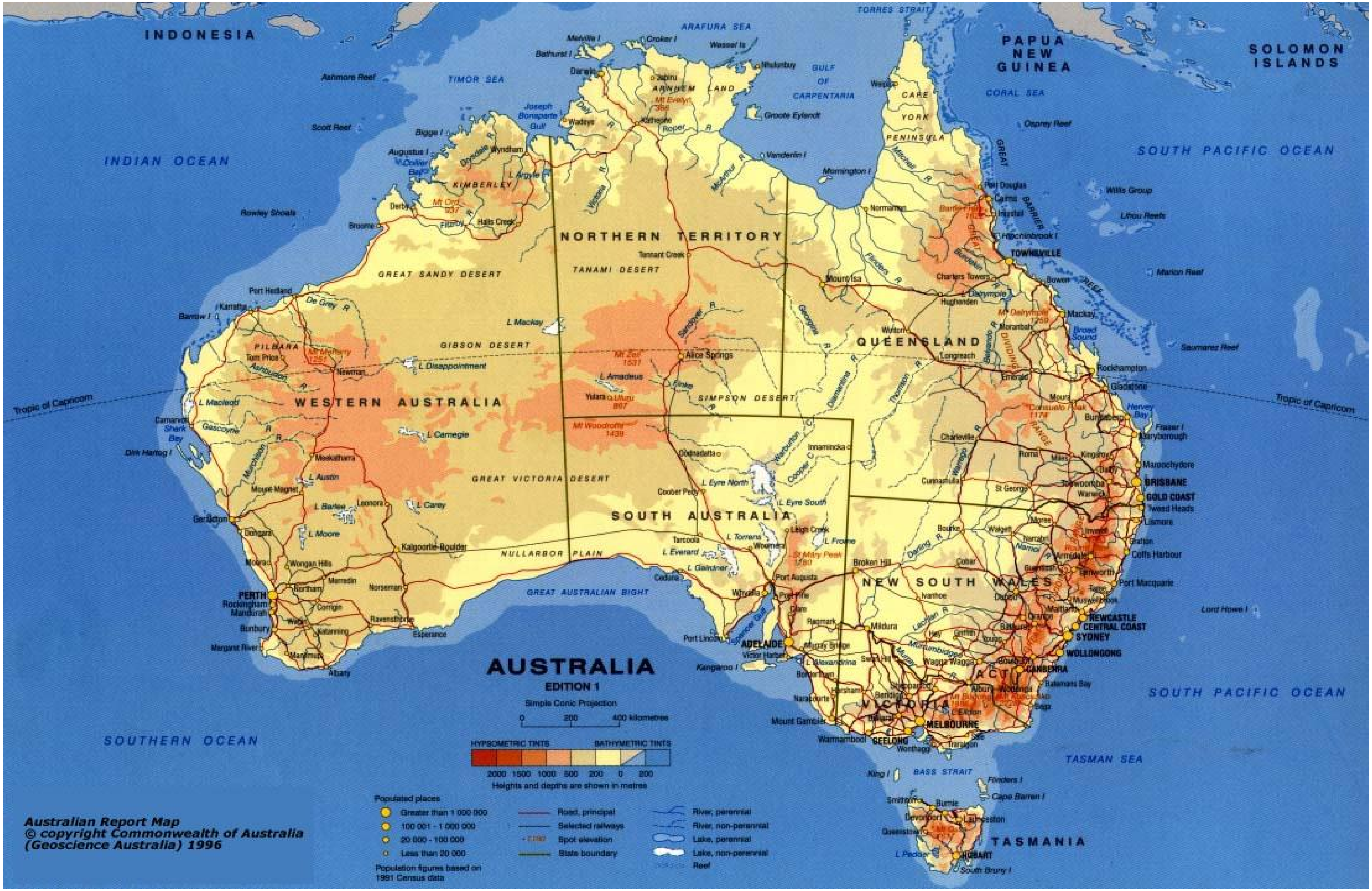
IMPORTANT NOTICE

DESCRIPTION OF THE COMMONWEALTH OF AUSTRALIA

Dated as of 7 October 2014


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
TORRES STRAIT
GULF OF CARPENTARIA
GREAT AUSTRALIAN BIGHT
BASS STRAIT
WESTERN AUSTRALIA
NORTHERN TERRITORY
QUEENSLAND
SOUTH AUSTRALIA
NEW SOUTH WALES
VICTORIA
A.C.T.
TASMANIA
GREAT SANDY DESERT
GIBSON DESERT
GREAT VICTORIA DESERT
TANAMI DESERT
SIMPSON DESERT
NULLARBOR PLAIN
KIMBERLEY
PILBARA
ARNHEM LAND
CAPE YORK PENINSULA
GREAT BARRIER REEF
Tropic of Capricorn
PERTH
ADELAIDE
MELBOURNE
SYDNEY
BRISBANE
CANBERRA
HOBART
GOLD COAST
NEWCASTLE
CENTRAL COAST
WOLLONGONG
GEELONG
TOWNSVILLE
Darwin
Alice Springs
Kalgoorlie-Boulder
Broken Hill
Mount Isa
Cairns
Rockhampton
Mackay
Launceston
Geraldton
Port Hedland
Broome
Albany
Esperance
Tennant Creek
Coober Pedy
Port Augusta
Mt Woodroffe 1435
Mt Zeil 1531
Mt Meharry 1251
Mt Ord 937
Uluru 867

TABLE OF CONTENTS

Page

ABOUT THIS DESCRIPTION OF THE COMMONWEALTH OF AUSTRALIA ... ii
- Official Documents and Statements ... ii
- Forward-Looking Statements ... ii
- Presentation of Financial and Other Information ... iii
- Certain Defined Terms and Conventions ... iv

THE COMMONWEALTH OF AUSTRALIA ... 1
- Population and Geography of Australia ... 1
- Form of Government ... 2

THE AUSTRALIAN ECONOMY ... 5
- Overview ... 5
- Domestic Economic Conditions ... 7

MAJOR INDUSTRIES ... 13

EXTERNAL TRADE AND BALANCE OF PAYMENTS ... 20
- Merchandise Trade ... 20
- Composition of Trade ... 21
- Balance of Payments ... 22
- Changes in Official Reserve Assets ... 23
- Exchange Rate ... 23
- Foreign Investment ... 25
- Foreign Financial Relations ... 25

CURRENCY, MONETARY AND BANKING SYSTEM ... 27
- Australian Currency ... 27
- Monetary Conditions ... 27
- Regulation of the Financial System ... 28
- Other Regulatory Entities ... 34
- The Financial System Regulatory Regime ... 35

GOVERNMENT FINANCE ... 36
- Federal Government Budget ... 36
- Commonwealth Investment in the National Broadband Network ... 41
- Pensions and Superannuation ... 41
- Taxation ... 43
- Commonwealth-State Financial Relations ... 48
- Domestic Issuance of Government Bonds ... 49
- Guarantees and Other Contingent Liabilities ... 50
- Commonwealth Initiatives to Enhance the Stability of the Australian Financial System ... 50

PUBLIC DEBT ... 54
- Debt Record ... 56
- Credit Ratings ... 56

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 2013-14 released on 25 September 2014, which we refer to as the "Final Budget Outcome 2013-14" (available at *http://www.budget.gov.au/2013-14/content/fbo/html/index.htm*), 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 2014-15 Budget dated 13 May 2014, which we refer to as the "2014-15 Budget" (available at http://www.budget.gov.au/2014-15/index.htm), 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 2013-14 Budget dated 14 May 2013, which we refer to as the "2013-14 Budget"(available at http://www.budget.gov.au/2013-14/), 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 2013 and ending on 30 June 2014 is referred to as "2013-14" 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, 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 containing economic forecasts for the budget year and the subsequent fiscal year, and projections for the next two fiscal years. The forecasts are based on detailed assessments of different sectors of the economy derived from the most recent data, 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. The projections in the latter years are not forecasts, but rather are based on a set of medium-term assumptions and are based on a convergence of broad economic aggregates to their long-run trend levels.

The 2014-15 Budget revised the medium-term economic projection methodology in recognition of the need to adapt it to a large and rising level of spare capacity in the economy. This new methodology provides a more realistic projection of economic growth for an economy that, by the end of 2015-16, is forecast to have grown below trend for seven of the past eight years. The new framework assumes that the spare capacity is absorbed over the five years following the two-year forecast period and that real GDP returns to its trend level by 2020-21. As this occurs, labour market variables, including employment and the participation rate, converge from their levels at the end of the forecast period to their long-run trend levels.

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 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 disposable income	is calculated by: • 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[1]

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 2014 was 23,425,741 persons. This was an increase of 388,400 persons (1.7%) since 31 March 2013 and 111,600 persons since 31 December 2013.

The preliminary estimated resident populations of the six States, the Australian Capital Territory and Northern Territory at 31 March 2014 were as follows.

Table 1: Preliminary estimated resident population of States and Territories

State / Territory	Population (as at 31 March 2014)
New South Wales	7,500,617
Victoria	5,821,269
Queensland	4,708,510
Western Australia	2,565,588
South Australia	1,682,635
Tasmania	514,684
Australian Capital Territory	385,573
Northern Territory	243,668
Other Territories	3,197
Total Australia	**23,425,741**

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 2014 was estimated to be 156,900 persons, a decrease of 3.3% (or 5,300 persons) on the natural increase recorded for the year ended 31 March 2013 (162,200 persons). The preliminary estimate for births during the year ended 31 March 2014 (306,500) was 1.6% (or 5,000 births) lower than the figure for the year ended 31 March 2013 (311,500). The preliminary estimate of deaths for the year ended 31 March 2014 was 149,600.

For the year ended 31 March 2014, Australia recorded a preliminary net overseas migration ("NOM") estimate of 231,500 persons. This was the difference between 505,300 overseas arrivals that were added to the population and 273,800 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 for the year ended 31 March 2014 by NOM (60%) was higher than that of natural increase (40%).

[1] Some population numbers in this section are rounded to the nearest 100.

The following table sets forth the estimated resident population of Australia by age group as of 30 June 2013:

Table 2: Preliminary estimated resident population by age group

Age group (years)	Population (as at 30 June 2013)	
	Males	**Females**
0–4	779,429	737,968
5–9	747,711	707,559
10–14	716,545	682,174
15–19	754,510	712,385
20–24	837,573	802,051
25–29	873,452	854,325
30–34	832,994	824,090
35–39	774,162	778,601
40–44	824,161	839,188
45–49	758,583	771,562
50–54	765,730	782,460
55–59	688,382	705,785
60–64	614,658	626,577
65–69	536,488	544,435
70–74	383,203	398,236
75–79	277,383	312,489
80–84	194,410	252,713
85–89	110,258	177,804
90–94	37,756	81,375
95–99	6,466	20,111
100 and over	730	2,827
All ages	11,514,584	11,614,715

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) was 1.921 births per woman in the year ended 30 June 2013. This is a rate higher than the fertility rates in many OECD countries, including: Italy, Germany, Japan and Canada, and higher than the OECD average of 1.7 in 2011. However, Australia’s current total fertility rate has been below those for New Zealand (2.06 in 2011) and the United Kingdom (1.97 in 2011). 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 the 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.

On 7 September 2013 a federal election was held and the Government is now formed by 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 took their office on 1 July 2014.

The following tables show the composition of the House of Representatives and the Senate as at 7 October 2014.

Table 3: House of Representatives composition

Australian Labor Party	55
Liberal Party of Australia	74
The Nationals	15
Independents	2
Australian Greens	1
Country Liberal Party	1
Katter's Australian Party	1
Palmer United Party	1
Total	**150**

Table 4: Senate composition from 1 July 2014[2]

Australian Labor Party	25
Liberal Party of Australia	27
Australian Greens	10
The Nationals	5
Palmer United Party	3
Family First Party	1
Australian Motoring Enthusiast Party	1
Country Liberal Party	1
Liberal Democratic Party	1
Independents	2
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.

2 The result of the 2013 federal election of Western Australian Senators was declared void by the Court of Disputed Returns (High Court of Australia) on 20 February 2014. A new half-Senate election for Western Australian Senators was held on 5 April 2014. An Australian Electoral Commission media statement regarding the outcome of this election is available at: http://www.aec.gov.au/media/media-releases/2014/04-29e2.htm. Table 4 incorporates the result of the 5 April 2014 election for Western Australian Senators.

THE AUSTRALIAN ECONOMY

Overview

Australia is a stable, culturally diverse and democratic society with a skilled workforce and a strong, competitive economy. Between 1993-94 and 2013-14, Australia's real economy grew by an average of 3.3% a year. Australia's GDP in 2013-14 (in value terms) was over $1.5 trillion. The IMF estimates that in 2013 Australia was the world's 17th largest economy by GDP (in purchasing-power-parity terms).

Principal Economic Indicators

The following table sets forth Australia's principal economic indicators for each of the past five fiscal years.

Table 5: Principal Economic Indicators

	2009-10	2010-11	2011-12	2012-13	2013-14
GDP, Chain Volume Measure (A$ millions)	1,402,813	1,434,226	1,486,071	1,525,283	1,569,477
Percentage change	2.0	2.2	3.6	2.6	2.9
GDP per capita, Chain Volume Measure (A$)	64,165	64,694	65,997	66,548	67,313
Percentage change	0.1	0.8	2.0	0.8	1.1
Unemployment Rate (% of labour force) [(a)]	5.3	5.0	5.1	5.6	5.9
Consumer Price Index (% change) [(b)]	3.1	3.5	1.2	2.4	3.0
Wage Price Index (% change) [(b)]	3.0	3.8	3.8	2.8	2.6
Exports, Chain Volume Measure (A$ millions)	299,430	301,354	315,638	334,664	357,309
Percentage change	5.1	0.6	4.7	6.0	6.8
Imports, Chain Volume Measure (A$ millions)	259,462	286,007	318,710	321,971	314,506
Percentage change	6.4	10.2	11.4	1.0	-2.3
Balance of Payments – Current Account (A$ millions)	-64,236	-44,371	-50,420	-60,309	-47,056
Official Reserve Assets at end of period (A$ millions)	43,737	41,130	47,230	51,858	62,872
Commonwealth General Government Net Debt (A$ millions)	42,283	84,551	147,334	152,982	202,463

(a) For June quarter of corresponding period.

(b) Change over the year to the June quarter of corresponding period

Source: ABS Catalogue No. 5206.0, 6202.0, 6401.0, 5302.0, 6345.0 Budget 2014-15 and Reserve Bank of Australia

GDP Growth

Australia's GDP grew by 2.9% in fiscal year 2013-14. Growth in 2013-14 was driven by household consumption (contributing 1.3 percentage points to growth) and net exports (contributing 2.0 percentage points to growth), which were offset by a fall in business investment (detracting 1.0 percentage point from growth). The 2014-15 Budget (released in May 2014) forecast GDP to grow by 2½% in 2014-15 and 3% in 2015-16.

Major Industries

Based on 2012-13 share of gross value added, Australia's major industries include financial and insurance services, mining, construction, professional, scientific and technical services, and manufacturing.

Growth during 2013-14 was recorded in most industries, including mining (9.4%), rental, hiring and real estate services (7.5%), financial and insurance services (6.5%), health care and social assistance (5.1%), public administration and safety (4.7%), arts and recreation services (4.3%), construction (3.7%), administrative and support services (3.1%), retail trade (2.3%), education and training (2.2%), information media and telecommunications (2.1%), other services (2.0%), and agriculture, forestry and fishing (1.7%).

Only a few industries contracted during 2013-14, including electricity, gas, water and waste services (-3.1%), wholesale trade (-2.1%), manufacturing (-2.1%), professional, scientific and technical services (-1.8%), transport, postal and warehousing (-0.8%), and accommodation and food services (-0.3%)

During 2013-14, the industry contributing most to gross value added (at basic prices) was mining, contributing 1.0 percentage points to growth. Financial and insurance services provided the second largest contribution of 0.6 percentage points to growth. The largest detractors from growth were electricity, gas, water and waste services, wholesale trade, manufacturing and professional, scientific and technical services (all detracting 0.1 percentage points from gross value added).

Net Worth

Australia's general government sector net worth, reflecting the difference between total assets and total liabilities, as at 30 June 2014 was -$256.0 billion, a deterioration of $53.4 billion since 30 June 2013. In the 2014-15 Budget, Australia's general government sector net worth is forecast to be -$212.0 billion in 2014-15 and -$222.5 billion in 2015-16.

Budget Balance

The Australian Government general government sector net debt for 2013-14 was $202.5 billion (12.8% of GDP). In the 2014-15 Budget, net debt is projected to be 13.9% of GDP in 2014-15, increasing to 14.4% of GDP in 2015-16.

The Australian Government's underlying cash deficit was $48.5 billion (-3.1% of GDP) in 2013-14. In the 2014-15 Budget, Government underlying cash deficits of $29.8 billion (-1.8% of GDP), $17.1 billion (-1.0% of GDP), $10.6 billion (-0.6% of GDP) and $2.8 billion (-0.2% of GDP) are forecast for 2014-15, 2015-16, 2016-17 and 2017-18 respectively.

Trade

Australia's total trade in goods and services was $670.3 billion in 2013-14. Australia's largest two-way trading partners in 2013 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 the past five fiscal years.

Table 6: Key National Accounts Aggregates

	2009-10	2010-11	2011-12	2012-13	2013-14
Chain volume GDP and related measures [(a)]					
GDP (A$ millions)	1,402,813	1,434,226	1,486,071	1,525,283	1,569,477
GDP per capita (A$)	64,165	64,694	65,997	66,548	67,313
GVA market sector (A$ millions)	972,740	994,688	1,037,145	1,064,758	1,092,020
Net domestic product (A$ millions)	1,193,321	1,214,833	1,255,954	1,283,374	1,315,415
Real income measures [(a)]					
Real gross domestic income (A$ millions)	1,348,208	1,432,957	1,486,071	1,492,517	1,520,760
Real gross national income (A$ millions)	1,295,794	1,375,268	1,440,734	1,454,958	1,483,166
Real net national disposable income (A$ millions)	1,084,292	1,154,061	1,208,608	1,211,149	1,227,541
Real net national disposable income per capita (A$)	49,596	52,057	53,675	52,842	52,648
Current price measures					
GDP (A$ millions)	1,296,324	1,406,671	1,486,071	1,524,044	1,586,168
GDP per capita (A$)	59,294	63,451	65,997	66,494	68,029
Gross national income (A$ millions)	1,245,953	1,350,040	1,440,734	1,483,376	1,549,805
National net saving (A$ millions)	83,517	117,403	143,701	125,767	129,121
Household saving ratio (%)	9.8	10.9	11.6	10.2	9.4

(a) Reference year for chain volume measures and real income measures is 2011-12.

Source: ABS Catalogue No. 5206.0.

Following a fall in GDP in volume terms in 1990-91, Australia has experienced 23 consecutive years of growth. In 2013-14, GDP increased by 2.9%, and GDP per capita increased by 1.1% (chain volume measures). The 2014-15 Budget (released in May 2014) forecast GDP to grow by 2½% in 2014-15 and 3% in 2015-16.

The table below details the expenditure components of GDP on a chain volume measurement basis for the past five fiscal years.

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

(A$ millions)	2009-10	2010-11	2011-12	2012-13	2013-14
Final consumption expenditure					
General government					
National—defence	19,742	21,873	21,309	21,221	21,767
National—non-defence	76,126	79,559	83,583	84,158	86,172
Total national	95,842	101,437	104,892	105,379	107,939
State and local	151,896	154,560	160,878	163,297	165,238
Total general government	247,706	255,996	265,770	268,676	273,177
Households	751,696	779,268	799,137	815,858	836,128
Total final consumption expenditure	999,377	1,035,247	1,064,907	1,084,534	1,109,305
Private gross fixed capital formation					
Private business investment					
Machinery and equipment					
New	76,668	81,337	91,569	88,585	77,611
Net purchases of second hand assets	-4,367	-4,111	-4,972	-5,071	-5,478
Total machinery and equipment	72,296	77,230	86,597	83,514	72,133
Non-dwelling construction					
New building	32,999	33,180	36,380	39,683	40,883
New engineering construction	48,066	57,207	87,849	103,083	98,678
Net purchases of second hand assets	-1,591	-1,264	-971	-919	-3,150
Total non-dwelling construction	79,631	89,250	123,258	141,847	136,411
Cultivated biological resources	3,850	5,414	4,979	4,946	5,568
Intellectual property products					
Research and development	14,593	15,009	16,799	17,163	18,064
Mineral and petroleum exploration	6,324	6,478	7,150	7,662	6,573
Computer software	9,377	10,088	10,907	11,665	12,615
Artistic originals	1,475	1,612	1,680	1,771	1,854
Total intangible fixed assets	31,740	33,196	36,536	38,262	39,105
Total private business investment	188,004	205,315	251,370	268,569	253,217
Dwellings					
New and used dwellings	40,375	41,868	40,531	43,112	46,595
Alterations and additions	31,201	31,260	31,012	28,302	28,379
Total dwellings	71,575	73,129	71,543	71,414	74,974
Ownership transfer costs	22,238	18,859	18,584	19,265	21,783
Total private gross fixed capital formation	281,239	297,191	341,497	359,249	349,974

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

(A$ millions)	2009-10	2010-11	2011-12	2012-13	2013-14
Public gross fixed capital formation					
Public corporations					
Commonwealth	1,637	1,720	2,671	4,777	5,649
State and local	25,215	23,386	20,444	17,297	16,980
Total public corporations	26,812	25,079	23,115	22,074	22,628
General government					
National—defence	7,251	7,376	7,031	4,740	6,707
National—non-defence	8,166	8,545	9,612	8,998	8,587
Total national	15,442	15,942	16,643	13,738	15,294
State and local	39,072	37,555	36,401	33,111	34,080
Total general government	54,433	53,469	53,044	46,850	49,374
Total public gross fixed capital formation	81,144	78,495	76,159	68,923	72,002
Total gross fixed capital formation	362,208	375,541	417,656	428,172	421,977
Domestic final demand	1,361,018	1,410,210	1,482,563	1,512,706	1,531,281
Changes in inventories					
Private non-farm	-1,426	3,786	5,348	1,968	-3,054
Farm	-380	969	577	807	238
Public authorities	426	98	657	-218	-381
Total changes in inventories	-1,697	5,136	6,582	2,556	-3,196
Gross national expenditure	1,361,993	1,418,697	1,489,145	1,515,262	1,528,085
Exports of goods and services	299,430	301,354	315,638	334,664	357,309
less Imports of goods and services	259,462	286,007	318,710	321,971	314,506
Statistical discrepancy	0	0	0	-2,672	-1,410
Gross domestic product	**1,402,813**	**1,434,226**	**1,486,071**	**1,525,283**	**1,569,477**

(a) Reference year for chain volume measures is 2011-12.

(b) The sum of the individual components may not add to the aggregate due to chain weighting.

Source: ABS Catalogue No. 5206.0.

Household final consumption expenditure increased 2.5% and contributed 1.3 percentage points to GDP growth in 2013-14. Within household final consumption expenditure, insurance and other financial services (up 9.1%) and rent and other dwelling services (up 2.5%) were the largest contributors to GDP growth in 2013-14.

Net exports contributed 2.0 percentage points to GDP growth in 2013-14. The contribution from net exports was driven by a 6.8% increase in exports and a 2.3 % fall in imports.

Total private business investment fell 5.7% in 2013-14, detracting 1.0 percentage points from GDP growth in 2013-14. Non-dwelling construction investment fell 3.8%, while investment in machinery and equipment fell 13.6% in 2013-14.

The following table identifies the income components of GDP on a current price basis for the past five fiscal years.

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

(A$ millions)	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
Compensation of employees					
Wages and salaries	550,539	598,059	641,307	664,657	683,092
Employers' social contributions [(a)]	63,182	68,352	73,587	76,183	79,378
Total compensation of employees	613,721	666,411	714,894	740,840	762,470
Gross operating surplus					
Non-financial corporations					
Private non-financial corporations	244,226	277,906	291,212	274,773	293,396
Public non-financial corporations	15,600	16,217	17,166	16,576	15,956
Total non-financial corporations	259,826	294,123	308,378	291,349	309,352
Financial corporations	62,339	63,856	67,046	72,358	76,541
Total corporations	322,165	357,979	375,424	363,707	385,893
General government	27,047	28,433	30,040	31,684	33,445
Dwellings owned by persons	96,761	101,670	108,069	114,312	120,329
Total gross operating surplus	445,972	488,082	513,533	509,703	539,667
Gross mixed income	108,610	116,878	119,803	120,696	126,817
Total factor income	1,168,303	1,271,371	1,348,230	1,371,240	1,428,954
Taxes less subsidies on production and imports	128,021	135,300	137,841	150,477	160,048
Statistical discrepancy	0	0	0	2,327	-2,834
Gross domestic product	**1,296,324**	**1,406,671**	**1,486,071**	**1,524,044**	**1,586,168**

(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 2013-14, there was growth in compensation of employees (2.9%) and gross operating surplus (“GOS”) (5.9%). The growth in GOS in 2013-14 was primarily driven by an increase in private non-financial corporations (6.8%) and dwellings owned by persons (5.3%).

Prices

Headline inflation was 3.0% through the year to the June quarter 2014, up from 2.4% through the year to the June quarter 2013. Over the year to the June quarter 2014, the increase in prices was mainly due to increases in the prices of housing 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 the past five fiscal years.

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

Year [a]:	All Groups Consumer Price Index (original)	Implicit Price Deflator for Gross Non-farm Product (original)[b]
2009-10	3.1	1.0
2010-11	3.5	6.1
2011-12	1.2	1.9
2012-13	2.4	-0.2
2013-14	3.0	1.0

(a) Percentage change over the year to the June quarter of each period.

(b) Percentage change on preceding year

Source: ABS Catalogue No. 6401.0, 5206.0, Treasury

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.

Wage growth remained well below the ten-year average growth rate (3.6%) in 2013-14. The following table details the through the year change for the wage price index to the June quarter of the past five fiscal years.

Table 10: Wages

Year [a]:	Wage Price Index (Percentage change through the year, seasonally adjusted)
2009-10	3.0
2010-11	3.8
2011-12	3.8
2012-13	2.8
2013-14	2.6

(a) Percentage change over the year to the June quarter of each period.

Source: ABS Catalogue No. 6345.0

The 2014-15 Budget (released in May 2014) forecast the wage price index to rise to 3% through the year to the June quarters of both 2015 and 2016.

Labour market

Employment growth in Australia remained positive following the global financial crisis in 2008, a strong performance compared to many other advanced economies. However, recent employment growth has been below trend, with employment increasing by around 100,000 persons over the year to the June quarter 2014. There is still a high degree of slack in the labour market, and it will take some time for employment growth to absorb the available labour. The unemployment rate drifted upwards from 5.6 per cent in the June quarter 2013 to 5.9 per cent in the June quarter 2014. Participation in the labour market fell over the period.

The following table identifies key labour force statistics as at the June quarter for the past five fiscal years.

Table 11: Labour force statistics [(a)]

	June quarter 2010	**June quarter 2011**	**June quarter 2012**	**June quarter 2013**	**June quarter 2014**
Total Employment ('000)	10,962	11,192	11,342	11,474	11,575
Total Unemployment ('000)	611	585	613	687	730
Unemployment Rate (%)	5.3	5.0	5.1	5.6	5.9

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

Source: ABS Catalogue No. 6202.0.

The 2014-15 Budget forecast employment growth of 1½% through the year to the June quarter of both 2015 and 2016, in line with gradually improving economic conditions. The 2014-15 Budget forecast the unemployment rate to reach 6¼% by the June quarter 2015, and stabilise at that rate through to the June quarter 2016. The participation rate was forecast to be 64½% in the June quarter 2015 and 2016.

MAJOR INDUSTRIES

In 2012-13, the industry with the largest share of gross value added (at basic prices) was financial and insurance services, with a share of 8.7%. Mining ranked second, with a share of 8.6%.

The following table identifies the percentage of gross value added by industry at basic prices for the past five fiscal years for which data is available (2008-09 to 2012-13).

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

Industry (Percentages)	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**
Agriculture, forestry and fishing	2.5	2.4	2.5	2.4	2.4
Mining	9.8	7.9	10.0	9.6	8.6
Manufacturing	9.1	8.6	8.0	7.5	7.1
Electricity, gas, water and waste services	2.3	2.5	2.6	2.7	3.1
Construction	7.7	8.1	7.9	8.2	8.3
Wholesale trade	4.6	4.6	4.5	4.4	4.3
Retail trade	4.9	4.9	4.8	4.8	4.9
Accommodation and food services	2.4	2.5	2.5	2.5	2.4
Transport, postal and warehousing	5.0	5.0	5.0	5.1	5.2
Information media and telecommunications	3.3	3.4	3.2	3.0	3.0
Financial and insurance services	9.0	8.9	8.6	8.4	8.7
Rental, hiring and real estate services [(a)]	2.6	2.6	2.5	2.7	2.7
Professional, scientific and technical services	6.4	6.8	6.7	7.0	7.3
Administrative and support services	2.9	3.0	3.1	3.1	3.1
Public administration and safety	5.5	5.7	5.6	5.6	5.6
Education and training	4.6	4.8	4.7	4.8	4.9
Health care and social assistance	6.1	6.5	6.6	6.5	6.9
Art and recreation services	0.9	0.9	0.9	0.9	0.9
Other services	2.0	2.0	1.9	2.0	1.9
Ownership of dwellings	8.6	8.9	8.6	8.6	8.9
Gross value added at basic prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

(a) Rental, hiring and real estate services excludes ownership of dwellings.

Source: ABS Catalogue No. 5204.0.

The table below identifies employment share by industry for each of the past five fiscal years.

Table 13: Employment share by industry

Industry (Percentages)	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
Agriculture, forestry and fishing	3.2	3.0	2.8	2.6	2.7
Mining	1.6	1.8	2.2	2.3	2.3
Manufacturing	9.1	8.7	8.3	8.2	8.1
Electricity, gas, water and waste services	1.2	1.3	1.3	1.3	1.3
Construction	9.1	9.1	8.9	8.7	8.9
Wholesale trade	3.8	3.6	3.6	3.8	3.4
Retail trade	10.8	10.8	10.6	10.6	10.6
Accommodation and food services	6.8	6.8	6.7	6.9	6.6
Transport, postal and warehousing	5.3	5.2	5.0	5.1	5.1
Information media and telecommunications	2.0	1.9	1.9	1.9	1.7
Financial and insurance services	3.7	3.6	3.8	3.6	3.6
Rental, hiring and real estate services	1.7	1.8	1.8	1.7	1.8
Professional, scientific and technical services	7.6	7.6	7.8	8.0	7.9
Administrative and support services	3.4	3.5	3.5	3.4	3.4
Public administration and safety	6.2	6.3	6.4	6.2	6.5
Education and training	7.6	7.6	7.6	7.8	7.8
Health care and social assistance	11.1	11.4	11.8	12.0	12.1
Arts and recreation services	1.8	1.8	1.8	1.8	1.8
Other services	4.1	4.0	4.0	3.9	4.2
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

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 2012-13. 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 13.0% of industry output in 2013-14 based on gross value added (chain volume measures).

The following table presents production data of Australia's principal rural commodities for each of the past five fiscal years.

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

	2009–10		**2010–11**		**2011–12**		**2012-13**		**2013-14** [(a)]	
Commodities	**A$m**	**kt**	**A$m**	**kt**	**A$m**	**kt**	**A$m**	**kt**	**A$m**	**kt**
Wool	1,928	423	2,673	429	2,734	411	2,472	435	2,487	422
Meat	12,722	3,849	13,795	4,005	13,797	4,034	13,207	4,287	15,290	4,610
Wheat	4,765	21,834	7,052	27,410	6,775	29,905	7,154	22,856	9,019	27,013
Cane sugar [(b)]	1,382	31,235	1,036	27,443	1,214	27,943	1,321	30,400	1,100	30,500
Cottonseed and Lint	828	934	2,087	2,195	2,954	2,957	2,174	2,457	2,048	2,149
Milk [(c)]	3,371	9,023	3,932	9,100	3,986	9,480	3,687	9,201	4,619	9,239

Notes: kt = kilotonne.

(a) ABARES estimate

(b) Cut for crushing.

(c) Units of measurement: ML.

Source: ABARES 2014, Agricultural Commodities: September quarter 2014 (pages 150-153).

Mining

In 2012-13, mining's share of gross value added (at basic prices) was 8.6%. After strong growth of 11.6% in 2012-13, growth in the mining industry has slowed, but remains solid at 9.4% in 2013-14 (chain volume measures).

In 2013-14, exports of mining (non-rural) commodities accounted for 57.8% of total exports by value.

Private mineral and petroleum exploration expenditure declined slightly in 2013-14 to $6.9 billion (at current prices).

In 2013, 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 mining (non-rural) commodity exports was $192.1 billion in 2013-14 (at current prices).

Private new capital expenditure in the mining sector was $90.3 billion in 2013-14, down 4.6% on 2012-13. In 2013-14, the mining sector employed around 270,000 people directly, 2.3% of the workforce. The sector generates 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, high commodity prices, strong resources investment and increasing export volumes have contributed significantly to Australian economic growth and national incomes. The terms of trade rose to record highs in 2011, and in 2012-13 strong investment activity in the mining sector resulted in business investment reaching a four decade high as a share of GDP. Prices of Australia's key export commodities iron ore, metallurgical coal and thermal coal, however, have since declined. Since the beginning of 2014 there have been particularly sharp falls, driven in large part by an increase in supply from Australia as completed projects come online. If low prices are sustained, this will impact on nominal GDP and taxation revenue. In the longer term, the outlook remains uncertain with both supply and demand factors expected to continue to weigh on the price and volatility remaining a common feature of the market. However, while the price of commodities has fallen sharply, Australian export volumes have surged which will help offset some of this impact. In addition, exports of LNG are expected to grow significantly when major LNG projects begin production, with Australia likely to overtake Qatar to become the world's largest LNG exporter before the end of the decade.

On 1 July 2012, the then Australian Government introduced the Minerals Resource Rent Tax ("MRRT"). The MRRT has been repealed, effective from 30 September 2014. The existing Petroleum Resource Rent Tax ("PRRT") was extended to apply to all Australian onshore and offshore oil and gas projects, including the North West Shelf. The extended PRRT provides 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 of 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 7.1% in 2012-13.

The manufacturing sector accounted for 8.1% of total employment in 2013-14.

The following table provides a breakdown of gross value added (chain volume measures) by the manufacturing industry for the past five fiscal years.

Table 15: Industry Value Added (Chain Volume Measures[(a)])

(A$ millions)	2009-10	2010-11	2011-12	2012-13	2013-14
Food, beverage and tobacco products	24,272	24,275	24,482	24,382	24,405
Textile, clothing and other manufacturing	5,834	5,629	5,391	5,251	5,421
Wood and paper products	7,291	6,864	6,299	6,476	6,636
Printing and recorded media	4,273	4,267	3,812	4,158	3,943
Petroleum, coal, chemical and rubber products	18,973	18,979	19,481	19,232	18,036
Non-metallic mineral products	6,057	5,953	5,587	5,507	5,574
Metal products	17,387	18,182	18,185	16,947	17,238
Machinery and equipment	21,183	20,760	21,655	21,760	20,333
Total	**105,057**	**104,886**	**104,892**	**103,713**	**101,586**

(a) The sum of the individual components may not add to the aggregate due to chain weighting.

Source: ABS Catalogue No. 5206.0.

Electricity, Gas, Water and Waste Services

The electricity, gas, water and waste services industry's share of gross value added (at basic prices) in 2012-13 was 3.1%. Electricity is the largest part of this industry and contributes 60.9% to industry value added (chain volume measures). Water supply and waste services account for 35.2% of industry value added (chain volume measures) and gas contributes 3.8% 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 Government has repealed the carbon tax with effect from 1 July 2014 and has committed to implementing the Direct Action Plan. The Government's Direct Action Plan is 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 8.3% in 2012-13. Over the last 20 years, value added in volume terms has grown on average by around 5.3% 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 1.03 million persons in 2013-14. Between 2003-04 and 2013-14, the construction industry's share in total employment has risen from 8.1% to 8.9%, 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 4.3% in 2012-13.

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 4.9% in 2012-13.

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 2012-13 was 2.4%.

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 5.2% in 2012-13. According to the Bureau of Infrastructure, Transport and Regional Economics growth in Australia's freight task is projected to continue over the next two decades, with total domestic freight projected to grow by 80 per cent between 2010 and 2030. Passenger transport is also expected to increase, particularly in urban areas.

As part of the 2014-15 Budget, the Australian Government committed to delivering over $50 billion of transport infrastructure investment to 2020 to improve the productive capacity of the economy. This investment has the potential to generate over $125 billion of infrastructure spending across Australia. It is expected this will transform infrastructure across the country and lay the foundations for future growth.

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 3.0% in 2012-13.

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 to 90 per cent of fixed line premises as soon as possible. This will be achieved through a mixture of technologies including: fibre-to-the-premises; fibre-to-the-node; hybrid-fibre-coaxial; fixed wireless; and satellite. As at 11 September 2014, more than a quarter of a million premises were connected to the NBN.

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 8.7% in 2012-13, 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 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.

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 2.7% in 2012-13.

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 7.3% in 2012-13.

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 3.1% in 2012-13.

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 5.6% in 2012-13.

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 4.9% in 2012-13 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 6.9% in 2012-13.

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 2012-13.

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 1.9% in 2012-13.

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 8.9% in 2012-13.

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

(A$ millions)	2009-10	2010-11	2011-12	2012-13	2013-14
Exports					
Rural exports					
Meat and meat preparations	6,350	6,930	7,121	7,645	9,873
Cereal grains and cereal preparations	5,266	7,351	9,061	9,285	9,319
Wool and sheepskins	2,303	3,048	3,123	2,869	2,877
Other rural	11,670	13,144	15,423	16,474	17,686
Total rural	25,589	30,473	34,728	36,273	39,755
Non-rural Exports					
Metal ores and minerals	53,635	79,483	85,426	79,141	96,772
Mineral fuels -	55,774	67,695	73,907	65,338	69,571
Coal, coke and briquettes	36,790	44,101	48,216	38,914	40,255
Other mineral fuels	18,984	23,594	25,691	26,424	29,316
Metals (excl non-monetary gold)	10,735	12,687	11,699	10,478	11,159
Machinery	7,977	8,444	8,838	8,709	9,108
Transport equipment	4,073	3,902	4,198	4,334	5,097
Other manufactures	16,375	16,289	16,916	16,034	16,776
Other non-rural (incl sugar and beverages)	11,708	11,980	10,868	10,422	10,133
Goods procured in ports by carriers	1,389	1,590	1,668	1,678	1,756
Total non-rural	161,666	202,070	213,520	196,134	220,372
Total merchandise exports	*187,255*	*232,543*	*248,248*	*232,407*	*260,127*
Net exports of goods under merchanting	250	223	211	277	168
Non-monetary gold	14,300	14,256	16,650	16,235	14,119
Imports					
Consumption goods	-66,463	-68,533	-72,224	-75,810	-82,149
Capital goods	-49,202	-53,824	-69,597	-66,015	-63,004
Intermediate and other merchandise goods	-88,272	-98,057	-108,987	-108,399	-116,984
Total merchandise imports	*-203,937*	*-220,414*	*-250,808*	*-250,224*	*-262,137*
Non-monetary gold	-6,863	-4,967	-6,708	-5,169	-4,213
Balance on merchandise trade	*-16,682*	*12,129*	*-2,560*	*-17,817*	*-2,010*

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 the past five 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

(Percentages)	2009-10	2010-11	2011-12	2012-13	2013-14
Exports					
China	23.2	26.4	29.1	31.6	36.5
Japan	18.5	19.1	19.4	18.8	17.7
Republic of Korea	8.2	9.2	8.3	7.7	7.5
United States	4.8	3.7	3.7	3.7	3.7
India	8.1	6.4	5.0	4.6	3.0
New Zealand	4.0	3.1	2.9	3.0	2.8
Singapore	2.5	2.2	2.5	2.6	2.7
Taiwan	3.4	3.7	3.3	3.1	2.6
Malaysia	1.6	1.7	1.9	2.1	2.0
Indonesia	2.2	1.9	2.0	1.9	1.8
European Union	7.9	7.3	7.5	6.1	4.4
Other (a)	15.7	15.3	14.4	14.9	15.3
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
Imports					
China	17.8	19.2	18.1	18.8	19.8
United States	10.7	10.8	11.5	10.8	10.3
Japan	8.7	7.8	8.5	7.8	7.3
Singapore	5.3	5.3	6.2	6.1	5.2
Germany	5.3	4.8	4.6	4.6	4.7
Republic of Korea	3.5	3.3	3.7	3.9	4.5
Malaysia	4.2	4.1	3.8	3.8	4.4
Thailand	6.1	4.3	3.6	4.7	4.4
Indonesia	2.3	2.7	2.6	2.6	2.6
United Kingdom	2.8	2.8	2.9	2.7	2.5
Other European Union (b)	13.6	13.2	13.0	13.0	13.0
Other (a)	19.7	21.7	21.5	21.3	21.2
Total	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*

(a) 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.

(b) Other European Union refers to trade with all current 28 member states, other than Germany.

Source : ABS Catalogue No. 5368.0.

Composition of Trade

Australia's goods and services exports were valued at $332.0 billion in 2013-14. In 2013, Australia's top five export markets were China ($101.6 billion), Japan ($49.5 billion), South Korea ($21.3 billion), the United States ($15.5 billion) and India ($11.4 billion). Exports to the Asian region (ASEAN and other major Asian economies) were valued at $243.4 billion (76.4% of Australia's exports); to the European Union, $22.1 billion (6.9% of Australia's exports); and to North America, $17.7 billion (5.6% of Australia's exports). Australia's major exports in 2013 were iron ore and concentrates, coal, education-related travel services, natural gas and gold.

Australia's goods and services imports were valued at $338.3 billion in 2013-14. In 2013, China was Australia's largest source of imports (valued at $49.3 billion or 15.0% of Australia's imports), followed by the United States ($39.2 billion or 11.9% of Australia's imports) and Japan ($21.2 billion or 6.5% of Australia's imports). Australia's major imports in 2013 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 the past five fiscal years.

Table 18: Balance of payments

(A$ millions)	2009-10	2010-11	2011-12	2012-13	2013-14
CURRENT ACCOUNT	**-64,236**	**-44,371**	**-50,420**	**-60,309**	**-47,056**
Goods and Services	-12,600	13,973	-3,072	-20,031	-6,230
Credits	252,154	297,321	315,638	301,727	332,020
Debits	-264,754	-283,348	-318,710	-321,758	-338,250
Goods	-8,995	21,641	7,593	-6,474	8,064
Credits	201,805	247,022	265,109	248,919	274,414
Debits	-210,800	-225,381	-257,516	-255,393	-266,350
Services	-3,605	-7,668	-10,665	-13,557	-14,294
Credits	50,349	50,299	50,529	52,808	57,606
Debits	-53,954	-57,967	-61,194	-66,365	-71,900
Primary income	-50,104	-56,337	-45,021	-37,983	-38,841
Credits	38,782	44,653	47,230	46,112	48,582
Debits	-88,886	-100,990	-92,251	-84,095	-87,423
Secondary income	-1,532	-2,007	-2,327	-2,295	-1,985
Credits	6,238	6,888	7,126	7,127	7,804
Debits	-7,770	-8,895	-9,453	-9,422	-9,789
CAPITAL AND FINANCIAL ACCOUNT	62,913	44,044	50,294	59,369	46,971
Capital account	-284	-316	-408	-453	-395
Capital transfers	-280	-287	-383	-359	-391
Credits	0	0	0	0	0
Debits	-280	-287	-383	-359	-391
Net acquisition/disposal of non-produced, nonfinancial assets	-4	-29	-25	-94	-4
Financial account	63,197	44,360	50,702	59,822	47,366
Direct investment	31,459	30,514	48,156	56,076	53,175
Assets	-9,627	-8,418	-11,899	-771	3,652
Liabilities	41,086	38,932	60,054	56,848	49,523
Portfolio investment	69,606	33,982	44,788	31,523	38,585
Financial derivatives	-8,773	-6,479	-20,884	-8,098	-15,947
Other investment	-35,024	-10,458	-15,450	-18,868	-17,716
Reserve assets	5,929	-3,199	-5,908	-811	-10,730
NET ERRORS AND OMISSIONS	1,323	326	127	940	85

Source: ABS Catalogue No. 5302.0.

In original terms, the balance on the current account for 2013-14 was a deficit of $47.1 billion, a decrease of $13.3 billion (22.0%) on the deficit of $60.3 billion recorded in 2012-13.

The balance for goods and services for 2013-14 was a deficit of $6.2 billion, a decrease of $13.8 billion (68.9%) on the deficit of $20.0 billion recorded in 2012-13. Goods and services credits increased $30.3 billion (10.0%) and goods and services debits increased $16.5 billion (5.1%) during 2013-14.

The 2013-14 primary income deficit increased by $0.9 billion (2.3%), with an increase in primary income credits of $2.5 billion (5.4%) and an increase in primary income debits of $3.3 billion (4.0%).

The 2013-14 secondary income deficit decreased $0.3 billion (13.5%), with an increase in secondary income credits of $0.7 billion (9.5%) and an increase in secondary income debits of $0.4 billion (3.9%).

The balance on the financial account for 2013-14 recorded a net inflow of $47.4 billion, with a net inflow on debt of $39.8 billion and a net inflow on equity of $7.5 billion. This result was a decrease of $12.5 billion on the net inflow recorded in 2013-14 as a result of:

- an increase of $9.9 billion on the net outflow on reserve assets;
- an increase of $7.8 billion on the net outflow on financial derivatives;
- an increase of $7.1 billion on the net inflow on portfolio investment;
- a decrease of $2.9 billion on the net inflow on direct investment; and
- a decrease of $1.2 billion on the net outflow on 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 policy operations in the foreign exchange market. 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.

Table 19: Official Reserve Assets

	As at 30 June				
	2010	**2011**	**2012**	**2013**	**2014**
			(A$ millions)		
Gold	3,747	3,599	4,027	3,300	3,584
Other	6,568	6,168	6,653	7,395	7,188
Foreign Currency	33,422	31,363	36,550	41,164	52,100
Total (gross)	43,737	41,130	47,230	51,858	62,872
Total (net)	46,728	41,002	42,253	47,347	48,405

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 2009-10, 2010-11, 2011-12, 2012-13 and 2013-14 fiscal years and each month end since June 2014.

Table 20: Units of US$ per A$

Period	At Period End	Average Rate	High	Low
Year ended:				
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
30 June 2014	0.9420	0.9187	0.9672	0.8716
Month ended:				
31 July 2014	0.9324	0.9392	0.9458	0.9324
31 August 2014	0.9349	0.9304	0.9353	0.9246
30 September 2014	0.8752	0.9062	0.9365	0.8693

Source: Reserve Bank of Australia.

The following table sets out the Australian dollar exchange rate against the UK pound sterling for each of the 2009-10, 2010-11, 2011-12, 2012-13 and 2013-14 fiscal years and each month end since June 2014.

Table 21: Units of £ per A$

Period	At Period End	Average Rate	High	Low
Year ended:				
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
30 June 2014	0.5531	0.5657	0.6172	0.5239
Month ended:				
31 July 2014	0.5509	0.5497	0.5547	0.5449
31 August 2014	0.5638	0.5570	0.5638	0.5501
30 September 2014	0.5384	0.5553	0.5788	0.5360

Source: Reserve Bank of Australia.

The following table sets out the Australian dollar exchange rate against the euro for each of the 2009-10, 2010-11, 2011-12, 2012-13 and 2013-14 fiscal years and each month end since June 2014.

Table 22: Units of € per A$

Period	At Period End	Average Rate	High	Low
Year ended:				
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
30 June 2014	0.6906	0.6775	0.7183	0.6369
Month ended:				
31 July 2014	0.6959	0.6933	0.7021	0.6873
31 August 2014	0.7096	0.6988	0.7096	0.6922
30 September 2014	0.6898	0.7017	0.7238	0.6862

Source: Reserve Bank of Australia.

The following table details the trade-weighted index value of the Australian dollar for each of the 2009-10, 2010-11, 2011-12 , 2012-13 and 2013-14 fiscal years and each month end since June 2014. 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 2 December 2013 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 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
30 June 2014	72.0	70.5	73.4	67.2
Month ended:				
31 July 2014	71.5	71.8	72.3	71.5
31 August 2014	71.9	71.5	71.9	71.1
30 September 2014	68.9	70.5	72.5	68.5

(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.
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 three business proposals having been rejected since 2001.

Foreign Financial Relations[3]

Australia is a member of the International Monetary Fund (the "IMF"). As at 30 June 2014, Australia's IMF quota was 3.2 billion Special Drawing Rights ("SDR") (estimated value A$5.4 billion). Australia is a participant in the SDR Department and, as at end-August 2014, had a net cumulative allocation of SDR 3.08 billion and actual holdings of SDR 2.86 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

[3] All conversions into Australian Dollars in this section are at rates of exchange prevailing on 15 September 2014 as provided by the Reserve Bank of Australia.

to pay in 2014-15, 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$7.3 billion).

On 18 July 2014, Australia entered into a contingent bilateral loan with the IMF to provide up to SDR 4.6 billion (estimated value of A$7.7 billion) as part of a broad global effort to increase the resources it has available for crisis prevention and resolution. 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 30 June 2014, Australia held 28,927 shares in the IBRD, with the value of the paid-in portion of these shares amounting to US$214.1 million (approximately A$238.0 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$57.4 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$898.5 million) in callable capital. The first payment for this capital subscription was made in July 2011. As of 30 June 2014, Australia's contingent liability to the IBRD amounts to US$3.3 billion (approximately A$3.7 billion) in callable capital. This will increase to US$3.6 billion (approximately A$4.0 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$52.6 million), and 3,019 shares in MIGA. The value of the MIGA shares totaled US$32.7 million (approximately A$36.3 million) with the value of the paid-in portion of these shares totaling US$6.2 million (approximately A$6.9 million) and the remaining US$26.5 million (approximately A$29.5 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 30 June 2014, the value of the paid-in portion of these shares amounted to USD$474.3 million (approximately A$527.2 million). The value of Australia's callable capital amounted to US$9.0 billion (approximately A$10.0 billion), as at 30 June 2014.

Australia is also a member of the European Bank for Reconstruction and Development (the "EBRD"), holding 30,014 shares. As at 30 June 2014, the value of Australia's paid-in shares was €62.6 million (approximately A$90.2 million) and the value of Australia's callable shares was €237.5 million (approximately A$342.2 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 anchoring inflation expectations around the medium-term inflation target 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 the cash rate. The cash rate is the interest rate charged on unsecured overnight loans between authorised deposit-taking institutions (ADIs). 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 for the cash rate. Essentially, the RBA seeks to control the supply of settlement funds that ADIs use to meet their payment obligations, so that the rate at which ADIs borrow and lend these funds to each other is close to the RBA's target for the cash rate.

Movements in interest rates over the 2009-10, 2010-11, 2011-12, 2012-13 and 2013-14 fiscal years and the monthly periods since June 2014 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 2010	4.50	4.89	5.10
30 June 2011	4.75	4.99	5.21
30 June 2012	3.50	3.49	3.04
30 June 2013	2.75	2.80	3.76
30 June 2014	2.50	2.70	3.54
Month ended:			
31 July 2014	2.50	2.65	3.51
31 August 2014	2.50	2.63	3.30
30 September 2014	2.50	2.66	3.48

Source: Reserve Bank of Australia.

The following table sets out monetary aggregate data for each of the 2009-10, 2010-11, 2011-12, 2012-13 and 2013-14 fiscal years.

Table 25: Monetary aggregates

	2009-10		2010-11		2011-12		2012-13		2013-14	
	A$b	%(a)	A$b	%(a)	A$b	%(a)	A$b	%(a)	A$b	%(a)
M1(b)	239.2	2.2	255.0	6.6	256.3	0.5	264.9	3.3	289.0	10.9
M3(c)	1,198.4	6.0	1,304.2	8.8	1,413.5	8.4	1,514.8	7.2	1,614.6	6.8
Broad Money(d)	1,249.6	3.8	1,334.9	6.8	1,437.2	7.7	1,529.3	6.4	1,621.9	6.8

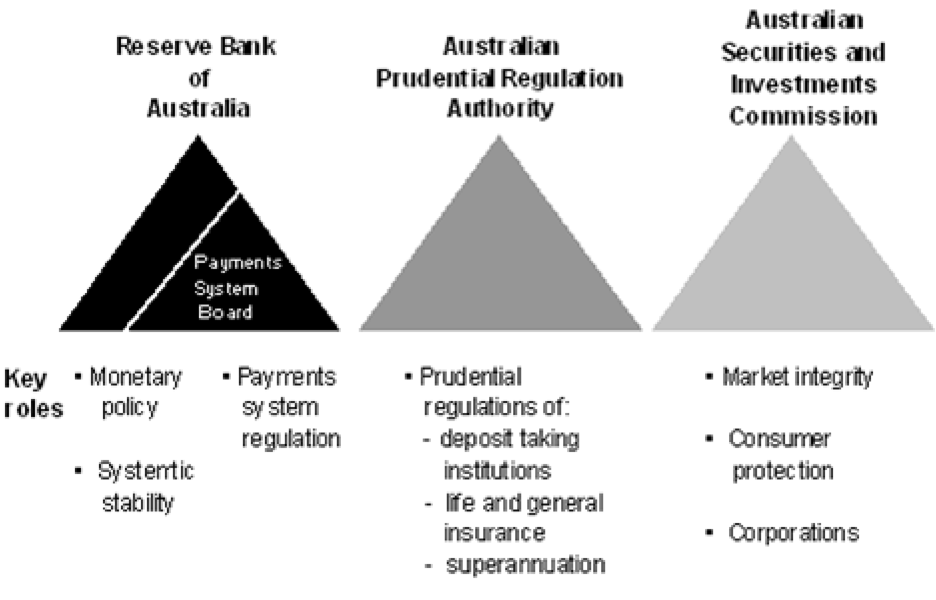
(a) 12-month ended percentage change.
(b) M1 is defined as currency plus bank current deposits of the private non-bank sector.
(c) M3 is defined as M1 plus all other authorised deposit-taking institution deposits of the private non-ADI sector.
(d) Broad money is defined as M3 plus non-deposit borrowings from the private sector by all financial intermediaries, less the holdings of currency and bank deposits by registered financial corporations and cash management trusts.
(e) Figures provided in the A$b columns are averages over the period.
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 (CFR) and the Australian Treasury.

CFR 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. CFR is therefore an important forum for addressing emerging trends and policy issues. This coordination is crucial especially in the event of a crisis, when CFR serves as the key coordinating body for developing an official response. The role of CFR 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 CFR 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*; and
- *Superannuation Industry (Supervision) Act 1993*.

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 2011, 2012, 2013 and 2014 is set out in the table below.

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

	30 June 2011	30 June 2012	30 June 2013	30 June 2014
	(A$ millions)			
ASSETS				
Cash and cash equivalents	1,209	164	137	273
Australian dollar securities	31,834	32,648	43,249	72,886
Foreign exchange	37,727	43,296	50,930	63,807
Gold	3,599	4,027	3,299	3,584
Property, plant and equipment	454	448	491	523
Loans, advances and other assets	490	496	421	412
Total Assets	75,313	81,079	98,527	141,485
LIABILITIES				
Deposits	17,504	18,000	26,183	53,574
Distribution payable to Australian Government	-	500	-	1,235
Australian notes on issue	50,059	53,595	56,943	60,778
Other liabilities	2,411	2,615	5,679	7,588
Total Liabilities	69,974	74,710	88,805	123,175
Net Assets	5,339	6,369	9,722	18,310
Capital and Reserves				
Reserves:				
Unrealised profits reserve	61	41	3,796	3,156
Asset revaluation reserves	3,921	4,375	3,705	3,978
Superannuation reserve	-	-	(178)	(23)
Reserve Bank Reserve Fund	1,317	1,913	2,359	11,159
Capital	40	40	40	40
Total Capital and Reserves	5,339	6,369	9,722	18,310

Source: Reserve Bank of Australia *Annual Report 2014* and *Annual Report 2012*.

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).

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. In performing its regulatory functions, APRA's role is to balance the objectives of financial safety and efficiency, competition, contestability and competitive neutrality and, in balancing these objectives, to promote financial system stability in Australia.

APRA Regulated Institutions

As detailed in the table below, APRA-regulated institutions hold approximately $4.9 trillion in assets.

Table 27: APRA-regulated institutions

	Number of Institutions			**Assets (A$ billions)**		
APRA-regulated institutions	30 June 2013	**30 June 2014**	**% Change**	30 June 2013	**30 June 2014**	**% Change**
ADIs	172	169	-1.7%	3,177.2	3,396.0	6.9%
Representative offices of foreign banks	16	13	-18.8%	-	-	-
General insurers	121	115	-5.0%	118.0	114.4	-3.1%
Life insurers	28	28	0.0%	256.7	282.7	10.1%
Friendly societies	13	12	-7.7%	6.3	6.6	4.8%
Licensed superannuation trustees	190	165	-13.2%	-	-	-
Superannuation entities	3,379	3,128	-7.4%	970.1	1,128.3	16.3%
Non-operating holding companies	25	25	0.0%	-	-	-
Total	3,944	3,655	-7.3%	4,528.3	4,928.0	8.8%

Source: Australian Prudential Regulation Authority.

Funding

APRA is funded largely by the industries that it supervises through a levy on regulated institutions. For 2014-15 the budgeted total cost for APRA is $122.6 million. $6.1 million of these costs will be met through other sources of APRA revenue and Government appropriations, including a special levy for the National Claims and Policies Database (NCPD). Taking into account $0.4 million in under-collected 2013-14 levies to be recouped from industry, APRA's underlying net levies funding requirement is $116.9 million.

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 develop 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 to investigate, issue binding directions and assume 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 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 and processes 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, consequential losses to policyholders, depositors or members and systemic instability.

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 standards 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 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 Australia's two main domestic licensed exchanges. 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, the ASX commenced trading in beneficial interests in Commonwealth Government bonds in the form of depository interests.

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 the COBA Mutual Banking Code of Practice has applied to credit unions, mutual banks and mutual building societies. The Code is administered by the Code Compliance Committee, an independent committee established by COBA. A review of the code was undertaken in 2013, and a revised code came into effect on 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

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.

The Australian Government has commissioned an independent inquiry into Australia's financial system. The Financial System Inquiry is charged with examining how the financial system could be positioned to best meet Australia's evolving needs and support Australia's economic growth. The Inquiry will make recommendations that foster an efficient, competitive and flexible financial system, consistent with financial stability, prudence, public confidence and capacity to meet the needs of users. The Inquiry's final report is to be provided to the Government by November 2014.

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'.

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.gov.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 *Public Governance, Performance and Accountability Act 2013* (the "PGPA Act"). The PGPA Act sets out requirements relating to the collection and custody of public money; accounting, reporting and audit; and borrowing and investment. The PGPA Act also 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.

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 2010-11 and 2011-12, the underlying cash balance was -$47.5 billion and -$43.4 billion, respectively. The Australian Government's underlying cash deficit was $18.8 billion (-1.2% of GDP) in 2012-13 and $48.5 billion (-3.1% of GDP) in 2013-14. In the 2014-15 Budget, an underlying cash deficit of $29.8 billion (-1.8% of GDP) is forecast for 2014-15 and underlying cash deficits of $17.1 billion (-1.0% of GDP), $10.6 billion (-0.6% of GDP) and $2.8 billion (-0.2% of GDP are forecast for 2015-16, 2016-17 and 2017-18, respectively.

The Australian Government general government sector net debt for 2013-14 was $202.5 billion (12.8% of GDP). The 2014-15 Budget projected net debt to be $226.4 billion (13.9% of GDP) in 2014-15.

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 2014

In 2013-14, the Australian Government general government sector recorded an underlying cash deficit of $48.5 billion, or -3.1% of GDP. The fiscal balance was in deficit by $43.7 billion, or -2.8% of GDP.

The following table sets out general government sector budget aggregates for each of the 2010-11, 2011-12, 2012-13 and 2013-14 fiscal years.

Table 28: Australian Government general government sector budget aggregates

	2010-11(a)	2011-12(a)	2012-13(a)	2013-14
Accrual aggregates				
Revenue (A$ billions)	**309.9**	**338.1**	**360.2**	**373.9**
Per cent of GDP	22.0	22.8	23.6	23.6
Expenses (A$ billions)	**356.4**	**378.0**	**382.6**	**413.8**
Per cent of GDP	25.3	25.4	25.1	26.1
Net operating balance (A$ billions)(b)	-46.5	-39.9	-22.5	-39.9
Net capital investment (A$ billions)	5.3	4.9	1.0	3.8
Fiscal balance (A$ billions)	**-51.8**	**-44.7**	**-23.5**	**-43.7**
Per cent of GDP	-3.7	-3.0	-1.5	-2.8
Cash aggregates				
Underlying cash balance (A$ billions)	**-47.5**	**-43.4**	**-18.8**	**-48.5**
Per cent of GDP	-3.4	-2.9	-1.2	-3.1
Balance sheet aggregates				
Net debt (A$ billions)	**84.6**	**147.3**	**153.0**	**202.5**
Per cent of GDP	6.0	9.9	10.0	12.8
Net worth (A$ billions)	**-95.4**	**-247.2**	**-202.7**	**-256.0**
Per cent of GDP	-6.8	-16.6	-13.3	-16.1

(a) Data have been revised in the 2013-14 Final Budget Outcome to improve the accuracy and comparability through time.
(b) Net operating balance is calculated as total revenue less total expenses.
Source: Final Budget Outcome 2013-14.

Total Australian Government general government sector net worth decreased by $53.4 billion in 2013-14 to around -$256.0 billion. Net debt increased by $49.5 billion in 2013-14 to around $202.5 billion or 12.8% of GDP (from $153.0 billion or 10.0% of GDP in 2012-13).

The following two tables set out general government sector budget aggregates for the past four fiscal years. Table 29a sets out revenue for each of the 2010-11, 2011-12 and 2012-13 fiscal years, and Table 29b sets out revenue for the 2013-14 fiscal year. Both tables address the same data aggregates however the presentation of data was changed in 2013-14 to provide greater transparency on indirect taxes.

Table 29a: Australian Government general government sector revenue

	2010-11	2011-12	2012-13
		(A$ millions)	
Individuals and other withholding taxes			
Gross income tax withholding	130,790	143,978	151,069
Gross other individuals income tax	30,642	32,992	36,283
less: Individuals refunds	24,660	25,537	26,801
Total individuals and other withholding taxes	136,772	151,433	160,551
Fringe benefits tax	3,348	3,964	3,971
Company tax	57,312	66,726	68,208
Superannuation funds	6,693	7,852	7,581
Resource rent taxes [(a)]	806	1,293	1,927
Total income taxation revenue	**204,931**	**231,268**	**242,238**
Sales taxes[(b)]	49,329	50004	51,462
Excise duty			
Petroleum and diesel	13,361	14,219	14,719
Other excise	12,442	11,261	10,991
Total excise duty	25,803	25,480	25,710
Customs duty	5,828	7,105	8,172
Carbon pricing mechanism[(c)]			6,535
Other indirect taxes	3,115	2,922	3,206
Total indirect taxation revenue	**84,074**	**85,511**	**95,085**
Total taxation revenues	**289,005**	**316,779**	**337,323**
Interest income	5,169	4,617	3,646
Dividends, sales of goods and services and other non-taxation revenue	15,716	16,714	19,191
Total non-taxation revenue	**20,885**	**21,330**	**22,836**
Total revenue	**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 $0.1 billion in 2013-14 which represents the net impact across different revenue heads. These include offsetting reductions in company tax (through deductibility) and interactions with other taxes.
(b) Sales taxes comprise the goods and services tax, wine equalisation tax and luxury car tax.
(c) The carbon pricing mechanism was introduced on 1 July 2012. Tax revenue includes carbon accrual revenue measured at the legislated price, with details of the accounting treatment of carbon revenue set out in Note 2 to the General Government Sector Financial Statements in the 2013-14 Final Budget Outcome.
Source: 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.

Table 29b: Australian Government general government sector revenue[(a)]

	2013-14
Individuals and other withholding taxes	
Gross income tax withholding	157,761
Gross other individuals	37,561
less: Refunds	27,407
Total individuals and other withholding tax	167,915
Fringe benefits tax	4,285
Company tax	68,764
Superannuation fund taxes	6,146
Resource rent taxes[(b)]	1,785
Total income taxation revenue	**248,897**
Sales taxes[(c)]	56,819
Excise and customs duty	
Petrol	5,927
Diesel	8,758
Other fuel products	3,572
Tobacco	8,531
Beer	2,307
Spirits	1,902
Other alcoholic beverages[(d)]	908
Other customs duty	
Textiles, clothing and footwear	789
Passenger motor vehicles	921
Other imports	1,633
less: Refunds and drawbacks	319
Total excise and customs duty	34,929
Carbon pricing mechanism[(e)]	6,623
Other indirect taxes	3,820
Total indirect taxation revenue	**102,191**
Total taxation revenue	**351,088**
Interest income	3,341
Dividends, sales of goods and services and other non-taxation revenue	19,521
Total non-taxation revenue	**22,862**
Total revenue	**373,950**
Memorandum:	
Total excise	*25,648*
Total customs duty	*9,280*
Medicare and DisabilityCare Australia levy	*10,309*

(a)The format of the revenue table was refined in the 2013-14 Final Budget Outcome. The new presentation provides the same aggregate data but provides greater transparency in relation to indirect taxes. Data from 2013-14 onwards will be provided in the new format
(b) 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 $0.1 billion in 2013-14 which represents the net revenue impact across different revenue heads. These include offsetting reductions in company tax (through deductibility) and interactions with other taxes.
(c) Sales taxes comprise the goods and services tax, wine equalisation tax and luxury car tax.
(d) Other alcoholic beverages are those not exceeding 10 per cent by volume of alcohol (excluding beer, brandy and wine).
(e) Tax revenue includes carbon accrual revenue measured at the legislated price, with details of the accounting treatment of carbon revenue set out in Note 2 to the General Government Sector Financial Statements in the 2013-14 Final Budget Outcome.
Source: Final Budget Outcome 2013-14.

Total accrual revenue in 2013-14 was around $373.95 billion.

The table below provides information on general government sector expenses by function for each of the 2010-11, 2011-12, 2012-13 and 2013-14 fiscal years.

Table 30: Australian Government general government sector expenses by function

	2010-11	2011-12	2012-13	2013-14
		(A$ millions)		
General public services				
Legislative and executive affairs	1,039	1,003	959	1,401
Financial and fiscal affairs	7,834	7,982	7,843	16,995
Foreign affairs and economic aid	5,564	5,878	5,796	6,011
General research	2,687	2,764	2,651	2,717
General services	1,208	1,432	759	684
Governmental superannuation benefits	4,150	4,094	7,947	5,834
Defence	20,408	21,692	21,146	22,113
Public order and safety	3,823	3,999	3,923	4,368
Education	32,106	29,050	28,468	29,669
Health	56,070	62,012	61,302	63,983
Social security and welfare	117,093	126,747	131,901	140,566
Housing and community amenities	5,543	6,180	6,766	8,355
Recreation and culture	3,252	3,809	3,625	3,749
Fuel and energy	5,914	6,464	5,954	6,749
Agriculture, forestry and fishing	2,546	2,953	2,407	2,385
Mining, manufacturing and construction	1,456	2,245	2,920	3,451
Transport and communications	4,664	9,129	5,023	8,407
Other economic affairs				
Tourism and area promotion	158	177	190	188
Labour and employment affairs	4,669	4,783	4,156	3,879
Immigration	2,206	2,740	3,533	4,404
Other economic affairs nec	2,013	2,354	2,752	2,367
Other purposes				
Public debt interest	9,273	11,421	12,521	13,414
Nominal superannuation interest	6,997	7,376	6,729	8,214
General purpose intergovernmental transactions	49,298	49,940	51,480	53,563
Natural disaster relief[(a)]	6,129	1,516	1,893	377
Contingency reserve[(b)]	0	0	0	0
Total expenses	**356,100**	**377,739**	**382,644**	**413,845**

(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 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. Data for the 2013-14 fiscal year is sourced from the Final Budget Outcome 2013-14.

Total accrual expenses were around $413.8 billion in 2013-14.

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

	2010-11	2011-12	2012-13	2013-14
		(A$ millions)		
General public services	457	191	358	258
Defence	3,509	2,741	1,841	3,371
Public order and safety	135	262	21	29
Education	-9	-2	24	10
Health	56	163	-17	-13
Social security and welfare	64	253	33	-77
Housing and community amenities	180	187	-95	-26
Recreation and culture	50	41	-10	-44
Fuel and energy	0	6	4	1
Agriculture, forestry and fishing	428	678	287	65
Mining, manufacturing and construction	-2	0	2	3
Transport and communication	176	25	-1,481	-7
Other economic affairs	255	305	20	280
Other purposes	0	0	0	0
Total net capital investment	5,297	4,850	987	3,850

Source: 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. Data for the 2013-14 fiscal year is sourced from the Final Budget Outcome 2013-14.

Total net capital investment for 2013-14 was around $3.8 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 capped at $29.5 billion. 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. The maximum pension payment to single pensioners, including supplements and indexation, has increased from $601.08 per fortnight on 1 July 2009 to $854.30 a fortnight from 20 September 2014. Across the same period the maximum combined fortnightly pension payment to couple pensioners, including supplements and indexation, has increased from $983.08 to $1,288.00. 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. The minimum payments are made under the 'Superannuation Guarantee'. Such payments 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 9.5% of the employee's ordinary time earnings. While there are exclusions from the regime for employees who earn less than $450 in a month and for employees under 18 years old who work less than 30 hours per week, there is no upper age limit on Superannuation Guarantee contributions.

The Superannuation Guarantee rate increased from 9.25% to 9.5% on 1 July 2014. It is legislated to remain at 9.5% until 30 June 2021 when it will rise to 10%. It will then increase by 0.5% each financial year until it reaches 12% on 1 July 2025.

Voluntary superannuation savings are encouraged through concessional taxation treatment and other incentives. Pre-tax contributions made into complying superannuation funds ('concessional contributions') are taxed at a rate of 15%, as are the earnings of such funds during the accumulation phase. Concessional contributions are subject to a per-person annual cap. A higher cap applies for older people. Special tax deductibility for contributions made by certain groups is also provided, as are co-contributions for post-tax contributions by low income earners, and a tax offset for spouse contributions made to low income spouses' accounts.

Superannuation savings are generally required to be preserved. Currently, the preservation age is 55 but this is transitioning to age 60. Benefits paid from superannuation are tax-free if taken after age 60, except those paid from previously untaxed sources. Fund earnings that support retirement income streams are generally exempt from tax.

The Australian superannuation system currently holds around $1.9 trillion of assets (at the end of the June 2014 quarter).

A 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 with income and concessionally taxed contributions above $300,000 are liable to pay the tax. The tax is levied on the individual's contributions that exceed the $300,000 threshold.

The Government makes a superannuation contribution of up to $500 per year for certain people with adjusted taxable income of less than $37,000 who have made concessional superannuation contributions on or after 1 July 2012. This arrangement will cease from 1 July 2017.

From 1 July 2014 a higher annual concessional contributions cap of $35,000 (not indexed) applies to individuals who turn 50 in the relevant financial year. This compares to the general annual concessional cap for other individuals which is currently $30,000 (indexed). Concessional contributions above the cap (excess concessional contributions) are taxed at the individual's marginal tax rate, and an interest charge is also applied. There is also an option for the individual to withdraw the excess concessional contributions from superannuation so that they do not also count towards the non-concessional cap.

A cap of $180,000 per financial year for the 2014-15 year onwards applies to the amount of non-concessional (post-tax) contributions a person can make to a superannuation fund. Two years of non-concessional contributions can also be brought forward for people under age 65. Contributions within the cap are not subject to further tax in the fund. Non-concessional contributions that exceed the cap (excess non-concessional contributions) are subject to excess contributions tax at a rate of 47% from 1 July 2014 and the tax payable must be withdrawn from superannuation. However, the Government has announced that for the 2013-14 financial year and onwards, individuals will have the option of avoiding the excess contributions tax by withdrawing from superannuation their excess non-concessional contributions and an associated earnings amount. The associated earnings will be taxed at the individual's marginal tax rate.

The Government is currently undertaking a Financial System Inquiry with a view to making a final report by November 2014. The Government has also announced its intention to undertake a comprehensive review of Australia's taxation system.

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 2014, there were 10,550 contributors to the CSS and 96,051 contributors to the PSS and benefits were being paid to 113,612 CSS pensioners and 34,320 PSS pensioners.

The 2014-15 Budget noted that the total estimated unfunded liability for all the Commonwealth superannuation schemes at 30 June 2014 was $157.1 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 June 2014, the value of the assets held by the Future Fund was $101.6 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 2% (from 1 July 2014) 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 33: 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. From 1 July 2014, the Medicare levy increased from 1.5% to 2.0% of taxable income and consequently most residents now pay a Medicare Levy of 2% 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.

As part of the 2014-15 Federal budget the Government introduced a Temporary Budget Repair Levy. The levy is payable at a rate of 2% for taxable incomes over $180,000. It applies to both resident and non-resident individuals for the 2014-15, 2015-16 and 2016-17 income years.

A range of structural tax offsets also apply in that they alter the personal income tax rates scale for the majority or a large number of taxpayers. 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 47%) 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. The company tax rate is scheduled to fall to 28.5% from 1 July 2015 (when a new 1.5% Paid Parental Leave Levy will be introduced for large companies).

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 most trusts, and 66⅔% for superannuation entities and certain other specific types of trusts and assets. 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

From 1 July 2011, eligible research and development ("R&D") expenditure receives a standard 40% non-refundable tax offset while firms with annual turnover below $20 million receive a refundable 45% tax offset.[4]

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[4] There is currently (7 October 2014) legislation before the Parliament (the Tax and Superannuation Laws Amendment (2014 Measures No. 5) Bill 2014 and the Tax Laws Amendment (Research and Development) Bill 2013), to reduce the tax offset rates available under the R&D tax incentive by 1.5 percentage points and

(cont'd)

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 treatment 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. See “Pensions and Superannuation — Australia’s Retirement Income System”

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.

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limit access to the R&D tax incentive for companies with aggregated assessable income of $20 billion or more for an income year.

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.

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 September 2014, the tax rate applying to cigarettes was $0.46268 per stick, or $578.37 per kilogram of tobacco content (for loose tobacco).

Excise rates on tobacco are indexed twice a year in March and September in line with average weekly ordinary time earnings. In addition to the indexation arrangements, tobacco excise rates are being increased through a series of four staged increases of 12.5 per cent, with the first two increases having occurred on 1 December 2013 and 1 September 2014, and subsequent increases to occur on 1 September 2015 and 1 September 2016.

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 2014, the excise rate for most spirits was $79.22 per litre of alcohol.

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

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).

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 with the tax being phased in to 1 July 2015. 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.

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. In 2012-13, $290 million in rebates was issued to wine producers.

Luxury car tax

The luxury car tax rate is set at 33% and is applied to cars with a GST-inclusive value exceeding the luxury car tax threshold for the 2014-15 financial year of $61,884. A higher luxury car tax threshold, is available to certain fuel efficient vehicles. The fuel efficient threshold for the 2014-15 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

The Minerals Resource Rent Tax (MRRT), which commenced on 1 July 2012, has been repealed from 30 September 2014. The extension of the Petroleum Resource Rent Tax (PRRT) to all Australian onshore and offshore oil and gas projects, including the North West Shelf, which also commenced on 1 July 2012, will remain in place.

Under the MRRT, Australian iron ore and coal projects were 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 provides 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

International taxation is generally based on the concepts of residence (of the taxpayer) and source (of the income). Like most countries, Australia taxes its residents on their worldwide income and taxes non-residents only on their Australian-sourced income.

Double taxation and double non-taxation

Double taxation can arise if the country of residence (of the taxpayer) and the country of source (of the income) both seek to tax the same income.

Australia provides relief from double taxation either unilaterally or bilaterally (in the latter instance, in conformity with rights allocated to Australia under an agreement to avoid double taxation). Relief is provided by exempting Australian residents from tax on foreign earned income, or by allowing a credit for taxes paid to other countries.

Double non-taxation can arise where income is not taxed in the residence or source country at comparable rates. Australia has a long-standing practice of not concluding tax treaties with countries that do not have tax systems that are broadly similar to Australia’s, for example, no or low-tax jurisdictions.

International tax policy standards are generally set by the OECD (and related bodies) and, to a lesser extent, by the United Nations. Australia has 45 bilateral tax treaties based on the OECD Model Tax Convention on Income and on Capital. The two key tax integrity features of the OECD Model are the rules that enable tax authorities to exchange taxpayer information (to help prevent tax avoidance and evasion), and recover each other’s outstanding tax debts.

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 17 July 2014, legislation to tighten and improve Australia's thin capitalisation rules was introduced into Parliament. These changes involve tightening all statutory 'safe harbour' limits, introducing a new worldwide gearing test for certain inbound investors and increasing the de minimus threshold from $250,000 to $2 million of annual debt deductions. The changes have effect from 1 July 2014.

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.

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 2014-15 Budget, Commonwealth payments to the States and Territories for 2014-15 were estimated to total $101.1 billion, comprising general revenue assistance, including GST payments of $54.9 billion and payments for specific purposes of $46.3 billion. This represents a 3.4% increase in total financial assistance compared to 2013-14. 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 March 2014, the Commonwealth Government nominated, and the Loan Council endorsed, a Loan Council Allocation deficit for 2014-15 of $44.5 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 Updated Economic and Fiscal Outlook (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 2013-14, the Treasury Bond tenders offered by the AOFM were in the range of $300 million and $1.5 billion. The AOFM also issues by way of syndication and from 2011-12 to 2013-14 syndicated issues were in the range of $3.25 billion to $7 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 2014 was $309.5 billion, an increase of around $76 billion on end-June 2013.

Issuance of Treasury Bonds in the 2013-14 financial year totalled approximately $80 billion in face value terms.

Treasury Bond issuance in 2014-15 is expected to be around $63 billion. After accounting for maturities of $27 billion this represents a net increase of $36 billion in the face value amount of Treasury Bonds on issue.

In 2014-15 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 $1.5 billion.

Issuance in 2013-14 featured three new Treasury Bond lines which will mature in 2018, 2026 and 2033.

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 2014 was $7.5 billion, a decrease of $2 billion on end-June 2013.

The volume of Treasury Notes on issue varies depending on the flows of Australian Government receipts and expenditures. As at 30 June 2014 the volume of Treasury Notes on issue was $5.0 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 2013 and 30 June 2014, $7.3 billion of Treasury Indexed Bonds were issued.

The total face value amount of Treasury Indexed Bonds on issue at end-September 2014 was $24.6 billion, an increase of around $6.3 billion on end-June 2013.

Issuance of Treasury Indexed Bonds in 2014-15 is expected to be around $4 billion.

As at 30 September 2014, the Australian Government had not borrowed directly in foreign currencies since 1987, and had only around $6 million (in Australian dollars) of outstanding borrowings denominated in foreign currencies.

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 PGPA Act provides the power to the Minister for Finance to grant indemnities, warranties and guarantees (including loan guarantees) on behalf of the Commonwealth. The Minister for Finance has delegated this power to the Accountable Authorities of non-corporate Commonwealth entities, with conditions – the Minister for Finance has not delegated the power to grant loan guarantees on behalf of the Commonwealth. Where a Minister or Commonwealth entity is contemplating providing a loan guarantee, they must liaise with the Department of Finance to ensure the requirements of the PGPA Act are met. 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 PGPA 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 31 March 2014, the Government's total contingent liability relating to EFIC was $3.4 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 2011, 2012 and 2013.

Table 33: Quantifiable Contingent Liabilities

	At 30 June 2011	At 30 June 2012	As at 30 June 2013
		(A$ millions)	
Guarantees	420	368	443
Indemnities	637	365	447
Uncalled shares/capital subscriptions	9,654	10,198	11,380
Claims for damages/costs	117	185	232
Other contingencies	8,276	4,747	7,263
Total quantifiable contingent liabilities	**19,104**	**15,863**	**19,765**
Less quantifiable contingent assets	326	247	332
Net quantifiable contingencies	**18,778**	**15,616**	**19,433**

Source: Commonwealth Consolidated Financial Statements for the years ended 30 June 2011, 30 June 2012 and 30 June 2013.

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 (excluding deposits held at the foreign branches of an ADI), 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, 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, 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 (excluding deposits held at the foreign branches of an ADI), 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 then 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 2014, total average daily Guaranteed Liabilities of all ADIs under the ADI Guarantee Scheme were estimated at $7.6 billion. This comprised an estimated $1.5 billion of large deposits and an estimated $6.1 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; and
- 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 2014 the face value of state and territory borrowings covered by the guarantee was $15.7 billion.

Other Contingent Liabilities and Undertakings

The Australian Government has contingent liabilities with various international financial institutions. As at 30 June 2014, Australia's callable capital subscriptions totalled US$3.3 billion (approximately A$3.7 billion) for the IBRD, US$9.0 billion (estimated value A$10.0 billion) for the ADB, US$26.5 million (approximately A$29.5 million) for the MIGA and €237.5 million (approximately A$342.2 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$47.4 million) as at 30 June 2014.

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 end-August 2014, the undrawn portion of lodged promissory notes issued for these purposes amounted to A$3.7 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$7.3 billion as at 15 September 2014). 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 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 18 July 2013, Australia entered into a contingent bilateral loan with the IMF to provide up to SDR 4.6 billion (estimated value of A$7.7 billion as at 15 September 2014) 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. This loan may only be called upon by the IMF once it has exhausted its other sources of financing, including quota and NAB, and any drawings would be repaid in full with interest. The loan is initially effective for two years and can be extended for up to a further two years.

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$898.5 million) in callable capital, bringing Australia’s total value of callable capital to US$3.6 billion (approximately A$4.0 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$9.0 billion (approximately A$10.0 billion at 30 June 2014).

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$342.2 million).

The Australian Government had liabilities 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 2014.

Table 34: Government securities on issue in Australian dollars

	Date of Issue	Date of Maturity	Interest Rate (% Per Annum)	Outstanding 30 September 2014 (A$ '000)
Treasury Fixed Coupon Bonds[a]				
	From Sep 2010	21 Oct 2014	4.50	12,000,000
	From May 2002	15 Apr 2015	6.25	14,796,586
	From Jul 2011	21 Oct 2015	4.75	13,899,935
	From Jul 2010	15 Jun 2016	4.75	21,899,980
	From Jun 2004	15 Feb 2017	6.00	21,095,908
	From Sep 2011	21 Jul 2017	4.25	18,400,000
	From Nov 2010	21 Jan 2018	5.50	20,500,000
	From Dec 2013	21 Oct 2018	3.25	9,800,000
	From Jan 2006	15 Mar 2019	5.25	20,347,265
	From Jul 2014	21 Oct 2019	2.75	6,000,000
	From Apr 2009	15 Apr 2020	4.50	20,396,750
	From Sep 2007	15 May 2021	5.75	21,599,296
	From Apr 2010	15 Jul 2022	5.75	17,499,983
	From May 2011	21 Apr 2023	5.50	20,599,901
	From Jun 2012	21 Apr 2024	2.75	17,400,000
	From May 2013	21 Apr 2025	3.25	13,100,000
	From Mar 2014	21 Apr 2026	4.25	11,500,000
	From Oct 2011	21 Apr 2027	4.75	12,999,850
	From Oct 2012	21 Apr 2029	3.25	7,799,923
	From Nov 2013	21 Apr 2033	4.50	7,900,000
Total Treasury Fixed Coupon Bonds[b]				309,535,377
Treasury Indexed Bonds				
	1994 – 2003; From Feb 2010	20 Aug 2015	4.00	1,151,692
	From Apr 2014	21 Nov 2018	1.00	3,238,930
	1996 – 2002; From Nov 2009	20 Aug 2020	4.00	4,964,451
	From Feb 2012	21 Feb 2022	1.25	3,890,107
	From Sep 2009	20 Sep 2025	3.00	5,543,152
	From Sep 2010	20 Sep 2030	2.50	3,292,736
	From Sep 2013	21 Aug 2035	2.00	2,500,000
Total Treasury Indexed Bonds				24,581,068 [c]
Treasury Notes[a]	Various	Various	[d]	7,500,000
Miscellaneous Securities[e]	Various	Various	Various	19,877
Total on issue in Australian Dollars				341,636,322

(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 and foreign currency loans.
(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 2014. 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 2014 (£ 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 2014 (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 2014 (€'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 2014 (¥ '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 2014 (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 2014.

Table 40: Summary of funded debt payment (as at 30 June 2014)[(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	31,797	65,228	120,070	112,586
Repayable overseas:[(b)]					
In United States Dollars	0	0	5	0	0
Total	28,105	31,797	65,228	120,070	112,586

(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 2014.
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 2014-15 Budget, Standard and Poor's, Moody's and Fitch maintained their respective ratings for Australia.