

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2014 - 2015

Department/Agency: Treasury

Question: BET 223-227

Topic: Era of low rates

Reference: written - 15 June 2015

Senator: Ketter, Chris

Question:

Philip Lowe, Deputy Governor, RBA, Speech at the Corporate Finance Forum, Sydney, 18 May 2015

<http://www.rba.gov.au/speeches/2015/sp-dg-2015-05-18.html>

Mr Lowe argues we are now in an era of low rates, and the future will be much tougher for retirees and those planning for retirement.

223. Does the Minister agree with this assessment? Why/why not?

224. What impact will an era of low interest rates have government's pension and super plans? Why?

225. Do low rates mean savers investing in low risk (or no-risk) assets will earn negative real rates of return? Why?

226. Will increased pressure on retirement income put even more pressure on government finances? How?

227. Is it in "Australia's long-term interests to engineer a consumption boom by encouraging people to borrow large amounts against future income"? Why/why not?

Answer:

The RBA lowered the target cash rate by 25 basis points in February and May 2015 respectively, resulting in a current cash rate of 2 per cent, the lowest level in the past 25 years (see Attachment).

The Treasurer's media release of 5 May 2015 *Low interest rates supporting families and jobs* addresses some of the implications of low interest rates.

The Government considers current financial indicators such as interest rates when setting Age Pension parameters.