



# Bulletin

January 2025

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# Access to Cash in Australia

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Photo: Asadnz – Getty Images

## Abstract

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Cash plays an important role in the community as a means of payment, store of value and a backup to electronic payment methods. Because of this, the RBA places a high priority on Australians continuing to have reasonable access to cash services. Since 2017, the closure of bank branches and bank-owned ATMs has led to increased distances to access cash services provided by banks, particularly in regional and remote areas. However, despite the significant reduction in bank-owned cash access points since 2017, the distance that most Australians have to travel to reach the nearest cash withdrawal point has not changed markedly in recent years. This is mainly because of the strong geographic coverage of Bank@Post and independently owned ATMs. As the number of locations where people can access cash has declined, some communities are vulnerable to a further withdrawal of cash services.

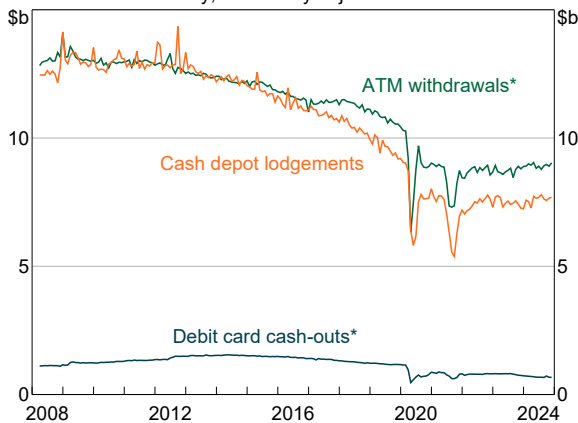
## Introduction

The use of cash for everyday payments has declined markedly in Australia in recent decades. The RBA’s most recent triennial Consumer Payments Survey (CPS) found that the share of consumer payments made in cash had fallen from around 70 per cent by number in 2007 to 13 per cent in 2022.<sup>1</sup> More timely indicators such as ATM withdrawals, cash-out at the point of sale, and cash moved from retailers to financial institutions via commercial cash depots (cash depot lodgements), suggest that the long-run decline in transactional cash demand accelerated during the COVID-19 pandemic but has stabilised in more recent years (Graph 1).

**Graph 1**

### Indicators of Transactional Cash Use

Monthly, seasonally adjusted value



\* Series break in May 2018 due to changes in reporting methodology.  
Source: RBA.

Despite a lower cash share of payments, cash remains an important payment method for many Australians. The 2022 CPS found that 7 per cent of respondents used cash for 80 per cent or more of their in-person transactions (high cash users) (Mulqueeney and Livermore 2023) – this is equivalent to around 1.5 million Australians aged 18 and over. Older Australians and people on lower incomes are more likely to use cash for a high share of their transactions, and some high cash users may have few alternative methods of payment available to them. The 2022 CPS also found that one-quarter of respondents reported that they would experience genuine hardship, or major inconvenience, if cash were hard to access or use (regardless of how intensively they used cash).

For consumers to successfully use cash, they must first be able to access it and then have businesses accept it for purchases (Guttman, Livermore and Zhang 2023).

The RBA is committed to supporting the Australian Government’s objective to ensure cash remains a viable means of payment for those who need or want to use it (RBA 2024). To support this objective, the RBA analyses a range of indicators of cash access, including the number, type and location of cash access points in Australia, and the distance that people have to travel to reach them.

In this article, we analyse developments in the number and type of cash access points in Australia, and the distance to these points for people living in different parts of the country. We also consider additional factors that may influence the ease of access to cash services.

## Where can consumers get cash?

Cash access refers to how easily people can withdraw or deposit cash. Cash services are available via a range of methods, including:

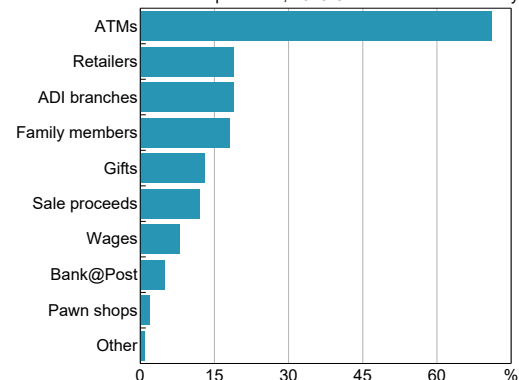
- branches owned by authorised deposit-taking institutions (ADIs) – banks, credit unions and building societies – (referred to as ‘ADI branches’ in this article)
- ATMs owned by ADIs or non-ADIs (independent ATM deployers)
- Australia Post’s Bank@Post outlets
- cash-out at the point of sale offered by some retailers (e.g. supermarkets).

We do not examine other methods of accessing cash in this article. The RBA’s Online Banknote Survey suggests that withdrawing cash from ATMs is the most preferred method of accessing cash, followed by cash-out services and ADI branches (Graph 2).

**Graph 2**

### Cash Withdrawal Preferences

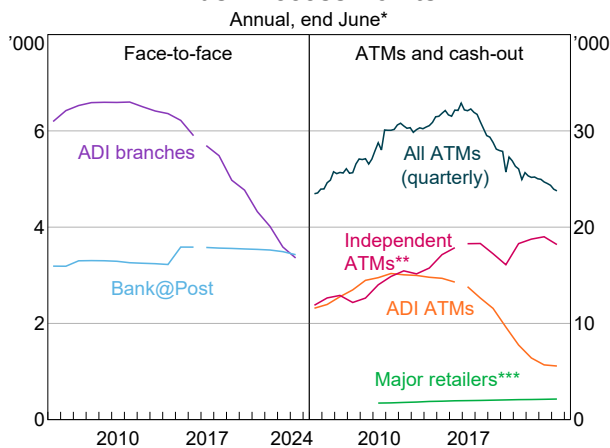
Share of respondents, 2023 Online Banknotes Survey\*



\* Multiple responses were allowed, so bars do not sum to 100 per cent.  
Source: RBA.

The number of cash access points has been decreasing in Australia for some time. Data from the Australian Prudential Regulation Authority (APRA) show that the number of ADI branches declined by nearly 50 per cent (3,239 branches) between 2011 and 2024 (Graph 3). The broad pace of branch closures has continued, with 230 branches closing over the year to June 2024. While most ADI branch closures were in major cities, over one-quarter were in regional and remote areas of Australia. Bank@Post continues to have a strong presence across Australia, with the number of outlets having fallen only slightly since 2015.

**Graph 3**  
**Cash Access Points**



\* Series break in annual data in June 2017 due to APRA data collection change.

\*\* The decrease in the number of active ATMs in June 2020 was largely due to temporary COVID-19-related venue closures.

\*\*\* Includes select major retailers with a national presence.

Sources: APRA; AusPayNet; Major retailer annual reports; RBA.

The number of ATMs has fallen by over one-quarter (or 9,100 machines) since its peak in late 2016, largely because of a decrease in ADI-owned ATMs. Over the same period, independently owned ATMs, which by number have been broadly unchanged, have gained an increasingly large share of the ATM market.

ATM numbers continued to fall over the year to June 2024 (by 4 per cent), although the rate at which banks are removing ATMs has slowed in 2024 compared with previous years. Just over 95 per cent of ADI-owned ATM closures since 2023 have occurred in major cities.

Compared with previous RBA analysis of cash access, we expand the sample of cash access points to include large retailers with a national presence that provide cash-out services. Access to cash-out services at the point of sale increases the options for people to withdraw cash, particularly for people living in major cities.

## The geographic distribution of cash access points

While the number of cash access points has fallen, the removal of some may not necessarily mean that people find it more difficult to access cash if there is a suitable alternative nearby. A more comprehensive way to assess cash access is to measure the Australian population's distance to different forms of cash withdrawal and deposit services.

### Data and method

We estimate the distance people need to travel to reach their nearest cash access point by applying the method used in Delaney, Finlay and O'Hara (2019) – distances are measured as the shortest distance between two points (i.e. as the crow flies).<sup>2</sup>

Our analysis uses the following data:

- **ADIs' points of presence data from APRA.** These data provide the location of all ATMs and branches of ADIs, and all Australia Post Bank@Post outlets.<sup>3</sup> We exclude other face-to-face ADI points, such as business branches, in our analysis as they do not meet APRA's minimum branch requirements, and may be entirely cashless.
- **ATM data from the largest independent ATM deployers in Australia.** These data cover around four-fifths of all independently deployed ATMs, so our analysis may slightly underestimate cash access. Compared with data used in Guttman, Livermore and Zhang (2023) the sample size has increased, which complicates the analysis of distance to independently owned ATMs over time. The sample size is consistent in 2023 and 2024.
- **Fee-free ATMs set up in remote Indigenous communities.** Under this program coordinated by the Australian Banking Association (ABA), participating commercial banks pay independent deployers to provide fee-free ATMs in remote parts of the Northern Territory, Queensland, Western Australia and South Australia.
- **Cash-out services offered by a number of large retailers with a national presence.** These data include the location of roughly 2,000 stores that offer cash-out services with withdrawal limits. As the

dataset only captures some major retailers who provide known cash-out services, our analysis likely underestimates access to cash-out from all retailers.

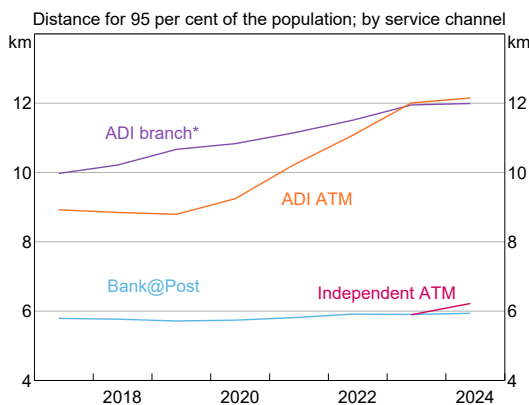
- **Australian Population Grid 2023 data from the Australian Bureau of Statistics (ABS).** These data present Australia’s population in 2023 in one square kilometre grids.

### Distance to access points

Most Australians live reasonably close to cash services (Table 1). As of June 2024, 95 per cent of Australians lived within 4.0 km of an identified cash withdrawal point (ATMs, ADI branches, Bank@Post outlets, and large retailers), and within 5.7 km of a cash deposit point (ADI branches and Bank@Post outlets). The average distance to reach cash services has been little changed over the past year, despite the further reduction in access points, although this observation partly reflects an expanded sample of retailer cash-out points in 2024.

However, there is notable variation in the distance to different types of access points and changes in the distance over time (Graph 4). In June 2024, 95 per cent of Australians lived within 12 km of an ADI branch, around 2 km further than in 2017 (when the APRA points of presence data first became available). The distance most people have to travel to reach a Bank@Post outlet is around half that to ADI branches, despite having a similar number of access points; 95 per cent of the population live within 5.9 km of a Bank@Post outlet, compared with 12 km for ADI branches (Table 1; Graph 4). This distance reflects the strong geographic dispersion of Bank@Post outlets, which offer both withdrawal and deposit services.

**Graph 4**  
**Distance to Cash Services**



\* Excludes other face-to-face locations as they do not meet all of the minimum branch requirements specified by APRA.  
Sources: ABS; APRA; ggmap; Google; Independent ATM deployers; RBA.

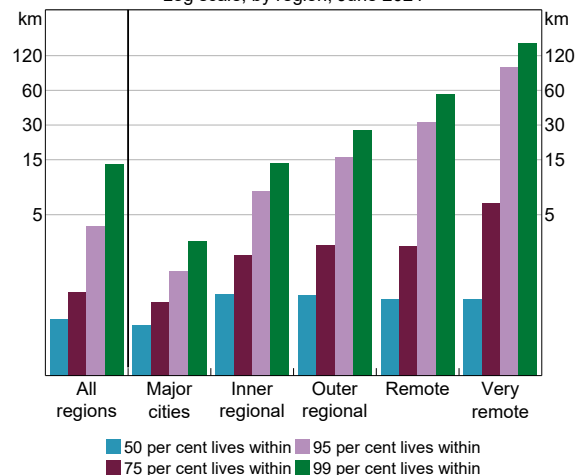
ATMs provide the greatest geographic coverage out of all cash access points. As of June 2024, 95 per cent of the population lived within 5.2 km of an ATM (either ADI or independently owned), a small increase from 2023. There is, however, a notable difference in the distance to ADI-owned ATMs (12.2 km) compared with independently owned ATMs (6.2 km). The distance to ADI-owned ATMs has also increased by around 3 km since 2017. These trends partly reflect the decision of some banks to sell parts or all of their off-branch ATM fleets to independent deployers.

Cash-out services offered by retailers increase the number of locations where people can access cash, and some may find it convenient to withdraw cash at the same time as doing their shopping. While the distance to these services is higher on average than for other access points, it is lower in major cities, where the distance is at most 3.1 km for 95 per cent of the population.

### Regional distances

The distance to reach the nearest cash withdrawal point increases substantially with the level of remoteness (Graph 5). As of June 2024, 95 per cent of Australians from major cities lived within 1.6 km of an identified cash withdrawal point, while 95 per cent of residents in inner-regional and outer-regional areas resided within 8 km and 16 km of a cash withdrawal point, respectively. This compares with 32 km for people living in remote areas; for those residing in very remote areas, the distance is nearly triple that figure (95 km).

**Graph 5**  
**Distance to Cash Withdrawal**  
Log scale, by region, June 2024



Sources: ABS; APRA; Australian Banking Association; ggmap; Google; Independent ATM deployers; Major retailers; RBA.

**Table 1: Cash Access Points and Distance to Cash Services<sup>(a)</sup>**

June 2024

Type of access point	June 2024			Change from June 2023		
	Number	Distance in kilometres		Number	Distance in kilometres	
		95 per cent <sup>(b)</sup>	99 per cent <sup>(b)</sup>		95 per cent <sup>(b)</sup>	99 per cent <sup>(b)</sup>
<b>All withdrawal services<sup>(c)</sup></b>		<b>4.0</b>	<b>13.8</b>			
ADI withdrawal <sup>(d)</sup>	12,349	5.6	15.8	-507	0.0	-0.7
– ADI branches	3,360	12.0	37.7	-230	0.0	0.2
– ADI ATMs	5,476	12.2	40.8	-217	0.1	0.6
– Bank@Post outlets	3,428	5.9	17.2	-63	0.0	0.1
All ATMs <sup>(d)</sup>	23,769	5.2	19.6	-926	0.2	0.3
– Independent ATMs	14,336	6.2	25.7	-288	0.3	0.6
Major retailer cash-out	2,145	19.1	85.1			
<b>ADI deposit services<sup>(e)</sup></b>	<b>6,788</b>	<b>5.7</b>	<b>16.7</b>	<b>-293</b>	<b>0.0</b>	<b>0.1</b>

(a) Distances are calculated using population data at different points in time. The ABS population data lags the APRA points of presence data by one year and 2024 distances may be revised after the release of the 2024 ABS population data.

(b) Distance within which 95 per cent and 99 per cent of Australia's usual resident population lives.

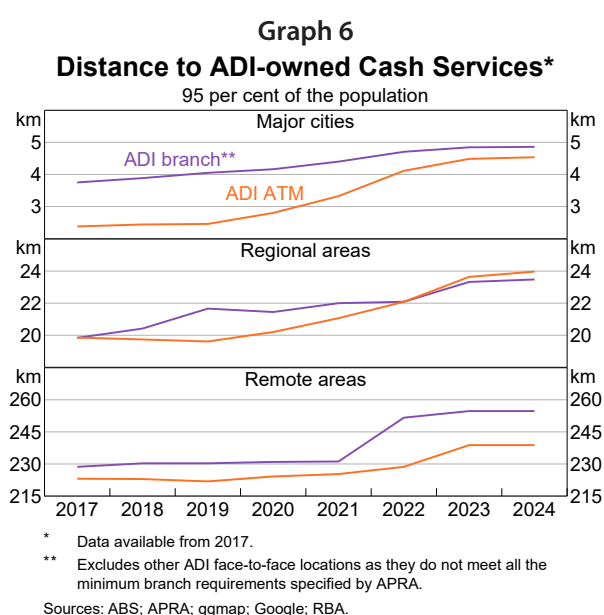
(c) Includes ADI branches, ADI ATMs, Bank@Post outlets, ABA fee-free ATMs as well as an expanded sample of independently owned ATMs and major retailers. Excludes 'other face-to-face' ADI points.

(d) Includes ABA fee-free ATMs, which are categorised separately to ADI ATMs and independent ATMs.

(e) Includes ADI branches and Bank@Post outlets, but excludes ATMs. While some ATMs accept cash deposits, these are generally located at ADI branches.

Sources: ABS; APRA; AusPayNet; Australian Banking Association; ggmap; Google; Independent ATM deployers; RBA; Major retailers.

Moreover, the absolute distance to reach *ADI-owned* cash services for residents in remote areas has increased substantially over time and by significantly more than for those living in major cities (Graph 6). For 95 per cent of the population living in remote areas, the furthest distance they have to travel to reach the nearest ADI-owned branch and ATM has increased by 31 km and 12 km respectively since 2017, alongside further closures of ADI-owned access points. To the extent that people living in relatively remote areas rely more heavily on cash than those living in urban areas, particularly as a backup means of payment, the withdrawal of cash access points is likely to have a greater impact on those communities.<sup>4</sup> However, the distance to access all services – including healthcare, retail and public transport – not just cash services, is generally greater for residents in remote areas.





While the distance to access ADI-owned cash services is substantially lower for Australians living in major cities, the proportional increase in distance has been larger than for regional and remote areas. Since 2017, the maximum distance that 95 per cent of the population living in major cities have to travel to reach ADI-owned ATMs and branches has increased by 70 per cent and 25 per cent respectively, compared with 5 per cent and 13 per cent for people in remote areas (Graph 6). These changes indicate that options for accessing cash have also shifted for those residing in more urban areas.

## Other indicators of cash access

While the distance that people have to travel to reach cash services is a useful indicator of cash access, there are other factors that influence the ease with which Australians can access cash now and in the future. These include the vulnerability of certain communities to a further removal of cash access points, including face-to-face banking services, as well as the substitutability of available cash services alongside further closures of certain access points.

### Vulnerabilities in cash access

The state of cash access is vulnerable to the further removal of cash access points in regions with few nearby alternatives. We find that these vulnerabilities are particularly prevalent for face-to-face cash access points and those living in regional and remote communities.

We define communities using the ABS Statistical Area Level 2 (SA2) classification, which is designed to represent communities that interact together socially and economically.<sup>5</sup> Of the roughly 2,400 communities we have identified in Australia, there are around 180 without any cash access points and 120 with just one cash withdrawal point (Figure 1). Of the communities without an access point, the majority are located in major cities or inner regional areas with close alternatives in neighbouring areas. As we do not have an exhaustive list of retail cash-out access points in Australia, it is possible that some of these communities have a local store that provides cash-out at the point of sale.

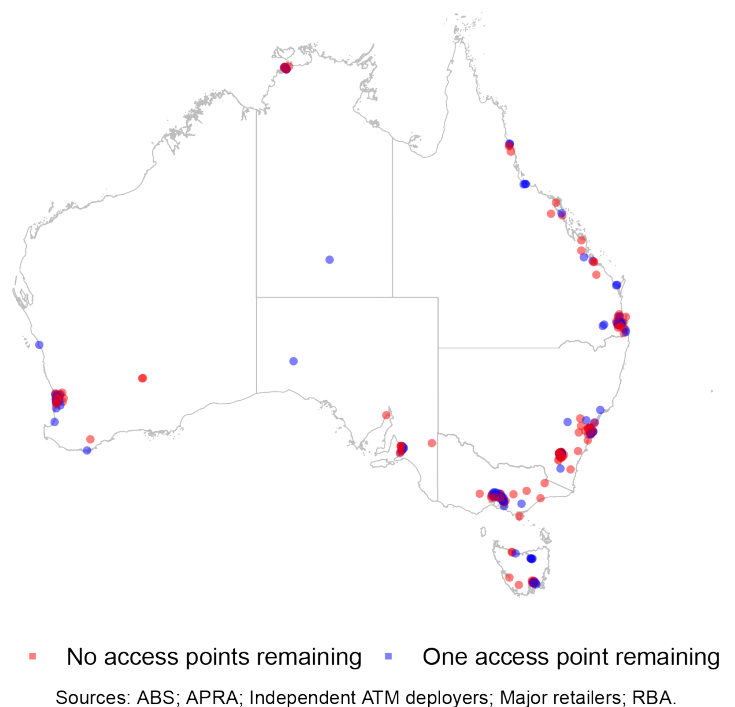
Most remote communities appear to have at least one cash access point; however, their population tends to be more isolated from alternative access points. Therefore,

if someone's nearest cash access point was temporarily unavailable or is removed altogether, they would face a significantly greater difficulty to reach their next closest cash access point (Caddy and Zhang 2021).

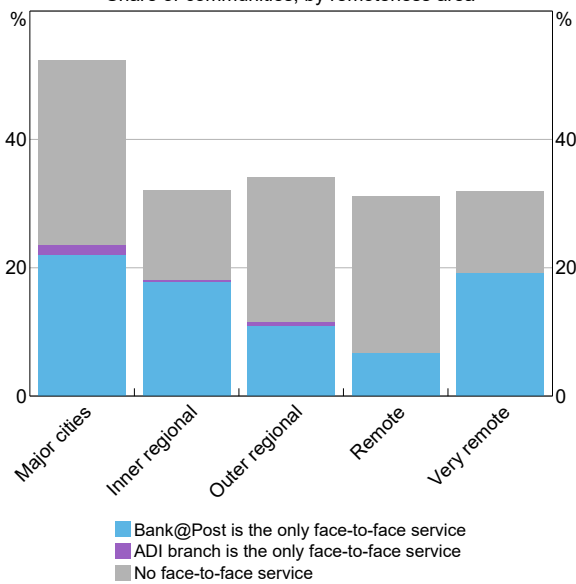
The 2022 CPS found that respondents from regional and remote areas reported greater inconvenience accessing cash services compared with the 2019 CPS due to a fall in the number of cash access points and the distance to the next alternative point (Livermore *et al* 2023).

In addition, there is an increasing number of communities without face-to-face banking services, which disproportionately affects people who rely on in-person support to withdraw or deposit cash, as well as businesses that require over-the-counter deposit-taking services. We look at the share of all communities in each remoteness area that have either one face-to-face banking service remaining or no face-to-face banking services remaining (Graph 7). Around one-fifth of communities in outer regional and remote areas of Australia have no Bank@Post or ADI branches, compared with about one-third of communities in major cities. Around one-fifth of communities in inner regional and very remote areas have only one face-to-face access point remaining. In the vast majority of cases, the last face-to-face cash access point is Bank@Post.

**Figure 1**  
**Access Points Remaining**  
Per community

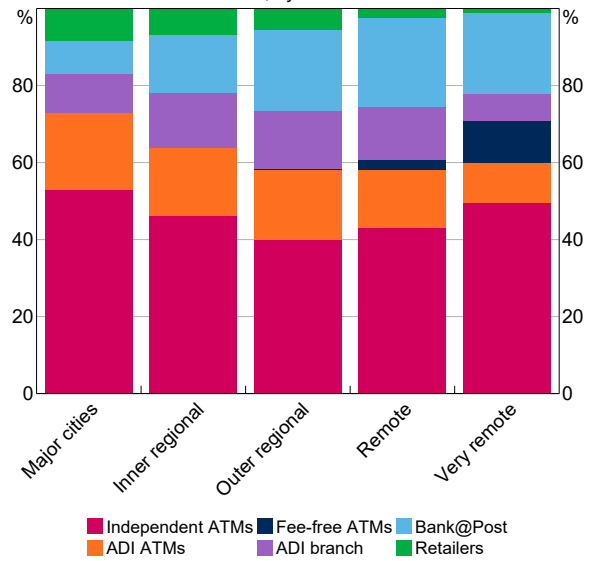


**Graph 7**  
**Community Access to Face-to-face Cash Services**  
Share of communities; by remoteness area



Sources: ABS; APRA; RBA.

**Graph 8**  
**Cash Withdrawal Service Channels**  
Share of total; by remoteness area



\* Share of independent ATM deployers is a lower bound estimate as location data for smaller independent deployers are unavailable.  
Sources: ABS; APRA; Australian Banking Association; ggmap; Google; Independent ATM deployers; Major retailers; RBA.

## Substitutability of cash access services

The closure of certain access points may have prompted consumers to switch to alternative service types to withdraw or deposit cash. However, cash access points are not always fully substitutable in the services they offer, the customers they can serve and the cost to the consumer for using the service. As such, the composition of cash access points across regions raises important considerations for assessing how easily Australians can access cash services, particularly in more remote areas where there are fewer suitable substitutes nearby.

Bank@Post accounts for most of face-to-face cash access points in outer regional and remote areas, while services are more evenly split between Bank@Post and ADI branches in major cities (Graph 8). However, some Bank@Post outlets do not function as a full replacement for ADI-owned branches or ATMs; not all ADIs participate in Bank@Post; and withdrawal and deposit limits at Bank@Post vary. Some communities may also not be sufficiently aware of cash services provided by Bank@Post (Treasury 2022). In addition, the fees charged for accessing cash services over the counter may vary between Bank@Post and ADI branches. While Bank@Post does not charge for cash services, some participating ADIs may impose separate fees on their customers to access this service; and some

ADIs have recently introduced a charge to customers for cash services at their branches or announced an intention to do so.

ADI-owned ATMs are less prevalent in remote and very remote areas, although this is mitigated by the presence of ABA fee-free ATMs (Graph 8). Nevertheless, most ATMs across regions are independently owned, and are more likely to charge customers a fee to access their services compared with ADI-owned ATMs. This could act as a barrier for financially vulnerable people and deter some individuals from accessing cash. In addition, ATMs (both ADI and independently owned) may have different capabilities, such as the ability to deposit cash and cheques, cardless cash and accessibility services (e.g. language translation). Some ATMs may also be inaccessible at certain hours if they are inside a shopping centre, pub or another venue.

Likewise, major retailers are not accessible outside of trading hours. Retailer cash-outs typically require the customer to make a purchase in store to withdraw cash and are subject to a withdrawal limit that is lower than all other service channels. Nevertheless, retailers offer cash-out services for the convenience of their customers and at no additional cost. These services also represent a small share of cash service channels, particularly in more remote areas.

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In terms of deposit services, consumers and businesses have fewer alternatives available compared with withdrawal services. While certain deposit-taking ATMs can provide greater accessibility hours than ADI branches or Bank@Post, some business customers may still require access to face-to-face deposit services. Face-to-face banking services are useful for some businesses handling cash as they offer instant and secure deposits and withdrawals, often with higher limits than ATMs, and provide staff assistance to resolve any potential issues arising from cash transactions. If businesses find it difficult to deposit their takings, it may discourage them from accepting payments in cash.

## Conclusion

Maintaining adequate access to cash in Australia is important as cash is relied on by a significant number of Australians to make their everyday payments and participate in the economy. Cash is also widely held as a store-of-wealth and plays a role as a backup to electronic payments. While the overall distance to the nearest cash withdrawal point has not changed materially for most Australians since 2017, distances vary significantly by remoteness level. Moreover, some regions are vulnerable to a further removal of cash access points, including face-to-face banking services, and residents may need to use alternative cash service types that may not fully meet their needs.

Many other countries are facing similar challenges. In response, governments and central banks overseas have implemented (or are considering) a range of policy and legislative measures to protect consumer and business access to cash. These responses largely place specific obligations on banks and financial institutions as the providers of cash services. In November 2024, the Australian Government announced an intention to mandate businesses supplying essential goods and services to accept cash, with exemptions for small businesses (Treasury 2024a). The Treasury is consulting on the proposed mandate to understand the needs of cash users and the impact on businesses, and to seek views on cash distribution and access to cash (Treasury 2024b). The mandate is proposed to commence from 1 January 2026. Given the importance of cash in the payments system, the RBA will continue monitoring and evaluating the cash access landscape in Australia.

## Endnotes

- \* The authors are from Note Issue Department.
- 1 The 2022 CPS was conducted over October to early December 2022, during the COVID-19 pandemic. See Nguyen and Watson (2023) for findings.
  - 2 We use the geo-coordinates for each access point and the ABS Australian Population Grid 2023 to calculate the straight-line distance.
  - 3 To be classified as a branch in the APRA Points of Presence collection, branches do not need to provide cash withdrawal services, but they must accept cash deposits. Given some branches may not offer cash withdrawals, our distance estimates may slightly overestimate the distance to withdrawal services from bank branches.
  - 4 The report on the inquiry into bank closures in regional Australia found that people residing in regional and remote areas are more likely to be socio-economically disadvantaged, have lower levels of digital inclusion, and are more prone to natural disasters that can limit the ability to use digital payments – all of these characteristics can be associated with a higher reliance on cash as a payment method (RRATRC 2024).
  - 5 In the 2021 Census, there were about 2,400 communities in Australia, with a population range of 3,000 to 25,000 people.

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# Bank Fees in Australia

Robert Gao\*



Photo: Dejan Dundjerski – Getty Images

## Abstract

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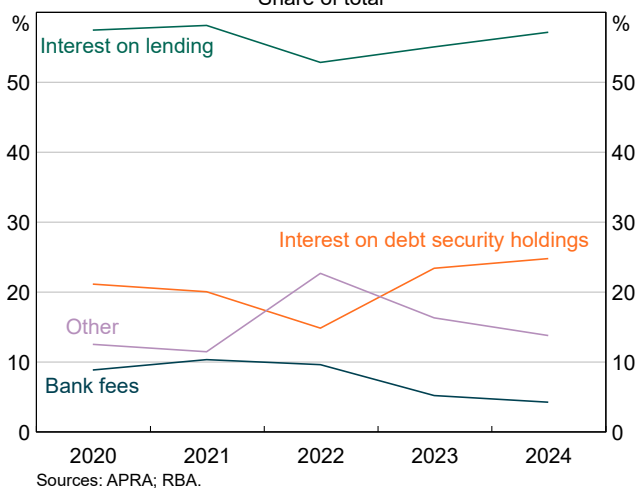
This article updates RBA analysis of bank fees charged to Australian households, businesses and government. Over the year to June 2024, the value of total fees increased by around 5 per cent – the first increase in seven years. Fee income from households increased by 10 per cent, mainly reflecting fee income from credit cards and personal loans. A modest rise in fee income from housing loans also contributed. Fees charged to businesses and governments rose modestly due to growth in lending and an increase in fees charged on deposit accounts. Fees from merchant customers for providing payment processing services were unchanged after declining strongly over the previous four years. As a share of assets and deposits, fee revenue remained stable at a relatively low level.

## Introduction

This article updates previous RBA research on bank fees, covering the year to June 2024. Since 1997, the RBA has collected information on the fees charged to households and businesses by banks through their Australian operations. The 2023/24 data captured 48 lenders, which account for around 88 per cent of total credit outstanding.<sup>1</sup>

Monitoring bank fees over time is important in understanding the costs Australians incur for accessing and using banking services. Bank fees comprise a relatively small share of banks' total revenues. Fees contributed around 5 per cent of reporting banks' total revenue in 2023/24; this share was similar to that of 2023 but lower than the few years prior (Graph 1).

**Graph 1**  
**Banks' Revenue by Source**  
Share of total



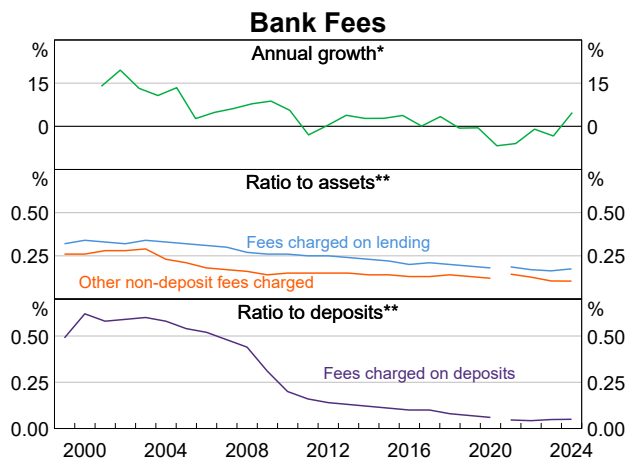
Banks charge fees to their household, institutional and government customers for the services they provide to them. These services include the provision of loans, deposit services and payment services. The fees broadly fall into the following categories:

- **Account servicing fees** charged to cover account keeping costs. These include regular servicing fees (such as annual and monthly credit card fees) and application, settlement and establishment fees for loans.
- **Transaction fees** charged for transactions made. These include fees for international transactions, ATM withdrawals from deposit accounts, and drawdowns and redraws for loans.
- **Merchant fees** charged to merchant customers for providing payment processing services. These include transaction fees and fees such as joining and payments terminal rental fees.
- **Other fees** include break fees (charged when a customer terminates a contract, such as a fixed-term deposit or loan, early) and exception fees (charged when a customer breaches a contract, such as making a late payment on a loan or having insufficient funds in their deposit account).

## Total fee revenue

Banks' total revenue increased by 5 per cent over the year to June 2024. This was the first annual increase in total fee revenue in seven years (Graph 2).<sup>2</sup> As a share of assets and deposits, fee revenue remained stable at a relatively low level. By type of customer, large businesses continued to pay the largest share of fees, comprising around 40 per cent of total bank fees (Graph 3; Table 1). Households and medium-sized businesses each paid around one-quarter of total bank fees, while small businesses accounted for just below 10 per cent of total fees.<sup>3</sup>

Graph 2



\* Adjusted for breaks in series.

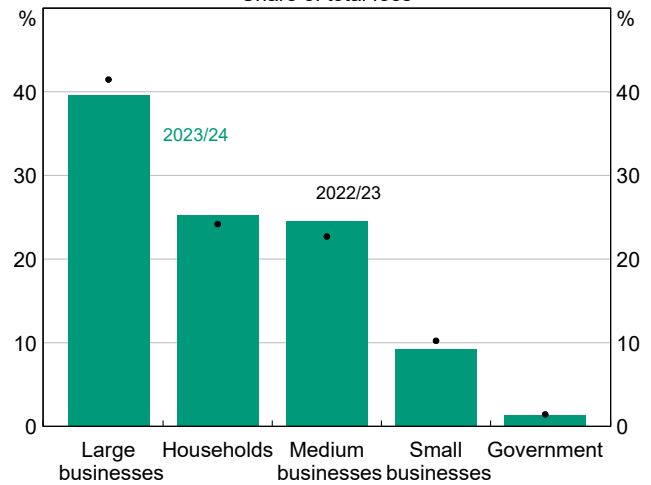
\*\* Average assets and deposits over reporting period; series break between 2020 and 2021.

Sources: APRA; RBA.

Graph 3

### Bank Fees by Customer

Share of total fees



Sources: APRA; RBA.

Table 1: Bank Fees<sup>(a)</sup>

Year	Households		Institutions <sup>(b)</sup>		Total	
	Levels (\$ million)	Growth (per cent)	Levels (\$ million)	Growth (per cent)	Levels (\$ million)	Growth (per cent)
2020/21	3,363	-13.3	11,276	-3.6	14,640	-6.0
2021/22	3,223	-4.2	11,270	-0.1	14,493	-1.0
2022/23	3,386	5.1	10,620	-5.8	14,006	-3.4
2023/24	3,711	9.6	10,963	3.2	14,674	4.8

(a) There is a series break between 2020 and 2021 for all series; growth rates for the year to the end of June 2021 have been break-adjusted to account for series breaks. All figures have been rounded.

(b) Include businesses and government.

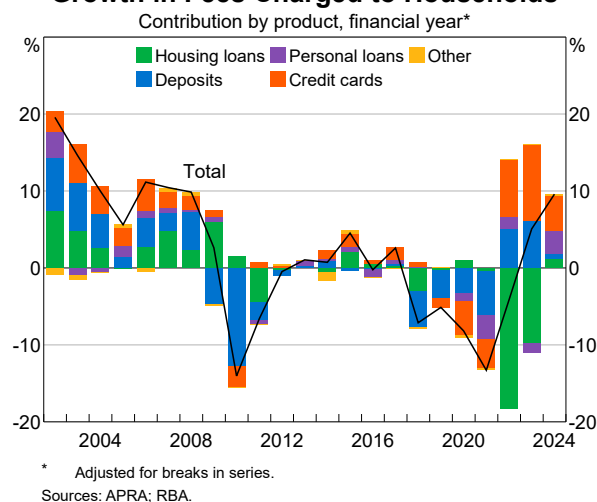
Sources: APRA; RBA.

## Fees charged to households

Fee revenue from households grew by 10 per cent in the year to June 2024 (Graph 4; Table 2). Key drivers of this growth were fee income from credit cards and personal loans. Fee revenue from credit card fees increased by 11 per cent, mainly reflecting a rise in overseas spending. With more households using their Australian credit and debit cards at overseas businesses, banks earned more fees on international transactions and foreign currency conversions. Earnings from fees charged on personal loans also grew strongly in the year as personal credit grew for the first time since 2015.

There was a modest increase in earnings on fees charged for housing loans, following large declines in the previous two years. Easing competition in the mortgage market resulted in many banks withdrawing financial incentives such as cashback deals, which are offered to attract new or refinancing customers and subtract from fee earnings (Ung 2024). A modest pick-up in new housing loans and housing credit growth, alongside elevated levels of external refinancing over the year, supported a small increase in volume of housing loans on which fees were charged.

**Graph 4**  
**Growth in Fees Charged to Households**



**Table 2: Fees Charged to Households<sup>(a)</sup>**

Product	2021/22	2022/23	2023/24	Year-ended growth (per cent)
	(\$ million)	(\$ million)	(\$ million)	
Loans	2,577	2,539	2,832	12
– Housing	1,113	818	856	5
– Personal	329	290	390	34
– Credit cards	1,115	1,431	1,586	11
Deposits	606	805	831	3
Other	40	43	49	13
<b>Total</b>	<b>3,223</b>	<b>3,386</b>	<b>3,711</b>	<b>10</b>

(a) Levels for the year to the end of June 2021 have been break-adjusted to account for series breaks. All figures have been rounded.

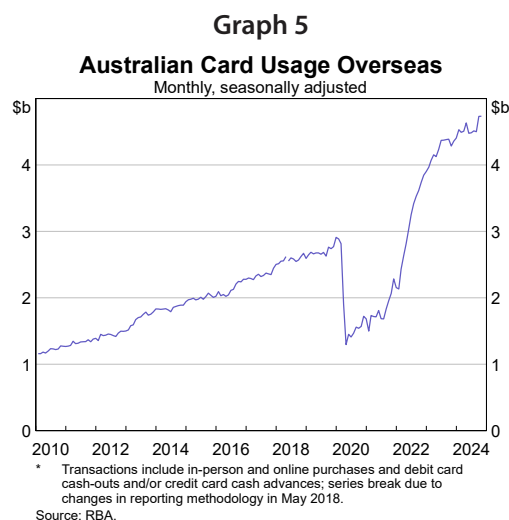
Sources: APRA; RBA.



## Fee revenue from credit cards and personal loans

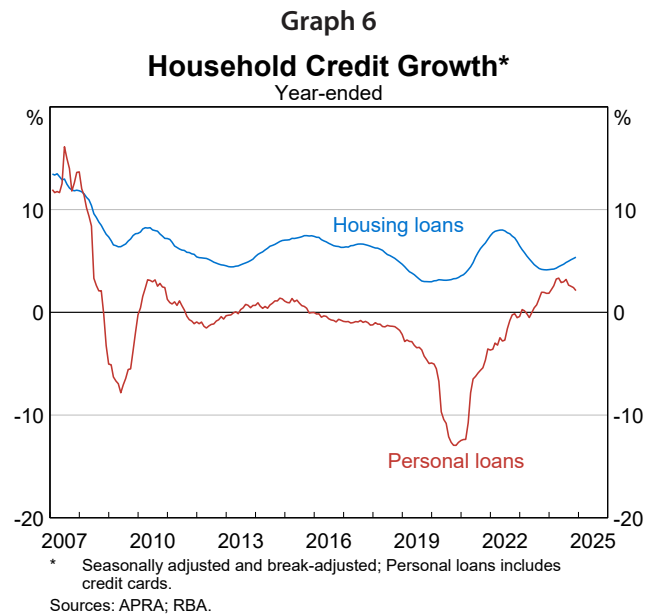
Credit cards are the largest source of bank fees paid by households. Strong growth in credit card fee income in 2023/24 largely reflected increased use of domestically issued credit cards at overseas businesses (Graph 5). Higher credit card fee revenue was mostly in the form of foreign currency conversion charges. The increase in credit card fee revenue was more modest than that over the previous two years, where growth in overseas spending was stronger (Dunphy 2024). Revenue from missed payment fees was little changed over the year, in line with a relatively stable share of credit cards accruing interest.

Fees from personal credit (excluding credit cards) increased strongly year on year. This reflected growth in establishment and transaction fees, consistent with the increase in personal credit growth over the year.



## Fee revenue from home loans

Fee income from housing loans increased by 5 per cent in the year to June 2024. This increase partly reflected banks withdrawing cashback deals for new and refinancing borrowers in 2023. Despite this, external refinancing activity remained elevated over the year, in part because many households with maturing fixed-rate loans sought either to negotiate a new loan with their existing lender or refinance externally with another lender (RBA 2023). This supported growth in earnings from fees for negotiating and establishing new loans, as well as discharging previous loans. Fee income from housing loans was also supported by a pick-up in new housing loans over the year (Graph 6).



Exception fees, which are charged when a household is late in making their mortgage payment, increased in the year to June 2024; this follows a larger increase in the previous year, and is due to a rise in the number of households that have fallen behind on their mortgage payments since late 2022 (RBA 2024).

## Fee revenue from deposits

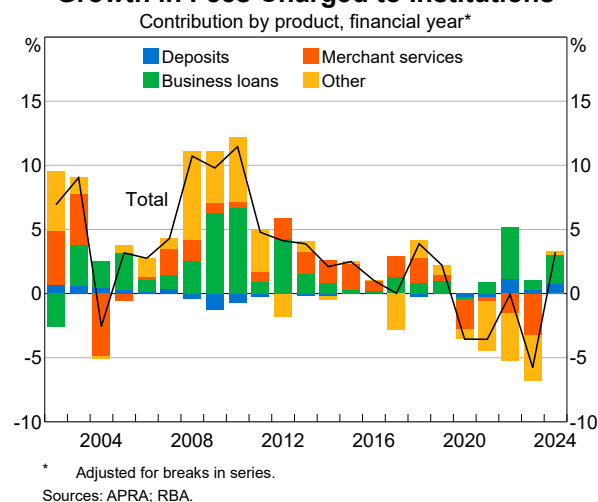
Fee income from household deposits grew modestly over the year. Income from transaction and account servicing fees increased, reflecting a rise in overseas spending by households using their debit cards (which generate fees from foreign currency conversions and international transactions). Fees charged to households for exiting term deposits early remained at elevated levels in the year to June 2024 as customers withdrew from their existing term deposits to seek higher returns.

An ASIC (2024) report has found that some larger banks kept at least two million low-income Australians on inappropriate high fee accounts between November 2021 and November 2022. ASIC had provided their key findings and recommendations to the banks in July 2023, including recommendations for refunding or freezing fees to impacted customers. While banks have started responding to the recommendations, the majority of fee refunds is expected to occur during 2024/25.

## Fees charged to businesses and government

Total fees charged to institutional customers increased modestly in the year to June 2024, following four years of declines (Table 3; Graph 7). Fees on business loans are the largest component of banks' institutional fee income, comprising half of earnings from fees charged to institutions, and around one-third of earnings from all customers. The overall increase in this type of fee revenue mainly reflected higher earnings from fees charged on business loans, consistent with strength in business credit growth over the year. Large businesses paid the highest share of banks' fees from all customer types, although this share declined relative to the previous year. This decline was largely due to changes to APRA's reporting standards, which expanded the exposure and business turnover thresholds for small and medium businesses, leading to the reclassification of some large businesses to medium businesses (APRA 2024).

**Graph 7**  
**Growth in Fees Charged to Institutions**



**Table 3: Fees Charged to Institutions<sup>(a)</sup>**

Product	2021/22	2022/23	2023/24	Year-ended growth (per cent)
	(\$ million)	(\$ million)	(\$ million)	
Loans	5,123	5,205	5,445	5
Merchant service fees	2,782	2,413	2,409	-0
Deposit accounts	546	580	660	14
Other <sup>(b)</sup>	2,819	2,423	2,449	1
<b>Total</b>	<b>11,270</b>	<b>10,620</b>	<b>10,963</b>	<b>3</b>

(a) Includes businesses and government. Levels for the year to the end of June 2021 have been break-adjusted to account for series breaks. All figures have been rounded.

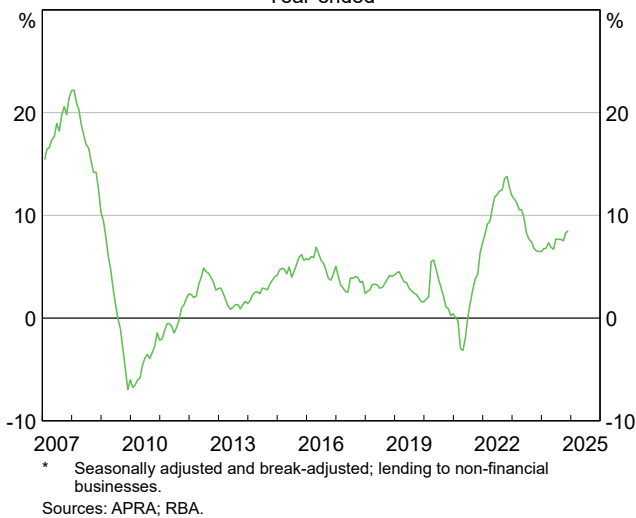
(b) Includes bills of exchange.

Sources: APRA; RBA.

## Fee revenue from business loans

Fees charged on business loans increased by 5 per cent over the year, reflecting strength in business credit growth (Graph 8). Revenue from fees on business loans as a share of business credit outstanding remained stable year on year. As with households, the majority of banks' institutional fee income continues to come from the application, establishment and settlement charges associated with loans. However, these charges tend to be larger relative to loan sizes as compared with households, which is likely to reflect the greater complexity of business loans.

**Graph 8**  
**Business Credit Growth\***  
Year-ended

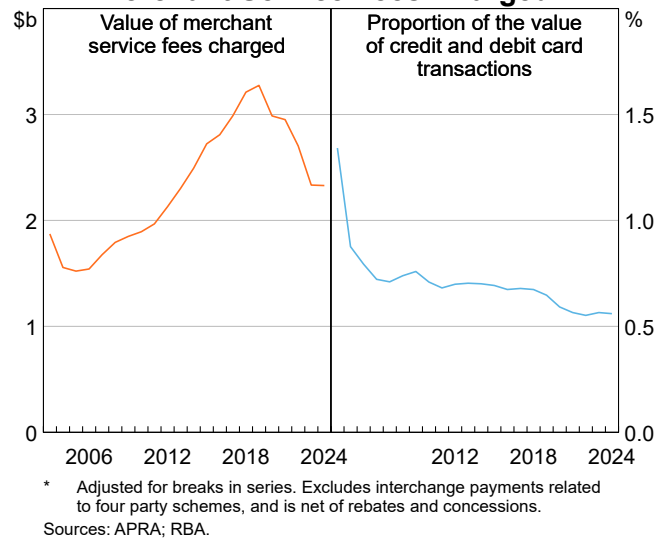


## Fee revenue from merchant services

After declining by around 30 per cent over the previous four years, merchant service fee revenue was flat over the year to June 2024 (Graph 9). This mainly reflected little change in average per-transaction fees across all card types over the year.

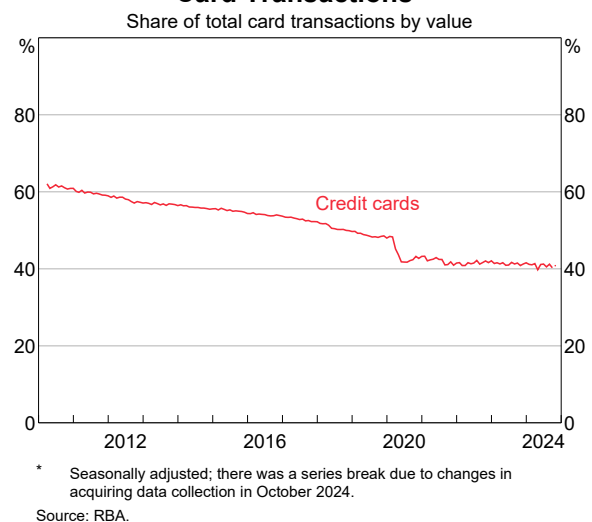
**Graph 9**

### Merchant Service Fees Charged\*



The decline in merchant fee income in the previous four years was partly driven by declines in the average fee per transaction, reflecting factors such as a shift from credit to debit cards that typically attract a lower fee per transaction and competitive pressure from non-bank payments service providers, including the entry and expansion of foreign payments entities in Australia (Graph 10; Gill, Holland and Wiley 2022). In recent years, some banks have sold off their merchant services business to entities that are not required to report their fee income to APRA, and this has also driven the decline in merchant fee income (Dunphy 2024).

**Graph 10**  
**Card Transactions\***



## Fee revenue from business deposits

Fee revenue from business deposits increased by 14 per cent over the year, mainly reflecting a large increase in transaction fees. Prior to this, business deposit fee earnings had been steadily declining since 2007, resulting in its contribution to total fee revenue earned from institutions declining from 18 per cent in 2007 to 6 per cent in 2024.

## Other fee revenue

Other fees charged to institutions increased by 1 per cent over the reporting period. Other fees include miscellaneous fees relating to activities such as deed transmissions and guarantees. Fee revenue from commercial bills declined over the year, and has been declining as a share of other fee revenue in recent years.

## Conclusion

Fees charged by banks through their domestic operations represent a small share of banks' total earnings, accounting for 5 per cent of total revenue in 2023/24. By customer, large businesses continued to contribute the highest share to banks' total fee revenue, followed by households and medium businesses. Banks' total fee revenue increased for the first time in seven years, supported by a reduction in home loan cashback offers and increases in new housing loans, a pick-up in personal and business credit growth, and a further rise in overseas spending by households. Merchant service fee revenue was unchanged.

## Endnotes

- \* The author is from Domestic Markets Department.
- 1 These data may differ from previous years due to data revisions and break adjustments.
- 2 The trend decline in total fees over previous years mainly reflects consecutive falls in household fee revenue. Some of this decline is from banks removing fees in response to the 2018 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. Competitive behaviour may also have played a role (Dunphy 2024).
- 3 Businesses are defined as small, medium and large based on the reporting institution's exposure to the business and the business's annual turnover. A business is classified as small if the exposure is less than \$1.5 million and turnover is less than \$75 million, medium if the exposure is greater than or equal to \$1.5 million and turnover is less than \$75 million, and large if turnover is greater than or equal to \$75 million (APRA 2024).

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# Where Have All the Economics Students Gone?

Emma Chow<sup>\*</sup>



Photo: Jeff Greenberg – Getty Images

## Abstract

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The size and diversity of the economics student population has declined sharply since the early 1990s, raising concerns about economic literacy in society and the long-term health of the economics discipline. Interest in studying economics at university is low, even for those who studied economics in Year 12. This article investigates what students are choosing to study at university – if not economics – using new microdata from the Universities Admissions Centre. While Year 12 economics students tend to enrol in economics at university at much higher rates than other students, they are more likely to study a commerce and finance or arts and social science course than an economics course. Possible initiatives to increase the flow of high school students into university economics include tailored advocacy to emphasise the connections between economics and other preferred fields of study, and a greater focus on encouraging students to study economics subjects within a commerce and finance degree. It may also be worth exploring whether any lessons can be applied from initiatives to promote the take-up of STEM (Science, Technology, Engineering, Mathematics) courses, given the relative rise in enrolments in those subjects over recent years.

## Introduction

Enrolments in economics at both high school and university are low relative to most other subjects. But this was not always the case, with economics being one of the most popular subjects in high school three decades ago (Dwyer 2017). Along with the decline in enrolments, there has also been a decline in the diversity of the economics student population. As a result, there is a growing uniformity among economics students, and this also extends to those who become economists or apply economics in their careers (Dwyer 2024). These trends are concerning because they suggest a decline in economic literacy in the population, which could in turn affect the quality of future economic research and public policy.

In 2016, the RBA established a public education program to support economics educators and students, both at the high school and tertiary level. Lovicu (2021) examined the transition from high school to university economics using data from the Universities Admissions Centre (UAC), finding that interventions to increase the number and diversity of students studying economics in Year 12 can strengthen the pipeline of students into university economics. This article builds on this previous work by exploring new data from UAC, which sheds light on what university courses students are choosing to study, if not economics.<sup>1</sup> These insights can be used to inform choices about how best to encourage a higher take-up of economics courses at the tertiary level.

## The university admissions process

UAC processes applications for admission to most universities in New South Wales and the Australian Capital Territory. UAC uses students' results in the Higher School Certificate (HSC) to calculate their Australian Tertiary Admissions Rank (ATAR), with admission to most university courses then determined by a student achieving a minimum selection rank.<sup>2</sup> The application process begins with students submitting up to five preferences for university courses in order of priority. UAC will then gauge demand and supply for each course and set ATAR cut-offs for entry. Students are offered a place in the course they preference most highly, provided their selection rank is above the course cut-off. There are multiple rounds of offers, but students can only receive one offer per offer round.<sup>3</sup> After students have accepted an offer, they can approach the university to enrol in the course. Each course preference submitted by a student will therefore have one of three outcomes: 'enrolled in', 'were offered a place in but did not accept', or 'did not receive an offer'.

## The data

The UAC dataset contains de-identified unit record (i.e. individual-level) information and is an updated and richer version of the aggregated dataset used by Lovicu (2021). It now contains the full (unordered) list of course preferences submitted by every student from 1999 to 2023, alongside their demographic characteristics, the subjects they studied in Year 12 and their overall academic performance. These data provide information about how students make their decisions about what to study at university. They also provide insights into students' level of interest in different courses.

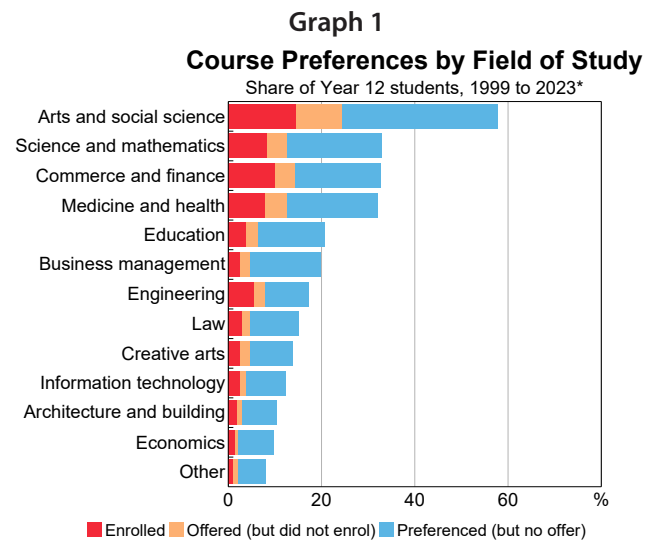
Figure 1 contains a stylised illustration of how these levels of interest can be categorised.

### Field of study classification

Determining how many students study a certain subject at university is not straightforward because some subjects can be undertaken in several courses. For instance, a major in economics can be completed through commerce, finance and, in some cases, arts degrees, but data on which subjects are studied as majors would need to be collected from a broad sample of universities to gain reliable insights into how prevalent this is. Therefore, this article follows Lovicu (2021) in using dedicated economics courses offered by universities as a *lower-bound* proxy for economics majors.<sup>4</sup> For all other courses, this article relies on universities' own classifications.<sup>5</sup> Double degrees that allow students to graduate with two qualifications are treated as counting towards two fields of study.<sup>6</sup>

## University course preferences

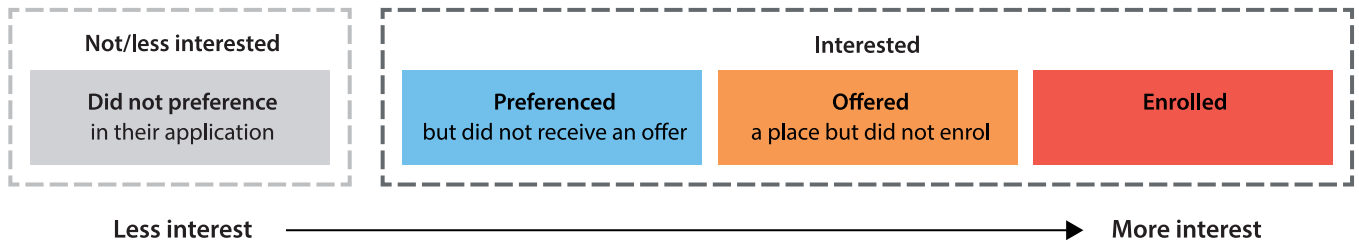
Between 1999 and 2023, only around 10 per cent of all Year 12 students included an economics course among their preferences to UAC, with just 1 per cent of all students actually enrolling in one (Graph 1). By contrast, arts and social science was the most commonly preferred field of study, with science and mathematics, commerce and finance, and medicine and health also very popular.



\* Year 12 students applying through UAC. Some applicants did not enrol in a course. Double degrees count towards two fields of study.  
Sources: RBA; UAC.

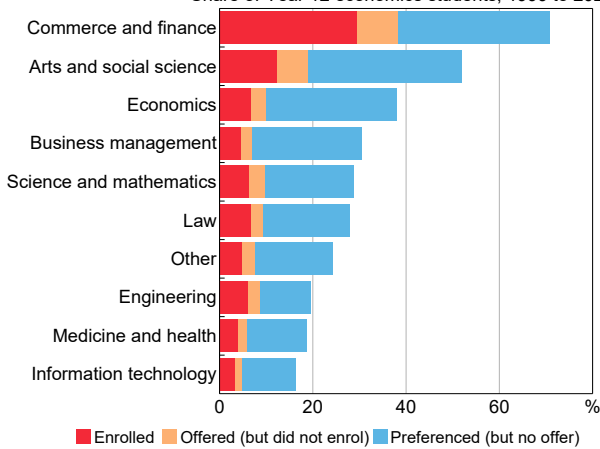
Figure 1

### Students' Interest in a University Course



Focusing just on Year 12 *economics* students, commerce and finance has been by far the most popular field of study, with around 70 per cent of this group including a commerce or finance course as at least one of their preferences between 1999 and 2023 (Graph 2). There is also considerable interest in arts and social science, which was preferred by around half of Year 12 economics students over this period. Economics was the third most preferred field of study, with almost 40 per cent preferring an economics course.

**Graph 2**  
**Course Preferences by Field of Study**  
Share of Year 12 economics students, 1999 to 2023\*



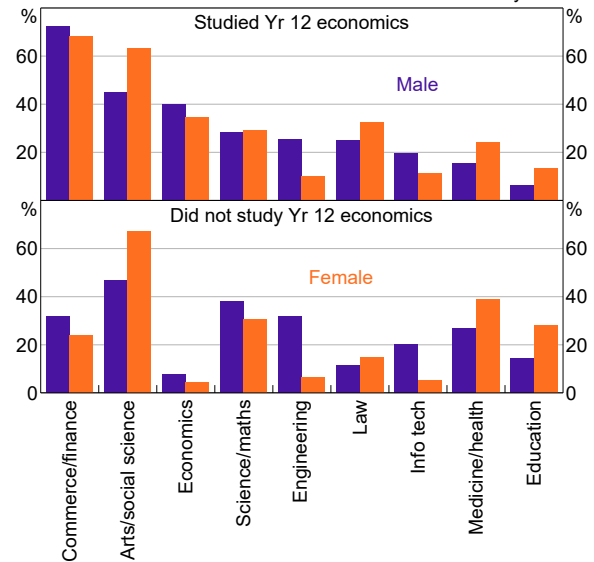
\* Year 12 economics students applying through UAC. Some applicants did not enrol in a course. Double degrees count towards two fields of study. Sources: RBA; UAC.

### University course preferences by demographic characteristics

Female students who studied Year 12 economics were less likely to include an economics course in their preferences than their male counterparts over the 1999–2023 period. Instead, female high school economics students were more likely to show interest in arts and social science, medicine and health, and law than their male peers; these patterns were also evident for the broader Year 12 student population (Graph 3). However, this gender gap in levels of interest in tertiary economics is less pronounced than in STEM (Science, Technology, Engineering, Mathematics) fields, such as engineering. Lower levels of enrolments in economics among females has persisted even though they consistently outperformed males in ATAR scores throughout this period, and so were less likely to have a ‘performance gap’ deterring them from studying economics at university (Lovicu 2021). Interested female

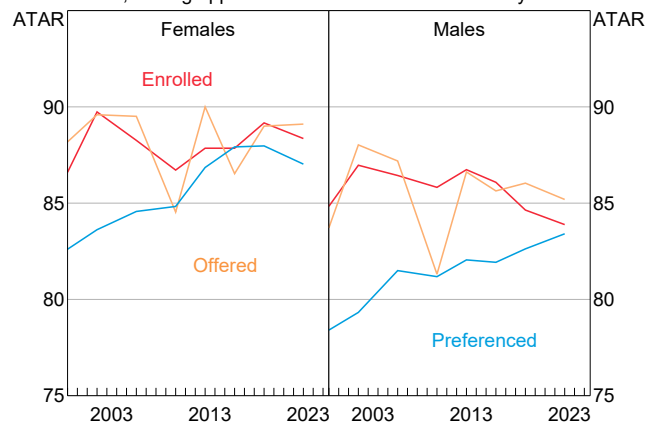
Year 12 economics students who ultimately chose not to enrol in an economics course had, on average, higher ATARs than males who enrolled in economics (Graph 4).

**Graph 3**  
**Interest in Field of Study by Sex**  
Share of Year 12 students interested in field of study\*



\* Interest defined as those who enrolled in, were offered or preferred a field of study. From 1999 to 2023. Sources: RBA; UAC.

**Graph 4**  
**ATAR for Students Interested in Economics\***  
Mean; among applicants who studied economics in year 12



\* Interest defined as those who enrolled in, were offered or preferred economics. Sources: RBA; UAC.

Econometric analysis shows that students who are interested in economics at university tend to belong to advantaged socio-economic groups, including students from non-government schools and central Sydney schools. By contrast, students from government schools have a higher probability of showing interest in STEM courses than students from non-government schools, whereas students from outside of central Sydney are



more likely to be interested in health and medicine compared with students in central Sydney (see Appendix A for more information).

## University course enrolments

In addition to the initial application stage (which signals whether students are interested in a field of study), another key stage in the transition from high school to university is whether students’ interest is converted into actual enrolments.

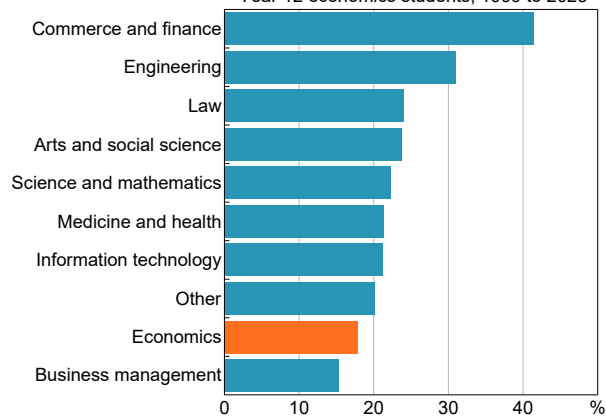
### Conversion from preferences to enrolments

Economics has a lower rate of conversion from preferences to enrolments than most other fields of study. Of the Year 12 economics students who included an economics course as a preference between 1999 and 2023, only around 18 per cent ended up enrolling in economics; this share has also declined over time (Graph 5). By contrast, around 40 per cent of Year 12 economic students who preferred a commerce and finance course between 1999 and 2023 ultimately enrolled in that course.

Another reason could be that students preferred another course more highly than the economics course and received an offer for that preferred course (an ‘interest gap’). Liaison with UAC indicates that students are less likely to put economics courses as their top preference, with the most common first preference ahead of an economics preference being management and commerce.

The vast majority of the interested students who did not end up enrolling in economics went on to study commerce and finance (Graph 6). Within this group, around 70 per cent enrolled in commerce and finance courses with a higher ATAR cut-off than the economics course that they preferred, indicating an ‘interest gap’ in economics.<sup>7</sup> One explanation could be that commerce and finance is perceived to be more interesting, employable and as offering greater earnings potential than economics (Livermore and Major 2020).<sup>8</sup> Commerce and finance may also be seen as having a broader scope, whereas economics may be seen as more specialised than other courses. Perhaps consistent with this, economics has one of the highest rates of double degree enrolments, at around 40 per cent, only surpassed by those who study law (which is rarely offered as a single stand-alone degree).<sup>9</sup> Course availability at universities is also relevant to student choices, and particularly so for students from lower socio-economic backgrounds, for whom distance from home is a concern (Cooper, Baglin and Strathdee 2017; Donnelly and Gamsu 2018). Around twice the number of universities in New South Wales and the Australian Capital Territory offer commerce and finance courses than those that offer economics courses.

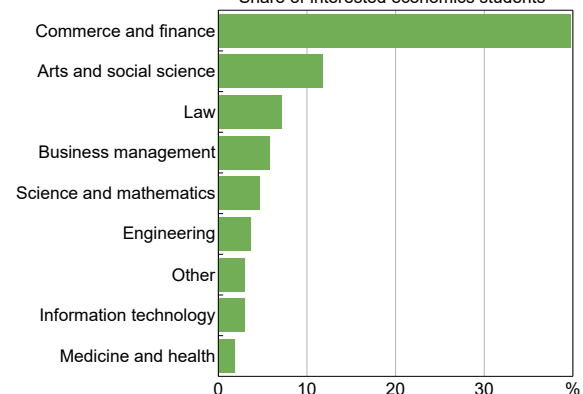
**Graph 5**  
**Interest-to-Enrolment Conversion Rates\***  
Year 12 economics students, 1999 to 2023



\* Share of students who preferred a field of study and enrolled in it.  
Sources: RBA; UAC.

A significant majority of Year 12 economics students who preferred an economics course at university were not made an offer for that course. One reason for this could be that interested students did not meet the cut-off for the course (a ‘performance’ gap). Previous work found little evidence that this is the case for female students and more socially advantaged groups, but found more evidence of this for males and those from less advantaged groups (Lovicu 2021).

**Graph 6**  
**Alternative Fields Chosen**  
**by Interested Economics Students**  
Share of interested economics students\*



\* Year 12 economics students who preferred an economics course but did not enrol in it. Some applicants did not enrol in a course. From 1999 to 2023.  
Sources: RBA; UAC.

## Enrolments in university courses over time

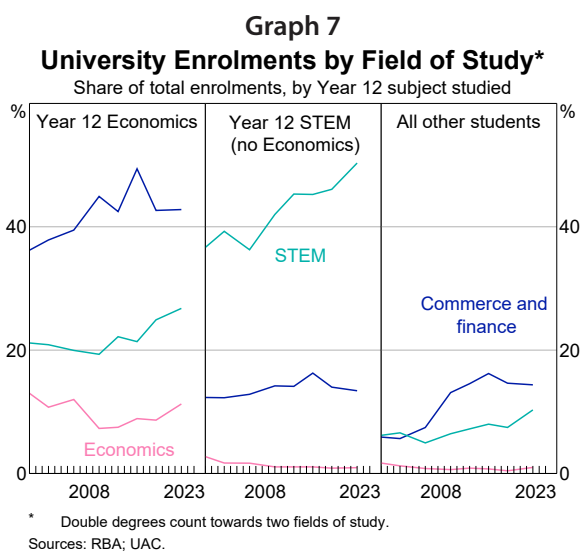
With both a low interest in economics among high school students, and a low conversion rate from this interest to university enrolments, economics courses have made up a small share of total enrolments at university over the past two decades. From 1999 to 2016, a decline in the share of students enrolling in economics courses coincided with an increase in the share of students enrolling in commerce and finance courses (Graph 7).

More recently, there has been a modest pick-up in the share of students enrolling in economics, but an even more marked increase in the share of students who are choosing STEM fields. This shift into STEM courses is evident across all students, regardless of whether they studied STEM subjects in high school. The fastest growth in recent years has been in information technology (including courses like computer science), consistent with the rapid pace of advancement and strong growth in employment opportunities. Changes in the university fee structure in 2021 that lowered domestic student fees for university degrees in areas of national priorities – including STEM and health-related courses – may have also influenced students' decisions about what to study (Department of Education 2024). By contrast, economics (alongside commerce and law) has not been identified as an area of 'national priority' nor potential employment growth.

## Implications for promoting the study of economics at university

Initiatives to promote the study of economics that are targeted at key decision points for students are likely to have the greatest impact. In addition to efforts to encourage Year 9 and 10 students to take up economics in their final years of high school, advocacy to Year 12 economics students could help to boost the share of these students who ultimately enrol in economics courses at university level. Students may particularly benefit from receiving more information on possible career paths and employability of economics graduates, and how economics differs from and complements business-related disciplines. Advocacy could also be tailored to different demographic groups, given that different groups have different preferences for other fields of study. For example, advocacy to females could emphasise that economists work on a breadth of social problems that are also seen in arts and social science, while outreach to males and those in government schools where STEM is more popular could highlight that economics offers opportunities to solve complex problems using mathematical and analytical frameworks.

Given the popularity of commerce and finance courses among Year 12 students, another initiative could be to focus on efforts to encourage students to study an economics major (or units of study) within these courses. Some commerce and finance courses offer a compulsory economics unit in the first year, providing an opportunity for a large pool of students to engage with economics, including students who did not study economics at high school and students who are interested in economics but their university does not offer a specialised economics course. This approach could be extended to target students enrolled in arts and social science courses at universities that offer economics electives within those courses, particularly given the very large pool of students undertaking these courses. Advocacy to these groups could not only support the pipeline of potential economics graduates, but also help to increase economic literacy in the wider community.



Finally, it is worth exploring whether there are lessons from initiatives to promote STEM courses that could be applied to economics. A wide range of initiatives have been put in place by government agencies and the private sector to support the study of STEM and to address the skills shortages that are emerging from insufficient student participation in STEM. While there remains considerable work ahead (including on gender diversity elements), there are clear signs that it has improved student engagement with STEM overall (Dwyer 2017; Department of Industry, Science and Resources 2024). Conversely, there has been limited public awareness of falling economics enrolments until more recently. Measures similar to those taken for STEM to support economics education by educators, institutions and governments as a whole could support the economics pipeline and promote a robust and inclusive economics discipline.

## Conclusion

This article finds that students' interest in economics at university is low compared with other fields of study. Students who studied economics at high school are more likely to pursue commerce and finance or arts and social science than economics at university. Although interest in university economics has picked up a little over recent years, STEM courses have become even more popular. These findings suggest that tailored advocacy, a greater focus on promoting economics subjects within other degrees, and adopting similar initiatives to those taken for STEM to support economics education could increase the uptake of economics courses at university. Uplifting the number and diversity of students studying economics is important for the long-term health of the economics discipline. It would also have significant public benefits, including by raising the quality of public discourse, increasing economic literacy to allow individuals, as well as future public policymakers and business leaders, to make more informed decisions.

## Appendix A: Regression model specification and output

The regression model of student interest in each field of study was specified as follows:

$$\Pr(\text{interest\_field\_of\_study}_k = 1) = \beta_0 + \beta_1 \text{male}_i + \beta_2 \text{nongovernmentschool}_i + \beta_3 \text{centralSydney school}_i + \beta_4 \text{year12economics}_i + \beta_5 \text{year12STEM}_i + \beta_6 \text{ATAR}_i + \lambda_t + u_{it}$$

where:

$\text{interest\_field\_of\_study}_k$	Dummy variable equal to 1 if interested in field of study $k$ (where interest is defined as having enrolled in, were offered a place, or preferred a field of study); 0 otherwise
$\text{male}_i$	Dummy variable equal to 1 if male; 0 if female
$\text{nongovernmentschool}_i$	Dummy variable equal to 1 if studied at non-government school (independent or Catholic); 0 if studied at a government school (selective or non-selective)
$\text{centralSydney school}_i$	Dummy variable equal to 1 if studied at school in central Sydney (this encompasses the inner ring of Sydney and parts of the middle ring with a number of suburbs with high socio-economic status, including City and Inner South, Eastern Suburbs, Inner South West, Inner West, North Sydney and Hornsby, Northern Beaches, Ryde); 0 if studied outside of central Sydney but within New South Wales/Australian Capital Territory.
$\text{year12economics}_i$	Dummy variable equal to 1 if studied economics in Year 12; 0 otherwise
$\text{year12STEM}_i$	Dummy variable equal to 1 if studied STEM but not economics in Year 12; 0 otherwise
$\text{ATAR}_i$	Australian Tertiary Admissions Rank (/10)
$\lambda_t$	Year dummies

**Table A.1: Probability of Student Interest in Field of Study<sup>(a)</sup>**

Logit model, average marginal effects<sup>(b)</sup>

Variables	Commerce and finance		Science and Law mathematics Engineering			Arts and Medicine social science health technology		
	Economics	finance	Law	mathematics	Engineering	social science	health	technology
$\text{male}_i$	0.03***	0.07***	-0.03***	0.02***	0.20***	-0.16***	-0.13***	0.11***
$\text{nongovernmentschool}_i$	0.01***	0.01***	-0.00	-0.04***	-0.02***	0.00	-0.01***	-0.02***
$\text{centralSydney school}_i$	0.03***	0.05***	-0.00	-0.00**	0.01***	0.08***	-0.04***	0.02***
$\text{year12economics}_i$	0.26***	0.41***	0.07***	0.07***	0.10***	-0.14***	-0.10***	0.11***
$\text{year12STEM}_i$	0.01***	0.02***	-0.04***	0.27***	0.21***	-0.16***	0.06***	0.12***
$\text{ATAR}_i$	0.01***	0.01***	0.05***	0.03***	0.02***	0.01***	0.00***	-0.02***
$\text{Pseudo } R^2$	0.1683	0.0809	0.0848	0.0916	0.2219	0.0533	0.0357	0.1196

(a) Interest is defined as having enrolled in, were offered a place, or preferred a field of study.

(b) \*\*\*, \*\*, and \* denote statistical significance at the 1, 5, and 10 per cent levels, respectively.

Sources: RBA; UAC.

## Endnotes

- \* The author is from Communications Department. The author would like to thank Michelle Wright, Tanya Livermore and Stephanie Parsons for comments on this article.
- 1 Data used in this publication is and remains the copyright of Universities Admissions Centre (NSW & ACT) Pty. Ltd and may not be used in any form except with prior approval in writing of UAC.
  - 2 The ATAR is a number between 0.00 and 99.95 that indicates a student's position relative to all of the students in their cohort. For example, an ATAR of 80.00 means that a student is ranked 20 percentage points below the top of their cohort (Universities Admissions Centre 2024). The selection rank is equal to a student's ATAR plus any adjustment factors for which the student is eligible.
  - 3 If a student adjusts their preferences between offer rounds, they may then receive multiple offers. See Lovicu (2021) for more details on the university admissions process.
  - 4 While a few universities have changed their offerings of dedicated economics courses over the sample period – by introducing or removing them – the total number of participating institutions with UAC that offer economics courses each year has remained relatively stable.
  - 5 Universities follow the Australian Standard Classification of Education (ASCED) to classify the fields of education of their courses. This article has broken down some broader fields of study to highlight narrower fields of study of interest. For example, the broader field of 'society and culture' is split into economics, law, and arts and social science. 'Management and commerce' is split into commerce and finance, and business management (which includes courses like human resource management and marketing).
  - 6 From 2010 onwards. The data only contain the field of study of the main degree in a double degree prior to 2010.
  - 7 From 2010 onwards. The other 30 per cent that did not meet the ATAR cut-off could have a performance gap and possibly also an interest gap.
  - 8 However, the data show this is not the case. Economics graduates typically have higher full-time earnings than graduates from most other fields of study, including business. But the unemployment rates of economics graduates tend to be slightly higher than business graduates (Guttman and Bishop 2018).
  - 9 Arts and social science is the most frequently paired field of study with economics in a double degree, followed by commerce and finance.

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# An Update on the Household Cash-flow Channel of Monetary Policy

Sarah Jennison and Marcus Miller\*

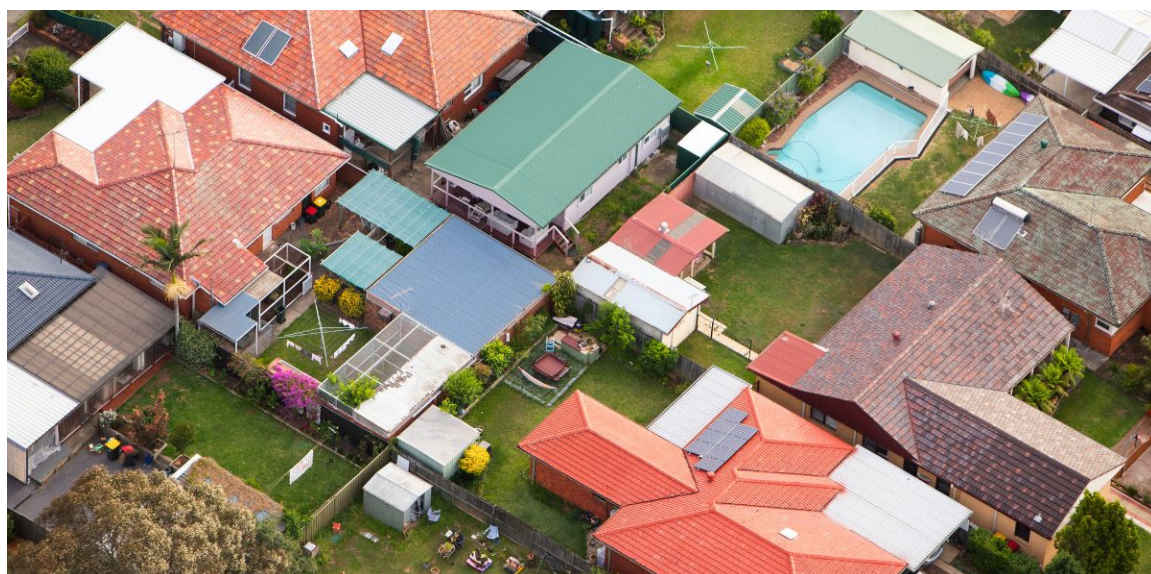


Photo: Steve Christo-Corbis – Getty Images

## Abstract

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The household cash-flow channel refers to the effect that changes in the cash rate have on households' debt repayments and interest income, and the subsequent effect that these changes in available cash flow have on households' spending decisions. This article presents updated evidence on the strength of this channel. In aggregate, the effect of a cash rate change on household disposable income is currently around its pre-pandemic average, after declining temporarily over the pandemic period due primarily to an increase in the share of fixed-rate mortgages. The effect of a cash rate change on aggregate household spending via the cash-flow channel also declined during the pandemic period but is estimated to have returned to around its pre-pandemic level.

## Introduction

The cash-flow channel of monetary policy refers to the effect that interest rate changes have on households' required debt repayments and interest income, and the subsequent effect that these cash flow changes have on households' spending (RBA 2024). It is one of several ways through which changes to the cash rate can affect households – though according to estimates from the RBA's MARTIN model, it is not the strongest transmission channel of monetary policy (Ballantyne *et al* 2019).<sup>1</sup>

The direct impact of the cash-flow channel on economic activity depends on three key factors:

- the extent to which changes in the cash rate are passed through to the lending and deposit rates faced by households
- the relative size of households' holdings of interest-sensitive assets and debts
- how households adjust their spending in response to changes in their cash flows.

Previous analysis has shown that Australian households hold more interest-sensitive debt than assets in aggregate, and that the spending of borrower households (i.e. those households who have more debt than assets) tends to be more sensitive to changes in income compared with other household types (Hughson *et al* 2016). This means that, in aggregate, an increase in interest rates reduces households' available cash flow and weighs on household consumption. In this article, we use more comprehensive and timely data on household debt, deposits and interest rates to update previous research on the cash-flow channel.

## Key findings

The key findings presented in this article are that:

- In aggregate, the change in net household cash flows resulting from a change in the cash rate ('cash-flow sensitivity') has remained broadly stable as a share of disposable income over the past decade, though it weakened significantly for a time during the pandemic due to an increase in the share of fixed-rate mortgages. However, the sensitivity of households' gross interest income and payments to changes in the cash rate are at historical highs.
- The sensitivity of an individual household's cash flow depends on the amount of assets and debt it holds. The majority of debt is housing loans and much of this, though not all, is held by higher income households who are typically able to adjust to interest rate increases by cutting their discretionary spending or drawing down on their savings.
- The consumption response to changes in the cash rate via the cash-flow channel is estimated to be around its pre-pandemic level after having declined temporarily during the pandemic period, consistent with the effect of cash rate changes on household disposable income.

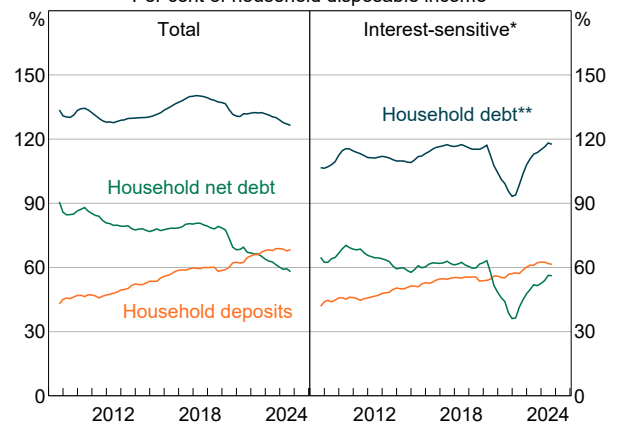
## Estimating the interest rate sensitivity of aggregate household cash flows

The sensitivity of a household’s cash flows to changes in interest rates is determined by the size of their holdings of ‘interest-sensitive’ assets and debt. We define these as deposits and loans that are either variable rate or are fixed for a period of a year or less.<sup>2</sup> All else equal, holding a higher stock of interest-sensitive deposits or debt would mean a greater increase in interest income or payments for a given increase in the cash rate. The total outstanding stock of interest-sensitive deposits and debt is influenced by trends in overall household wealth and debt, as well as the extent to which households shift between interest-bearing and non-interest-bearing savings products, and fixed- versus variable-rate loans (Graph 1):

- Total household deposits (excluding offset balances) and interest-bearing deposits have risen steadily as a percentage of household disposable income since 2008. Growth in interest-bearing deposits has been a little slower than growth in total deposits over this period as the share of deposits held in non-interest-bearing accounts has generally increased since 2008 (De Zoysa, Dunphy and Schwartz 2024).
- Total household debt (net of balances held in mortgage offset accounts) has declined as a share of household income since 2018 and is currently below its pre-pandemic average. By contrast, the stock of interest-sensitive household debt is currently a bit above its pre-pandemic average, after reducing significantly over 2020–2022. These contrasting trends mostly reflect changes in the fixed-rate share of mortgages over recent years. The fixed-rate share increased sharply during the pandemic, as borrowers took advantage of historically low fixed rates and locked in their mortgage repayments (Lovicu *et al* 2023; RBA 2023; Ung 2024). This caused the stock of interest-sensitive household debt to decline temporarily, though the stock has since returned to the level it was at the onset of the pandemic as the fixed-rate share has fallen to historical lows (Graph 2). For further discussion of recent trends in household debt, see Appendix A.

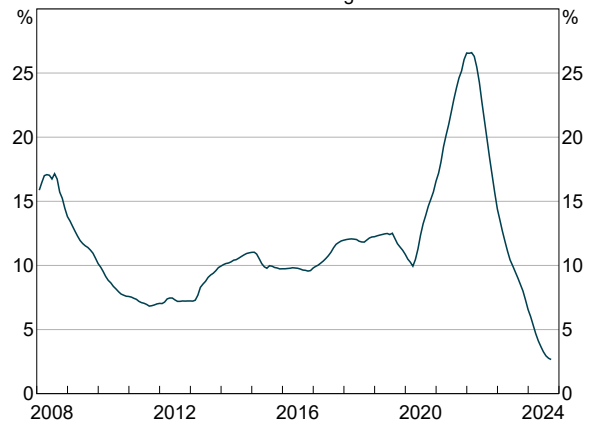
Overall, taking deposits and loans together, the stock of households’ net interest-sensitive debt as a proportion of disposable income is currently a little below its pre-pandemic level and around 14 percentage points below its peak in mid-2010.

**Graph 1**  
**Household Debt and Deposits**  
Per cent of household disposable income



\* Includes variable and fixed-rate mortgages resetting in a year or less, personal debt and interest-bearing term and at-call deposits.  
 \*\* Net of offset balances. Seasonally adjusted and break-adjusted; including securitisation.  
 Sources: ABS; APRA; RBA.

**Graph 2**  
**Fixed-rate Housing Loans\***  
Per cent of housing credit



\* Includes fixed-rate mortgages resetting in more than one year.  
 Sources: APRA; RBA.



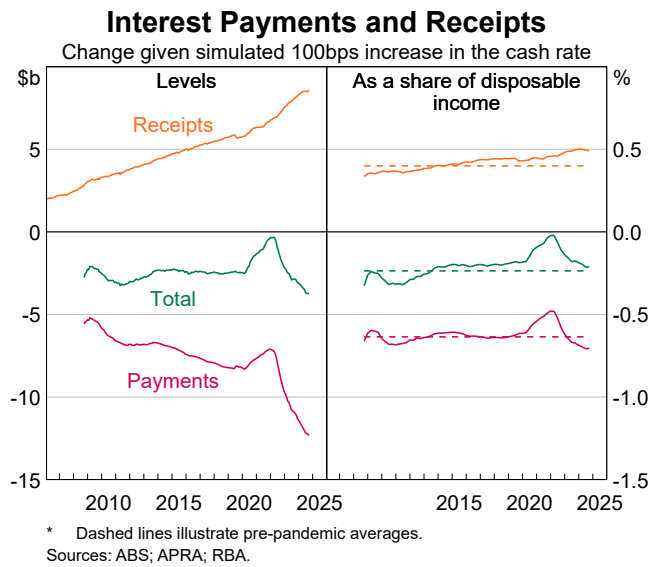
Consistent with previous analysis, we estimate the strength of the cash-flow channel on household disposable income by calculating the effect of a 100 basis point increase in the cash rate on the interest received and paid by all households within one year of a cash rate change (see Appendix B for further detail). We estimate:

- Changes in interest earned on interest-sensitive deposits after an increase in interest rates.
- Changes in interest paid on interest-sensitive debt after an increase in interest rates.
- The aggregate change in household cash flows given an increase in interest rates, which is the difference between the change in interest income and interest payments. Because Australian households hold more interest-sensitive debt than assets in aggregate, an increase in interest rates leads to an overall reduction in aggregate household disposable income.

We estimate that a 100 basis point increase in the cash rate would lower total household disposable income by around 0.2 per cent in September quarter 2024 (Graph 3, right-hand panel, green series). This is around the pre-pandemic average but smaller than in the years immediately following the global financial crisis.<sup>3</sup> While the *net* effect on aggregate cash flow is around average, the individual effects on interest income and repayments are at historical highs, both in nominal terms and as a share of household disposable income.

The sensitivity of household cash flows to cash rate changes declined significantly between 2020 and 2022, reflecting the large increase in the fixed-rate share of mortgages over this period. In March quarter 2022, a 100 basis point increase in the cash rate was estimated to have had a negligible effect on aggregate household disposable income. While the effect of cash rate changes on income was temporarily reduced during this period, monetary policy continued to affect economic activity and inflation, mostly through other channels (Kent 2024). As the fixed-rate share of mortgages has declined, the sensitivity of aggregate household disposable income to changes in interest rates has returned to around its pre-pandemic average.

Graph 3



## Differences in cash rate sensitivity across households

This article has so far focused on the effects of monetary policy on household cash flows in aggregate. However, it is important to note that the effects of interest rate changes on cash flows vary considerably across individual households depending on their home ownership status, age, income and wealth. To explore the differences in experience across households, we apply the approach used above to data from the Household Income and Labour Dynamics in Australia (HILDA) Survey from 2022.<sup>4</sup> In this section, we focus on the median change in cash flows among each household group.<sup>5</sup> Of course, within any of these groups, individual households face a wide range of experiences.

### By home ownership status

Home ownership status is the most important factor determining the sensitivity of household cash flows to interest rate changes, reflecting the fact that most household debt in Australia is mortgage debt. The share of households that are mortgagors has risen a little in the past decade to 35 per cent. These households typically face a decline in their disposable income from a rise in interest rates, particularly those mortgagors with high principal amounts remaining on their loans, such as those with new or interest-only loans. However, mortgagors also tend to have higher incomes than other household types, which attenuates the proportional

decline in their income. Households that own their homes outright (approximately one-third of households) tend to be older and many of these households source the majority of their income from wealth (including deposits), rather than wages. This group experiences a net increase in disposable income when interest rates increase. For the median outright homeowner household, the size of this increase is only around one-third of the decrease in cash flows experienced by the median mortgagor household. Meanwhile, renters tend to have much lower levels of both assets and debt, meaning changes in interest rates have very little direct effect on their cash flows (Graph 4).

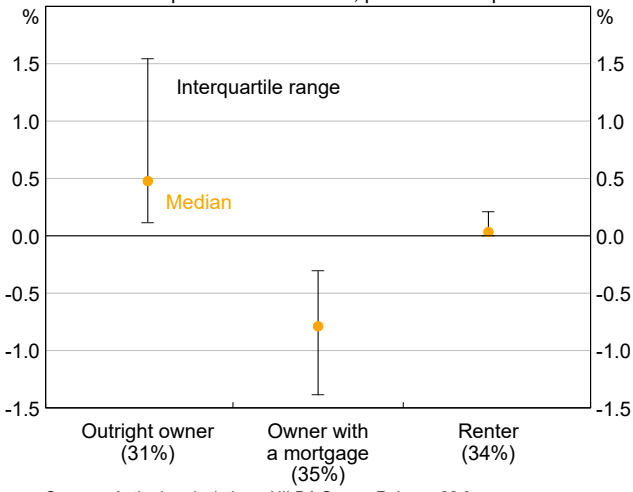
### By age

The sensitivity of a household’s cash flow to interest rate changes tends to be different across age ranges (noting that home ownership status is also correlated with age). The reduction in cash flows following an interest rate increase is highest on average for households aged 30–54. This is because a greater share of these households have mortgages, generally with a larger average outstanding balance. Conversely, many older households own their homes outright (or have low outstanding mortgage balances) and have large deposit savings, meaning this group typically benefit from higher interest rates (Graph 5).

**Graph 4**

**Cash Flow Impact By Housing Status**

From a 100bp cash rate increase, per cent of disp. income

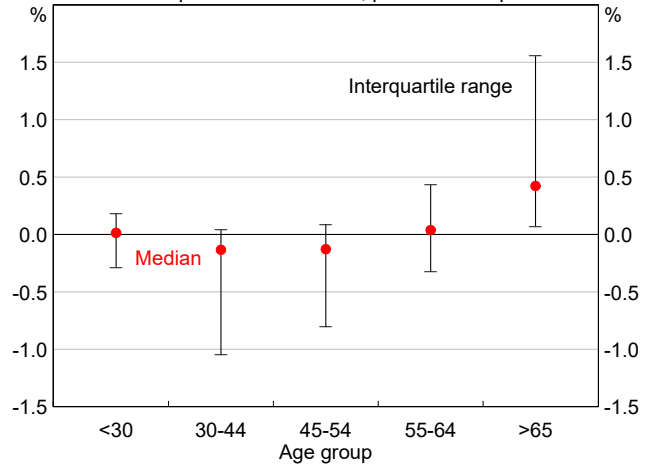


Sources: Author’s calculations; HILDA Survey Release 22.0.

**Graph 5**

**Cash Flow Impact By Age**

From a 100bp cash rate increase, per cent of disp. income

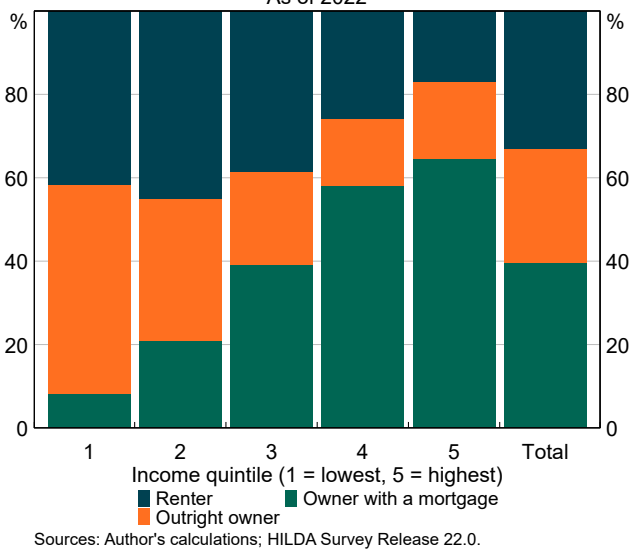


Sources: Author’s calculations; HILDA Survey Release 22.0.

## By income

The cash flows of higher income households tend to fall in aggregate when the cash rate increases, because a large share of these households have a mortgage. Cash flows of lower income households tend to increase, as this group includes a larger share of renters, whose cash flows are not materially impacted by interest rate changes, and outright owners, which includes older, retired households that tend to source more of their income from deposits and so benefit from higher interest rates (Graph 6).<sup>6</sup> Looking just at households with housing debt, the impact of interest rate increases on disposable income is greater for lower income households (Graph 7). Lower income borrower households are also likely to have lower savings buffers meaning they are less able to service higher loan repayments without cutting their spending. If we instead consider only saver households, the increase in cash flows from a cash rate raise is highest among the top and bottom income quintiles, with the latter reflecting the presence of mostly older, asset rich but low-income households.

**Graph 6**  
**Housing Status by Income Quintile**  
As of 2022



**Graph 7**

### Median Cash Flow Impact by Income and Housing Status

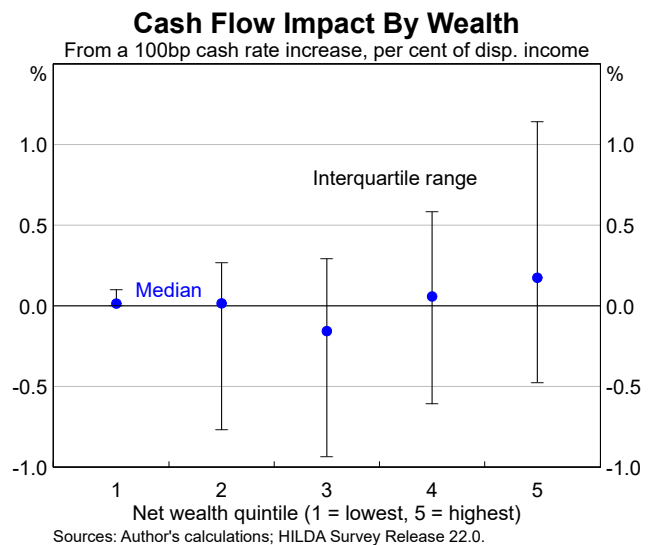
From a 100bp cash rate increase, per cent of disp. income



## By wealth

The decline in cash flow as a share of income following an increase in interest rates is largest, on average, for households in the middle of the wealth distribution. This is because these households are the most likely to have mortgage debt. Households in the top wealth quintile are more likely to own their home outright and/or hold more interest-sensitive assets than debt. Meanwhile, the lowest wealth households are not materially affected by interest rate changes in aggregate because these households typically have little mortgage debt and deposits (Graph 8).

**Graph 8**

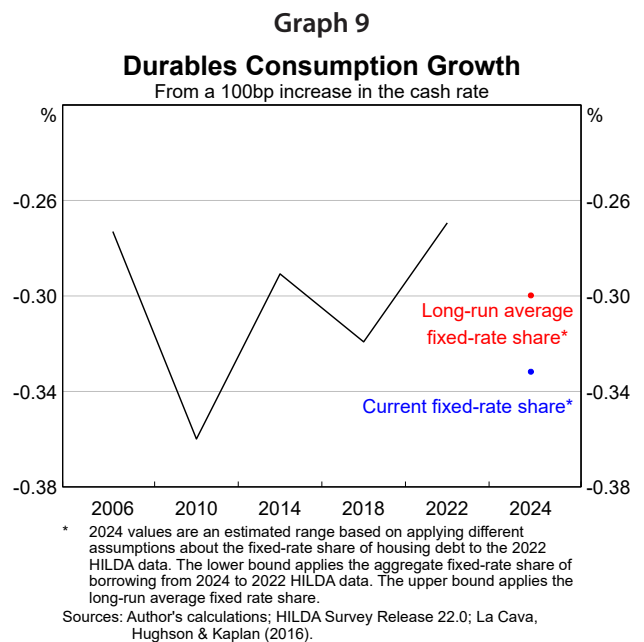


## The effect on household spending

The direct effect of an increase in the cash rate on total household consumption through the cash-flow channel depends on the spending responses of individual households, which tend to be quite different across saver and borrower households. The amount that a household changes their consumption spending for each dollar change in income is known as their marginal propensity to consume (MPC). For example, if a household's income drops by \$100 and spending declines by \$20 then this household has an MPC of 0.2. MPCs can differ across households for a range of reasons, such as the extent to which households can fund spending through their wealth or borrowing, or because households want to save different amounts based on their expectation of how much they will earn and spend in the future. Previous analysis has found that the cash-flow channel primarily affects spending on durable goods (Hughson, Kaplan and La Cava 2016). We therefore re-use estimates from this work which suggest that, on average, borrower households have an MPC for durable goods that is around three times as high as the average saver household.<sup>7</sup> This difference means that the strength of the cash-flow channel depends not only on the effect that cash rate changes have on households' combined cash flows, but also how these cash flow changes are distributed across borrower and saver households. Changes to interest rates can therefore affect household spending even if they have only a small impact on aggregate household cash flows, as was the case during 2022.

We combine these MPCs with the estimated sensitivity of each individual household's real cash flow calculated from the HILDA data to track how the effect of interest rate changes on household consumption via the cash-flow channel has changed over time. Our results suggest that this effect increased between 2006 and 2010 because of strong growth in mortgage debt and a decrease in the share of non-interest-sensitive fixed-rate housing debt over this time (Graph 9). This effect then decreased between 2010 and 2014, and again between 2018 and 2022, because of increases in the share of non-interest-sensitive fixed-rate housing debt. Our estimates suggest that the cash-flow channel was particularly muted in 2022, reflecting the fact that the fixed-rate share of housing debt was at its highest level in many years at this time.

We do not have more timely estimates for the strength of the cash-flow channel because the HILDA data underlying these calculations is only available every four years. However, we can apply the latest fixed-rate share from the aggregate data to the 2022 household data to see how the recent decline in the fixed-rate share of borrowing is likely to have affected the strength of the cash-flow channel. This suggests the cash-flow channel could be marginally stronger at present than it was in 2018 – though given that these estimates rely on a number of assumptions and are likely to be quite uncertain, this difference is unlikely to be significant.<sup>8</sup> If we abstract from movements in the fixed-rate share of borrowing by setting it to its 2006–2022 average of around 12 per cent, the cash-flow channel would instead be marginally weaker than in 2018, though again these differences are relatively small. Overall we conclude that the strength of the cash-flow channel at present, and for a more typical fixed-rate share of borrowing, is likely to be similar to before the pandemic. Of course, other factors that are not captured here including changes to household balance sheets will have also affected the strength of the cash-flow channel since 2022.



## Conclusion

The household cash-flow channel is one of a number of channels of monetary policy transmission. We find that the aggregate effect of cash rate changes on household disposable income is currently around its pre-pandemic average (after temporarily declining over the pandemic period), as households’ accumulation of deposits and other interest-sensitive assets has allowed the increase in interest receipts to broadly offset any increase in interest payments on interest-sensitive household debt. Reflecting these developments, our household-level estimates suggest that the effect of cash rate changes on household spending is similar to before the pandemic.

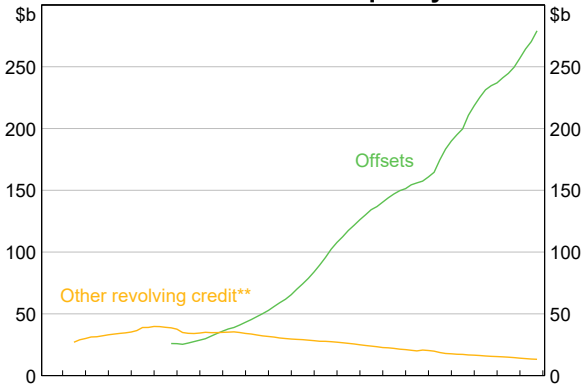
## Appendix A: Trends in household credit

Prior to the global financial crisis, personal credit made up around 20 per cent of all outstanding household credit. Since 2007, this share has been steadily declining and is now around 6 per cent. The structural decline in personal credit up until the pandemic had been led by a decline in the use of ‘other revolving credit’ facilities, which were comprised primarily of overdraft facilities secured by residential property (RBA 1999). Offset accounts may be considered substitutes of these overdraft facilities and the increase in their use by Australian mortgagors has likely contributed to the decline in the use of personal credit (Graph A.1).

During the pandemic, households also paid down other forms of personal debt such as fixed-term loans and credit cards. Lockdown restrictions provided households fewer opportunities to spend, and the substantial suite of policy support assisted households in paying down personal debts. Overall, outstanding household credit (net of offset payments) has broadly declined as a proportion of disposable income since 2018 and is now at its lowest share since 2004 (Graph A.2).

Graph A.1

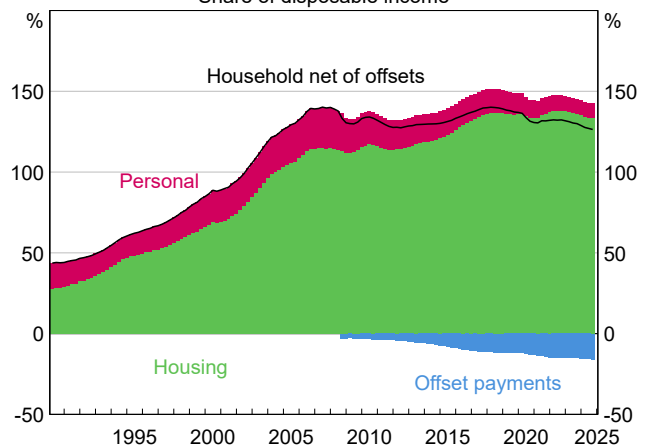
### Household Short-term Liquidity Tools\*



\* Seasonally adjusted and break-adjusted. Includes off-balance sheet securitisation.  
 \*\* Other revolving credit consists of overdraft facilities, secured and unsecured revolving credit facilities, and reverse mortgages. It excludes credit cards and margin lending.  
 Sources: APRA; RBA.

Graph A.2

### Household Credit\* Share of disposable income



\* Seasonally adjusted and break-adjusted; including securitisation. Includes housing and personal credit. Data to September quarter 2024.  
 Sources: ABS; APRA; RBA.

## Appendix B: Estimating cash flow changes

We calculate the change in interest receipts given a 100 basis point increase in the cash rate using simple interest, while we estimate changes in interest paid using a credit-foncier model to align with the estimation method used by Hughson, La Cava and Kaplan (2016). We extend previous analysis by accounting for imperfect pass-through of the cash rate to deposit and lending rates by applying a simplifying assumption of an 80 per cent pass-through to both lending and deposit rates. This assumption is based on mid-range estimates of the average historical pass-through during previous tightening phases (De Zoysa, Dunphy and Schwartz 2024; Ung 2024).

Pass-through to deposit and lending rates is affected by many factors and has varied greatly over historical monetary policy phases. In recent periods, heightened mortgage lending competition – particularly from mid-2022 onwards – lowered the spread between deposit and lending rates as banks competed for customers and had access to low-cost deposit funding; however, we do not capture the effect of competition on lending and deposit rates in this exercise given the assumption of an average rate of pass-through.

## Endnotes

- \* Sarah Jennison is from Domestic Markets Department and Marcus Miller is from Economic Analysis Department. The authors would like to thank Peter Wallis, Tom Williams, Ashwin Clarke, Venura De Zoysa, Tim Taylor, Gabrielle Penrose and Hamish McLean for their comments and contribution to the analysis.
- 1 For a fuller discussion of the different transmission channels of monetary policy, see Kent (2023).
  - 2 Estimates of the total stock of interest-sensitive assets and debts are constructed using data reported under the Economic and Financial Statistics (EFS) collection. These data cover deposits and debts held by all reporting authorised deposit-taking institutions (ADIs) and registered financial corporations (RFCs) who operate within Australia (Australian Prudential Regulation Authority 2017). Because this analysis estimates the household cash-flow sensitivity over a one-year horizon, only loans and deposits that have a variable interest rate or are fixed for a year or less are included in the stocks. This includes households' term and interest-bearing at-call deposits, variable-rate mortgage debt (including fixed-rate loans that roll-off within a year or less), and interest-sensitive personal debt (credit cards, variable-rate fixed-term personal loans, finance leases, margin lending and other revolving credit). Mortgage debt is adjusted for offset balances, as funds in these accounts are netted against the borrower's outstanding mortgage balance before interest is calculated on the loan. While some households with fixed-rate mortgages resetting in just over a year may also adjust their spending in anticipation of cash flow changes, they are not captured in this exercise.
  - 3 These calculations are smaller in magnitude and of the opposite sign of estimates from Hughson *et al* (2016), given original estimates were made based on a negative shock to the cash rate. Hughson *et al* (2016) also use a broader measure of interest-sensitive debt (sourced from the Australian Bureau of Statistics) and assume that cash rate changes are fully passed through to the interest rates households receive and pay on their deposits and debt.
  - 4 The HILDA Survey is a longitudinal study that has followed approximately 9,000 households since 2001. Every four years the survey includes a wealth module, which collects detailed information on household assets and liabilities; the latest observation available is for 2022. While less timely, this survey has information about individual households' finances and demographics, which allows us to explore how monetary policy changes affect different groups of households using a similar approach to the one used on aggregate data. The HILDA Survey does not include any information about the interest rates paid/received by households. We therefore assume that each household faces the same interest rates, in line with the aggregate data. The results from the HILDA data suggest that changes in cash flows following interest rate changes are different than implied by the EFS data, though the trends are similar.
  - 5 These estimates based on individual household-level data are in some cases different to the aggregate results presented above. This is partly because we consider median rather than mean effects. That is, using HILDA data, we calculate individual household results before estimating the median while EFS results are estimated as the average or mean.
  - 6 The effect that interest rate changes have on the price of rents paid by these households is estimated to be relatively small (Twohig, Yadav and Hambur 2024). Renter households could still be indirectly impacted by changes to the cash rate, such as through changes to their employment or wages.

- 7 We estimate MPCs using the separate durable goods consumption elasticity estimates for borrower and saver households from Hughson, Kaplan and La Cava (2016) and Hughson *et al* (2016). We use the 'other cash flow' elasticities of consumption from Table 4 of Hughson, Kaplan and La Cava (2016), which are 0.44 for borrower households and 0.18 for saver households. These elasticities are then applied to updated income and consumption figures to get an MPC estimate for saver and borrower households. The same MPC is used for each year in our sample. We are unable to update these elasticity estimates because the HILDA survey no longer includes information on household spending on durable goods.
- 8 For this exercise, we assume that every household with housing debt has a share of this debt with a fixed rate and the remainder with a floating rate, with these relative shares set at the same values as the aggregate data.

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- HILDA Disclaimer

# Australia's Sovereign 'Green' Labelled Debt

Katie Alexander and Shan Jayawardhana\*



Photo: francescosgura – Adobe Stock

## Abstract

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A significant amount of investment is required to transition to lower emissions in Australia, and financial markets are evolving to facilitate this. The inaugural Green Treasury Bond issued by the Australian Office of Financial Management in June 2024 marked a milestone in the Australian Government's Sustainable Finance Strategy. This article reviews pricing of Australian sovereign and semi-sovereign labelled debt. There is some evidence of a decline in the historically positive price differential – the 'greenium' – between labelled and conventional bonds domestically. The evolution of this greenium has likely been influenced by the low initial supply of labelled bonds in Australia relative to demand but heterogeneity in these products and the relatively small sample size of labelled bonds complicates the identification of the greenium.



## Introduction

A global transition to lower emissions is vital for mitigating the risks from climate change. A significant amount of investment is needed to achieve that transition, and financial markets will play an important part in facilitating this investment. While climate and other sustainability-related factors are increasingly being incorporated into investors' decisions, significantly more development is required across financial markets to effectively direct investor funds to the projects that will help to achieve the necessary transition.

The Australian Government's Sustainable Finance Strategy aims to increase the capability of financial markets to meet the funding task at hand, in part by supporting the growth of sustainable finance products, including labelled debt. 'Labelled debt' refers to any bond or debt program for which the issuer has identified a specific purpose. In this article, we focus on bonds that have been labelled as 'green' or 'sustainability' bonds. A significant milestone in the strategy was the issuance of the Australian Office of Financial Management's (AOFM) inaugural Green Treasury Bond in June 2024. The AOFM expects that a 'credible sovereign green bond program will mobilise additional climate-aligned capital, deepen sustainable finance markets and signal the Government's commitment to climate, energy and other environmental goals' (AOFM 2023). This view is consistent with research findings that sovereign green bond programs can spur development in private sustainable debt markets (Cheng *et al* 2024).

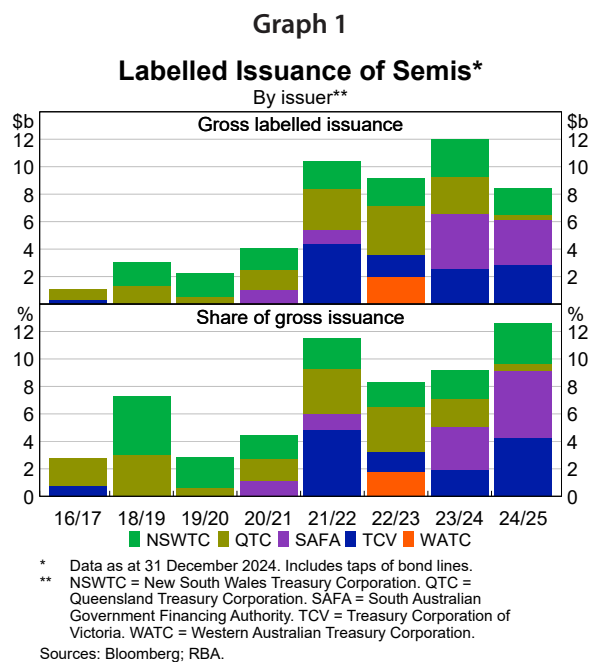
In light of the AOFM's milestone issuance, this article provides an overview of Australia's sovereign and semi-sovereign labelled debt markets, building on previous work covering green and sustainable finance (Armour, Hunt and Lwin 2023). We compare the pricing of conventional and labelled bonds to investigate whether there is a premium to issuing labelled debt and discuss the factors that may drive the evolution of this premium, such as an imbalance between high demand and low supply in the market that allows issuers to issue labelled debt at a higher price. The term 'greenium' is used to refer to the lower yield (and inversely, higher price or 'premium') investors are willing to accept for securities labelled as 'green', or the broader pool of labelled securities, relative to comparable conventional bonds from the same issuer.

We supplement our quantitative data analysis of the pricing of labelled debt with qualitative market intelligence, gathered through liaison with market participants. In nascent markets like those for sustainable finance, pricing may be volatile and require more time for accurate price discovery, making it difficult to draw conclusions from the data alone. Liaison also helps overcome significant data limitations, provides RBA staff with a range of alternative perspectives to better inform our understanding of these markets, and allows us to properly assess how access to finance is changing for different sectors of the economy.

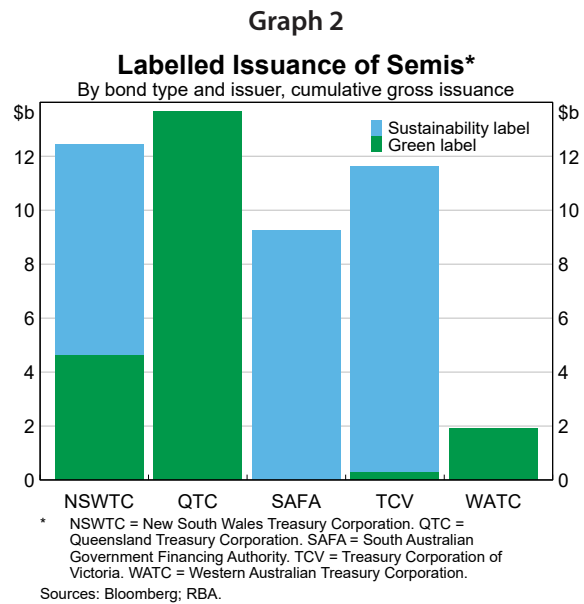
## Australian sovereign and semi-government labelled bonds

Australia's state treasury corporations have issued labelled debt since 2016. Victoria was the first state to issue a semi-government bond (semi) with a 'green' label. Labelled debt issuance has grown in aggregate and as a share of total semis issuance as other states have implemented their own labelled debt programs (Graph 1). Notably, the South Australian Government has recently signalled its intention to issue all future debt under a 'sustainability' labelled program.

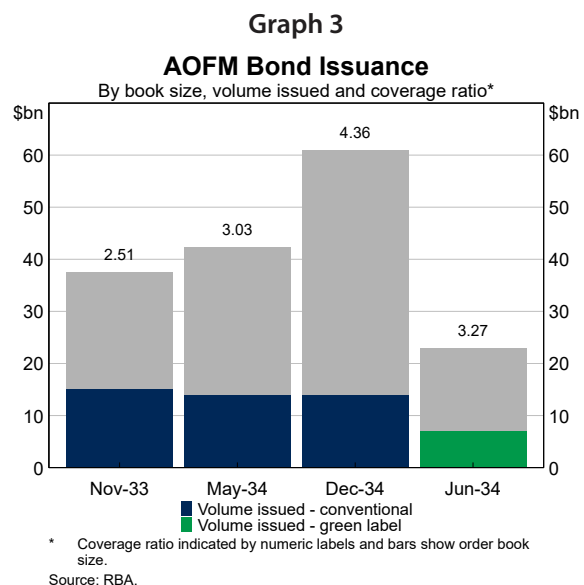
decisions and suggested it may be leading to differences in the price premium observed for bonds with a 'green' label compared with a 'sustainable' label.



Semis typically use a 'green' or 'sustainability' label for labelled debt, though the specific definition of each label varies across issuers (Graph 2). The former is broadly defined as being used to fund environmental projects, such as clean transportation and water infrastructure projects. The latter has typically been used to fund projects that advance both environmental and social outcomes. Funds raised from the AOFM's Green Treasury Bonds are used to finance 'Eligible Green Expenditures' that are aligned with the Australian Government's climate goals as outlined in the Green Bond Framework (Treasury 2023). The disparity in definitions and use of each label across states and the AOFM partly reflects different policy agendas and perceptions of investor demand. Some liaison contacts consider this lack of consistency to be a challenge when making investment



In June 2024, the AOFM issued \$7 billion of its inaugural 10-year Green Treasury Bond. The final deal size was around half that of a typical AOFM non-labelled syndication, although the AOFM has since tapped the bond line and indicated that it intends to both increase the bond issue size further over time and issue more bonds under the Green Bond Framework, including at different maturities to develop a 'curve'. Demand was within a similar range for the AOFM's recent bond issuance of a similar tenor, relative to the volume issued (Graph 3).



There were 105 investors involved in the deal, 17 of which had not previously participated in syndication, indicating possible new sources of demand for the labelled bond. The AOFM noted that only 30-year bond syndications have attracted more investors (Hughes 2024). Investors from Europe accounted for most of the offshore interest. There was also significant interest from fund managers, both domestically and internationally, who accounted for a larger-than-usual share of final allocations.

## Factors influencing the greenium in labelled debt markets

In the international literature, the greenium has been found to be small and variable over time and there are, at times, conflicting views on its drivers (Pietsch and Salakhova 2022; Harrison, Partridge and Tripathy 2020). In addition, estimates of the greenium in sovereign debt markets tend to be smaller than those found in corporate bond markets (Liberati and Marinelli 2021; Doronzo, Siracusa and Antonelli 2021). This may arise due to the unique challenges for sovereign debt issuers, including explicit requirements for publicly issued debt to be fungible regardless of the decision to label specific bond lines (Cheng, Ehlers and Packer 2022).

One school of thought suggests the greenium is an anomaly because labelled and conventional bonds from the same issuer should be priced equivalently given that they bear the same credit risk (Bahra and Zhu 2024). However, there may be other risk premia that arise in the relatively nascent market for labelled bonds that prevent this equilibrium from being realised. For example, uncertainty over the long-term risks from climate change may lead investors to accept lower yields on labelled bonds in the short term (Buchmuller, Reder and Wein 2023).

Further, investor perceptions on the credibility of specific labelled bonds or issuers may affect pricing outcomes for those bonds. Overseas research has found that the certification of labelled bonds, or the industry sector of the issuer, can affect whether issuers are able to achieve a greenium (Agliardi and Agliardi 2021; Pietsch and Salakhova 2022). To date, there has been limited focus in the literature on whether bonds are funding projects that would not have proceeded without the opportunity

to issue labelled debt – this idea that labelled bonds should be 'additive' could also influence the size of the greenium.

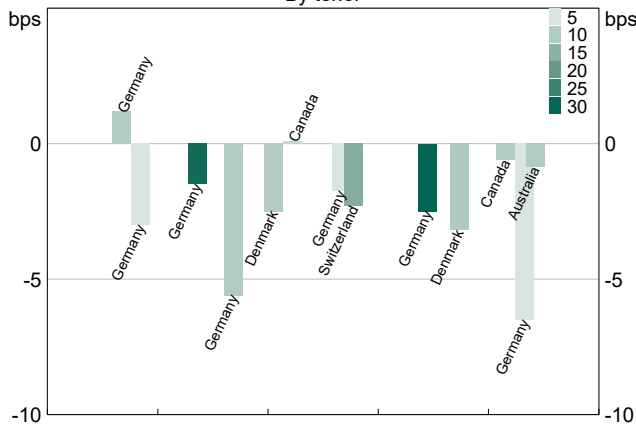
An imbalance in the demand and supply for labelled debt should also contribute to some green bonds attracting a premium. This was frequently cited as a driver of greeniums by liaison contacts. These imbalances may be driven by investor mandates that specify targets for holdings of labelled securities, as well as restricted supply due to the high costs of setting up a labelled debt program and the legal or reputational risks associated with greenwashing.<sup>1</sup> However, some liaison contacts suggested that a shortfall in supply can negatively affect liquidity in secondary markets and that this may attach a discount to labelled debt that can partly offset the greenium.

## Analysing the greenium in sovereign and semi-sovereign labelled bonds

The AOFM's Green Treasury Bond was estimated to be issued at a greenium of around 2 basis points, representing an \$11 million saving for the taxpayer on this issuance (Hughes 2024; Parry 2024). This is towards the smaller end of the range compared with peer economy sovereign bonds (Ando *et al* 2023; Graph 4).<sup>2</sup> In addition to the factors directly impacting the greenium, various factors that affect the pricing of any bond at issuance (e.g. tenor, coupon, bond issue size, and labelled program design) obscure comparisons across labelled and conventional bonds, or labelled bonds issued by other sovereigns. These comparisons are further complicated by the relatively small sample size of peer economies and labelled bond lines.

Graph 4

### Sovereign Greenium at Issuance\* By tenor



\* Greenium is calculated as the difference between the issue yield on the labelled bond and the closest conventional bond comparator.  
Sources: Bloomberg; RBA.

The existence of a small greenium in the AOFM Green Treasury Bond at issuance reflects reasonably strong investor demand for what was a relatively small issuance. This is despite some investors lowering their bid size after pricing guidance was revised tighter, dampening demand during the order book build, including among offshore investors (KangaNews 2024). Other liaison contacts asserted that the greenium achieved was proportionate when considering the high costs associated with setting up and maintaining a labelled debt program.

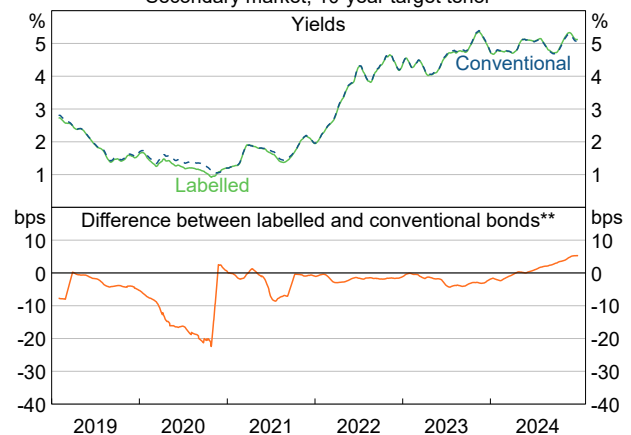
Liaison contacts indicated that the greenium for the AOFM's bond declined to less than 1 basis point by August 2024 and the bond was trading with a higher yield than its conventional counterpart by October 2024 when the AOFM also issued a further \$300 million of the Green Treasury Bond. In December 2024 when the AOFM issued another \$300 million tranche of the Green Treasury Bond, the bond price had recovered to be slightly higher than its conventional counterpart. These moves may be the result of an ongoing illiquidity premium for a bond that has a smaller stock of issuance than other AOFM bonds despite the increasing supply, or it may be a more general reflection of the volatility in a nascent market.<sup>3</sup>

Over the longer term, greeniums have generally declined following an approximate global peak in 2021. Some liaison contacts suggested this had occurred alongside a decrease in the growth in demand for labelled bonds and an increase in the supply of labelled bonds.

Consistent with this, labelled semis traded at a premium to their conventional counterparts on average between 2017 to 2021, before the price premium was eroded and the labelled semis began consistently trading with higher yields to their conventional counterparts by 2024 (Graph 5).<sup>4</sup> This is likely to be an example of greeniums declining as supply increases to meet demand in the market (Graph 1). The inaugural Green Treasury Bond has further added to the overall supply of labelled sovereign or semi-sovereign bonds in Australia, and this could account for its lower greenium.

Graph 5

### Semi Government Bond Pricing\* Secondary market; 10-year target tenor



\* Lines represent a thirty-day moving average.  
\*\* Includes bonds with green or sustainability labels.  
Sources: Bloomberg; RBA.

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## Conclusion

Labelled debt issuance in Australia has been increasing in recent years as supply from state governments has grown and the AOFM has now issued its inaugural Green Treasury Bond. In the semis market, there is evidence of a decline in the price differential between labelled and conventional semis over time. A similar decline has been observed for the Green Treasury Bond since it was issued in June 2024. Liaison contacts suggest this could be evidence of an illiquidity premium for labelled bonds. There are also pricing differentials across labelled bonds domestically and internationally that are likely influenced by other factors such as investors' assessments of the issuers of labelled debt, the extent to which assets backing these bonds lead to sustainable outcomes and the alignment of debt programs to international standards.

The role and effectiveness of the labelled debt market in funding Australia's transition to lower emissions may be affected by the fungibility of proceeds raised and whether these bonds are additive, funding projects that would not have proceeded without the opportunity to issue labelled debt. Further work is needed to explore these concepts and their impact. Regardless, the wide range of definitions for labelled bonds adds to the complexity of these products for investors and indicates that the Australian labelled debt market remains in the relatively early stages of development.

## Endnotes

- \* The authors are from Domestic Markets Department. They would like to thank Iris Chan, Ben Jackman, Sharon Lai, Anna Park and Claudia Seibold for their help with this article. All graphs in this article include data to 31 December 2024.
- 1 'Greenwashing' refers to when an entity misrepresents its activities or products as more sustainable than they in fact are.
- 2 Our sample of peer economies is comprised of sovereigns that have issued labelled debt, have a Fitch rating of AA+ or higher and have a closely comparable (i.e. similar tenor, maturity date and coupon) conventional bond for a given labelled bond.
- 3 It should also be noted the closest conventional counterpart to the Green Treasury Bond – the May 2034 bond – likely exhibits a positive liquidity premium due to its inclusion in the 10-year futures basket.
- 4 These estimates are highly uncertain given the small number of labelled bonds outstanding towards the beginning of the sample period and should be viewed as illustrative rather explicit estimates of the greenium. For more information on the aggregation method, see Arsov, Brooks and Kosev (2013).

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# Behind the Great Wall: China's Post-pandemic Policy Priorities

Adam Baird, Samuel Nightingale and Grace Taylor\*



Photo: DEA / W. BUSS – Getty Images

## Abstract

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China is Australia's largest trading partner so policy decisions in China can have a significant impact on the Australian economy, largely via its effect on Australia's trade. While there remains considerable uncertainty about policymaking in China, this article describes how Chinese authorities have tended to approach economic policy choices and then considers China's current economic challenges and their relevance to the Australian economy.

## Introduction

In recent decades, changes in the policy priorities of Chinese authorities have altered the structure of China's economy, which in turn has had implications for the global economy. This will affect Australia primarily via China's demand for Australia's exports, particularly the price of Australia's exports and therefore our terms of trade. This was particularly evident following the 2008 global financial crisis, when a sizable Chinese government stimulus package contributed to the Australian mining boom (Kent 2013). Gaining an understanding of China's economic policy priorities is important for assessing the outlook and risks for the Australian economy.

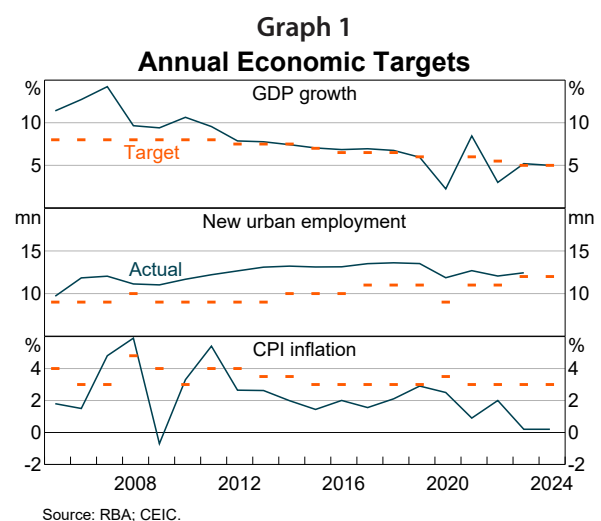
This article sets out some of the economic policy challenges currently facing China and outlines the possible consequences for the Australian economy. For example, restrictions placed on China's real estate sector to address financial stability risks have reduced Chinese demand for steel and for Australian iron ore. An increasing focus on expanding the Chinese manufacturing sector to offset the slowdown in real estate has raised international concerns about the level of Chinese exports to the rest of the world. More recently, the effect of China's latest stimulus program on the Australian economy will depend importantly on its 'steel intensity'.

## Policy priorities in China

Like other governments around the world, Chinese authorities weigh up both economic and social/political objectives when determining policy. Chinese authorities balance a range of objectives including (but not limited to) stability of the Communist Party's leadership (which is itself a function of economic growth), financial stability, the environment, foreign policy, social objectives (captured by the concept of 'common prosperity'), and national security (NDRC 2022a). All these objectives tend to be considered in the development of economic policies, although the weight assigned to each objective by the authorities can be difficult to identify and probably changes over time. Twenty years ago, it may have been desirable to prioritise economic growth, when every percentage point of growth was lifting tens of millions of people out of poverty. However, with China having largely eradicated extreme poverty, the authorities appear to

have become more concerned about the financial stability costs associated with the earlier growth strategy (NDRC 2022b; World Bank 2022). In recent years, geopolitical risk has become an increasingly important consideration in economic policymaking, with some major economies increasingly concerned about China's manufacturing capacity, particularly in critical industries.

The balance between various policy priorities is evident in Chinese authorities' commitment to reaching particular annual economic targets. Economic outcomes that the authorities believe are closely tied to social stability, such as economic growth and employment, almost always meet or exceed their targets (Graph 1). It is rare for China's annual GDP growth to fall below the target, with pandemic-related lockdowns the most recent instance of a downside miss. By contrast, other economic outcomes that the authorities see as being less tied to social stability appear to be more flexible. This is particularly evident in China's inflation target with CPI inflation below target every year for the past decade.<sup>1</sup> Historically, the authorities have been responsive in periods when inflation has been higher than targeted, or when prices of essential items have increased rapidly, because these can exacerbate social tensions (Roberts and Russell 2019). For instance, the authorities responded to concerns about elevated food and energy prices in 2022 with directions to increase the supply of these goods due to their particular importance for livelihoods, even though the formal CPI inflation target had not been exceeded (Xinhua 2022).





## China's economic policy challenges

Understanding how the authorities prioritise policy objectives and balance trade-offs is essential to understanding how China will deal with the range of structural and cyclical economic challenges it currently faces. Chinese authorities tend to consider a longer time horizon (e.g. through the publication of Five-year Plans and Long-term Objectives) than policymakers in many other economies where regular elections tend to constrain economic policies to a shorter time horizon. This means that authorities in China are more inclined to make policy choices that address longer term structural problems, even if those policies may contribute to cyclical weakness in the process.

### Structural headwinds

#### Demographics and productivity

China, like much of the world, faces demographic headwinds from an aging and shrinking population (Baird 2024). A declining working-age population and rising dependency ratio reduces labour supply, productivity growth and the economy's potential growth (Cai 2021). It can also put pressure on the government's fiscal position through higher health and pension expenditure and lower income tax revenues, although China currently spends a smaller share of GDP on social security than most developed countries (ILO 2023).<sup>2</sup>

China faces a broader problem of slowing productivity growth, with much of its economy dominated by low-productivity state-owned enterprises that often tend to have less incentive to chase profitable returns than more dynamic private enterprises (Lardy 2019). This productivity slowdown is potentially exacerbated by China's *hukou* (household registration) system, which acts as a restriction on labour flowing to the most productive areas of China's economy (Zhou *et al* 2024).<sup>3</sup>

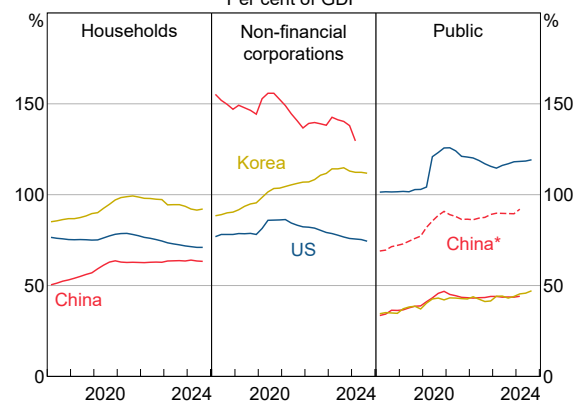
#### Financial imbalances

While the financial system has underpinned China's growth model, it has also become a significant vulnerability. There are three key features that make the Chinese financial system different from those in other economies and that play a key role in the current vulnerabilities it faces. First, there is a large state-owned banking sector; second, there is a widespread

perception that the government will step in to cover financial losses of state-owned enterprises; and, third, there is a role for policy (alongside the market) in determining a wide range of interest rates and the allocation of credit, including through the use of capital controls (Jones and Bowman 2019). These unique features have enabled high levels of debt to accumulate relative to other developing economies, and for riskier forms of lending to make up a larger share of that debt than it would otherwise.

China's debt is large relative to other developing economies, but it is also concentrated in a few sectors. China's household debt is low and its public debt is high – especially if the sizable share of non-financial corporate debt held by state-owned enterprises is included (Graph 2). This means debt-servicing challenges are even larger than they appear from the aggregate debt-to-GDP ratio alone. There are also large imbalances within individual sectors. For example, within the public sector, local government debt (particularly when local government financing vehicles (LGFV) debt is included) is high relative to central government debt.<sup>4</sup>

**Graph 2**  
**Debt by Sector**  
Per cent of GDP



\* Dashed line includes debt of Local Government Financing Vehicles (LGFVs).

Source: IIF; CEIC; WIND; RBA.

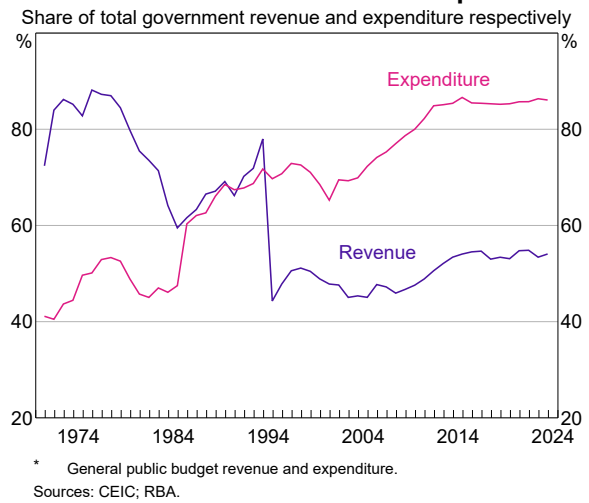
In recent years, authorities have implemented a range of policies to address the build-up of risks in the real estate sector, as they viewed that the financial stability risks had begun to outweigh the contribution of the property sector to economic growth (Hendy 2022; Baird 2024). These risks include the concentration of household assets in property, rising inequality from rapid housing price growth, the reliance of local governments on land sales revenue, and financial stability risks from highly leveraged property developers. These imbalances

resulted from: a combination of long-term economic and demographic trends that led to high demand for housing (including restrictions on households' ability to invest offshore); the highly leveraged business models that developers adopted to meet this demand; and policy stimulus in response to the global financial crisis (Hendy 2022). In 2021, authorities implemented regulations aimed at reducing leverage in the real estate development sector, such as the three-red-lines policy, which placed restrictions on developer finances that meant many developers needed to deleverage to comply with the policy. The regulatory changes led to a series of high-profile property developer bond defaults, which exacerbated pressure on healthier developers as markets became increasingly concerned about solvency risk and the unwinding of perceived state support (RBA 2021).

Authorities have so far managed this process of deleveraging and rising defaults in the property sector without triggering a broader financial crisis. This is partly due to the actions of authorities (e.g. by allowing distressed developers to default while minimising losses for households), but also unique features of the Chinese system, such as capital controls that make it hard for residents to move their money elsewhere. The process has nevertheless still been disruptive and has weighed on economic growth.

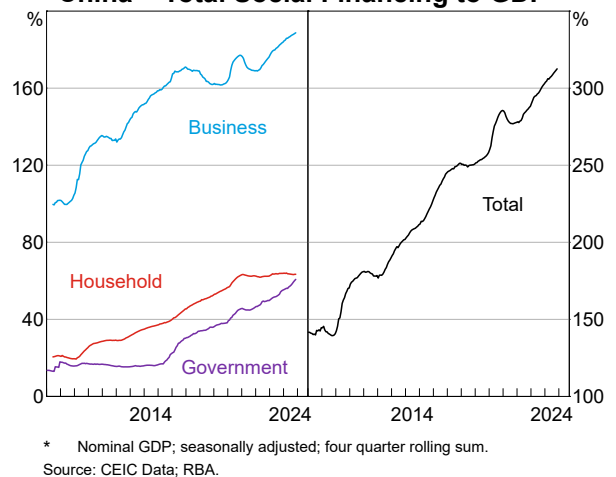
As well as attempting to limit financial risks in the property sector, authorities have also been working to reduce the scale and opacity of local government debt. This is a key structural issue for the economy because local governments' capacity to respond to a range of cyclical challenges is constrained by both falling total government revenue in China and vertical fiscal imbalances where local governments face a revenue shortfall relative to their expenditure obligations (Graph 3). With the impact of local government debt burdens on economic growth becoming an increasing concern to the authorities, in late 2024 they announced a CNY10 trillion debt-swap program over five years to refinance hidden local government debt held by LGFVs. This program is expected to reduce local government debt servicing costs and release funds to address overdue local government salary and contractor payments. This followed from a willingness at the 2024 Third Plenum to address the underlying causes of local government debt problems through reform of the fiscal system.

**Graph 3**  
**Local Government Revenue and Expenditure\***



Despite efforts to address financial imbalances, the aggregate debt-to-GDP ratio has continued to increase (Graph 4). Progress on deleveraging has become even more challenging in recent years as nominal GDP growth has slowed. This link between the growth and deleveraging policy priorities is evident in recent economic policy announcements, which contained measures to support growth alongside measures to address longer term financial risks.

**Graph 4**  
**China – Total Social Financing to GDP\***



The banking system has played a central role in managing China's financial imbalances. Banks are often directed by the authorities to increase lending on favourable terms to priority sectors and to offer loan forbearance when loan obligations are not met. These factors have contributed to declining profitability and a deterioration in asset quality, although Chinese

banks' non-performing loans (NPLs) are widely considered to be under-reported. These lending practices shift risk from other parts of the system onto the banks and mean that banks face a trade-off between profitability and asset quality when considering how to manage losses on their lending to priority sectors. If banks choose not to roll-over lending to unprofitable sectors, they may have to categorise more loans as non-performing and provision the loans accordingly, which could result in some banks being undercapitalised. Resolving the profitability and asset quality issues in China's banking system will be key for improving the efficiency of credit allocation in the economy and for driving economic growth in the years ahead. Authorities recognise this and have signalled that they intend to recapitalise the largest banks to ensure that they can continue to effectively serve this function going forward.

### Cyclical and sectoral headwinds

#### Real estate sector

Real estate investment has been an important source of economic growth in China in recent decades, and a major source of steel demand that has underpinned strong demand for Australian resources exports.<sup>5</sup> However, real estate investment, along with its contribution to domestic steel demand, has declined since 2021 following the introduction of policies to address the build-up of risks in the real estate sector (Hendy 2022; Baird 2024).

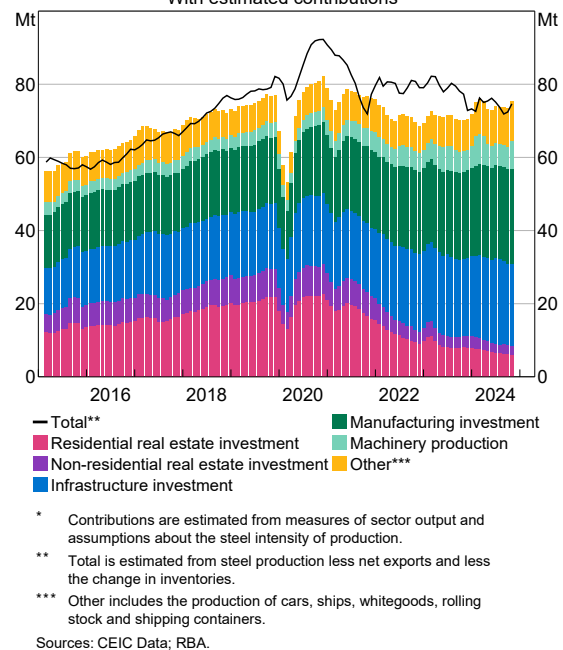
The authorities have recently signalled a stronger commitment to stabilising conditions in the real estate sector, announcing further measures of support. This suggests the authorities are growing increasingly concerned about weakness in the sector, which is weighing on consumer sentiment and local government revenue. However, authorities have indicated that China needs to make continued efforts to shift its growth model away from its traditional drivers towards more 'high quality' sectors, suggesting they do not want real estate investment to return as the primary driver of economic growth (Pan 2024).

#### Manufacturing sector

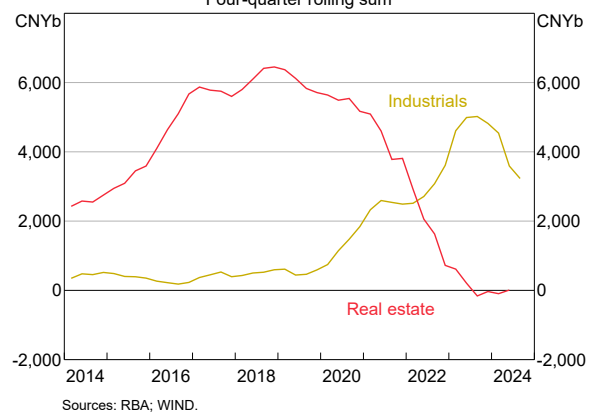
One part of the policy response to property market weakness has been to stimulate other sectors of the economy such as manufacturing and investment to offset the decline in economic activity. This is evident in

the resilience of Chinese steel demand since 2021, with the drag from real estate investment largely offset by increased demand from infrastructure, manufacturing investment and, to a lesser extent, machinery production (Graph 5). This policy response is also evident in the pick-up in lending to the industrial sector in recent years (Graph 6). This raises the question of whether authorities are repeating the same credit-driven cycle again but in a new sector. If this is the case, a key difference from investing heavily in real estate is that manufactured goods are exportable, which provides an additional channel for the production capacity to be absorbed, in contrast to investment in the housing stock, which needs to be absorbed by the domestic market.

**Graph 5**  
**China – Steel Demand**  
With estimated contributions\*



**Graph 6**  
**China – New Loans by Sector**  
Four-quarter rolling sum



## Geopolitics

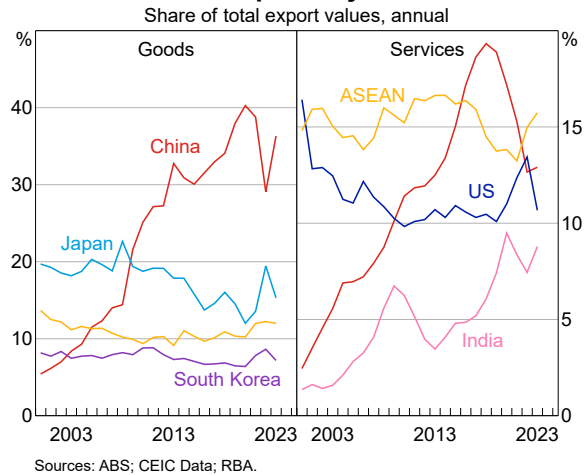
Tariff barriers to Chinese export growth have increased in recent years. In 2018, the United States imposed new tariffs on a wide range of Chinese imports in response to alleged trade practices that were giving China an unfair trade advantage, including intellectual property right infringements and currency manipulation. More recently, the United States, Europe and Canada and several other countries have argued that China is competing unfairly through the support it is providing to its manufacturing sector, and have imposed additional tariffs to limit the possible impact on their domestic industries. New tariffs to date have mainly targeted the 'new three' trio of solar panels, electric vehicles and batteries, but they are also being applied on Chinese exports of products from legacy industries like steel where domestic demand in China has been adversely affected by ongoing weakness in its real estate sector. The United States has also promoted restrictions on exports of sensitive semiconductor manufacturing equipment to China since 2022, and the US President, Donald Trump, has indicated his intention to raise tariffs on all Chinese imports into the country.

As international trade frictions have increased, authorities in China are considering ways to make their economy more resilient to such developments. Authorities have prioritised security since the mid-2010s and have come to see self-sufficiency as increasingly important to the country's future economic growth and security. The 'dual circulation' strategy, announced in 2020 and embedded in China's 14th Five-year Plan (2021–2025), targets growth in both Chinese domestic demand and manufacturing capacity to help insulate China from external shocks (NDRC 2022c). Over time, the pursuit of self-sufficiency could lead to a decline in China's trade with the rest of the world, which would directly affect the Australian economy through weaker demand for our exports that are deemed strategically important, and indirectly to the extent that a decline in trade contributes to slower economic growth in China.<sup>6</sup>

## Spillovers to Australia

Economic developments in China primarily impact the Australian economy through trade channels (Guttman *et al* 2019). In 2023, the share of Australia's goods exports that were sent to China was 36 per cent – which is significantly higher than any other of Australia's export destinations – while the share of services exports to China was around 13 per cent (Graph 7). Most of Australia's goods exports to China are resource exports – particularly iron ore, which made up over half of all Australia's merchandise exports in 2023. This means changes in Chinese policy that impact steel-intensive production have particularly large implications for the Australian economy.

**Graph 7**  
**Australia – Exports by Destination**

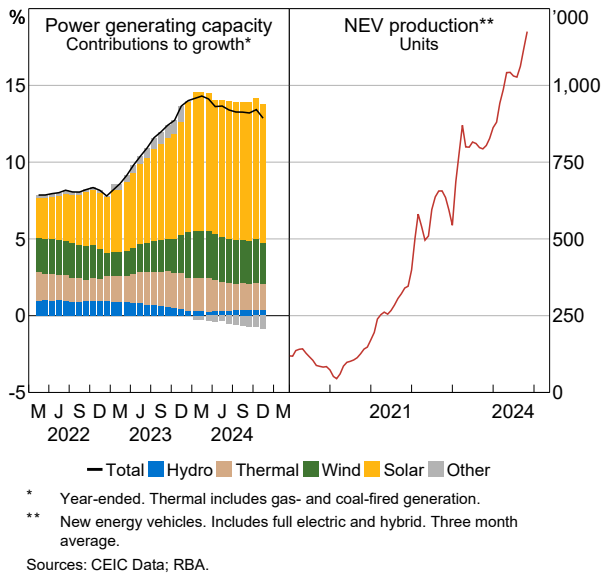


Chinese demand for Australia's iron ore has remained resilient, despite the sharp decline in demand from the real estate sector, largely due to the resilience of manufacturing investment and strong growth in Chinese steel exports to the rest of the world. Growth in manufacturing investment has been supported by policy directed toward high-tech industries and – more recently – policies that incentivise businesses to replace existing industrial equipment. Authorities have signalled an intention to continue supporting these industries as they look to promote 'the new quality productive forces'.

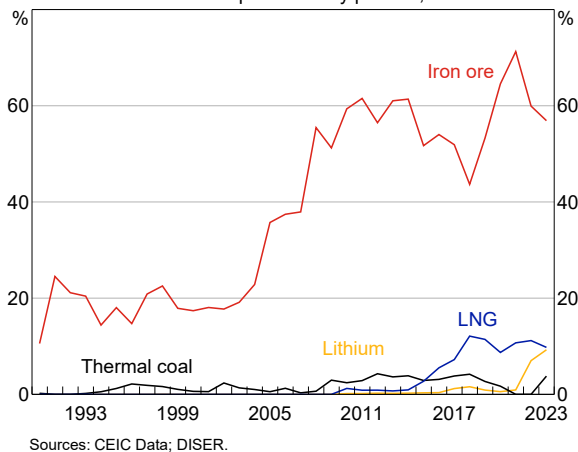
While iron ore is by far Australia's largest export to China, there are other important commodity trade links that could be affected by decisions Chinese authorities make. The volume of lithium that Australia exports to China has grown quickly in recent years (although remains a small share – less than 10 per cent – in value terms), in line with growth in Chinese battery and electric vehicle

production. This may increase further as Chinese policymakers continue to express support for these sectors and emphasise China's role in the global push to net zero (Graph 8). Ongoing strength in renewable energy investment in China, and efforts to increase its self-sufficiency in energy production could also affect China's demand for imported fossil fuels including coal and gas – exports of liquified natural gas (LNG) and thermal coal to China made up 10 and 4 per cent of Australia's total goods exports to China respectively in 2023 (Graph 9). Through their effect on commodity prices, these decisions directly affect the revenue and therefore the fiscal position of state and federal governments.

**Graph 8**  
**China – Energy Investment and NEV Production**



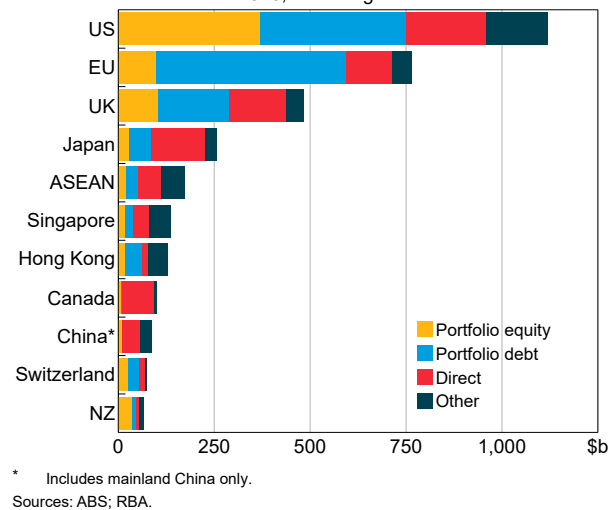
**Graph 9**  
**Australia – Goods Exports to China**  
Share of total export value by product, annual



Chinese demographic trends, including the ageing of its population, may also create opportunities in other Australian export sectors, such as health care and pharmaceuticals, while a pivot towards more consumption in the Chinese economy could see a further boost to Australian services exports to China. China's share of Australian services exports was also the highest among Australia's trading partners at 13 per cent in 2023, driven mainly by exports of education-related services. Short-term visitor arrivals into Australia from China – which include tourists – have grown considerably in recent years, although they remain lower than before the pandemic. These could plausibly pick up further if policy in China supports growth in consumption, though Australia will be competing with other regions to supply consumption-related exports to China.

By contrast to the sizable trade links between the two economies, financial links, such as the level of foreign direct and portfolio investment from China into Australia, remain small (Graph 10). This is true of China's direct financial links with the world more generally and at least partly reflects the use of capital controls and a managed exchange rate regime. It is also possible that shocks originating in China could transmit to Australia indirectly – for example, by affecting global sentiment, which may transmit to Australian asset prices (RBA 2023). Prices of other global commodities such as oil could also be impacted, which could feed through to headline inflation in Australia via fuel prices.

**Graph 10**  
**Stock of Foreign Investment in Australia**  
2023; excluding derivatives



The Australian economy also benefits from the fact that the Australian dollar has historically played an important role as a shock absorber for the Australian economy in response to developments in China. Australia's flexible exchange rate regime contributes to macroeconomic stability by cushioning the Australian economy from shocks and allows Australian monetary policy to be focused on targeting domestic economic conditions. For example, during the mining boom, strong global demand for Australia's resources saw the terms of trade rise sharply and the exchange rate appreciate significantly. The appreciation of the Australian dollar was an important factor helping to dissipate inflationary pressures stemming from the additional demand.

## Conclusion

The Chinese economy faces several structural and cyclical challenges, including an ageing population, a slowdown in the real estate sector, unsustainable local government debt burdens, and increasing trade frictions globally. In assessing economic policy choices to meet these challenges, Chinese authorities will make trade-offs against a range of economic and social/political priorities.

The policy choices taken will affect the Australian economy primarily through our trade linkages with China. As has been the case historically, Australia will benefit to a greater extent if any further economic stimulus is directed towards more steel-intensive paths, such as infrastructure and investment, than if it is directed towards boosting consumption, although the latter could benefit Australia's services exports. Decisions Chinese authorities make on how to manage the green transition will also create challenges and opportunities for the Australian economy.

## Endnotes

- \* The authors are from Economic Analysis Department, RBA's China Office, and International Department. The authors are grateful for feedback provided by Patrick Hendy, Morgan Spearritt, Ben Beckers and Jarkko Jaaskela on this article, to John Boulter for his earlier insights on these topics and to Warren Lam and Cameron McLoughlin for producing some of the charts used in this article.
- 1 The People's Bank of China does not have an explicit inflation-targeting mandate and does not have operational independence since it operates under the leadership of the State Council.
- 2 See Lim and Cowling (2016) for more details on the economic implications of China's demographic trends.
- 3 China's *hukou* system splits the population into either urban or rural residents. The level of social services provided differs depending on whether an individual holds a rural or urban *hukou*. Social service provision also tends to favour those who hold a *hukou* of the province they reside in over migrants who hold a *hukou* from another province. This acts to restrict population movement between provinces.
- 4 LGFVs are state-owned investment companies established by China's local governments. See Hendy, Ryan and Taylor (2024) for more information.
- 5 Baird (2024) estimates the direct contribution to Chinese growth from the sector peaked at 17 per cent in 2013, but had fallen to 11 per cent in 2022. Kemp, Suthakar and Williams (2020) estimated the combined direct and indirect contribution at 18 per cent in 2020, down from a peak of 20 per cent in 2016.
- 6 See Chari, Henry and Reyes (2021) for a review of the evidence on the relationship between trade and economic growth.

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# Robert Menzies and the Creation of the Reserve Bank

Selwyn Cornish\*



Photo: Bettmann – Getty Images

## Abstract

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The Reserve Bank of Australia was created in 1959 by separating the commercial and central banking functions of the original Commonwealth Bank of Australia. An attempt in 1930 to establish a separate central bank in Australia failed when the enabling legislation was blocked in the Senate, but pressure by the private banks in the 1950s led to a renewed attempt to establish one. This attempt was opposed by then Governor of the Commonwealth Bank, Dr HC Coombs, who argued that the Bank's commercial banking activities strengthened its central bank functions. At first, the Prime Minister, Robert Menzies, supported Coombs, but he changed his mind as political pressure for separation grew. Legislation to create a separate central bank was unsuccessful in 1957 and again in 1958 because the government lacked a majority in the Senate, but was passed in April 1959 following the general election in November 1958 in which the government won a majority in both houses of Parliament. This article discusses the events leading to the creation of the Reserve Bank as a stand-alone central bank and concludes that Menzies' political acumen and role in the decision to support separation were crucial.



## Introduction

At a cabinet meeting on 3 April 1957, the Coalition government led by Robert Menzies resolved to separate the commercial and central banking functions of the original Commonwealth Bank of Australia. The decision led to the passing of legislation in April 1959 to create the Reserve Bank of Australia as the nation's central bank.

Menzies' personal involvement in the establishment of the Reserve Bank has been understated by historians of central banking in Australia. At first, Menzies opposed the separation of the commercial and central banking functions of the Commonwealth Bank, but by 1956 he began to have second thoughts, and by early 1957 he was convinced that a separate central bank had to be created in order to appease the demands of the private trading banks, Liberal Party supporters and members of the Australian Parliament.

The decision to terminate the commercial operations of central banks is commonly regarded as a significant event in the evolution of central banking. Charles Goodhart, a British authority on central banking, claimed that it was the 'metamorphosis from their involvement in commercial banking ... to a non-competitive non-profit-maximising role that marked the true emergence, and development of proper central banking' (Goodhart 1985, p 7). MH de Kock, in his classic study of central banking, declared that a 'requisite of a real central bank is that it should not, to any great extent, perform such banking transactions as accepting deposits from the general public and accommodating regular commercial customers with discounts or advances'. If 'a central bank', he argued, 'has a large commercial banking business, such operations might come into direct conflict with its functions as the bankers' bank, the lender of last resort and the controller of credit' (de Kock 1959, pp 22–23). The 'success of a central bank', he added, 'depends largely upon the whole-hearted support and co-operation of the commercial banks, and such co-operation can be effectively obtained only if it refrains from competing directly with them in their ordinary banking business' (de Kock 1959, p 7).

## The origins of central banking in Australia

The legislation passed in April 1959 to establish the Reserve Bank of Australia resolved an issue that had been debated since the depression and the associated banking crisis in eastern Australia in the 1890s. With the collapse of many banks, and the loss of savings deposited in the banks, there was a desire to create a government-owned bank that would guarantee the security of bank deposits. Such a bank might be a government-owned competitor to the private commercial banks, offering a deposit guarantee to its customers. An alternative proposal was to create a central bank similar to those established in some European countries, of which the Bank of England was the exemplar. Such a bank would act as the lender of last resort to the banking system with the object of providing stability to the financial system. Another possibility was a composite government-owned commercial bank and central bank. Such a bank might provide a deposit guarantee to its commercial customers while acting as the 'lender of last resort' to the banking system.

The Commonwealth Bank of Australia was established in 1911 as a government-owned commercial trading and savings bank, having no central banking functions other than banker to the Australian Government. During the next four decades, however, it acquired an extensive array of central banking functions: it floated loans for the government during and after the First World War; it took responsibility from 1920 for the printing and issuing of Australian currency notes; from 1924 it held accounts through which trading banks had to settle their interbank balances; and during and after the depression of the 1930s it managed the exchange rate and began to exert an influence over the determination of interest rates. Additional central banking functions were assigned to the Commonwealth Bank during the Second World War when a number of direct controls were adopted for the purpose of conducting monetary policy and providing financial system stability. In effect, the Commonwealth Bank had evolved from a government-owned commercial bank into a composite commercial bank and central bank.

## Advice from the Bank of England

The evolution of the Commonwealth Bank to a composite commercial and central bank did not accord with advice it received from the Bank of England regarding the principles of 'true central banking'. Lacking experience in operating a central bank, in 1926 the Commonwealth Bank invited the Bank of England's Governor, Montagu Norman, to visit Australia to explain how it could function as a central bank. Norman declined the invitation because of other pressing commitments, but suggested that Sir Ernest Harvey, one of the Bank of England's most senior officers, could visit Australia in his place. In the meantime, Norman provided a list of principles of central banking for the Commonwealth Bank to consider and perhaps adopt. The principles included that a 'Central Bank should not compete with other banks for general business' and that a 'Central Bank should be the banker of all other banks in its own country' (Norman 1925).

The Commonwealth Bank was clearly not conforming to either of these principles nor to several of Norman's other principles of central banking. For a start, it was heavily involved in the provision of commercial services, in effect competing against the private trading banks for business. Nor was it acting as a 'bankers' bank'. This involved, among other things, the private trading banks maintaining their reserves at the Commonwealth Bank, which could be drawn on by the central bank for the purpose of preserving the viability of commercial banks experiencing runs on their deposits.

Harvey arrived in Australia in 1927 and spent a considerable amount of his time engaged in discussions with the government (including the Prime Minister and the Treasurer), senior staff of the Commonwealth Bank, private bankers, business leaders and federal and state officials, on how the Commonwealth Bank could function as a central bank (Harvey 1927, p 10). He agreed with Norman that a 'central bank should not ordinarily compete with the trading banks for general banking business' and he insisted that 'the trading banks' reserves should stand to their credit on accounts opened by them with the central bank' (Harvey 1927, p 9).

After Harvey left Australia, the Commonwealth Bank entered into negotiations with the private trading banks, with the key focus being that the trading banks keep their reserves with the Commonwealth Bank as the central bank. However, the banks refused, arguing that the Commonwealth Bank, as their major competitor, could not be trusted with their reserves because it was likely that the Commonwealth Bank would use their reserves to compete against them. In an attempt to induce the banks to change their minds, they were assured that the Commonwealth Bank would not compete aggressively against them, and that the Commonwealth Savings Bank would be provided with its own statutory authority, thereby allowing a degree of separation between it and the central banking activities of the Commonwealth Bank. Again, the banks refused to entertain the idea, on the grounds that the Commonwealth Bank was not only the central bank but also a commercial bank actively engaged in competition with them for business. To leave their reserves with the Commonwealth Bank, the banks asserted, would give it a competitive advantage.

In 1929 the Australian Labor Party (ALP), led by James Scullin, won the federal election. In May 1930, the Treasurer, EG Theodore, introduced a Bill into Parliament aimed at establishing a separate central bank, to be called the Central Reserve Bank of Australia. The commercial functions of the Commonwealth Bank were to remain with the Commonwealth Bank, which would revert to being a government-owned commercial bank. Theodore stressed that the principal object in creating a separate central reserve bank was that the private banks would not agree to maintain their reserves with the Commonwealth Bank because it was a competitor of the private banks (Theodore 1930, p 1335). This proposed legislation was approved by the House of Representatives, where the government commanded a majority, but it was rejected by the Senate, which was dominated by the Opposition parties.

## The Royal Commission of 1935–1937

Following the 1934 federal election, the Coalition government led by Joseph Lyons established a Royal Commission to report on the ‘Monetary and Banking Systems at Present in Operation in Australia’. It strongly supported the development of central banking and the retention of the composite nature of the Commonwealth Bank, arguing that the commercial functions of the Commonwealth Bank assisted its central banking operations (Commonwealth of Australia 1937, p 224). The Royal Commission asserted that conducting monetary policy was difficult in Australia because there existed no short-term money market to speak of. Unlike the situation in Britain, where the Bank of England conducted monetary policy through market operations by raising or lowering its discount rate – the ‘bank rate’ – the lack of a short-term money market in Australia meant that attempts by the monetary authorities to buy and sell securities on the open market would create considerable volatility in the price of securities, and hence in yields, resulting in financial uncertainty and confusion. By adjusting the volume and terms of its commercial deposits and loans, the Royal Commission explained that the Commonwealth Bank could influence monetary conditions in Australia, and ultimately the level of economic activity and employment (Commonwealth of Australia 1937, p 202).

Several attempts were made after the release of the Royal Commission’s report to obtain the banks’ approval to leave their reserves on deposit at the Commonwealth Bank. Once again the banks refused, on the grounds that the Commonwealth Bank was not only the nation’s central bank but their main competitor. When the ALP came to office in November 1941, it did not seek the approval of the private banks to maintain their reserves at the Commonwealth Bank. Instead, it invoked the special wartime provisions of the Australian Constitution to compel the banks to lodge up to a 100 per cent of the annual increase in their assets in Special Accounts held at the Commonwealth Bank. This mechanism – the Special Accounts procedure – together with other direct controls, including interest rate controls on deposits and loans, and controls limiting bank lending, were continued after the war through the *Commonwealth Bank Act 1945* and the *Banking Act 1945*.

## The 1953 amendments to the Commonwealth Bank Act

Following the Second World War, the trading bank activity of the Commonwealth Bank experienced a significant increase in its share of total bank deposits and advances. Of total trading bank deposits, the Commonwealth Bank’s share in 1948 was 7.5 per cent; it rose to 11.6 per cent in 1954 and 15.0 per cent in 1960 (Coombs 1981, p 136). In effect, within a period of 12 years, the Commonwealth Bank doubled its share of total trading bank deposits. The private banks responded by claiming that this expansion was due largely to the Commonwealth Bank not being subjected to many of the direct controls imposed on the private banks for monetary policy purposes – the Special Accounts procedure in particular, but also interest rate, lending and liquidity controls.

As a result of the favourable conditions enjoyed by the Commonwealth Bank, the private banks began to agitate for the separation of the commercial and central banking functions of the Commonwealth Bank, enlisting the support of some bank officers’ associations, chambers of commerce, the press and Liberal Party backbench members of the Australian Parliament. The Commonwealth Bank, led by its Governor, Dr HC Coombs, resisted calls for separation, arguing that the commercial operations of the Commonwealth Bank strengthened its central banking functions, quoting the 1930s Royal Commission to support its case (Coombs 1981, p 133).

As the calls for separation grew louder through the early 1950s, Coombs advised the government that the commercial activities of the Commonwealth Bank could be separated from the central banking functions without enforcing the complete separation of the Bank’s commercial and central banking activities. The trading bank function, for example, could be provided with its own body corporate and general manager, with the Commonwealth Bank retaining its single board of directors and common staffing arrangements for both its commercial and central banking operations (Coombs 1981, p 138). Prime Minister Menzies supported Coombs; so did the Deputy Prime Minister and Treasurer, Sir Arthur Fadden, the Leader of the Country Party (Coombs 1981, pp 138–139).

In 1953, the Commonwealth Bank Act was amended along the lines that Coombs had recommended: the name of the trading bank function of the Commonwealth Bank was changed from the General Banking Division to the Commonwealth Trading Bank and given a separate statutory authority, a similar arrangement to that provided in 1928 for the savings bank activities of the Commonwealth Bank. Steps were also taken to ensure that the Trading Bank was subjected to the same direct controls as the private trading banks, including the Special Accounts procedure. With these developments, it was argued that the private banks could no longer legitimately claim that they were being subjected to unfair competition by the Commonwealth Bank.

## Menzies changes his mind

The compromise adopted in 1953 soon came under renewed attack by the advocates of separation, especially the private trading banks, supported by the Fairfax press and an increasing number of Liberal Party backbench members, particularly those holding seats in and around Sydney. Towards the end of 1956, Menzies was beginning to think that the demands for separation had reached a stage where serious consideration had to be given by the government to separating the commercial and central banking functions of the Commonwealth Bank.

At a meeting of cabinet on 23 October 1956, Menzies announced that he and Fadden would be meeting with senior representatives of the private trading banks that afternoon to review the existing bank legislation. The following day, he reported to cabinet about this meeting and said that the concerns raised by the banks would be discussed at party meetings the next day. After these meetings, Menzies announced at a press conference on 25 October that he and the Treasurer would hold further discussions with the trading banks and Treasury officials in early February 1957 to resolve the issues still in dispute.<sup>1</sup>

The meeting with representatives of the trading banks took place on 12 February 1957. A press statement drafted by the banks after the meeting drew attention to the two major amendments to the existing legislation requested by the banks – the establishment of ‘a true and proper Central Bank entirely separated from any trading functions or activities’ and the ‘replacement of the special accounts provisions of the Banking Act by a

system of statutory reserve deposits’. The statement asserted that the ‘banks are unanimous in their opinion that these amendments are essential in the national interest and in establishing the banking system which will best serve to ensure Australia’s economic stability.’<sup>2</sup>

On 15 February, Menzies drafted a memorandum entitled ‘Banking’,<sup>3</sup> which highlighted the dilemma he was now facing. While Menzies said that he was able to appreciate the technical issues that might confront the central bank if it no longer had the support of a trading bank, he was concerned about the growing support in the Liberal Party and among its supporters for separation. He also questioned the banks’ argument that it was unusual for central banks to operate commercial enterprises. Menzies thought the ‘analogy with other countries can ... be misleading. It does not necessarily follow that what is appropriate in, say, the United Kingdom, should be appropriate in Australia.’ For instance, ‘[w]e have in Australia, no short-term money market, and, therefore, can’t employ the flexible techniques of the discount rate’. He added, however, that ‘this didn’t mean we should not be prepared to consider the case of the trading banks’. On the contrary, he thought ‘we should consider them and ... in a sympathetic way’.

At a meeting of cabinet on 19 February 1957, it was decided to separate the Commonwealth Trading Bank from the central banking function.<sup>4</sup> The Trading Bank would have its own board of directors and ‘would be subject to the general directives of the Central Bank in the same way as other trading banks’. The Rural Credits Department would remain part of the central bank, while the Industrial Finance Department and the Mortgage Bank Department would join the Trading Bank. It was also agreed that ‘the Special Accounts system would be replaced by a system of reserve deposits by the trading banks with the Central Bank’. Where the Savings Bank would fit into this new structure had yet to be determined; as a commercial enterprise it seemed logical to separate it from the central bank and place it with the Trading Bank. But there was concern within the government – and among the trading banks – that a combined Commonwealth Trading and Savings Bank could pose a formidable challenge to the private trading banks.

On 24 February, Menzies wrote a second note on ‘Banking’,<sup>5</sup> in which he said ‘the best thing for the banking structure, both public and private, would be to

leave it alone'. But it 'remains a matter for judgment', he continued, 'as to whether our own people will allow us to leave it alone. If through our resolution to do nothing, banking remains a burning issue, it will, I think, materially weaken our position at the next election and may well encourage our opponents not only to re-unify themselves, if that be possible, but also to promote revolutionary banking legislation in a new Parliament in the event of our defeat'. 'All these considerations', he concluded, 'would lead us to making a modicum of change provided we had the most categorical assurance from both banks and Members of Parliament that the amendments brought the whole argument to an end'. It was Menzies' 'wish' that he 'knew the right answer to this matter. On balance, my feeling is to make a settlement along the lines indicated. But I am not unaware of the dangers. I think that with the suggested amendments being made we might, before long, have the most terrible uproar from the Trading Banks about the competition from this vastly enriched Commonwealth Trading Bank. My fear [is] that in the case of some of our recalcitrant members the appetite for attacking the Government will tend to grow by what it has fed on'.

On 17 March, Menzies wrote a third note on 'Banking', containing his 'revised thought in the light' of recent party meetings and cabinet discussions.<sup>6</sup> He considered that the government had become 'impaled upon the horns of a dilemma'. According to 'political judgment and experience', it was clear to Menzies that banking ought to be awarded a 'Parliamentary holiday'. And he feared that 'the introduction of what will undoubtedly be contentious banking legislation will tend to drive the two wings of the Labour Party together; and will, by making banking a sort of chronic political issue, enable the next Labour Government to pass quite extreme legislation'. At the same time, he thought it probable that 'the overwhelming majority in the [Liberal] Party will have none of this argument and are hot for banking changes'. Therefore, 'by leaving banking alone', Menzies predicted that 'we will not put the matter at rest; it will be agitated month after month by our supporters until some day we are, under the most humiliating circumstances, practically compelled to bring down proposals'. In weighing up these competing considerations, Menzies was inclined to think that 'there are no votes to be gained by legislation but many votes to be lost'. Providing the Liberal Party clearly understood his 'own view' – that he would prefer not to embark on

further banking legislation – he felt 'I must prefer unity in the Party to everything else. If, therefore, the Party can be united by banking legislation and continue to be disunited in its absence, banking legislation must be produced'.

That said, Menzies then proceeded to specify what he thought should be done. Here, he set out his thoughts as follows:

1. Changes must interfere as little as possible with the present employment structure of the Commonwealth Bank as a whole. They must not give rise to any belief that –
  - (a) the Central Bank is being weakened;
  - (b) the security of the Commonwealth Savings Bank is being impaired;
  - (c) the competitive position of the Commonwealth Trading Bank is being unduly enhanced or unduly restricted.
5. There is great intrinsic merit in the Central Bank being organically detached from competitive trading banking.
  - i. The Commonwealth Trading Bank should therefore be given a separate Board to which its manager will be responsible.
  - ii. The Rural Credits Department, being non-competitive and having no chance of existence except with Central Bank funds, should remain under the Board and Governor of the Central Bank.
  - iii. The Mortgage Bank is non-competitive with the Trading Banks since it does business they would not entertain. It deals essentially with long term finance for rural development. The Industrial Finance Department, except for its Hire Purchase activities, relates to industrial development proposals which the trading banks would not entertain. Therefore the Mortgage Bank and the Industrial Finance Department (minus hire purchase) should be grouped together into a development department under the Board and Governor of the Central Bank.
  - iv. The Hire Purchase activities of the Industrial Finance Department should go over to the Commonwealth Trading Bank.

- v. The Commonwealth Savings Bank should remain with the Commonwealth Trading Bank for all purposes of management, employment and premises.

The note of 17 March provoked an extraordinary response from Fadden, which he addressed to Menzies on 22 March 1957.<sup>7</sup> Fadden did not see what could be gained from separation, claiming that it 'would not give the private banks the protection against future nationalisation which they say they need'. Nor would it 'ensure them a basis of fairer competition from the Commonwealth Trading Bank'; in fact, Fadden thought 'it could become a far more dangerous instrument of competition and a weapon of the utmost potential destructiveness in the hands of some hostile future government'. He requested Menzies 'to counsel our Cabinet colleagues and our parties against legislation. We should, I think, inform the parties that, after most prolonged and careful consideration of the issue, the Government is not prepared to take further Parliamentary action on banking'.

Menzies' immediate response to Fadden is unknown, though he was aware presumably that a vote at a joint party meeting would result in support for separation even if members of the Country Party were to oppose it. In a note addressed to Fadden on 2 April, Menzies said he agreed with Fadden that 'the wisest course in the interests of banking and of the banks would be to keep the whole subject out of politics for as long as possible. So on this matter we are completely at one'.<sup>8</sup> But he said it was 'clear that, in my own Party at least, there is a substantial majority opinion demanding legislation; if this is so, then a refusal by us to produce proposals would keep the whole issue open and tend to make it more and more bitter'. It was for this reason, Menzies informed Fadden, that, '[o]n balance, my own conclusion is that we should recognise this demand, but should make it clear that the proposals put forward by us are final and that we should demand a united support for them'.

Having reached this conclusion, Menzies stressed again that he 'would like very much to counsel our Parties against legislation, and to give the powerful reasons which support that view'. But were he to do that – and he was sure that Fadden would agree – 'the whole thing would be in the newspapers the next day, our divisions of opinion would be advertised and our opposition encouraged'. In concluding the note, he said 'we should

formulate legislative proposals, applying to them our own unfettered judgment and without worrying about whether the banks have asked for them or not'. He was convinced that the key components of the legislative changes should include the separation of 'the Central Bank physically and in point of staff from the Trading Bank'; the 'Governor of the Central Bank should no longer administer the Trading Bank'; and the 'Rural Credits Department should remain with the Central Bank'.

## The government's decision

Cabinet agreed at its meeting on 3 April to amend the banking legislation. The brief minutes of the meeting recorded that '[t]he central bank will be separated physically and in point of staff from the Trading Bank'; that '[t]he present Special Accounts procedure will be replaced by a system of Reserve Deposits'; and '[t]he Rural Credits Department will remain with the Central Bank'.<sup>9</sup> No decision had been made on whether the Commonwealth Savings Bank would be attached to the central bank or to the Trading Bank.

Fadden wrote to Menzies on 10 April immediately after a meeting of Country Party members of Parliament, and before a joint meeting of the Coalition parties was due to take place later that day, to warn him that Country Party members (with government ministers 'refraining') had 'unanimously reaffirmed their previous unanimous decision against [the] proposed banking legislation'.<sup>10</sup> Fadden wanted Menzies to understand that these members confirmed their '(a) Opposition to [the] proposed legislation'; and '(b) Desire future full consideration and decision of the form and scope of whatever legislation in principle is now decided upon'. He insisted, furthermore, that '[i]t must not be interpreted or accepted as "taken for granted" that silence by my Party members, for the reasons herein conveyed, is consent, or that they are in any way committed to support the nature of bank reform recommended to, and accepted by, this meeting in the absence of the fullest details of the implications and the complexities of its form and scope'.

How – and if – Menzies responded to Fadden's letter is unclear. But it appears that the joint party meeting went ahead on 10 April and that it endorsed the cabinet resolutions passed on 3 April. After that meeting, Menzies held a press conference at which he announced that the separation of the central banking and

commercial operations of the Commonwealth Bank would proceed, with the preparation of legislation beginning as soon as possible.<sup>11</sup>

## Parliamentary approval

The legislation to create the Reserve Bank was introduced into Parliament in late 1957 by Fadden. It passed through the House of Representatives without great drama, though the ALP opposed all 14 Separation Bills, largely on the grounds that separation would weaken the operations of the central bank. But the Coalition parties lacked a majority in the Senate. This became clear when the two Democratic Labor Party (DLP) senators and the single Queensland Labor Party (QLP) senator announced that they would be voting with the ALP to oppose separation. This meant the government parties and the combined opposition in the Senate (the ALP, the DLP and the QLP) now commanded an equal number of votes; an even vote resulted in a negative outcome and the legislation failed to pass the Senate in late 1957, and again when it was re-introduced in early 1958. The government could have sought a double dissolution of both houses of Parliament. But with a general election for all 122 House of Representatives seats and 32 of the 60 Senate seats due before the end of 1958, it was decided to wait for the scheduled election. The election was held on 22 November and resulted in majorities for the government in both houses of Parliament.

Fadden chose not to contest the 1958 election and was replaced as Treasurer by Harold Holt, who re-introduced the Banking Bills that had been presented to Parliament in 1957 and again in 1958. The Bills were approved by both houses of Parliament in April 1959, but a considerable amount of administrative work was then needed, including the allocation of staff and physical assets, before the separate institutions could begin operations. The Reserve Bank of Australia – the new name for Australia's central bank – opened for business on 14 January 1960. The commercial functions of the former Commonwealth Bank were assigned to the new Commonwealth Banking Corporation, which included three separate statutory authorities – the Commonwealth Trading Bank, the Commonwealth Savings Bank and the Commonwealth Development Bank (which comprised the former Mortgage Department and Industrial Finance Department of the Commonwealth Bank). The Commonwealth Banking

Corporation was provided with its own board of directors and Managing Director, while the three statutory bodies each had general managers.

## Assessments of separation

Assessments of the outcome of separating the commercial and central banking functions of the Commonwealth Bank were largely positive. Two prominent historians of central banking, SJ Butlin and CB Schedvin, agreed that the creation of a separate central bank enhanced the effectiveness of central banking (Butlin 1983, pp 115–116; Schedvin 1992, p 290). Coombs – who was appointed Governor of the Reserve Bank – admitted that ‘the change brought me relief from the problems of reconciling different, if not conflicting purposes. It meant that a source of irritation between me and my colleagues on the one hand and our banking clientele on the other was removed. And, to be truthful, its removal was followed by a significant improvement in our working relationships with the private banks. I was able to devote my whole energies to central banking issues’ (Coombs 1981, p 140).

For the private banks, while they were more inclined after separation to accept the leadership of the Reserve Bank and its role as the nation's central bank, separation did little to arrest their declining position within the Australian financial system. The Commonwealth Trading Bank continued to increase its share of total trading bank deposits – from 14.5 per cent in 1959 to 20.8 per cent in 1970. Furthermore, the private banks lost business to the rapidly expanding non-bank financial institutions, including finance companies, building societies, merchant banks and credit unions.

While the private banks failed to win back business as a result of separation, the two clear winners from separation were Prime Minister Menzies and the Reserve Bank. For Menzies, achieving separation meant that he was able to preserve the stability of his government; indeed, at the federal election in November 1958, the Coalition increased its majority in the House of Representatives and gained an absolute majority in the Senate. For the Reserve Bank, separation meant that it could concentrate its attention on central banking issues, including the development of new operating procedures and the pursuit of its mandate of price

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stability and full employment. In short, the central bank no longer had to divert its attention to commercial banking issues.

## Conclusion

Several forces were responsible for the separation of the commercial and central banking functions of the Commonwealth Bank. The private trading banks were determined to see the separation of the Commonwealth Bank's commercial and central banking functions, arguing that they were experiencing unfair competition because their major competitor, the Commonwealth Trading Bank, was part of the same institution as the nation's central bank. The leading newspapers, especially *The Sydney Morning Herald*, supported the trading banks and their case for separation. An increasing number of backbench members of the Liberal Party were also influential advocates of separation. Menzies' role in the government's decision to support separation was crucial. It was his political acumen that led him to support separation and the creation of the Reserve Bank as a stand-alone central bank.

In a broader sense, it seems that Menzies believed that history was determined principally by the ideas and actions of individual men and women. Writing to the Oxford historian, AL Rowse, in August 1958, Menzies revealed that he had 'long since come to the conclusion that Diogenes was right and that at all stages and under all circumstances, we must look for a man' (Martin 1995, p 1). In the case of the separation of the commercial and central banking functions of the Commonwealth Bank – and hence the responsibility for creating the Reserve Bank – 'the man', it would appear, was Menzies himself.



## Endnotes

- \* Selwyn Cornish is the Reserve Bank of Australia's Historian and a Visitor at the School of History, Australian National University. The author acknowledges the assistance of Virginia MacDonald and Greg Tyler. This article is an abridged version of a paper the author delivered at the 2023 Annual Conference of the Robert Menzies Institute, University of Melbourne, 23–24 November 2023.
- 1 National Archives of Australia (NAA), A11099, 1/23, Cabinet Meeting, 23–24 October 1956.
  - 2 National Library of Australia (NLA), Ms 4936, Box 433, Folder 8, 'Draft Press Statement' by the Australian Bankers Association, 12 February 1957.
  - 3 NLA, Ms 4936, Box 433, Folder 10, Menzies, 'Banking', 15 February 1957.
  - 4 NAA, A4940/1, C1571, Cabinet Meeting, 19 February 1957.
  - 5 NLA, Ms 4936, Box 433, Folder 10, Menzies, 'Banking' 24 February 1957.
  - 6 NLA, Ms 4936, Box 433, Folder 10, Menzies, 'Banking', 17 March 1957.
  - 7 NLA, Ms 4936, Box 433, Folder 10, Fadden to Menzies, 22 March 1957.
  - 8 NLA, Ms 4936, Box 433, Folder 10, Menzies to Fadden, 2 April 1957.
  - 9 NAA, A571/138, 1957/1206 Pt 1, Cabinet Meeting, 3 April 1957.
  - 10 NLA, Ms 4936, Box 433, Folder 7, Fadden to Menzies, 10 April 1957.
  - 11 NAA 571/1957, 1205 Pt 2, Press Conference by Menzies, 10 April 1957.

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## HILDA

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