

RBA notes little pass-through of rate cuts to personal loans

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The Reserve Bank of Australia (RBA) says there has been little pass-through of its recent interest rate cuts to personal loans.

“Since the end of July, average variable interest rates on unsecured personal loans and margin loans have decreased by six basis points (0.06 percentage points) and 43 basis points respectively, while rates on standard and low-rate credit cards have risen by eight basis points and 34 basis points respectively,” the RBA said in its quarterly monetary policy statement.

The comments apply to the period up to the end of October, before the one percentage point cut in the RBA’s cash rate target earlier this month.

In the three months to October, the RBA had cut its cash rate target by 125 basis points.

The RBA said the spread between the cash rate and personal loan indicator rates had widened by about 175 basis points since July 2007.

For business loans, the RBA said the average rate banks charge business loans had fallen by 70 basis points in the three months to the ends of October.

At that point the RBA said the average rate on all business loans was still 30 basis points above their post-1993 average while household loans (home loans included) were 35 basis points above their long-term average .

Although the 100 basis point rate cut will probably bring these household and business rates below their long-term average, it will not be by much.

Given miserable economic outlook, this is a reason to expect the RBA to be amenable to the idea of further cash rate cuts.

AAP