



AUSTRALIAN CHAMBER OF
COMMERCE AND INDUSTRY

MEDIA RELEASE

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RISKS IN INTEREST RATE RISE

Statement by Mr Peter Anderson, Chief Executive

There is risk that the early signs of recovery could be set back if today's decision by the Reserve Bank to lift cash rates by 0.25% flows into business credit.

Raising interest rates before we can confidently call a global or national recovery is a bold move. The Reserve Bank is the first central bank of any advanced economy to lift interest rates and it looks like it has done so well ahead of all its OECD counterparts.

However the Bank's decision is a sign of its confidence in the Australian economy, and this itself could bolster activity.

A lift in the cash rate means the cost of funds is higher. Given that credit to small and medium businesses is still tight, making funds more expensive carries the risk of slowing private investment - the very ingredient needed before we can call a recovery.

Industry surveys, including today's ACCI Survey of Investor Confidence, show that confidence levels are returning. The Reserve Bank rightly makes this point in today's statement. However, the same surveys also show that trading conditions are not as buoyant as confidence levels.

While industry would agree and welcome the Reserve Bank's conclusion that "the risk of serious economic contraction in Australia has now passed" this does not mean that the economy has recovered. Ours is still an economy heavily supported by the crutch of public stimulus. One-off, stimulus-driven activity is not evidence of sustained, underlying strength

Given that not all of the recent past interest rate reductions were passed on in full to small business, retail banks should now limit the extent to which the cash rate rise hits business customers.

For further information:

Peter Anderson	Chief Executive	02 6273 2311 / 0417 264 862
Greg Evans	Director, Economics and Industry Policy	02 6273 2311 / 0407 204 559
Brett Hogan	Director of Communications	03 9668 9950 / 0407 273 884

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