

The Senate

---

Economics References Committee

---

**Consenting adults deficits and  
household debt**

Links between Australia's current account  
deficit, the demand for imported goods and  
household debt

October 2005

© Commonwealth of Australia 2005

ISBN 0 642 71578 5

Printed by the Senate Printing Unit, Parliament House, Canberra.

# SENATE ECONOMICS REFERENCES COMMITTEE

## CORE MEMBERS

Senator Ursula Stephens, Chair	New South Wales, CL
Senator George Brandis, Deputy Chair	Queensland, LP
Senator Grant Chapman	South Australia, LP
Senator Kate Lundy	Australian Capital Territory, ALP
Senator Andrew Murray	Western Australia, AD
Senator Ruth Webber	Western Australia, ALP

## SUBSTITUTE MEMBERS

*Matters relating to the Resources portfolio* – Senator Allison to replace Senator Murray

## PARTICIPATING MEMBERS

Senator The Hon Eric Abetz	Tasmania, LP
Senator Judith Adams	Western Australia, LP
Senator Guy Barnett	Tasmania, LP
Senator Andrew Bartlett	Queensland, AD
Senator the Hon Ronald Boswell	Queensland, NATS
Senator Bob Brown	Tasmania, AG
Senator George Campbell	New South Wales, ALP
Senator Kim Carr	Victoria, ALP
Senator The Hon Richard Colbeck	Tasmania, LP
Senator Stephen Conroy	Victoria, ALP
Senator the Hon Helen Coonan	New South Wales, LP
Senator Alan Eggleston	Western Australia, LP
Senator Christopher Evans	Western Australia, ALP
Senator the Hon John Faulkner	New South Wales, ALP
Senator Alan Ferguson	South Australia, LP
Senator Jeannie Ferris	South Australia, LP
Senator Steve Fielding	Victoria, FFP
Senator Mitch Fifield	Victoria, LP
Senator Michael Forshaw	New South Wales, ALP
Senator Barnaby Joyce	Queensland, NATS
Senator Linda Kirk	South Australia, ALP
Senator Ross Lightfoot	Western Australia, LP
Senator Joseph Ludwig	Queensland, ALP
Senator Brett Mason	Queensland, LP
Senator Julian McGauran	Victoria, NATS
Senator Christine Milne	Tasmania, AG
Senator Andrew Murray	Western Australia, AD
Senator Stephen Parry	Tasmania, LP

## **PARTICIPATING MEMBERS (Continued)**

Senator Marise Payne	New South Wales, LP
Senator Robert Ray	Victoria, ALP
Senator the Hon Nick Sherry	Tasmania, ALP
Senator Rachael Siewert	Western Australia, AG
Senator Natasha Stott Despoja	South Australia, AD
Senator John Watson	Tasmania, LP
Senator Penny Wong	South Australia, ALP

## **SECRETARIAT**

Mr Peter Hallahan, Secretary  
Ms Stephanie Holden, Senior Research Officer  
Mr Alex Olah, Principal Research Officer  
Ms Kerry West, Estimates/Research Officer  
Ms Judith Wuest, Executive Assistant

Suite SG.64

Parliament House

Canberra ACT 2600

Ph: 02 6277 3540

Fax: 02 6277 5719

E-mail: [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

Internet: [http://www.aph.gov.au/senate/committee/economics\\_ctte/index.htm](http://www.aph.gov.au/senate/committee/economics_ctte/index.htm)

# TABLE OF CONTENTS

Membership of Committee	iii
Glossary	ix
Recommendations	xiii
<b>Chapter 1</b>	
<b>Background to the inquiry</b>	<b>1</b>
Overview	1
Report Structure	2
Conduct of the inquiry	3
<b>Chapter 2</b>	
<b>Background to Australia's current account</b>	<b>5</b>
What is the current account?	5
Australia's current account	5
<i>The current account from a trade perspective</i>	7
<i>Australia's trade balance</i>	8
<i>Australia's income balance</i>	10
<i>The current account from a savings/investment perspective</i>	12
How does the CAD impact on net foreign liabilities?	14
How does Australia's current account compare with other countries?	14
<b>Chapter 3</b>	
<b>Australia's current account – key issues</b>	<b>17</b>
Background	17
What has been driving the Current Account Deficit?	18
<i>What is the outlook for Australia's current account?</i>	19
<i>Is there a link between offshore borrowing and the current account?</i>	23
<i>Committee views</i>	23
Is the present level of Australia's net foreign liabilities a problem?	25
<i>Servicing Australia's foreign liabilities</i>	29
<i>Committee views</i>	32
Why are exports important?	34
<i>Committee views</i>	39

What are the links between household debt, imports and the CAD?	40
<i>Households and the CAD</i>	41
<i>Imports and the CAD</i>	41
<i>Households and imports</i>	41
<i>Committee views</i>	45
What are the risks of a persistently high CAD?	45
<i>What could improve the CAD?</i>	49
<i>Are the self-correcting mechanisms working?</i>	52
<i>Is there a need for policy changes?</i>	54
<i>Committee views</i>	56
<b>Chapter 4</b>	
<b>Household debt in Australia</b>	<b>61</b>
Introduction	61
The growth of household debt	62
Factors contributing to the rise in household debt	64
Distribution of debt across households	64
Household debt indicators	66
<i>Household savings ratio</i>	66
<i>Debt-to-income ratio</i>	67
<i>Interest-to-income ratio</i>	68
<i>Household-gearing ratio</i>	69
How are households coping?	71
What are the future risks to households?	75
<i>Interest rate rises</i>	76
<i>Recent borrowers and low income earners</i>	77
<i>Home equity loans and redraw facilities</i>	77
<i>Investor housing</i>	78
<i>Marginal borrowers</i>	78
Committee views	78
<b>Chapter 5</b>	
<b>Lending practices and household debt</b>	<b>83</b>
Introduction	83
Lending standards and practices	84

<i>Committee views</i>	90
Credit and charge cards	92
<i>Unsolicited credit increases</i>	92
<i>Disclosure standards</i>	95
<i>Financial literacy programs</i>	96
<i>Mandating assessment of ability to repay debt</i>	97
<i>Positive credit reporting</i>	98
<i>Background</i>	99
<i>Argument for positive credit reporting</i>	100
<i>Argument against positive credit reporting</i>	102
<i>Senate Legal and Constitutional References Committee Report</i>	103
<i>Committee views</i>	103
<b>GOVERNMENT SENATORS' COMMENTS</b>	<b>105</b>
<b>Appendix 1 – Submissions received</b>	<b>113</b>
<b>Appendix 2 – Public hearings and witnesses</b>	<b>115</b>
<b>Appendix 3</b>	<b>117</b>
<b>Relationship between the current account deficit and foreign liabilities</b>	
The Valuation Effect	117
Effect of Revisions on the Size of the Current Account Deficit	119
<b>Appendix 4</b>	<b>125</b>
<b>Concluding remarks of participants in the Round Table Canberra, 15 August 2005</b>	
<b>Appendix 5</b>	<b>129</b>
<b>Factors contributing to household debt</b>	
The housing boom	130
Deregulation of the financial system	133
Interest rates and inflation	135
Investor activity in the housing market	137
Income and employment growth	138
Lending policies and practices of finance providers	139
Wealth effects	140

