



Australian Citizens Party

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MEDIA RELEASE

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Are Australia's Big Four banks effectively bankrupt?

On the same day last week that the Australian Prudential Regulation Authority (APRA) chairman Wayne Byres claimed that the banks had passed stress tests conducted by the bank regulator in 2017, the Citizens Electoral Council's *Australian Alert Service* published an article by Robert Barwick entitled, "Are Australia's Big Four banks effectively bankrupt?"

The 11 July AAS found that Australia's banks are not "unquestionably strong", as the government and regulators claim; that they have the highest exposure to housing of any banks in the world by far; that the housing market is a world-record bubble; that the nature of denials by the government, regulators, banks and real estate industry is eerily identical to Ireland before its crash in 2008; that the actual capital of the banks, and not the fraudulent risk-weighted capital, is razor thin; that the banks are entirely dependent on all borrowers continuing to make their mortgage payments, except that Australian households are on the edge, suffocating under the highest household debt in the world with no capacity to absorb the interest rate rises that have already started.

It concludes: "Australia's banks are dead men walking, effectively bankrupt."

[Click here to read a PDF copy of "Are Australia's Big Four banks effectively bankrupt?"](#).

Stress tests a 'joke'

In stark contrast to the AAS, APRA claims its stress tests proved that the banks would survive a severe extreme downturn. Byres elaborated the stress test scenario in his 11 July speech to the Australian Business Economists in Sydney:

"The basic scenario was a severe economic stress in Australia and New Zealand, with a significant downturn in the housing market at the epicentre. This was triggered by a downturn in China and a collapse in demand for commodities. The subsequent downgrade in sovereign and bank debt ratings leads to a temporary closure of offshore funding markets, a sell-off in the Australian dollar and widening in credit spreads. Australian GDP falls by 4 per cent, unemployment doubles to 11 per cent and house prices decline by 35 per cent nationally over three years."

According to APRA, under this scenario the banks collectively would lose \$40 billion, but they would retain sufficient capital to survive.

Experts consulted by the CEC have heaped scorn on APRA's stress tests. One internationally experienced banking analyst said, "The stress tests are a joke." Former APRA principal researcher Dr Wilson Sy was scathing at the methodology behind the stress tests. "Bank stress tests are essentially witchcraft, not science", he said. In July 2008, a few months *before* the global financial crisis, Sy had exposed the flawed assumptions and methodology behind the way banks and regulators assessed risk in a paper in the *FINSIA Journal of Applied Finance* entitled "[Credit Risk Models: Why They Failed in the Credit Crisis](#)".

Dr Sy said of APRA's stress tests: "The witches' brew did not predict the GFC; why does it have any credibility now?"

In a must-see 12 July post, "[When is a test, not a test](#)", Martin North of Digital Finance Analytics ripped apart APRA's stress tests, exposing the flawed assumptions and looming dangers that APRA ignores.

North reported that both LF Economics and his own Digital Finance Analytics conducted their own stress tests based on the same worst case scenario as APRA, but arrived at drastically different conclusions. Instead of losses of \$40 billion, LF Economics concluded the banks' losses would be \$298 billion, while Digital Finance Analytics found that even LF Economics was somewhat conservative, and concluded losses would be \$310 billion!

Either way, Australia's banks would be goners.

Damage control

Byres' stress tests announcement amounts to a big "nothing to see here" stunt. It's another example

of the eerie parallel between Australia today and the pathological official denial in Ireland in 2007-08, detailed in the AAS article, that there could be a housing and banking crash.

The regulators and banks are clearly in damage control, due to the fallout from the banking royal commission, but also, and more significantly, Bob Katter's 25 June introduction in Parliament of the CEC's [Banking System Reform \(Separation of Banks\) Bill 2018](#), for a Glass-Steagall separation of Australia's commercial banks with deposits, from speculation.

The banks hate Glass-Steagall, because it would stop them from betting on their mortgage loans through securitisation and derivatives—to which the banks' exposure has now soared to more than \$40 trillion—and from fleecing their customers with non-bank products.

But Glass-Steagall is absolutely necessary to cut out the cancer of speculation from the financial system that is causing this crisis, and as a firewall to protect Australians from the financial crash. Without it, a banking crash would force the government and APRA to resort to both taxpayer bailouts and customer bail-ins, including of deposits, and possibly emergency nationalisations like the UK did in 2008.

It is up to elected officials to take this threat seriously, and act. They have the Separation of Banks bill in Parliament right now; they must ensure it is debated and passed.

What you can do:

- Shock your MP out of denial, by forwarding them this release, and [“Are Australia's Big Four banks effectively bankrupt?”](#) Do it today, and call their office to make sure they received it and to request a written response.
- Send your MP Bob Katter's private member's bill, the Banking System Reform (Separation of Banks) Bill 2018, and Explanatory Memorandum, [available here](#).
- Share this with as many people as possible, and tell them to do the same.