Transcript: Shayne Elliott with Hamish Macdonald – ABC RN Breakfast – 01/05/20

HAMISH MACDONALD: Breakfast on Radio National. The economic cost of the COVID-19 pandemic has begun to show up on the balance sheets of Australia's biggest banks, with the ANZ yesterday unveiling a 60 per cent slump in its first half cash profit to $1.4 billion. Profits were down due to a rise in bad debt provisions, with ANZ setting aside $1 billion alone for the impact of the coronavirus. Shareholders, too, won't see a dividend payment until at least August. Shayne Elliott is the Chief Executive of the ANZ. I think I said he was the new chief executive. He's not. He's been there for three-and-a-half years. Welcome back to breakfast.

SHAYNE ELLIOTT: Good morning Hamish.

HAMISH MACDONALD: Profits have collapsed. You've been forced to set aside more money to cover bad debts than you did during the GFC. The interim dividend is gone for now. Yet you're describing the results as reasonable. How so?

SHAYNE ELLIOTT: Well, actually - obviously COVID's on everybody's mind - if we can just sort of look through this, the core operations of the bank prior to the impact of this was actually pretty good. And our core profits have actually held up very, very well. But what we've done is we've taken the opportunity, a prudent approach to say while things are well here, we've got the opportunity, let's park aside an extra billion dollars. Now, let's remember, we've already got set aside three-and-a-half billion dollars for when things might go wrong and what we've done is we've topped that up by an extra billion dollars because of COVID. So I think that's pretty reasonable given the circumstances that we're in.

HAMISH MACDONALD: So, do you have the capacity to weather a deeper storm, as it were?

SHAYNE ELLIOTT: Yes. And you know, that billion dollars calculation that we did - why is it a billion and not half a billion or two billion? We run a scenario test, a stress test. And that stress test, our base case, it's pretty grim, Hamish. Basically, we think that that base case, which suggests that GDP would fall 13 per cent in the second quarter that would be the single biggest drop in GDP since the Great Depression, that unemployment would peak at 13 and house prices would fall 11 per cent between now and the end of next year. Now, that's just our base case. And then - so that's the majority case - and then we stress that even further and say, 'well, what if we're wrong and it gets even worse than that?' And then we run that through our machines and come out with a billion dollars that we need to tuck away.

HAMISH MACDONALD: Can we talk, though, about what this means for your customers and people listening this morning though? Because you've set aside this $1.7 billion for bad debts, a larger amount than the banks set aside during the GFC and we all know what the sort of medium to longer term consequences of the GFC were. It would seem from that, clear that you don't expect all of your customers to get to the other side of this crisis in terms of their loans.

SHAYNE ELLIOTT: Well, that's sadly the case. Now, there's a couple of differences with the GFC. So ... actually what we've got to recognise here is that the government's response this time is actually much bigger and much swifter than at the GFC. Just to give you the numbers in the GFC time, the government's contribution and support was about six-and-a-half per cent of GDP and that happened over a period of about eight months. This government has already committed over 10 per cent of GDP and we're two months in. So that does matter. But nonetheless, you're right. The whole point of putting aside those provisions suggests that there will be people who don't come through. Now, sadly, we think that's probably going to be more in the sort of SME, the smaller business sector, because those businesses just don't have the capacity of some of the larger companies ... despite the fact that the government's doing its bit.

HAMISH MACDONALD: Just on that, though. I mean, the government through the Reserve Bank is this loan arrangement has made cash available to you, to the big banks pretty cheaply in order to ensure that that's not the outcome. Why? Why is that what you're working towards rather than trying to ensure that everyone gets through this?

SHAYNE ELLIOTT: Oh, we are trying to. It's in our interest that everybody gets through. We don't want to lose that billion dollars. It's in our interest that every single customer gets through. Let's not forget that. But the sad reality of any crisis is that some won't. And the reason is it doesn't matter if I keep lending you money, even if it's for free, at the end of the day, you still have to be able to pay it back, whether it's paying it back to the taxpayer or paying it back to the bank. Now the vast majority of companies will. And now, while that billion dollars seems like a lot let's not forget that a bank like ANZ, our total balance sheet is $900 billion. That's the amount of lending and all the things we do out there. We we've lent over $250 billion to homeowners alone. So while a billion is a massive number in the scheme of things, it is not assessing that there will be devastation across households and SME. It's actually quite a small amount of companies that won't get through. But we have to be prudent and assume that that's the case. I mean, look at look a Virgin. I mean, sadly - now somebody might buy it - but there's going to be losses to banks as a result of whoever buys it. There will be some losses.

HAMISH MACDONALD: Could the banks, given that ratio you've just described - the one billion compared with what your overall balance sheet is - could banks like yours afford to defer loan repayments for another six months? Given the enormous gift, effectively, that you've been given by the taxpayer?

SHAYNE ELLIOTT: Well, sorry, but we haven't been given anything by the taxpayer.

HAMISH MACDONALD: Well, through the government, I mean, through the Reserve Bank, I mean ..

SHAYNE ELLIOTT: Well we haven't. Right as of this minute, we've not drawn down $1 of that Reserve Bank money and we will at some point, but right now we don't actually need it. So, look, could we? To your question could we? Yes, we could. Now, we've got an amazing alignment here between government, the banks and the regulators. Certainly in my ten years in Australia here ... I've not seen that level of alignment. And what the regulators have allowed us to do is say 'you can give that six month holiday essentially at no penalty'. Now, in normal circumstances, if we were to - if banks were to give that six month holiday, there would be an enormous penalty to the banks. We would, under regulatory rules, we'd have to set aside massive amounts of capital, which would mean we wouldn't be able to do any new lending. So we've got an agreement. Could we do it for another six months? Absolutely, we could. Now, I hope we don't have to. I actually think that there is a possibility at the end of the six months we may have to extend the payment deferrals. Not for everybody, but for some and perhaps many. I think that is a very real prospect.

HAMISH MACDONALD: ANZ has decided not to pay shareholders an interim dividend until at least August. That'll save you around $2 billion. There will be many retirees listening this morning who rely on that income from dividends. What sort of assurance are you giving to them?

SHAYNE ELLIOTT: Well, look, it's not an easy decision, and the reality is through a quirk of history, banks - and like a lot of companies - we make these decisions about dividends twice a year. It just so happens one of those happens to be in April every year. And we're just saying, 'unfortunately, we are in the eye of a storm, this massive uncertainty ... the greatest uncertainty that's faced the economy since the Great Depression'. We're saying 'today is just not the right day to be making a decision about writing a cheque for a billion or $2 billion'. Now, I understand that many people rely on that. But, you know, what kind of bank would we be to write a cheque out for a billion or $2 billion to our shareholders only to put us in harm's way because the economy gets worse over the next three weeks or three months? So we said, 'look, the right thing to do actually in the interest of those shareholders; buy a bit of time. Let's just buy a bit of time and see how the thing rolls out and then we'll have better information and we can decide what's the right thing to do'.

HAMISH MACDONALD: I want to draw our listeners' attention to something you've said: the labour market won't recover for three to five years, you're also saying interest rates are likely to be even lower for even longer. There'll be no low debt countries. Governments will be larger, manufacturing more localised and health systems reformed. Education and tourism will require substantial innovation. This is a more detailed picture that's starting to emerge of what our country, our economy will look like post COVID-19. Can you fill that picture in for us?

SHAYNE ELLIOTT: Sure. Now, I know that sounds pretty grim, but the reality is we know from history that economies always look different and the structure and the nature of them after any sort of shock to them, any crisis, than they did going in. There is no going back to everything the way it was. Now that is sad and not very comforting for people, but that is the reality. And what ... I was trying to give some detail to, is what is the likely shape of that? So let's just talk about a little bit of that, particularly for Australia. Even though Australia and New Zealand, our home markets, have done an amazing job crushing the virus, the reality is there is no V-shaped recovery. Why? Because our economies are open and very, very dependent on exports and tourism and migrants and foreign students and all of those things, which are great. We can't solve this on our own. And until the world has solved the problem and the world has gone back to normal and we have a vaccine that's widely available, many of those industries cannot go back to normal. So there will be a recovery, but some industries are not going to be able to recover for many years. And so the whole structure of the economy will change and that's what I was trying to give some flavour to. And of course, what we've seen is governments have acted in an extraordinary way, but that money has to be paid for at some point. And so ... that's obviously through taxes and other things and there will be a burden on the economy for some period of time. That's what we're saying. We don't buy the V-shape, it's going be a slow grind out ... in terms of a recovery.

HAMISH MACDONALD: I'd love to talk to you for another 10 minutes, alas we have to be in the news at 7 o'clock. Shayne Elliott, thank you very much.

SHAYNE ELLIOTT: Thank you very much.

HAMISH MACDONALD: Shayne Elliott is the CEO of ANZ Bank.