

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

2014 - 2015

Department/Agency: Treasury

Question: AET 51

Topic: Competitiveness in the banking industry

Reference: Hansard page no. 22 - 26 February 2015

Senator: Bushby, David

Question:

51. Senator BUSHBY: I might ask a couple of questions on banking, so I can get an update on where things are at, but first a general comment on the current level of competitiveness in the banking industry. I know at the moment things are not particularly hot. The low official cash rate means that interest rates are low and that the dust has settled. It is not a particularly hot political issue at the moment. Nonetheless, competitiveness still is relevant to millions of Australians. Can you make some opening comments on that, and maybe in doing so you could provide some information on the percentage of home loans that are currently held by the four big banks and what the trend is showing there. Any information you might have on net interest margins and trends there would be useful.

Ms Quinn: The issue of competitiveness in the banking sector was addressed in the financial system inquiry that looked at this issue as part of its terms of reference. They found that, on balance, the market was competitive but that it would need to be watched going forward as things evolved. It was very important for the market to be in the system but for the system, and the banking sector in particular, to be competitive on efficiency grounds. Net interest margins have come down in recent times, across the major banks in particular. We have seen net interest margins at the lowest level since 2002, which suggests that there is particular competitive tension in the market in recent times. That likely reflects the banks having to adjust to a financial system that is growing more slowly as a whole system. When we had nominal GDP growth—significantly stronger than we have now—the whole system was growing, and account balance sheets were growing as a result. But now in the context of a macro economy, where nominal GDP is more modest, the banks need to look harder to expand their balance sheets and competition.

Senator BUSHBY: Fighting for every new deal.

Ms Quinn: Competition would be expected to be tightened and the net interest margins indicate that it has tightened in recent times. It is the case that the four large banks still have the vast bulk of lending across the loans for almost everything.

Senator BUSHBY: I would expect that.

Ms Quinn: I could take it on notice if you like.

Senator BUSHBY: The trend, whether that is remaining static or increasing, decreasing, is what I would be most interested there.

Answer:

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The major banks' share of total lending (housing, business and personal) has increased from around 62 per cent prior to December 2007 to around 74 per cent in early 2015 (see **Attachment A**).

The weighted average of net interest margins (NIMs) of the major banks was 206 basis points (bps) in the second half of 2014, down 12 bps from the pre-crisis level (the second half of 2007), and down 7 bps from the second half of 2013 (see **Attachment B**).