



Australia

Financial Sector Assessment Program Update

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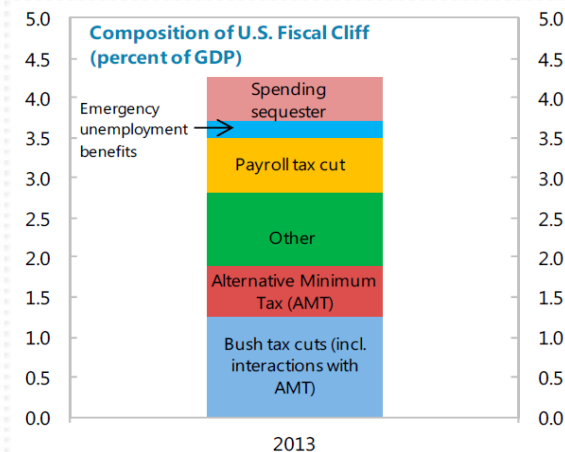
Global Financial Crisis: When Will It End?

Recent market rally.....



...Is this time different?

- Confidence is still fragile
 - Euro area crisis
 - China and EM slowdown
 - US fiscal cliff



Sources: CBO and Fund staff estimates.

Key Challenges for Banking System

US SIBs

- Regulatory reform may lead to new financial landscape and business model
- Slow housing market recovery a drag on balance sheet repair

European SIBs

- Credit crunch and deleveraging in periphery
- Liquidity improved, but sovereign-banking linkages remain
- Capital strengthening and bank restructuring must continue

Asian SIBs

- Profitability flat
- Rapid loan growth raises asset quality concerns
- Further large scale deleveraging by European SIBs could fuel funding risk
- Capital positions remain strong, but confluence of negative headwinds could jeopardize stability.

IMF Response: The FSAP



Launched in 1999 after Asia crisis

Reshaped by the GFC

Mandatory for 25 countries

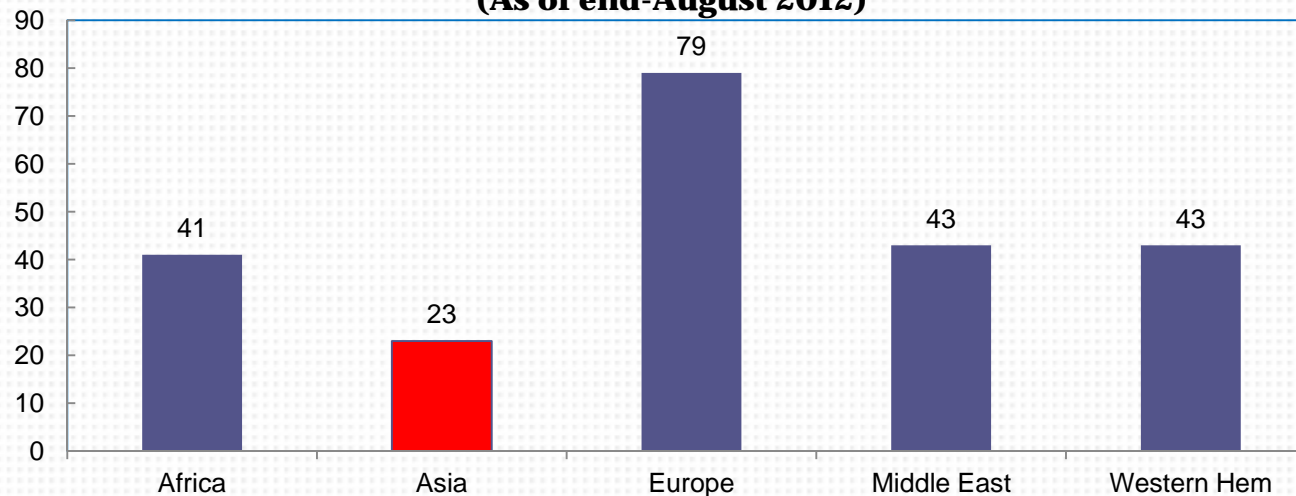
FSAPs: Lessons From GFC

More flexible, tailored to country specific circumstances

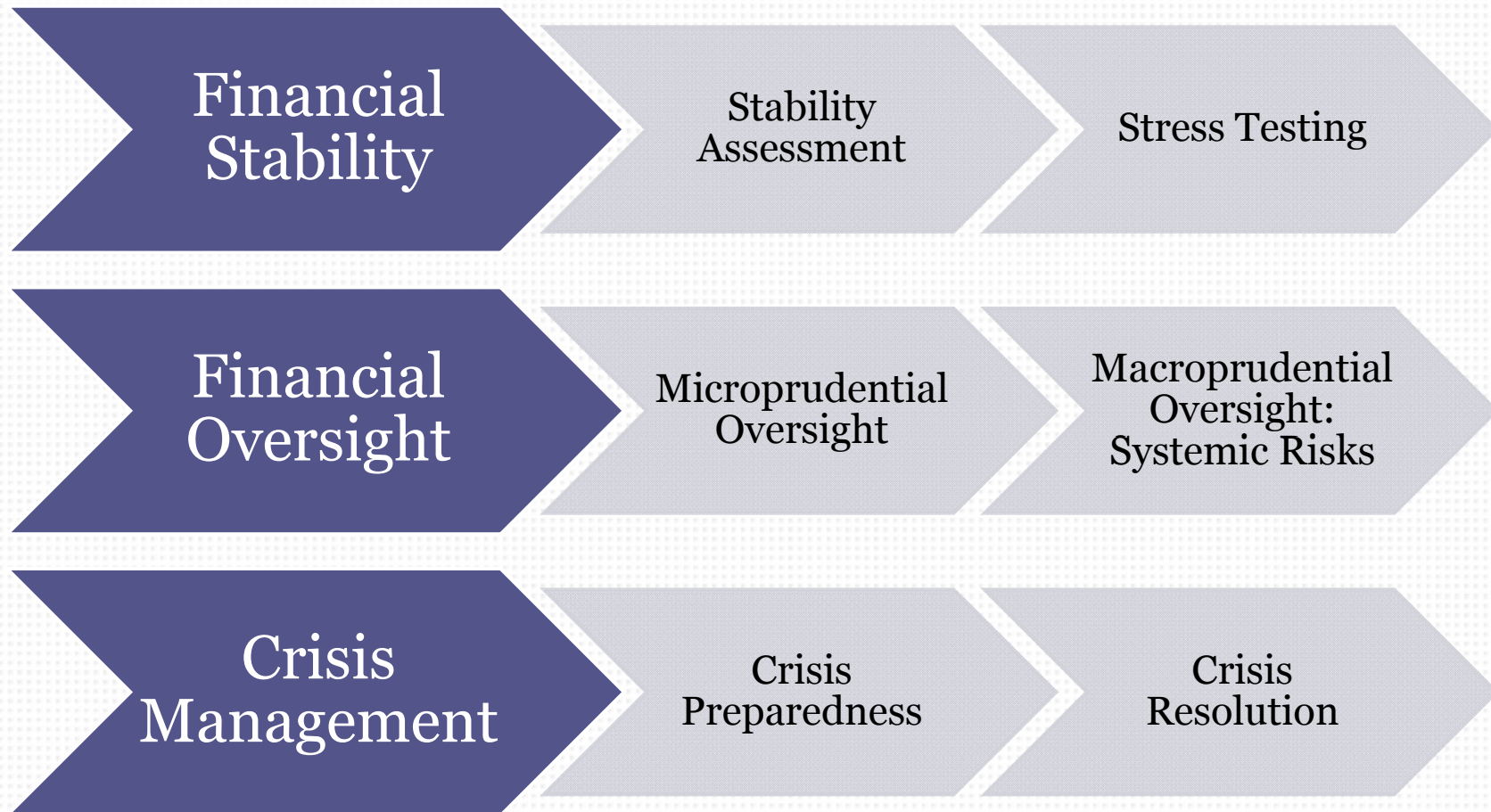
Coverage of risks is wider

Assessments more robust, candid, and transparent

**FSAP Coverage by Region
(As of end-August 2012)**



FSAP Components



Key Themes from FSAPs

Some countries

- Vulnerable to sovereign risk
- Lack of adequate and high quality data

Many countries

- Non-banking sector poses increasing risk
- Liquidity risk due to wholesale funding
- Legal framework for financial oversight incomplete

Most countries

- Inadequate resolution frameworks and outdated financial safety nets
- Deficiencies in supervisory resources and independence
- Analysis of systemic risk in its infancy

FSAP Recommendations in Asia

China

- Move toward a more commercially oriented financial system
- Strengthen capacity of central bank and supervisory commissions to carry out their responsibilities
- Upgrade framework for crisis management and resolution arrangement, including introducing deposit insurance scheme

India

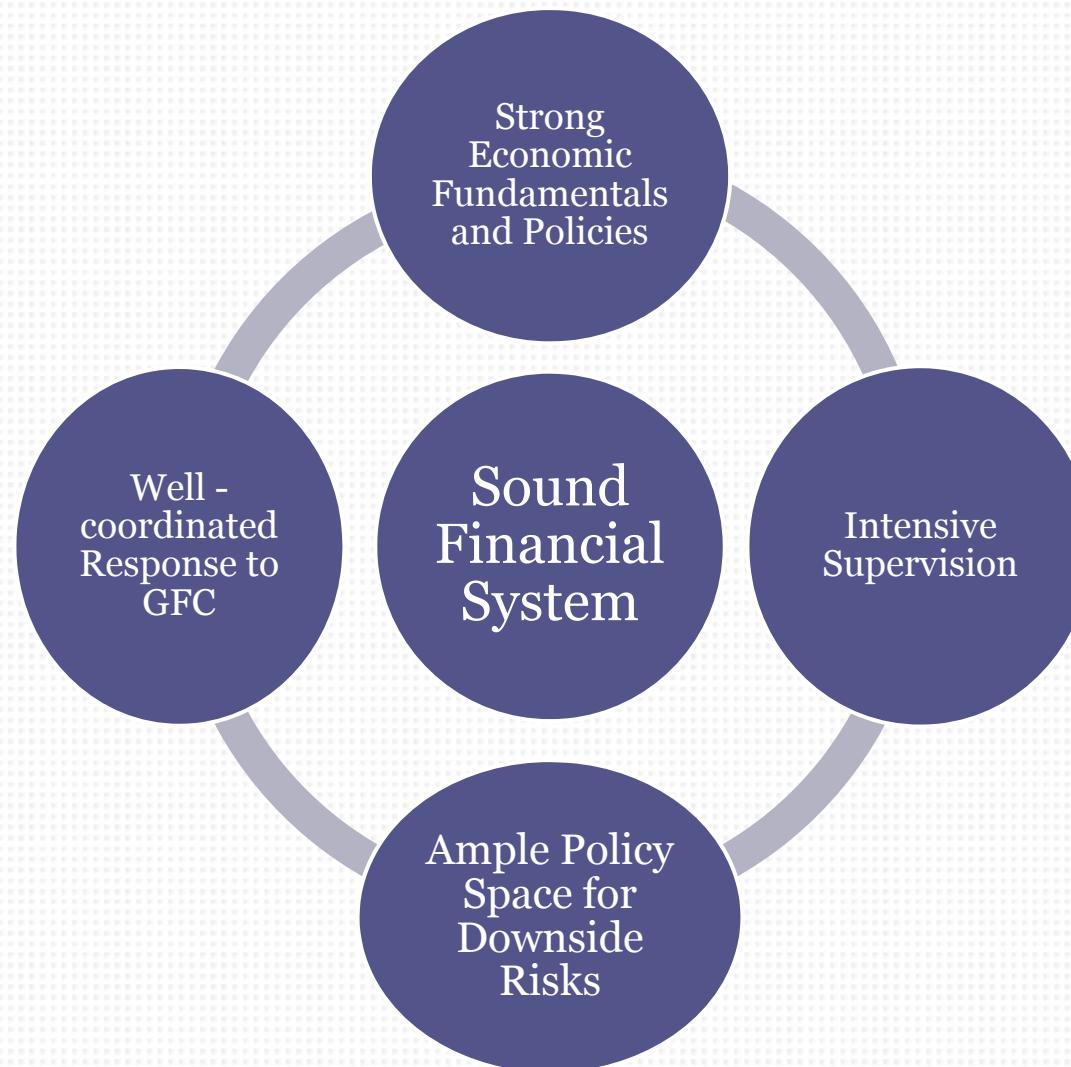
- Reducing the role of the state in financial sector
- Greater de jure independence of regulatory agencies
- Promote deeper fixed income markets

Japan

- Close monitoring and contingency planning of risks related to JGB market, sovereign funding pressures, regional bank vulnerabilities and credit risk
- Further improvements in regulatory and supervisory regime, including arrangements for cross-border risk monitoring and mechanisms for macroprudential oversight
- Broad based financial reform plan to stimulate growth

How does Australia fare?

Job Well Done!



Structural risks remain.....

Wholesale and offshore funding

- Declining since GFC
- Largely hedged

High household debt and house prices

- Low LTV (50%)
- Large prepayment
- Rising savings

Bank concentration and interconnectedness

- High profits
- Diversified risks
- Implicit government support

.....with some mitigating factors
But pressure to preserve profitability may encourage more risk taking by banks

Australia: Key FSAP Themes

