

Strength and Resilience

Australia and the Global Financial Crisis

Global Recovery: Asia and the New Financial Landscape
Federal Reserve Bank of San Francisco
8 June 2010



Australian Government

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Deputy Secretary, Economic

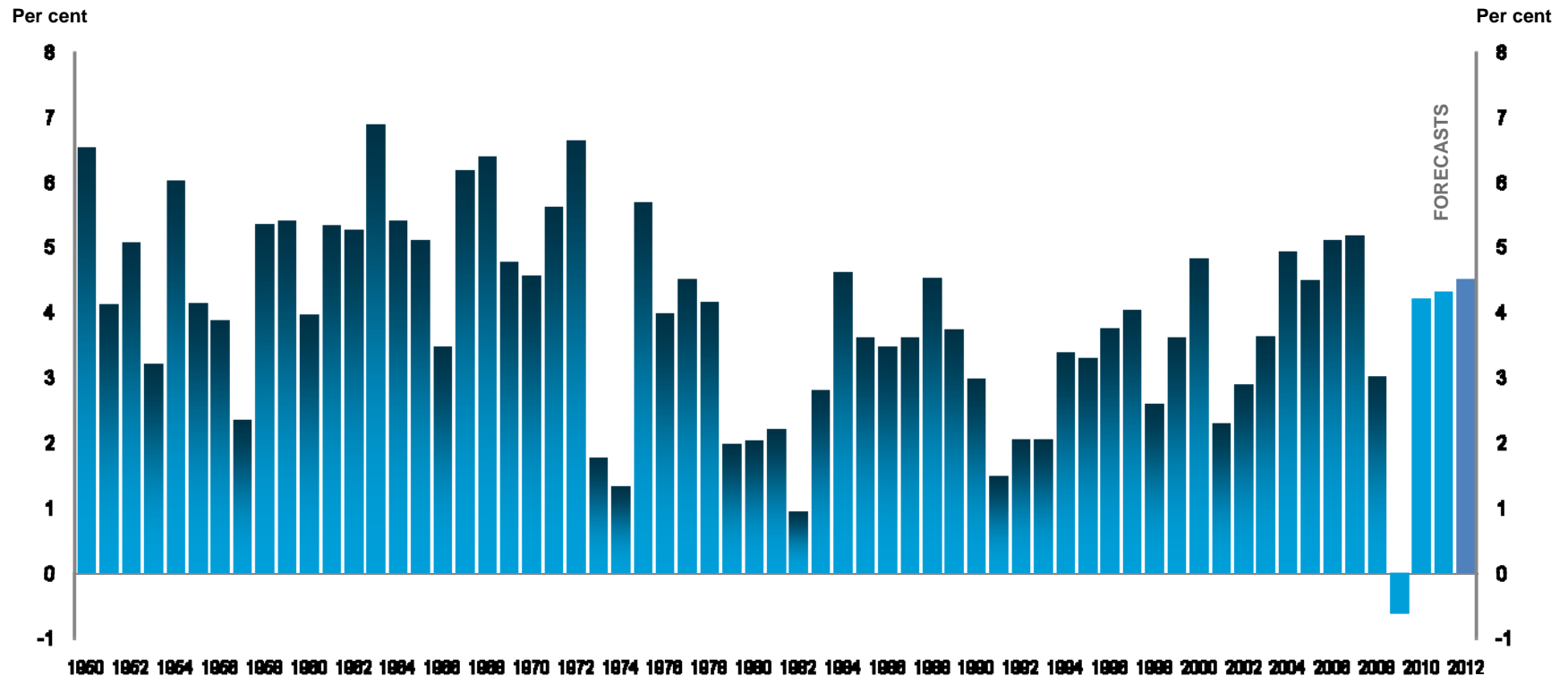
Department of the Prime Minister and Cabinet, Australia

- **How did Australia fare during the crisis?**
- **Why did Australia fare so well:**
 - **Concerted fiscal, monetary and financial sector support**
 - **Trading partner growth**
 - **Strong institutions**
- **Lessons learned**



Global economic environment – worst recession in the post war period

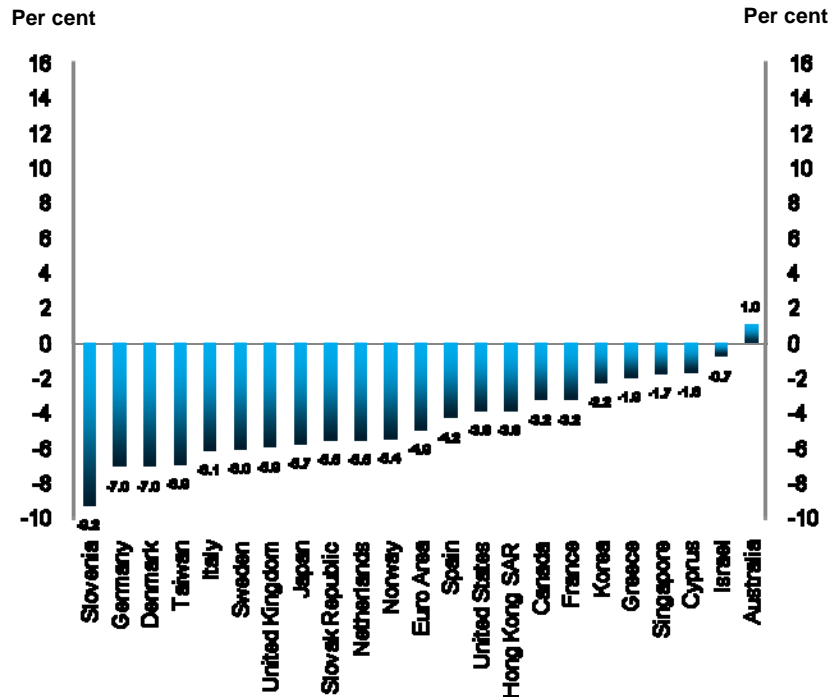
Global GDP growth (Annual average growth)



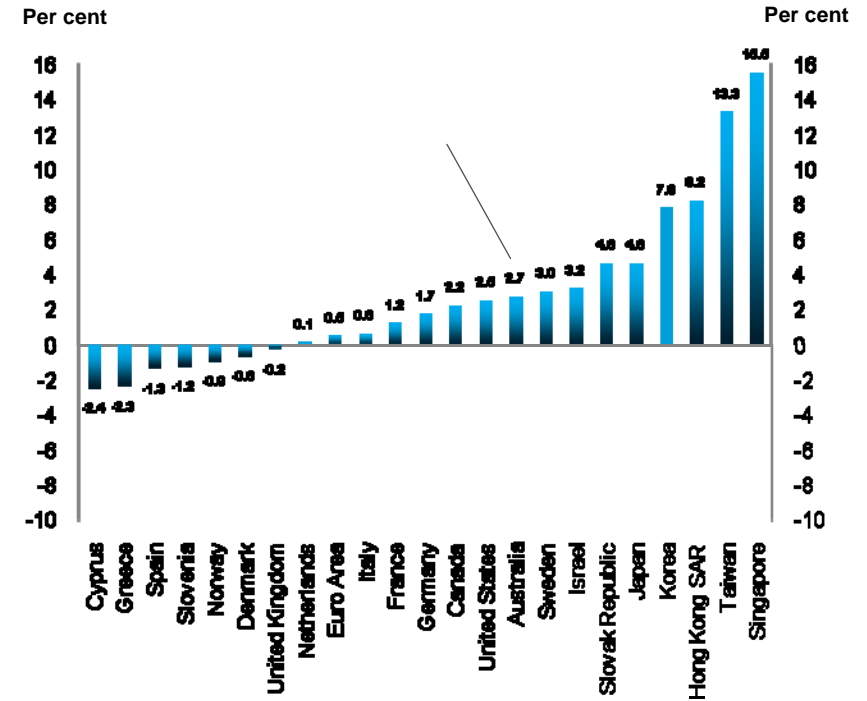
The Australian economy grew during the crisis and is still doing so

GDP growth of IMF advanced economies

(Through the year GDP growth – June 2009)



(Through the year GDP growth – March 2010)



Note: The above graph includes 23 of the 33 IMF advanced economies. Those without March 2010 data available and which have been excluded include Finland, Iceland, Ireland, Czech Republic, Luxembourg, Portugal, Belgium, New Zealand, Switzerland and Austria.

Source: National Agencies.

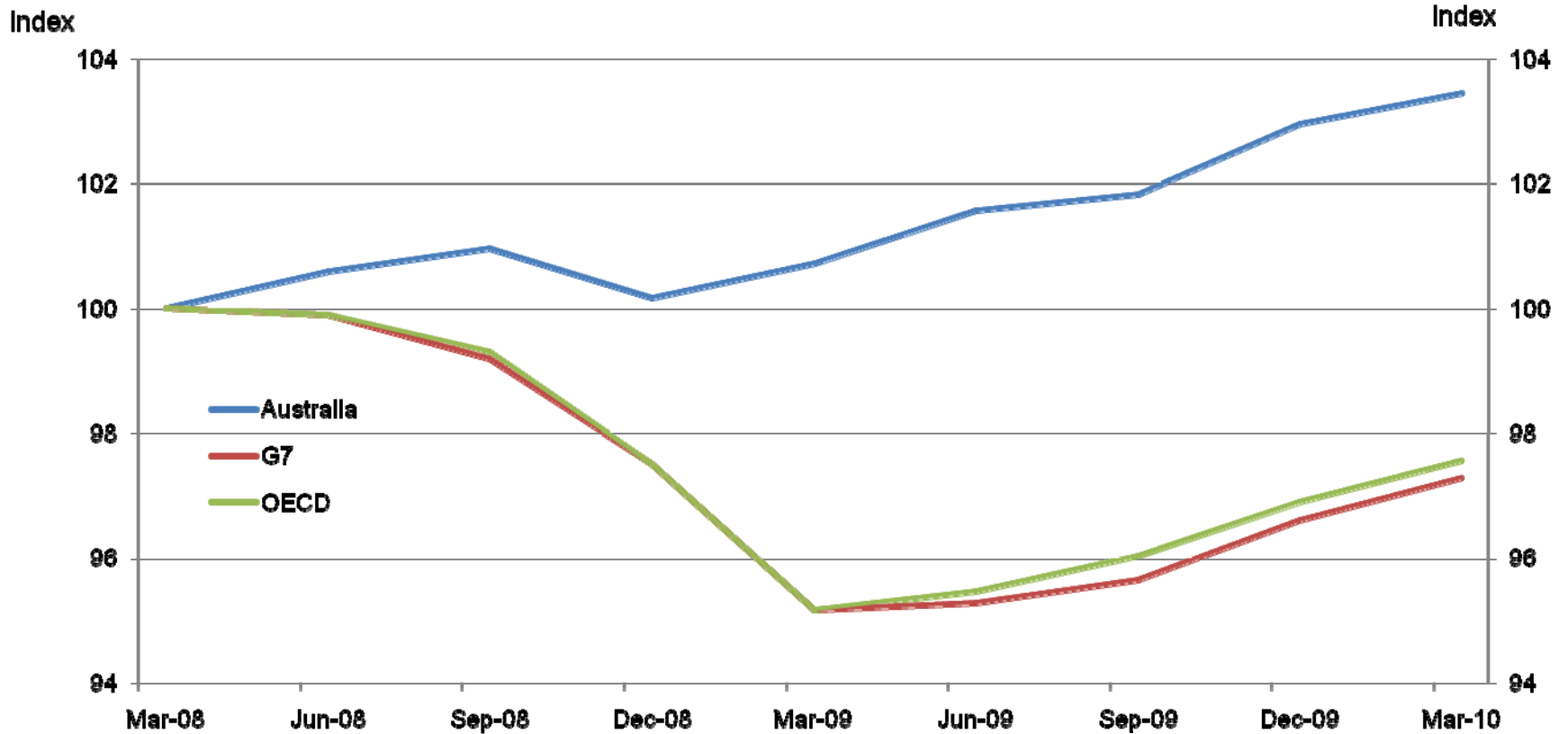


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Australia's GDP is above pre-crisis levels.

Australia, G7 and OECD GDP growth compared to pre-crisis levels

(March 2008 to March 2010)



Note: Data has been indexed to March 2008.



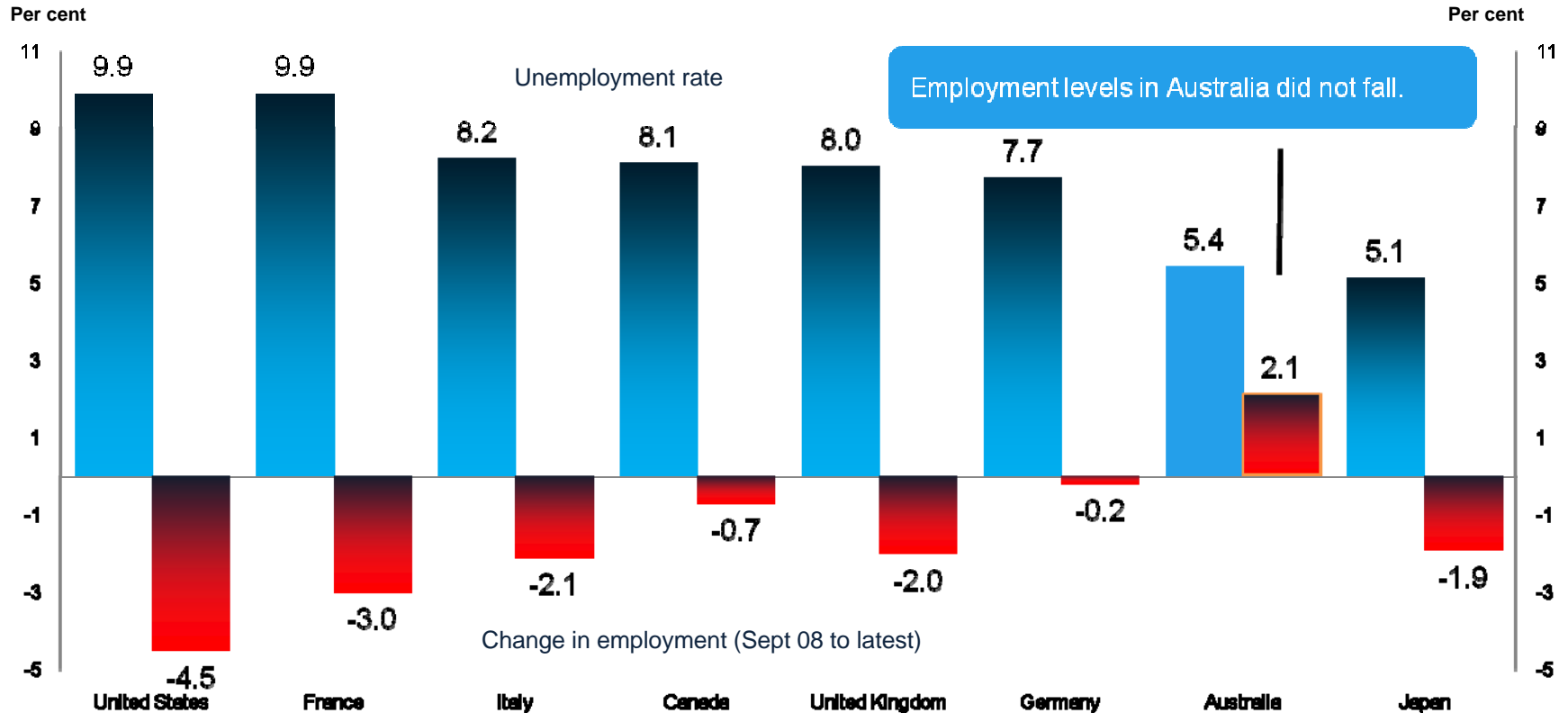
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Source: Australian Bureau of Statistics (Cat no. 5206 and Reuters).

Employment levels in Australia did not fall and our unemployment rate is lower than nearly all major advanced economies

Change in employment (Sept 08 to latest) and latest unemployment rates in major advanced economies and Australia

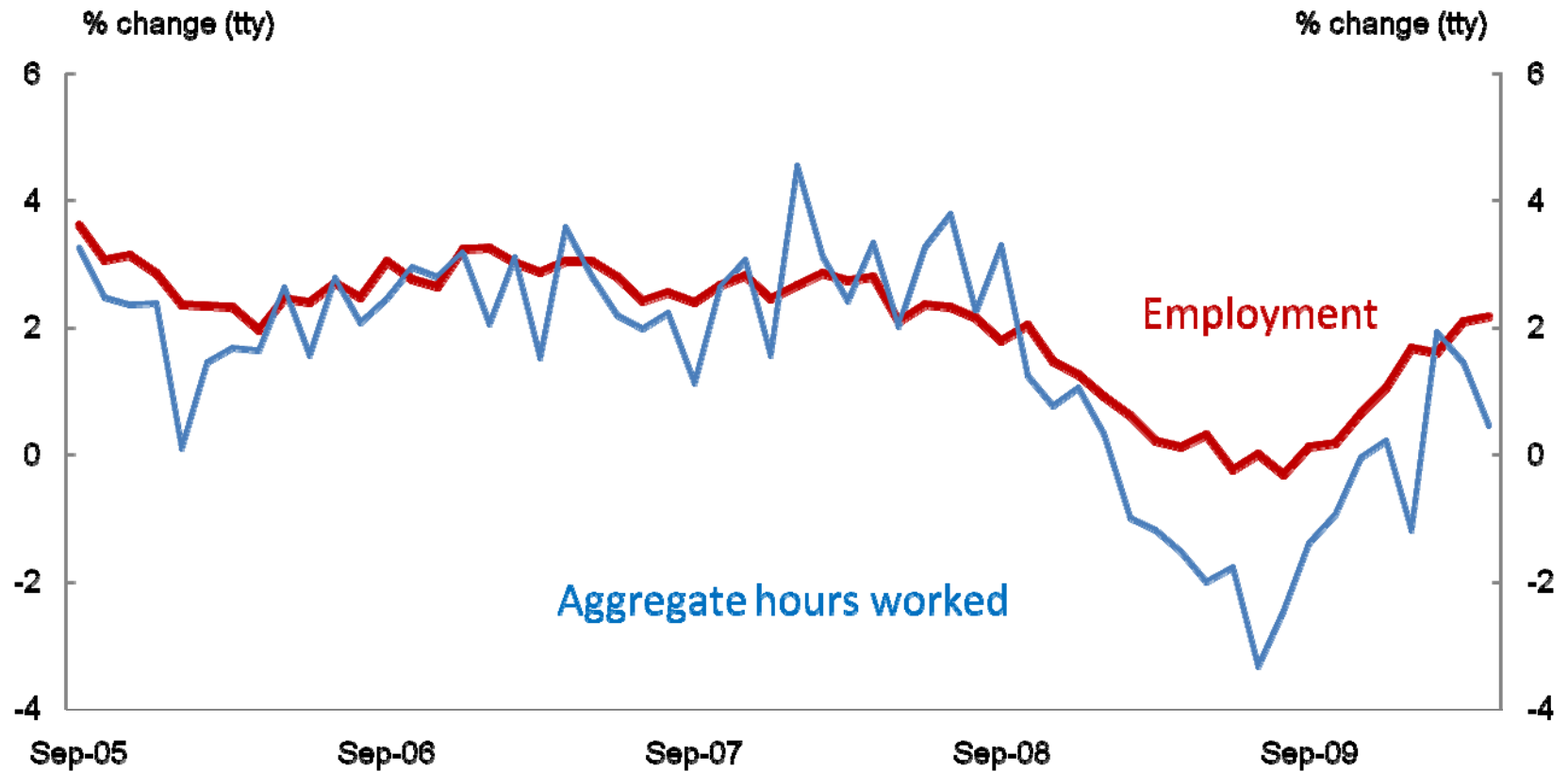
(latest available data)



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Source: National Agencies and Australian Bureau of Statistics, Cat. No. 6202.0. Data is based on latest available at 4 June 2010.

Employment and hours worked during the GFC



Source: ABS

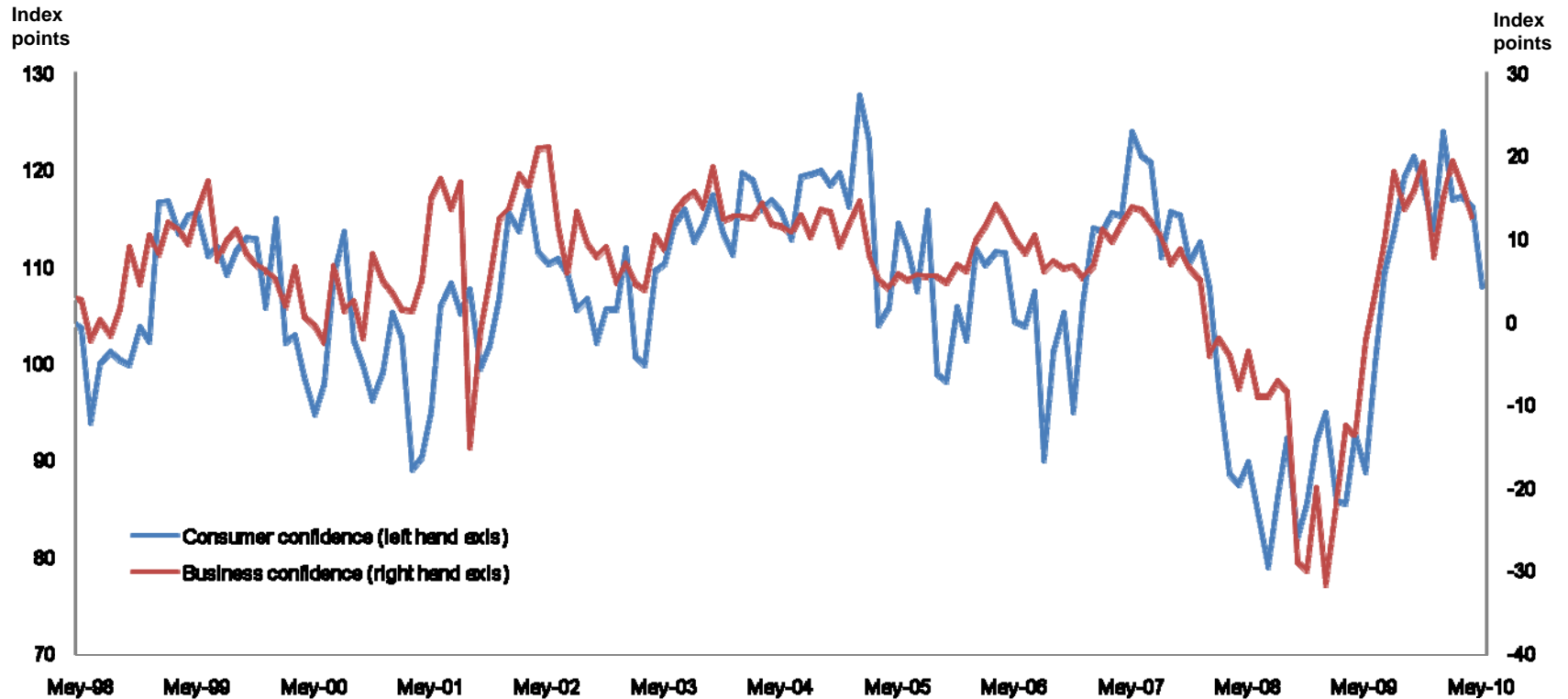


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Consumer and business confidence recovered quickly

Australian Consumer Sentiment and Business Confidence

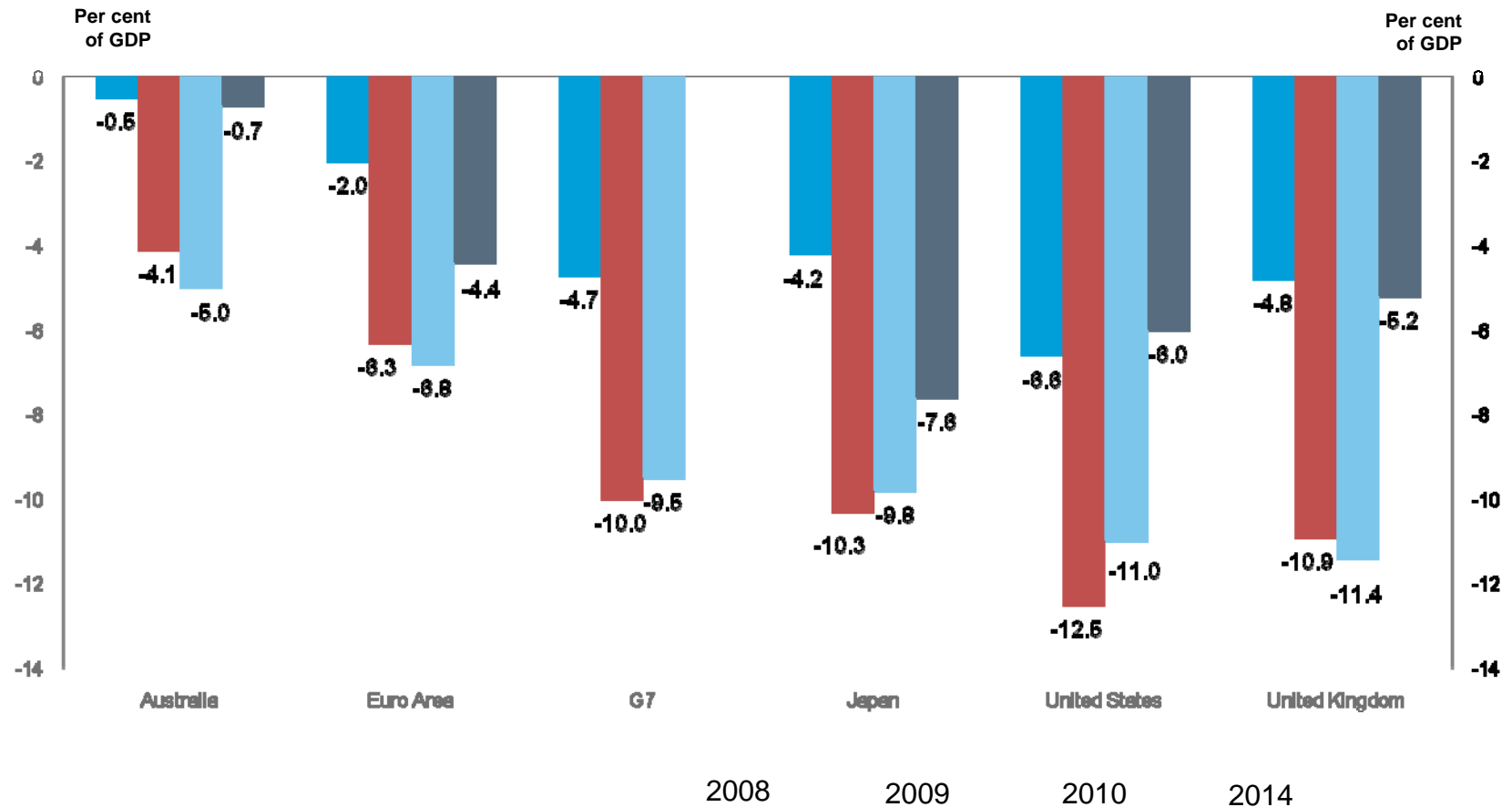
(May 1998 to May 2010)



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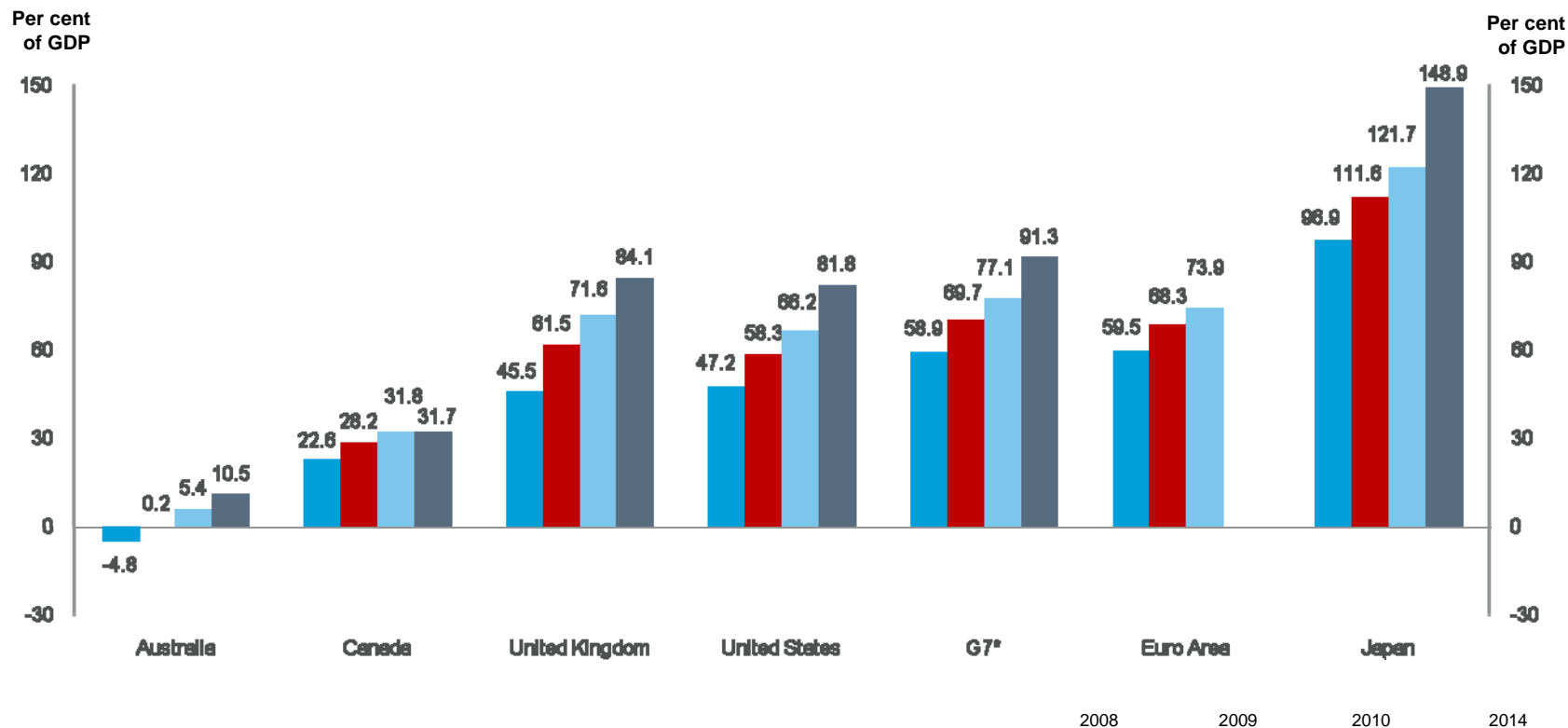
Source: Westpac-Melbourne Institute Survey of Consumer Sentiment and NAB Business Survey.

Fiscal deficits of the major advanced economies and Australia in 2008-10 and 2014



Australia has lower levels of government debt

Net debt levels of the major advanced economies and Australia in 2008-10 and 2014





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Why Australia did so well

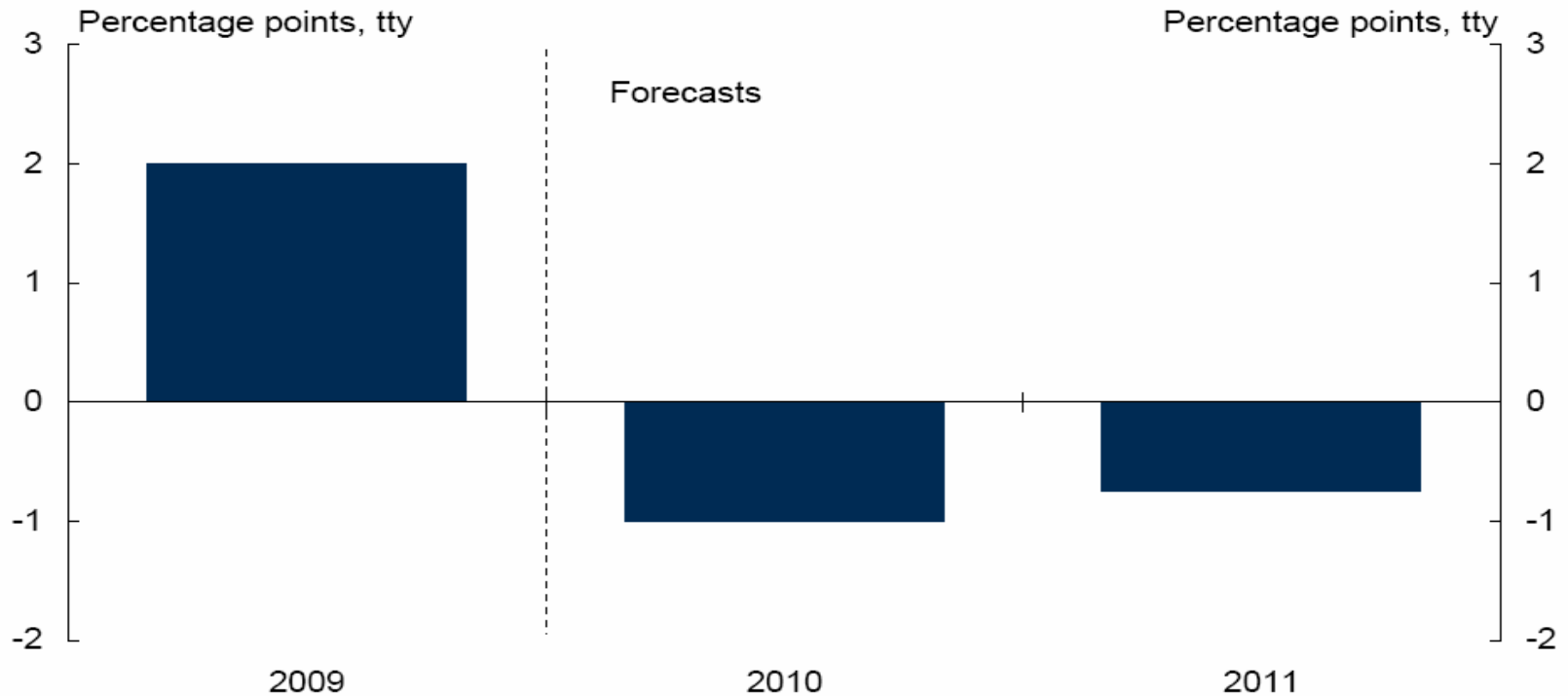


Concerted fiscal, monetary and financial sector support



Fiscal stimulus contribution to growth

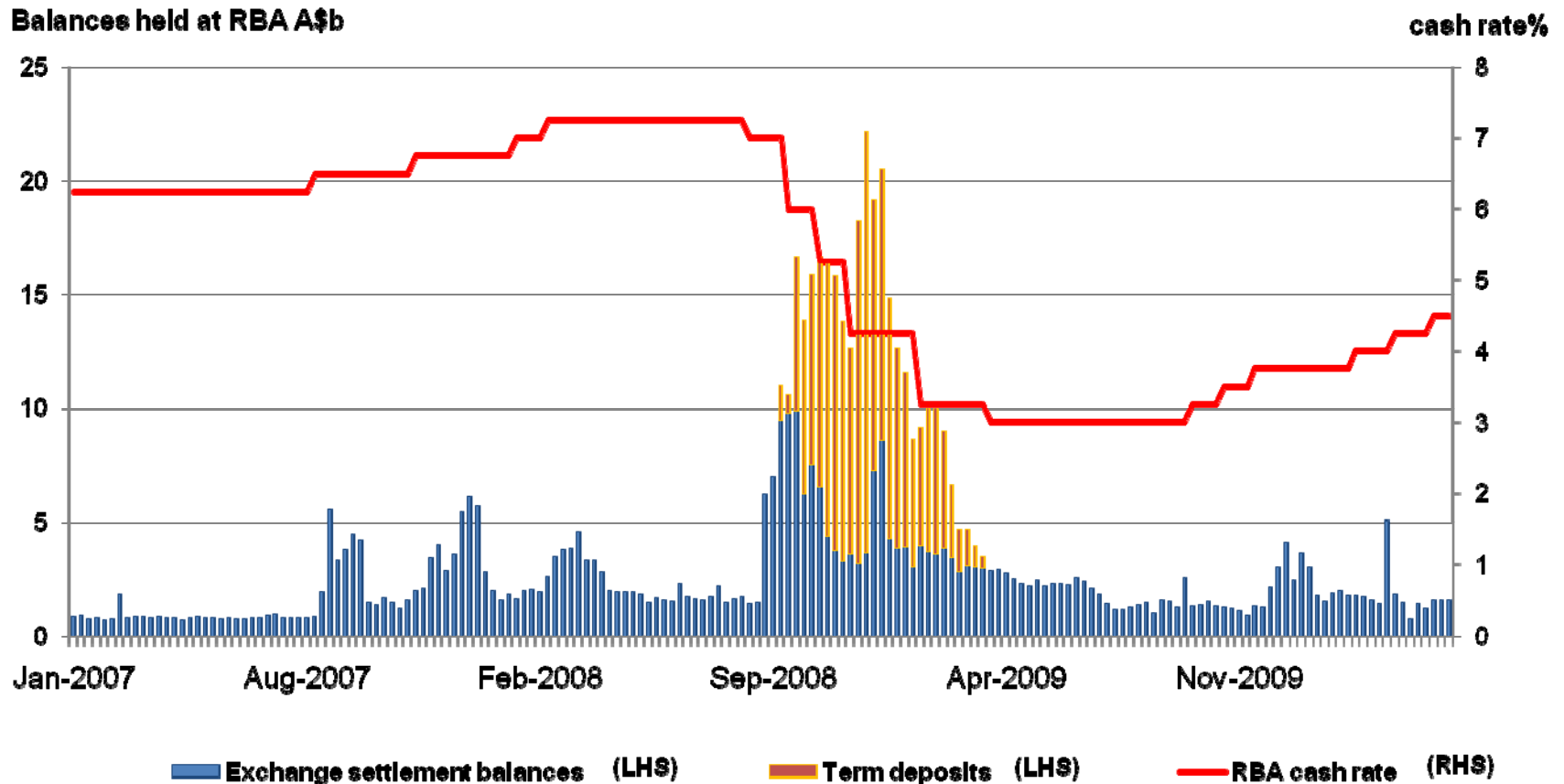
Chart 7: Estimated contribution of stimulus to GDP growth



Source: ABS cat. no. 5206.0 and Treasury.



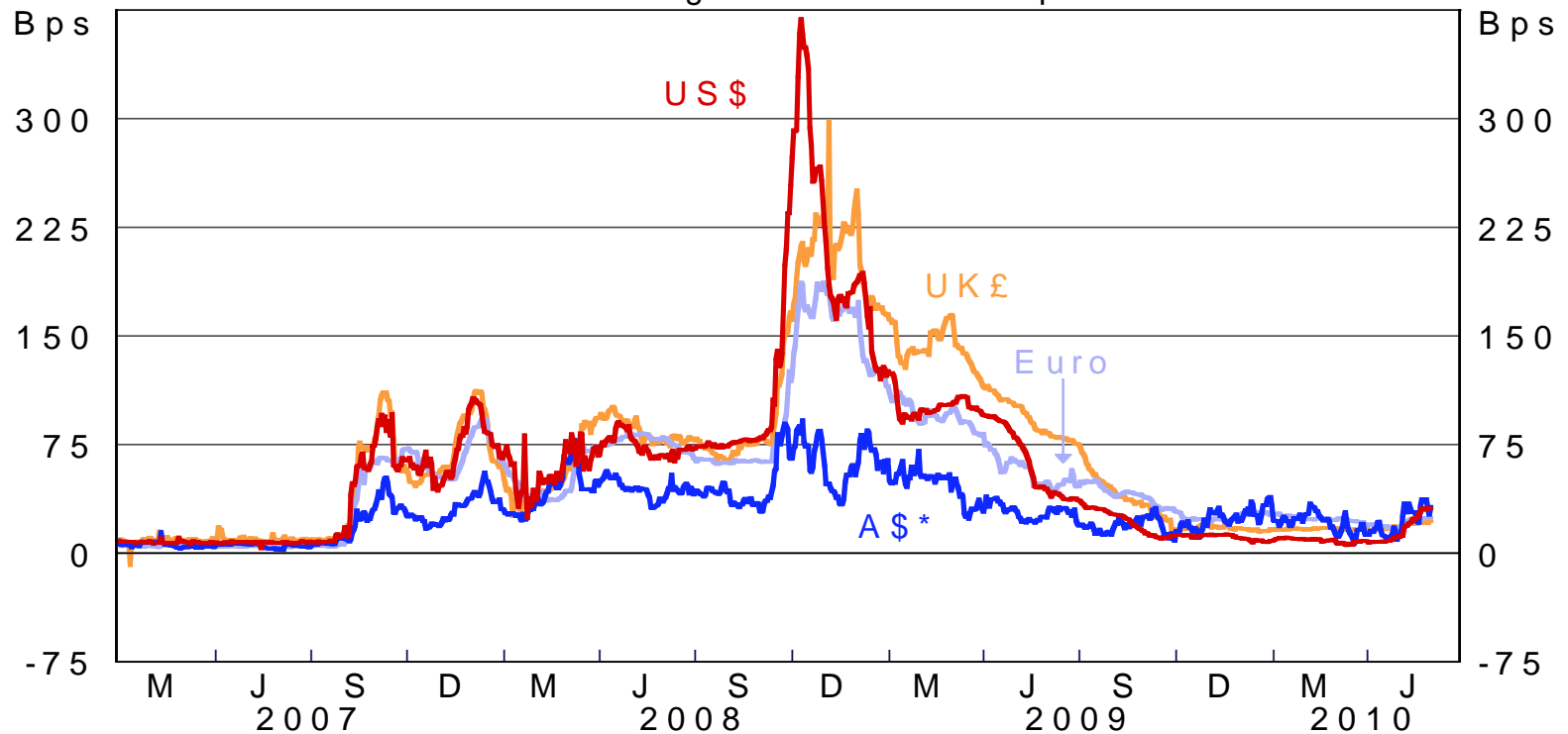
The Reserve Bank of Australia responded quickly – cutting interest rates and boosting liquidity



LIBOR OIS Spreads

3-month LIBOR Spreads

To overnight indexed swaps



* Bank accepted bills to overnight indexed swaps

Sources: Bloomberg; Thomson Reuters; Tullett Prebon (Australia) Pty Ltd

As at 3 June 2010



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Financial sector interventions

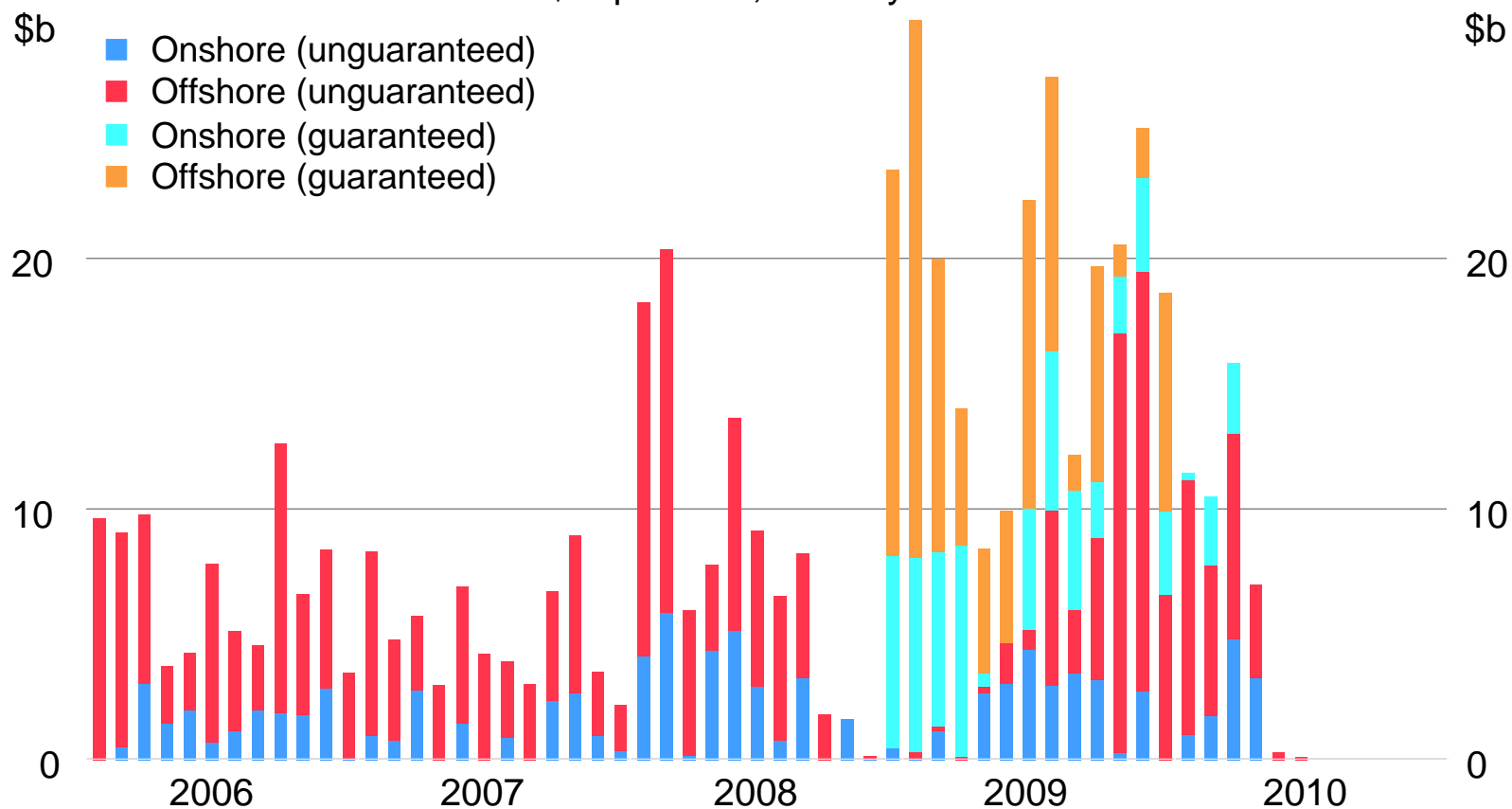
- Government Guarantee Scheme for Large Deposits and Wholesale Funding
 - Commenced 28 November 2008.
 - Closed for new liabilities on 31 March 2010 (this was the date of the last issuance).
- Time-limited voluntary guarantee of State Government borrowing.
 - Commenced March 2009
 - Will close to new issuance on 31 December 2010.
- Extensions of Reserve Bank of Australia (RBA) market operations
- ASIC's temporary ban on covered short selling of financial and non-financial securities
 - Commenced on 21 September 2008.
 - Ban lifted on 25 May 2009 on covered short-selling.
- Special purpose vehicle for motor vehicle wholesale financing (OzCar)
- \$16 billion purchase of residential mortgage-backed securities (RMBS)



Banks' use of the Government Guarantee

Australian Banks' Bond Issuance

A\$ equivalent, monthly



Source: Reserve Bank of Australia



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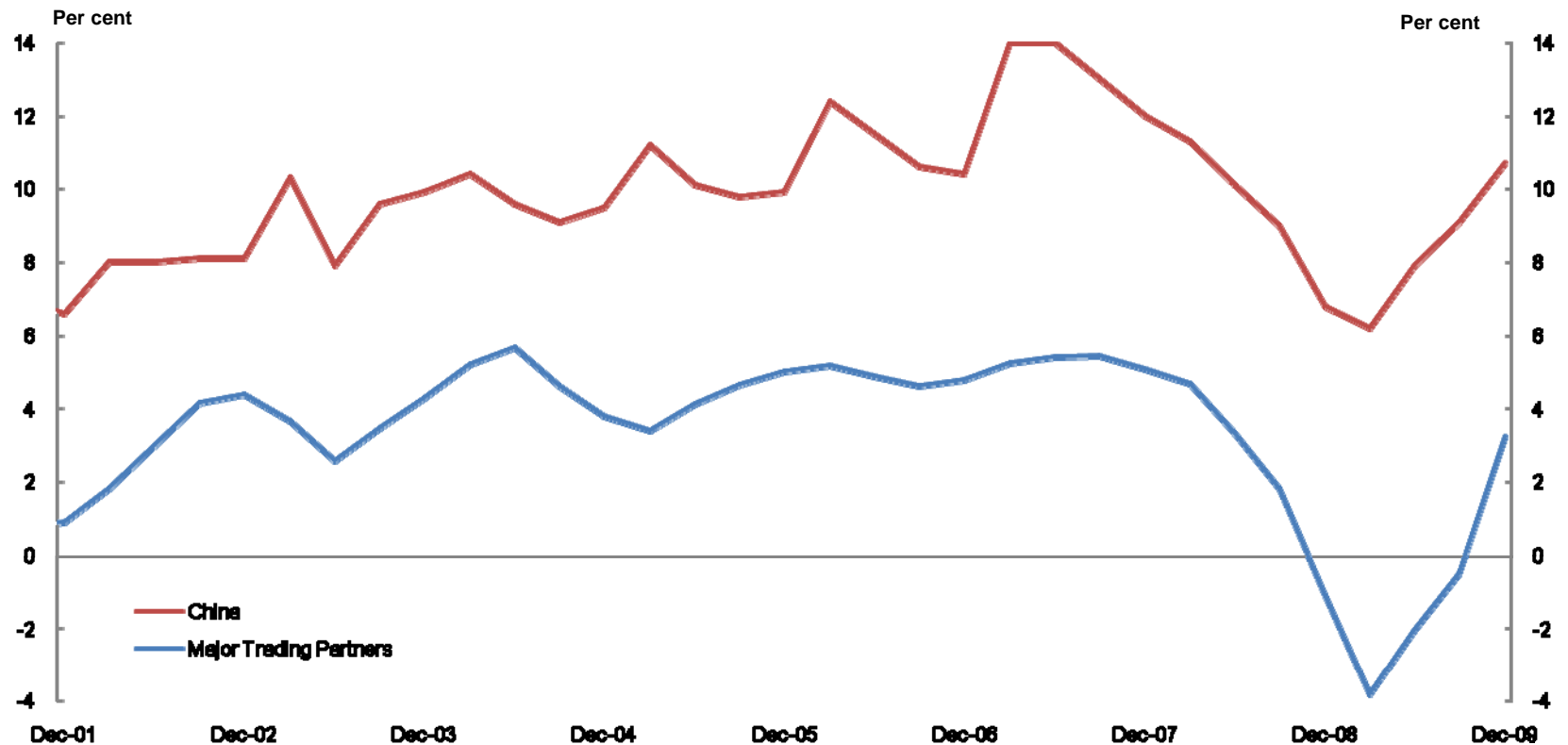
Trading partner growth



Growth in Australia's major trading partners this century

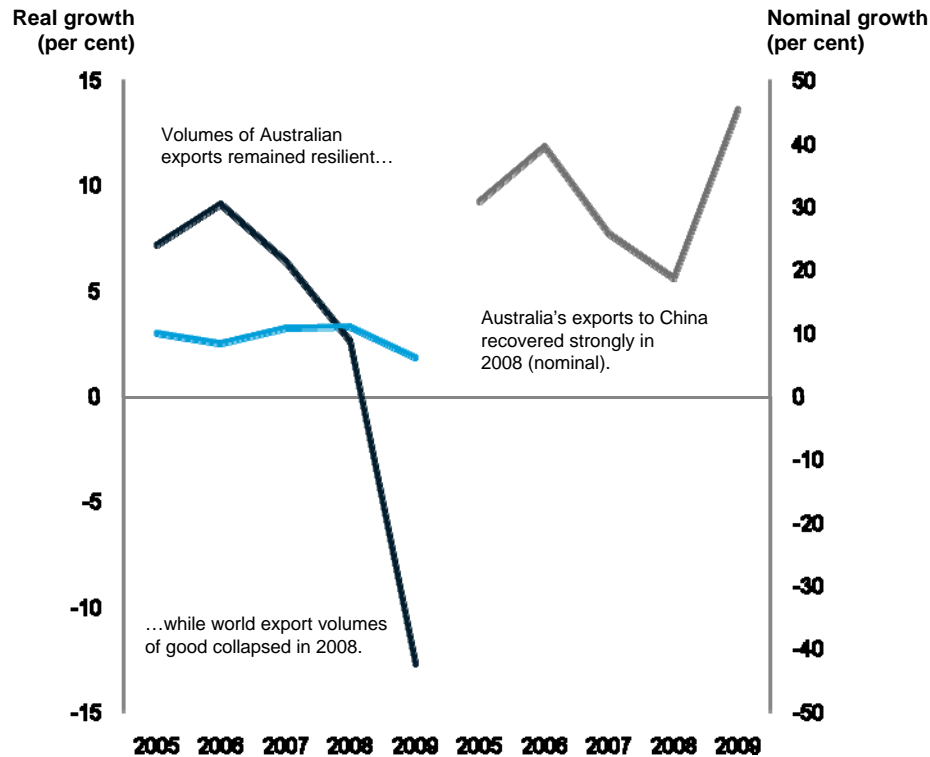
Growth in Australia's major trading partners

(GDP through the year per cent change, December 2001 to December 2009)



Australia's economy has benefited from a resilient export sector, supported by demand from Asia.

Annual growth in the export of goods (in real and nominal terms, financial years)



Australia's major trading partners (2008-09 financial year)

1	China	17.0
2	Japan	15.7
3	United States	8.2
4	Korea	5.7
5	United Kingdom	4.6
6	Singapore	4.2
7	India	3.9
8	Thailand	3.5
9	New Zealand	3.5
10	Germany	3.0



Australia's terms of trade

Australia's terms of trade, 1960 to 2012 (forecast)



Strong institutions



Regulation of Australia's financial markets and institutions

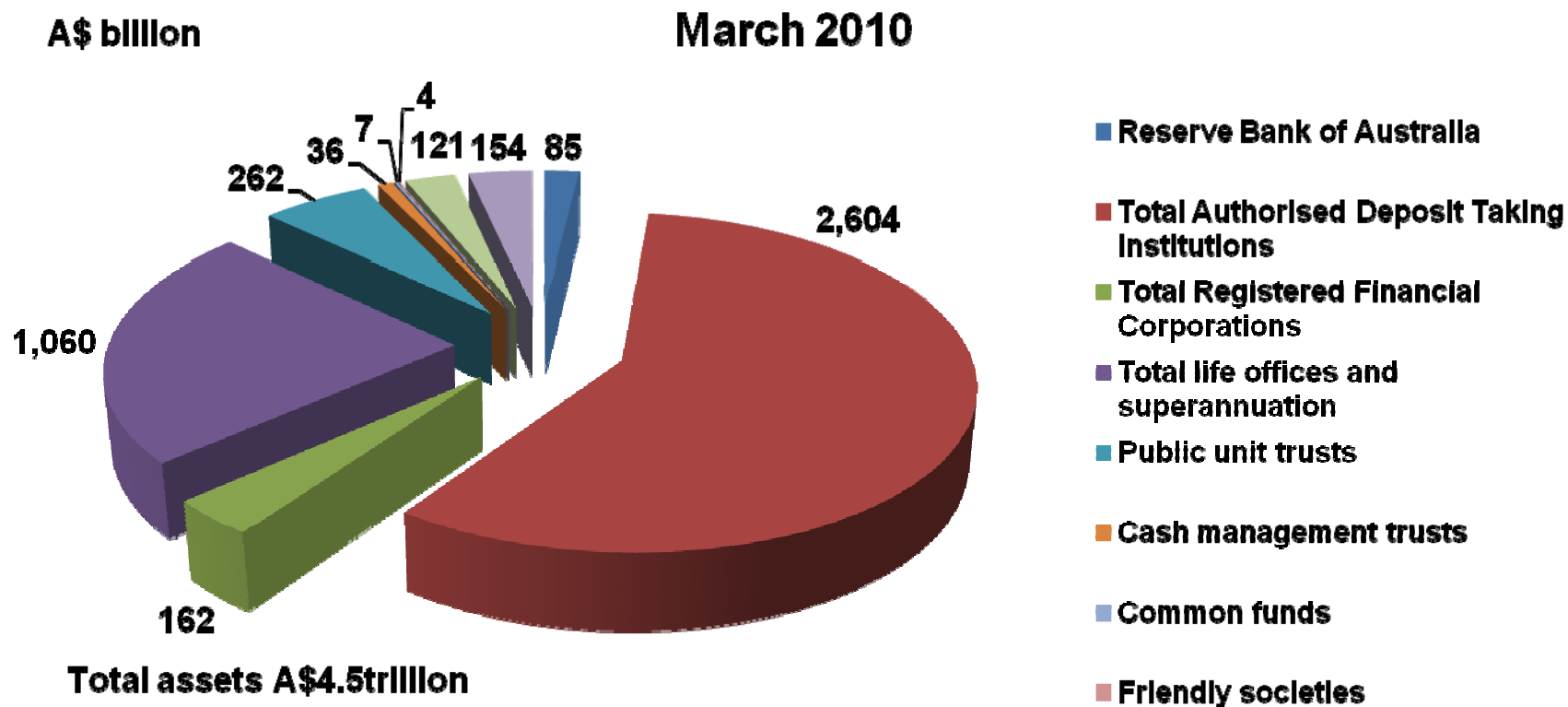
COUNCIL OF FINANCIAL REGULATORS (COFR)

Reserve Bank of Australia (RBA)	Australian Prudential Regulation Authority (APRA)	Australian Securities & Investment Commission (ASIC)	The Treasury
<ul style="list-style-type: none">• Monetary policy• System stability• Payment systems regulation	<ul style="list-style-type: none">• Prudential regulation of:<ul style="list-style-type: none">– Deposit taking institutions– Life and general insurers– Superannuation funds	<ul style="list-style-type: none">• Market integrity• Consumer protection• Corporations	<ul style="list-style-type: none">• Advice on economic and financial issues, including:<ul style="list-style-type: none">– Effective government spending– Taxation arrangements– Well functioning markets• Ensuring a sound macroeconomic environment

- Key features: 'twin peaks' model of financial supervision and market regulation; central bank has explicit policy responsibility for financial system stability (with the financial supervisor responsible for individual financial institutions); and cooperative model of crisis coordination between responsible agencies (led by central bank).
- Regulatory arrangements did not allow non-recourse loans; responsible lending obligations; prudential supervisors increased capital if banks made sub-prime (low doc) loans; 'four pillars' banking system (preventing mergers of the biggest four banks)



Total Australian financial institution assets

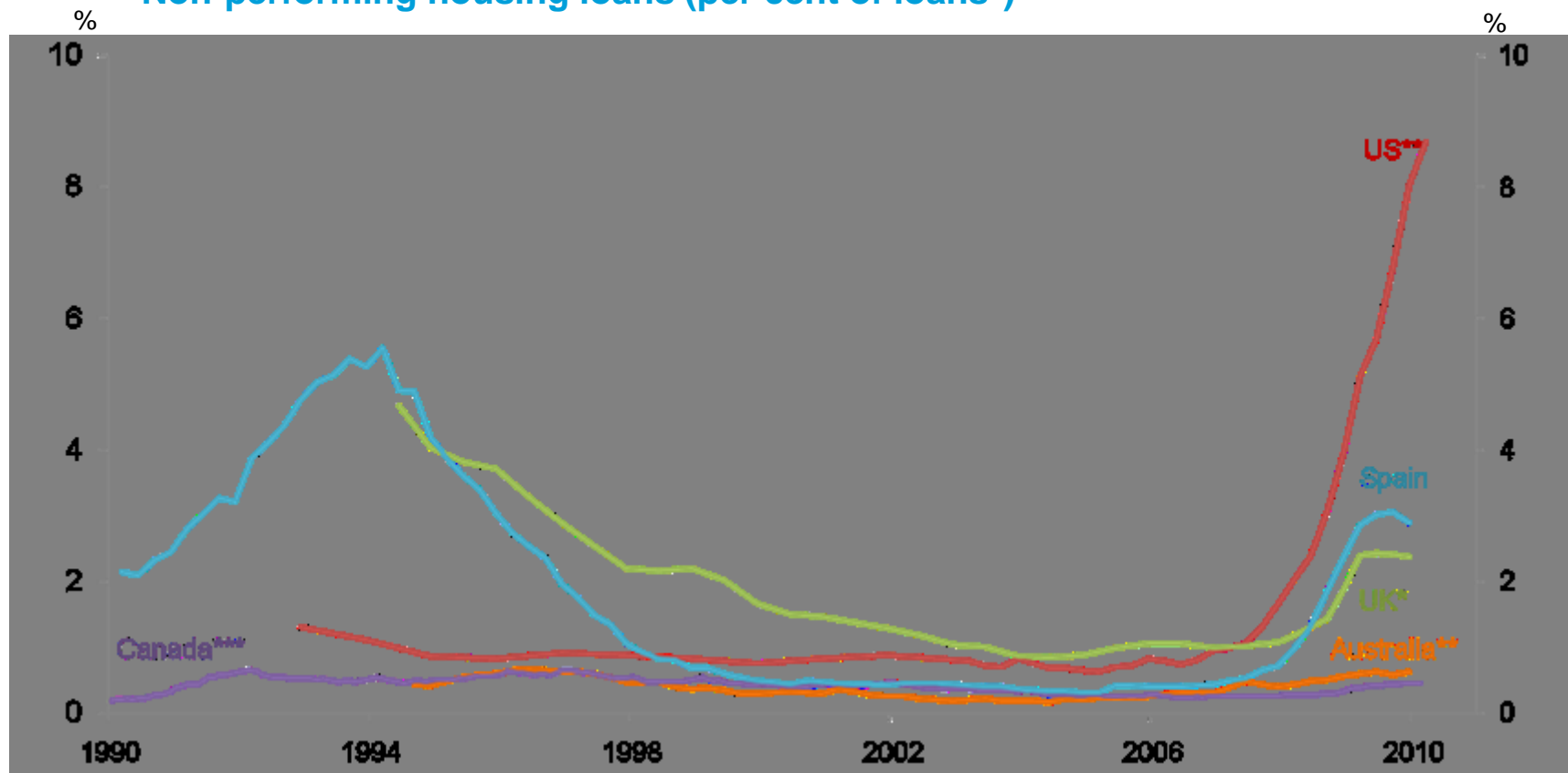


Source: RBA



Australian banks had low exposure to sub prime loans, domestically or US

Non-performing housing loans (per cent of loans*)



* Per cent of loans by value. Includes 'impaired loans' unless otherwise stated. For Australia, only includes loans 90+ days in arrears prior to September 2003

** Banks only

*** Per cent of loans by number that are 90+ days in arrears

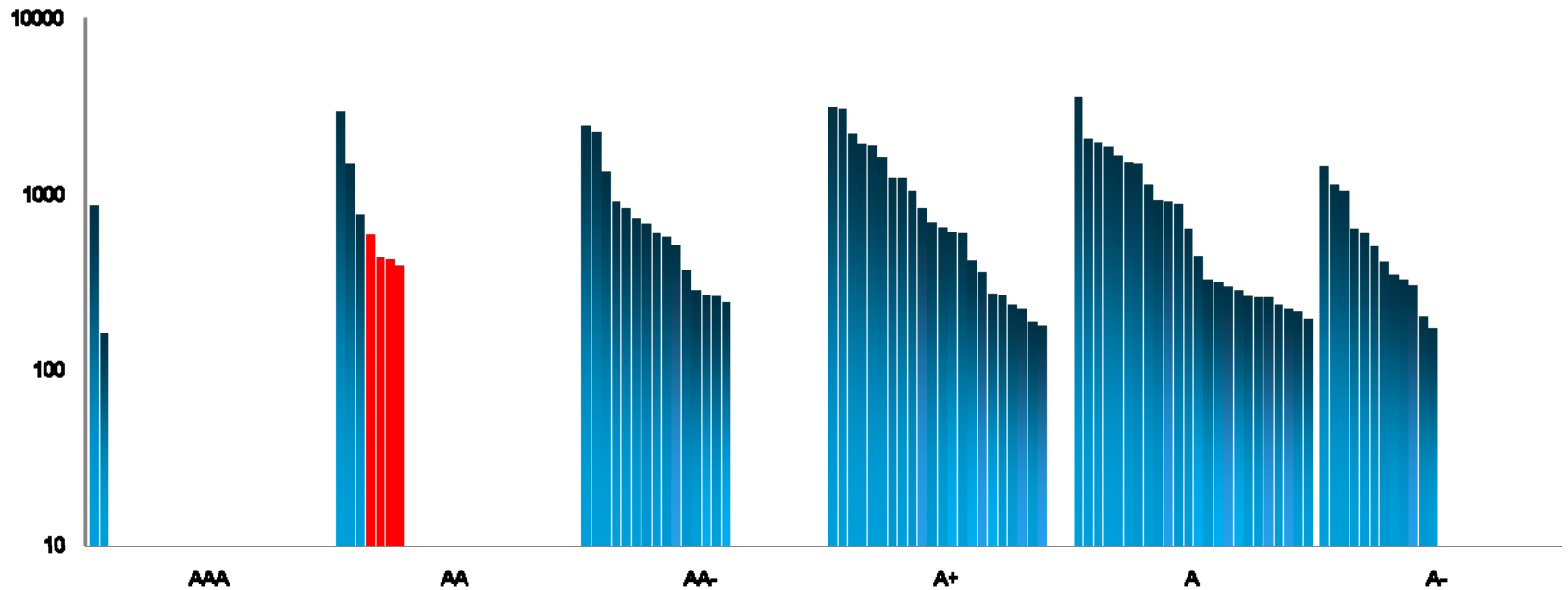
Source: APRA, Bank of Spain, Canadian Bankers' Association, Council of Mortgage Lenders, FDIC, RBA



Australian banks are well capitalised

Credit rating of the largest 100 banking groups in the world

Total assets,
US\$ billion,
log scale



Below A- not shown in picture

Source: Credit Ratings and Assets: Standard and Poor's, Bloomberg: The Banker.



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Lessons learned and challenges



Key lessons

- **Learned from past domestic crises (banking in 1989-91, insurance 2002)**
 - regulatory model and supervisory practices are founded in living memory of past crises
 - strong financial risk management is widespread in companies and financial institutions
 - ‘four pillars’ worked
- **Need strong regulation and effective enforcement**
 - supervisors do not expect to be liked – justified conservative central banking and supervision
- **Importance of maintaining confidence in financial markets and the economy**
 - fiscal policy can be very important to macroeconomic stability – both expansion in a downturn and consolidation in recovery (moving back to budget surpluses and net financial asset position)
- **Importance of liquidity in markets and need for strong public institutions**
- **The value of exchange rate flexibility**



Key challenges

- **Balancing financial stability with banking competition**
- **Balancing global standards with domestic conditions**
 - liquidity and leverage arrangements
- **Balancing comparative advantage in financial services (eg., funds management) with exposure to financial sector shocks**
- **How the international debate on macro-prudential objectives and instruments plays out**
- **Sustaining a culture of cooperation between regulators and government and understanding of financial crises in public and private institutions over time**

