

Borrowing costs continue to weigh on rates

By finance reporter [Sue Lannin](#)

Updated 1 hour 40 minutes ago

A major credit ratings agency says the big Australian banks remain vulnerable to an increase in credit market borrowing costs, and that is leading to higher interest rates for consumers.

In a special report on the big four banks, Fitch Ratings says the banks are highly reliant on international financing which is pushing up borrowing costs.

Australian banks fund their lending from customer deposits and wholesale funding, which includes finance from other financial institutions, fund managers and life insurers, both locally and internationally.

The interest rates paid by banks for their finance is determined by credit market rates, which are separate from official interest rates set by the Reserve Bank.

Fitch Ratings senior director John Miles says the cost of credit in international markets has increased since the global financial crisis.

He says that is likely to increase interest rates paid by borrowers for loans.

"When you look at the demand for that funding it does suggest the Australian banks may possibly be running up against limits from the offshore wholesale investors as to how much they are prepared to lend to this country and the banks in this country," he said.

"When that happens it's a simply a function of supply and demand and that can potentially push up the cost of funding."

Mr Miles says the big four banks have already passed on their higher cost of borrowing to lenders through interest rate increases above official rises.

ANZ, Westpac, the Commonwealth Bank and the National Australia Bank need to borrow more than \$100 billion this year to finance new lending and existing loans.

They also need to roll over loans that were backed by a government guarantee on borrowing by financial institutions, which was introduced during the height of the global financial crisis.

Mr Miles says that is another factor which may increase the cost of finance for banks.

Fitch Ratings says weaker demand for credit from consumers is likely to lower returns for the big four banks this year.

As a result, it expects bank earnings to ease in 2011 and there may be no rise in dividends for investors.

The profits of the big four improved last financial year, mainly because of a drop in bad debts.

Fitch Ratings also says it does not expect the floods in Queensland and other parts of the country to have a big impact on mortgage defaults.

Mr Miles says losses from loan defaults are likely to be minimal.



Fitch Ratings says the banks are highly reliant on international financing. (AAP)

- [Related Story: Flood uncertainty keeps rates on hold](#)