

# State of Play – the Australian & Global Economies and the Financial System

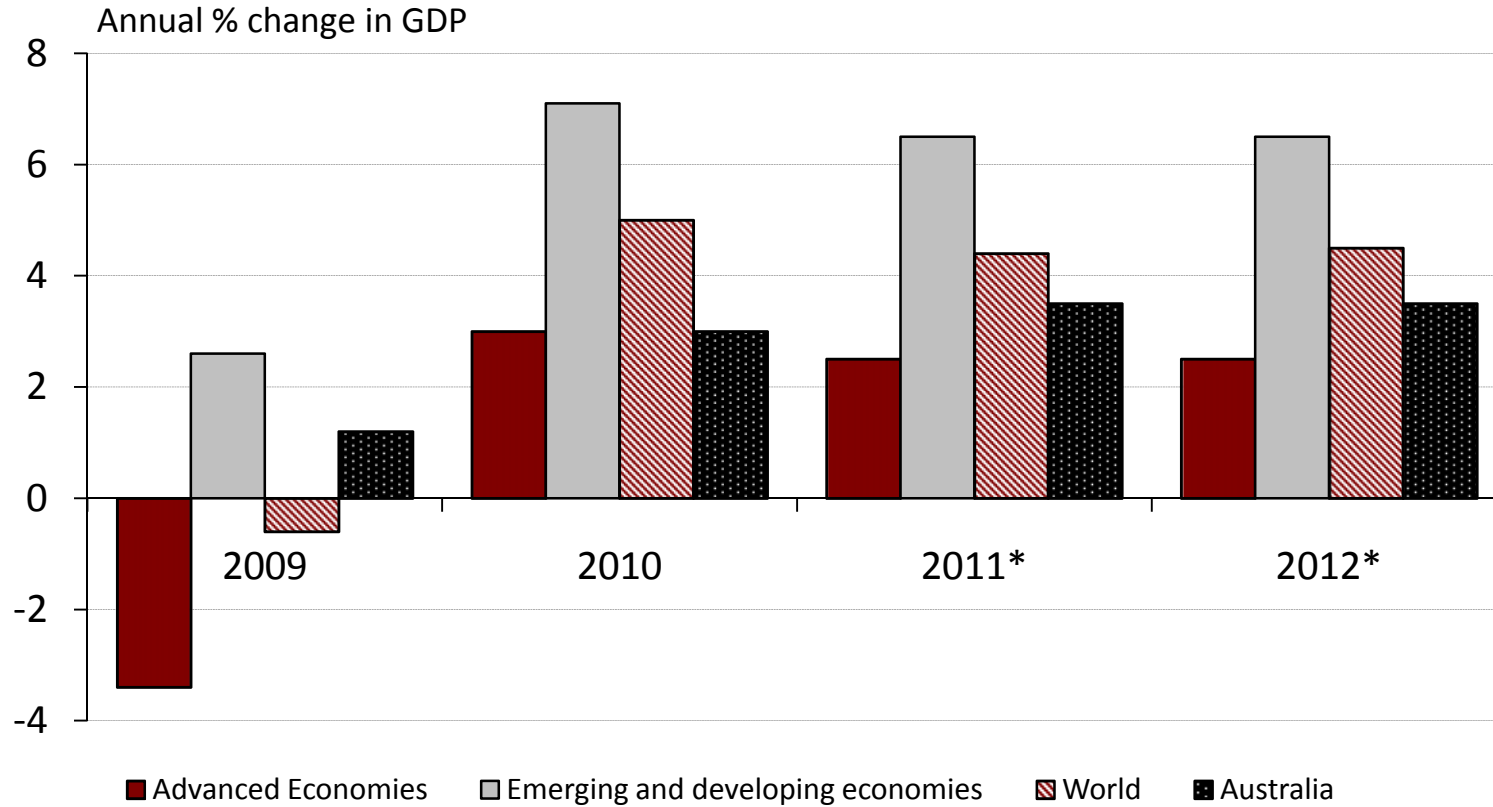
Professor Ian Harper, Deloitte Access Economics

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# Economic pulse is firm

- The global economy is growing solidly, as a whole
  - but with patches of weakness
  - and downside risks remain elevated
- The recovery in the US is picking up
  - although the UK and much of the Eurozone remains weak
  - advanced economies still face large adjustments
- Emerging markets (especially China, India) are leading the way
  - fortunately, Australia's exports are oriented towards Asia

# Global economic growth



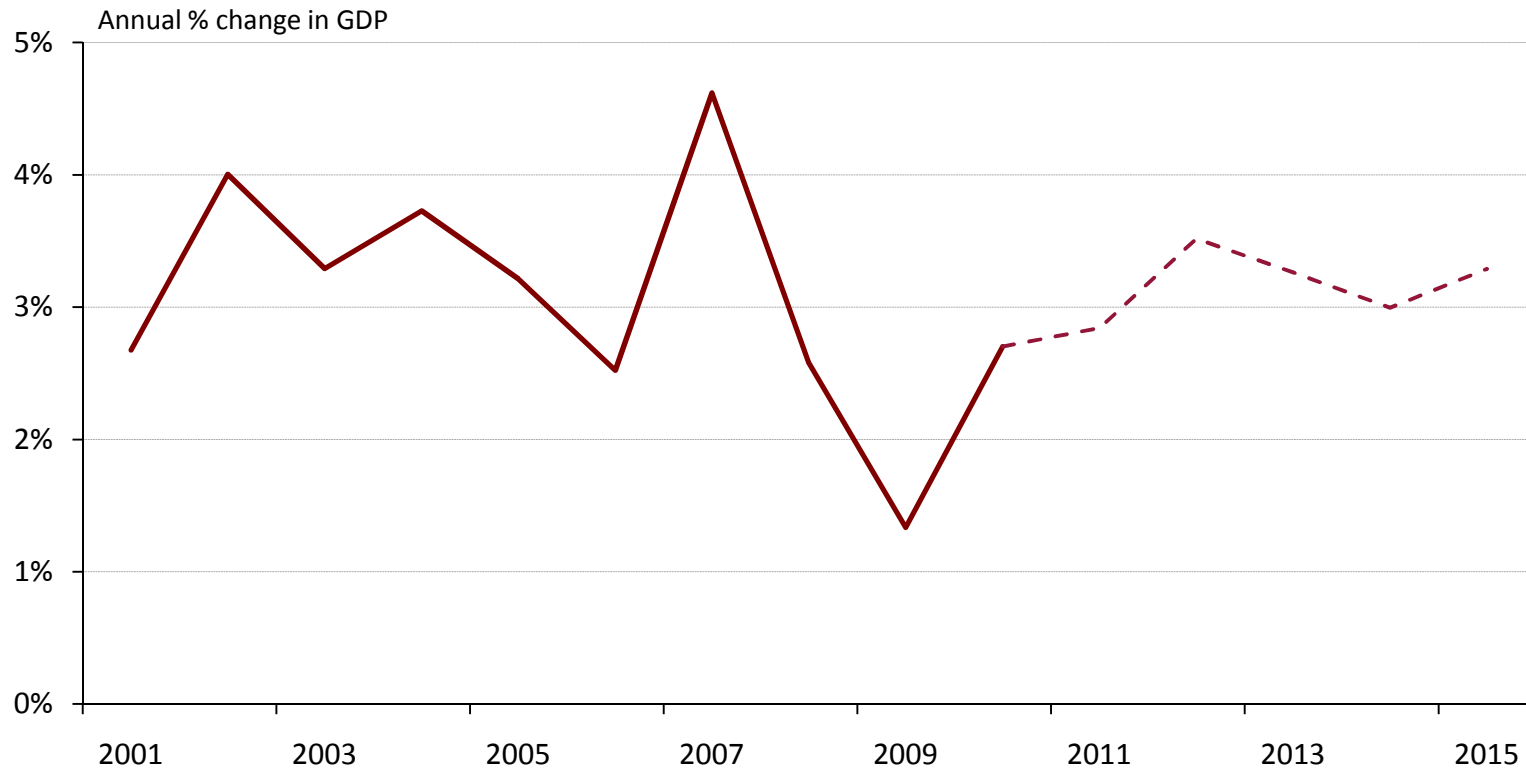
*\* 2011 and 2012 are projections*

*Source: IMF World Economic Outlook, January 2011 update, Deloitte Access Economics*

# Australia continues to prosper

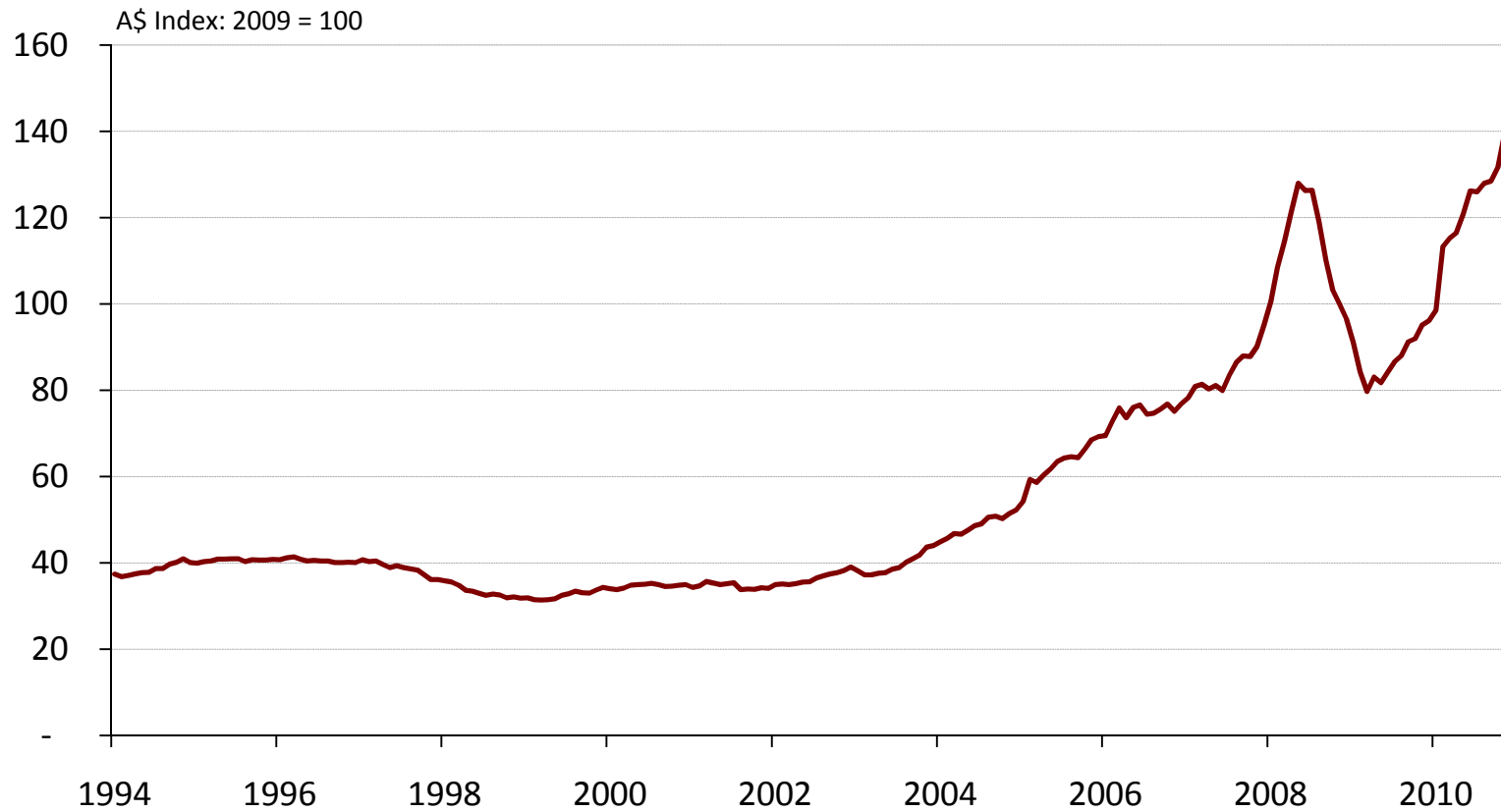
- Australian economy remains strong
  - terms of trade at 60-year highs
  - mining boom fuelling exports to Asia
  - consumer confidence is high (but retail sales uneven)
  - large expansion in business investment underway
- Challenges → primarily upside risks to Australia
  - \$A parity and the two-speed economy
  - monetary and fiscal tightening domestically (and also overseas as seen by China's interest rate hikes)
  - progressing microeconomic reform through Canberra's political gridlock

# Growth is back on track ...



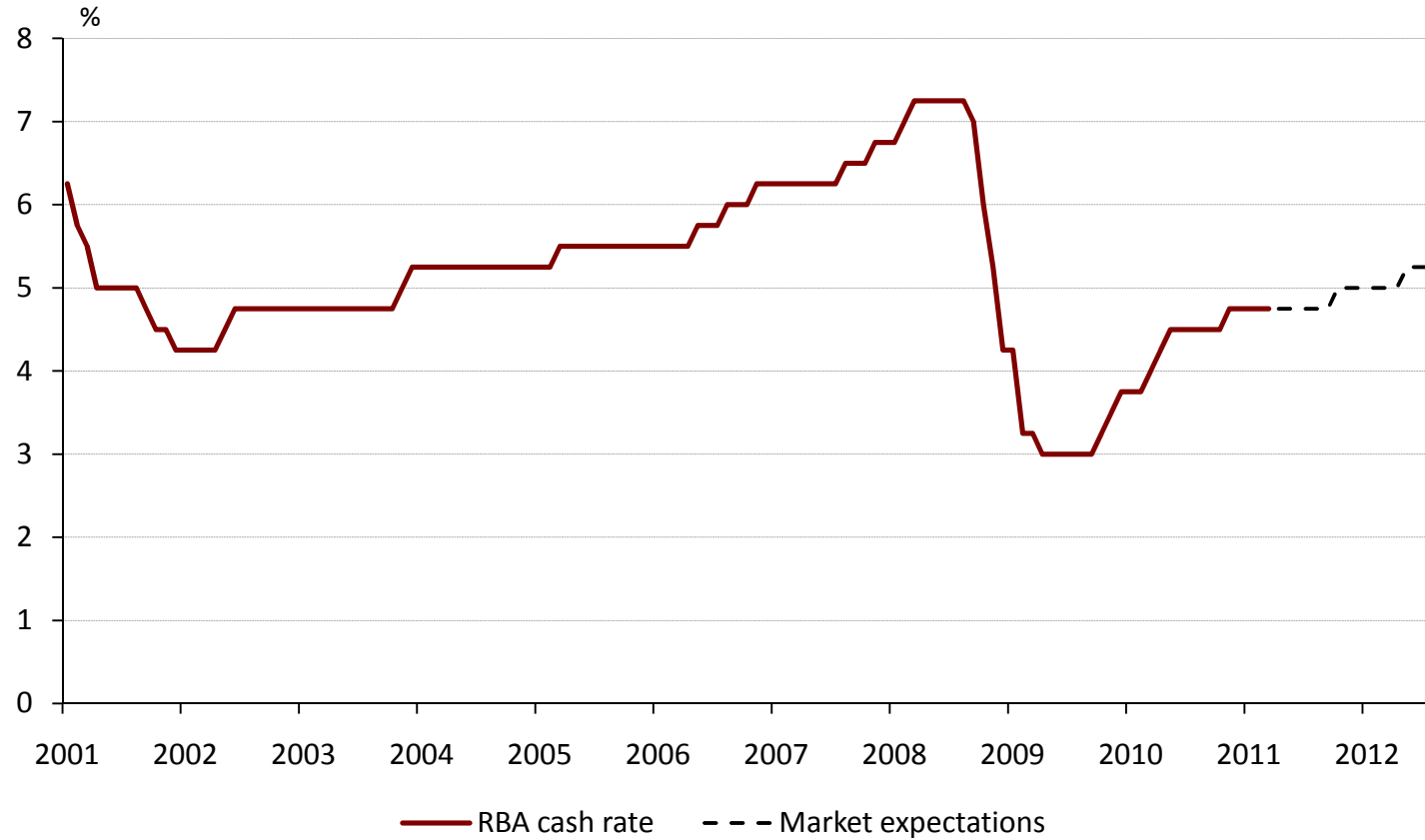
Source: Australian Bureau of Statistics, Deloitte Access Economics

# Commodity prices are strong



Source: Reserve Bank of Australia

# Cash rate set to rise



Source: Reserve Bank of Australia; Australian Stock Exchange

# Lingering risks to recovery

- The 'second shoe' drops ...
  - monetary easing loses potency in US, UK, Japan
  - governments raise taxes and cut spending to repair their deficits
- Tighter regulation bites banks, so banks bite borrowers
  - higher risk premiums and limited access to borrowing
- Our government reverses the stimulus too quickly
  - too rapid a return to fiscal surplus
  - RBA raises interest rates too sharply
- Middle East tensions

# Financial market developments

- Longer run implications of the GFC:
  - government intervention in financial markets and heightened global regulatory reform agenda
  - Implementation and unresolved questions (TBTF)
- Basel III means higher costs for intermediated finance
  - implications for domestic credit growth and availability
- Questions remain about how to revive competition in banking and financial markets
  - time for another Wallis inquiry??
- Australian Government keen to bolster competition in retail banking

# Banking competition post GFC

- The Government is seeking to increase competitive pressures in retail banking by:
  - banning exit fees on new home loans
  - examining transfer of deposits and mortgages between banks
  - enhancing disclosure of home loan products
  - supporting credit unions and building societies
  - empowering the ACCC to investigate and prosecute anti-competitive price signaling
  - a community awareness and education program designed to make consumers better informed

*Source: Australian Government, December 2010*



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