

## Media release

17 November 2010

# Australian Bankers Association defending the indefensible

The Australia Institute today welcomed the admission by the Australian Bankers Association that our analysis of banks' funding costs and how they affect interest rates is accurate.

An analysis by The Australia Institute of Australian Prudential Regulation Authority (APRA) data shows that despite claims from the banks that their funding costs have been rising faster than the official interest rates, the opposite appears to be true.

Between June quarter 2009 and June quarter 2010 the Reserve Bank increased rates by an average 136 basis points but banks' interest costs increased by only 88 basis points. The difference can be explained by the fact that the cost of overseas funds is growing slower than the cost of domestic funds combined with the fact that the banks rely on billions of dollars worth of zero and low interest savings accounts.

The Bankers Association's response to this finding is as humorous as it is illogical.

According to the ABA's Steven Munchenberg:

*"To be honest we can't work this out. Performing the same calculation we get the same result but I know it is not right because if it was we would have been being beaten to a pulp with this by the government and the opposition."*

The Australia Institute's Senior Research Fellow David Richardson said it was time for the banks to start answering the hard questions about their practices.

"There is certainly no justification in these figures for the banks to increase mortgage rates more than the Reserve Bank increase in official rates," said David Richardson, Senior Fellow at The Australia Institute.

"The new APRA figures give further evidence that the banks are gouging excessive profits from their customers and using their market power with impunity.

"The ABA has admitted that the analysis is correct but still insists on defending the indefensible," said Mr Richardson.

APRA figures show that in the June quarter, interest expenses were \$20,481 million while total liabilities were \$2,338,807 million. That implies interest expenses are 3.55 per cent of liabilities. As shown in the table, in the past 12 months official interest rates have increased by 136 basis points. Over the same period actual bank interest expenses increased from 2.67 per cent to 3.55 per cent, or 88 basis points.

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## Interest rates – bank interest expenses compared with official interest rates

	June quarter 2009	June quarter 2010	Increase
1) Implied annualised interest rate on liabilities %	2.67	3.55	0.88
2) Official rates %	3.25 to 3.00	4.00 to 4.50	na
3) Average official rates over the quarter %	3.02	4.38	1.36

Sources: Australian Prudential Regulation Authority, *Statistics Quarterly Bank Performance June 2010*, 16 November 2010, Reserve Bank of Australia Statistical Tables at <http://www.rba.gov.au/statistics/tables/index.html> .