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PRIME MINISTER

SPEECH BY THE PRIME MINISTER, THE HON P J KEATING MP

**AT THE PRESENTATION OF THE BRW-ALCATEL BUSINESS AWARDS
PARK LANE HOTEL
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Ladies and gentlemen,

I am very pleased to be able to join in celebrating the achievements of some of Australia's finest enterprises and entrepreneurs.

So often we hear the doomsayers rattling around, the Jeremiahs projecting their own pessimism and self-loathing on to the rest of the country.

It is good to be - as I often am - among people who by their actions prove the opposite.

To re-mint an old conservative phrase, there is a silent majority in Australia - a silent majority of doers out there.

Men and women who are going about the business of business - looking for opportunities, changing where change is needed, adapting, developing and, in difficult times, succeeding.

It is a pleasure to have the chance to congratulate them.

We need their success. We need their example.

In Australia it's always a tough audience.

In sport, art and business it's the same - the gloom merchants are perched there like crows with the words - "I told you so" - already formed in their mouths.

It's the Hanrahan syndrome - the "we'll all be rooned" syndrome.

But they are a minority. And, anyway, it's not so much in their natures as in their interests to be pessimists.

In fact, in my experience, the great majority of Australians are much more forgiving, much more realistic, and have much more faith in themselves and their country.

And I think they have good reason to.

In the past decade Australians have recognised the need for dramatic change, and they have had the imagination and the will to make it. They continue to.

They have also recognised the need for continuity - of decent values, of the bases of equity and fairness.

That to me is proof of common sense, and the best possible assurance of the future of Australia.

My typical Australian is a mixture of common sense and flair. The stoic and the bold.

That seems to define most of our legendary figures from Ned Kelly to Allan Border.

It might even define Bob Gottlieb.

It defines most of the successful business people I speak to.

And, in all likelihood, it defines the people we are here to congratulate tonight.

Being the people they are, of course, none of them will be resting on their laurels.

There are many opportunities out there for innovative firms. Many rewards to be had.

And you can be sure that these rewards will be all the greater as the overall economy grows.

Ladies and gentlemen,

The recession has been deep and the recovery slower than we would have liked.

We have not been helped by events overseas.

We can take some satisfaction from the fact that, at 2.1 per cent in the year to September, we have one of the fastest growth rates in the OECD.

However, we all know that this is not fast enough to bring unemployment down.

We must reduce unemployment.

We must do it to bring an end to the hardship which the unemployed are suffering.

We must do it to restore to them the opportunities which Australia should offer.

And we must do it because people are our most valuable resource.

The health of our economy depends on reducing the number of unemployed.

The only way is faster growth.

Growth of around 4 per cent or so will bring unemployment down.

It is also quite achievable.

Over the past year or so the Government has taken a number of steps to strengthen growth - interest rates have been lowered substantially and there has been direct stimulus from the One Nation Statement, the Youth Statement and the Budget.

These initiatives have clearly boosted demand and output.

Lower interest rates have been central to the 12 per cent increase in dwelling investment over the past year.

Public sector demand has been running ahead of demand in the private sector, notwithstanding the contraction we have seen in some of the States' budgets.

So the Government's strategy of providing stimulus is working.

But recovery has been held back by a weak international economy and the low levels of business investment.

It is important that we understand what has been depressing business investment, because that is the key to further economic expansion.

Fundamentally, it has been the result of the efforts of many corporations and financial enterprises to reduce debt levels and establish stronger balance sheets after the excesses of the late 1980s.

This has been a necessary and very difficult process.

The corporate sector embarked upon an exercise of cutting costs and reducing debt.

The banks tightened their lending guide-lines and have concentrated more on their traditional business.

The result has been less business investment and, for those businesses which want to grow, more stringent tests to meet before they can get the necessary finance.

Slower economic recovery has been the cost.

The process of debt restructuring is continuing.

But I think it is now clear that the major hurdles are behind us.

The profit share has held up despite the recession, while lower interest rates have seen interest payments by the corporate sector almost halved over the past two years.

As a result, the corporate sector has had the means to reduce their debt levels.

In fact, corporate debt/equity ratios have been falling for the past three years and, apart from a few notable exceptions, appear to be at relatively healthy levels overall.

The receiverhip business has tailed off, while banks' new non-performing loans have declined sharply.

The total stock of these non-performing loans has recently begun to turn down.

All these are significant signs of health being restored to corporate and financial sector balance sheets.

Progress has been slow, but increasingly over the past few months, it appears that business is increasingly looking for new opportunities.

I notice the Chairman of the Federal Reserve, Alan Greenspan, noted similar developments in the United States recently.

He said that "the credit crunch which has been so debilitating to economic performance over the past two or three years has shown no evidence of worsening in recent months and may finally be retreating. At least this is the implication of some stirring in the loan markets in recent weeks", he said.

And in Australia business confidence has been picking up, and the credit aggregates have been growing again as new business has begun to outweigh repayments.

Today's unemployment figures were again disappointing - very disappointing - but there are some grounds for believing that the pick-up in vacancies indicates the start of an improved labour market ahead.

Indeed, as the debt is reduced, businesses are increasingly focusing on the positive factors that are there -

- . the lowest inflation rates in the developed world
- . low interest rates
- . productivity up around 3 per cent over the past year
- . good underlying profits levels that will improve further as volumes increase
- . very favourable international competitiveness
- . continued wage restraint
- . and, one hopes, continued very low levels of industrial disputation.

Coming on top of the stimulus from the public sector that will continue for some time, these factors give us good reason to expect the economic recovery to strengthen.

Of course, growth in Australia will be constrained by the weak international environment we face, but we can look to the future with greater confidence.

Ladies and gentlemen,

We can be more confident about the future, but at the same time we have to learn from the past.

A central lesson has been the desirability of banks establishing close relationships with their customers.

Lending will always be less risky if the lender has a more complete understanding of the viability of a proposal.

Moreover, lending has to be based much more on an assessment of the likely cash flow of a proposition than on the availability of security.

Financial institutions can no longer rely on property values underpinning loans - if they ever could.

The major banks assure me that they have recognised these needs and have shifted their lending rules accordingly.

They tell me they are providing extra training for lending officers so they are better able to evaluate risk and the potential of proposals.

Cash flow lending, they say, will be the norm in the practice of Australian bank lending.

And the banks will, I believe, more aggressively try to expand their lending under these more disciplined credit standards.

Still, I believe we should go further with the development of relationship banking.

It is the export of services and elaborately transformed manufactured goods that have grown so rapidly over the past 5 years.

These have relied on our strengths in innovation, research and training.

A great many of the new, successful exporters are small to medium size firms who are out to establish niche markets - especially export markets.

Our future depends on being able to build on these successes - and that means our future depends in no small way on our banks.

As Australians increasingly develop innovative products and seek to sell them into new markets, banks will have to improve their skills and capacities of evaluation.

It is obvious that evaluating the quality of new proposals will be a challenge.

There is risk associated with new product lines which may take a number of years to come on stream.

There is risk associated with developing new export markets.

There is risk associated with lending to young firms that are growing with new ideas.

But these are risks that banks will have to be able to assess.

This is the future they simply must embrace.

And it is where, after all, the rewards are going to be.

Where returns are likely to be rewarding, they are risks they will have to undertake.

It is not just in the interests of the overall economy that adequate finance should be forthcoming for worthwhile propositions.

So long as they are able to properly assess the likely risk and return, it can also be very much in the interests of the institutions concerned.

An important element in the success of the Japanese and German economies has been the very close relationship their banks have had with business.

Of course the German and Japanese banking systems have been more regulated than our own, and there are many features of their system we should not try to duplicate.

But the ready access to finance for good projects which their businesses have is something we must work at getting here.

Poorly appraised risk-taking is the last thing our lending institutions should engage in. My argument is that they must do more to develop their evaluation and monitoring skills.

How this is done will be up to the institutions concerned.

It may mean providing more finance for export business through regional centres, rather than through individual branches which tend to be the first port of call for many small and medium-sized businesses.

It may involve developing clusters of skills in technology or engineering, or in providing management and financial advice for small businesses.

From this, expertise in evaluating ventures in new areas could be established.

Of course, these ideas are not new - banks have already taken some action along these lines.

But through whatever means the individual institutions may choose, I believe it is very desirable for us to go further down this path.

Ladies and gentlemen

Through the Commonwealth Development Bank the Government has played a direct role in trying to ensure that suitable finance is available to a dynamic sector of the economy that often has difficulty raising funds - I mean the small business sector.

Over the years, the Commonwealth Development Bank has fulfilled a limited but very useful role supplying loans and some limited equity finance for small business, including farmers.

Because it is required to lend only to businesses who are unable to obtain sufficient finance through other channels, the CDB operates at the riskier end of the market.

This means it attracts loan applications which it cannot approve. Nevertheless it still approves many projects which would not otherwise be financed.

Although it made a loss in the more difficult circumstances of 1991-92, it has recorded respectable rates of return down the years.

It has done this despite its concentration on small risky loans that tend to involve high overheads.

The reason for this relative success has been the CDB's ability to establish expertise in evaluating and managing its loans, an expertise that is built on both a detailed knowledge of the sector itself and a close working relationship with the businesses concerned.

So the Commonwealth Development Bank has performed that specialised role.

But the CDB grew up in the more regulated system of the past.

With the removal of interest ceilings, other banks have expanded further into small business and rural areas, and the CDB's lending has tended to be pushed further towards the realms of risk.

It is important that the Development Bank is able to continue to fulfil its special role, and to do so in a manner that is consistent with the Commonwealth Bank making a commercial rate of return.

Accordingly, the Board of the Commonwealth Bank is reviewing the operation of the CDB and its special charter to ensure that it remains in a position to lend to the small business and rural sectors.

This lending will continue to be based primarily on the interest inherent of a proposal rather than the value of any security offered.

In addition, the Government is prepared to consider with the Commonwealth Bank's Board whether there is a need for any financial support that may be required by expanded lending opportunities.

The CDB will always remain in a niche in the market, but a very important niche.

I am confident that it will continue to fulfil its role and that it is well placed to grow.

Indeed, I hope that its characteristic reliance on specialist skills and close involvement with its customers will be emulated by other financial institutions.

Ladies and gentlemen,

Our financial institutions must play a dynamic role as economic recovery strengthens.

They will be a vital player as Australia continues to make inroads into world markets.

Closer relationships between banks and their customers will help to ensure that Australian business can meet the challenges and grow.

At the same time, it will help banks' profitability and ensure that the experience of the past few years is not repeated.

Ladies and gentlemen,

I hardly need to say to you that I think Australia is on the right path.

We are now more outwardly oriented. We are more efficient. We are more flexible.

We think in ways we never thought before - about excellence, about exports, about Asia and the Pacific, about enterprise bargaining.

We are exporting things we never dreamt of making a decade ago, and we're exporting them to places we never imagined could be markets.

There has been an attitudinal change of profound dimensions - the kind of cultural change which was absolutely essential to our success.

We have generated, as I said, other essential preconditions like low inflation, and an acceptance among wage earners that profits need to be adequate.

We have made a number of the essential microeconomic reforms - in telecommunications, aviation, the wharves.

We will continue the process. Let no one imagine that because we have done these things we don't intend to do more - or that more is not being done now.

What we have achieved has not been easy.

It is not easy to make structural changes and continue to hold the social fabric together.

But in my view it is essential to do it that way.

Not just because it is more decent - though that is a sufficient condition - but also because it is more efficient.

The economic transformation of Australia is not a sprint for speedy squibs: it needs stamina - and we will get to the line quicker and in better shape if we maintain and build our momentum and hold body and soul together all the way.

We have learned that economic change demands cultural change. It has social consequences.

There are no ways around this. And there is no better way to go than by taking all sections of the community with us.

We are now reforming the labour market on these principles of cooperation and mutual agreement on goals.

The 550 enterprise agreements have been built on that cultural change I talked about.

They are the tangible manifestation of new Australian attitudes and common goals.

They are built on that sort of realistic faith in ourselves and each other, on that mixture of common sense and imagination I talked about earlier.

It is on that, I am convinced, that we will build the recovery.

And I daresay that is what the success of tonight's honoured guests was substantially built on.

I congratulate you all.

Thank you for having me.