



## Appendix C — Glossary of terms

***Australian Competition and Consumer Commission (ACCC)***. A Commonwealth statutory authority responsible for ensuring compliance with the *Trade Practices Act 1974* and the provisions of the Conduct Code and for administering the *Prices Surveillance Act 1983*. The Commission's consumer protection work complements that of State and Territory consumer affairs agencies.

***Australian Payments Clearing Association Limited (APCA)***. A public company owned by banks, building societies and credit unions which has specific accountability for key parts of the Australian payments system, particularly payments clearing operations.

***Australian Prudential Regulation Authority (APRA)***. APRA is the prudential regulator of the Australian financial services industry. It oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, friendly societies, and most members of the superannuation industry.

***Australian Securities and Investments Commission (ASIC)***. One of three Australian Government bodies (the others being the Australian Prudential Regulation Authority and the Reserve Bank of Australia) that regulates financial services. ASIC is the national regulator of Australia's companies. ASIC has responsibility for market protection and consumer integrity issues across the financial system.

***accrual accounting***. Revenues and expenses are recorded as they are earned or incurred, regardless of whether cash has been received or disbursed. For example, sales on credit would be recognised as revenue, even though the debt may not be settled for some time.

***acquirer***. An institution that provides a merchant with facilities to accept card payments, accounts to the merchant for the proceeds and clears and settles the resulting obligations with card issuers.

***average weekly earnings***. Average gross (before tax) earnings of employees.

***average weekly ordinary time earnings (AWOTE)***. Weekly earnings attributed to award, standard or agreed hours of work.

***average weekly total earnings***. Weekly ordinary time earnings plus weekly overtime earnings.

***balance on current account***. The difference between receipts and payments as the result of transactions in goods, services, income and current transfers between Australia and the rest of the world. A current account deficit means that total payments exceed total receipts, while a current account surplus means the reverse.

***bankruptcies***. Bankruptcies and Administration Orders under Parts IV and XI of the Bankruptcy Act.

**basis point.** A basis point is 1/100th of 1 percent or 0.01 per cent. The term is used in money and securities markets to define differences in interest or yield.

**BPAY.** BPAY is a payments clearing organisation owned by a group of retail banks. Individuals who hold accounts with a BPAY participating financial institution can pay billing organisations which participate in BPAY, using account transfers initiated by phone or internet. The transfers may be from savings, cheque or credit card accounts.

**business investment.** Private gross fixed capital formation for machinery and equipment; non-dwelling construction; livestock; and intangible fixed assets.

**card issuer.** An institution that provides its customers with debit or credit cards.

**cash rate (interbank overnight).** Broadly defined, the term cash rate is used to denote the interest rate which financial institutions pay to borrow or charge to lend funds in the money market on an overnight basis. The Reserve Bank of Australia uses a narrower definition of the cash rate as an operational target for the implementation of monetary policy. The Reserve Bank of Australia's measure of the cash rate is the interest rate which banks pay or charge to borrow funds from or lend funds to other banks on an overnight unsecured basis. This measure is also known as the interbank overnight rate. The Reserve Bank of Australia calculates and publishes this cash rate each day on the basis of data collected directly from banks. This measure of the cash rate has been published by the Reserve Bank of Australia since June 1998.

**cash rate target.** As in most developed countries, the stance of monetary policy in Australia is expressed in terms of a target for an overnight interest rate. The rate used by the Reserve Bank of Australia is the cash rate (also known as the interbank overnight rate). When the Reserve Bank Board decides that a change in monetary policy should occur, it specifies a new target for the cash rate. A decision to ease policy is reflected in a new lower target for the cash rate, while a decision to tighten policy is reflected in a higher target.

**charge card.** A charge card is a card whose holder has been granted a non-revolving credit line enabling the holder to make purchases and possibly make cash advances. A charge card does not offer extended credit; the full amount of any debt incurred must be settled at the end of a specified period.

**consumer price index.** A measure of change in the price of a basket of goods and services from a base period. Changes in the Consumer Price Index are the most commonly used measure of inflation.

**collateralised debt obligations.** Collateralised debt obligations (CDOs) are securities that are exposed to the credit risk of a number of corporate borrowers. In the simplest form of a CDO, this credit risk exposure is generated in the same way as for any asset-backed security (ABS): the CDO is backed by outright holdings of corporate debt, such as corporate bonds and corporate loans. Increasingly, however, the exposure to corporate credit risk is synthesised through the use of credit derivatives. Unlike other forms of ABS, where the collateral pools usually consist of loans with broadly similar characteristics, CDO reference pools are typically quite heterogeneous, with exposures to a variety of borrower types and credit ratings and across a number of countries. A CDO will usually have exposures to between 50 and 200 bonds or large corporate loans, or up to 2,000 loans to small and medium-sized businesses.

The simplest forms of CDOs are known as 'cash' or 'vanilla' CDOs, and are similar to other forms of ABS. A special purpose vehicle buys loans and securities from financial institutions and other market participants, and funds these acquisitions by selling securities to investors. The manager of the CDO vehicle will usually deduct fees and expenses from the interest income received from the assets in the collateral pool, with the remainder used to make regular coupon payments to investors. The term to maturity of the loans and bonds in the collateral pool will determine the maturity of the CDO securities sold to investors.

**credit card.** A credit card is a card whose holder has been granted a revolving credit line. The card enables the holder to make purchases and/or cash advances up to a pre-arranged limit. The credit granted can be settled in full by the end of a specified period or in part, with the balance taken as extended credit. Interest may be charged on the transaction amounts from the

date of each transaction or only on the extended credit where the credit granted has not been settled in full.

**debit card.** A debit card is a card that enables the holder to access funds in a deposit account at an authorised deposit-taking institution.

**derivative.** A financial contract whose value is based on, or derived from, another financial instrument (such as a bond or share) or a market index (such as the Share Price Index). Examples of derivatives include futures, forwards, swaps and options.

**employed persons.** Persons aged 15 and over who, during a period of one week, worked for one hour or more for pay or worked for one hour or more without pay in a family business or on a family farm.

**G-10.** Group of Ten countries: Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, and USA; plus Bank for International Settlements (BIS), European Commission, International Monetary Fund (IMF), and the Organisation for Economic Co-operation and Development (OECD). It was formed in conjunction with the establishment of the General Arrangements to Borrow, under which members agreed to make resources available to the IMF.

**G-20.** Group of Twenty Forum: Members are finance ministers or central bankers from - Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, UK and US; plus representatives of the IMF, European Union and World Bank. The G-20 aims to broaden the dialogue on key economic and financial policy issues among systemically significant economies, and promote co-operation to achieve stable and sustainable world economic growth.

**G-22.** Group of Twenty-two. The G-22's aim was to advance issues related to the global financial architecture. It operated through three Working Parties - on Transparency and Accountability, International Financial Crises, and Strengthening Financial Systems. The group made its recommendations in 1998, and its work has since been taken up in other forums.

**G-7.** Group of Seven countries: Canada, France, Germany, Italy, Japan, UK and USA. The G-7 Summit deals with issues covering macroeconomic management, international trade, international financial architecture, relations with developing countries, and other global issues.

**G-8.** Group of Eight countries: G-7 countries and Russia.

**gross domestic product.** The total market value of goods and services produced after deducting the cost of goods and services used up in the process of production but before deducting for depreciation.

**gross domestic product—chain volume measure.** Also known as *real GDP*, this is a measure used to indicate change in the actual quantity of goods and services produced. Economic growth is defined as a situation in which real GDP is rising.

**gross domestic product at factor cost.** Gross domestic product less the excess of indirect taxes over subsidies.

**gross foreign debt.** All non-equity financial claims by non-residents on residents of Australia. The major component of gross foreign debt is the amount of borrowings from non-residents by residents of Australia.

**household debt ratio.** The amount of household debt at the end of a quarter expressed as a proportion of annual household gross disposable income.

**household gross disposable income.** The amount of income that households have available for spending after deducting any taxes paid, interest payments and transfers overseas.

**household net disposable income.** Household gross disposable income less depreciation of household capital assets.

**household saving ratio.** The ratio of household income saved to household net disposable income.

**housing loan interest rate.** The variable rate quoted by banks for loans to owner-occupiers.

**implicit price deflator for non-farm gross domestic product.** A measure of price change that is derived (hence the term implicit) by dividing gross non-farm product at current prices by gross non-farm product at constant prices.

**index of commodity prices.** A Reserve Bank of Australia-compiled index (based 2001/02=100) which provides a measure of price movements in rural and non-rural (including base metals) commodities in Australian Dollars (AUD), Special Drawing Rights (SDR) and United States Dollars (USD).

**inflation.** A measure of the change (increase) in the general level of prices.

**inflation target.** A tool to guide monetary policy expressed as a preferred range or figure for the rate of increase in prices over a period. In Australia, the inflation target is between 2 and 3 per cent per annum on average over the course of the business cycle.

**interchange fee.** A fee paid between card issuers and acquirers when cardholders make transactions.

**interest rate.** The term used to describe the cost of borrowing money or the return to the owner of the funds which are invested or lent out. It is usually expressed as a percent per annum of the amount of money borrowed, lent or invested.

**labour force.** The employed plus the unemployed.

**labour force participation rate.** The number of persons in the labour force expressed as a percentage of the civilian population aged 15 years and over.

**labour productivity.** Gross domestic product (chain volume measure) per hour worked in the market sector.

**long-term unemployed.** Persons unemployed for a period of 52 weeks or more.

**macroeconomy.** The economy looked at as a whole or in terms of major components measured by aggregates such as gross domestic product, the balance of payments and related links, in the context of the national economy. This contrasts with microeconomics which focuses upon specific firms or industries.

**market sector.** Five industries are excluded from the market sector because their outputs are not marketed. These industries are: property and business services; government administration and defence; education; health and community services; and personal and other services.

**monetary policy.** The setting of an appropriate level of the cash rate target by the Reserve Bank of Australia to maintain the rate of inflation in Australia between 2 and 3 per cent per annum on average over the business cycle.

**natural increase.** Excess of live births over deaths.

**net foreign debt.** Gross foreign debt less non-equity assets such as foreign reserves held by the Reserve Bank and lending by residents of Australia to non-residents.

**net overseas migration.** Net permanent and long-term overseas migration plus an adjustment for the net effect of 'category jumping'.

**non-farm gross domestic product.** Gross domestic product less that part which derives from agricultural production and services to agriculture.

**overseas visitors.** Visitors from overseas who intend to stay in Australia for less than 12 months.

**prime interest rate.** The average rate charged by the banks to large businesses for term and overdraft facilities.

**profits share.** Gross operating surplus (the excess of gross output over costs incurred in producing that output) of all financial and non-financial corporate trading enterprises as a percentage of gross domestic product at factor cost.

**quantitative easing.** Quantitative easing involves central banks purchasing financial assets (such as government bonds, corporate bonds and mortgage-backed securities). It increases the money base with a view to driving down long-term borrowing costs.

**real average weekly earnings.** Average weekly earnings adjusted for inflation as measured by the Consumer Price Index.

**real prime interest rate.** The prime interest rate discounted for inflation as measured by the Consumer Price Index.

**reserve bank reserve fund.** The bank's permanent general reserve, established by the Reserve Bank Act. Sums are credited to the fund from earnings available for distribution, as determined by the Treasurer after consulting the Reserve Bank Board. The balance of distributable earnings after any such transfer is payable as a dividend to the Commonwealth. The fund is essentially the bank's capital. Its primary purpose is to provide a capacity to absorb losses when it is necessary to do so.

**seasonally adjusted estimates.** Estimates in which the element of variability due to seasonal influences has been removed. Seasonal influences are those which recur regularly once or more a year.

**terms of trade.** The relationship between the prices of exports and the prices of imports. The usual method of calculating the terms of trade is to divide the implicit price deflator for exports by the implicit price deflator for imports.

**trade weighted index.** A measure of the value of the Australian dollar against a basket of foreign currencies of major trading partners.

**turnover.** Includes retail sales; wholesale sales; takings from repairs, meals and hiring of goods; commissions from agency activity; and net takings from gaming machines. From July 2000, turnover includes the Goods and Services Tax.

**unemployed persons.** Persons aged 15 and over who, during a period of one week, were not employed but had actively looked for work in the previous four weeks and were available to start work.

**unemployment rate.** The number of unemployed persons expressed as a percentage of the labour force.

**wage price index.** A measure of change in the price of labour (i.e. wages, salaries and overtime) unaffected by changes in the quality or quantity of work performed.

**wages share.** Wages, salaries and supplements (the total value of income from labour) as a percentage of gross domestic product at factor cost.

**west texas intermediate.** A type of crude oil used as a benchmark in oil pricing and the underlying commodity of New York Mercantile Exchange's oil futures contracts.

**youth unemployment.** Number of 15–19 year olds looking for full-time work.

**youth unemployment rate.** Number of 15–19 year olds looking for full-time work expressed as a percentage of the full-time labour force in the same age group.

Source: Parliamentary Library and Reserve Bank of Australia

