



PRIME MINISTER

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JOINT PRESS CONFERENCE WITH THE PRIME MINISTER, THE TREASURER AND
THE MINISTER FOR HOUSING AND CONSTRUCTION - 2 APRIL 1986

PM: Ladies and Gentlemen, as you have seen the Cabinet has, after detailed consideration of the prospects of the housing industry, made a series of decisions which is calculated to have the housing industry continue to make an important contribution to the level of economic activity. I don't want to go through all the details of the decision. I will make two or three points about it and then I will ask my colleagues to make their observations. I think these points are important to understand, and that is that no one who presently has a loan will be faced with increased repayments. The ceiling will be retained in respect of existing loans. We have faced a situation where, on the best information available to my colleagues that has been made available by the banks, that we would have been in 1986/7 looking at a situation of 100,000 or less new starts which was a position which was not acceptable to us. On the arrangements that have now been negotiated, we will be able with confidence to look in 1986/7 to a minimum of 135,000 starts. Now in terms of the level of activity in this country and employment prospects, it is important to understand what that means. Roughly each 10,000 starts represent, in direct and indirect terms, about 15,000 jobs. So the difference between what we in the absence of a decision would have been looking at is 100,000 starts, now 135,000. You can see that we are talking about something like 50,000 jobs. Now obviously if we could have reached that position in other ways, that would have been desirable. But we were not going to allow a situation to emerge where the housing industry was going to substantially disintegrate and that 50,000 as you can see would have been not just at risk, they would have disappeared. And we believe in the circumstances the decision that has been taken protects, as I say, all those with existing loans to ensure the existence of high level activity in the housing industry and will ensure that they, the 50,000 jobs, don't disappear in this industry. And that was a situation that we were not prepared to tolerate or contemplate. Paul ...

KEATING: I think the only other thing to add Bob, is the fact that we were facing two problems. The first one was to maintain the existing stock of profits which underpin the existing mortgages with savings banks. Now not only was there, on the part of some banks, a total incapacity to lend to new borrowers, in fact some said in the June quarter they would not be lending at all - any new landings. But their existing deposits which underpinned their existing mortgages were haemorrhaging

tourniquet that flow out of the existing deposit base. And we have the subsidy which is mentioned here. It is a subsidy which goes to underpinning with the banks playing their role in underpinning that deposit base. At the moment banks have been paying about 16% for deposits on the commercial market and then on lending them for 13.5%. The subsidy which is implied there is coming from their trading bank operations, is one that they have entertained, in fact accommodated since the latter part of last year. But in the current climate the loss of deposits is such that the problem isn't just an absence of new lending or very little new lending or an insufficient rate of new lending but a loss of deposits with base. So the proposition goes to two things. It goes to that and by allowing the banks to bid at market rates for the against which new lending could be accommodated they are in a position to guarantee funding to level of around, as the Prime Minister said, \$6 billion which would be commensurate with an annual rate of about 135,000 starts which would broadly meet the underlying requirements. So they are the two major elements along with changes which we announced in this statement of the Commonwealth/State housing arrangement which my colleague, Stewart West, will refer to in a moment and also a nominated which the States have had available to them at different times and at different rates for public sector housing. So as a package we think it achieved an excellent result that meets our commitment to existing borrowers. It importantly ensures that home loan funds are available and we have got a continuing and solid responsibility to make sure that housing finance is available to people to house themselves. And we have ensured that that activity in housing, such an important part of activity in the economy, will be maintained through 1986/7 and the banks will be doing all within their power to pull the rate of lending up as rapidly as possible in the June quarter commensurate and moving up towards that target figure of \$6 billion.

PM: Stewart.

WEST: Thanks Prime Minister. Just to recapitulate what has been said. We will be protecting the existing borrowers who are on the 13.5% limit with the savings banks. And of course new loans will be deregulated. But we would expect that following further negotiations with the banks that low start loans will be negotiated which will protect to a certain extent the early repayments of people who may be paying increased interest rates. The fact is that we may have been looking at a total of about \$3,000 million per year for 1986/7 instead of \$6 billion which will now be available as a result of this package. And as the Prime Minister has said and the Treasurer has said, this will mean that we will have a number of starts which is almost, in 1986/7, which is almost commensurate with the underlying requirement of between 140,000 and 145,000. And we will protect the existing employment base in the industry and see up to 50,000 more people employed than otherwise could have been the case. I do want to pick up the point that the Treasurer opened up, that is the future of CSHA funding. We have decided to maintain our 1985/6 effort in real terms which will mean that the States, as a grant, will obtain approximately \$700 million in 1986/87 and that further the States will be allowed to nominate up to 60% of their

total loan council borrowings at the concessional rate of 4.5% repayable over 53 years which is a pretty good deal. And at the moment only South Australia and Western Australia would have been able to nominate 60% of those loan council borrowings in 1986/7 and the other States would have been restricted to 30%. So we are allowing them all to go up to 60% and that will mean that in addition to the \$700 million as a grant for CSHA funding that if all the States pick it up they are entitlements are approximately another \$700 million further would be available for public housing. The press statement also says that the Government will be further examining means of extending further funds to the States who on lending, through their existing lending authorities such as co-operative and state banks and ministries, funds for low income loans and that is to be further examined. I think I should leave it there and I am sure that we can answer any questions.

JOURNALIST: Do you have any understanding with the banks as to the ruling rates of interest for new loans or will the market competition simply determine that?

KEATING: I think their judgment would be Peter, that they would be approximately around, in the current climate, and the current climate of course has been one of recent times of interest rates. But in the current climate of around 15.5%.

JOURNALIST: Why couldn't the ceiling be lifted two weeks ago? What's changed?

PM: We have had a clear position that if it were possible to protect the level of activity and the level of starts in another way then we would have preferred to do that - common ground. But it's become clear, in the discussions which my ministers have had with the relevant sectors of the industry, including the banks, that we were facing a situation that savings banks were going to virtually cease to function in this area. Now that would have meant a disaster. It would have meant, as I put to you in employment terms, a loss of 50,000 jobs. If starts in 86/87 had gone down to 100,000 or perhaps less, as they were talking of lending in the June quarter Paul, of less than \$3 billion, about \$2.8 billion, which predicated housing starts of less than 100,000 in 1986/87. We were not prepared to tolerate that outcome. And in those circumstances we have been able to negotiate an outcome which will do these things. It will give a level of housing starts, as my ministers have said and as I've said, which will meet the basic underlying demand and will maintain a level of employment in the industry and activity which is necessary not only for the industry itself, but you all know how important housing is for the level of economic activity as a whole. And as part of the package that we've negotiated we have also ensured that in the area of public housing actions will be taken which will ensure an appropriate level of activity there.

JOURNALIST: Mr Keating how long will the 13.5 per cent ceiling stay on for existing borrowers?

KEATING: Well that's grandfathered in.

PM: For the period of the loans. That's what grandfathering means - for the period of the loan.

JOURNALIST: Mr Hawke are you confident the Caucus will accept the package in total?

PM: Yes.

JOURNALIST: And I take you put your prestige on the line?

PM: I never throw my prestige around it's too precious a commodity. I mean it's always there. My answer is in a brief, unqualified term that I gave it to you.

JOURNALIST: Do you expect all your ministers to support it?

PM: Yes.

JOURNALIST: Prime Minister it was only a fortnight ago that you didn't draw any distinction between new and existing loans. Do you feel any embarrassment at all about the fact.....?

PM: No. I would have felt embarrassed because I had said well that's the Government's commitment and understanding that position. If I had then become aware on the advice of my ministers that an adherence to that position would have meant 50,000 less people in employment and 35,000 less starts, my embarrassment would have consisted of saying, because of some statement I made that I am not going to face that current reality, and I'm going to allow 50,000 people to be unemployed and 35,000 less starts, that would have embarrassed me.

JOURNALIST: But Mr Hawke why make the statement that the Government remains committed to the retention of the ceiling on housing interest rates in the first place and have two ministers make..... as well. Mr Keating said that he wasn't proposing any change in the ceiling at all. Mr West said the same day as you that the housing ceiling would be retained. Why have three ministers say this within two days then a week later, two weeks later come back and change your position?

PM: Well in respect of existing loans - no change. And that's very important. What I'm saying to you, and I repeat again, is that what has become, now, completely clear - out of the discussions that my ministers have had - is that if there had not been the step now taken that the savings banks would have completely dried up as a source of new lending. We would have had a position where, as I and the Treasurer have indicated, a level of spending in the June quarter of the order of less than \$3 billion. Now that was not something then finally that we could accept.

JOURNALIST: Mr West, you've been adamantly committed to retention of the ceiling, publicly, over the last couple of weeks. Did you find it ideologically difficult to accept this package today?

WEST: Lets say I would have found it more ideologically difficult to face up to the loss of 50,000 jobs in the industry. Now look, just be aware of the changes that have been occurring with the banks projections of their expected lending. Several weeks ago my Indicative Planning Council expected that the banks, and were told by the banks, that the savings banks would be lending something like \$5 billion in 86/87 right. Now we're faced with projections of something like \$3 billion by savings banks. Now that's a very sharp reduction. I was looking at, several weeks ago, putting to Cabinet a position that based upon those projections to Professor Gruen's IPC that we would need to push about an extra billion dollars for 86/87 and that's where that magical figure came from, to keep up respectable lending by banks. Now we were faced with a base from which we should expand, not of \$5 billion of \$3 billion. So what we've attained here, as a result of the figures mentioned here, in terms of subsidies to the banks and the removal of the ceiling for new lending, is an expansion from \$3 billion up to \$6 billion. And that's the base from which all significant lenders will then take off from and provide our 135/145,000 starts.

JOURNALIST: Mr West are you saying you were converted then, to what Mr Keating sought as a solution, before you went into today's Cabinet meeting?

WEST: I'm saying that what we've done is to protect the 13.5 per cent ceiling for exisiting borrowers and accept the fact that unless we took some further action, regarding subsidies to the banks, the deregulation for new loans, the offering of loan start loans to those who can't afford the increased interest rates for new loans, in return for the offering of \$6 billion in funds for housing by savings banks in 86/87, that I believe that that is a pretty good deal from which to operate. Particularly when I have to be responsible also for low income earners and to protect the funds to the states for public housing, which I have done today.

JOURNALIST: Mr Keating, if these measures don't achieve the goals that you've set for them, would you consider lifting the ceiling on exisiting loans?

KEATING: I've got total confident that they will. If the banks are in a position now to bid in a competitive way in the market for funds and they are not constrained by a ceiling for new loans, there's no reason why they cannot be effective in getting the active volume of funds. So I just don't think the position arises. We think it is one of the prime social responsibilities of the Government - for people to be able to house themselves and to have housing funds available to them. At the moment they're simply not available. For many people they're just simply not available. And if one looks at the current cocktailing which is going on between those few lucky people who have been able to get a savings loan in recent times, and topping them up with expensive financing, this is by far the best outcome. It means more people

will have finance available at rates which will guarantee a continuing flow of funds into housing.

JOURNALIST: Mr Keating, if they are going to lend at 15.5 per cent will they be able, do you think.....?

KEATING: I'm saying they'll be lending at 15.5 per cent. That's for the banks to determine. That is the indication. I should think in the current climate that would be a sort of a maximum number, a maximum figure. They may do better than that. I hope they do.

JOURNALIST: Will they be able then to attract the funds they need?

KEATING: Yes, I think so. The lending ceiling puts a ceiling effectively on the deposit rate. The deposit rate is governing the amount interest rates.....

JOURNALIST: Could we clear up the matter of the ceiling on existing loans. Are you saying that you've got an understanding with the banks that no borrower, who has an existing loan at 13.5 per cent at the moment, will pay more than that in the future?

KEATING: Yes.

JOURNALIST: Given that Australians, the average mortgage is paid off over seven years, are we not talking seven years down the track about..... total deregulation?

KEATING: We're not talking about somebody who started a mortgage which lasted seven years they have no problems about the burden of the security of higher interest rates in the context of our external position, or of the reasons for which the Government tightens monetary policy. And they are being effectively shielded from that burden. If they discharge their mortgage then their out.

JOURNALIST: Mr Keating, by how much do you think savings banks will be able to lift interest rates on their deposits?

KEATING: Well that's for them to make a judgment. Obviously I think at the sort of rates I've mentioned they'll be competitive. I mean they have different deposit influence and they will fashion them to the market to which they have particularly directed themselves. They are all quite different and distinctive in the way in which they attract funds for lending.

JOURNALIST: The banks have been lobbying you on this issue for months. Now if their lending projections were so much worse yesterday than they were a few weeks ago isn't it possible that they'll just revise them down in trying to get the sort of result we have today?

KEATING: No, I don't think so. I think it's a genuine reflection of their trading position. It's a genuine reflection of their underlying position.

JOURNALIST: How are the interest rate subsidy level.....?

KEATING: Well the subsidy is calculated across an average of about one per cent on the bank's deposits of which they carry a third. So the Commonwealth will carry about .6 of a per cent across the average of their deposits. Not all of their deposits are so effected. Many people will continue to keep savings investment accounts, statement accounts and passbooks. To the extent that they have to lift their deposit rates in this current climate for some deposits by frontend loading subsidies on a quarterly basis, we allow for a maximum capacity to get the attractiveness of the deposits up in the current climate. And then in the context over time of changes with the interest rate regime. The subsidy will go down. Now we will be able to see on a quarter by quarter basis whether the subsidy needs to be maintained across the year. If it does there's a maximum of about \$120 million, if it doesn't there will be less.

JOURNALIST: It is a pretty expensive subsidy for a budget that is looking pretty tight already?

KEATING: I think one has^{to} trace the whole problem of the dramatic decline in the terms of trade which Australia is now experiencing. We are experiencing a terms of trade decline probably that we have not witnessed since the depression. And we have had to make domestic policies adjust to that, monetary policy has been one of those prices. And that has had an effect on, obviously, the banking system. And to^{the} extent that the budget carried some of that cost, it will obviously mean a diminution of government services elsewhere, which is part of the adjustment by the nation to that decline in our trading position.

JOURNALIST: How late in the process did you come to the conclusion that partial deregulation was the only solution?

PM: The Treasurer and I have been involved in these discussions from the beginning. I haven't been on any road to Damascus.

JOURNALIST: But two weeks ago you had a different view obviously from what you were saying publicly?

PM: I have already addressed myself to that question. I have said, Michelle, and I repeat that we all would have preferred a position, if we could, of having a lid there on it. Now, it became clear in the most recent discussions that we were facing a dramatic deterioration. The difference between what was a prospect of 100,000 new starts at the most, and now a guarantee of 135,000. It is dramatic not only in terms of housing starts, but the 50,000 difference in employment is the order of the figures we are talking about. Now, when you are faced with that stark situation, and not any qualification about it, then you have got to make the decision which is in the best interests of the community. And I make this point if I could just pick up what your question Russell^{follows} logically this observation, that if you look at, in budgetary terms, if in fact you had 50,000 less people employed in the building industry as a result of adherence to a position that was referred to before, just look at the budgetary impact of that.

JOURNALIST: Mr Keating, is it a case ... of I told you so?

KEATING: No, not at all. One deals with problems as they unfold. And the Prime Minister already made it clear if the banks had remained competitive, well the problem wouldn't have arisen. But we were, of course, interested to monitor their state of competitiveness, which deteriorated markedly in the last few weeks, in the last months indeed. But particularly in the last few weeks.

PM: If I could just remind^{you} of that figure that Mr West referred to. And the figures are these. Just a matter of a few weeks ago the IPC was talking on the basis of 4.9 billion dollars, savings banks, that is what we are talking about, 4.9 billion. Now, the figure as of the beginning of this week, is that they were looking at less than 3 billion.

PM cont: Now that is just in a matter of literally four weeks. And it makes a very, very big difference.

JOURNALIST: Mr Keating, is this an indication that interest rates are going to stay up?

KEATING: It makes only a commentary about the existing burden which the deposit costs are carrying in the banking system. It is directed to that. It is in fact a commentary more on the history of interest rates than the future.

JOURNALIST: Mr Keating, you were speaking earlier about the existing 13.5 per cent ceiling for loans that were already out, grandfathering for the life of those loans. Can you guarantee that someone who has a thirty year loan will always have, through the banks, will always have that 13.5 per cent ceiling no matter what change of government there might be or what may ... deregulation ...

KEATING: I don't think I could go that far.

JOURNALIST: You said before that grandfathering ...

KEATING: Well, they are in for the period of the loan.

JOURNALIST: Mr West, the fact that you have been able to reach this accommodation with the banks, does this mean that you no longer ... position of a month or so ago when you said the banks were making so much profit that they could easily afford to subsidise the housing industry far more than they are?

WEST: Well, if you look at the statement you will see we are going to put a maximum of 60 million dollars, over the 12 months, to match our 120, if indeed we have to go to 120. We may not have to go 120, so the banks may not have to go as far as 60. That will depend upon the level of interest rates in the future. But maybe, if we are only subsidising the 48 million for the first quarter, that is the June quarter. But no, I said that the banks could afford to pick up a share of the burden and that is in fact what they are doing in this statement.

JOURNALIST: To your satisfaction?

WEST: Well, I am never satisfied with anything.

KEATING: Let me make this point, that the deposits - There is about 24 billion deposits in the banking system. And to the extent that the ceiling might have prevented the banks from charging what would otherwise have been a higher market rate of interest, even in terms of the kinds of figure that I mentioned, indicative figure of 15 and a half percent, on 24 billion two per cent is going to cost the bank profits of about 480 million. Now, we are talking here of a subsidy of 120 million which is a subsidy contingent upon the continuing competitiveness of the deposit instrument in the contemporary interest rate environment. So it may not be 120 million.

JOURNALIST: Mr Keating, will some of that 120 million be financed by 40 million savings from the underspending on the FHOS?

KEATING: Underspending on the FHOS Scheme is again an instance of the fact that we have the FHOS Scheme paying a subsidy on, helping to subsidise loans. But the reason for the underspending is of course that there were no loans to match the subsidies. There just weren't enough loans. That just highlights what will happen with the availability of loans, those savings on FHOS will have to be factored down.

JOURNALIST: Will there be any change in the FHOS?

KEATING: Not in the decisions in this package.

JOURNALIST: Mr Keating, would you be approaching the States with a view to relaxing the lending restrictions on building societies?

KEATING: Building societies have got to make their way in the market the same as banks. And the States will have to make their own judgements. Some of the States have already deregulated even to existing borrowers, building society rates. Indeed, some of the state banks are already paying a market-oriented rate of interest. So that is a matter for their judgement.

JOURNALIST: Mr Hawke, why did it take the Cabinet so long to reach a decision?

PM: Two reasons. Firstly, the issue, as I think will be agreed by everyone, is an exceedingly complex one. And there were a variety of views, but the longer the discussion went on the more there was of drawing towards this general position. The second point, Mike, is that we were concerned with, not just looking at the question of the savings banks and what we were doing there. But we were also concerned with considering a range of proposals, those put up by the Minister for Housing, as to what could be done other than just the interest rate area to try and ensure that this Government did everything it could to try and help in the area of low income housing. So there were a range of proposals which went to that issue. And we had to do two things in that area. We had to examine each one in terms of its effectiveness, how it would best be targeted. And second we had to consider budgetary impact. Now, all those things, if you are going to deal properly with them, naturally took a fair bit of time.

JOURNALIST: Mr Hawke, just to clarify. Are you saying the full gravity of the situation, the crisis confronting the housing industry, only became apparent to the Government this week?

PM: No. We were aware of a grave situation earlier. That is why, in fact, the Minister for Housing earlier put, prepared a submission. Why, when we first considered that, the Treasurer was authorised to have discussions with the banking system. And it was then following our consideration of that, and the Treasurer's discussions with the banking system, that we then got the measure of what we could be looking at in 86-87. We knew it was going to be bad when, I repeat what I said before, the IPC figures were not looking too good.

PM cont: I think the suggestion of something of the order of 122,000, and that was based on 4.9 billion by the savings banks. Now within a matter of just, as I said before, about four weeks, that figure of savings banks came down from 4.9 billion to, what the Treasurer was told just this week of possibly less than 3 billion. And that was in a matter of the order of four weeks. So it was a grave situation. But the extent of it, and may I say not only the extent of it but the attitude of the banks as to their capacity to maintain the savings banks' operation came to us in all its gravity as a result of the discussions the Treasurer had this week.

KEATING: I think you are probably looking at really a radical change in the nature of savings banks and thrift institutions. And I think you will be seeing a fundamental change that might have otherwise taken place ...

JOURNALIST: I was just trying to establish when the Government first became aware that the loss of 50,000 jobs was a real risk unless urgent action was taken. The 50,000 figure seems to absolutely critical.

PM: I think with firmness this week. The Treasurer was faced with a situation which he reported to me that really what we were looking, Peter, was the possibility of savings banks virtually closing down operations in regard to new lending in the housing area. Now, when you consider the importance that they have in the total lending situation then it was clear that if that figure was right, then we are certainly looking at a maximum of 100,000. We were aware, as I said earlier, we were aware before that that it was bad. I don't think we became entirely convinced of the absolute gravity of the situation, of 100,000 or less, until this week.

KEATING: The Commonwealth Savings Bank has an enormous portfolio of existing loans, so they have got a massive ... of repayments which would have been available for lending this year. So in a sense, in this diminished picture of lending, the Commonwealth BANK would have had an even task which would have said quite a lot about the diminution in the level of activity of the other banks which had not had of course the same saving bank and housing history as the Commonwealth Savings Bank has. So, the figures mask somewhat a more dramatic decline for the other banks. And I think that also is a factor.

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