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Media release

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Banks are exploiting the uncertainty

The Australia Institute has today revealed the extent of the profits banks will generate by not passing on the full cut in official interest rates to their customers.

According to the latest Reserve Bank figures, Australian banks had outstanding loans and advances to Australian residents worth $1,463 billion at July 2008, including residential loans of $722 billion.

"For the banks as a whole the difference between passing on the full one per cent and passing on 0.8 per cent would be an additional annual profit of up to $2.9 billion on all loans and advances. On home mortgages alone, the difference between one per cent and 0.8 per cent is as much as $1.4 billion in additional bank profit," said David Richardson, Research Fellow at The Australia Institute.

Australian banks have already been making record profits, with figures from the Australian Prudential Regulation Authority showing banks made $23.5 billion in profit over the year to March 2008.

"Already more than $2 for every $100 spent in Australia ends up as after-tax profits for the banks" said David Richardson.

Yesterday the ANZ, Commonwealth Bank, National Australia Bank, St George and Westpac all announced they would reduce interest rates by 0.8 per cent in response to the Reserve Bank's cut of one per cent.

Banks say the current economic conditions have substantially increased their wholesale funding costs. However, under the Australian Stock Exchange listing rules, 'Listed entities are required to disclose immediately to ASX any information that might affect the price of their securities.'

"If anything serious was happening to banks' funding costs, it would appear they should have been making announcements to the stock exchange given the listing rules. None of the big five banks made any such statements to the stock exchange over the month prior to the RBA cut," said David Richardson.