The Pacific Banking Guarantee Act: the need for transparency

The ANZ branch in Nuku'alofa, Tonga in the 1990s
Photo Credit: ANZ Bank

by Stephen Howes

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In my first post, I characterised the *Pacific Banking Guarantee Act 2025* as providing a subsidy to the banks covered by it — so far only the ANZ. Since the details of the guarantee being provided are not specified in the act, we don't know how much the subsidy is worth to ANZ. And we have little idea of what is being provided in return. For all we know, the result of this deal could be millions of dollars in extra profit for ANZ with very little benefit for the Pacific.

The good news is that, as shown in the previous blog, the expected cost of this subsidy to the taxpayer is tiny. But future deals under this same act could be more costly to the taxpayer. The government could decide to guarantee any losses made in the Pacific by an Australian bank or, indeed, the government could decide to guarantee every loan a bank makes in the Pacific. And we would never know. In the end, whatever the likelihood is of the guarantee's being invoked, it is taxpayers' money that is being put on the line. The taxpayer has the right to be informed, and to be reassured that they are not being taken for a ride.

Unfortunately, the government's track record can only give rise to suspicion that a very generous deal has been provided to the ANZ. My analysis of the similarly confidential Digicel-Telstra deal is that the Australian government paid Telstra $190 million to buy the Pacific mobile telecom nearmonopoly, Digicel, without imposing any obligations at all on Telstra.

The Australian government funds a number of domestic community service obligations whereby businesses are paid to undertake a variety of services that benefit the community and are unprofitable for them to undertake. These arrangements apply to both government-owned businesses (for example, Australia Post) and private ones (for example, pharmacies).

What the Australian government is here asking ANZ to do is to undertake a "foreign service obligation". Based on publicly available information, in return for its guarantee, ANZ is agreeing, over the next ten years (the duration of the deal): (a) to pay an (unknown) annual fee, (b) to continue to operate in the Pacific, (c) to make a modest investment in the Pacific ($50 million) and (d) not to charge fees for digital money transfers within the Pacific.

Making the terms and conditions public, as they are for domestic community service obligations, would have several advantages.

First, analysts could judge whether the deal represents value for money. At the moment, this is simply not possible. It might be possible to work out or estimate ANZ's sovereign bond holdings in the Pacific. But we have no idea of the value of the fee that ANZ is paying or the cost of its additional commitments. Note that the promised $50 million investment might in itself be profitable for ANZ.

Keeping ANZ in Pacific markets is a good thing, but it is also the result of a distortion, that is, a government tax or subsidy that influences market outcomes. In PNG, the ongoing ANZ presence will have little impact on the Bank of the South Pacific, which is the dominant player and a quasi-monopolist. But if ANZ pulled out, that would help other local banks, such as Kina Bank. Is the guarantee worth it? We cannot possibly judge this without the terms and conditions being publicly available, and ANZ's performance under the guarantee being monitored.

Second, making the details public would make it possible to judge whether ANZ is holding up its end of the bargain. The way the guarantee is structured gives no incentive to the ANZ to lend more to the private sector in the Pacific. ANZ might just take the guarantee and, without closing down its Pacific operations, do as little as possible in the region, short of shutting down. Incredibly, for an operation involving public money, there are no reporting requirements. It is not even clear if the government will have any visibility via confidential and verifiable reporting of ANZ's performance in the Pacific.

Third, making the terms and conditions public would remove a lot of the confusion currently present, confusion that I discussed in my previous blog. Another example of this is the claim by Bank South Pacific in its submission to the (then) bill's inquiry that the guarantee will reduce interest rates on ANZ loans. It will have no such impact.

No doubt the objection will be made that the negotiations are "commercial in confidence" and the details cannot under any circumstances be released. I disagree. It is not as if ANZ won this subsidy in a competitive tender. And any corporation receiving a benefit from the taxpayer should be required to disclose the terms and conditions on which such benefits are provided, and should be obliged to report on what it is doing in return.

The real-world problem standing in the face of a more transparent approach is that ANZ has a lot of bargaining power in this game. It and Westpac are the only two Australian banks with a presence in the Pacific, and ANZ's presence is the more extensive. Only a very small portion of ANZ's profits come from the Pacific, and it is clear that the ANZ has been considering pulling out from the Pacific altogether. (In 2018, ANZ sold its retail banking in PNG to Kina Bank, and it only serves business customers in PNG now.) ANZ might have refused to enter into this foreign service obligation if the terms and conditions were made public, and if had to report on its performance.

My response to that is that ANZ profits enormously from the Australian market, and it is unlikely that it would resist a deal that the Australian government wants it to make, and that would also enhance its profits, even if that deal was made transparent. It is also likely that the government will want to make further "foreign service obligation" deals with Australian companies, whether in the banking, telecommunications or other sectors. It is important that a precedent of transparency be established before further deals are entered into.

There is no denying that the Australian government and the Pacific benefit in intangible ways from the ANZ's not pulling out from the Pacific: this might be seen to be in Australia's strategic interest; and it might send a negative signal for the Pacific if ANZ were to pull out. Financially, ANZ benefits from these arguments, and can drive a harder bargain as a result of them. But that should not mean that that bargain, even if more in favour of ANZ than would otherwise be the case, should remain hidden.

Part 1 and part 2 of this series are based on the author's submission to the Senate inquiry held last year into the (then) Pacific Banking Guarantee Bill.

Author/s:

Stephen Howes
Stephen Howes is Director of the Development Policy Centre and Professor of Economics at the Crawford School of Public Policy at The Australian National University.

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