

1 December 2008

## MINISTERIAL STATEMENTS

### Economy

**Mr BRADBURY (Lindsay) (6:02 p.m.)** — I rise to take note of and to support Australia's response to the global financial crisis. I wish to take this opportunity to put on record my support of the very strong and decisive action that has been demonstrated by the government consistently now over a period of months in trying to respond to what are enormous challenges being faced by countries right across the world, whether they be in the developed world or the developing world. This international financial contagion knows no limits.

*A division having been called in the House of Representatives—*

*Sitting suspended from 6.03 pm to 6.18 pm*

**Mr BRADBURY** —The global financial crisis has been sweeping right across the world, and no country has been safe from its impact. This international financial crisis has now been occurring for over a year, although the most severe effects of the crisis have been felt most recently. In assessing the extent to which the government has been able to confront these challenges, to prepare the economy and guide it into these headwinds, one really needs to look at some of the history of what has occurred over the last year.

Clearly the pressures that were being felt in the credit markets just over a year ago have taken some time to flow through into other sectors of the economy. Some time earlier this year we were beginning to see the more severe effects on our credit markets, with widening spreads having an impact on the funding costs particularly of our banks. That manifested itself in increases to mortgage rates that were outside of the Reserve Bank official cash rate cycle. Indeed, since there have been movements in the official cash rate cycle banks have not always acted in lock step with those movements, principally because of the funding pressures they have been facing as a result of the global credit crunch.

*A division having been called in the House of Representatives—*

*Sitting suspended from 6.20 pm to 6.29 pm*

**Mr BRADBURY** —I will not cover any of the ground already covered and I will move straight into the rest of my contribution to this debate. When we consider the extent of the government's contribution to steer the economy into the headwinds that we are facing internationally we really have to go back to the budget. The budget set out the government's plan for securing and reinforcing a budget surplus. The proposed surplus handed down in the budget in May was over \$21 billion over the life of the budget—\$21 billion. In large part, many of the measures that have been thwarted in the Senate—principally by those on the other side—have whittled away that surplus, so the surplus is not the \$21 billion that it was

when it was handed down by Treasurer earlier this year.

The first thing that the government has done is to run a strong fiscal policy. Notwithstanding its better efforts, some of the edge of that fiscal discipline has been taken off by the obstructionism of those on the other side. If we look at some of the measures that have been taken since, we see that on 12 October the Prime Minister announced the government's response to the issue of bank guarantees. This was the first clear demonstration and it became very characteristic of the very decisive action and the way in which the government has sought to respond to this crisis. In making the announcement on 12 October the Prime Minister announced three things. Firstly, he announced an unlimited guarantee on deposits. Secondly, he announced a guarantee on term funding for authorised deposit-taking institutions. Thirdly, he announced that the government would be directing the Australian Office of Financial Management to purchase an additional \$4 billion in residential mortgage-backed securities.

The Leader of the Opposition is very fond of claiming credit for suggesting that there should be a purchase of residential mortgage-backed securities. In fact, I went back to the interview that he cites as evidence that he was out there, acting ahead of the curve—to use an expression that we have heard elsewhere—advocating this course of action before the government had announced it. It was an interview with Laurie Oakes, on 22 September, where the Leader of the Opposition said:

We know that it has been very, much harder for banks, particularly the second-tier banks and financial institutions, to refinance mortgages and that's one of the reasons why the cost of mortgages has gone up, why interest rates have gone up. Now, in other markets, the government, particularly in the US, the government is taking a role, proposing to buy back, buy some of these securities, in effect to provide additional liquidity to take the pressure off mums and dads.

Let it be clearly understood that the references there to what was occurring in the United States are fundamentally different from what was proposed by the Prime Minister in the form of acquiring residential mortgage-backed securities. The course of action that had been taken in the United States was in the nature of a bailout, buying up bad securities, bad mortgages. There has never been any suggestion from the Australian government that taxpayers would take on the liability of bad mortgages. So even the very interview that the Leader of the Opposition cites as being evidence of him out there, advocating for this policy initiative before anyone else, demonstrates a lack of understanding about the key measure that is in question here. That is the first point I make.

The government acted decisively, based upon the findings of the House of Representatives Standing Committee on Economics inquiry into competition in the banking sector. Certainly the government acted before those findings were handed down in a formal way, but the discussions that occurred in that committee hearing and indeed the evidence that was taken from the various submissions pointed very much in the direction of taking this course of action and, at the first opportunity, the government took that form of action. Once again, we see an example of decisive action, preparing the country and responding to the global financial crisis.

In relation to the guarantee of term funding for institutions, I note that those on the other side are very fond of criticising the process that was undertaken. Let it be understood by the House that the action that was taken and the timing surrounding the taking of that action, in large part, was the most significant reason why we have now seen a liberalisation, if you like, on credit markets. We have seen a

thawing of those credit markets that have previously been clogged up. The best evidence of that was the broadening spreads on those markets.

What we have seen since these announcements on providing guarantees is a greater degree of confidence in the marketplace. We have seen a greater degree of lending going on between banks and all of the interbank lending rates have demonstrated the improvement in that regard. As a result, funding costs for banks have improved and, with that improvement in funding costs, we have now seen not only cuts from the Reserve Bank but also that the private banks, the commercial banks, have the capacity to pass on those interest rate cuts, and they have been doing that.

In relation to the Reserve Bank's actions, we have now had, for the first time in a very long time, fiscal policy and monetary policy acting in harmony. It has been a long time since that has been the case. For far too long we had the Reserve Bank putting its foot on the brake whilst the previous government was throwing more fuel on the fires of inflation. So, in achieving that harmony between the fiscal and monetary policy, we have seen further evidence of a competent and decisive response to the challenges that have emerged.

I also wish to comment in relation to the economic security strategy, which is the next link of the government's response to the global financial crisis. In particular, there was the \$4.8 billion which was the immediate down payment on long-term pension reform. In addition to that we had the \$3.9 billion in support payments for low- and middle-income families, as well as the \$1.5 billion set aside for the amendments to the First Home Owner Grant. We have also seen the \$187 million invested in productivity places and, most significantly, we have seen an acceleration of the government's proposals in relation to its nation-building agenda. I know that the nation-building bills are in fact before the House at the moment combined with the COAG reform bill. The nation-building initiatives that were previously announced by the government will now be brought forward and accelerated under the Economic Security Strategy. They have been combined with the efforts of the government in its recent meeting with the Australian Council of Local Governments, and its commitments in relation to the regional and local community projects fund. The government has announced a \$300 million fund, with \$250 million already allocated to councils and all councils receiving some funding. The key emphasis of that funding is that it go towards programs that are not in the ordinary course of the councils' financial activities, programs that are not already planned for, but also the programs are to be delivered in an expeditious way to ensure that this money comes into the economy as quickly as possible to keep the economic wheels turning over.

In addition to that, we have seen more recently, over the weekend, the government progressing its COAG agenda at the Council of Australian Governments meeting. An additional \$15.1 billion is to be invested in the key services of health, education, housing and disability services—not to mention better aligning things to produce the seamless national economy, breaking down the barriers that have existed, the vestiges of Federation, where the duplication of laws across the nine jurisdictions could sometimes impede business growth and development.

All of these measures when combined demonstrate that the government has been well and truly up to the job of responding to these challenges—indeed, as has been said before, it has been acting ahead of the curve. The government has been very proactive. These are measures that have been taken. The Prime Minister has been talking about these things well and truly in advance of other countries actually



acting, and has always been acting on the advice of the council of economic regulators, notwithstanding what the opposition say. That group has been providing key advice to the government, and there is no suggestion from anyone that any of the advice provided by the council of economic regulators has not been acted upon. Acting on the best advice, the government has implemented decisive measures which will, in large part, really start to make their way into the economy in the next week or so. The government will be monitoring the impact of that injection of funds through the fiscal stimulus, and the government does stand ready to act in the event that that does not provide sufficient stimulus in order to help us continue to run a strong economy against these headwinds in international finance.