



**Australian Government**

---

**Australian Office of Financial Management**

# **Australian Government Investor Briefing**

**Dubai  
17 – 20 March 2009**

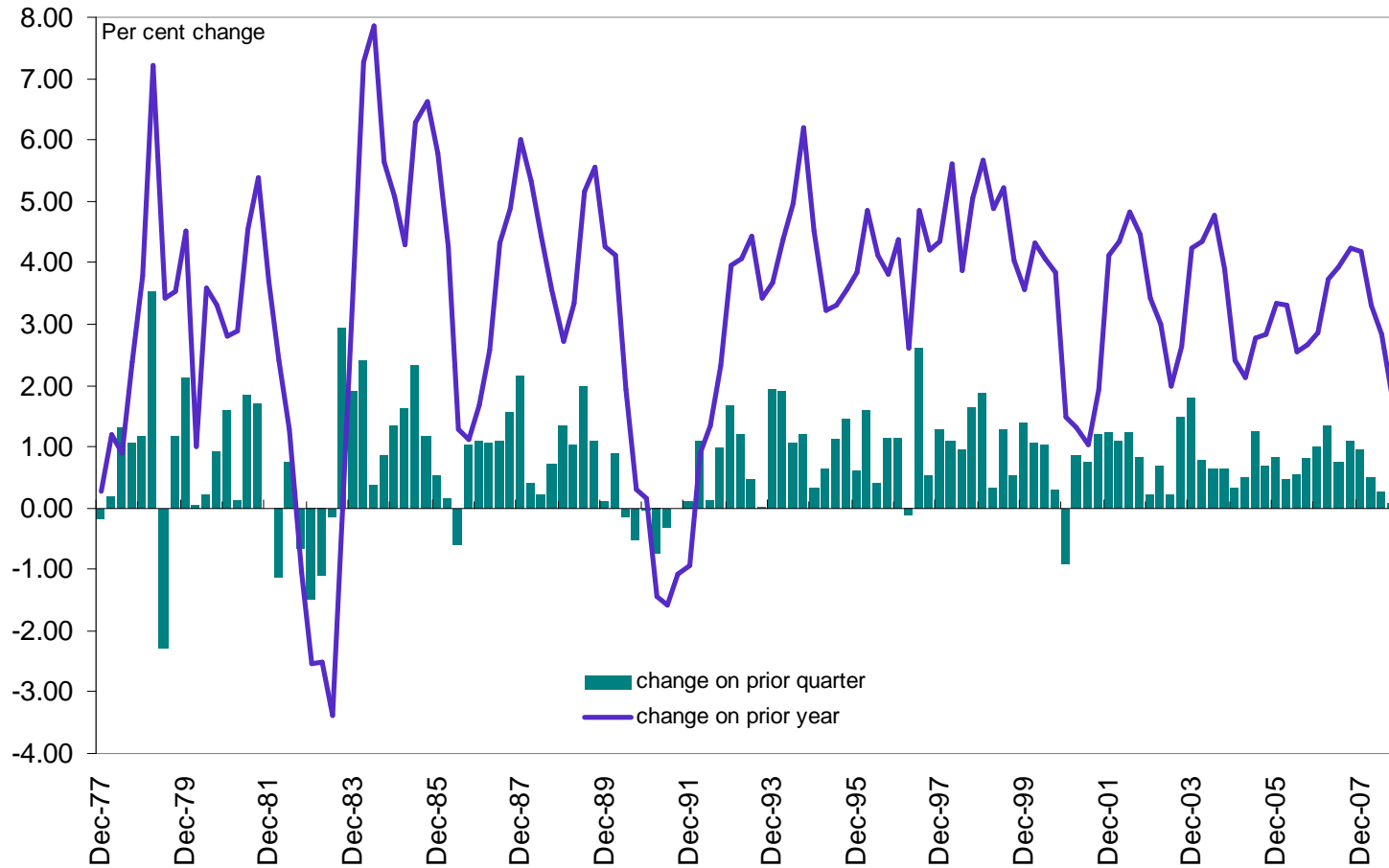
**Neil Hyden  
Chief Executive Officer**

# The Australian economy

- Stable, culturally diverse, democratic society.
- Strong flexible economy with a skilled workforce.
- Track record of adaption to change.
- Sound financial institutions.
- Active policy response to external shocks.

# GDP growth

GDP growth has slowed after a long period of sustained growth.



# Sustained strong growth

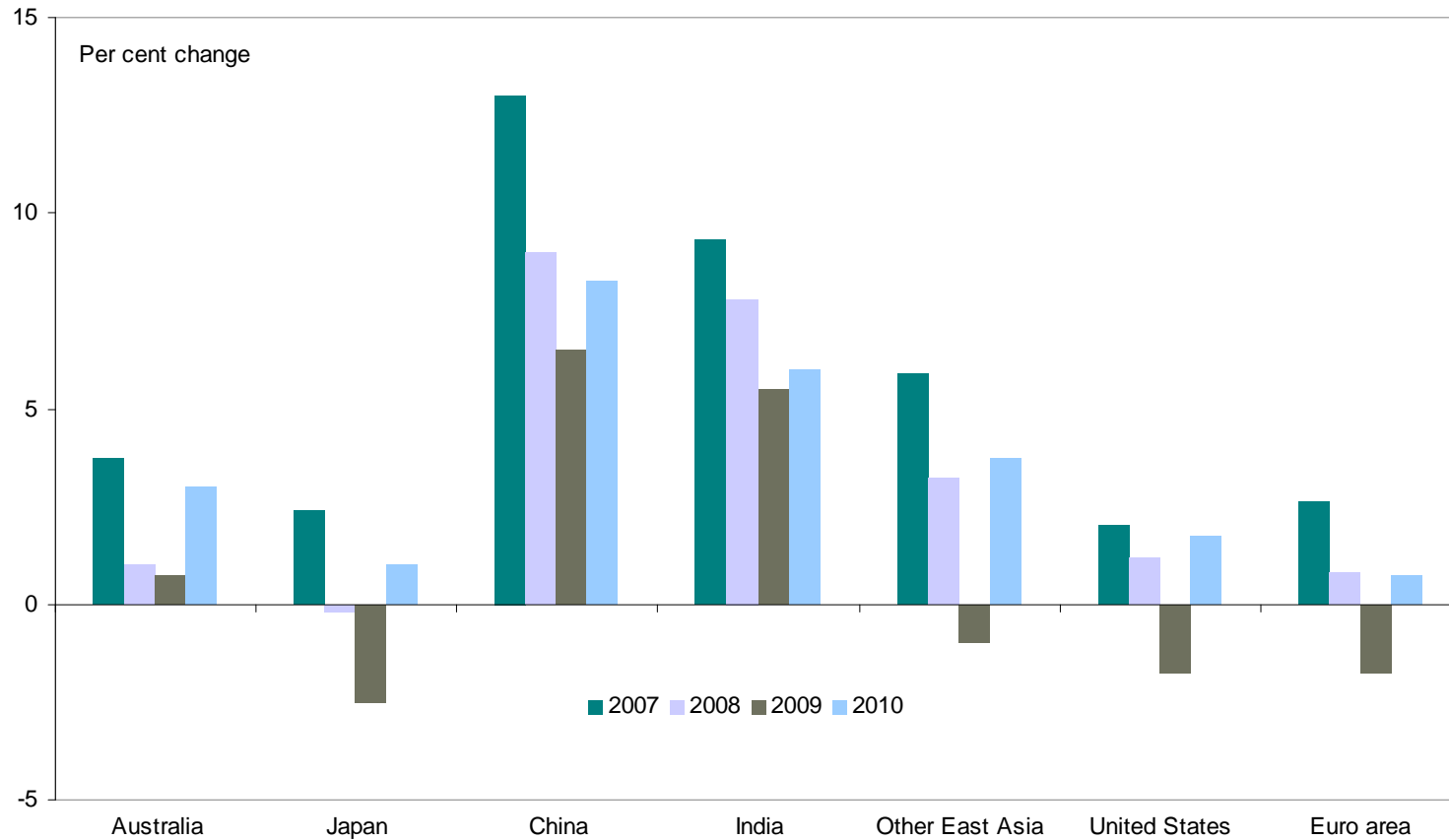
- Average annual growth in real GDP of 3.4 per cent since 1990.
- Australia avoided recession during the Asian crisis, which dislocated many of our major trading partners.
- It also avoided recession following the collapse of the 'dotcom bubble'.
- This reflects the economy's capacity to adapt flexibly to changing circumstances.

## Now impacted by external shocks

- The global economic and financial crisis is affecting the Australian economy, despite its inherent strength.
- In the December quarter 2008, GDP fell by 0.5% in Australia.
  - A smaller fall than most other OECD countries experienced in the quarter.

# Growth forecasts

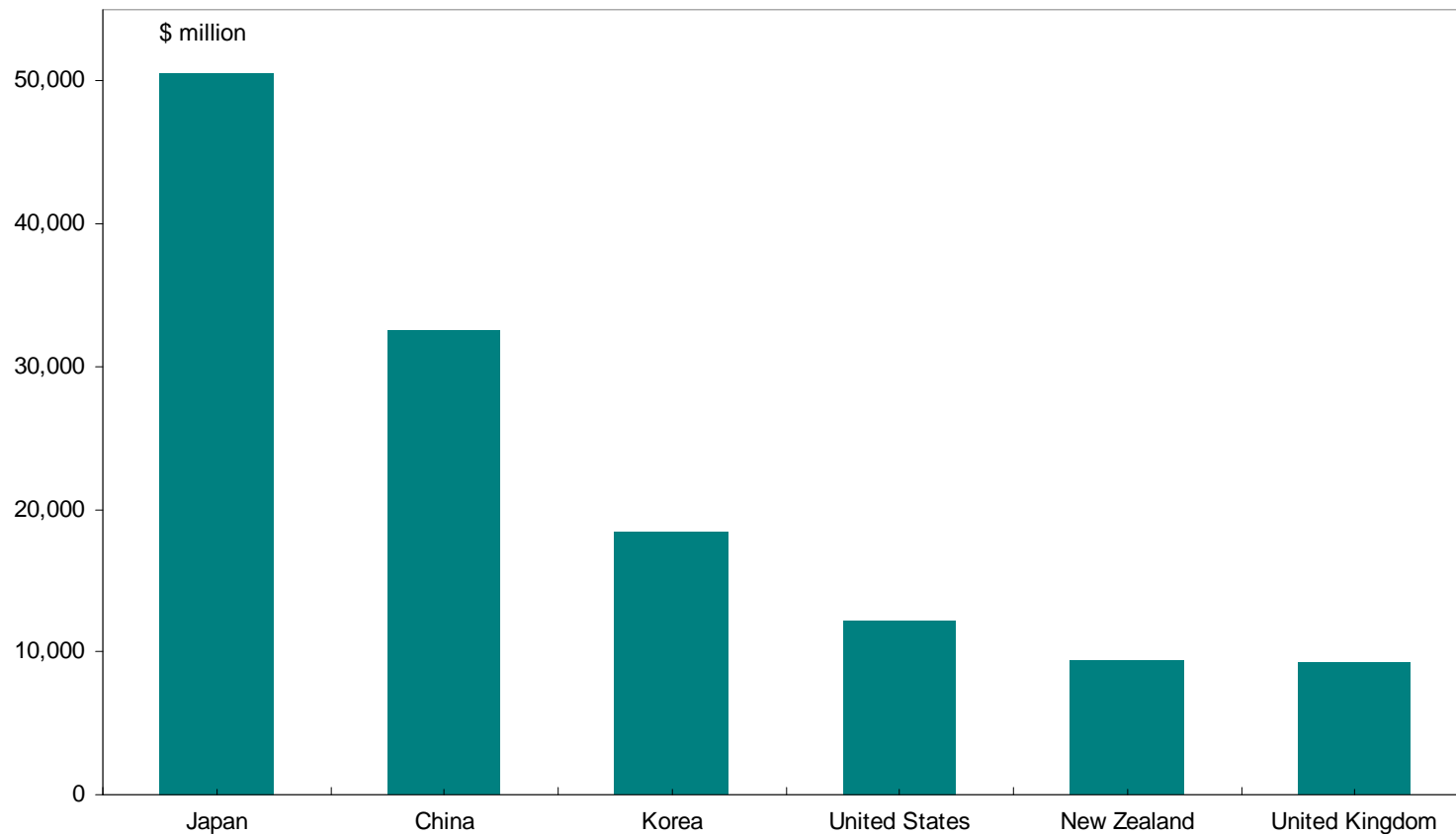
Australian growth is forecast to be supported by continued strength in several of our major trading partners in Asia.



# Strategic location

- Australia's geographic location in the Asian region, matched with its natural resource endowment, is a strategic advantage that will contribute to prosperity for many decades.
- In 2007-08 over 58% of Australia's merchandise exports were to East Asia.

# Australia's merchandise exports 2008



# Fiscal position

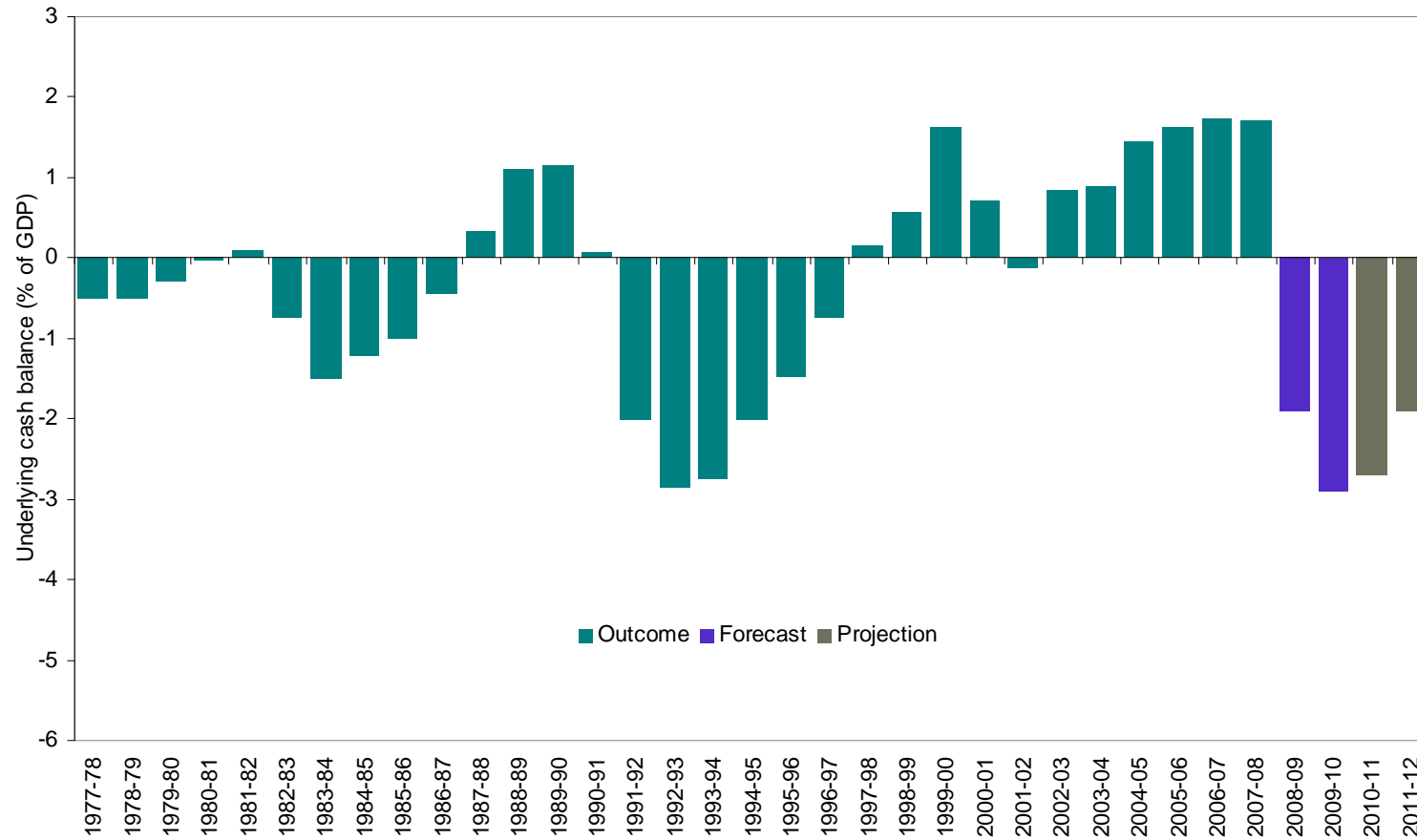
- Australia's public finances are among the strongest of any developed country.
- Sustained budget surpluses over past years have reduced the stock of debt on issue and built up financial assets.
  - The Government's net debt is estimated to be -\$16.2 billion (-1.3% of GDP) in 2008-09.

# Fiscal stimulus

- The Government has acted quickly to provide fiscal stimulus to offset recent economic and financial shocks from overseas.
- Stimulus measures amounting to \$72.2 billion (7% of GDP) have been announced since October 2008.
- These are temporary measures, consistent with a conservative medium term budget strategy.

# Budget outcomes

Budget underlying cash balance (% GDP)

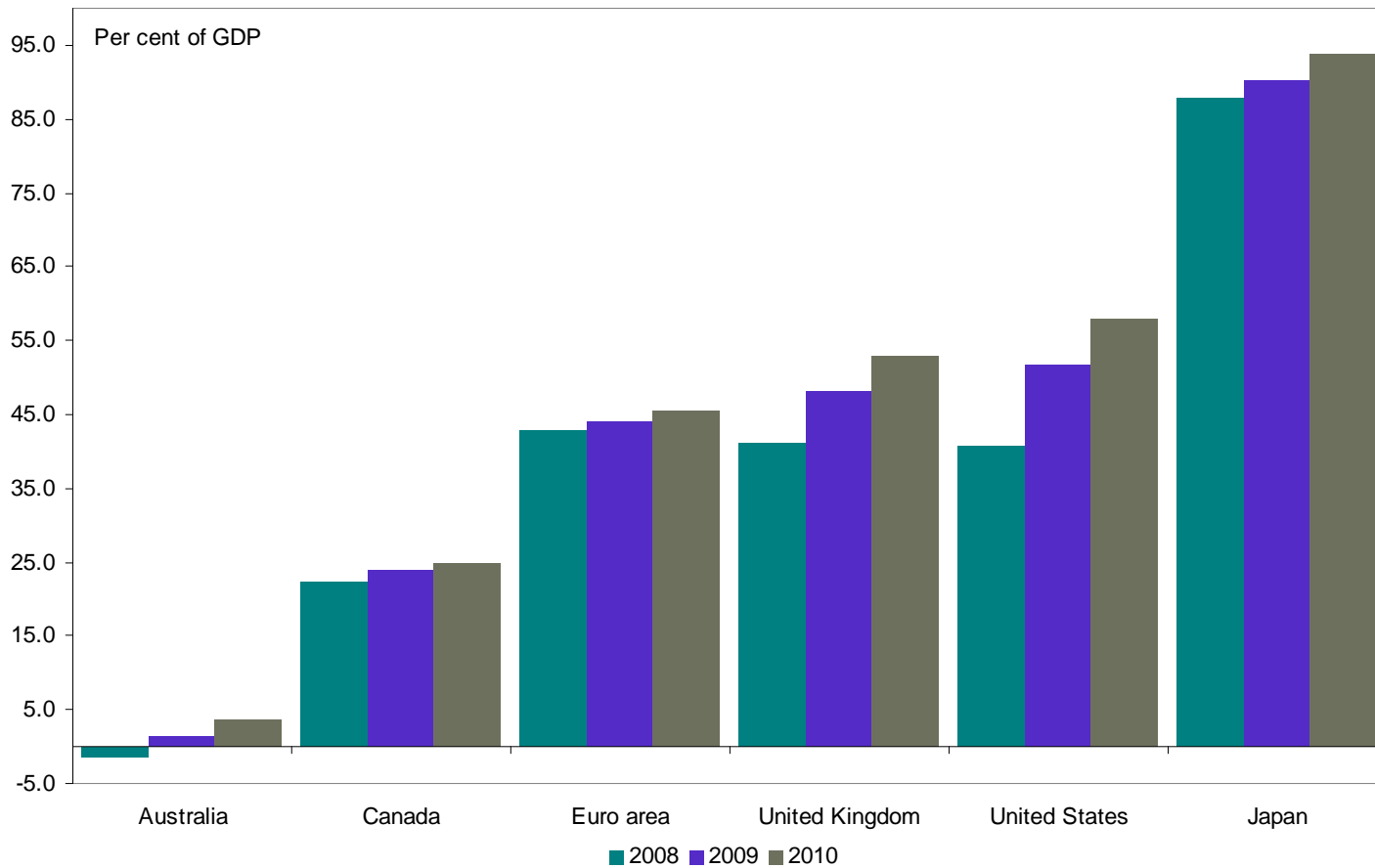


# Fiscal position

- Australia's net debt position remains strong.
- This provides scope for further flexibility in future fiscal policy, if needed.

# Net debt forecasts

Australia's net debt will remain relatively low.

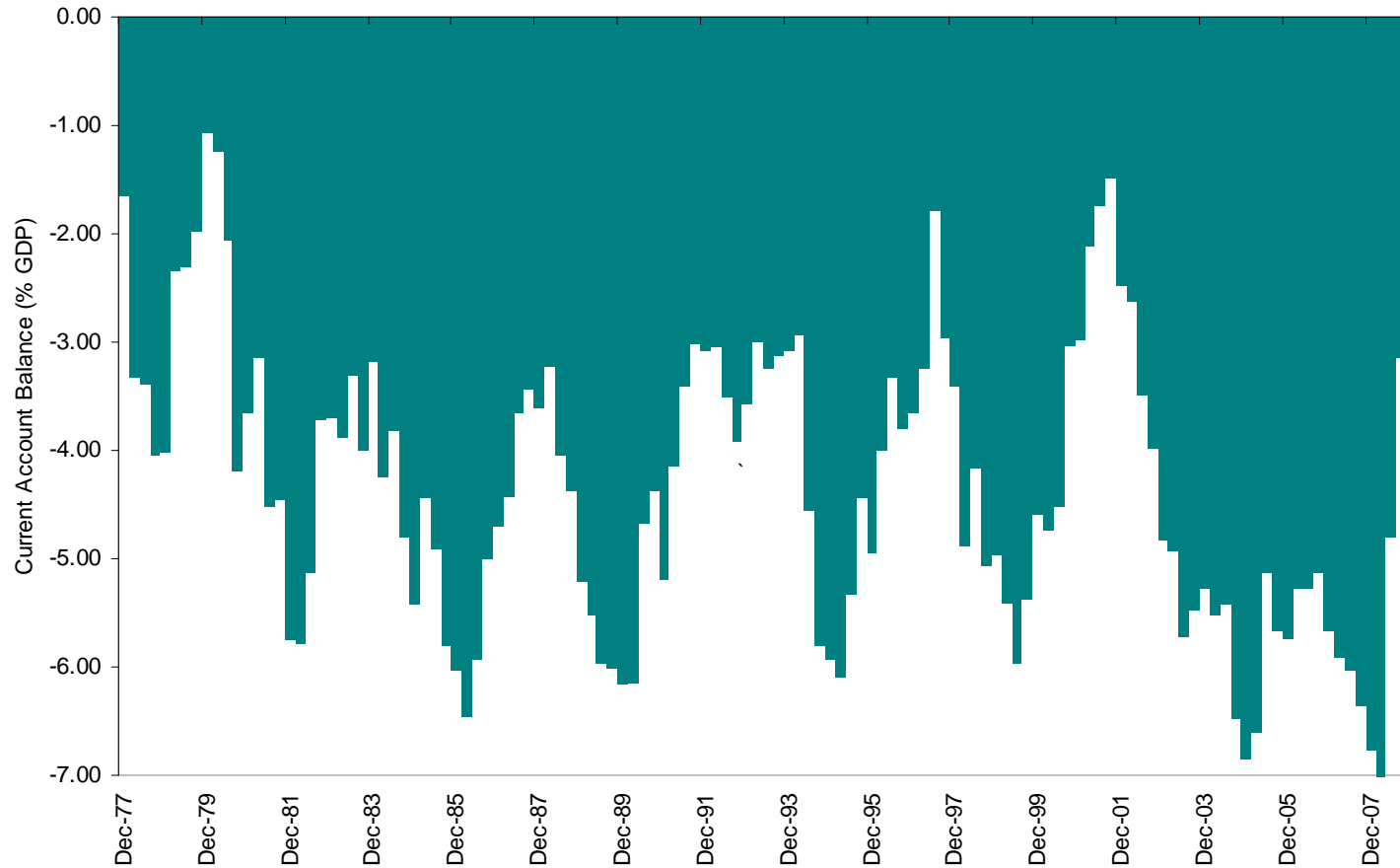


# Balance of payments

- Australia has been a net importer of capital for over 200 years.
- This results from its rich resource endowment, productive economy and strong economic growth.
- Net imports of capital are reflected in persistent deficits on current account.

# Current account

Current account on the balance of payments.

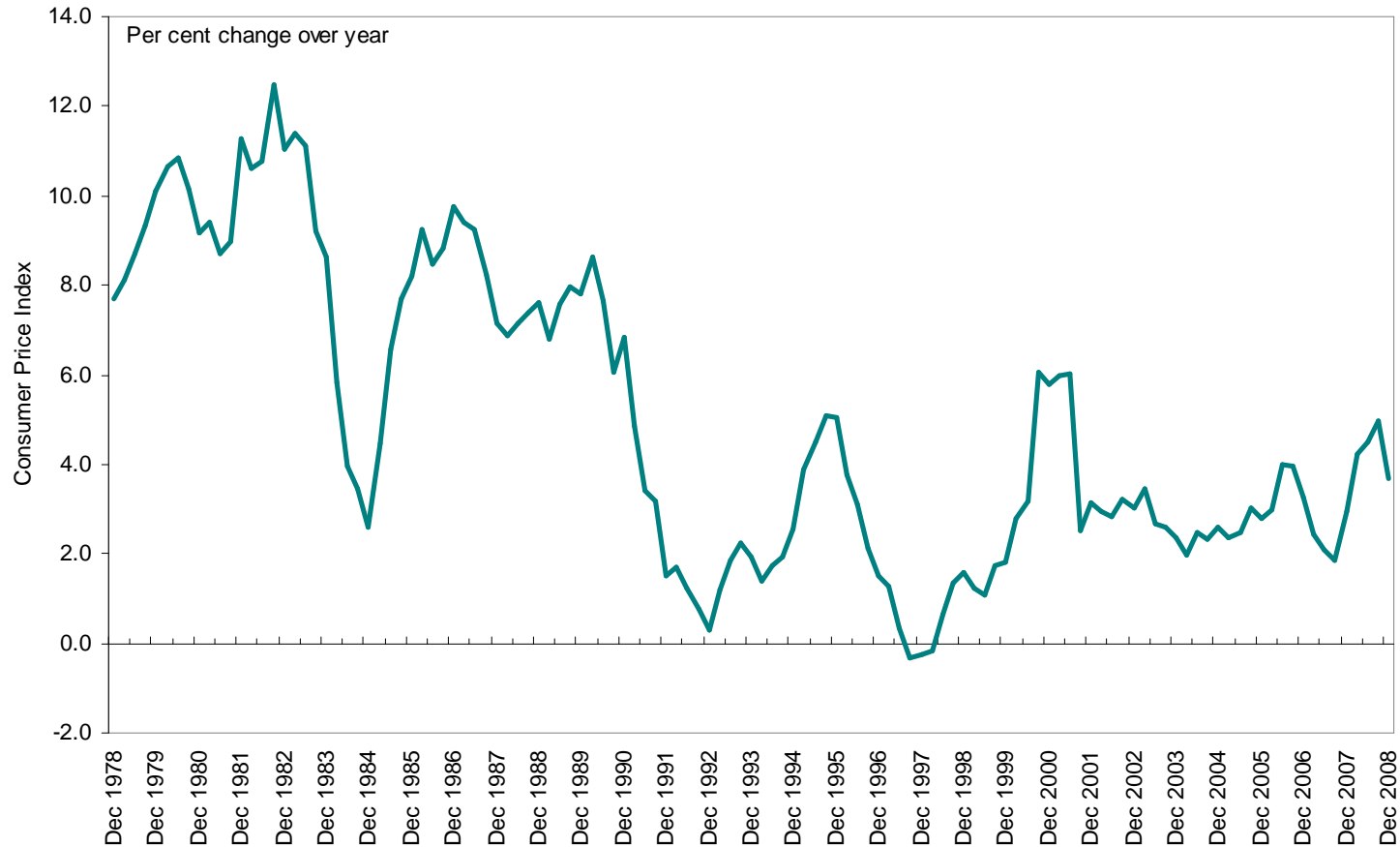


# Capital inflows

- Historically, capital inflows have been sustained by the strength of the Australian economy and the attractive yields generated by investments.
- A large part of capital inflows comprise borrowings by banks.
- Retained earnings of multinational companies contribute a further significant component.

# Inflation

Inflation has been low for the last 20 years, apart from occasional short spikes.

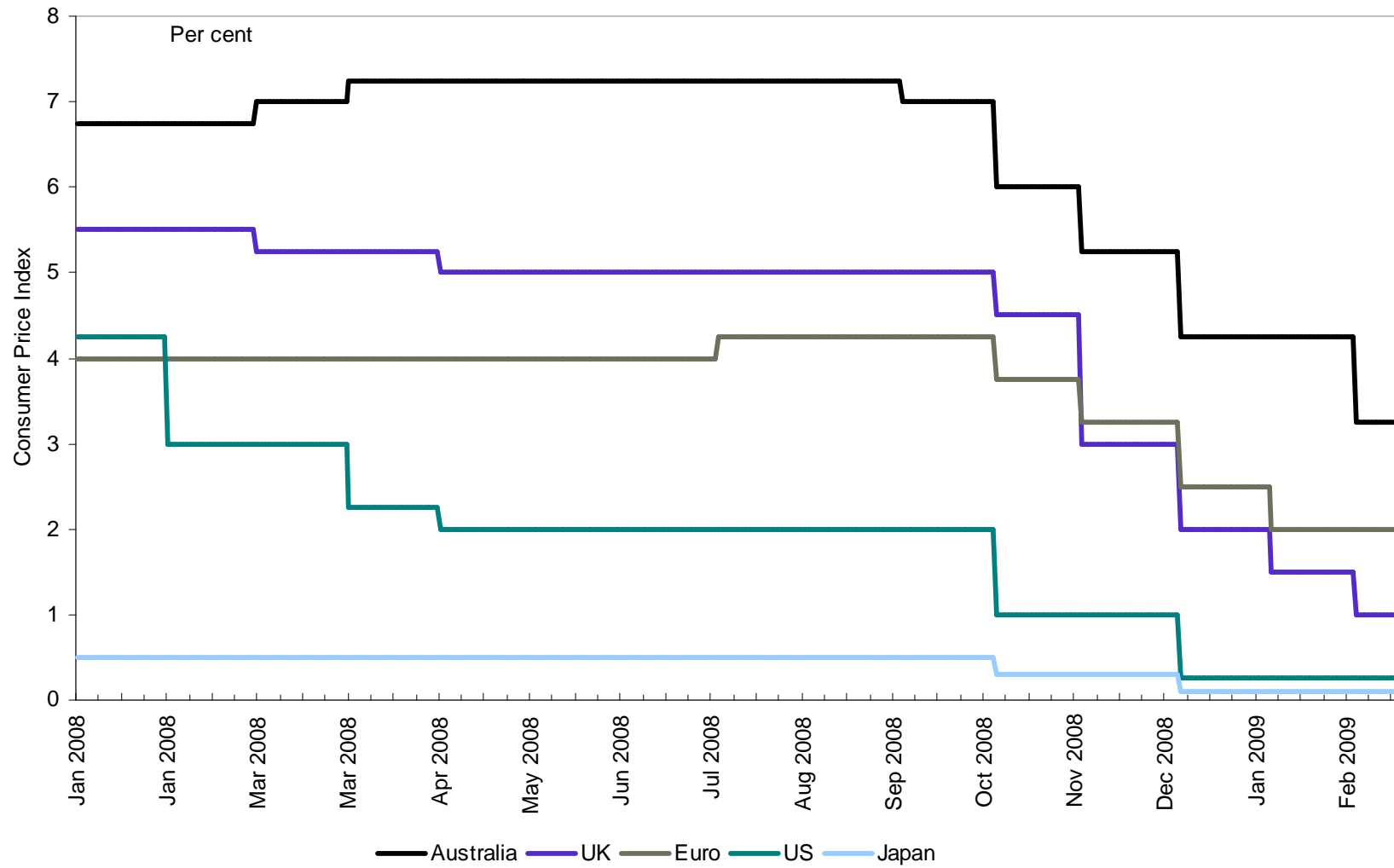


# Monetary policy

- Monetary policy has reacted vigorously to changed conditions.
  - The cash rate has been reduced by 400 bps since September 2008 and is currently 3.25%.
  - These reductions have flowed quickly to households, as the majority of Australian housing mortgages use variable rates.
- Considerable flexibility remains available for monetary policy should it be required.

# Cash rates

Official cash rates remain higher than in major economies.



# Financial sector

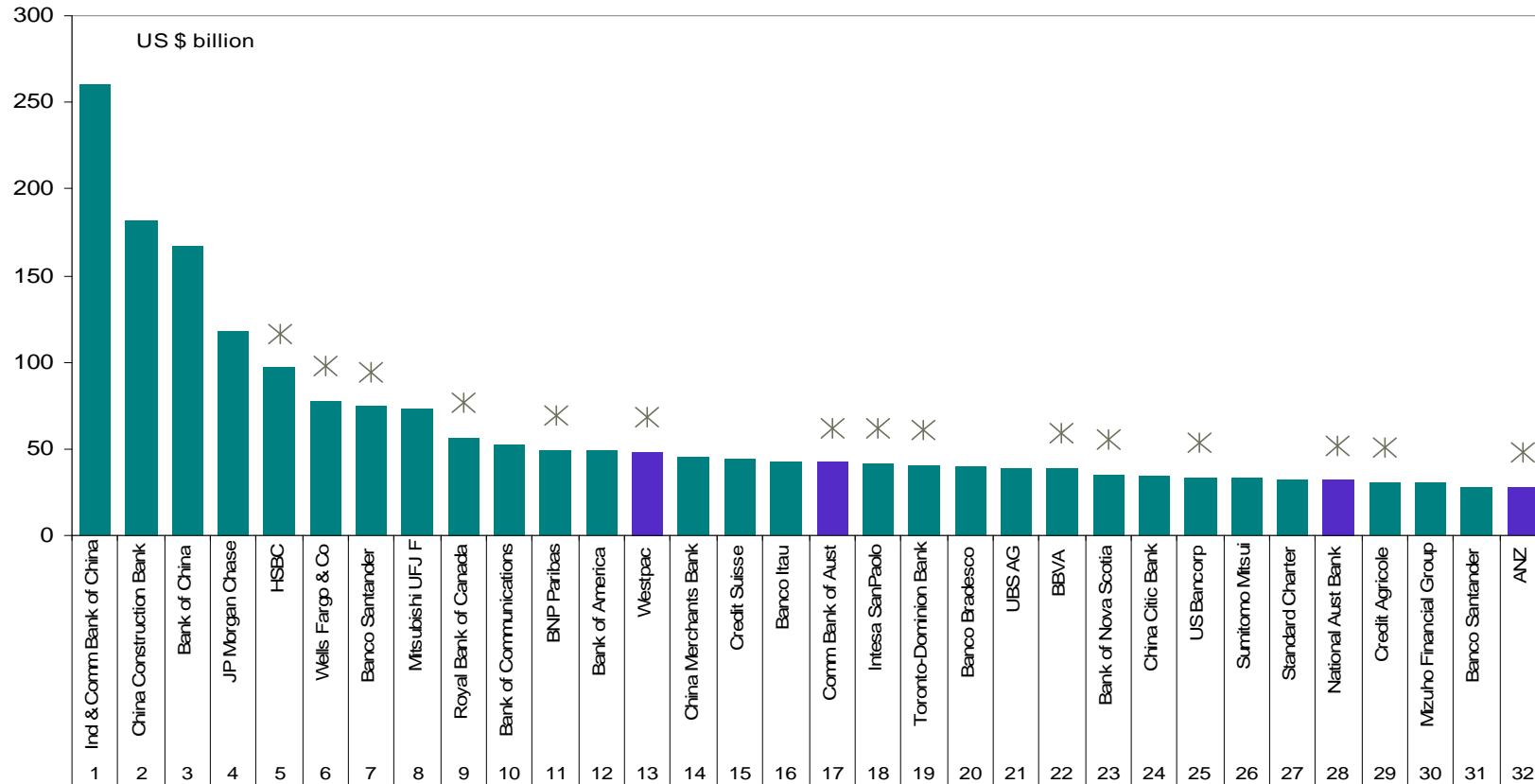
- Australia's banks have strong balance sheets, adequate capital and a resilient economy behind them.
  - The tier 1 capital ratios of the major banks average 8.7%.
- Prudential regulation of banks has been rigorous and effective over recent years.
- Major banks in Australia have never relied on securitisation to a major degree.

## Sub-prime loans

- Sub-prime loans represent less than 2% of mortgages outstanding in Australia.

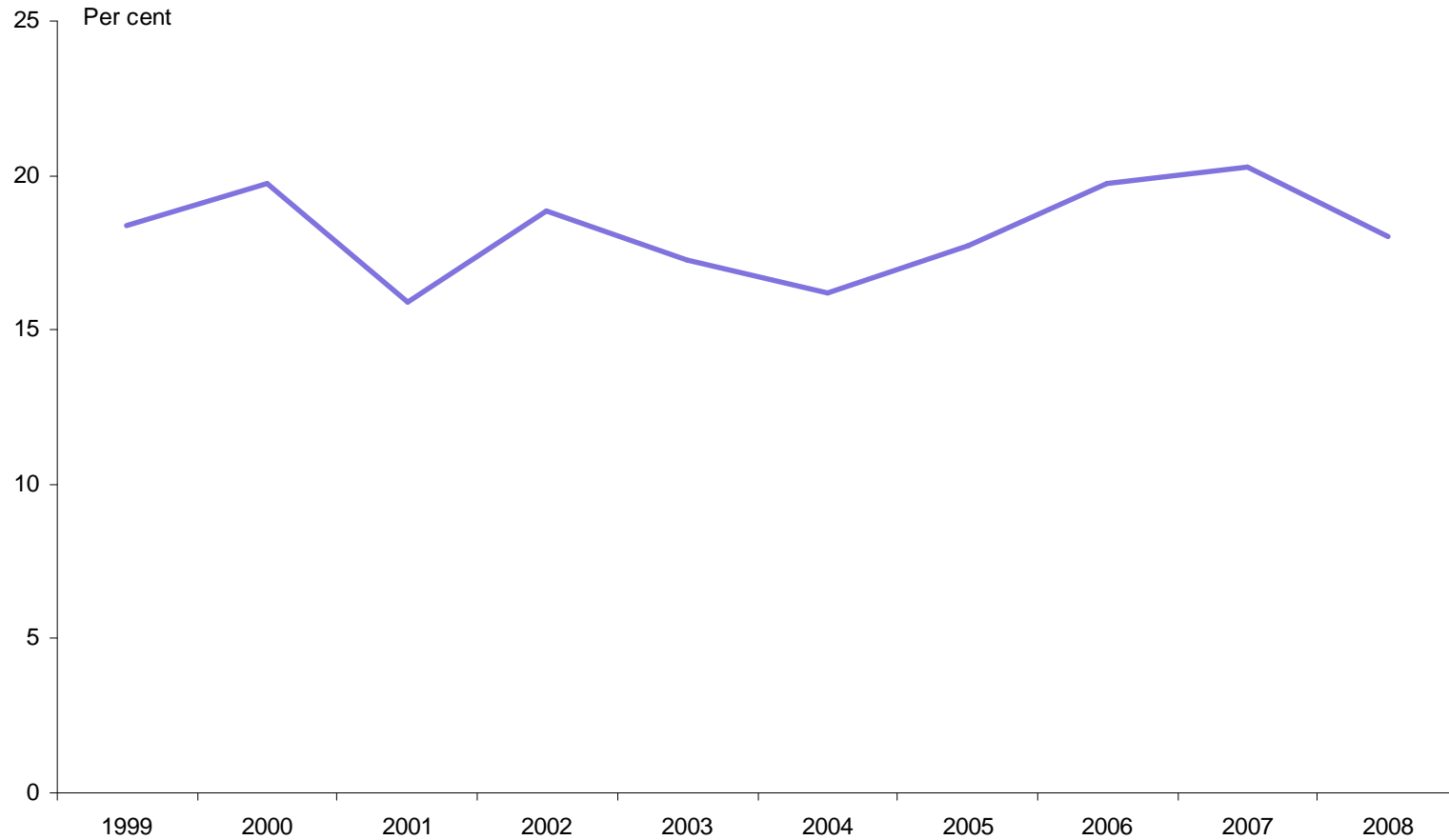
# Financial Sector

Market capitalisation of Australia's top 4 banks is strong



# Financial sector

Return on shareholders' equity for top 4 Australian banks remains robust



# Government guarantees

- The Government is providing guarantees for wholesale funding by Australian authorised deposit taking institutions.
  - Issuers must apply in advance for coverage for specific borrowings and a charge applies.
- This is to help Australian banks compete with international banks with similar guarantees from their governments.

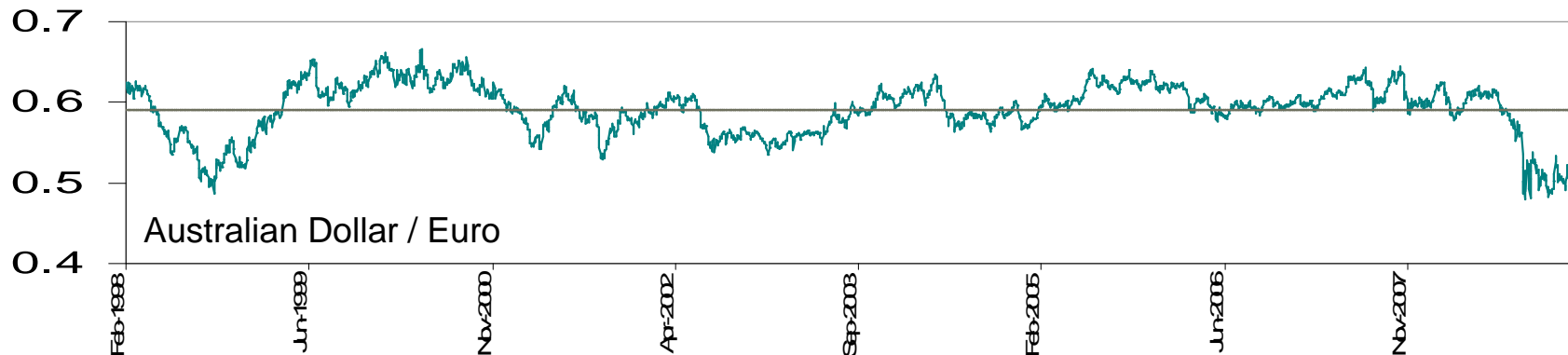
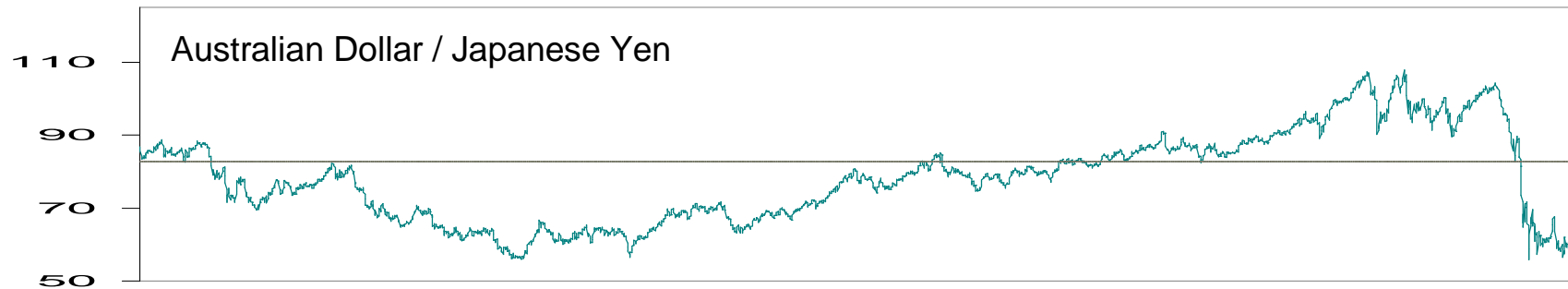
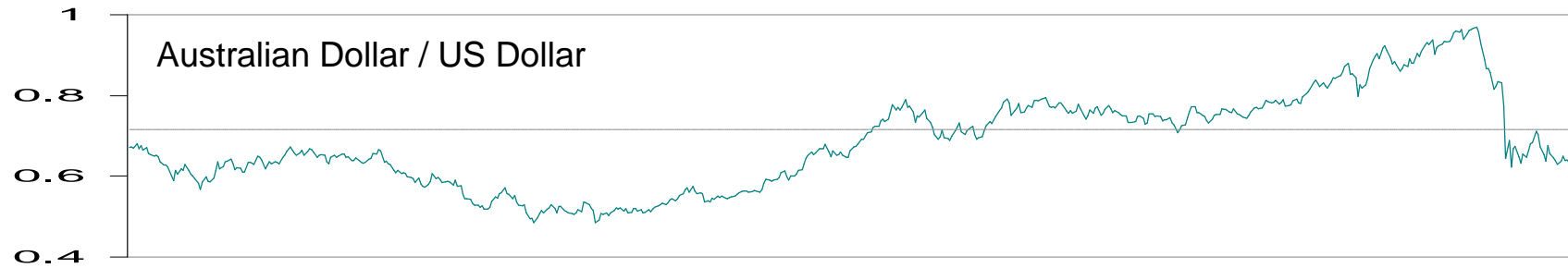
# Exchange rate

- Australia has a free-floating exchange rate.
  - The Australian dollar is the sixth most traded currency in the world.
  - Over past decades the rate has varied, including in response to movements in global commodity prices.
  - The central bank has not intervened in the exchange market other than in exceptional circumstances.

# Recent movements

- The Australian dollar depreciated sharply against major currencies in December 2008 and January 2009.
  - It has since settled somewhat at levels below longer term average rates.

# Exchange rate movements

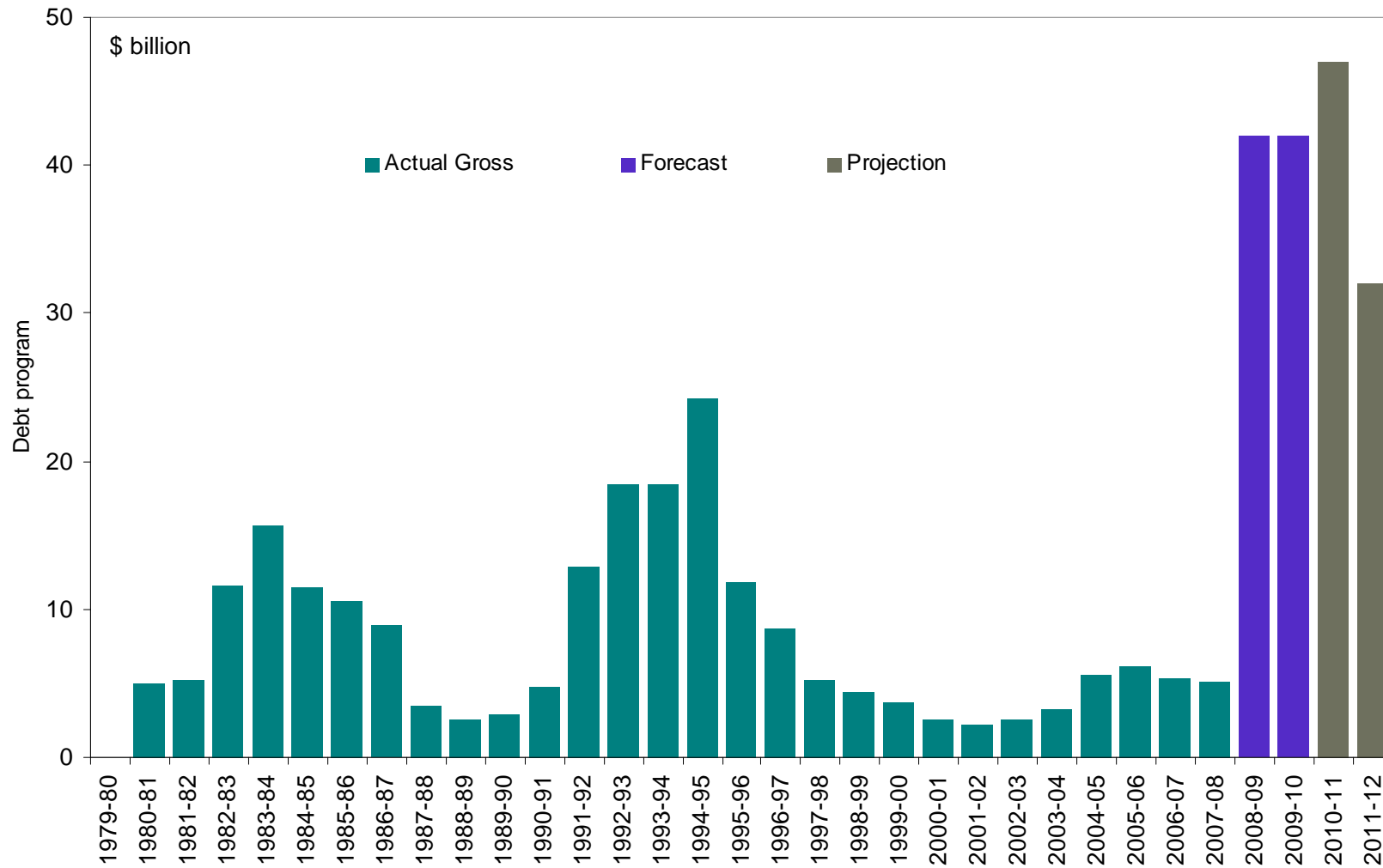


# Debt issuance

- Over recent years the Australian Government has not needed to issue debt for budget funding.
  - However it continued to issue a small volume of debt to maintain a functioning bond market.
  - The stock of debt on issue was kept at around \$60 billion (currently about 6% of GDP).
- The Government is now increasing its issuance to meet funding needs.

# Past and projected debt issuance

Debt issuance will be higher over the next few years

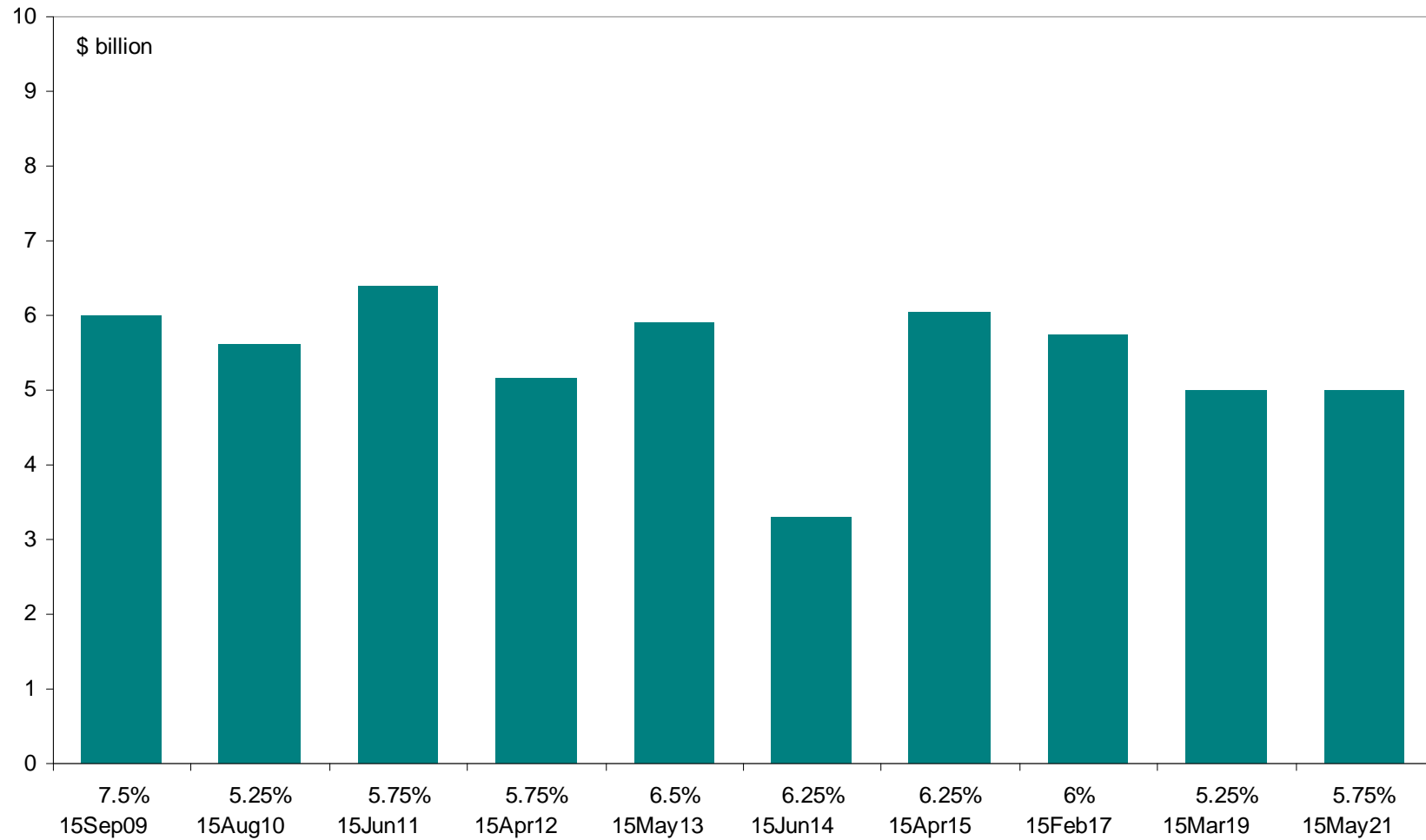


# Treasury Bond issuance

- We expect to issue around \$32 billion in Treasury Bonds in 2008-09 and around \$42 billion in 2009-10.
- Bonds are issued through auctions conducted twice a week, generally of around \$500 to 700 million.
- Bonds are issued into the 10 existing bond lines, with maturities up to 12 years.

# Treasury Bonds

Current Treasury Bonds by maturity date



# Treasury notes

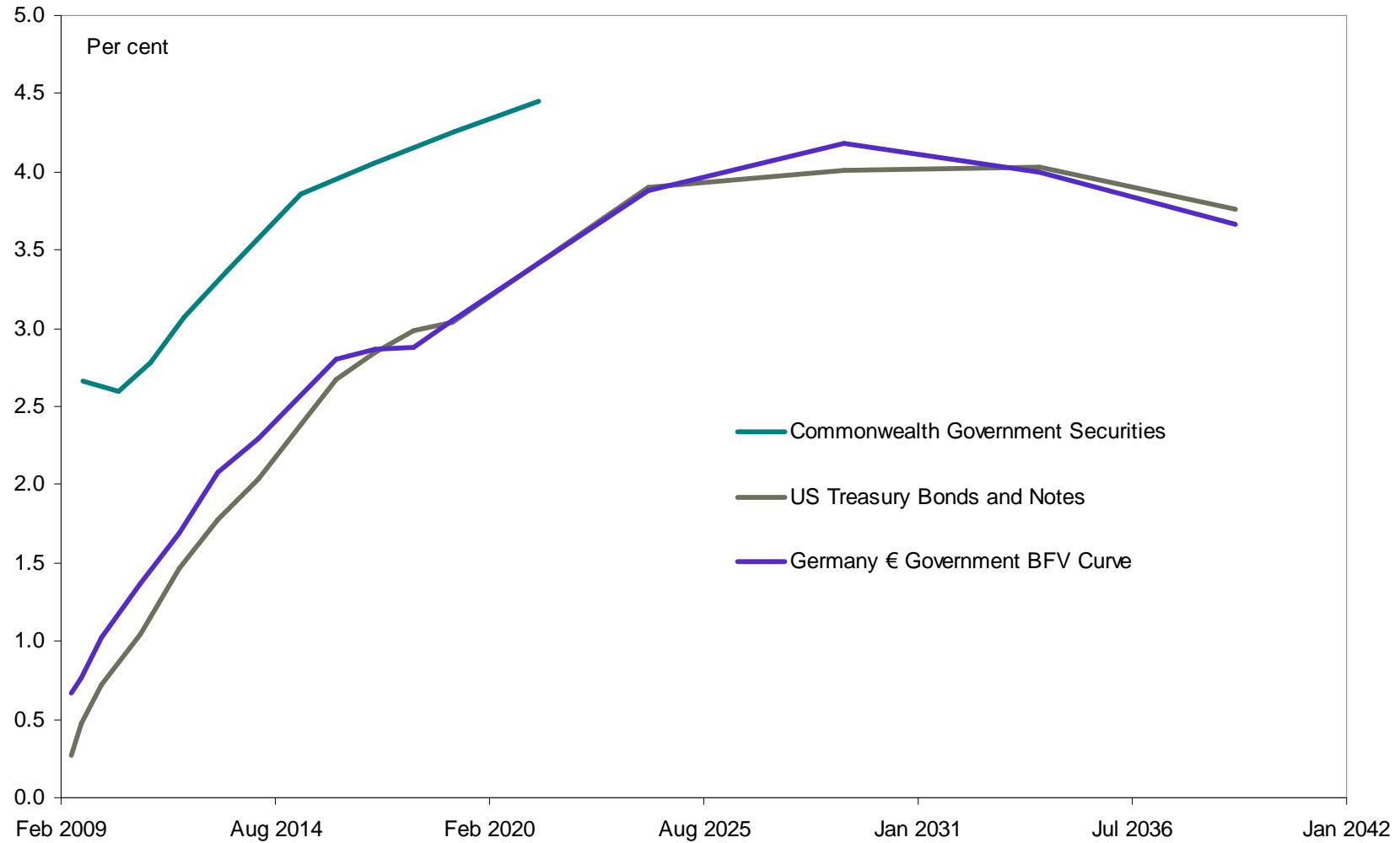
- In addition, Treasury Notes with maturities up to 6 months are issued weekly to support management of the Government's cash balances.
  - It is intended to develop a market of at least \$10 billion in these Notes.
  - Although the total stock on issue will be larger at some points during the year.

# Other debt instruments

- At this stage the Government does not plan to issue longer maturity bonds, indexed bonds or debt denominated in foreign currencies.

# Government yield curves

Australian Government debt offers an attractive return.



# AAA rating

- Standard and Poor's recently (January 2009) affirmed Australia's Sovereign AAA rating.
- Moody's recent (February 2009) stress-testing of Aaa governments' debt affordability placed Australia in the top group.
  - Moody's concluded that Australia's debt challenges were 'limited' and its 'adjustment capacity' sizeable.
  - It classified Australia in the highest of three groups of Aaa-rated sovereign issuers, based on the strength of their balance sheets.

## Further information

- More detailed information on Australian Government Treasury Bonds and Treasury Notes may be found on the web site of the Australian Office of Financial Management at [www.aofm.gov.au](http://www.aofm.gov.au) (under Activities – Debt Issuance)