



## **EARNINGS AND DISTRIBUTION TO GOVERNMENT**

Earnings available for distribution come from two sources - underlying earnings and gains or losses realised when sales of assets are made from the RBA's portfolio. Underlying earnings are relatively stable, whereas realised gains or losses can vary widely, depending on the volume of financial assets sold and the prices received for them. In 1999/2000, underlying earnings were \$1 511 million, while there were realised valuation losses of \$708 million.

Underlying earnings are derived to a significant extent from note issue. Currency notes are the largest liability item on the RBA's balance sheet, and no interest is paid on them. Nor is interest paid on capital and reserves, but other liabilities, like government deposits and exchange settlement accounts, do attract interest. Interest paid on the latter is, however, quite small compared with the income received by the Bank on holdings of government securities, both domestic and foreign. The RBA also earns some non-interest income (e.g. from its banking and settlement service fees, exports of notes by NPA and from rental income) and, on the expenses side, must cover its operating costs. Underlying earnings, the net outcome of these influences, represent the RBA's core income.

In 1999/2000, underlying earnings were down on those of earlier years. The main reason for this was the abolition of non-callable deposits from 1 July 1999. The interest rate on non-callable deposits had been set at 5 percentage points below the Treasury note yield; clearly, this had meant that the investment

of these funds had been profitable to the RBA in the past, but this income was forgone after non-callable deposits were repaid to the banks.

The second major influence on earnings is the gains and losses arising when domestic or foreign securities are sold for more or less than their original purchase price. The risks which the RBA experiences from valuation changes of the components of its balance sheet are discussed in the chapter on "Operations in Financial Markets". The RBA's policy role constrains its capacity to avoid or limit these valuation risks, as a commercial bank would do. Over a run of years, this produces considerable volatility (both gains and losses) in asset valuations and, when these are realised, in earnings. This volatility might be expected to even out over the longer run. Given the shifts in interest rates and exchange rates during the decade of the nineties, the RBA has had far more realised gains than losses. In 1998/99, for example, the gains were so large that the Treasurer exercised his discretion to spread the distribution of the dividend (boosted by almost \$1.9 billion of realised valuation gains), taking \$3 billion in 1999/2000 and the balance of \$676 million in 2000/01.

In 1999/2000, however, realised valuation effects have gone against the RBA, with losses recorded both from interest rate changes and exchange rate movements. In 1999/2000, in an environment of generally rising interest rates, sales of securities resulted in realised losses of \$385 million; these sales occurred in the course of normal domestic market operations, and in adjusting the composition of international reserves.

The RBA also recorded net realised losses of \$323 million due to foreign exchange swaps. The RBA treats swaps in the same way as foreign exchange purchases or sales. Receipts of foreign currency under a swap are regarded as a purchase and added to foreign exchange holdings; they are marked to market along with other holdings resulting in unrealised gains or losses. Deliveries under swaps are regarded as sales of foreign currency and produce realised gains or losses. The roll-over of swaps can result in realised gains or losses matched by corresponding unrealised losses or gains. The

result is that, although swaps have no impact on accounting profit (because realised and unrealised outcomes are offset), they do impact on measured realised gains or losses.

The result of netting underlying earnings of \$1 511 million with the total realised valuation loss of \$708 million gives earnings available for distribution to the Government or for varying reserves of \$803 million in 1999/2000, well below the \$3 676 million which was available in the previous year. The distribution is, of course, supplemented by the \$676 million of dividend carried over from the previous year.

#### SOURCES OF EARNINGS AVAILABLE FOR DISTRIBUTION

(\$ million)

	UNDERLYING EARNINGS	REALISED GAINS AND LOSSES	EARNINGS AVAILABLE FOR DISTRIBUTION
1985/86	1 292	1 371	2 663
1986/87	1 412	2 035	3 447
1987/88	1 508	18	1 526
1988/89	971	-554 *	417
1989/90	1 248	-153 *	1 095
1990/91	1 322	391	1 713
1991/92	1 516	1 038	2 554
1992/93	1 760	2 803	4 563
1993/94	1 556	-48 *	1 508
1994/95	1 649	123	1 772
1995/96	1 784	702 *	2 486
1996/97	1 715	1 990	3 705
1997/98	1 750	1 524	3 274
1998/99	1 816	1 860 *	3 676
1999/2000	1 511	-708	803

\* Includes unrealised losses in excess of previous years' unrealised gains held in reserves



The RBA's earnings available for distribution are paid to the Commonwealth Government, after any transfers to the two reserve funds maintained to deal with contingencies. Reserves have been increased in recent years by the transfer of the proceeds of gold sales. Given the resulting adequate level of reserves, no additions were made to them from 1999/2000 earnings. The full amount available for distribution of \$803 million will be paid to the Government in August 2000. The balance of earnings from 1998/99 of \$676 million was paid on 6 July 2000.

Following changes introduced in 1998, the RBA's accounting profit is calculated according to general accounting principles, in which all valuation changes resulting from marking the portfolio to market are brought into the profit and loss account. However, both widely accepted central banking practice and the *Reserve Bank Act* require that unrealised profits are not paid to the Government. These are transferred from

accounting profit and held in an Unrealised Profits Reserve as a buffer against future unrealised losses, or until they are realised, at which time they become available to the Government. During 1999/2000, unrealised profits were recorded on foreign currency holdings as the fall in the exchange rate over the year made foreign currency holdings worth more in Australian dollar terms. After taking account of net realised foreign exchange losses and losses on securities, gains on investments came to \$781 million. These gains combined with underlying earnings of \$1 511 million, so that accounting profits reached \$2 292 million, compared to \$1 326 million in the previous year.

The RBA's 1999/2000 Financial Statements are presented in the following pages.

#### RBA PAYMENTS TO GOVERNMENT

(\$ million)

	EARNINGS AVAILABLE FOR DISTRIBUTION	TRANSFERS TO RESERVES	BALANCE AVAILABLE FOR COMMONWEALTH	PAYMENT FROM PREVIOUS YEAR	INTERIM PAYMENT FROM CURRENT YEAR	FINAL PAYMENT FROM 1998/99	TOTAL PAYMENT
1990/91	1 713	210	1 503	275	400	-	675
1991/92	2 554	200	2 354	1 103	400	-	1 503
1992/93	4 563	750	3 813	1 954	600	-	2 554
1993/94	1 508	-	1 508	3 213	-	-	3 213
1994/95	1 772	-	1 772	1 508	200	-	1 708
1995/96	2 486	150	2 336	1 572	200	-	1 772
1996/97	3 705	2 005	1 700	2 136	-	-	2 136
1997/98	3 274	548	2 726	1 700	-	-	1 700
1998/99	3 676	-	3 676	2 726	-	-	2 726
1999/2000	803	-	803	3 000	-	-	3 000
2000/01	-	-	-	803	-	676	1 479