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This paper provides background information to the staff report on the 1981 Article IV consultation with Australia, which was circulated as SM/81/107 on May 11, 1981.

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INTERNATIONAL MONETARY FUND

AUSTRALIA

Recent Economic Developments

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Approved by the European Department

May 13, 1981

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Australia--Basic Data

Area and population

Area	2,968,000 square miles
Population (June 1980)	14,615,900
Labor force (November 1980)	6,665,500

National accounts

	1979/80	1976/77	1977/78	1978/79	1979/80
	In millions of $A	Percentage change in real terms			
	(Years ending June 30)				
Private consumption	69,135	2.4	1.6	2.9	2.2
Public consumption	18,648	5.4	4.9	4.5	1.9
Private investment	16,171	2.4	-2.7	7.1	0.4
Public investment	9,080	-6.0	3.1	-3.0	-1.6
Change in stocks (including statistical discrepancy) 1/	-316	1.4	-2.4	2.1	-1.8
Total domestic demand	112,718	3.5	-0.8	5.4	-0.5
Exports of goods and services	21,403	7.9	1.7	1.9	14.2
Imports of goods and services	20,084	9.7	-4.0	8.8	-0.9
Gross domestic product	114,037	3.3	0.1	4.3	2.3
Of which:					
Gross nonfarm product	106,550	3.5	0.5	2.5	3.2

Gross domestic product per capita in 1979/80 — SDR 6,700

Prices, incomes, and unemployment

(Annual percentage increase)	1976/77	1977/78	1978/79	1979/80
GDP deflator (nonfarm)	10.9	8.5	7.3	9.1
Consumer price index	13.8	9.5	8.2	10.2
Real household disposable income	1.8	0.8	3.4	1.3
Average weekly earnings	12.4	9.9	7.7	9.9
Unemployment rate	5.2	6.2	6.3	6.2

Public finance

	1976/77	1977/78	1978/79	1979/80
Commonwealth Government (annual percentage increase, in value terms)				
Outlays	10.3	11.1	8.4	9.1
Receipts	17.0	9.8	8.9	16.0
Budget deficit as percentage of GDP	3.7	3.4	1.8	1.2

1/ Changes expressed as percentage of GDP in the previous period.

Basic Data (cont'd)

Monetary data	1976/77	1977/78	1978/79	1979/80
Domestic credit 1/	15.4	11.2	13.6	11.9
Broad money 1/	11.0	8.0	11.8	12.3
Short-term commercial bill rate (end of period, in per cent)	11.1	10.8	10.4	13.9
Long-term government bond yields (end of period, in per cent)	10.5	9.1	10.1	11.8
Balance of payments (in millions of Australian dollars)				
Exports	11,447	12,027	14,075	18,634
Imports	-10,345	-11,165	-13,493	-15,829
Trade balance	1,102	862	582	2,805
Net invisibles	-3,088	-3,405	-3,828	-4,413
Current account balance	-1,986	-2,543	-3,247	-1,608
(In per cent of GDP)	(-2.4)	(-2.8)	(-3.2)	(-1.4
Capital account balance	1,496	2,001	3,123	1,307
Overall balance	-490	-542	-124	-301
International reserves (end-period)				
IFS basis (in millions of SDRs)	2,526	2,120	1,962	1,646
Reserve Bank basis 2/ (in millions of Australian dollars)	3,312	3,225	3,885	5,681
Exchange rates (units of foreign currency per Australian dollar, end of period)				
U.S. dollar	1.1155	1.1475	1.1211	1.1576
Trade-weighted basket (May 1970 = 100)	87.62	86.2	83.1	85.0

1/ End-period, percentage increase from one year earlier.
2/ Using market-related valuation of gold.

I. Domestic Economy

1. Overview of recent and prospective developments

Economic policy since the mid-1970s has been dominated by the need to reduce the rate of inflation and to rectify the large factor price imbalance that emerged from the wage explosion of 1974. The achievement of these objectives has been regarded as a precondition for achieving a sustainable rate of growth and employment and for ensuring external stability. The authorities have pursued these objectives by maintaining a fairly cautious stance of demand management, while advocating restraint by the labor unions in their wage demands as well as by the Arbitration Commission in its decisions granting wage increases.

The economy has adjusted gradually to the new policy environment. The rate of inflation has been brought down below 10 per cent and since mid-1979 below the industrial countries' average. Progress has been made in bringing real labor costs more in line with productivity, thus improving the profitability and competitiveness of Australian industry. Nevertheless, it would appear that the level and structure of wages remain a major hindrance to a more effective utilization of labor resources and, hence, to the capacity of the economy to grow without inducing inflationary tendencies. Employment has increased--quite substantially in the last two years--but a 6 per cent rate of unemployment coexists with emerging shortages of skilled labor.

Up to mid-1979 economic recovery from recession was slow and uneven, despite a relatively strong export performance (Chart 1). Since the beginning of 1980, however, economic activity has been characterized by a broadly based pickup in domestic demand, with business investment underpinning firm growth in employment. This marks the beginning of an extensive investment boom in the development of oil and gas deposits, coal and bauxite mines, and the construction or expansion of alumina refineries and aluminum smelters, as well as uranium mining and milling operations. While there was, as a result, a deterioration in the current account of the balance of payments, the capital account moved strongly in Australia's favor, and the overall external position became stronger than at any time in the recent past. This was reflected in a strengthening of the exchange rate on a trade-weighted basis.

It is believed that the continuation of the resources boom and a high level of consumer spending in the second half of 1980/81 1/ will ensure that the stimulus from domestic demand will continue to offset the negative impact on growth from the further deterioration in net exports. It appears that both in the first half of the year and in following months firms managed to get investment in place as planned; as a result, business fixed investment (including outlays on construction) is likely to grow at a rate approaching 20 per cent in real terms in 1980/81, compared with a decline of about 4 per cent in 1979/80. The housebuilding sector will also increase--though at a reduced pace in the second half of 1980/81 following the rise in interest rates--and movements in nonfarm stocks will add to product growth in 1980/81. With strong

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1/ The financial year runs from July 1 to June 30.

employment growth boosting both aggregate income and consumer confidence, and with real disposable incomes rising firmly, real private consumption is likely to grow at a rate approaching the long-term rate of 4 per cent, compared with 2 1/4 per cent in 1979/80. On the whole, total domestic demand is estimated to increase by about 5 3/4 per cent compared with a decline of 1/2 per cent in 1979/80.

In contrast to the experience in 1979/80, net exports will detract sharply from overall economic growth in 1980/81, reflecting a measurable fall in exports and strongly expanded imports. Many export industries had to face weak foreign demand, and supply constraints were evident for rural exports on account of the drought, for iron and steel on account of strengthening domestic demand, and for coal on account of industrial disputes. It appears that demand for imports will grow quite strongly in 1980/81 with the pickup in investment expenditure and large deliveries in defense equipment already on order. Even so, real growth in nonfarm product in 1980/81 may reach 4 1/2 per cent, compared with 3 1/4 per cent in 1979/80. With farm output falling by a higher percentage than in 1979/80 (9 per cent), real GDP growth in 1980/81 will most likely exceed 3 per cent compared with 2 1/4 per cent in 1979/80.

With the rate of increase in consumer prices in the first nine months of 1980/81 a little lower (largely because of temporary factors) than had been anticipated earlier, the year-on-year rate of increase in consumer prices is likely to be under 10 per cent for the year as a whole compared with 10 1/4 per cent in 1979/80. On the other hand, the growth of earnings jumped ahead during 1980/81, reaching a 14 per cent rate of increase in the second quarter of the year. Real earning, which had remained roughly unchanged for about four years, thus showed sizable gains.

2. Supply and demand

With farm output falling from the very high level of 1978/79 and with activity outside the farm sector accelerating only slightly (from 2 1/2 per cent in 1978/79 to 3 1/4 per cent in 1979/80), the growth of real GDP slowed to 2 1/4 per cent in 1979/80 from over 4 1/4 per cent in the previous year. The major stimulus to economic growth in 1979/80 as a whole was provided by the external sector. A real increase of 14 1/4 per cent in exports of goods and services was accompanied by a decline of about 1 per cent in the volume of imports of goods and services, with the result that net exports contributed about 2 1/2 percentage points to the overall change in real GDP. 1/ Net exports had detracted from growth in 1978/79. On the other hand, the growth of final domestic demand decelerated from 3 1/4 per cent to 1 1/2 per cent in 1979/80, and the contribution of stockbuilding to real GDP--which had been sharply positive in 1978/79--became strongly negative, due mainly to a rundown in farm stocks.

In the first half of 1980/81 the Australian economy experienced a strong upturn despite a sharp decline in farm output. Nonfarm production rose at

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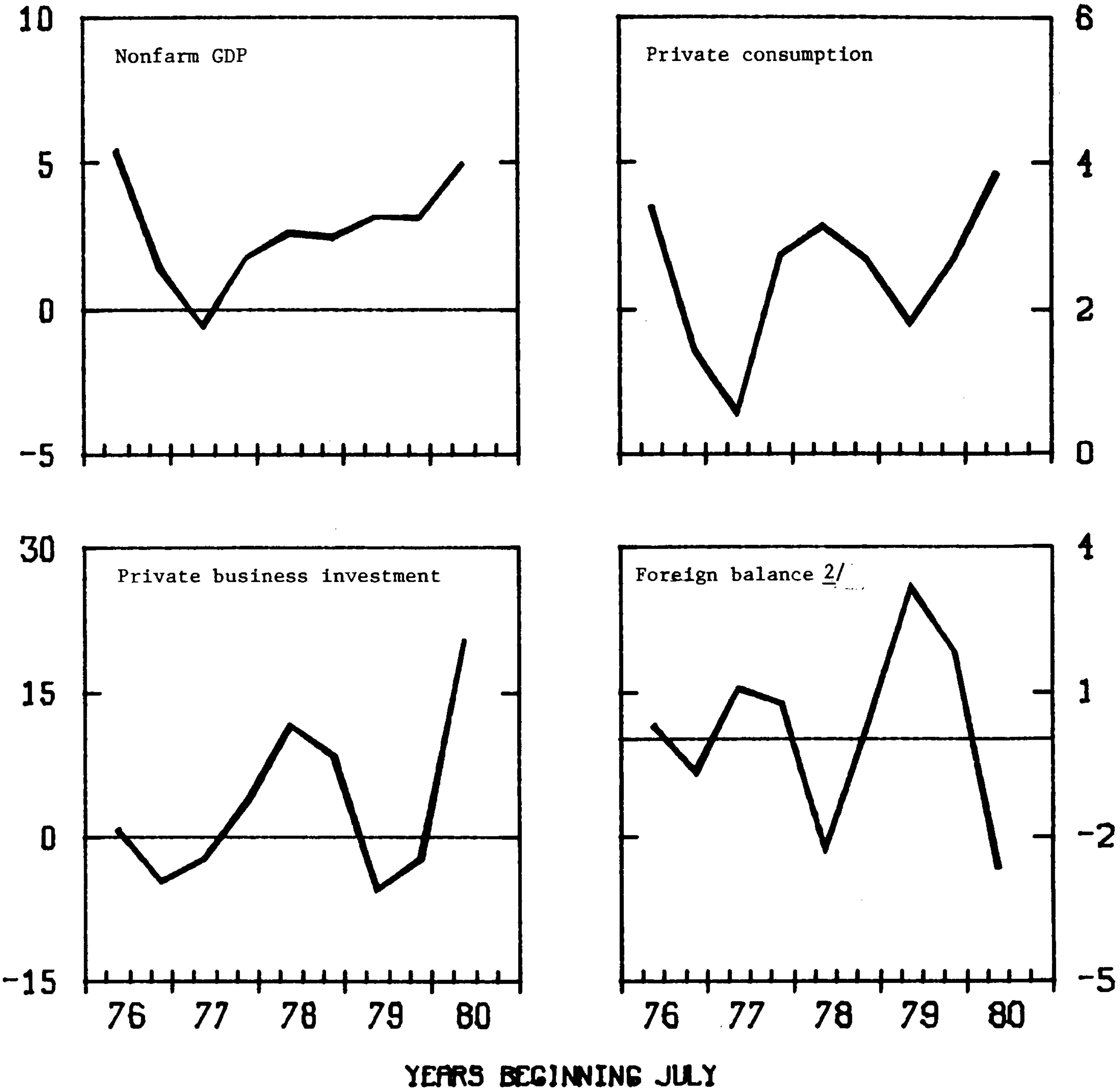
1/ For a detailed discussion of developments in the balance of payments, see Chapter IV.

CHART 1

AUSTRALIA

BROAD COMPONENTS OF SUPPLY AND DEMAND

(At 1974/75 Prices; Year-On-Year Rate Of Change,[1/] In Per Cent)



Source: Australian Bureau of Statistics, Quarterly Estimate of National Income and Expenditure.

1/ Semi-annual data.

2/ Changes expressed as percentage of GDP in the preceding year.

an annual rate of 6 1/2 per cent in real terms and overall GDP by 4 1/2 per cent (Table 1), with the stimulus from domestic demand more than offsetting the impact on growth from the deterioration in net exports.

a. The components of domestic demand

The slowdown in final domestic demand in 1979/80 affected both private and public spending. In the private sector, consumption expenditure increased by 2 1/4 per cent in 1979/80, slightly less than in 1978/79, and significantly below the average growth rate of 4 per cent during the ten-year period to 1977/78. Consumer demand accelerated to an annual rate of 3 per cent in the second half of 1979/80, in part as a result of the termination of the income tax surcharge effective December 1979, and in part as a result of the increase in employment. However, household disposable income increased at a slower pace in 1979/80 than a year earlier, reflecting both a sharp decline in the rate of growth of farm incomes and an increase in direct tax payments (Tables 2 and 3). As personal consumption rose at a faster pace than income, the personal savings ratio declined to around 13 per cent in 1979/80 from about 14 per cent in the preceding two years. With strong employment growth boosting both aggregate income and consumer confidence, private consumption expenditure rose at an annual rate of 4 1/4 per cent in real terms in the first half of 1980/81, and there was a further decline--albeit slight--in the personal savings ratio.

Private investment demand exhibited mixed trends. Assisted by a return to more normal levels of stocks of unsold units and improved price competitiveness of new dwellings relative to established ones, outlays on dwellings rose considerably more in 1979/80 (10 1/2 per cent) than a year earlier (3/4 per cent); they continued to rise at an annual rate of 9 1/4 per cent in the first half of 1980/81. The rise in the number of dwellings approved and commenced in 1979/80 and early 1980/81 (Table 4) may have assured another measurable--though slower--rise in building activity in 1980/81. On the other hand, the volume of private business gross fixed capital expenditure (construction and equipment) declined by 4 per cent in 1979/80, after increasing by 9 1/4 per cent in the previous year. Both outlays on construction and equipment declined sharply in the first half of the year. The phasing down of the investment allowance from 40 per cent to 20 per cent played a major role in this decline. In the second half of 1979/80, investment in construction rebounded strongly while the growth of expenditure on plant and equipment resumed growing, notwithstanding the uncertainties regarding the world economic outlook. As the development of Australia's resources and energy-related sectors gained momentum in the first half of 1980/81, business investment rose at an annual rate in excess of 30 per cent in real terms.

The real rate of growth of total final expenditure (consumption plus investment) of the General Government, which had approached 2 per cent in 1978/79, fell to 3/4 per cent in 1979/80, 1/ before rising again to 2 1/2 per cent (annual rate) in the first half of 1980/81. The increase in consumption expenditure more than accounted for the growth in total public outlays in both 1979/80 and the first half of 1980/81; the volume of investment expenditure fell by about 1 1/2 per cent in 1979/80 and hardly increased in the first half of 1980/81.

1/ For a detailed discussion, see Chapter II.

Contrary to the previous year, the contribution of stockbuilding to growth was negative (by 1 1/2 percentage points) in 1979/80. The movement in stocks was closely related to developments in farm output and exports. In the first half of 1979/80, a rundown in farm stocks associated with the shipment of the previous year's record rural output was more than offset by an accumulation of nonfarm stocks. The latter reflected in part unintended stockbuilding (e.g., the buildup of motor vehicle stocks) and in part a precautionary accumulation of petroleum-related stocks. In the second half of 1979/80, nonfarm stocks showed only a small increase, to some extent reflecting the effects of industrial disputes on output, particularly in the coal industry; they seem to have been all but completely rebuilt in the first half of 1980/81.

b. Savings and investment

Australia has traditionally maintained a moderate level of national savings 1/ by international standards, as indicated below:

	Calendar years			
	1965	1975	1978	1979
Japan	33.6	32.6	32.5	31.8
Switzerland	28.8	25.9	24.2	23.2
Germany	28.6	23.3	24.6	25.4
Australia	26.0	24.9	20.2	21.7
United Kingdom	18.9	16.2	19.9	19.3
United States	20.7	17.2	18.8	18.8
Sweden	25.8	23.1	18.1	17.9

Domestic savings in Australia were equivalent to 21 per cent of GDP in 1979/80, slightly higher than in the preceding year. During the 1970s they averaged about 23 per cent of GDP, somewhat below the figure of 25 per cent recorded in the previous decade. In the period 1960/61-1979/80, overseas savings invested in Australia were equivalent to about 2 per cent of GDP. The share of total capital expenditure financed by domestic savings rose from 88 per cent in the 1960s to 93 per cent in the 1970s, a reflection of the slowdown in the real rate of growth of investment from 6 per cent to 1 per cent.

An examination of the major components of domestic savings reveals that depreciation allowances, after declining in relative importance in the early 1970s, exhibited some recovery in the latter part of the decade. Undistributed company income displayed a similar but less marked trend, reflecting

1/ $\frac{\text{GDP - (Private consumption + public consumption)}}{\text{GDP}} \times 100$,
as shown in IMF, International Financial Statistics.

changes in corporate profitability associated with developments in wage and other costs. The other important development that the table below 1/ illustrates is the enhanced role of household savings as a source of funds:

	1979/80	1968/69	1973/74	1978/79	1979/80
	In millions of $A	Percentage distribution			
Depreciation allowances	7,543	34.9	26.5	33.2	31.1
Undistributed company income	2,707	16.2	10.4	10.0	11.2
Household savings	10,553	24.3	41.6	48.7	43.5
General government savings	3,441	24.6	21.5	8.1	14.2
Total domestic savings	24,244	100.0	100.0	100.0	100.0
In per cent of GDP	21.3	26.1	25.8	20.6	21.3

The household sector generated large surpluses in the period 1974/75-1978/79, which were nearly all absorbed by increased government borrowing requirements. Though the Commonwealth Government has reduced its overall budget deficit since 1975/76 (from 5 per cent of GDP to 1 3/4 per cent in 1979/80), the growth in state and local government outlays and borrowing has continued. The table below 2/ further illustrates that corporate trading enterprises have traditionally been net borrowers, though they have normally financed a large part (about 65 per cent in the ten years to June 1979) of their capital outlays from internal sources:

	Financial Flows 3/			
	1959/60-1963/64	1964/65-1968/69	1969/70-1973/74	1974/75-1978/79
	(In millions of Australian dollars)			
Households	1,536	1,395	8,417	26,444
Corporate trading enterprises	-2,051	-3,020	-3,103	-6,234
Financial enterprises	-93	-57	-1,254	-3,470
Government	-2,488	-2,922	-2,671	-20,191
Foreign sector	1,720	3,630	790	7,252
Errors and omissions	176	974	-2,179	-3,801

The overseas sector has increased in importance in the most recent period, with the increase in the sector's surplus coinciding with the increased demand for funds by financial and corporate trading enterprises.

1/ Source: Australian Bureau of Statistics, Quarterly Estimates of National Income and Expenditure.

2/ Source: Reserve Bank of Australia, Australian Economic Statistics, Occasional Paper, No. 8A.

3/ Financial surplus (+) or deficit (-).

c. Output

After rising by 33 1/4 per cent in 1978/79, the volume of gross farm output declined by 9 per cent in 1979/80. Wheat and coarse grain production fell by an estimated 11 per cent and 13 per cent, respectively, but output of both items was well up by comparison with normal output levels. The other major contribution to the downturn was a sizable contraction in beef slaughterings, reflecting the depletion of stocks occasioned by high world prices in previous years. Beef and veal production declined by about 23 per cent in 1979/80, and a further fall has been apparent in the first half of 1980/81. The prospects for 1980/81 have been clouded by inadequate rainfall during the growing season, which has affected particularly winter grains and oilseeds. Farm output is expected to undergo a further significant contraction and export volumes are also likely to decline. With increases in prices of rural products moderating after two propitious years (Table 3), a decline in the rate of growth in rural income is in prospect, although incomes on average are likely to remain at historically high levels.

Output in the nonfarm sector increased by 3 1/4 per cent in 1979/80, as already mentioned, its rate of growth decelerating significantly between the first and second halves. The slowdown appears to have been particularly pronounced in the production of durable goods but was evident also for fuel and power.

Estimates of hourly productivity growth in the nonfarm sector suggest that in the period 1974/75-1976/77 relatively strong gains in productivity were achieved, reflecting in part substitution of capital for labor in response to high relative labor costs. The available evidence suggests a significant easing in labor productivity in recent years. Measured labor productivity growth slowed from 3 3/4 per cent per annum over the period 1974/75-1976/77 to little more than 1 per cent per annum over the three years to 1979/80, reflecting in part the effects of a relatively long period of slow output and investment growth. The productivity performance improved somewhat in 1979/80, its growth reaching 2 1/2 per cent, on the basis of preliminary calculations.

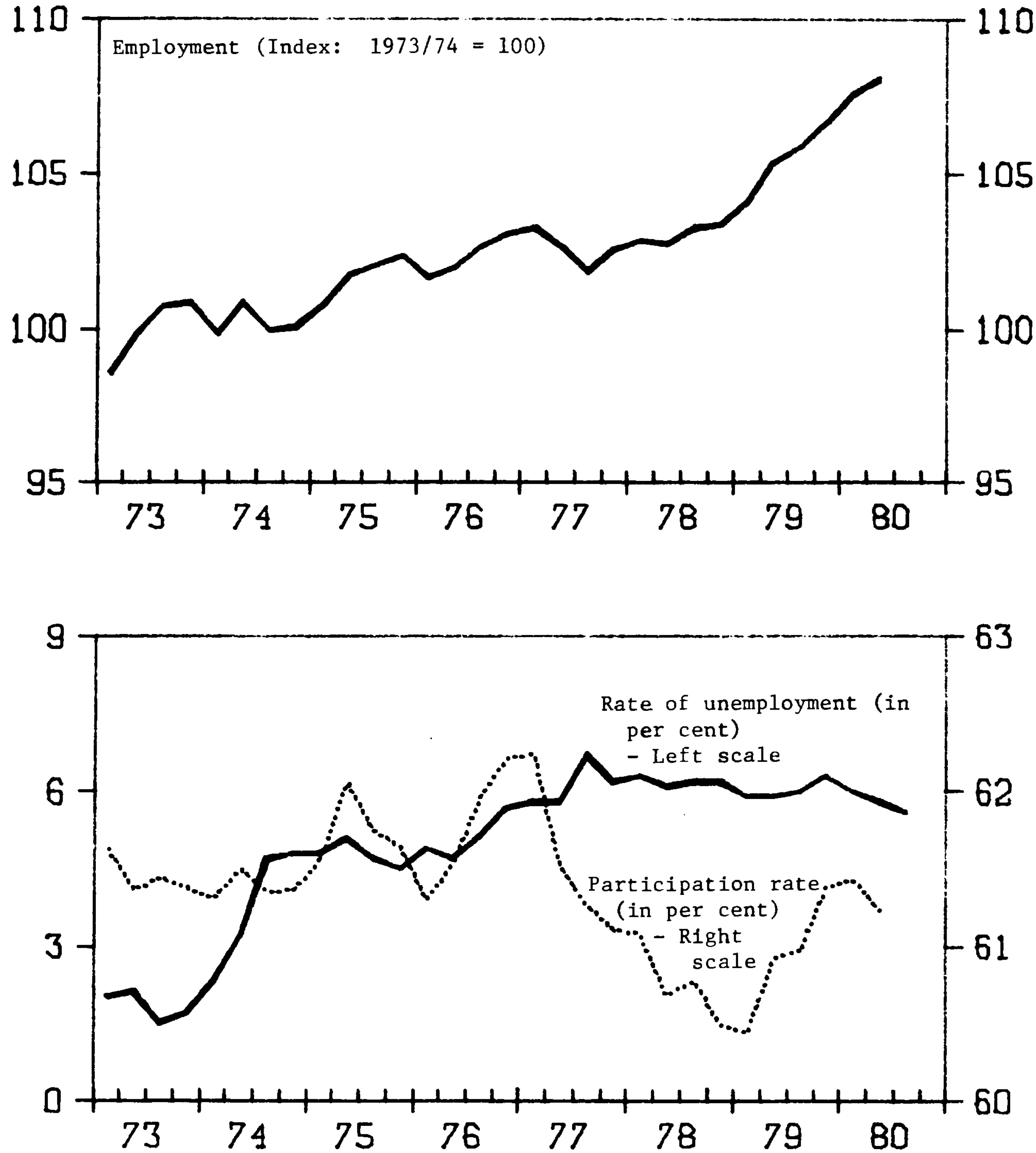
3. Labor market

The pickup in nonfarm output since mid-1979 has been accompanied by an appreciable improvement in labor market conditions. According to labor force survey estimates, employment has grown strongly, the participation rate (which had leveled out for several years) has increased, and the rate of unemployment has declined slightly (Table 5 and Chart 2). Total employment rose on average by 2 1/4 per cent in 1979/80--a faster rate of growth than in any year since 1973/74--and by 2 3/4 per cent in the course of the year. While the average increase in employment in 1979/80 (around 2 1/2 per cent) was fairly evenly spread between self-employed and wage earners, it was much higher for females (3 1/4 per cent) than for males (1 3/4 per cent), and somewhat greater for people working part-time (3 3/4 per cent) than for full-time employees (2 1/4 per cent).

CHART 2

AUSTRALIA

LABOR MARKET (1)



YEARS BEGINNING JULY

Sources: Australian Bureau of Statistics, Monthly Summary of Statistics; and OECD, Labour Force Statistics.

1/ Seasonally adjusted data.

The survey data also show that employment growth since mid-1979 has been predominantly concentrated in service sector activities, 1/ which favor female employment. Employment in the construction industry grew significantly in 1979/80, owing to the pickup in housebuilding, while the work force in manufacturing--which had grown quite strongly in 1978/79--increased only slightly (by 0.7 per cent during the year to November 1980).

Employment growth, although easing a little in the last quarter of 1980 and, in early 1981, has remained strong. The number of people employed in the first half of 1980/81 was nearly 3 per cent higher than a year earlier, with female employment growing by 5 per cent and male employment by only 1 3/4 per cent. Part-time employment 2/ also grew at a faster pace than full-time employment. Data for the three months to February 1981 show that year-on-year employment increased by 2 1/2 per cent. The improvement in the labor market has begun to show up in unfilled job vacancies (35,000 in February 1981 versus 21,300 a year earlier) and some skill shortages have begun to develop. While regional imbalances and the structure of wage rates may have impeded the matching of vacancies with skilled workers, country-wide there is still an excess of unemployed qualified tradesmen over vacancies in many trades. In addition, the growth of new indentures and skilled immigration in 1979/80 was strong relative to previous years, 3/ and many tradesmen are still employed in other skilled or semiskilled positions, as a result of relatively low wages in many skilled trades.

According to labor force surveys, unemployment has hovered around 400,000 in recent years, with about 85 per cent seeking full-time employment. However, the unemployment rate has declined from an average of 6.3 per cent of the total labor force in 1978/79 to 6.1 per cent in 1979/80, and to 6 per cent in the first eight months of 1980/81. While the male unemployment rate fell, the female unemployment rate increased in 1979/80 (Table 5), although it has declined since. This reflects changes in female participation rates which generally move with the state of the labor market to a greater extent than male participation.

1/ A recent report by the Bureau of Industry Economics shows that the service sector accounted for virtually all (99.6 per cent) of the net increase in employment since 1964/65. The service sector employs 71.3 per cent of the labor force at present, compared with 62.8 per cent in 1964/65.

2/ The number of people working part-time increased from 16 per cent of total employment at the end of 1978 to 16 1/2 per cent at the end of 1979, and to 16 3/4 per cent at the end of 1980.

3/ The gross migrant intake of 81,300 was 11 per cent higher than in 1978/79; another increase of 30 per cent is likely in 1980/81, in part reflecting measures taken to increase the immigration of skilled labor. Estimates by the Institute of Applied Economic and Social Research do not indicate large impending shortages of skilled labor. Nevertheless, the authorities are aware that shortages may develop in the medium term and that policy adjustments are required. Efforts have been made to increase awareness of the need for a reform of the apprenticeship system.

In common with a number of other countries, Australia has a substantially higher rate of unemployment among youths than adults. The gap has widened appreciably in recent years, with the unemployment rate in the 15-19 age group rising from about 7 per cent in 1974 to about 17 per cent in 1980. A variety of factors have been adduced to explain this development, including sharp increases in the minimum wage and the failure of Australia's apprenticeship system to supply the quantity of skilled tradesmen demanded by employers. Reduced profitability, sluggish economic growth, and the increase in wages paid to apprentices have lowered employers' willingness to train young people, while the increase in unemployment benefits 1/ may have lowered the willingness of some youths to participate in training programs.

The duration of unemployment has increased significantly in recent years; the mean duration was about 30 weeks in late 1979 and 34 weeks a year later; the median duration remained steady at between 16 and 17 weeks. Over the years there has been a considerable increase in the proportion of unemployed who receive unemployment benefits. In the decade before 1974, on average, about 20 per cent of the unemployed received such benefits; since 1978 that proportion has been in excess of 70 per cent.

4. Incomes and prices

a. Incomes

After four years of consecutive declines, the rate of growth in wage rates and earnings accelerated in 1979/80. Average weekly earnings for males increased by 9 3/4 per cent on average in 1979/80--2 full percentage points more than in the previous year (Table 6 and Chart 3). Although the Arbitration Commission continued to apply less than full indexation in granting national wage increases (Table 7), a substantial proportion of the work force also received higher compensation on account of assessed increases in "work value." On the whole, average male awards increased by 8 3/4 per cent in 1979/80. The significantly faster rise of average weekly earnings than average awards would suggest that earnings drift and/or increased overtime have been of some significance since mid-1978. 2/ This has coincided with a sharp increase in industrial disputes, as well as in working days lost (the average for 1979-80 was almost double that of the previous two years). Both earnings and wage awards have increased at a faster pace in recent months: the former, by 14 per cent over the year to the second quarter of 1980/81, and wage awards by 11 per cent for males and 12 1/2 per cent for females.

1/ Beginning in 1972, unemployment benefits for teenagers increased substantially, with a large jump in 1973 when they were allowed the same benefits as single adults. Since 1975 benefits for 16-17 year olds have been held constant in dollar terms, while those for 18-20 year olds have increased slightly in money terms. Nevertheless, over the decade to June 1979, the real value of the benefits paid to 16 to 17 year olds rose by 309 per cent.

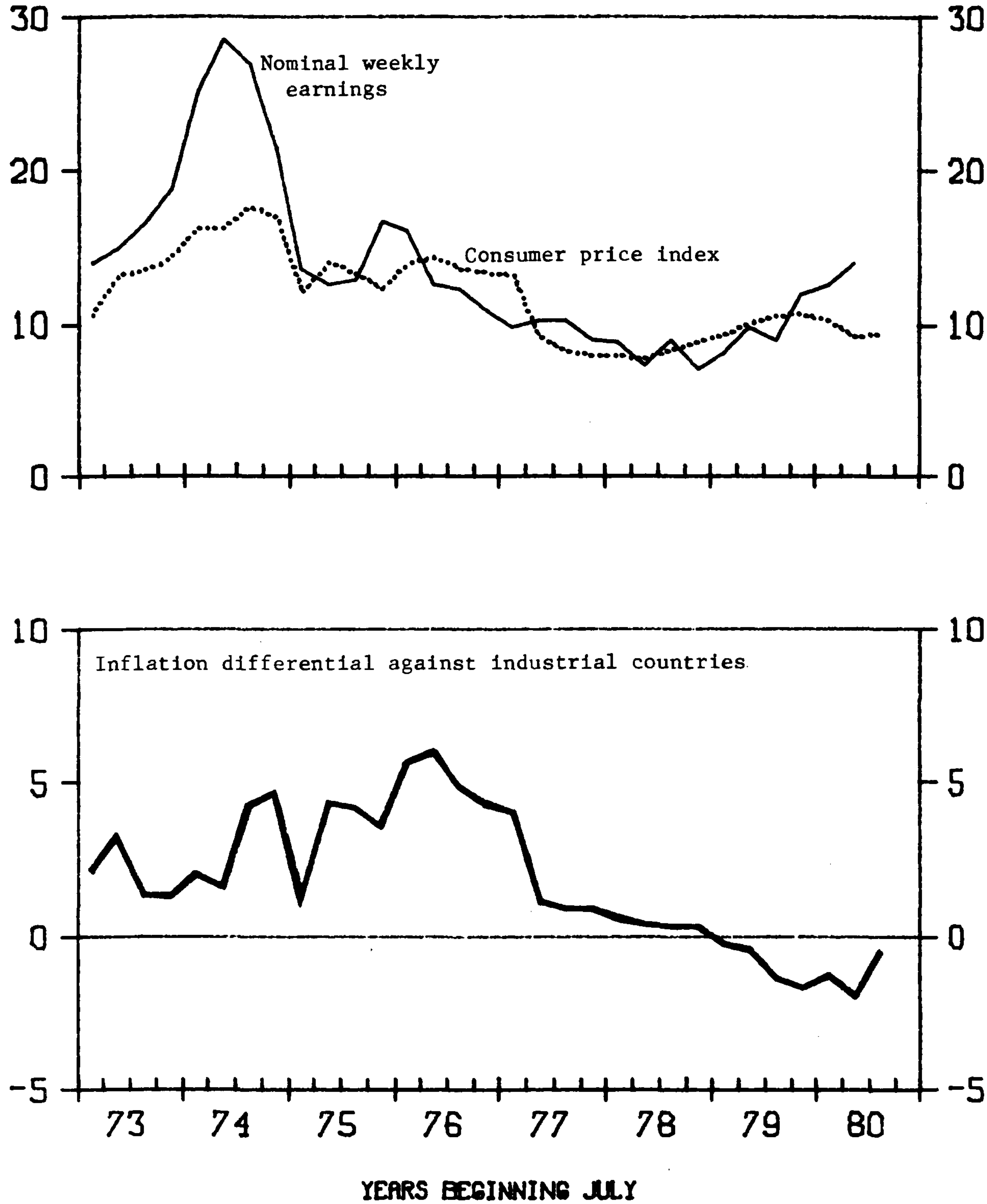
2/ Assessments in these areas must be guarded. The index of award wage rates does not cover a significant proportion of employees covered by the earnings series. Also, those award rates of pay which are included in the index are weighted according to the pattern of employment prevailing in 1954.

CHART 3

AUSTRALIA

WAGES AND PRICES

(Year-On-Year Rate Of Change, In Per Cent)



Sources: Reserve Bank of Australia, Statistical Bulletin; and IMF, International Financial Statistics.

Increases in average real labor costs in the nonfarm sector have been relatively small since 1976/77. Gains in productivity also appear to have been modest in the more recent period, but there has been a further moderate decline in real unit labor costs, and thus in the "real wage overhang" up to 1979/80 (Table 8). Gross trading profits of companies have improved over this same period, though their share of nonfarm GDP (amounting to 34 1/4 per cent in 1979/80) was still some 2 percentage points lower than in 1972/73 (Chart 4). The profit share exhibits greater improvement in after-tax terms.

The last national wage hearing by the Australian Conciliation and Arbitration Commission (ACAC) under the principles set up in 1978 1/ took place in January 1981, when the Commission decided to take a fresh look at the wage-fixing arrangements. The ensuing wage award amounted to 3.7 per cent and represented a discounting of 1 percentage point from the cumulative increase in the consumer price index in the June and September 1980 quarters, to take into account the direct and indirect effects of oil price increases. ACAC began its inquiry into the Wage Fixation Principles in January 1981 and decided in early April to maintain the centralized wage-fixing system, but to change wage-awarding procedures. Henceforth, ACAC will hold two wage hearings per year, the first in early May which will pass on 80 per cent of the rise in the consumer price index in the December and March quarters. At the second hearing the remaining 20 per cent, as well as increases in the consumer price index in the June and September quarters, will be considered. In effect, half-yearly partial indexation decisions of about 80 per cent have been the norm for the previous four national wage cases, as already mentioned. The main innovation is that productivity movements--which previously were specifically excluded from consideration in national wage cases--as well as changes in work conditions (including working hours) 2/ will be considered in the second and final review.

b. Price developments

In common with other countries, Australia experienced an acceleration in the rate of inflation during 1979/80. However, price increases in Australia were consistently below the industrial countries' average, a remarkable reversal from the experience in the previous several years. The differential in favor of Australia, which was small initially, increased to about 2 percentage points by late 1980, but has since been reduced (Chart 3). On average, consumer prices in Australia rose by 10 1/4 per cent in 1979/80, compared with 8 1/4 per cent in 1978/79 (Table 9). The acceleration in price inflation in 1979/80 reflected primarily the effects of the increase in the international price of oil (which added directly some 1 1/2 percentage points to the year-on-year increase) and commodity prices generally. In order to encourage oil conservation and the development of domestic energy

1/ A detailed description of the wage determination process is contained in the Appendix in SM/80/7 (1/11/80).

2/ Moves to reduce the workweek to 35 hours generally have been approved by ACAC only in few instances.

sources, the Government continued its policy of having domestic crude oil priced to consumers at full import parity. There were, in addition, indirect and flow-on effects from developments in 1978/79. 1/

Official estimates of these effects on the consumer price index are given below:

	Consumer Price Index 2/ Adjusted	Unadjusted
1977/78	8.3	9.5
1978/79	6.5	8.2
1979/80	7.3	10.2
1978/79 First half	6.5	8.4
Second half	6.1	8.6
1979/80 First half	7.3	10.7
Second half	8.4	10.6
1980/81 First half	9.2	8.9

The adjusted index, which excludes the influence of the prices of food, petrol, and health services as well as indirect taxes, gives some indication of the underlying rate of inflation. In contrast with the overall index, the adjusted index has continued to be on an upward trend in early 1980/81, reflecting the flow-on effect especially on wages via the indexation process.

The year-on-year rate of growth of the overall index (not seasonally adjusted) decelerated in the first half of 1980/81, and in the December 1980 quarter it declined to 9 1/4 per cent. This development reflected largely the discounting of petrol, which led to a small fall in petrol prices in the second half of 1980, despite a further increase in import parity prices. A fall of meat prices was also a contributing factor. Both these influences proved to be transient, however. As of January 1981 the import parity price for oil was raised; wage increases accelerated; and finally, improved seasonal conditions reduced slaughtering and hence resulted in increased meat prices. Wage increases have accelerated. By contrast, depressed world conditions continued to put downward pressure on the price of primary commodities and manufactured imports, and the Australian dollar continued to appreciate mildly in effective terms. On balance, the year-on-year increase in consumer prices accelerated slightly to 9 1/2 per cent in the first quarter of 1981.

1/ Aside from the increase in oil and meat prices, inflationary pressures were further fueled by indirect tax increases and changes in health care arrangements, which had the effect of pushing up the consumer price index.

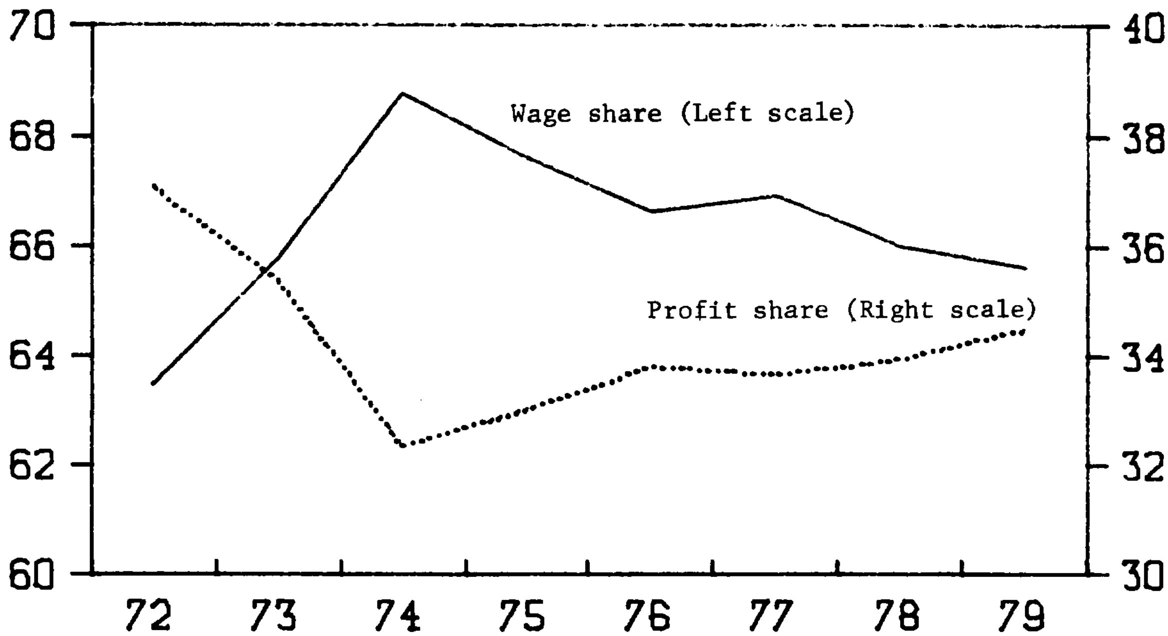
2/ Half-yearly changes at annual rates, seasonally adjusted.

CHART 4

AUSTRALIA

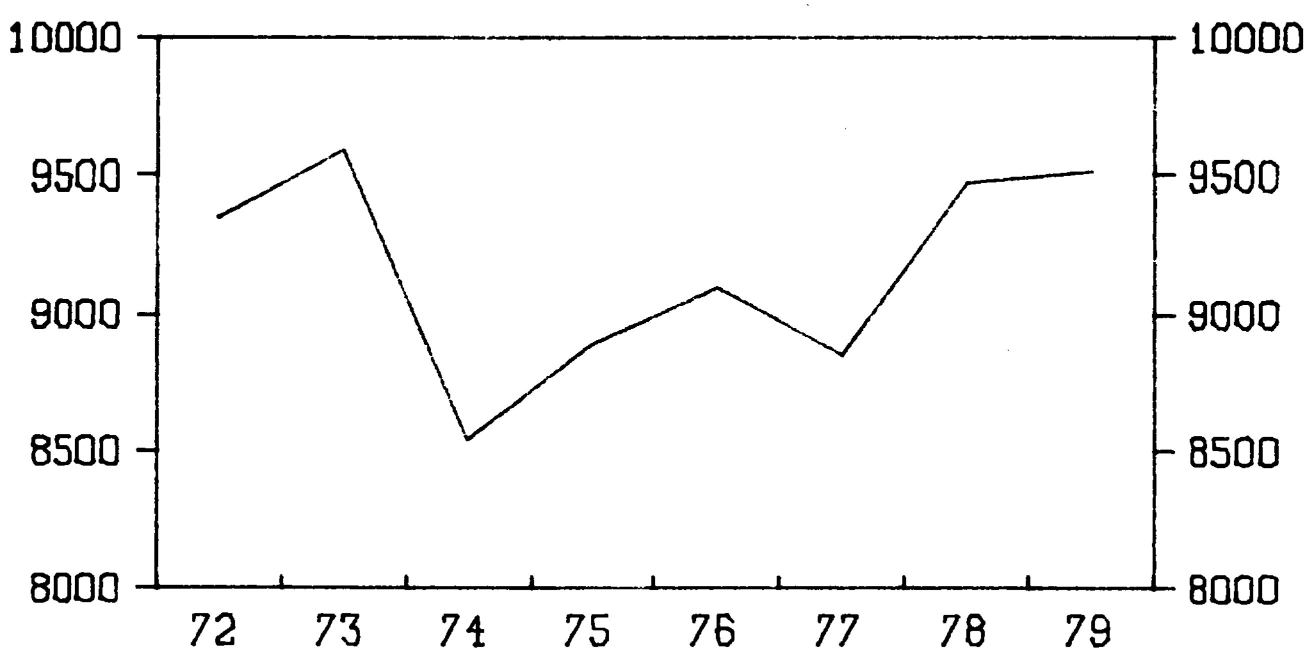
WAGE AND PROFIT SHARES

(In Per Cent Of Non-Farm GDP At Factor Cost)



PRIVATE FIXED INVESTMENT

(In Millions Of Australian Dollars, At 1974/75 Prices)



YEARS BEGINNING JULY

Source: Australian Bureau of Statistics, Quarterly Estimated National Income and Expenditure.

Table 1. Australia: Demand and Supply

	1979/80		1967/68–1977/78 1/	1978/79	1979/80	1979/80		1980/81
						1st half	2nd half	1st half
	In millions of $A at current prices	In per cent of GDP	Percentage change in volume; seasonally adjusted annual rates					
Private consumption	69,135	60.6	4.0	2.9	2.2	2.3	3.0	4.2
Public consumption	18,648	16.4	4.7	4.5	1.9	2.4	5.5	7.0
Gross fixed investment	25,251	22.1	2.1	3.1	-0.3	-4.1	3.5	15.8
Private	16,171	14.2	1.8	7.1	0.4	-5.9	7.6	24.5
Dwellings	4,794	4.2	2.5	0.8	10.6	10.8	4.6	9.2
Other buildings and construction	2,752	2.4	-0.9	6.0	-2.8	-12.7	24.2	34.2
All other	8,625	7.6	2.4	11.4	-4.3	-12.9	4.5	31.7
Public	9,080	7.9	2.5	-3.0	-1.6	-0.8	-3.4	0.7
Final domestic demand	113,034	99.1	3.6	3.2	1.6	0.8	3.6	7.2
Stockbuilding 2/	629	0.5	-0.2	2.7	-1.4	0.1	-2.8	2.7
Statistical discrepancy 2/	-945	-0.8	0.3	-0.6	-0.4	-2.5	1.9	--
Total domestic demand	112,718	98.8	3.7	5.4	-0.5	-1.6	2.5	10.1
Exports of goods and services	21,403	18.8	5.5	1.9	14.2	19.5	1.8	-15.3
Imports of goods and services	20,084	17.6	3.4	8.8	-0.9	-5.6	5.8	13.3
Foreign balance 2/	1,319	1.2	0.4	-1.0	2.5	4.2	-0.5	-4.9
Gross domestic product	114,037	100.0	4.1	4.3	2.3	2.5	2.0	4.6
Of which: Gross farm product	7,487	6.6	4.0	33.2	-9.0	-16.0	--	-20.3
Gross nonfarm product	106,550	93.4	4.1	2.5	3.2	4.1	2.0	6.5
Memorandum items:								
Deflators (percentage changes at annual rates)								
GDP			9.5	7.7	10.3	9.5	11.2	10.2
Gross nonfarm product			9.9	7.3	9.1	7.5	12.5	9.3

Source: Australian Bureau of Statistics, Quarterly Estimates of National Income and Expenditure.
1/ Compound annual growth rate over the period 1967/68-1977/78.
2/ The percentage changes shown refer to changes in stockbuilding, in statistical discrepancy, and in foreign balance relative to GDP (at 1974/75 prices) in the previous year.

Table 2. Australia: Household Income, Expenditure and Saving

	1972/73	1979/80		1977/78	1978/79	1979/80
	In per cent of household income	In per cent of household income	In millions of Australian dollars	Percentage change from preceding year		
Wages, salaries, and supplements	66.5	64.7	61,766	9.7	7.7	11.4
Income of unincorporated farms	7.2	5.0	4,839	-11.2	116.3	16.7
Other income 1/	17.4	20.0	19,075	14.7	11.9	12.4
Transfers (net) 2/	8.9	10.3	9,835	11.9	10.0	10.5
Household income	100.0	100.0	95,515	10.3	11.4	11.8
Less direct taxes	13.3	16.6	15,827	9.6	5.2	16.0
Household disposable income	85.2	83.4	79,688	10.4	12.7	11.0
Of which:						
Personal consumption	72.6	72.4	69,135	11.2	12.2	12.1
Saving	12.6	11.0	10,553	5.8	16.1	3.9
Real household disposable income 3/	...	...	...	0.8	3.4	1.3
Real personal consumption	...	...	...	1.6	2.9	2.2
Personal saving ratio (in per cent) 4/	(14.8)	(...)	(13.2)	(13.7)	(14.1)	(13.2)

Source: Australian Bureau of Statistics, *Quarterly Estimates of National Income and Expenditure*.

1/ Includes income of other unincorporated enterprises, rent from dwellings, interest, and dividends.
2/ Net of transfers overseas and consumer debt interest.
3/ Deflated by implicit deflator for personal consumption expenditure.
4/ Ratio of personal saving to household disposable income.

Table 3. Australia: Farm Income

	1979/80		1977/78	1978/79	1979/80
	As percentage of output	In millions of Australian dollars	Percentage change from preceding year		
Gross value of farm production after stock valuation adjustment	100.0	11,597	1.3	44.5	15.6
Less: Production costs other than wages and depreciation	38.8	4,497	5.2	19.2	16.5
Gross farm product at factor cost	61.2	7,100	-4.0	66.6	15.0
Less: Wages, depreciation, net rent, and interest paid	18.4	2,135	6.5	11.6	10.3
Less: Increase in assets with marketing organization	1.9	222	...	...	...
Realized farm income	40.9	4,743	-24.4	97.1	25.7

Source: Australian Bureau of Statistics, Quarterly Estimates of National Income and Expenditure.

Table 4. Australia: Indicators of Housing Construction 1/

	Number of New Private Dwellings			Private Investment in Dwellings at 1974/75 Prices
	Approved	Commenced	Completed	
	(Thousands of units)			(Per cent change over preceding period)
1974/75	101.5	99.1	125.7	-22.9
1975/76	134.2	123.8	112.3	13.4
1975/77	127.3	126.4	129.6	12.0
1977/78	110.8	105.5	114.3	-9.2
1978/79	117.8	109.6	105.6	0.8
1979/80	134.8	122.5	119.1	10.7
1978/79				
September quarter	27.2	25.1	25.5	-14.7
December quarter	29.6	26.5	26.8	20.0
March quarter	29.9	29.4	26.6	16.5
June quarter	31.5	28.7	26.7	15.2
1979/80				
September quarter	32.2	28.9	28.8	5.5
December quarter	32.3	31.3	29.8	17.4
March quarter	34.7	32.3	30.2	-1.0
June quarter	35.8	30.1	30.3	4.1
1980/81				
September quarter	35.7	...	...	13.7
December quarter	36.8	...	...	5.5

Sources: Australian Bureau of Statistics, Building Approvals, Australia and Quarterly Estimates of National Income and Expenditure.

1/ Quarterly data are seasonally adjusted; quarterly changes are seasonally adjusted at annual rates.

Table 5. Australia: Labor Market

		Labor Force				Employed				Unemployed			
			Participation rate								Unemployment rate		
		Total	Total	Male	Female	Total		Male	Female	Total	Total	Male	Female
		In millions	In per cent			In millions	Change in per cent 1/	In millions		In thousands	In per cent		
1978/79		6.43	60.8	78.6	43.5	6.02	0.5	3.88	2.14	406	6.3	5.4	7.9
1979/80		6.56	61.1	78.4	44.2	6.16	2.3	3.95	2.21	404	6.2	5.1	8.1
1978/79	September quarter	6.37	60.7	78.3	43.6	5.98	...	3.84	2.14	386	6.1	5.3	7.3
	December quarter	6.43	61.0	78.7	43.8	6.03	...	3.87	2.16	393	6.1	5.3	7.5
	March quarter	6.45	60.9	78.9	43.3	6.01	1.3 2/	3.89	2.12	442	6.8	5.8	8.8
	June quarter	6.45	60.7	78.5	43.4	6.05	0.9	3.91	2.14	401	6.2	5.1	8.1
1979/80	September quarter	6.46	60.5	78.2	43.4	6.08	1.7	3.92	2.16	384	5.9	4.9	7.9
	December quarter	6.56	61.2	78.4	44.3	6.17	2.3	3.95	2.21	392	6.0	4.8	7.9
	March quarter	6.60	61.2	78.7	44.2	6.17	2.7	3.96	2.21	432	6.5	5.5	8.4
	June quarter	6.63	61.3	78.2	44.7	6.22	2.8	3.97	2.25	408	6.2	5.1	8.0
1980/81	September quarter 3/	6.68	61.4	78.2	45.1	6.28	3.4	3.99	2.30	394	5.9	5.0	7.5
	December quarter 3/	6.72	61.5	78.5	45.0	6.33	2.6	4.03	2.30	388	5.8	4.8	7.5

Sources: Australian Bureau of Statistics, Monthly Summary of Statistics; and Department of Employment and Youth Affairs, Monthly Review of the Employment Situation.

1/ Per cent change from same period in previous year.
2/ February-March 1979 over February-March 1978.
3/ Preliminary.

Table 6. Australia: Changes in Weekly Earnings and Average Male Awards

(Percentage changes from previous year)

		Average Weekly Earnings 1/		Average	Contribution to Change in Average Male Awards	
		Ordinary time 2/3/	Total 3/	Male Awards 2/	National wage cases	Other
1976/77		12.4	12.4	13.0	12.8	0.2
1977/78		9.8	9.9	9.3	9.3	0.1
1978/79		7.7	7.7	6.4 4/	5.6	0.7 4/
1979/80		9.5	9.9	8.7	7.5	1.2
1978/79	June qtr.	6.8	6.9	6.9 4/	5.7	1.1 4/
1979/80	Sept. qtr.	7.9	8.2	8.6 4/	7.9	0.7 4/
	Dec. qtr.	9.4	9.9	7.9	6.7	1.2
	Mar. qtr.	8.5	8.9	8.9	7.1	1.8
	June qtr.	11.1	12.1	9.4	7.3	2.1
1980/81	Sept. qtr.	13.6	12.4	10.2	8.4	2.0
	Dec. qtr.	15.2	14.0	11.0	9.4	1.6

Sources: The Treasury, Commonwealth Budget, 1980/81, Statement No. 2; Reserve Bank of Australia, Statistical Bulletin; and Australian Bureau of Statistics, Average Weekly Earnings and Awards.

1/ Quarterly figures are derived from seasonally adjusted data.

2/ The difference between the increases on awards and earnings is commonly used as a measure of earning drift. However, different rates of increase can also reflect timing and coverage discrepancies between the two series.

3/ The difference between the increase in total and ordinary time average weekly earnings reflects differences in the coverage of the two series as well as variations in average overtime hours.

4/ Includes about 0.5 percentage point for incorporation of some over-award payments into the Metal Industry Award as supplementary payments.

Table 7. Australia: National Wage Adjustments Awarded by the Australian Conciliation and Arbitration Commission

(Change in per cent)

		Change in Consumer Price Index 1/	Change in Award Wages
1975	March qtr.	3.6	3.6
	June qtr.	3.5	3.5
	September qtr.	0.8	--
	December qtr.	5.6	6.4
1976	March qtr.	3.0	3.0 to $125 per week flat $3.80 thereafter
	June qtr.	2.5	2.5 to $98 per week flat $2.50 between $98 and $166 per week 1.5 thereafter
	September qtr.	2.2	2.2
	December qtr.	6.0	$2.90 plus 2.8 per $100 per week $5.70 thereafter
1977	March qtr.	2.3	1.9 to $200 per week $3.80 thereafter
	June qtr.	2.4	2.0
	September qtr.	2.2	1.5
	December qtr.	2.3	1.5 to $170 per week $2.60 thereafter
1978	March qtr.	1.3	1.3
	June/September	4.0	4.0
1978/79	December/March	4.0	3.2
1979	June/September	5.0	4.5
1979/80	December/March	5.3	4.2
1980	June/September	4.7	3.7

Sources: David Plowman, "National Wage Determination in 1978," Journal of Industrial Relations, March 1979, pp. 78-88; and Australian Financial Review.

1/ Change from previous quarter. Half yearly movements record change during the half year.

Table 8. Australia: Indices of Real Labor Costs and Productivity in the Nonfarm Sector 1/

(1966/67 to 1972/73 = 100)

	Average Real Labor Costs 2/	Average Labor Productivity 3/	Real Unit Labor Costs 4/
1972/73	112	110	102
1973/74	116	111	105
1974/75	126	114	110
1975/76	126	118	107
1976/77	131	123	107
1977/78	132	122	108
1978/79	131	124	106
1979/80	133	127	105
1978/79 II	132	124	106
1979/80 I	133	126	105
1979/80 II	133	127	105

Source: The Treasury, Commonwealth Budget 1980/81, Statement No. 2

1/ Half-yearly data are seasonally adjusted.
2/ Nonfarm wages, salaries, and supplements, plus payroll tax per nonfarm wage and salary earner hour worked, deflated by the implicit price deflator for nonfarm GDP.
3/ Gross nonfarm product at constant 1974-75 prices per nonfarm employed man hour worked.
4/ Average real labor costs divided by average labor productivity.

Table 9. Australia: Selected Price Indicators

(Changes in per cent from previous year)

	GDP Deflator (Nonfarm)	Private Consumption Deflator	Consumer Price Index		Import Deflator 1/	Export Deflator 1/
			Food	Total		
1974/75	21.7	17.7	9.7	16.7	28.4	16.7
1975/76	16.1	15.6	9.9	13.0	11.1	7.5
1976/77	10.9	11.4	11.7	13.8	15.8	11.3
1977/78	8.5	9.5	10.9	9.5	13.3	4.3
1978/79	7.3	9.0	11.5	8.2	9.5	15.4
1979/80	9.1	9.6	14.0	10.2	17.5	14.3
1977/78						
September qtr.	9.0	10.5	13.1	13.1	22.4	10.4
December qtr.	9.4	10.2	11.3	9.3	19.1	4.9
March qtr.	7.7	8.9	9.9	8.2	7.0	0.3
June qtr.	8.0	8.1	9.7	7.9	6.7	1.7
1978/79						
September qtr.	7.1	8.2	8.8	7.9	5.3	7.6
December qtr.	6.5	8.9	9.9	7.8	8.0	16.8
March qtr.	7.8	9.3	12.4	8.2	11.0	16.6
June qtr.	7.8	9.6	14.6	8.8	13.6	18.6
1979/80						
September qtr.	8.0	10.1	14.8	9.2	16.5	15.6
December qtr.	8.5	9.1	13.7	10.0	16.7	15.8
March qtr.	10.4	9.7	15.0	10.5	18.5	15.1
June qtr.	9.7	9.8	12.3	10.7	18.5	11.9
1980/81						
September qtr.	10.4	9.4	11.3	10.2	14.8	15.3
December qtr.	11.5	9.4	12.0	9.2	10.3	14.3

Sources: Australian Bureau of Statistics, Quarterly Estimates of National Income and Expenditure; and Reserve Bank of Australia, Statistical Bulletin.

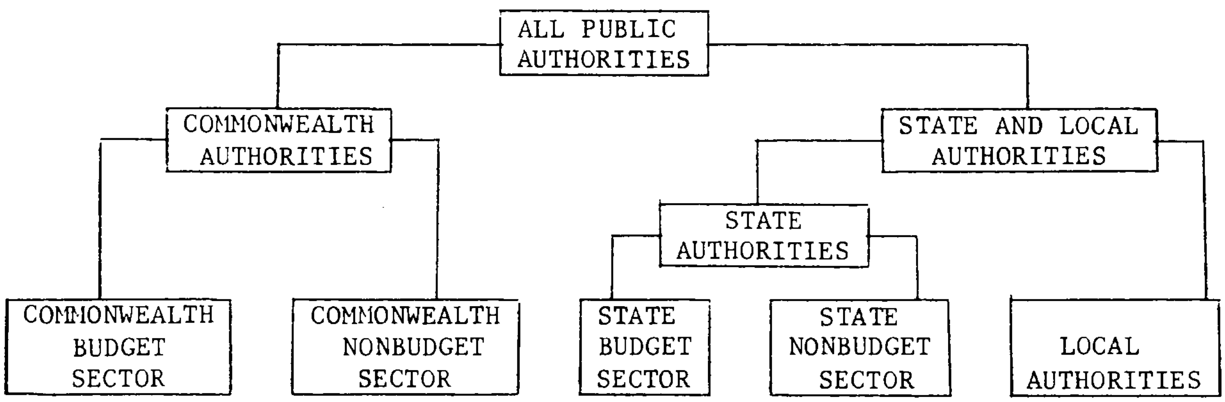
1/ Goods and services.

II. Fiscal Developments and Policies

1. Overview of trends in public finances

a. Commonwealth authorities

The structure of the public sector in Australia is shown in the following diagram:



The Commonwealth budget sector is only part--albeit an important one--of the public sector as a whole (Charts 5 and 6). Since the mid-1970s the Commonwealth Government has restrained the growth of its budget outlays, with the real average annual growth rate declining from 10 1/2 per cent per annum in the three years to 1975/76 to less than 1 per cent per annum in the following four years.

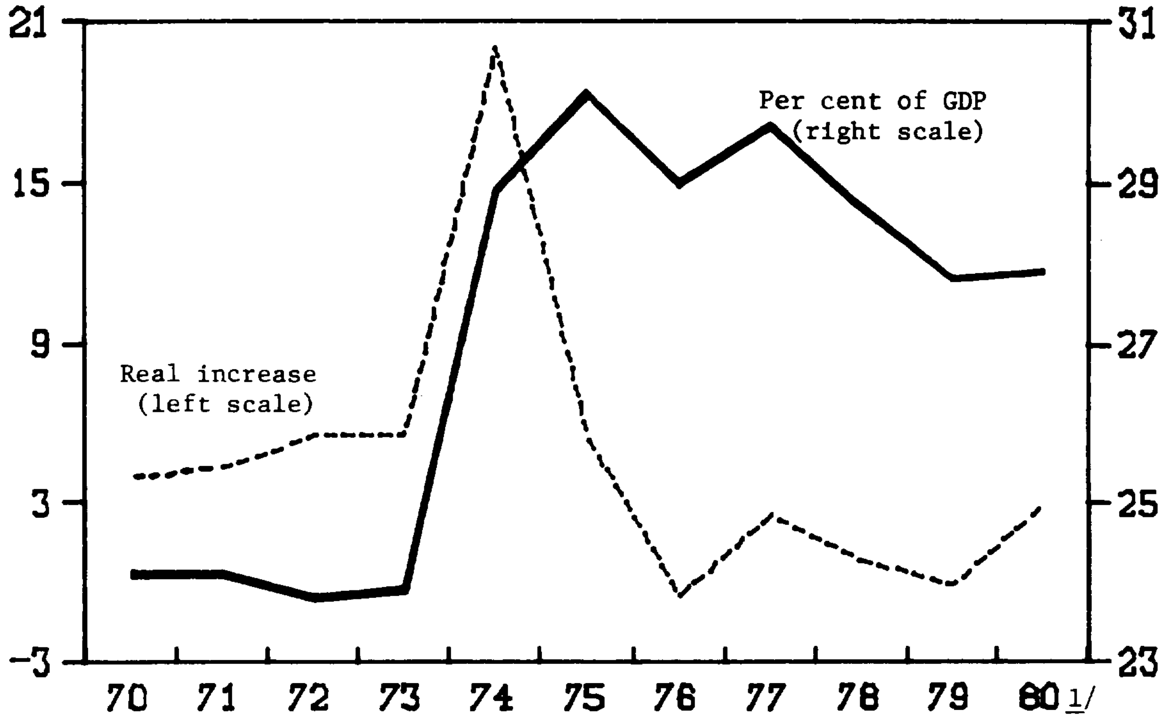
The Commonwealth nonbudget sector covers largely the transactions of authorities which operate wholly or mainly outside the Commonwealth public account; these are primarily business enterprises such as the Australian Postal and Telecommunications Commissions, the Australian Shipping Commission, the Australian Wool Commission, Qantas Airways, and the Australian National Airlines Commission. Though the Commonwealth nonbudget sector accounts for only a small part of Commonwealth authorities' total outlays (and receipts) it nevertheless makes important contributions in certain areas. For instance, some three fourths of Commonwealth direct capital expenditure is attributable to nonbudget authorities. Commonwealth government budget and nonbudget outlays combined have fallen as a percentage of GDP from 30 3/4 per cent in 1975/76 to 29 per cent in 1979/80.

Until the mid-1970s almost all capital expenditure by authorities operating outside the public account was financed by advances from the budget and by internally generated funds of the authorities concerned. Since then, a number of these authorities have undertaken substantial borrowing on their

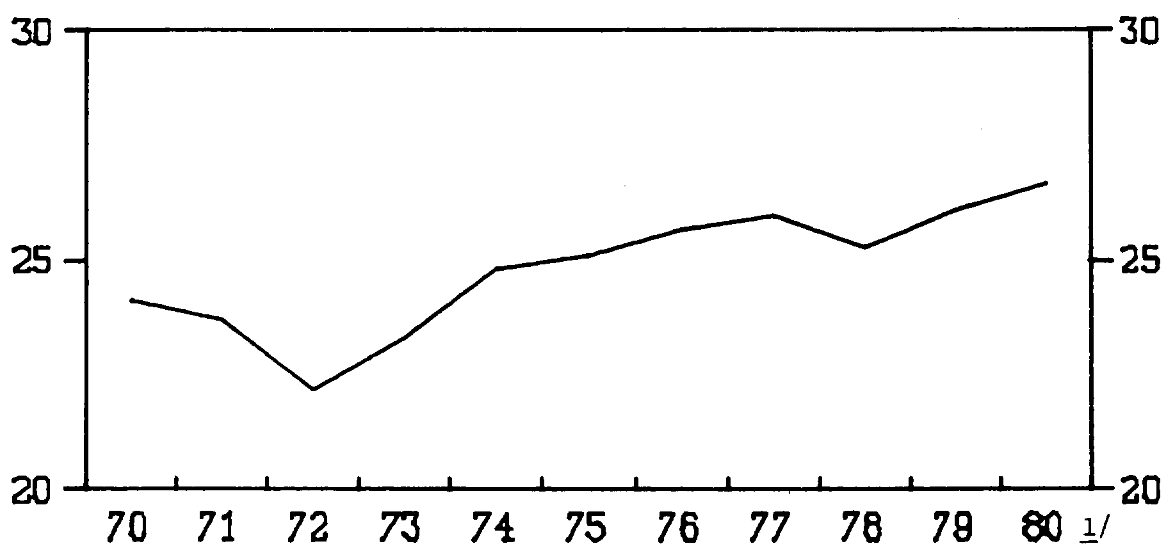
CHART 5

AUSTRALIA

COMMONWEALTH BUDGET OUTLAYS 1970/71-1980/81
(In Per Cent)



COMMONWEALTH BUDGET RECEIPTS 1970/71-1980/81
(In Per Cent Of GDP)



YEARS BEGINNING JULY

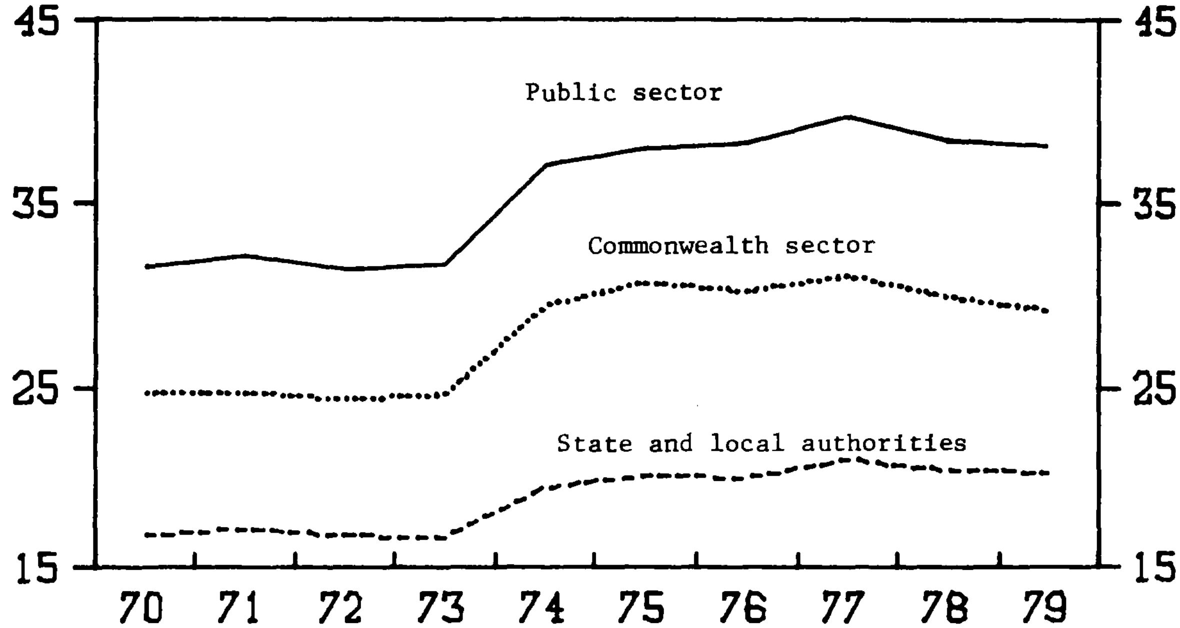
Source: Budget Speech 1980/81 and statements.
1/ Budget estimate.

CHART 6

AUSTRALIA

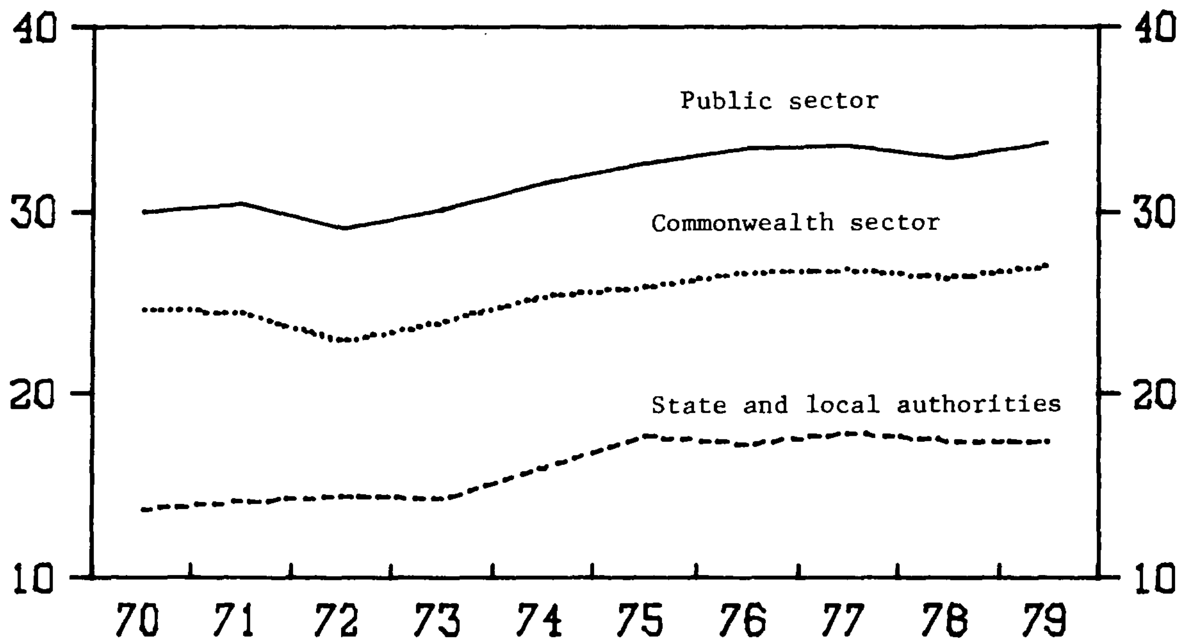
PUBLIC SECTOR OUTLAYS 1970/71-1979/80

(In Per Cent Of GDP)



PUBLIC SECTOR RECEIPTS 1970/71-1979/80

(In Per Cent Of GDP)



YEARS BEGINNING JULY

Source: Budget Speech 1980/81 and statements.

own account to help finance their capital programs. 1/ One consequence of this has been that the deficit of the Commonwealth nonbudget sector in recent years has ceased to approximate the level of advances to the nonbudget sector from the budget. It follows also that the combined deficit of the Commonwealth budget and nonbudget sectors has tended to take on greater significance in its own right.

b. The States and local authorities

Chart 6 shows outlays as proportion of GDP for the public sector as a whole, i.e., the consolidation of the Commonwealth sector's transactions with those of the States and local authorities. The outlays of the States and local authorities, after rising as a proportion of GDP from 16 1/2 per cent in 1973/74 to 20 per cent in 1975/76, have remained practically unchanged as a percentage of GDP since then. Partly as a result of this development, the outlays of the public sector as a whole (after consolidation) relative to GDP, which increased by some 6 1/4 percentage points in the three years to 1975/76 reaching a level of about 38 per cent of GDP, have shown little variation since then.

A large part of the state and local government outlays are funded through the Commonwealth budget. Since the mid-1970s the financial relations between the Commonwealth and state governments have been administered against the background of the "New Federalism" policy, a major aspect of which has been to maximize to the extent possible the proportion of total funds available to the States in the form of general purpose or "untied grants."

The dominant source of funds provided to the States has been general revenue grants in the form of income tax-sharing payments. The tax-sharing arrangements have two stages. The first involves payments to the States of a proportion of the Commonwealth Government's net personal income tax collection. 2/ Under the second stage, each State has the additional right, at its discretion, to increase or reduce the personal income taxes levied under the first stage on residents of the State. However, no State has yet passed legislation enabling the implemention of the second stage.

In addition to tax-sharing revenues, the state governments have access to general purpose capital funds, consisting of (a) state governments' annual borrowing programs approved by the Loan Council; and (b) capital grants paid by the Commonwealth to the States representing one third of the state government Loan Council programs. Also available to state and local governments

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1/ The proportion of the nonbudget deficit met by budget advances has declined from over 85 per cent in 1970/71 to just over 20 per cent in 1979/80.

2/ For 1980/81 the States' aggregate share was set at 39.87 per cent of collections in the preceding financial year. This total is distributed between States according to a formula reflecting their population and (inversely) their capacity to raise revenue and provide comparable services. The four less populous States have access to supplementary assistance in the form of special grants.

are specific purpose payments for such use as education and health, public transport and housing, and the like. The table below traces changes in the composition of the Commonwealth Government's assistance to states and local governments during the 1970s expressed as percentage of their total outlays.

	1970/71	1975/76	1979/80
Total outlays,			
In per cent of GDP	16.6	20.1	19.8
In per cent of total	100.0	100.0	100.0
Financed by Commonwealth	49.3	58.0	49.4
General revenue grants	26.5	21.3	24.1
Loan Council program	12.2	8.8	5.2
Specific purpose payments	13.1	28.4	20.9
Other	2.5	1.4	1.2
Financed by state and local governments	50.7	42.0	50.6
Taxation	25.5	30.0	29.5
Public enterprise income 1/	12.7	5.6	6.2
Net sales of securities	5.9	5.8	7.7
Other	6.6	0.6	7.2

1/ Including depreciation.

The most significant source of state funds, other than Commonwealth assistance, is state taxation, which has increased in importance--partly as a result of the introduction of a payroll tax in the mid-1970s--along with net sales of securities. Public enterprise income has declined on the other hand, a reflection to some extent of pricing policies, though it has recently begun to recover.

On the whole, the proportion of state and local authorities' outlays funded by the Commonwealth has declined from 58 per cent in 1975/76 to 49 per cent in 1979/80. During this period the real level of grants and net advances by the Commonwealth to States and local governments has declined on average by some 1/2 per cent per annum, 1/ whereas real outlays by state and local governments have increased by about 2 1/2 1/ per cent per annum. This is a reflection of the States' ability to cushion the effects of Commonwealth policies of expenditure restraint by drawing on their own resources, and developing new revenue sources. An important corollary of this development is that it has become more important for financial policy purposes to consider the total public sector deficit and not just the Commonwealth budget deficit.

1/ These data refer to developments in the five years to 1980/81.

c. Structure of taxation

Total public sector receipts, which increased from the equivalent of 30 per cent in the early 1970s to 32 per cent in the middle of the decade, have continued to rise gradually reaching 34 per cent in 1979/80 (Chart 6). The increases were accounted for mainly by rising revenue from income taxes on individuals and the introduction of a levy on domestic crude oil. The changes in revenue from personal income taxation in the four years to 1979/80 reflect the net effect of the Government's decisions on personal income tax indexation and rate changes to reduce the effects of fiscal drag, the abolition of tax rebates for dependent children which accompanied the introduction of family allowances, and the imposition and subsequent removal of the health insurance levy. Receipts from the levy on crude oil have more than offset a decline in the relative importance of other excise duties.

The share of taxes as a per cent of GNP at factor cost in Australia increased from about 29 per cent in 1971 1/ to 33 1/2 per cent in 1977. However, this share was the sixth smallest in a group of 17 OECD countries for which comparable data were available for 1977 (Table 10).

Taxes on income and households increased from about 11 per cent of GNP at factor cost to 15 1/2 per cent in 1977, the third highest share in the group in 1977, while taxes on the income of corporations declined slightly from 4 1/2 per cent to 4 per cent during the period, the fourth highest share among the group. Taxes on expenditure increased from over 12 per cent of GNP to 13 1/2 per cent, the eleventh highest share in the group of 17 OECD countries for 1977.

The share of taxes on household income in total tax revenue has risen from 39 per cent in 1971 to almost 46 per cent in 1977, while that on income of corporations declined from 16 per cent to 12 per cent. The share of taxes on income in total tax revenue as a whole increased from 55 per cent to 58 per cent during this period, while the share of taxes on expenditure dropped from 42 1/2 per cent to 41 per cent. The contribution of taxes on capital declined from 2 1/4 per cent to 1 1/4 per cent.

d. Public sector borrowing requirement

During most of the 1970s, the Commonwealth sector dominated the total public sector borrowing requirement. The prominence of the Commonwealth sector borrowings during that period mainly reflected the greatly increased Commonwealth budget deficits from the mid-1970s, although not insignificant growth occurred in the deficits of other sectors (Charts 7 and 8). In 1979/80, however, the reduction in the Commonwealth budget deficit and continued strong growth in the deficit of state and local government authorities brought the borrowing requirement of the Commonwealth and the state and local government sectors back to roughly the same size. Expressed as proportion of GDP, the borrowing requirement of the Commonwealth sector was slightly below, and that of the States and local authorities slightly above, 2 per cent.

1/ The data in the following paragraphs of this section refer to calendar years.

2. The Commonwealth budget in 1979/80

In framing the budget for 1979/80, the authorities had stressed the goals of containing government expenditure and reducing the budget deficit as central elements of their anti-inflationary strategy. The budget aimed at a decline in the Commonwealth government outlays as a proportion of GDP to less than 28 per cent, compared with the peak of 30 per cent in 1975/76, and a reduction in the budget deficit as a proportion of GDP from 3.4 per cent of GDP in 1978/79 to about 2 per cent, compared with a peak of almost 5 per cent in 1975/76. The authorities succeeded in achieving both of these objectives of budgetary policy--outlays were held almost exactly to the budgeted amount with a small decline in real terms; with revenues increasing somewhat more than anticipated, the budget deficit declined from $A 3.5 billion in 1978/79 to $A 2.0 billion, equivalent to 1.8 per cent of GDP (Table 11 and Chart 8). The large reduction in the deficit was viewed by the authorities as an important element in containing the money supply and pressures on interest rates as well as in enhancing investor confidence.

The main increases in outlays over those provided in the budget occurred in defense and interest payments on public debt, but these were offset by shortfalls in many other areas, the largest being in unemployment benefit payments, reflecting an improvement in the employment situation during the year. Total tax receipts exceeded the budget estimate by about $A 200 million. Receipts from the levy on domestic crude oil were $A 200 million higher than the budget estimate as a result of higher parity prices, partly offset by lower production caused principally by the effects of industrial disputes.

The slight real decline in the Commonwealth budget outlays were not matched in the state and local government sector, where they are estimated to have grown by 1 per cent in real terms, compared with an annual average rate of growth of 2 1/2 per cent over the three years to 1978/79. 1/ The faster rate of growth of state and local spending has been financed by a their own revenues and borrowings, rather than through transfers from the Commonwealth.

The budget deficit was mainly financed by borrowing from the nonbank private sector and the Reserve Bank, while the role of net overseas financing declined sharply from the two preceding years (Table 12). For most of the year, the sales of Commonwealth securities were largely restricted to Australian savings bonds (ASB) and Treasury notes. Over $A 800 million gross was raised from ASBs, but, with redemptions of these and special bonds, the net proceeds were less than $A 200 million. Total private sector holdings of government securities increased by about $A 1 billion during the year. Borrowing from the Reserve Bank remained at the level of the previous year ($A 500 million) and the use of cash balances contributed over $A 600 million to financing the deficit. In interpreting the developments in the financing of the budget deficit, it needs to be noted that direct and indirect recourse to the Reserve Bank (including net foreign financing) declined sharply compared with the previous year.

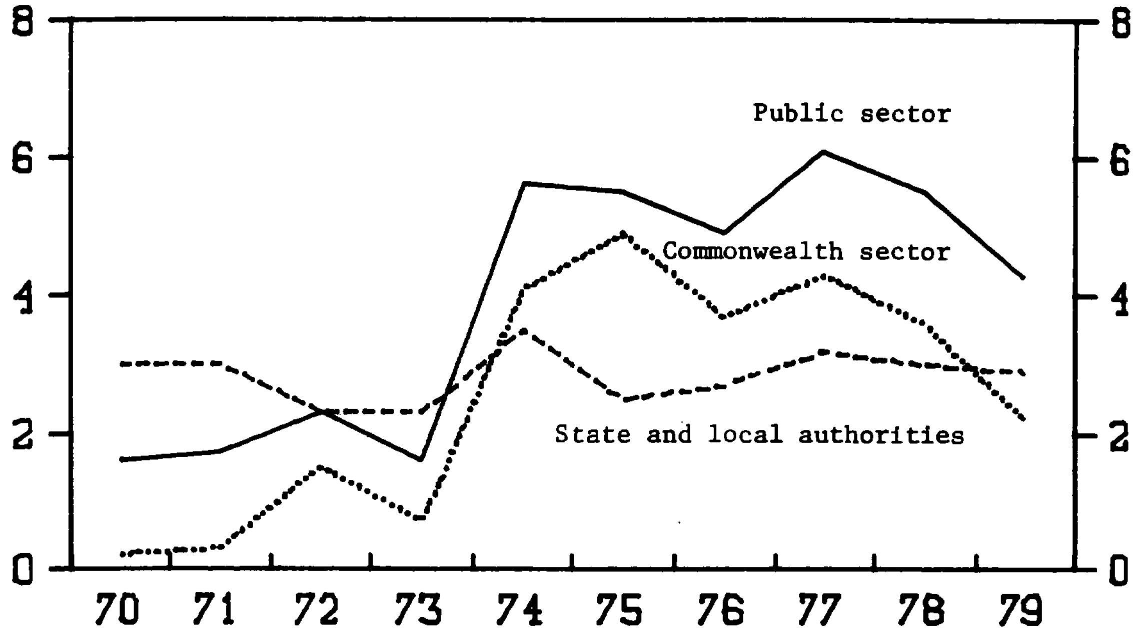
1/ Excluding Northern Territory.

CHART 7

AUSTRALIA

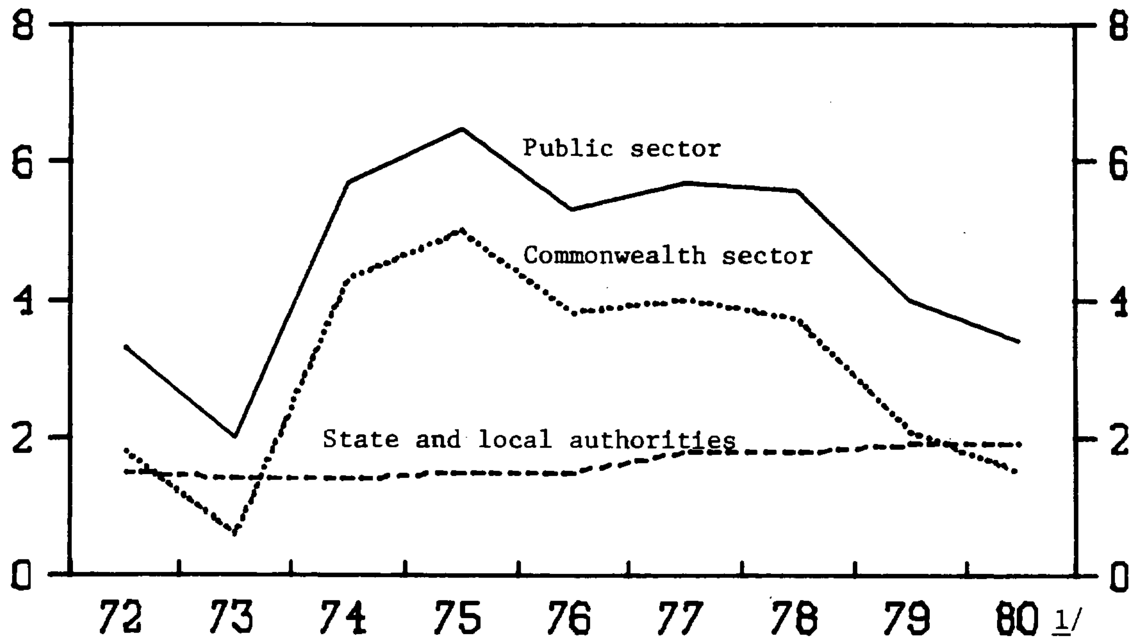
PUBLIC SECTOR DEFICIT 1970/71-1979/80

(In Per Cent Of GDP)



PUBLIC SECTOR BORROWING REQUIREMENT 1972/73-1980/81

(In Per Cent Of GDP)



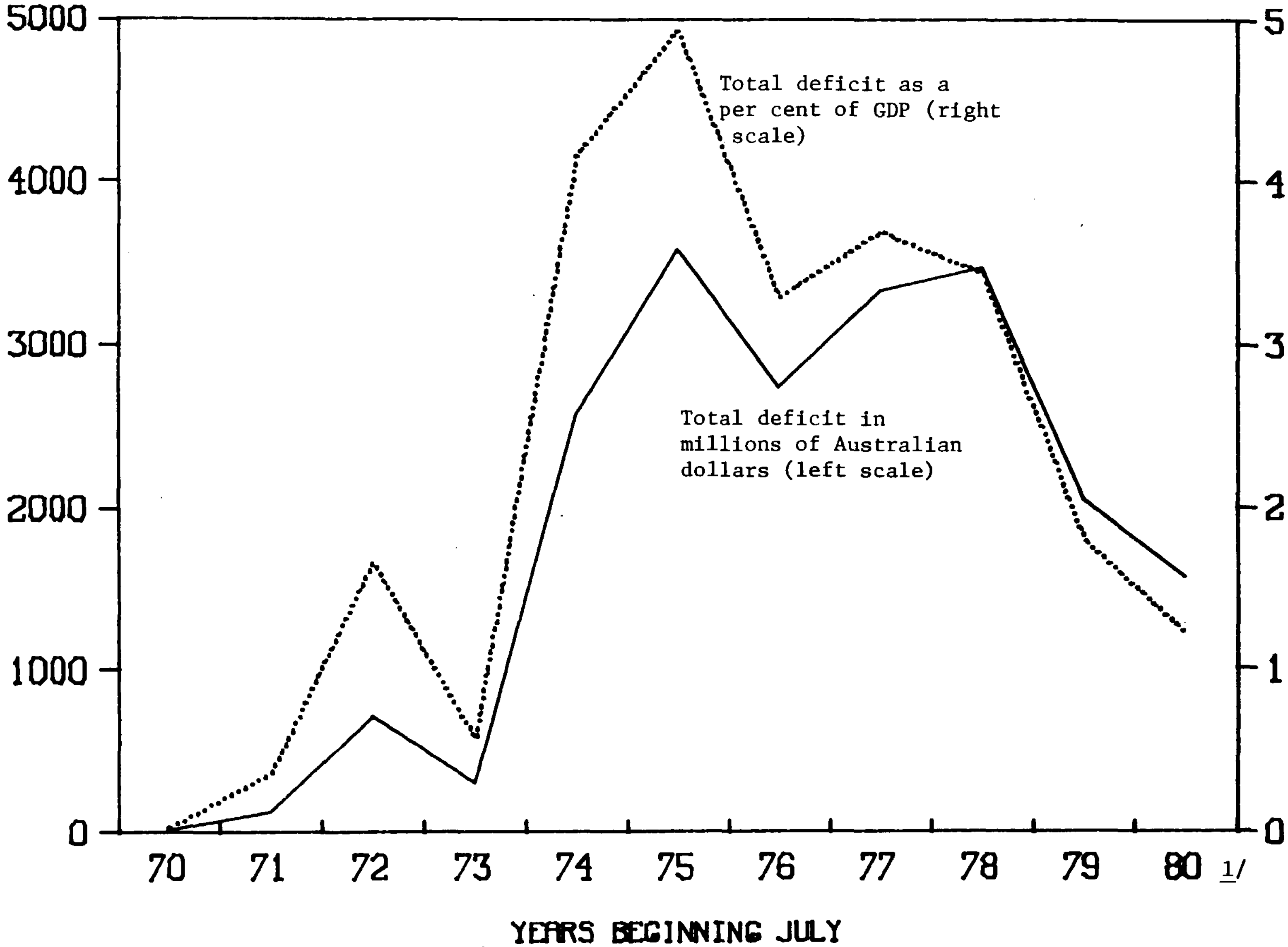
YEARS BEGINNING JULY

Source: Budget Speech 1980/81 and statements.
1/ Budget estimate.

CHART 8

AUSTRALIA

COMMONWEALTH BUDGET DEFICIT 1970/71-1980/81



Source: Budget Speech 1980/81 and statements.
1/ Budget estimate.

3. The Commonwealth budget for 1980/81

The Commonwealth budget for 1980/81 aims at continuing the progress in reducing the budget deficit, although expenditures are estimated to rise by just under 3 per cent in real terms. With outlays estimated to rise by about 13 3/4 per cent and tax receipts by about 16 1/4 per cent, the budget deficit is estimated at less than $A 1.6 billion, a reduction of about $A 0.5 billion over the outcome for 1979/80 (Table 13). The authorities also have drawn attention to the fact that the domestic budget balance, after allowing for overseas transactions, is estimated to show a surplus for the first time since 1973/74. They view the 1980/81 budget as "a further step on the road to fiscal responsibility and monetary stability."

The main tax revenue components estimated to grow at a high rate are receipts from company taxation and the crude oil levy (Tables 14 and 15). The former reflect the estimated higher profits of companies as well as the phasing down of the investment allowance in 1979 and the abolition of the trading stock valuation adjustment with effect from July 1, 1979, while the latter mainly reflect the full-year effects of the rise in oil prices. The expenditure decisions represent a shift toward expenditure on defense, estimated to increase by 7 per cent in real terms, as well as toward health spending and economic services, including transport and industrial assistance (Table 16).

Estimates of revenues and outlays for the first nine months of 1980/81 suggest that the budget estimates should be broadly realized. Receipts are up by nearly 15 1/2 per cent over the corresponding period of 1979/80, some 3/4 of a percentage point less than the budget estimate. This shortfall is to a large extent due to the fact that the first three quarterly installments of company tax are based on tax assessed in 1979/80 on 1978/79 incomes and do not, therefore, reflect the strong increase in company taxable income in 1979/80. This increase will be reflected in the final installment payable in May 1981. Outlays for the nine months to March were 13 3/4 per cent higher than the corresponding period of 1979/80, and thus on track with the budget estimate. Reflecting the pronounced seasonal pattern of tax receipts, the budget deficit for the period exceeded $A 4.6 billion, compared with about $A 4.3 billion in the same period of 1979/80, and the budget estimate of a deficit of nearly $A 1.6 billion for 1980/81. Borrowing from the Reserve Bank in the first nine months of the fiscal year amounted to $A 1.1 billion, compared with $A 1.5 billion in the corresponding period of 1979/80; however, cash balances were run down against a buildup of over $A 500 million in 1979/80.

4. Cyclical effects of fiscal policy

The results of an attempt to measure the impact of changes in the Commonwealth government budget on economic activity, by applying a method based on the concept of a cyclically neutral budget, are presented in Table 17. Although there are many alternative ways of deriving these cyclical adjustments, the broad qualitative nature of these effects is not affected by the particular method used here.

The stance of fiscal policy was significantly contractionary in 1976/77 when the downward swing in the estimated cyclical effect of the Commonwealth budget was over 1 1/2 per cent of GDP. Fiscal policy in the subsequent two years was broadly neutral. The stance of policy in 1979/80 was again strongly contractionary, with a restrictive shift of more than 1 3/4 per cent of GDP. The 1980/81 budget was intended to impart a further restrictive impact but of a smaller magnitude (about 1/2 per cent of GDP) than in 1979/80, with the restriction coming from the taxation side of the budget rather than the expenditure side.

Table 10. Australia: Share of Taxes in GDP and the Composition of Tax Revenue: An International Comparison

(In per cent of GNP at factor cost)

	Total taxes 1971	Total taxes 1977	Taxes on household income 1971	Taxes on household income 1978	Taxes on expenditure 1971	Taxes on expenditure 1978
Australia	28.9	33.6	11.3	15.4 1/	12.3	13.7 1/
Austria	43.4	45.8	10.7	11.7 1/	19.6	19.9 1/
Belgium	39.7	46.5	10.2	17.3	14.2	13.4
Canada	37.3	36.2	12.8	12.2	16.2	14.2
France	39.6	43.9	5.1	6.6	16.9	16.0
Germany, Federal Republic of	39.8	45.3	11.0	12.4	14.4	14.3
Greece	28.1	30.8	3.7	3.5 1/	15.9	16.9 1/
Ireland	39.5	...	...	...	22.3	19.3
Italy	30.9	34.7	4.9	8.7	12.2	11.5
Japan	22.2	25.0	4.8	5.2	7.6	7.2
Netherlands	46.7	51.4	13.1	14.7	12.9	14.1
Norway	52.1	56.3	...	...	21.7	20.4
Spain	20.2	24.2	1.4	2.6 1/	8.2	7.2 1/
Sweden	51.1	61.7	22.0	25.9	17.7	16.7
Switzerland	24.7	32.7	...	...	6.9	7.2
United Kingdom	40.6	40.4	13.8	13.4	17.1	15.6
United States	32.2	33.4	10.5	11.7	10.7	9.1

Source: OECD, National Accounts of OECD Countries, 1961-78, and Revenue Statistics of OECD Member Countries 1965-79.

1/ Data are for 1977.

Table 11. Australia: Commonwealth Budget as Proportion of GDP, 1970/71-1980/81

	Budget Receipts	Budget Outlays	Budget Deficit
1970/71	24.1	24.1	0.03
1971/72	23.7	24.1	0.36
1972/73	22.2	23.8	1.66
1973/74	23.3	23.8	0.57
1974/75	24.8	28.9	4.16
1975/76	25.2	30.2	4.94
1976/77	25.7	29.0	3.30
1977/78	26.1	29.8	3.71
1978/79	25.3	28.7	3.44
1979/80	26.0	27.8	1.78
1980/81 1/	26.7	27.9	1.21

Source: Commonwealth Budget 1980/81, Statement No. 6.

1/ Budget estimate.

Table 12. Australia: Commonwealth Government Financing Transactions

(In millions of Australian dollars)

	1975/76	1976/77	1977/78	1978/79	1979/80
Total financing transactions (budget deficit)	3,585	2,740	3,333	3,478	2,034
Less: Net overseas borrowing	126	357	1,612	1,349	187
Less: Other financing transactions 1/	799	132	214	47	410
Domestic borrowing	2,660	2,250	1,508	2,082	1,437
By type of instrument:					
Australian Savings Bonds and Special Bonds	1,122	366	401	287	174
Treasury notes	-1,620	-87	-7	1,047	205
Other loans raised in Australia	1,511	1,494	651	702	-77
Borrowings from Reserve Bank	1,350	450	359	500	500
Use of cash balances	296	27	103	-454	635
By type of creditor:					
Banking sector	72	-250	-13	886	259
Nonbank private sector	1,451	1,091	1,244	713	775
Government sector	-623	-117	22	132	-251
Reserve Bank 2/	1,759	1,527	256	351	655

Source: Commonwealth Budget, 1980/81.

1/ Other financing transactions include funds obtained from coinage and bullion transactions, amounts borrowed by Commonwealth Government trust accounts, net amounts available from Commonwealth Government trust account transactions in government securities, and amounts available from moneys held in trust.

2/ Includes net take-up of Treasury bills, government securities, and Commonwealth Government's use of cash balances.

Table 13. Australia: Commonwealth Government Budget--Summary

	1979/80 Actual	1980/81 Budget estimate	1977/78	1978/79	1979/80	1980/81 1/	1980/81 Budget estimate
			Actual				
	(In millions of $A)		(Percentage change from preceding year)				
Net expenditure on goods and services	6,484	7,658	9.2	5.9	8.8	...	18.1
Current expenditure	6,161	7,262	11.7	8.7 2/	9.5	...	17.9
Capital expenditure	323	396	-13.3	-26.6 2/	-2.4	...	22.6
Transfer payments and net advances	25,210	28,379	-1.6	9.0	9.2	...	12.6
To states and local authorities	11,559	12,821	12.5	7.1 2/	7.4	...	10.9
Cash benefits to persons	10,080	11,445	12.1	10.1	8.8	...	13.5
Interest paid	2,223	2,409	16.8	19.5	12.8	11.6	8.4
Other	1,348	1,704	-4.7	2.7	24.5	...	26.4
Total outlays	31,694	36,048	11.1	8.4	9.1	13.8	13.7
Tax revenue	27,305	31,796	8.7	9.1	17.2	15.5	16.4
Other receipts	2,356	2,675	21.9	7.4	3.4	14.9	13.5
Total receipts	29,661	34,471	9.8	8.9	16.0	15.4	16.2
Budget deficit	2,034	1,566	...	...	...	...	...

Source: Commonwealth Budget, 1980/81.

1/ July 1980 through March 1981.
2/ Changes between 1977/78 and 1978/79 are affected by the financial arrangements consequent upon the transition of the Northern Territory to self-government. The items affected most are current expenditure, capital expenditure, and transfer payments to States and local authorities.

Table 14. Australia: Tax Measures Announced
Prior to and in the Budget for 1980/81

(In millions of Australian dollars)

Measure	Estimated Change in Receipts 1980/81	Full year 1/
Personal income tax		
Indexation of rate scale 2/) Increase in dependent rebates 2/)	-636	-690
Australians working overseas	-1	-2
Superannuation deductions for self-employed persons and employees not covered by employer-sponsored arrangements	-9	-100
Business income		
Farm water conservation and conveyance 3/	-8	-38
Accelerated depreciation	-2	-110
Measures related to eradication of brucellosis and tuberculosis in cattle	...	-4
Interest rate on income equalization deposits 2/	-2	1
Liquefied petroleum gas		
Increase in rate of levy 4/	71	71
Total	-587	-872

Source: Australian Treasury, Budget Paper No. 4, 1980-81.

1/ Full-year estimates are the ultimate changes in receipts that would have obtained if new rates or other arrangements had applied for the whole of 1980-81 to the estimated level of the relevant tax base in that year.
2/ Announced prior to the budget.
3/ Announced on April 14, 1980.
4/ Announced on April 8, 1980. Change in receipts is measured against base of what the excise rate prior to April 8 would have yielded on estimated 1980-81 excisable production.

Table 15. Australia: Commonwealth Government Budget Receipts

	1979/80 Budget estimate	1979/80 Actual	1980/81 Budget estimate	1977/78 Actual	1978/79 Actual	1979/80 Actual	1980/81 1/ Actual	1980/81 Budget estimate
	(In millions of $A)			(Percentage change from preceding year)				
Income tax, total	18,528	18,587	21,730	9.8	4.0	16.5	16.1	16.9
Individuals	15,128	15,040	17,070	9.7	5.6	17.5	15.6	13.5
Companies	3,280	3,406	4,500	9.6	-1.9	12.2	18.7	32.1
Withholding taxes	120	141	160	22.9	-3.2	23.7	12.3	13.5
Customs duty on imports	1,570	1,538	1,770	-1.7	20.5	12.8	16.6	15.1
Coal export levy	94	91	90	-17.4	-6.7	-3.2	-18.5	-1.1
Excise duty on crude oil and LPG	2,057	2,270	3,157	38.4	157.7	85.0)	16.3	39.1
Other excise duties	2,714	2,695	2,745	5.5	16.0	2.9)		1.9
Sales tax	1,900	1,865	2,060	6.5	0.7	5.4	11.8	10.5
Other taxes, fees, and fines	256	259	245	8.5	-6.4	-1.1	-1.4	-5.4
Total tax revenue	27,119	27,305	31,796	8.7	9.1	17.2	15.5	16.4
Interest, rent, and dividends	2,047	2,033	2,217	11.4	6.1	5.8	2.3	9.1
Net receipts of government enterprises	266	264	277	...	...	-11.7	27.5	4.9
Sale of existing assets	66	58	181	...	...	...	...	...
Total receipts	29,499	29,661	34,471	9.8	8.9	16.0	15.4	16.2

Source: Commonwealth Budget, 1980/81.

1/ July 1980 through March 1981.

Table 16. Australia: Commonwealth Government Budget Outlays--Functional Classification

	1979/80 Actual	1980/81 Budget estimate	1977/78 Actual	1978/79 Actual	1979/80 Actual	1980/81 1/ Actual	1980/81 Budget estimate
	(In millions of $A)		(Percentage change from preceding year)				
Defense	3,008	3,541	8.9	9.7	15.4	16.6	17.7
Education	2,607	2,867	8.7	5.2	3.2	9.4	10.0
Health	3,169	3,644	6.1	7.5	9.2	14.9	15.0
Social security and welfare	8,797	9,890	16.7	9.0	8.5	13.3	12.4
Housing	343	366	-7.9	-24.4	-10.4	-3.1	6.7
Urban and regional development, n.e.c	99	105	-38.8	-29.7	-8.4	-7.2	6.0
Culture and recreation	321	383	1.5	7.5	14.1	30.7	14.1
Economic services	1,884	2,360	0.6	4.1	12.8	25.1	25.2
Transport and communication	807	1,000	-13.5	-15.3	11.6	26.1	23.8
Industry assistance and development	630	825	57.4	55.5	24.2	19.9	30.8
Labor and employment	306	349	17.8	17.2	-8.7	34.2	14.4
Other	141	185	-12.1	-24.6	35.6	23.2	31.2
General public services	2,145	2,442	10.6	6.8	12.0	14.7	13.8
Foreign affairs and overseas aid	664	740	9.4	7.6	9.2	16.1	11.4
Administrative services	932	1,071	12.2	2.0	11.5	9.5	14.9
Other	549	631	9.1	15.7	16.3	22.1	14.9
Payments to or for states and local authorities, n.e.c.	7,100	7,906	15.4	11.1	8.0	12.4	11.4
Public debt interest	2,223	2,409	16.8	19.5	12.8	11.6	8.4
Total outlays	31,694	36,037 2/	11.1	8.4	9.1	13.8	13.7 2/

Source: Commonwealth Budget, 1980/81.

1/ July 1980 through March 1981.
2/ Includes and allowance of $A 125 million for nondefense wage and salary increases.

Table 17. Australia: Cyclical Effect of Commonwealth Fiscal Policy

	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81 1/
	(In billions of Australian dollars)							
GNP data								
Actual GNP	51.27	61.70	72.70	83.21	90.28	101.13	113.82	128.95
Potential GNP	51.27	62.52	73.92	84.48	94.11	104.47	118.53	134.29
Actual fiscal data								
Revenue	11.94	15.27	18.27	21.38	23.47	25.57	29.66	34.47
Expenditure	12.23	17.84	21.86	24.12	26.80	29.05	31.69	36.04
Balance	-0.29	-2.57	-3.59	-2.74	-3.33	-3.48	-2.03	-1.57
Cyclically neutral fiscal data								
Revenue	11.94	14.37	16.93	19.38	21.02	23.55	26.50	30.03
Expenditure	12.23	14.91	17.63	20.15	22.45	24.92	28.27	32.03
Cyclically neutral balance	-0.29	-0.54	-0.70	-0.77	-1.42	-1.37	-1.77	-2.00
Cyclical effect	--	2.03	2.89	1.97	1.91	2.11	0.26	-0.43
	(In per cent of GDP)							
Actual balance	-0.57	-4.17	-4.94	-3.29	-3.69	-3.44	-1.78	-1.22
Cyclically neutral balance	-0.57	-0.88	-0.96	-0.93	-1.58	-1.35	-1.55	-1.55
Cyclical effect	...	3.28	3.97	2.36	2.11	2.09	0.23	-0.34
Change from previous year	...	3.28	0.69	-1.61	-0.25	-0.02	-1.86	-0.57

Source: Staff estimates.
1/ Budget estimates.

III. Money and Credit

Since the mid-1970s the Australian authorities have assigned the highest priority to controlling inflation through a policy of financial restraint, in order to restore the preconditions for a sustained expansion of private sector activity and employment. Monetary policy has played an important role in this effort. In order to foster confidence in a steady application of policies and to bear down on inflationary expectations, the authorities have been announcing annually since 1976/77 a projection for the expansion of broad money (M3), which at the time of the announcement in the budget was thought to be consistent with the economic outlook and the fiscal policy envisaged for the year.

In 1976/77 and 1977/78 monetary policy was successful, both in keeping monetary expansion well within the official projections, and in lowering inflation and inflationary expectations. A nonbank borrowing program by the Government, together with an increasing deficit in the private sector balance of payments, brought about a marked deceleration in the growth of M3 from 15 1/2 per cent during 1974/75 to 8 per cent during 1977/78.

In the following two years, however, the official monetary projections were exceeded by substantial margins (Chart 9). Growth in M3 approached 12 per cent during 1978/79 and 12 1/2 per cent during 1979/80, compared with the official projections of 6-8 per cent and no more than 10 per cent, respectively. The main factors behind this development were a strengthening in the private sector foreign exchange transactions, some delays in domestic policy reactions, and in 1979/80 rapid growth in trading bank lending. The faster monetary expansion occurred against the background of strengthening private sector activity and a resurgence of inflationary pressures, initially as a result of external influences.

Monetary policy in 1980/81 has been aimed at reducing the growth in monetary aggregates as a means of exerting appropriate downward pressure on inflation, while ensuring a supply of funds adequate for sustaining growth in activity and employment. In the budget for 1980/81, the authorities judged that an expansion of M3 of about 9-11 per cent during 1980/81 would be consistent with that objective. This projection was based on the assumption of a 3 per cent growth in real GDP, a 10 per cent increase in the GDP deflator (about the same as in 1979/80), and implied a further rise in velocity of circulation of M3 in continuation of the upward movement observed in recent years (Chart 10). 1/ Despite a significant rise in interest rates, M3

1/ A demand for broad money function estimated by the staff also suggests a long-run income elasticity of the demand for M3 of slightly less than one, implying a slight trend increase in velocity. However, the demand function for M3 also implies that the official projection of an increase of M3 of about 9-11 per cent during 1980/81 and a rise in nominal GDP of over 13 per cent was likely to be met only at higher interest rates, a development that did in fact occur. The following equation was estimated for 1960:I to 1980:III (the seasonal dummies are omitted here):

$$\ln m3 = \underset{(3.8)}{0.76} + \underset{(4.0)}{0.20} \ln y - \underset{(4.4)}{0.05} \ln R + \underset{(13.2)}{0.78} \ln m3_{-1}$$

$R^2 = 0.99$ SEE = 0.018 h = 1.2

has risen somewhat above the upper limit of the official projection during the first half of 1980/81; in January 1981, however, M3 growth began to fall back toward the upper end of the projection and, by March 1981, M3 was 11.7 per cent above its level of a year earlier.

1. The monetary system and instruments of monetary policy

The principal instrument of monetary policy in recent years has been sales of Commonwealth Government securities to the nonbank sector, both in the form of open market operations by the Reserve Bank as well as direct sales by the Government. By selling these securities--notably Treasury bonds, Treasury notes, and, since 1976, Australian savings bonds--the authorities have sought to constrain growth in private sector liquidity. With the intention of improving monetary control by allowing greater flexibility in interest rates, the authorities, since December 1979, have issued Treasury notes by weekly tender; they also introduced in April 1980 a tap system for the continuous marketing of Commonwealth bonds, instead of periodic cash loans. Throughout recent years, quantitative lending guidelines have applied to trading banks, and the banks generally have adhered to the guidelines. The Reserve Bank also has at times influenced financial conditions generally by varying reserve requirements. Trading banks subject to the banking act are required to hold Statutory Reserve Deposits (SRDs) with the Reserve Bank, which determines their minimum level by reference to the banks' total domestic deposit liabilities.

In combination with the SRD requirement, the trading banks are bound by convention to observe a minimum ratio between their holdings of liquid assets and Commonwealth Government securities (LGS assets), and their domestic deposit liabilities. 1/ Since SRD accounts with the Reserve Bank do not

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1/ (Cont'd from p. 1)

where:

m3 ... real M3 (M3 deflated by the GDP deflator)
y ... real GDP
R ... government bond yields (two-year bonds)
$\bar{R}^2$ ... adjusted R^2
SEE ... standard error of estimate
h ... h-statistic

The estimated long-run income and interest rate elasticities of the demand for M3 are 0.9 and -0.4, respectively.

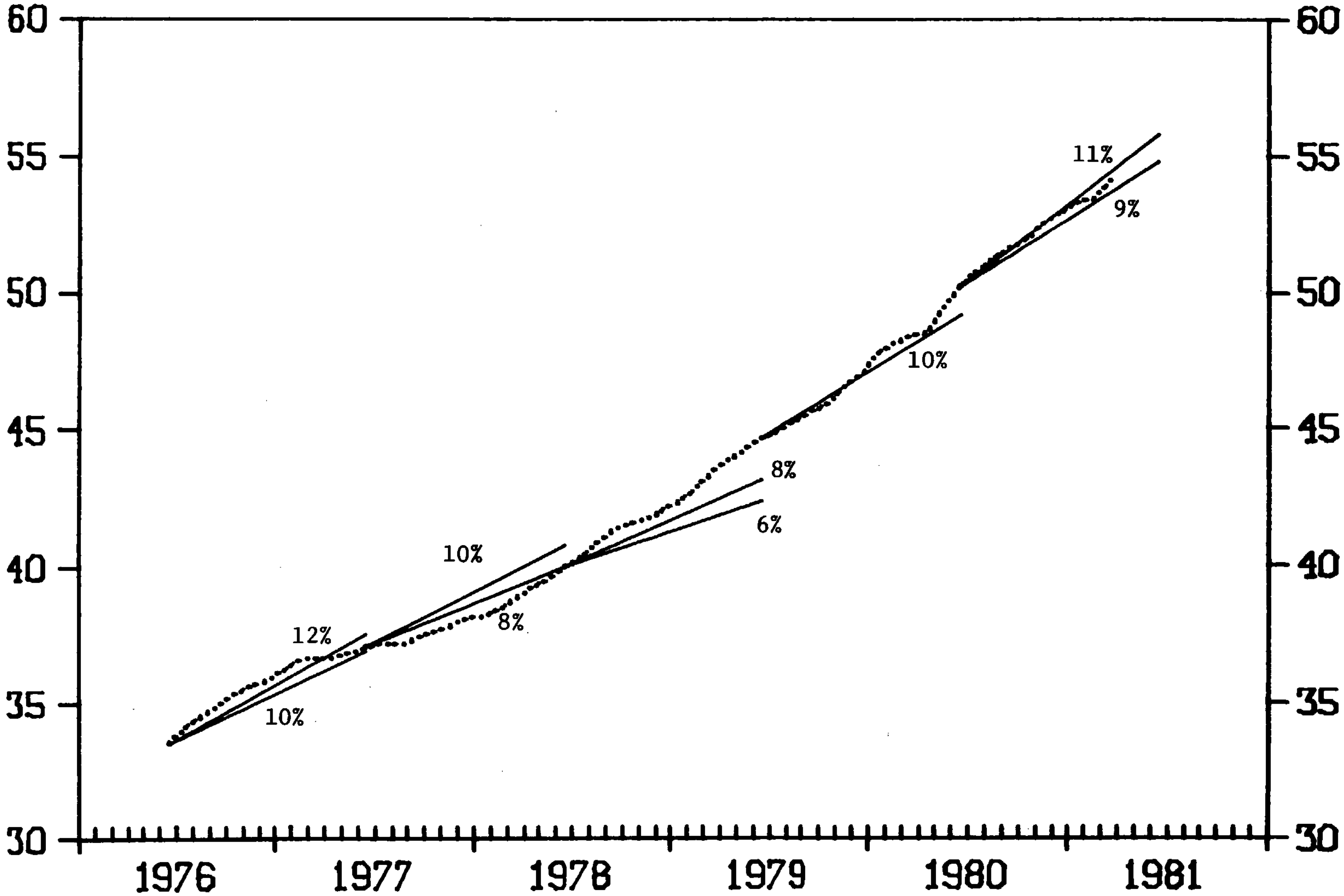
1/ The LGS (liquid assets and government securities) convention is a formal expression of certain firm understandings, which were reached between the Reserve Bank and the major trading banks in 1956; it has no statutory basis. Under the convention, each bank undertakes to ensure that its ratio of LGS assets to total domestic deposit liabilities does not fall below the agreed minimum which is uniform for all banks. The minimum LGS ratio is changed infrequently; it has been held at 18 per cent since 1962, with the exception only of the period from February 1976 to end-March 1977 during which it was raised to 23 per cent. LGS assets are defined as cash (notes and coin), deposits with the Reserve Bank other than SRD deposits, and Commonwealth government securities.

CHART 9

AUSTRALIA

PROJECTED AND ACTUAL GROWTH OF MONEY (M3) (1)

(In Billions Of Australian Dollars)



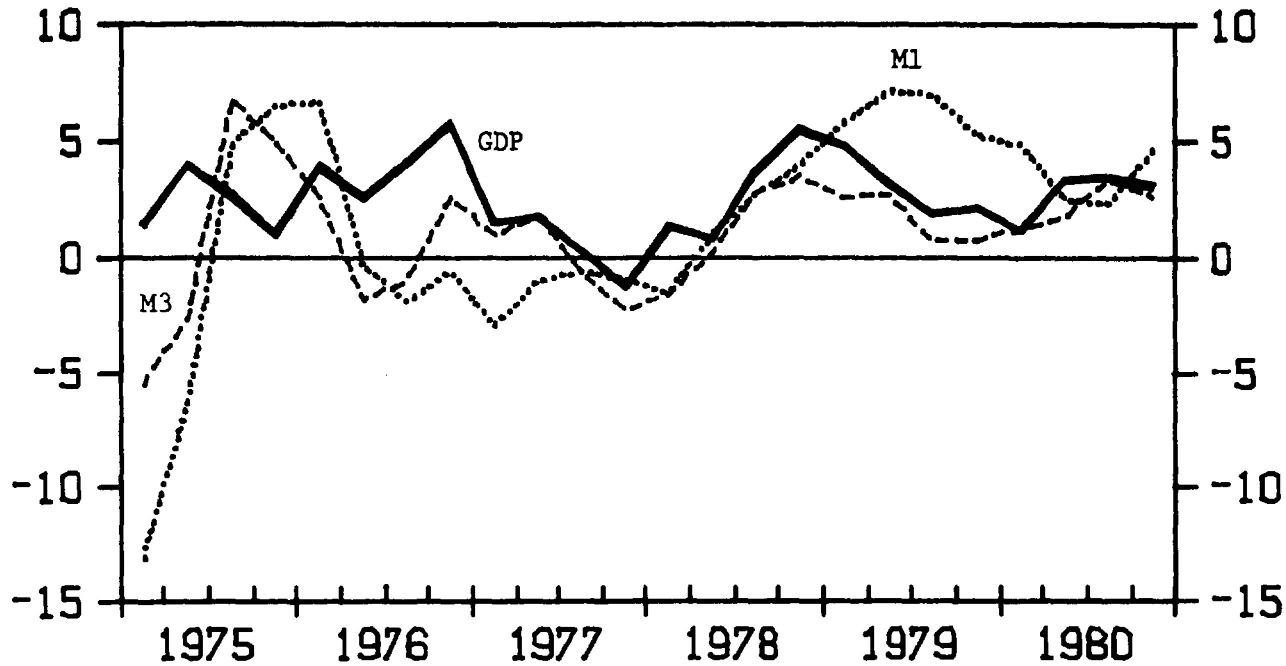
Source: Reserve Bank of Australia, Statistical Bulletin;
1/ Lines depicting projections are the upper and lower ends (in 1979/80 only upper end) of the projected growth ranges through the financial year.

CHART 10

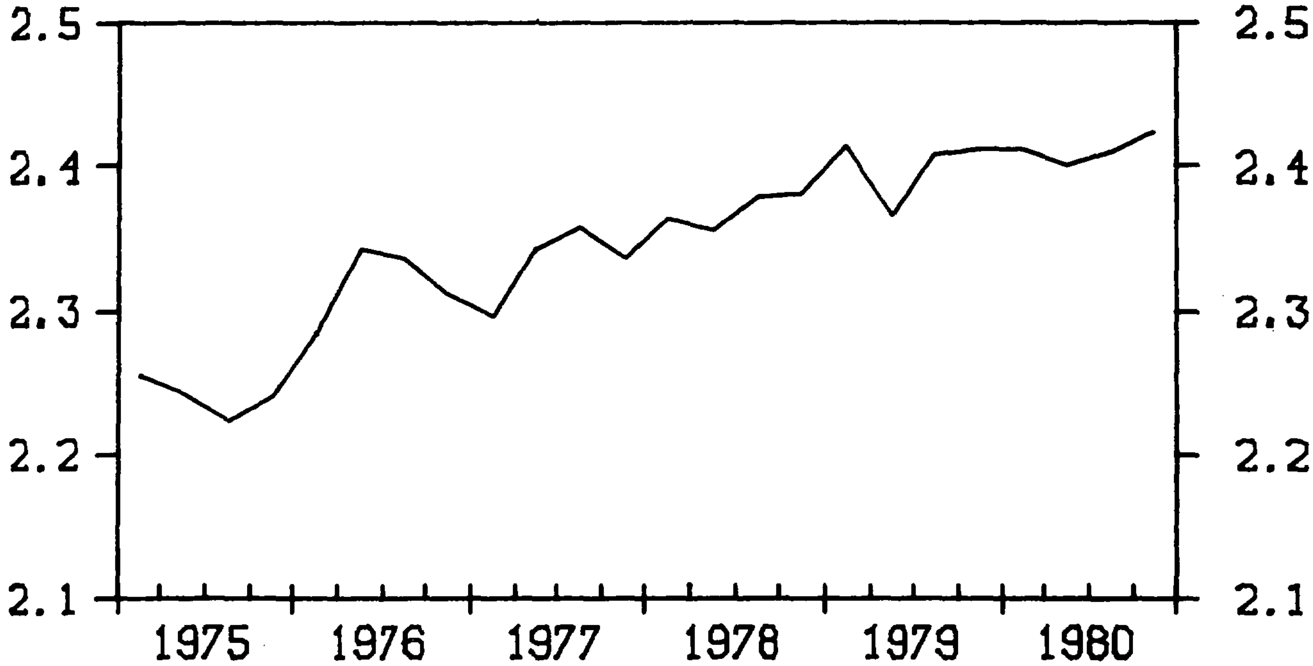
AUSTRALIA

GROWTH RATES OF REAL MONEY AND REAL GDP

(Percentage Change Over Previous Year)



INCOME VELOCITY OF MONEY (M3)



Source: IMF, International Financial Statistics.

form part of LGS assets, variations in the SRD ratio also affect the trading banks' position with regard to the LGS convention. Recent developments in LGS assets are shown in Table 18. The savings banks are subject to a minimum prescribed asset ratio; eligible assets in this case extend to all public sector securities. The minimum prescribed asset ratio was reduced from 45 per cent to 40 per cent in August 1978, allowing for a larger share of funds to be allocated to housing loans. As part of their eligible assets for purposes of the prescribed asset ratio, the savings banks have to hold 7 1/2 per cent of their deposit liabilities in Treasury notes or deposits with the Reserve Bank; the latter are interest-bearing deposits. The LGS convention for trading banks and the prescribed asset ratio for savings banks can perhaps be seen as instruments not only to control overall credit but also to affect the allocation of credit. Other forms of captive markets for government securities are related to the "30/20 requirement" that was introduced in 1961 for life insurance companies and superannuation funds. The 30/20 requirement provides for increased taxation of both life insurance companies and superannuation funds if they do not invest a minimum 30 per cent of their assets in government securities, of which 20 per cent must comprise Commonwealth securities.

The authorities also impose ceilings over certain bank interest rates, though these controls were eased substantially in December 1980. Effective December 3, the previous ceilings on trading and savings bank deposit interest rates were removed, and the interest rate ceilings on their advances were raised. The maximum interest rate which trading banks may charge on overdrafts with limits of less than $A 100,000 was raised from 10.5 per cent to 12.5 per cent; that on personal installment loans was raised from 7.75 per cent (flat) to 8.75 per cent (flat). Similarly, the maximum rate of interest which savings banks may charge on loans, other than loans for owner-occupied housing, of less than $A 100,000 was raised from 10.5 per cent to 12.5 per cent; that on loans for owner-occupied housing by trading and savings banks was raised from 10.5 per cent to 11.5 per cent.

With a view to improving the structure and operations of the Australian financial system, the Government in January 1979 established a Committee of Inquiry into the Australian Financial System. The Committee's terms of reference include: to inquire into and report on the structure and methods of operation of the financial system and its regulation and control; and to make recommendations as to its improvement. An interim report containing a survey of the Australian financial system was published by the Committee in mid-1980, and a final report, including recommendations on any changes in the system and its control mechanisms, is expected to be issued later this year.

The use of the monetary policy instruments, as well as other policy actions such as foreign exchange market intervention or the extension by the Reserve Bank of rural credits, influences the monetary base, 1/ although

1/ Defined here as the stock of reserve money adjusted for changes in the SRD ratio applying to the trading banks. Reserve money consists of currency outside the Reserve Bank and trading banks' deposits with the Reserve Bank. This represents a narrow definition of the monetary base, and does not include bank lending to the Government in the form of purchases of government securities as part of base money.

policy has not been directed to controlling this aggregate. Nevertheless, the monetary base appears to be a useful indicator of the stance of monetary policy, as it measures the injection of primary liquidity by the monetary authorities into the financial system, and bears a close relationship with wider monetary aggregates (Chart 11 and Table 19). Reflecting the firmness in monetary policy, the growth in the monetary base was brought down from 16 1/2 per cent during 1975/76 to 10 per cent during 1977/78. With the subsequent easing of monetary policy, the monetary base has risen more strongly since then. It accelerated significantly during the first half of 1980/81, mainly as a result of the strengthening balance of payments; in December 1980 it was 14 per cent higher than a year earlier. However, reflecting the recent tightening in monetary policy, growth in the monetary base has slowed down since then; in March 1981 it was 11 per cent above the level of a year earlier.

2. Monetary developments since mid-1979

The objective of monetary policy in 1979/80 was to achieve some slowing down in the rate of growth of money and credit, so as to bear down on inflation. It had been stated in the Budget Speech that growth in M3 of not more than 10 per cent over the course of the year would be compatible with the policy objectives. Achievement, however, fell short of the objective, and M3 expanded by 12 1/2 per cent during 1979/80. While this relatively easier monetary policy initially supported the economic recovery, it also implied domestic accommodation of inflationary pressures originating abroad.

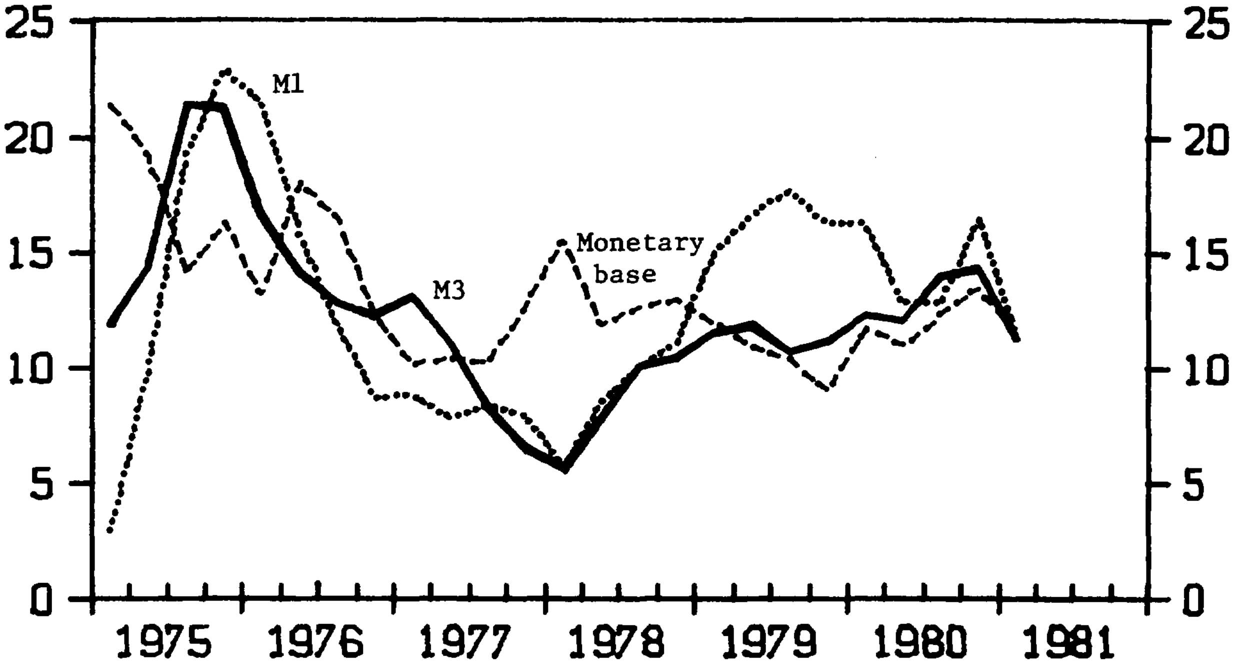
The main factors accounting for the faster growth in M3 changed during the course of the year. During the first half of the year, bank lending to the Government was the most expansionary factor, while in the second half of the year the improvement of the private sector balance of payments was the expansionary force (Tables 20 and 21). Early in the financial year, the securities market was unsettled, probably reflecting concern about the implications for inflation of the high rate of monetary growth during 1978/79, though demand for government securities picked up when a substantial reduction in the estimated Commonwealth deficit was announced in the budget for 1979/80. However, demand for bonds fell away as interest rates rose sharply abroad, while they were kept steady in Australia (Chart 12). Moreover, the widening of the interest differentials provided incentive for the private sector to seek finance in Australia rather than overseas; the capital account weakened and bank lending increased sharply. Advances outstanding of trading banks rose at an annual rate of close to 20 per cent during the first half of 1979/80, substantially in excess of the Reserve Bank's guideline of an increase of no more than 10 per cent over 1979/80. To back up this guideline, the Reserve Bank increased the SRD ratio from 5.5 per cent to 6 per cent in December 1979. In order to achieve sales of bonds, issuing yields were increased in early 1980, and small amounts of bonds were issued by tender in February 1980. It was, however, not until the latter part of the financial year that the demand for bonds picked up again. On April 30, 1980 the tap system for sales of government stocks was introduced; the issuing yields were increased further, while interest rates abroad, in particular in the United

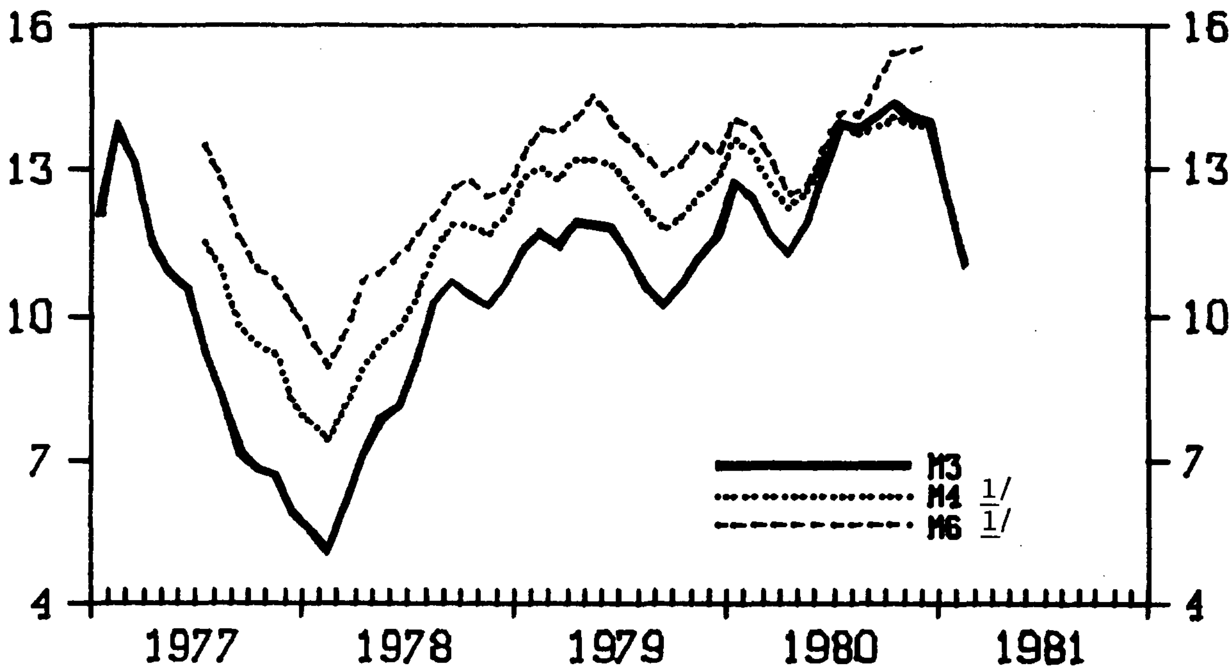
CHART 11

AUSTRALIA

MONEY SUPPLY

(Percentage Change Over Previous Year)





Sources: Reserve Bank of Australia, Statistical Bulletin; IMF, International Financial Statistics; and data provided by the Australian authorities.

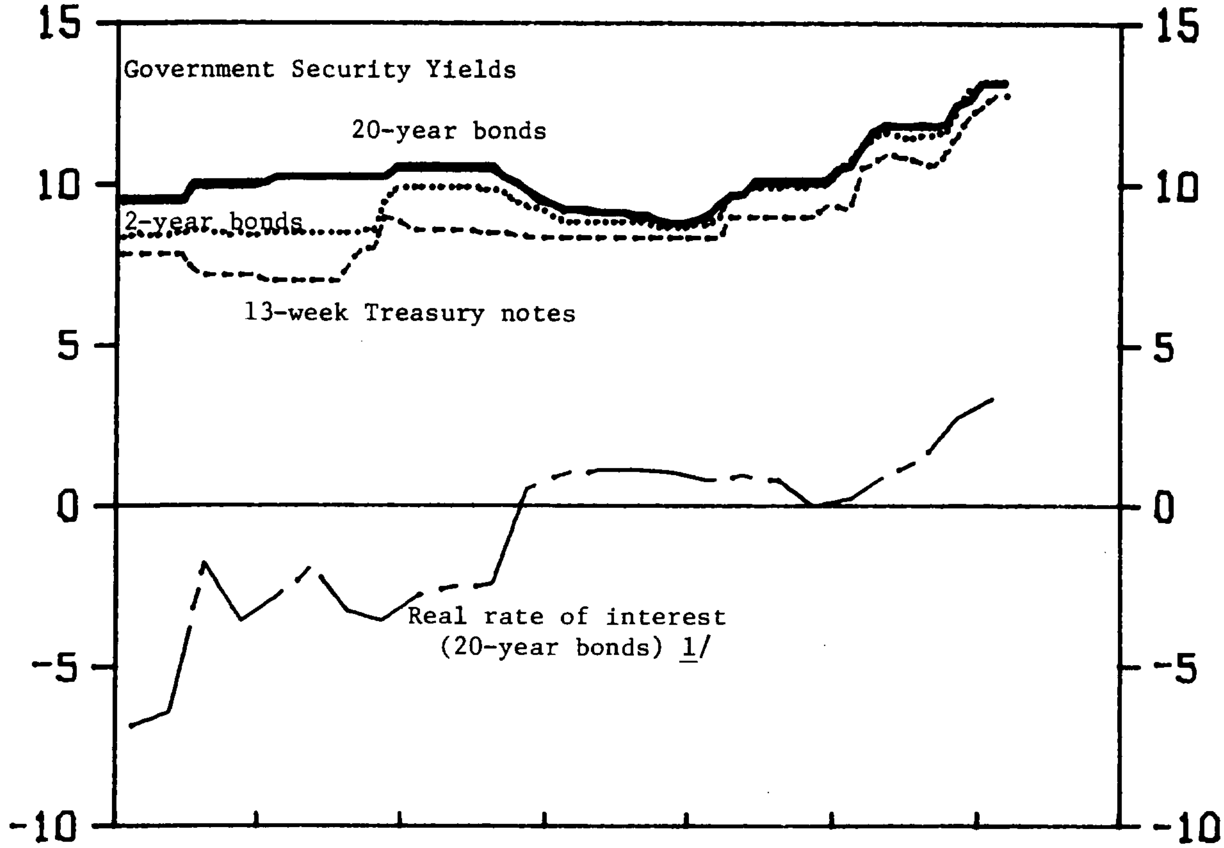
1/ M4 consists of M3 plus net liabilities to domestic nonbanks, of building societies; M6 includes in addition net liabilities of finance companies and money market corporations.

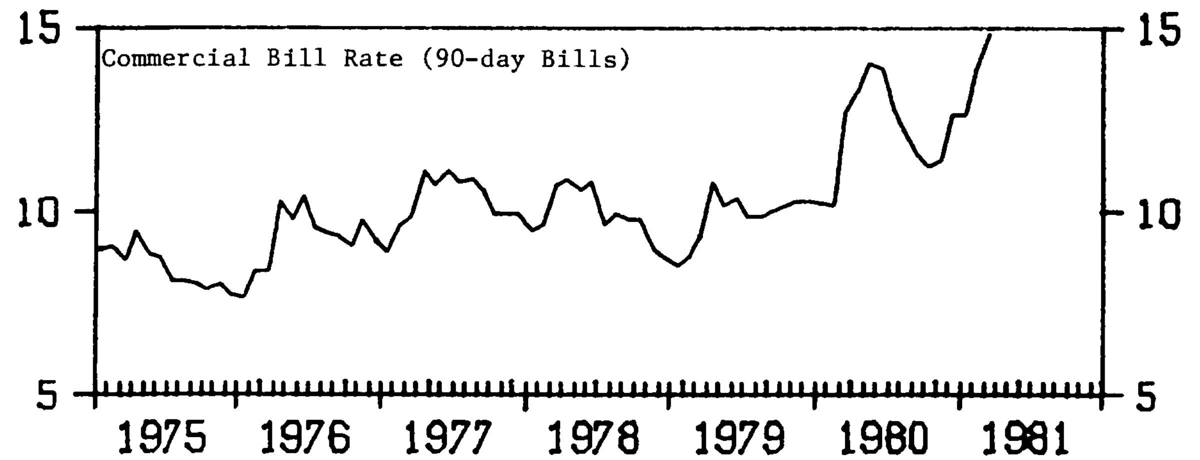
CHART 12

AUSTRALIA

INTEREST RATES

(In Per Cent Per Annum)





Sources: Reserve Bank of Australia, Statistical Bulletin; International Monetary Fund, International Financial Statistics.

1/ Deflated by the consumer price index.

States, eased. Despite less recourse to bank finance by the Government, however, growth in M3 remained buoyant in the second half of 1979/80 as the private sector balance of payments moved into strong surplus (Table 20).

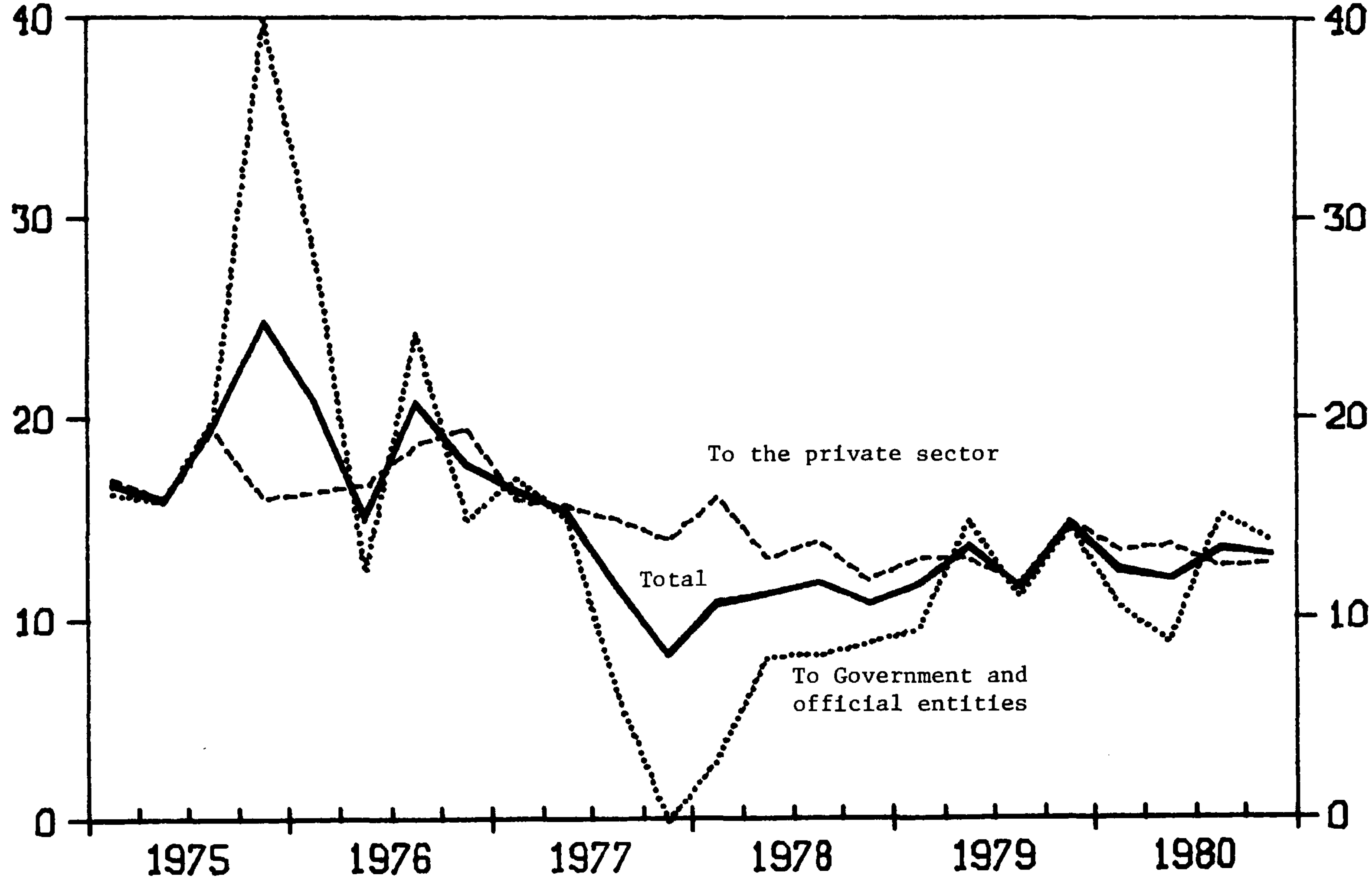
All in all, M3 rose by 12.3 per cent during 1979/80, slightly faster than the growth of 11.8 per cent recorded in the previous year. However, domestic credit expansion slowed to 11.9 per cent during 1979/80, compared with 13.6 per cent in 1978/79. This slowdown was entirely accounted for by a sharply lower growth in bank credit to the Government, while bank lending to the private sector rose more strongly (Chart 13 and Table 22). The latter development reflected the recovery in economic activity as well as the fact that trading bank interest rates on small overdrafts, though at the prescribed maximum, were lower than those of other financial intermediaries.

For 1980/81 the official target is an increase in M3 of 9-11 per cent. Based on historical evidence, achievement of the official monetary projection was likely to involve higher interest rates, though a further lowering of the Commonwealth budget deficit reduced upward pressure on interest rates. During the first nine months of 1980/81, M3 rose at a seasonally adjusted annual rate of 10.3 per cent, within the range of the official projection, while interest rates rose steeply (Chart 12). Over the 12 months to March 1981, M3 grew by 11.7 per cent. Despite the increase in interest rates, bank lending to the Government rose strongly during the first half of 1980/81, as bond sales to the nonbank sector were weak. In particular, sales of tap stocks were minimal as successive increases in tap yields were followed by further rises in secondary market trading yields. The impact on the growth of M3 of the consequent sharp increase in bank lending to the Government was, however, partly offset by a slowdown in lending to the private sector (Table 21). At the beginning of the financial year, the Reserve Bank had advised the major trading banks to keep the increase in their advances to a rate of no more than 10 per cent per annum, and during the first half of the year the banks adhered to this guideline. They have also been requested to show comparable restraint in other means by which they facilitate or provide finance to the private sector.

The authorities took a number of measures in December 1980. As mentioned above, the interest rate ceilings on advances by trading and savings banks were raised, and those on bank deposits were abolished; yields on tap stocks and the yields at which the Reserve Bank was prepared to trade from its portfolio were raised further, and sales of Treasury bonds resumed in early 1981; in support of the Reserve Bank's guideline on the growth of advances by the trading banks, the SRD ratio was raised from 6 per cent to 7 per cent, effective January 6, 1981. In response to these measures, interest rates rose further. After an increase in tap stock yields in January 1981 to 13.1 per cent, bond sales to the nonbank sector resumed. Short-term interest rates rose more strongly, reflecting the beginning of the seasonal liquidity rundown, with a sharp move of the Commonwealth budget into surplus in the latter part of 1980/81 (Table 23).

Developments in other monetary aggregates have been broadly in line with that of M3 in recent years. However, in 1979 and again during the second half of 1980, M1 grew significantly faster than M3 (Chart 9). This development may have been related to the exceptionally fast growth in farm incomes in 1979 and to the later surge in capital inflows, which tended to be held initially in the form of demand deposits. However, with the strong rise in interest rates since December 1980, M1 has fallen slightly in early 1981. Wider monetary aggregates tended to rise slightly faster than M3 in recent years (Table 21 and Chart 11), a development that probably owed much to relative interest rates, which were influenced by the constraints on bank deposit rates. The recent abolition of the ceilings on bank deposit rates may influence this relationship in the future. Such a structural change could also influence the trend increase in the income velocity of M3.

AUSTRALIA
DOMESTIC CREDIT
(Percentage Change Over Previous Year)



Source: IMF, International Financial Statistics.

Table 18. Australia: Major Trading Banks--Liquidity

Average of Weekly Figures		LGS Assets 1/				Deposit Liabilities			Excess Over Minimum	
			Commonwealth Government securities							
		Cash	Treasury notes	Other	Total	In millions of $A	Per cent change 2/	LGS Ratio 3/	LGS Convention 4/	SRD Ratio 5/
		(In millions of $A)						(In per cent)		
1975/76	June	325	169	3,184	3,678	15,385	12.6	23.9	0.9	5.0
1976/77	June	358	38	3,306	3,702	17,193	11.8	21.5	3.5	9.0
1977/78	June	384	54	3,326	3,763	17,593	2.3	21.4	3.4	4.0
1978/79	June	407	155	3,625	4,187	19,602	11.4	21.4	3.4	5.5
1979/80	July	400	60	3,685	4,145	19,550	10.8	21.2	3.2	5.5
	August	414	76	3,680	4,170	19,958	9.3	20.9	2.1	5.5
	September	402	70	3,684	4,156	20,313	9.2	20.5	2.1	5.5
	October	421	214	3,772	4,406	20,993	10.8	21.0	3.0	5.5
	November	419	440	3,790	4,648	21,459	11.6	21.7	3.7	5.5
	December	549	435	3,818	4,802	22,150	13.0	21.7	3.7	6.0
	January	509	1,106	4,056	5,671	22,999	14.8	24.7	6.7	6.0
	February	455	1,236	4,200	5,892	23,252	13.6	25.3	7.3	6.0
	March	464	1,104	4,123	5,691	23,399	12.2	24.3	6.3	6.0
	April	476	520	4,027	5,023	23,087	11.8	21.8	3.8	6.0
	May	445	137	3,701	4,283	22,436	12.8	19.1	1.1	6.0
	June	456	131	3,702	4,289	22,680	15.7	18.9	0.9	6.0
1980/81	July	445	141	3,808	4,393	23,010	17.7	19.1	1.1	6.0
	August	456	136	3,971	4,563	23,278	16.6	19.6	1.6	6.0
	September	461	211	4,074	4,746	23,630	16.3	20.1	2.1	6.0
	October	482	571	4,160	5,213	24,288	15.7	21.5	3.5	6.0
	November	476	754	4,115	5,344	24,555	14.4	21.8	3.8	6.0
	December	571	622	4,084	5,275	25,127	13.4	21.0	3.0	6.0
	January	523	921	4,085	5,529	25,292	10.0	21.9	3.9	7.0
	February	495	1,236	4,009	5,740	25,564	9.9	22.5	4.5	7.0

Sources: Reserve Bank of Australia, Statistical Bulletin; and staff calculations.

1/ Liquid assets and government securities.

2/ Over same month in previous year.

3/ LGS assets in per cent of deposit liabilities.

4/ The minimum ratio under the LGS convention is 18 per cent, except between February 1976 and end-March 1977 when it was temporarily raised to 23 per cent.

5/ Statutory Reserve Deposits (SRD) are held by trading banks in SRD accounts with the Reserve Bank, which determines their minimum level by reference to the banks' deposit liabilities.

Table 19. Australia: Money Supply 1/

	1979/80	1975/76	1976/77	1977/78	1978/79		1979/80				1980/81		
	June	June	June	June	Dec.	June	Sept.	Dec.	March	June	Sept.	Dec.	March
	(In millions of $A)	(Percentage change over previous year)											
Monetary base 2/	5,605	16.3	12.6	10.2	12.4	10.8	9.3	8.3	12.0	11.1	12.6	14.1	11.0
M1 3/	14,843	14.1	8.4	8.6	11.7	16.7	17.3	15.4	15.0	12.9	13.0	17.4	11.3
Other trading bank deposits	13,255	12.5	14.7	3.5	11.5	9.5	4.1	11.1	12.7	20.7	23.2	13.3	15.7
M2 4/	20,098	13.3	11.4	6.1	11.6	13.3	10.9	13.4	13.9	16.5	17.6	15.5	13.3
Savings bank deposits	21,061	15.8	10.6	10.2	9.3	10.8	9.4	9.2	8.3	7.2	7.5	10.3	9.5
M3 5/	49,159	14.4	11.0	8.0	10.6	11.8	10;2	11.5	11.5	12.3	13.0	13.0	11.7
Building society shares 6/	8,948	...	...	22.4	22.0	21.3	21.5	20.3	20.2	18.2	18.6	19.5	...
M4 7/	58,105	...	...	9.7	12.0	13.1	11.7	12.8	12.7	13.2	13.9	14.0	...

Sources: Reserve Bank of Australia, Statistical Bulletin; IMF, Data Fund; and staff calculation.

1/ Average of weekly figures.
2/ The monetary base is the stock of reserve money adjusted for changes in the Statutory Reserve Deposit (SRD) ratio applying to the major trading banks (basis: June 1975). Reserve money consists of currency outside the Reserve Bank, and trading banks' deposits with the Reserve Bank.
3/ Currency and trading bank current deposits.
4/ M1 plus trading bank fixed deposits and certificates of deposit.
5/ M2 plus savings bank deposits.
6/ Building societies borrowings from residents less building societies' holdings of cash and bank deposits.
7/ M3 plus building society borrowings as derived under footnote 6.

Table 20. Australia: Sources of the Monetary Base

(Changes in millions of Australian dollars, not seasonally adjusted)

	1975/76	1976/77	1977/78	1978/79	1979/80	1979/80 Sept. qtr.	1979/80 Dec. qtr.	1979/80 Mar. qtr.	1979/80 June qtr.	1980/81 Sept. qtr.	1980/81 Dec. qtr.
1. Private sector foreign exchange transactions	-466	19	-1,202	-254	974	-122	-113	478	730	-52	892
2. Net domestic assets	981	442	1,624	747	-413	230	532	-531	-643	246	-332
Claims on government 1/	1,885	1,884	3,752	1,700	842	1,462	1,054	-837	-837	1,296	466
Net domestic borrowing from the Reserve Bank	1,759	1,527	256	351	655	1,521	878	-972	-772	1,325	513
Net foreign borrowing	126	357	1,612	1,349	187	-59	176	135	-65	-29	-47
Loans, advances, and bills discounted by the Reserve Bank	409	509	-115	-50	-160	-204	-101	532	-389	-100	43
Other items, net 2/	-1,313	-1,951	-2,013	-903	-1,095	-1,028	-421	-226	583	-950	-841
3. Monetary base	515	461	422	493	561	108	419	-53	87	194	360

Sources: International Monetary Fund, Data Fund; and Reserve Bank of Australia, Statistical Bulletin.

1/ In its monetary implications foreign borrowing is equivalent to indirect Reserve Bank financing and is thus included here under net domestic assets.

2/ Including changes due to variation of SRD ratios.

Table 21. Australia: Monetary Survey

	1979/80	1975/76	1976/77	1977/78	1978/79		1979/80				1980/81		
	June	June	June	June	Dec.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	March
	(In millions of $A)	(Percentage change over preceding year)											
Domestic credit	51,735	15.1	15.4	11.2	10.7	13.6	11.4	14.7	12.3	11.9	13.4	12.1	...
Claims on government, net	11,706	9.4	15.0	7.5	8.0	17.5	12.2	17.7	10.9	8.1	17.6	12.5	...
Claims on official entitites 1/	5,957	18.4	14.8	9.3	10.3	10.0	8.7	8.0	9.8	10.1	10.1	7.7	...
Claims on private sector	34,072	16.7	15.6	12.9	11.9	12.9	11.7	14.8	13.4	13.6	12.5	12.7	...
Foreign assets and nonmonetary liabilities, net 2/	-2,576	0.5	-3.9	-3.4	-0.7	-2.3	-2.0	-3.7	-1.7	-0.3	-1.2	0.1	...
Broad money (M3)	49,159	14.4	11.0	8.0	10.6	11.8	10.2	11.5	11.5	12.3	13.0	13.0	...
					(Growth from previous period, seasonally adjusted, at annual rate)								
Memoranda:													
Narrow money (M1)					15.4	19.1	15.2	7.9	18.0	10.7	15.2	21.3	-0.8
Broad money (M2)					7.3	13.3	9.9	17.0	15.6	23.8	14.0	6.7	9.5
Broad money (M3)					7.5	11.9	8.4	12.6	12.8	15.8	11.2	10.5	9.3

Source: IMF, International Financial Statistics.

1/ Local authorities and semigovernment institutions.
2/ Percentage change refers to contribution to growth in M3.

Table 22. Australia: Major Trading Banks--Advances Classified by Sector

	1969/70 July	1980/81 July 1/		1978/79		1979/80		1980/81
				July	Jan.	July	Jan.	July
	In per cent of total	In per cent of total	In millions of $A	Percentage change over previous year				
Business, total	79.6	61.3	10,979	6.9	8.2	7.4	10.7	16.4
Agriculture	23.2	11.7	2,103	11.6	13.6	14.1	14.9	18.1
Manufacturing	16.7	12.7	2,283	3.2	4.1	3.6	12.8	24.8
Transport, storage, and communication	1.9	1.7	313	10.3	8.0	12.0	13.3	21.2
Finance	4.4	5.4	960	30.7	20.7	-1.0	3.9	18.2
Commerce	17.0	11.2	2,010	4.4	7.3	14.3	19.1	15.8
Building and construction	3.5	2.9	514	4.9	16.2	10.4	6.9	6.6
Mining	2.9	2.5	449	-4.5	-1.7	-5.6	-13.3	-7.7
Other and unclassified	10.2	13.1	2,348	4.0	4.9	6.0	8.6	14.5
Public authorities	0.8	0.7	127	-39.9	-40.2	19.0	-0.4	14.3
Persons	17.7	36.9	6,612	16.4	26.0	23.5	20.3	16.8
Nonprofit organizations	1.7	0.9	157	6.8	-0.3	3.2	14.4	10.9
Total resident borrowers	99.9	99.8	17,875	9.3	12.9	12.9	14.0	16.5
Nonresident borrowers	0.1	0.2	31	-18.1	36.4	66.9	140.4	57.9
Total all borrowers	100.0	100.0	17,906	9.3	13.0	12.9	14.2	16.5

Source: Reserve Bank of Australia, Statistical Bulletin.

1/ At second Wednesday of month.

Table 23. Australia: Selected Interest Rates

(In per cent per annum; the average)

		Commonwealth Government Securities					Trading Banks		Savings Bank		Bank Accepted Commercial Bills 8/
		Treasury notes		Bonds			3-month fixed deposits 4/	Small overdrafts 5/	Investment accounts 6/	Housing loans 7/	
		13-week	26-week	2-year	20-year	ASB 3/					
1975/76		6.99	7.25	8.47	10.20	9.20	7.63	10.50	8.25	9.88	10.45
1976/77		8.60	9.12	9.88	10.49	10.00	8.00	10.50	8.50	9.88	11.10
1977/78		8.35	8.75	8.83	9.10	9.00	7.63	10.50	8.00	9.38	10.80
1978/79		9.02	9.30	9.94	10.10	9.25	7.50	10.50	7.75	9.13	10.35
1979/80	July	9.02	9.30	9.94	10.07	9.25	7.50	10.50	7.75	9.13	9.85
	Aug.	9.02	9.30	9.94	10.07	9.25	7.50	10.50	7.75	9.13	9.85
	Sept.	9.02	9.30	9.95	10.07	9.25	7.50	10.50	7.75	9.13	10.00
	Oct.	9.02	9.30	9.94	10.08	9.25	7.50	10.50	7.75	9.13	10.15
	Nov.	9.02	9.30	9.96	10.08	9.25	7.63	10.50	7.75	9.13	10.25
	Dec.	9.31	9.80	9.97	10.08	9.25	7.63	10.50	7.75	9.13	10.25
	Jan.	9.33	9.73	10.38	10.45	9.25	7.63	10.50	7.88	9.13	10.20
	Feb.	9.25	9.88	10.75	10.50	9.25	7.63	10.50	7.88	9.13	10.10
	Mar.	10.44	11.19	11.20	11.20	9.75	7.75	10.50	7.88	9.63	12.70
	Apr.	10.67	11.02	11.40	11.60	9.75	8.25	10.50	8.25	9.88	13.30
	May	10.92	11.05	11.54	11.80	9.75	8.25	10.50	8.25	9.88	14.05
	June	10.84	10.55	11.50	11.79	9.75	8.25	10.50	8.25	9.88	13.85
1980/81	July	10.82	10.73	11.34	11.78	10.25	8.63	10.50	8.75	10.25	12.80
	Aug.	10.59	10.63	11.50	11.80	10.25	8.63	10.50	8.75	10.25	12.20
	Sept.	10.56	11.02	11.50	11.78	10.25	8.63	10.50	9.00	10.25	11.50
	Oct.	10.95	11.78	11.58	11.88	10.25	9.00	10.50	9.00	10.25	11.25
	Nov.	11.47	11.81	12.42	12.42	10.25	9.00	10.50	9.00	10.25	11.40
	Dec.	12.17	13.04	12.85	12.60	11.50	10.50	12.50	9.75	11.00	12.60
	Jan.	12.42	13.26	13.10	13.10	11.50	10.50	12.50	10.25	11.50	12.65
	Feb.	12.68	...	13.12	13.10	11.50	10.88	12.50	10.25	11.50	13.90
	Mar.	12.72	13.21	13.10	13.10	12.25	11.13	12.50	10.25	11.50	14.80

Source: Reserve Bank of Australia, Statistical Bulletin.
1/ Issue yield.
2/ Theoretical yield once no-brokerage basis for nonrebate bonds.
3/ Australian Savings Bonds were introduced in Jaunary 1976; they have a period to maturity of seven years with an interest penalty for early redemption.
4/ Average of range of rates current at end of month for fixed deposits of less than $A 50,000 for 3-6 months.
5/ Maximum rate for loans drawn under overdraft limits of up to $A 100,000.
6/ Subject to special notice and minimum balance requirements. Rates shown are the average of the range on offer.
7/ Average of the range of rates charged on new housing loans to individuals.
8/ Buying yield for 90-day bills.

IV. Balance of Payments

1. Summary of medium-term developments in the balance of payments

Throughout the 1960s Australia's current account fluctuated between approximate balance and a deficit equivalent to some 5 per cent of GDP. This was a period of substantial investment in the mineral sector, and large-scale private capital inflows were of sufficient magnitude to finance the current account deficit (Charts 14-16). There was in most years an increase in foreign exchange reserves while overseas government debt declined relative to GDP. During the late 1960s through 1972/73 the current account showed a marked improvement, mainly reflecting a pickup in the volume of exports of agricultural and industrial primary products as well as a sharp improvement in the terms of trade in the latter part of this period, largely owing to considerable increases in the export prices of farm products (Charts 14 and 16-19). At an amount equivalent to some 5 per cent of GDP, private capital imports peaked in 1971/72, when the underlying flows were compounded by speculative movements in expectation of an appreciation of the Australian dollar. As shown in Chart 14, subsequently both the current and capital accounts deteriorated. While the ratio of the current account deficit to GDP was no larger through the end of the 1970s than the average during the 1960s, the relative size of private capital inflows, averaging about 1 per cent of GDP, was significantly smaller. The latter development was accounted for by a number of factors which tended to discourage foreign investors, such as Australia's relatively poor economic performance in the mid-1970s, particularly with respect to inflation, reduced demand for raw materials in an adverse international economic environment, various restrictions imposed on capital flows and industrial disputes. In the light of these developments, a major government foreign borrowing program was undertaken in 1977 to bolster the international reserve position (Table 24 and Chart 16). Against the background of a strengthening of the balance on current account in 1979/80 and of a pickup in private capital inflows in response to the rise in investment associated with the development of Australia's energy and mineral resources and to falling interest rates overseas toward the end of the period, the official overseas borrowing program was wound down substantially (Charts 14-16). Owing to the strong inflow of private capital, the decline in net official reserves was practically brought to a halt by the end of 1980, notwithstanding a strong rise in the deficit on current account and a minor net outflow of government capital.

2. Recent balance of payments developments

a. The current account

The trend toward a deterioration of the balance on current account over the preceding six years was interrupted in 1979/80. The deficit fell to $A 1.6 billion (SDR 1.4 billion) or about 1 1/2 per cent of GDP from $A 3.2 billion (SDR 2.9 billion) or some 3 per cent of GDP in the previous fiscal year (Tables 24-26 and Charts 14 and 16). The strengthening of the current account in 1979/80 chiefly stemmed from favorable developments in overseas trade, while the deficit on invisibles continued to increase. Owing to a marked decline in the trade surplus, on a seasonally adjusted basis the current account deficit rose in the first half of 1980/81 to $A 2.4 billion (SDR 2.1 billion) or 3 1/2 per cent of GDP, compared with a level of some $A 0.8 billion (SDR 0.7 billion), equivalent to about 1 1/2 per cent of GDP in the preceding two half years. Preliminary data for the first nine months of 1980/81 show a deficit on current account of about $A 3.7 billion, compared with one of $A 1.1 billion a year earlier.

(1) Foreign trade

The trade surplus (balance of payments basis) which tended to decline during the past three fiscal years, improved by more than $A 2 billion to reach $A 2.8 billion in 1979/80 (Table 24). This strengthening was attributable to the relatively subdued cyclical position of Australia compared with partner countries; to the restoration of international competitiveness, which contributed to recent gains in market shares; as well as to factors affecting individual commodities and markets (Tables 26-31 and Chart 20). For the nine months to March 1981, preliminary data show a marked deterioration of the trade balance to a deficit of some $A 0.2 billion from a surplus of about $A 2 billion a year earlier. The turnaround mainly stemmed from adverse developments in export markets, poor crops, and other special factors affecting exports and imports, as well as from a worsening of the terms of trade.

In 1979/80 the growth in receipts from merchandise exports 1/ almost doubled to a rate of 32 per cent, reflecting an increase in volumes by about 15.5 per cent and in unit values by some 14 per cent. The pickup in export earnings was partly the effect of fortuitous circumstances with respect to certain commodities. As shown in Tables 27 and 29-31, agricultural exports recorded a particularly favorable performance. There was a strong growth in shipments of wheat through the first half of the fiscal year facilitated by two successive good crops. Moreover, exporters of rural products benefited from the fact that the balance between world demand and supply as to many farm products (including grains, sugar, wool, and beef) led to substantial gains in prices (Charts 18 and 19). It was against this background that trade in food products accounted for most of the improvement in the trade balance in 1979/80 (Table 30). Export earnings on minerals, metals, and coal were favorably affected by a pickup in coal shipments in the early part of the fiscal year and the upsurge in commodity prices on international markets toward the end of 1979 and the beginning of 1980, fueled in part by speculative forces.

The continued notable increase in exports of manufactures can be explained in part by the substantial improvement in the cost and price competitiveness of the Australian economy in the preceding years. As a result of the devaluation in late 1976 and of subsequent exchange rate developments, the effective rate of the Australian dollar 2/ fell by about 18 per cent

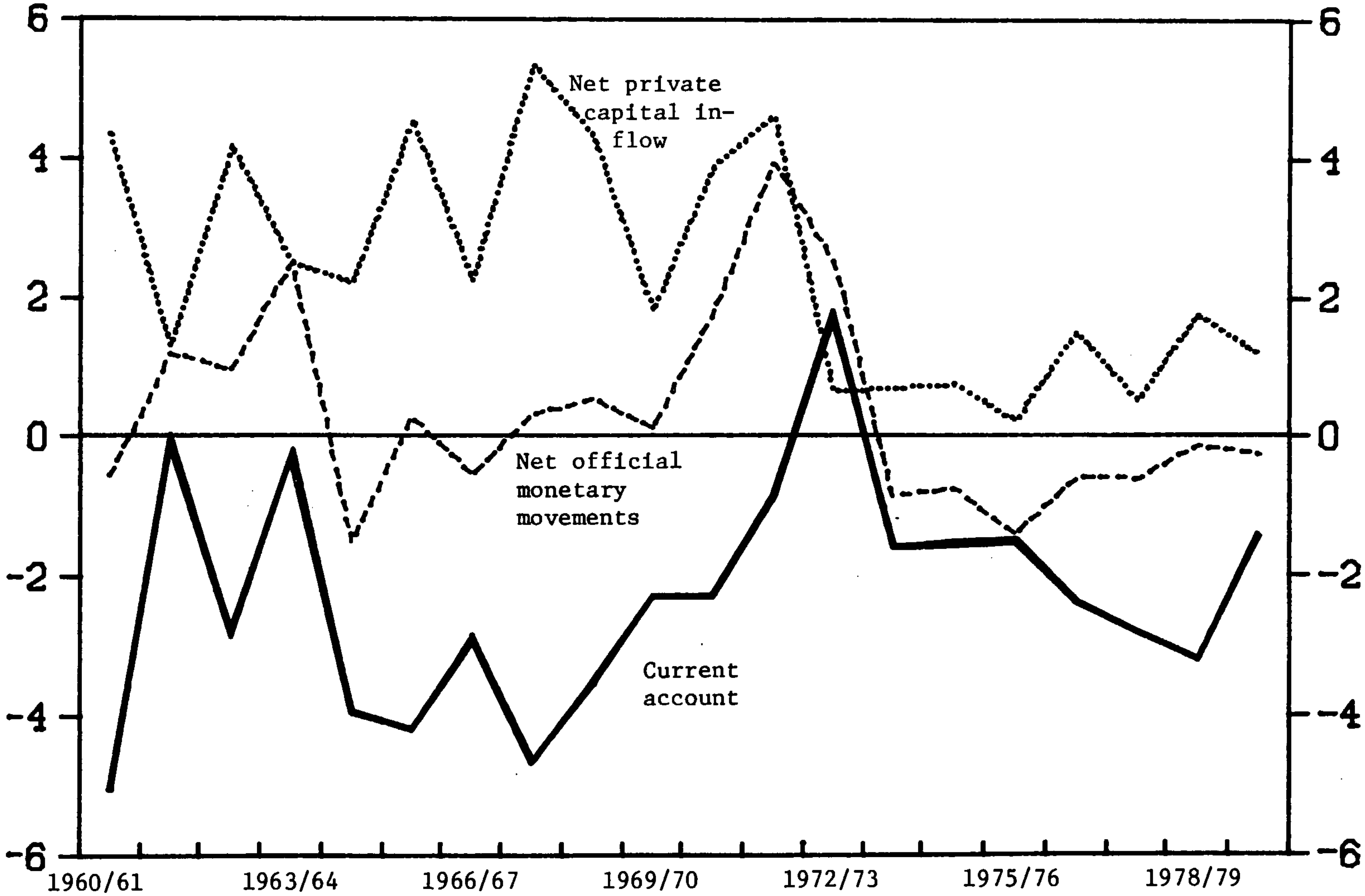
1/ Unless otherwise stated, the trade data referred to below are on a customs basis and deviate somewhat from those on a balance of payments basis, owing to differences in coverage, timing, and valuation.

2/ Calculations based on weights derived from the Fund's Multilateral Exchange Rate Model (MERM).

AUSTRALIA

BALANCE OF PAYMENTS

(As Per Cent Of GDP)

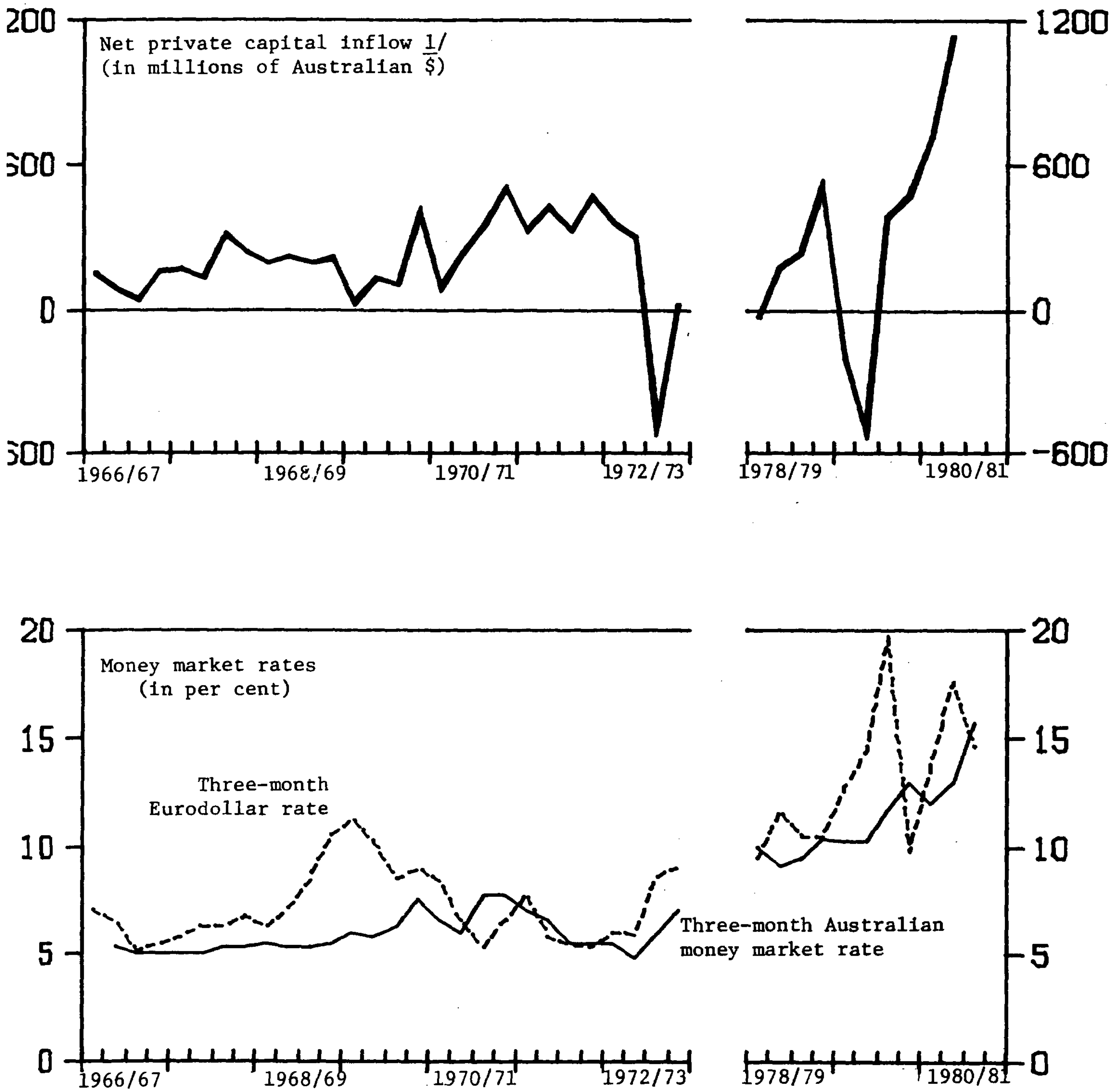


Sources: Australian Bureau of Statistics, Balance of Payments; Reserve Bank of Australia, Statistical Bulletin; International Monetary Fund, International Financial Statistics; and data supplied by the Australian authorities.

CHART 15

AUSTRALIA

PRIVATE CAPITAL FLOWS AND INTEREST RATES



Sources: Australian Bureau of Statistics, Balance of Payments; Morgan Guaranty Trust, World Financial Markets.

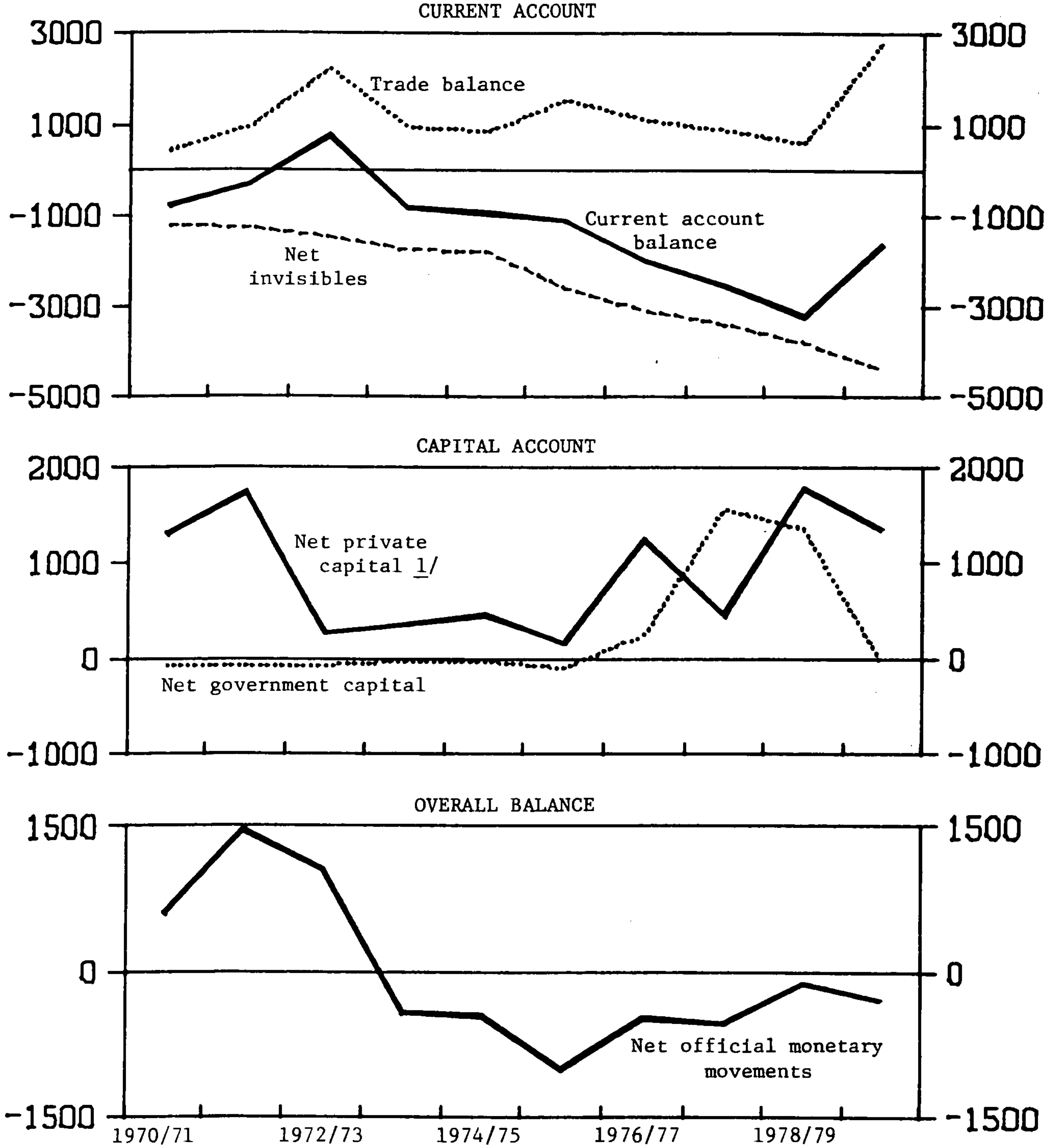
1/ Net flow to private non-monetary sector excluding undistributed income of foreign companies.

CHART 18

AUSTRALIA

BALANCE OF PAYMENTS

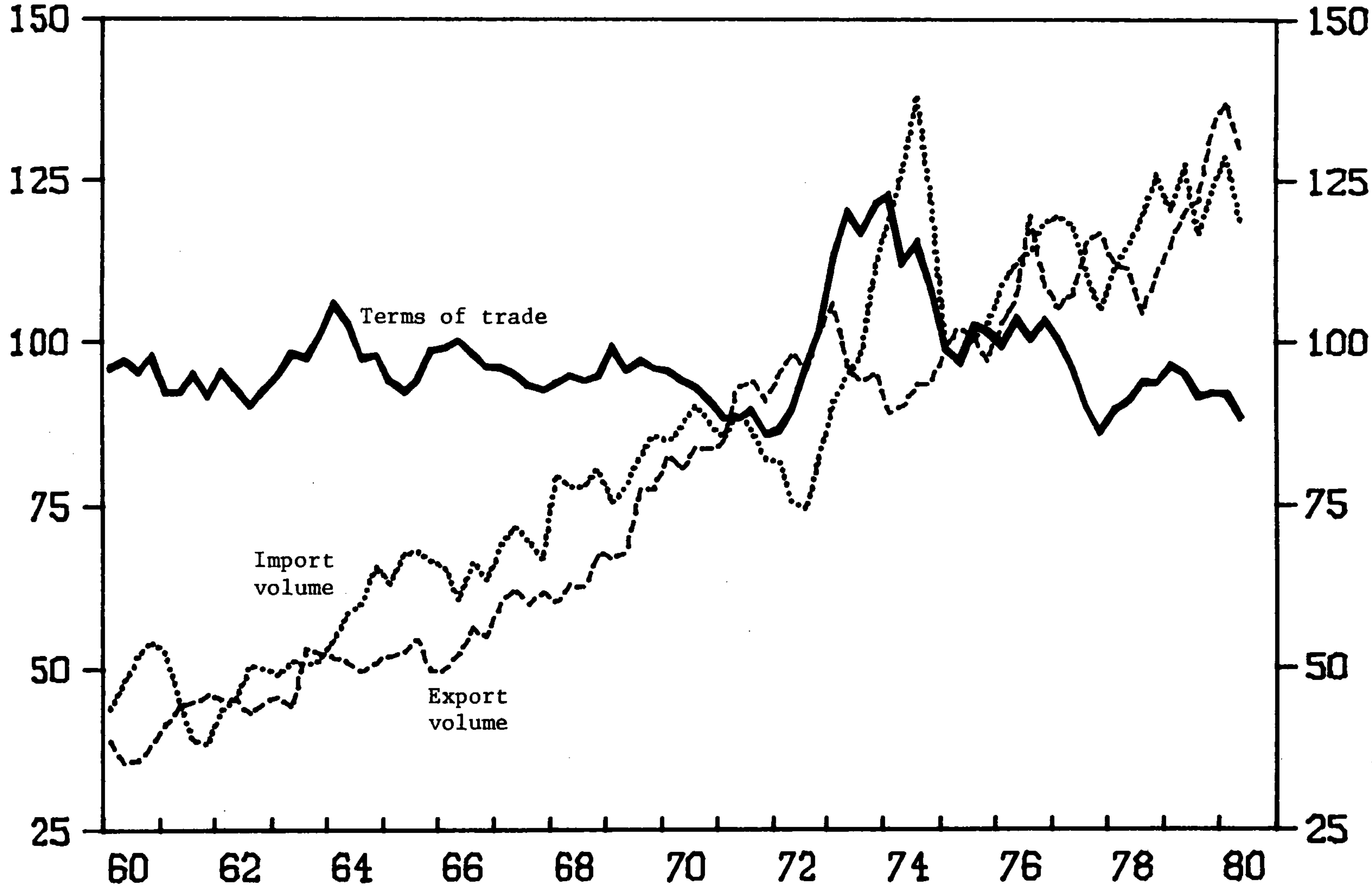
(In Millions Of Australian Dollars)



Sources: Australian Bureau of Statistics, Balance of Payments; Reserve Bank of Australia, Statistical Bulletin; and data provided by the Australian authorities.

1/ Including balancing item.

AUSTRALIA
FOREIGN TRADE INDICES
(Index: 1975=100; Seasonally Adjusted)



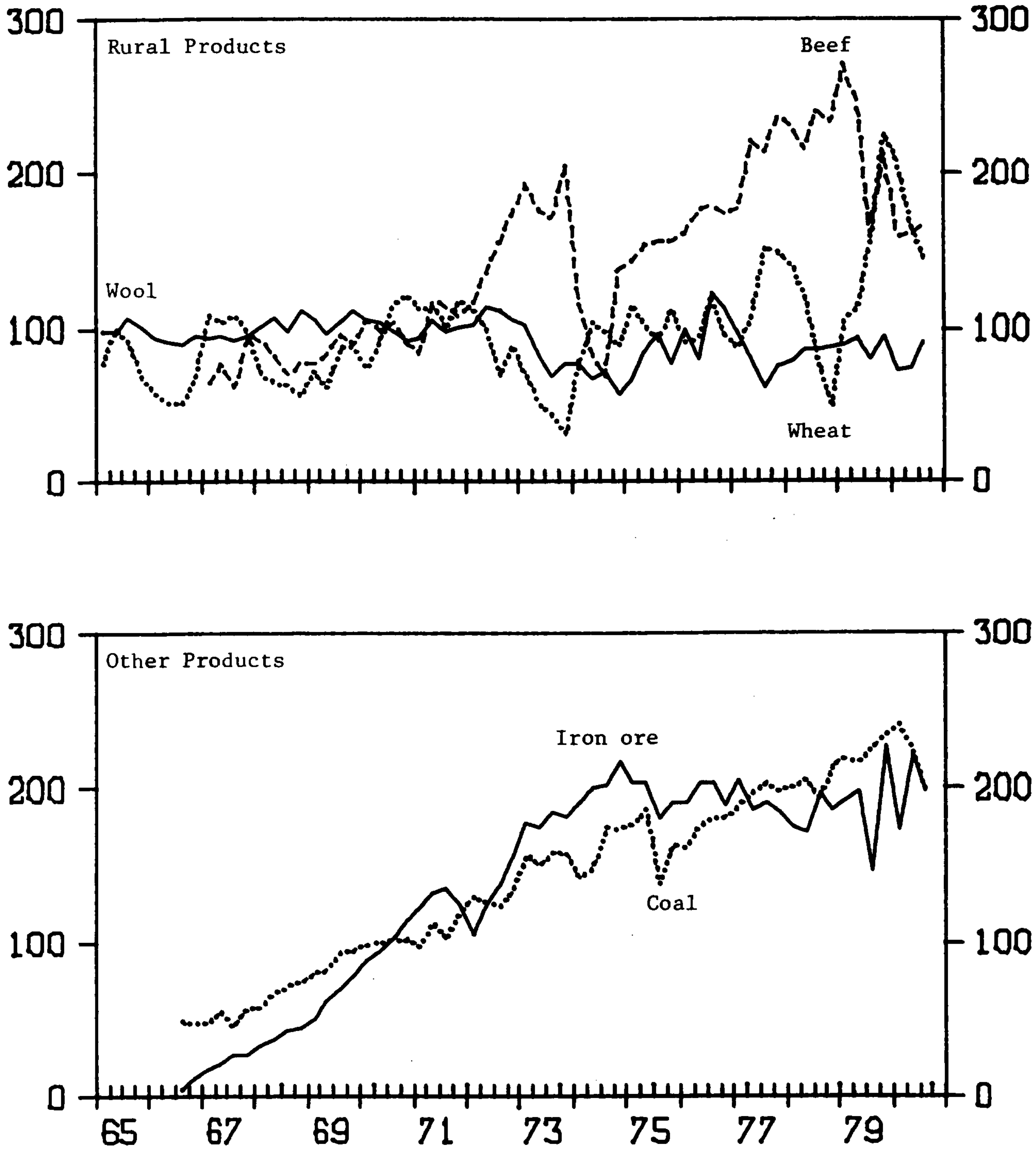
Source: International Monetary Fund, International Financial Statistics.

CHART 18

AUSTRALIA

DEVELOPMENTS OF SELECTED COMMODITY EXPORTS

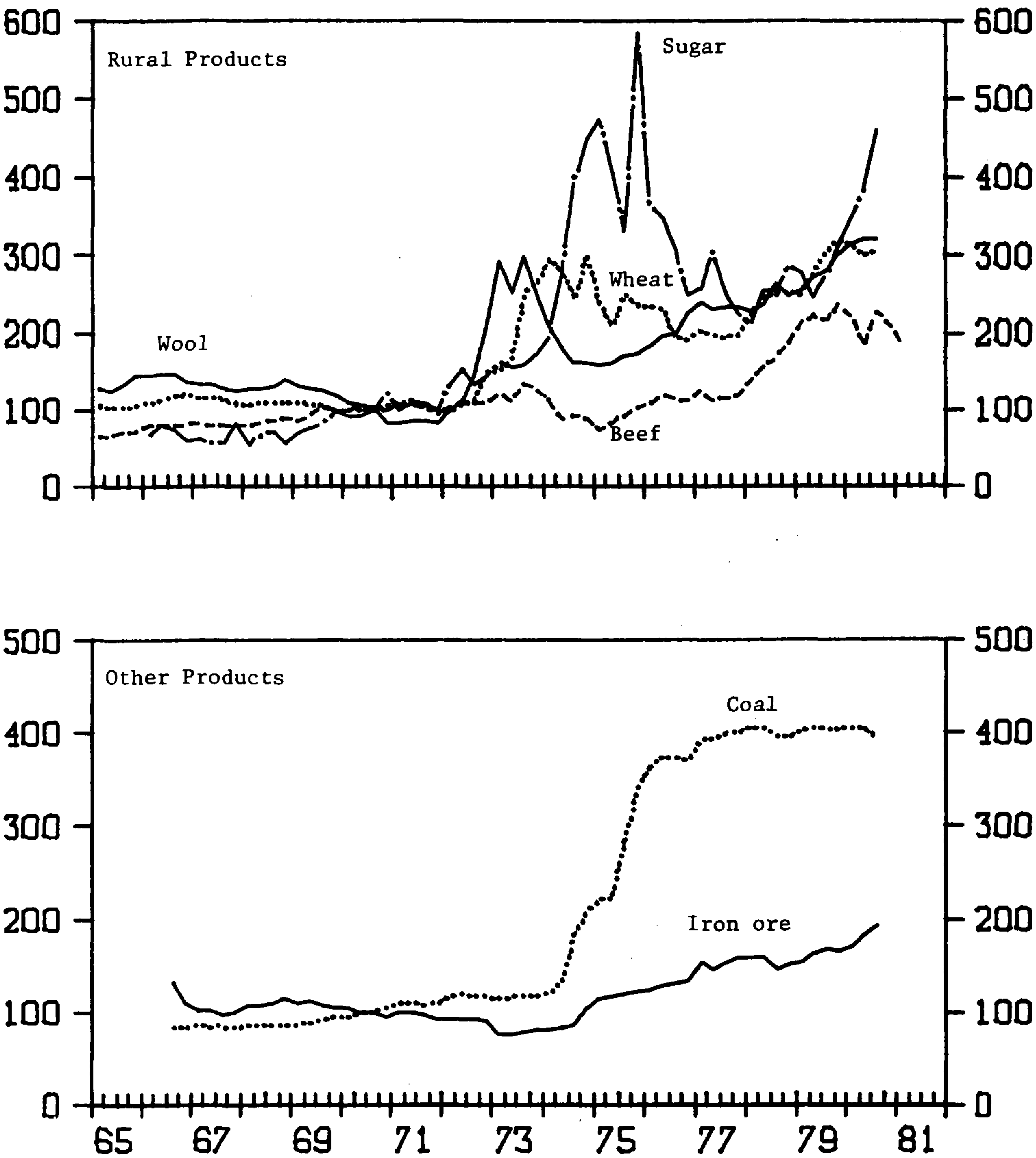
(Index: 1970=100; Seasonally Adjusted, In Volume Terms)



Source: International Monetary Fund, International Financial Statistics.

CHART 19

AUSTRALIA
SELECTED COMMODITY EXPORT PRICES
(Index: 1970=100; Seasonally Adjusted)



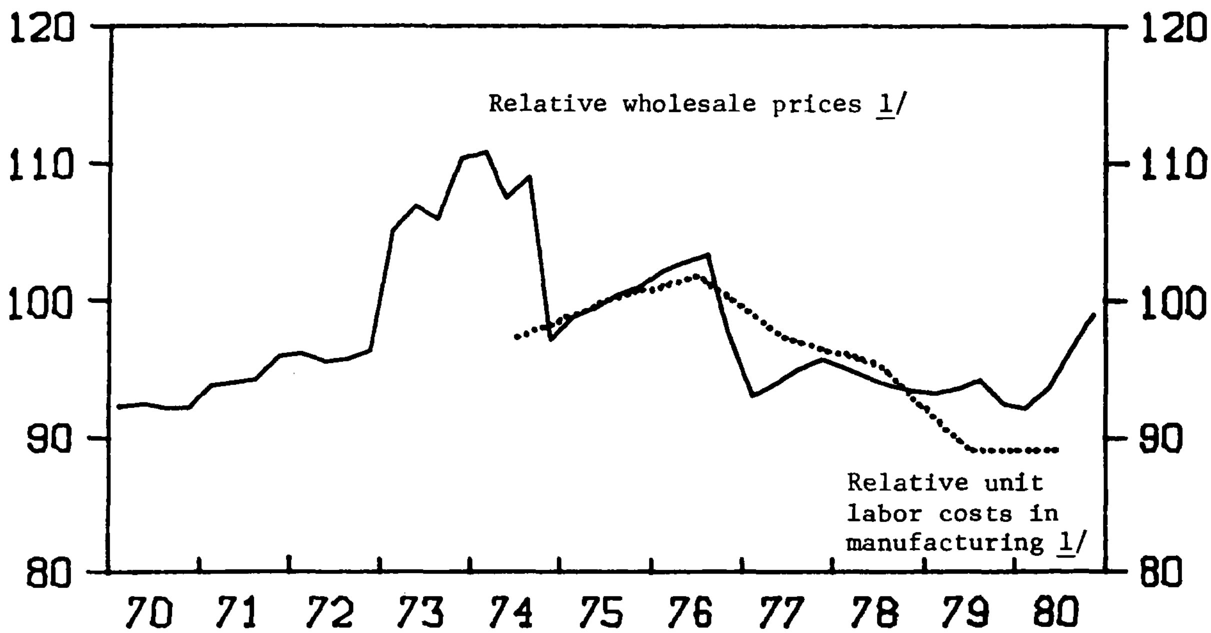
Source: International Monetary Fund, International Financial Statistics.

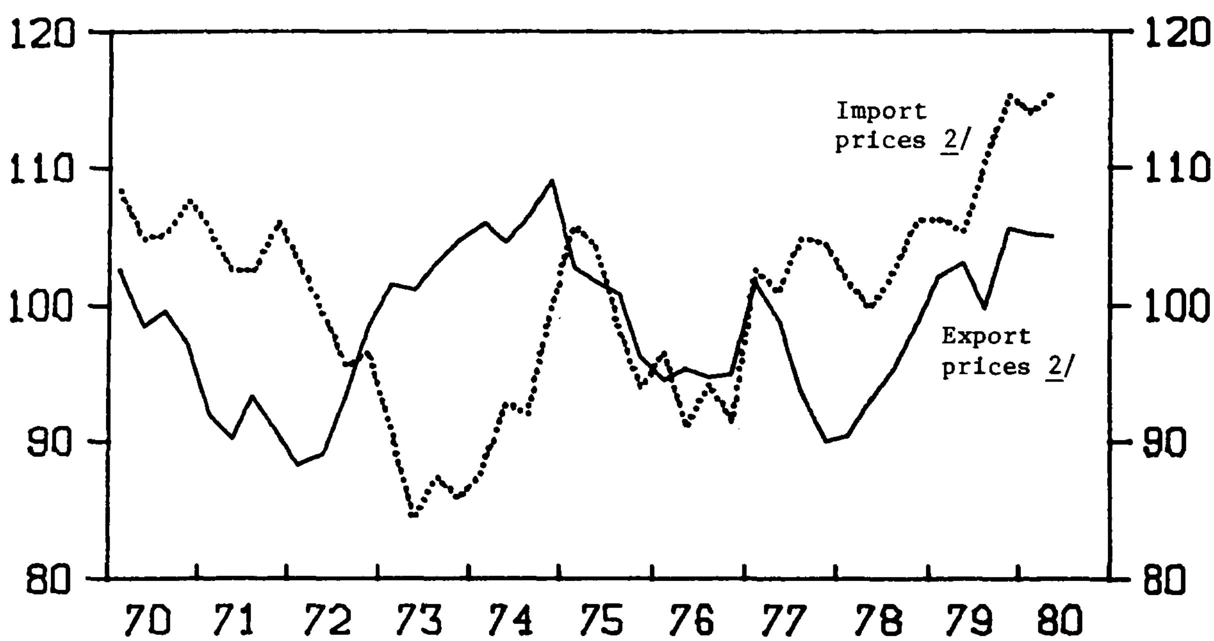
CHART 20

AUSTRALIA

RELATIVE COSTS AND PRICES

(Index: 1975=100)





Sources: International Monetary Fund, International Financial Statistics; International Monetary Fund, Data Fund.

1/ Relative to main trading partners and competitors, adjusted for exchange rate changes.
2/ Relative to domestic prices (GDP deflator).

between the third quarter of the latter year and the last quarter of 1979. This, combined with the development in cost and price increases in Australia relative to major trading partners and competitors, led to a real effective depreciation, adjusted for relative consumer prices, of some 16.5 per cent over the above period, while the effective rate adjusted for relative wholesale prices in manufacturing fell by about 11 per cent. In 1979, on an annual average, the real effective rate adjusted for relative unit labor costs in manufacturing was about 12.5 per cent lower than in 1976 (Charts 20 and 21).

The commodity composition of exports (Tables 29 and 30) reflects Australia's position as an exporter of primary products. However, while the proportion of agricultural and pastoral exports has declined from 62 per cent of the total in 1967/68 to 46 per cent in 1979/80, exports of both manufactures and minerals have grown in relative importance. Manufactured exports accounted for 24 per cent of total exports in 1979/80 compared with 17 per cent in 1967/68, while the corresponding shares for minerals were 24 per cent and 15 per cent, respectively. The contribution of major commodity categories to the development of the trade balance, primarily reflecting the basic structure of exports, is shown in Table 30.

Australia's major export markets are Japan (which is the principal market for mineral and agricultural exports), Europe, and the United States (Tables 32-34). New Zealand, ASEAN countries, 1/ and Papua New Guinea are the important markets for manufactured goods exports. In 1979/80 there was a particularly rapid expansion of exports to centrally planned economies, to oil producing and non-oil producing developing countries, and to some EC countries, with Australian exports to most of these areas comparing favorably with those of industrial countries as a whole. This development is likely to reflect in part the restored competitiveness of Australian suppliers, but the special factors boosting export earnings in individual commodity markets also played a role (Tables 33-35 and Charts 18 and 19). The sharp pickup in exports to the centrally planned economies was attributable to the fact that the value of wheat shipments to China and the U.S.S.R. surged from $A 150 million in 1978/79 to $A 900 million in 1979/80.

According to preliminary figures on a balance of payments basis for the nine months to March 1981, the value of exports rose by 1.5 per cent as against a year before. The weakening of exports reflected in part the sluggishness of foreign demand (Table 28), but also special factors. Deliveries of rural products were adversely affected by widespread drought conditions in 1980, and shipments of wheat and coal were hampered by strikes. Moreover, there was a decline in metal prices, albeit grain and sugar prices were firmer.

With a decline in the volume of merchandise imports of about 1 per cent and an acceleration of import prices to some 19 per cent, the value of imports increased by 17.5 per cent in 1979/80. The moderation of import growth relative to that of GDP since 1976 may have partly reflected the dampening effect of the real effective depreciation of the Australian dollar (Table 28 and Chart 20). The reduction in the volume of imports in 1979/80 was mainly

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1/ Members of the Association of South-East Asian Nations (ASEAN) include Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

attributable to developments in the first half of the fiscal year, when imports fell by 3 per cent. The principal factor accounting for the decline was the timing of the investment allowance, which was reduced in July 1979. The measure resulted in a concentration of imports of equipment in 1978 and early 1979, followed by a marked weakening in the subsequent period (Table 31). Although the quantity of fuel imports, representing almost exclusively petroleum and petroleum products, grew only moderately in 1979/80, owing to the increase in oil prices, the value of such imports rose by 85 per cent and the corresponding component of the trade balance showed a negative swing of some $A 0.7 billion (Tables 30 and 31).

The commodity distribution of imports is dominated by intermediate inputs and capital equipment (Table 30), partly because of the high levels of protection accorded to domestic production of consumption goods. The EC, the United States, and Japan remain the most important sources of imports for Australia (Tables 32 and 33). The evolution of the area distribution of imports over the last decade is presented in Table 36. It shows the declining share of imports from major developed countries, the rise of the Middle East, ASEAN and other Asia, and the fairly constant shares for the Indian subcontinent, the Pacific, and Africa. In the case of the Middle East and ASEAN, the growth in imports is explained mainly by petroleum. Crude petroleum is imported from the Middle East and Indonesia, while Singapore is a major supplier of refined petroleum products. Of the nonpetroleum exporters, Taiwan, Korea, and Hong Kong show a strong growth in import shares. In the 1979/80 financial year, the strong growth in imports from Indonesia, from Middle East countries, as well as from Singapore, reflected oil price rises; imports from China also increased significantly but continued to constitute only a small share of total imports.

On preliminary data, the value of imports on a balance of payments basis rose in the first nine months of 1980/81 by about 20 per cent as against the same period of the preceding fiscal year. Increases occurred in most commodity classes, but fuel imports, entirely owing to higher prices, and imports of capital goods, associated with the pickup in investment in resource developments, stood out. Moreover, in March 1981 imports were boosted by the delivery of a Navy frigate and of other ships.

Australia's terms of trade deteriorated steadily in the 1973/74-1977/78 period (Chart 17) as world prices of rural primary products collapsed. There was some recovery in 1978/79, although the terms of trade remained well below both the peaks registered in 1972/73 and the average of the past 20 years. Mainly because of the rise of fuel prices by about 80 per cent the terms of trade deteriorated again in 1979/80 by almost 4 per cent, notwithstanding the favorable effect of commodity prices on the development of export prices (Table 28 and Charts 17 and 19).

(2) The invisibles account

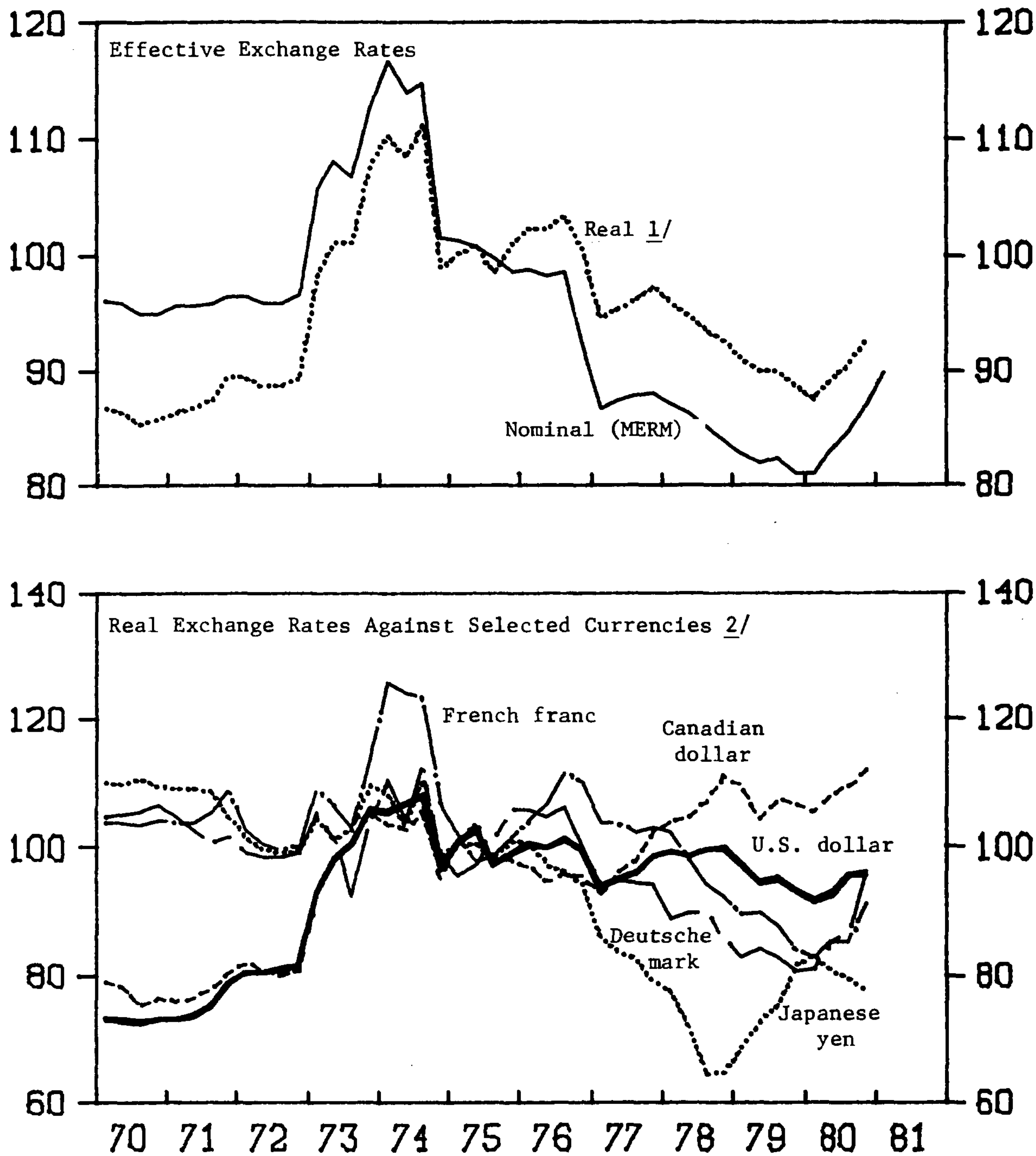
A feature of Australia's balance of payments has been the steady net invisibles deficit as a percentage of GDP, which has been seldom out of the 3.4-3.7 per cent range in the last ten years. Australia's remote geographic position (as well as the large proportion of trade carried by foreign

CHART 21

AUSTRALIA

EXCHANGE RATES OF THE AUSTRALIAN DOLLAR AGAINST SELECTED CURRENCIES

(Index: 1975=100)



Source: International Monetary Fund, International Financial Statistics.

1/ Effective rate (MERM) adjusted for relative consumer prices vis-à-vis main trading partners and competitors.

2/ Exchange rates adjusted for relative consumer prices.

shipping lines) results in high transportation charges. The tourist balance has been in deficit, although the Australian tourist industry has registered rapid growth in earnings over the past few years. A major debit item on the invisibles account has been net property income, a large portion of which consists of undistributed income of foreign-owned enterprises. A contributing factor to the rapid growth of property income debits has been the higher cost of government borrowing over the three years through 1978/79. This item rose to $A 374 million in 1979/80 from $A 297 million in 1978/79. The structural net outflow of unrequited transfers in the balance of payments is attributable to Australia's aid program to developing countries.

The deficit on the invisibles account increased by $A 0.6 billion to $A 4.4 billion in 1979/80 (Table 26). The debit items showing the most rapid growth were transportation, property income payable overseas on direct investment, and debt service charges; the debt service ratio was the equivalent of about half of one month's exports of goods and services. In the first nine months of 1980/81, the invisibles deficit increased to about $A 3.5 billion from $A 3.1 billion a year earlier.

b. The capital account

The overall net inflow of capital fell from $A 3.1 billion in 1978/79 to $A 1.3 billion in 1979/80. The sharp decline was the result of both a reduction in private capital imports in the half year to December 1979 and a scaling down of government borrowing abroad. Preliminary data indicate that in the first nine months of 1980/81 there was a rise in net apparent capital imports to almost $A 4 billion from $A 0.5 billion a year before, principally accounted for by private capital transactions.

(1) Private capital flows

Net private capital inflows (including the balancing item) fell from about $A 1.8 billion in 1978/79 to $A 1.3 billion in 1979/80. The account weakened considerably in the first half of 1979/80, against the background of sharp increases in interest rates in major overseas financial markets relative to those in Australia (Table 37 and Charts 15, 22, and 23). Moreover, in line with record wheat exports, there was a sizable increase in net credit extensions abroad by marketing authorities. In order to discourage a notable shift in trade financing from overseas to domestic sources, the Reserve Bank maintained the discount on the forward exchange rate of the U.S. dollar broadly in line with the rising interest rate differential. Private long-term capital imports were augmented considerably in the second half of the fiscal year in the light of the growing attractiveness of Australia's natural resources in an uncertain world economic climate and of temporarily falling interest rates in overseas capital markets in the latter part of the period.

As Australian equities continued to attract foreign investors and overseas borrowing related to several large resource development projects began, the balance on private capital in the first half of 1980/81 improved further, despite significantly higher interest rates overseas. Preliminary data for the March quarter of 1981 show that, with a movement of the interest rate differential toward favoring overseas financing, net private capital inflows strengthened again. During the first nine months of 1980/81, they amounted to some $A 3.8 billion, compared with about $A 0.5 billion in the same period of the previous fiscal year.

(2) Government borrowing

The bulk of government overseas borrowing from 1977 to 1979 was intended to maintain foreign reserves at a satisfactory level. Accordingly, the marked improvement in the current account in the first half of 1979/80 and the strengthening of the balance on private capital in the subsequent period enabled the Commonwealth Government to wind down significantly its overseas borrowing program (Tables 24 and 37, and Chart 16). During 1979/80 gross foreign borrowing by the Government totaled $A 0.5 billion, compared with $A 1.6 billion in the previous fiscal year. Official loans in 1979/80 were raised in Japan and in Germany. Net borrowing of about $A 0.2 billion was more than offset by other government capital transactions, principally related to prepayments on deliveries of defense equipment. In the first half of 1980/81, only one overseas loan was raised (in deutsche mark equivalent to $A 94 million) to refinance an earlier borrowing, and, after taking account of redemptions, the government capital account was substantially in balance (Table 37). A minor net inflow in the March quarter of 1981 was connected with the delivery of a Navy frigate on which prepayments had been made earlier by the Government.

Since the end of 1975, Australia has borrowed abroad about $A 4 1/2 billion. Most of this amount was raised during the period of expanded official overseas borrowings between September 1977 and early 1980. Official overseas debt still amounts to only 4.2 per cent of GDP, compared with 5 per cent ten years ago and over 10 per cent 20 years ago. About $A 2.7 billion will mature in the five years to 1985/86, peaking in 1983/84 when about $A 0.7 billion will mature.

3. Aid to developing countries

In 1979/80 Australian Official Development Assistance (ODA) on an encashment basis amounted to $A 500 million, equivalent to 0.44 per cent of GDP, compared with a level of $A 460 million or 0.45 per cent of GDP in 1978/79. The most notable increase was in multilateral aid, which accounted for 17.9 per cent of ODA in 1979/80, as against 15 per cent in the preceding fiscal year. For 1980/81 official aid is estimatd at $A 548 million, an increase of 9.5 per cent over the preceding fiscal year, with multilateral aid rising by 14.3 per cent to 18.6 per cent of ODA (Table 38). A major portion of bilateral aid flows to Papua New Guinea, with most of the balance being directed toward other South Pacific and Asian countries. Practically all Australian official aid is provided as grants and nearly three quarters of it is untied.

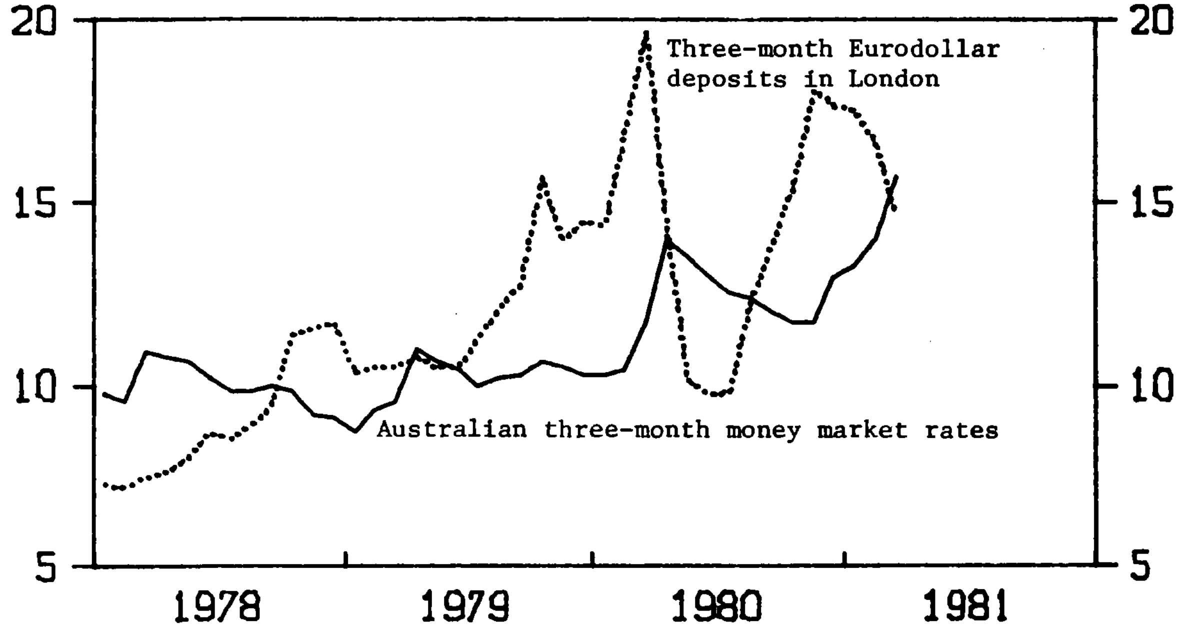
On a deposit basis (OECD-DAC concept), overall development aid amounted to some $A 778 million in 1979. Of this, ODA accounted for $A 554 million, equivalent to 0.52 per cent of GDP, compared with an OECD average of 0.35 per cent the same year.

CHART 22

AUSTRALIA

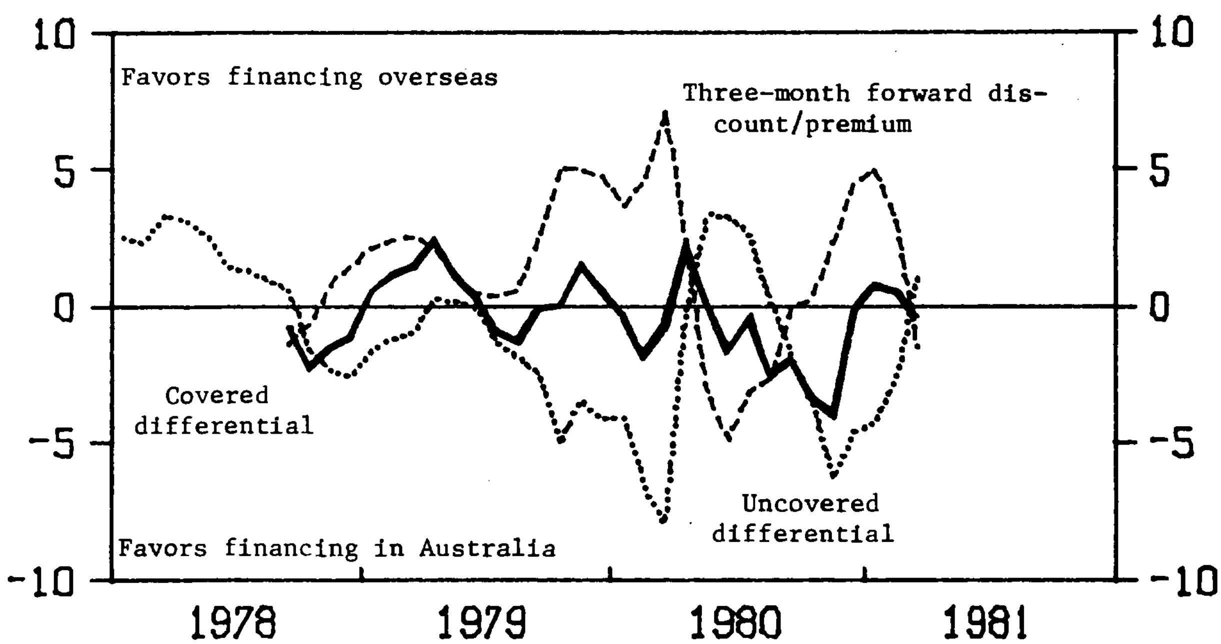
SHORT-TERM INTEREST RATES

(In Per Cent Per Annum, End Of Period)



SHORT-TERM INTEREST RATE DIFFERENTIAL

(In Per Cent Per Annum, End Of Period)

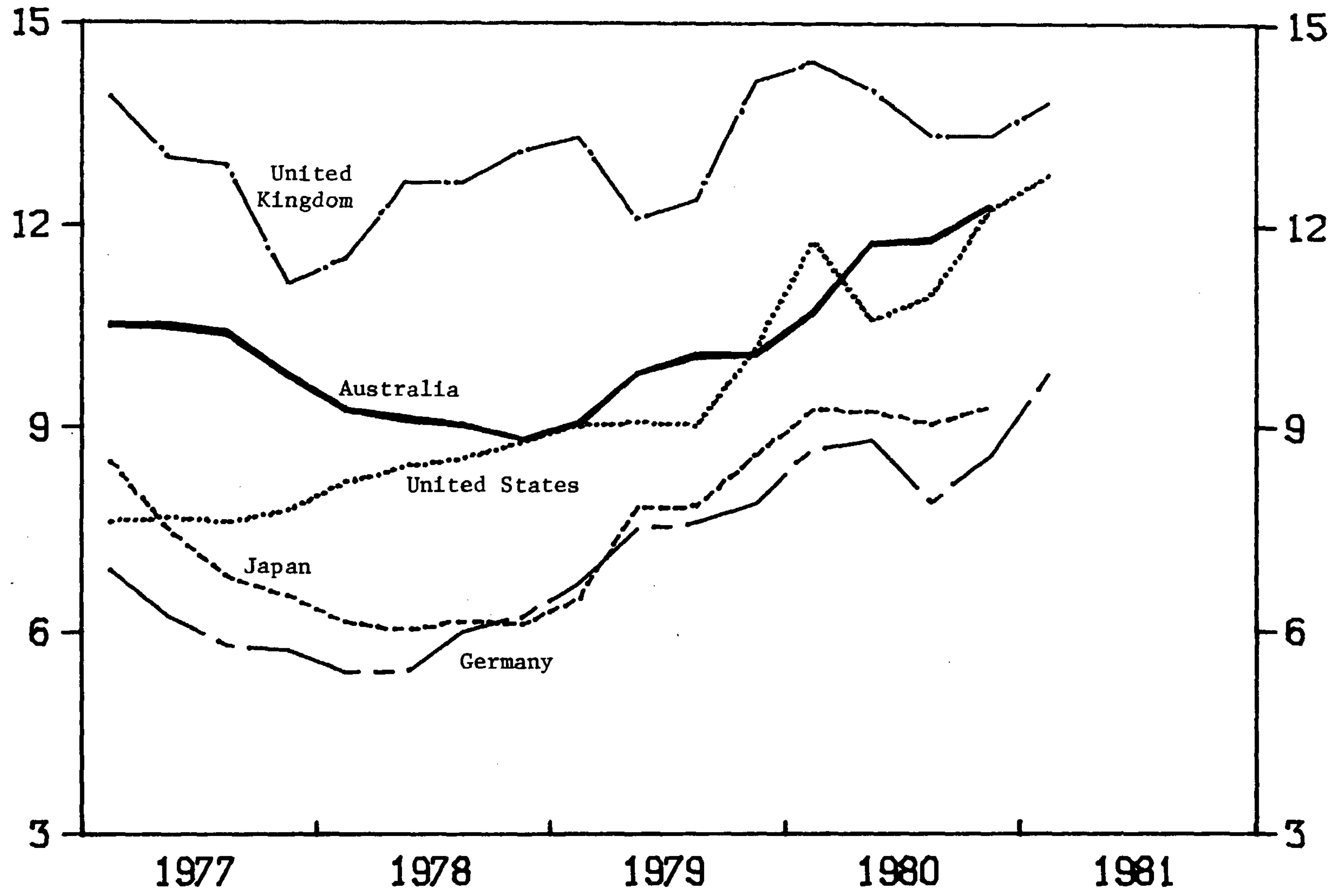


Sources: International Monetary Fund, Data Fund; Morgan Guaranty Trust, World Financial Markets; and data supplied by the Australian authorities.

AUSTRALIA

LONG-TERM INTEREST RATES (1) 1/

(In Per Cent Per Annum)



Source: International Monetary Fund, International Financial Statistics.

1/ Government bond yields.

4. International reserves

At the end of June 1980, Australia's official foreign reserves amounted to $A 5,681 million. The entire increase of $A 1,796 million over 1979/80 was attributable to the monthly adjustment in the value of gold and other reserve holdings, which more than offset the reduction of reserves due to balance of payments transactions that occurred during the first half of the fiscal year (Table 39). Over the nine months to March 1981, official reserves fell moderately, owing to the fact that with the decline in the gold price and the appreciation of the Australian dollar, the valuation adjustments item became negative, while balance of payments transactions boosted reserves by about $A 300 million. At the end of March 1981, official reserves amounted to $A 5,153 million, equivalent to three months' merchandise imports. With gold valued at SDR 35 per fine troy ounce, international reserves totaled SDR 1,959 million, of which gold accounted for 14 per cent and foreign exchange for 69 per cent (Table 39). Australia was allocated SDR 82.2 million in January 1980 and SDR 80.6 million in January 1981.

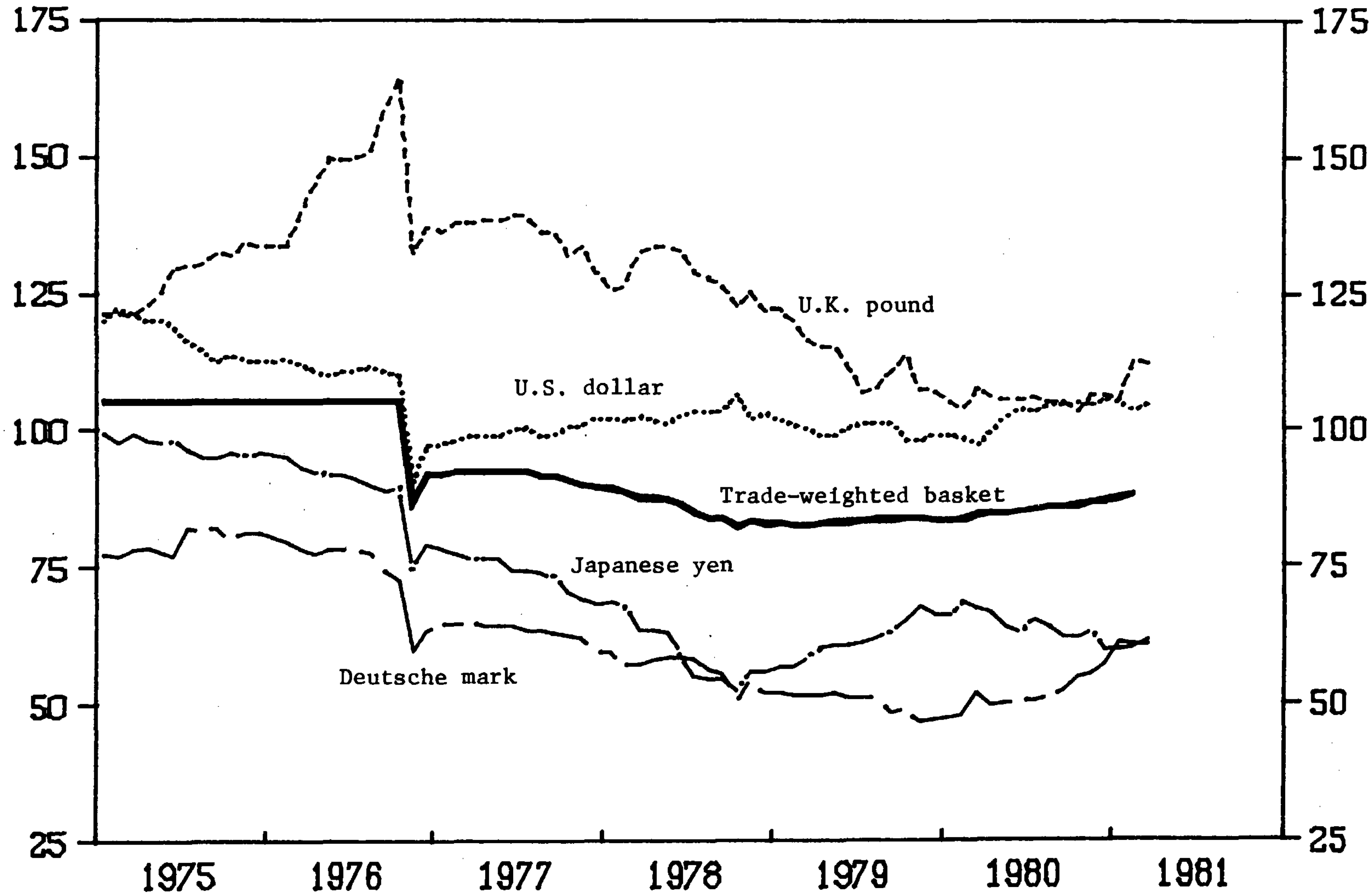
5. Developments in the exchange rate

Given the strengthening of the balance of payments in 1980 and the early part of 1981, the effective depreciation of the Australian dollar through the end of 1979 has been followed by a gradual rise in the effective rate (Table 40 and Charts 21 and 24). Between December 1979 and March 1981, the value of the Australian dollar in terms of the official trade-weighted basket of currencies rose by close to 7 per cent and of the MERM effective rate by 12 per cent. The discrepancy between the appreciation measured by the two effective rates principally stems from the fact that the Australian dollar appreciated strongly vis-à-vis the EMS currencies, whose MERM weights are substantially higher than those based on bilateral trade relationships, while it depreciated against the yen, whose MERM weight is considerably lower than its bilateral trade weight. 1/ Over the above period, the exchange rate of the Australian dollar rose by about 6 per cent against the U.S. dollar and by some 5 per cent against the pound sterling. However, the appreciation was about 28 per cent vis-à-vis the deutsche mark and of a similar order of magnitude toward most other EMS currencies, while there was a depreciation of some 7 per cent vis-à-vis the yen.

1/ In the computation of effective exchange rates based on the Multilateral Exchange Rate Model (MERM) of the Fund, the weights represent the effect, calculated from the MERM, on the home country's trade balance of a change of 1 per cent in the exchange rate of each foreign currency in terms of the home currency. In the official index of the value of the Australian dollar vis-à-vis a basket of currencies, the weights reflect the individual countries' total trade, i.e., exports plus imports, with Australia. In the current calculations of the MERM effective rate, the aggregate weight of the EMS currencies with respect to the Australian dollar is about 28.5 per cent and that of the yen 10.5 per cent of total weights. On 1979/80 trade flows, the bilateral trade weights vis-à-vis Australia, were 11 per cent for the EMS countries and about 21.5 per cent for Japan.

The real effective appreciation of the Australian dollar between the last quarters of 1979 and 1980 amounted to 4.5 per cent, adjusted for relative consumer prices. Adjusted for relative unit labor costs in manufacturing, the real effective rate on an annual average is estimated to have been roughly unchanged in 1980 from a year earlier. The development of real exchange rates against selected currencies is shown in Chart 21.

EXCHANGE RATE INDICES
(Units Of Foreign Currency Per Australian Dollar
At End Of Month; May 1970=100)



Sources: International Monetary Fund, International Financial Statistics; Reserve Bank of Australia, Statistical Bulletin.

Table 24. Australia: Balance of Payments--Summary

	1975/76	1976/77	1977/78	1978/79	1979/80	1979/80	1980/81
						July-February	
	(In millions of Australian dollars)						
Exports, f.o.b.	9,448	11,447	12,027	14,075	18,634	12,220	12,533
Imports, f.o.b.	-7,924	-10,345	-11,165	-13,493	-15,829	-10,482	-12,365
Trade balance	1,524	1,102	862	582	2,805	1,739	168
Net invisibles	-2,611	-3,088	-3,405	-3,828	-4,413	-2,809	3,098
Balance on current account	-1,087	-1,986	-2,543	-3,247	-1,608	-1,071	-2,930
Government capital, net	-93	249	1,564	1,354	-41	188	-2
Identified private capital, net 1/	669	1,565	858	1,880	1,907)	466	3,181
Balancing item	-508	-318	-421	-111	-560)		
Net apparent capital flow	68	1,496	2,001	3,123	1,307	654	3,178
Net official monetary movements	-1,019	-491	-542	-124	-301	-416	248
	(In per cent of GDP)						
Trade balance	2.1	1.3	1.0	0.6	2.5	2.5 2/	0.1 2/
Net invisibles	-3.6	-3.7	-3.8	-3.8	-3.9	-3.6 2/	-3.5 2/
Balance on current account	-1.5	-2.4	-2.8	-3.2	-1.4	-1.1 2/	-3.4 2/

Sources: Australian Bureau of Statistics, Balance of Payments; Reserve Bank of Australia, Statistical Bulletin; and data provided by the Australian authorities.

1/ Includes nonofficial monetary sector transaction.
2/ First half of fiscal year.

Table 25. Australia: Balance of Payments--Summary

(In millions of SDRs)

	1975/76	1976/77	1977/78	1978/79	1979/80
Exports, f.o.b.	10,174	11,412	11,310	12,478	15,959
Imports, f.o.b.	-8,533	-10,313	-10,500	-11,962	-13,557
Trade balance	1,641	1,099	810	516	2,402
Net invisibles	-2,812	-3,079	-3,202	-3,394	-3,780
Balance on current account	-1,171	-1,980	-2,392	-2,879	-1,378
Government capital	-100	248	1,471	1,200	-35
Identified private capital	720	1,560	807	1,667	1,633
Balancing item	-547	-317	-396	-98	-480
Net apparent capital flow	73	1,491	1,882	2,769	1,118
Net official monetary movements	-1,098	-489	-510	-110	-260

Sources: Australian Bureau of Statistics, Balance of Payments; IMF, International Financial Statistics; and data provided by the Australian authorities.

Table 26. Australia: Current Account

(In millions of Australian dollars)

	1976/77	1977/78	1978/79	1979/80	1979/80 Sept. qtr.	1979/80 Dec. qtr.	1979/80 Mar. qtr.	1979/80 June qtr.	1980/81 Sept. qtr.	1980/81 Dec. qtr.
Exports, f.o.b.	11,447	12,027	14,075	18,634	4,094	4,886	4,806	4,848	4,587	4,838
Imports, f.o.b.	-10,345	-11,165	-13,493	-15,829	-3,582	-3,961	-4,235	-4,051	-4,644	-4,724
Trade balance	1,102	862	582	2,805	512	925	571	797	-57	113
Transportation, net	-748	-803	-939	-1,151	-274	-250	-309	-319	-398	-273
Travel, net	-232	-206	-219	-54	-23	26	18	-74	-15	42
Property income, net	-1,416	-1,605	-1,866	-2,601	-611	-683	-591	-717	-602	-749
Government services, net	-101	-130	-121	-144	-23	-31	-45	-45	-38	-39
Other services, net	-161	-245	-139	-138	-23	-23	-40	-51	-42	-42
Total services, net	-2,658	-2,989	-3,284	-4,088	-931	-961	-967	-1,206	-1,152	-1,061
Transfers, credits	276	402	412	558	126	135	163	164	170	162
Transfers, debits	-704	-819	-915	-913	-193	-233	-224	-263	-235	-264
Of which: Government	-414	-452	-517	-566	111	-140	-145	-170	-129	-141
Transfers, net	-428	-417	-503	-325	-67	-98	-61	-99	-65	-84
Invisibles, net	-3,088	-3,405	-3,828	-4,413	-1,023	-1,058	-1,029	-1,304	-1,160	-1,144
Balance on current account	-1,986	-2,543	-3,247	-1,608	-511	-133	-457	-507	-1,217	-1,031

Sources: Australian Bureau of Statistics, Balance of Payments; and Reserve Bank of Australia, Statistical Bulletin.

Table 27. Australia: Merchandise Exports and Imports at Current and Constant Prices

(Percentage change from preceding period, seasonally adjusted)

	Exports						Imports	
	At current prices			At 1974/75 prices			At current prices	At 1974/75 prices
	Rural exports	Other exports	Total	Rural exports	Other exports	Total		
1971/72	13.8	11.3	12.5	6.6	11.4	8.8	-3.5	-8.2
1972/73	35.5	19.2	27.2	-8.3	15.6	2.8	3.0	1.9
1973/74	7.1	15.9	11.3	-17.8	1.3	-7.8	48.0	30.6
1974/75	10.3	42.9	26.4	12.8	4.6	8.1	32.1	1.0
1975/76	9.1	10.8	10.0	12.0	-4.4	2.9	2.5	-9.7
1976/77	22.7	21.8	22.2	14.2	6.2	10.0	26.7	11.7
1977/78	-1.9	10.2	4.9	-1.1	3.3	1.1	7.3	-5.8
1978/79	15.3	17.9	16.8	-10.7	10.0	-0.1	23.1	11.4
1979/80 1/	41.1	26.3	32.3	28.2	6.1	15.7	17.5	-1.2
1978/79								
Sept. qtr.	-3.4	2.9	0.3	-12.6	-0.3	5.9	7.4	3.7
Dec. qtr.	12.2	8.0	9.6	3.2	8.4	6.2	9.0	6.3
Mar. qtr.	14.2	8.6	10.8	11.6	3.2	6.6	-0.7	-4.4
June qtr.	11.8	3.8	7.0	7.1	-3.5	1.1	9.8	4.8
1979/80 1/								
Sept. qtr.	3.0	4.3	3.4	3.7	-0.1	1.3	-3.1	-8.2
Dec. qtr.	25.7	8.3	15.7	14.8	5.1	9.6	9.2	6.8
Mar. qtr.	-1.6	12.2	5.9	2.6	7.4	5.0	11.1	4.8
June qtr.	-6.0	-5.3	-5.6	-7.3	-7.4	-7.4	-5.2	-9.2

Source: Australian Bureau of Statistics, Exports and Imports of Merchandise at Constant Prices.

1/ Provisional data.

(Period averages, percentage change from preceding period)

	1976	1977	1978	1979	1980 1/	1979 I	1979 II	1980 I	1980 II 1/
						Seasonally adjusted			
Exports 2/									
Value	17.8	12.0	4.6	32.8	15.9	19.2	16.1	10.3	-4.2
Unit value	7.1	11.0	6.5	17.7	12.1	9.0	6.9	5.8	5.3
Volume	10.0	0.9	-1.8	12.8	3.5	9.4	8.6	4.2	-9.0
Imports 2/									
Value	19.6	20.8	11.7	20.1	19.7	7.7	7.7	11.1	7.6
Unit value	6.8	19.7	7.0	16.1	16.4	6.7	11.0	8.0	4.5
Volume	12.0	0.9	4.4	3.4	2.9	0.9	-3.0	2.8	3.0
Trade balance 2/ ($A million)	1,609	1,000	262	1,914	1,650	599	1,291	1,360	295
Exchange rates									
US$/$A rate	-6.5	-9.5	3.2	-2.3	1.9	-2.8	-0.4	-4.1	4.7
Effective rate (MERM)	-3.0	-9.8	-2.2	-4.3	2.3	-2.5	-1.0	0.4	4.6
Real effective rate 3/	1.9	-4.5	-2.0	-6.8	0.1	...	...	...	...
Export market growth 4/	9.8	4.9	7.5	7.8	-1.1	4.6	1.1	-1.0	-1.3
Changes in market shares 5/	0.2	-3.8	-8.7	4.6	4.7	4.6	7.4	5.3	-7.8
Real GNP growth									
Australia	4.1	0.6	2.8	2.8	2.7	0.7	1.3	1.0	2.3
Partner countries 6/	5.4	3.9	4.8	4.2	2.9	2.1	2.0	1.5	0.7
Import elasticity	2.9	1.5	1.6	1.2	1.1	1.3	...	2.8	1.3
Terms of trade 2/	0.3	-7.3	-0.5	1.4	-3.7	2.2	-3.7	-2.1	0.8

Sources: IMF, International Financial Statistics; Data Fund; and staff calculations.

1/ Partly estimated by staff.
2/ Exports and imports customs basis, f.o.b.
3/ Effective exchange rate (MERM) adjusted for relative unit labor costs in manufacturing vis-à-vis industrial partner countries.
4/ Weighted average growth in volume terms of imports of partner countries (industrial countries and oil exporting and non-oil exporting developing countries) based on 1978 merchandise trade weights.
5/ Export growth in volume terms relative to market growth.
6/ Weighted average of real GNP growth of industrial countries based on 1978 merchandise trade weights.

Table 29. Australia: Exports by Industrial Groups

	1979/80	1967/68	1979/80	1976/77	1977/78	1978/79	1979/80
	In millions of $A	Percentage Distribution		Percentage change from preceding year			
Primary produce	13,049	76	70	22.7	1.6	14.4	29.5
Unprocessed	10,108	57	54	22.5	3.2	15.1	27.5
Processed	2,941	20	16	23.3	-4.0	12.0	37.2
Agricultural 1/	4,485	26	24	3.5	-2.7	-4.5	93.3
Unprocessed	3,251	15	17	0.2	2.0	-3.6	125.1
Processed	1,234	11	7	8.8	-9.4	-6.0	40.8
Pastoral	4,045	36	22	48.4	1.1	37.4	4.7
Unprocessed	3,507	32	19	47.1	0.1	39.1	4.4
Processed	538	4	3	57.3	7.8	26.9	6.7
Mines and quarries	4,519	15	24	22.0	5.1	9.2	16.2
Unprocessed	3,350	10	18	19.3	6.6	5.0	7.2
Processed	1,169	6	6	36.4	-2.1	30.6	53.3
Manufactures 2/	4,531	17	24	22.1	13.5	19.6	29.9
Other 3/	1,291	7	6	-12.0	32.9	24.1	88.9
Total exports	*18,870*	*100*	*100*	*20.9*	*5.3*	*16.1*	*32.5*

Source: Australian Bureau of Statistics, Exports.

1/ Includes fisheries, forestry, and dairy and farmyard.
2/ Includes refined petroleum products.
3/ Includes re-exports and gold.

Table 30. Australia: Merchandise Trade by Commodity Categories 1/

	1979/80				1976/77	1977/78	1978/79	1979/80
	Exports		Imports		Trade balance in millions of $A			
	In millions of $A	Per cent of total	In millions of $A	Per cent of total				
Food and beverages	6,312	33.4	774	4.8	2,887	3,005	3,478	5,538
Primary	3,227	17.1	289	1.8	1,998	2,264	1,192	2,938
Processed	3,085	16.3	486	3.0	888	741	2,286	2,599
Industrial supplies, n.e.s.	8,496	45.0	4,796	29.6	2,734	2,507	3,062	3,700
Primary	4,305	22.8	375	2.3	3,207	2,942	3,446	3,930
Processed	4,191	22.2	4,420	27.3	-473	-436	-384	-299
Fuels and lubricants	2,104	11.1	2,068	12.7	512	582	715	36
Primary	1,676	8.9	1,184	7.3	888	1,008	1,133	492
Processed	428	2.3	884	5.5	-376	-427	-419	-456
Capital goods 2/	550	2.9	3,610	22.3	-1,869	-2,084	-2,990	-3,060
Transport equipment	388	2.1	2,118	13.1	-1,441	-1,437	-2,008	-1,730
Consumer goods, n.e.s.	304	1.6	2,473	15.2	-1,757	-1,745	-1,952	-2,169
Durable	86	0.5	835	5.1	-720	-586	-696	-749
Other	219	1.1	1,638	10.1	-1,037	-1,159	-1,255	-1,419
Goods, n.e.s. 3/	452	2.4	203	1.3	93	142	129	249
Total merchandise	18,604	100.0	16,041	100.0	1,160	969	434	2,563

Sources: Australian Bureau of Statistics, Exports, Imports, and Overseas Trade.

1/ Data are based on Australian Export Commodity Classification (AECC) and Australian Import Commodity Classification (AICC).
2/ Excluding transport equipment.
3/ Including petroleum gases.

Table 31. Australia: Development of Merchandise Trade by Commodity Categories 1/

	Exports				Imports			
	1976/77	1977/78	1978/79	1979/80	1976/77	1977/78	1978/79	1979/80
	Percentage change from preceding year							
Food and beverages	11.5	6.1	13.7	53.0	59.2	16.6	3.8	19.6
Primary	11.8	13.2	-44.0	126.3	88.7	12.7	16.9	23.1
Processed	11.0	-7.7	149.3	14.3	40.0	20.1	20.8	17.6
Industrial supplies, n.e.s.	32.6	-0.6	21.9	23.2	28.9	6.5	21.7	25.1
Primary	34.0	-6.3	15.4	14.3	13.1	16.7	-0.3	17.0
Processed	30.4	8.3	30.8	33.9	30.8	5.4	24.2	25.8
Fuels and lubricants	21.5	15.4	6.5	14.8	23.2	16.4	-1.9	85.0
Primary	20.8	15.5	3.5	9.2	19.8	20.0	-15.5	195.4
Processed	26.5	14.8	25.3	43.5	25.6	13.9	7.9	23.3
Capital goods 2/	5.0	19.7	10.5	24.0	26.9	12.8	38.2	5.1
Transport equipment	-13.4	13.2	59.9	33.8	26.8	1.1	41.9	-7.8
Consumer goods, n.e.s.	14.6	5.4	28.6	30.5	24.1	-0.2	13.4	13.2
Durable	19.5	2.0	20.0	51.9	18.8	-17.4	18.9	10.9
Other	12.8	6.8	24.8	23.8	27.9	11.2	10.7	14.4
Goods, n.e.s. 3/	23.0	29.4	-10.4	78.8	-28.9	12.5	-11.7	64.2
Total merchandise	22.0	4.9	16.8	32.2	26.7	7.3	23.0	17.6

Sources: Australian Bureau of Statistics, Exports, Imports, and Overseas Trade.

1/ Based on Australian Export Commodity Classification (AECC) and Australian Import Commodity Classification (AICC), at current prices in terms of Australian dollars.
2/ Excluding transport equipment.
3/ Including petroleum gases.

Table 32. Australia: Direction of Foreign Trade

	1967/68	1979/80	1967/68	1979/80	1976/77	1977/78	1978/79	1979/80
	Exports		Imports					
	Percentage distribution				Trade balance in $A million			
Japan	21	27	11	16	1,809	1,784	1,683	2,544
United States	13	11	26	22	-1,152	-1,031	-1,436	-1,533
New Zealand	5	5	2	3	260	225	323	318
Canada	2	2	4	3	-12	4	-109	-107
EC countries	26	14	35	23	-638	-1,094	-1,512	-1,124
Of which:								
United Kingdom	14	5	22	10	-596	-799	-921	-696
Germany, Federal Republic of	3	3	6	6	-319	-352	-597	-526
Italy	3	2	2	3	78	-9	-14	7
China, People's Republic of	4	4	1	1	82	468	296	646
Malaysia	2	2	1	1	111	94	178	242
Korea, Republic of	--	2	--	1	94	145	313	268
Singapore	2	2	--	3	-13	-24	-14	-49
U.S.S.R.	1	5	--	--	342	241	257	912
Other countries	24	26	20	27	388	291	512	536
Total	100	100	100	100	1,241	1,103	491	2,653

Sources: Australian Bureau of Statistics, Exports, Imports, and Overseas Trade.

Table 33. Australia: Development of Foreign Trade by Major Countries

(Percentage change from preceding year)

	Exports 1976/77	Exports 1977/78	Exports 1978/79	Exports 1979/80	Imports 1976/77	Imports 1977/78	Imports 1978/79	Imports 1979/80
Japan	24.0	-1.6	5.5	23.4	33.6	-1.8	14.9	4.2
United States	4.2	27.7	38.8	14.2	30.5	7.3	39.0	10.9
New Zealand	27.4	0.9	27.8	15.7	27.4	12.7	18.0	28.7
Canada	15.1	-0.1	-2.1	23.4	43.2	-5.4	38.7	16.3
EC countries	33.9	-10.3	17.1	33.5	16.0	8.9	25.3	8.1
Of which:								
United Kingdom	32.8	-10.8	18.5	66.6	2.5	12.7	16.5	10.4
Germany, Federal Republic of	34.4	-0.3	9.9	14.1	31.6	4.3	38.2	-1.0
Italy	63.1	-24.2	38.4	19.0	37.5	1.6	38.8	12.8
China, People's Republic of	-16.0	214.6	-24.7	93.2	49.6	9.9	24.9	41.0
Malaysia	30.0	-4.4	54.0	29.4	38.1	6.2	26.6	21.8
Korea, Republic of	58.2	39.4	69.1	-9.4	35.8	25.5	12.8	2.1
Singapore	-1.0	31.2	9.7	49.1	22.5	34.9	4.8	59.3
U.S.S.R.	-6.7	-29.0	7.4	269.3	55.8	-1.6	33.2	774.1
Other countries	21.8	6.3	20.7	35.1	25.3	11.3	14.7	40.1
Total	20.9	5.3	16.1	32.5	26.3	7.3	23.2	17.9

Sources: Australian Bureau of Statistics, Exports, Imports, and Overseas Trade.

Table 34. Australia: Exports of Major Commodity Groups to Major Countries

(In millions of Australian dollars)

	Japan	United Kingdom	United States	New Zealand	Germany (FR)	Other Main OECD 1/	Other Main Asia 2/	Main Centrally Planned 3/	Other	Total
Meat and meat preparations										
1977/78	207	32	419	...	5	59	101	34	262	1,119
1978/79	295	57	816	1	6	99	191	14	230	1,713
1979/80	371	46	748	2	8	95	134	49	276	1,729
Cereal grains and cereal preparations										
1977/78	262	3	...	2	22	4	225	407	425	1,350
1978/79	251	3	1	7	13	6	257	158	478	1,174
1979/80	332	2	...	11	6	13	365	1,099	1,063	2,891
Sugar, sugar preparations, and honey										
1977/78	218	5	83	17	...	96	85	38	6	548
1978/79	226	2	24	22	...	44	125	15	6	464
1979/80	280	4	53	10	2	94	176	73	...	700
Other food and live animals										
1977/78	150	26	68	16	13	34	142	--	205	654
1978/79	199	26	77	18	19	37	180	2	216	774
1979/80	224	34	88	29	19	55	194	1	345	989
Textile fibers and their waste										
1977/78	357	40	31	1	86	212	101	222	110	1,160
1978/79	425	44	39	2	105	289	146	257	161	1,468
1979/80	445	50	40	2	106	322	136	311	195	1,607
Iron ore and concentrates										
1977/78	733	6	3	...	34	63	40	35	6	920
1978/79	701	11	4	...	54	34	61	95	8	968
1979/80	816	10	1	...	67	34	91	51	6	1,076
Coal, coke, and briquettes										
1977/78	1,109	36	15	...	20	168	83	--	58	1,489
1978/79	1,086	52	15	...	13	163	127	...	77	1,533
1979/80	1,206	75	3	...	22	139	153	...	90	1,688
Iron and steel										
1977/78	10	2	36	40	7	42	133	88	105	463
1978/79	30	...	35	61	3	28	194	108	134	593
1979/80	18	2	50	78	1	58	165	124	110	606
Nonferrous metals										
1977/78	78	157	48	33	26	79	89	10	58	578
1978/79	73	205	85	49	28	102	149	24	78	793
1979/80	72	427	125	60	31	189	182	38	125	1,249
Machinery and transport equipment										
1977/78	27	21	66	126	6	15	168	--	118	547
1978/79	22	23	86	167	8	16	200	1	150	673
1979/80	53	33	138	187	7	20	237	2	180	857
Other merchandise and nonmerchandise										
1977/78	745	154	520	350	176	340	516	59	582	3,442
1978/79	801	148	608	420	185	443	707	122	656	4,090
1979/80	1,254	269	798	485	226	533	822	184	907	5,478
Total										
1977/78	3,890	482	1,289	585	395	1,112	1,683	893	1,935	12,270
1978/79	4,109	571	1,790	747	434	1,261	2,337	796	2,198	14,243
1979/80	5,071	952	2,044	864	495	1,552	2,655	1,932	3,305	18,870

Source: Data provided by the Australian authorities.

1/ Includes: Canada; Belgium-Luxembourg; France; Italy; Netherlands.
2/ Includes; Indonesia; Malaysia; Philippines; Singapore; Taiwan; Hong Kong; Korea, Republic of; Papua New Guinea.
3/ Includes: Poland; U.S.S.R.; China, People's Republic of.

Table 35. Australia: Export Performance by Major Areas

	1979	1976	1977	1978	1979	1980 1/
	Percentage share in exports	Percentage change from preceding year in U.S. dollar terms				
Exports to world						
From world	100.0	13.9	13.9	16.4	26.0	...
From industrial countries	100.0	11.3	13.6	19.9	22.7	24.7
From Australia	100.0	10.5	1.6	7.9	29.6	28.3
Exports to industrial countries						
From world	68.8	17.0	13.3	15.9	29.4	...
From industrial countries	69.1	14.8	13.1	19.6	26.2	24.3
From Australia	61.5	19.2	-2.2	5.4	23.2	32.4
Exports to oil-exporting countries						
From world	6.1	15.0	25.8	17.2	0.1	...
From industrial countries	7.1	15.5	24.1	18.2	-3.0	36.3
From Australia	5.5	-6.3	15.7	12.8	26.3	78.8
Exports to non-oil developing countries						
From world	19.7	6.1	14.9	19.2	27.5	...
From industrial countries	18.5	0.3	14.6	23.0	23.6	22.1
From Australia	24.2	-5.2	8.0	20.4	36.1	33.5
Exports to U.S.S.R., Eastern Europe, China, etc.						
From world	4.1	0.9	4.6	17.4	21.3	...
From industrial countries	4.3	3.8	-1.1	13.4	19.4	20.1
From Australia	8.3	14.1	11.3	-8.3	69.0	42.6

Source: IMF, Direction of Trade.

1/ First half year.

Table 36. Australia: Imports from Countries and Country Groups

	1970/71	1974/75	1979/80
	Percentage distribution		
Major Developed	84.7	77.3	71.5
ASEAN	2.6	3.0	6.2
Indonesia	(0.6)	(0.2)	(1.5)
Malaysia	(0.8)	(0.7)	(1.2)
Philippines	(0.6)	(0.3)	(0.5)
Singapore	(0.6)	(1.6)	(2.7)
Thailand	(0.1)	(0.2)	(0.3)
Middle East	2.7	7.0	8.8
Indian Sub-Continent	1.4	1.0	1.1
Pacific 1/	0.9	1.0	1.0
Africa 2/	0.4	0.4	0.3
Other Asia	3.0	5.1	7.2
China, People's Republic of	(0.8)	(1.0)	(1.2)
Taiwan	(0.6)	(1.4)	(2.7)
Hong Kong	(1.5)	(2.1)	(2.4)
Korea, Republic of	(0.1)	(0.6)	(0.9)
Other	4.3	5.2	3.9
	100.0	100.0	100.0

Source: Data provided by the Australian authorities.

1/ Excluding New Zealand.
2/ Excluding South Africa.

Table 37. Australia: Capital Account

(In millions of Australian dollars)

	1976/77	1977/78	1978/79	1979/80	1979/80				1980/81	
					Sept. qtr.	Dec. qtr.	Mar. qtr.	June qtr.	Sept. qtr.	Dec. qtr.
Government capital, net	249	1,564	1,354	-41	-127	171	104	-189	-74	57
Identified private capital, net	1,565	858	1,879	1,908	359	185	381	983	807	1,124
Of which:										
Overseas investment in Australian companies	1,563	1,331	2,052	2,880	658	577	658	986	1,034	1,187
Of which:										
Undistributed income	670	667	812	1,057	264	264	264	265	300	300
Australian investment overseas	-252	-206	-251	-334	-108	-76	-74	-76	-142	... 1/
Trade credit, n.e.c.	242	-284	20	-781	-209	-280	-199	-84	102	-63
Banking sector, net	13	16	59	143	28	-37	-4	157	-188	... 1/
Balancing item	-318	-421	-111	-560	-269	-469	265	-86	22	311
Net apparent capital flow	1,496	2,001	3,123	1,307	-37	-114	750	708	755	1,492 1/

Sources: Australian Bureau of Statistics, Balance of Payments; and Reserve Bank of Australia, Statistical Bulletin, and data provided by the Australian authorities.

1/ Not yet available; included in balancing item.

Table 38. Australia: Official Development Assistance

(In millions of Australian dollars)

	1978/79	1979/80	1980/81 1/
Multilateral aid			
International development finance institutions	32.5	37.4	48.9
UN programs, regional and other organizations	36.4	51.9	53.2
Total multilateral aid	68.9	89.3	102.1
In per cent of ODA	15.0	17.9	18.6
Bilateral aid	391.6	410.9	445.8
Of which:			
Aid to Papua New Guinea	237.2	236.6	243.7
Total aid	460.5	500.2	547.9
In per cent of GDP	0.45	0.44	...

Sources: Budget Paper No. 1, 1980-81; and data provided by the Australian authorities.

1/ Official forecast.

Table 39. Australia: International Reserves

	IFS Basis					As Published by Reserve Bank		
							Change attributable to	
	Gold 1/	SDRs	Reserve position in IMF	Foreign exchange	Total	Total at end of period	Valuation changes 2/	Balance of payments transactions
	(In millions of SDRs; at end of period)					(In millions of Australian dollars)		
1971/72	261	235	167	3,553	4,217	3,737	-108	1,544
1972/73	259	235	168	4,236	4,897	4,248	-568	1,079
1973/74	259	185	184	3,680	4,307	3,560	-304	-384
1974/75	258	96	168	3,227	3,749	3,493	393	-460
1975/76	258	40	167	2,312	2,777	3,086 3/	646 3/	-1,053
1976/77	263	26	166	2,071	2,526	3,312	416	-190
1977/78	268	105	166	1,581	2,120	3,225	387	-474
1978/79	273	169	161	1,359	1,962	3,885	827	-167
1979/80	278	26	156	1,185	1,646	5,681	2,143	-348
September	273	166	161	881	1,481	3,858	523	-550
December	278	32	156	893	1,359	4,614	882	-127
March	278	49	156	1,155	1,638	5,627	695	318
June	278	26	156	1,185	1,646	5,681	43	10
1980/81								
September	278	24	156	840	1,298	5,718	432	-394
December	278	--	255	1,070	1,603	5,430	-611	323
January	278	81	255	1,364	1,978	5,586	-235	390
February	278	79	255	1,314	1,926	5,172	-348	-66
March	278	79	255	1,347	1,959	5,153	-52	33

Sources: Reserve Bank of Australia, Statistical Bulletin; Australian Bureau of Statistics, Monthly Summary of Statistics; and IMF, International Financial Statistics.

1/ Gold valued at SDR 35 per fine troy ounce.
2/ Arising from exchange rate changes and from variations in the method of gold valuation.
3/ Gold revalued monthly at average London gold price with effect from June 1976.

Table 40. Australia: Exchange Rates

(Units of foreign currency per Australian dollar)

	U.S. Dollar		Japanese Yen		Trade-Weighted Basket of Foreign Currencies May 1970 = 100		Effective Rate (MERM) (1975 = 100)	
	Level	Percentage change 1/	Level	Percentage change 1/	Level	Percentage change 1/	Level	Percentage change 1/
	End of period						Period average	
.972	1.2750	7.1	384.50	2.6	106.5	6.7	96.1	0.3
.973	1.4875	16.7	416.72	8.4	118.1	10.9	108.4	12.7
.974	1.3270	-10.8	398.68	-4.3	105.3	-10.8	111.7	3.1
.975	1.2571	-5.3	383.38	-3.8	105.3	--	100.0	-10.5
.976	1.0864	-13.6	318.08	-17.0	92.2	-12.4	97.0	-3.0
.977	1.1414	5.1	273.84	-13.9	89.4	-3.0	87.5	-9.8
.978	1.1505	0.8	222.83	-18.6	82.7	-7.5	85.6	-2.2
.979	1.1055	-3.9	265.82	19.3	83.3	0.7	81.9	-4.2
.980	1.1807	6.8	239.54	-9.9	87.1	4.6	83.8	2.2
.978/79								
Mar. qtr.	1.1182	-2.2	233.63	-7.9	82.3	-5.9	82.7	-5.0
June qtr.	1.1211	-2.3	242.83	3.1	83.1	-3.6	82.0	-5.1
.979/80								
Sept. qtr.	1.1298	-2.3	252.17	15.4	83.5	-0.1	82.2	-3.3
Dec. qtr.	1.1055	-3.9	265.82	19.3	83.3	0.7	80.9	-3.5
Jan.	1.1069	-2.3	264.46	16.0	83.2	0.5	80.6	-3.1
Feb.	1.0987	-2.6	272.75	19.6	83.5	1.3	80.7	-2.5
Mar.	1.0831	-3.1	270.13	15.6	84.4	2.6	81.6	-0.7
Apr.	1.1145	1.1	267.31	9.8	84.5	2.1	82.2	0.5
May	1.1426	3.4	256.91	5.4	84.7	1.9	82.8	1.1
June	1.1576	3.3	251.31	3.5	85.0	2.3	83.5	1.6
.980/81								
July	1.1525	2.0	261.13	6.1	85.5	2.6	83.7	1.8
Aug.	1.1656	3.3	254.28	2.4	85.8	2.8	84.5	2.5
Sept.	1.1690	3.5	248.74	-1.4	85.8	2.8	85.0	3.6
Oct.	1.1726	6.9	247.07	-5.5	86.2	2.9	85.8	5.1
Nov.	1.1643	6.4	251.26	-7.7	86.8	3.8	87.0	7.9
Dec.	1.1807	6.8	239.54	-9.9	87.1	4.6	87.9	9.2
Jan.	1.1707	5.8	239.29	-9.5	87.5	5.2	88.9	10.4
Feb.	1.1566	5.3	240.90	-11.7	88.2	5.6	90.0	11.5
Mar.	1.1684	7.9	245.95	-9.0	88.8	5.2	90.1	10.5

Sources: Reserve Bank of Australia, Statistical Bulletin; and IMF, International 'inancial Statistics.

1/ Percentage change from one year earlier.

V. Exchange and Trade Relations

1. The exchange rate

The exchange rate for the Australian dollar is determined by reference to a trade-weighted index of currencies. A mid-rate for the Australian dollar in terms of the U.S. dollar (the intervention currency) is announced each day by the Reserve Bank of Australia. No margins are set in respect of exchange transactions. Official limits are set within which the banks may transact business with the public in U.S. dollars. On December 31, 1980 the authorities set a middle rate for the U.S. dollar at $A 1 = US$1.18. There are no taxes or subsidies on purchases or sales of foreign exchange.

The Reserve Bank stands ready to buy and sell U.S. dollars forward at the rate announced by it each day. The forward market operated by the trading banks but underwritten and regulated by the Reserve Bank provides forward cover for trade transactions and a limited number of invisible transactions. Access to these "official" forward facilities is limited to only certain types of transactions and alternative private facilities have been developed. For instance, the intercompany hedge market or the "gray market" has been in operation for a number of years. In addition, the banks have introduced an interbank currency-hedging facility and the Sydney Futures Exchange has now established a currencies futures market. Trading commenced on March 19, 1980. The U.S. dollar and the pound sterling are currently the only currencies traded. Yen contracts have not been traded since January 15, 1981. These markets have to conform to exchange control requirements, so that nonresidents cannot participate in their activity and residents are not allowed access to arbitrage between such markets in Australia and similar markets overseas. The constraints on the scope of currency-hedging markets reduce the scope for matching transactions, with the result that these markets are influenced heavily by the conditions in the official market. Nevertheless, price differentials between the hedging and the official markets can also affect the operation of the official market.

2. Controls on capital movements

The main aim of the exchange control system is to limit the magnitude of fluctuations in short-term capital movements. The Treasury believes that the controls do not inhibit the longer-term capital movements and their effect is largely on the variability rather than the level of total net capital inflows. The controls constrain the holding of foreign currency balances of residents and their ability to make portfolio investments abroad. They also generally restrict nonresident banks and governments from holding Australian dollar balances in excess of minimum working requirements and from borrowing in Australia. Earnings from direct investment overseas can be retained overseas as working capital and for firmly planned expansion without specific prior approval from the Reserve Bank. Where such funds are retained overseas, the resident is required to inform the Reserve Bank of the purposes for which the funds are being utilized.

Although the authorities concede that a move to a more market-oriented exchange system would affect the volume and composition of gross capital flows, they question whether there would be a significant effect on net capital flows. 1/ Although at times the authorities have used supplementary controls restricting short-term overseas borrowing by residents, at present no such controls are in force.

3. Foreign investment

The Government's policy on foreign investment is basically one of encouragement because of the contribution foreign investment has made, and is expected to make, to the development of Australia's industries and resources. The Government is advised on individual proposals and on foreign investment matters generally by the Foreign Investment Review Board. The foreign investment policy obligations apply to certain categories of foreign investment, whether or not exchange control approval is required to transfer funds to Australia to finance such investment. The examination procedures recognize the need to avoid unnecessary interference with normal commercial processes. The types of proposals subject to examination are (a) proposals falling within the scope of the Foreign Takeovers Act, including any acquisition or issue of shares which would result in or increase a substantial foreign interest in an Australian company, even where there is no change of control; it is the practice of the Government not to intervene, except in special circumstances, in proposals where the total assets of the target company or business are less than \$A 2 million; (b) all proposals to establish a new business or project, irrespective of size, in industries subject to special restrictions, namely, finance, insurance, the communications media, civil aviation, uranium, and activities relating to uranium; (c) direct investments by foreign governments or their agencies (excluding investments related to their official representation); (d) other proposals to establish new businesses where the total amount of the investment is \$A 5 million or more (including diversification into activities not previously undertaken directly in Australia and new projects in mining or other natural resource industries); and (e) proposals to acquire real estate valued at \$A 250,000 or more.

There are specific guidelines concerning Australian equity participation in proposals for investment in the natural resources sector. A proposed project for the mining and production of uranium should have a minimum of 75 per cent Australian equity and it should be Australian-controlled. Only in cases where 75 per cent Australian equity is clearly unobtainable will alternative proposals be considered. In such cases it needs to be demonstrated that 75 per cent Australian equity is unavailable, that the project would be of significant economic benefit to Australia, that there would be at least 50 per cent Australian equity, and that Australians would have the major role in determining the policy of the project. Where projects do not have 75 per cent Australian equity and control, arrangements may be required to increase the level of Australian participation over an agreed period.

Other projects in the natural resource sector are, as a general rule, only allowed to proceed provided they have a minimum of 50 per cent Australian

1/ Submission to the Committee of Inquiry into the Australian Financial System. Treasury Paper No. 4, December 1979.

equity, with at least 50 per cent of the voting strength of the Board of Directors held by Australian interests. However, projects may be approved with less than 50 per cent Australian equity, provided they are not otherwise contrary to the national interest, and the Government judges that the unavailability of sufficient Australian equity capital on reasonable terms and conditions would unduly delay the development of Australia's natural resources. In this event, the Government seeks, as appropriate, satisfactory arrangements for Australian equity to be increased to at least 50 per cent within an agreed period.

4. Assistance to industry and trade arrangements

Final responsibility for determining the levels and nature of assistance afforded particular industries rests with Parliament. However, the Government has long followed the practice of seeking advice on industry protection matters from an independent advisory authority. The Australian Tariff Board, established in 1921 to advise the Government on tariff assistance to the manufacturing sector, was reconstituted in 1973 as the Industries Assistance Commission (IAC). The primary function of the IAC is to advise the Commonwealth Government on the nature and extent of long-term assistance which should be given to industries. Its inquiries can cover any industry in the rural, mining, manufacturing, or service sectors.

On any proposed variations in the long-term assistance afforded industries in the primary and secondary sectors of the economy, the Government is required by law to refer to the IAC for inquiry and report, before action is taken. The Commission may also inquire and report, on its own initiative, into industries where assistance has not been reviewed for a specified number of years. Other functions of the Commisssion include the systematic Review of the Tariff, commenced in 1971, temporarily suspended in 1976 before its resumption in 1979; inquiries into short-term assistance requirements; and the provision, through its Annual Reports and occasional discussion papers, of information for public scrutiny on both economy-wide matters and individual industries.

In the performance of its functions, the IAC is required to be concerned with improving the efficiency with which the economy uses its resources; ensuring consistent industry policy; taking account of the interest of consumers and users of products affected by the Commission's proposals; and providing for public scrutiny of assistance measures. As a result of legislative changes in 1978, the IAC is also required to report on the level of assistance necessary to maintain activity and employment in an industry; the reasons for recommending a level of assistance lower than this; whether the structure of the industry can be improved, and if so in what manner; and the possible consequences, including economic, social, and employment consequences, of carrying out its recommendations. The Commission's recommendations for variation in levels of assistance seek to balance the benefits of improved resource use against transitional costs to particular persons associated with disruptions to settled patterns of production and employment.

On questions of short-term assistance to industry, advice to Government is usually provided by the Temporary Assistance Authority (TAA) created in 1973. The TAA can recommend the level of assistance necessary to maintain the existing or a previously existing level of activity and employment in an industry. Temporary assistance granted following the acceptance of a TAA recommendation may not continue for more than 12 months without a review by either the TAA or the IAC, and such assistance may not be provided beyond the second year unless there is a full review by the IAC. Also, where an industry receiving temporary assistance has received it for two years or for a total of two years within the previous four years, it is referred to the IAC for consideration of its long-term level of assistance.

The protection granted to the manufacturing sector has been high for many years. For several decades the emphasis had been on industrial diversification behind protective tariff and other barriers, but trade policies have been liberalized since the early 1960s. A review of tariffs was instituted in 1971. In July 1973 a 25 per cent across-the-board tariff cut was implemented; as a result the average nominal rate of assistance to manufacturing industries fell from 24 per cent (36 per cent in effective terms) in 1968/69 to 17 per cent (27 per cent in effective terms) in 1973/74. Some further reductions in long-term rates of protection were effected following the November 1976 devaluation. However, the deteriorating competitiveness of certain industries, especially between 1974 and 1976, led the Government to introduce a range of temporary assistance measures, including quantitative restrictions, principally in the motor vehicles, whitegoods and textiles, clothing and footwear industries. In view of the continuation of the difficulties, the temporary assistance policies were reoriented to become sectoral policies. The application of these measures partly offset the effect of the tariff reductions, and by 1978/79 the average nominal rate of assistance was still about 15 per cent and the effective rate about 26 per cent. Moreover, the spread between the rates of assistance accorded to different industries widened considerably (Tables 41 and 42).

The current passenger motor vehicle policy is designed to ensure that about 80 per cent of domestic demand is supplied by domestic production. These arrangements are implemented through quantitative restrictions on imports. Recently, the IAC has recommended a reduction in the level of assistance to the passenger car industry. A major government decision on long-term assistance arrangements for the industry is to be taken following the submission of an IAC report in April 1981.

For the textiles, clothing, and footwear industries, which had suffered sustained import pressure since 1973/74, the Government introduced in 1977 a three-year program of assistance which was subsequently extended by one year. Its central feature is the continuation of tariff quotas and quantitative restrictions on a wide range of these products. A new program of assistance for these industries was announced on August 15, 1980 to apply for seven years from January 1, 1982. It generally involves bounties on yards, tariffs on fabrics, and the maintenance of quotas on finished products. The new program provides for a controlled increase in imports and encourages further improvements in the efficiency of the industry, while providing a reasonably predictable environment for the investment and marketing decisions of manufacturers and importers. For all finished products subject to quota, this entails for the seven years an opening of the market to permit imports to increase by the equivalent of 1 per cent of domestic production per annum and, in addition, increases in access equivalent to real market growth. In the sectoral assistance policy on whitegoods introduced in mid-1978, the Government replaced import quotas with increased tariffs and provided for a subsequent phased reduction in this assistance over six years to a long-term general rate of 30 per cent for most whitegoods.

As to the shipbuilding industry, in its report submitted to the Government in September 1976, the IAC considered that the construction of large vessels must cease sooner or later and that postponement of such action would only increase the costs involved. The Government accepted the Commission's recommendation that there should be no change in the level of assistance. As a result of commercial decisions, large shipbuilding in Australia ceased in August 1978. The industry is assisted by a 27 1/2 per cent bounty, which compares with a bounty of up to 45 per cent during the early 1970s, and with this level of assistance is generally competitive with overseas yards for the supply of vessels within its capacity range.

5. Changes in exchange and trade arrangements during 1980

January 1. The "threshold" price above which footwear becomes exempt from import licensing was raised from $A 25 to $A 26 per pair.

January 2. Certain specialized footwear falling under four tariff headings were exempted from the 12.5 per cent special additional customs duty introduced in August 1978, thus reducing the applicable tariffs to a total of 34 per cent.

January 6. Quota allocations for certain textiles and clothing for the period March-August 1980 were announced; compared with the previous period 15 quota categories were increased, 21 were left unchanged, and 7 were reduced.

January 16. Tariffs on imports of tractors having a power of less than 15 kw and of pedestrian-operated rotary cultivators were changed from 22.5 per cent to 25 per cent, while those for other rotary cultivators not exceeding 15 kw were changed from 22.5 per cent to 15 per cent.

January 16. Tariffs on imports of baby carriages and parts thereof were changed from 28 per cent to 25 per cent, to be phased down to 20 per cent after two years.

March 7. Tariffs on rubber products were restricted to provide a long-term rate of 25 per cent. Tariffs on gaskets and similar joints, thread and cord, and certain hygienic and pharmaceutical articles would be phased from varying rates to 25 per cent within two years.

March 21. Tariffs on dental cement and fillings of 15 per cent were introduced; a reduction to 10 per cent was planned to be made after one year.

April 1. The amounts and categories of portfolio investment overseas that may be undertaken by Australian residents were modified. The annual limit for equity and real estate investments is now $A 40,000 for individuals and $A 2,500,000 for listed and substantial unlisted public companies and institutions, while substantial private companies, which meet certain financial standards, are eligible for an annual maximum investment of $A 250,000. Within the new limits, individuals may now invest annually up to $A 100,000 and public companies and institutions up to $A 1 million in marketable fixed interest securities with not less than one year to run to maturity at date of purchase. Investments in banks, money market, and similar short-term deposits, as well as loans to nonresidents, will continue to be not permitted. The new limits are noncumulative from year to year. However, in special circumstances to allow a specific investment project to be accomplished, such as the purchase of a residence overseas or a strategic holding in an overseas company or business, consideration may be given to allowing two financial years' entitlements to be taken together.

April 1. The export of sorghum to the U.S.S.R. was banned.

April 2. Exchange and trade restrictions applying to Zimbabwe (formerly Rhodesia) were lifted.

April 16. It was announced that, with effect from July 1, 1981, all remaining preferential tariffs on imports from the United Kingdom would be removed.

April 21. Permissible imports of double-edged razor blades were increased to 20 million units per year, from an annual level of 16 million units during the preceding two years.

April 30. Import licensing was lifted on certain uncoated hot rolled steel sheets and plates, certain uncoated cold rolled steel sheets and plates, and certain galvanized steel sheets, plates, strips, and hoops.

July 1. A special quota for the year ending June 30, 1981 was established for handicraft knitwear, amounting to 85 per cent of such imports in the 12 months ending March 31, 1980. (Imports in excess of this level would be subject to the global quota system for textiles and clothing.)

July 15. Australia signed the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA); the agreement provides that Australia, together with New Zealand, grant duty-free and unrestricted access for most of the products exported by the other islands of the South Pacific Forum 1/ on a nonreciprocal basis.

1/ The "South Pacific Forum," includes, in addition to Australia and New Zealand, the Cook Islands, Fiji, Kiribati, Nauru, Niue, Papua New Guinea, the Solomon Islands, Tonga, Tuvalu, Western Samoa, and Vanuatu.

July 20. It was announced that new statistical arrangements had been introduced to replace previous arrangements under which the Australian trading banks are required to establish that any necessary exchange control authority for large inward capital flows had been given before converting foreign exchange into Australian currency. However, authority was still required before agreements were entered into to borrow from nonresidents and before any shares in Australian companies were allotted, issued, or transferred to any nonresident. Foreign investment policy was also unaffected and tax clearance certificates continue to be required where applicable.

December 3. Import quotas on passenger vehicles for 1981 were reduced to 88,000 from 90,970 in 1980, with the final quota to be determined following a review of the market in mid-1981.

6. Recent changes in budgetary assistance to industry

It was announced on April 14, 1980 that capital expenditure by primary producers on plant or structural improvements for conserving and conveying water for use in their businesses was to be made fully deductible in the year in which the expenditure was incurred. As of August 7, 1980 the rate of interest payable on Income Equalization Deposits (IED) held by primary producers was increased from 5 per cent to 7 per cent. The new rate applies to IEDs held at that time as well as to new deposits made subsequently.

Major changes, including those foreshadowed, in budgetary assistance to industry announced in the 1980-81 budget or subsequently are outlined below.

a. Rural sector

Expenditure on wool promotion and research by the Government is estimated to increase from $A 19 million in 1979-80 to $A 27.1 million in 1980-81. The value of the interest subsidy paid by the Government to reimburse the Wheat Board's additional borrowing costs, resulting from the Government's request that the Wheat Board partly finance its first advance payments to growers from commercial borrowings, is expected to increase almost fourfold from $A 7.7 million in 1979-80 to $A 28.7 million in 1980-81.

Following a report by the IAC on apples and pears, the Government has decided that new arrangements will apply for the 1981-85 export seasons, whereby the Government will underwrite apple and pear export receipts in each season at 95 per cent of the weighted average return for the four immediately preceding seasons. Supplementary assistance will continue for the seasons 1981 to 1984 on a dollar-for-dollar basis with participating states. The budget provision covering total stabilization and supplementary assistance expenditure for 1980-81 is $A 3.4 million for apple exports and $A 0.4 million for pear exports. The nitrogenous fertilizer subsidy, due to expire at the end of 1980, has been extended a further year, at an estimated cost of $A 5 million in 1980-81 compared with $A 7.3 million in 1979-80. Provision of $A 46 million is included in 1980-81 for the phosphate fertilizer bounty compared with $A 51.4 million in 1979-80.

A special depreciation allowance (20 per cent over five years) was introduced for new machinery used wholly and exclusively in agricultural, pastoral, and forestry operations. The allowance also applies to the purchase of new vessels in the fishing industry. The capital cost of a wide range of soil conservation measures became eligible for immediate tax deduction in the year of expenditure.

b. Mining sector

The mining sector is primarily assisted through the taxation system by way of various special provisions applying to mining companies or to their shareholders. No major changes have been made recently or foreshadowed in budgetary assistance provided to the mining sector.

c. Manufacturing sector

The manufacturing sector is predominantly assisted by tariffs and quantitative restrictions which provide protection against imports. Significant assistance is, however, also provided to the manufacturing sector through the budget. Prebudget rates of depreciation in respect of most new or second hand items of plant ordered after August 19, 1980 were increased by 20 per cent.

Bounty payments to manufacturing industry are expected to increase by some 37 per cent from $A 61.5 million in 1979-80 to $A 84.1 million in 1980-81. Following a review by the IAC, a new bounty scheme for shipbuilding assistance commenced on July 1, 1980. The current rate of bounty of 27.5 per cent, which applies to the construction costs of vessels, will be phased down to a long-term rate of 20 per cent from June 30, 1984 to July 1, 1986. Outlays in 1980-81 are anticipated to increase by $A 17.4 million to $A 31.8 million.

Expenditure aimed at promoting exports is expected to rise by almost 21 per cent, from $A 240.6 million in 1979-80 to $A 290.2 million in 1980-81. Export incentive payments are expected to increase by $A 30 million to $A 200 million in 1980-81 under the Export Expansion Grants Scheme; and payments under the Export Market Development Grants Scheme are expected to increase from $A 45 million in 1979-80 to $A 60 million in 1980-81.

7. Nontariff barriers faced by Australian exporters

Australian exporters are confronted with a wide aray on nontariff barriers especially against agricultural products, which the Multilateral Trade Negotiations concluded in 1979 largely failed to eliminate or to modify.

Access to the EC market for a wide range of agricultural products of importance to Australia, including beef, cheese, wheat, and fruit is seriously impeded by the Common Agricultural Policy (CAP). Sheep meat has recently been included in the regime. Through the mechanism of variable import levies, the system limits imports of the products concerned and the effects were such that between 1974 and 1978 exports of foodstuffs to the EC from Australia were reduced by 80 per cent (Table 43). Moreover, the maintenance of high domestic support prices in the EC countries results in the generation of surpluses in farm products, which are sold to other countries with the aid of export subsidies. The subsidized exports have a price-depressing effect in external markets, which are in many cases those that traditional exporting countries, such as Australia, have sought to develop in order to offset the loss of their traditional sales outlets in Europe. Other practices of the EC, including global quotas, import licensing, seasonal restrictions, etc., are shown in Table 44.

In the Japanese market, Australian farm exports are confronted with a system of quotas, state trading arrangements, or licensing schemes to protect domestic agricultural producers. Examples of Australian products affected by such measures include beef, dairy products, sugar, leather, citrus fruits, and fruit and vegetable juices.

In the United States agricultural products are subject to various restrictions under Section 22 of the Agricultural Adjustment Act. This provides for import quotas on butter, cheese, and other dairy and dairy-related products. In addition, voluntary restraint arrangements apply to imports of meat.

In Canada, Australia faces voluntary restraints for the importation of beef, discretionary licensing for the importation of preserved milk and butter, and global quotas on the importation of cheese. Restrictions also result from the application of provincial laws on the importation of wines.

Table 41. Australia: Average Nominal Rates of Assistance 1/ for Groups of Manufacturing Industries

Industry	Average Nominal Rate 1968/69	1973/74	1976/77	1977/78	1978/79 2/
			(In per cent)		
Food, beverages, and tobacco	14	8	7	7	7
Textiles	25	19	24	26	(27) 3/
Clothing and footwear	53	36	62	64	(66) 3/
Wood, wood products, and furniture	22	14	13	13	12
Paper and paper products, printing	29	21	17	16	16
Chemical, petroleum, and coal products	21	16	8	7	7
Nonmetallic mineral products	12	8	5	4	4
Basic metal products	14	10	7	6	6
Fabricated metal products	38	27	22	21	20
Transport equipment	34	26	29	30	(30) 3/
Other machinery and equipment	34	23	19	17	17
Miscellaneous manufacturing	30	21	20	20	22
Total manufacturing	24	17	15	15	(15) 3/

Source: Industry Assistance Commission, Annual Report 1979/80.

1/ The term "nominal assistance" here refers to the gross assistance provided to an activity, industry, etc., and can cover any or all forms of assistance. The nominal rate of assistance is the amount of assistance expressed as a percentage of the value of output. The forms of assistance covered by this table are tariffs, quantitative restrictions on imports, subsidies including export incentives, and special pricing schemes for sugar and petroleum products. Forms of assistance not taken into account include government purchasing practices and the local content scheme for motor vehicles.

2/ Preliminary; subject to revision.

3/ Estimates of assistance afforded by quantitative restrictions which contribute significantly to total assistance for these industries were not available for 1978-79. The figures in brackets are estimates made on the assumption that nominal rates of assistance for tariff items subject to quantitative restrictions in 1977-78 remain unchanged in 1978-79.

Table 42. Australia: Effective Rates of Assistance 1/ for Groups of Manufacturing Industries

Industry	Average Effective Rate				
	1968/69	1973/74	1976/77	1977/78	1978/79 2/
			(In per cent)		
Food, beverages, and tobacco	16	18	16	13	15
Textiles	43	35	51	57	(61) 3/
Clothing and footwear	97	64	141	149	(151) 3/
Wood, wood products, and furniture	26	16	18	18	16
Paper and paper products, printing	52	38	30	29	28
Chemical, petroleum, and coal products	31	25	21	18	17
Nonmetallic mineral products	15	11	7	5	5
Basic metal products	31	22	15	14	12
Fabricated metal products	61	44	34	32	32
Transport equipment	50	39	54	61	(59) 3/
Other machinery and equipment	43	29	22	21	22
Miscellaneous manufacturing	34	24	25	27	31
Total manufacturing	36	27	27	26	(26) 3/
Standard deviation of effective rates of assistance	(30)	(23)	(32)	(34)	(34) 3/

Source: Industries Assistance Commission, Annual Report 1979/80.

1/ "Net" assistance provided to an activity, industry, etc., after making allowance for the effects of tariffs and other forms of protection which increase the costs of the activities concerned. A fuller explanation of effective rates of assistance is in Trends in the Structure of Assistance to Manufacturing, AGPS, 1980. The forms of assistance covered by this table are the same as those covered in Table (see footnote of that table).

2/ Preliminary, subject to revision.

3/ Estimates of assistance afforded by quantitative restrictions which contribute significantly to total assistance for these industries were not available for 1978-79. The figures in brackets are estimates made on the assumption that nominal rates of assistance for tariff items subject to quantitative restrictions in 1977-78 remain unchanged in 1978-79.

Table 43. Australia: Commodity Exports to the EC 1/

(In thousands of tonnes)

	1965/66	1975/76	1977/78
Sugar	461	64	29 2/
Wheat	693	73	--
Beef and veal	92	14	19
Butter	64	24	--
Cheese	11	--	--
Canned fruits	113	42	31
Apples and pears	164	54	28

Source: Data provided by the Australian authorities.

1/ EC of the nine.
2/ Re-exported to countries outside the EC.

Table 44. Australia: Nontariff Trade Barriers Facing Agricultural Exports to the EC 1/

SITC	Description	Nontariff trade restraint 2/
001	Live animals	PHS, R, SP
011	Meat; fresh, chilled, or frozen	HS, PHS, DL, GQ, R, MP, ST, VL, SP
013	Meat in airtight containers	HS, PHS, R, DL, VL, SP
022	Milk and cream	VL
031	Fish and fish preparations	SP, Q, BQ
041	Wheat and meslin unmilled	VL, SP
042	Rice	VL, SP
043	Barley unmilled	VL, SP
044	Maize unmilled	VL, SP
045	Other cereals unmilled	VL, SP
046	Meal and wheat flour	VL, SP
047	Meal and cereal flour	VL, SP
048	Cereal preparations	VL, SP, ST, HS
051	Fresh fruit and nuts	HS, GQ, BQ, SP, R, SR, DL, SR
052	Dried fruit	DL, HS, Q
053	Preserved fruit	BQ, Q, HS, DL, GQ, VL, SP
054	Preserved vegetables	SP, BQ, DL
055	Vegetable roots and tubers	SP, HS, BQ, GQ
061	Sugar and honey	VL, SP, PHS, L, HS, BQ
071	Coffee	SP
072	Cocoa	SP
073	Cocoa food preparations	SP, HS, BQ, LL, DL
074	Tea and maté	SP
081	Feeding stuff for animals	VL, SP
099	Food preprations, n.e.s.	SP, L, BQ, DL
112	Alcoholic beverages	R, SP, HS, ST, DL, LL
122	Tobacco manufactures	DL, GQ, SP
422	Fixed vegetable oils	SP
431	Processed oils	SP, R, DL

Source: Information provided by the Australian authorities.

1/ UNCTAD Secretariat tabulations.
2/ Restrictions applied in whole or in part to the SITC group. The key to these symbols is as follows: PHS, HS = prohibitions due to health and sanitary reasons or health and sanitary regulations; SP = special import preferences for States associated with the EC; Q = quotas (method unspecified) or bilateral quotas; GQ = global quotas; DL, LL = discretionary or liberal licensing of imports; L = import licensing (method unspecified); VL, MP = variable levy or other minimum import price restriction; R = restrictions (method unspecified) or special seasonal restrictions; and ST = state trading.

Australia's Energy Policy

1. The energy situation

Australia is a net energy exporter with very large reserves of coal and uranium and smaller but significant reserves of natural gas. It has the largest absolute surplus of indigenous energy production over domestic requirements in the OECD area. The dominant energy source is coal, which accounts for about two thirds of domestic primary energy output and is the principal energy export item. As to crude oil, which is the most important single source of domestic primary energy consumption, Australia's self-sufficiency is about 70 per cent (Tables 45-48). Nevertheless, sudden and sizable increases in oil prices represent a major uncertainty for the balance of payments. Thus, notwithstanding an expansion of coal shipments, 1/ the upsurge in oil prices nearly eliminated the trade surplus on fuels in 1979/80 (Table 49). Moreover, as of 1980, coal represented about 96 per cent of Australia's identified economically recoverable energy resources and about 39 per cent of overall primary energy consumption, whereas oil and natural gas accounted for only 1 per cent of identified economically recoverable resources but for about 57 per cent of consumption. The ratio of economically recoverable resources to 1979/80 production is almost 3,300 for coal, 80 for natural gas, and about 15 for crude oil. 2/

2. Energy policy

The immediate purpose of Australia's energy policy is to ensure stable and secure energy supplies and to reduce dependence on imported oil. In the long run, the aim is to develop a diversified energy base, which minimizes dependence on liquid fuels and relies to a larger extent on more abundantly available alternative local sources of primary energy. A government statement on energy policy to the House of Representatives in November 1977 outlined six main objectives to achieve these broad goals:

a. to move crude oil prices to world parity over a number of years;

b. to restrain the average rate of growth of energy consumption, particularly of liquid fuels;

c. to achieve the highest degree of self-sufficiency in liquid fuels consistent with the broadly economic use of Australian energy resources;

1/ About 85 per cent of coal exports is coking coal; unlike uranium, natural gas, and steaming coal, the demand for coking coal is not directly linked to the overall demand for energy but primarily to the growth of the iron and steel industry.

2/ Estimates of Australia's proved reserves amount to 28 billion tons for black coal and to 36 billion tons for brown coal (December 31, 1979); to 300,000 tons of uranium (June 30, 1980); to 309 billion cubic meters of natural gas in Bass Strait and Cooper Basin fields currently in production (September 30, 1980); to 458 billion cubic meters of natural gas in the North West Shelf (December 31, 1979); and to 1,786 million barrels of crude oil (June 30, 1980). Demonstrated in situ, resources of oil shale are estimated to yield some 16,500 million barrels of shale oil (December 2, 1980).

d. to develop new economic oil and gas resources;

e. to increase substantially energy research and development, particularly in coal liquefaction and solar power; and

f. to encourage individual major projects to meet overseas demand for energy materials where these would provide an adequate return to Australia.

The first goal was achieved in 1978/79 and the other points were reaffirmed in more recent policy statements by the Prime Minister to Parliament.

When formulating its energy policy, the Government relied heavily on market forces to determine supply and demand factors. It identified its own role as setting "the scene within which the private sector and government instrumentalities can operate with confidence, while, as far as practicable... allowing the forces of the market to allocate ... available resources of manpower, capital and technology." In circumstances where market forces would not achieve the Government's objectives, taxes and subsidies would be used to encourage conservation and interenergy substitution, advance the production of new sources of energy, and intensify exploration and the development of coal, oil, and gas fields.

State Governments have substantial control and responsibility over onshore energy matters such as exploration, development, production, and distribution of primary energy sources, including infrastructure developments. The Commonwealth also has responsibilities and interests relating to some of these matters.

Most of Australia's petroleum resources are located offshore, in the Bass Strait (crude oil and natural gas) and on the North West Shelf (natural gas). The Commonwealth has recently legislated to permit the States and the Northern Territory to exercise their powers to the outer limits of the three-mile territorial sea. This legislation is yet to come into force. The responsibility for the exploitation of offshore resources beyond the three-mile limit is shared between the Commonwealth and the States, with final control retained by the Commonwealth.

The main elements of energy policy are outlined below.

a. Energy prices

The Commonwealth Government has limited authority over energy prices. It establishes both the price to refiners of crude oil and the wholesale price of liquified petroleum gas (LPG) for users other than petrochemical and nontraditional industry users. State price controls are in effect at the wholesale level in South Australia and at the wholesale and retail levels in New South Wales. Natural gas and electricity pricing are essentially determined by the States.

Beginning in 1977 the Commonwealth Government increased the price of indigenous crude oil toward world market levels with the final step to world price levels being announced in the 1978-79 budget. The price for domestically produced crude oil is based on the official Saudi Arabian light "marker" price, converted to Australian dollars and adjusted to reflect allowances for quality differentials, freight, wharfage, and credit terms. Australian refiners pay the resultant import parity price for indigenous crude oil (Table 50). Producers receive those prices less any levies payable to the Commonwealth. No levy applies to fields discovered on or after August 18, 1976. For oil discovered prior to that date and subject to import parity-related returns, the levy varies with the size of the field (Table 51). In 1979/80 producers of oil discovered prior to August 18, 1976 received import parity-related returns (i.e., the import parity price minus the levy) on 35 per cent of their production or 6 million barrels a year, whichever was the greater for each field. For the balance, producers received a government-controlled return. For 1980/81 the proportion of old oil attracting parity-related returns is 50 per cent or 6 million barrels a year, whichever is greater for each field. The Government has taken an "in principle" decision to continue the phasing in of import parity-related returns, which would be extended after June 1981 to all old fields not producing more than 15 million barrels a year. For oil fields yielding more than 15 million barrels a year, the proportion of output earning parity-related returns would be held at 50 per cent.

In April 1980 the Commonwealth Government introduced new pricing arrangements for LPG. Under these arrangements the domestic wholesale price for naturally occurring LPG for users other than petrochemical and nontraditional industry users 1/ was set to yield a retail price for automotive LPG in Melbourne of about half the retail price of premium gasoline, in order to encourage use of LPG as an automotive fuel. The wholesale price of LPG is increased in step with the percentage rise in the import parity price of domestic crude oil, provided that this procedure does not lead to a domestic LPG wholesale price greater than the export parity price of LPG. If it does, the export parity price becomes the price for domestic purposes.

State Coal Boards in New South Wales and Queensland have the power to review the price of coal consumed in those States. Since most coal stems from user-owned or captive mines, it is commonly transferred at or close to cost. All coal export agreements are subject to the Commonwealth Government's approval.

Natural gas prices charged at the wellhead are generally based on long-term contracts. While recent contracts have escalation clauses and yield prices around world levels, some old contracts, especially for Bass Strait production, lack such clauses and low prices have resulted.

The measures of the Commonwealth Government to bring oil prices to world market levels have led to a broad restoration of appropriate relationships between domestic and external prices, which had become out of line subsequent to the 1973 OPEC decisions. Between 1976 and 1980 Australian user prices

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1/ The price for petrochemical and nontraditional users is determined by negotiation between the parties concerned.

rose more than twice as rapidly as those in the rest of the OECD area, a reversal of relationships between increases in the preceding four years (Table 50).

b. Taxation

Indigenous crude oil production is subject to a Commonwealth levy. This levy is set to ensure that the revenue benefits of import parity pricing do not accrue solely to producers but are shared by the community generally. The rates of levy are shown in Table 53. In 1979/80 about 70 per cent of the value of crude oil output went to the Commonwealth Government on account of the crude oil levy, and this, together with company tax receipts and Commonwealth and state royalties, amounted to a government "take" of some 83 per cent of the value of crude oil production, compared with 79 per cent in 1978/79. A levy is also paid by producers of naturally occurring LPG from fields in operation prior to August 17, 1977, while output from fields brought into production subsequently remains tax free. The levy arrangements differentiate between fields on the basis of date of discovery or production and have encouraged exploration by allowing the full price to new discoveries.

Tax incentives to promote exploration and development have been granted in the form of accelerated depreciation of capital expenditure by a petroleum or general mining company on the development of a field or mine and on mineral transport facilities; deductibility of expenditure on petroleum prospecting and development against income from any source; an investment allowance for plant ordered and installed during specific time periods; 1/ the inclusion of additional items under allowable capital expenditures eligible for rapid write-off; and a tax rebate to subscribers of share capital to companies engaged in petroleum exploration and development and natural gas liquefaction.

Income tax concessions have been extended to industrial users to encourage the conversion and replacement of oil-fired equipment to more plentiful energy sources. Sales tax exemptions now apply to domestic space heaters (with the exception of kerosene heaters) and on a wide range of solar appliances to induce a greater reliance on fuels other than oil. Sales tax exemptions also apply to kits for converting motor vehicles to LPG or compressed natural gas.

c. Subsidies

Grants are provided by the Commonwealth Government to support energy research and development. Projects assisted include the production of synthetic fuels from coal, biomass, oil shale and wastes, and improved mining and transportation technologies. In March 1980 the Commonwealth Government introduced a subsidy of $A 80 per ton in respect of the use of LPG for household purposes for a period of three years, and in April the subsidy was extended to nonprofit residential institutions and schools, and in December to commercial and industrial consumers in areas where natural gas is not readily available. Moreover, the Commonwealth Government extends capital grants to States for the upgrading of urban public transport.

1/ This allowance is available to industry generally.

d. Other measures

Given Australia's important resources in other forms of energy, prime consideration is given to savings in petroleum rather than energy conservation generally. The move to import parity pricing for crude oil, supplemented by tax measures, is fundamental to the effort to promote the conservation of oil and the substitution of other forms of energy. Most of Australia's efforts in fuel conservation are directed at transportation, which accounts for well above one half of oil consumption by sectors. Based on recommendations of the National Energy Advisory Committee, Government and industry have agreed on a voluntary program of fuel economy targets for motor vehicles, whereby the fuel consumption of new vehicles would be reduced from 11.2 liters per 100 kilometers in 1978 to 9.4 liters in 1983 and 8.8 liters in 1987.

Energy conservation has been further encouraged by a national energy conservation campaign, and a national industrial energy management scheme has been introduced to promote and foster efficient energy consumption patterns in industry. A commitment is being sought from industry to establish and maintain energy management programs. Furthermore, the Commonwealth Government and some State Governments are raising the proportion of small cars and LPG-fueled cars in their car fleets. Upon the Government's request, the oil industry has reduced the octane level of premium gasoline. The Commonwealth Government, through the Loan Council, assists the States to provide the necessary facilities for coal-related development through an expanded program of infrastructure financing including ports and rail facilities.

After the elections of 1977, the Commonwealth Government created the Department of National Development to carry the main responsibility for the development of the national energy policy and coordinate the activities of other institutions involved in energy matters. Within the Department, a National Energy Office has been established to focus on energy matters and the formulation of energy policy at the Commonwealth level.

3. Results and prospects

The results of Australia's energy policy are most evident in the field of petroleum. There has been a marked revival in petroleum prospecting, which had slowed considerably since the early 1970s. Expenditure on exploration peaked in 1972 at $A 107 million, when 100 wells were drilled, but fell to $A 59 million by 1976, with 19 wells drilled. However, by 1980 expenditure on exploration rose to an estimated $A 351 million and the number of wells drilled to 86. Net additions to proved reserves of oil during 1976 to 1979 were approximately 995 million barrels. For the five years of 1979-83 minimum expenditure commitments were estimated at $A 400 million for offshore and $A 100 million for onshore exploration. These figures are to be exceeded by the end of 1981 with $A 556 million for offshore and $A 412 million for onshore exploration.

Fuel conservation and switching away from scarcer fuels are also taking place. Consumption of oil grew at an annual average rate of 3.3 per cent over the five years to 1975/76, roughly in line with the growth of real GDP.

During the subsequent five years the increase in oil consumption slowed to about 1.5 per cent, notably less than the 2.4 per cent annual growth in GDP. The decline in the share of petroleum consumption in primary energy consumption since 1970/71 is shown in Table 47. Sales of the ten major petroleum products in Australia in 1980 were 4.4 per cent lower than in the previous year. Gasoline sales were down by almost 1 per cent, compared with a 2 per cent increase in 1979 and an average annual increase of almost 4 per cent in the five years to 1978. In 1980 there were substantial reductions in consumption of heating oil, lighting kerosene, industrial diesel fuel, and fuel oil, which were achieved largely through substitution, particularly toward the use of natural gas and LPG. In 1980 production of natural gas grew by 14 per cent and LPG sales rose by 9 per cent.

By 1990 self-sufficiency in crude oil from existing fields is projected to have fallen to about 42 per cent, but the contribution from new fields and alternative liquid fuel projects (including oil shale) is forecast to return self-sufficiency to about 70 per cent.

Australia expects to increase its coal production at an average annual rate of 9 per cent through to 1990 and the share going to exports is estimated to be maintained at about 60 per cent of production. A further increase in export earnings is projected to result from natural gas. The development of the significant gas reserves contained in three fields off the coast of Western Australia is under way. Capital costs are estimated at $A 5.5 billion (including pipelines) and exploitation is expected to commence around the middle of the 1980s. In the light of the large infrastructural investment that would be required to transport gas from this region to the more densely populated areas along the east and southeast coasts, the Commonwealth Government agreed in August 1977 to permit the export of gas from 53 per cent of the then estimated reserves of the three fields scheduled for development on the North West Shelf.

Uranium exports are limited by strict government controls to customer countries meeting stringent nonproliferation requirements under effective safeguards. Following resumption of production at the Mary Kathleen mine in Queensland in 1976, yellowcake production from the Nabarlek project, Northern Territory, began in 1980. The nearby Ranger project is scheduled to begin production in late 1981 and two other projects in the region await environmental clearance and agreement with local aboriginal landowners. Rules on foreign participation in uranium projects, requiring in principle 75 per cent Australian equity, were somewhat eased in June 1979 as to the granting of exceptional approval where the domestic participation criterion cannot be met. Since nuclear power is economical only when large units are installed and connected to huge electricity grids, domestic use of nuclear power is not considered economically justifiable before the 1990s.

Data on prospective developments in the energy field are provided in Table 52.

Table 45. Australia: Structure of Primary Energy Supply in 1979/80

(In per cent of total supply for domestic use)

	Coal	Oil	Natural Gas	Other 1/	Total
Indigenous production	73.3	30.5	11.7	8.0	123.6
Plus imports	--	18.9	--	--	18.9
Minus exports	-40.4	-4.5	--	--	-44.9
Stock changes 2/	4.5	-2.1	--	--	2.4
Total supply	37.5	42.8	11.7	8.0	100.0

Source: Department of National Development and Energy, Demand for Primary and Secondary Fuels Australia: 1960-61 to 1979-80; and data provided by the Australian authorities.

1/ Excludes uranium, includes wood, bagasse, and hydro-electricity.
2/ Includes statistical discrepancies.

Table 46. Australia: Structure and Development of Primary Energy Production

	Black Coal	Brown Coal	Petro- leum 1/	Natural Gas 2/	Other 3/	Total
			(Percentage distribution)			
1975/76	52	8	28	6	5	100
1979/80 4/	53	8	26	10	4	100
			(Percentage increase)			
1975/76-1976/77	11.4	5.9	3.7	22.1	-2.7	8.8
1976/77-1977/78	-2.1	-2.1	3.9	10.8	1.1	0.6
1977/78-1978/79	3.9	5.2	-1.1	11.8	-2.3	3.0
1978/79-1979/80 4/	--	1.7	-4.5	14.6	-4.9	--
			(Ratio of production to consumption)			
1975/76	2.41	1.00	0.75	1.00	1.00	1.27
1979/80 4/	2.27	1.00	0.72	1.00	1.00	1.24

Source: Data provided by the Australian authorities.

1/ Commercial production of crude oil, condensated and liquified petroleum gas.
2/ Natural gas and ethane used as fuel or petrochemical feedstock.
3/ Includes wood, bagasse, and hydro-electricity.
4/ Provisional.

Table 47. Australia: Structure and Development of Primary Energy Consumption

	Coal	Petroleum products	Natural gas	Other 1/	Total
	(Percentage distribution)				
1960/61	53	38	--	8	100
1965/66	48	45	--	7	100
1970/71	41	50	3	6	100
1975/76	38	48	8	6	100
1977/78	38	47	10	5	100
1978/79	38	46	11	5	100
1979/80	39	44	12	5	100
	(Annual average percentage increase)				
1960/61 - 1965/66	3.3	8.9	--	1.8	5.5
1965/66 - 1970/71	2.1	7.6	--	2.5	5.5
1970/71 - 1975/76	2.6	3.5	23.4	3.2	4.1
1975/76 - 1977/78	4.0	3.5	16.3	-0.8	4.5
1977/78 - 1978/79	3.4	0.1	11.8	-2.2	2.4
1978/79 - 1979/80	5.0	-1.2	14.6	-4.9	2.7

Sources: Department of National Development and Energy, Demand for Primary and Secondary Fuels Australia: 1960-61 to 1979-80; and data provided by the Australian authorities.

1/ Includes wood, bagasse, and hydro-electricity.

Table 48. Australia: Petroleum and Petroleum Products--Demand and Supply

	1972/73	1975/76	1976/77	1977/78	1978/79	1979/80
			(1,000 barrels per day)			
Consumption 1/	560	612	645	654	658	647
Domestic production of crude oil	356	410	423	437	428	408
Net imports	182	165	172	167	153	191
Imports 2/	243	236	247	264	251	272
Exports 2/	61	71	75	97	98	81
Memorandum items:						
Share of domestic production of crude in domestic refinery input (in per cent)	62.7	71.0	71.3	69.8	70.0	67.0
Average price of oil imports ($A per barrel)	2.3	10.1	11.0	12.0	12.8	21.4

Sources: Reserve Bank of Australia, Reserve Bank Bulletin; and data provided by the Australian authorities.

1/ Includes petroleum products not used as a fuel, e.g., solvents, lubricants, petrochemicals.
2/ Petroleum, petroleum products, and related materials (division 33 in the SITC trade classification); includes l.p.g. exports.

Table 49. Australia: Overseas Trade in Fuels

(In millions of Australian dollars)

	AECC/AICC Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80
Exports							
Coal, coke, and briquettes	32	672.7	1,069.8	1,291.6	1,489.8	1,532.6	1,690.2
Petroleum and petroleum products	33	161.8	161.7	205.8	241.7	315.6	426.5
Of which:							
Crude oil	333	...	...	...	...	9.8	7.1
Refined products	334	...	...	...	...	289.8	408.5
Natural and manufactured gas	34	...	...	...	...	...	...
Total 1/	3	834.5	1,231.5	1,497.4	1,731.5	1,848.3	2,116.7
Imports							
Coal, coke, and briquettes	32	1.9	0.9	1.7	1.9	3.5	4.1
Petroleum and petroleum products	33	722.4	806.0	994.0	1,160.4	1,136.5	2,092.5
Of which:							
Crude oil	333	...	...	...	473.5	399.6	932.2
Refined products	334	...	...	...	549.1	715.5	1,131.5
Natural and manufactured gas	34	0.1	.08	--	0.2	0.2	0.3
Total	3	724.4	807.0	995.7	1,162.5	1,140.2	2,096.8
Balance on trade in fuels 1/	3	110.1	424.5	501.7	569.0	708.1	19.9

Sources: Australian Bureau of Statistics, Exports and Imports.

1/ Excludes exports of natural and manufactured gas.

Table 50. Australia: Pricing of Crude Oil

	Saudi Arabian Light 1/ $A/bbl. f.o.b. Ras Tanura	Price Paid by Refiners of Bass Strait Crude 2/ $A/bbl. f.o.b. Westernport
January 1972	2.08	2.10
January 1974	7.83	2.10
September 1975	7.98	4.33
August 1977	11.39	6.42 3/
January 1978	11.39	6.70 3/
July 1978	11.39	7.23 3/
August 1978	11.39	12.59
January 1979	11.60	13.66
July 1979	16.06	18.66
January 1980	21.67	24.77
July 1980	24.78	27.50
January 1981	27.48	30.23

Source: Data provided by the Australian authorities.

1/ Converted at exchange rates, Reserve Bank of Australia, Statistical Bulletin.

2/ Since August 1978 the import parity price for all domestically produced crude oil has been based on the official Saudi Arabian light "marker" price, converted to Australian dollars, and adjusted to reflect allowances for quality differentials, freight wharfage, and credit terms. The price series includes the crude oil levy of $A 2.00 per barrel from August 1975 to August 1977, $A 3.00 per barrel from August 1977 to August 1978 and the differential excise to equate prices with import parity from August 1978.

3/ Average realized price over next discrete period for "parity" and "nonparity" crude.

Table 51. Australia: Pricing of Crude Oil From Bass Strait Old Fields

(In Australian dollars per barrel)

	Import Parity Related Crude Oil			Controlled
	Small fields 1/	Medium fields 2/	Large fields 3/	Crude Oil
January 1 to June 30, 1980				
Import parity price	24.77	24.77	24.77	24.77
Levy	3.00	11.33	14.54	22.27
Return to producer	21.77	13.44	10.23	2.50
June 30 to December 31, 1980				
Import parity price	27.50	27.50	27.50	27.50
Levy	3.00	13.38	16.49	24.98
Return to producer	24.50	14.12	11.01	2.52
January 1 to June 30, 1981				
Import parity price	30.23	30.23	30.23	30.23
Levy	3.00	15.43	18.69	27.66
Return to producer	27.23	14.80	11.54	2.57

Sources: Budget Paper No. 1, 1980-81; Ministry for National Development and Energy, Press Releases; and data provided by the Australian authorities.

1/ Output of less than 2 million barrels a year.
2/ Output of 2-15 million barrels a year.
3/ Output of over 15 million barrels a year.

Table 52. Australia: Key Energy Indicators

	1960		1973		1978		1985/86 1/		190/91 1/
Primary energy demand (Mtoe) 2/	26.7		54.7		71.8		101.9		123.8
Increase 3/		5.7		5.6		4.0		4.0	
Final energy consumption (Mtoe) 2/	16.8		35.8		49.5		63.8		72.6
Increase 3/		6.0		6.7		2.8		2.6	
Oil consumption (Mtoe) 2/	9.5		25.9		32.0		36.1		37.8
Increase 3/		8.0		4.3		0.9		0.9	
Primary energy production (Mtoe) 2/	18.3		65.7		91.8		137.9		202.6
Increase 3/		9.6		6.9		5.5		5.6	
Of which:									
Solid fuels (Mtoe) 2/	16.7		39.5		56.3		96.2		145.6
Oil (Mtoe) 2/	--		19.5		24.6		23.7		26.4
Gas (Mtoe) 2/	--		3.5		6.5		13.5		25.7
Hydro- and geothermal (Mtoe) 2/	1.6		3.2		4.4		4.5		4.9
Energy exports (Mtoe) 2/									
Of which:									
Coal	1.0		17.4		26.8		48.4		81.7
Oil products	1.6		3.3		4.2		--		--
Gas	--		--		--		--		8.5
Petroleum imports (Mtoe) 2/	12.7		12.4		15.2		14.7		14.0
Net oil imports (Mtoe) 2/	11.1		9.1		11.0		14.7		14.0
Memorandum items:									
Elasticity of primary energy demand to GDP growth		1.13		1.86		1.21		1.14	
Real GDP growth 3/		5.0		3.0		3.3		3.5	
Electricity generation (Twh) 4/	21.0		65.0		86.1		150.0		198.0

Sources: IEA, Energy Policies and Programmes of IEA Countries, 1979 Review; and data provided by the Australian authorities.

1/ Provisional projections prepared by the Department of National Development and Energy.

2/ Millions of tons of oil-equivalent.

3/ Annual average percentage increase. For increases to 1985/86 data of the Department of National Development and Energy for 1978/79 are used.

4/ Terawatt-hour (= 10^9 kilowatt-hours).

The Resources Development Boom

Australia is richly endowed with a wide variety of energy and mineral resources, a vast proportion of which is yet to be exploited. The last major resources development boom which occurred in the 1960s and early 1970s was concentrated largely in the mining of metallic ores and coking coal. The large expansion presently under way is related to the world energy situation and extends to black and brown coal, natural gas, uranium, the significant--but more limited--reserves of crude oil, and the extensive deposits of oil shale, as well as to energy-intensive products, such as aluminum and steel. The envisaged expansion of resource developments is of such a dimension that it will have an important impact on most aspects of the economy--in particular, the balance of payments, the labor market, the level and structure of protection, and the development of the manufacturing sector--in the 1980s and beyond.

The latest schedule of major investment projects by the Department of Industry and Commerce puts expenditure on such projects over the 1980s at $A 33 billion (at October 1980 prices). Investment is expected to be concentrated in coal, $A 9.3 billion; oil and gas, $A 9 billion; base metals, $A 7.6 billion; and iron ore, $A 2.5 billion. In order to identify potential strains in the economy, the size and the time profile of these investment projects are of crucial importance, though inevitably highly uncertain. Nevertheless, tentative estimates suggest that expenditure on most of the projects now firmly committed or in the final feasibility stage will either be completed or well under way within the next five years (Chart 25).

Investment may reach its peak in 1982/83 when it could be equivalent to close to 4 per cent of GDP, a magnitude similar to the peak in the mining boom in the late 1960s and early 1970s. Investment is likely to taper off thereafter, though perhaps less sharply than present investment schedules indicate. 1/ The direct impact of these investments on the trade account will be negative in the early years of the development boom. Including indirect effects on imports arising from higher incomes associated with the resource developments, the negative impact on the trade account will, of course, be larger. Imports would remain at a high level after 1983, despite the estimated fall in investment, reflecting the higher import content of investment in oil and gas resources which is expected to rise strongly through the mid-1980s. During this period the negative effect of the resource development boom on the current account of the balance of payments is, however, likely to be more or less offset by capital inflows associated with it. In the second half of the decade, the net impact on the balance of payments is expected to become increasingly positive as import savings in oil and gas and exports of aluminum and coal increase rapidly.

The Australian economy is now going through a major adjustment process, the evolution and final outcome of which will crucially depend on the policies followed by the authorities. First, the resource development boom has

1/ The estimates shown in Chart 25 assume that only 70 per cent of present investment schedules would be realized up to 1982/83, with the remainder perhaps being pushed further into the future.

important implications for the finances of the public sector. In many cases development of the resource base may require significant investment in infrastructure by the public sector, in particular the States. 1/ This would require the freeing of resources in other areas of the public sector, if crowding out of private sector activities was to be avoided. On the other hand, development of the resource base will increase the tax base of the economy, though at a later stage. Public sector pricing, taxation, and royalty policies are all relevant in this connection. Second, while resource development projects are highly capital intensive, demand for skilled labor, which is relatively scarce, is likely to increase significantly over the next few years. This can be expected to exert upward pressure on wage demands by skilled labor which, given institutional rigidities, can in turn increase inflationary pressures throughout the economy. Third, one of the major effects of the resource development boom will be to strengthen the overall balance of payments, a development that has started to become visible. Experience with the previous mining boom suggests that the monetary implications of the resource boom could be severe, if unchecked. Control over monetary conditions is therefore crucial to a noninflationary adjustment to the resource boom. The task of monetary management could be eased, if further progress was made in reducing the public sector deficit. The use of external policy instruments would also reduce the danger of an inflationary adjustment in the economy. A reduction in the relatively high level of trade protection would seem to be preferable to a significant appreciation of the exchange rate, both on domestic and international grounds.

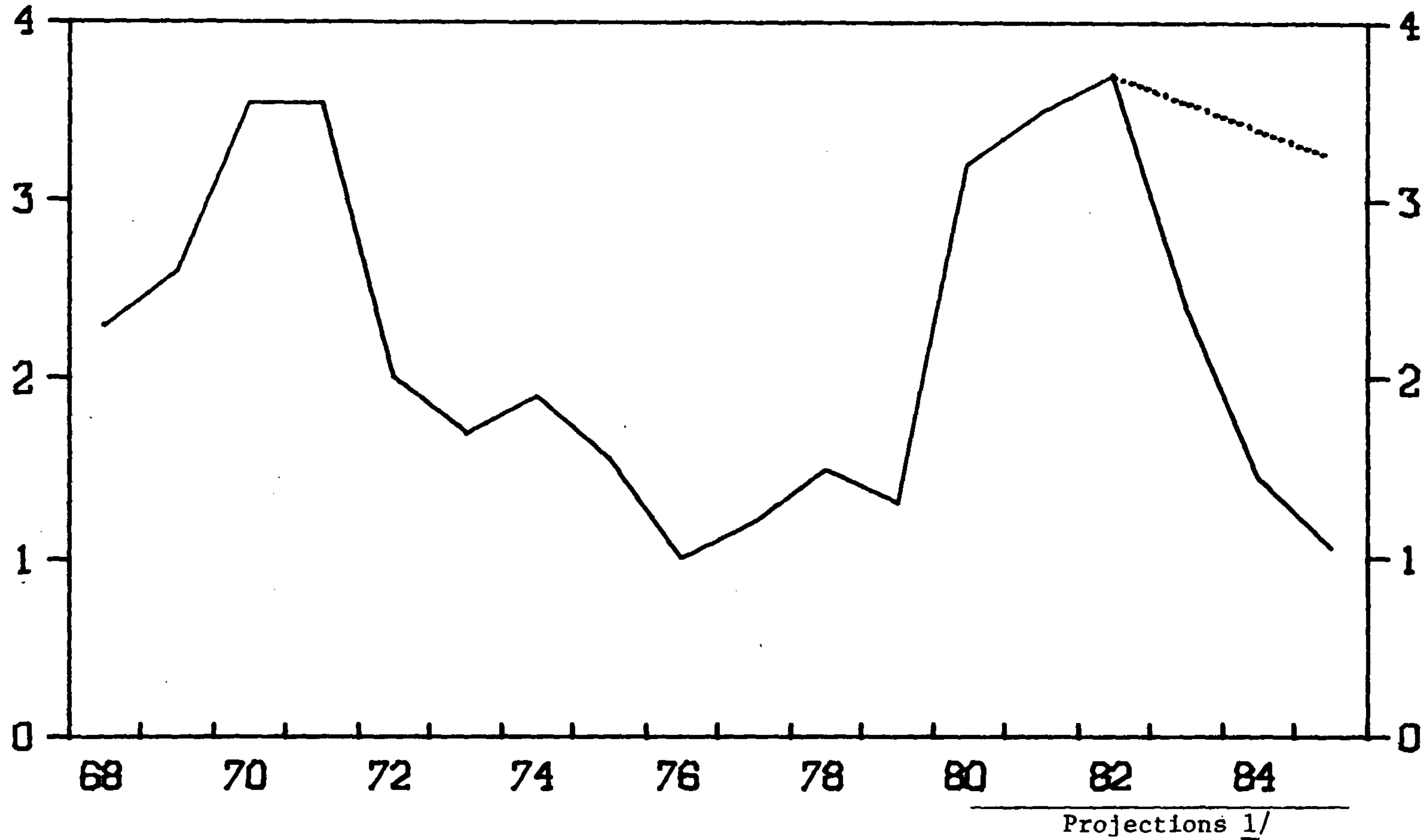
1/ Between 1980/81 and 1984/85 public investment associated with projects already approved under the infrastructure program alone is estimated at about 20 per cent of the corresponding estimated level of private major project investment. In total, public infrastructure investment associated with the resource developments is estimated at about $A 18 billion, or more than half the estimated level of private investment. The relatively high emphasis on infrastructure investment is due to the fact that the current boom is heavily based on energy and energy-related resources, with heavy demands on electricity generation provided by the States.

CHART 25

AUSTRALIA

PRIVATE RESOURCE INVESTMENT

(In Per Cent Of GDP)



Source: Staff estimates.

1/ Based on the assumption that 70 per cent of the present investment schedules will be realized; dotted line indicates an alternative development.

Table 53. Australia: Distribution of Major Manufacturing and Mining Investment Projects

	By Commodity Groups	
	In per cent	In billions of Australian dollars (October 1980 prices)
Oil and gas	26.9	9.0
Coal	27.9	9.3
Base metals (including aluminum and alumina)	22.7	7.6
Iron ore	7.3	2.5
Others	15.2	5.1
Total	100.0	33.4

	By State (In Per Cent of Total)	
	In per cent	In billions of Australian dollars (October 1980 prices)
New South Wales	21.7	7.2
Northern Territories	2.4	0.8
Queensland	26.3	8.8
South Australia	7.9	2.6
Tasmania	2.0	0.7
Victoria	8.3	2.8
Western Australia	31.4	10.5
Total	100.0	33.4

Source: Department of Industry and Commerce, Major Manufacturing and Mining Investment Projects, December 1980.

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