# RBA leaves cash rate on hold

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The Reserve Bank of Australia (RBA) has left the cash interest rate unchanged, after its monthly board meeting on Tuesday.

The cash rate remains at 3.25 per cent, in a decision that breaks a series of interest rate reductions made by the RBA since September last year.

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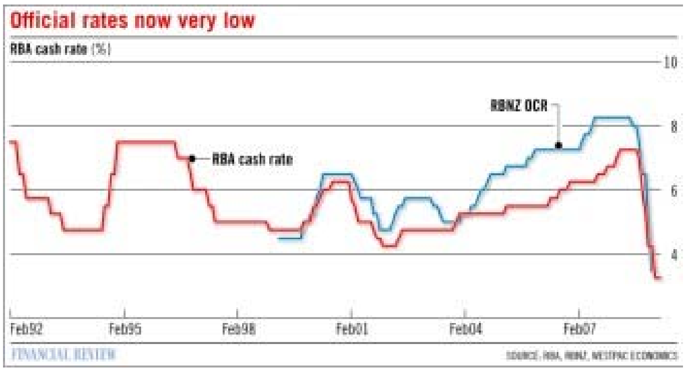
- **Statement by Reserve Bank Governor Glenn Stevens**

The central bank said while there was evidence of a weak economy, it believed recent policy actions taken by itself and the federal government would support domestic demand in the period ahead.




"On this basis, notwithstanding evident economic weakness at present, the board judged that the stance of monetary policy was appropriate for the moment," RBA governor Glenn Stevens said in a statement. "The board will consider the position again at its next meeting."

The RBA began cutting the cash rate in September last year and in February cut it to its current 45-year low.

The federal government late last year announced a $10.4 billion fiscal stimulus package, and a further stimulus of $42 billion was announced last month.

Financial markets had factored in a 25 basis point reduction for March. But the RBA's final decision was seen by many economists as too close to call, following a recent run of conflicting economic data.

"In response to that outlook, there has already been a major change in both monetary and fiscal policy," Mr Stevens said. "Market and mortgage rates are at very low levels by historical standards and business loan rates are below recent averages, reducing debt-servicing burdens considerably.

"Together with the substantial fiscal initiatives, the cumulative decline in interest rates will provide significant support to domestic demand over the period ahead."

Mr Stevens noted that recent economic data confirmed the world economy remained weak, following a decline in demand in late last year.

The Australian dollar rose after the central bank's decision, trading at US63.80¢ from US63.47¢ before the decision. It had fallen to a one-month low of US62.86¢ earlier in the session.

Against the yen, it rose to ¥62.08 from Monday's ¥61.69.

Three-year bond futures fell 0.015 points to 96.785, while the 10-year contract pared gains to 95.775.

Major industrial economies have reported large contractions in output in the December quarter, and many countries are likely to be experiencing further falls in output in the current quarter.

But demand in Australia had not weakened by as much as in other countries. "On the basis of currently available information, the Australian economy has not experienced the sort of large contraction seen elsewhere," Mr Stevens said.

"The Australian financial system remains strong and the monetary policy transmission process is working to deliver large reductions in interest rates to end borrowers. Nonetheless, economic conditions are clearly weak, and given the speed and scale of the global economic deterioration and its effect on confidence, weak conditions are likely to continue in the near term."

Mr Stevens said conditions in global credit markets had improved since November, although sentiment remains fragile.

Share prices had weakened and banking systems in several major countries were still under pressure.

Mr Stevens noted that macroeconomic policy stimulus is being put in place around the world, but it is too soon to see the effects of those measures.

Australia's December quarter national accounts data will be released on Wednesday.

The report is now expected to show gross domestic product (GDP) was just in positive territory in the quarter.

Mr Stevens reiterated the RBA's view that inflationary pressure in the economy is likely to decline over time.