Global volatility triggers concerns about Australian banks

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The turmoil on global markets this year has underscored the heavy exposure of the Australian economy to the deepening world slump. While relatively sheltered from the impact of the 2008–09 global financial crisis by the mining boom, the economy is now being hit hard by the slowdown in China and falling commodity prices.

In a series of speeches over the past week, Australian bank chiefs, including the central bank governor, sought to reassure the markets of the banking system's stability. But their assurances failed to halt the plunge of Australian shares into bear market territory—down more than 20 percent since last April.

The price drop has been led by the banks, as well as the mining companies. Share prices for the country's big four banks have fallen by between 19 and 36 percent since April 2015. The mining giant BHP Billiton has dropped by around 45 percent. Together, Australia's major banks and mining giants make up nearly half the value on the Sydney stock exchange.

Reserve Bank of Australia (RBA) governor Glenn Stevens gave rare public vent to the nervousness on financial markets last week. After delivering a prepared statement to a parliamentary committee, insisting there was no reason for concern, he lashed out in response to a question, declaring: "Markets are dropping their bundle."

Stevens's testimony was one of many attempts being made by the corporate, media and political establishment to paint the gyrations on world share markets this year as an over-reaction, fed by ill-informed fears rather than any problems in the "fundamentals" of the global economy.

In reality, the ongoing collapse of commodity prices has placed significant question marks over the exposure of the banks to the losses in the resources sector. As with other large banks around the world, such as Deutsche Bank, Bank of America and Citigroup, there are concerns Australian banks are not revealing the extent of the loans they have made to oil, gas and mining companies.

"The global sharemarket now has grave fears that the world is heading for a serious banking crisis," *Business Spectator* columnist Robert Gottliebsen wrote on February 9. Australian banks were far from immune from these concerns, he explained. On top of their unknown mining loans, they were "overexposed" to signs of a contracting housing market and heavily dependent on overseas borrowing.

Gottliebsen wrote another column on February 18 after Arrium announced moves to shut down steelmaking operations at its Whyalla plant in South Australia, where 1,400 workers are employed. "[A] group of overseas and local banks (we do not know who they are yet) stumped up about $2.4 billion in unsecured loans—yes unsecured—to a former BHP offshoot called OneSteel, which later changed its name to the forgettable title of Arrium," he noted.

Fellow *Business Spectator* columnist Stephen Bartholomeusz warned of a "ticking clock" because Arrium's borrowings blew out from $1.43 billion a year ago. While no significant repayments of principal are due until 2018, more than $2.5 billion must be paid by 2020.

By one estimate, Australia's four major banks are owed $31 billion by energy companies alone. Santos this week added to the doubts surrounding Australia's oil and gas producers, reporting an annual $2.7 billion loss to follow Origin Energy's $254 million loss and Woodside Petroleum's meagre $US26 million profit, almost entirely due to lower prices.

On February 15, Australian Broadcasting Corporation business editor Ian Verrender discounted the myth that Australia's banks were pillars of strength in 2008. "All of our banks would have collapsed in 2008 had the federal government not ridden to the rescue," he wrote. "None were able to refinance their offshore loans because global credit markets had frozen. During the crisis, our banks borrowed more than $120 billion using the taxpayers' AAA credit rating, the greatest bailout of any industry in our history."

For a period, the Australian banks then sought to reduce their reliance on foreign debt. According to Verrender, however, "caution since has been thrown to the wind." By one analysis, by Macrobusiness, offshore borrowings hit an unprecedented 53 percent of Australia's gross domestic product (GDP) in the September quarter of 2015. That helped push up household mortgage debt and new lending to a record 210 percent of GDP by last September.

Together with cash flowing out of China, that lending fuelled a housing bubble with soaring prices and construction activity, particularly of apartments in Sydney, Melbourne and Brisbane. Until recently, this boom partly offset the mining crash, while placing homes increasingly out of reach of young people.

The bubble is showing signs of bursting, however, and this will increase the pressure on the banks. Between 2011 and 2015, housing investment more than doubled, but it began to fall last April, and has since dropped 15 percent, with the biggest fall-off in apartments.

In its February board meeting minutes, the RBA attempted to calm the markets, but made a brief reference to signs of housing reversal. "To date, there had not been any substantive signs of financial distress from developers, but there had been an increasing number of projects put on hold, particularly in areas where there were concerns about potential oversupply," the minutes stated.

Buried in the minutes, the RBA also admitted that mining investment continued to fall sharply "and further large falls were anticipated." In addition, "there was little prospect for a pick-up in non-mining business investment in the near term." A virtual investment strike is taking place, despite the RBA keeping its interest rates at a record low of 2 percent since May 2015.

Workers are being made to pay for the crisis through lower wages, attacks on working conditions and thousands of new job losses in mines and resource projects, as well as in auto and other manufacturing and the retail industry. The official unemployment rate rose from 5.8 to 6 percent in January, taking to 761,000 the number of workers classified as actively seeking work and currently not employed more than an hour a week.

That jobless figure is artificially low. According to Roy Morgan survey figures for January, the unemployment rate jumped to 10.3 percent, from 9.7 percent in December, and 2.575 million workers were unemployed or under-employed.

Such is the perversity of the capitalist profit system, ever-more dominated by the insatiable appetites of the financial elite, that investors responded enthusiastically to the release of the official joblessness data. The S&P/ASX share index rose 2.3 percent that day, on expectations that the RBA would further cut interest rates, making more cheap credit available.