General Discussion of 'The Consequences of Low Interest Rates for the Australian Banking Sector'

The discussion was focused on exploring more of the details of how the Australian banking system differed from other countries, and how this interacts with prudential policy.

One participant was concerned with the suggestion that a banking system with more limited pass-through should lead to the central bank cutting the cash rate by more – as the related change in bank margins may lead to prudential risks that macroprudential policy would not be able to deal with.

Other participants related this to a relative lack of competition in the banking sector, and noted that in other jurisdictions, with less competitive banking systems, similar outcomes were observed. Higher margins alongside smaller pass-through indicate a banking system where banks are more able to manage risk, and where prudential risks – and the risk of reversal rate – are more limited. It was also noted that a lack of competition can have wider costs, even if it has stability-related benefits.

Further discussion was focused on the relationship between regulatory policy and the reversal rate, with the risk-matching of Australian banks reflecting unique capital rules – with Australia the only region which has Pillar I capital requirements for interest rate risk in the banking book.

A participant also queried whether the Term Funding Facility had a larger than observed effect on net interest margins – due to the increase in the equity-to-asset ratio which should have driven a lift in net interest margins.