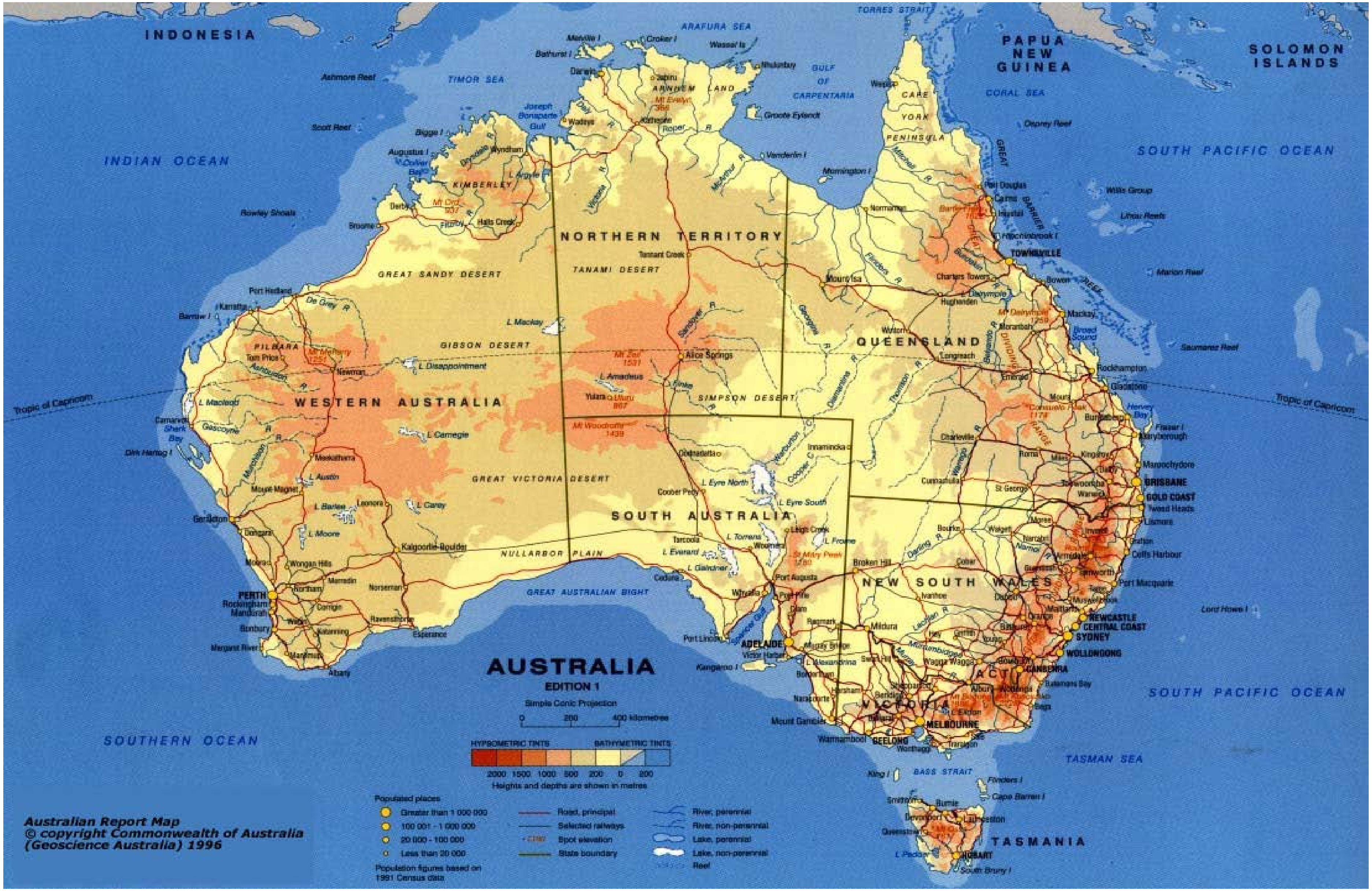
IMPORTANT NOTICE

DESCRIPTION OF THE COMMONWEALTH OF AUSTRALIA

Dated as of 24 October 2013


AUSTRALIA
EDITION 1
Simple Conic Projection
0 200 400 kilometres
HYPSOMETRIC TINTS
BATHYMETRIC TINTS
2000 1500 1000 500 200 0 200
Heights and depths are shown in metres
Populated places
Greater than 1 000 000
100 001 - 1 000 000
20 000 - 100 000
Less than 20 000
Population figures based on 1991 Census data
Road, principal
Selected railways
Spot elevation
State boundary
River, perennial
River, non-perennial
Lake, perennial
Lake, non-perennial
Reef
Australian Report Map
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INDONESIA
PAPUA NEW GUINEA
SOLOMON ISLANDS
INDIAN OCEAN
SOUTH PACIFIC OCEAN
SOUTHERN OCEAN
TASMAN SEA
CORAL SEA
TIMOR SEA
ARAFURA SEA
GULF OF CARPENTARIA
TORRES STRAIT
BASS STRAIT
GREAT AUSTRALIAN BIGHT
Tropic of Capricorn
WESTERN AUSTRALIA
NORTHERN TERRITORY
QUEENSLAND
SOUTH AUSTRALIA
NEW SOUTH WALES
VICTORIA
ACT
TASMANIA
GREAT SANDY DESERT
TANAMI DESERT
GIBSON DESERT
SIMPSON DESERT
GREAT VICTORIA DESERT
NULLARBOR PLAIN
KIMBERLEY
PILBARA
ARNHEM LAND
CAPE YORK PENINSULA
GREAT BARRIER REEF
GREAT DIVIDING RANGE
PERTH
ADELAIDE
MELBOURNE
SYDNEY
BRISBANE
CANBERRA
HOBART
DARWIN
GOLD COAST
NEWCASTLE
CENTRAL COAST
WOLLONGONG
GEELONG
TOWNSVILLE
Alice Springs
Kalgoorlie-Boulder
Broome
Port Hedland
Mount Isa
Cairns
Mackay
Rockhampton
Bundaberg
Toowoomba
Tamworth
Broken Hill
Mildura
Port Augusta
Port Lincoln
Mount Gambier
Warrnambool
Albany
Esperance
Geraldton
Carnarvon
Bunbury
Launceston
Burnie
Devonport
Tennant Creek
Katherine
Uluru 867
Mt Zeil 1531
Mt Woodroffe 1435
Mt Kosciuszko
Lord Howe I
Fraser I
Kangaroo I
King I
Flinders I
Melville I
Bathurst I
Groote Eylandt
L Eyre North
L Eyre South
L Torrens
L Gairdner
L Frome
L Mackay
L Amadeus
L Carnegie
L Disappointment
Spencer Gulf

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ABOUT THIS DESCRIPTION OF THE COMMONWEALTH OF AUSTRALIA

Official Documents and Statements

Certain financial and statistical information contained in this Description of the Commonwealth of Australia has been derived from official Australian Government sources, including:

- the Final Budget Outcome 2012-13 released on 27 September 2013, which we refer to as the "Final Budget Outcome 2012-13" (available at *http://www.budget.gov.au/2012-13/content/fbo/html/index.htm*), the Final Budget Outcome 2011-12 released on 24 September 2012, which we refer to as the "Final Budget Outcome 2011-12" (available at *http://www.budget.gov.au/2011-12/content/fbo/html/index.htm*), the Final Budget Outcome 2010-11 released on 30 September 2011, which we refer to as the "Final Budget Outcome 2010-11" (available at http://www.budget.gov.au/2010-11/content/fbo/html/index.htm) and the Final Budget Outcome 2009-10, which we refer to as the "Final Budget Outcome 2009-10" (available at *http://www.budget.gov.au/2009-10/content/fbo/html/index.htm*); and

- the Pre-Election Economic and Fiscal Outlook 2013 dated August 2013, which we refer to as the "2013 PEFO" (available at *http://www.treasury.gov.au/PublicationsAndMedia/Publications/2013/PEFO-2013*), the 2012-13 Commonwealth Budget dated 8 May 2012, which we refer to as the "2012-13 Budget" (available at *http://www.budget.gov.au/2012-13/index.htm*), the 2011-12 Commonwealth Budget dated 10 May 2011, which we refer to as the "2011-12 Budget" (available at *http://www.budget.gov.au/2011-12/index.htm*) and the 2010-11Commonwealth Budget dated 11 May 2010, which we refer to as the "2010-11 Budget" (available at *http://www.budget.gov.au/2010-11/index.htm*).

Information available on the websites referenced above is not incorporated by reference in this Description of the Commonwealth of Australia.

Information included in this Description of the Commonwealth of Australia which is identified as being derived from a publication of the Australian Government or one of its agencies or instrumentalities is included in this Description of the Commonwealth of Australia on the authority of such publication as a public official document of the Australian Government.

The address of the Commonwealth of Australia is c/o The Treasury of the Commonwealth of Australia, Treasury Building, Langton Crescent, Parkes ACT 2600, Australia, and its phone number is +61 2 6263 2111.

Forward-Looking Statements

This Description of the Commonwealth of Australia contains forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'believes', 'forecasts', 'estimates', 'projects', 'expects', 'intends', 'may', 'will', 'seeks', 'would', 'could' or 'should' or, in each case, their negative or other variations or comparable terminology, or in relation to discussions of forecasts, policies, strategy, plans, objectives, goals, future events or intentions.

Forward-looking statements are statements that are not historical facts, including statements about the Commonwealth of Australia's beliefs and expectations. These statements are based on current plans, estimates and projections and, therefore, undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. Although the Australian Government believes that the beliefs and expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such beliefs and expectations will prove to have been correct.

Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those expressed in any forward-looking statement. Factors that could cause the actual outcomes to differ materially from those expressed or implied in forward looking statements include:

- the international economy, and in particular the rates of growth (or contraction) of Australia's major trading partners;

- the residual effects of the global financial crisis;
- changes in commodity prices and/or global demand for Australia's major export commodities;
- increases or decreases in international and domestic interest rates;
- increases or decreases in domestic consumption;
- increases or decreases in Australia's labour force participation and productivity;
- exchange rate fluctuations; and
- increases or decreases in Australia's rate of inflation.

Presentation of Financial and Other Information

The fiscal year of the Commonwealth of Australia is 1 July to 30 June. Annual information presented in this Description of the Commonwealth of Australia is based on fiscal years, unless otherwise indicated. In this Description of the Commonwealth of Australia, the fiscal year beginning on 1 July 2012 and ending on 30 June 2013 is referred to as "2012-13" and previous and subsequent fiscal years are referred to using the same convention.

Any discrepancies between totals and sums of components in this Description of the Commonwealth of Australia are due to rounding.

Statistical information reported in this Description of the Commonwealth of Australia has been derived from official publications of, and information supplied by, a number of departments and agencies of the Commonwealth of Australia, including the Treasury of the Commonwealth of Australia, the Department of Finance and Deregulation, the Reserve Bank of Australia (the "RBA") and the Australian Bureau of Statistics ("ABS"). Some statistical information has also been derived from information publicly made available by the International Monetary Fund (the "IMF") and the Organisation for Economic Co-operation and Development (the "OECD"). Similar statistics may be obtainable from other sources, but the underlying assumptions, methodology and, consequently, the resulting data may vary from source to source. In addition, statistics and data published by a department or agency of the Commonwealth of Australia may differ from similar statistics and data produced by other departments or agencies due to differing underlying assumptions or methodology. Certain historical statistical information contained in this Description of the Commonwealth of Australia is based on estimates that the Commonwealth of Australia and/or its departments or agencies believe to be based on reasonable assumptions. The Commonwealth of Australia's official financial and economic statistics are subject to review as part of a regular confirmation process. Accordingly, financial and economic information may be subsequently adjusted or revised. While the Australian Government does not expect revisions to be material, no assurance can be given that material changes will not be made. The Commonwealth of Australia adheres to the IMF's Special Data Dissemination Standards, which guide members in the dissemination of economic and financial data to the public.

The fiscal aggregates in the Federal budget are underpinned by a set of forward estimates consisting of short-term economic forecasts and projections based on medium-term assumptions. In the budget, the Australian Government usually presents two years of economic forecasts and an additional three years of projections. The forecasts are based on detailed assessments of different sectors of the economy derived from the most recent data outturns, forecasting models and information gathered from business liaison. Forecasts for the various sectors of the economy are brought together to form a coherent set of forecasts for the macro-economy. Projections are used in the latter years and are based on long run averages of broad economic aggregates.

In the 2009-10 Budget, the projection methodology was changed from the usual practice of assuming trend GDP growth in the two projection years. This reflected the expectation that the Australian economy would experience a sustained period of below trend growth in the three-year forecast period. A corresponding period of above trend growth was assumed in the projections to return the economy to its potential level. On the basis of forecasts that the economy will return to full capacity within the three-year forecast period, the budget resumed the traditional methodology of assuming trend GDP growth in the projection years beginning with the 2010-11 Budget.

References in this Description of the Commonwealth of Australia to “Australian dollars,” “A$,” “dollars” or “$” are to the lawful currency of the Commonwealth of Australia and references in this Description of the Commonwealth of Australia to “U.S. dollars” or “US$” are to the lawful currency of the United States.

References in this Description of the Commonwealth of Australia to statutes followed by “(Cth)” are to legislation enacted by the Federal Parliament of the Commonwealth of Australia.

Certain Defined Terms and Conventions

The terms set forth below have the following meanings for purposes of this Description of the Commonwealth of Australia:

ADI	is short for Authorised Deposit-taking Institution.
APRA	means the Australian Prudential Regulation Authority.
ASIC	refers to the Australian Securities and Investments Commission.
Authorised Deposit-taking Institution	means a body corporate that has been granted authority by APRA to carry on banking business in Australia (under section 9 of the *Banking Act 1959* (Cth)).
Basic price	refers to the amount receivable by the producer from the purchaser for a unit of a good or service produced as output, minus any tax payable plus any subsidy receivable on that unit as a consequence of its production or sale; it excludes any transport charges invoiced separately by the producer.
Balance of payments	refers to the total of all of the amounts transacted between residents of Australia and residents of the rest of the world (non-residents) over a specific period of time.
Capital account	records the values of the non-financial assets that are acquired, or disposed of, by resident institutional units by engaging in transactions, and shows the change in net worth due to saving and capital transfers or internal bookkeeping transactions linked to production (changes in inventories and consumption of fixed capital).
Chain volume measures	refers to measures derived by linking together (compounding) movements in volumes, calculated using the average prices of the previous fiscal year, and applying the compounded movements to the current price estimates of the reference year. Chain volume measures were introduced in the national accounts in 1998 because, by annually rebasing, they provide price relativities that reflect the current situation, thereby providing better real estimates than constant price measures, especially in times of rapidly changing relative prices.
Consumer price index (or headline rate of inflation)	measures quarterly changes in the price of a ‘basket’ of goods and services which account for a high proportion of expenditure by the CPI population group (i.e., metropolitan households) and is commonly referred to as the headline rate of inflation.
Current account	includes the balance of trade (exports of goods and services minus imports of goods and services), net factor income (income earned by Australia from the rest of the world minus income earned by the rest of the world from Australia) and net transfer payments (including, for example, net outflows of foreign aid payments). The current account excludes capital transfers.
Current prices	refers to estimates valued at the prices of the period to which the observation relates. For example, estimates for 2002–03 are valued using 2002–03 prices. This contrasts to chain volume measures where the prices used in valuation refer to the prices of the previous year.
Fiscal year	means each year commencing 1 July and ending 30 June.
Foreign ADI	means a foreign corporation authorised to carry on banking business in a foreign country that has been granted authority by APRA to carry on banking business in Australia (under section 9 of the *Banking Act 1959* (Cth)).

Free on board (or f.o.b.) The value of goods measured on a free on board basis includes all production and other costs incurred up until the goods are placed on board the international carrier for export. Free on board values exclude international insurance and transport costs. They include the value of the outside packaging in which the product is wrapped, but do not include the value of the international freight containers used for transporting the goods.

Gross domestic product (or GDP) means 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.

GDP per capita means the ratio of the chain volume estimate of GDP to an estimate of the resident Australian population.

Gross national income (formerly gross national product) refers to the aggregate value of gross primary incomes for all institutional sectors, including net primary income receivable from non-residents.

Gross value added means the value of output at basic prices minus the value of intermediate consumption at purchasers' prices.

Household saving ratio refers to the ratio of household net saving (calculated as household net disposable income less household final consumption expenditure) to household net disposable income (calculated as household gross disposable income less household consumption of fixed capital).

IMF means the International Monetary Fund.

Implicit price deflator is obtained by dividing a current price value by its real counterpart (the chain volume measure).

Inflation refers to a continuous upward movement in the general level of prices.

Labour force means, for any group, persons who were employed or unemployed.

National net savings is calculated as national net disposable income less final consumption expenditure.

Net domestic product is calculated as GDP less consumption of fixed capital.

Net worth represents the difference between the stock of assets (both financial and non-financial) and the stock of liabilities. Because it is derived residually, it can be negative.

OECD means the Organisation for Economic Co-operation and Development.

Participation rate means, for any group, the labour force expressed as a percentage of the civilian population aged 15 years and over in the same group.

RBA means the Reserve Bank of Australia.

Real gross domestic income is calculated by:

- taking the volume measure of gross national expenditure;
- adding exports of goods and services at current prices deflated by the implicit price deflator for imports of goods and services;
- deducting the volume measure of imports of goods and services; and
- adding the current price statistical discrepancy for GDP, deflated by the implicit price deflator for GDP.

Real gross national income is calculated by adjusting real gross domestic income for the real impact of primary income flows (property income and labour income) to and from overseas.

Real net national is calculated by:

disposable income

- taking real gross domestic income;
- deducting real incomes payable to the rest of the world;
- adding real incomes receivable from the rest of the world; and
- deducting the volume measure of consumption of fixed capital.

Real incomes payable and receivable are calculated by dividing the nominal income flows by the implicit price deflator for gross national expenditure.

Real means adjusted for the effects of inflation.

Seasonal adjustment involves estimation of seasonal factors in data and adjustment of the data to remove the seasonal effect.

Total gross fixed capital formation refers to expenditure on new fixed assets plus expenditure on second-hand fixed assets, whether for additions or replacements (but not including repairs), where fixed assets are produced assets that are used repeatedly or continuously in production processes for more than one year. It includes capital formation undertaken by government, public corporations and the private sector.

Unemployment rate means, for any group, the number of unemployed persons expressed as a percentage of the labour force in the same group.

THE COMMONWEALTH OF AUSTRALIA

Population and Geography of Australia

Australia is located in the Southern Hemisphere. Excluding its external Territories, Australia has an area of nearly 7.7 million square kilometres. It is the world's sixth largest nation after Russia, Canada, China, the United States and Brazil. The major portion of Australia's population lives in the eastern and southern coastal regions. The vast central area of Australia is arid and largely unsuitable for agriculture. A map showing Australia's States and Territories, major cities and principal geographic features is included on the page following the cover page of this Description of the Commonwealth of Australia.

The preliminary estimated resident population of Australia at 31 March 2013 was 23,032,746 persons. This was an increase of 397,400 persons (1.8%) since 31 March 2012 and 114,800 persons since 31 December 20122012.

The preliminary estimated resident populations of the six States, the Australian Capital Territory and Northern Territory at 31 March 2013 were as follows.

Table 1: Preliminary estimated resident population of States and Territories

State / Territory	Population (as at 31 March 2013)
New South Wales	7,381,063
Victoria	5,712,982
Queensland	4,638,075
Western Australia	2,497,546
South Australia	1,667,456
Tasmania	512,875
Australian Capital Territory	381,743
Northern Territory	237,837

Source: ABS Catalogue No. 3101.0.

The majority of the population lives in the metropolitan areas of the capital cities of the six States, and in Canberra, the national capital.

The growth of Australia's population has two components: natural increase (the number of births minus the number of deaths) and net overseas migration.

Preliminary natural increase for the year ended 31 March 2013 was estimated to be 159,100 persons, an increase of 0.8% (or 1,200 persons) on the natural increase recorded for the year ended 31 March 2012 (157,900 persons). The preliminary estimate for births during the year ended 31 March 2013 (308,700) was 1.2% (or 3,800 births) higher from the figure for the year ended 31 March 2012 (304,900). The preliminary estimate of deaths for the year ended 31 March 2013 was 149,600.

For the year ended 31 March 2013, Australia recorded a preliminary net overseas migration ("NOM") estimate of 238,300 persons. This was the difference between 502,600 overseas arrivals that were added to the population and 264,300 overseas departures that were subtracted from the population. Australia's current migration program allows people from any country to apply to migrate to Australia, regardless of their ethnicity, culture, religion or language, provided that they meet the criteria set out in law. The Australian Government views Australia's cultural diversity as a source of both social and economic wealth. The contribution made to population growth by NOM (60%) was higher than that of natural increase (40%).

The following table sets forth the estimated resident population of Australia by age group as of 30 June 2012:

Table 2: Preliminary estimated resident population by age group

Age group (years)	Population (as at 30 June 2012)	
	Males	**Females**
0–4	764,413	724,675
5–9	729,157	690,180
10–14	713,152	678,301
15–19	749,699	709,284
20–24	828,638	795,534
25–29	858,242	836,423
30–34	797,556	791,872
35–39	774,321	780,861
40–44	810,762	824,840
45–49	759,172	772,720
50–54	754,501	769,815
55–59	675,716	690,182
60–64	608,342	615,582
65–69	508,254	515,419
70–74	371,103	384,295
75–79	267,243	305,624
80–84	192,713	253,096
85–89	105,250	174,434
90–94	34,837	76,736
95–99	6,181	19,571
100 and over	639	2,660
All ages	11,309,891	11,412,104

Source: ABS Catalogue No. 3101.0.

Australia's estimated total fertility rate (the average number of babies that a woman could expect to bear during her reproductive lifetime, assuming current age-specific fertility rates apply) is 1.927 births per woman in the year ended 30 June 2012, a rate higher than the fertility rates in many OECD countries, including Italy, Germany, Japan and Canada, and higher than the OECD average of 1.74 in 2010. However, Australia's current total fertility rate has been below those for New Zealand (2.15 in 2010) and the United States (1.93 in 2010). Based on age-specific fertility trends, the 2010 Intergenerational Report projected Australia's total fertility rate to remain stable at 1.9 births per woman through to 2050.

Average Australian mortality rates have fallen strongly over the past century. As a consequence, life expectancies have risen for both men and women. Falling mortality rates add to population growth and imply a higher proportion of aged people in the population. Mortality rates are falling across all age groups, and this trend is projected to continue for at least the next four decades.

Australia's NOM helps to reduce population ageing. However, falling fertility and mortality rates are projected to lead to an overall rise in the average age of the population. While many OECD countries share Australia's demographic challenges, Australia is in a stronger position to meet them than most.

Form of Government

The Commonwealth of Australia was formed as a federal union on 1 January 1901 when the six former British colonies - now the six States of New South Wales, Victoria, Queensland, South Australia, Western Australia and Tasmania - were united in a 'Federal Commonwealth' under the authority of the Commonwealth of Australia Constitution Act enacted by the British Parliament. In addition to the States, there are ten Territories consisting of the Australian Capital Territory, which contains the national capital (Canberra), the Northern Territory, Norfolk Island, the Ashmore and Cartier Islands, the Australian Antarctic Territory, Christmas Island, the Cocos (Keeling) Islands, the Coral Sea Islands, the Jervis Bay Territory and the Territory of Heard Island and McDonald Islands. The Northern Territory, the Australian Capital Territory and Norfolk Island have been granted forms of self-government. The remaining Territories are administered by the Commonwealth Government.

Federal legislative powers in Australia are vested in the Federal Parliament (the "Parliament"), which consists of the Queen as head of state, the Senate and the House of Representatives. The Governor-General represents the Queen throughout Australia. The Senate and the House of Representatives are both elected by the compulsory vote of all eligible persons (generally, Australian citizens aged 18 years and older). Twelve senators are elected from each of the six States for a term of six years; half the senators from each State are elected every third year. In addition, two senators are elected from each of the Australian Capital Territory and the Northern Territory and hold office until the next general election of the House of Representatives. The House of Representatives consists of 150 members, each elected for a term not exceeding three years. Each State's representation in the House of Representatives is approximately proportionate to its population. This representation is reviewed during the life of every Parliament in response to population shifts. In accordance with established practice, the election for members of the Senate is usually held on the same date as the election for members of the House of Representatives. Under certain circumstances the Governor-General may simultaneously dissolve the Senate and the House of Representatives.

The Senate has equal power with the House of Representatives except in relation to laws appropriating money or imposing taxes, which must originate in the House of Representatives. Laws imposing taxes and laws appropriating money for the ordinary annual services of the Government may not be amended by the Senate, but may be rejected or returned by the Senate to the House of Representatives with a request for amendment. Any member of the House of Representatives or the Senate may introduce a proposed law (a "bill"). To become law, bills must be passed by both the House of Representatives and the Senate.

Under the Constitution, the Parliament is empowered to make laws on certain specified matters such as defence, external affairs, interstate and overseas trade and commerce, foreign corporations and trading or financial corporations formed within the limits of Australia, borrowing money, taxation (including customs and excise taxes), postal, telegraphic and telephonic services, currency and banking, insurance, immigration, pensions and social services. Some of these powers are given to the Parliament to the exclusion of the State Parliaments. Other powers are exercised by the Parliament concurrently with the State Parliaments, but any legislation within the limits of its powers enacted by the Parliament prevails over any inconsistent laws of the States. Powers not conferred on the Parliament remain with the States, subject to certain Constitutional limitations.

The executive power of the Commonwealth of Australia under the Constitution is formally vested in the Queen and is exercisable by the Governor-General as the Queen's representative. There is a Federal Executive Council to advise the Governor-General. This Council is composed of the Prime Minister and other Federal Ministers. These Ministers are members of either the House of Representatives or the Senate and generally belong to the party or coalition of parties which has a majority in the House of Representatives. Such Ministers form the Government with the practical result that executive power is exercised by the Prime Minister and the other Ministers.

The major Australian political parties are the Australian Labor Party, the Liberal Party of Australia and the Nationals. Minor parties include the Australian Greens, the Family First Party, the Palmer United Party, Katter's Australian Party and the Country Liberal Party. From March 1996 to November 2007, the Government was formed by a coalition of the Liberal Party of Australia and the Nationals (the "Coalition"). On 24 November 2007 a federal election was held and the Australian Labor Party won a majority of the seats in the House of Representatives and became the Government, with the Hon. Kevin Rudd MP elected as Prime Minister. The Hon. Julia Gillard replaced the Hon. Kevin Rudd MP as Prime Minister on 24 June 2010, when elected federal leader of the Australian Labor Party. A federal election held on 21 August 2010, resulted in a hung Parliament with the Australian Labor Party and the Coalition each winning 72 seats in the House of Representatives. The Australian Labor Party formed a minority government on 8 September 2010 with the support of three independent members and one Australian Greens member of the House of Representatives.

On 26 June 2013 Hon. Kevin Rudd MP was elected federal leader of the Australian Labor Party, replacing the Hon Julia Gillard as the Prime Minister, and was sworn in on 27 June 2013. He announced on 4 August 2013 that a federal election would be held on 7 September 2013. As a consequence the House of Representatives was dissolved on 5 August 2013 and the Government operated in caretaker mode until 18 September 2013, when the results of the 7 September 2013 election were clear and the new government was sworn in. The result of the election of 7 September 2013 was a change in Government. The Government is now formed by a coalition of the Liberal Party of Australia and the Nationals (the "Coalition"). The Hon Tony Abbott MP is the Prime Minister.

Half of the Senate was up for election in the 7 September 2013 election. The Senators elected will take their office on 1 July 2014.

The following tables show the composition of the House of Representatives and the Senate as at 24 October 2013.

Table 3: House of Representatives composition

Australian Labor Party	55
Liberal Party of Australia	58
Liberal National Party	22
The Nationals	9
Independents	2
Australian Greens	1
Country Liberal Party	1
Katter's Australian Party	1
Palmer's United Australia Party	1
Total	**150**

Table 4: Senate composition to take effect from 1 July 2014[1]

Australian Labor Party	26
Liberal Party of Australia	28
Australian Greens	9
The Nationals	5
Palmer United Party	3
Democratic Labor Party	1
Family First	1
Motoring Enthusiasts Party	1
Country Liberal Party	1
Independents	1
Total	**76**

Judicial power in Australia is vested in the High Court of Australia, other Federal courts and State and Territory courts. The High Court is a superior court of record and consists of the Chief Justice and six other Justices who are appointed by the Governor-General following consultations with the States. The Justices are appointed until they are 70 years of age and can be removed by the Governor-General in Council in certain circumstances on the grounds of misbehaviour or incapacity. In certain limited matters the High Court has original jurisdiction. It also has appellate jurisdiction in relation to Federal courts, including the Federal Court of Australia, and the Supreme Court of each State and the Northern Territory and other courts of the States exercising federal jurisdiction. Appeals from the Supreme Court of a Territory (other than the Northern Territory) may be taken to the Federal Court of Australia. The common law system, as developed in the United Kingdom, forms the basis of Australian jurisprudence.

1 The result of the 2013 federal election of Western Australian Senators is subject to a petition lodged by the Australian Electoral Commission (the "AEC") to the Court of Disputed Returns (High Court of Australia) on 15 November 2013. An AEC media statement regarding the petition is available at: http://www.aec.gov.au/media/media-releases/2013/11-15.htm

THE AUSTRALIAN ECONOMY

Overview

Australia is a stable, culturally diverse and democratic society with a skilled workforce and a strong, competitive economy. Between 1992-93 and 2012-13, Australia's real economy grew by an average of 3.4%. Australia's GDP in 2012-13 (in value terms) was over $1.5 trillion. The IMF estimates that in 2012 Australia was the world's 18th largest economy by GDP (in purchasing-power-parity terms). Based on OECD data, Australia's estimated GDP (in purchasing-power-parity terms) ranked 12th among OECD nations in 2012.

Principal Economic Indicators

The following table sets forth Australia's principal economic indicators for each of the 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 fiscal years.

Table 5: Principal Economic Indicators

	2008-09	2009-10	2010-11	2011-12	2012-13
GDP, Chain Volume Measure (A$ millions)	1,342,514	1,370,540	1,403,888	1,451,824	1,493,171
Percentage change	1.6	2.1	2.4	3.4	2.8
GDP per capita, Chain Volume Measure (A$)	61,787	61,935	62,599	63,698	64,398
Percentage change	-0.5	0.2	1.1	1.8	1.1
Unemployment Rate (% of labour force) (a)	5.7	5.3	5.0	5.1	5.6
Consumer Price Index (% change) (b)	1.4	3.1	3.5	1.2	2.4
Wage Price Index (% change) (b)	3.8	3.0	3.9	3.7	2.9
Exports, Chain Volume Measure (A$ millions)	281,596	296,557	297,322	311,166	328,669
Percentage change	1.5	5.3	0.3	4.7	5.6
Imports, Chain Volume Measure (A$ millions)	238,044	251,609	276,014	308,781	308,475
Percentage change	-3.2	5.7	9.7	11.9	-0.1
Balance of Payments – Current Account (A$ millions)	-38,467	-57,867	-34,384	-40,287	-47,654
Official Reserve Assets at end of period (A$ millions)	52,309	43,737	41,130	47,230	51,858
Commonwealth General Government Net Debt (A$ millions)	-16,148	42,283	84,551	147,334	152,982

Source: ABS Catalogue No. 5206.0, 6202.0, 6401.0, 5302.0, 6345.0 Final Budget Outcome 2012-13 and Reserve Bank of Australia

GDP Growth

Australia's GDP grew by 2.8% in fiscal year 2012-13. Growth in 2012-13 was driven by both domestic demand and net exports, with household consumption increasing 2.4% and new private business investment increasing 6.6%, while net exports also contributed to growth (1.2 percentage points). The Pre-Election Economic and Fiscal Outlook (PEFO) (released in August 2013) forecast GDP to grow by 2½% in 2013-14 and 3% in 2014-15.

Major Industries

Based on 2011-12 share of gross value added, Australia's major industries include financial and insurance services, mining, construction, manufacturing, and professional, scientific and technical services. Growth during 2012-13 was recorded in most industries, including mining (8.8%), health care and social assistance (6.3%), financial and insurance services (5.5%), administrative and support services (5.1%), wholesale trade (4.6%), rental, hiring and real estate services (3.2%), transport, postal and warehousing (2.8%), professional, scientific and technical services (2.7%), retail trade (2.5%), education and training (2.2%), public administration and safety (1.4%), construction (0.9%) and arts and recreation services (0.4%). Only a few industries contracted during 2012-13, including other services (-6.8%), agriculture, forestry and fishing (-6.1%), information media and telecommunications (-2.3%), manufacturing (-1.1%), electricity, gas, water and waste services (-1.0%) and accommodation and food services (-0.1%).

During 2012-13, the largest industry contributing to gross value added (at basic prices) was mining, contributing 0.8 percentage points to growth. Financial and insurance services was the second largest industry contributing 0.5 percentage points to growth.

Net Worth

Australia's general government sector net worth, reflecting the difference between total assets and total liabilities, as at 30 June 2013 health care and social assistance was -$202.7 billion, an increase of $44.6 billion since 30 June 2012. In the 2013 PEFO, Australia's general government sector net worth is forecast to be -$181.9 billion in 2013-14 and -$200.9 billion in 2014-15.

Budget Balance

The Australian Government general government sector net debt for 2012-13 was $153.0 billion (10.1% of GDP). In the 2013 PEFO, net debt is projected to be 11.7% of GDP in 2013-14, increasing to 13.0% of GDP in 2014-15.

The Australian Government's underlying cash deficit was $18.8 billion (-1.2% of GDP) in 2012-13. In the 2013 PEFO, Government underlying cash deficits of $30.1 billion (1.9% of GDP), $24.0 billion (1.5% of GDP) and $4.7 billion (0.3% of GDP) are forecast for 2013-14, 2014-15 and 2015-16 respectively, and an underlying cash surplus of $4.2 billion (0.2% of GDP) is forecast for 2016-17.

The largest detractors from growth were agriculture, forestry and fishing, other services, manufacturing and information media and telecommunications (all detracting 0.1 percentage points from gross value added).

Trade

Australia's total trade in goods and services was $611.7 billion in 2012-13. Australia's largest trading partners in 2012 were China, Japan, the United States, South Korea and Singapore.

Domestic Economic Conditions

Gross Domestic Product

The following table shows chain volume GDP and related measures, real income measures and current price measures for each of the 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 fiscal years.

Table 6: Key National Accounts Aggregates

	2008-09	2009-10	2010-11	2011-12	2012-13
Chain volume GDP and related measures (a)					
GDP (A$ millions)	1,342,514	1,370,540	1,403,888	1,451,824	1,493,171
GDP per capita (A$)	61,787	61,935	62,599	63,698	64,398
GVA market sector (A$ millions)	947,923	969,479	994,820	1,025,727	1,052,024
Net domestic product (A$ millions)	1,145,456	1,162,712	1,185,818	1,222,964	1,253,201
Real income measures (a)					
Real gross domestic income (A$ millions)	1,303,785	1,318,604	1,403,888	1,453,190	1,462,548
Real gross national income (A$ millions)	1,257,971	1,266,909	1,349,736	1,411,184	1,427,871
Real net national disposable income (A$ millions)	1,059,894	1,057,164	1,130,125	1,180,657	1,187,151
Real net national disposable income per capita (A$)	48,780	47,773	50,392	51,800	51,200
Current price measures					
GDP (A$ millions)	1,254,293	1,292,315	1,403,888	1,474,291	1,510,917
GDP per capita (A$)	57,727	58,400	62,599	64,683	65,163
Gross national income (A$ millions)	1,210,221	1,241,689	1,349,736	1,431,698	1,470,453
National net saving (A$ millions)	111,665	87,901	125,742	143,170	124,503
Household saving ratio (%)	9.6	9.2	10.5	10.4	10.6

(a) Reference year for chain volume measures and real income measures is 2010-11.

Source : ABS Catalogue No. 5206.0.

Following a fall in GDP in volume terms in 1990-91, Australia experienced 22 years of consecutive growth. In 2012-13, GDP increased by 2.8%, and GDP per capita increased by 1.1% (chain volume measures). PEFO (released in August 2013) forecasts GDP to grow by 2½% in 2013-14 and 3% in 2014-15.

The table below details the expenditure components of GDP on a chain volume measurement basis for each of the 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 fiscal years.

Table 7: Expenditure Components of Gross Domestic Product (Chain Volume Measures[(a)])

	2008-09	2009-10	2010-11	2011-12	2012-13
		(A$ millions)			
Final consumption expenditure					
General government					
National—defence	19,341	19,633	21,891	22,867	24,356
National—non-defence	73,368	73,378	74,983	79,272	79,533
Total national	92,683	92,994	96,874	102,140	103,888
State and local	146,586	150,724	154,361	157,658	159,367
Total general government	*239,311*	*243,690*	*251,235*	*259,797*	*263,255*
Households	712,056	726,979	753,148	777,714	796,661
Total final consumption expenditure	*951,334*	*970,651*	*1,004,383*	*1,037,511*	*1,059,916*
Private gross fixed capital formation					
Private business investment					
Machinery and equipment					
New	82,766	80,935	85,411	94,066	91,654
Net purchases of second hand assets	-4,158	-4,684	-4,112	-4,093	-5,276
Total machinery and equipment	*78,599*	*76,241*	*81,299*	*89,973*	*86,378*

Non-dwelling construction					
New building	37,581	32,110	32,308	37,040	40,678
New engineering construction	50,420	47,032	56,097	84,640	98,480
Net purchases of second hand assets	-1,635	-1,451	-1,085	-1,410	-660
Total non-dwelling construction	*86,378*	*77,671*	*87,320*	*120,270*	*138,497*
Cultivated biological resources	3,125	3,405	3,740	3,613	3,566
Intellectual property products					
Research and development	14,242	14,468	14,880	15,341	15,803
Mineral and petroleum exploration	6,370	6,064	6,210	6,854	7,350
Computer software	9,029	9,752	10,490	11,296	12,150
Artistic originals	1,310	1,444	1,579	1,645	1,735
Total intangible fixed assets	30,864	31,708	33,159	35,136	37,038
Total private business investment	198,894	189,166	205,517	248,992	265,479
Dwellings					
New and used dwellings	40,376	40,211	41,773	39,954	42,798
Alterations and additions	29,713	30,719	30,722	29,937	27,882
Total dwellings	70,100	70,930	72,495	69,891	70,680
Ownership transfer costs	17,377	19,238	17,023	16,863	17,425
Total private gross fixed capital formation	286,717	279,036	295,035	335,746	353,584
Public gross fixed capital formation					
Public corporations					
Commonwealth	1,192	1,611	1,710	2,813	3,838
State and local	21,993	24,203	22,080	20,070	17,128
Total public corporations	23,162	25,806	23,790	22,883	20,966
General government					
National—defence	6,349	7,045	7,603	9,053	4,859
National—non-defence	6,855	8,291	8,805	9,675	10,272
Total national	13,227	15,334	16,408	18,728	15,131
State and local	29,230	38,635	37,195	34,567	34,197
Total general government	42,506	53,926	53,603	53,295	49,328
Total public gross fixed capital formation	65,580	79,710	77,393	76,178	70,294
Total gross fixed capital formation	351,927	358,786	372,434	411,923	423,877
Domestic final demand	1,303,254	1,329,418	1,376,817	1,449,434	1,483,793
Changes in inventories					
Private non-farm	-4,028	-4,528	4,820	3,334	1,582
Farm	-169	1,370	886	681	683
Public authorities	-2,132	364	64	643	-214
Total changes in inventories	-5,460	-2,472	5,770	4,658	2,051
Gross national expenditure	1,297,509	1,325,502	1,382,587	1,454,092	1,485,845
Exports of goods and services	281,596	296,557	297,322	311,166	328,669
less Imports of goods and services	238,044	251,609	276,014	308,781	308,475
Statistical discrepancy	0	0	0	-4,653	-12,868
Gross domestic product	**1,342,514**	**1,370,540**	**1,403,888**	**1,451,824**	**1,493,171**

(a) Reference year for chain volume measures is 2010-11.
Source: ABS Catalogue No. 5206.0.

Household final consumption expenditure increased 2.4% and contributed 1.3 percentage points to GDP growth in 2012-13. Within household final consumption expenditure, housing, water, electricity, gas and other fuels (up 2.3%) and food (up 4%) were the largest contributors to GDP growth in 2012-13.

Net exports contributed 1.2 percentage points to GDP growth in 2012-13. The contribution from net exports was driven by a 5.6% increase in exports and a 0.1% fall in imports.

Total private business investment increased by 6.6% in 2012-13, contributing 1.1 percentage points to GDP growth in 2012-13. Non-dwelling construction investment increased by 15.2%, while investment in machinery and equipment fell 4% in 2012-13.

From an industry perspective, growth during 2012-13 was recorded in most industries, including mining (8.8%), health care and social assistance (6.3%), financial and insurance services (5.5%), administrative and support services (5.1%), wholesale trade (4.6%), rental, hiring and real estate services (3.2%), transport, postal and warehousing (2.8%), professional, scientific and technical services (2.7%), retail trade (2.5%), education and training (2.2%), public administration and safety (1.4%), construction (0.9%) and arts and recreation services (0.4%). Only a few industries contracted during 2012-13, including other services (-6.8%), agriculture, forestry and fishing (-6.1%), information media and telecommunications (-2.3%), manufacturing (-1.1%), electricity, gas, water and waste services (-1.0%) and accommodation and food services (-0.1%).

The following table identifies the income components of GDP on a current price basis for each of the 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 fiscal years.

Table 8: Income Components of Gross Domestic Product (Current Prices)

	2008-09	2009-10	2010-11	2011-12	2012-13
		(A$ millions)			
Compensation of employees					
Wages and salaries	531,367	550,177	589,958	632,163	655,180
Employers' social contributions (a)	63,517	65,940	70,892	75,977	78,658
Total compensation of employees	594,884	616,117	660,850	708,140	733,838
Gross operating surplus					
Non-financial corporations					
Private non-financial corporations	266,537	254,486	279,547	290,552	275,711
Public non-financial corporations	13,474	15,657	16,403	15,611	15,383
Total non-financial corporations	280,011	270,143	295,950	306,164	291,094
Financial corporations	59,718	59,961	65,365	70,210	73,080
Total corporations	339,729	330,104	361,315	376,374	364,174
General government	26,361	26,994	28,360	29,927	31,533
Dwellings owned by persons	83,863	91,215	97,184	101,665	107,183
Total gross operating surplus	449,953	448,313	486,859	507,965	502,889
Gross mixed income	90,186	99,862	121,171	118,317	119,105
Total factor income	1,135,023	1,164,292	1,268,880	1,334,423	1,355,832
Taxes less subsidies on production	119,270	128,023	135,008	139,891	150,477
Statistical discrepancy	0	0	0	-23	4,608
Gross domestic product	**1,254,293**	**1,292,315**	**1,403,888**	**1,474,291**	**1,510,917**

(a) Includes contributions to superannuation made by employers and payments of workers' compensation premiums.
Source: ABS Catalogue No. 5206.0.

For the income components of GDP in 2012-13, there was growth in compensation of employees of 3.6% and a contraction in gross operating surplus ("GOS") of 1.0%. The contraction in GOS in 2012-13 was primarily driven by a contraction in private non-financial corporations (-5.1%) and partially offset by an increase in dwellings owned by persons (5.4%).

Prices

Headline inflation was 2.2% through the year to the September quarter 2013, down from 2.4% through the year to the June quarter 2013. Over the year to the September quarter 2013, the increase in prices was mainly due to increases in the prices of housing, transport, and alcohol and tobacco. For further information about the RBA's medium-term inflation target, see "Currency, Monetary and Banking System—Monetary Conditions" in this Description of the Commonwealth of Australia.

The following table details the through the year change for the consumer price index and the implicit price deflator for non-farm gross domestic product to the final (June) quarter of each of the fiscal years 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13.

The implicit price deflator for non-farm gross domestic product corresponds to a broader set of prices in the economy than the consumer price index, including non-consumption goods and services, such as those used by businesses, and exports.

Table 9: Prices

	All Groups Consumer Price Index (original)	**Implicit Price Deflator for Gross Non-farm Product (original)(b)**
Year (a):		
2008-09	1.4	5.3
2009-10	3.1	1.0
2010-11	3.5	6.0
2011-12	1.2	1.6
2012-13	2.4	-0.5

(a) Percentage change to the June quarter of each period from the previous June quarter.
(b) Percentage change on preceding year.
Source: ABS Catalogue No. 6401.0, 5206.0.

Wages

The preferred measure of wages in Australia is the wage price index, which measures changes in the price of a unit of labour unaffected by changes in the quality or quantity of work performed.

Wages growth fell well below ten-year trend growth (3.7%) in 2012-13, despite strong wage growth in the mining and related sectors. The following table details the through the year change for the wage price index to the final (June) quarter of each of the fiscal years 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13.

Table 10: Wages

	Wage Price Index (Percentage change through the year, seasonally adjusted)
Year (a):	
2008-09	3.8
2009-10	3.0
2010-11	3.9
2011-12	3.7
2012-13	2.9

(a) Percentage change to the June quarter of each period from the previous June quarter.
Source: ABS Catalogue No. 6345.0.

The 2013 PEFO (released in August 2013) forecast the wage price index to rise to 3¼% through the year to the June quarters of both 2014 and 2015.

Labour market

The Australian labour market has performed strongly since September 2008 relative to other advanced economies. After peaking at 5.9% in June 2009, the unemployment rate was 5.5% in September 2012. However it has since drifted upwards, rising to 5.6% in September 2013 on the back of negative employment growth in the September quarter. Despite these recent falls, employment rose by around 95,500 persons over the twelve months to September 2013.

The following table identifies key labour force statistics as at the June quarter in each of the referenced years.

Table 11: Labour force statistics [(a)]

	June quarter 2009	June quarter 2010	June quarter 2011	June quarter 2012	June quarter 2013
Total Employment ('000)	10,928	11,127	11,374	11,506	11,654
Total Unemployment ('000)	664	621	595	623	695
Unemployment Rate (%) (a)	*5.7*	*5.3*	*5.0*	*5.1*	*5.6*

(a) As at the June quarter; calculated as an average over the quarter.

Source: ABS Catalogue No. 6202.0.

The 2013 PEFO forecast employment growth of 1% through the year to the June quarter of 2014 and 1½% through the year to the June quarter of 2015, in line with gradually improving economic conditions. The 2013 PEFO forecast the unemployment rate to reach 6¼% by the June quarter 2014, and stabilise at that rate through to the June quarter 2015. The participation rate was forecast to be 65¼% in the June quarter 2014 and 2015.

MAJOR INDUSTRIES

In 2011-12, the industry with the largest share of gross value added (at basic prices) was financial and insurance services, with a share of 10.5%. Mining ranked second, with a share of 10.3%.

The following table identifies the percentage of gross value added by industry at basic prices for each of the 2007-08, 2008-09, 2009-10, 2010-11 and 2011-12 fiscal years.

Table 12: Percentage of Gross Value Added (Basic Prices)

Industry	2007-08	2008-09	2009-10	2010-11	2011-12
			(Percentages)		
Agriculture, forestry and fishing	2.5	2.5	2.4	2.5	2.4
Mining	7.7	9.8	7.9	10.0	10.3
Manufacturing	10.3	9.4	9.0	8.2	7.6
Electricity, gas, water and waste services	2.4	2.4	2.5	2.6	2.6
Construction	7.6	7.7	8.0	7.9	7.7
Wholesale trade	4.9	4.6	4.6	4.5	4.6
Retail trade	5.1	4.9	4.9	4.7	4.8
Accommodation and food services	2.5	2.4	2.5	2.5	2.5
Transport, postal and warehousing	5.6	5.3	5.3	5.2	5.1
Information media and telecommunications	3.5	3.3	3.4	3.2	3.0
Financial and insurance services	10.2	10.3	10.3	10.2	10.5
Rental, hiring and real estate services (a)	2.4	2.2	2.3	2.2	2.3
Professional, scientific and technical services	6.2	6.4	6.7	6.8	7.1
Administrative and support services	2.8	2.5	2.6	2.6	2.6
Public administration and safety	5.2	5.2	5.3	5.2	5.1
Education and training	4.5	4.6	4.8	4.6	4.6
Health care and social assistance	5.9	5.8	6.1	6.1	6.3
Art and recreation services	0.9	0.9	0.9	0.9	0.9
Other services	1.9	1.9	2.0	1.9	1.8
Ownership of dwellings	7.8	8.0	8.5	8.2	8.2
Gross value added at basic prices	*100*	*100*	*100*	*100*	*100*

Source: ABS Catalogue No. 5204.0.

The table below identifies employment share by industry for each of the 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 fiscal years.

Table 13: Employment share by industry

Industry	2008-09	2009-10	2010-11	2011-12	2012-13
			(Percentage)		
Agriculture, forestry and fishing	3.3	3.3	3.1	2.9	2.8
Mining	1.6	1.6	1.8	2.2	2.3
Manufacturing	9.4	9.1	8.7	8.4	8.3
Electricity, gas, water and waste services	1.3	1.2	1.3	1.3	1.3
Construction	9.2	9.1	9.1	8.9	8.7
Wholesale trade	3.7	3.8	3.6	3.6	3.8
Retail trade	11.3	10.8	10.9	10.6	10.6
Accommodation and food services	6.6	6.8	6.8	6.7	6.9
Transport, postal and warehousing	5.5	5.2	5.1	5.0	5.1
Information media and telecommunications	2.1	1.9	1.9	1.9	1.9
Financial and insurance services	3.7	3.6	3.6	3.7	3.6
Rental, hiring and real estate services	1.8	1.7	1.8	1.8	1.7
Professional, scientific and technical services	7.2	7.6	7.6	7.8	7.9
Administrative and support services	3.2	3.4	3.5	3.5	3.4
Public administration and safety	6.2	6.2	6.2	6.4	6.1
Education and training	7.4	7.5	7.6	7.6	7.9
Health care and social assistance	10.6	11.0	11.4	11.8	12.0
Arts and recreation services	1.9	1.8	1.8	1.8	1.8
Other services	4.2	4.1	4.0	4.0	4.0
Total	*100*	*100*	*100*	*100*	*100*

Source: ABS Catalogue No. 6291.0.55.003.

Agriculture, Forestry and Fishing

The agriculture, forestry and fishing industry's share of gross value added (at basic prices) was 2.4% in 2011-12. The share of this industry to the Australian economy has been trending down since 1989-90 (4.6%). The industry is dominated by agriculture, with forestry and fishing making up around 12.0% of industry output in 2012-13 based on gross value added (chain volume measures). Agricultural production growth was strong in 2012-13, with the level of real farm GDP reaching a record high of $28.2 billion. Rural export growth was correspondingly quite strong.

The following table presents production data of Australia's principal rural commodities for each of the 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 fiscal years.

Table 14: Principal Rural Commodities – Gross values and volumes of Australian production

Commodities	2008–09 A$m	2008–09 kt	2009–10 A$m	2009–10 kt	2010–11 A$m	2010–11 kt	2011–12 A$m	2011–12 kt	2012-13 A$m	2012-13 kt
Wool	1,806	420	1,928	423	2,673	429	2,734	411	2,386	427
Meat	12,834	3,914	12,722	3,849	13,795	4,005	13,836	4,034	13,065	4,287
Wheat	6,021	21,420	4,765	21,834	7,052	27,410	6,775	29,905	7,165	22,079
Cane sugar (a)	1,021	31,457	1,382	31,235	1,036	27,443	1,214	27,943	1,321	30,400
Cottonseed and Lint	693	795	828	934	2,087	2,195	2,889	2,891	2,048	2,405
Milk (b)	3,988	9,388	3,371	9,023	3,932	9,101	3,986	9,480	3,588	9,200

Notes: kt = kilotonne.

(a) Cut for crushing.

(b) Units of measurement: ML.

Source: ABARES 2013, Agricultural Commodities: September quarter 2013 (pages 142-145).

Mining

In 2011-12, mining's share of gross value added (at basic prices) was 10.3%. After strong growth of 6% in 2011-12, growth in the mining industry continued to strengthen, recording growth of 8.8% in 2012-13 (chain volume measures).

In 2012-13, exports of mining (non-rural) commodities accounted for 57.2% of total exports by value.

Private mineral and petroleum exploration expenditure increased to $7.8 billion in 2012-13 (at current prices).

In 2012, Australia was the world's largest exporter of metallurgical coal and iron ore, and the second largest exporter of thermal coal. The value of Australia's non-rural commodity exports was $171.9 billion in 2012-13 (at current prices).

Private new capital expenditure in the mining sector was $94.7 billion in 2012-13, 15.5% higher than in 2011-12. In the August quarter 2013, the mining sector employed around 270,000 people directly, over 2% of the work force. These sectors generate further manufacturing jobs downstream in smelting and refining, basic metal fabrication, non-metallic mineral products, petroleum, coal and basic chemical products, and electricity and gas.

Over recent years, strong commodity prices have provided significant stimulus to Australian economic growth and national incomes. In 2012-13 strong investment activity in the mining sector resulted in business investment reaching a four decade high as a share of GDP. The sharp reduction in global demand as a result of the global financial crisis saw commodity prices fall substantially, with the prices for key bulk commodities declining from their records highs in mid-2008. However, commodity prices are still relatively high by historical standards. . Following a fall in commodity prices in the first part of 2013, commodity prices have recovered in recent months. The improvement has been driven primarily by iron ore, with iron ore spot prices increasing over 20 per cent since late May. Metallurgical coal prices have also increased, while thermal coal prices have fallen over the same period. However, global commodity prices are inherently volatile and unexpected changes to the global demand or supply of commodities can have a significant impact on world commodity prices in either direction.

On 1 July 2012, the then Australian Government's new Minerals Resource Rent Tax ("MRRT") regime commenced operation following passage of the enabling legislation through Parliament in March 2012. The MRRT applies to all existing and new iron ore and coal projects in Australia. The existing Petroleum Resource Rent Tax ("PRRT") was also extended to apply to all Australian onshore and offshore oil and gas projects, including the North West Shelf, from that time. Both the MRRT and the extended PRRT provide resource entities with a credit for State and Territory royalties and resource taxes paid. For further information with respect to the MRRT and the extension to the PRRT, see "Government Finance—Taxation—Indirect Tax—Resource taxes and royalties".

Manufacturing

The manufacturing industry has historically been the largest industry in Australia. However, the gross value added contribution of manufacturing (at basic prices) has been decreasing over the past three decades. The manufacturing industry's share of gross value added (at basic prices) was 7.6% in 2011-12.

The manufacturing sector accounted for over 8% of total employment in 2012-13.

The following table provides a breakdown of gross value added (chain volume measures) by the manufacturing industry for each of the 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 fiscal years.

Table 15: Industry Value Added (Chain Volume Measures)

	2008-09	2009-10	2010-11	2011-12	2012-13
			(A$ millions)		
Food, beverage and tobacco products	22,555	24,205	24,085	22,886	22,814
Textile, clothing and other	9,386	7,331	6,855	6,708	6,538
Wood and paper Products	6,909	7,192	7,091	7,000	7,150
Printing and recorded media	4,318	4,133	4,126	3,840	4,173
Petroleum, coal, chemical and rubber products	17,259	17,903	17,913	18,013	17,791
Non-metallic mineral products	5,171	5,073	4,970	4,621	4,555
Metal products	22,660	21,295	22,202	22,353	21,154
Machinery and equipment	19,579	20,730	20,566	21,208	21,286
Total (a)	107,249	107,759	107,808	106,628	105,462

Source: ABS Catalogue No. 5206.0.
(a) Industry sub-components do not sum to total due to rounding.

Electricity, Gas, Water and Waste Services

The electricity, gas, water and waste services industry's share of gross value added (at basic prices) in 2011-12 was 2.6%. Electricity is the largest part of this industry and contributes 59% to industry value added (chain volume measures). Water supply and waste services account for 37.4% of industry value added (chain volume measures) and gas contributes 3.6% to gross value added (chain volume measures). Prior to 1990, the industry was highly regulated and most utilities operated as monopolies. The electricity industry was vertically integrated in most, if not all jurisdictions, with single companies responsible for generation, transmission, distribution and retail. Significant reforms occurred in the three sectors over the 1990s. However, different jurisdictions approached deregulation on different time frames. Some of the reforms included corporatisation, privatisation and the structural separation of electricity utilities. These reforms have continued into the current decade, with the creation of the National Electricity Market that includes a wholesale electricity pool that includes around 80% of all electricity generated in Australia and services Queensland, New South Wales, Victoria, South Australia, Tasmania and the Australian Capital Territory. The electricity, gas, water and waste services sector in volume terms has grown by 1.7% per year on average between 1987-88 and 2012-13.

The new Government, elected in September 2013, has committed to introducing legislation to repeal the carbon tax and commence implementation of the Direct Action Plan. The Government's Direct Action Plan will be designed to efficiently and effectively source low cost emissions reductions. The Direct Action Plan will build on the Carbon Farming Initiative and includes an Emissions Reduction Fund to provide incentives for abatement activities across the Australian economy.

The Government is committed to reducing Australia's emissions by 5% from 2000 levels by the year 2020.

Construction

The construction industry's share of gross value added (at basic prices) was 7.7% in 2011-12. Over the last 20 years, value added in volume terms has grown on average by around 5% each year. The industry tends to experience peaks and troughs due to factors such as changing interest rates, property speculation and fiscal policy.

Employment in the construction industry was approximately 1.06 million persons in the August quarter 2013. Between 2002-03 and 2012-13, the construction industry's share in total employment has risen from 7.7% to 8.7%, making it the third largest employer among industries.

Wholesale Trade

The wholesale trade industry consists of basic materials, machinery, motor vehicles, grocery, liquor, tobacco and other goods wholesaling and commission-based wholesaling. The 1990s saw strong growth in the wholesale trade sector. This increase in value added came from substantial rationalisation within the industry, a wider uptake of technology amongst firms and the increased use of new inventory management techniques, such as ‘just-in-time’ processing. Wholesale trade’s share of gross value added (at basic prices) was 4.6% in 2011-12.

Retail Trade

Retail trade is one of the largest employers in Australia. The industry comprises firms mainly engaged in the purchase or on-selling, the commission based buying and the commission based selling of goods, without significant transformation, to the general public. Retail trade’s share of gross value added (at basic prices) was 4.8% in 2011-12.

Accommodation and Food Services

The accommodation and food services industry consists of firms primarily engaged in the provision of hospitality services. This includes accommodation and food and beverage services. The industry’s share of gross value added (at basic prices) in 2011-12 was 2.5%.

Transport, Postal and Warehousing

The efficiency and competitiveness of the Australian economy is significantly influenced by the transport system. The transport, postal and warehousing sector’s share of gross value added (at basic prices) was 5.1% in 2011-12. The Bureau of Infrastructure, Transport and Regional Economics estimates that the Australian freight task will almost double between 2005 and 2030, and passenger transport is also expected to increase, particularly in urban areas.

Information Media and Telecommunications

The information media and telecommunications industry, which comprises publishing, broadcasting, motion picture and sound recording, internet, telecommunications and library services, has seen its share of gross value added (at basic prices) fall from around 4% in the early 2000s, to around 3% in 2011-12.

Telecommunications

The Australian telecommunications market has been open to full competition since 1 July 1997. Since that time, the telecommunications sector has developed into a more dynamic and innovative market, with businesses and households benefiting from lower prices and greater variety of services.

The telecommunications sector is subject to a number of regulatory mechanisms at the retail level. A Universal Service Obligation ensures that all people in Australia have reasonable access to basic telephone services, on an equitable basis.

In April 2009, the then Australian Government established a new company, NBN Co Limited (“NBN Co”), to build and operate a new super fast National Broadband Network (“NBN”) on a wholesale-only open access basis. For further information with respect to the ownership and financing of NBN Co, see “Government Finance—Commonwealth Investment in the National Broadband Network” in this Description of the Commonwealth of Australia.

The NBN is intended to deliver download speeds of 25 megabits per second to all Australian premises by 2016 and 50 megabits per second by 2019 using a mixture of technology including: fibre to the premises; fibre to the node; fixed wireless; and satellite. As at 30 June 2013, more than 200,000 premises were connected with fibre, fixed wireless was available to more than 25,000 premises and an interim satellite service to more than 160,000 premises.

Financial and Insurance Services

Companies in the financial and insurance services industry provide a range of services, including the creation, liquidation or change in ownership of financial assets, as well as facilitating financial transactions. The sector’s share of gross value added (at basic prices) was 10.5% in 2011-12, a proportion that has increased since deregulation during the 1980s.

However, the stability of the sector’s share of gross value added hides rapid change within the industry. The advent of internet banking, ATM machines and credit scoring have prompted massive investment in computer software and machinery and equipment (computers), and far less construction (new branches and outlets). These innovations most likely explain a trend decline in the wage share of total finance and insurance income over the past two decades.

Key trends and developments in the insurance sector in recent years include significant improvements in the risk management capabilities of both the prudential regulator and industry participants and significant industry consolidation, with the largest four insurance groups now accounting for around 70% of insurance premiums.

Rental, Hiring and Real Estate Services

Rental, hiring and real estate services includes companies mainly engaged in renting, hiring, or otherwise allowing the use of tangible or intangible assets (except copyrights) and companies providing related services. The major portion of this division comprises companies that rent, hire, or otherwise allow the use of their own assets by others. The assets may be tangible, as in the case of real estate and equipment, or intangible, as in the case with patents and trademarks.

This category also includes companies engaged in providing real estate services such as selling, renting and/or buying real estate for others, managing real estate for others and appraising real estate.

Rental, hiring and real estate services' share of gross value added (at basic prices) was 2.3% in 2011-12.

Professional, Scientific and Technical Services

Professional, scientific and technical services include scientific research, architecture, engineering, computer systems design, law, accountancy, advertising, market research, management and other consultancy services, veterinary science and professional photography. This category excludes firms mainly engaged in providing health care and social assistance services. Professional, scientific and technical services' share of gross value added (at basic prices) was 7.1% in 2011-12.

Administrative and Support Services

The administrative and support services industry includes firms mainly engaged in performing routine support activities for the day-to-day operations of other businesses or organisations. This mainly consists of office administration, hiring and placing personnel for others, preparing documents, taking orders for clients by telephone, providing credit reporting or collecting services and arranging travel and travel tours. Other services include building and other cleaning services, pest control services, gardening services and packaging products for others. Administrative and support services' share of gross value added (at basic prices) was 2.6% in 2011-12.

Public Administration and Safety

Public administration and safety includes companies mainly engaged in central, state or local government legislative, executive and judicial activities. This includes enforcing regulations as well as providing physical, social, economic and general public safety and security services. Public administration and safety's share of gross value added (at basic prices) was 5.1% in 2011-12.

Education and Training

The education and training industry is a labour-intensive, service-based sector, with a large and well educated workforce. The education and training services industry's share of gross value added (at basic prices) was 4.6% in 2011-12 and has remained fairly stable over the past five years. The education industry is dominated by the public sector, with both Commonwealth and State governments responsible for key education services across the economy, including the provision of primary, secondary and tertiary education and, increasingly, early childhood education.

Health Care and Social Assistance

The health care and social assistance industry comprises hospitals, medical and other health care services, residential care services and social assistance services. Health care and social assistance's share of gross value added (at basic prices) was 6.3% in 2011-12.

Arts and Recreation Services

The arts and recreation services industry includes companies mainly engaged in the preservation and exhibition of objects and sites of historical, cultural or educational interest. It also includes the production of original artistic works and/or participation in live performances, events or exhibits intended for public viewing and the operation of facilities or the provision of services that enable patrons to participate in sporting or recreational activities or to pursue amusement interests. Arts and recreation services' share of gross value added (at basic prices) was 0.9% in 2011-12.

Other Services

The other services industry includes all firms mainly engaged in providing personal services, religious, civic, professional and other interest group services, selected repair and maintenance activities and private households employing staff. Other services' share of gross value added (at basic prices) was 1.8% in 2011-12.

Ownership of Dwellings

Ownership of dwellings consists of landlords and owner-occupiers of dwellings. Owner-occupiers are regarded as operating a business that generates a gross operating surplus. The imputation of rent to owner-occupied dwellings enables the services provided by dwellings to their owner-occupiers to be treated consistently with the marketed services provided by rented dwellings to their tenants. Owner-occupiers are regarded as receiving rents (from themselves as consumers), paying expenses and making a net contribution to the value of production that accrues to them as owners. Ownership of dwellings' share of gross value added (at basic prices) was 8.2% in 2011-12.

EXTERNAL TRADE AND BALANCE OF PAYMENTS

Merchandise Trade

The value of goods measured on a free on board ("f.o.b.") basis includes all production and other costs incurred up until the goods are placed on board an international carrier for export from the relevant exporting country.

Australia's merchandise exports (f.o.b.) and imports (f.o.b.) for the past five fiscal years in current prices, calculated on a balance of payments basis, are shown in the table below.

Table 16: Merchandise exports and imports

	2008-09	2009-10	2010-11	2011-12	2012-13
		(A$ millions)			
Exports					
Rural exports					
Meat and meat preparations	7,454	6,350	6,930	7,121	7,661
Cereal grains and cereal preparations	6,881	5,266	7,351	9,061	9,290
Wool and sheepskins	2,322	2,303	3,048	3,123	2,862
Other rural	12,772	11,670	13,144	15,423	16,458
Total rural	29,429	25,589	30,473	34,728	36,271
Non-rural Exports					
Metal ores and minerals	52,049	53,610	79,448	85,426	79,694
Mineral fuels -	75,660	55,771	67,695	73,907	65,385
Coal, coke and briquettes	54,954	36,787	44,101	48,216	38,850
Other mineral fuels	20,706	18,984	23,594	25,691	26,535
Metals (excl non-monetary gold)	12,394	10,735	12,687	11,699	10,525
Machinery	8,900	7,977	8,444	8,838	8,730
Transport equipment	5,090	4,073	3,902	4,198	4,365
Other manufactures	17,601	16,375	16,289	16,916	16,036
Other non-rural (incl sugar and beverages)	11,052	11,708	11,972	10,868	10,028
Goods procured in ports by carriers	1,631	1,389	1,590	1,668	1,678
Total non-rural	184,377	161,638	202,027	213,520	196,441
Total merchandise exports	213,806	187,227	232,500	248,248	232,712
Net exports of goods under merchanting	301	250	223	211	207
Non-monetary gold	17,508	14,300	14,256	16,650	16,219
Imports					
Consumption goods	61,589	62,520	63,776	66,712	68,901
Capital goods	51,017	47,923	51,776	69,125	65,888
Intermediate and other merchandise goods	97,609	88,193	98,232	108,757	107,754
Total merchandise imports	210,215	198,636	213,784	244,594	242,543
Non-monetary gold	11,303	6,863	4,967	6,708	5,180
Balance on merchandise trade	3,591	-11,409	18,716	3,654	-9,831

Source: ABS Catalogue No. 5302.0.

The following table shows the shares of Australian exports and imports directed to and sourced from various countries and country groups for each of the 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 fiscal years. These shares are calculated from values data and on a merchandise trade basis, rather than a balance of payments basis.

Table 17: Geographical distribution of Australia's recorded merchandise trade

	2008-09	2009-10	2010-11	2011-12	2012-13
Exports					
China	17.0	23.2	26.4	29.1	31.6
Japan	22.9	18.5	19.1	19.4	18.8
Korea, Republic of	8.3	8.2	9.2	8.3	7.7
New Zealand	3.7	4.0	3.1	2.9	3.0
United Kingdom	5.0	3.6	2.7	3.0	2.2
United States	5.0	4.8	3.7	3.7	3.6
India	6.7	8.1	6.4	5.0	4.6
Singapore	2.4	2.5	2.2	2.5	2.6
Thailand	2.1	2.3	2.8	2.2	2.0
Indonesia	1.9	2.2	1.9	2.0	1.9
Malaysia	1.6	1.6	1.7	1.9	2.1
Other European Union(a)	5.4	4.4	4.6	4.5	3.9
Other(b)	17.9	16.8	16.2	15.5	15.9
Total	100.0	100.0	100.0	100.0	100.0
Imports					
China	16.9	17.8	19.2	18.1	18.8
Japan	8.1	8.7	7.8	8.5	7.7
Korea, Republic of	3.0	3.5	3.3	3.7	3.9
New Zealand	3.2	3.4	3.4	3.1	3.0
United Kingdom	4.1	2.8	2.8	2.9	2.7
United States	11.5	10.7	10.8	11.5	10.8
Singapore	6.1	5.3	5.3	6.2	6.1
Thailand	4.9	6.1	4.3	3.6	4.7
Indonesia	2.3	2.3	2.7	2.6	2.6
Malaysia	3.8	4.2	4.1	3.8	3.8
Other European Union(a)	16.6	16.1	15.2	14.8	14.9
Other(b)	19.5	19.1	21.1	21.3	21.0
Total	100.0	100.0	100.0	100.0	100.0

(a) Other European Union refers to trade with all current 27 member states, other than the UK.

(b) Care should be taken in interpreting the Other category, as it includes confidential items that are not classified by country. Thus it is possible that the export and import shares of the countries or country groups listed above could be understated.

Source: ABS Catalogue No. 5368.0.

Australia's goods and services exports were valued at $300.1 billion in 2012-13. In 2012, Australia's top five export markets were China ($78.9 billion), Japan ($49.8 billion), South Korea ($21.6 billion), the United States ($14.6 billion) and India ($14.0 billion). Exports to the Asian region (ASEAN and other major Asian economies) were valued at $223.4 billion (74.4% of Australia's exports); to the European Union, $25.5 billion (8.5% of Australia's exports); and to North America, $18.0 billion (6.0% of Australia's exports). Major merchandise and service exports in 2012 were iron ore, coal, gold, education services and natural gas.

Australia's goods and services imports were valued at $316.3 billion in 2012-13. In 2012, China was Australia's largest source of imports (valued at $46.3 billion or 14.6% of Australia's imports), followed by the United States ($41.6 billion or 13.2% of Australia's imports) and Japan ($21.3 billion or 6.7% of Australia's imports). Australia's major import items in 2012 were personal travel services, crude petroleum, passenger motor vehicles, refined petroleum and freight transport services.

Balance of Payments

Australia has traditionally been a net importer of capital. This has facilitated the development of its rich endowment of natural resources at a faster pace than would have been possible if domestic saving were the only source of investment funds. Australia has traditionally run a current account deficit, reflecting the use of a net inflow of capital to obtain real resources from the rest of the world.

The table below provides Australia’s balance of payments details for each of the 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 fiscal years.

Table 18: Balance of payments

	2008-09	2009-10	2010-11	2011-12	2012-13
			(A$ millions)		
CURRENT ACCOUNT	**-38,467**	**-57,867**	**-34,384**	**-40,287**	**-47,654**
Goods and Services	6,140	-5,762	21,308	3,770	-10,487
Credits	283,898	253,136	297,322	315,944	300,643
Debits	-277,758	-258,898	-276,014	-312,174	-311,130
Goods	10,097	-3,722	28,228	13,807	1,415
Credits	231,615	201,777	246,979	265,109	249,138
Debits	-221,518	-205,499	-218,751	-251,302	-247,723
Services	-3,957	-2,040	-6,920	-10,037	-11,902
Credits	52,283	51,359	50,343	50,835	51,505
Debits	-56,240	-53,399	-57,263	-60,872	-63,407
Primary income	-44,072	-50,627	-54,151	-42,615	-35,857
Credits	43,638	34,006	40,146	42,140	41,441
Debits	-87,710	-84,633	-94,297	-84,755	-77,297
Secondary income	-535	-1,478	-1,541	-1,442	-1,310
Credits	6,692	6,190	6,732	7,166	7,240
Debits	-7,227	-7,668	-8,273	-8,608	-8,550
CAPITAL AND FINANCIAL ACCOUNT	37,605	56,704	33,547	38,903	47,114
Capital account	-611	-291	-556	-1,110	-1,114
Capital transfers	-367	-287	-527	-1,082	-1,082
Credits	0	0	0	0	0
Debits	-367	-287	-527	-1,082	-1,082
Net acquisition/disposal of non-produced, nonfinancial assets	-244	-4	-29	-28	-32
Financial account	38,216	56,995	34,103	40,013	48,228
Direct investment	16,064	26,678	27,654	44,511	46,063
Abroad	-31,784	-15,220	-14,331	-18,189	-11,507
In Australia	47,848	41,898	41,986	62,700	57,570
Portfolio investment	48,393	67,646	31,465	44,287	30,225
Financial derivatives	-3,191	-8,973	-9,271	-25,828	-8,545
Other investment	-11,153	-34,285	-12,546	-17,050	-18,705
Reserve assets	-11,896	5,929	-3,199	-5,908	-811
NET ERRORS AND OMISSIONS	861	1,163	837	1,384	540

source : ABS Cat No. 5302.0

In original terms, the balance on the current account for 2012-13 was a deficit of $47.7 billion, an 18.3% increase on the deficit of $40.3 billion recorded for 2011-12.

The balance for goods and services for 2012-13 was a deficit of $10.5 billion, as compared to a surplus of $3.8 billion recorded in 2011-12. Goods credits decreased $16.0 billion, or 6.0%, and goods debits decreased $3.6 billion, or 1.4% during 2012-13.

The services deficit of $11.9 billion for 2012-13 was an increase of $1.9 billion from the deficit of $10.0 billion in 2011-12.

The primary income deficit for 2012-13 narrowed by $6.8 billion, with a decrease in income credits of $0.7 billion (1.7%) and a decrease in income debits of $7.5 billion (8.8%).

The secondary income balance for 2012-13 recorded a deficit of $1.3 billion, with an increase in income credits of $0.1 billion (1.0%) and a decrease in income debits of $0.1 billion (0.7%).

The balance on the financial account recorded a net inflow of $48.2 billion for 2012-13, with a net inflow on debt of $16.2 billion and a net inflow on equity of $32.1 billion. This result was an increase of $8.2 billion on the net inflow recorded in 2011-12 as a result of:

- a decrease of $17.3 billion in the net outflow of financial derivatives;
- a decrease of $5.1 billion in the net outflow of reserve assets;
- an increase of $1.6 billion in the net inflow of direct investment;
- a decrease of $14.1 billion in the net inflow of portfolio investment; and
- an increase of $1.7 billion in the net outflow of other investment.

Changes in Official Reserve Assets

The Australian Government meets its foreign exchange requirements from the RBA. The RBA holds Official Reserve Assets ("ORA") primarily to facilitate foreign exchange intervention. The vast majority of Australia's reserves are held as foreign exchange and are invested primarily in high quality government securities. The value of ORA held by the RBA changes in response to transactions undertaken in the foreign exchange market by the RBA, both on its own account and on behalf of its customers (primarily Australian Government agencies), as well as fluctuations in the value of the foreign currencies and underlying assets in which the reserves are invested. ORA also includes foreign currency that has been borrowed under swap to assist the RBA to manage domestic liquidity for monetary policy purposes.

The following table shows the composition of Australia's ORA over the past five years. For several years prior to 2007-08, the RBA's gross holdings of foreign currency rose sharply as foreign currency was borrowed under foreign exchange swaps against Australian dollars. The Australian dollars lent to the market under these swaps helped to offset the domestic liquidity impact of deposits placed with the RBA by the Australian Government. Over 2007-08, the Australian Government drew down these deposits to seed the investment program of the Future Fund. As deposits were drawn down, the related swaps were unwound, and the gross level of foreign currency held by the RBA declined.

Table 19: Official Reserve Assets

	As at 30 June				
	2009	**2010**	**2011**	**2012**	**2013**
			(A$ millions)		
Gold	2,957	3,747	3,599	4,027	3,300
Other	1,279	6,568	6,168	6,653	7,395
Foreign Currency	48,073	33,422	31,363	36,550	41,164
Total (gross)	52,309	43,737	41,130	47,230	51,859
Total (net)	43,340	46,728	41,002	42,253	47,347

Source: Reserve Bank of Australia.

Exchange Rate

Australia has a free-floating dollar with substantially no exchange controls. Approved non-bank financial institutions, in addition to banks, are licensed as foreign exchange dealers. Since the floating of the Australian dollar on 12 December 1983, Australia's exchange rate has been determined by the overall supply of and demand for A$ in the foreign exchange market. The floating of the Australian dollar was part of the deregulation of the financial system.

There has been considerable variability in the exchange rate. The RBA is prepared to accept substantial fluctuations in the exchange rate, both day-to-day and over the course of the economic cycle. Transactions to influence the exchange rate or market conditions more generally, usually known as intervention, are relatively infrequent. They are undertaken only when the value of the Australian dollar is judged to have moved to levels that are inconsistent with underlying economic developments or when conditions in the foreign exchange market are thin and disorderly. Extremely poor liquidity in the Australian foreign exchange market during the worst of the financial turmoil following the collapse of Lehman Brothers in September 2008 saw the RBA undertake intervention transactions in October and November 2008, selling foreign currency acquired earlier at a high exchange rate and purchasing Australian dollars at a lower exchange rate. As the Australian dollar exchange rate has risen, foreign currency reserves drawn down in the intervention have been replenished.

The following table sets out the Australian dollar exchange rate against the U.S. dollar for each of the 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 fiscal years and each month end since June 2013.

Table 20: Units of US$ per A$

Period	At Period End	Average Rate	High	Low
Year ended:				
30 June 2009	0.8114	0.7477	0.9786	0.6122
30 June 2010	0.8523	0.8821	0.9349	0.7745
30 June 2011	1.0739	0.9881	1.0939	0.8366
30 June 2012	1.0191	1.0319	1.1055	0.9500
30 June 2013	0.9275	1.0271	1.0593	0.9202
Month ended:				
31 July 2013	0.9037	0.9172	0.9295	0.9037
30 August 2013	0.8947	0.9043	0.9216	0.8909
30 September 2013	0.9309	0.9278	0.9496	0.8969

Source: Reserve Bank of Australia.

The following table sets out the Australian dollar exchange rate against the UK pound sterling for each of the 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 fiscal years and each month end since June 2013.

Table 21: Units of £ per A$

Period	At Period End	Average Rate	High	Low
Year ended:				
30 June 2009	0.4872	0.4621	0.5046	0.3873
30 June 2010	0.5666	0.5585	0.6141	0.4801
30 June 2011	0.6667	0.6208	0.6667	0.5556
30 June 2012	0.6529	0.6514	0.6830	0.6149
30 June 2013	0.6072	0.6549	0.6944	0.5959
Month ended:				
31 July 2013	0.5934	0.6039	0.6172	0.5915
31 August 2013	0.5766	0.5837	0.5940	0.5751
30 September 2013	0.5760	0.5853	0.5909	0.5760

Source: Reserve Bank of Australia.

The following table sets out the Australian dollar exchange rate against the euro for each of the 2008-09, 2009-10,2010-11,2011-12 and 2012-13 fiscal years and each month end since June 2013.

Table 22: Units of € per A$

Period	At Period End	Average Rate	High	Low
Year ended:				
30 June 2009	0.5751	0.5420	0.6161	0.4806
30 June 2010	0.6979	0.6355	0.7148	0.5568
30 June 2011	0.7405	0.7245	0.7716	0.6713
30 June 2012	0.8092	0.7707	0.8227	0.7150
30 June 2013	0.7095	0.7949	0.8597	0.6972
Month ended:				
31 July 2013	0.6817	0.7009	0.7183	0.6817
31 August 2013	0.6756	0.6788	0.6915	0.6671
30 September 2013	0.6900	0.6952	0.7017	0.6790

Source: Reserve Bank of Australia.

The following table details the trade-weighted index value of the Australian dollar for each of the 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 fiscal years and each month end since June 2013. The trade-weighted index is a weighted average of a basket of currencies of Australia's major trading partners, with the weight of each foreign currency equal to its share in trade. The most significant currencies in the trade-weighted index as weighted on 30 November 2012 are the Chinese renminbi, the Japanese yen, the U.S. dollar and the Euro. The trade-weighted index is often used as an indicator of Australia's international competitiveness and is a useful gauge of the value of the Australian dollar when bilateral exchange rates exhibit diverging trends.

Table 23: Trade-Weighted Index value of the A$[(a)(b)]

Period	At Period End	Average Rate	High	Low
Year ended:				
30 June 2009	64.7	60.3	74.1	51.0
30 June 2010	67.3	68.9	72.5	62.0
30 June 2011	77.8	73.9	79.2	66.1
30 June 2012	76.5	76.0	79.3	70.8
30 June 2013	71.4	77.0	80.2	70.8
Month ended:				
31 July 2013	69.4	70.6	71.3	69.4
31 August 2013	69.2	69.5	70.7	68.7
30 September 2013	71.2	71.3	72.3	69.3

(a) The trade-weighted index is provided by the Reserve Bank of Australia in respect of each trading day at 4pm (Sydney). Period averages are derived from these rates.
(b) The weights for the trade-weighted index are revised annually to capture changing trade patterns. Changes to the weights are usually calculated in September, with the re-defined index joined onto the existing trade-weighted index on the first business day in October.
Source: Reserve Bank of Australia.

Foreign Investment

Australia welcomes foreign investment because it plays an important and beneficial role in the Australian economy. Like many countries, Australia reviews foreign investment proposals on a case-by-case basis to ensure that they are not contrary to the national interest.

The Foreign Investment Review Board is a non-statutory body that was established in 1976 to examine foreign investment proposals and advise on the national interest implications. The factors typically considered in assessing the national interest include: national security; competition; other Government policies such as taxation; the impact on the economy and community; and the investor's character. Where a proposal involves a foreign government investor, the Government also considers the commerciality of the investment.

The Treasurer has the power to block foreign investment proposals or apply conditions to the way proposals are implemented to ensure they are not contrary to the national interest.

In general, foreign investment proposals are only subject to review when the value of the target business or corporation exceeds a monetary screening threshold. The current thresholds strike a balance between protecting the national interest and ensuring that Australia remains an attractive destination for foreign investors.

Most proposals are considered within 30 days and Australia rarely rejects, or imposes conditions upon, foreign investment proposals, with only two business proposals having been rejected since 2001.

Foreign Financial Relations

Australia is a member of the International Monetary Fund (the "IMF"). As at 28 June 2013, Australia's IMF quota was 3.2 billion Special Drawing Rights ("SDR") (estimated value A$5.2 billion as at 28 June 2013). Australia is a participant in the SDR Department and, as at 28 June 2013, had a net cumulative allocation of SDR 3.08 billion and actual holdings of SDR 2.93 billion.

As part of a doubling of total IMF quotas agreed by the Fund in December 2010, Australia's IMF quota will increase by SDR 3.3 billion to SDR 6.6 billion. Australia consented to this increase in June 2011 and is expected to pay in 2013-14, once the United States has ratified its commitment in Congress. This will be a financing transaction with no direct impact on the fiscal balance or underlying cash balance.

Australia has made a line of credit available to the IMF under its New Arrangements to Borrow ("NAB") since 1998. Since March 2011, Australia's NAB credit arrangement has totaled SDR 4.4 billion (an estimated value of A$7.1 billion as at 28 June 2013).

On 20 April 2012, Australia committed a SDR 4.6 billion (estimated value of A$7.5 billion as at 28 June 2013) contingent bilateral loan to the IMF as part of a broad global effort to increase the resources it has available for crisis prevention and resolution. Australia's loan with the IMF came into effect on 18 July 2013. This loan may only be called upon by the IMF once it has exhausted its other sources of financing, including quota and NAB.

Australia is also a member of the International Bank for Reconstruction and Development ("IBRD") and its affiliates in the World Bank Group: the International Finance Corporation (the "IFC"); the International Development Association (the "IDA"); the Multilateral Investment Guarantee Agency (the "MIGA"); and the International Centre for Settlement of Investment Disputes (the "ICSID").

As at 28 June 2013, Australia held 27,595 shares in the IBRD, with the value of the paid-in portion of these shares amounting to US$204.4 million (approximately A$220.4 million).

The Australian Government is contributing to the IBRD's capital increase announced in April 2010. Australia's contribution of paid-in capital will be US$51.6 million (approximately A$55.6 million) and will be paid over a five year period from 2011-12. Australia will also subscribe to a further US$808.3 million (approximately A$871.5 million) in callable capital. The first payment for this capital subscription was made in July 2011. As of 28 June 2013, Australia's contingent liability to the IBRD amounts to US$3.1 billion (approximately A$3.4 billion) in callable capital. This will increase to US$3.6 billion (approximately A$3.9 billion) in callable capital by the final installment in July 2015.

Australia also held 47,329 shares in the IFC, valued at US$47.3 million (approximately A$51.0 million), and 3,019 shares in MIGA. The value of the MIGA shares totaled US$32.7 million (approximately A$35.2 million) with the value of the paid-in portion of these shares totaling US$6.2 million (approximately A$6.7 million) and the remaining US$26.5 million (approximately A$28.5 million) in callable capital. Each member country is equally represented in the ICSID.

Australia is a member of the Asian Development Bank (the "ADB"), holding 614,220 shares. As at 28 June 2013, the value of the paid-in portion of these shares amounted to approximately A$498.0 million, including US$134.4 million (approximately A$142.0 million) still to be paid in under the ADB's fifth general capital increase. The value of Australia's callable capital amounted to US$7.0 billion (approximately A$7.6 billion), as at 28 June 2013.

Australia is also a member of the European Bank for Reconstruction and Development (the "EBRD"), holding 30,014 shares. As part of the EBRD's 2010 general capital increase, the Australian Government received an additional 1,010 shares free of charge and increased its uncalled shares by 9,004. As at 30 April 2013, the value of Australia's paid-in shares was €62.6 million (approximately A$88.2 million) and the value of Australia's callable shares was €237.5 million (approximately A$334.8 million).

Australia is a member of the Organisation for Economic Co-operation and Development (the "OECD"), the Asia-Pacific Economic Co-operation Forum ("APEC") and the East Asia Summit. Australia is also a member of the Group of Twenty ("G-20") forum. In addition, Australia is a member of various other regional and international organisations, including the United Nations and many of its affiliated agencies.

For further information, see “Government Finance—Guarantees and Other Contingent Liabilities—Other Contingent Liabilities and Undertakings” in this Description of the Commonwealth of Australia.

CURRENCY, MONETARY AND BANKING SYSTEM

Australian Currency

Australia's unit of currency is the Australian dollar. Australia's currency comprises both coins and notes. Coins are issued by the Treasurer of the Commonwealth of Australia under the *Currency Act 1965* (Cth); those intended for circulation include denominations of 5, 10, 20 and 50 cents and $1 and $2. Numismatic (un-circulating collector) legal tender coins are also approved for sale by the Treasurer from time to time. Under the *Reserve Bank Act 1959* (Cth), Australia's currency notes are issued by the RBA in five denominations: $5, $10, $20, $50 and $100.

Monetary Conditions

The RBA's monetary policy operates within the framework of a medium-term inflation target of 2 to 3% on average over the cycle. Given the lags involved in the operation of monetary policy, the RBA sets monetary policy in a forward-looking manner in order to achieve its medium-term inflation target. Maintaining low inflation, and therefore low inflation expectations, is vital to ensuring that economic growth is sustained, thereby supporting productive investment and employment.

The RBA carefully monitors a range of domestic and international economic and financial indicators in gauging inflationary pressures. These indicators cover economic conditions, prices, wages, the labour market and financial conditions.

In Australia, the stance of monetary policy is expressed in terms of a target for an overnight interest rate. The rate used by the RBA is the cash rate (also known as the interbank overnight rate). The RBA's measure of the cash rate is the interest rate which banks pay or charge to borrow funds from or lend funds to other banks on an overnight unsecured basis. The RBA calculates and publishes the cash rate each day on the basis of data collected directly from banks. When the Board of the RBA determines that a change in monetary policy should occur, it specifies a new target (known as the target cash rate) for the cash rate. The RBA's open market operations are designed to ensure that the actual cash rate remains close to the target cash rate.

Movements in interest rates over the 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13 fiscal years and the monthly periods since June 2013 are provided in the table below.

Table 24: Key interest rates

Period	Target Cash Rate (%)	90 Day Bank Bill Yield (%)	10 Year Bond Yield (%)
Year ended:			
30 June 2009	3.00	3.20	5.52
30 June 2010	4.50	4.89	5.10
30 June 2011	4.75	4.99	5.21
30 June 2012	3.50	3.54	3.04
30 June 2013	2.75	2.80	3.54
Month ended:			
31 July 2013	2.75	2.66	3.72
31 August 2013	2.50	2.59	3.90
30 September 2013	2.50	2.58	3.81

Source: Reserve Bank of Australia.

The following table sets out monetary aggregate data for each of the 2008-09, 2009-10, 2010-11,2011-12 and 2012-13 fiscal years.

Table 25: Monetary aggregates

	2008-09		2009-10		2010-11		2011-12		2012-13	
	A$b	%[(a)]	A$b	%[(a)]	A$b	%[(a)]	A$b	%[(a)]	A$b	%[(a)]
M1[(b)]	233.9	4.8	239.2	2.2	255.0	6.6	256.3	0.5	264.9	3.3
M3[(c)]	1,130.1	16.8	1,198.4	6.0	1,304.2	8.8	1,413.5	8.4	1,514.8	7.2
Broad Money[(d)]	1,204.0	14.1	1,249.6	3.8	1,334.9	6.8	1,437.2	7.7	1,529.3	6.4

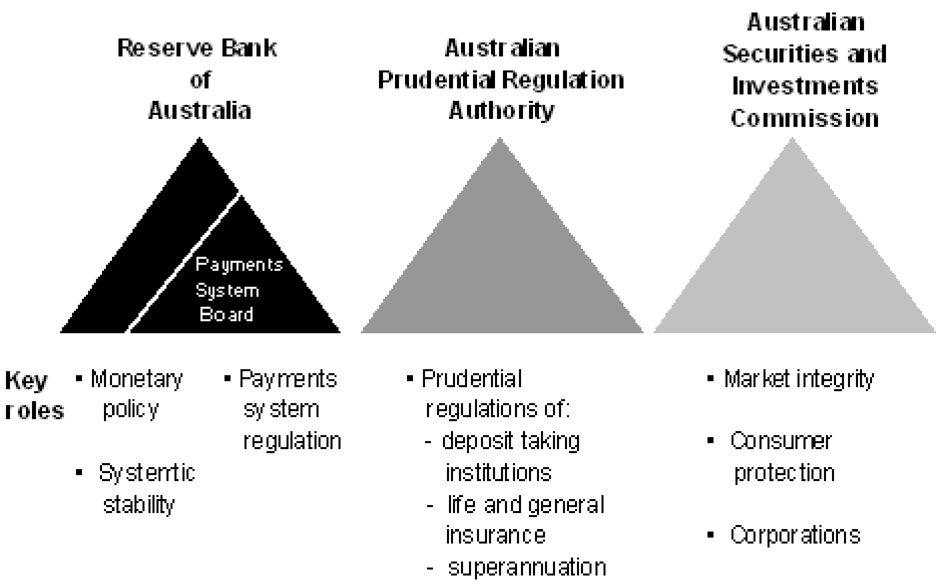
(a) 12-month ended percentage change.
(b) M1 is defined as currency plus bank current deposits of the private non-bank sector.
(c) M3 is defined as M1 plus all other authorised deposit-taking institution deposits of the private non-ADI sector.
(d) Broad money is defined as M3 plus non-deposit borrowings from the private sector by all financial intermediaries, less the holdings of currency and bank deposits by registered financial corporations and cash management trusts.
Source: Reserve Bank of Australia.

Regulation of the Financial System

Australia's financial regulation framework is based on three separate agencies operating on functional lines. These institutions have prime responsibility for maintaining the safety and soundness of financial institutions, protecting consumers and promoting systemic stability through implementing and administering the regulatory regimes that apply to the financial sector. Specifically:

- the Australian Prudential Regulation Authority ("APRA") is responsible for the prudential regulation, supervision, and resolution of authorised deposit-taking institutions (ADIs), general and life insurance companies, regulated superannuation funds and is a national statistical agency for the financial sector;
- the Australian Securities and Investments Commission ("ASIC") is responsible for market conduct and investor protection; and
- the RBA has responsibility for monetary policy, overseeing financial system stability and oversight of the payments system.

Figure 1: Key regulatory agencies in Australia



Responsibility for the operational or day-to-day supervision of financial institutions and markets lies with these individual regulators, while accountability for the broad framework for the regulation of the financial sector rests with the Australian Government, aided by the Council of Financial Regulators (CoFR) and the Australian Treasury.

CoFR is the coordinating body for the main financial regulatory agencies. It consists of senior representatives of the RBA, Treasury, APRA and ASIC, each of which plays a central role in the formulation of financial sector policy, interacting with foreign counterparts and standard setters and monitoring and evaluating trends in domestic and international markets. CoFR is therefore an important forum for addressing emerging trends and policy issues. This coordination is crucial especially in the event of a crisis, when CoFR serves as the key coordinating body for developing an official response. The role of CoFR in crisis coordination is facilitated by a Memorandum of Understanding ("MOU") dealing specifically with financial crisis management arrangements that was signed in September 2008. The MOU reflects the strong commitment of Australia's regulatory agencies to the open exchange of information and to a co-ordinated response to potential threats to the stability of Australia's financial system. The MOU covers the objectives of financial distress management and the principles that guide decisions and actions during times of financial distress, and also sets out the responsibilities of the individual CoFR members during such times.

Regulation of the financial sector operates under the following Commonwealth legislation:

- *Australian Prudential Regulation Authority Act 1998*;
- *Australian Securities and Investments Commission Act 2001*;
- *Banking Act 1959*;
- *Corporations Act 2001*;
- *Financial Sector (Shareholdings) Act 1998*;
- *Financial Sector (Business Transfer and Group Restructure) Act 1999*;
- *Financial Sector (Collection of Data) Act 2001*;
- *Insurance Act 1973*;
- *Insurance Acquisitions and Takeovers Act 1991*;
- *Life Insurance Act 1995*;
- *National Consumer Credit Protection Act 2009*;
- *Payment Systems (Regulation) Act 1998*;
- *Payment Systems and Netting Act 1998*;
- *Retirement Savings Accounts Act 1997*;
- *Reserve Bank Act 1959*;
- *Superannuation Industry (Supervision) Act 1993*; and
- *Superannuation Legislation Amendment (Stronger Super) Act 2012*.).

In addition, the Australian Competition and Consumer Commission ("ACCC") has responsibility for competition policy under the *Competition and Consumer Act 2010*. That responsibility extends across the entire economy, including the financial sector.

Reserve Bank of Australia

The RBA is responsible for maintaining stability of the overall financial system, promoting the safety and efficiency of the payments system, managing the issuance of banknotes, providing banking services for the Australian Government and managing Australia's Official Reserve Assets.

The RBA is also responsible for monetary policy, which is determined by the Board of the Bank and is set in terms of the level of the cash rate (the interest rate on unsecured overnight funds). The RBA undertakes daily operations in the short-term money markets to ensure that the actual cash rate remains close to the monetary policy target.

The RBA's market operations are very flexible, permitting it to deal daily with a wide range of counterparties across a wide range of maturities, and allowing it to respond rapidly to any tensions in the domestic money market.

In exceptional circumstances, the RBA may provide liquidity support to an individual ADI, though this does not equate to a guarantee of solvency for a financial institution, and the RBA does not view its balance sheet as being available to support insolvent institutions. In assessing solvency, the RBA would rely on APRA's judgment.

The statement of financial position of the RBA as of each of 30 June 2010, 2011, 2012 and 2013 is set out in the table below.

Table 26: Statement of financial position – Reserve Bank of Australia

	30 June 2010	30 June 2011	30 June 2012	30 June 2013
		(A$ millions)		
ASSETS				
Cash and cash equivalents	852	1,209	164	137
Australian dollar securities	36,972	31,834	32,648	43,249
Foreign exchange	43,096	37,727	43,296	50,930
Gold	3,747	3,599	4,027	3,299
Property, plant and equipment	449	454	448	491
Loans, advances and other	536	490	496	421
Total Assets	85,652	75,313	81,079	98,527
LIABILITIES				
Deposits	20,987	17,504	18,000	26,183
Distribution payable to Australian Government	750	-	500	-
Other	4,762	2,411	2,615	5,389
Australian notes on issue	48,759	50,059	53,595	56,943
Total Liabilities	75,258	69,974	74,710	88,515
Net Assets	10,394	5,339	6,369	10,012
Capital and Reserves				
Reserves:				
Unrealised profits reserves	84	61	41	3,766
Asset revaluation reserves	4,087	3,921	4,375	3,705
Reserve Bank Reserve Fund	6,183	1,317	1,913	2,501
Capital	40	40	40	40
Total Capital and Reserves	10,394	5,339	6,369	10,012

Source: Reserve Bank of Australia *Annual Report 2013* and *Annual Report 2011*.

Australian Prudential Regulation Authority

The Government established APRA on 1 July 1998 as the single prudential regulator and supervisor for the Australian financial system. APRA regulates ADIs (including banks, building societies, credit unions, specialist credit card institutions and providers of purchased payment facilities), as well as life and general insurance companies (including reinsurers and friendly societies), authorised non-operating holding companies (NOHCs) of ADIs and insurers and most members of the superannuation industry (other than self-managed superannuation funds). The aim was to create a prudential regulation framework that would not only meet safety and stability objectives, but would increase the competitiveness and efficiency of the financial system by ensuring that regulation is applied consistently for similar functions.

APRA is the lead resolution authority in the event that a regulated institution becomes financially distressed. APRA is also responsible for administering the Financial Claims Scheme in respect of ADIs and general insurers.

APRA's core mission is to establish and enforce prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by the institutions APRA supervises are met within a stable, efficient and competitive financial system.

APRA also acts as the national statistical agency for the Australian financial sector and plays a role in preserving the integrity of Australia's retirement incomes policy.

APRA Regulated Institutions

As detailed in the table below, APRA-regulated institutions hold approximately $4.5 trillion in assets for almost 23 million Australian depositors, policyholders and superannuation fund members.

Table 27: APRA-regulated institutions

	Number of Institutions			**Assets (A$ billions)**		
APRA-regulated institutions	30 June 2012	**30 June 2013**	**% Change**	30 June 2012	**30 June 2013**	**% Change**
ADIs	174	172	-1.1	3,041.2	3,177.2	4.5
Representative offices of foreign banks	17	16	-5.9	-		-
General insurers	124	121	-2.4	118.1	118.1	0.0
Life insurers	28	28	-0.0	237.5	256.7	8.1
Friendly societies	13	13	-0.0	6.1	6.3	3.3
Licensed superannuation trustees	209	190	-9.1	-		-
Superannuation entities	3,675	3,379	-8.1	833.6	968.4	16.2
Non-operating holding companies	25	25	0.0	-		-
Total	4,265	3,944	-7.5	4,236.5	4,526.7	6.8

Source: Australian Prudential Regulation Authority.

Funding

APRA is funded largely by the industries that it supervises through a levy on regulated institutions. In May 2012, the then Government agreed additional funding of $82.4 million over four years, to be funded through levies, to sustain APRA’s capacity in prudential supervision following the cessation of direct Government funding of $45.5 million provided through the global financial crisis. APRA's budget is currently approximately $125 million for around 610 staff.

Governance

APRA's governance structure comprises a full-time Executive Group of at least three and no more than five Members. The Executive Group is responsible and accountable for the operation and performance of APRA. It currently has a Chairman, Deputy Chairman and Member.

APRA's Main Powers

APRA's risk-based approach to prudential supervision is underpinned by tools designed to ensure that risks are assessed rigorously and consistently, critical warning signs are identified early and its supervisory response is prompt and measured. APRA seeks to act pre-emptively, so that emerging threats to financial institutions are addressed before the interests of beneficiaries are damaged; where pre-emptive action is not possible, APRA's objective is to set in train appropriate exit or other resolution strategies that minimise losses to beneficiaries.

Australian legislation provides APRA with strong powers to regulate and intervene in the operations of financial institutions to protect depositors, policy holders and fund members and to maintain the stability of the financial system.

APRA's main powers are provided by acts relating to each industry sector that it regulates: the *Banking Act 1959* (Banking Act), the *Insurance Act 1973* (Insurance Act), the *Life Insurance Act 1995* and the *Superannuation Industry (Supervision) Act 1993*. These acts provide APRA with the following main types of powers in regulating financial institutions:

- authorisation or licensing powers;
- powers to make, apply and enforce prudential standards;
- powers to collect information and to require third-party audits; and

- powers to act in circumstances of financial difficulties to protect depositors, policy holders and superannuation fund members and to maintain the stability of the financial system, including powers related to investigating, giving directions and assuming control of regulated entities in difficulty. APRA can appoint a statutory manager to assume full control of an ADI and can apply to the court for the appointment of a judicial manager to assume control of a general or life insurer.

In broad terms, the powers available under each Act are similar but vary to reflect the specific characteristics of each industry sector.

In relation to the ADI sector, APRA has wide-ranging powers under the Banking Act to investigate the affairs of an ADI and/or issue a direction to an ADI. For example, APRA can, in particular circumstances, direct an ADI:

- to comply with a prudential requirement;
- to increase its regulatory capital;
- to conduct an audit of its affairs;
- to remove a director, executive officer or employee; or
- not to undertake transactions.

APRA has the power to revoke an ADI's authorisation under certain circumstances, such as where the ADI fails to meet a requirement under the Banking Act or a condition of its authorisation or where APRA is of the view that allowing the ADI to continue to operate is against the national interest or the interests of depositors.

Where an ADI may be unable to meet its obligations or where the interests of depositors or financial system stability are at risk, APRA has the power under the Banking Act to replace an ADI's Board of directors with a statutory manager, who must manage the ADI in a manner that is consistent with the interests of depositors and financial system stability. In addition to the powers of the Board, the statutory manager has powers to alter the share capital of the ADI, such as by issuing new shares, and can alter the ADI's governance arrangements including its constitution. The statutory manager can also sell or dispose of the assets of the ADI.

APRA also has the power to compulsorily transfer the business of an ADI to another entity under the *Financial Sector (Business Transfer and Group Restructure) Act 1999*. The receiving entity must consent to the transfer.

Similar powers are available to APRA in respect of general insurers and life insurers.

Reviews of legislation have resulted in several amendments being made to the relevant Acts to further strengthen APRA’s regulatory, supervisory and resolution powers. Under the Stronger Super reforms, APRA has been given prudential standards making power for superannuation entities as well as responsibility for authorising new default superannuation products (‘MySuper’ products).

Financial Claims Scheme

APRA has responsibility for administering the Financial Claims Scheme that was established in October 2008 in respect of ADIs and general insurers. The Financial Claims Scheme provides protection from loss for depositors, policyholders and other claimants in the event that an ADI or general insurer becomes insolvent. The Financial Claims Scheme does not apply to superannuation entities. It establishes:

- measures under Part II, Division 2AA of the Banking Act to:
  - protect account-holders' deposits made with eligible ADIs (other than foreign ADIs, specialist credit card institutions and providers of purchased payment facilities), and interest accrued on such deposits, to a total maximum value of $250,000 per account-holder per ADI; and
  - facilitate prompt payout of deposits protected under the Financial Claims Scheme to account-holders in the event that an ADI becomes a declared ADI for Financial Claims Scheme purposes; and

- measures under Part VC of the Insurance Act to facilitate the payment of moneys payable under valid claims made by eligible claimants against a general insurer that has become insolvent.

APRA has released a prudential standard (*Prudential Standard APS 910 Financial Claims Scheme*) and technical guidance requiring locally incorporated ADIs to ensure that they are operationally ready to meet payment, reporting and communication requirements when necessary.

Prudential Regulation

In its role as prudential regulator, APRA is concerned fundamentally with the quality of a financial entity's systems for identifying, measuring and managing the various risks in its business and, in most cases, with the adequacy of its capital as a buffer against unexpected losses. APRA promotes prudent behaviour by regulated entities with the objective of reducing the likelihood of institutional insolvency and consequential losses to policyholders, depositors or members and maintaining financial system stability.

APRA has developed a regulatory framework for ADIs that is based on the banking supervision principles published by the Basel Committee on Banking Supervision (Basel Committee), of which APRA is a member. The framework for prudential regulation includes requirements regarding capital adequacy, credit risk, market risk, operational risk, securitisation, liquidity, large exposures, associations with related entities, outsourcing, business continuity management, risk management of credit card activities, audit, public disclosure, governance and fitness and propriety.

Similar requirements apply to the insurance and superannuation sectors.

Implementation of Basel III in Australia

In December 2010, the Basel Committee published its package of reforms to strengthen global capital and liquidity regulations with the goal of promoting a more resilient banking sector (Basel III); further refinements and disclosure requirements were published in 2012. These reforms include measures:

- to raise the quality, consistency and transparency of the capital base and harmonise other elements of capital;
- to improve the risk coverage of the previous Basel II Framework by strengthening capital requirements for counterparty credit risk exposures arising from banks' derivatives, repurchase and securities financing activities;
- to introduce, for the first time, global liquidity standards to improve the resilience of banking institutions to liquidity stress through increasing the quantity and quality of liquidity buffers and through requirements for banks to adopt more stable funding profiles;
- to promote the build-up of capital buffers in good times that can be drawn upon in times of stress;
- to introduce a leverage ratio as a supplementary measure to the risk-based Basel II Framework to help contain the build-up of excessive leverage in the banking system; and
- to enhance market discipline through increased disclosure requirements for remuneration and capital adequacy.

APRA adopted an accelerated timetable for the Basel III capital reforms. The main elements of these reforms were implemented from 1 January 2013; the new capital buffers will commence in full from 1 January 2016. The new global liquidity standard in the Basel III liquidity framework will come into effect from 1 January 2015. Enhanced disclosure requirements were implemented in June 2013.

Collection of data

APRA is the central repository of statistical information on the Australian financial system and it collects a broad range of financial and risk data that are essential input to its supervision of regulated institutions. In addition, APRA collects data from regulated and unregulated financial institutions to assist the RBA, the Australian Bureau of Statistics and ASIC to fulfil their roles. Much of the data are shared between agencies to reduce unnecessary reporting burden on institutions.

Almost all of APRA’s data collections are legal requirements of institutions under the *Financial Sector (Collection of Data) Act 2001* and APRA’s reporting standards.

APRA recognises the public value of its data collections and seeks to publish as many of the statistics as are useful, subject to APRA’s confidentiality obligations. The statistics inform policymakers, other regulators, market analysts, researchers and the senior management of financial institutions.

International Awareness

Consistent with its aim of being a world-class integrated prudential supervisor, APRA retains an active role in international groups for banking, insurance and superannuation. This involvement allows APRA to align with international developments and to bring an Australian perspective to global efforts to harmonise the international prudential supervision framework. Constructive relationships with senior people in overseas prudential regulators also assist APRA’s oversight of regulated institutions operating internationally.

APRA is regarded as a leading supervisory agency in the Asia and Pacific regions, and more broadly, and it provides a range of technical and other assistance to prudential supervisors in these regions.

Australian Securities and Investments Commission

ASIC is an independent statutory body established under the *Australian Securities and Investments Commission Act 2001* (Cth).

ASIC administers the *Corporations Act 2001* (Cth) (the "Corporations Act"), including the provisions governing the operation of companies in Australia, corporate fundraising, financial reporting, takeovers and compulsory buy outs and external administration/insolvency.

ASIC is also responsible for registering and supervising the operation of managed investment schemes. The regulatory framework governing collective investment vehicles was reformed in 1998 through the passage of the *Managed Investments Act 1998* (Cth).

ASIC has responsibility for the investor protection regime that applies to the provision of financial services. The regime includes licensing, conduct and disclosure provisions that apply to financial services providers, as well as product disclosure provisions applicable to financial products.

Financial markets and clearing and settlement facilities are licensed by the relevant Minister. ASIC is responsible for monitoring compliance by market and clearing and settlement facility licensees with the relevant legislative frameworks, and since 1 August 2010 has been responsible for supervision of real time trading on all of Australia's domestic licensed markets. The RBA is responsible for issuing financial stability standards for clearing and settlement facilities and it monitors compliance with those standards. Australia's major licensed financial markets and clearing and settlement facilities are operated by ASX Limited and its subsidiaries. On 21 May 2013 a subsidiary of ASX Limited, Australian Securities Exchange commenced trading in government bonds including those issued by the Commonwealth.

ASIC is also responsible for administering the market misconduct provisions of the Corporations Act, which cover market manipulation, insider trading and misleading or deceptive conduct.

In line with the Council of Australian Governments' 2008 commitment to transfer credit regulation to the Commonwealth Government, ASIC became responsible for national credit regulation on 1 July 2010, which includes licensing of all credit providers and credit service providers.

Other Regulatory Entities

Australian Competition and Consumer Commission

The ACCC has responsibility for promoting and enforcing competition policy under the *Competition and Consumer Act 2010* (Cth) (the "CCA"). This responsibility extends across the entire economy, including the financial sector.

The CCA prohibits anti-competitive practices, including misuse of market power, price-fixing and other collusive conduct.

Industry regulation

The Australian Bankers' Association (the "ABA") is the national organisation of authorised banks in Australia. Any body corporate duly authorised to carry on banking business in Australia and carrying on such banking business may become a member of ABA.

ABA is funded by its member banks, that range from traditional retail, trading bank-style organisations to regional banks, foreign bank and wholesale banks. Contributions to its operational expenditure are based on individual member bank's liabilities in Australia.

The ABA's revised Code of Banking Practice is the banking industry's customer charter on best banking practice standards. The Code sets out the banking industry's key commitments and obligations to customers on standards of practice, disclosure and principles of conduct for banking services. The Code applies to personal and small business bank customers.

The Customer Owned Banking Association (COBA) replaced Abacus Australian Mutuals as the industry association for Australian credit unions, mutual building societies and friendly societies, also keeps industry codes to which its members are signatories. COBA members subscribe to codes establishing standards of service to customers. Since 1 July 2009 COBA has had the COBA Mutual Banking Code of Practice that has applied to credit unions, mutual banks and mutual building societies. A review of the code was undertaken in 2013, and a revised code is due to take effect from 1 January 2014.

Signatories to the codes are obliged to respond to complaints about non-compliance, and the relevant external dispute resolution scheme can also hear and resolve such complaints.

The Financial System Regulatory Regime

The Australian Government is committed to increasing competition and contestability across the broad spectrum of financial products, without sacrificing the basic goals of safety and stability in the financial system. The regulatory system enables the non-bank deposit-taking sector to provide a more effective source of competition for the banks in the retail market by operating under the same regulatory framework as banks. These institutions are able to maintain commercial flexibility by retaining different corporate structures, including mutuality, and the terms 'building society', 'credit union' and 'bank'

Australia maintains a stable, competitive and efficient financial system that is not only positioned to compete strongly in the global economy, but also offers opportunities for those seeking to do business in Australia or to use Australia as a focal point for regional activities.

There is no restriction on the number of foreign banks that may apply for banking authorities. Applications to take over domestic institutions are assessed on a case by case basis under the *Foreign Acquisitions and Takeovers Act 1975* and the *Financial Sector (Shareholdings) Act 1998*.

Foreign banks wishing to establish a retail bank in Australia may enter as an authorised subsidiary, subject to full prudential supervision. They may also establish as an authorised foreign bank branch to conduct wholesale banking, as branches are restricted from accepting initial retail deposits below $250,000. They may also establish as an unlicensed money market corporation. A list of banks, credit unions and building societies is maintained on APRA’s website – www.apra.gpv.au.

GOVERNMENT FINANCE

The basic provisions relating to the receipt and payment of public moneys of the Australian Government are set out in the Constitution and the *Financial Management and Accountability Act 1997* (Cth) (the "FMA Act"). The FMA Act sets out requirements relating to the collection and custody of public money; accounting, reporting and audit; and borrowing and investment. The *Commonwealth Authorities and Companies Act 1997* (Cth) sets out separate financial and corporate governance requirements for corporations controlled by the Australian Government. The general administration of Australian Government finances is the responsibility of the Minister for Finance and Deregulation.

Under the Constitution, all moneys or revenues received by the Australian Government form one Consolidated Revenue Fund, to be appropriated for the purposes of the Commonwealth of Australia. All disbursements made from the Consolidated Revenue Fund must be made under appropriation made by the Parliament.

The financial statements and accounting records of each Australian Government agency and the consolidated financial statements of the Government must be audited by the Australian Auditor-General. The Australian National Audit Office ("ANAO") supports the Auditor-General in conducting financial statement and performance audits. All financial statements must be tabled in the Parliament by the responsible Minister within the relevant agency's annual report. These financial statements are audited by the Auditor-General, who may also report to the Parliament on a wide range of other matters relating to public administration.

Federal Government Budget

The Treasurer presents annual Appropriation Bills to the Parliament as part of each annual Federal budget. These Bills detail the purposes for which funds are to be expended by Government agencies. Additional Appropriation Bills may be enacted by Parliament during the course of a fiscal year to provide funds for new Government expenditures approved after the passage of the annual budgetary Appropriation Bills.

A large part of the budget is appropriated under 'special' or 'standing' appropriations, which are contained in special legislation that do not require annual re-enactment. For example, the payment of social security benefits and pensions are provided for in this manner.

The Australian Government's main fiscal indicators are the 'underlying cash balance' and the 'fiscal balance' which are, respectively, cash and accrual measures of government finance statistics, net of lending. As a result, the budget papers also contain a complete set of accrual financial statements - that is, an operating statement, a statement of assets and liabilities, and a statement of cash flows.

The *Charter of Budget Honesty Act 1998* (Cth) provides a framework for the conduct of Government fiscal policy. The purpose of the Charter is to improve fiscal policy outcomes. The Charter provides for this by requiring fiscal strategy to be based on principles of sound fiscal management, and by facilitating public scrutiny of fiscal policy and performance.

In 2009-10 and 2010-11, the underlying cash balance was -$54.5 billion and -$47.5 billion, respectively. The Australian Government's underlying cash deficit was $43.4 billion (-2.9% of GDP) in 2011-12 and $18.8 billion (-1.2% of GDP) in 2012-13. In the 2013 PEFO, an underlying cash deficit of $30.1 billion (-1.9% of GDP) is forecast for 2013-14 and underlying cash deficits of $24.0 billion (-1.5% of GDP) and $4.7 billion (-0.3% of GDP) are forecast for 2014-15 and 2015-16, respectively, and an underlying cash surplus of $4.2 billion (0.2% of GDP) is forecast for 2016-17.

The Australian Government general government sector net debt for 2012-13 was $153.0 billion (10.1% of GDP). The 2013 PEFO projected net debt to be $184.0 billion (11.7% of GDP) in 2013-14.

Since 2008-09, the Government financed budget deficits by issuing Commonwealth Government Securities. See "Government Finance—Domestic Issuance of Government Bonds" in this Description of the Commonwealth of Australia.

Commonwealth Budget Position as at 30 June 2013

In 2012-13, the Australian Government general government sector recorded an underlying cash deficit of $18.8 billion, or -1.2% of GDP. The fiscal balance was in deficit by $23.5 billion, or -1.6% of GDP.

The following table sets out general government sector budget aggregates for each of the 2009-10, 2010-11, 2011-12 and 2012-13 fiscal years.

Table 28: Australian Government general government sector budget aggregates

	2009-10[(a)]	2010-11[(a)]	2011-12[(a)]	2012-13
Accrual aggregates				
Revenue (A$ billions)	**292.8**	**309.9**	**338.1**	**360.2**
Per cent of GDP	22.7	22.1	22.9	23.8
Expenses (A$ billions)	**340.2**	**356.4**	**378.0**	**382.6**
Per cent of GDP	26.3	25.4	25.6	25.3
Net operating balance (A$ billions)	-47.4	-46.5	-39.9	-22.5
Net capital investment (A$ billions)	6.4	5.3	4.9	1.0
Fiscal balance (A$ billions)	**-53.9**	**-51.8**	**-44.7**	**-23.5**
Per cent of GDP	-4.2	-3.7	-3.0	-1.6
Cash aggregates				
Underlying cash balance (A$ billions)	**-54.5**	**-47.5**	**-43.4**	**-18.8**
Per cent of GDP	-4.2	-3.4	-2.9	-1.2
Balance sheet aggregates				
Net debt (A$ billions)	**42.3**	**84.6**	**147.3**	**153.0**
Per cent of GDP	3.3	6.0	10.0	10.1
Net worth (A$ billions)	**-45.9**	**-95.4**	**-247.2**	**-202.7**
Per cent of GDP	-3.6	-6.8	-16.8	-13.4

(a) Data have been revised in the 2012-13 Final Budget Outcome to improve the accuracy and comparability through time.
Source: Final Budget Outcome 2012-13, Final Budget Outcome 2011-12, Final Budget Outcome 2010-11 and Final Budget Outcome 2009-10. Net operating balance is calculated as total revenue less total expenses.

Total Australian Government general government sector net worth increased by $44.5 billion in 2012-13 to around -$202.7 billion. Net debt increased by $5.7 billion in 2012-13 to around $153.0 billion or 10.1% of GDP (from $147.3 billion or 10.0% of GDP in 2011-12).

The following table sets out general government sector revenue for each of the 2009-10, 2010-11, 2011-12 and 2012-13 fiscal years.

Table 29: Australian Government general government sector revenue

	2009-10	2010-11	2011-12	2012-13
	(A$ millions)			
Individuals and other withholding taxes				
Gross income tax withholding	119,922	130,790	143,978	151,069
Gross other individuals income tax	27,287	30,642	32,992	36,283
less: Individuals refunds	24,390	24,660	25,537	26,801
Total individuals and other withholding taxes	122,820	136,772	151,433	160,551
Fringe benefits tax	3,523	3,348	3,964	3,971
Company tax	53,193	57,312	66,726	68,208
Superannuation funds	6,182	6,693	7,852	7,581
Resource rent taxes [(a)]	1,297	806	1,293	1,927
Total income taxation revenue	**187,016**	**204,931**	**231,268**	**242,238**
Sales taxes	47,800	49,329	50004	51,462
Excise duty				
Petroleum and diesel	13,225	13,361	14,219	14,719
Other excise	11,322	12,442	11,261	10,991
Total excise duty	24,547	25,803	25,480	25,710
Customs duty	5,748	5,828	7,105	8,172
Carbon pricing mechanism[(b)]				6,535
Other indirect taxes	2,889	3,115	2,922	3,206
Total indirect taxation revenue	**80,984**	**84,074**	**85,511**	**95,085**
Total taxation revenues	**268,000**	**289,005**	**316,779**	**337,323**
Interest income	4,430	5,169	4,617	3,646
Dividends, sales of goods and services and other non-taxation revenue	20,337	15,716	16,714	19,191
Total non-taxation revenue	**24,767**	**20,885**	**21,330**	**22,836**
Total revenue	**292,767**	**309,890**	**338,109**	**360,160**

(a) From 2012-13 comprises gross revenue from the Petroleum Resources Rent Tax (PRRT) and the Mineral Resources Rent Tax (MRRT). Prior to this it includes only PRRT. Net revenue from the MRRT was $0.2 billion in 2012-13 which represents the net impact across different revenue heads. These include offsetting reductions in company tax (through deductibility) and interactions with other taxes.
(b) The carbon pricing mechanism was introduced on 1 July 2012.
Source: Data for the 2009-10 fiscal year is sourced from the Final Budget Outcome 2009-10. Data for the 2010-11 fiscal year is sourced from the Final Budget Outcome 2010-11. Data for the 2011-12 fiscal year is sourced from the Final Budget Outcome 2011-12. Data for the 2012-13 fiscal year is sourced from the Final Budget Outcome 2012-13.

Total accrual revenue in 2012-13 was around $360.2 billion.

The table below provides information on general government sector expenses by function for each of the 2009-10, 2010-11, 2011-12 and 2012-13 fiscal years.

Table 30: Australian Government general government sector expenses by function

	2009-10	2010-11	2011-12	2012-13
			(A$ millions)	
General public services				
Legislative and executive affairs	840	1,039	1,003	959
Financial and fiscal affairs	6,845	7,834	7,982	7,843
Foreign affairs and economic aid	4,869	5,564	5,878	5,796
General research	2,358	2,687	2,764	2,651
General services	818	1,208	1,432	759
Governmental superannuation benefits	3,472	4,150	4,094	7,947
Defence	20,150	20,408	21,692	21,146
Public order and safety	3,593	3,823	3,999	3,923
Education	34,889	32,106	29,050	28,468
Health	51,426	56,070	62,012	61,302
Social security and welfare	109,197	117,093	126,747	131,901
Housing and community amenities	9,029	5,543	6,180	6,766
Recreation and culture	3,280	3,252	3,809	3,625
Fuel and energy	8,473	5,914	6,464	5,954
Agriculture, forestry and fishing	2,816	2,546	2,953	2,407
Mining, manufacturing and construction	1,630	1,456	2,245	2,920
Transport and communications	6,641	4,664	9,129	5,023
Other economic affairs				
Tourism and area promotion	162	158	177	190
Labour and employment affairs	4,694	4,669	4,783	4,156
Other economic affairs	2,200	2,013	2,354	2,752
Immigration	1,571	2,206	2,740	3,533
Other purposes				
Public debt interest	6,303	9,273	11,421	12,521
Nominal superannuation interest	6,687	6,997	7,376	6,729
General purpose intergovernmental transactions	47,157	49,298	49,940	51,480
Natural disaster relief[(a)]	136	6,129	1,516	1,893
Contingency reserve[(b)]	0	0	0	0
Total expenses	**339,239**	**356,100**	**377,739**	**382,644**

(a) The 2010-11 outcome reflects a change in the accounting treatment applying to natural disasters, as determined by the Australian National Audit Office.

(b) Asset sale related expenses are treated as a component of the contingency reserve.

Source: Data for the 2009-10 fiscal year is sourced from the Final Budget Outcome 2009-10. Data for the 2010-11 fiscal year is sourced from the Final Budget Outcome 2010-11. Data for the 2011-12 fiscal year is sourced from the Final Budget Outcome 2011-12. Data for the 2012-13 fiscal year is sourced from the Final Budget Outcome 2012-13.

Total accrual expenses were around $382.6 billion in 2012-13.

General government sector net capital investment by function is set out in the table below.

Table 31: Australian Government general government sector net capital investment by function

	2009-10	2010-11	2011-12	2012-13
		(A$ millions)		
General public services	590	457	191	358
Defence	4,136	3,509	2,741	1,841
Public order and safety	103	135	262	21
Education	26	-9	-2	24
Health	249	56	163	-17
Social security and welfare	60	64	253	33
Housing and community amenities	219	180	187	-95
Recreation and culture	110	50	41	-10
Fuel and energy	2	0	6	4
Agriculture, forestry and fishing	748	428	678	287
Mining, manufacturing and construction	0	-2	0	2
Transport and communications	35	176	25	-1,481
Other economic affairs	154	255	305	20
Other purposes	0	0	0	0
Total net capital investment	**6,433**	**5,297**	**4,850**	**987**

Source: Data for the 2009-10 fiscal year is sourced from the Final Budget Outcome 2009-10. Data for the 2010-11 fiscal year is sourced from the Final Budget Outcome 2010-11. Data for the 2011-12 fiscal year is sourced from the Final Budget Outcome 2011-12. Data for the 2012-13 fiscal year is sourced from the Final Budget Outcome 2012-13.

Total net capital investment for 2012-13 was around $1.0 billion.

Commonwealth Investment in the National Broadband Network

NBN Co was created on 7 April 2009 to build and operate a new NBN. For further information regarding the specifications of the NBN, see "Major Industries—Information Media and Telecommunications—Telecommunications" in this Description of the Commonwealth of Australia. NBN Co is a wholly-owned Australian Government company that has been prescribed as a Government Business Enterprise.

NBN Co will be funded with Government equity until it has sufficient cash flows to support private sector debt. The Government expects that during the NBN roll-out period, private sector debt raised by NBN Co will complement Government equity to fund rollout activities.

The Government has also committed to providing a guarantee for the financial obligations of NBN Co until NBN Co is fully capitalised.

Budget implications

NBN operates as a Public Non-Financial Corporation ("PNFC") charging economically significant prices. Financial investments by the Commonwealth of Australia in PNFCs do not have a direct impact on the underlying cash balance. However, investments funded from borrowings have an indirect impact through public debt interest costs, which the Australian Government takes into account in preparation of its Budget.

Pensions and Superannuation

Australia's Retirement Income System

Australia's retirement income system consists of three 'pillars':

- a taxpayer-funded means-tested age pension for people who are unable to fully support themselves in retirement;
- a minimum level of compulsory employer superannuation contributions made in respect of those in the workforce; and
- voluntary private superannuation and other savings.

The age pension has been the cornerstone of Australia's retirement income system since 1909. The age pension provides an income for those people who are unable to fully support themselves in retirement. On 20 September

2009, the maximum single rate age pension increased by $32.50 per week and the maximum couple rate age pension increased by $10.15 per week. The maximum pension payment to single pensioners, including supplements and indexation, has increased from $601.08 per fortnight on 1 July 2009 to $827.10 a fortnight from 20 September 2013. Across the same period the maximum combined fortnightly pension payment to couple pensioners, including supplements and indexation, has increased from $983.08 to $1,246.80. The actual amount an eligible person receives depends on their other income and assets.

Employers are required to provide a prescribed minimum level of superannuation contributions each year for each of their eligible employees. This minimum prescribed amount is known as the Superannuation Guarantee. Payments under the Superannuation Guarantee are contributed to a complying superannuation fund or retirement savings account to be accessed by the employee, typically upon retirement. The prescribed minimum level of support is currently 9.25% of the employee's earnings. Whilst there are exclusions from the regime for employees who earn less than $450 in a month and employees under 18 years old who work less than 30 hours per week, the previous upper age limit of 75 years for Superannuation Guarantee contributions was abolished from 1 July 2013.

Voluntary superannuation savings are encouraged through concessional taxation treatment and other incentives. This includes a concessional tax rate of 15% on pre-tax contributions made into complying superannuation funds up to an annual limit (concessional contributions), and also on any earnings in these funds. A higher annual concessional contribution cap applies for older individuals. Special tax deductibility for contributions made by certain groups is also provided, as are co-contributions for undeducted contributions by low income earners, and a tax offset for spouse contributions made to low income spouses' accounts.

Benefits paid from superannuation are tax-free if taken after age 60, except those paid from previously untaxed sources. Earnings in a superannuation fund that support retirement income streams are generally exempt from tax.

As of 30 June 2013, APRA estimated that total Australian superannuation assets amounted to $1.62 trillion.

A new tax on the concessionally taxed contributions of very high income earners was introduced from 1 July 2012. This tax reduces the tax concession on these contributions by 15%. Individuals affected must have a total of income and concessionally taxed contributions above $300,000. The tax is levied on that part of the individual's contributions that exceeds the $300,000 threshold.

The Government is making a superannuation contribution of up to $500 per year for certain individuals with adjusted taxable income up to $37,000 and who have made concessional superannuation contributions on or after 1 July 2012. The Government has announced its intention to repeal this contribution.

A higher annual concessional contributions cap of $35,000 will apply from 1 July 2013 for individuals 59 and over on 30 June 2013, and from 1 July 2014 for individuals 49 and over on 30 June 2014. This compares to the general annual concessional cap for other individuals which is currently $25,000.

The current Superannuation Guarantee rate of 9.25 % increased on 1 July 2013 from the previous rate of 9%. This rate was to have further increased by 0.25% from 1 July 2014 and 0.5% per annum thereafter until reaching 12% from 1 July 2019. However, the Government has announced its intention to delay these rate increases for two years that will mean the 12% rate is not reached until 1 July 2021.

The Government has announced its intention to review Australia's taxation and financial systems.

Superannuation for Commonwealth Employees

The Commonwealth of Australia operates and administers three main civilian superannuation schemes for Commonwealth sector employees. The current scheme is the Public Sector Superannuation Accumulation Plan (the "PSSAP"), which was established by a trust deed under the provisions of the Superannuation Act 2005 (Cth). PSSAP is a fully funded defined contribution scheme.

PSSAP commenced on 1 July 2005 upon the closure of the Public Sector Superannuation Scheme (the "PSS") to new entrants. The PSS commenced on 1 July 1990 upon the closure of the Commonwealth Superannuation Scheme (the "CSS") to new entrants. Both the PSS and CSS are partially unfunded defined benefit superannuation schemes.

At 30 June 2013, there were 12,410 contributors to the CSS and 101,889 contributors to the PSS and benefits were being paid to 110,276 CSS and 30,311 PSS pensioners.

The Commonwealth's estimated unfunded liability at 30 June 2013 for the CSS and PSS schemes was $92.5 billion. The total estimated unfunded liability for the Commonwealth (civilian and military schemes) at 30 June 2013 was $143.5 billion.

In 2006, the Commonwealth established an investment fund known as the Future Fund to enhance the ability of the Commonwealth to discharge total unfunded superannuation liabilities expected after 2020. As of 30 September 2013, the value of the assets held by the Future Fund was $91.71 billion.

Taxation

Commonwealth, State and Local Governments levy taxes in Australia. Australia has no estate or gift taxes, or separate social security levy, although taxpayers pay a Medicare levy of 1.5% of taxable income (and may also be subject to an additional Medicare levy surcharge if they exceed certain income thresholds and do not take out complying private health insurance (see "Government Finance—Taxation—Personal Income Tax" in this Description of the Commonwealth of Australia)).

Personal Income Tax

The Australian Government levies personal income tax, generally using the individual as the unit of assessment. Income subject to tax assessment includes salary and wage income, allowances, dividends, interest, capital gains, business income, certain pension and benefit payments, rents, royalties, partnership income and distributions from trusts.

The period of assessment is generally 1 July to 30 June. Income is assessed and deductions are allowed in the year they arise, although special rules apply for allowable capital expenditures.

Personal income tax rate thresholds are not indexed. The current personal income tax rates and thresholds are outlined in Table 33.

Table 32: Personal income tax rates and thresholds for residents

Since 1 July 2012	
Taxable income (A$)	**Rate (per cent)**
0 – 18,200	0.0
18,201 – 37,000	19.0
37,001 – 80,000	32.5
80,001 – 180,000	37.0
180,001 +	45.0

Source: Australian Taxation Office

The personal income tax system is based on self-assessment. The tax system utilises a pay-as-you-go approach, where individuals generally pay instalments of their expected tax liability on their income from employment, business, or investment for the current income year through withholdings and instalment payments. Australian residents for tax purposes pay tax on income derived from within Australia and overseas. Income earned overseas and already taxed in the overseas jurisdiction is either exempt from Australian tax or attracts a tax offset.

Residents have access to the benefits of Medicare, and consequently most residents pay a Medicare levy of 1.5% of taxable income. From 1 July 2014, the Medicare levy will be increased from 1.5% to 2.0% of taxable income. Residents may also be subject to an additional Medicare levy surcharge if they exceed certain income thresholds and are not covered by a complying private health insurance product. The size of this additional surcharge is means tested, and may be 1, 1.25, or 1.5% of a resident's taxable income.

Low- and middle-income Australian resident taxpayers may be eligible for the low income tax offset (the "LITO"). Taxpayers eligible for the full LITO (currently $445) do not pay net income tax until their annual taxable income exceeds $20,542.

The Government also provides targeted taxation relief to Australians who are of Age Pension age through the senior Australians and pensioner tax offset (the "SAPTO"). The SAPTO reduces a person's tax liability by a maximum of $2,230 for a single and $1,602 for each member of a couple not separated by illness. When combined with the LITO, the SAPTO results in senior Australians who have taxable income up to $32,279 (single) or $28,974 (each member of a couple not separated by illness) paying no net income tax.

In general, employers pay fringe benefits tax (currently at a rate of 46.5%, increasing to 47% from 1 April 2014) on the grossed-up (i.e. tax inclusive) value of fringe benefits they provide to employees.

Foreign residents are taxed differently to Australian residents. See "Government Finance—Taxation—Australia's jurisdiction to tax: source and residence" in this Description of the Commonwealth of Australia.

Business Tax Arrangements

Corporate tax rate

The corporate tax rate is currently 30%. This applies also to the corporate profits of a branch of an overseas company.

Dividend imputation

The dividend imputation system ensures company income distributed to resident individual shareholders is not double taxed. Franked dividends, effectively paid from previously taxed company income, carry an imputation credit for shareholders.

Capital gains tax

Where assets are held for at least 12 months, capital gains tax applies to 50% of capital gains on the assets for individuals and trusts, and 66⅔% for superannuation funds. A range of business restructure roll-overs, including scrip-for-scrip takeovers between companies and between trusts, provide for the roll-over of capital gains arising from the restructure. Several capital gains tax concessions apply to capital gains on the disposal of active small business assets. The capital gains tax discount does not apply to gains made on assets that are held on revenue account or as trading stock.

Research and development

As of 1 July 2011, eligible research and development ("R&D") expenditure receives a standard 40% non-refundable tax offset and, for firms with annual turnover below $20 million, a refundable 45% tax offset.

Primary production

Special provisions for primary producers include income averaging.

Capital allowances

A uniform capital allowance system applies, based on the effective life of assets, except where a specific treatments applies (for example, for certain primary production assets, oil and gas assets and motor vehicle and aviation assets).

Amortisation at 4% per year generally applies to the capital costs of income-producing buildings for eligible industrial activities; hotels, motels and guest houses containing at least ten bedrooms (used for short-term accommodation for travellers); and apartments, units or flats (used for short-term accommodation for travellers) where the taxpayer owns or leases at least nine other units in the building.

Amortisation at 2.5% per year generally applies to the capital cost of other income-producing buildings and structural improvements, including roads, dams, bridges and buildings used for R&D activities.

Small businesses

Small businesses, with an aggregated annual turnover of less than $2 million, can access concessions covering income tax (including capital gains tax and simplified capital allowances rules), goods and services tax, pay-as-you-go instalments and fringe benefits tax. See "—Corporate tax rate".

Superannuation

Employers are required to provide a prescribed minimum level of superannuation contributions each year for each of their eligible employees. This minimum prescribed amount is known as the Superannuation Guarantee. Payments under the Superannuation Guarantee are contributed to a complying superannuation fund or retirement savings account to be accessed by the employee, typically upon retirement. The prescribed minimum level of support is currently 9.25% of the employee’s earnings. Whilst there are exclusions from the regime for employees who earn less than $450 in a month and employees under 18 years old who work less than 30 hours per week, the previous upper age limit of 75 years for Superannuation Guarantee contributions was abolished from 1 July 2013.

The current Superannuation Guarantee rate of 9.25% increased on 1 July 2013 from the previous rate of 9%. This rate was to have further increased by 0.25% from 1 July 2014 and 0.5% per annum thereafter until reaching 12% from 1 July 2019. However, the Government has announced its intention to delay these rate increases for two years that will mean the 12% rate is not reached until 1 July 2021.

Taxation of Financial Arrangements Stages 3 and 4

The Taxation of Financial Arrangements ("TOFA") Stages 3 and 4, which was enacted by the *Tax Laws Amendment (Taxation of Financial Arrangements) Act 2009* (Cth), covers, among other matters, accruals and other tax-timing rules as well as character-hedging rules.

Indirect tax

Goods and Services Tax

Goods and services tax ("GST") is a broad based value-added tax on most goods and services consumed in Australia, with limited exceptions in areas such as food, education and health. It applies at a uniform rate of 10% on the supply or importation of taxable goods and services, based on the selling price.

The Australian Government collects GST revenue and distributes it to the States and Territories. The GST rate and base can only be changed with unanimous support from State and Territory governments.

GST is levied on businesses at all stages of the production process. Businesses are generally able to claim a credit for GST paid on business inputs. GST is not levied on residential rents and financial services, but suppliers of these products and services generally cannot claim a credit for GST paid on production inputs.

Excise and customs duty

Excises are specific taxes on goods, including fuel, alcohol (except wine products) and tobacco.

An excise-equivalent customs duty applies to imports of excisable goods and is collected at the border usually from importers or owners of the goods. Additionally, customs tariffs apply to a range of imported goods and this varies depending on the type of goods and the country of origin. Businesses are not credited for tariffs paid on their imports.

Excise rates for tobacco and alcohol (except wine products) are indexed twice a year in February and August in line with the consumer price index.

Some tobacco products, such as cigarettes and cigars, are taxed on a per stick basis, provided each does not exceed 0.8 grams of overall tobacco content. Weight based (per kilogram) taxation generally applies to other tobacco products. At 1 August 2013, the tax rate applying to cigarettes was $0.35731 per stick, or $446.65 per kilogram of tobacco content (for loose tobacco).

Beer and spirits are taxed on alcohol content, with different rates applying to beer depending on alcohol-strength and packaging. Beer is also subject to a low alcohol threshold, where the first 1.15% of alcohol content is free of excise duty. Spirits attract a higher rate than beer and at 1 August 2013, the excise rate for most spirits was $76.98 per litre of alcohol.

Since 2001, the excise rate applying to petrol and diesel has been fixed at 38.143 cents per litre. Eligible businesses are able to claim fuel tax credits for certain off-road use of transport fuels and on-road use in heavy vehicles (vehicles with gross vehicle mass greater than 4.5 tonnes). From 1 July 2012, aviation fuel excise increased from 3.556 cents per litre to include the carbon charge. As aviation gasoline and kerosene have different carbon emissions, they have different carbon charges; the carbon charge inclusive excise rate for aviation gasoline is 8.616 cents per litre, while the rate for aviation kerosene is 9.536 cents per litre.

The gaseous fuels liquefied petroleum gas (LPG), liquefied natural gas (LNG) and compressed natural gas (CNG) were brought into the fuel tax regime on 1 December 2011. The fuel tax rates will reflect the energy content of the fuels relative to the energy content of petrol and diesel but will be discounted by 50% to recognise the environmental and fuel security benefits that increased use of these fuels will bring. Fuel tax will be phased in for these fuels with the full rate not applying until 1 July 2015.

Wine equalisation tax

Wine is not subject to excise, but attracts a separate wine equalisation tax ("WET"). The WET is a value-based tax and is generally applied on the final wholesale selling price of wine, including wine imported into Australia, at a rate of 29%.

Wine producers are able to claim a producer rebate of up to $500,000 WET payable on eligible assessable wine sales per financial year. This effectively allows each wine producer (or group of producers) to exempt approximately $1.7 million of assessable wine sales from the WET.

Luxury car tax

The luxury car tax rate is set at 33% and is applied to cars with a GST-inclusive value exceeding $60,316 the luxury car tax threshold for the 2013-14 financial year. A higher luxury car tax threshold, known as the 'fuel efficient car limit', is available to certain fuel efficient vehicles. The 'fuel efficient car limit' for the 2013-14 financial year is $75,375.

In general, the luxury car tax does not apply to second hand sales of cars.

Eligible primary producers and tourism operators are able to apply for a refund of up to $3,000 of the luxury car tax paid for certain cars. Primary producers are limited to a refund entitlement of one car each financial year.

Resource taxes and royalties

Australian Government will repeal the Minerals Resource Rent Tax (MRRT), which commenced on 1 July 2012, by 1 July 2014. The extension of the Petroleum Resource Rent Tax (PRRT) to all Australian onshore and offshore oil and gas projects, including the North West, which also commenced on 1 July 2012, will remain in place.

Under the MRRT, Australian iron ore and coal projects have been subject to an effective 22.5% tax on assessable profits calculated from the value of the commodity at the point at which it leaves the 'run of mine' stockpile immediately following extraction, less all costs incurred to that point.

The extension of the PRRT means that, since 1 July 2012, it applies to all Australian oil, gas and coal seam methane projects, rather than just offshore petroleum projects to which it has applied since 1986. The PRRT applies a headline tax rate of 40%. Existing features of the PRRT, including a range of uplift allowances for unutilised losses and capital write offs, immediate expensing for expenditure and limited transfer of the tax value of losses, continue to apply. Past investments on oil and gas projects transitioning into the PRRT regime are recognised through the provision of a starting base allowance.

The extended PRRT (and the soon to be repealed MRRT) provide resource entities with a credit for State and Territory royalties and resource taxes paid, as well as other specific Australian Government resource taxes and royalties applying to the extraction of oil and gas.

Other taxes

A range of Australian government departments administer a broad range of minor taxes, including charges for notional cost recovery, penalties, levies and licence fees.

Agricultural products attract around 70 separate levies; this revenue funds services and research in specific agricultural industries.

Australia's jurisdiction to tax: source and residence

The taxation of income in Australia is principally determined on the basis of whether the entity is an Australian resident or a foreign resident for tax purposes. Australian residents are taxed on their worldwide income whereas foreign residents are taxed only on income sourced in Australia.

Double taxation

Double taxation is caused by overlapping tax jurisdictions arising from the application of the source and residence principles noted above. For example, two countries may seek to tax the same income. Relief from double taxation is typically provided under domestic law by either: (i) exempting the income from domestic tax, or (ii) crediting the foreign tax paid on that income against domestic tax. Australia also allows a deduction for foreign tax paid under certain limited circumstances. In addition to domestic law, bilateral tax treaties contain rules designed to eliminate double taxation.

Australia's tax treaties allocate taxing rights between the residence (of the person) and source (of the income) countries and require the former to eliminate double taxation when there are competing taxing rights. They also provide an agreed basis for allocating the income and expenses of multinational groups operating in both countries. In addition, they authorise administrative cooperation to prevent fiscal evasion and to assist in the collection of tax debts. Australia has signed 44 comprehensive bilateral tax treaties, based on the *OECD Model Tax Convention on Income and on Capital*.

Integrity rules

Thin capitalisation

The thin capitalisation regime is designed to ensure that multinationals do not allocate an excessive amount of debt to their Australian operations. The regime operates by disallowing a proportion of otherwise deductible borrowing expenses where the debt allocated to Australian operations exceeds certain limits. The rules apply to:

- Australian entities that operate internationally and some of their associates;
- Australian entities that are foreign controlled; and
- foreign entities that operate in Australia.

The rules do not apply to entities: (i) with an annual debt deduction of $250,000 or less; (ii) that are outward investing Australian entities at least 90% of whose assets are Australian assets; or (iii) that are qualifying special purpose (securitisation) entities.

On 14 May 2013, the then Australian Government announced reforms to the thin capitalisation rules.

Transfer pricing

Australia's transfer pricing rules are designed to ensure that Australian and foreign multinational enterprises approach their international dealings in accordance with the arm's length principle in an internationally consistent way. Aligning with international best practice as set out by the OECD reduces compliance costs and facilitates trade and investment. The aim of these rules is to prevent profit shifting between entities or parts of entities located in different jurisdictions to ensure taxable Australian profits are commensurate with the economic value added in Australia.

Foreign source income anti-tax-deferral (attribution) regimes

Australia's attribution regimes consist of:

- the controlled foreign company rules; and
- the transferor trust rules.

These rules are designed to ensure residents cannot defer or avoid Australian tax by accumulating certain (generally passive) income offshore. They tax residents on an accruals basis on their share of that income accumulating offshore.

On 14 May 2013, the Australian Government announced it would reconsider the previously announced reform of the foreign source income attribution rules after the OECD completes its analysis of controlled foreign company rules.

Tax information exchange agreements

A tax information exchange agreement ("TIEA") is a bilateral agreement to establish a legal basis for the exchange of information for both criminal and civil tax purposes. Australia has signed 36 TIEAs with other jurisdictions.

Commonwealth-State Financial Relations

Commonwealth-State financial relations involve the provision of Australian Government financial assistance to the States and Territories and oversight by the Australian Loan Council of government borrowings.

The States and Territories receive significant financial support from the Commonwealth of Australia. As at the 2013-14 Budget, Commonwealth payments to the States and Territories for 2013-14 were estimated to total $95.3 billion, comprising general revenue assistance, including GST payments of $50.3 billion and payments for specific purposes of $44.1 billion. This represents a 3.6% increase in total financial assistance compared to 2012-13. General revenue assistance is a broad category of payments that are provided to the States and Territories without conditions to spend according to their own budget priorities. The Commonwealth of Australia also provides payments to the States and Territories for specific purposes in order to pursue important national policy objectives in areas that may be administered by the States and Territories.

As agreed by the Council of Australian Governments in the *Intergovernmental Agreement on Federal Financial Relations*, GST payments are distributed among the States and Territories in accordance with the principle of horizontal fiscal equalisation. Under this principle, States and Territories receive funding from the Commonwealth of Australia such that, if each made the same effort to raise revenue from its own sources and operated at the same level of efficiency, each would have the capacity to provide services and the associated infrastructure at the same standard level.

The Australian Loan Council

The Australian Loan Council is a Commonwealth-State ministerial council that coordinates public sector borrowing. The Loan Council consists of the Prime Minister of Australia and the Premier/Chief Minister of each State and Territory. However, in practice each member is represented by a nominee, usually the Treasurer of that jurisdiction, with the Commonwealth Treasurer as Chair.

Current Loan Council arrangements operate on a voluntary basis and emphasise transparency of public sector financing rather than adherence to strict borrowing limits. These arrangements are designed to enhance financial market scrutiny of public sector borrowing and facilitate informed judgments about each government's financial performance.

The Loan Council traditionally meets annually in March to consider jurisdictions' nominated borrowings for the forthcoming year. As part of the agreed arrangements, the Loan Council considers these nominations, having regard to each jurisdiction's fiscal position and the macroeconomic implications of the aggregate figure.

In April 2013, the Commonwealth Government nominated, and the Loan Council endorsed, a Loan Council Allocation deficit for 2013-14 of $10.3 billion.

Domestic Issuance of Government Bonds

While persistent fiscal surpluses in years prior to 2008-09 removed the need to borrow for budget funding purposes, the Australian Government continued to issue Treasury Bonds in order to maintain an active Treasury Bond market and to support the market in Treasury Bond futures contracts. These two markets are used in the pricing and hedging of a wide range of financial instruments and in the management of interest rate risks by market participants. These markets provide additional diversity to the financial system and contribute to a lower cost of capital in Australia.

On 3 February 2009, the Australian Government released the 2009 UEFO. Consistent with the forecasts contained in the 2009 UEFO, on 4 February 2009 the Australian Office of Financial Management ("AOFM") increased its issuance of Treasury Bonds.

Since the release of the 2009 UEFO, the AOFM has conducted two Treasury Bond tenders most weeks (generally on a Wednesday and a Friday). Between the release of the 2009 UEFO and the 2009-10 Budget, the amount offered at each tender was in the range of $500 million to $700 million. On 12 May 2009, updated economic and fiscal forecasts were released by the Government in its 2009-10 Budget. In line with the release of this publication, the Treasury Bond tenders offered by the AOFM over the remainder of 2008-09 were for up to $800 million each. From 2009-10 to 2012-13, the Treasury Bond tenders offered by the AOFM were in the range of $300 million and $1.25 billion. The AOFM also issues by way of syndication and from 2011-12 to 2012-13 syndicated issues were in the range of $3.25 billion to $4 billion. In selecting bond lines to be offered at tender the AOFM has consulted with bond market participants.

The total face value amount of Treasury Bonds on issue at end-September 2013 was $251.9 billion, an increase of around $39.1 billion on end-August 2012.

Issuance of Treasury Bonds in the 2012-13 financial year totalled approximately $53.8 billion in face value terms.

Treasury Bond issuance in 2013-14 is expected to be around $70 billion. After accounting for maturities of $23 billion this represents a net increase of $47 billion in the face value amount of Treasury Bonds on issue. The face value amount of Treasury Bonds on issue at end-June 2014 is expected to be around $280.5 billion.

In 2013-14 tenders are expected to be held on Wednesdays and Fridays, with details of the bond lines and amounts to be offered in a particular week announced at noon on the Friday of the preceding week. The face value amount offered at each tender is projected to be in the range of $500 million to $1 billion.

Issuance in 2012-13 featured two new Treasury Bond lines maturing in 2025 and 2029.

There is expected to be a large within-year financing requirement as a result of differences in the timing of Budget receipts and payments. In the period ahead, Treasury Notes are planned to be used to assist with the management of short-term financing requirements.

Treasury Note issuance was recommenced by the AOFM on 5 March 2009. The total face value amount of Treasury Notes on issue at end-September 2013 was $6.5 billion, a decrease of $8.5 billion on end-August 2012.

The volume of Treasury Notes on issue varies depending on the flows of Australian Government receipts and expenditures. As at 30 June 2013 the volume of Treasury Notes on issue was $5.5 billion.

On 7 August 2009, following consultations with financial market participants, the AOFM announced that it would resume the issuance of Treasury Indexed Bonds, which were last issued in 2003. Between 1 July 2012 and 30 June 2013, $2.3 billion of Treasury Indexed Bonds were issued.

The total face value amount of Treasury Indexed Bonds on issue at end-September 2013 was $18.9 billion, an increase of around $2.4 billion on end-August 2012.

Issuance of Treasury Indexed Bonds in 2013-14 is expected to be between $4 billion and $5 billion. Issuance in 2013-14 is expected to include a new Treasury Indexed Bond line maturing in 2035. The face value amount of Treasury Indexed Bonds on issue at end-June 2014 is expected to be around $22 to $23 billion.

As at 30 September 2013, the Australian Government had not borrowed directly in foreign currencies since 1987, and had only $5.9 million of outstanding borrowings denominated in foreign currencies.

On 7 April 2009, the then Government announced that its investment in NBN Co would be partly funded through the issuance of Aussie Infrastructure Bonds ("AIBs"). AIBs were not be required until 2011-12, as the Government equity requirements for NBN Co prior to 2011-12 were met in full with funds from the Building Australia Fund. In 2011-12, all of the Government's $1.5 billion equity investment in NBN Co was financed through AIBs, through the wholesale issuance of Commonwealth Government Securities as part of the AOFM's overall debt program. In 2012-13, it is expected that $4.3 billion of the Government’s $4.7 billion equity investment in NBN Co will be financed through AIBs in the same manner.

AIBs will not be separately identifiable from Commonwealth Government Securities, but will be reported as AIBs in the Budget statements. In addition, from 1 July 2011 the AOFM's weekly CGS tender notices have indicated that some of the proceeds of tenders may be used to finance the Government's investment in NBN Co.

Guarantees and Other Contingent Liabilities

Loan Guarantees by the Commonwealth

It is current practice for Commonwealth-owned instrumentalities to borrow directly rather than for the Australian Government to borrow on their behalf. The FMA Act (Cth) allows all Government Ministers to issue loan guarantees on behalf of the Australian Government using executive authority under the Australian Constitution, subject to the authorisation of the Minister for Finance and Deregulation. However, the governing legislation of some Commonwealth statutory authorities provides the Treasurer specifically with the discretionary power to guarantee their borrowings, reflecting legislative arrangements prior to the introduction of the FMA Act.

The number of new loan guarantees provided by the Australian Government has declined in recent years, reflecting a policy that Commonwealth instrumentalities engaged in business enterprises should approach capital markets on a basis more comparable with private businesses.

The Australian Government guarantees the due payment by Australia's export credit agency, the Export Finance and Insurance Corporation ("EFIC"), of money that is, or may at any time become, payable by EFIC to anybody other than the Australian Government. As at 30 June 2013, the Government's total contingent liability relating to EFIC was $3.3 billion. The Australian Government also has in place a $200 million callable facility available to EFIC on request to cover liabilities, losses and claims.

The following table shows, in summary form, information relating to borrowings supported by specific Commonwealth guarantee and other indemnities and contingencies as at 30 June 2010, 2011 and 2012.

Table 33: Quantifiable Contingent Liabilities

	At 30 June 2010	At 30 June 2011	As at 30 June 2012
	(A$ millions)		
Guarantees	261	420	368
Indemnities	614	637	365
Uncalled shares/capital subscriptions	12,114	9,654	10,198
Claims for damages/costs	111	117	185
Other contingencies	6,338	8,276	4,747
Total quantifiable contingent liabilities	**19,438**	**19,104**	**15,863**
Less quantifiable contingent assets	413	326	247
Net quantifiable contingencies	**19,025**	**18,778**	**15,616**

Source: Commonwealth Consolidated Financial Statements for the years ended 30 June 2010, 30 June 2011 and 30 June 2012.

Commonwealth Initiatives to Enhance the Stability of the Australian Financial System

In order to promote financial system stability and ensure the continued flow of credit throughout the economy at a time of heightened turbulence in the international capital markets, the Australian Government implemented:

- the Financial Claims Scheme establishing:
  - measures under Part II, Division 2AA of the *Banking Act 1959* (Cth) to:
    - protect account-holders' deposits made with eligible ADIs (other than foreign ADIs), and interest accrued on such deposits, to a total maximum value of $250,000 per account-holder per ADI and facilitate prompt payout of deposits protected under the Financial Claims Scheme to account-holders in the event that an ADI fails; and
  - measures under Part VC of the *Insurance Act 1973* (Cth) to facilitate the payment of moneys payable under valid claims made by eligible claimants against a general insurer that has become insolvent; and
- the Guarantee Scheme for Large Deposits and Wholesale Funding, which we refer to as the "ADI Guarantee Scheme", a voluntary scheme allowing:
  - ADIs (other than foreign ADIs) to apply to have deposit balances of greater than $1,000,000 per customer per ADI and certain non-complex senior unsecured debt instruments with maturities of up to 60 months; and
  - foreign ADIs to apply, subject to satisfaction of certain conditions, to have certain deposits held by Australian residents at call or with maturities up to and including 31 December 2009 and certain non-complex senior unsecured short-term debt instruments having maturities up to 15 months,

  in each case that satisfied the eligibility criteria set out in the scheme rules relating to the ADI Guarantee Scheme, guaranteed by the Commonwealth of Australia.

The ADI Guarantee Scheme closed to new issuance of wholesale liabilities and acceptance of additional deposit funds on 31 March 2010.

The key elements of the schemes are as follows:

Financial Claims Scheme

- The Commonwealth of Australia is:
  - permanently guaranteeing new and existing deposits in eligible ADIs (other than foreign ADIs), and interest accrued on such deposits, up to a limit of $250,000 per account-holder per ADI from 1 February 2012; and
  - facilitating prompt payout of deposits protected under the Financial Claims Scheme to account-holders in the event that an ADI fails.
- The Commonwealth of Australia is facilitating the payment of moneys payable under valid claims made by eligible claimants against a general insurer that has become insolvent.

Guarantee Scheme for Large Deposits and Wholesale Funding

The Commonwealth of Australia guaranteed:

- new and existing deposits in ADIs (other than foreign ADIs) of greater than $1,000,000 during the continuance of the ADI Guarantee Scheme upon application and for a fee;
- the Commonwealth of Australia guaranteed on an issue by issue basis certain non-complex senior unsecured short-term (maturities up to 15 months) and term funding (maturities of 15 months up to 60 months) debt instruments of ADIs (other than foreign ADIs) upon application and for a fee; and
- the Commonwealth of Australia guaranteed certain deposits held by Australian residents at call or with maturities up to and including 31 December 2009 and certain non-complex senior unsecured short-term debt instruments having maturities up to 15 months upon application, and for a fee with respect to foreign ADIs, and subject to satisfaction of certain conditions.

On 7 February 2010, the Australian Government announced:

- 24 March 2010 as the final date on which ADIs could apply for Eligibility Certificates under the ADI Guarantee Scheme in respect of eligible debt instruments and eligible deposits (the "Final Application Date"); and
- 31 March 2010 as the final date on which ADIs could issue debt instruments guaranteed under the ADI Guarantee Scheme and the final date on which further guaranteed deposits could be accepted (the "Final Issuance Date").

Guaranteed liabilities existing on the Final Issuance Date remain guaranteed in accordance with their terms.

Reporting under the Guarantee Scheme for Large Deposits and Wholesale Funding

The RBA has established and maintains a website, currently *www.guaranteescheme.gov.au*, to provide information with respect to the operations of the ADI Guarantee Scheme by identifying guaranteed liabilities by ADI, issue size, date of extension of the guarantee, liability class, currency, program/product name, security identifier and maturity. The contents of the website are not incorporated by reference into this Description of the Commonwealth of Australia. The RBA prepares monthly reports with respect to the operations of the ADI Guarantee Scheme. The Government also provides six-monthly reports to the Australian Parliament detailing:

- the aggregate amount of guaranteed liabilities;
- any calls made under the ADI Guarantee Scheme for payment; and
- any payments by the Commonwealth of Australia under the ADI Guarantee Scheme.

For September 2013, total average daily guaranteed liabilities of all ADIs under the ADI Guarantee Scheme were estimated at $44.2 billion. This comprised an estimated $2.4 billion of large deposits and an estimated $41.8 billion of wholesale funding.

Commonwealth Guarantee of State and Territory Borrowing

On 24 July 2009, in order to support the capacity of Australian State and Territory governments to access credit markets, the Government of the Commonwealth of Australia implemented the Australian Government Guarantee of State and Territory Borrowing (the "State Guarantee Scheme").

The key elements of the State Guarantee Scheme are as follows:

- The Commonwealth of Australia guaranteed the liabilities of each relevant State or Territory in relation to certain non-complex, Australian dollar-denominated debt securities issued in respect of borrowing of such State or Territory (and not in support of borrowing for non-government owned entities) having maturities of up to 180 months upon application and for a fee;

- The States and Territories were able to apply for a guarantee of both existing stock of eligible State and Territory securities and future issuances;

The State Guarantee Scheme closed on 31 December 2010, with this being the final day on which an issuing entity could issue debt securities the liabilities of the relevant State or Territory in respect of which are guaranteed under the State Guarantee Scheme (the "State Guarantee Final Issuance Date").

Guaranteed liabilities under the State Guarantee Scheme that existed on the State Guarantee Final Issuance Date will remain guaranteed in accordance with their terms. The deed of guarantee relating to the State Guarantee Scheme will terminate at midnight on 30 June 2026.

Reporting under the Guarantee of State and Territory Borrowing

The RBA has established and maintains a website, currently *www.stateguarantee.gov.au*, to provide information with respect to the operations of the State Guarantee Scheme by identifying guaranteed liabilities by issuing entity and State or Territory, issue size, date of extension of the guarantee, liability class, program/product name, security identifier and maturity. The contents of the website are not incorporated by reference into this Description of the Commonwealth of Australia. The RBA prepares monthly reports with respect to the operations of the State Guarantee Scheme.

As at 30 June 2013the face value of state and territory borrowings covered by the guarantee was $25.4 billion.

Other Contingent Liabilities and Undertakings

The Australian Government has contingent liabilities with various international financial institutions. As at 28 June 2013, Australia's callable capital subscriptions totalled US$3.1 billion (approximately A$3.4 billion) for the IBRD, US$7.0 billion (estimated value A$7.6 billion) for the ADB, US$26.5 million (approximately A$28.5 million) for the MIGA and €237.5 million (approximately A$334.8 million) for the EBRD. In addition, the undrawn portion of promissory notes issued and payable on demand in respect of maintenance-of-value obligations to the capital of the IBRD amounted to US$42.6 million (approximately A$45.9 million) as at 28 June 2013.

Promissory notes have also been issued by the Australian Government as successive quota subscriptions to the IMF and in order to maintain the value of the IMF's holdings of Australian dollars in SDR terms. At 28 June 2013, the undrawn portion of lodged promissory notes issued for these purposes amounted to A$3.0 billion.

Australia has made a line of credit available to the IMF under its New Arrangements to Borrow ("NAB") since 1998. Since March 2011, Australia's NAB credit arrangement has been SDR 4.4 billion (an estimated value of A$7.1 billion as at 28 June 2013). This is a contingent loan to help ensure that the IMF has the resources available to maintain stability and support recovery in the global economy. The funds are being drawn upon by the IMF as needed to supplement the IMF's usual quota resources and will be repaid in full with interest.

In addition, on 20 April 2012, Australia committed a SDR 4.6 billion (estimated value of A$7.5 billion as at 28 June 2013) contingent bilateral loan to the IMF as part of a broad global effort to increase the resources it has available for crisis prevention and resolution. Australia’s loan with the IMF came into effect on 18 July 2013. This loan may only be called upon by the IMF once it has exhausted its other sources of financing, including quota and NAB, and would be repayable in full with interest if it was drawn upon.

The Australian Government is contributing to the IBRD's capital increase announced in April 2010. As part of the capital increase, Australia will subscribe to a further US$808.3 million (approximately A$871.5 million) in callable capital, bringing Australia’s total value of callable capital to US$3.6 billion (approximately A$3.9 billion). The capital increase will be completed in July 2015.

The Australian Government is also contributing to the ADB's fifth general capital increase. Australia’s contingent liability at the ADB now totals US$7.0 billion (approximately A$7.6 billion at 28 June 2013).

In May 2010, the Australian Government agreed to participate in the EBRD's general capital increase. On 20 April 2011, the callable component of the capital increase became effective. Consequently, Australia's contingent liability now totals €237.5 million (approximately A$334.8 million).

As at 28 June 2013, the Australian Government had liabilities of A$1.8 billion to existing replenishments of the ADF, the IDA (including with respect to the Heavily Indebted Poor Countries initiative and the Multilateral Debt Relief Initiative) and the Global Environment Facility. These liabilities are covered by the instruments of commitment that were signed at the time of pledging. Promissory notes will be lodged regularly over the life of each replenishment to enable draw-downs to occur in line with the agreed timetables for cash disbursements.

PUBLIC DEBT

The following table provides an account of all Commonwealth Government Securities on issue as of 30 September 2013.

Table 34: Government securities on issue in Australian dollars

	Date of Issue	**Date of Maturity**	**Interest Rate (% Per Annum)**	**Outstanding 30 September 2013 (A$ '000)**
Treasury Fixed Coupon Bonds[a]				
	From May 2010	15 Dec 2013	5.50	9,300,000
	From Jul 2008	15 Jun 2014	6.25	13,299,000
	From Sep 2010	21 Oct 2014	4.50	12,000,000
	From May 2002	15 Apr 2015	6.25	14,798,000
	From Jul 2011	21 Oct 2015	4.75	13,900,000
	From Jul 2010	15 Jun 2016	4.75	19600,000
	From Jun 2004	15 Feb 2017	6.00	17,998,000
	From Sep 2011	21 Jul 2017	4.25	13,900,000
	From Nov 2010	21 Jan 2018	5.50	19,100,000
	From Jan 2006	15 Mar 2019	5.25	16,547,500
	From Apr 2009	15 Apr 2020	4.50	17,597,000
	From Sep 2007	15 May 2021	5.75	17,900,000
	From Apr 2010	15 Jul 2022	5.75	15,900,000
	From May 2011	21 Apr 2023	5.50	18,200,000
	From Jun 2012	21 Apr 2024	2.75	10,000,000
	From May 2013	21 Apr 2025	3.25	5,800,000
	From Oct 2011	21Apr 2027	4.75	10,200,000
	From Oct 2012	21 Apr 2029	3.25	5,900,000
Total Treasury Fixed Coupon Bonds[b]				251,939,500
Treasury Indexed Bonds				
	1994 – 2003; From Feb 2010	20 Aug 2015	4.00	3,195,800
	1996 – 2002; From Nov 2009	20 Aug 2020	4.00	4,773,200
	From Feb 2012	21 Feb 2022	1.25	2,600,000
	From Sep 2009	20 Sep 2025	3.00	5,450,000
	From Sep 2010	20 Sep 2030	2.50	2,900,000
Total Treasury Indexed Bonds				18,919,000 [c]
Treasury Notes[a]	Various	Various	[d]	6,500,000
Miscellaneous Securities[e]	Various	Various	Various	13,471
Total on issue in Australian Dollars				277,371,971

(a) Treasury Bonds and Treasury Notes issued since 1 July 1984 are available only as Inscribed Stock; before then Commonwealth securities were also available in bearer form.
(b) Since 5 August 1982, Treasury Bonds have been sold by a tender system.
(c) Original face value.
(d) Treasury Notes are issued at a discount and are redeemed at par on maturity.
(e) Includes tax free stock and overdues.
(f) Table 40 includes capital accretion on Treasury Indexed Bonds whereas Table 34 does not.
Source: Australian Office of Financial Management.

The tables below show the external debt of the Australian Government, on issue at 30 September 2013. The bonds issued by Australia which are listed below require the Australian Government, in accordance with their terms, to secure such bonds *pari passu* with new bonds, loans or borrowings which would otherwise rank in priority to such bonds.

Table 35: Government securities repayable in Pounds Sterling

Date of Issue	Date of Final Maturity	Interest Rate (% Per Annum)	Outstanding 30 September 2013 (£ Sterling '000)
Commonwealth Government issues			
Various	Matured—bonds not yet presented for payment(a)	Nil	52
Total Repayable in Pounds Sterling			52

(a) Elapsed bonds reclaimed from fiscal agent.
Source: Australian Office of Financial Management.

Table 36: Government securities repayable in United States Dollars

Date of Issue	Date of Final Maturity	Interest Rate (% Per Annum)	Outstanding 30 September 2013 (US$ '000)
March 1987	15 Mar 2017	8.375	5,321
Total Repayable in United States Dollars			5,321

Source: Australian Office of Financial Management.

Table 37: Government securities repayable in Euro

Date of Final Maturity	Interest Rate (% Per Annum)	Outstanding 30 September 2013 (€'000)
Matured – Bonds not yet presented for payment(a)	Nil	5
Total Repayable in Euro(b)		5

(a) Elapsed bonds reclaimed from fiscal agent.
(b) Bonds originally repayable in Deutsche Marks, converted to Euro at the 31 December 1998 rate of 1.95583 Deutsche Marks = 1.0 Euro irrevocably fixed by the European Central Bank.
Source: Australian Office of Financial Management.

Table 38: Government securities repayable in Japanese Yen

Date of Final Maturity	Interest Rate (% Per Annum)	Outstanding 30 September 2013 (¥ '000)
Matured – Bonds not yet presented for payment(a)	Nil	416
Total Repayable in Japanese Yen		416

(a) Elapsed bonds reclaimed from fiscal agent.
Source: Australian Office of Financial Management.

Table 39: Government securities repayable in Swiss Francs

Date of Final Maturity	Interest Rate (% Per Annum)	Outstanding 30 September 2013 (SF '000)
Matured – Bonds not yet presented for payment(a)	Nil	51
Total Repayable in Swiss Francs		51

(a) Elapsed bonds reclaimed from fiscal agent.
Source: Australian Office of Financial Management.

The following table shows estimated payments of principal (including contractual prepayments and payments at maturity) to be made on the direct debt of the Australian Government outstanding on 30 June 2013.

Table 40: Summary of funded debt payment (as at 30 June 2013)[(a)]

	2013-14	2014-15	2015-16 - 2016-17	2017-18 - 2020-21	2021-22 - 2030-31
			(A$ millions)		
Repayable:					
In Australian Dollars	28,105	26,798	50,751	87,843	69,507
Repayable overseas:[(b)]					
In United States Dollars	0	0	5	0	0
Total	28,105	26,798	51,756	87,843	69,507

(a) Table 40 includes capital accretion on Treasury Indexed Bonds whereas Table 34 does not.
(b) Converted into Australian Dollars at rates of exchange prevailing on 30 June 2013.
Source: Australian Office of Financial Management; unpublished AOFM data.

See "Government Finance—Domestic Issuance of Government Bonds" in this Description of the Commonwealth of Australia.

Debt Record

The Commonwealth of Australia has paid promptly, when due, the full amount of principal and interest on every direct external obligation issued by it and has met every indirect external obligation on which it has been required to implement its guarantee in the lawful currency, and in the country where payable, at the time of payment.

Credit Ratings

The Australian Government has the highest possible rating for both foreign and domestic currency denominated debt from Standard and Poor's, Moody's and Fitch. All ratings have a stable outlook. The Australian Government issues Commonwealth Government Securities to meet its budget financing requirement and to manage within year funding requirements as a result of differences in the timing of receipts and payments. Maintenance of the Australian Government's credit rating is important in order to minimise the Australian Government's borrowing costs. Following the release of the 2013-14 Budget, Standard and Poor's, Moody's and Fitch maintained their respective ratings for Australia. More recently, on 18 July 2013, Standard and Poor's affirmed its rating for Australia, with a stable outlook.