

'australian banks
have remained very
sound by
international
standards, despite
the...

[Finance](#)



Australian Banks Have Remained Very Sound By International Standards, Despite the Global Financial Turmoil Observed the IMF, and Impact on AustralianBank.

Name:

Institution:

Course:

Tutor:

Date:

Introduction

According to IMF, Australian banks have remained very sound by international standards, despite the global financial turmoil. In this regard, the IMF has called for Australian banks to bolster their levels of capital. However, even with international downturn points to several vulnerabilities, the risk from corporate and household sectors appear to be manageable. Rationale for Australian banks remaining sound by international standards despite the global financial turmoil

The IMF working paper reported that the Australian banks are making progress including meeting liquidity standards requirements. However, it can be argued that the IMF report did not have a comprehensive review especially on mortgage lending and increased short-term offshore borrowing. It is apparent that if a residential mortgage shock is joined with corporate losses, it will definitely harm banks. Local reports on Australian banks performance indicated that a stress test is based on a worse case scenario that would categorize other banks in the world in the same position (IMF 2010). In fact, it is argued that although such observations from the IMF

<https://assignbuster.com/australian-banks-have-remained-very-sound-by-international-standardsdespite-the-global-financial-turmoil-observed-the-imf-and-impact-on-australian-bank/>

stand to be correct, Australian banks were believed to obtain considerable aid from taxpayers and the Reserve Bank. Besides, it is argued that Australian federal government helps banks in events of crisis.

Overall, reports have indicated that the Australian banking system was resilient during global financial crisis due to intensive supervision and regulation. Although, the four major Australian banks capital ratios are placed below global average for large banks, their conservative approaches in implementing Base II framework indicates that their headline capital ratios underestimate their capital strength. The major financial soundness indicators that these banks concentrated on include profitability, capital adequacy, asset quality and provisioning, and liquidity.

On particular, the Australian banks' loss given default rates are arguably higher than those of several other countries. Additionally, higher risk weights were endorsed for certain residential mortgages. Moreover, reduced risk weights, which are allowed in the Basel II framework's standardized approach, were introduced for retail lending (IMF 2010). Nevertheless, the risk weighted assets numbers can not be comparable across nations. All in all, due to APRA's conservative eligibility and deduction rules, Australian banks have a propensity of holding higher quality capital.

According to RBA, in regard to Basel III requirements, banks will need to hold more and higher quality capital. In light with this, the Australian banks can be argued to be in a better position to meet Basel II requirement due to their high quality of capital. In addition, Basel III introduces global liquidity standards. The objective of liquidity coverage ratio is to ensure that banks have adequate high quality liquid assets, which would enable them survive

<https://assignbuster.com/australian-banks-have-remained-very-sound-by-international-standardsdespite-the-global-financial-turmoil-observed-the-imf-and-impact-on-australian-bank/>

financial crisis (Australian Bankers' association 2012). With regard to Australian banks, it is apparent they might find it difficult to have adequate government security as a result of fiscal restraint of recent governments (APRA annual report 2011). In this case, the banks may seek an alternative approach. Nevertheless, APRA and Reserve Bank of Australia have designed an alternative approach in order to meet new liquidity standards.

In regard to vulnerability of Australian banks to shocks to residential mortgages, studies have indicated that residential mortgage lending, which comprises of more than half of the major Australian banks' loans, is less risky than corporate and other retail lending (APRA annual report 2011). In fact, the average risk weight for corporate lending has been cited to be four times that of residential mortgages.

Bibliography:

APRA annual report 2011. Accessed on 20th Sep 2012 from: <http://www.apra.gov.au/AboutAPRA/Publications/Documents/APRA-Annual-Report-2011.htm>

Australian Bankers' association, 2012. ABA submissions on Basel Committee proposals on capital and liquidity. Accessed on 20th Sep 2012 from: <http://www.bankers.asn.au/Submissions/Prudential>

IMF, 2010. Australian, New Zealand Banks Remain Sound During Global Crisis. Accessed on 20th Sep 2012 from: <http://www.imf.org/external/pubs/ft/survey/so/2010/car012210a.htm>

RBA website accessed on 20th Sep 2012 from <http://www.rba.gov.au/about-rba/index.html>

<https://assignbuster.com/australian-banks-have-remained-very-sound-by-international-standardsdespite-the-global-financial-turmoil-observed-the-imf-and-impact-on-australian-bank/>