

DEVELOPING AND UNDERSTANDING OF AUSTRALIA'S ECONOMY OVER THE  
LAST TWO YEARS

by Student's name

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Professor's name

University name

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Date

## **Introduction**

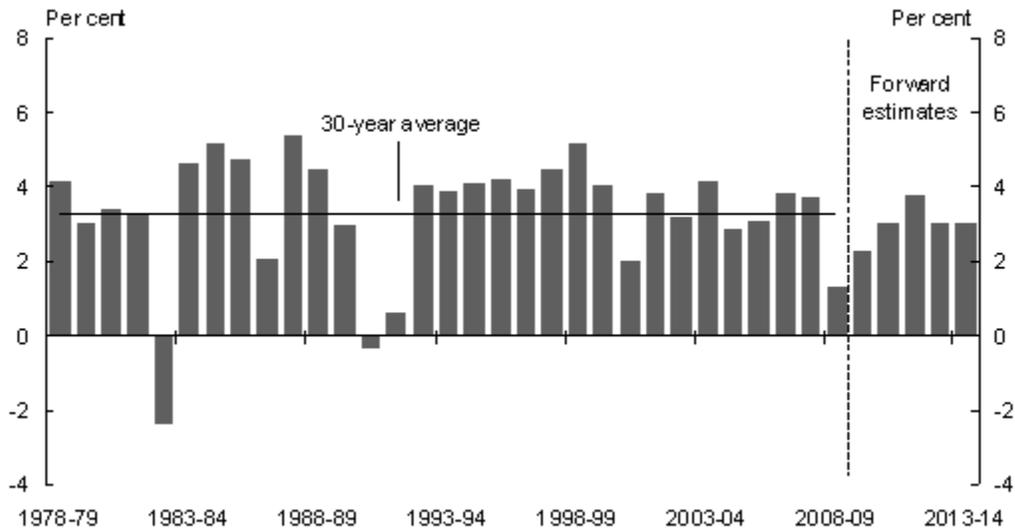
The economic condition of a country is determined by both the factors that are out of the managing capacity of its governing body and directly implemented macroeconomic policy. The main purpose of this study is to assess and describe current economic situation of Australia and the macroeconomic strategies implemented by the government to endeavour and uphold a level of sustainable development. This study reveals that the Reserve Bank Australia's (RBA) wants to maintain the present currency rate at 4.5%. The study also delineates the present relative steadiness of the Australian economy and present macroeconomic position as motivating. Australia has reached a verge of using fiscal policy to alleviate the macroeconomic effects of the Global Financial Crisis. Since the debt of Australia is very small in comparison to the international standard, the country could well afford to do the job. "Even after several years of sizeable fiscal deficits, the net federal debt is still less than 10 per cent of GDP" (Weber 2012, p. 3). The essential characteristic of a well-organised fiscal system is its capability to guide and direct funds from depositors to borrowers. Banks and deposit takers offer this function, allowing deposits and granting the debt into investment markets. Offering this loan to borrowers, they function typically at longer maturities. In this process of effective financial intermediation, depositors and other borrowers should have a satisfactory degree of confidence that their money is safe.

### **Success of the Australian Government and the Reserve Bank of Australia**

#### **The Current Economic Situation of Australia**

The condition of the Australian economy is on stable position. Although the world has faced a lot of crises, the Australian economic condition is still in a sturdy position that shows a positive economic future. The record of annual growth rate in GDP is 3.2%, which is equivalent

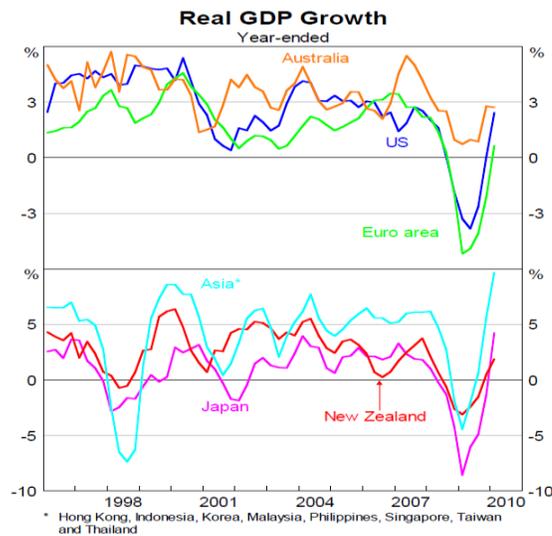
to the 30 year average growth rate. The GDP is predicted to boost up to 3.75% or 4% during the financial year 2011-2012. According to the Australian Government (2010), “The Government acted quickly and decisively during the global financial crisis by introducing the bank guarantees to secure Australia’s financial system and support access to credit” (p. 4).



**Figure 1: Real GDP Growth**

**External Comparison**

After the beginning of the global financial crisis, the Australian government performed a continuous and impressive GDP growth in relation to other comparable countries. The government of Australia managed to escape technical depression, achieving 1% positive growth in the 2008-2009 fiscal years, where much of the OECD was in a downturn. Figure 2 shows the Australia’s relative economic success (Australian Government 2010; Reserve Bank of Australia 2010).



**Figure 2:** International GDP Growth

### Australia's Economy through GDP Components

The total of the last domestic production of services and products is GDP that can be explained by the equation given below:

**Equation 1: GDP** 
$$GDP = C + I + G + (X - Q)$$

Where, C= Consumption; I= Investment; G= Net government fiscal activity; and (X-Q) = Net exports.

### Expenditure

As a major indicator of economy, expenditure or consumption plays a vital role in any the country's economy. In June, Australia's retail expenditure raised up to 0.8%, which shows a drift of moderately rising confidence in Australia. This is marked through an increased household savings rate, up 1.3% in May 2010 (Reserve Bank of Australia 2010). More than 1.5% of Australia's GDP growth is offered by the consumption growth.

### Net Exports

The GDP has been affected by the net exports with the current account deficit. It fell from 16 billion to nearly 6 billion during the first quarter in the year of 2010. Australia is handling a rare trade surplus that has added a 0.4% extra to the June quarter's GDP growth. It caused a large demand for Australian mineral exports.

### **Depositor Protection in Australia**

In Australia, depositors get the assurance that their funds are safe by Depositors in the authorised deposit-taking institutions (ADIs). There is a solid system of prudential regulation and supervision that ensure sound administration at individual institutions. Thus, the problems in ADIs are unusual. Furthermore, depositors get benefit from sturdy protections in case the ADI fails. They can claim their assets of an unsuccessful ADI ahead of other unsecured creditors. It is known as a depositor's preference. With the introduction of the Financial Claims Scheme (FCS), depositor security arrangements were made stronger in 2008, through which the Australian Government guarantees the timely refund of deposits up to a predefined cap. According to Turner (2011), "This cap was temporarily set at \$1 million per person per ADI, when the FCS was introduced and is scheduled to be set on a permanent basis at \$250 000 per person per ADI from 1 February 2012" (p.1).

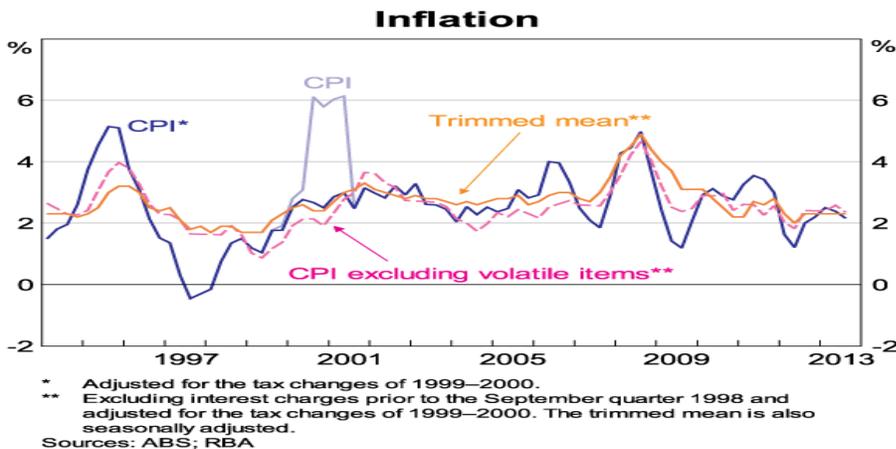
### **Unemployment Rate**

During the year of 2009, the unemployment rate raised up to 6% in response to the GFC. The rate has fallen at 5.1% already the next year. Some proof reveals that some of this reduction in joblessness rate is due to a decreasing contribution rate. The rate fell into approximately 65%, because of hysteresis and discouragement of the long term joblessness in the labour force. The overall picture of the Australia's unemployment rate is low in comparison with most OECD

countries, whereas the rate in the USA is 9.5%. This is a promising rate for the Australian economy.

## Inflation

The Australian government showed a charismatic activity in keeping the price rise low. Presently Australia' fundamental price rises rate is at 2.75%, which means that for the first time in nearly three years it has fallen down under 3%. The headline Consumer price of Australia was at 3.1%. The pressure on price hike can be explained by the GDI increasing the speed of GDP due to the augmented Asian requirements for Australian minerals.



**Figure 3: Inflation**

## Small Business

Small business plays a significant role in the Australian economy. The concept of a small business is quite intuitive. The RBA characteristically classifies loans as 'small business' loans if the borrowing business is not incorporated and if the loan is under \$2 million. "Financial institutions use a wider range of criteria, including the loan size, number of employees, revenue, and balance sheet indicators" (Connolly, Norman & West 2012, p. 1). Graph 1 shows the analysis of

unlisted corporations based on information on corporate borrowers. It indicates that different definitions can recognise rather different groups of small companies.

**Figure 4: Graph 1** (please see Connolly, Norman & West 2012, p. 2. Source:

[http://www.abs.gov.au/websitedbs/d3310114.nsf/4a256353001af3ed4b2562bb00121564/d291d673c4c5aab4ca257a330014dda2/\\$FILE/RBA%20Small%20Business%20An%20economic%20Overview%202012.pdf](http://www.abs.gov.au/websitedbs/d3310114.nsf/4a256353001af3ed4b2562bb00121564/d291d673c4c5aab4ca257a330014dda2/$FILE/RBA%20Small%20Business%20An%20economic%20Overview%202012.pdf))

### **The Main Macroeconomic Policies Used by the Australian Government**

Over the recent decade, Australian governments have conventionally aimed to achieve three main objectives of the economic growth, internal balance, and external balance within an economy. These three objectives aim to maintain the financial growth nationwide, while maintaining low price rises as well as restraining the size of overseas debts and responsibilities. The level of the financial enlargement has never been steady in the economy. However, it is a question of the unsteadiness of the worldwide business cycle. To minimise these fluctuations through an influencing demand, the macroeconomic management of the government is designed so that the continuous enlargement could be feasible, with low price rises and low joblessness. Though, due to its demand-side character, macroeconomic strategies cannot be used entirely, and consequently are used in a combination with the supply-side manipulating microeconomic modifications. In manipulating demand in the financial system, the government uses two tools of the economic and monetary policy.

Macroeconomic policies have an impact over the short-term demand economy. Economic strategy has played a vital role in the policy mix over the last decade. In this strategy, the Australian government has implemented this policy to develop Australia's national savings. Another reason of this strategy is to manage government-public debt in order to maintain

external factors and preserve external steadiness offering opportunities for economic development. Fiscal policy was used by the government earlier to manage the external stability, yet, investment choices and private sector savings are now better sources. Consequently, the government acknowledges Australia's present situation as a capital-importing nation, inviting overseas savers to spend and invest within Australia, causing capital excess. The current approving situation of the Australian economy lies in the fact that the Howard government has silently discarded the use of economic policy to attain external stability. The reason is that the policy does not exist among the government's present policy aims and objectives.

### **Fiscal Policy**

According to Nguyen (n.d.), "Fiscal policy essentially involves the use of the government's budget in order to influence the economic objectives by varying the amount of government spending and revenue, in turn altering the level of the economic activity, with a fiscal surplus, fiscal deficit, or a balanced budget" (p. 2). The advancements of the central macroeconomic bodies have been directed by augmented unsteadiness of global markets because of the GFC, a world depression and due to the deficit of liquidity of investment banks in the USA. Consequently, macroeconomic policies have been put into practice with a view to lessen the GFC's effect on the Australian economy.

### **Monetary Policy**

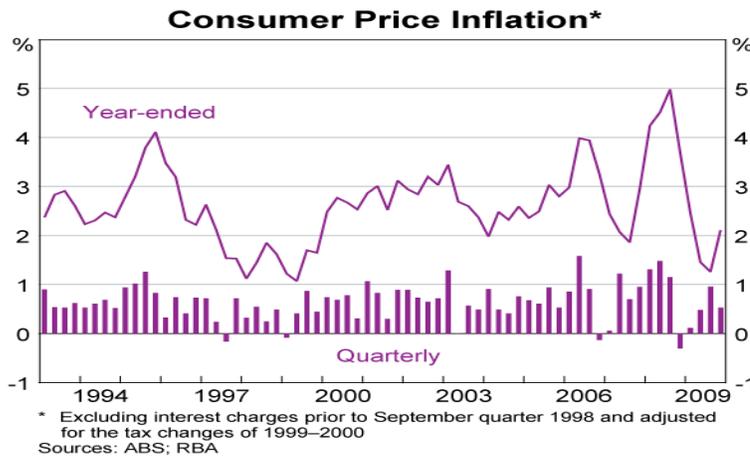
Financial policy is a tool used by the Reserve Bank of Australia to manipulate price rises and production. The major purpose of the financial strategy was to run the financial development and preserve the objective price rises of 2-3% by delicately raising interest rates to slow down the economy. Monetary strategy has been fairly concretionary, but has now levelled at 4.25%.

### **Monetary Policy in Relation to the GFC**

Monetary policy was loosened by the Reserve Bank of Australia over the last year. It is for the rectification of the loss of customer and business assurance caused by the GFC. This was attained by dropping down the interest rates and mounting the money supply in the financial system, thus rising expenditure by individuals, business investments and hence the output. Figure 3 shows that the RBA's slashing of the currency rate are slow; an over 4% fall was made within 6 months. The currency rate of 7.25% held from Mar-Aug 08 downstairs to a 49-year low of 3% by April 2009.

**The Effect of Macroeconomic Policy**

The strategies and policies implemented by the RBA and Australian Government became flourishing in struggling with the GFC to prevent depression and leading to the obvious recovery. This is revealed through the Australia's present monetary environment, which is characterised by the increase in levels of expenditure, venture, and the decrease in joblessness, which proved to be positive for AD and the nationwide output.



**Figure 5: Consumer Price Inflation (CPI)**

In general, the result of the expansionary economic and monetary strategy has resulted in a GDP expansion rate of 0.9% in December 2009 quarter from -0.8% in December 2008.

## Maximum Employment

Joblessness, though dropping from its all-time lofty of 5.8% October 09 to 5.1% in June 10, is slowly recovering. This may be elucidated by the hysteresis brought about by the pro-cyclical environment of the output and contribution rate, and labour output maintaining the joblessness rate up despite the rise in profits. While plummeting the interest rate might enhance employment, the redundancy rate is little enough, and sufficiently closes the normal rate of redundancy, targeting this with financial strategy.

## Conclusion

Obviously, a multitude of factors determines Australia's current comparative economic constancy. This report mainly categorised that Australia was capable of avoiding being excessively affected by the international economic depression due to its government expenditure support expenditure, and a healthy export division bolstered by the mounting product prices. All these issues have led the economy of Australia resurgence letting Australia in a superior position to guide the international financial revival. The study stresses over an unbiased financial attitude, which will profit the Australian economy as growing the currency rate may fester Australia's feel expenditure insist, while a lessening in the currency rate could observe the recurrence of inflationary nervousness, upholding the currency rate provided the RBA's objectives. Thus, a sensible comeback occurred in the economic atmosphere. Proving winning in calculating unenthusiastic pressures of demand, the government's macroeconomic policy mix, in the broadest sense, has had a limited impact on Australia's structural problems, and that is why microeconomic reform has come into prominence over the last decade, in helping macro policies deal with supply-side constraints to help Australia's international competitiveness. However all policies take a significant amount of time to achieve their aims due to time lags,

such as the 6 to 18 month delay in monetary policy changes feeding through to consumer and business behaviour. Yet, financial indicators propose the economy will advance strongly, driven by the swelling business venture, healthy consumer spending and speed up service growth. The present lack of apprehension over the CAD now efficiently removes the so called "speed limit" to growth, allowing for stronger rates of growth above the 3.75% to 4% rates, placing Australia on the precise track towards maximising the financial sustainability.



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Appendix

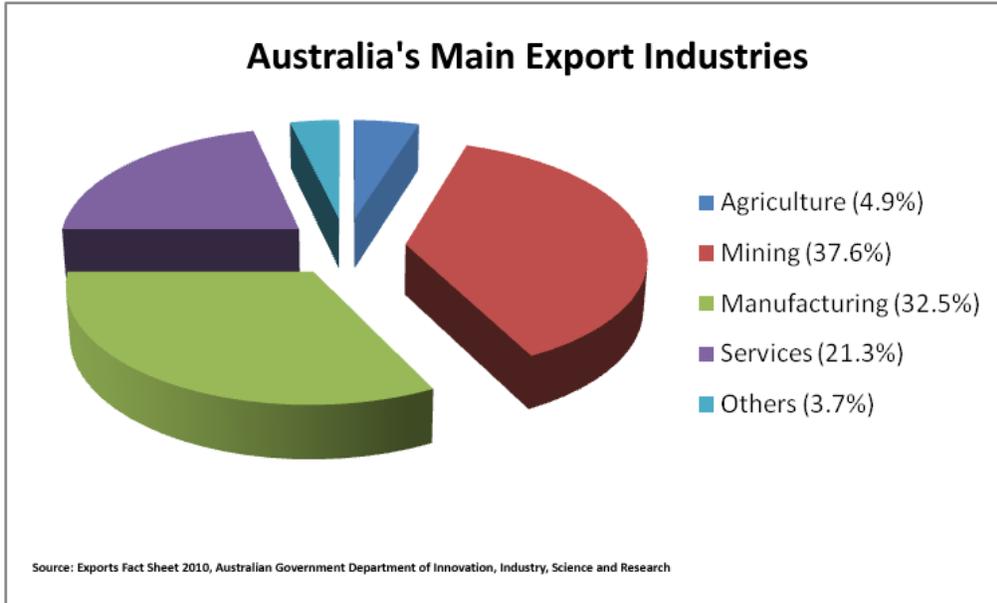


Figure 6:

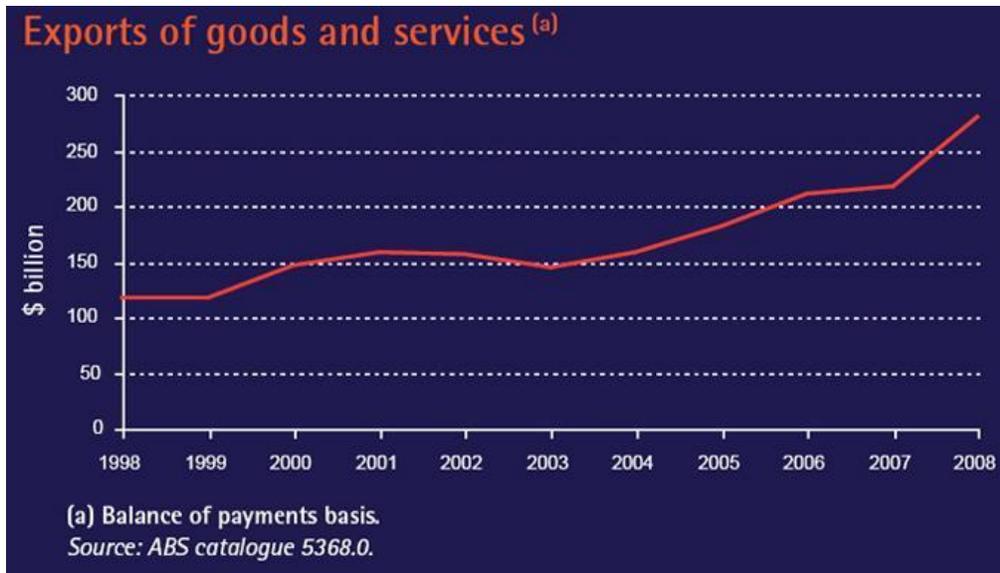


Figure 7:

## Unemployment Rates

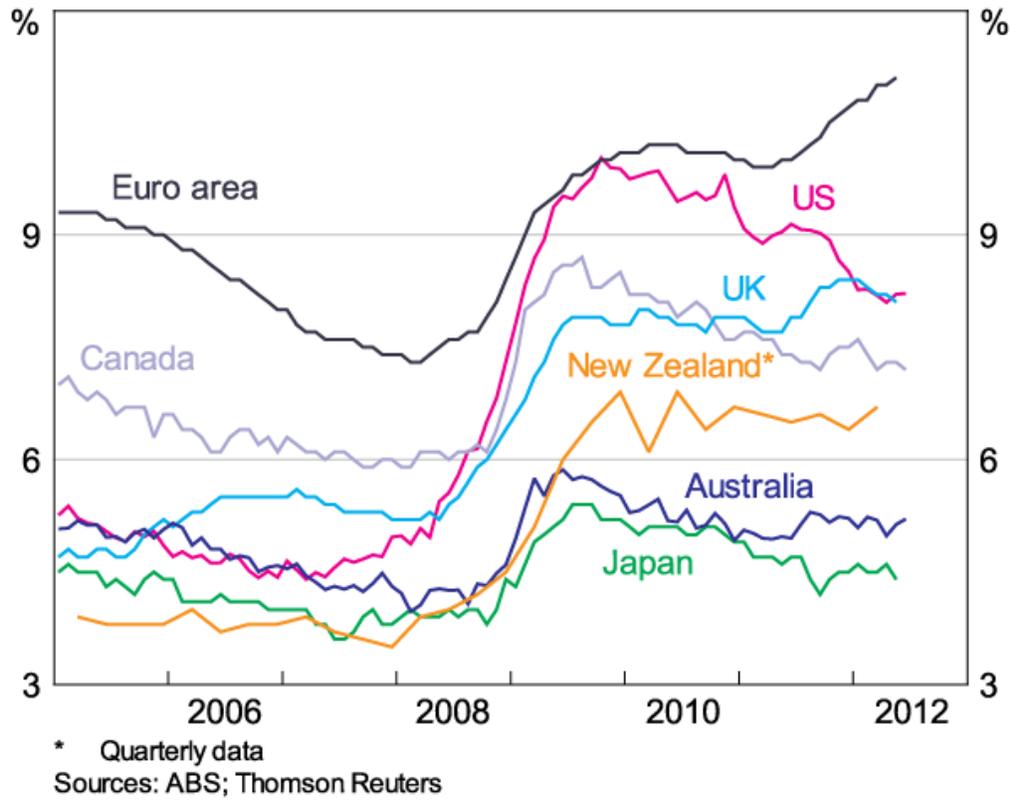


Figure 8:

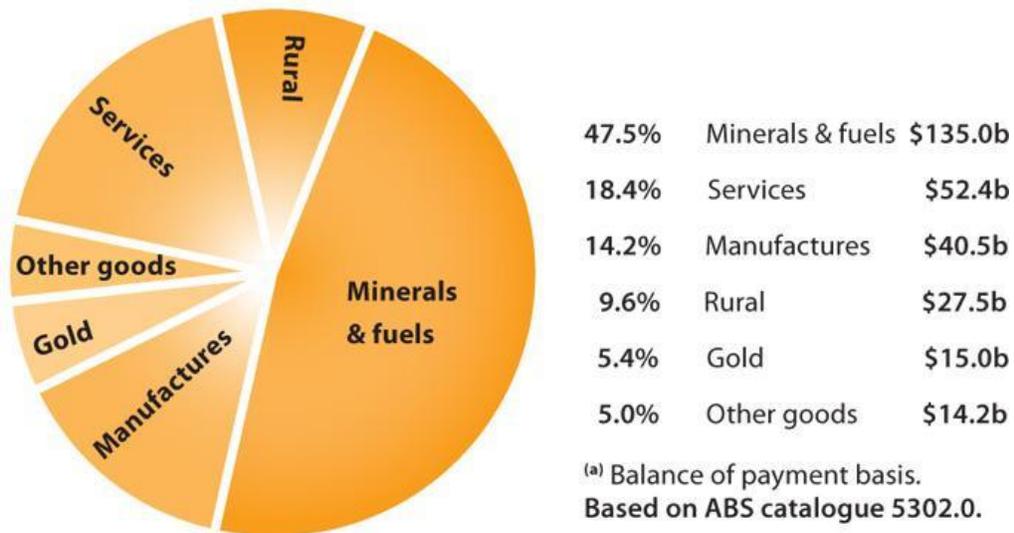


Figure 9:

Source:

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