

# PRESS RELEASE

RESERVE  
BANK  
OF AUSTRALIA



NOT TO BE PUBLISHED,  
BROADCAST OR TELECAST  
BEFORE 9.30 A.M.  
EASTERN SUMMER TIME  
FRIDAY,  
10 FEBRUARY, 1995

## FINANCIAL AGGREGATES: DECEMBER 1994

Credit provided to the private sector by financial intermediaries rose by 0.7 per cent in December, in seasonally adjusted terms, following a rise of 0.9 per cent in November. Credit rose by 9.1 per cent over the year to December.

M3 and broad money both rose by 0.4 per cent in December, in seasonally adjusted terms.

Further details are shown in the attached tables and graph.

Reserve Bank of Australia  
SYDNEY  
10 February, 1995

GROWTH IN SELECTED FINANCIAL AGGREGATES (a)

Table 1

	Credit			Housing			of which			M3			Broad Money		
							Personal			Other (b) (Mainly Business)					
	Percent Change over previous month (qtr)	12 months ended (nsa)	(sa)	Percent Change over previous month (qtr)	12 months ended (nsa)	(sa)	Percent Change over previous month (qtr)	12 months ended (nsa)	(sa)	Percent Change over previous month (qtr)	12 months ended (nsa)	(sa)	Percent Change over previous month (qtr)	12 months ended (nsa)	(sa)
1992/93															
Nov	0.0	-0.4	1.3	16.1	-0.6	0.2	-0.7	-7.0	0.7	7.9	0.2	1.9	0.2	1.9	
Dec	-0.4	-0.6	1.3	16.4	-0.5	-0.4	-1.3	-7.6	0.1	7.7	-0.6	1.4	-0.6	1.4	d
	(-0.4)	d	(3.9)	d	d	(0.3)	(-2.7)	d	(0.9)		(-0.3)	d	(-0.3)	d	
Jan	0.5	-0.1	1.4	17.6	-1.5	-1.0	0.3	-7.1	1.4	8.7	0.7	1.9	0.7	1.9	d
Feb	0.4	0.5	1.3	18.2	-0.8	0.2	0.0	-6.7	0.6	8.9	0.7	2.5	0.7	2.5	
Mar	0.4	1.2	1.4	18.8	-0.7	0.2	-0.1	-6.0	0.5	10.2	0.5	3.5	0.5	3.5	
	(1.3)	d	(4.2)	d	d	(-0.6)	(0.2)	d	(2.6)		(1.9)	d	(1.9)	d	
Apr	0.3	1.8	1.5	19.2	-0.6	-0.3	-0.2	-5.3	0.1	9.3	0.1	2.5	0.1	2.5	
May	0.4	2.1	1.4	19.6	-0.3	0.0	-0.1	-5.1	0.3	9.1	0.3	2.4	0.3	2.4	
Jun	0.2	2.1	1.5	20.0	-0.2	0.1	-0.5	-5.4	0.9	10.1	0.5	3.4	0.5	3.4	
	(1.0)		(4.5)			(-0.2)	(-0.7)		(1.3)	c	(0.9)		(0.9)		
1993/94															
Jul	0.1	2.5	1.5	18.2	-1.4	-0.1	-0.7	-4.1	0.8	5.9	0.5	3.2	0.5	3.2	e
Aug	0.4	2.7	1.6	18.3	-0.4	0.1	-0.3	-4.2	-0.5	4.6	-0.8	2.0	-0.8	2.0	
Sep	0.4	2.7	1.8	18.8	-0.4	0.1	-0.3	-4.5	0.5	5.7	0.2	2.7	0.2	2.7	
	(0.8)	e	(5.0)			(0.1)	(-1.4)	e	(0.8)	e	(0.1)	e	(0.1)	e	
Oct	0.4	3.1	1.6	19.1	-1.4	-0.5	-0.1	-3.9	0.8	6.3	0.5	3.2	0.5	3.2	
Nov	0.7	3.8	1.6	19.5	-1.0	0.6	0.1	-3.1	0.6	6.3	0.4	3.4	0.4	3.4	
Dec	0.6	4.9	1.9	20.3	0.2	0.7	-0.3	-2.1	-0.3	5.9	-0.2	3.9	-0.2	3.9	
	(1.7)		(5.3)			(0.8)	(-0.2)		(1.1)		(0.8)		(0.8)		
Jan	0.4	4.8	1.7	20.6	1.2	0.1	-0.4	-2.8	2.3	6.8	1.6	4.8	1.6	4.8	
Feb	0.5	4.8	1.7	21.2	1.7	0.8	-0.4	-3.2	0.5	6.6	0.4	4.5	0.4	4.5	
Mar	0.8	5.3	1.9	21.7	1.6	0.0	0.2	-2.9	1.2	7.4	1.1	5.1	1.1	5.1	
	(1.8)		(5.4)	e		(0.9)	(-0.6)	e	(4.0)	e	(3.2)		(3.2)		
Apr	0.9	5.8	1.7	22.0	2.8	0.8	0.4	-2.4	0.9	8.2	0.9	6.0	0.9	6.0	
May	0.8	6.2	1.9	22.5	2.7	0.0	0.2	-2.1	0.7	8.7	0.7	6.4	0.7	6.4	
Jun	0.7	6.8	1.9	23.1	2.3	-0.3	0.1	-1.5	-0.4	7.2	0.0	5.9	0.0	5.9	
	(2.4)		(5.7)			(0.5)	(0.7)	f	(1.2)		(1.7)		(1.7)		
1994/95															
Jul	0.9	7.7	1.9	23.6	-0.2	-2.5	1.0	0.2	1.0	7.4	1.0	6.4	1.0	6.4	g
Aug	0.8	8.2	2.0	24.0	0.2	0.4	0.0	0.5	0.6	8.7	0.5	7.6	0.5	7.6	
Sep	0.4	8.1	1.3	23.5	0.8	0.7	-0.4	0.4	-0.1	7.8	-0.1	7.1	-0.1	7.1	
	(2.1)	g	(5.3)			(-1.3)	(0.5)	f g	(1.5)	c g	(1.4)	g	(1.4)	g	
Oct	1.0	8.7	1.2	23.0	1.7	0.3	1.0	1.4	1.3	8.5	1.2	8.0	1.2	8.0	
Nov	0.9	8.9	1.6	23.0	2.1	1.1	0.3	1.6	1.2	9.3	1.0	8.6	1.0	8.6	
Dec	0.7	9.1	1.4	22.3	2.9	1.4	0.1	2.0	0.4	9.9	0.4	9.1	0.4	9.1	
	(2.6)		(4.2)			(2.8)	(1.4)		(3.0)		(2.6)		(2.6)		

(a) Seasonal adjustment by the Australian Bureau of Statistics. (b) Residual item. Includes all bank bills outstanding. (c) Break due to the transfer of non-bank financial intermediary (NFI) business to banks or the establishment of new banks which in some instances caused the switching of assets and liabilities from NFIs to banks. (d) Break due to the exclusion of a group of permanent building societies in liquidation. (e) Break due to a change in accounting procedures by a bank which resulted in a reduction in current deposits and overdraft lending. (f) Break due to the reclassification of some bank loans from other personal to business lending. (g) Break due to the transfer of some liabilities and assets to the government sector by one bank.



	Loans & Advances by Banks (c)	Loans & Advances by NBFIs	Loans & Advances by all financial intermediaries	Bank Bills held by Banks (d)	Bank Bills held by NBFIs (d)	Bank Bills held outside intermediaries	Credit (e)	Credit	of which					Other (g) (Mainly Business) (sa)	Other (Mainly Business) (sa)	
									Housing (f)	Housing	Other Personal	Other Personal	Personal			
	(sa)						(sa)	(sa)	(sa)	(sa)	(sa)	(sa)	(sa)	(sa)	(sa)	(sa)
June 1988	103 963 h i	83 030 h	187 013 l	4 832 h i	13 287 h	43 467	248 399 l	247 424 l	51 721 h	51 689 h	23 561 h	23 568 h	173 117 h i	172 168 h i		
June 1989	139 708 h j k l	94 931 h	234 638 j k l	8 929 h i	11 054 h	49 120	301 741 j k l	300 711 j k l	63 257 h j k	63 222 h j k	44 813 h j k	44 859 h j k	183 671 h j k l	192 629 h j k l		
June 1990	165 215 h	100 965 h	268 180	9 307 h	10 862 h	48 097 m	334 445 m	334 333 m	74 799 h j n	74 769 h j n	44 603 h j n	44 437 h j n	215 043 h j m n	215 127 h j m n		
June 1991	178 064 h n	95 535 h	274 519 n	11 732 h	9 402 h	45 143	340 798 o	340 754 o	81 468 h n o	81 445 h n o	42 309 h n o	42 178 h n o	217 019 h n o	217 132 h n o		
June 1992	184 604	88 186	272 790	15 607	7 588	39 873	335 858	335 848	91 329	91 308	40 507	40 400	204 022	204 140		
1992/93																
Sep	191 517	81 589	273 108	15 280	8 157	40 512	337 055	336 828	98 714	98 787	40 297	40 537	200 044	199 505		
Oct	192 387	81 261	273 647	14 796	7 990	41 291	337 724	336 825	98 154	98 052	40 687	40 715	198 884	198 058		
Nov	183 030	80 897	273 927	14 740	8 372	40 382	337 421	336 828	90 311	90 348	40 732	40 801	197 707	196 679		
Dec	183 710	80 047 q	273 757 q	14 659	8 259	39 260	335 935 q	335 414 q	100 738 q	100 594 q	40 492 q	40 652 q	194 705 q	194 168 q		
Jan	195 636	79 230 q	274 868 q	13 561	8 008	40 609	337 043 q	337 056 q	102 162 q	102 029 q	40 492 q	40 263 q	194 390 q	194 764 q		
Feb	196 865	78 089	275 884	12 767	7 989	41 553	338 173	338 361	103 268	103 312	40 432	40 354	194 474	194 715		
Mar	198 743	78 870	277 613	14 020	7 774	39 081	339 388	339 778	106 739	106 768	40 508	40 417	194 140	194 581		
Apr	199 885	78 918	278 801	14 218	7 313	40 085	340 417	340 920	106 378	106 367	40 385	40 292	193 654	194 262		
May	200 911	79 091	280 002	13 688	7 245	40 894	341 830	342 278	107 846	107 885	40 343	40 284	193 840	194 098		
Jun	202 852	78 785	281 618	14 766 h	7 238 h	39 437	343 059	343 047	109 577	109 549	40 416	40 331	193 065	193 168		
1993/94																
Jul	204 403 k	78 003	282 407 k	15 484	7 384	37 816	343 050 k	343 259 k	111 174	111 176	40 308	40 294	191 568 k	191 788 k		
Aug	205 444	77 881	283 124	14 843	7 882	38 335	343 985	344 482	112 784	113 007	40 182	40 342	191 019	191 133		
Sep	207 625	77 852	285 478	14 019	7 501	38 126	348 123	345 873	114 912	114 987	40 151	40 380	191 060	190 505		
Oct	209 089	78 280	287 377	13 794	7 252	38 755	348 178	347 329	116 935	116 788	40 137	40 158	191 107	190 372		
Nov	210 784	78 659	289 443	14 202	7 257	39 418	350 320	349 727	118 705	118 720	40 343	40 410	191 272	190 598		
Dec	212 298	79 064	291 362	14 608	7 154	38 245	352 367	351 824	121 228	121 027	40 554	40 708	190 585	190 091		
Jan	214 909 h	77 638 h	292 546	13 857	7 109 h	39 614	353 127	353 080	123 230 h	123 084 h	40 979 h	40 751 h	188 918 h	189 264 h		
Feb	216 754	77 583	294 317	13 270	6 718	40 215	354 520	354 757	125 141	125 214	41 128	41 059	188 251	188 494		
Mar	219 340	77 911	297 251	14 148	6 474	39 352	357 228	357 586	127 499	127 577	41 156	41 062	188 571	188 947		
Apr	221 354	78 628	299 982	13 685	6 328	40 248	360 242	360 779	129 735	129 747	41 502	41 398	189 005	189 634		
May	223 806	78 949	302 755	13 574	6 307	40 520	363 156	363 600	132 159	132 224	41 428	41 364	189 569	189 993		
Jun	227 176	79 214	306 390	13 865	6 091	39 987	366 333	366 295	134 639	134 796	41 339 n	41 280 n	190 155 n	190 239 n		
1994/95																
Jul	230 089 r	79 580	309 650 r	12 718 r	5 890	41 284	369 511 r	369 722 r	137 382	137 390	40 244 n	40 229 n	191 885 n r	192 102 n r		
Aug	231 268	81 470	312 759	12 408	6 282	40 624	372 052	372 600	139 829	140 103	40 249	40 407	191 974	192 069		
Sep	233 036	82 228	315 282	11 008	6 711	41 222	374 204	373 938	141 894	141 979	40 482	40 708	191 828	191 251		
Oct	235 769	83 400	319 168	11 423	6 328	41 589	378 488	377 814	143 857	143 679	40 817	40 636	193 814	193 100		
Nov	238 079	83 777	321 656	12 293	5 840	41 536	380 911	380 911	145 898	145 991	41 206	41 277	194 330	193 842		
Dec	241 000	83 797	324 797	13 285	5 661	40 575	384 318	383 719	148 231	147 967	41 714	41 868	194 372	193 864		

(a) Lending and credit to the private non-finance sector by those financial intermediaries whose liabilities are included in broad money. Seasonal adjustment by the Australian Bureau of Statistics. (b) Figures for banks are averages of weekly (Wednesday) figures. Prior to January 1989, figures for those banks formerly classified as savings banks are averages of end-month or near end-month figures (previous month). Figures for non-bank financial intermediaries (NBFIs) are averages of end-month figures (current and previous month). The data for NBFIs and all financial intermediaries have breaks from time to time due to changes in the number of reporting corporations. Figures for bank bills are averages of end-month figures (current and previous month) prior to March 1990 and averages of weekly figures thereafter. (c) Bank loans and advances net of bank bills to NBFIs, the data source for which is the data source for bank bills. (d) Bank bills less than \$100,000 (current and previous month) prior to March 1990 and averages of weekly figures thereafter. (e) Bank bills less than \$100,000 (current and previous month) prior to January 1989 and averages of weekly figures thereafter. (f) Prior to January 1989, figures for bank bills outstanding. (g) Loans and advances by all financial intermediaries plus total bank bills outstanding. (h) Residual item, includes all bank liabilities not included in the transfer of NBFIs businesses to banks or the establishment of new banks which in some instances caused the switching of assets and liabilities from NBFIs to the inclusion of the housing loan portfolio of the Defence Service Homes Corporation. (i) Break due to the inclusion of lending by the Primary Industries Bank of Australia. (j) Break due to the introduction of new reporting forms for banks. (k) Break due to a change in accounting procedures by a bank. (l) Break due to the inclusion of the Australian Resources Development Bank and the Commonwealth Development Bank. (m) Break due to the introduction of a new data source for bank bills on issue. (n) Break due to the reclassification of some bank loans. (o) Break due to the inclusion by one bank of some loans previously classified as lending to government. (p) Break due to the exclusion of a group of permanent building societies in liquidation. (q) Break due to transfer of some assets to the government sector by one bank.



Table 3

## MONETARY AGGREGATES (a)

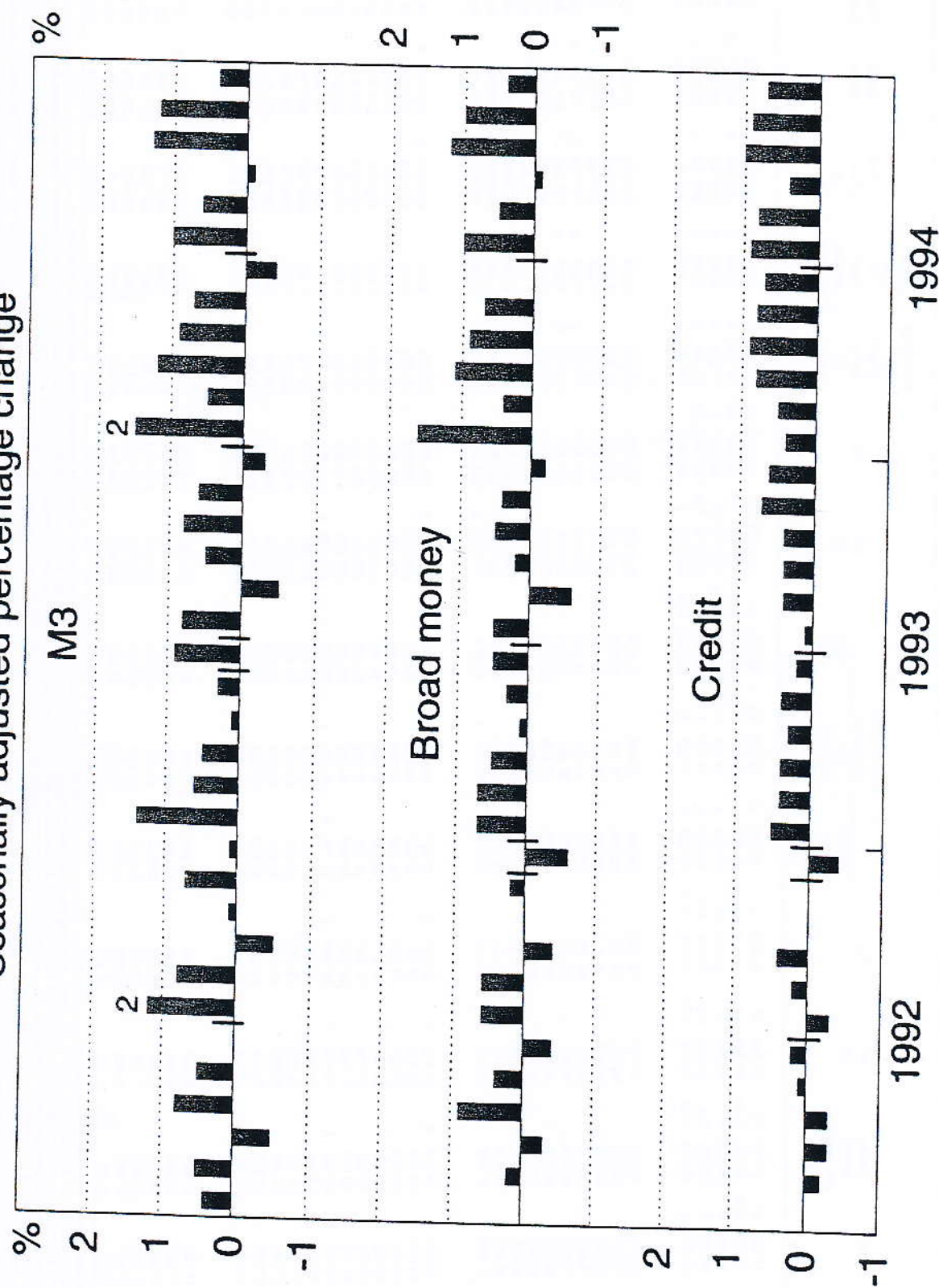
Currency (b)	Currency (a)	Current Deposits with banks (c)	M1 (d)	M1 (e)	Other Deposits with banks (f)			M3 (g)	M3 (h)	Borrowings from private sector by NBFIs (i)	(less) currency & bank deposits by NBFIs (j)	Broad Money (l)	Broad Money (m)	Money Base (n)
					Certifi- cates of deposit (e) (f)	Term (excluding CD's) (g) (h)	Other (i) (j)							
June 1988	10 978	11 081	34 755	36 078	8 368	44 280	45 197	130 163	130 362	76 838	3 608	203 393	204 226	15 811
June 1989	12 193	12 283	40 312	40 810	21 052	63 507	41 635	166 508	166 856	80 759	5 243	242 022	243 112	16 671
June 1990	12 640	12 930	41 888	42 348	22 884	75 028	50 020	190 410	190 693	77 874	6 367	261 817	263 010	17 708
June 1991	14 620	14 719	44 802	45 204	29 578	75 545	52 724	202 650	202 957	71 095	7 342	266 402	267 530	18 717
June 1992	15 191	15 291	51 419	51 812	26 669	75 695	54 540	208 523	208 899	67 314	5 670	270 167	271 220	19 135
1992/93														
Sep	15 544	15 572	58 159	58 120	26 295	79 916	55 579	219 949	219 315	59 074	5 038	273 985	273 378	19 814
Oct	15 638	15 647	58 038	58 155	25 866	79 716	55 829	219 450	218 610	58 858	4 959	273 346	273 441	19 752
Nov	15 786	15 735	58 887	58 594	26 377	79 640	56 186	221 100	221 079	58 753	5 285	274 588	274 040	19 860
Dec	16 326	15 814	60 300	58 203	26 433	81 292	56 346	224 371	221 255	57 704	5 987	276 108	272 495	20 837
Jan	15 951	15 912	59 921	59 512	26 398	82 605	56 286	225 407	224 367	56 755	6 322	276 640	274 324	20 208
Feb	16 860	15 976	60 134	60 330	26 850	82 862	56 024	225 868	225 750	57 565	6 417	277 017	276 247	20 082
Mar	15 921	16 033	61 246	61 068	25 867	84 821	55 524	227 460	228 931	57 773	6 913	278 420	277 735	20 143
Apr	16 143	16 091	61 935	62 110	25 206	83 736	54 569	225 449	227 257	57 337	8 733	278 053	277 994	20 516
May	16 056	16 203	61 741	62 844	25 054	84 112	54 337	225 245	227 851	57 246	8 455	278 035	278 809	20 355
Jun	16 192	16 268	63 921	64 117	25 966	85 418	54 285	229 612	229 885	56 460	8 678	279 393	280 306	20 497
1993/94														
Jul	16 331	16 384	64 843	65 339	25 874	86 932	54 074	231 722	231 907	56 037	6 910	280 850	281 782	20 628
Aug	16 374	16 465	63 159	64 224	25 370	86 945	54 151	229 624	230 538	55 990	6 772	278 842	280 194	20 716
Sep	16 516	16 551	64 921	66 003	24 797	87 782	54 902	232 401	231 793	55 959	6 798	281 264	280 660	20 857
Oct	16 658	16 665	66 494	66 578	24 370	87 424	55 108	233 367	233 564	55 813	7 166	282 014	282 114	21 080
Nov	16 795	16 738	67 720	67 344	24 305	87 385	55 801	235 011	234 989	56 017	7 024	284 004	283 383	21 251
Dec	17 279	16 747	71 026	68 592	24 067	86 778	55 770	237 660	234 248	56 055	6 878	286 837	282 917	21 980
Jan	16 942	16 899	70 475	69 869	24 749	86 685	56 818	240 728	239 567	56 202	6 761	289 149	287 520	21 625
Feb	16 878	16 987	70 637	70 878	24 623	86 869	56 739	240 668	240 735	55 755	7 136	289 483	286 738	21 468
Mar	17 028	17 147	72 202	72 040	25 497	90 103	56 485	244 267	243 687	55 877	7 423	292 740	291 980	21 741
Apr	17 143	17 083	72 336	72 563	26 207	89 022	56 290	243 857	245 616	56 246	7 433	292 699	294 745	21 901
May	17 138	17 290	72 006	73 286	27 283	89 433	56 042	244 764	247 600	56 340	7 365	293 740	298 699	21 822
Jun	17 278	17 390	73 461	73 646	26 308	90 205	56 265	246 237	246 558	57 082	7 481	295 838	298 826	22 025
1994/95														
Jul	17 424	17 482	74 683	75 259	23 987	93 787	56 528	246 985	248 956	57 335	7 598	298 704	299 717	22 742
Aug	17 501	17 598	74 536	75 466	25 028	93 653	56 424	249 641	250 426	57 828	7 428	300 041	301 269	22 324
Sep	17 585	17 622	75 306	75 150	24 540	95 065	56 001	250 407	250 178	57 790	6 887	301 369	301 059	22 433
Oct	17 712	17 710	75 209	75 386	24 267	97 645	55 808	253 188	253 417	58 211	6 962	304 437	304 576	22 685
Nov	17 878	17 815	75 543	74 808	25 239	100 498	55 527	256 807	256 456	58 756	7 069	308 474	307 519	22 955
Dec	18 332	17 774	76 158	76 058	24 242	103 766	54 849	261 115	257 570	58 739	6 958	312 868	308 844	23 768

(a) Figures for currency and bank deposits are averages of weekly (Wednesday) figures. Prior to January 1989, figures for deposits of these banks formerly classified as savings banks are averages of end-month or near end-month figures (current and previous months). Figures for non-bank financial intermediaries (NBFIs) are averages of end-month figures (current and previous months). The data for NBFIs and all financial intermediaries have breaks due to changes from time to time in the number of reporting corporations. Seasonal adjustment by the Australian Bureau of Statistics. (b) Private non-bank sector's holdings of notes and coins. (c) Excludes Commonwealth and State Government and inter-bank deposits. (d) Currency plus bank current deposits of the private non-bank sector. (e) Excludes holdings by Commonwealth and State Governments and banks. (f) It is not possible to exclude government deposits as savings banks from the components of other bank deposits prior to January 1989. As a result, the components do not sum to the total before that date. (g) M1 plus all other bank deposits of the private non-bank sector. (h) Borrowings (other than from banks and related corporations) by permanent building societies, credit co-operatives, finance companies, authorised money market dealers, pastoral finance companies, money market corporations, general financiers and cash managers. (i) Holdings of currency and bank deposits. (j) Borrowings by authorised money market dealers from these non-bank financial intermediaries. (k) M3 plus borrowings from the private sector by NBFIs, less the latter's holdings of currency and bank deposits. (l) Holdings of notes and coins by the private sector, plus deposits of banks with the Reserve Bank and other Reserve Bank liabilities to the private non-bank sector. (m) Break due to the inclusion of new bank deposits from NBFIs in January 1989 and January 1990, which resulted in the reclassification of some bank deposits from "Other" to "Term". (n) Break due to the introduction of new reporting forms for banks in January 1989 and January 1990, which resulted in the reclassification of some bank deposits from "Term" to "Other". (o) Break due to the reclassification of some bank deposits from "Current deposits" to "Other". (p) Break due to the reclassification of some bank deposits from "Current deposits" to "Other". (q) Break due to the reclassification of some bank deposits from "Current deposits" to "Other". (r) Break due to the reclassification of some bank deposits from "Current deposits" to "Other". (s) Break due to the reclassification of some bank deposits from "Current deposits" to "Other". (t) Break due to the reclassification of some bank deposits from "Current deposits" to "Other". (u) Break due to the exclusion of a group of permanent building societies in liquidation. (v) Break due to the transfer of some certificates of deposit to the government sector by one bank.



# Financial Aggregates <sup>1</sup>

Seasonally adjusted percentage change



1. See attached tables for details of series breaks.

2. Adjusted for the effect of a large building society becoming a bank.

# **National Saving**

## **EXECUTIVE OVERVIEW**

### **A Report to the Treasurer**

## Why Australia Must Save More

Australia's national saving – at 16 per cent of GDP in 1991-92 – is at its lowest level in two generations. Apart from 'national emergencies', the two World Wars and the Great Depression, it is the lowest level of saving this century (see Chart 1). This situation cannot but be viewed with concern.

Both public and private saving have fallen over the longer term and understandably, during the recession. Private saving has begun to recover, but both remain historically very low (see Chart 2).

The main contributor to our long term decline in national saving is the decline in public sector saving (surplus on current

Chart 1: Australia's Gross National Saving  
1900-01 to 1991-92

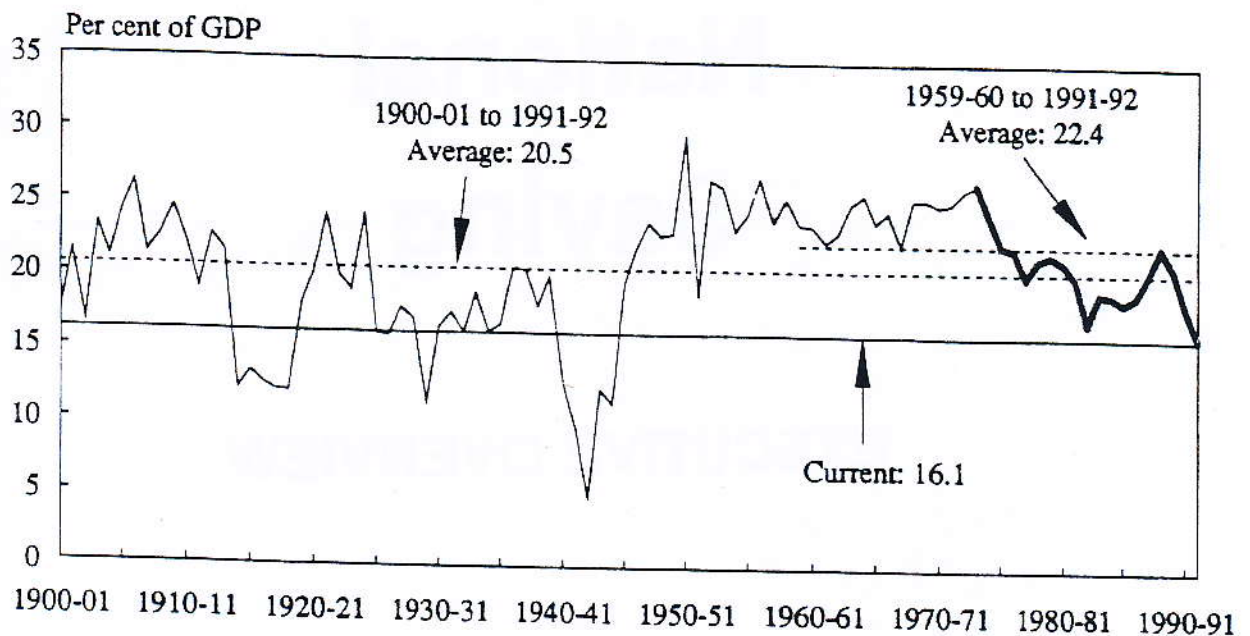


Chart 2: Private and Public Saving

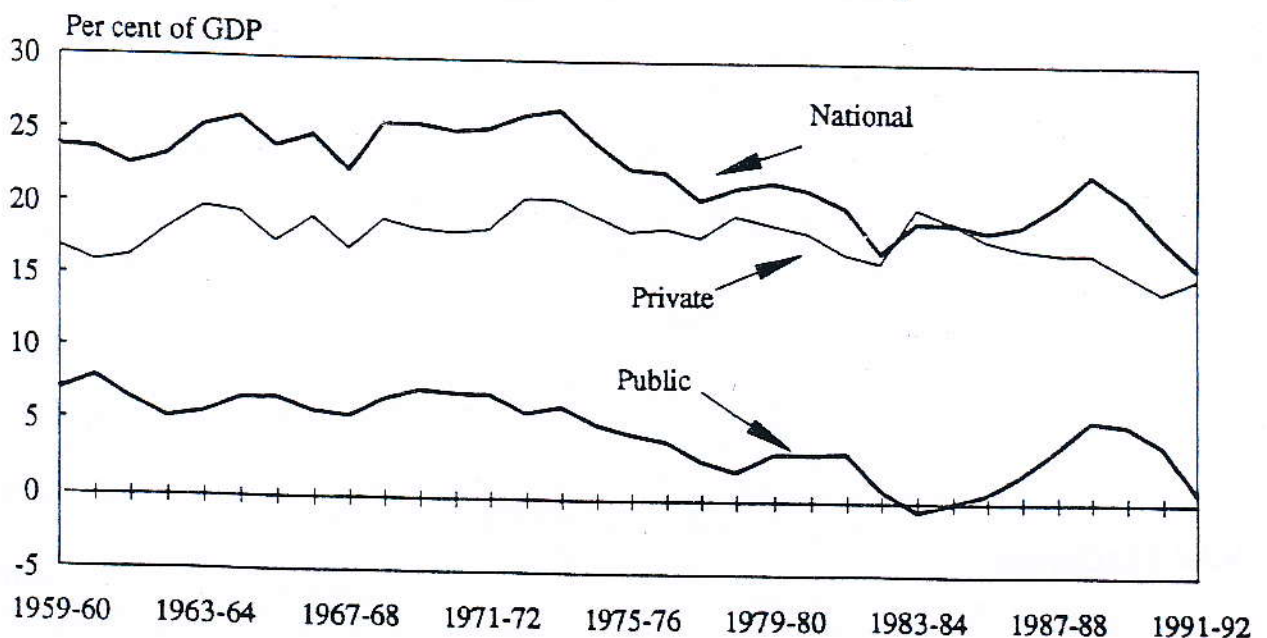
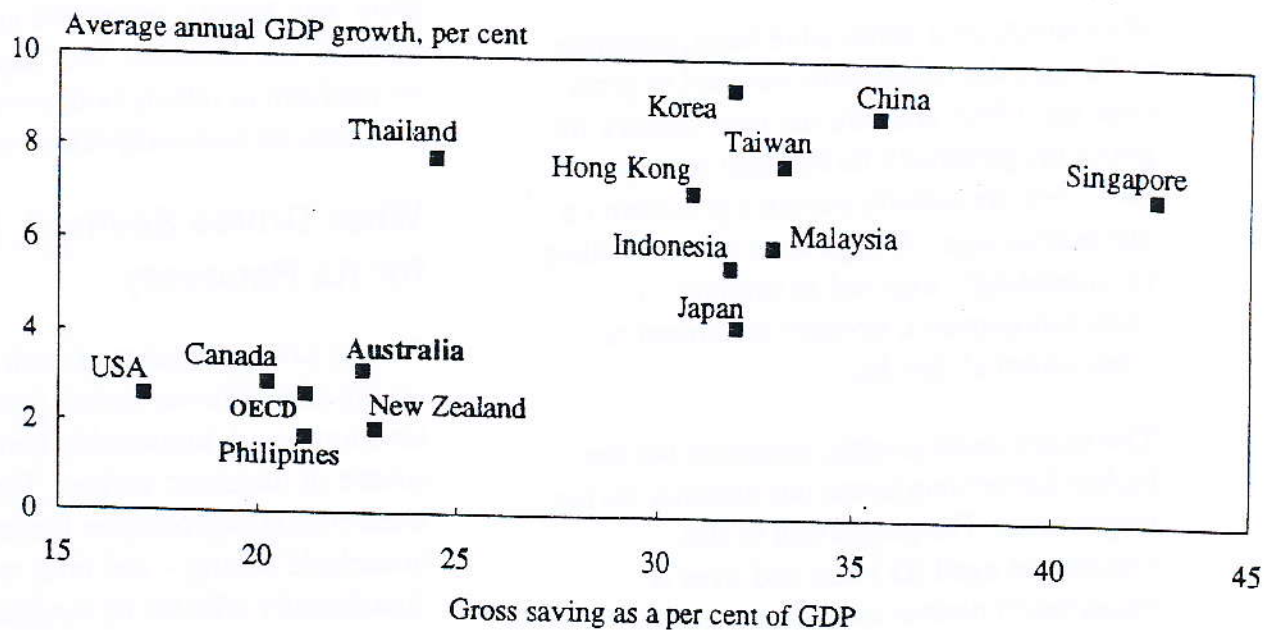




Chart 3: Saving and Growth, APEC Economies 1981-1991



transactions) – a decline similarly marked in a number of other OECD countries.

*Prima facie*, Australia is not generating adequate saving.

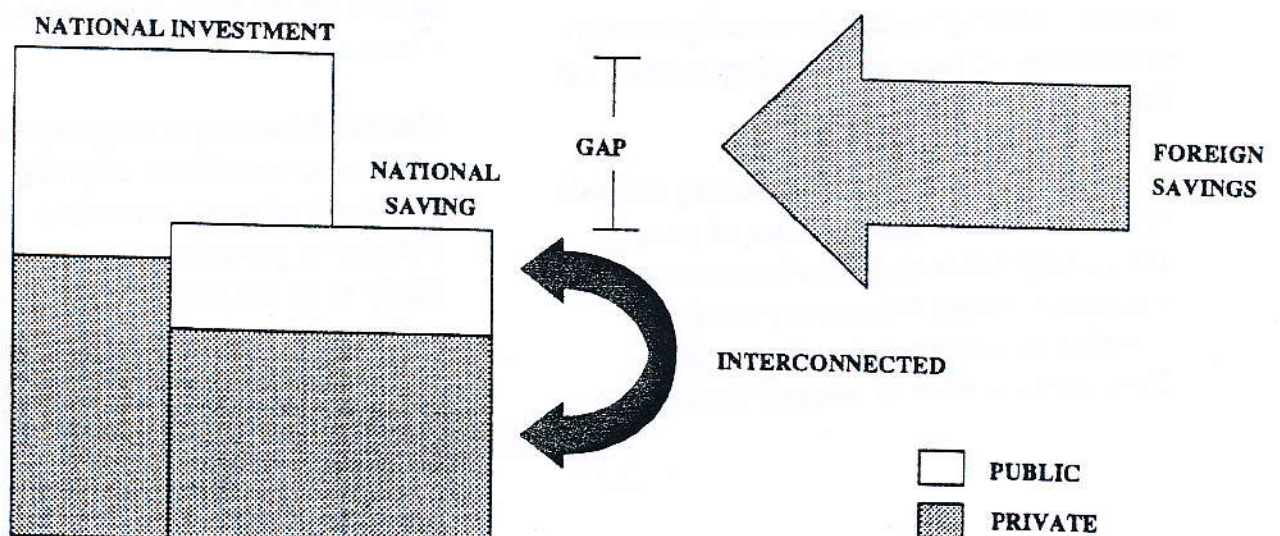
Our longer term need for more saving needs to be balanced in the short to medium term by the need to sustain the recovery and ease the prevailing high levels of unemployment. But over the longer haul, a need for significantly higher saving stems from the

need for strong investment to maintain economic and thereby employment growth.

The performance of our Asian neighbours and wider international comparisons are testament to strong economic growth going hand in hand with high, and efficient, flows of national saving and investment (see Chart 3).

It is *national* saving, by all sectors, public and private – not the narrow concept of

Chart 4: The Saving – Investment Gap





household saving – that matters most for Australia's economic future (see Chart 4).

We cannot, on a sustainable basis, continue to finance the investment we need to grow over the 1990s and into the new century by going progressively further into foreign debt. We are already paying a premium on our borrowings. A high level of debt makes us increasingly exposed to changes in commodity prices, investor sentiment or other external shocks.

The major demographic transition we are facing further reinforces our national saving imperative. The proportion of the population aged 65 years and over is expected to double over the next few decades as the 'baby boomers' retire. Retirement saving needs to be stepped up now, and there must be an increase in national saving as a result if the burden of financing retirement provision is to be shared equitably between the present generation and the next.

The other, and equally important, side of the coin to saving is the efficiency of investment – pointing to the need for ongoing microeconomic reform and to maintain low and stable inflation. If strong economic growth is based on rising productivity and competitiveness, rising incomes and attractive investment returns will of themselves help generate a stronger flow of saving – although not automatically enough to stabilise, or ease, our high dependence on foreign debt.

Thus the twin imperatives of raising national saving, to ensure sustainability of growth, and raising national competitiveness, to generate stronger long term growth, combine in a single national enterprise. They are two sides of one and the same

coin. Looking out over the mid and late 1990s and beyond, the rate at which we can grow, and sustain strong job growth with rising living standards, will depend on how we perform in raising both saving and productivity and competitiveness.

## **What Drives Saving? Prospects for its Recovery**

Private saving consists of both household saving and business saving (retention of earnings), with households being the major source of domestic saving. There is a close interrelationship between business and household saving – and both are significantly affected by cyclical factors.

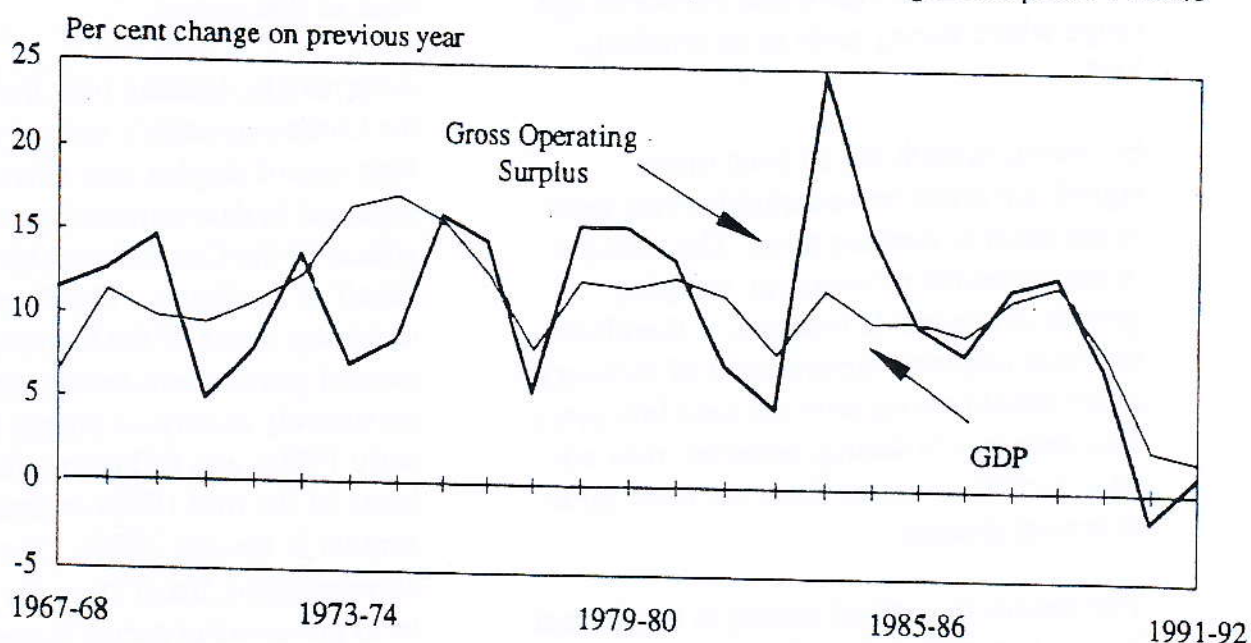
Business can finance investment by drawing on its own savings or by incurring debt or obtaining equity. A business environment made more conducive to profitable investment, through microeconomic reform and by maintaining low and stable inflation, is more important to increasing investment than measures aiming to raise business saving.

While the level of corporate taxes, and their interaction with personal taxes, has an effect, corporations retain adequate control over their ability to retain earnings. Business saving is therefore driven largely by business profitability – in turn depending largely on the state of the economy (see Chart 5).

Household saving is subject to a wide range of factors, the relative importance (and even direction) of which is difficult to determine. Policies to promote household saving are likely to be uncertain in their effect on total saving, although to have more predictable effects on its pattern – for example, on the allocation between housing and financial saving.



Chart 5: Nominal GDP and Private Corporate Trading Enterprise Profits

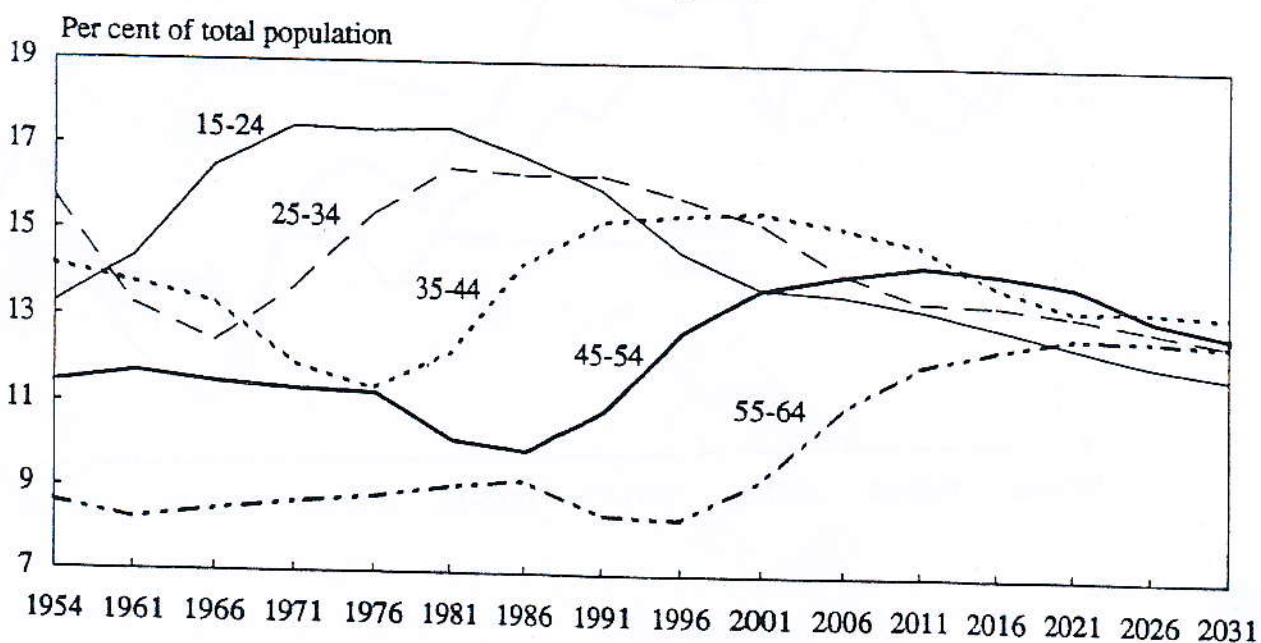


But we do know though that growth in incomes and low and stable inflation are important – the latter particularly for how households allocate saving.

Also important are demographic patterns and community expectations about government support for, amongst other things, retirement, education and health.

Population movement between different age brackets, not just between working ages and retirement, but *within* the working age range, is important in understanding past, present and future saving patterns. These movements (see Chart 6) help explain some of the fall in household saving over the 1980s, as the population concentrated at younger ages where saving tends to be low;

Chart 6: Working Population





and give some grounds for expecting an improvement over the next decade or so, as the 'baby boomers' move into the 45-55 age range where saving tends to be relatively high.

Economic growth has an even more significant effect on household saving rates in the short to medium term. The strength of the economic recovery, by bringing growth in household incomes, is therefore the most important determinant of recovery in household saving over the next few years. This recovery in saving, however, may not be to former levels, as there has been some structural decline.

The decline in national saving to the present low is, however, *primarily* due to a *structural decline in public saving* – that is, reduced surpluses or increased deficits on current transactions (see Chart 7).

Large Commonwealth deficits heralded the transition from low to high deficits in the

mid 1970s. The structural decline in national public sector finances can be traced back to that period.

Surprisingly, looking over the past 30 years, the Commonwealth's 'natural position' has been one of surplus (see Chart 8). This is reflected in data adjusted to remove the effects of the Commonwealth borrowing on behalf of the States. The fiscal story emerging is one of the Commonwealth general government sector remaining persistently in surplus during the 1960s and early 1970s, and following the structural break of the mid 1970s returning briefly to surplus in the late 1980s. The corresponding fiscal story for the State and local government sector is one of sizeable deficits in the 1960s, but importantly on a steadily decreasing trend until recently. This longer term situation of deficit is not surprising given it is the State/local government sector which undertakes the major part of public sector investment.

Chart 7: National and Public Saving

