

RBA leaves options open for Feb after finely balanced Dec 1 call

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The Reserve Bank of Australia (RBA) has left its options open for the February 2 monetary policy meeting of its board. The board's December 1 meeting ended with an announcement that the cash rate would rise to 3.75 per cent from 3.5 per cent. In the minutes of that meeting, released on Tuesday, the RBA said the board's members saw that rise combined with moves of the same size in October and November "as materially shifting the stance of monetary policy to a less accommodative setting and, therefore, as increasing the flexibility available to the board at future meetings". This does not mean an end to interest rate rises, just that the RBA has taken away most, if not all, of the emergency component of the monetary easing in late 2008 and earlier this year, and can now take it a little easier in getting the cash rate back to a normal level, seen as somewhere above five per cent. The minutes said that the decision to raise the cash rate on December 1 had been "finely balanced". A high exchange rate, risks to confidence and the still-fragile international economy all were arguments against a rise. There was more concern about pressures building up from demand for housing and infrastructure and the resources sector, however, as well as the need to unwind stimulus that had been applied to counter the threat of serious economic weakness now that the threat has passed. The RBA reiterated its forecasts that the underlying inflation rate would be in the two to three per cent target range in 2010, while growth in private sector demand - the variable most influenced by interest rates - would be "close to trend". The RBA noted that economic growth in 2009 had been stronger than expected and that the strength in the improvement in business conditions had been "surprising". "Members agreed that, if developments unfolded as currently expected, monetary policy would need to be adjusted further over time to lessen the degree of stimulus," the RBA said in the minutes. The aim of further monetary tightening would not be to cut growth to below the current forecast pace, but to keep the stance of policy "appropriate for improving economic conditions", the RBA said. The assumption of rising interest rates has been factored into the RBA's forecasts for most of this year. The content of the minutes will most likely lower expectations of a rate increase at the February 2 board meeting, shifting the balance of probabilities from greater than 50 per cent to somewhat less than that.