

**Wednesday 7 October 2009**

## **INTEREST RATE INCREASE**

“Yesterday’s announcement by the Reserve Bank of Australia (RBA) of an increase in the Cash Rate by 25 basis points to 3.25% was to be expected given the better than expected performance of the Australian economy during recent months”, Canberra Business Council CEO, Chris Faulks, said today.

Ms Faulks said that while the last 12 months have been difficult for the international economy, fortunately, the Australian economy is appearing to be quite resilient.

“Whilst no one likes interest rate increases, most business people understand that the 425 basis point cut in official interest rates over the past 12 months to the historic low rate of 3% was always going to be a temporary measure to get the economy through the initial hurdle of the global financial crisis”, Ms Faulks said.

In raising interest rates by 25 basis points the Reserve Bank commented that economic conditions in Australia have been stronger than expected and measures of confidence have recovered. Unemployment has not risen as far as had been expected, and housing credit growth has been solid with dwelling prices rising appreciably over the past six months. Financial markets have also recovered significant ground.

“Continued growth in China, the impact of the stimulus package and the strong starting position of the Australian Government’s balance sheet all contributed to ensuring the Australian economy got through the worst of the GFC relatively unscathed”, Ms Faulks said.

“It should also be noted that flexibility in the labour market, a legacy of the previous government, also allowed workers and businesses to actively protect jobs over the past 12 months thereby ensuring the impact of the GFC was limited. Large job losses would have exacerbated the impact of the GFC on Australia.

Ms Faulks did however express caution about any further increases in official interest rates over coming months.

“We have to ensure the recovery is sustainable”, Ms Faulks said. “While consumer confidence has rebounded over recent months, there is still significant uncertainty in the market place”.

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