



PRIME MINISTER

GLOBAL FINANCIAL CRISIS

Global financial markets are experiencing some of the most challenging conditions ever witnessed.

In recent days, as global financial conditions have deteriorated markedly, governments around the world have taken unprecedented steps to guarantee the liabilities of their financial systems.

The Australian financial system is demonstrating its resilience to the international financial market turbulence. Australia's banking institutions remain sound, well-capitalised and profitable with high asset quality.

The Australian financial system is however being affected by global events. Recent developments in the international wholesale funding markets have created acute funding pressures that now pose potential risks to the total supply of finance to the Australian economy.

This has the potential to slow further domestic economic activity.

The G-7 met on 10 October and agreed that the current situation calls for urgent and exceptional action to stabilise financial markets and restore the flow of credit, to support global economic growth.

Guarantee on deposits

In response to these developments the Australian Government will guarantee all deposits of Australian banks, building societies and credit unions and Australian subsidiaries of foreign-owned banks.

This guarantee will operate for a period of three years. This is similar to action that has been taken in a number of countries.

The guarantee will be legislated as part of the Financial Claims Scheme (FCS). For the first three years of its operation, there will be no cap.

The guarantee will operate from the date of this announcement. From today there will be no limit on deposits covered by the FCS. In three years time, the Government will review this position.

New measures to enhance the powers of the Australian Prudential Regulation Authority (APRA) will be legislated.

Guarantee of term funding for institutions

The Australian Government will also guarantee wholesale term funding of Australian incorporated banks and other authorised deposit-taking institutions (ADIs).

The Government will offer the guarantee in return for a fee in respect of eligible non-deposit debt obligations of Australian ADIs and foreign subsidiary banks operating in Australia.

It will enable Australian institutions to raise funds overseas in the current tight conditions and will restore confidence in credit markets. The facility will be withdrawn once market conditions have normalised. Details will be finalised in the next few days.

Purchases of RMBS from non-ADI lenders

Further to the Treasurer's announcement in September, the Government has decided to direct the Australian Office of Financial Management (AOFM) to purchase an additional \$4 billion in Residential Mortgage Backed Securities (RMBS).

The Government has been monitoring the market closely and has determined that this additional \$4 billion in funding is required for the purchase of RMBS from non-ADI lenders (those being lenders who are not banks, building societies or credit unions) by the AOFM.

This will benefit Australia's mortgage market by levelling the playing field for non-ADI institutions and ensuring that this sector of the lending market has access to funding for their operations.

My officials have done considerable work on the design of these arrangements and, in developing these measures I have received advice from the Governor of the Reserve Bank of Australia, the Chairman of the Australian Prudential Regulation Authority and the Secretary to the Treasury.

Collectively, these measures will reassure Australian depositors that their deposits are safe and that they can have full confidence in the Australian financial system.

In addition, these measures will assist Australia's financial institutions weather the global financial turbulence.

**CANBERRA
12 OCTOBER 2008
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