

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Estimates 22-23 October 2008

Question: sbt 50

Topic: Deposit Guarantee – Coverage of Financial Instruments

Hansard Page: E25

Senator BOB BROWN asked:

Senator BOB BROWN —I have a question, if I may. That is coming back, Dr Henry, to the impact on instruments not covered by the guarantee. Are you able to quantify that or say what the nature of that impact is?

Dr Henry —I am certainly not able to do it this morning, Senator. I do not know if we would ever be able to provide a reliable quantitative estimate of impact.

Senator BOB BROWN —This is largely a domestic impact. It is one that will be of concern to people who have invested money or who otherwise have dealings with those other instruments.

Dr Henry —Yes, I think that is a reasonable description of the sort of impact that you are talking about here.

Senator BOB BROWN —So it is a matter of concern. I wonder if you could find out for the committee what the impact appears to be at this stage after the guarantee has now been given to some financial instruments but not all.

Dr Henry —I am happy to take it on notice and see what we might be able to do, but what the impact turns out to be will not be the impact that we observe today. As I have indicated and—we have spent quite a lot of time talking about this—as was telegraphed in the Treasurer’s second reading speech the government will be considering some initiatives that go to the detail of the implementation of the scheme and those initiatives will themselves have impacts and so on. I will take your question on notice and I will see what we may be able to provide to the committee.

Answer:

A process of re-intermediation from savings held with non-bank financial institutions back to prudentially-supervised ADIs was already underway in the present market downcycle before the deposit guarantee was announced. In addition, a process of de-leveraging and of savers reducing property and stock market risk was also already underway.