

INTEREST RATES likely to DROP AGAIN

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Date: June 17, 2009

Publication: Sydney Morning Herald



The Reserve Bank has signalled it is still more likely to cut interest rates than raise them this year, but mortgage borrowers could face higher costs regardless as banks drive rates up independently.

Interest rates have become a sensitive political issue, as the independent Senator Nick Xenophon called yesterday for tougher regulation to crack down on bank gouging, and business lobbies calling on the central bank to lower rates further to offset bank increases.

The public derision was sparked by the Commonwealth Bank's controversial 0.1 percentage point increase in its standard variable rate last week. Since then other banks have been increasing fixed mortgage costs because of higher borrowing costs in world markets.

From today St George Bank will increase its fixed mortgages by as much as 0.5 percentage points. The National Australia Bank has also raised fixed rates 0.4 percentage points this week.

The NAB's general manager of mortgages, Steven Shaw, said banks had been increasing their fixed rates for the past six weeks due to fluctuations in international markets.

He said fixed interest rates, which "directly reflect what the wholesale market is doing" had already risen about 1 percentage point in the past six weeks.

Senator Xenophon called on the Government to review its guarantee on bank funding, and impose limits on credit card interest rates and on the salaries of banks receiving government aid.

"Australians are sick of seeing a situation where we've been helping banks through a taxpayers' guarantee but they're lording it over us and living it up," he said.

In response, the Australian Bankers Association said Senator Xenophon had confused troubled US and British banks with Australia's, which had not had to receive direct government support.

The Government lambasted the Commonwealth's move, but Senator Xenophon said the Government should "stop talking the talk and start walking the walk" on bank regulation.

In minutes of its most recent board meeting, released yesterday, the Reserve Bank acknowledged concerns about the build-up of government debt across the world, but did not direct its comments to the rise in Australian government debt.

The minutes of the June meeting said the board did not see a "pressing case" for another interest rate cut. But members "viewed the inflation outlook as affording scope for some further easing of monetary policy, if that were to be needed to support demand at a later stage".

A report last week by the Commonwealth Bank said its funding costs would increase 0.42 percentage points by June 2010, suggesting more pressure on interest rates to rise. The Australian Chamber of Commerce and Industry called on the Reserve to consider further cuts given the independent increases by banks.