

Reserve Bank eyes all-time low for interest rates

17/03/2009 11:30:00 AM

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Interest rates could be slashed to an all-time low next month, the Reserve Bank has indicated, bringing relief to hard-pressed homeowners across Australia.

The RBA said that it decided to hold fire on its run of rate cuts this month because it was waiting for the release of key data - including economic growth and job loss figures.

The central bank said it also voted to keep interest rates on hold at 3.25 percent in order to "pause for a further evaluation of the situation" - and gauge the combined effect of Rudd's stimulus plan alongside the aggressive cuts it had already made.

"The RBA is clearly making sure it has enough ammunition in reserve to respond to further bad news", Katie Dean, senior economist at ANZ told ninemsn.

"Worsening global economic data, the weak GDP figures and the rise in unemployment suggest the RBA will cut rates by 25 basis points in April. I wouldn't rule out a bigger cut next month", she added.

Since September, the RBA has slashed interest rates five times in an attempt to stave off a recession, pulling rates down by 400 basis points to the lowest level since 1964.

Dean said interest rates could be cut to as low as 2 percent before the RBA decides to raise them again. "There's no theoretical floor, but the RBA will stop cutting rates when it doesn't believe the policy will work", she said.

"There's nothing to stop the RBA cutting rates to zero but the downturn is unlikely to be as bad as it is elsewhere where rates are near zero. We see the floor for rates at between 2 and 2.25 percent."

In the minutes of its March 3 meeting released today, the RBA said that its members saw "reasonable cases for both courses of action" - a rate cut, and a rate hold.

"On balance, they judged that, having made a major change to monetary policy over the preceding several meetings in anticipation of weak economic conditions, the best course for this meeting was to leave the cash rate unchanged", the RBA said.

The decision to pause the string of cuts came one day ahead of the worse-than-expected GDP figures - which showed the Australian economy slipping into negative territory for the first time in eight years.

Plus, the RBA was awaiting official labour force figures - which also came in worse-than-expected. Nearly 54,000 Australians lost their full-time jobs last month, according to official figures, prompting economists to predict a large interest rate cut next month.

Besa Deda, chief economist at St George Bank said that the surprise jump in the number of unemployed people could force the Reserve Bank to slash interest rates again when it meets next month.

"Today's unemployment figures, combined with the recent slowing in economic growth, are increasing the pressure on the Reserve Bank to cut rates in April," she told ninemsn.

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