



Australia's Financial Markets Snapshot – 2008

The financial turbulence of recent months has posed challenges for the global economy, and Australia has been affected with a slowing in economic and financial market activity. In relative terms, however, Australia continues to perform well. This reflects the underlying resilience of Australia's economy, the commitment to sound economic management, and the strength of Australia's financial institutions and regulatory framework.

- **Financial Institutions Assets.** Australia's large and mature financial sector has assets of more than A\$4.3 trillion⁽¹⁾, which is equivalent to almost four times the country's nominal GDP. Capital reserves of Australia's banks and other financial institutions remain sound, reflecting the quality of assets and strong regulatory oversight. Australia's percentage of non-performing loans, for example, is among the lowest in the world.
- **Gross Value Added.** The finance and insurance industry is the fourth largest sector in Australia's economy, generating 8.0 per cent, or A\$80 billion⁽²⁾, of real industry gross value added. This contribution is up from 6.6 per cent two decades ago. The financial services sector is one of the most dynamic in the economy, with an average annual (real) growth rate of 4.6 per cent since 1989. Its rate is well above the average growth rate of 3.5 per cent for all industries.
- **Financial Market Turnover.** Annual turnover across Australian markets (encompassing over-the-counter and exchange traded markets) grew by 3.1 per cent to exceed A\$122 trillion⁽³⁾ in 2007-08. While this is well below the average rate of about 14 per cent over the past decade, the positive growth is an indicator that Australia's financial markets have performed relatively well in the current difficult environment.
- **Foreign Exchange (FX) Market.** In September 2008, Australia's FX turnover reached A\$215 billion, of which non-Australian dollar transactions accounted for almost 60 per cent⁽⁴⁾. Australia's market is the seventh largest in the world, the Australian dollar is the sixth most traded currency and the A\$/US\$ is the fourth most traded currency pair globally⁽⁵⁾. The surge in Australia's FX market turnover reflects the nation's position as a major financial services centre in the region and its importance as a base for Asian time-zone FX activities.
- **Stock Market.** Australia's stock market is the largest in Asia ex-Japan, and ranks eighth in the world. Measured by floating stocks (the shares available to investors in the markets), the Australian market capitalisation was US\$533 billion⁽⁶⁾, which is around 250 per cent larger than the size of the stock market in Hong Kong (US\$200bn) and nearly five times larger than that in Singapore (US\$107bn).
- **Debt Securities Market.** The Australian debt securities market has overtaken Korea as the second largest in the region (ex-Japan), after China. Total value of the combined international and domestic debt securities outstanding of all issuers totalled US\$1.3 trillion⁽⁷⁾. More importantly, the country has more international debt securities outstanding (US\$549bn in June quarter 2008) than any other Asia-Pacific nation.
- **Securitisation Market.** The international securitisation market suffered a setback during the second half of 2007, mainly due to turbulence in global credit markets, a lack of liquidity and a drop in investors' tolerance of risk. Australia's total value of issuance eased to US\$79 billion in 2007 from US\$102 billion⁽⁸⁾ in 2006. Australia is ranked the largest securitisation market in the Asian time zone and the fourth largest in the world behind the US, UK and Spain.
- **Investment Funds.** The Australian funds management industry is now one of the major markets for managed funds in the world, with total funds under management of A\$1.3 trillion⁽⁹⁾ in September quarter 2008. With an annual compound growth rate of about 11 per cent over the last 16 years, total investment fund assets in Australia have increased more than five-fold since 1992. The growth of the managed funds industry in Australia has been underpinned by a sophisticated investor base, mature markets, participation by leading global financial institutions, cutting edge investment products, an efficient regulatory environment and most importantly, Australia's innovative retirement income (superannuation) system.
- **Hedge Funds.** Australia's hedge funds industry is growing rapidly, with an expanding funds pool and an increasingly sophisticated local investor base seeking new ways to diversify their investments. Australia's hedge funds is the largest in the Asia-Pacific with total assets surging to over A\$70 billion⁽¹⁰⁾ in June 2007 which is spread across roughly 200 funds. It is among the fastest growing globally, with funds under management rising from about A\$2 billion in June 2000.
- **Merger and Acquisition (M&A) Activity.** Worldwide M&A in 2007-08 totalled around US\$3 trillion⁽¹¹⁾ in completed deals, down from US\$3.2 trillion in 2006-07. In contrast, Australia's volume in completed deals rose by almost 50 per cent to US\$125 billion. Australia ranked first in the Asia-Pacific region and sixth in the world, with a global share of 4.1 per cent, larger than that of Japan (2.2), South Korea (1.4) and China (0.6).

(1) RBA Bulletin Statistical Table B1; (2) Australian Bureau of Statistics (ABS) cat. no. 5204, *Australian System of National Accounts*, Table 5; (3) Australian Financial Markets Association (AFMA), *2008 AFM Report*; (4) RBA Bulletin Statistical Table F10; (5) Bank for International Settlements (BIS), *Triennial Central Bank Survey*, April 2007; (6) S&P/Citigroup, *The World by Numbers: Stock Market Review*, October 2008. (7) BIS *Quarterly Review: September 2008*, Tables 11 & 16A; (8) International Financial Services London Research, *Securitisation 2008*; (9) ABS cat. no. 5655, *Managed Funds, Australia*, September Quarter 2008; (10) LCA Group; (11) Thomson Reuters, data on 10 July 2008