3. Domestic Financial Conditions

The Reserve Bank's policy measures continue to support highly accommodative financial conditions, even though yields have risen in a number of financial markets and the Bank has begun to withdraw some of the extraordinary monetary support provided through the pandemic. The policy measures implemented by the Bank to support the economy since 2020 have included the low level of the cash rate, the Term Funding Facility (TFF) and the bond purchase program. In May, the Board increased the cash rate target by 25 basis points to 35 basis points, and the interest rate on Exchange Settlement balances from zero per cent to 25 basis points. New purchases under the bond purchase program ceased in February, and in May the Board decided not to reinvest maturing bond holdings. Accordingly, the stimulus from the bond purchase program will gradually lessen over time as the bonds mature.

Australian Government bond yields have risen noticeably over recent months. This has occurred alongside an increase in bond yields globally, largely reflecting expectations of higher inflation and monetary policy tightening. Money market rates have also risen, as have market participants' expectations of further policy tightening; current market pricing implies expectations of an increase of the cash rate to around 2¾ per cent by the end of 2022. Bond markets continue to function reasonably well. Australian equity prices have largely recovered from their decline earlier in the year, as resources companies have benefited from elevated commodity prices.

Banks' funding costs remained low in recent months, although elements of costs have increased with the rise in market yields. Interest rates on outstanding housing and business loans remained low, despite increases in interest rates on some new fixed-rate loans. The increase in the cash rate in May will add to banks' funding costs and many banks have announced they will pass through the increase to variable housing rates. Growth in credit remained high and demand for housing finance continues to be robust. Business debt has been growing strongly.

The Australian dollar is higher than at the start of the year, having been supported by high commodity prices, which are expected to remain at elevated levels compared with recent years. This is despite the exchange rate depreciating in April alongside concerns about the outlook for Chinese activity and the appreciation of the US dollar.

AGS yields have risen considerably

Yields on Australian Government Securities (AGS) have risen considerably since late 2021, to be at their highest level since 2014 (Graph 3.1).

These increases have occurred alongside similar movements in international markets (Graph 3.2). The rise in government bond yields largely reflects expectations for further monetary policy tightening as well as higher inflation over the next few years. Further, in addition to putting upward pressure on energy prices, Russia's invasion of Ukraine has contributed by raising global risk premia. The increase in shorter-term

AGS yields has been driven by both higher real yields and higher inflation compensation (which captures both inflation expectations and risk premia) (Graph 3.3). By contrast, the increase in longer-term AGS yields has been largely driven by higher real yields. Yields on semi-government securities (semis) have increased in line with those on AGS.

Having ceased new purchases under the bond purchase program in February, the Board announced in May that it will not reinvest the proceeds of the Bank's maturing government bond holdings. The Board also stated that it was not currently planning to sell the government bonds the Bank purchased during the pandemic. As the Bank's bond holdings mature, the stimulatory effect of the stock of bonds purchased by the Bank will gradually decline.

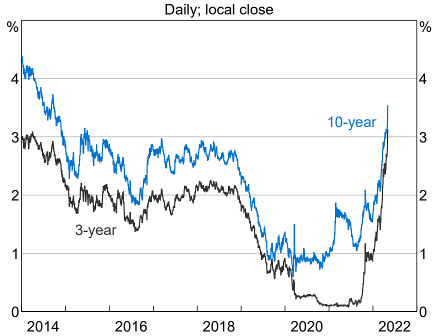
Government bond issuance has been steady

Following the release of the Australian Government Budget 2022–23, the Australian Office of Financial Management (AOFM) lowered its annual funding guidance for the 2021/22 fiscal year slightly to $100 billion from $105 billion, and plans to issue $125 billion of nominal AGS in the next financial year. Bond issuance by the AOFM has been steady in recent months, with auctions continuing to be well subscribed (Graph 3.4). In April, the AOFM issued $15 billion of the new November 2033 AGS via syndication.

Graph 3.1

Australian Nominal Government Bond Yield

Daily; local close

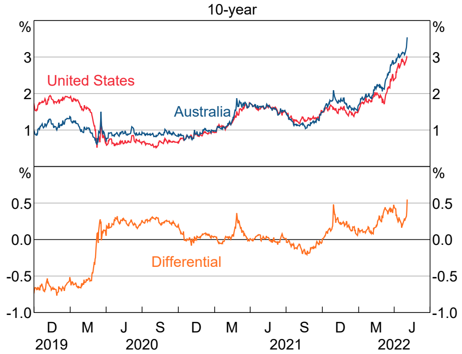


Source: Bloomberg

Graph 3.2

Government Bond Yields

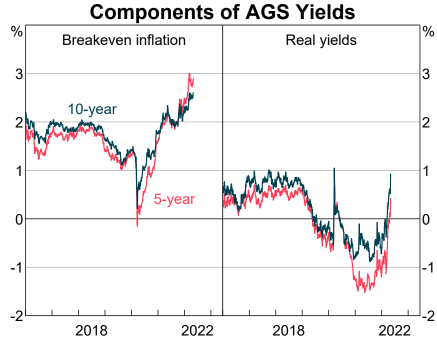
10-year



Sources: Bloomberg; RBA; Yieldbroker

Graph 3.3

Components of AGS Yields

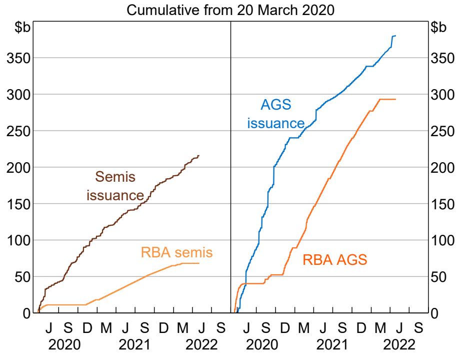


Sources: RBA; Yieldbroker

Graph 3.4

Government Issuance and RBA Purchases

Cumulative from 20 March 2020



Sources: AOFM; Bloomberg; RBA; state and territory central borrowing authorities

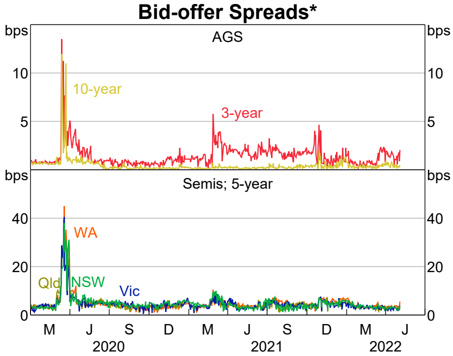
Most measures suggest bond markets are functioning reasonably well

Bid-offer spreads for longer-term AGS and semis remain around their lowest levels in recent years. Bid-offer spreads for short-term AGS increased in March, alongside the sharp increase in yields globally, but remain around the levels seen over the past year (Graph 3.5). The implied yield on three-year bond futures contracts continued to diverge from the yield on three-year bonds over much of the quarter, although this difference has narrowed of late; arbitrage should keep this difference close to zero in an efficient market (Graph 3.6).

Demand to borrow AGS from the Bank rose strongly in late 2021 and early 2022, reaching an average of around $11 billion per day in February (Graph 3.7). Demand has declined since then, although it remains elevated with an average of around $6 billion of bonds per day lent out to the market in April. Demand remains focused on bonds with residual maturities of two to three years. The end of the Bank's bond purchase program in February and steady issuance by the AOFM (particularly of the November 2024 bond) have contributed to the decline in demand to borrow AGS from the Bank. However, market liaison suggests that bond dealers have continued to hold low AGS inventories because AGS have remained relatively more expensive than futures. By lending bonds back into the market for short periods, the Bank is supporting the functioning of government bond markets.

Graph 3.5

Bid-offer Spreads*



* Average bid-offer spreads six months either side of the stated tenor for AGS and semis.

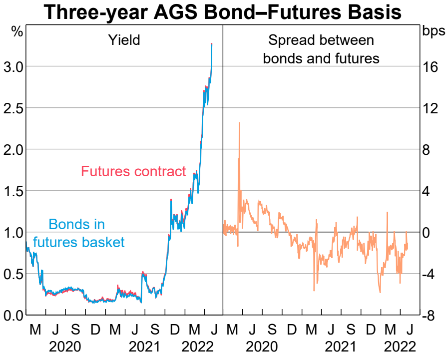
Sources: RBA; Yieldbroker

Cash rate expectations have increased significantly

Market expectations for the cash rate have increased in recent months, alongside expectations for higher inflation in Australia and globally and policy rate rises in advanced economies, including Australia. Following the increase in the cash rate target to 35 basis points in early May, prices for overnight indexed swap (OIS) contracts imply that market participants expect the cash rate to be increased over the

Graph 3.6

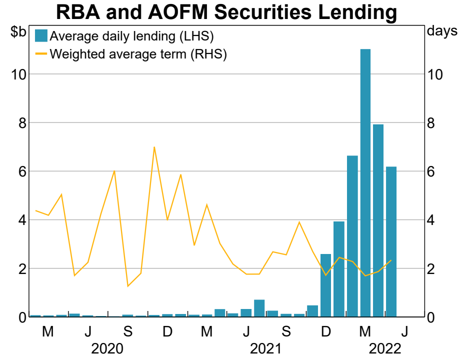
Three-year AGS Bond–Futures Basis



Sources: RBA; Thomson Reuters

Graph 3.7

RBA and AOFM Securities Lending



Source: RBA

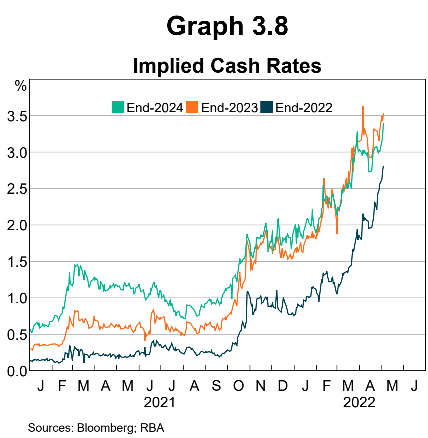
remainder of the year to be around 2¾ per cent by the end of 2022, and around 3½ per cent by the end of 2023 (Graph 3.8). In April, transaction volumes in the cash market picked up a little, and as a result the proportion of days when the cash rate was determined by market transactions, rather than expert judgement, has increased. The cash rate increased slightly to 6 basis points in April, and to 31 basis points in early May, following the increase in the cash rate target.

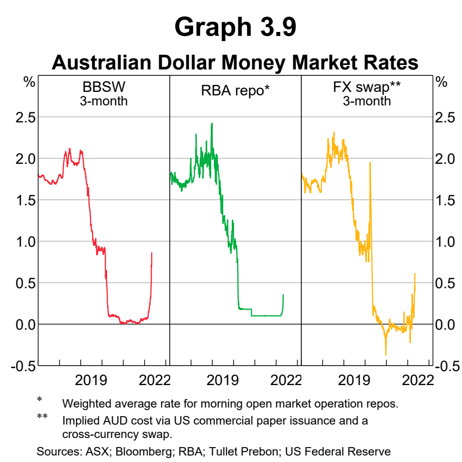
Money market rates have increased from historically low levels

Short-term money market rates have increased but remain at relatively low levels, reflecting the high level of liquidity in the banking system and the low level of the cash rate (Graph 3.9). Bank bill swap rates (BBSW) increased alongside the rise in policy rate expectations and as investor demand for longer-tenor bills declined somewhat amid heightened geopolitical uncertainty. The cost of Australian dollar funding from offshore short-term issuance (via the foreign exchange swap market) also moved higher over the past three months but remains low. Repurchase agreement (repo) rates at the Bank's regular open market liquidity operations (OMO) increased from 10 basis points, where they had been since late 2020, to be 36 basis points at the OMO the day after the Board meeting in early May. Part of this increase occurred following the Bank changing the OMO hurdle rate at the end of March from the cash rate target to the rate on term-matched OIS plus a modest spread. This operational change was announced in February to ensure that the Bank's OMO continues to support liquidity as intended as conditions in money markets evolve over time.[1] Demand for short-term liquidity obtained at OMO has been little changed and remains at historically low levels.

The Bank's balance sheet remains large but will decline significantly over the next few years

The Bank's balance sheet has declined since the previous *Statement*, but remains large by historical standards, reflecting the policy measures introduced by the Bank in response to the COVID-19 pandemic (Graph 3.10; Graph 3.11). The recent decline in the balance sheet reflects a decrease in the market value of the Bank's bond holdings due to an increase in yields. On the liabilities side, there has been a corresponding decline in the valuation reserves component of 'other liabilities', which has resulted in a negative balance for this item in the past month or so.[2] The Bank's balance sheet will decline significantly over the next few years





as TFF funding begins maturing in 2023, with the TFF coming to an end in mid-2024. Also, the maturing of the Bank's government bond holdings will contribute to a decline in the Bank's balance sheet over a number of years.

Bank bond issuance increased in recent months, alongside rising yields

Australian bank bond issuance increased in early 2022. Banks raised $56 billion in bond markets during the March quarter, with an average tenor of four and a half years (Graph 3.12). This was the largest quarterly bank bond issuance in about a decade and followed low issuance in 2020 and 2021 (which reflected the availability of low-cost funding from the TFF and strong deposit growth during that time). Of late, banks may also be seeking to fund purchases of AGS to satisfy High Quality Liquid Asset requirements given APRA is phasing out use of the Committed Liquidity Facility (CLF) by the end of 2022.[3] In the March quarter, about 60 per cent of funds were raised in offshore markets, which are typically deeper and more liquid for bond issuance. Net issuance – the difference between bonds issued and those maturing – was positive for the first time since early 2019.

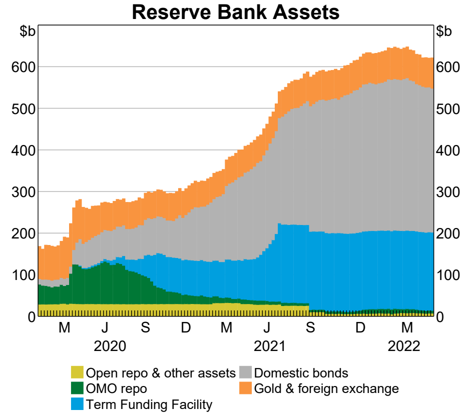
Bank bond yields increased sharply in recent months, with yields on three-year bonds now at around 4 per cent for the first time since 2013 (Graph 3.13). The increase in yields was somewhat larger than the increase in the swap rate, a reference rate for the pricing of fixed-income securities, reflecting stronger demand for funding and a broader increase in risk premiums.

RMBS issuance remained robust, driven by non-banks

Issuance of asset-backed securities remained strong in the March quarter and continued to be driven primarily by non-banks. Of the $10 billion

Graph 3.10

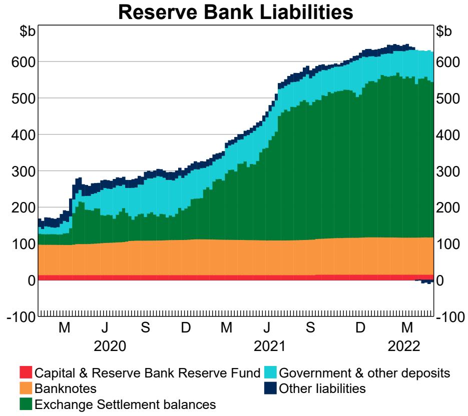
Reserve Bank Assets



Source: RBA

Graph 3.11

Reserve Bank Liabilities

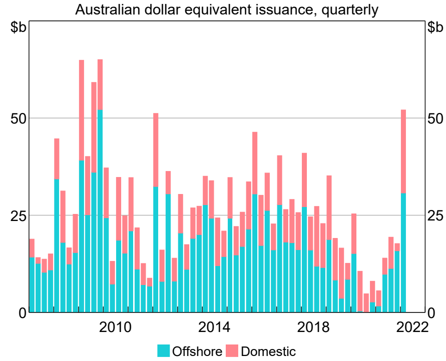


Source: RBA

Graph 3.12

Australian Bank Bond Issuance*

Australian dollar equivalent issuance, quarterly



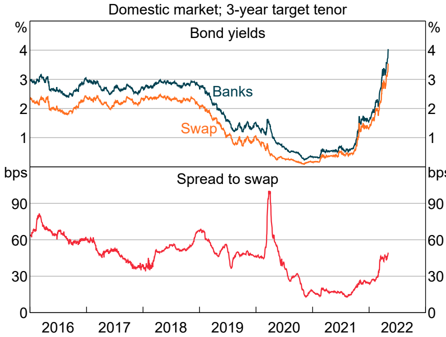
* Includes senior unsecured and covered issuance.

Sources: Bloomberg; Private Placement Monitor; RBA residential mortgage backed securities (RMBS) issued in the quarter, non-banks issued $8 billion (Graph 3.14). Market liaison suggests that conditions since late February were a little more challenging than over the past year or so – for example, some issuers had to increase efforts to contact potential investors to preplace notes. Spreads on RMBS have risen for both banks and non-banks since the start of the year, likely reflecting increased issuance of bank bonds weighing on demand for RMBS, with investors treating bonds and RMBS as close substitutes. Nevertheless, spreads remain around the bottom of the range seen in the decade preceding the pandemic.

Graph 3.13

Bank Bond Pricing

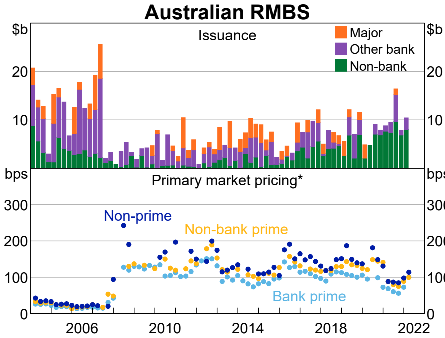
Domestic market; 3-year target tenor



Sources: Bloomberg; RBA

Graph 3.14

Australian RMBS



* Face-value weighted quarterly average of the primary market spread to bank bill swap rate for AAA-rated notes.

Sources: Bloomberg; KangaNews; RBA

Some deposit rates have increased

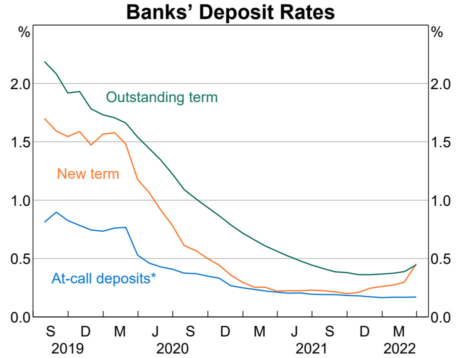
Interest rates on at-call deposits – which make up the bulk of banks' deposits – were little changed over the March quarter, after declining during the pandemic (Graph 3.15). The share of non-interest bearing deposits across the banking sector has increased a little over the same period. By contrast, interest rates on new term deposits edged higher again, driven by wholesale term deposit rates that tend to be linked to BBSW rates. Interest rates paid on outstanding term deposits have also increased slightly since the end of 2021, as maturing deposits have been replaced with new higher-rate term deposits. As the spread between rates on new term and at-call deposits widened, funding sourced from term deposits stabilised, after falling steadily since early 2019. Following the increase in the cash rate, some banks have announced increases to rates paid on a broader range of deposit products.

Banks' funding costs are lifting from historical lows

While banks' overall funding costs remain close to historical lows, they have risen with the increase in market yields over recent months and the increase in the cash rate in early May. Much of banks' wholesale debt funding is linked

Graph 3.15

Banks' Deposit Rates



* Excludes deposits in housing loan offset accounts; includes non-interest bearing deposits.

Sources: APRA; RBA

to BBSW rates (either directly or via hedging), which have increased in recent months (Graph 3.16). As noted above, banks' cost of issuing new debt also rose in early 2022. This has begun to put upward pressure on banks' overall funding costs as banks have also increased the pace of bond issuance over this period. Bond issuance is likely to remain higher than in recent years as banks respond to the wind-down of the CLF over 2022 and expected TFF maturities from next year. In addition, the cessation of government bond purchases under the Bank's bond purchase program is, all else equal, likely to see some easing in deposit growth compared with 2021. The Bank's bond purchases added to deposit growth because payments for bonds purchased from the private (non-bank) sector were credited to deposit accounts of the sellers of these bonds. Growth in low-rate deposits had also put downward pressure on funding costs over the past two years.

Interest rates have increased on new fixed-rate housing loans

Average interest rates on new fixed- and variable-rate loans continued to diverge over the March quarter (Graph 3.17). The average rate on new fixed-rate housing loans rose by almost 85 basis points from its historical low in mid-2021, following significant increases in swap rates, which are the pricing benchmark for these loans. By contrast, the average rate on new variable-rate housing loans declined further over this period, which preceded the May policy rate increase. As a result, at the end of the March quarter the average rate on new fixed-rate housing loans was higher than that on new variable-rate housing loans, and the proportion of borrowers taking out new fixed-rate mortgages has declined substantially since the end of last year (Graph 3.18). The recent movements in pricing and in lending volumes indicate that competition among mortgage lenders is shifting back towards variable-rate loans after a period of competitive pricing pressures on fixed-rate loans.

While increases in interest rates on fixed-rate loans have been broadly based, the largest increases have been on loans with fixed-rate terms of more than two years (Graph 3.18). Despite easing in recent months, the value of new borrowing for shorter-term fixed-rate mortgages was still more than double its pre-pandemic level in March.

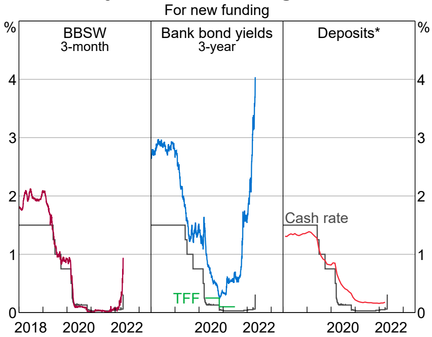
Interest rates on outstanding housing loans remain low

The average rate on outstanding variable-rate mortgages continued to drift downwards over the March quarter, as low variable rates encouraged new borrowing and refinancing

Graph 3.16

Major Banks' Funding Costs

For new funding

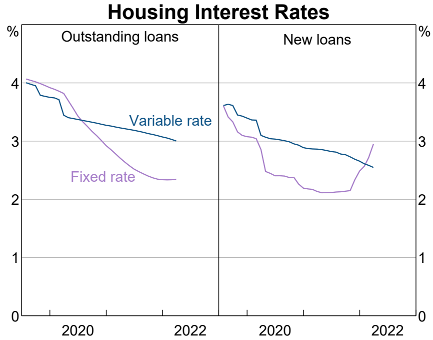


* RBA estimates; excludes deposits in housing loan offset accounts.

Sources: AFMA; APRA; ASX; Bloomberg; major banks' websites; RBA; Refinitiv

Graph 3.17

Housing Interest Rates



Sources: APRA; RBA

Table 3.1: Average Outstanding Housing Rates

March 2022

	Interest rate (per cent)	Change since Feb 2021 (basis points)	Change since Feb 2020 (basis points)
Variable-rate loans			
– Owner-occupier	2.89	–23	–69
– Investor	3.24	–24	–73
All variable-rate loans	3.00	–24	–71
Fixed-rate loans			
– Owner-occupier	2.22	–41	–151
– Investor	2.58	–45	–143
All fixed-rate loans	2.34	–44	–151
Loans by repayment type[(a)]			
– Principal-and-interest	2.68	–34	–94
– Interest-only	3.25	–39	–97

(a) Weighted average across fixed- and variable-rate loans.

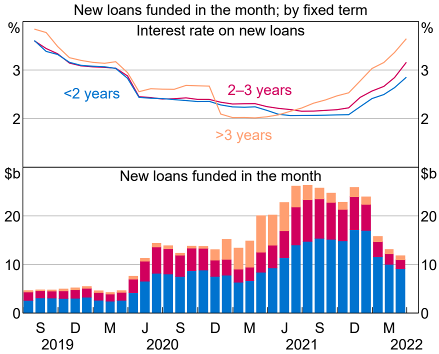
Sources: APRA; RBA

activity (Graph 3.17). Following the increase in the cash rate in early May, several banks have announced that they will increase variable rates for existing loans by 25 basis points. As these changes come into effect, this will cause the average rate paid on outstanding loans to increase. Meanwhile, the average rate on outstanding fixed-rate housing loans was little changed over the March quarter. The average outstanding fixed rate on housing loans was around 65 basis points lower than the average outstanding variable rate, reflecting the high volume of fixed-rate mortgages that were taken out when new fixed rates were lower than new variable rates (Table 3.1). The average rate on outstanding fixed-rate housing loans is expected to increase gradually in the period ahead, since the average rate on new fixed-rate loans is now well above the average rate on outstanding fixed-rate loans and given the relatively short terms of fixed-rate loans.

Graph 3.18

Fixed-rate Housing Loans

New loans funded in the month; by fixed term



Sources: APRA; RBA

Interest rates on outstanding business loans remained around historical lows

Interest rates on outstanding business loans have drifted down slightly or been little changed across most types of loans over recent months (Graph 3.19). However, interest rates on new business loans have increased or been little changed for most types of loans over the same period. Average interest rates on new fixed-rate loans for small and medium businesses – which account for just under 12 per cent of business loans by value – have picked up recently,

Table 3.2: Growth in Financial Aggregates

Percentage change[(a)]

	Three-month annualised		Six-month annualised	
	Dec 21	Mar 22	Sep 21	Mar 22
Total credit	9.4	6.9	7.5	8.1
– Household	7.5	7.1	6.8	7.3
– Housing	8.2	7.8	7.7	8.0
– Owner-occupier	9.1	8.2	9.7	8.6
– Investor	6.4	6.8	4.0	6.6
– Personal	–0.2	–2.7	–5.2	–1.5
– Business	13.2	6.8	8.8	10.0
Broad money	13.7	4.8	9.9	9.2

(a) Figures are break-adjusted and seasonally adjusted.

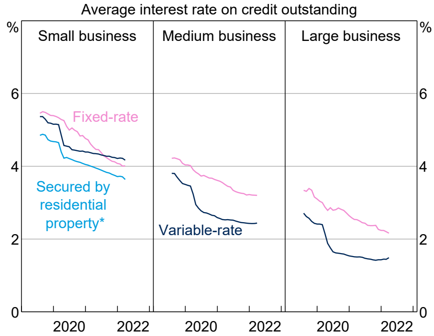
Sources: ABS; APRA; RBA

following the rise in longer-term swap rates (a key pricing benchmark for fixed-rate loans). Interest rates on variable-rate loans may increase in the period ahead, following the increase in the cash rate in early May. The recent increase in three-month BBSW rates may also see a rise in large business lending rates in the period ahead, given interest rates on a range of variable-rate loans for larger businesses are typically linked to three-month BBSW rates.

Graph 3.19

Business Lending Rates

Average interest rate on credit outstanding



* Small business loans secured by residential property can have fixed or variable interest rate terms and are included in the fixed-rate and variable-rate lines.

Sources: APRA; RBA

Growth in credit remains high

Growth in total credit remained high in recent months, at around its fastest pace in more than a decade on a six-month-ended annualised basis (Graph 3.20; Table 3.2). Total housing credit growth was little changed over recent months on a six-month-ended annualised basis, remaining around its highest pace of the past decade. Demand for housing credit continued to be supported by the low level of interest rates and strong activity in housing markets in the first few months of this year.

Growth in business credit remains strong relative to the past decade. Demand for business credit has been driven by large- and medium-sized businesses. Growth in credit to large businesses has been supported by elevated merger and acquisitions (M&A) activity as well as strong economic growth.

Personal credit continued to decline over the past six months, but at a slower pace than in late 2021. This is consistent with the easing of lockdowns over this period and the associated increase in spending opportunities for consumers.

Demand for housing loans has been strong

Housing credit growth remains high at 8 per cent on a six-month-ended annualised basis. Owner-occupier credit growth has moderated a little over the past few months, while investor credit growth has picked up (Graph 3.21).

Commitments to owner-occupiers and investors remain close to their highest levels on record (Graph 3.22). Commitments to first home buyers have declined in recent months, in part owing to the end of the HomeBuilder subsidy. Nevertheless, they remain elevated relative to pre-pandemic levels, supported by a number of other government support schemes for first home buyers.

Payments into housing loan offset and redraw accounts have declined

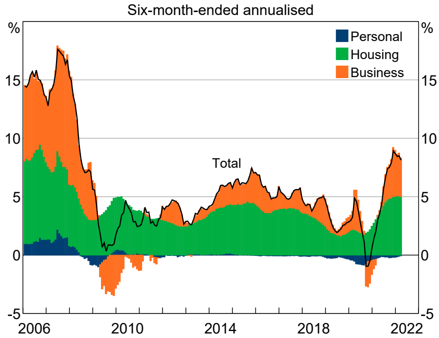
Net payments into offset and redraw accounts declined a little further in the March quarter from the high level reached in the September quarter. This decline is consistent with the end of lockdowns during late 2021, and the associated increased consumption opportunities and tapering of income support payments. Since the onset of the pandemic in early 2020, mortgage borrowers' payments into offset and redraw accounts have been substantial, totalling about 3½ per cent of disposable income (around $106 billion).

Interest payments on housing loans have declined by around 1¼ percentage points as a share of disposable income since March 2020, despite both housing credit and household income increasing at roughly the same pace over that period. This reflects the pass-through of the low cost of overall bank funding and borrowers refinancing to lower interest rates.

Graph 3.20

Contribution to Total Credit Growth*

Six-month-ended annualised

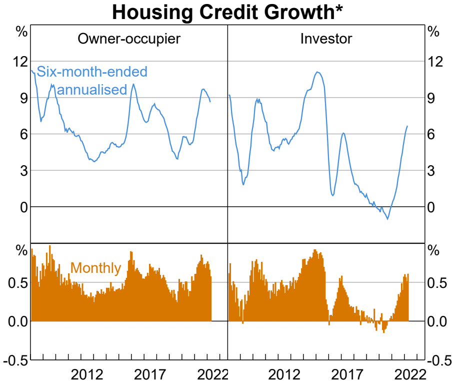


* Seasonally adjusted and break-adjusted.

Sources: APRA; RBA

Graph 3.21

Housing Credit Growth*



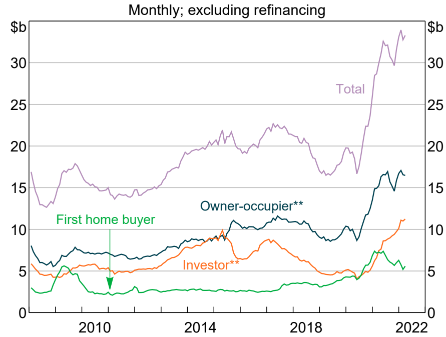
* Seasonally adjusted and break-adjusted.

Sources: APRA; RBA

Graph 3.22

Housing Loan Commitments*

Monthly; excluding refinancing



* Seasonally adjusted and break-adjusted.

** Excluding first home buyers.

Sources: ABS; RBA

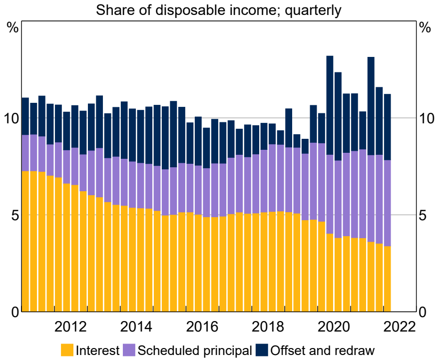
Lending to businesses has continued to grow strongly in recent months

Growth of business lending remained strong over recent months. Growth has been driven by lending to medium- and large-sized businesses, while lending to small businesses has been little changed for some time (Graph 3.24). Over the past year, growth in business lending has been most pronounced for business services and finance firms (Graph 3.25). Within the business services sector, lending to firms in the rental, hiring and real estate industry has been particularly strong.

Graph 3.23

Flows into Housing Loan and Offset Accounts*

Share of disposable income; quarterly



* Seasonally adjusted and break-adjusted.

Sources: ABS; APRA; RBA

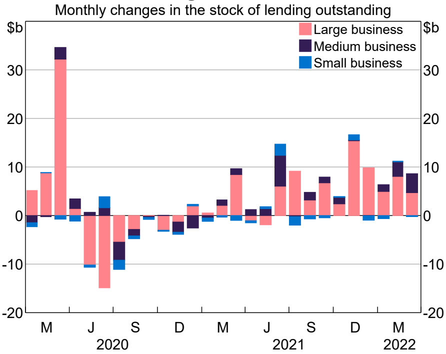
Liaison with banks suggests that outbreaks of the Omicron variant of COVID-19 have not weighed noticeably on business lending, and there have been very few requests for support by businesses. Views on the outlook for business lending are mixed. Some banks expect lending growth to remain strong over the coming year, owing to generally positive economic conditions and high levels of M&A activity over the past 12 months; others have noted that economic uncertainty, rising input costs and expectations for rising interest rates may contribute to some slowing.

Small- and medium-sized enterprise (SME) lending continues to receive some support from government loan guarantee schemes. As at March, around $5.8 billion of loan commitments had been made under the government's SME Recovery Loan Scheme since April 2021; this compares with total SME business loan commitments over the same period of around $110 billion. Loans are available under the SME Recovery Loan scheme until June 2022 (previously December 2021), with a guarantee of 50 per cent (previously 80 per cent).

Graph 3.24

Lending to Business*

Monthly changes in the stock of lending outstanding

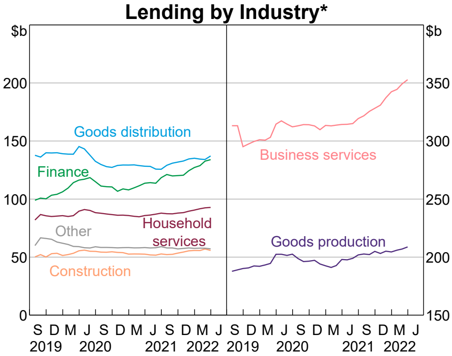


* Data cover financial institutions with $2 billion or more of business credit; not seasonally adjusted.

Sources: APRA; RBA

Graph 3.25

Lending by Industry*



* Excludes lending to ADIs, registered financial corporations and central borrowing authorities.

Sources: APRA; RBA

Growth of broader business debt remains strong

Growth in a broader measure of business debt remains well above the average of recent years, supported by an increase in business credit (Graph 3.26). Notwithstanding this, weaker growth in non-intermediated debt has contributed to a slight easing in overall growth of business debt in recent months.

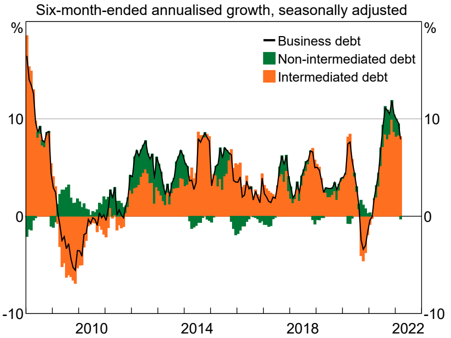
Australian equity prices have increased in recent months

The ASX 200 index has increased by around 5 per cent, on a total return basis, since early February, largely unwinding the decline from January and outperforming equity markets in the United States and the rest of the world (Graph 3.27). The recovery in equity prices in part reflects the composition of the Australian market, which has a larger resources sector and a smaller IT sector compared with many other markets. Energy stocks have increased as Russia's invasion of Ukraine has pushed energy prices higher, while IT stocks have declined alongside the rise in long-term bond yields. Technology companies are often expected to experience strong growth in profits over the longer term, making their valuations more sensitive to changes in interest rates.

Graph 3.26

Business Debt

Six-month-ended annualised growth, seasonally adjusted



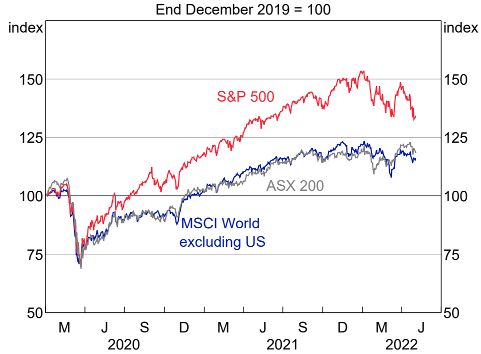
Sources: APRA; Bloomberg; RBA; Refinitiv

Energy stocks have increased by almost 30 per cent since the beginning of the year (Graph 3.28). Utilities stocks have also increased significantly as investors look for companies that tend to have steady earnings given the current environment of geopolitical and economic uncertainty. By contrast, prices of stocks in the interest-rate-sensitive IT and consumer discretionary sectors have declined noticeably as expectations of interest rate increases have risen.

Graph 3.27

Total Return Indices

End December 2019 = 100

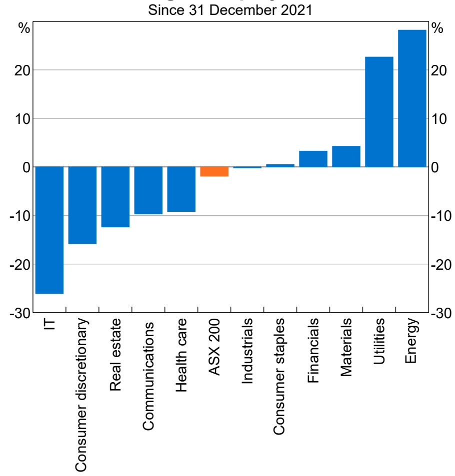


Source: Bloomberg

Graph 3.28

Change in Equity Prices

Since 31 December 2021



Source: Bloomberg

Buybacks remain elevated, while equity raisings have been subdued

Australian listed companies have continued to return cash to shareholders through share buybacks in 2022. About $8 billion of buybacks were completed during the first quarter of the year, driven by the major banks returning surplus capital accumulated during the pandemic (Graph 3.29). By contrast, after a high level of initial public offerings (IPOs) activity in 2021, only around $180 million were raised by 28 companies that listed on the ASX in the first quarter of 2022.

The elevated level of buybacks by financial companies has resulted in an aggregate decline in equity on issue in early 2022 (Graph 3.30). By contrast, equity on issue in the resources and other sectors has increased at around trend rates of growth.

Profits and dividends of Australian companies remain high

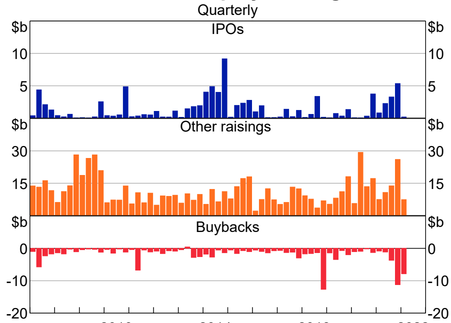
Aggregate underlying profits of ASX 200 companies in the second half of 2021 were substantially higher than the same period a year earlier, and only slightly below the record level of underlying profits in the first half of 2021 (Graph 3.31). The high level of profits continues to reflect elevated earnings for energy and materials companies, driven by high commodity prices. Even so, the increase in profits was broadly based. Over 70 per cent of all ASX 200 companies reported increased earnings relative to the second half of 2020 (during the earlier phase of the pandemic), with over 50 per cent of these companies exceeding analysts' expectations.

Dividends announced in the first half of 2022 fell in comparison to those paid in the second half of 2021, but remained substantially higher than the same period a year earlier (Graph 3.32). The elevated level of dividends continued to be driven by the major miners, with these companies making up over 40 per cent of all dividends announced.

Graph 3.29

Australian Equity Raisings*

Quarterly



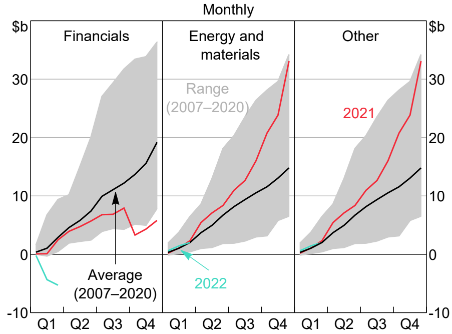
* All listed companies.

Sources: ASX; RBA

Graph 3.30

Cumulative Net Equity Issuance*

Monthly



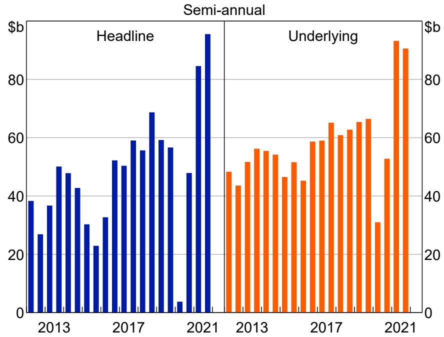
* Net equity issuance is the proceeds from IPOs plus the proceeds from secondary equity raisings minus value of share buybacks.

Sources: ASX; RBA

Graph 3.31

ASX 200 Profits

Semi-annual



Sources: Bloomberg; Morningstar; RBA

The Australian dollar is higher than at the start of the year, despite depreciating of late

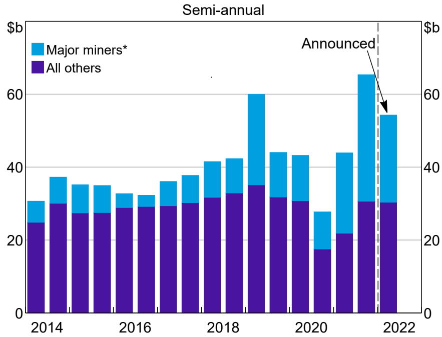
The Australian dollar is around 4 per cent higher than at the start of the year on a trade-weighted (TWI) basis. While the appreciation has been noticeable against the Japanese yen and the euro, the Australian dollar depreciated markedly against the US dollar in April alongside the appreciation of the US dollar and concerns about the outlook for Chinese activity (Graph 3.33). The Australian dollar exchange rate is currently below US$0.73, having appreciated to US$0.76 after the April Board meeting.

The Australian dollar has been supported this year by the elevated level of commodity prices, which has boosted Australia's terms of trade and national income. The RBA Index of Commodity Prices remains at high levels despite a recent decline from its peak. Market participants generally expect commodity prices to remain above the levels of the last few years (see chapter on 'The International Environment'). While import prices have also risen, Australia's terms of trade are forecast to be quite a bit higher across the forecast period than at the time of the February *Statement* (Graph 3.34). The exchange rate has also been supported by yields on Australian Government bonds increasing noticeably against yields on the government bonds of Japan and Germany.

Graph 3.32

ASX 200 Dividends Paid

Semi-annual



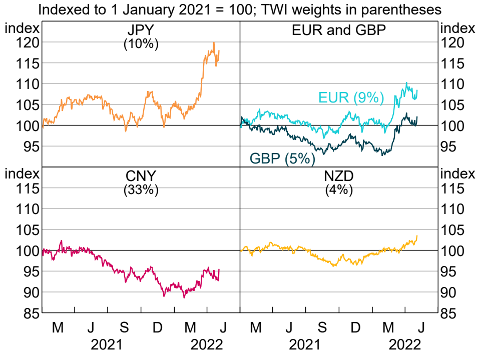
* Major Miners includes: BHP, RIO and FMG.

Sources: Company reports; Morningstar; RBA

Graph 3.33

Australian Dollar Against Selected Currencies

Indexed to 1 January 2021 = 100; TWI weights in parentheses



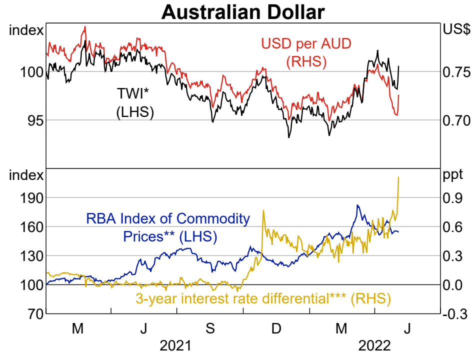
Sources: Bloomberg; RBA

Australia continued to be a net exporter of capital in 2021

Capital outflows from Australia continued to exceed capital inflows in 2021. In other words, Australia was a net exporter of capital, which is consistent with running current account surpluses whereby domestic savings exceed investment (see chapter on 'Domestic Economic Conditions').[4] Net outflows of capital were largely accounted for by Australian investment funds – including superannuation funds –

Graph 3.34

Australian Dollar



* Trade-weighted index, indexed to 1 January 2021 = 100.

** Indexed to 1 January 2021 = 100.

*** Australian sovereign yield less yields of the United States, Japan and Germany, weighted by GDP.

Sources: Bloomberg; RBA; Yieldbroker

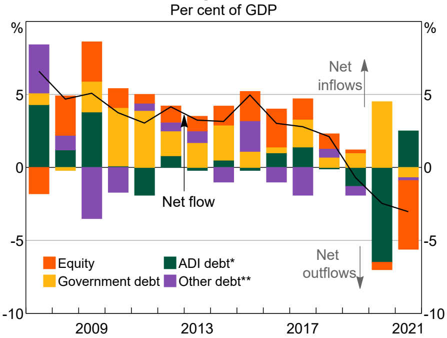
increasing their holdings of foreign equities (Graph 3.35). These outflows were partly offset by capital inflows associated with Australian banks returning to offshore markets to issue debt, particularly in the second half of the year.

Australia's net foreign liability position decreased over 2021 to be slightly below 40 per cent of GDP – its lowest level since the 1980s. This reflected a further increase in Australia's net foreign equity assets and a decline in long-term debt liabilities (Graph 3.36). The net income deficit – the net payments made to service the net foreign liability position – widened considerably over the year, mainly because higher commodity prices flowed through to an increase in dividend payments as well as direct investment income payments to non-residents.

Graph 3.35

Net Capital Flows

Per cent of GDP



* Adjusted for the US dollar swap facility in 2008–2009 and 2020.

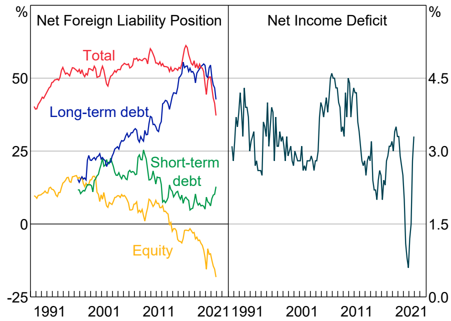
** Includes public corporations and private sector.

Sources: ABS; RBA

Graph 3.36

Net Foreign Position and Payments

Per cent of GDP



Sources: ABS; RBA

Endnotes

[1] See Kent C (2022), 'Changes to the Reserve Bank's Open Market Operations', Remarks to the Australian Financial Markets Association, Sydney, 22 February. Available at <https://www.rba.gov.au/speeches/2022/sp-ag-2022-02-22.html>

[2] Valuation reserves reflect accumulated gains or losses on the Bank's assets from movements in yields and exchange rates.

[3] APRA introduced the CLF in 2015 to enable banks to meet their liquidity requirements given the low level of government debt in Australia at the time. Under the CLF, the Reserve Bank provides a commitment (in exchange for a fee) to provide funds (against collateral) to banks in a period of liquidity stress. See RBA, 'Committed Liquidity Facility'. Available at <https://www.rba.gov.au/mkt-operations/committed-liquidity-facility.html>. See also APRA (2021), 'APRA Phases Out Reliance on Committed Liquidity Facility', Media Release, 10 September.

[4] For more information on the significant shift in Australia's balance of payments over recent years, see Adams N and T Atkin (2022), 'The Significant Shift in Australia's Balance of Payments', RBA *Bulletin*, March. Available at <https://www.rba.gov.au/publications/bulletin/2022/mar/the-significant-shift-in-australias-balance-of-payments.html>