



Wary RBA inches towards rates rise

By Danielle Cronin
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Home-buyers should brace for interest rate rises, Reserve Bank governor Glenn Stevens indicated yesterday as he declared the economy was recovering and the stimulus package had helped.

Australia's debt level was manageable and unemployment was unlikely to hit the peak predicted earlier this year.

But the recovery could be derailed if spending – designed to stimulate economy activity – was wound back too soon.

"I think it's a bit hard to claim that as of this moment there's too much growth in the economy, so I haven't really had a serious problem with what's occurred on the fiscal front thus far," Mr Stevens told the Senate Economics Committee inquiry into the impact of the \$42 billion stimulus package.

"It's important these measures should be wound back over time but they're on track to do so.

"The more important issue will be for the joint support being given by both fiscal and monetary policy to be withdrawn in a timely fashion as the recovery proceeds – not too soon

because we don't want to abort the recovery but not too late as we don't want to overheat it."

Mr Stevens' comments came as new data showed the ACT residential property market is recovering and home values have grown about 5.4 per cent in the past seven months.

Human Services Minister Chris Bowen said Mr Stevens' evidence had knocked Opposition Leader Malcolm Turnbull's and Shadow Treasurer Joe Hockey's economic credibility "for six". "Governor Stevens has made it clear that arguments that Australia's fiscal strategies are putting upward pressure on interest rates are fallacious," he said.

Opposition finance spokeswoman Helen Coonan maintained ongoing spending could still put upward pressure on interest rates. "Clearly if the remaining stimulus weren't there, there would be less pressure on interest rates," she said.

The Reserve Bank board will meet on October 6, with economists tipping interest rates will rise before Christmas.

Mr Stevens said Australia had

experienced a mild downturn and interest rates would rise from the "unusually low levels" as the recovery continued.

Treasury secretary Dr Ken Henry was also scheduled to give evidence yesterday but his appearance was deferred until October 9.

This sparked a stoush between committee members.

The committee chairman, Liberal Senator Alan Eggleston, said members agreed to delay Dr Henry's appearance to give Treasury more time to provide "briefing materials" before the hearing.

Greens leader Senator Bob Brown said Coalition Senators had failed in their obligation to taxpayers by using their majority to delay hearing from Dr Henry. "I moved to set up this committee hearing specifically for the Senate to question Mr Henry as the Turnbull Opposition was escalating their opposition to the stimulus," he said.

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Reserve Bank governor Glenn Stevens