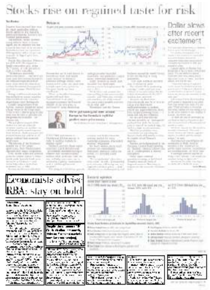
Media Monitors
STAY CONNECTED

Media Monitors Client Service Centre 1300 880 082



Australian Financial Review, Australia
03 Jul 2012, by Jacob Greber

Companies and Markets, page 34 - 418.68 cm²
Australian National - circulation 70,518 (MTWTFS)

MACQUARIE UNIVERSITY

ID 152554610

back

Economists advise RBA: stay on hold

Jacob Greber,
Economics correspondent

Interest rates should be kept on hold for now and policy makers should begin boosting borrowing costs in the next 12 months, according to a group of economists acting as a "shadow" Reserve Bank of Australia.

The preferred policy among the nine-member board, which includes market economists as well as former RBA board members Bob Gregory and Warwick McKibbin, is for the bank to keep the rate at 3.5 per cent.

The next most popular recommendation was for the RBA to unwind last month's rate cut of 0.25 of a percentage point.

Professor McKibbin of the ANU, Macquarie University's Jeffrey Sheen and University of NSW professor James Morley were the staunchest proponents of an increase today.

"In the absence of a full-blown financial crisis in the euro zone, the main focus of policy should be on the appropriate timing to return to a more neutral stance over the next six to 12 months," said Professor Morley.

"The timing will depend in part on the inflation outlook, with the current outlook allowing for a fairly gradual adjustment."

Members of the shadow board, which is hosted by the ANU's Centre for Applied Macroeconomic Analysis in Canberra, do not attempt to forecast what the real RBA would do. Rather they aimed to make so-called "probabilistic" judgements about what policy makers should do. The shadow board was established last year and is similar to a group that has critiqued the US Federal Reserve since 1973.

While key figures on the board argued monetary policy should be above its currently "accommodative stance", other members saw the need for lower rates.

University of Tasmania economics professor Mardi Dungey said despite the outcome of the Greek election last month, risks on European markets were far from resolved.

"Progress (or not) towards a feasible plan for structuring the fiscal and monetary future of the euro area will be critical to outcomes," Professor Dungey said.

"This makes for a great deal of uncertainty as an abrupt change in confidence could occur at almost any time."

Tighter fiscal policy across many Australian states also meant "monetary policy should err on the side of caution – the risk for the short-term economic outlook is almost entirely on the downside," Professor Dungey said.

Bank of America Merrill Lynch Australia chief economist Saul Eslake said he had two scenarios for the next 12 months. The first, which had an 80 per cent probability, involved no further major global shocks and a slower domestic economy that would prompt no more than two more rate cuts.

The second scenario was for a renewed crisis that would force the RBA to slash rates further.

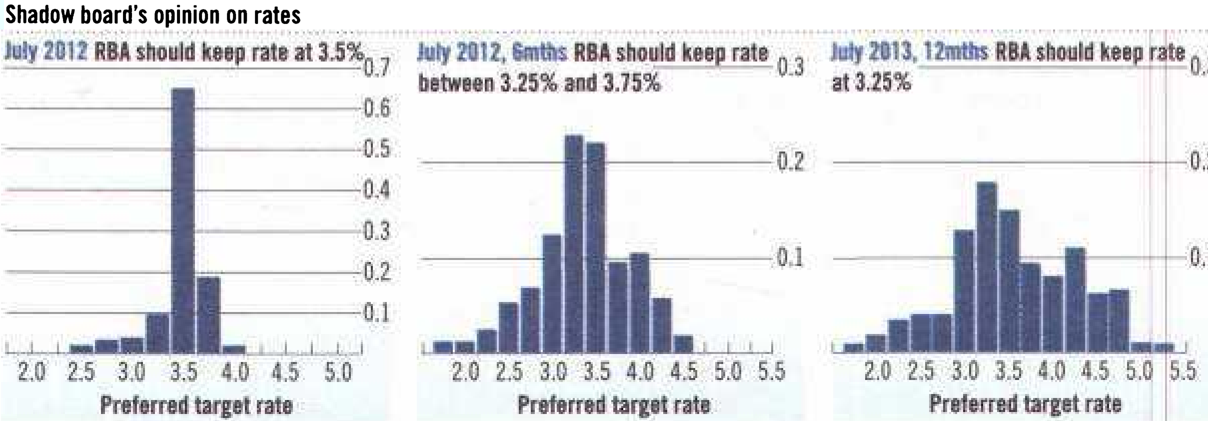
Despite the outcome of the Greek election last month, risks on European markets were far from resolved.

University of Tasmania economics professor Mardi Dungey

back

Second opinion

Shadow board's opinion on rates



Shadow Board Members (at the Centre for Applied Macroeconomic Analysis, ANU)

- **Shaun Vahey** Professor, ANU. (non-voting Chair)
- **Paul Bloxham** HSBC Australia chief economist
- **Mark Crosby** Dean of the Global MBA Program, Acting Dean of the Global BBA Program, and Professor of Economics, S P Jain Center of Management in Singapore
- **Mardi Dungey** Professor, University of Tasmania
- **Saul Eslake** Bank of America Merrill Lynch Australia chief economist
- **Bob Gregory** Professor Emeritus, ANU
- **Warwick McKibbin** Professor, ANU
- **James Morley** Professor, University of New South Wales
- **Jeffrey Sheen** Professor Economics, Macquarie University
- **Mark Thirlwell** Director, International Economy Program, Lowy Institute for International Policy

SOURCE: ANU