



Intergenerational Report

Tomorrow I'll be launching the new Intergenerational Report entitled *Australia to 2050: Future Challenges*. This report paints a really important picture of the challenges that Australia will face over the next 40 years, including an ageing population, mounting pressures on the health system, and the huge environmental and economic costs if we don't act on climate change. As I mentioned in last week's economic note, the Prime Minister has spent a lot of time in the last few weeks travelling around the country starting up a national discussion about the challenges set out in the report. It's a discussion we need to have, because if we want to maintain and improve our living standards for ourselves and our kids and grandkids, we simply can't afford to sweep these challenges under the carpet. But if we take modest steps now, we can avoid the very painful and expensive adjustments that will be needed in the future if we simply ignore these problems and hope they go away.

For example, the PM and I have both discussed the economic and social pressures that will arise from the ageing of our workforce. As the report shows, the proportion of Australia's population aged 65 and over is expected to almost double over the next 40 years. Today there are 5 working aged people to every person aged 65 and over. By 2050, this ratio will fall to only 2.7 people. That's why in tomorrow's speech I'll also be talking about ways we can better harness the skills and experience of older Australians who have worked hard to make our country what it is today.

My speech launching *Australia to 2050: Future Challenges* will be televised on ABC TV at 12.30 tomorrow and made available on [my website](#), and of course the Intergenerational Report itself will be put up on the [Treasury website](#). So I encourage people to have a look if they can and get involved in this really important national debate.

International Monetary Fund

Last week's [World Economic Outlook Update](#) from the IMF estimates that Australia grew by just under 1 per cent in 2009. This means Australia was the only advanced economy to record positive growth last year, and compares to an average contraction of 3.2 per cent for the advanced economies collectively. The IMF attributed Australia's good performance to our "timely and significant policy response to the crisis", robust demand for our commodities from China, our flexible exchange rate and our healthy banking sector. The IMF estimates that the world economy shrunk by an unprecedented 0.8 per cent in 2009 – the first contraction in the post-war era. The IMF noted that the global recovery is strengthening, driven by unprecedented monetary and fiscal stimulus, and now expects the global economy to grow by 3.9 per cent in 2010. However it cautioned that the recovery remains fragile in many parts of the world and that policy efforts are still needed to sustain the recovery.

The IMF also released its [Global Financial Stability Report](#) last week, which noted that financial conditions remain fragile in a number of advanced and emerging market economies. The IMF stated that "a top priority is to improve the health of these banking systems so as to ensure the credit channel is normalized", and that "for all countries the goal is to exit from the extraordinary public interventions to a global financial system that is safer, but retains the dynamism needed to support sustainable growth." We're currently working through the G20 and the Financial Stability Board to address the underlying weaknesses in the global regulatory system. This will ensure that global financial markets contribute to sustainable global growth and not to the destabilising behaviour we have seen in recent years.

UK and US GDP

Last week we saw December quarter GDP outcomes for both the United Kingdom and the United States. In the UK, GDP grew by 0.1 per cent in the December quarter, pulling their economy out of recession after six straight quarters of negative growth – the most since records began in 1955. The UK economy is now 6.0 per cent smaller than when its recession started in the June quarter of 2008.

Over in the US, GDP rose by 1.4 per cent in the December quarter. This was the second consecutive quarter of growth for the US after four quarters in recession, and means the US economy shrunk by 2.4 per cent in calendar year 2009 – the worst performance since 1946. US President Barack Obama said this latest GDP outcome “affirms our progress – and the swift and aggressive actions that made it possible”, but “we’ve got a long way to go to make up for the millions of jobs that we lost in this recession.”

Unfortunately unemployment in both the US and the Euro area is still around 10 per cent, which just goes to show how well Australia has performed in keeping unemployment below 6 per cent with the help of stimulus and a great display of community resilience. Even so, this is still too high, and there is much more work to do, which is why the Government is focused on keeping up its responsible economic management as we move into recovery.

Consumer Price Index

Consumer price index figures released on Wednesday showed that inflation remains subdued, reflecting an economy that is still operating below capacity. Inflation was 2.1 per cent through the year to the December quarter 2009, at the lower end of the Reserve Bank’s 2 to 3 per cent target band. The main contributors to the December quarter’s inflation outcome of 0.5 per cent were price increases for food, housing components (such as rents and house purchase) and recreation, with a fall in the price of transportation partially offsetting these increases. Underlying inflation was 3.4 per cent through the year to the December quarter, slightly down from 3.5 per cent through the year to the September quarter. Inflation is expected to remain moderate over the near-term as the fallout from the global recession continues to impact on the domestic economy, but we remain firmly focused on lifting the productive capacity of our economy through investments in skills, education, infrastructure and economic reform, so we can enjoy strong growth with low inflation well into the future.

Investment in RMBS

This past Thursday competition in Australia’s mortgage market received a fresh boost, with the Australian Office of Financial Management (AOFM) allocating up to \$3.4 billion in funding to five smaller lenders.

The global financial crisis brought banking systems around the world to their knees and saw the collapse of the private securitisation market here in Australia. In response to the dislocation experienced in the Australian residential mortgage-backed securities (RMBS) market, in September 2008 I announced that the AOFM would invest \$4 billion in RMBS. Two weeks later, I directed the AOFM to purchase an additional \$4 billion in RMBS. These investments were vital in ensuring a flow of funds to smaller lenders who were reliant on securitisation markets to fund mortgage lending. To further support smaller lenders and promote competition in the mortgage market, in October of last year I announced an extension of the AOFM’s investment in RMBS of up to a further \$8 billion, of which the AOFM has just allocated \$3.4 billion as ‘pipeline’ funding for five smaller lenders, including three non-bank lenders. This will help smaller lenders to keep lending at competitive interest rates, putting competitive pressure on the big banks.

Overall, the Government’s direct investment of up to \$16 billion in RMBS has helped to maintain the RMBS market and preserve its infrastructure. It has also fostered a recovery in private investor

confidence, with private capital making up 37 per cent – or \$4.6 billion worth – of the \$12.4 billion in Australian RMBS issuance in which the AOFM has taken a stake since our initial announcement in September 2008. This is very important to helping maintain competition in the home-lending market into the future, which puts downward pressure on lending rates over time.

On top of our substantial investment in RMBS, the Government has also introduced tough new consumer protection laws due to come into force this year. These new laws will be the toughest laws governing consumer credit Australia has ever had, with wide-ranging powers to overrule unfair terms in credit contracts, including mortgages.

On Tuesday the Reserve Bank Board will meet for its monthly monetary policy meeting. I don't pre-empt decisions of the RBA, but I have made it crystal clear that I see no justification for any bank to increase their rates over and above any decision that is taken by the independent Reserve Bank. With some banks' interest margins having recovered to pre-crisis levels, the Australian people won't tolerate any bank trying to take them for a ride. The NAB has already thrown down the gauntlet to the other big banks by saying it would not increase its standard variable home loan interest rate by more than any increase to the cash rate announced by the RBA on Tuesday. Any other bank that thinks they can get away with gouging their customers on rates can expect the same severe community backlash that Westpac in particular, along with CBA and ANZ, suffered before Christmas.

Climate Change

The Minister for Climate Change and Water, Senator Penny Wong, announced on Wednesday that Australia will formally submit its existing 2020 target range for reducing emissions to the Copenhagen Accord. Penny stated that "consistent with our commitment to do no more and no less than the rest of the world, we are today submitting our existing target range: 5 per cent unconditional, with up to 15 per cent and 25 per cent both conditional on the extent of action by others, as set out in May last year." An ambitious and comprehensive global agreement is squarely in Australia's national interest. That is why the Government is keeping the existing range, including the 25 per cent target, on the table.

We're determined to tackle dangerous climate change through our Carbon Pollution Reduction Scheme as it makes polluters pay and is the cheapest and most effective way to reduce carbon pollution. It also puts a limit on Australia's carbon pollution, which will allow Australia to meet our unconditional target for reducing emissions as well as any further targets we agree to in the future. That's why we'll be reintroducing the legislation for our CPRS when Parliament resumes this Tuesday.

It's hard to believe Parliament is already upon us, but there's lots of important economic issues to debate and I'm really looking forward to it.

Wayne Swan

Treasurer of Australia
Sunday 31 January 2010

www.treasurer.gov.au

www.economicstimulusplan.gov.au