I think you will all agree that by any standards Australia's major banks are very large domestic banks providing as they do a comprehensive range of banking and financial services across the nation. We all know that, of course. The banks' domestic facilities are widely advertised and the community at large understands very well what we do within Australia through a network of several thousand branches.

Not so well known is the extent of the international involvement of the Australian banks. I gather that my purpose in being here today is to make clear to you just what we are doing in this area and, if you like, to pose the question — are we performing as well internationally as we should.

By way of background, may I first trace briefly the history of Australian banks' offshore activities.

Australian banks have operated branches in London for well over a century. For many years they have been very active operators on the London bill and money markets where they are held in the highest esteem. Close links were formed a long time ago with the major U.K. clearing banks, merchant banks and other financial institutions. Over more recent times they have also become closely involved with the many other overseas banks who commenced their operations during the last 30 years, or so.

During the long period up to the 1960s when sterling was a major world reserve and trading currency the Australian banks established the reputation of being amongst the best names in that leading world money centre. Oddly enough, they commenced operations in London a long time before most of the other international banks who now operate branches there. It may come as a surprise to learn that of the 30 odd foreign banks operating in London in the early years after the Second World War eight of them were Australian.

The Australian banks, operating both as borrowers and lenders, attract funds in London either by way of bill acceptances or straight borrowing on the local and foreign currency money markets at the very finest rates.

With the gradual switch from sterling to U.S. dollars as the world's major international currency and the growing need for US$ to finance Australia's trade, the role of the London branches of the Australian banks changed.

The euro currency market developed and, because of the sophisticated infrastructure and expertise existing there, the city of London became in the 1960s by far the world's major euro currency market, a position it still holds.

Ready access to the euro currency market through their London branches at fine rates has enabled the Australian banks to meet the needs of their Australian clients in a number of ways.

In the traditional area of trade financing exporters and importers have become increasingly aware of the availability of external currencies to finance their trade transactions. As one might expect they are continually watching interest rate differentials between Australian dollars and overseas currencies, in order to choose the cheapest method. There are times when Australian traders borrow heavily in U.S. dollars for short term trade finance and Australian banks tap the euro markets for the funds.

On the capital side, the Australian banks have taken substantial participations in syndicated euro dollar loans to Australian borrowers. These loans are for very large sums. Usually the loans have been managed by leading international banks but on occasions Australian banks have acted as lead managers or co-managers. These loans are in the range of 5/7 years or so and are financed by a succession of rollover shorter
term borrowings with adjustable interest rates, usually each six months.

As a natural extension of this activity, Australian banks have also participated (so far to a fairly limited extent) in syndicated medium term euro currency loans to government agencies, banks and leading commercial organisations in overseas countries. They have been selective in this area and have in the main made these loans where they would give some support to Australian export markets or strengthen the banks’ positions in the countries concerned.

Turning away from London and the euro currency markets, let us look at the other major world centre of finance — New York.

Over the last few years most Australian banks have established banking operations in New York. Some have also opened support offices on the West Coast of the USA.

The Australian banks operate in USA as agencies which gives them powers to engage in all international and domestic banking activities except that they are prohibited from accepting deposits or conducting “retail” bank accounts.

Through the agencies, Australian banks in New York have enhanced their ability to arrange offshore finance for Australian individuals and corporations.

They are well placed to raise U.S. dollar funds in the bankers’ acceptance market. At this stage, U.S. dollar funds are available at Australian banks through this source at a slight premium but we hope it will not be long before Australian banks’ paper will be discounted at prime or very near prime rates.

Additionally, although they operate under some constraints imposed by local banking regulations the agencies can take U.S. dollar funds in various ways, mainly from offshore centres such as Nassau, Cayman Islands, etc.

It will be seen then, that not only do the Australian banks have a strong historical background in international finance but they have been gearling up to meet changing needs.

Let me now concede that there are gaps which the Australian banks cannot fill. Limited involvement abroad and Australian exchange control regulations are two factors which affect the banks’ ability to provide the full range of financial packages sometimes sought by their clients.

One area in particular where Australian banks are unable to compete is where longer term fixed interest borrowings are sought.

The most frequently used mechanism for raising longer term foreign currency finance is by the issue of euro bonds or similar type securities. It is the large European banks who have the ability to place these bonds with clients. Exchange control regulations prohibit Australian residents from holding such foreign securities so Australian banks are unable to play a leading role.

Some U.S. banks are able to provide longer term fixed interest rate loans either from their own resources or from institutional clients such as insurance companies, pension funds and the like.

In this area Australian banks cannot compete — they can and do introduce clients to those overseas banks who can provide the finance sought.

Apart from what the Australian banks are doing in their own right they all have affiliations and shareholdings with international banks in Australian based merchant banks. These can often meet a need not catered for within the orthodox commercial banking field. These merchant banks too, are gearing to meet changing needs and have their own borrowing lines abroad which are drawn down for on-lending to Australian clients.

What I am saying then, is that where for one reason or another we are precluded from providing the type of financing required by the client, at least we can, and we do, open the door to feasible alternatives.

Very closely related to the provision of overseas finance is the availability of forward exchange cover (or lack of it). No talk on offshore borrowing would be complete without a reference to this.

Australian banks are authorised by the Reserve Bank to write forward exchange business for Australian residents covering imports and exports and some closely related invisible transactions. Cover is not available for capital transactions.

Existing forward exchange facilities, whilst satisfying the basic needs of importers and exporters do not therefore meet the wider needs of the business community.
Borrowers of foreign currencies for purposes not directly trade related have a very real problem unless they generate from their activities the same foreign currencies as they have borrowed to enable them to repay the loans. Unless that situation applies borrowers have a risk of substantial loss should the Australian dollar devalue against the currency borrowed, such risk not being coverable through the Australian banking system.

As a direct consequence of this inadequacy we have seen a market develop overseas for Australian dollars both spot and forward. This market is very thin but is nevertheless of some significance.

Again because of a real need for forward exchange cover for capital transactions an unofficial hedge or as it is sometimes referred to, a “grey” market has developed in Australia which has attracted some business. This too is a fairly thin market and meets only the sporadic needs of corporations involved in capital movements.

Another current development in this area is the submission to government by the Sydney Futures Exchange for permission to commence a currency futures market. This has been widely publicised.

The whole question of forward exchange cover is a complex one and the various issues may not be resolved for some time. Australian banks are watching the position closely so that, whatever the outcome, they are prepared to provide whatever facilities are needed.

So far I have given a brief history of the Australian banks’ overseas operations and have talked about recent developments designed to provide greater services to Australian borrowers.

**What about the Future?**

All sorts of people have made all sorts of guesstimates about the likely cost of developing Australian resources over the 1980s. The figures vary but we are certainly talking in terms of multi-billions of dollars in the next decade.

Australia alone does not have the capacity to fund these developments. Obviously they will call for enormous overseas participation in both money and know-how if they are to proceed. A question of critical interest to all, is how these huge projects should be financed.

The massive sums needed are certain to lead to a spreading of the financial risks amongst a wider range of institutions. State governments anxious to press development in their own areas have become increasingly aware of this problem. By way of example, in the mining sector there are indications that some of them at least may be prepared to contribute to the cost of infrastructure — a cost that had previously fallen to the individual miner.

Following a change in Commonwealth Government policy, there will be additional governmental borrowers coming to the market. Some government instrumentalsities are already borrowing offshore in their own right and indications are that state government enterprises may well become more active in this respect.

This much is certain. In the development of our resources and industries we will need huge amounts from overseas. International banks have already demonstrated their faith in Australia and their continuing involvement in many ways is essential to the success of the various projects. We welcome this and are happy to work together with them.

At the same time the Australian banks are ready to play their part. As I have explained, to meet an increasing need for specialist types of finance, they have diversified considerably and are quite capable of putting together or participating in complex financing packages.

As national banks they occupy a special position and have a special responsibility to the Australian community. More than that they have a vested interest in doing all they can to assist Australia’s growth.

To sum up, the Australian banks have access to the world’s major foreign currency markets — they have the skills and they have the people. Without doubt they will perform a leading role in channelling offshore funds wherever needed to assist in financing the future development of Australia.