MEDIA RELEASE

Healthy finance sector key to Australia's productivity: AFMA

1 February 2016

The finance sector is critical to Australia's future economic growth, according to a report released today from the Australian Financial Markets Association (AFMA).

The report, *Financial Sector Growth, Capital Formation and Productivity*, demonstrates a strong link between the finance sector, investment and economic productivity, and dispels the myth that the sector has become too large.

According to the report, the financial and insurance services sector is the largest of the 12 industries that make up the market sector of the Australian economy, with a 9.9% share of output compared to the next largest sector, mining, with a 9.8% share. Also, on average, productivity growth in the financial and insurance sector has outperformed productivity growth in the market sector as a whole over the last 24 years.

"The rising share of financial services as part of Australia's national income is a long-term and global phenomenon that's likely to continue," said Dr Stephen Kirchner, AFMA Economist. "One of the reasons for this is that as living standards rise, consumers and business demand more sophisticated financial services."

Economic and productivity growth tend to slow as economies mature and living standards rise. This has led some commentators to mistakenly associate the financial sector's rising share of the economy with slower growth rates.

"But as we see from recent papers from the Peterson Institute for International Economics[1], the same statistical approach underpinning this assumption could also be applied to the number of doctors, fixed line telephones, and research and development technicians, " he said. "Few would suggest that any of these are bad for economic growth.

The AFMA report also addresses concerns that the Australian financial system has become less efficient at supporting capital formation.

[1] William Cline, "Too Much Finance, or Statistical Illusion?," Policy Brief (Washington, DC: Peterson Institute for International Economics, June 2015); William Cline, "Further Statistical Debate on 'Too Much Finance,'" Working Paper 15-16 (Washington, DC: Peterson Institute for International Economics, October 2015).

Dr Kirchner said it was the quality, not the quantity, of investment that mattered most for productivity and economic growth. “There is no statistical evidence to support the view that financial sector and secondary market activity in Australia has come at the expense of capital formation,” he said.

“Public policy needs to be mindful of the relationship between financial system development, capital formation and productivity. Policies that aim to suppress secondary financial markets based on a view that there is ‘too much finance’ are likely to harm capital formation, productivity and living standards,” Dr Kirchner concluded.

For copies of the report and interviews with Dr Stephen Kirchner:

Heather Gascoigne

The Continuum Partners

hgascoigne@thecontinuumpartners.com

+61 410 297 111

About AFMA:

The Australian Financial Markets Association (AFMA) is the leading industry association promoting efficiency, integrity and professionalism in Australia’s financial markets and provides leadership in advancing the interests of all market participants. These markets are an integral feature of the economy and perform the vital function of facilitating the efficient use of capital and management of risk. Market participants perform a range of important roles within these markets, including financial intermediation and market making.

AFMA represents over 130 members, including Australian and international banks, leading brokers, securities companies, state government treasury corporations, fund managers, traders in electricity and other specialised markets and industry service providers. A list of AFMA members is available on the AFMA website.