

***THE ROAD TO RECOVERY - DECISIVE ACTION IN A GLOBAL
RECESSION
AND OUR COMMITMENT TO CONSULTATION***

**ADDRESS TO THE INVESTMENT AND FINANCIAL SERVICES
ASSOCIATION NATIONAL CONFERENCE**

GOLD COAST

5 AUGUST 2009

Introduction

Thank you for the opportunity to speak again at the IFSA National Conference. This year the theme is Energise and I think we'd all agree that after the 12-months everyone in this room has been through, it is high time to recharge.

I would like to acknowledge the importance of IFSA and the role it plays in striving for the highest standards for the financial services industry – that is a role that has proven very important in the last year.

Your dedication to this goal is admirable and I applaud your efforts.

In particular, I would take this opportunity to commend IFSA's superannuation charter.

I understand my Ministerial colleague Chris Bowen has been here today and I am sure he said similar things – the work contained in the Charter embodies your commitment to promoting the efficiency, integrity and sound regulation of superannuation. All things I know you all appreciate are very close to my heart.

These are crucial endeavours at any time, but particularly in times of financial turmoil.

It's easy to believe such difficult times will never end, but they will.

Australia and the world will recover.

Through the collective efforts of international bodies, national governments and industry, the global economic and financial systems are being restored.

This evening, I will discuss the impact of the current crisis on Australia and the Government's multi-faceted policy response.

There are also challenges and opportunities for the financial sector at this crucial time and I will highlight the ways we can work together to foster Australia's recovery.

Now I know you've had a fair few speeches today so I will try and be as brief as I can, but what I want to do this afternoon, under the umbrella of "the road to recovery", is three key things – first run you through some general economic facts that set out exactly where we are and just what we've faced since I was last here.

Second, I want to run through a few of the key decisive measures we've put in place to counter the global recession and the long-term thinking we are bringing to the challenges we face on the policy and fiscal fronts.

And finally, I want to – in the context of my new role as Assistant Treasurer with responsibilities across the tax area – take this opportunity to reaffirm my and the Government's commitment to working with you and consulting with you as we move down the road of reform and recovery.

The impact of the global recession on Australia

Since the last IFSA National Conference, the global economic environment has changed dramatically. The world is now grappling with the most challenging economic conditions since the Great Depression.

As you can see by this graphic, global GDP growth in 2009 is forecast to be minus 1.3%. This is much deeper than either the 1982 and 1991 recessions, and is the first time in the post-war period that the world as a whole has recorded negative GDP.

Weaker growth among our major trading partners has reduced demand for our exports, while prices for our key commodities have fallen. As a result, national income has declined.

What began as a crisis in the US sub-prime housing market and rapidly infected global financial markets has reverberated throughout the world's advanced and emerging economies.

Australia is outperforming the rest of the advanced world – we have not fallen into technical recession, but we have not been immune from this turbulence.

With our slower economic growth unemployment has increased, hitting a six-year high of 5.8 per cent in June.

In contrast, unemployment in the United States is 9.5 per cent and forecast to hit double-digits. It is 8.6 per cent in Canada and 7.6 per cent in the United Kingdom.

I was in the United States just a fortnight ago, and whilst there was indeed discussion of "green shoots" and securities market strengths, I also heard a range of top level figures raise growing concerns over a possible jobless recovery in that country.

It is extremely hard to "call" these things and we all hope the decisive actions of the Obama Administration work towards a positive economic outcome.

Decisive policy responses and the strength of the Australian economy

In its recent Article IV Concluding Statement on Australia, the IMF attributes our impressive performance to several factors.

Two of these are particularly important - our healthy banking sector and the timely macro-economic policy response of the Government and the Reserve Bank of Australia.

As you are no doubt aware, while much of the world went backwards in the March quarter, the Australian economy grew by 0.4 per cent.

It is clear Government policy has provided support to the Australian economy. The urgency of the situation became immediately apparent to us and we have acted quickly and decisively in delivering stimulus to the economy.

The first of these stimulus strategies was put in place in October 2008, only a month after the collapse of Lehman Brothers.

We provided temporary and targeted income support to the most cash-constrained people in the country. Spending by households increased in the March quarter. If not for Government action, it may well have declined.

The RBA has also acted to stimulate aggregate demand by rapidly easing monetary policy. Since September 2008, it has reduced the cash rate by 425 basis points.

Recent indicators are that economic conditions in Australia are stabilising, suggesting these policy measures have been effective. Indeed, there has been a fairly consistent flow of positive economic news in recent months.

There are early signs of the forecast recovery in the housing market.

In particular, consumer sentiment and business confidence have rebounded markedly from their lows of late last year. Consumers are continuing to spend and business is still investing. Australia is one of the few advanced economies where business investment has grown on an annual basis.

Business confidence itself has returned to even levels – the NAB index showing a marked rebound since the troughs of last year.

Before the stimulus packages, Treasury estimated unemployment would have reached over 10 per cent. The current Budget forecast is for unemployment to peak at 8.5 per cent by mid-2010.

The difference represents 200,000 jobs – 200,000 Australians who will remain in work because of the Government's Stimulus packages.

As the IMF has made clear, a key reason why the Australian economy has performed better than other advanced economies is our robust financial sector.

Direct "bail-out"-style assistance has not been required, but the Government has introduced several timely, temporary and targeted measures to ensure the ongoing stability of the financial sector and the flow of credit to the economy.

In October last year, following similar announcements in other jurisdictions, the Government introduced guarantees for deposits and wholesale funding of Australian banks, building societies and credit unions.

These guarantees have helped Australia ride out the financial storm that passed through many other advanced economies.

The RBA has also enacted measures to provide banks and other financial institutions with greater flexibility to manage their liquidity requirements.

With the assistance of these policy measures, financial market conditions in Australia seem to be stabilising.

A particularly encouraging sign is that Australian banks are beginning to issue debt without the support of the Government guarantee both here and offshore, and at prices that compare favourably with their guaranteed debt.

Long-term thinking and the challenges we face

The urgency required in dealing with the initial effects of the crisis has not come at a cost to taking a longer-term perspective.

Both the OECD and IMF have recently noted credible exit strategies need to be developed, even in this period of supporting economies until growth resumes. The Government agrees with this view and is committed to long-term strategies to ensure the future prosperity of the Australian people.

As conditions in financial markets normalise, we will review our arrangements for providing support to this sector. It should be noted the fee structure for the guarantee of wholesale funding is such that as market conditions normalise, there will be less incentive for institutions to access the guarantee.

We therefore anticipate some form of automatic exit from these funding arrangements.

When exactly this occurs is difficult to pinpoint, but the Government is closely monitoring conditions in financial markets and the guarantee fee arrangements.

The Government has a clear medium-term fiscal strategy.

The Government will allow the level of tax receipts to recover naturally as the economy improves, while maintaining its commitment to keep taxation as a share of GDP below the 2007-08 level on average.

The Government will also hold real growth in spending to 2 per cent a year, once economic growth is above trend – until the budget returns to surplus.

A long-term perspective is also crucial with regard to the Government's reform agenda – which will position Australia to deal with future challenges.

I would point to yesterday's major announcement by the Treasurer on reform to the foreign investment review regime as a case in point.

The dominating factor in the Government's decision about those changes is to make Australia even more attractive for capital investment in what is going to be a more capital-constrained world.

This is long-term thinking for the road to recovery.

Our commitment to consultation

I would now like to turn to one final key area.

In my new role as Assistant Treasurer with responsibilities across the tax area I want to take this opportunity to reaffirm my and the Government's

commitment to working with you and consulting with you as we move down the road of reform and recovery, particularly in the area of tax.

The Tax Design Review Panel

As I have said, the Rudd Government values consultation with industry, business and professional groups. As with all things, there is trial and some error, but we are working hard as making cooperation standard procedure.

On this important point, I would like to give you an update on the progress of the Tax Design Review Panel.

The panel was set up in February 2008 to look at how to reduce delays in introducing tax legislation and improve the quality of changes to the tax laws, and the Panel reported in April 2008.

The Government has previously indicated its in-principle support for all of the recommendations contained in the Panel's report.

The recommendations focus on making the tax law development process more transparent and providing Australians with a greater opportunity to participate in that process.

The following are some of the Panel's key recommendations.

Consultation on design of announced policy and on draft legislation

Consultation is now the norm for developing announced policy. Consultation on draft legislation has been usual in tax law for a long time and continues on almost all projects.

The discussion paper on extra-statutory concessions is an example of a public discussion paper at the initial design stage.

There are exceptions at both stages, such as on budget measures and some integrity measures and the Tax Design Review Panel's report accepted that it could be necessary for such measures to be excluded from the consultation practice it recommended.

But I am strongly of the view that we can and will make greater use of confidential consultations with key stakeholders, even in the Budget context, where we can.

Laws be developed by teams involving Treasury, the Tax Office and the private sector

In the last Budget, the Government announced \$1.8m over three years for a panel of experts to be engaged.

Tenders for that panel closed about six weeks ago and Treasury aims to have the Panel operational sometime in the next month.

Once that panel is appointed, one or more of its members will usually be engaged to advise on new tax measures.

This is a major structural improvement to our tax design and consultation processes and I strongly believe it will serve a deeply important purpose.

The Tax Issues Entry System (TIES)

The Government has implemented the TIES system recommended by the Board of Taxation.

TIES is a single entry point for tax practitioners and other interested Australians to raise minor policy and administrative issues relating to the care and maintenance of both the tax and superannuation systems.

The TIES website has been open since November 2008 and over 60 issues have so far been logged on the website.

Forward work program

The Government now publishes a forward work program for consultation and legislation on tax measures.

I released the forward work program for the Winter 2009 sittings on 17 June and will shortly release the program for the Spring 2009 sittings.

So, watch this space.

Ultimately my message is this – I want to listen to you and the broader business community and I hope my approach to the reforms to the taxation of employee share schemes has illustrated in good faith my commitment to this.

I am serious about consultation and I look forward to working with all of you in the very near future.

Next steps

Finally, I couldn't finish this evening without mentioning the Henry Tax Review.

This tax review, as you know, is the most comprehensive in 50 years.

With two exceptions, everything is on the table, and I know there are some significant tax related issues facing the financial services industry.

The task of the Review is, principally, to look beyond the immediate downturn and to redesign our tax-transfer system to meet the profound demographic, social, economic and environmental challenges of the coming decades.

I am pleased to note that IFSA has taken up a number of opportunities to participate in the review, including making submissions and meeting with the Review Panel.

Input from experts such as you will be valuable in developing the policies that will take Australia forward.

Without pre-judging anything that will be in the final Henry Review, I think we need to understand that what we will see is a pathway to reform.

Major strategic shifts in our taxation arrangements will take time and will be done responsibly. Overall, they will be done in the national economic interest, as we build the most sustainable and enriching road to recovery and growth.

And a vibrant and growing financial services sector, supported by a modern taxation system certainly lies at the heart of our future economy.

We are now looking to the financial services industry to develop, in partnership with the Government, a set of policy proposals for taking full advantage of the opportunities that will emerge as the global economy starts to recover, promoting Australia's position as a leading financial services centre.

In the same vein as the Henry Review, last September, the Government established the Australian Financial Centre Forum to help position Australia as a leading financial services centre in the region.

I note IFSA is a member for the Forum's Reference Group.

The Government looks forward to working with IFSA as the work of the Forum and the work of the Henry Review come together across the next six to 12 months.

Conclusion

There is no doubt we will face difficult times in the period ahead, but I am optimistic about Australia's prospects and those of our financial sector.

The key test for financial centres is not how they fare in good times; it is how they perform in the turbulent times and what is learned from these experiences.

IFSA has played a valuable role as a participant in the policy-making environment and these efforts will go a long way to ensuring we pass this test.

I would like to conclude on a vote of thanks and a vote of welcome.

As we all know, Richard Gilbert is shortly to leave his role as IFSA CEO. Something you might not all know is that it was in fact me who gave Richard his first "break" into the world of financial services.

We first worked together many long years ago when Richard headed up the Secretariat to the superannuation committee of which I was Chair. From that landmark committee onwards, Richard has cut a swathe through many aspects of Australian financial services and I think we can all agree that our system is better for his dedication and commitment.

Thank you Richard.

And finally a vote of welcome, to your incoming CEO, John Brogden.

John and I of course hail from different sides of the political fence – but probably not by much - but John is a man I have significant respect for. John's role as CEO of Manchester Unity and as Chairman at ABACUS allowed me to work with him on key corporate and finance issues and I was equally impressed with what I saw.

John will lead IFSA strongly and I congratulate him on his appointment and IFSA on securing it.

Thanks once again for having me at your national conference.