

Cash Rate decreased by 25 basis points in August 2016

The Reserve Bank Board today decreased the overnight cash rate by 25 basis points (1/4 of a percentage point), bringing the cash rate to 1.50 per cent.

Over the past 12 months, the cash rate has fallen by 50 basis points (1/2 of a percentage point).

Commentary

The Reserve Bank cited modest inflation outcomes, the moderate pace of domestic economic growth and a mixed global economic outlook as the basis for its decision. The Reserve Bank reiterated that macroprudential measures¹ have appeared to ease price pressures in key housing markets, and it was judged that this somewhat mitigated the risks that would be associated with lowering the cash rate.

This brings the cash rate to its lowest level since inflation targeting began. This easing is designed to provide a degree of stimulus to the wider Australian economy, during its period of transition out of the mining investment boom. However, it remains to be seen if, when and to what extent this period of monetary easing will assist broader sectoral drivers of growth.

This monetary easing may also offer a further boost to recently observed improvements in labour market conditions and strengthening economic activity in the ACT. In a more direct sense, the decrease in the cash rate is likely to affect activity by way of the pass-through to mortgage rates. Of the four major banks, only the Commonwealth Bank has indicated that it would pass on the cut to borrowers; however it would pass on only 0.13 percentage points, and only from 19 August². However, if passed on in full, the average variable rate mortgage holder in the ACT would be \$53 better off per month and \$596 better off per year.

Loan type (ACT average)	Loan size	Change in monthly payment ³	Change in total payment (25 years) ¹
First home buyer	\$331,000	\$49	\$14,664
All loans	\$360,900	\$53	\$15,989

Source: Reserve Bank of Australia; Chief Minister, Treasury and Economic Development Directorate; and ABS Cat No 5609.0

Reserve Bank of Australia historical cash rate decisions



¹ Policy measures designed to mitigate markets' common exposure to risk factors. In this case, the Australia Prudential Regulatory Authority's decision to introduce measures to levy additional capital requirements on financial institutions, designed to alleviate residential property price growth.

² As at 3:00pm, 2 August 2016.

³ Rounded to the nearest dollar. Based on an average standard variable interest rate of 5.40 per cent (Source: Reserve Bank of Australia).