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RESERVE BANK GOVERNOR GLENN STEVENS TO FRONT SENATE HEARING

## Rates in the balance

**Michael Harvey**

*The economy*

THE future of Australia's low interest rate honeymoon is in the frame today as Reserve Bank governor Glenn Stevens fronts a key Senate committee.

The nation's central banker will be quizzed about the Rudd Government's fiscal stimulus package — and its impact on monetary policy settings.

In particular, Mr Stevens faces a grilling over whether continued spending of stimulus dollars risks increasing the cash rate when the

economy appears to have dodged the bullet of recession. Despite Opposition calls for the spending to be reined in, Treasurer Wayne Swan is insisting the stimulus timetable — with its built-in wind-down mechanisms — must proceed as planned.

Mr Swan warned last night that financial markets were stabilising but economic danger was not.

As Australia's world-beating economy continues to defy worldwide gloom, the Reserve has already shifted its strategy away from combating recession to managing the recovery.

Six straight cuts have plunged the cash rate to a 49-year low emergency

setting of 3 per cent, but the central bank faces pressure to lift it amid signs of a turnaround.

Economists are split on likely timing — many still expect a pre-Christmas hike with only one in five tipping an October rise.

But Senate economics committee member Steve Fielding said he wanted to know if the Government's \$42 billion stimulus package threatened to force rates up earlier than necessary.

"The billion-dollar question is: If we keep spending more stimulus money than is needed, are we in danger of driving up interest rates?" Senator Fielding said.

"Australian families would be devastated if interest rates rise only because we blindly kept spending billions of stimulus dollars when it may not have been needed."

Mr Swan said the world still faced a "massive global employment challenge" from which Australia was not immune.

"To the extent there are signs of recovery, the profile of that recovery is not clear and there remain real risks that recovery could stall," the Treasurer said.

"While those risks remain, and memories of turmoil are so fresh, it would be foolish and irresponsible to drop our guard."

Shadow treasurer Joe Hockey said the Government was spending too much under its stimulus programs.

"And, what's more, the money it is spending is not being spent well. It's being spent recklessly," he said.

Treasury secretary Ken Henry — who last week confirmed unemployment would not hit the Budget forecast of 8.5 per cent — was to have fronted today's committee hearing but has now postponed his appearance for two weeks.

This week is expected to shed more light on the recovery with retail trade and building approval statistics for August due out on Wednesday.