Parliamentary Budget Office

ECR-2025-3388

Wholesale funding guarantee for smaller banks	
Party:	Australian Greens
Summary of proposal: The proposal would provide a wholesale funding guarantee to smaller banks, enabling them to compete with major banks by borrowing at equivalent costs. The proposal would start on 1 July 2025.	
Additional information (based on further advice provided): • The guarantee would be available to all to customer owned banks as captured by APRA's definition of credit unions and building societies[1] or mutual authorised deposit-taking institutions (ADIs). – The guarantee would not be available to banks that are subject to the major bank levy.[2] • The guarantee would be provided under the following conditions: – Institutions applying would require APRA approval, as applied under the *Australian Government Guarantee Scheme for Large Deposits and Wholesale Funding.* – The guarantee would cover a borrowing amount equivalent to the value of the participating institution's outstanding loans for owner-occupied residential property. No fee schedule would be charged for the guarantee.	

Costing overview

The proposal would have an unquantifiable impact over the 2025-26 Budget forward estimates period (see Table 1). The impact beyond the 2025-26 Budget forward estimates period is also unquantifiable.

The Parliamentary Budget Office (PBO) is unable to quantify the financial implications of the proposal, noting that the proposal would create a remote and unquantifiable contingent liability. Government expenditure would arise under the guarantee only in the unlikely event that an institution fails to meet its obligations with respect to a commitment that is subject to the guarantee, and the guarantee is called upon.

[1] As captured by APRA's definition of credit unions and building societies: building society refers to the industry segment Building Societies, which consists of locally-incorporated ADIs that assume or use the expression 'building society' in relation to their banking business; credit union refers to the industry sector Credit Unions, which consists of locally-incorporated ADIs that assume or uses the expression 'credit union' or 'credit co-operative' in relation to their banking business.

[2] The *Major Bank Levy Act 2017* provides for a 0.015% levy on authorised deposit-taking institutions (banks) with total liabilities of greater than $100 billion (indexed to grow in line with GDP). The levy is imposed on certain liabilities of the bank that are reported to APRA on a quarterly basis. There are currently 5 banks captured by the levy: Commonwealth Bank of Australia (CBA), Westpac Banking Corporation (Westpac), Australia and New Zealand Banking Group Limited (ANZ), National Australia Bank (NAB) and Macquarie Bank.

In this case, the Government is likely to be able to recover any such expenditure through a claim on the relevant institution. The impact on the Government's budget would depend on the extent of the institution's default and its ability to meet the Government's claim. This approach is consistent with treatments of comparable guarantees in past Budgets.

Further information on the Budget treatment of guarantees is provided at Attachment B.

Table 1: Wholesale funding guarantee for smaller banks – Financial implications ($m)[(a)(b)]

	2025-26	2026-27	2027-28	2028-29	**Total to 2028-29**
Fiscal balance	*	*	*	*	*
Underlying cash balance	*	*	*	*	*

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
(b) PDI impacts are not included in the totals.
* Unquantifiable – not included in totals.

Background – the Australian financial system

Customer owned banks

Customer owned banks are owned exclusively by customers or members rather than external investors, and include credit unions, building societies and mutuals. Customer owned banks provide competition to major banks and have relatively high market shares in targeted markets such as consumers in a particular region or employees in a particular profession.

As at 31 December 2024, credit unions and building societies held around $36 billion in assets (of which around $21 billion were housing loans to owner-occupiers) and mutuals held $185 billion in assets (of which $103 billion were housing loans to owner-occupiers).[3] In total, all banks held around $1,550 billion in housing loans to owner-occupiers.

Key assumptions

The PBO has made the following assumptions in costing this proposal.

- That customer owned banks would not increase their mortgage lending in order to take further advantage of the proposal.
  - Although this proposal may indirectly provide customer owned banks with cheaper financing options, whether banks would offer lower-interest mortgages to attract more debtors is unclear. Even if customer owned banks were inclined to do so, they may be constrained by competition from major banks, or by the supply of housing.
- The PBO has assumed that the guarantee would be enacted by legislation.
- The PBO has made no assessment as whether the proposal would achieve its stated goal of ensuring that customer owned banks are able to borrow at the same rates as major banks.
  - Although the proposal would reduce the risk associated with customer owned bank financing, it would not cover all of the banks' financing activities and the market's assessment of the banks' credit is uncertain.

[3] APRA Quarterly authorised deposit-taking institution statistics

Data sources

Australian Prudential Regulation Authority (2025) *Quarterly authorised deposit-taking institution statistics*, APRA website, accessed 15 May 2025.

Australian Prudential Regulation Authority (n.d.) *Authorised deposit-taking Institutions points of presence glossary*, APRA website, accessed 20 May 2025.

Commonwealth of Australia (2025) *Pre-election Economic and Fiscal Outlook 2025,* Commonwealth of Australia.

Attachment A – Wholesale funding guarantee for smaller banks – Financial implications

Table A1: Wholesale funding guarantee for smaller banks – Fiscal and underlying cash balances ($m)[(a)(b)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	**Total to 2028-29**	**Total to 2035-36**
Administered – memorandum item													
Bank guarantee	*	*	*	*	*	*	*	*	*	*	*	*	*

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) This costing includes an unquantifiable aspect.

Table A2: Wholesale funding guarantee for smaller banks – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances ($m)[(a)(b)(c)]

	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	2034-35	2035-36	**Total to 2028-29**	**Total to 2035-36**
Fiscal balance	*	*	*	*	*	*	*	*	*	*	*	*	*
Underlying cash balance	*	*	*	*	*	*	*	*	*	*	*	*	*

(a) As this table is presented as a memorandum item, these figures are not reflected in the totals above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary[4].

(b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(c) This costing includes an unquantifiable aspect.

[4] Online budget glossary – Parliamentary Budget Office (pbo.gov.au)

Attachment B – HomeKeeper, a Deposit Guarantee for customer owned banks, and a public property developer – Budget treatment of guarantees

A guarantee is an undertaking where one party assumes responsibility for the debt, or performance obligations, of another party should that other party default in some way.

- Typically, Australian Government guarantees are classified as contingent liabilities.
  - Contingent liabilities are defined as costs the government would have to face if a particular event occurs.
- Guarantees are reported in the Australian Government's *Statement of Risks* at economic and fiscal updates.
  - The *Statement of Risks* outlines general fiscal risks, specific contingent liabilities and specific contingent assets that may affect the budget balances.

Case Study

- In response to the Global Financial Crisis (GFC), the Australian Government provided a guarantee of the wholesale funding of ADIs between 2008 and 2010.
  - Announced on 12 October 2008 by the then Prime Minister, the guarantee was introduced as a temporary measure in the face of the GFC to restore confidence in credit markets. [5]
  - The 2008-09 MYEFO measure *Guarantee of wholesale funding of authorised deposit-taking institutions* provided further details of the guarantee, which aimed to maintain institutions' access to new funding during the international financial market turbulence and support continued lending to Australian corporations, businesses and households. [6]
- While this guarantee was listed as a contingent liability in the Budget *Statement of Risks*, no expense impacts to the fiscal and underlying cash balances were published in the 2008-09 MYEFO. This was due to the expected liability of the guarantee being remote and unquantifiable.
  - Government expenditure would arise under the guarantee only in the unlikely event that an institution failed to meet its obligations with respect to a commitment that is subject to the guarantee and the guarantee is called upon. The impact on the Government's budget would depend on the extent of the institution's default and its ability to meet the Government's claim for recovery on it.

---

[5] Rudd K (12 October 2008) *Media Release - Global Financial Crisis*, PM Transcripts - Department of the Prime Minister and Cabinet website, accessed 20 May 2025.

[6] Commonwealth of Australia (2008) *Mid-Year Economic and Fiscal Outlook 2008-09*, Commonwealth of Australia.