



Country Report for Australia

23rd Asia Securities Forum
Bali, 31 October – 3 November 2018

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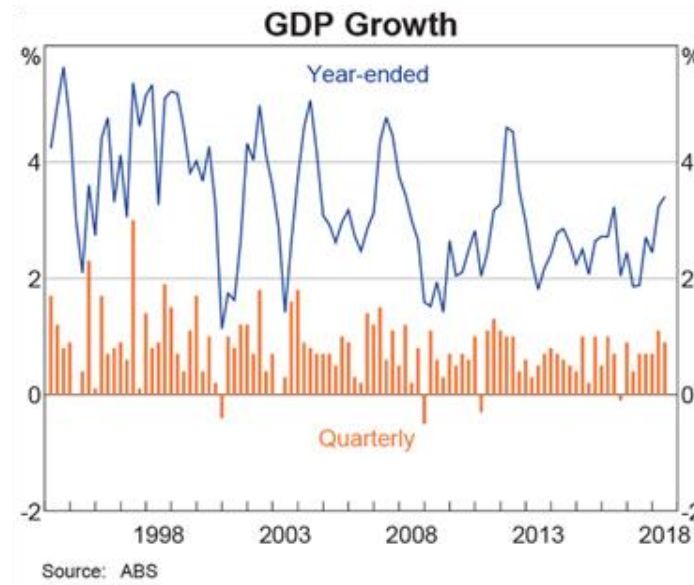
Report Overview

- Economy
- Financial Developments
- Industry Reforms and Prospects



Economic Growth

- Economic growth 3.4% to 30 June 2018
- 27th year of continued growth
 - Longest period of recession free growth for developed country
- Population exceeded 25 million for the first time



Economic Growth

- GDP Growth for 2018-19 expected to be 3.25%
- Factors affecting Australian economy:
 - Terms of trade continue to hold up well, especially from China
 - Significant drought in certain areas causing mixed outlook for agriculture
 - Resources exports will remain strong, although there has been a reduction in mining investment
 - Business conditions remain positive



Political Developments



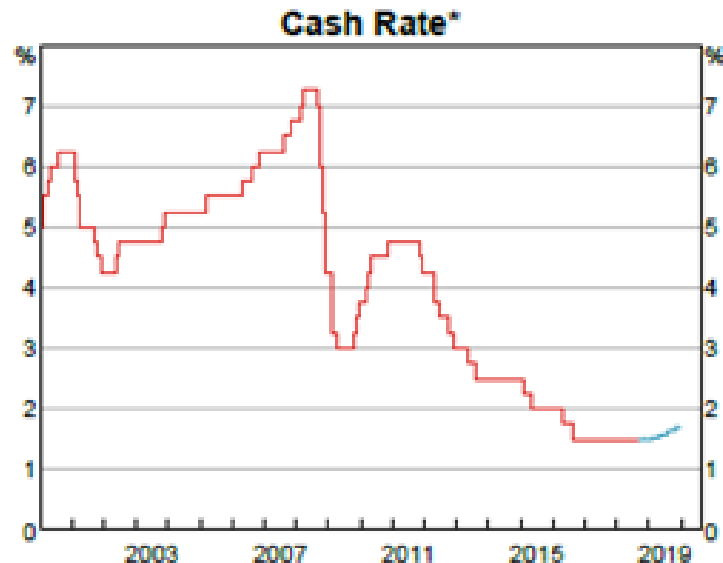
Political Developments

- Scott Morrison became Australia's 30th Prime Minister in August 2018
 - No election but change of leader of governing party
- Coalition Government now holds 75 of 150 seats in House of Representatives
- Only holds 30 of the 76 seats in the Senate
 - Control by independents
- Election on or before May 2019
- Government tried to legislate company tax cut to 25%
 - Only succeeded for for small business
 - Two-tier tax system



Monetary Policy

- Nominal Official interest rate been steady since August 2016
 - 1.50%
- Next move expected to be upwards



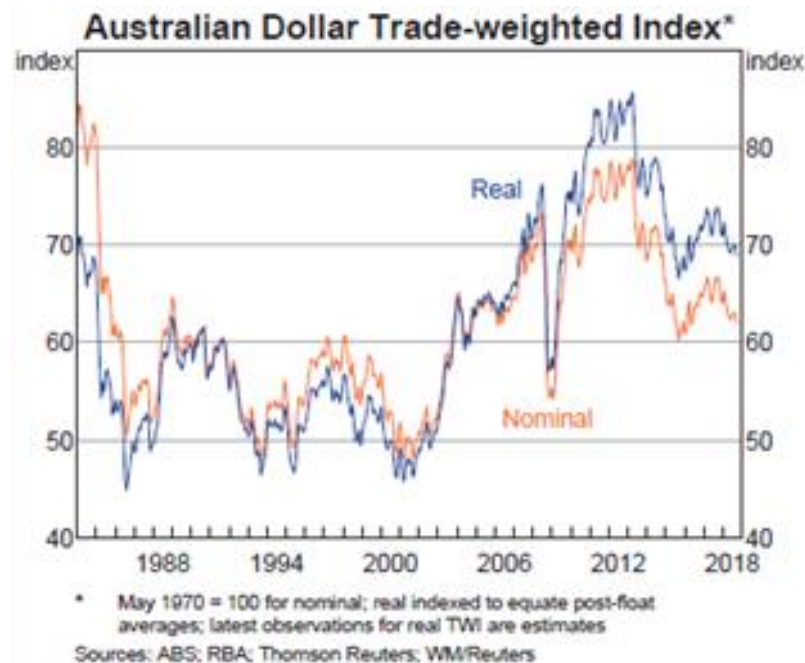
* Data from September 2018 onwards are expectations derived from interbank cash rate futures

Sources: ASX; Bloomberg



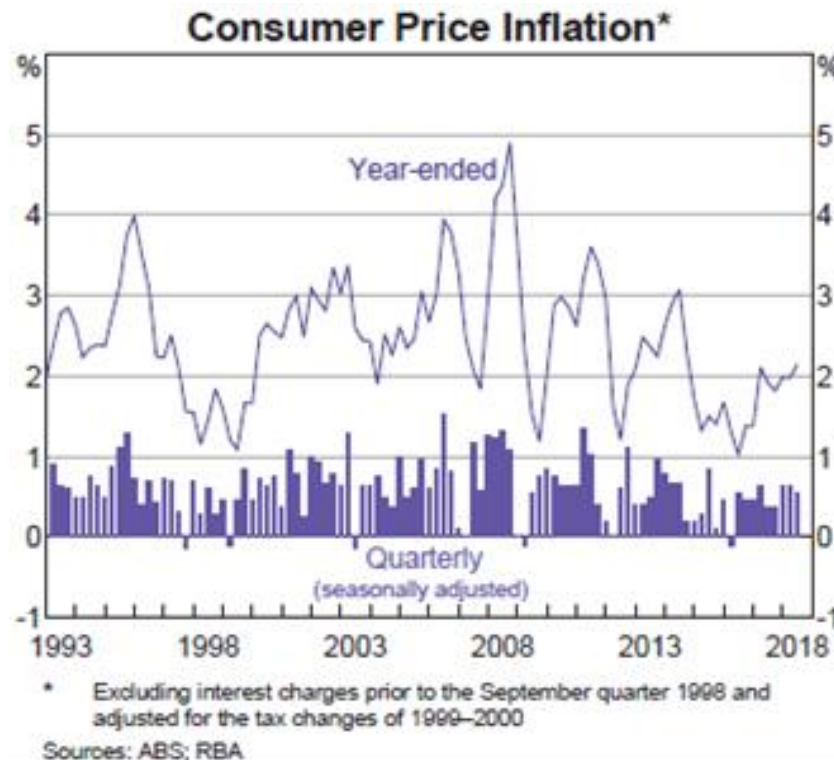
Exchange Rate

- AUD continued to underperform relative to major global currencies
- Underperformance driven by general global trend of increasing interest rates relative to Australia's static position



Inflation

- Inflation for the year ended 30 June 2018 increased from 1.9% to 2.1%, putting it within the RBA target of 2-3%



Equity Market Performance

- Australia's equity market exhibited a strong 8.3% increase over the year
- Outperformed other global indices, ex-US



Equity Market Performance

- From an industry sector perspective, financials had a poor year given the Royal Commission and other regulatory issues



Industry Developments

- Royal Commission into Financial Services
 - Significant enquiry into misconduct in industry
 - Focus on retail services – limited consideration of wholesale or broking
 - Interim report delivered, with final due in February 2019
- Equities Market Infrastructure
 - CHES replacement using Distributed Ledger Technology
- Industry Professionalism
 - Enhance the conduct and ethical training for industry participants



Industry Developments

- Financial Institution Culture Regulation
 - Bank Executive Accountability Regime
- Product Design and Distribution Obligation
 - Affects the way that financial products can be manufactured and distributed to clients
 - Enhanced powers of regulator to intervene
- Industry Funding of Regulators
 - Recovery of enforcement costs
- Interest Rate Benchmark Developments
 - Changes to BBSW
 - Determination of fallback rates

