

## Domestic deposit taking and the funding gap

(30 January 2012 – Australia) The latest research from industry consultants East & Partners' Deposit Funding and Debt Index (DFDI) shows that if business deposits continue climbing next year as we have seen in 2011, the gap in funding needs will continue closing, significantly lessening banks reliance on offshore funding.

Since November 2010, the DFDI business deposits ratio has risen from 1.23 to 1.26 in November 2011, business customers are depositing \$1.26 for every \$1 they are borrowing, up from \$1.23 a year ago.

Australia's big four domestic banks are collectively looking to refinance around A\$100bn in 2012. Without increasing volumes of forward deposits, ideally on tenured terms, banks will continue to turn to the volatile and expensive wholesale funding markets.

Reliance on these offshore capital markets have been largely responsible for the credit agency downgrades experienced by the banks over the past few months - with lower credit ratings the cost of money goes up.

However East's research has shown a steady increase in deposits coming from the domestic business market and ongoing data suggests this will continue through 2012. This research shows that domestic deposits will increase by A\$15.5 billion by June 2012, reducing the wholesale funding gap for the Big 4 to A\$84.5 billion.

East & Partners' Head of Client Services, Amy Nixon, commented, "We predict that in June 2012 the DFDI business deposits ratio will have steadily risen from 1.26 in November 2011 to 1.31 in June of this year. Meaning business customers are depositing \$1.31 for every \$1 they are borrowing, which is a significant jump year on year."

"This outlook also assumes credit demand from business borrowers remains flat over this period", Ms Nixon added.

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## About East & Partners' Deposit Funding & Debt Index

A monthly analysis across Australia's total business and consumer deposit and lending markets, based on data sourced from APRA. The ADI data is overlaid with a set of demand-side analyses based on East & Partners' continuous whole-of-market customer research programs to produce the Index's set of ratio indicators. The Index focuses on critical market measures including business versus retail deposit volume ratios, the ratio of deposit versus lending by bank by market segment, deposit market share and the total market deposit funding index.

Also reported each month are unique segmentations based on depositor size and, importantly given BASEL III's impact, the Index also splits On Call and HYOD deposit volumes by segment from Term Deposits across 3, 6 and 12 month tenures – hot and sticky deposit business flows, tied versus free deposit balances, deposit churn forecasts and rate triggers for depositor switching.

Note: Business Depositor Segments

- › Institutional – A\$530 million plus
- › Corporate – A\$20-530 million
- › SME – A\$5-20 million
- › Micro – A\$1-5 million

For more information or for further interview based insights from East & Partners on this DFDI Index, please contact:

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