



Banks stretched as economic cost mounts

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State and federal leaders will move on Friday to restart the economy as quickly and safely as possible, as new data on the economic cost shows the banks are wearing up to \$160 billion in loan payment deferrals while half the nation's workforce is on welfare or wage subsidies.

In one of its most significant meetings so far, the national cabinet will convene on Friday to sign off on the reopening of as many businesses as possible over the next two months.



The banks have done much of the heavy lifting, primarily by deferring loan payments for six months for distressed homebuyers and business owners. **Ryan Stuart**

The relaxation of restrictions will be done in three phases, starting in days and with each phase separated by an "epidemiological timeline" of roughly four weeks so authorities can monitor the health risk before progressing to the next stage.

[Cafes and restaurants](#), [offices](#) and [retail are expected](#) to be among the first to reopen.

The speed at which each state and territory moves will be up to individual governments. Already, the Northern Territory has eased the most restrictions, while Victoria and Tasmania remain the most locked down.

The ACT relented on Thursday and will [reopen all its schools](#) within weeks. A senior government source said getting schools open was "the single most important prerequisite for opening our economy".

With the states setting the rules regarding restrictions and the federal government footing most of the bill, the latter is keen to ease restrictions as quickly as possible to stem the mounting economic damage.

While the federal government has shelled out \$214 billion in stimulus and assistance measures, the banks have also done much of the heavy lifting, primarily by deferring loan payments for six months for distressed homebuyers and business owners.

Business seeks \$160b in deferrals

Figures provided by the Australian Prudential Regulation Authority show that, to date, consumers and business owners had sought between \$150 billion and \$160 billion in loan deferrals.

This amounts to 6 per cent of all mortgages and 13 per cent of SME loans, prompting government concerns that the banks, too, are being stretched.



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Australian Banking Association chief executive Anna Bligh said the whole sector was looking for clarity from the national cabinet meeting.

"As soon as businesses know when they can open and how long they can open for, then they can really start to plan," she said.

The banks have already provided an insight into the economic fallout to come at interim results, where the major players revealed a 57 per cent plunge in cash profit to \$6.2 billion from \$14.5 billion the year before.

In anticipation of the carnage yet to emerge after the JobKeeper subsidies and loan repayment holidays end, three of the major banks made \$3.5 billion of additional provisioning for the half, with Commonwealth Bank expected to push this number to more than \$5 billion on Wednesday.

Expectations among analysts of the total bill for bad and doubtful debts as a result of [efforts to contain COVID-19](#) range between \$35 billion and \$45 billion over three years, with about one in every 50 loans going bad, putting the virus crisis on the same level as the GFC.

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Last Monday NAB was forced to gazump its rivals by publishing its results 10 days ahead of schedule in order to jump the queue of expected capital raisings with a request for \$3.5 billion in fresh but heavily discounted equity.

Rival banks ANZ and Westpac opted to defer decisions on first-half dividends and franking credits that were worth about \$10 billion last year, with some observers saying the prospect of these being paid at a later date was “as good as zero”.

The \$14 billion JobSeeker scheme, which doubled the unemployment benefit, now has 1.55 million recipients, of which 1 million are people who have lost their jobs due to the pandemic.

The \$1500-per-fortnight JobKeeper wage subsidy scheme, worth \$130 billion, now has 767,808 businesses enrolled, covering 5 million employees.

Another 1.2 million people have accessed \$10.2 billion in superannuation.

While the schemes have been budgeted for, they will inflict huge debt and deficits and the government fears people are losing perspective.

The cost of JobKeeper alone was “absolutely enormous”, a source said, and “it can't go for one day longer than it has to”.

The government is now operating on the premise that "as the economy grows, the need for income support falls".

The start of stage three

The government has compartmentalised dealing with the crisis into five segments: 1) fight the virus; 2) deliver relief to individuals and businesses; 3) reopen the economy securely and safely; 4) build confidence and momentum; and 5) release a budget in October full of pro-investment policies to grow the economy and lift it out of the mess.

Friday's national cabinet meeting will be the start of stage three.

The government is warning privately that it was a lot easier to shut down businesses than open them up and the latter process will be complicated because of the protocols that will need to be adhered to.

While the government is already working on policy proposals for the October budget, it will roll out some policies before then. At this stage, it says its focus is on the immediate crisis – both the victims and the need to reboot the economy.



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Such is Australia's success in curbing the spread of the virus that Prime Minister Scott Morrison was invited to join what has been coined the First Movers Club.

Started by Austrian Chancellor Sebastian Kurz, the club is open only to nations that have successfully suppressed the coronavirus.

Other members include Israel, Greece, the Czech Republic, New Zealand and Denmark. The leaders had their second phone hook-up on Thursday night.

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