

Council of Financial Regulators supports bank credit growth

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By guest contributor Ken Atchison, CEO, Atchison Consultants

In an extraordinary webinar arranged by Finsia, the pinnacle body representing Australian financial regulators provided insights on response to the coronavirus. The Council of Financial Regulators is chaired by Phillip Lowe, the Governor of the RBA, and it includes the heads of APRA, ASIC and Australian Treasury. While it has no formal powers, it provides a forum for cooperation between the agencies.

Four key points emerge from deliberations of the Council:

- Australia has a resilient financial system with material capital buffers and liquidity.
- Capital and liquidity buffers are available to be drawn down in the period of weakness we are currently experiencing.
- It is important that lenders support the flow of credit to the economy.
- Regulators need to adjust the timing of regulatory initiatives.

All four points are material.

Critically easing of capital and liquidity buffers will provide stimulus through the banking system. The 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.

After an extended period of subdued growth, private credit finally showed encouraging growth in January and February 2020. In March business lending spiked higher reflecting draw-downs of credit lines as the crisis grew. In contrast, personal credit growth declined as individuals became increasingly concerned. As shown in Chart 1 business credit was growing.

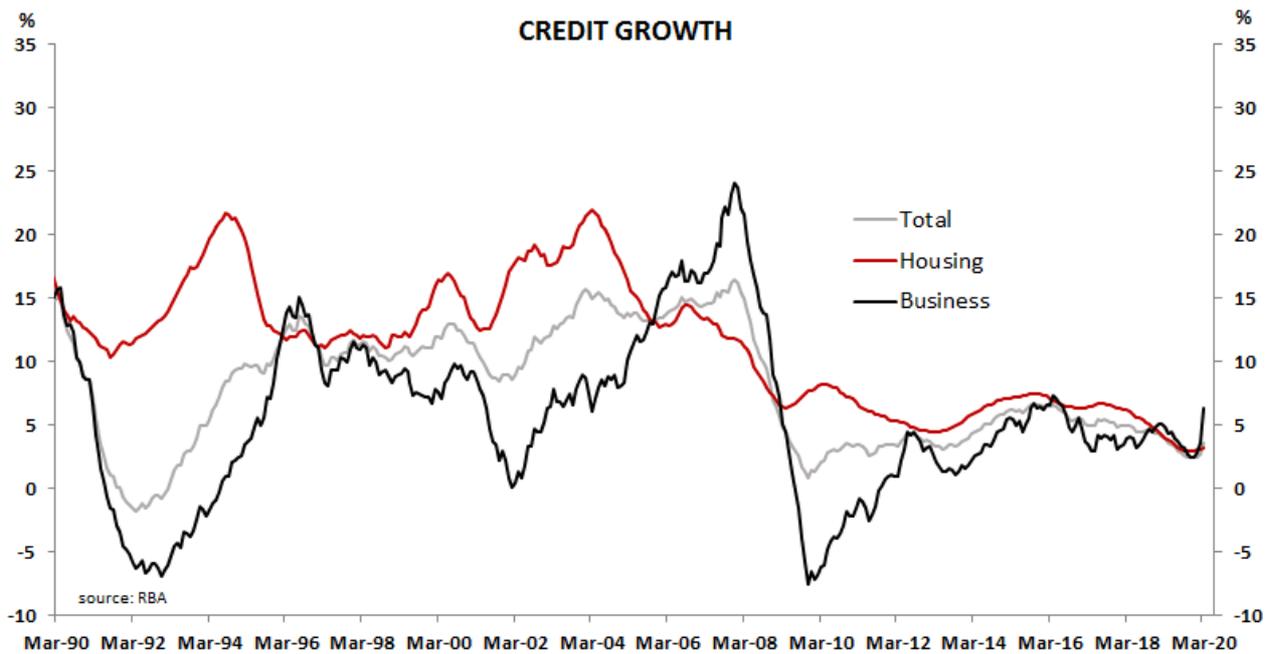


Chart 1 – Credit Growth

□ The recently-formed National Cabinet, which oversees policy responding to the corona virus, had been directed initially primarily towards health issues. It has now added the revival of business activity in Australia to its agenda. Federal and state government spending has been committed and monetary policy, through interest rate reductions and provision of liquidity by the RBA, has provided stimulus.

Cooperative policy being instituted by all parties in the Council of Financial Regulators will provide the stimulus through the banking system through drawing on the capital buffers established in better times. Banks are being encouraged to participate in the recovery. Lending growth is favoured by the easing capital buffer requirements on banks.