The fallout from the record low interest rate environment that Australia now finds itself in, continues to challenge the economy’s biggest players.

Front and centre of this conundrum are our domestic banks, who now confront an extended period of pressure on net interest margins, leading to what some have labelled as a “deposit war”. ANZ’s Shayne Elliot set the scene earlier this week saying, “We need to get that balance right because without valuable deposits, we don’t have any money to lend out.”

The statement comes after the much publicised move to not pass on the full extent of last week’s RBA rate cut. This is a strategic move allowing the banks to protect their profits, which are under pressure because banks are finding it difficult to reduce deposit rates and maintain funding for lending. Elliot went on to clarify “I mean, we are essentially an intermediary and so we need to get that balance right and we need to be really competitive with depositors to make sure they keep money in the bank and don’t take it out into other investments.” The ANZ last week said it would increase the deposit rate special for its one-year “advanced notice term deposit” by 60 basis points to 3 per cent per annum and its two-year term deposit by 75 basis points to 3.20 per cent per annum from August 5. A move mirrored by all major banks.

Interestingly though, according to ANZ’s latest annual report, the retail term deposits of tenor between one year and five years of $7 billion comprise just 3.5 per cent of all term deposits and just 1.6 per cent of all interest-bearing deposits. A mere fraction of the banks deposit base. With the political spotlight firmly on the banks, Bill Shorten labelled the banks as “greedy” and accused them of putting “their own interest ahead of the national interest,”. The rational balance lies somewhere in the middle, and while lines are being drawn on both sides, over time increasingly competitive forces and an Australian public with the luxury of choice, should come to an efficient solution that caters for both savers and borrowers in this new low interest rate environment.

Keeping with the theme of today’s commentary, Glenn Stevens will deliver his last speech to the Anika Foundation. His last public address as Governor of the RBA after 10 years of service. There’s no title as yet for his speech that has a scheduled 1.05pm start time. You wouldn’t be surprised if it was more reflective in nature, but there’s always the possibility for Q&A given the freshness of last week’s rate cut and quarterly Statement of Monetary Policy. Of key consideration will be the recent divergent nature of the AUD despite the cutting of the cash rate.
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