



Australian Government

The Treasury

Statement by Deputy Prime Minister and Treasurer, the Hon Wayne Swan, MP

Report on the Operation of the Guarantee Scheme for Large Deposits and Wholesale Funding

13 October 2011

In October 2008, the Australian Government responded decisively to the severe dislocation of global credit markets brought about by the global financial crisis.

Governments and regulators across the world were taking unprecedented policy actions to stabilise the global financial system, with some even forced to recapitalise or nationalise their major financial institutions.

Our banks are highly-rated, well-capitalised and did not engage in the risky lending seen in some other countries, but still compete for global funding against other borrowers all around the world.

For a period in late 2008, our banks experienced great difficulty in borrowing offshore, and this threatened the flow of credit to the entire Australian economy.

The Government acted quickly to ensure the stability of the Australian financial system and to help buffer the domestic economy from the worst of the global economic contraction.

The Guarantee Scheme for Large Deposits and Wholesale Funding gave our banks, credit unions and building societies continued access to global capital markets on competitive terms, allowing them to raise some \$150 billion in guaranteed funds.

This support was also critical to preserving the competitive foundations of the banking sector, with non-major banks accounting for some \$65 billion of guaranteed funds raised, which they were able to lend on to Australian families and small businesses.

Without the guarantee, our banks would have lent less and interest rates for borrowers would have been higher.

On 7 February 2010, I announced that the Government would cease to guarantee new issues of debt by Australian banks and remove the offer to guarantee deposit balances above \$1 million on 31 March 2010.

This decision followed advice from the Council of Financial Regulators (Council) that conditions had improved to the point where the Guarantee Scheme was no longer required.

Australia's banks are highly capitalised and have benefited from years of tough supervision by our world-class regulators. Our institutions are very soundly managed by international standards, having developed strong cultures of responsible lending and risk management.

Our financial institutions are very well funded for the period ahead, and since the global financial crisis have reduced the amount of funds they borrow offshore as they move to more stable, longer-term funding.

Australian banks will pay around \$5 billion in fees to access the Guarantee Scheme over its life.

Outstanding guaranteed liabilities continue to be covered by the Guarantee Scheme to maturity for wholesale funding and term deposits or to October 2015 for at call deposits.

The Government committed to providing reports to Parliament on the operation of the Guarantee Scheme every six months. This is the fifth of these reports.

A summary of key information regarding the operation of the Guarantee Scheme is provided in Table 1.

Table 1: Liabilities covered by the Guarantee Scheme, as at 27 May 2011

Guarantee Type	Guaranteed Liabilities	Number of Claims	Payments to Claimants
Large deposits	\$4,002 million	0	\$0
Short-term wholesale funding	\$0 million	0	\$0
Long-term wholesale funding	\$118,695 million	0	\$0
Total	\$122,697 million	0	\$0

All short term liabilities have now matured. The reduction of long-term wholesale guarantee liabilities has occurred more quickly than anticipated due to ADIs extinguishing guaranteed liabilities. By the end of May 2011, seven ADIs had extinguished more than \$9.3 billion in long-term wholesale guarantee liabilities.

From the commencement of the Guarantee Scheme to the end of May 2011, participating institutions paid fees of \$2,768.7 million.

This Statement supplements information previously provided on the Guarantee Scheme in the 2010-11 Mid-Year Economic and Fiscal Outlook and the 2011-12 Budget, on the Guarantee Scheme website (www.guaranteescheme.gov.au) and in the Treasury Annual Report. It demonstrates the Government's continuing commitment to transparency and accountability.