

COMMENT

A cushion for Down Under?

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Australia is not known as the lucky country for nothing. However, even Down Under is beginning to feel the effects of the credit crunch.

It is now clear that Australian financiers are concerned about the turmoil in the world of finance, with many organisations hunkering down through preserving capital and lending to the best customers. Lending criteria is also tightening significantly following a number of high-profile bankruptcies in the Australian market.

However, the overall market is in much better shape than the UK or the US, largely thanks to the recent boom in commodities which has driven Australian growth for the past decade.

The concern now is whether China can avoid a downturn. China is by far the largest single market for Australian commodities (40 percent plus), and much attention was paid to the fiscal stimulus the Chinese government recently committed to delivering this year and next.

The consensus view is that Australia will experience a downturn, although one that is probably less severe than the one in Europe thanks to its abundant natural resources, its diversified economy and the likely continuing demand from China.

The big four Australian banks and finance companies (National Australia Bank, Westpac, ANZ Banking and Commonwealth Bank of Australia) are all strong institutions with signifi-

cant capital reserves.

However, everyone is closely watching developments in the UK and US. There have been a number of impacts locally, such as the sale of Bankwest, a subsidiary of HBOS, to Commonwealth Bank, which have been driven by changes in the banking world elsewhere.

One result of these changes is the continuing consolidation of finance into the hands of the 'big four'. This was cause for concern as it clearly has serious negative implications for the availability and diversity of finance offerings.

There is also a move away from local state regulation of the finance industry towards central federal regulation.

This is expected to make business far more straightforward,

with one set of regulations governing the entire Australian market, rather than the current state-by-state patchwork.

This will also result in better access to data and improved prevention and control of fraud with a centralised registration of charges/ownership of assets in the process of being established.

The clear message is that the downturn is a global phenomenon, and that no country is able to completely avoid its consequences.

However, some, like Australia, might prove to be better positioned to reduce its length and severity.

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