

The State of Western Australia

Introduction

- Western Australia (WA) is 2.5 million square kilometres in size, and one third of the Australian land mass.
- Western Australia's population is estimated at around 2.6 million, which accounts for approximately 10% of Australia's population of 25 million.
- Western Australia's capital city Perth has a population of approximately 2.1 million.

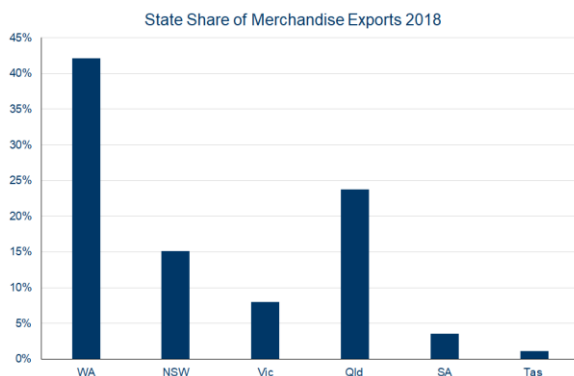


Economy

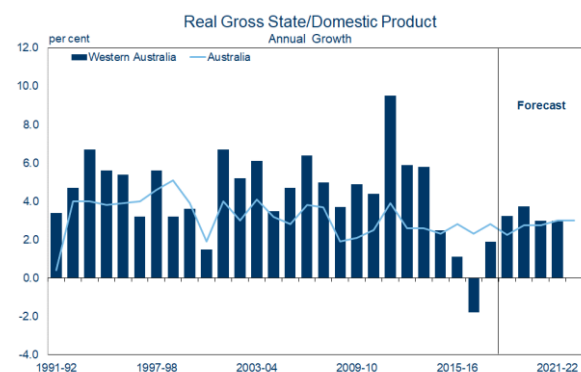
- A high-income, export orientated economy.
- Western Australia is one of the most productive and diversified mineral and petroleum regions in the world, with more than 50 mineral and petroleum products being produced in commercial quantities worth A\$115 billion in 2017-18.
- In 2017-18, iron ore was the State's most valuable resource, followed by liquefied natural gas (LNG), gold, alumina and bauxite, crude oil and condensate, nickel, natural gas, and base metals (copper, lead and zinc).
- The State's economic growth is estimated at 2.0% for 2018-19 with 3.5% growth forecast for 2019-20.

The Export Powerhouse of the Australian Economy

Western Australia produces over 40% of the nation's merchandise exports.



Source: Australian Bureau of Statistics



Source: Australian Bureau of Statistics, WA and Commonwealth Treasuries

Western Australia's economic growth has averaged 4.4% over the past 25 years.

Key Economic Indicators	Western Australia	Australia
Real GSP / GDP growth 10-year average	3.8%	2.6%
Real GSP / GDP growth 2017-18	1.9%	2.8%
Nominal GSP / GDP 2017-18	\$259.4 billion	\$1,847.7 billion
Per Capita Nominal GSP / GDP 2017-18	\$98,997	\$73,267
Business Capital Investment 2018	\$36.6 billion	\$220.6 billion
Trend Unemployment Rate April 2019	6.1%	5.1%
Trend Labour Participation Rate April 2019	67.9%	65.7%
Merchandise Goods exports value 2018	\$145 billion	\$344 billion

Source: Australian Bureau of Statistics

2019-20 Budget – Economic Projections

	2017-18 Actual	2018-19 Estimated Actual	2019-20 Budget Estimate	2020-21 Forward Estimate	2021-22 Forward Estimate	2022-23 Forward Estimate
Real Gross State Product growth (%)	1.9	2.0	3.5	3.0	3.0	3.0
Real State Final Demand growth (%)	1.0	-1.0	3.0	3.5	3.5	3.5
Employment growth (%)	2.2	1.0	1.75	2.0	2.0	2.25
Unemployment rate (%) ^(a)	6.1	6.25	6.0	5.75	5.5	5.25
Wage Price Index growth (%)	1.5	1.75	2.25	2.75	3.0	3.25
Perth Consumer Price Index growth (%)	0.9	1.25	1.75	2.25	2.5	2.5
Iron ore price, \$US/t, CFR ^{(a) (b)}	68.8	76.5	73.5	65.6	63.7	63.7
Iron ore volumes (million tonnes)	825	799	837	847	853	858
Crude oil price (\$US per barrel) ^(a)	63.7	68.5	67.1	64.5	62.4	61.0
Exchange rate (US cents) ^(a)	77.5	71.8	71.4	71.8	72.1	72.3
Population growth (%)	0.8	1.0	1.3	1.5	1.6	1.7
Interest rate assumptions (%) ^(a)						
– Public Bank Account interest earnings	2.1	2.2	2.1	2.3	2.6	2.8
– Consolidated Account borrowings	3.0	3.1	3.0	3.0	3.1	3.2

(a) Data expressed as annual average during the financial year.

(b) The benchmark (62% Fe) iron ore price delivered to north China inclusive of cost and freight (CFR).

Key 2019-20 WA Budget Aggregates

A general government operating surplus is expected for 2018-19 and across the forward estimates.

	2017-18 Actual	2018-19 Estimated Actual	2019-20 Budget Estimate	2020-21 Forward Estimate	2021-22 Forward Estimate	2022-23 Forward Estimate
GENERAL GOVERNMENT SECTOR						
Net Operating Balance (\$m)	-942	553	1,533	2,579	2,133	2,554
Revenue (\$m)	27,475	29,925	31,334	32,402	32,270	33,427
Revenue Growth (%)	7.5	8.9 ^(b)	4.7	3.4	-0.4	3.6
Expenses (\$m)	28,417	29,372	29,801	29,823	30,136	30,873
Expense Growth (%)	2.3	3.4 ^(b)	1.5	0.1	1.0	2.4
Net Debt at 30 June (\$m)	24,731	26,712	27,705	26,879	26,037	25,105
General Government Net Debt as a Share of Total Public Sector Net Debt (%)	67.4	68.3	70.1	69.2	68.0	66.4
TOTAL PUBLIC SECTOR						
Net Debt at 30 June (\$m)						
- before AASB 16	34,606	36,281	36,970	36,384	35,983	35,604
- impact of AASB 16	2,084	2,824	2,560	2,432	2,306	2,195
Net Debt at 30 June	36,690	39,106	39,531	38,816	38,289	37,799
Net Debt as a Share of GSP (%)	14.1	13.1	13.0	12.8	12.3	11.6
Asset Investment Program (\$m)	5,052	5,519	5,646	5,592	5,802	5,737
Cash Surplus/Deficit (\$m)	-2,799	-1,438	-248	954	747	729

(a) Data for 2017-18 and 2018-19 adjusted to be consistent with new accounting standards.

(b) Abstracting from the impact of accounting standards changes implemented in this Budget (and backcast in 2017-18 and 2018-19 in this table) and Commonwealth funding decisions that in some cases flow to State spending, growth in revenue and expenses in 2018-19 is 4.8% and 2.4% in underlying terms respectively.

The Australian Commonwealth and the States

Commonwealth Government

Allocated powers under the Australian constitution over matters of national interest including defence, external affairs, international trade and commerce, currency and banking.

Commonwealth Taxation Powers

Taxes levied under national legislation include personal income tax, corporate tax, excise and customs duties, royalties on offshore natural resources and the Goods and Services Tax (GST). All revenue (net of administration costs) from the GST is allocated to the states.

State Governments

State governments retain power and responsibility over all matters not delegated to the Commonwealth under the constitution. These include education, public health, police and justice system, roads, railways, ports, electricity and water supply etc.

State Taxation Powers

The States impose and have full constitutional control over payroll taxes, stamp duties, land taxes, gambling taxes and royalties on onshore natural resources.

The Australian Commonwealth and the States - Vertical and Horizontal Imbalances and Equalisation Methods - A Tightly Linked Fiscal Relationship

Vertical Imbalance

The Commonwealth and the States and Territories have a tight fiscal relationship – however, there is an imbalance between revenues and spending requirements:

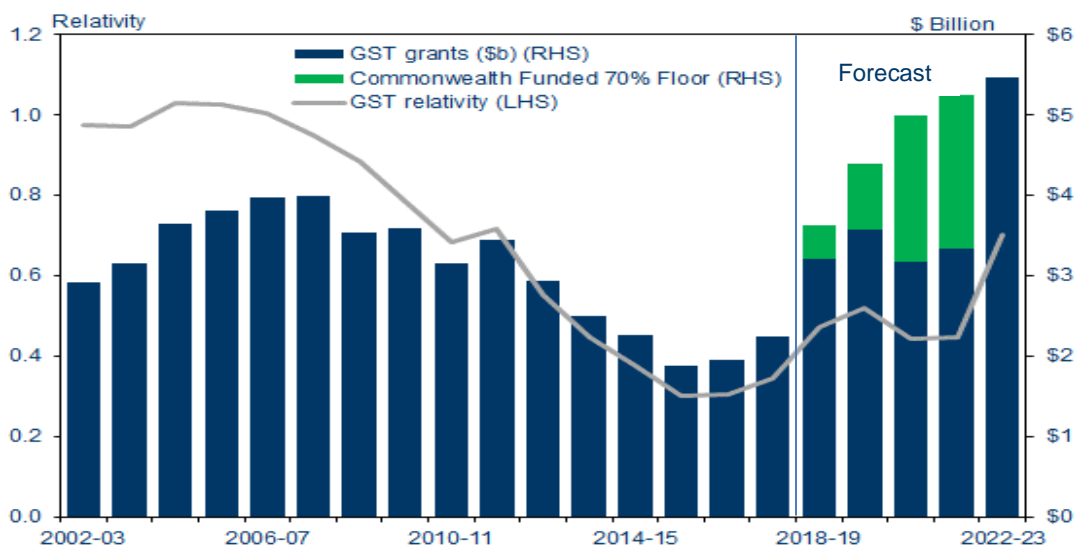
- The Commonwealth Government collects the majority of total government revenue, and the States and Territories oversee approximately half of total government spending.
- The Commonwealth therefore provides the State and Territory Governments with a large portion of their revenues via grants, which come largely in two forms – GST and Specific Purpose Grants.

Horizontal Imbalance

The Commonwealth also works to smooth revenue imbalances between the States and Territories through the Horizontal Fiscal Equalisation (HFE) framework which:

- Endeavours to equalise the fiscal capacity of each State and Territory to provide a consistent level of services to residents of each through the relative distribution of GST.
- Is set out in the Intergovernmental Agreement on Federal Financial Relations. GST revenue sharing relativities are updated annually while the methods used for calculating the relativities are reviewed every five years.

Western Australia is a Strong Net Contributor to the Commonwealth - The Commonwealth Government assesses the fiscal capacity of each Australian state to determine a re-distribution of GST revenue to strengthen the capacity of those States with weaker fiscal capacity. The graph below represents Western Australia's share of GST revenue, including Commonwealth top-ups to bring the GST relativity to 70%, and the percentage of GST returned to Western Australia.



Source: Western Australian Department of Treasury

Western Australian Treasury Corporation

Overview

- Western Australian Treasury Corporation (WATC) was established as the central borrowing authority for the State of Western Australia by the Western Australian Treasury Corporation Act 1986.
- WATC borrows funds in domestic and overseas markets for lending to over 150 semi-government and local government authorities in Western Australia and provides advisory, investment and foreign exchange services to the Western Australian public sector. WATC had total of debt of A\$52.0 billion at 30 April 2019.
- All borrowings by WATC are guaranteed by the Treasurer on behalf of the State of Western Australia by virtue of section 13(1) of the Western Australian Treasury Corporation Act 1986.

Rating Agency	Long-Term	Short-Term
Standard & Poor's	AA+ (Stable Outlook)	A-1+
Moody's Investors Service	Aa2 (Stable Outlook)	Prime-1

Funding Programs

Domestic Benchmark Bonds	Domestic Floating Rate Notes	Domestic Commercial Paper	Euro Commercial Paper	Euro Medium Term Note
<ul style="list-style-type: none"> • 12 Dealer Panel members. • 11 Maturities between 2019-2029. 	<ul style="list-style-type: none"> • Dealt through Bond Dealer panel. • 5 Maturities between 2019-2023. 	<ul style="list-style-type: none"> • Undertaken on a tap basis. • Requirements communicated to over 60 institutions. 	<ul style="list-style-type: none"> • 8 Dealer Panel members. • US\$6 billion multicurrency. • Maturities 1-364 days. 	<ul style="list-style-type: none"> • 14 Dealer Panel members. • US\$2.0 billion multicurrency. • Maturities 1 month - 30 years. • Reverse inquiry facility.

Fixed Interest Market Making Panel

- ANZ Investment Bank
- Bank of America Merrill Lynch
- Citigroup Global Markets Australia Pty Ltd
- Commonwealth Bank of Australia
- Deutsche Capital Markets Australia Ltd
- J.P. Morgan Australia Ltd
- National Australia Bank Ltd
- Nomura International plc
- Royal Bank of Canada
- TD Securities
- UBS AG, Australia Branch
- Westpac Banking Corporation

Euro Commercial Paper Program Dealer Panel

- Bank of America Merrill Lynch International Limited
- Barclays Bank plc
- Citibank International plc
- Commonwealth Bank of Australia, Hong Kong Branch
- Credit Suisse Securities (Europe) Limited
- National Australia Bank Limited, Hong Kong Branch
- UBS Limited
- Westpac Banking Corporation, Singapore Branch

Euro Medium Term Note Program Dealer Panel

- Australia and New Zealand Banking Group Limited
- Citigroup Global Markets Limited
- Commonwealth Bank of Australia
- Daiwa Capital Markets Europe Limited
- Deutsche Bank AG, London Branch
- Merrill Lynch International
- Mizuho International plc
- National Australia Bank Limited
- Nomura International plc
- RBC Europe Limited
- SMBC Nikko Capital Markets Limited
- USB Limited
- UBS AG, London Branch
- Westpac Banking Corporation

Long-term Borrowing - Domestic

BENCHMARK BOND LINES – 30 April 2019

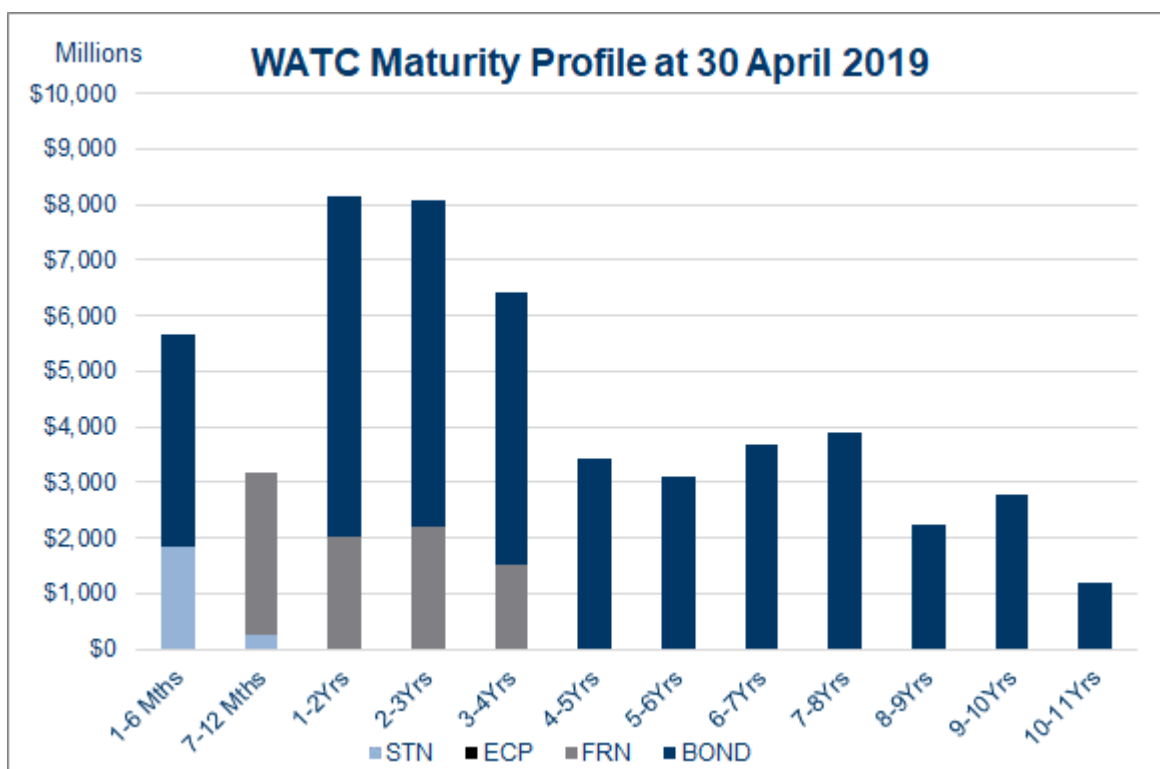
Coupon	Maturity	Amount on Issue
7.00%	15/10/19	A\$3.8 billion
2.50%	22/07/20	A\$6.2 billion
7.00%	15/07/21	A\$5.9 billion
2.75%	20/10/22	A\$4.9 billion
6.00%	16/10/23	A\$3.4 billion
2.50%	23/07/24	A\$3.1 billion
5.00%	23/07/25	A\$3.7 billion
3.00%	21/10/26	A\$3.9 billion
3.00%	21/10/27	A\$2.2 billion
3.25%	20/07/28	A\$2.8 billion
2.75%	24/07/29	A\$1.2 billion
Total Benchmark Bonds on Issue		<u>A\$41.0 billion</u>

FLOATING RATE NOTE LINES – 30 April 2019

Variable	19/11/19	A\$1.8 billion
Variable	03/03/20	A\$1.1 billion
Variable	10/03/21	A\$2.0 billion
Variable	03/03/22	A\$2.2 billion
Variable	08/03/23	<u>A\$1.5 billion</u>
Total Floating Rate Notes on Issue		<u>A\$8.6 billion</u>

TOTAL LONG-TERM DEBT ON ISSUE

A\$49.7 billion



Source: Western Australian Treasury Corporation

Western Australia - A Good Value Proposition

- **Good Credit Ratings** – AA+ (Stable outlook from 25 October 2018) from S&P and Aa2 (Stable Outlook as of 8 February 2016) from Moody's.
- **An Export-Driven Economy** – underpinned by its diversified range of resources and strong export growth.
- **Sound Government Financial Management** – with continued vigilance on expense control, but still continuing to build the bigger picture with necessary asset investments.
- **WATC's Active Market Presence** – in domestic and overseas financial markets.
- **Good Liquidity** – with large volumes on issue, qualifying as Level 1 Assets by APRA under Basel III.

Contact Us

Kaylene Gulich

Chief Executive Officer

P: (+61) 8 9235 9130

E: kgulich@watc.wa.gov.au

Vince Cinquina

Head of Financial Markets

P: (+61) 8 9235 9120

E: vcinquina@watc.wa.gov.au

John Zuvich

Chief Dealer

Debt Markets and Liquidity

P: (+61) 8 9235 9143

E: jzuvich@watc.wa.gov.au

Adrian Koelewyn

Chief Dealer

Offshore Markets & Funds Management

P: (+61) 8 9235 9125

E: akoelewyn@watc.wa.gov.au

General Contact Details

T: +61 8 9235 9100

F: +61 8 9235 9199

E: watc@watc.wa.gov.au

W: www.watc.wa.gov.au

Business Address

Level 12, St Georges Square

225 St Georges Terrace

Perth WA 6000

Australia

Postal Address

PO Box 7282

Perth Cloisters Square WA 6850

Australia

Legal Notice

The information presented in this document is distributed by Western Australian Treasury Corporation (WATC) as an information source only. WATC expressly excludes any warranties concerning the currency, accuracy, completeness, availability or suitability of the content of this document. It is not intended to be relied upon as advice to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any particular investor.

This document:

- does not constitute an offer to sell or the solicitation of an offer to buy any securities,
- may not be sent or disseminated in, directly or indirectly, any jurisdiction in which it is unlawful to so send or disseminate, and
- may not be sent or given to any person to whom it is unlawful to be so given. In particular, securities may not be offered or sold in the United States or to 'U.S. Persons' (as defined in Regulation S under the US Securities Act of 1933, as amended (the 'Securities Act')) without registration under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act and any other applicable U.S. state securities laws.

You accept the sole responsibility and risk associated with any use of the content of this document, irrespective of the purpose to which such content is applied. To the extent permitted by law, WATC disclaims all responsibility and liability (including without limitation, liability in negligence) for any expense, damage, loss or costs which you may incur as a result of use of or reliance on the content of this document. In no circumstances shall WATC be liable for any special, consequential or indirect loss or damage arising from your use of or reliance on the content of this document, even if WATC is aware of the possibility of such loss.

© Western Australian Treasury Corporation