Bank credit poised for material growth

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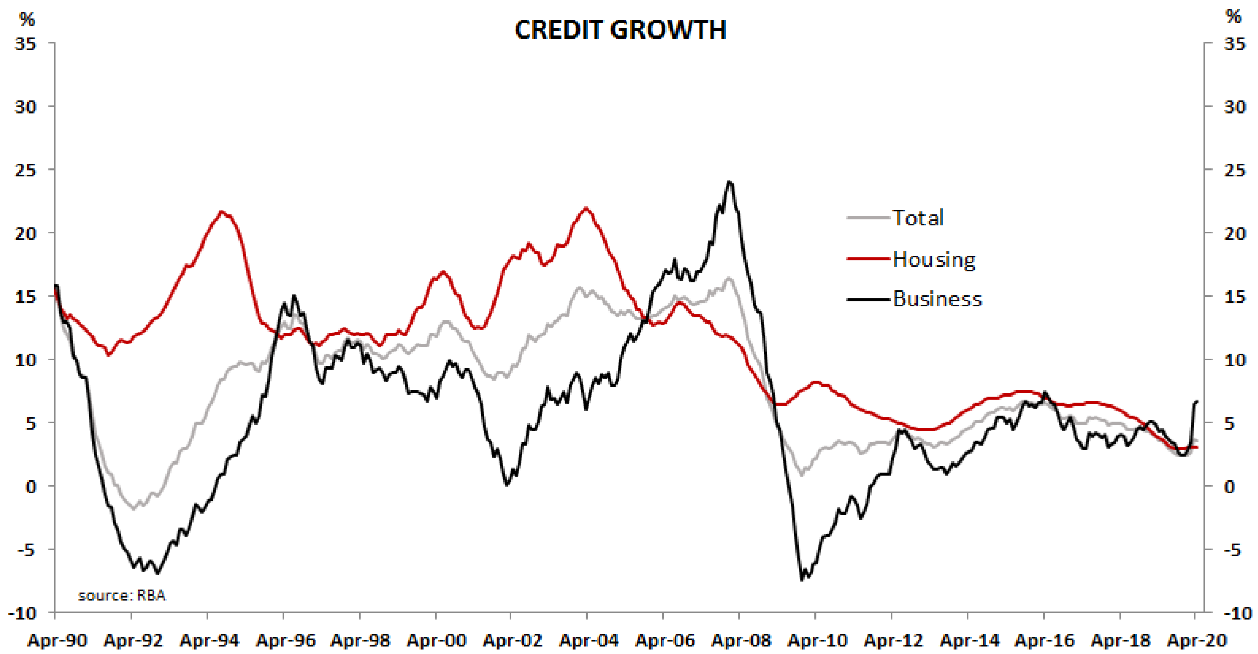
Credit growth was flat in April with only owner-occupier growing as shown in Chart 1. The RBA, APRA, ASIC and Australian Treasury have made it clear that capital and liquidity buffers are available to be drawn down in this period of weakness. Of the financial regulators, only Austrac is not supporting stimulus. It is not a member of the Council of Financial Regulators which provides a forum for cooperation by regulators.

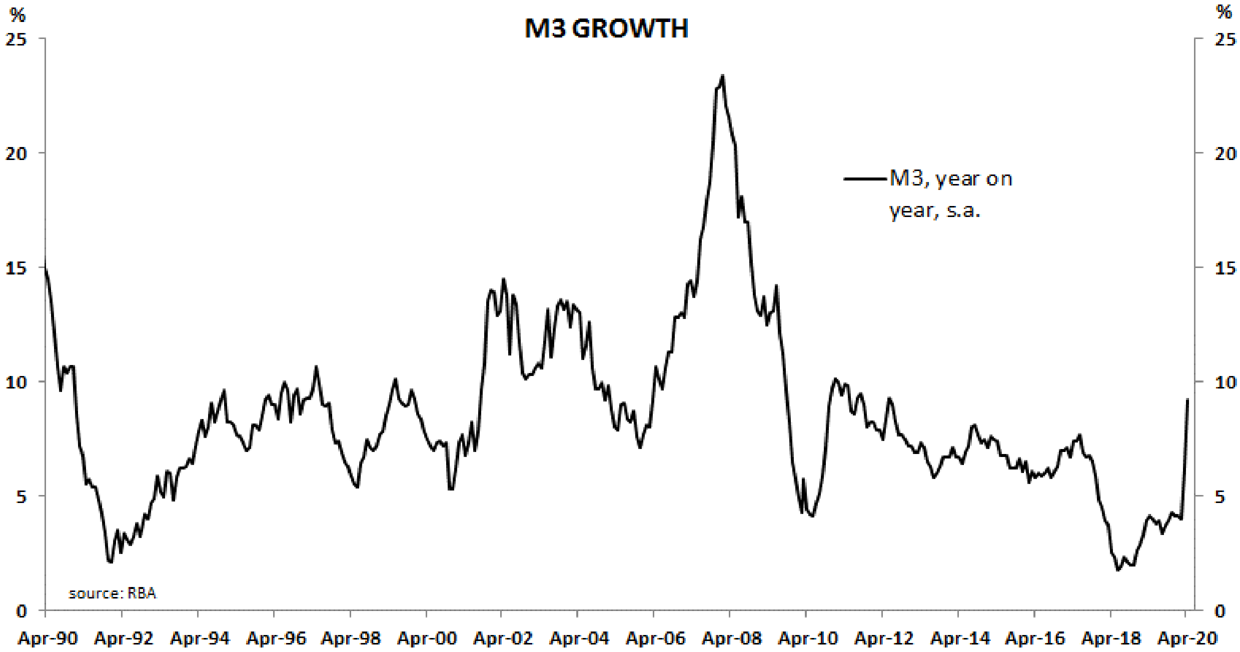
Stimulus through the banking system is poised to emerge. Buffers were established during periods of economic strength and it is in keeping with counter-cyclical policy that they be eased in periods of stress such as now.

Chart 1 – Credit Growth



Government spending has been committed and monetary policy, through interest rate reductions and provision of liquidity by the RBA, has provided stimulus.

Chart 2 Growth in Money Supply.



Evidence of the degree of monetary stimulus is provided by money supply growth shown in Chart 2. When combined with the easing of capital buffers, the banks are poised to increase lending materially, thereby delivering growth in business, investor and household activity. All banks and financial institutions have stated the wish to participate in the restoration of activity in Australia.