

Balance of Payments and International Investment Position —December Quarter 2010

Net public sector inflows continued to be well above the average of recent years, while the private sector recorded no net capital flows in the quarter.

Table 1
Balance of Payments and the International Investment Position
(\$ billion)

	Sep-10	Dec-10	Per cent of GDP
Current Account¹ (sa)	-6.5	-7.3	-2.1
<i>Goods and Services</i>	6.0	6.8	2.0
<i>Income</i>	-12.2	-13.7	-4.0
<i>Current transfers</i>	-0.4	-0.3	-0.1
Capital Account (nsa)	0.0	-0.1	0.0
Financial Account (nsa)	8.1	8.6	2.4
<i>Net private flows</i>	-2.6	-0.2	0.0
<i>Net public flows</i>	10.7	8.8	2.5
International			
Investment Position² (nsa)	787.8	782.1	58.2
<i>Net foreign equity</i>	110.8	131.8	9.8
<i>Net foreign debt</i>	677.0	650.3	48.4

¹ Current account, and capital and financial account figures will not sum as current account data are seasonally adjusted

² Share of annual GDP

Financial Account

In line with the three previous quarters, capital inflows (in net terms) in the December quarter were predominantly directed towards the financing of Government debt, while the private sector recorded no net flows (Graph 4, Table 2).

Table 2
Financial Account Summary - Net Capital Flows¹
(\$ billion)

	Jun-07 to Jun-10 Quarterly average	Sep-10	Dec-10 % GDP	
Net Private Capital Flows	9.8	-2.6	-0.2	0.0
Equity	5.5	-10.0	13.9	3.9
Direct	4.3	-8.7	7.7	2.1
Portfolio	1.2	-1.2	6.3	1.8
Debt	4.3	7.4	-14.1	-3.9
Of which banks	13.7	3.2	3.9	1.1
Net Public Capital Flows	4.4	10.7	8.8	2.5
Official reserve assets	2.2	-2.2	-1.1	-0.3
Other public ²	2.2	13.0	9.9	2.8
Financial Account	14.2	8.1	8.6	2.4

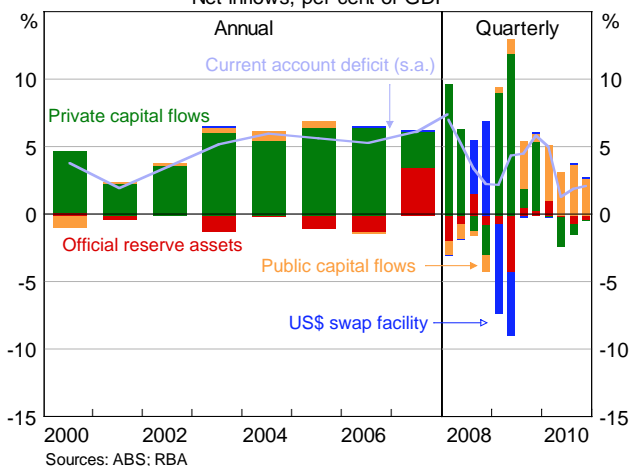
¹ Positive numbers represent foreign investment in Australia.

² Includes RBA swap facility with the US Federal Reserve and the recording of SDR liabilities.

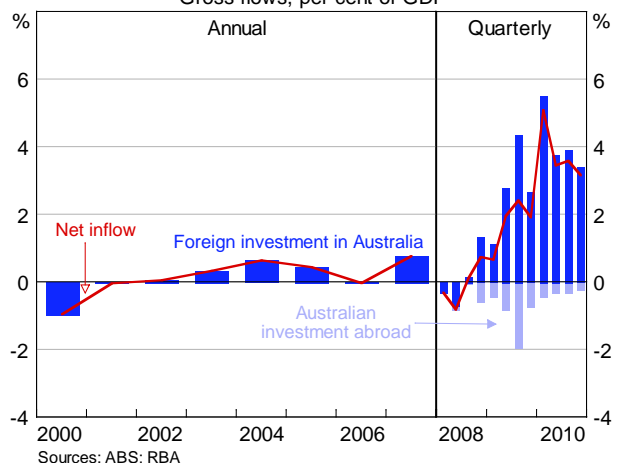
Note: Figures may not add due to rounding

Sources: ABS; RBA

Graph 4
Australian Capital Flows
 Net inflows, per cent of GDP



Graph 5
General Government Portfolio Debt Flows
 Gross flows, per cent of GDP



Public Capital Flows

The net inflow to the general government sector in the December quarter was around 2.5 per cent of GDP, slightly less than in previous quarters. This is in line with the trend throughout 2010 and is consistent with the continued issuance of Commonwealth Government securities (Graph 5).

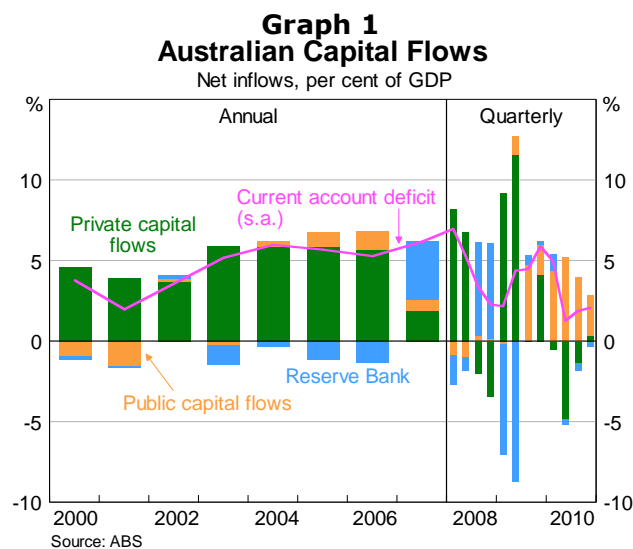
/ Financial Conditions Section/ Economic Analysis Department
/ Market Analysis/ International Department

1 March 2011

A Sectoral Breakdown of Capital Flows – December Quarter 2010

For the fourth consecutive quarter, public sector flows accounted for the bulk of the net capital inflow.

Financial accounts data for the December quarter indicate that the total net inflow of public capital was 2.5 per cent of GDP (Graph 1). Although a decrease from the September quarter (4.0 per cent of GDP), this continues the trend of inflows being directed to the public sector throughout 2010, and is consistent with the continued issuance of Commonwealth Government securities to finance the federal budget deficit.



Balance of Payments and International Investment Position — March Quarter 2011

Net public sector inflows continued to be well above the average of recent years, while the private sector recorded a small net capital outflow in the quarter.

Table 1
Balance of Payments and the International Investment Position
(\$ billion)

	Dec-10	Mar-11	Per cent of GDP
Current Account¹ (sa)	-8.1	-10.4	-3.0
<i>Goods and Services</i>	6.4	3.0	0.9
<i>Income</i>	-14.2	-13.2	-3.8
<i>Current transfers</i>	-0.3	-0.2	-0.1
Capital Account (nsa)	-0.1	-0.1	0.0
Financial Account (nsa)	9.2	9.9	3.0
<i>Net private flows</i>	0.4	-2.7	-0.8
<i>Net public flows</i>	8.8	12.6	3.8
International			
Investment Position² (nsa)	774.3	780.6	57.3
<i>Net foreign equity</i>	126.8	103.3	7.6
<i>Net foreign debt</i>	647.5	677.3	49.7

¹ Current account, and capital and financial account figures will not sum as current account data are seasonally adjusted

² Share of annual GDP

Financial Account

In line with the previous four quarters, net capital inflows in the March quarter were predominantly directed towards the financing of Government debt, while there was a small net capital outflow from the private sector (Graph 4, Table 2).

Table 2
Financial Account Summary – Net Capital Flows¹

	Sep-07 to Sep-10	Dec-10	Mar-11	
	Quarterly average		Per cent	
	\$b	\$b	\$b	of GDP
Net Private Capital Flows²	7.6	0.4	-2.7	-0.8
Equity	4.3	17.1	-9.6	-2.9
Direct	3.5	9.3	0.3	0.1
Portfolio	0.8	7.8	-9.9	-3.0
Debt	3.3	-16.6	7.3	2.2
Of which banks	6.7	-10.2	10.8	3.3
Net Public Capital Flows	5.8	8.8	12.6	3.8
General Government ³	3.0	9.8	6.0	1.8
Official reserve assets ⁴	2.8	-1.0	6.6	2.0
Financial Account	13.5	9.2	9.9	3.0

¹ Positive numbers represent foreign investment in Australia.

² All direct investment is assumed to be private. Includes State Government and public corporations.

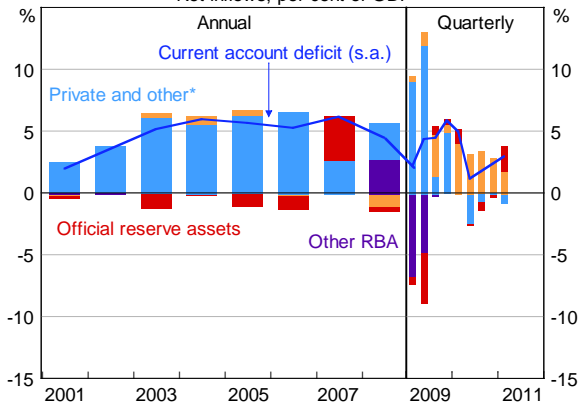
³ Includes the recording of SDR liabilities.

⁴ Includes other RBA flows.

Note: Figures may not add due to rounding.

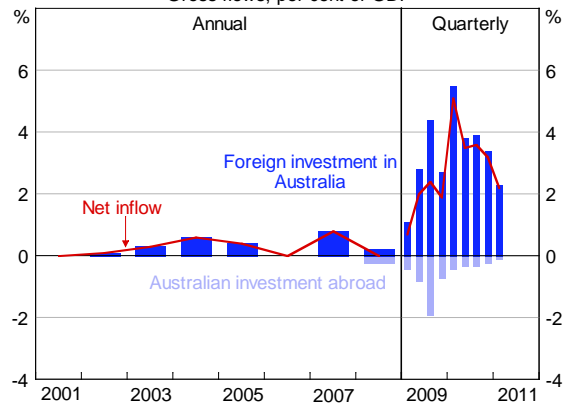
Sources: ABS; RBA

Graph 4
Australian Capital Flows
 Net inflows, per cent of GDP



* Assumes all direct investment is private. Includes State government and public corporations.
 Sources: ABS; RBA

Graph 5
General Government Portfolio Debt Flows*
 Gross flows, per cent of GDP



* Excludes State government and public corporations.
 Sources: ABS; RBA

Public Capital Flows

The net inflow to the public sector in the March quarter represented 3.8 per cent of GDP, including 2.0 per cent of GDP for official reserve assets (an inflow representing a decrease in reserve assets).

The net inflow to the general government sector in the March quarter was around 1.8 per cent of GDP, in line with the trend throughout 2010, and consistent with the continued issuance of Commonwealth Government securities (Graph 5).

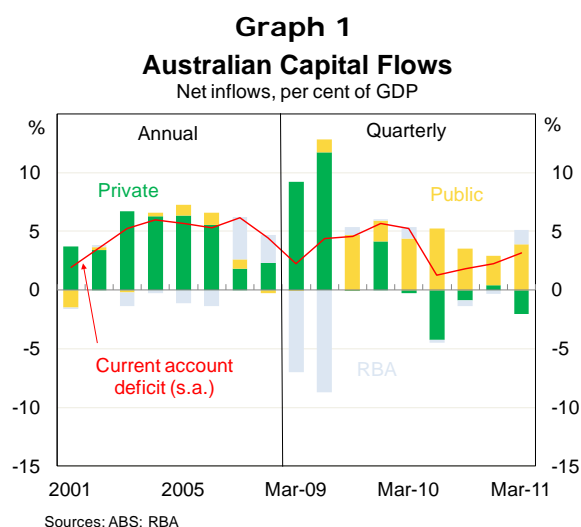
/ Financial Conditions Section/ Economic Analysis Department
/ Market Analysis/ International Department

31 May 2011

A Sectoral Breakdown of Capital Flows – March Quarter 2011

Continuing the trend from 2010, public sector flows accounted for the bulk of the net capital inflow.

There was a net inflow of capital into Australia in the March quarter 2011, which continued to be driven by relatively large inflows to the public sector as the Government issues debt to finance the budget deficit. Total public sector inflows were 3.9 per cent of GDP, up from 2.5 per cent of GDP in the December quarter 2010 (Graph 1). This increase was largely driven by strong foreign purchases of state and local government bonds (issued by central borrowing authorities), which contributed to a total net inflow of 2.1 per cent of GDP to state and local governments, compared to no net inflow in the December quarter. Conversely, net capital inflow to the federal government declined to 1.8 per cent of GDP (from 2.7 per cent) – a trend which is expected to continue as the budget moves towards surplus.



Market Analysis
International Department
24 June 2011

Balance of Payments and International Investment Position — June Quarter 2011

there was a small net outflow of capital from the public sector.

Net Income Deficit

Table 1
Balance of Payments and Net Foreign Liabilities
(\$ billion)

	Mar-11	Jun-11	Per cent of GDP
Current Account¹ (sa)	-11.1	-7.4	-2.1
<i>Trade Balance</i>	2.7	5.6	1.6
<i>Net Income Balance</i>	-13.9	-13.0	-3.7
Capital Account (nsa)	-0.1	-0.1	0.0
Financial Account (nsa)	10.5	5.1	1.4
<i>Net private flows</i>	-2.4	7.4	2.1
<i>Net public flows</i>	12.9	-2.3	-0.6
Net Foreign Liabilities² (nsa)	782.3	781.1	56.3
<i>Net foreign equity</i>	107.7	106.1	7.6
<i>Net foreign debt</i>	674.6	675.0	48.6

¹ Current account, and capital and financial account figures will not sum as current account data are seasonally adjusted

² Share of annual GDP

Financial Account

There was a net outflow of capital from the public sector, but within this, some capital also continued to be directed towards the financing of government debt (Table 2, Graph 4).

The net outflow from the public sector of 0.6 per cent of GDP included:

- An inflow of 1.1 per cent of GDP for General Government. This continues the trend of net capital inflows to this sector via the issuance of Commonwealth Government securities, albeit at a slower pace than in recent quarters (Graph 5).

Table 2

Financial Account Summary¹			
Per cent of GDP			
	Past 5 years²	Mar-11	Jun-11
Financial Account	4.3	3.1	1.4
Net Flows			
Private Capital³	3.3	-0.7	2.1
Equity	1.0	-2.3	2.4
Direct	1.0	0.6	3.7
Portfolio	0.0	-2.9	-1.3
Debt	2.3	1.7	-0.3
ADI debt	2.4	3.2	0.2
Public Capital⁴	1.0	3.9	-0.6
General Government ⁴	0.9	1.9	1.1
Official reserve assets ⁵	0.2	2.0	-1.8
Gross Flows			
Foreign investment in Australia	11.9	4.6	9.6
Private equity	4.4	-0.8	4.1
Private debt	5.8	3.2	3.5
ADI debt ⁶	5.5	5.4	7.4
General Government	1.6	2.2	2.0
Australian investment abroad⁷	-7.6	-1.4	-8.2
Private equity	-3.4	-1.5	-1.7
Private debt	-3.5	-1.6	-3.8
ADI debt ⁶	-2.7	-1.0	-5.6
General Government	-0.8	-0.3	-0.9

¹ Positive numbers represent inflows of capital to Australia

² Quarterly average

³ All direct investment is assumed to be private. Includes state government and public corporations. Adjusted for RBA US dollar swap facility in 2008-09.

⁴ Includes the recording of SDR liabilities

⁵ Includes other RBA flows

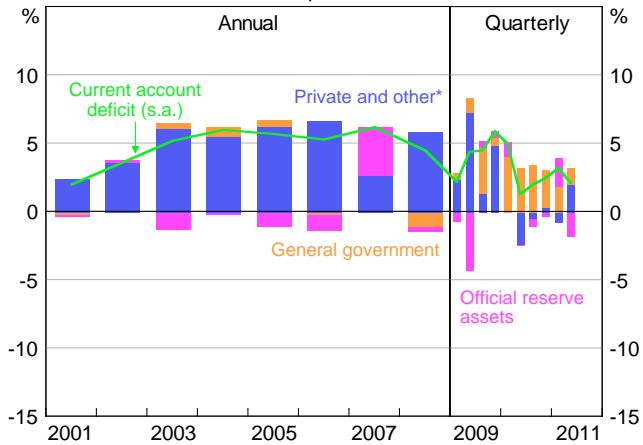
⁶ Excludes financial derivatives

⁷ Includes official reserve assets

Sources: ABS; RBA

Graph 4

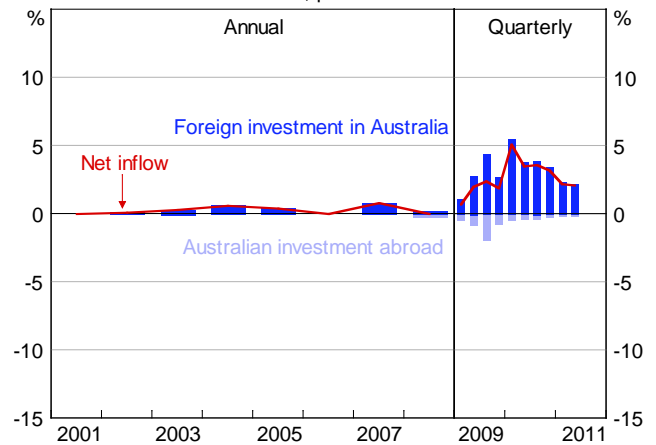
Australian Capital Flows
Net inflows, per cent of GDP



* Assumes all direct investment is private. Includes state government and public corporations, adjusted for US dollar swap facility in 2008-09.
Sources: ABS; RBA

Graph 5

General Government Portfolio Debt Flows*
Gross flows, per cent of GDP



* Excludes state government and public corporations
Source: ABS

/ Financial Conditions Section/ Economic Analysis Department
/ Market Analysis/ International Department
6 September 2011

In contrast to the trend from recent quarters, private sector flows accounted for the bulk of the net capital inflow, while net public sector flows were negligible.

Net public sector flows declined to 0.2 per cent of GDP in the June quarter; a sizeable decline from the net inflow of 4.0 per cent of GDP in the March quarter.

Within the public sector, there was a net inflow of 1.0 per cent of GDP to the Federal Government. This was composed of a 2.3 per cent net debt inflow, reflecting the continued issuance of Commonwealth Government securities (albeit at a slightly slower pace than in previous quarters), and a 1.3 per cent net equity outflow seemingly related to the Future Fund. In contrast, there was an outflow of 0.8 per cent for state and local governments, reflecting a \$2.8 billion net repayment of debt.

Table 1

Financial Accounts Summary¹			
Net inflows, per cent of GDP			
	Past 5 years²	Mar-11	Jun-11
Total	4.4	3.2	1.4
Private Capital	2.6	-2.0	2.4
ADIs and securitisers ³	2.0	4.0	-0.8
Other financial	-1.9	-3.5	2.7
Non-financial corporations	2.1	-2.9	0.1
Households	0.4	0.4	0.4
Public Capital	1.6	4.0	0.2
National government	0.8	1.9	1.0
State and local government	0.6	2.1	-0.8
RBA³	0.2	1.2	-1.2
Debt	4.0	6.5	0.3
Private Capital	1.6	0.4	0.0
ADIs and securitisers ³	2.2	3.8	-0.7
Other private	-0.5	-3.3	0.7
Public Capital	2.2	4.8	1.5
RBA³	0.2	1.2	-1.2
Equity	0.3	-3.2	1.1
Private Capital	1.0	-2.4	2.4
ADIs and securitisers	-0.2	0.1	-0.5
Other private	1.2	-2.5	2.9
Public Capital	-0.6	-0.8	-1.3

¹ Rest of world component. Positive numbers represent inflows of capital to Australia.

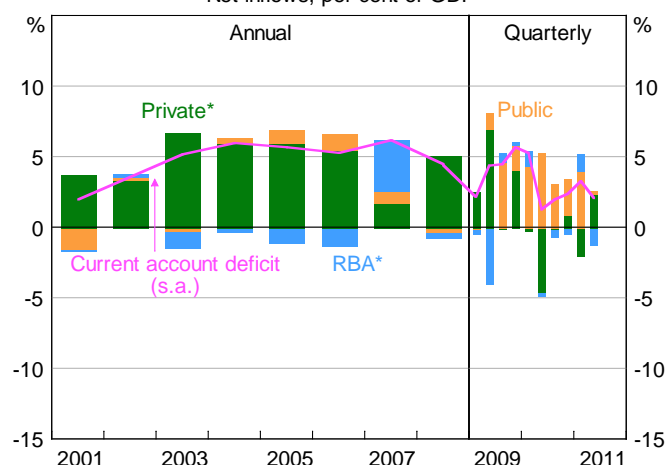
² Quarterly average

³ Adjusted for US dollar swap facility in 2008-09

Sources: ABS; RBA

Graph 1
Australian Capital Flows

Net inflows, per cent of GDP



* Adjusted for US dollar swap facility in 2008-09

Sources: ABS; RBA

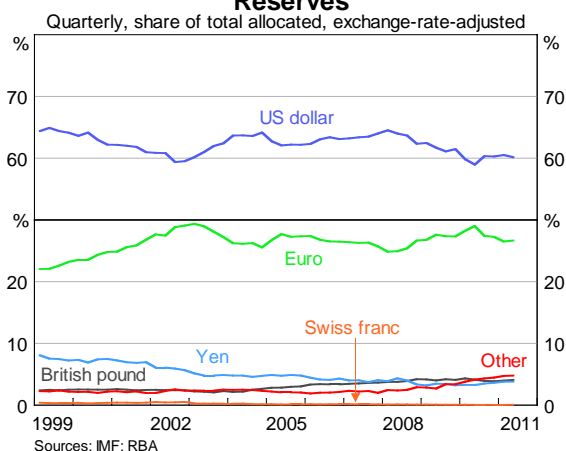
Market Analysis
International Department
30 September 2011

An Update on Global Foreign Exchange Reserves

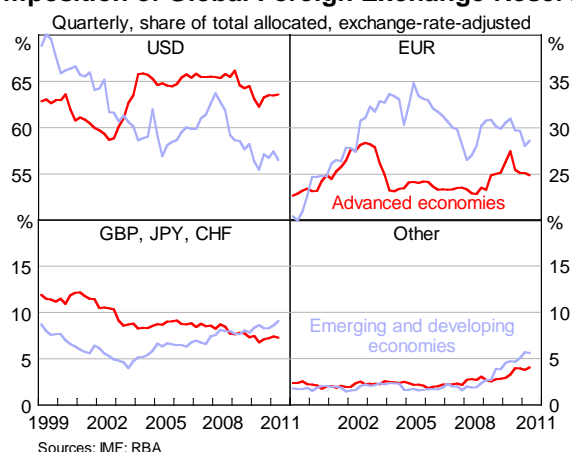
Over the year, the share of foreign exchange reserves held in euros fell while the share held in US dollars, yen and 'other' currencies each rose slightly (exchange-rate-adjusted). This pattern held for both advanced and emerging market economies. However, for emerging market economies, the longer-term trend appears to be still towards reducing their share of foreign exchange reserves held in US dollars and increasing the share held in the British pound and 'other' currencies.

The June 2011 COFER data contain currency composition information for 54 per cent of the global stock of reserves, down from 56½ per cent in June 2010.⁴ Of the stock of reserves for which the currency composition is reported, the share of reserves denominated in US dollars rose by around 1 percentage point over the year to 60 per cent, after adjusting for the depreciation in the US dollar (Graph 7, Table 1). This reflects the ongoing status of the US dollar as a reserve currency – despite recent concerns about the sustainability of the US government debt position and the weaker US dollar over the year (which depreciated by 12 per cent on a trade-weighted basis) – and a lack of alternative investments, particularly other (creditworthy) markets large enough to absorb the increasingly large stock of global reserves.

Graph 7
Composition of Global Foreign Exchange Reserves



Graph 8
Composition of Global Foreign Exchange Reserves



Nevertheless, the US dollar's share of allocated global reserves is now 4½ percentage points lower than it was at the start of 2008 (exchange-rate-adjusted). This decline has coincided with relatively rapid reserve accumulation by emerging market countries, which tend to hold a lower share of their reserve portfolios in US dollar-denominated assets than advanced economies. Instead, emerging market economies tend to hold a relatively higher share in euros, British pounds and 'other' currencies (Table 1, Graph 8).

⁴ This reflects a fall in the allocated share of reserves for both advanced and emerging economies, coupled with the fact that emerging economies, whose share of global reserve holdings has increased, report a lower share of allocated reserves.

Table 1: Composition of Allocated Foreign Exchange Reserves

	Share (per cent)	Change in share over year to June 2011 (percentage points)	
	June 2011	Unadjusted	Exchange-rate-adjusted
Total			
USD	60	-2.3	1.2
EUR	27	0.6	-2.4
GBP	4	0.0	0.0
JPY	4	0.7	0.6
CHF	0	0.0	0.0
Other	5	1.1	0.6
Advanced			
USD	64	-2.0	1.4
EUR	25	0.3	-2.5
GBP	3	0.1	0.1
JPY	5	0.6	0.4
CHF	0	0.0	0.0
Other	4	1.0	0.6
Emerging & developing			
USD	57	-2.4	1.2
EUR	29	0.7	-2.3
GBP	6	-0.3	-0.3
JPY	3	0.8	0.8
CHF	0	0.1	0.0
Other	6	1.2	0.6

The share of euros in allocated global reserves fell by around 2½ percentage points over the year to June 2011 after adjusting for exchange rate effects. This is consistent with the intensification of concerns about the euro area periphery since late 2010. The shares of ‘other’ currencies and the yen in allocated global foreign exchange reserves each increased by around 1 percentage point over the past year (adjusted for exchange rate effects). The share of global reserves in ‘other’ currencies has increased by around 2 percentage points since the start of 2009, indicating that central banks are increasingly diversifying outside the main traditional currencies (albeit from a low base). The growth in holdings of reserves denominated in ‘other’ currencies has been stronger for emerging economies than it has for advanced economies.

Market Analysis
International Department
25 November 2011

Balance of Payments and International Investment Position — September Qtr 2011

The net inflow of capital to Australia increased to 2.2 per cent of GDP in the September quarter. This was directed to the public sector, reflecting increased foreign purchases of government debt securities.

Net Income Deficit

Table 1
Balance of Payments and Net Foreign Liabilities
(\$ billion)

	Jun-11	Sep-11	Per cent of GDP
Current Account¹ (sa)	-6.7	-5.6	-1.5
Trade Balance	6.2	6.8	1.9
Net Income Balance	-12.9	-12.4	-3.4
Capital Account (nsa)	-0.2	-0.1	0.0
Financial Account (nsa)	4.7	8.0	2.2
Net private flows	7.2	-12.9	-3.6
Net public flows	-2.4	20.9	5.8
Net Foreign Liabilities² (nsa)	797.7	848.3	59.9
Net foreign equity	111.4	107.8	7.6
Net foreign debt	686.2	740.5	52.3

¹ Current account, and capital and financial account figures will not sum as current account data are seasonally adjusted

² Share of annual GDP

Financial Account

In line with the trend in recent years, the net capital inflow in the September quarter was directed towards the public sector (Table 2, Graph 4).

The net inflow to the public sector of 5.8 per cent of GDP was accounted for by the General Government sector, which received its largest net inflow of capital since at least the September quarter of 1988. This reflected increased foreign portfolio investment in Australian government debt, which was the largest in six quarters (Graph 5). This continues the trend of net capital inflows to the public sector via foreign purchases of Commonwealth Government securities, and indicates that foreign demand for these securities was strong amid the recent volatility in financial markets.

Table 2

Financial Account Summary¹			
Per cent of GDP			
	Past 5 years²	Jun-11	Sep-11
Financial Account	4.2	1.3	2.2
Net Flows			
Private Capital³	2.9	2.0	-3.6
Equity	1.1	1.9	1.5
Direct	1.2	3.8	1.0
Portfolio	-0.1	-1.9	0.6
Debt	1.8	0.1	-5.1
ADI debt	2.0	0.1	-5.5
Public Capital	1.3	-0.7	5.8
General Government ⁴	1.1	1.0	5.8
Official reserve assets ⁵	0.2	-1.8	-0.1
Gross Flows			
Foreign investment in Australia	11.6	10.4	8.1
Private equity	4.5	4.2	3.3
Private debt	5.2	4.2	-0.3
ADI debt ⁶	5.2	7.4	0.7
General Government	1.8	2.0	5.1
Australian investment abroad⁷	-7.4	-9.1	-5.9
Private equity	-3.4	-2.3	-1.8
Private debt	-3.5	-4.1	-4.7
ADI debt ⁶	-2.6	-5.7	-2.9
General Government	-0.8	-0.9	0.8

¹ Positive numbers represent inflows of capital to Australia

² Quarterly average

³ All direct investment is assumed to be private. Includes state government and public corporations. Adjusted for RBA US dollar swap facility in 2008-09.

⁴ Includes the recording of SDR liabilities

⁵ Includes other RBA flows

⁶ Excludes financial derivatives

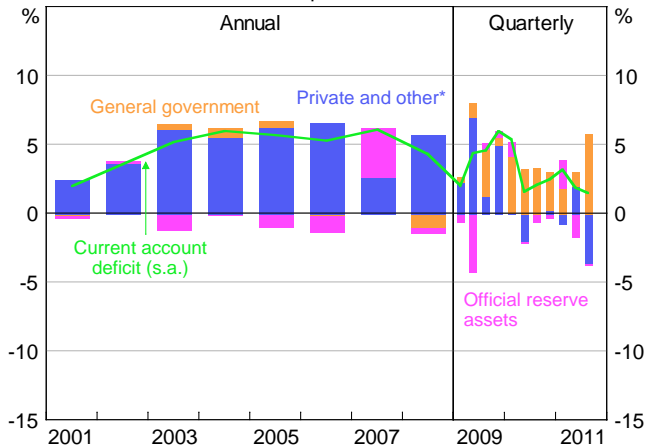
⁷ Includes official reserve assets

Sources: ABS; RBA

Graph 4

Australian Capital Flows

Net inflows, per cent of GDP

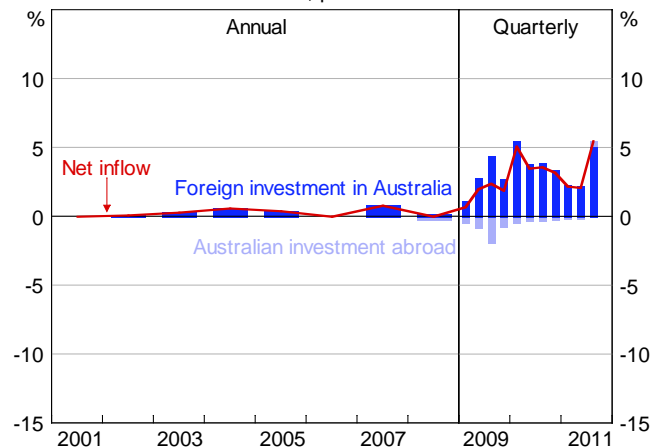


* Assumes all direct investment is private. Includes state government and public corporations, and adjusted for the US dollar swap facility in 2008–09.
Sources: ABS; RBA

Graph 5

General Government Portfolio Debt Flows*

Gross flows, per cent of GDP



* Excludes state government and public corporations
Source: ABS

In terms of gross flows, a small decrease in foreign investment in Australia reflected an increase in outflows associated with financial derivatives that was partly offset by an increase in foreign investment in General Government debt. There was a somewhat larger decrease in Australian investment abroad, which reflected slightly less private equity investment abroad and a small reduction in Australian government investment abroad.

/ Financial Conditions Section/ Economic Analysis Department
Market Analysis/ International Department

6 December 2011

The net inflow of capital was directed towards the public sector, which is in line with the trend in recent years and reflected increased foreign purchases of government debt.

In line with the trend in recent years, the net capital inflow was directed towards the public sector, which received its largest net capital inflow since the December quarter 1994 and which represented a substantial increase from the June quarter.¹

The net inflow to the public sector of 6.2 per cent of GDP was primarily accounted for by the Federal Government. This reflected increased gross foreign investment in Australian government bonds, which was the largest since at least the September quarter of 1988. This resulted in the continued trend of net capital inflow to the public sector via foreign purchases of Commonwealth Government securities and indicates that foreign demand for these securities was strong amid the recent volatility in financial markets. There was also a small net inflow of 0.8 per cent of GDP for state and local governments, again mainly reflecting foreign purchases of bonds.

Table 1
Financial Accounts Summary¹
Net inflows, per cent of GDP

	Past 5 years ²	Jun-11	Sep-11
Total	4.2	1.3	2.2
Private Capital	2.2	2.3	-4.1
ADIs and securitisers ³	1.7	-0.3	-3.5
Other financial	-1.6	1.6	-1.4
Non-financial corporations	1.7	0.7	0.6
Households	0.4	0.2	0.2
Public Capital	1.8	0.1	6.2
National government	1.1	0.9	5.3
State and local government	0.6	-0.8	0.8
RBA³	0.3	-1.2	0.1
Debt	3.8	0.8	1.0
Private Capital	1.1	0.5	-5.6
ADIs and securitisers ³	2.0	-0.2	-3.8
Other financial	-0.2	0.0	2.0
Non-financial corporations	-0.5	0.8	-3.6
Households	-0.2	-0.1	-0.2
Public Capital	2.4	1.5	6.5
RBA³	0.3	-1.2	0.1
Equity	0.4	0.5	1.2
Private Capital	1.1	1.9	1.5
ADIs and securitisers	-0.2	-0.5	0.4
Other financial	-1.5	2.0	-3.4
Non-financial corporations	2.2	-0.1	4.2
Households	0.5	0.4	0.4
Public Capital	-0.7	-1.3	-0.3

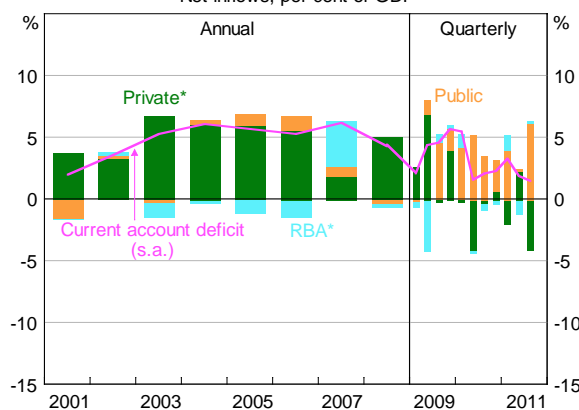
¹ 'Rest of world' component. Positive numbers represent inflows of capital to Australia.

² Quarterly average

³ Adjusted for US dollar swap facility in 2008-09

Sources: ABS; RBA

Graph 1
Australian Capital Flows
Net inflows, per cent of GDP



* Adjusted for the US dollar swap facility in 2008-09

Sources: ABS; RBA

¹ This definition of the public sector excludes the RBA.

Market Analysis
International Department
21 December 2011

Strong
A\$ demand from foreign central bank purchases of CGS for their reserve portfolios has been one factor supporting the A\$ recently.

Market Analysis - International Department - 20 February 2012

CGS demand from foreign central banks has been one factor supporting the A\$ recently. Strong

Market Analysis - International Department - 20 February 2012

Australian Dollar

Recent support for the Australian dollar likely reflects some combination of: the ongoing high short-term interest rate

differentials with other advanced economies; the shrinking global pool of high quality assets; and relatedly, ongoing strong demand for Commonwealth Government Securities from foreign central banks.

International Department

22 February 2012

Balance of Payments and International Investment Position — December Qtr 2011

net inflow reflected foreign purchases of government debt securities and private sector equity, which were partly offset by a large withdrawal of foreign investment in Australian ADI debt (particularly in the form of long-term deposits and net repayments of offshore loans).

Net Income Deficit

Table 1
Balance of Payments and Net Foreign Liabilities
 (\$ billion)

	Sep-11	Dec-11	Per cent of GDP
Current Account¹ (sa)	-5.8	-8.4	-2.3
<i>Trade Balance</i>	6.1	3.6	1.0
<i>Net Income Balance</i>	-12.0	-12.0	-3.3
Capital Account (nsa)	-0.1	-0.1	0.0
Financial Account (nsa)	7.7	9.2	2.4
<i>Net private flows</i>	-13.2	-3.6	-0.9
<i>Net public flows</i>	20.9	12.7	3.4
Net Foreign Liabilities² (nsa)	852.9	854.7	59.4
<i>Net foreign equity</i>	111.7	119.3	8.3
<i>Net foreign debt</i>	741.2	735.4	51.1

¹ Current account, and capital and financial account figures will not sum as current account data are seasonally adjusted

² Share of annual GDP

Financial Account

In line with the trend in recent years, net capital inflow in the December quarter was predominantly directed towards the public sector.

The net inflow to the public sector in the December quarter was 3.4 per cent of GDP. This reflected:

- An inflow of 4.4 per cent of GDP to the General Government sector; and

Table 2

Financial Account Summary¹			
Per cent of GDP			
	Past 5 years²	Sep-11	Dec-11
Financial Account	4.0	2.1	2.4
Net Flows			
Private Capital³	2.6	-3.6	-0.9
Equity	1.3	1.0	3.2
Direct	1.3	0.7	4.6
Portfolio	-0.1	0.3	-1.4
Debt	1.4	-4.6	-4.1
ADI debt	1.5	-5.7	-5.8
Public Capital	1.4	5.7	3.4
General Government ⁴	1.3	5.8	4.4
Official reserve assets ⁵	0.2	-0.1	-1.0
Gross Flows			
Foreign investment in Australia	10.8	8.5	1.5
Private equity	4.5	3.1	4.8
Private debt	4.3	0.3	-7.4
ADI debt ⁶	4.3	0.7	-9.1
General Government	2.0	5.0	4.1
Australian investment abroad⁷	-6.8	-6.4	0.9
Private equity	-3.2	-2.1	-1.7
Private debt	-2.9	-4.9	3.3
ADI debt ⁶	-2.3	-3.2	3.4
General Government	-0.8	0.8	0.3

¹ Positive numbers represent inflows of capital to Australia

² Quarterly average

³ All direct investment is assumed to be private. Includes state government and public corporations. Adjusted for RBA US dollar swap facility in 2008-09.

⁴ Includes the recording of SDR liabilities

⁵ Includes other RBA flows

⁶ Excludes financial derivatives

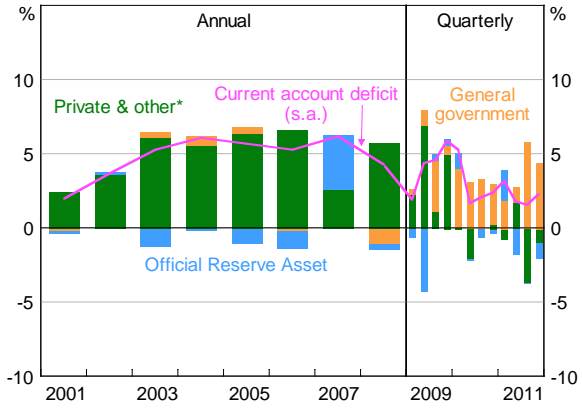
⁷ Includes official reserve assets

Sources: ABS; RBA

Graph 4

Australian Capital Flows

Net inflows, per cent of GDP



* Assumes all direct investment is private. Includes state government and public corporations, and adjusted for US dollar swap facility in 2008-2009.
Sources: ABS; RBA

In terms of gross flows, a large fall in foreign investment in Australia reflected the withdrawal of foreign investment in Australian ADI debt, which was partially offset by an increase in foreign investment in both equity and General Government debt.

/ Financial Conditions Section / Economic Analysis Department
/ Market Analysis / International Department

6 March 2012

INTERNATIONAL DEPARTMENT MONTHLY REVIEW MARCH 2012

Australian Dollar

International Department
20 March 2012

More broadly, the Australian dollar has received some support from foreign purchases of Australian sovereign debt and remains broadly consistent with the current high level of the terms of trade.

A Sectoral Breakdown of Capital Flows – December Quarter 2011

In particular, it shows that in addition to strong net capital inflow into general government debt, there was also ongoing modest net capital inflow into state government debt.

The slightly more nuanced story from the FA release is that there were strong net capital inflows both to government and non-financial corporates in the December quarter, which were partly offset by a large net outflow from the banking sector.

Consistent with recent quarters, the 2.4 per cent of GDP net capital inflow in the December quarter was primarily directed towards the public sector overall, which received inflows representing 4.9 per cent of GDP (Table 1, Graph 1).

As reported in the BOP release, the net inflow to the public sector was mainly directed to the Federal Government, consistent with continued foreign purchases of Commonwealth Government securities. There was, however, also a small net inflow to state government debt.

Table 1
Financial Accounts Summary¹
Net inflows, per cent of GDP

	Past 5 years ²	Sep-11	Dec-11
Total	4.1	2.1	2.4
Private Capital	1.9	-4.7	-1.7
ADIs and securitisers ³	1.0	-4.8	-7.0
Other financial	-1.9	-2.1	-1.4
Non-financial corporations	2.5	2.1	6.4
Households	0.4	0.2	0.2
Public Capital	1.9	6.7	4.9
National government	1.2	5.7	4.4
State and local government	0.6	1.0	0.5
RBA³	0.3	0.1	-0.8
Debt	3.5	1.5	-0.6
Private Capital	1.1	-5.7	-4.8
ADIs and securitisers ³	1.3	-5.1	-6.4
Other financial	-0.5	0.1	0.5
Non-financial corporations	0.1	-0.5	1.3
Households	-0.2	-0.2	-0.1
Public Capital	2.6	7.0	5.0
RBA³	0.2	0.1	-0.8
Equity	0.4	0.6	3.0
Private Capital	1.2	1.0	3.1
ADIs and securitisers	-0.2	0.4	-0.6
Other financial	-1.5	-2.4	-1.8
Non-financial corporations	2.3	2.6	5.1
Households	0.5	0.4	0.4
Public Capital	-0.7	-0.3	-0.1

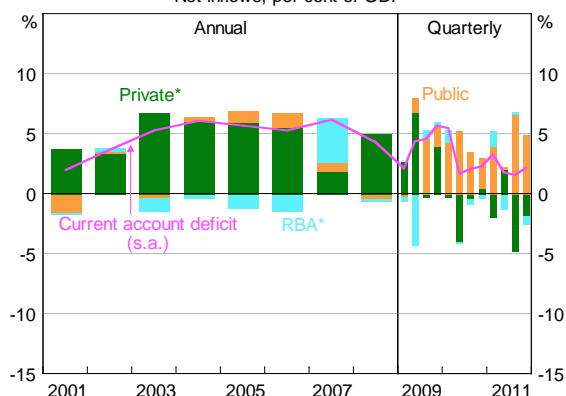
¹ 'Rest of world' component. Positive numbers represent inflows of capital to Australia.

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³ Adjusted for US dollar swap facility in 2008-09

Sources: ABS; RBA

Graph 1
Australian Capital Flows
Net inflows, per cent of GDP



* Adjusted for the US dollar swap facility in 2008-09
Sources: ABS; RBA

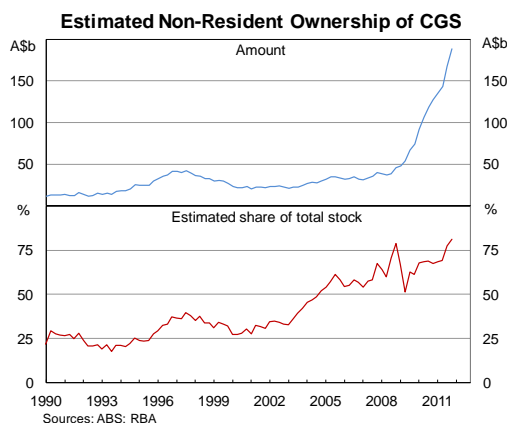
The Exchange Rate and Offshore Investor Purchases of CGS

The Australian dollar remains very high by historical standards, despite a marked decline in the terms of trade since its September quarter 2011 peak. Furthermore, other fundamentals that have been traditionally important for the Australian dollar appear unable to explain the performance of the Australian dollar over recent quarters. Over this period, non-resident investors have invested heavily in Australian Commonwealth Government Securities (CGS), and a number of sources have attributed the recent appreciation of the Australian dollar to this. This note discusses factors that explain the increase in foreign ownership of CGS and assesses the validity of reports of the effect of the resultant capital flows on the exchange rate.

Overview

In the September and December quarters 2011, non-resident investor purchases of CGS accelerated as their holdings increased by almost \$45 billion. This continued a trend evident since the June quarter 2008; over the past 3½ years to the December quarter 2011, the stock of offshore investor ownership of CGS increased by more than 5-fold (Graph 1). Offshore investors absorbed 90 per cent of the net increase in outstanding CGS over this period, and at December 2011 they held a record 80 per cent share of the total stock of CGS on issue.

Graph 1

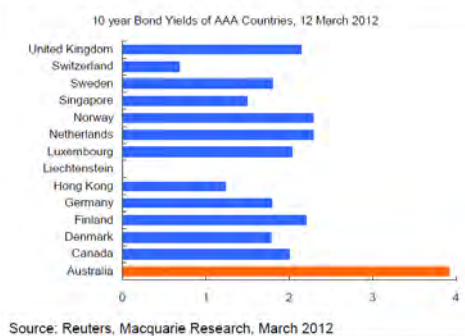


Although it is difficult to determine their relative importance, a number of factors have contributed to the increased non-resident investor interest in CGS, including:

- Australia's relatively strong public finances at a time when, globally, public finances are under great scrutiny and sovereign credit risk (and credit risk more broadly) has been repriced. Related to this is the unchanged AAA credit rating of CGS, in the context of the reduced size of the global pool of AAA securities over recent years. On a risk-adjusted basis then, expected (real) returns of Australian CGS are extremely attractive, even amongst AAA-rated sovereign debt securities (Graph 2).

Graph 2

Fig 2 10-yr bond yields of AAA-rated economies



Comment [CJP1]: I'll remake my own version of this graph in due course.

- The likely reduction in liquidity risk of holding CGS, reflecting the dramatic increase in the stock of CGS outstanding and increased diversity of holdings.¹
- The diversification of official reserve portfolios away from the US dollar and euro (any supporting COFER data?).
- The declining stock of Australian banks' offshore government guaranteed debt (Graph 3). Although this has probably been only a minor factor to date, it may be important as more of this type of debt matures this year.²

The Exchange Rate

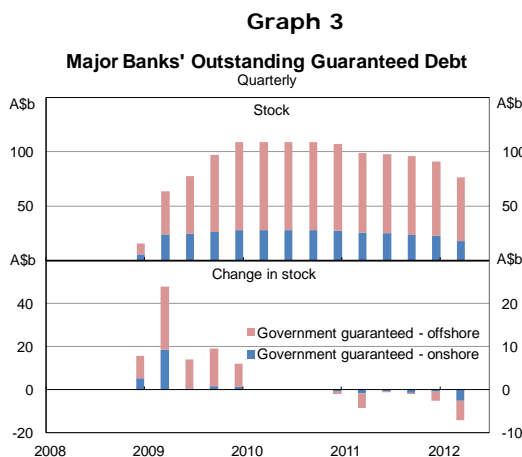
At present, the real Australian TWI is only ½ of one per cent below its June quarter 2011 post-float record, despite most fundamentals with historical links to the exchange rate

indicating it should have depreciated further. The goods terms of trade, which has shared a fairly close relationship with the real exchange rate historically, has declined 5 per cent since its September quarter 2011 (Graph 2).³ The real policy rate differential between Australia and the G3 economies (weighted by GDP) has narrowed slightly since its October peak as has the real yield differential on long dated government securities (Graph 3). Although nominal yields have increased in recent months, they remain well below the levels of mid-2011 (Graph 4). Furthermore, the growth outlook for Australia has arguably softened over recent months relative to other major economies (perhaps except for China), particularly the US. All else equal, the Australian dollar would be expected to depreciate in response to these developments.

The large gross capital flows into Australia associated with non-resident investors' purchases of CGS were correlated with the resilience of the Australian dollar during the market turmoil in the second half of 2011 and with the appreciation of the Australian dollar up until February this year. The weakening of Australian dollar fundamentals over this period has led to conclusions of causality between non-resident investor purchases of CGS and Australian dollar performance.

Graph 4

Graph 5



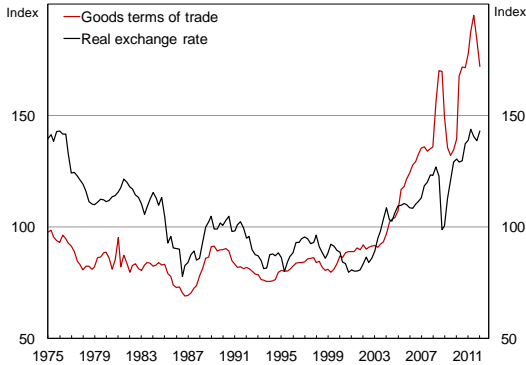
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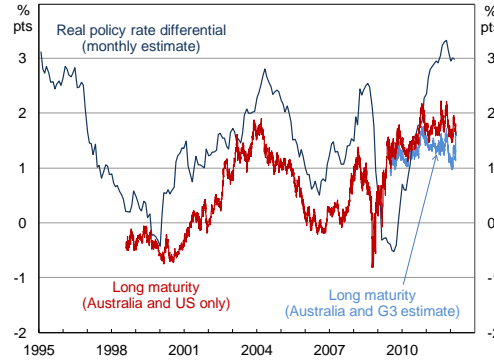
³ See Cockerell, Ji and Potter (forthcoming) for a discussion of why the relationship between the real Australian dollar and the headline goods terms of trade may have broken-down recently and generally weakened over the past decade or so.

Real Exchange Rate and Terms of Trade
Post-float average = 100



Real Yield Differentials

Australia and GDP-weighted G3 government securities and policy



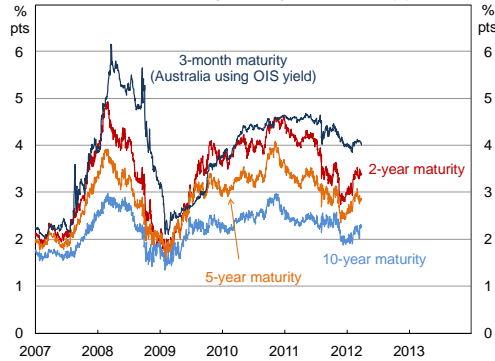
Net Capital Flows

There has been a large shift in the structure of Australia's capital flows over recent years reflecting the shift in investor preferences, domestic economy investment patterns and the shift in Australian bank funding (Graph 7). That is, international investors have increased their exposure to Australian government debt, particularly CGS, corporates have raised large amounts of capital in offshore capital markets to fund investment domestically, particularly miners, and the Australian banks have reduced their demand for offshore funds (see the [BoP](#) and [Financial Accounts](#) releases for the December quarter for more info).

Graph 6

Nominal Yield Differentials

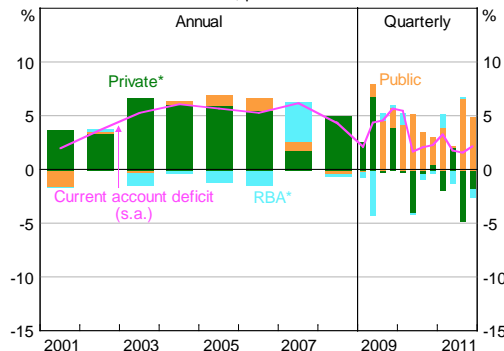
Australia and GDP-weighted G3 government security yields



When considering the association of capital flows and the exchange rate, it is important to consider the composition of net capital flows (i.e. the gross flows underlying net capital flows) for a number of reasons, including: net capital flows can reflect quite different individual investment decisions by different groups of investors, as has been the case in the recent quarters; and capital flows from particular investors are more likely to be hedged and so may be less important for the exchange rate.

Graph 7
Australian Capital Flows

Net inflows, per cent of GDP



* Adjusted for the US dollar swap facility in 2008-09
Sources: ABS; RBA

Considering the relatively small *net* capital inflows in recent quarters, when compared to history, would probably lead to an underestimation of the effects of recent capital flow patterns on the exchange rate. This is because recent capital inflows are more related to fundamentals than offsetting capital

outflows and capital inflows are less likely to have been hedged than capital outflows. In fact, capital outflows over recent quarters have predominantly reflected the rebalancing of Australian banks' funding towards domestic sources which partly reflect changing regulations.

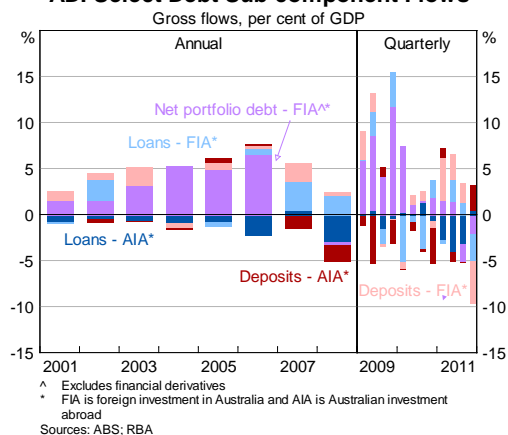
Other private capital outflows reflect margin payments to and by banks on derivative positions which were made because of wide swings in the exchange rate in the second half of 2011 (Graph x). Furthermore, Australian banks' hedge almost all of their foreign-currency bond issuance and so capital flows related to net issuance/repayment of these bonds do not generate net demand for the Australian dollar in the foreign exchange market.

In contrast, most capital inflows appear to be unhedged flows and so are more likely to have a material influence upon the level of the Australian dollar. For example, liaison and market reports suggest that many of the investors are sovereign asset managers and Japanese retail investment funds, neither of which are very likely to hedge (as they wish to earn the interest rate differential). Furthermore, these flows are likely to be related to fundamentals, particularly the reduced perceived relative risks of investing in the Australian dollar (see below). Capital inflows associated with the offshore fund raising activities of mining companies are also likely to be unhedged, however, it is possible that these funds are never exchanged into Australian dollar if they are used to purchase equipment in US dollars amongst other expenses. Nevertheless, if a simple proxy for net unhedged capital flows is plotted against the real exchange rate, there does appear to be a positive association (Graph y [to come]).⁴

Theory

The apparent preference shift and resulting portfolio shift of foreign investors towards Australian dollar government securities has increased Australian dollar demand. The increase in demand associated with this shift appears large by historical standards; the implied quarterly flows from offshore investor purchases of CGS in the September and December quarter 2011 were equivalent to more than 100 per cent of daily Australian dollar spot turnover in the Australian market (is this the most appropriate, what about customer flows?). *Ceteris paribus*, the increase in demand for these assets would be expected to appreciate the Australian dollar in the short term, as appears to be the case. However, to understand the medium term implications it is important to consider a fundamental framework.

Graph x
ADI Select Debt Sub-component Flows

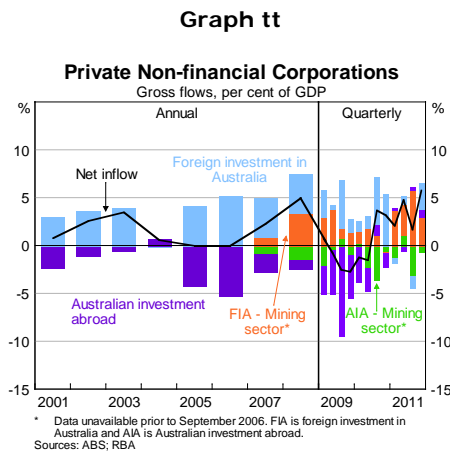
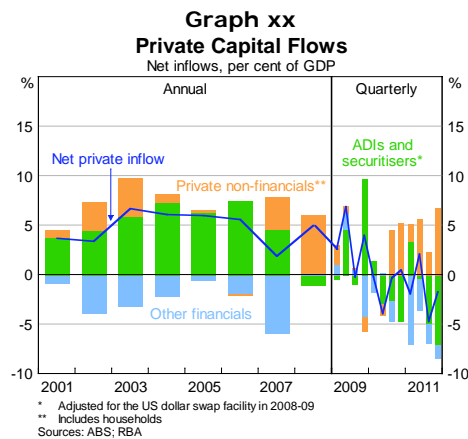
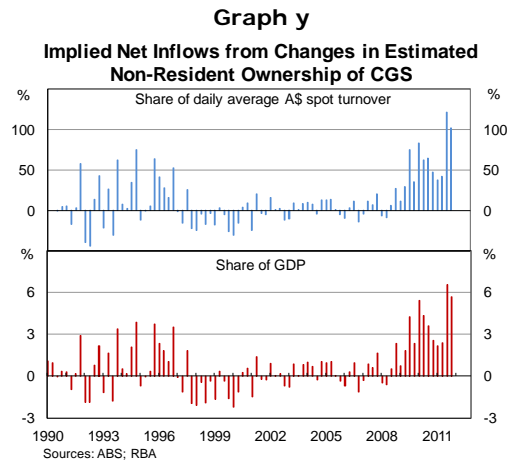


⁴ Outline how unhedged capital flows are defined in the graph.

From a macroeconomic perspective, it is difficult to relate any direct effects of the capital flows associated with non-resident purchases of CGS on the exchange rate. Rather, a macroeconomic approach would tend to characterise the increased non-resident CGS purchases as a reflection of a change in underlying fundamentals, often relative prices of exports and imports and/or relative rates of return (whether nominal, real and risk-adjusted) on assets denominated in different currencies. For example, asset market views of the exchange rate rely upon changes in interest rate differentials (monetary models) and/or changes in the relative supplies of substitutable assets and associated risk premiums across currencies (portfolio balance models) to change rates of exchange.⁵

Capital flows data provide some support for a portfolio balance view that the risk premium attached to Australia dollar assets has decreased (and so the risk-adjusted rate of return has increased), as reflected in the apparent preference shift and resulting portfolio shift of foreign investors. The strength of foreign investor inflows into the non-bank private sector, supports such a claim. As does the evidence that the offsetting capital outflows relate to the funding and hedging practices of ADIs (as discussed above) and not divergent views of the real risk-adjusted interest rate differential. It must be said that private sector capital inflows were mostly directed to the mining sector.

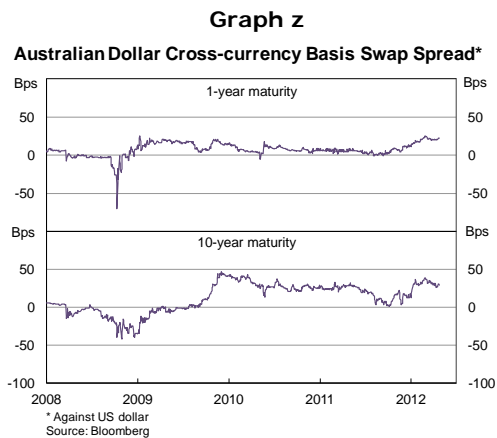
Under an exchange rate microstructure framework, it is foreseeable that increased foreign ownership of CGS reduces the risk



⁵ Adopting a sticky price monetary model—in the spirit of Dornbusch—the appreciation of the Australian dollar in the second half of 2011 may be partly explained by the smaller than expected reductions in the cash rate or extended projections of lower long term policy rates from the US federal reserve. These positive interest rate differential surprises may have caused a positive overshoot of the Australian dollar which may be expected to die-out over time in an uncovered interest rate parity framework.

of making markets in Australian dollars because of the reduced likelihood of the market becoming one-sided. Under such a framework, relaxing some of the core assumptions of the asset demand approach to exchange rates,⁶ foreign exchange transactions related to foreign exchange customer order flows can affect the exchange rate through two main channels: private information about real economy fundamentals and private information about currency risk premia demanded by foreign exchange dealers. The more likely channel related to non-resident purchases of CGS is the risk premia channel as these customers appear to be from the financial side of the economy and so their order flow likely contains little real economy information. However, there may be qualms about the size of the effect of this reduction on the exchange rate.

The difficulty with such a conclusion is the inability to accurately measure risk-premia, particularly on a time-varying ex-ante basis. In terms of foreign exchange markets, one possible indicator is the cross-currency basis swap spread. These spreads reflect the premia paid or received above the benchmark interest rate in the swap: that is, the difference between the implied interest rate through the swap market and the benchmark interest rate. In theory, a number of main factors affect cross-currency basis swap spreads: currency credit risk, counterparty credit risk and foreign exchange dealer inventory risk arising from demand



and supply imbalances in swap customer order flows. Since the end of 2009, the Australian dollar CCBS spread has averaged around 30 basis points. That is, foreign exchange dealers demanded a 30 basis point premium to assume Australian dollar risk at a 10-year maturity, mostly reflecting the large demand for currency swaps by Australian banks following foreign-currency bond issuance (i.e. inventory risk). In the second half of 2011 however, the CCBS spread declined towards zero across the curve, with larger declines at longer swap tenors. This reflected a slowing in swap demand as Australian banks halted their foreign-currency bond issuance but it also may have reflected a smaller risk premium attached to Australian dollars more generally.

Conclusion

There is reason to believe, and theory that agrees, that non-resident purchases of CGS have supported the Australian dollar in recent times. This increased demand for Australian dollar assets has been associated with a shift in investor preference to increasing exposures to Australian dollar assets, probably associated with a reappraisal of the relative risks of such investments.

⁶ These assumptions are that information is homogenous, that market participants act in the same manner and that prices are unaffected by market structure and different trading mechanisms (Lyons, 2001).

However, it is difficult to assess the size of any reduction in the risk-margin investors demand for being exposed to the Australian dollar assets and the expected effect upon the Australian dollar. Furthermore, it is important to keep the size of this relationship in perspective: the Australian dollar is far more responsive to commodity prices than yield differentials.⁷

Chris Potter
Market Analysis
International Department
5 April 2012

⁷ For example, upper estimates of the long-run coefficient for interest rate differentials

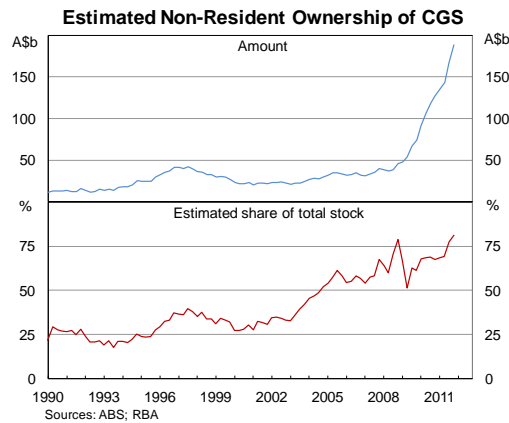
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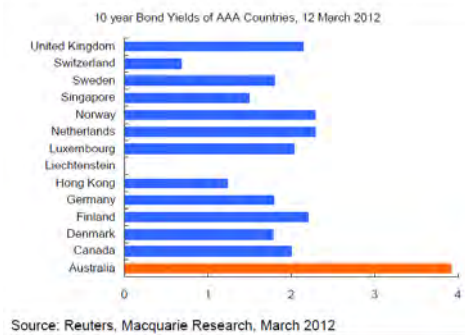


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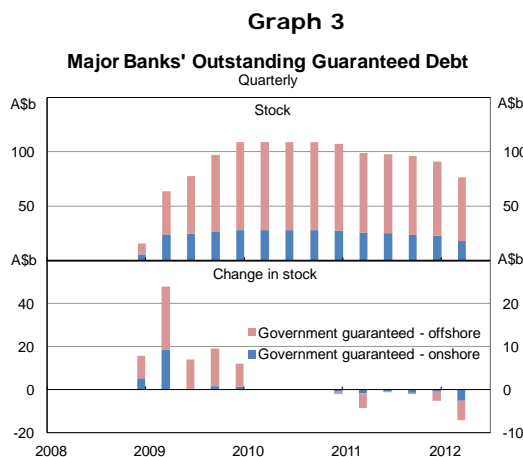
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Graph 4

Graph 5



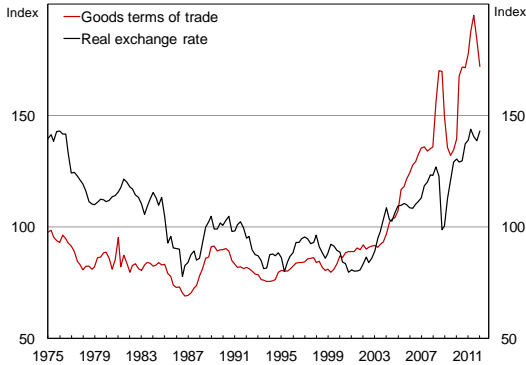
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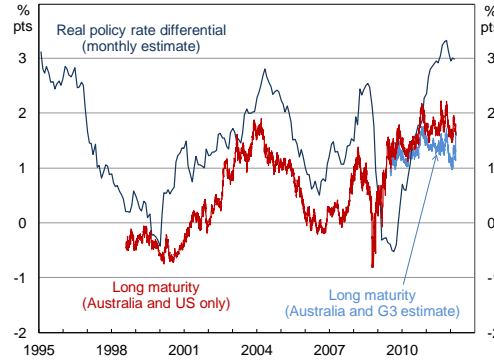
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Post-float average = 100



Real Yield Differentials

Australia and GDP-weighted G3 government securities and policy



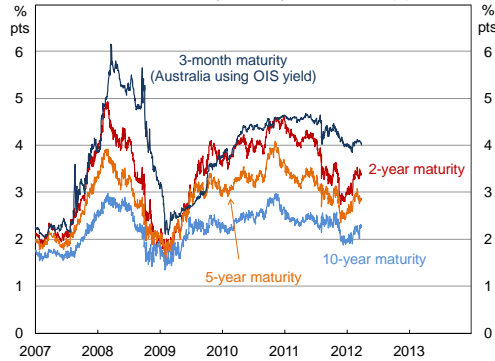
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Graph 6

Nominal Yield Differentials

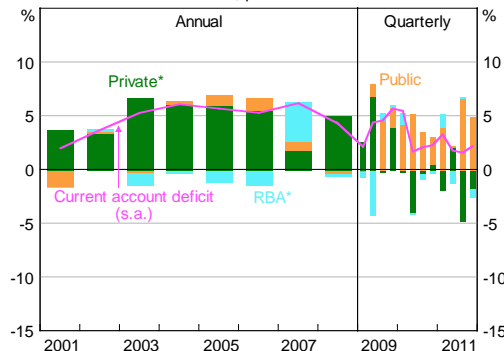
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Sources: ABS; RBA

Considering the relatively small *net* capital inflows in recent quarters, when compared to history, would probably lead to an underestimation of the effects of recent capital flow patterns on the exchange rate. This is because recent capital inflows are more related to fundamentals than offsetting capital

outflows and capital inflows are less likely to have been hedged than capital outflows. In fact, capital outflows over recent quarters have predominantly reflected the rebalancing of Australian banks' funding towards domestic sources which partly reflect changing regulations.

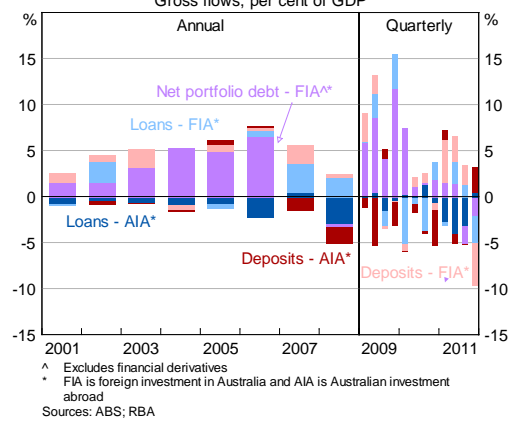
Other private capital outflows reflect margin payments to and by banks on derivative positions which were made because of wide swings in the exchange rate in the second half of 2011 (Graph x). Furthermore, Australian banks' hedge almost all of their foreign-currency bond issuance and so capital flows related to net issuance/repayment of these bonds do not generate net demand for the Australian dollar in the foreign exchange market.

By contrast, most capital inflows appear to be unhedged flows and so are more likely to have a material influence upon the level of the Australian dollar. For example, liaison and market reports suggest that many of the investors are sovereign asset managers and Japanese retail investment funds, neither of which are very likely to hedge (as they wish to earn the interest rate differential). Furthermore, these flows are likely to be related to fundamentals, particularly the reduced perceived relative risks of investing in the Australian dollar (see below). Capital inflows associated with the offshore fund raising activities of mining companies are also likely to be unhedged, however, it is possible that these funds are never exchanged into Australian dollars if they are used for US dollar expenses, for example to purchase equipment. Nevertheless, if a simple proxy for net unhedged capital flows is plotted against the real exchange rate, there does appear to be a positive association (Graph y [to come; Rachael is making an unhedged version for me]).⁴

Theory

The apparent preference shift and resulting portfolio shift of foreign investors towards Australian dollar government securities has increased Australian dollar demand. The increase in demand associated with this shift appears large by historical standards; the implied quarterly flows from offshore investor purchases of CGS in the September and December quarter 2011 were equivalent to more than 100 per cent of daily Australian dollar spot turnover in the Australian market (is this the most appropriate, what about customer flows?). *Ceteris paribus*, the increase in demand for these assets would be expected to appreciate the Australian dollar in the short term, as appears to be the case. However, to understand the medium term implications it is important to consider a fundamental framework.

Graph x
ADI Select Debt Sub-component Flows
Gross flows, per cent of GDP

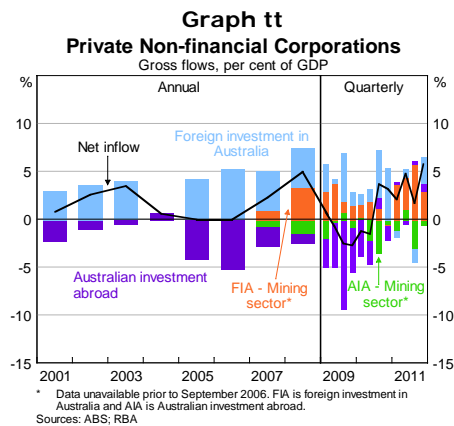
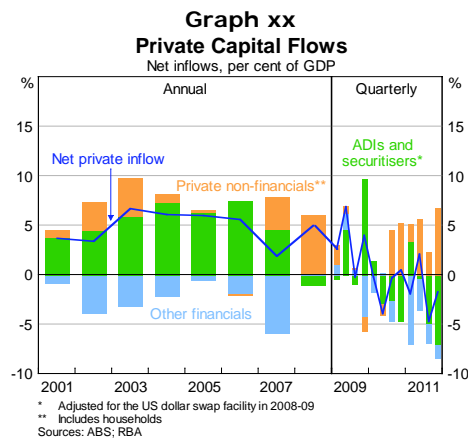
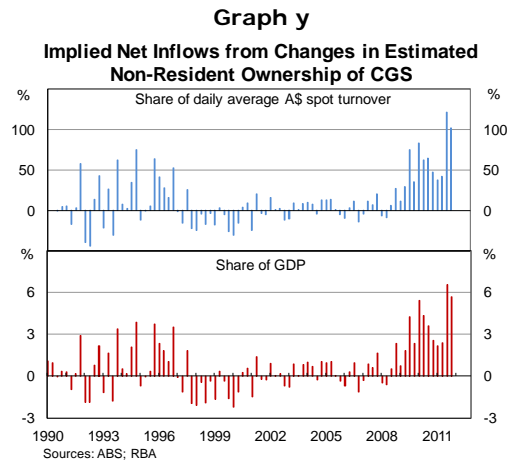


⁴ Outline how unhedged capital flows are defined in the graph.

From a macroeconomic perspective, it is difficult to relate any direct effects of the capital flows associated with non-resident purchases of CGS on the exchange rate. Rather, a macroeconomic approach would tend to characterise the increased non-resident CGS purchases as a reflection of a change in underlying fundamentals, often relative prices of exports and imports and/or relative rates of return (whether nominal, real and risk-adjusted) on assets denominated in different currencies. For example, asset market views of the exchange rate rely upon real money balances, real output and interest rate differentials (monetary models) and/or changes in the relative supplies of substitutable assets and associated risk premiums across currencies (portfolio balance models) to change rates of exchange.⁵

Focusing upon the portfolio balance approach, capital flows data provide some support that the risk premium attached to Australia dollar assets has decreased in recent quarters (*ceteris paribus* increasing the risk-adjusted rate of return). This is reflected in the apparent preference shift and resulting portfolio shift of foreign investors. The strength of foreign investor inflows into the non-bank private sector supports such a claim, particularly in the December quarter 2011.

Under an exchange rate microstructure framework, it is foreseeable that increased foreign ownership of CGS may have reduced the Australian dollar risk premium. Under such a framework, relaxing some of the core assumptions of the asset demand

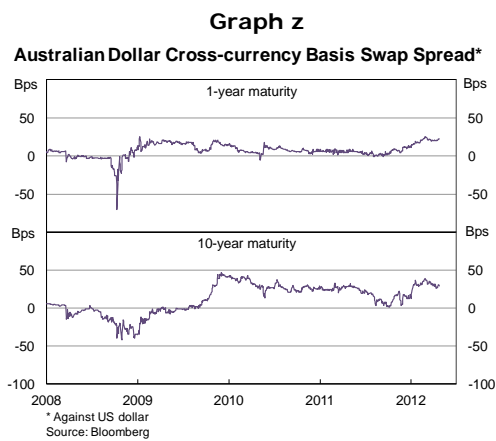


⁵ Adopting a sticky price monetary model—in the spirit of Dornbusch—the appreciation of the Australian dollar in the second half of 2011 may be partly explained by the smaller than expected reductions in the cash rate or extended projections of lower long term policy rates from the US federal reserve. These positive interest rate differential surprises may have caused a positive overshoot of the Australian dollar which may be expected to die-out over time in an uncovered interest rate parity framework.

approach to exchange rates,⁶ foreign exchange transactions related to foreign exchange customer order flows can affect the exchange rate through two main channels: private information about real economy fundamentals and private information about currency risk premia demanded by foreign exchange dealers. By taking unhedged positions in the Australian dollars, which are unlikely to be unwound with the same speed as other speculative flows (e.g. carry trades), foreign sovereign asset purchases of CGS reduce the risk of making markets in Australian dollars because they reduce the likelihood of the market becoming one-sided.

Comment [CJP3]: I'm not attached to this idea, and it probably needs to be explained more clearly but I will leave it in to see what you think.

The difficulty with any conclusion about a reduced risk-premium attached to the Australian dollar is the inability to accurately measure it, particularly on a time-varying ex-ante basis. One potential indicator is the cross-currency basis swap (CCBS) spread which embodies the premium paid or received to swap payments from one currency into another. In theory, currency credit risk is one of the main factors that affect CCBS spreads; the other major factors are counterparty credit risk and foreign exchange dealer inventory risk arising from demand and supply imbalances in swap customer order flows. Since the end of 2009,



foreign exchange dealers have demanded a 30 basis point premium, on average, to assume Australian dollar risk at a 10-year maturity, mostly reflecting the large demand for currency swaps by Australian banks following foreign-currency bond issuance (Graph z). However, in the second half of 2011 this premium declined towards zero across the curve, with larger declines at longer swap tenors. Although they are hard to disentangle, this decline likely reflected a slowing in swap demand as Australian banks halted their foreign-currency bond issuance; but it may also have reflected a smaller risk premium attached to Australian dollars (unlike in 2008 when the decline in the CCSW reflected the dislocation of credit markets and the extreme counterparty risk aversion that gripped financial markets generally).

Comment [CJP4]: I'm also not attached to this, but maybe it adds a more analytical element.

Conclusion

There is reason to believe, and theory that agrees, that non-resident purchases of CGS have supported the Australian dollar in recent times. This increased demand for Australian dollar assets has been associated with a shift in investor preference to increasing exposures to Australian dollar assets, probably associated with a reappraisal of the relative risks of such investments.

However, it is difficult to assess the size of any reduction in the risk-margin investors demand for being exposed to the Australian dollar assets and the expected effect upon the Australian dollar. Furthermore, it is important to keep the size of this relationship in perspective: the Australian dollar is far more responsive to commodity prices than yield differentials.

⁶ These assumptions are that information is homogenous, that market participants act in the same manner and that prices are unaffected by market structure and different trading mechanisms (Lyons, 2001).

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5 April 2012

An Update on Global Foreign Exchange Reserves – December Quarter 2011

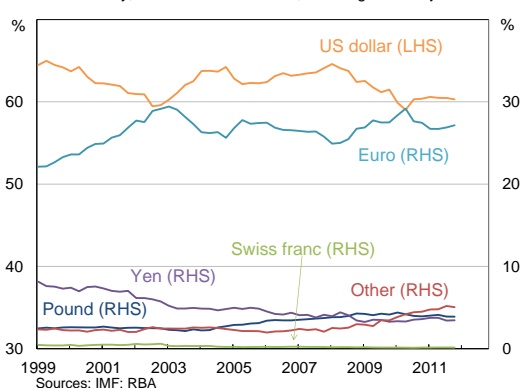
Over the year, the share of foreign exchange reserves held in US dollars, Japanese yen and euros fell slightly, while the share allocated to 'other' currencies rose slightly (in exchange-rate-adjusted terms). This pattern was driven by emerging market and developing economies (EMEs), while advanced economies decreased the share of their reserves held in 'other' currencies. The broad trend for EMEs over the past decade has been a reduction in the share of US dollar reserves and an increase in the shares held in British pounds and 'other' reserve currencies.

Currency Composition of Global Foreign Exchange Reserves

The December 2011 COFER data contain currency composition information for 55½ per cent of the global stock of reserves, with this coverage largely unchanged from a year ago.⁴ Of the stock of allocated reserves for which currency composition is reported, the share of US-dollar-denominated reserves fell slightly over the year, to around 60 per cent (after adjusting for exchange rate movements; Graph 7; Table 2).

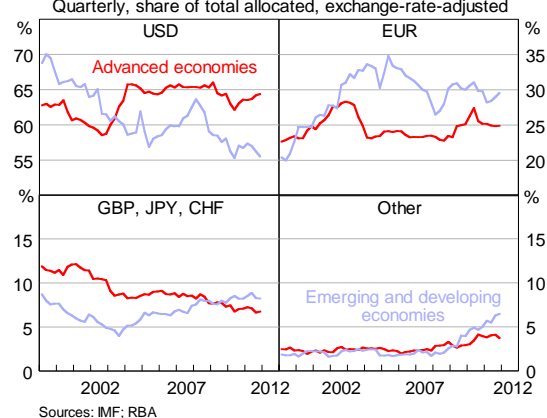
Graph 7

Composition of Global Foreign Exchange Reserves
Quarterly, share of total allocated, exchange-rate-adjusted



Graph 8

Composition of Global Foreign Exchange Reserves
Quarterly, share of total allocated, exchange-rate-adjusted



The advanced economies increased the share of reserves held in US dollars over the past year, reducing slightly the shares held each in euros, yen and other currencies, in exchange-rate-adjusted terms (Graph 8).

The EMEs, in contrast, reduced the share of foreign exchange reserves held in US dollars, most notably in the second half of 2011, likely reflecting foreign exchange intervention by some countries (in particular, sales of US dollars) and likely accounting for the largely compensating increase in the share of euros in EMEs' foreign exchange portfolios over this period.

The overall decline in euro-denominated reserve holdings over 2011 was relatively modest, despite concerns about the sustainability of the euro currency during the period. This may reflect that the authorities largely chose to retain existing holdings or substitute away from lower quality to higher quality euro area sovereign bonds leading to less of an overall decline in euro-denominated reserve holdings than might have otherwise been anticipated.

Meanwhile, the share of global reserves denominated in 'other' currencies has increased by around 1 percentage point over the year, to be 4 percentage points higher since the beginning of 2009. This suggests that the authorities, particularly in EMEs, have continued

⁴ This reflects a fall in the allocated share of reserves for EMEs which was offset by a rise in advanced economies allocated share of reserves.

to diversify outside the main traditional reserve currencies (although still from a low base).

Table 2: Composition of Allocated Foreign Exchange Reserves

	Share (per cent)	Change in share over year to December 2011 (percentage points)	
	Dec-11	Unadjusted	Exchange-rate-adjusted
Total			
USD	62	0.3	-0.1
EUR	25	-1.0	-0.3
GBP	4	-0.1	0.0
JPY	4	0.0	-0.1
CHF	0	0.0	0.0
Other	5	0.7	0.6
Advanced			
USD	66	1.1	0.8
EUR	23	-0.9	-0.3
GBP	3	0.0	0.0
JPY	4	-0.1	-0.3
CHF	0	0.0	0.0
Other	4	-0.1	-0.2
Emerging & developing (EMEs)			
USD	57	-0.8	-1.2
EUR	27	-0.9	-0.2
GBP	5	-0.1	-0.1
JPY	3	0.2	0.1
CHF	0	0.0	0.0
Other	7	1.7	1.5

- The high level of the A\$ continues to be supported by the still high level of the terms of trade. Strong foreign demand for CGS has also been a supporting factor for some time.

Market Analysis
International Department
21 May 2012

Balance of Payments and International Investment Position — March Qtr 2012

The net inflow of capital to Australia increased to 4.5 per cent of GDP in the March quarter, which in net terms was directed entirely to the public sector.

Net Income Deficit

Table 1
Balance of Payments and Net Foreign Liabilities
(\$ billion)

	Dec-11	Mar-12	Per cent of GDP
Current Account¹ (sa)	-9.6	-14.9	-4.0
Trade Balance	2.3	-3.1	-0.8
Net Income Balance	-11.9	-11.8	-3.2
Capital Account (nsa)	-0.1	-0.1	0.0
Financial Account (nsa)	10.2	15.9	4.5
Net private flows	-2.5	0.1	0.0
Net public flows	12.7	15.8	4.5
Net Foreign Liabilities² (nsa)	856.4	880.2	60.3
Net foreign equity	121.3	138.1	9.5
Net foreign debt	735.1	742.1	50.8

¹ Current account, and capital and financial account figures will not sum as current account data are seasonally adjusted

² Share of annual GDP

Financial Account

Net capital inflow in the March quarter was directed entirely towards the public sector (Table 2, Graph 4).

The net inflow to the public sector in the March quarter of 4.5 per cent of GDP reflected:

- An inflow of 5.8 per cent of GDP to the General Government sector; and

Over the past three quarters, capital inflow to General Government has averaged 5.3 per cent of GDP, which is well above the average inflow of 2.2 per cent of GDP over 2010/11.

Table 2

Financial Account Summary¹			
Per cent of GDP			
	Past 5 years²	Dec-11	Mar-12
Financial Account	4.0	2.7	4.5
Net Flows			
Private Capital³	2.2	-0.7	0.0
Equity	1.5	4.4	2.7
Direct	1.4	5.4	1.6
Portfolio	0.0	-1.1	1.1
Debt	0.7	-5.0	-2.7
ADI debt	1.1	-6.8	-3.7
Public Capital	1.9	3.3	4.5
General Government ⁴	1.6	4.4	5.8
Official reserve assets ⁵	0.3	-1.0	-1.3
Gross Flows			
Foreign investment in Australia	10.5	1.0	8.0
Private equity	4.5	5.2	4.6
Private debt	3.6	-8.2	-1.6
ADI debt ⁶	4.1	-10.0	0.4
General Government	2.2	4.1	4.9
Australian investment abroad⁷	-6.4	1.6	-3.5
Private equity	-3.1	-0.9	-1.9
Private debt	-2.9	3.2	-1.1
ADI debt ⁶	-2.4	3.2	-2.2
General Government	-0.7	0.3	0.9

¹ Positive numbers represent inflows of capital to Australia

² Quarterly average

³ All direct investment is assumed to be private. Includes state government and public corporations. Adjusted for RBA US dollar swap facility in 2008-09.

⁴ Includes the recording of SDR liabilities

⁵ Includes other RBA flows

⁶ Excludes financial derivatives

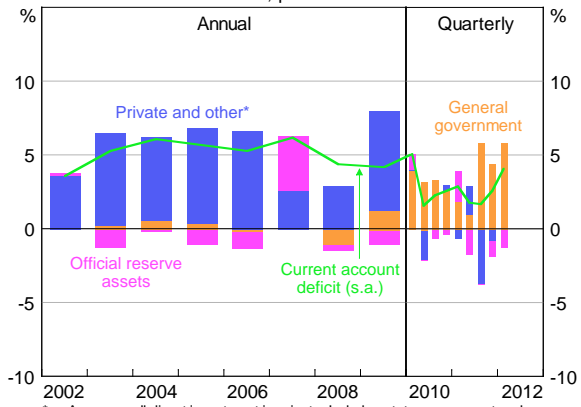
⁷ Includes official reserve assets

Sources: ABS; RBA

Graph 4

Australian Capital Flows

Net inflows, per cent of GDP



* Assumes all direct investment is private. Includes state government and public corporations, and adjusted for the US dollar swap facility in 2008 and 2009.
Sources: ABS; RBA

/ Market Analysis / International Department
/ Financial Conditions Section / Economic Analysis Department
5 June 2012

A Sectoral Breakdown of Capital Flows – March Quarter 2012

The Financial Accounts (FA) provide a more disaggregated view of the net capital inflow in the March quarter 2012 compared to the Balance of Payments (BOP) release. In particular, it shows that while there was a strong net capital inflow into general government debt, there was a net capital outflow from state and local government debt.

The net capital inflow of 4.4 per cent of GDP in the March quarter (revised from 4.5 per cent of GDP in the BOP release) was primarily directed towards the public sector, which received inflows representing 5.0 per cent of GDP (Table 1, Graph 1). The FA data separately identify state and local government capital flows (which are included with private debt in the BOP release) and reveal a net outflow of 0.8 per cent of GDP in the March quarter. After this reallocation of state and local government capital flows to the public sector, the FA data reveal a net inflow to the private sector of 0.7 per cent of GDP (in contrast to near zero flows implied by the March quarter BOP release).

As reported in the BOP release, the net inflow to the public sector was largely directed towards the Federal Government, consistent with sustained foreign purchases of Commonwealth Government securities.¹ The net outflow from state government debt largely reflected a withdrawal of foreign investment in state and local government short-term debt.

Table 1
Financial Accounts Summary¹
Net inflows, per cent of GDP

	Past 5 years ²	Dec-11	Mar-12
Total	4.0	2.7	4.4
Private Capital	1.6	-1.4	0.7
ADIs and securitisers ³	0.5	-7.0	-3.7
Other financial	-2.0	0.5	2.0
Non-financial corporations	2.7	4.8	2.1
Households	0.3	0.3	0.2
Public Capital	2.2	5.0	5.0
National government	1.6	4.4	5.7
State and local government	0.6	0.6	-0.8
RBA³	0.3	-0.8	-1.2
Debt	3.3	-1.6	1.5
Private Capital	0.1	-5.8	-2.0
ADIs and securitisers ³	1.1	-6.5	-3.4
Other financial	-0.6	0.6	-0.9
Non-financial corporations	-0.2	0.2	2.5
Households	-0.2	-0.1	-0.2
Public Capital	2.9	5.0	4.7
RBA³	0.3	-0.8	-1.2
Equity	0.8	4.3	2.9
Private Capital	1.5	4.3	2.7
ADIs and securitisers	-0.1	-0.5	0.1
Other financial	-1.9	-0.1	2.5
Non-financial corporations	2.9	4.6	-0.4
Households	0.5	0.4	0.4
Public Capital	-0.7	-0.1	0.3

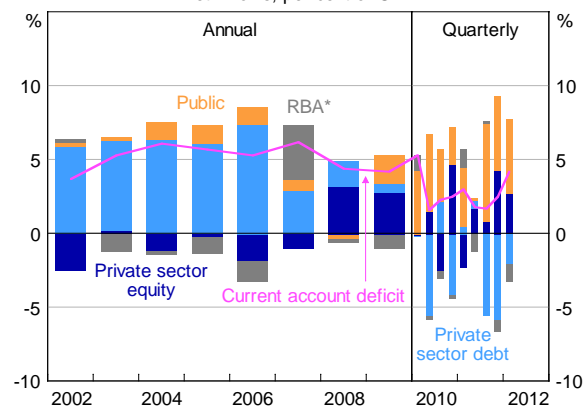
¹ Rest of world component. Positive numbers represent inflows of capital to Australia.

² Quarterly average

³ Adjusted for US dollar swap facility in 2008-09

Sources: ABS; RBA

Graph 1
Australian Capital Flows
Net inflows, per cent of GDP



* Adjusted for the US dollar swap facility in 2008-09
Sources: ABS; RBA

¹ There are some possible anomalies in the government bonds data which we are following up with the ABS.

Market Analysis
International Department
28 June 2012