net equity of pension funds	46	54	65	76	90	108
Other accounts payable	4	4	7	5	5	4
Total liabilities	**126**	**141**	**160**	**187**	**203**	**220**

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

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

SUPER FUNDS

Superannuation funds (called pension funds in ABS financial statistics) have been established to provide retirement benefits for their members. Members make contributions during their employment and receive the benefits of this in the form of saving in retirement. In order to receive concessional taxation treatment, a superannuation fund must elect to be regulated under the *Superannuation Industry (Supervision) Act 1993.* 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 superannuation funds comprise self-managed superannuation funds (also known as 'do it yourself' funds). From 1 July 2000 the ATO assumed responsibility for regulating self-managed superannuation funds (SMSFs).

- SMSFs are superannuation funds:
- that have less than five members; and
- all members are trustees; and
- all trustees are members; and
- 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.

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 SMSFs are known as small APRA funds (SAFs).

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

SUPER FUNDS *continued*

The assets of superannuation funds are shown in table 2.8. They include unfunded pension claims by superannuation funds on the Commonwealth Government where these have been formally recognised in accounting systems. The assets in the table do not include any provision for the pension liabilities of Australian governments to public sector employees in respect of unfunded retirement benefits. The ABS estimate for these outstanding liabilities at 30 June 2000 is $129.2 billion.

2.8 SUPER FUNDS, FINANCIAL ASSETS

	Amounts outstanding at 30 June					
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
	$b	*$b*	*$b*	*$b*	*$b*	*$b*
Currency and deposits	12	13	17	22	28	30
Bills of exchange	5	4	5	5	7	7
One name paper	4	7	7	8	13	11
Bonds	25	25	26	30	31	33
Loans and placements	6	7	8	10	13	15
Equities	80	91	120	138	153	190
Unfunded superannuation claims	3	3	4	5	6	7
Net equity of pension funds in life office reserves	46	54	65	76	90	108
Other accounts receivable	3	4	4	4	4	5
Total assets(a)	**184**	**208**	**257**	**297**	**345**	**405**

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

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

OTHER INSURANCE CORPORATIONS

This sector includes all corporations that provide insurance other than life insurance. Included are general, fire, accident, employer liability, household, health and consumer credit insurers. Table 2.9 sets out the total financial assets and liabilities of the Other insurance corporations sector.

Private health insurers are regulated by the Private Health Insurance Administration Council under the *National Health Act 1959*. At 30 June 2000 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*. At 30 June 2000 there were 162 insurers supervised by APRA. In addition, there were 9 public sector insurers at 30 June 2000.

2.9 OTHER INSURANCE CORPORATIONS, FINANCIAL ASSETS AND LIABILITIES

	Amounts outstanding at 30 June					
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
	$b	*$b*	*$b*	*$b*	*$b*	*$b*
ASSETS						
Currency and deposits	3	3	4	5	6	5
Bills of exchange	2	1	1	2	2	3
One name paper	2	2	3	3	3	2
Bonds	16	16	15	17	15	16
Loans and placements	3	5	5	7	8	9
Equities	12	13	17	21	22	26
Other accounts receivable	4	6	7	8	7	8
Total assets(a)	**41**	**46**	**52**	**61**	**62**	**68**
LIABILITIES						
Bonds on issue	1	1	1	1	—	1
Loans and placements	—	—	1	1	2	1
Listed shares and other equity	5	6	8	7	6	4
Unlisted shares and other equity	9	9	11	12	13	14
Prepayment of premiums	29	35	39	44	45	49
Other accounts payable	7	7	8	10	10	11
Total liabilities	**51**	**58**	**67**	**74**	**75**	**80**

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

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

CENTRAL BORROWING AUTHORITIES

Central borrowing authorities (CBAs) are institutions established by each State and Territory Government primarily to provide finance for public corporations and quasi-corporations and other units owned or controlled by those governments, and to arrange investment of the units' surplus funds. The CBAs borrow funds, mainly by issuing securities, to on-lend 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.

Total liabilities of CBAs declined by $7.7 billion at the end of June 2000, due mainly to net redemptions of one name paper and bonds worth $1.7 billion and $9.6 billion respectively.

Table 2.10 shows the total assets and liabilities held by the CBAs for the most recent six years.

2.10 CENTRAL BORROWING AUTHORITIES, FINANCIAL ASSETS AND LIABILITIES

	Amounts outstanding at 30 June					
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
	$b	*$b*	*$b*	*$b*	*$b*	*$b*
ASSETS						
Currency and deposits	2	1	2	2	3	1
Holdings of bills of exchange	3	4	5	5	8	6
One name paper	5	3	3	7	6	5
Bonds	5	4	2	2	3	3
Derivatives	2	1	1	2	2	2
Loans and placements	94	85	78	77	74	71
Other accounts receivable	4	2	1	1	1	1
Total assets(a)	**115**	**100**	**92**	**96**	**96**	**90**
LIABILITIES						
Drawings of bills of exchange	—	—	—	—	—	—
One name paper	19	4	4	6	8	7
Bonds	75	78	75	76	73	68
Derivatives	2	1	1	2	2	2
Loans and placements	12	7	6	6	9	7
Equity	—	—	—	—	—	—
Other accounts payable	5	3	3	3	2	2
Total liabilities	**112**	**95**	**89**	**93**	**94**	**86**

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

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

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

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

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

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

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

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

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

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

	Amounts outstanding at 30 June					
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
	$b	*$b*	*$b*	*$b*	*$b*	*$b*
Drawings of bills of exchange	3.8	3.7	3.9	3.9	4.1	6.8
One name paper issued in Australia	0.6	0.7	0.8	0.8	1.1	0.9
One name paper issued offshore	1.9	1.3	0.7	1.5	4.9	9.6
Bonds, etc issued in Australia	6.8	8.3	10.6	13.5	16.3	19.4
Bonds, etc issued offshore	3.9	5.8	8.3	10.8	11.4	21.0
Loans and placements	28.1	30.7	34.6	41.2	47.3	51.8
Listed shares and other equity	5.3	5.8	11.9	35.3	13.5	26.9
Unlisted shares and other equity	19.2	22.5	31.2	38.5	49.1	64.0
Other accounts payable	1.2	1.1	1.9	2.0	3.7	3.1
Total liabilities	**70.8**	**79.9**	**103.8**	**147.5**	**151.3**	**203.4**

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

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

	Amounts outstanding at 30 June					
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
	$b	*$b*	*$b*	*$b*	*$b*	*$b*
Currency and deposits accepted by	4.7	3.1	4.6	5.6	7.2	9.7
Banks	2.6	1.7	2.7	2.8	3.3	4.8
Other depository corporations	2.0	1.4	1.9	2.8	3.9	4.9
Rest of World	0.1	0.1	—	—	—	—
Holdings of bills of exchange accepted by	8.3	10.8	8.9	8.2	5.5	9.2
Banks	8.3	10.8	8.9	8.2	5.5	9.2
One name paper issued by	9.9	15.8	19.9	19.4	15.7	15.6
Private non-financial corporations	1.8	2.3	3.6	1.8	0.1	0.6
National public non-financial corporations	0.2	0.7	0.4	0.6	0.4	—
Banks	2.3	4.7	5.3	4.8	6.0	5.8
Other depository corporations	3.6	6.3	10.1	10.5	6.1	7.3
Central borrowing authorities	0.6	—	0.2	0.9	2.8	1.4
National general government	1.4	1.8	0.2	0.8	0.3	0.5
Rest of world	—	—	0.2	0.1	0.1	—
Bonds, etc issued by	14.9	13.2	11.3	14.9	12.8	9.0
Private non-financial corporations	0.1	0.2	0.1	0.2	0.8	2.3
National public non-financial corporations	0.6	0.8	0.5	0.7	0.8	1.0
Banks	3.1	2.3	4.7	5.3	4.0	1.3
Other depository corporations	0.1	2.2	1.3	0.3	0.5	0.6
Other insurance corporations	0.1	0.1	0.1	0.1	0.1	0.1
Central borrowing authorities	6.6	6.1	2.8	4.6	2.9	0.8
National general government	3.1	0.7	0.2	1.8	0.5	0.6
Rest of world	1.1	0.8	1.7	2.0	3.2	2.3
Loans and placements borrowed by	20.2	22.6	29.2	39.4	47.9	57.8
Private non-financial corporations	6.3	5.1	5.1	5.2	7.8	7.3
State and local public non-financial corporations	0.2	0.1	0.3	—	—	—
Other depository corporations	—	0.2	0.4	0.7	0.7	0.8
Life insurance corporations	—	0.1	0.1	0.2	0.2	0.3
Pension funds	—	0.1	0.1	0.2	0.2	0.3
Central borrowing authorities	—	—	—	—	0.1	0.1
State and local general government	—	—	0.9	0.9	0.6	0.3
Households	11.6	15.0	20.5	30.3	36.2	49.0
Rest of world	2.1	1.8	1.8	1.9	1.9	2.9
Equities issued by	26.5	31.9	47.3	75.9	65.0	94.3
Private non-financial corporations	15.1	18.5	25.4	28.5	33.7	42.7
National public non-financial corporations	—	—	—	23.6	3.4	17.2
Banks	2.5	3.3	8.1	8.8	8.0	9.7
Other depository corporations	0.1	0.1	0.1	0.1	0.1	0.1
Other insurance corporations	0.3	0.4	0.6	0.9	1.2	1.0
Rest of world	8.5	9.5	13.1	13.9	18.6	23.6
Other accounts receivable	1.0	0.7	1.1	1.9	4.2	3.5
Total assets(a)	**85.4**	**98.1**	**122.4**	**165.3**	**158.2**	**199.0**

(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.) *continued*

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 xi 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

	Net transactions during year(a)				
	1995–96	*1996–97*	*1997–98*	*1998–99*	*1999–2000*
	$b	*$b*	*$b*	*$b*	*$b*
Funds (including equity) raised on conventional credit markets by					
National general government	7	–1	–15	–9	–13
State and local general government	–12	–4	—	–3	–3
National public non-financial corporations	—	2	12	—	18
State and local public non-financial corporations	–2	–2	–1	—	—
Private non-financial corporations	53	45	55	51	59
Households	31	29	42	43	59
Total	**77**	**70**	**93**	**81**	**121**

(a) Note: 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					
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
	% p.a.	*% p.a.*	*% p.a.*	*% p.a.*	*% p.a.*	*% p.a.*
Bank deposit rates						
Six month fixed deposit	6.75	6.55	4.65	4.15	3.70	4.80
Cash management accounts(a)	5.85	5.65	3.65	3.15	2.90	3.65
Bank lending rates						
Housing loans—variable	10.50	9.75	7.20	6.70	6.50	7.80
Small business loans—variable	11.10	11.25	9.50	7.70	7.45	8.85
Credit cards	16.70	16.70	16.00	15.30	15.30	16.25

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

Source: Reserve Bank of Australia Bulletin.

LENDING BY FINANCIAL INSTITUTIONS

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

3.3 FINANCE COMMITMENTS, SUMMARY

	1994–95	*1995–96*	*1996–97*	*1997–98*	*1998–99*	*1999–2000*
Type of lending	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Secured housing for owner occupation						
Construction and purchase of dwelling	42 306	43 678	49 978	54 663	61 498	74 952
Alterations and additions	3 477	3 510	3 039	2 779	2 821	3 321
Total secured housing commitments	45 783	47 188	53 017	57 442	64 319	78 273
Personal						
Fixed loan facilities	18 623	20 932	21 126	22 281	21 125	22 265
Revolving credit facilities	9 892	11 351	14 440	20 641	24 781	29 558
Total personal finance commitments.	28 513	32 284	35 568	42 921	45 905	51 823
Commercial						
Fixed loan facilities	50 519	64 317	75 977	91 220	91 119	95 503
Revolving credit facilities	53 811	75 016	78 560	81 268	80 937	74 965
Total commercial finance commitments	104 331	139 332	154 537	172 489	172 058	170 466
Lease finance commitments	6 462	7 106	7 378	8 983	9 517	7 900
Total	**185 089**	**225 910**	**250 500**	**281 835**	**291 799**	**308 462**

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

	1994–95	*1995–96*	*1996–97*	*1997–98*	*1998–99*	*1999–2000*
Type of lender	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
All banks	75 344	106 060	113 637	132 653	142 776	144 130
Finance companies	7 528	7 674	7 786	5 985	4 504	4 553
Money market corporations	14 800	18 689	26 198	23 965	16 468	12 324
Other lenders(b)	6 658	6 907	6 914	9 885	8 307	9 460
Total	**104 331**	**139 332**	**154 537**	**172 489**	**172 058**	**170 466**

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

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

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

3.5 FIXED COMMERCIAL FINANCE COMMITMENTS, BY PURPOSE

	1994–95	*1995–96*	*1996–97*	*1997–98*	*1998–99*	*1999–2000*
Purpose	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Construction	5 252	6 574	7 436	10 862	8 024	9 373
Purchase of real property(a)	17 732	19 617	24 500	29 600	28 117	36 309
Purchase of plant and equipment	7 088	7 506	9 730	7 706	7 624	8 723
Refinancing	8 000	11 316	12 681	12 081	11 385	9 210
Other purposes	12 448	19 307	21 634	30 977	35 969	31 886
Total	**50 519**	**64 317**	**75 977**	**91 220**	**91 119**	**95 503**

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

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

HOUSING FINANCE

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

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

	1994–95	1995–96	1996–97	1997–98	1998–99	1999–2000
CONSTRUCTION OF DWELLINGS						
	no.	no.	no.	no.	no.	no.
Dwelling units						
Banks	73 597	56 535	58 191	63 325	62 464	65 673
Permanent Building Societies	4 464	3 404	2 880	3 732	3 787	3 276
Other lenders(b)	3 717	4 289	4 798	7 160	7 238	6 733
Total	81 778	64 228	65 869	74 217	73 489	75 682
	$m	$m	$m	$m	$m	$m
Value of commitments						
Banks	6 496	5 336	5 825	7 014	7 936	9 292
Permanent Building Societies	428	357	338	487	519	472
Other lenders(b)	352	396	482	877	901	849
Total	7 277	6 086	6 648	8 380	9 356	10 616
PURCHASE OF NEWLY ERECTED DWELLINGS						
	no.	no.	no.	no.	no.	no.
Dwelling units						
Banks	19 228	18 341	19 356	18 889	17 903	17 313
Permanent Building Societies	990	467	281	227	282	300
Other lenders(b)	1 440	2 007	3 415	4 154	1 963	920
Total	21 658	20 815	23 052	23 270	20 148	18 533
	$m	$m	$m	$m	$m	$m
Value of commitments						
Banks	1 986	1 917	2 276	2 402	2 483	2 666
Permanent Building Societies	98	50	33	30	37	49
Other lenders(b)	141	213	345	476	283	125
Total	2 225	2 177	2 654	2 907	2 802	2 840
PURCHASE OF ESTABLISHED DWELLINGS(c)						
	no.	no.	no.	no.	no.	no.
Dwelling units						
Banks	305 249	307 570	323 173	309 033	323 840	368 814
Permanent Building Societies	21 271	20 309	16 544	15 770	14 917	16 563
Other lenders(b)	21 392	38 598	52 799	59 883	55 779	69 546
Total	347 912	366 477	392 516	384 686	394 536	454 923
	$m	$m	$m	$m	$m	$m
Value of commitments						
Banks	28 845	29 563	33 383	34 883	41 089	50 919
Permanent Building Societies	1 855	1 889	1 660	1 617	1 678	1 825
Other lenders(b)	2 109	3 962	5 635	6 874	6 576	8 751
Total	32 806	35 414	40 677	43 374	49 343	61 493
TOTAL						
	no.	no.	no.	no.	no.	no.
Dwelling units						
Banks	398 074	382 446	400 720	391 247	404 207	451 800
Permanent Building Societies	26 725	24 180	19 705	19 729	18 986	20 139
Other lenders(b)	26 549	44 894	61 012	71 197	64 980	77 199
Total	451 348	451 520	481 437	482 173	488 173	549 138
	$m	$m	$m	$m	$m	$m
Value of commitments						
Banks	37 327	36 816	41 484	44 299	51 508	62 877
Permanent Building Societies	2 381	2 296	2 031	2 134	2 234	2 346
Other lenders(b)	2 598	4 566	6 464	8 230	7 756	9 728
Total	42 306	43 678	49 978	54 663	61 498	74 952

(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).

Total turnover in exchange traded shares in 1999–2000 was $362 billion, up 28% on the previous year and three times the 1994–95 turnover of $118 billion. The total market capitalisation of companies listed on the ASX increased 20% during 1999–2000 to reach $682 billion by 30 June 2000. This figure is more than double the June 1995 capitalisation figure of $299 billion.

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					
	1994–1995	*1995–1996*	*1996–1997*	*1997–1998*	*1998–1999*	*1999–2000*
S&P/ASX 200	2 017	2 242	2 726	2 668	2 969	3 311
S&P/ASX 200—Finance	2 849	3 230	4 919	5 751	6 504	7 431
S&P/ASX 200—Industrials	3 026	3 360	4 302	4 689	5 188	5 792
S&P/ASX 200—Resources	1 255	1 397	1 509	1 037	1 210	1 344

(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				
	1995–1996	*1996–1997*	*1997–1998*	*1998–1999*	*1999–2000*
	$m	*$m*	*$m*	*$m*	*$m*
Total equities and units in trusts	**742.2**	**882.1**	**1 025.3**	**1 143.2**	**1 310.3**
ISSUED BY					
Private non-financial corporations(b)	369.5	433.6	423.2	495.3	598.3
National public non-financial corporations(b)	26.5	25.7	81.2	121.4	96.2
State and local public non-financial corporations(b)	106.4	103.6	104.1	105.7	103.5
Central Bank(c)	9.4	9.7	12.6	10.9	10.4
Banks(b)	57.3	92.5	103.6	112.8	140.2
Other depository corporations	16.0	15.9	15.8	16.3	16.9
Life insurance corporations(b)	5.4	9.1	35.9	35.9	42.7
Other insurance corporations	15.4	18.5	19.1	18.5	17.9
Central borrowing authorities(c)	0.2	0.2	0.2	0.2	—
Financial intermediaries n.e.c.	31.4	47.8	82.8	73.5	106.2
Rest of world	104.7	125.4	146.9	152.6	177.6
HELD BY					
Private non-financial corporations	83.7	97.2	99.1	95.9	102.5
National public non-financial corporations	0.7	0.9	0.7	0.8	1.7
State and local public non-financial corporations	—	—	0.1	0.1	0.1
Banks	26.6	33.9	35.7	38.9	53.7
Other depository corporations	4.4	5.4	5.6	6.2	6.0
Life insurance corporations	55.1	65.6	71.3	76.9	95.8
Pension funds	91.3	119.8	137.5	153.2	190.1
Other insurance corporations	13.3	17.2	21.0	22.0	25.8
Financial intermediaries n.e.c.	34.8	52.0	84.9	75.9	109.6
National general government	40.0	35.7	75.0	94.3	69.7
State and local general government	108.0	107.3	108.0	107.5	105.4
Households	93.4	131.7	146.2	193.8	236.7
Rest of world	190.5	215.5	240.2	277.7	313.2

(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. After falling for three years to decade lows by early 1999, short term rates have since moved up to their highest levels since late 1997.

3.9 SHORT-TERM MONEY MARKET RATES

	As at 30 June					
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
	% p.a.	*% p.a.*	*% p.a.*	*% p.a.*	*% p.a.*	*% p.a.*
11am call(a)	7.51	7.51	5.57	5.07	4.80	6.00
Bank-accepted bills—90 days	7.55	7.57	5.35	5.32	4.93	6.23

(a) The 1999–2000 observation is for July 2000; June 2000 is not available.

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
	$b	$b	$b	$b	$b
Total short-term debt securities	**239.0**	**252.7**	**278.6**	**316.5**	**339.2**
ISSUED BY					
Private non-financial corporations	63.0	66.6	70.8	75.6	76.9
National public non-financial corporations	3.4	3.2	4.0	3.8	3.6
State and local public non-financial corporations	0.1	0.1	0.4	0.3	0.3
Banks	113.2	121.7	138.7	166.3	185.6
Other depository corporations	25.8	28.7	32.0	29.3	28.7
Central borrowing authorities	4.9	4.4	6.3	8.5	7.3
Financial intermediaries n.e.c.	7.4	8.8	12.2	19.8	26.1
National general government	15.4	13.4	10.3	7.7	5.8
Households	2.9	2.3	2.5	2.9	2.9
Rest of World	2.8	3.5	1.5	2.3	2.0
HELD BY					
Private non-financial corporations	10.7	11.0	13.4	24.7	35.1
National public non-financial corporations	0.9	1.5	0.6	0.7	0.3
State and local public non-financial corporations	0.5	0.5	0.5	0.2	—
Central bank	3.6	5.2	4.1	2.8	1.2
Banks	79.9	87.0	90.5	103.4	117.8
Other depository corporations	11.5	15.8	22.6	22.6	24.2
Life insurance corporations	18.3	20.2	18.1	22.7	16.8
Pension funds	11.0	12.1	13.1	19.7	18.1
Other insurance corporations	3.4	3.4	4.5	4.8	5.0
Central borrowing authorities	7.6	7.6	12.2	14.6	11.6
Financial intermediaries n.e.c.	28.3	32.3	33.7	31.0	34.2
State and local general government	—	0.1	0.2	0.1	0.2
Households	3.2	3.9	5.0	6.4	9.4
Rest of world	49.6	52.1	60.2	62.8	65.3

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					
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
	% p.a.	*% p.a.*	*% p.a.*	*% p.a.*	*% p.a.*	*% p.a.*
Treasury bonds						
3 years	8.27	8.33	5.93	5.25	5.63	5.97
5 years	8.61	8.59	6.44	5.38	5.90	6.05
10 years	9.21	8.88	7.05	5.58	6.27	6.16
NSW T-corp bonds						
3 years	8.31	8.45	5.94	5.40	5.89	6.29
5 years	8.80	8.74	6.51	5.58	6.24	6.42
10 years	9.47	9.16	7.23	5.86	6.61	6.60
Finance company debentures						
2 years	7.70	7.65	5.50	5.30	5.10	6.30
3 years	7.85	7.85	5.90	5.35	5.45	6.40

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 five years are shown in table 3.12.

3.12 THE BOND MARKET

	Amounts outstanding at 30 June				
	1996	1997	1998	1999	2000
	$b	$b	$b	$b	$b
Total bonds	**312.7**	**347.0**	**354.6**	**353.1**	**379.5**
ISSUED BY					
Private non-financial corporations	19.5	23.7	25.9	29.5	33.6
National public non-financial corporations	6.0	5.6	6.8	6.8	9.4
State and local public non-financial corporations	0.2	0.2	0.1	—	—
Banks	37.7	48.2	57.7	60.2	74.4
Other depository corporations	24.4	28.5	30.0	26.2	30.2
Other insurance corporations	0.6	0.5	0.7	0.4	0.6
Central borrowing authorities	84.2	81.7	81.5	78.8	73.5
Financial intermediaries n.e.c.	15.7	22.2	29.3	31.4	45.3
National general government	100.0	109.1	97.1	88.0	78.1
State and local general government	0.1	0.2	0.2	0.2	0.4
Rest of world	24.2	27.1	25.2	31.5	33.9
HELD BY					
Private non-financial corporations	1.8	2.0	1.2	0.7	0.4
National public non-financial corporations	0.3	0.4	0.4	0.2	—
State and local public non-financial corporations	0.3	0.6	0.7	0.4	0.1
Central bank	26.5	35.7	26.4	30.7	36.9
Banks	16.4	20.5	16.0	20.8	20.7
Other depository corporations	12.4	10.4	6.6	4.5	6.4
Life insurance corporations	32.7	35.3	41.8	45.7	44.9
Pension funds	25.3	26.0	29.7	30.7	32.7
Other insurance corporations	15.6	15.3	16.7	14.9	15.5
Central borrowing authorities	9.9	8.3	7.9	8.2	8.4
Financial intermediaries n.e.c.	14.7	14.8	20.0	16.5	14.0
State and local general government	0.1	0.1	—	0.1	0.2
Households	15.7	15.1	14.0	13.7	12.1
Rest of world	140.8	162.9	173.8	165.9	187.2

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. Table 3.13 shows the value of the Australian dollar against major currencies at end June of the last six years. The decline in the value of the Australian dollar against the United States dollar in 1999–2000 occurred in the latter half of the year, and that slide has continued since June, reflecting the relative strength of the US dollar as strong economic growth in the United States continues to attract world-investment capital.

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

	As at 30 June					
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
United States dollar	0.7167	0.7882	0.7513	0.6020	0.6547	0.5941
United Kingdom pound	0.4489	0.5102	0.4559	0.3643	0.4094	0.3929
Japanese yen	60.49	85.56	85.74	84.45	78.97	62.97
German deutschmark	1.00	1.20	1.30	1.08	1.23	1.22
Euro	n.a.	n.a.	n.a.	n.a.	0.63	0.63

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

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

The Australian dollar is traded 24 hours a day against most currencies in the world. Currencies are traded for many reasons: because of exporting or importing requirements, investing or borrowing overseas, arbitrage activity (i.e. taking advantage of short-term discrepancies in rates) or speculating on possible exchange rate movements with a view to making a profit. Table 3.14 shows daily averages of foreign exchange turnover in Australia against all currencies.

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

	1994–95	*1995–96*	*1996–97*	*1997–98*	*1998–99*	*1999–2000*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*
Transactions by foreign exchange dealers(b)						
Outright spot(c)	21 465	20 693	23 641	28 659	32 540	22 753
Outright forward(d)	1 882	2 014	2 495	3 689	4 432	3 831
Swaps	26 527	28 437	35 390	36 452	37 903	36 620
Options	792	968	1 442	2 112	2 485	2 517
Total	**50 667**	**52 112**	**62 968**	**70 911**	**77 360**	**65 721**

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

DERIVATIVES MARKET

In terms of trading volumes the Sydney Futures Exchange (SFE) ranks as the largest futures and options exchange in Asia. While a decade ago only about seven different contracts were available, today around 25 futures and options contracts can be traded in a variety of equity, interest rate and commodity derivatives.

Commodity market derivatives can be used to protect producers against price volatility and reduce the exposure to risk. The main commodity futures traded on the SFE include, wheat, barley, sorghum, canola, wool and electricity, with trading in barley, canola and sorghum contracts beginning on June 20 this year and trading in commodity options expected to begin later in calendar 2000.

The SFE is currently looking to develop a market for trading futures contracts over carbon credits and other financial products relating to greenhouse gas emissions.

The SFE has also recently announced plans to merge with one of Australia's five clearing houses, Austraclear, aiming to make the SFE a more important player in the Asia Pacific clearing market.

Australia's exchange traded interest rate derivatives market volume in 1999 was down 2% on the previous year. While 3-year bond futures and options trading was up, 90-day bills and 10-year bond futures and options experienced falls in volume in 1999. However, in the six months to June 2000 average daily volumes in interest rate futures are up on 1999 for each contract type, and higher than 1998 average volumes.

The over-the-counter (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)

	1998		1999		January to June 2000		
	Annual volume	Average daily volume	Annual volume	Average daily volume	Six month trading Volume	Average daily volume	Percentage increase in average volume
Futures							
All ordinaries SPI	3 678	14.5	3 820	15.0	2 067	16.8	12.0
All ordinaries SPI 200	n.a.	n.a.	n.a.	n.a.	3	—	n.a.
90-day bank bills	7 735	30.5	7 184	28.3	3 927	31.3	11.0
3-year bonds	10 486	41.3	10 787	42.5	6 370	50.3	19.0
10 year bonds	5 641	22.2	5 346	21.0	2 885	22.7	8.0
Electricity	11	—	8	—	2	—	–57.0
Wool	14	—	21	—	10	0.1	–5.0
Wheat	10	—	8	—	2	—	–54.0
Other grains(a)	n.a.	n.a.	n.a.	n.a.	—	—	n.a.
Share futures	9	—	9	—	4	—	–14.0
Total futures turnover	27 584	108.6	27 183	107.0	15 271	121.5	13.0
Options							
All ordinaries SPI	847	3.3	1 237	4.9	771	6.2	28.0
All ordinaries SPI 200	n.a.	n.a.	n.a.	n.a.	20	0.2	n.a.
90-Day Bank Bills	770	3.0	453	1.8	170	1.4	–24.0
3-year bonds	224	0.9	289	1.1	140	1.1	–2.0
ONO 3-year bonds	64	0.3	218	0.9	214	1.7	97.0
10-year bonds	354	1.4	243	1.0	63	0.5	–47.0
ONO 10-year bonds	90	0.4	169	0.7	23	0.2	–72.0
Wheat	2	—	1	—	—	—	–100.0
Total options turnover	2 352	9.3	2 610	10.3	1 401	11.2	9.0
Total	29 936	117.9	29 793	117.3	16 672	132.6	13.0

(a) Includes barley, canola and sorghum.

Source: Sydney Futures Exchange.

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

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

For more details on 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.

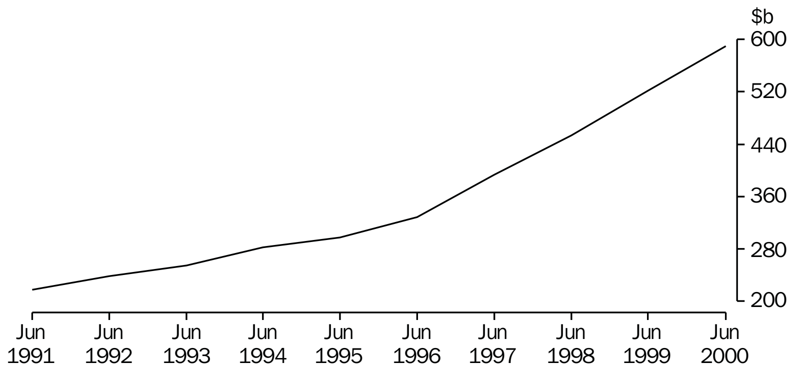
Also see the report *Central Bank Survey of Foreign Exchange and Derivatives Market Activity*, published in May 1999 by the Bank for International Settlements. It includes a range of global data on OTC derivatives markets, including foreign exchange and interest rate derivatives, as well as data for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

CHAPTER 4 FUNDS UNDER MANAGEMENT

MANAGED FUNDS

The term "managed funds" is used loosely in the financial community to embrace two broad types of institutions. The first are collective investment institutions (such as life insurance companies) which buy assets on their own account. The second are investment or fund managers, which act as investment agents for the collective investment institutions as well as others with substantial funds to invest. Investment managers have relatively small balance sheets because most of the assets they acquire are purchased on behalf of clients. The significant growth in managed funds (see graph 4.1) has been a major development in the financial sector over the last decade. 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 (Cat. no. 5655.0).

Collective investment institutions

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

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

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

Collective investment institutions *continued*

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

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

4.2 ASSETS OF MANAGED FUNDS, BY TYPE OF COLLECTIVE INVESTMENT INSTITUTION—2000(a)

	Total	*Cross invested*	*Consolidated*
Type of institution	*$m*	*$m*	*$m*
Life insurance corporations(b)	187 528	17 516	170 012
Pension funds	318 438	46 739	271 699
Public unit trusts	124 036	13 055	110 981
Friendly societies	6 163	268	5 895
Common funds	8 219	188	8 031
Cash management trusts	23 804	—	23 804
Total assets	**668 188**	**77 766**	**590 422**

(a) As at 30 June 2000.

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

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

4.3 MANAGED FUNDS, CONSOLIDATED ASSETS

	As at 30 June					
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
Type of asset	*$m*	*$m*	*$m*	*$m*	*$m*	*$m*
Cash and deposits(a)	20 226	22 965	28 562	35 430	39 394	42 056
Loans and placements	14 667	16 425	19 229	22 814	26 358	29 984
Short-term securities(a)	30 782	38 707	47 004	54 089	67 179	61 253
Long-term securities	55 363	55 235	59 246	66 039	70 391	75 329
Equities and units in trusts	82 796	94 192	117 994	130 548	149 072	183 287
Land and buildings	36 130	38 323	41 262	48 466	57 539	65 109
Assets overseas	44 585	48 011	62 446	78 632	91 958	112 187
Other assets	12 070	14 636	17 184	17 048	20 523	21 218
Total assets	**296 619**	**328 495**	**392 928**	**453 067**	**522 415**	**590 422**

(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 2000, $440 billion, or 66% 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 2000, investment managers invested $109 billion on behalf of government bodies, general insurers and other clients, including overseas clients.

4.4 ASSETS OF MANAGED FUNDS, INVESTED THROUGH INVESTMENT MANAGERS—2000(a)

	Unconsolidated assets of managed funds	*Assets invested with investment managers*
Source of funds	*$m*	*$m*
Statutory funds of life insurance corporations(b)	187 528	140 381
Pension and approved deposit funds	318 438	185 452
Public unit trusts	124 036	82 033
Friendly societies	6 163	4 326
Common funds	8 219	5 519
Cash management trusts	23 804	22 112
Total managed funds assets	**668 188**	**439 823**
Government	. .	9 592
Charities	. .	849
Other trusts	. .	29 431
General Insurance	. .	18 833
Other sources	. .	29 590
Total other sources assets	**. .**	**88 295**
Funds from Australian sources	. .	528 118
Funds from overseas sources	. .	20 769

(a) As at 30 June 2000.

(b) Includes both superannuation and ordinary business.

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

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

CHAPTER 5 MONEY AND THE PAYMENTS SYSTEM

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

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

MONEY

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

5.1 VALUE OF AUSTRALIAN NOTES ON ISSUE(a)

	1995	*1996*	*1997*	*1998*	*1999*	*2000*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*
$1	20	19	19	19	—	—
$2	49	48	47	47	46	46
$5	332	337	351	361	379	397
$10	614	583	601	617	639	646
$20	1 848	1 868	1 837	1 804	1 850	1 917
$50	7 193	7 928	8 912	9 523	10 356	11 188
$100	8 482	8 399	8 297	9 280	10 282	11 240
Total	**18 538**	**19 182**	**20 064**	**21 651**	**23 552**	**25 434**
Percentage change	5.5	3.5	4.6	7.9	8.8	8.0

(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 sector.
- M3, which is defined as currency plus bank deposits of the private non-bank sector.
- Broad money, which 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					
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*
Money base	23 491	24 546	34 108	31 424	31 752	28 083
M3	263 617	290 485	321 014	340 891	375 835	406 500
Broad money	317 419	349 665	383 561	406 539	451 524	479 908
Percentage change in broad money	7.3	10.2	9.7	6.0	11.1	6.3

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.

PAYMENTS SYSTEM *continued*

- 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).

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.

The value of HVCS transactions increased by 11% over the last year, to reach $73 billion per day by the end of June 2000.

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—END JUNE

	1995	*1996*	*1997*	*1998*	*1999*	*2000*
	no.	*no.*	*no.*	*no.*	*no.*	*no.*
Automatic teller machines	6 249	7 178	8 182	8 814	9 387	10 818
EFTPOS terminals	62 975	107 702	164 199	218 330	265 391	320 372

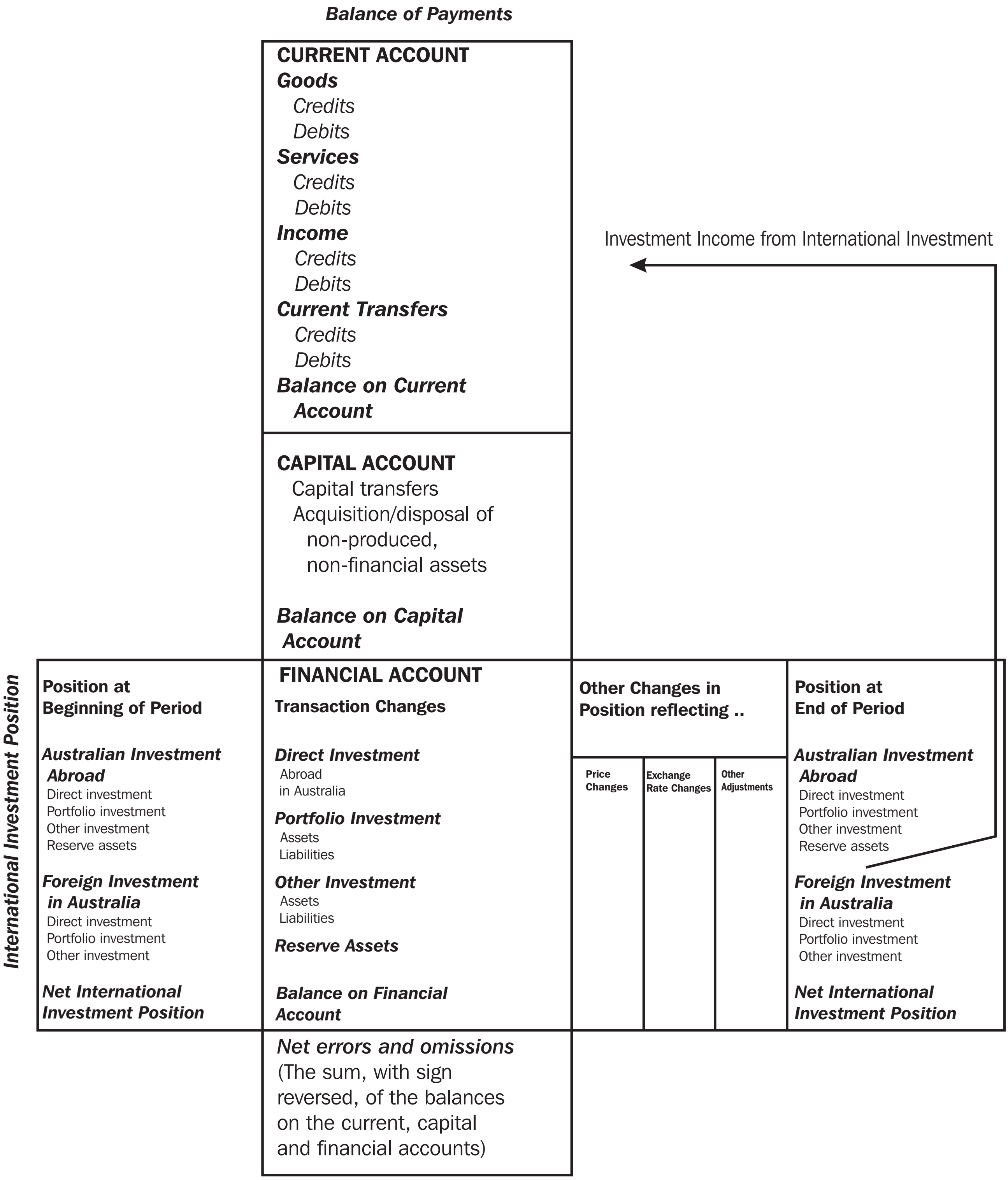
Source: Australian Payments Clearing Association, Annual Report.

CHAPTER 6 INTERNATIONAL ACCOUNTS AND GLOBALISATION INDICATORS

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

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

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


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

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 has maintained a relatively constant share of a growing total services export market over the last four years, representing approximately 6% of total services credits. This is up on the share achieved in the mid 1990s of about 5%.

Financial and insurance services debits, as a percentage of total services debits, has declined steadily from 8% in 1994–95 to 5% in 1999–2000.

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

	1994–95	*1995–96*	*1996–97*	*1997–98*	*1998–99*	*1999–2000*
	$m	$m	$m	$m	$m	$m
Credits (exports)						
Total services	20 553	22 949	24 226	25 206	26 156	28 298
Insurance services	556	672	772	840	859	887
Financial services	526	577	634	713	716	747
Total finance and insurance services	1 082	1 249	1 406	1 553	1 575	1 634
	%	%	%	%	%	%
Percent of total services credits	5.3	5.4	5.8	6.2	6.0	5.8
	$m	$m	$m	$m	$m	$m
Debits (imports)						
Total services	–22 337	–23 349	–24 152	–26 398	–28 026	–30 147
Insurance services	–1 064	–1 064	–1 012	–915	–922	–936
Financial services	–672	–472	–451	–442	–468	–527
Total finance and insurance services	–1 736	–1 536	–1 463	–1 357	–1 390	–1 463
	%	%	%	%	%	%
Percent of total services debits	8.0	7.0	6.0	5.0	5.0	5.0

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

INTERNATIONAL INVESTMENT

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

The sector also 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 31 March 2000 was $174 billion, up 17.3% on 31 March 1999 ($149 billion). The increase during the 12 months to March 2000 resulted mainly from net financial transactions of $26 billion.

The net foreign debt of Australian private financial corporations has increased 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 fallen by 9% as corporations increasingly used the finance sector to source funds rather than borrowing directly offshore. This trend has continued into the year 2000. In the three years to 31 March 2000, Australia’s private non-financial corporations increased their gross debt by $83 billion (26%) but only $2.3 billion of that increase 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

	1994–95	*1995–96*	*1996–97*	*1997–98*	*1998–99*	*1999–2000(a)*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*
Assets						
Public	3 176	–2 520	–3 998	–1 508	–86	–1 790
Private	3 214	–4 770	–4 368	–6 274	–4 707	–2 774
Total	6 390	–7 290	–8 366	–7 782	–4 793	–4 564
Liabilities						
Public	4 012	–4 959	–2 729	–5 301	–4 224	–1 523
Private	6 167	19 444	21 350	15 901	22 207	32 518
Total	10 179	14 485	18 621	10 600	17 983	30 995
Net foreign debt						
Public	7 188	–7 479	–6 726	–6 810	–4 310	–3 313
Private	9 380	14 674	16 980	9 627	17 500	29 743
Total	16 568	7 195	10 254	2 817	13 190	26 430

(a) 1999–2000 figures are as at 31 March 2000.

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					
	1995	*1996*	*1997*	*1998*	*1999*	*2000(a)*
	$m	*$m*	*$m*	*$m*	*$m*	*$m*
Assets						
Public	–28 595	–28 144	–26 853	–32 058	–31 178	–35 387
Private	–32 893	–35 854	–45 289	–56 709	–60 333	–64 815
Total	–61 488	–63 998	–72 142	–88 767	–91 511	–100 202
Liabilities						
Public	61 846	56 472	48 213	41 392	37 284	36 668
Private	101 536	115 700	146 008	180 443	197 819	237 895
Total	163 382	172 172	194 221	221 835	235 103	274 563
Net foreign debt						
Public	33 251	28 328	21 360	9 334	6 106	1 281
Private	68 643	79 845	100 718	123 734	137 486	173 081
Total	101 894	108 173	122 078	133 068	143 592	174 362

(a) Figures are as at 31 March 2000.

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

FOREIGN EQUITY AND THE FINANCE SECTOR

A decade ago, foreign equity in the Australian finance sector was about $13 billion, with two thirds of that investment in the form of direct equity investment in branches and subsidiaries. A decade on, at 30 June 2000, total foreign equity investment in the Australian finance sector had risen five-fold to $64 billion, but with almost three quarters 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*
1989	8	4	13	—	5	5
1990	10	4	14	—	8	8
1991	11	6	17	—	9	9
1992	11	6	17	—	11	11
1993	10	7	17	—	12	12
1994	13	11	23	—	13	13
1995	13	12	25	—	14	14
1996	16	14	29	—	14	14
1997	19	18	37	2	17	19
1998	20	35	54	3	20	23
1999	19	39	58	1	22	23
2000	18	46	64	—	24	24

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 12 years from $5 billion at 30 June 1989 to $24 billion by 30 June 2000. While at 30 June 2000 there were 15 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 98% 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 20% at 30 June 2000. The foreign equity participation in banks and other depository institutions is higher, at 27% and 26% respectively, while for other financial subsectors the percentage is much lower, in part due to no foreign equity investment in State and Territory central borrowing authorities and lower levels of equity investment in life insurance corporations.

FOREIGN EQUITY AND THE FINANCE SECTOR *continued*

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 around one third and the United States holding about one quarter of the foreign equity in the sector at 30 June 1999.

6.5 OWNERSHIP OF EQUITY IN AUSTRALIAN FINANCE SECTOR(a)

					Value of equity at end of period
YEAR ENDED JUNE	**1995–1996**	**1996–1997**	**1997–1998**	**1998–1999**	**1999–2000**
Banks					
Amount issued ($b)(b)	57.3	92.5	103.6	112.8	140.2
Amount held by rest of the world ($b)	14.2	19.2	28.5	33.2	38.0
Percentage foreign ownership (%)	25	21	28	29	27
Non-bank deposit taking institutions					
Amount issued ($b)(b)	16.1	15.9	15.8	16.3	16.9
Amount held by rest of the world ($b)	4.8	4.7	5.0	4.3	4.4
Percentage foreign ownership (%)	30	29	32	26	26
Other financial institutions(c)					
Amount issued ($b)(b)	52.4	75.7	138.0	128.1	166.8
Amount held by rest of the world ($b)	10.4	12.8	20.8	20.4	22.1
Percentage foreign ownership (%)	20	17	15	16	13
Total finance sector					
Amount issued ($b)(b)	125.8	184.1	257.4	257.2	323.9
Amount held by rest of the world ($b)	29.4	36.7	54.3	57.9	64.5
Percentage foreign ownership (%)	23	20	21	23	20
Of which					
Amounts held by the rest of the world by country ($b)					
Banks					
United Kingdom	5.6	8.0	12.6	14.2	n.y.a.
United States of America	5.4	6.0	9.2	10.8	n.y.a.
Japan	0.7	1.0	1.0	1.1	n.y.a.
Other countries	2.5	4.2	5.7	7.2	n.y.a.
Total	**14.2**	**19.2**	**28.5**	**33.2**	**38.0**
Non-bank deposit taking institutions					
United Kingdom	0.5	0.2	0.3	0.2	n.y.a.
United States of America	1.2	1.2	1.2	1.1	n.y.a.
Japan	1.4	1.4	1.4	1.1	n.y.a.
Other countries	1.7	1.8	2.2	1.8	n.y.a.
Total	**4.8**	**4.7**	**5.0**	**4.3**	**4.4**
Other financial institutions					
United Kingdom	3.2	3.2	5.0	5.1	n.y.a.
United States of America	1.5	2.0	3.1	3.8	n.y.a.
Japan	0.7	0.5	0.4	0.5	n.y.a.
Other countries	4.9	7.1	12.2	11.0	n.y.a.
Total	**10.4**	**12.8**	**20.8**	**20.4**	**22.1**
Total finance sector					
United Kingdom	9.3	11.5	17.9	19.6	n.y.a.
United States of America	8.2	9.3	13.5	15.7	n.y.a.
Japan	2.8	3.0	2.8	2.6	n.y.a.
Other countries	9.1	13.1	20.0	19.9	n.y.a.
Total	**29.4**	**36.7**	**54.3**	**57.9**	**64.5**

(a) Excludes Reserve Bank of Australia.

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

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

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

CHAPTER 7 INDUSTRY INDICATORS

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

EMPLOYMENT, EARNINGS AND COSTS IN FINANCE AND INSURANCE

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

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

Table 7.1 shows the number of persons employed in the finance and insurance industry and their average weekly earnings. Over the six years to 2000, the number of persons employed in the finance and insurance industry rose 3.6%, from 318,000 to 330,000. However, the proportion of persons employed in the finance and insurance industry as a percentage of total persons employed declined, from 3.9% in August 1995 to 3.6% in August 2000. Influences contributing to this decline include technology developments requiring fewer people to undertake certain activities, and the outsourcing of some activities.

Over the six years to 2000, average weekly earnings in the finance and insurance sector increased 27% from $647 to $824. Total average weekly earnings for the same period increased only 16%. 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 three years only. In June 2000, the WCI for the finance and insurance sector was 109.9, slightly higher than that for all industries at 108.4.

7.1 EMPLOYMENT AND EARNINGS IN FINANCE AND INSURANCE

	1995	1996	1997	1998	1999	2000
Persons employed(a)						
Finance and insurance ('000)	318.2	312.9	312.5	322.3	308.5	329.6
Total persons employed ('000)	8 218.7	8 310.3	8 306.6	8 537.2	8 731.6	9 048.4
Percentage of total (%)	3.9	3.8	3.8	3.8	3.5	3.6
Average weekly earnings(b)						
Finance and insurance ($)	647.3	704.9	774.4	801.4	789.1	823.6
Total average weekly earnings ($)	547.8	566.7	582.2	602.9	605.4	634.7
Percentage of total (%)	118.2	124.4	133.0	132.9	130.3	129.8
Wage cost index(c)						
Finance and insurance	n.a.	n.a.	n.a.	102.9	106.2	109.9
All industries	n.a.	n.a.	n.a.	102.1	105.4	108.4

(a) As at end August.

(b) Total earnings as at end August, the figures for 2000 are as at end May.

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

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 1998–99, the finance and insurance sector profit margin of 25.3% substantially exceeded the all industries profit margin of 9.5%. For the same period, the finance and insurance sector's return on assets (3.0%) was below the industry average at (4.7%). The interest coverage was also below the industry average, at 1.9 times compared to 2.7 times.

7.2 INDUSTRY PERFORMANCE RATIOS

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

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

CHAPTER 8 INTERNATIONAL COMPARISONS

This chapter presents international comparisons on key indicators such as interest rates, share price indexes and other financial indicators. Care should be taken when analysing 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 prime lending or at call interest rates. The interest rates have remained relatively stable for most of the listed countries. Significant increases in 1997–98 due to the regional financial crisis occurred for Indonesia and Thailand. During this period there were also increases for Malaysia and Singapore, but these were less dramatic. The interest rates for these countries in 1999–2000 have now fallen below the levels seen before the financial crisis.

8.1 OVERSEAS MARKET INTEREST RATES(a)

	1995	*1996*	*1997*	*1998*	*1999*	*2000*
	% p.a.	*% p.a.*	*% p.a.*	*% p.a.*	*% p.a.*	*% p.a.*
United States of America	9.00	8.25	8.50	8.50	7.75	9.50
United Kingdom	7.75	6.75	7.50	8.50	6.00	7.00
Japan	2.38	1.63	1.63	1.63	1.38	1.38
Hong Kong (SAR of China)	9.00	8.50	8.75	10.00	8.25	9.50
Singapore	6.00	6.00	6.00	7.50	5.00	5.00
Indonesia	15.19	16.07	14.60	74.61	18.18	10.78
Malaysia	5.65	6.10	5.90	8.75	2.75	2.52
Thailand	7.50	7.94	15.13	17.38	1.31	5.00
New Zealand	9.00	9.80	6.47	8.45	4.65	6.50
Australia(b)	7.50	7.50	5.50	5.00	4.75	6.00

(a) As at 30 June.

(b) Australian official cash rate.

Source: Reserve Bank of Australia Bulletin.

SHARE PRICE INDEXES

Table 8.2 summarises the performance of major international share price indexes. Increases were recorded in the year to 30 June 2000 for the Hang Seng up 19% and the All Ordinaries, up 12%. All other indexes listed in the table fell during the 1999–2000 period, the largest fall being recorded for the Dow Jones Industrial, down 5%.

8.2 SHARE PRICES INDEXES, INTERNATIONAL COMPARISON(a)

	As at 30 June					
	1995	*1996*	*1997*	*1998*	*1999*	*2000*
All Ordinaries (Australia)	260.8	289.9	352.5	345.0	383.9	428.1
Dow Jones Industrial (United States of America)	354.1	439.4	596.3	695.7	852.6	811.9
FT Industrial Ordinary (United Kingdom)	251.9	277.1	303.1	384.8	407.4	372.8
Nikkei 225 (Japan)	121.1	187.9	171.8	132.0	146.2	145.2
Hang Seng (Hong Kong SAR of China)	674.5	807.4	1 113.3	625.9	991.4	1 183.6
Straits Times (Singapore)	251.1	275.5	238.5	128.0	260.1	244.5

(a) 31 January 1985 = 100.

Source: Reserve Bank of Australia Bulletin.

OTHER FINANCIAL INDICATORS

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

International liquidity includes monetary authorities' holdings of SDRs, reserve position in the International Monetary Fund and foreign exchange. Foreign exchange includes monetary authorities' claims on 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 BY SELECTED COUNTRIES, 2000(a)

	United States	*United Kingdom*	*Japan*	*Hong Kong*	*Singapore*	*Australia*
	$USb	*$USb*	*$USb*	*$USb*	*$USb*	*$USb*
International liquidity						
Monetary gold	11.1	4.1	1.1	0	n.a.	0.7
Special drawing rights	10.4	0.4	2.5	n.a.	0.1	0.1
Reserve position in IMF	15.4	4.3	5.4	n.a.	0.4	1.3
Foreign exchange	31.0	22.8	329.5	97.1	77.0	14.6
Deposit money banks						
Assets	884.3	1 798.4	n.a.	449.3	58.1	20.8
Liabilities	1 374.4	1 873.7	n.a.	339.9	58.6	87.6
Monetary authorities						
Foreign assets	67.2	32.6	245.9	92.8	77.7	18.0
Claims on central government	525.8	39.1	451.5	n.a.	n.a.	15.0
Reserve money	591.7	51.2	603.3	26.7	10.2	17.5
Foreign liabilities	0.1	26.4	n.a.	0	n.a.	0.1
Central government deposits	24.5	n.a.	113.9	55.7	35.9	7.9
Other items (net)	–22.5	–0.8	23.5	–26.2	31.6	7.5
Deposit money banks						
Reserves	52.3	11.3	103.3	1.4	3.9	2.1
Foreign assets	339.5	2 001.3	715.2	449.2	58.1	30.6
Claims on central government	215.4	–6.0	890.5	21.6	18.8	10.4
Claims on private sector	4 508.0	1 806.5	5 239.7	n.a.	88.6	334.3
Demand deposits	574.8	(b)1 504.9	1 716.7	10.5	12.8	61.7
Time and savings deposits	2 077.1	n.a.	3 598.5	331.2	80.2	187.4
Money market instruments	773.1	n.a.	n.a.	14.3	n.a.	n.a.
Foreign liabilities	539.6	1 987.8	498.8	339.9	58.6	87.6
Bonds	248.9	n.a.	399.6	n.a.	n.a.	n.a.
Central government deposits	37.5	n.a.	n.a.	0.4	1.0	3.4
Other items (net)	976.0	324.0	885.1	9.6	16.9	44.4
Monetary survey(c)						
Foreign assets (net)	–73.0	9.6	462.3	199.0	76.4	–39.1
Domestic credit	7 929.0	1 735.7	6 788.7	218.3	70.6	355.5
Money	1 374.4	(d)1 545.2	2 216.6	22.0	19.1	76.5
Quasi-money	4 399.7	n.a.	3 637.6	331.2	80.2	187.4
Money market instruments	996.7	n.a.	n.a.	14.3	n.a.	n.a.
Bonds	251.7	n.a.	399.6	n.a.	n.a.	n.a.
Other items (net)	833.6	311.3	908.7	–5.4	47.7	52.5

(a) Data for Australia and Singapore are all as at end June 2000. For Hong Kong, monetary authorities statistics are per June 2000 but all other series are as at May 2000. For Japan, international liquidity statistics are per June 2000 but the other series are as at May 2000. For the United States, international liquidity statistics are as at June 2000 (except for deposit money banks assets and liabilities which are as at May 2000), monetary authorities statistics are as at May 2000, and money banks and monetary survey are as at March 2000. For the United Kingdom, deposit money banks statistics are as at June 2000, all other series are as at the latest data period available in the September 2000 release of International Finance Statistics, IMF.

(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.

THE CLASSIFICATION OF FINANCIAL INSTITUTIONAL SECTOR AND SUBSECTORS *continued*

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. Theses institutions are important as repositories of long-term household savings.

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

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

THE CLASSIFICATION OF FINANCIAL INSTITUTIONAL SECTORS AND SUBSECTORS *continued*

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

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

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

THE CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

Cash and deposits

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

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

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

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

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

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

- bills of exchange; and
- one name paper.

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

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

25 *One name paper* includes promissory notes, Treasury Notes and 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 of twenty-six weeks.

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

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

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

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

- bonds etc.; and
- derivatives.

32 *Bonds etc.* include:

- Treasury bonds issued by the Commonwealth Government;
- various series of inscribed stock which are issued by the central borrowing authorities and other government-owned corporations 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.

THE CLASSIFICATION OF FINANCIAL INSTRUMENTS *continued*

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

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

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

SOURCES OF DATA

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RELATED STATISTICS

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

- *Australian System of National Accounts* (Cat. no. 5204.0)—issued annually
- *Australian National Accounts: National Income, Expenditure and Product* (Cat. no. 5206.0)—issued quarterly
- *Australian National Accounts, Financial Accounts* (Cat. no. 5232.0)—issued quarterly
- *Average Weekly Earnings, States and Australia* (Cat. no. 6302.0)
- *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
CHESS	Clearing House Electronic Subregister System
CVM	Chain Volume Measures

ABBREVIATIONS, SYMBOLS AND OTHER USAGES
continued

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
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

These articles are also located on the ABS website at *www.abs.gov.au*

GLOSSARY

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

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

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

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

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

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

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

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

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

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

Call option An option in which the buyer has the right to buy shares at a predetermined price within a specified period of time.

Capital account 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.

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

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

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

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

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

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

Conventional financial instruments

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

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

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

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

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

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

Deposit money banks Deposit money banks comprise commercial banks and other financial institutions that accept transferable deposits, such as demand deposits.

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

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

Dividend reinvestment plan (DRP) 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.

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

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

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

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

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

Finance and Insurance Industry 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.

Finance sector 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.

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

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

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

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

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

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

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

Initial public offering (IPO) When a company offers shares to the public and lists on the Stock Exchange.

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

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

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

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

Monetary authorities 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.).

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

Monetary survey 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.

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

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

New float The launch of a company on the stock exchange.

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

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

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

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

Payments clearing 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.

Placement 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.

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

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

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

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

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

Rights issue 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.

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

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

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

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

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

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

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

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

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

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