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# THE AUSTRALIAN FINANCIAL REVIEW

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## Flawed forecasts: how Treasury misread the boom

With the benefit of more than a century of hindsight from Australia's life as a boom-crash commodity economy, it's not unreasonable to expect that the government's economic advisers would get it right. Surely Treasury's economists told the government the river of gold from China was a temporary surge in income that would sooner or later be followed by a crash? Unfortun-

Treasury thought the China-fuelled resources boom would last decades, but the slump shows how wrong it was and how Australia failed to reap a lasting legacy. **Paul Cleary** reports.

ately not, as the record of policy advice uncovered by *The Australian Financial Review* now shows. The legacy of the most recent resources boom is that Australia

failed to stash the cash during a period of glorious economic sunshine, leaving the country in a vulnerable state during the economic downturn.

Instead, what emerges is an unshakeable belief held by many Australian economists – including those in the Treasury – that the China-led resources boom would go on for decades. Treasury thought the surge in the terms of trade, the weighted average of a country's export prices relative to its import prices, could be considered a "permanent" increase in national

income. This view may well have encouraged the loosest fiscal policy since the Whitlam years, in which more than \$300 billion in new spending and tax cuts was unleashed between 2004-05 and the 2007 election, fanning higher inflation and interest rates. The record of policy advice uncovered by a request for documents **Continued page 56**

## Bad debts mar NAB's \$2bn profit

- Recession drives business defaults
- CEO defends interest rates stance

**Matthew Drummond**

National Australia Bank has posted a robust first-half cash profit of \$2 billion but the result was marred by worse-than-expected bad debt write-downs as the recession hits its small and medium-sized business customers faster than anticipated. Chief executive Cameron Clyne, delivering his first profit result after taking the reins in January, unveiled solid loan growth and strong margin trends, as interest margins began to widen for the first time in 10 years. Responding to criticism that the big banks were profiteering from the fallout from the global financial crisis, Mr Clyne said profits were needed to ensure the bank stayed secure. "It's the right thing for Australia and the economy," he said. Bank stocks were sold down

**CLYNE'S DEBUT**

- 'Behind the rhetoric lies a domestic banking business that's still in pretty good shape.'** – Chanticleer, back page
- ◆ Andrew Cornell comment, **page 50**
  - ◆ Market Wrap, **page 17**
  - ◆ Street Talk, **page 18**
  - ◆ Result coverage, **pages 50, 51**
  - ◆ IT system faces delay, **page 54**

sharply following the result, after analysts pointed to a dramatic doubling in losses in NAB's book of loans to small and medium-sized businesses as a sign the downturn was hitting hard. "That's the most frightening thing about this result," one analyst said. "These are just ordinary companies" **Continued page 50**



In the spotlight . . . new NAB chief executive Cameron Clyne delivers his first profit result yesterday.

Photo: NIC WALKER

## Super shake-up targets fees, commissions

**Sally Patten and Duncan Hughes**

Superannuation fees and commissions will come under scrutiny in a sweeping new review of the retirement savings system being set up by the federal government. In a move that could trigger further consolidation in an industry already under pressure because of plummeting returns caused by the collapse in share prices, Corporate

- ◆ **Laura Tingle:** analysis, **page 12**
- ◆ **Sally Patten:** comment, **page 12**
- ◆ **DIY super:** Portfolio, **page 30**
- ◆ **Super reserves lacking,** **page 49**
- ◆ **Don't tinker:** Editorial, **page 58**

Law and Superannuation Minister Nick Sherry said yesterday the review would examine the operational features of the super system. Although the main focus is

expected to be on fees and costs, other areas to be included are conflicts of interest, investment design, capital gains tax relief, administration and legacy products. The process will take place alongside the government's tax review headed by Treasury secretary Ken Henry, which is examining the adequacy of super, and a parliamentary inquiry into the role played by **Continued page 12**

## Rudd pushes clean power

**John Breusch**

Prime Minister Kevin Rudd will urge premiers to support a renewable energy scheme that increases incentives to invest in clean power generation and expands assistance to heavy industry. The plan, to be put to premiers at the Council of Australian

Governments meeting in Hobart tomorrow, aims to allay concerns among big energy users that higher electricity prices arising from the 20 per cent renewable energy target (RET) could initially impose even greater costs on business than the government's proposed emissions trading scheme. **Continued page 4**

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