

Homeowners may be spared February interest rate rise

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Homeowners may be spared a rate rise in February after a Reserve Bank official said interest rates are now in a 'normal range'.

RBA deputy governor Ric Battellino also defended moves by the retail banks to raise rates by more than the central bank, drawing an angry response from Treasurer Wayne Swan.

"The additional margin taken by the three big banks...was not justified in the circumstances we are in now," Mr Swan said on ABC TV last night.

Westpac, St George, ANZ and CBA all raised interest rates by more than the RBA's 25 basis point rise earlier this month, with Westpac going furthest lifting rates by 45 basis points.

Mr Battellino said in a speech yesterday that interest rates are now in a 'normal range', adding that if interest rates in the broader economy are rising relative to the central bank's official cash rate "there is less need for the cash rate to rise".

Economists now believe a series of interest rate rises is unlikely.

"Deputy governor Battellino's speech today has dealt a solid blow to expectations that the RBA cash rate would be moving substantially higher over the next six months or so," said Warren Hogan, acting chief economist at ANZ.

Mr Battellino pointed out that while current cash rate of 3.75 percent was below its pre-global financial crisis cyclical low of 4.25 percent, commercial rates were much higher.

"Another way to think about this is that the current level of deposit rates, housing loan rates and business loan rates would have been consistent, before the crisis, with a cash rate of at least 4.75 percent," he told delegates at a finance and banking conference in Sydney.

"Taking these considerations into account, it would be reasonable to conclude that the overall stance of monetary policy is now back in the normal range, though in the expansionary segment of that range."

GDP figures released yesterday showed the economy is not growing as quickly as expected, adding to the view that rates may not rise as quickly as previously thought.

Meanwhile, Westpac defended its move to raise rates by 45 basis points earlier this month at its Annual General Meeting yesterday saying it had no choice but to make the move.

"With interest rates now clearly on the rise again, both at home and abroad, there are limits to how long we could continue to absorb these costs without weakening our bank, the Australian financial system and, hence, the Australian economy," Mr Evans told the meeting in Melbourne.

"We absorbed some of the external cost increases, rather than pass them on to borrowers at the expense, of course, of shareholders."

He added that it would not be fair for deposit rates to be held down or business rates

to be raised further so that home loan rate could be subsidised.