

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.

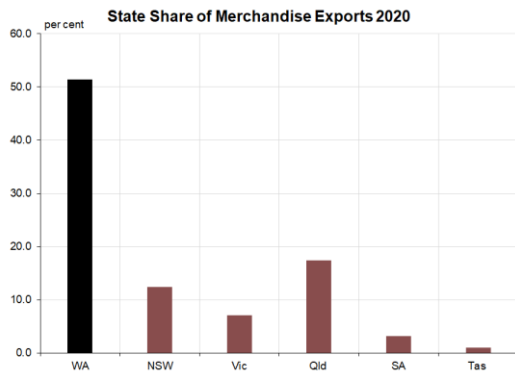


**Economy**

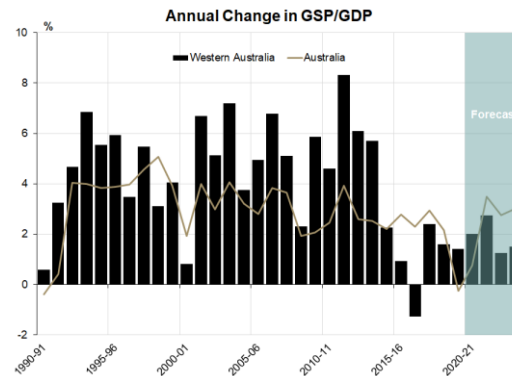
- A high-income, export orientated economy.
- Western Australia is one of the most productive and diversified mineral and petroleum regions in the world, with more than 50 mineral and petroleum products being produced in commercial quantities worth A\$172 billion in 2019-20.
- In 2019-20, iron ore was the State's most valuable resource, followed by liquefied natural gas (LNG), gold, crude oil and condensate, alumina and bauxite, nickel, natural gas, and base metals (copper, lead and zinc).
- The State's economic growth was 1.0% in 2018-19 with 3.5% growth forecast for 2019-20.

**The Export Powerhouse of the Australian Economy**

Western Australia produced 48% of the nation's merchandise exports in 2019-20.



Source: Datastream



Source: Australian Bureau of Statistics, WA and Commonwealth Treasuries

Western Australia's economic growth has averaged 4.1% over the past 25 years.

| Key Economic Indicators                                | Western Australia | Australia          |
|--|-------------------|--------------------|
| Real GSP / GDP growth 10-year average                  | 3.2%              | 2.4%               |
| Real GSP / GDP growth 2019-20                          | 1.4%              | -0.3%              |
| Nominal GSP / GDP 2019-20                              | A\$316.3 billion  | A\$1,985.4 billion |
| Per Capita Nominal GSP / GDP 2018-19                   | \$119,861         | \$77,807           |
| Business Capital Investment 2019-20                    | \$39.1 billion    | \$214.8 billion    |
| Seasonally Adjusted Unemployment Rate January 2021     | 6.2%              | 6.4%               |
| Seasonally Adjusted Labour Participation Rate Jan 2021 | 67.8%             | 66.1%              |
| Merchandise Goods exports value 2020                   | \$186 billion     | \$363 billion      |

Source: Australian Bureau of Statistics

## 2020-21 State Pre-Election Economic Projections

|  | 2019-20<br>Actual | 2020-21<br>PFPS<br>Revision | 2021-22<br>Forward<br>Estimate | 2022-23<br>Forward<br>Estimate | 2023-24<br>Forward<br>Estimate |
|--|-------------------|-----------------------------|--------------------------------|--------------------------------|--------------------------------|
| Real Gross State Product growth (%) <sup>(b)</sup>   | 1.4               | 2.0                         | 2.75                           | 1.25                           | 1.5                            |
| Real State Final Demand growth (%) <sup>(b)</sup>    | 0.8               | 2.25                        | 3.75                           | 2.25                           | 3.0                            |
| Employment growth (%)                                | 0.4               | 1.5                         | 1.5                            | 1.75                           | 1.5                            |
| Unemployment rate (%) <sup>(c)</sup>                 | 6.1               | 6.5                         | 6.0                            | 5.5                            | 5.5                            |
| Wage Price Index growth (%)                          | 1.7               | 1.5                         | 1.75                           | 2.0                            | 2.25                           |
| Perth Consumer Price Index growth (%) <sup>(d)</sup> | 1.3               | 1.5                         | 1.75                           | 1.75                           | 2.0                            |
| Iron ore price (\$US/tonne CFR) <sup>(c)(e)</sup>    | 92.9              | 134.3                       | 65.6                           | 64.0                           | 64.0                           |
| Iron ore volumes (million dry tonnes)                | 836               | 847                         | 866                            | 877                            | 881                            |
| Crude oil price (\$US per barrel) <sup>(c)</sup>     | 51.3              | 46.0                        | 53.5                           | 51.7                           | 50.9                           |
| Exchange rate (US cents) <sup>(c)</sup>              | 67.1              | 74.8                        | 77.3                           | 77.3                           | 77.3                           |
| Population growth (%)                                | 1.4               | 0.8                         | 0.7                            | 1.0                            | 1.3                            |
| Interest rate assumptions (%):                       |                   |                             |                                |                                |                                |
| – Public Bank Account earnings <sup>(c)</sup>        | 1.1               | 0.5                         | 0.4                            | 0.4                            | 0.4                            |
| – Consolidated Account borrowings <sup>(c)</sup>     | 2.8               | 2.4                         | 2.2                            | 2.1                            | 2.0                            |

(a) 2020-21 Mid-year Review assumptions shown in parentheses where different.

(b) Based on 2019-20 State Accounts data, updated with the latest State Final Demand and Balance of Payments data for the Sept

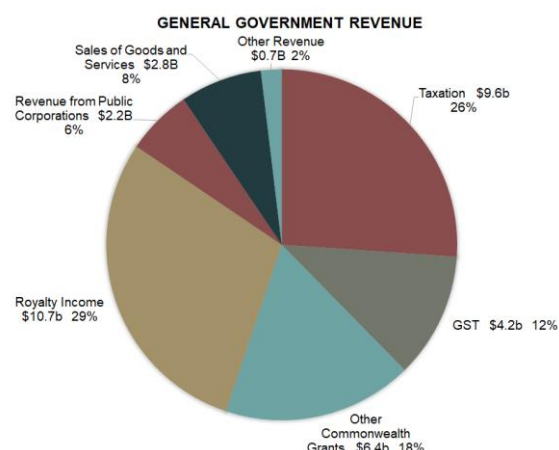
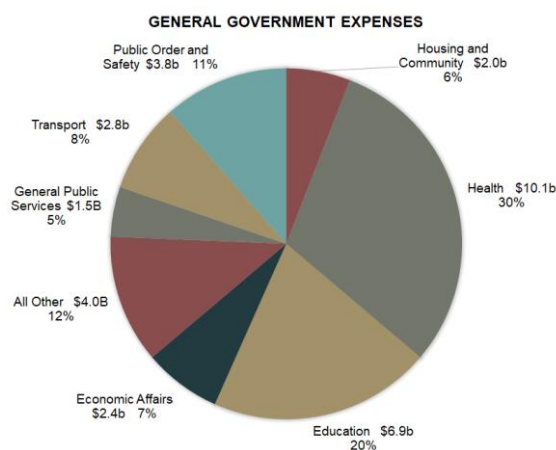
(c) Data expressed as annual average during the financial year.

(d) Consumer Price Index growth rates in 2020-21 and 2021-22 are based on the total index excluding the electricity sub-index.

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

## Key 2020-21 Pre-Election Financial Aggregates

|                                    | 2019-20<br>Actual | 2020-21<br>Mid-year<br>Revision | 2020-21<br>PFPS<br>Revision | 2021-22<br>Forward<br>Estimate | 2022-23<br>Forward<br>Estimate | 2023-24<br>Forward<br>Estimate |
|------------------------------------|-------------------|---------------------------------|-----------------------------|--------------------------------|--------------------------------|--------------------------------|
| <b>GENERAL GOVERNMENT SECTOR</b>   |                   |                                 |                             |                                |                                |                                |
| <b>Net Operating Balance (\$m)</b> | <b>1,669</b>      | <b>2,162</b>                    | <b>3,124</b>                | <b>2,231</b>                   | <b>1,483</b>                   | <b>1,911</b>                   |
| Revenue (\$m)                      | 32,162            | 35,533                          | 36,622                      | 34,252                         | 32,919                         | 33,986                         |
| Revenue Growth (%)                 | 5.9               | 10.5                            | 13.9                        | -6.5                           | -3.9                           | 3.2                            |
| Expenses (\$m)                     | 30,493            | 33,371                          | 33,499                      | 32,021                         | 31,437                         | 32,075                         |
| Expense Growth (%)                 | 5.0               | 9.4                             | 9.9                         | -4.4                           | -1.8                           | 2.0                            |
| Net Debt at 30 June (\$m)          | 23,758            | 24,452                          | 24,409                      | 25,171                         | 26,644                         | 26,738                         |
| <b>TOTAL PUBLIC SECTOR</b>         |                   |                                 |                             |                                |                                |                                |
| <b>Net Debt at 30 June (\$m)</b>   | <b>35,449</b>     | <b>38,125</b>                   | <b>36,648</b>               | <b>39,225</b>                  | <b>40,354</b>                  | <b>40,220</b>                  |
| Net Debt as a share of GSP (%)     | 11.2              | 11.8                            | 11.3                        | 13.8                           | 13.8                           | 13.3                           |
| Asset Investment Program (\$m)     | 5,188             | 7,568                           | 7,596                       | 8,486                          | 6,733                          | 6,077                          |
| Cash Surplus/Deficit (\$m)         | 2,217             | -2,288                          | -814                        | -2,138                         | -980                           | 259                            |



## 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:

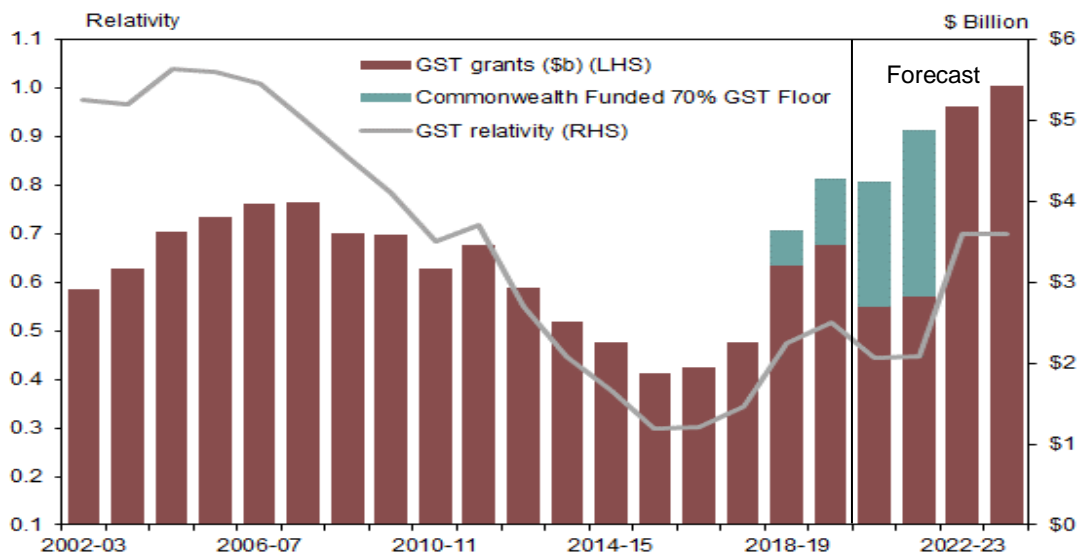
- The Commonwealth Government collects the majority of total government revenue, and the States and Territories oversee approximately half of total government spending.
- The Commonwealth therefore provides the State and Territory Governments with a large portion of their revenues via grants, which come 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.



**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\$53.3 billion at 31 January 2021.
- 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 | Aa1 (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"> <li>• 12 Dealer Panel members.</li> <li>• 12 Maturities between 2021-2041.</li> </ul> | <ul style="list-style-type: none"> <li>• Dealt through Bond Dealer panel.</li> <li>• 6 Maturities between 2021-2026.</li> </ul> | <ul style="list-style-type: none"> <li>• Undertaken on a tap basis.</li> <li>• Requirements communicated to over 60 institutions.</li> </ul> | <ul style="list-style-type: none"> <li>• 8 Dealer Panel members.</li> <li>• US\$6 billion multicurrency.</li> <li>• Maturities 1-364 days.</li> </ul> | <ul style="list-style-type: none"> <li>• 13 Dealer Panel members.</li> <li>• US\$2.0 billion multicurrency.</li> <li>• Maturities 1 month - 30 years.</li> <li>• Reverse inquiry facility.</li> </ul> |

**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
- UBS AG, London Branch
- Westpac Banking Corporation

**Long-term Borrowing - Domestic**

**BENCHMARK BOND LINES – 31 January 2021**

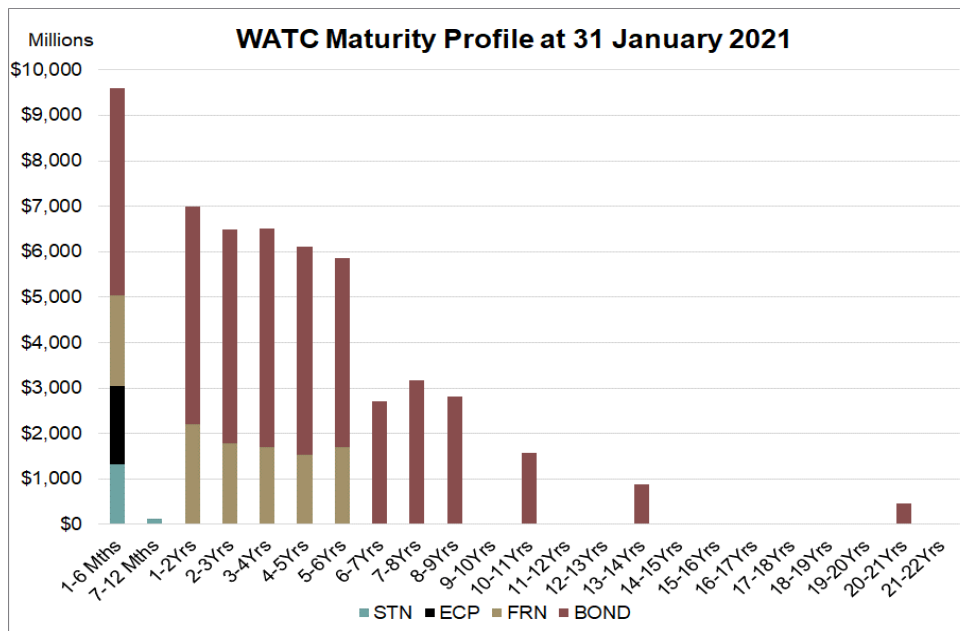
| <b>Coupon</b>                         | <b>Maturity</b> | <b>Amount on Issue</b>        |
|---------------------------------------|-----------------|-------------------------------|
| 7.00%                                 | 15/07/21        | A\$4.6 billion                |
| 2.75%                                 | 20/10/22        | A\$4.8 billion                |
| 6.00%                                 | 16/10/23        | A\$4.7 billion                |
| 2.50%                                 | 23/07/24        | A\$4.8 billion                |
| 5.00%                                 | 23/07/25        | A\$4.6 billion                |
| 3.00%                                 | 21/10/26        | A\$4.2 billion                |
| 3.00%                                 | 21/10/27        | A\$2.7 billion                |
| 3.25%                                 | 20/07/28        | A\$3.2 billion                |
| 2.75%                                 | 24/07/29        | A\$2.8 billion                |
| 1.75%                                 | 22/10/31        | A\$1.6 billion                |
| 2.00%                                 | 24/10/34        | A\$0.9 billion                |
| 2.25%                                 | 23/07/41        | A\$0.5 billion                |
| <b>Total Benchmark Bonds on Issue</b> |                 | <b><u>A\$39.2 billion</u></b> |

**FLOATING RATE NOTE LINES – 31 January 2021**

| <b>Coupon</b>                             | <b>Maturity</b> | <b>Amount on Issue</b>        |
|---|-----------------|-------------------------------|
| Variable                                  | 10/03/21        | A\$2.0 billion                |
| Variable                                  | 03/03/22        | A\$2.2 billion                |
| Variable                                  | 08/03/23        | A\$1.8 billion                |
| Variable                                  | 21/02/24        | A\$1.7 billion                |
| Variable                                  | 19/02/25        | A\$1.5 billion                |
| Variable                                  | 10/03/26        | A\$1.7 billion                |
| <b>Total Floating Rate Notes on Issue</b> |                 | <b><u>A\$10.9 billion</u></b> |

**TOTAL LONG-TERM DEBT ON ISSUE**

**A\$50.1 billion**



### Western Australia - A Good Value Proposition

- **Good Credit Ratings** – AA+ (Stable Outlook) from S&P and Aa1 (Stable Outlook) 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.

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