

## RBA set to cut interest rates to all-time low

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By Emma Thelwell, **ninemsn Money**

The Reserve Bank could slash interest rates to an all-time low next week but there are growing concerns that commercial banks may not pass any cut on to homeowners.

Economists expect the RBA to cut rates by 0.5 percent to 2.75 percent when it meets on Tuesday, in response to last month's slew of gloomy economic data.

However, ANZ and Westpac have given no indications of passing on a rate cut, while NAB and CBA have already warned that they cannot guarantee they will pass on any rate cut to homeowners.

Cameron Clyne, NAB's CEO, said recently the bank could not guarantee it would pass on any rate cuts due to higher costs of funding. "If we take responsible steps to address this and do not pass on the full amount of any future RBA cut, I expect to cop criticism for that," Mr Clyne said.

### Comment: which way will the RBA jump?

Last month, the central bank voted to keep interest rates on hold at 3.25 percent - ahead of the release of key GDP and unemployment data.

The RBA said at the time that it was taking a "pause for a further evaluation of the situation" - it also wanted to gauge the combined effect of Rudd's stimulus plan alongside the aggressive cuts it had already made.

However, weaker than expected GDP and unemployment figures came in the wake of the RBA's decision, and earlier this week latest retail figures compounded the gloom.

Retail sales plunged 2 percent over February, as Mr Rudd's first cash splash wore off - prompting the chief executive of the Australian National Retailers Association to call for an interest rate cut next week.

"The spurt in consumer spending in December and January, fuelled by lower interest rates and government bonus payments, has slowed", Margy Osmond said.

"We would urge the RBA to consider another 0.5 percent cut to interest rates when it meets next week", she told AAP.

The minutes from last month's RBA meeting revealed a split within the vote on whether to keep rates on hold or cut them again. The RBA has already slashed interest rates five times since December, in an attempt to stave off a recession, pulling rates down by 400 basis points to the lowest level since 1964.

Next week, the RBA is expected to face another close call on its decision. A recent survey of economists showed the majority expect a 0.5 percent cut, while the financial markets are almost fully pricing in the same reduction.

However, economists are divided, with some predicting that the RBA's pause for breath could last for another couple of months.

Warren Hogan, head of economics at ANZ, said the timing of the next move is "highly uncertain". "It is not at all clear that further rate reductions will have a material impact on the short-term economic outlook and if anything a rate cut now will reduce the scope for RBA action later", he said.

"Indeed, the RBA will be mindful that getting too far ahead of the curve could create problems in itself - such as an undesirable reflation of household debt ahead of an unexpected rise in the unemployment rate", Mr Hogan added.

There is cause for the RBA to pause again: global markets have rallied in recent weeks, the second government stimulus is in the pipeline and rumours are rife that a third stimulus will be announced after the G20 meetings in London.

Cutting the cash rate by a further 50 basis points from 3.25 percent to 2.75 percent would drag interest rates to an all-time low - under the record low of 2.89 percent in January 1960.