APRA’s credit squeeze

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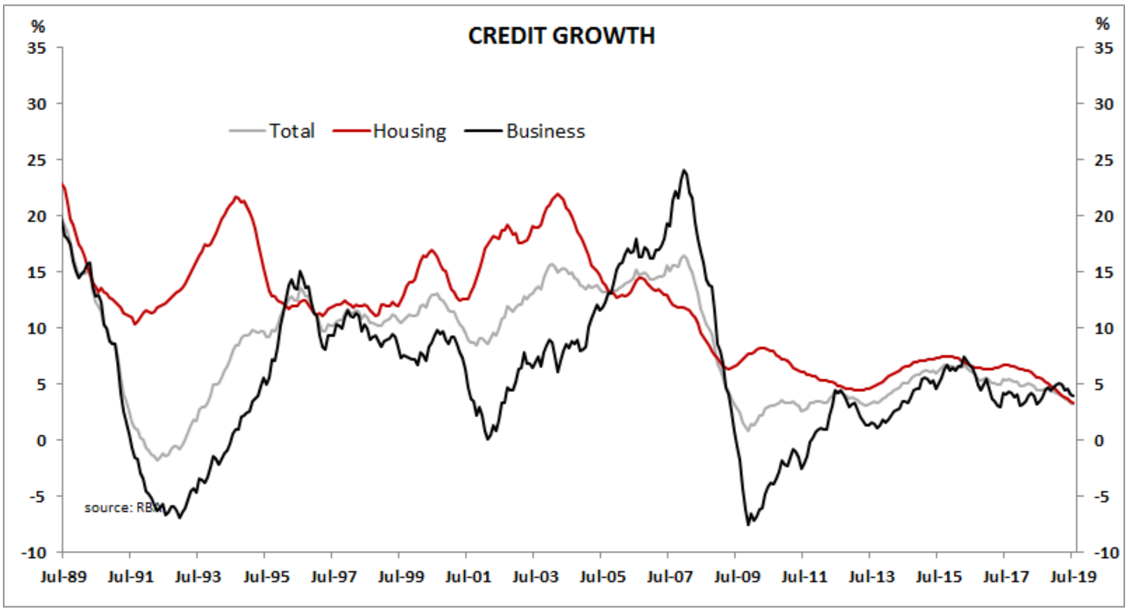
APRA is restraining the growth of business activity in Australia through credit restraint. The latest set of data released as at July 2019 shows Australian private credit to be growing at a very slow rate.

Chart 1: Credit Growth

Slow lending growth is a consequence of APRA policy in recent years. The implementation of counter-cyclical capital buffers for Authorised Deposit-taking Institutions (ADIs), mainly banks, have been initiated by APRA. “…ADI capital levels have continued to move towards the unquestionably strong capital benchmarks APRA outlined in 2017.”[1] These controls are intended to provide sufficient loss-absorbing capacity in ADIs in stressful circumstances.



While this policy may be sound, the consequence is that credit growth is being constrained. Macro-prudential policy being conducted by APRA is in contrast with the easy-money policy being applied by the RBA.

This robust prudential framework is challenging the maintenance of full employment which is a priority of RBA policy. Government (through Treasury) will need a resolution of the two conflicting policies; one which provides relief from the credit squeeze currently underway while providing a buffer for the next financial crisis.

[1] APRA Information Paper: Countercyclical Capital Buffer, January 2019