Australian Citizens Party

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MEDIA RELEASE

11 December 2018

When RBA is talking money-printing, brace for a massive crash!

The Reserve Bank of Australia won't admit they are contemplating a mega-crash, but that's what it means when they publicly announce they have the option of Quantitative Easing (QE)—money-printing.

And it also means that they are not concerned about shielding the Australian public from a crash, but with propping up Australia's too-big-to-fail banks so an Australian crisis doesn't trigger contagion in global banks and derivatives markets.

Deputy RBA governor Guy Debelle used a speech on 6 December to the annual Australian Business Economists dinner to send a message to the banks that, with falling house prices and economic storm clouds gathering, the central bank is ready to ride to their rescue.

According to the 7 December *Australian Financial Review*, the plunge in house prices is "absolutely something we are paying attention to", Debelle said. "This is not a situation we have seen before—it is uncharted territory."

He claimed the lesson from the GFC is: "In a crisis, go fast and go hard. Don't die wondering." Specifically, he foreshadowed further reductions in the official interest rate that has been unchanged at a record low of 1.5 per cent for a record 28 months. This is already an extraordinary admission. Cutting the interest rate to 3 per cent during the GFC was regarded as an emergency measure—to consider dropping it lower than the current record low is desperation.

The RBA thinks that won't be enough, however. According to *The Australian* on 6 December, Debelle revealed the RBA would be prepared to print money. "Quantitative easing is a policy option in Australia, should it be required", he said.

How big does RBA think bank losses could be?

According to a Bank of England pamphlet, Quantitative easing explained, "The [central] Bank creates money and uses it to buy assets such as government bonds and high-quality debt from private companies [banks]." Since 2008, the US Federal Reserve, Bank of Japan, European Central Bank and Bank of England have together issued US$12 to $14 trillion in QE to buy assets from desperate banks that have included the toxic mortgage-backed securities that sparked the GFC.

In even considering QE for Australia, the RBA is indicating that it has no faith in the results of the bank stress tests that the regulator, APRA, announced on 11 July 2018. APRA chairman Wayne Byres claimed that in a scenario in which house prices fell 35 per cent, GDP fell 4 per cent and unemployment doubled to 11 per cent, the banks would lose $40 billion in capital but would survive.

If that were true, however, there would be no need for QE, not even close. The capital of the Big Four banks is $240 billion. On top of that they have extra "loss-absorbing capacity" in the form of so-called hybrid securities, a.k.a. "bail-in bonds", of close to $100 billion. And then there is APRA's existing backstop for a banking crisis called the Committed Liquidity Facility (CLF), which is $248 billion. That is close to $600 billion that the banks would have to lose before the RBA would have to resort to QE.

(Other analysts severely criticised APRA's stress tests . Lindsay David of LF Economics ran the same worst-case scenario as APRA and concluded losses would be $298 billion, while Martin North of Digital Finance Analytics estimated losses of $310 billion; economist John Adams insisted that an actual worst-case scenario based on historical precedents would see banks lose $700 billion!)

Global cabal

The issue that the RBA and APRA don't want to talk about is the off-balance sheet derivatives of Australia's banks, which are over $40 trillion, two-thirds of which are with foreign bank counterparties. The RBA is not considering QE for the benefit of the Australian people and economy, but to prop up Australia's banks so an Australian financial crisis doesn't trigger derivatives defaults that would spark global contagion.

On these issues, both the RBA and APRA function not as Australian government authorities, but as Australian agencies of the global banking apparatus headquartered in the Bank for International Settlements (BIS) and Financial Stability Board (FSB) in Basel, Switzerland. The BIS, known as the central bank of central banks, is a creature of the world's most powerful central banks, especially the Bank of England, which coordinate through the BIS and FSB to protect private banking interests from democratic accountability. Since 2008, instead of governments enforcing reforms on the banks to put a stop to the dangerous speculative practices that caused the crisis in the first place, they have deferred to the BIS-central bank cabal which showered the banks with QE, and implemented radical schemes such as "bail-in" to prop up the banks with their depositors' savings.

Guy Debelle has worked for the BIS, and is the current chairman of its Foreign Exchange Working Group. His boss, RBA Governor Philip Lowe, is very high ranking in the BIS-FSB apparatus: he spent two years at the BIS working on financial stability issues, chairs the BIS Committee on the Global Financial System, and is a member of the FSB. Despite the central banks-BIS-QE response to the global financial crisis having increased global debt to $247 trillion, and Australia already at record foreign and household debt, the RBA doesn't care how much more debt their QE plans will incur. Debelle dismissed concerns about debt: "While acknowledging that household debt is higher in Australia than many other countries, there is little to form a strong conclusion about how much is too much", he said.

This view is insane! The objective should not be to prop up housing bubbles and sick banks at all costs, but to have a functioning economy in which banks serve the needs of individuals, businesses and industries, and housing is affordable again. Instead of printing money to paper over the banks' insolvency, a housing crash should become the catalyst for the Australian government to implement:

- a Glass-Steagall separation of banking from speculation to protect deposits;
- a national bank to invest in productive infrastructure and industries to replace the dominance of the property bubble; and
- the equivalent of a US Chapter 11 bankruptcy reorganisation of the banks that restructures their liabilities and assets to clean out the unpayable debt and associated toxic securities and derivatives.

Printed from http://citizensparty.org.au/print/pdf/node/148, on 18 May 2024 at 12:05 pm