

## **INTERVIEW WITH ABC NEWS BREAKFAST ABC 2**

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**7.00AM**

**SUBJECTS: Economic Recovery, Interest Rates, Bank Guarantee, Australian Industry Participation Plans**

**VIRGINIA TRIOLI:**

Australians have been warned to prepare for interest rate rises as the economy shows signs of recovery.

The Reserve Bank Governor said yesterday that the economic downturn may not end up being one of the worst in the post-war period.

**JOE O'BRIEN:**

In the wake of Glenn Stevens' comments, the Federal Government is defending the size of the recent stimulus spending.

The Finance Minister Lindsay Tanner says the government has not over-reacted and won't be revising its forecast for negative growth.

**LINDSAY TANNER:**

Time will tell as to exactly how severe the downturn is in Australia. We've been very careful not to proclaim victory just because we've had a few months of quite positive data compared with where perhaps people were anticipating things would head.

There are lots of challenges ahead, and there could be some very unpleasant surprises still to come.

We're projecting negative growth for the forthcoming financial year that's just commenced - minus 0.5 per cent. And we're certainly not backing away from that projection. We're not modifying our projection.

**VIRGINIA TRIOLI:**

Lindsay Tanner speaking there on ABC TV last night.

For more, Assistant Treasurer Senator Nick Sherry joins us now to talk through these issues.

Senator, good morning. Thank you for joining us.

**NICK SHERRY:**

Good morning. Good morning to your viewers.

**VIRGINIA TRIOLI:**

We note there that Lindsay Tanner is not saying, you know, you can claim victory yet, but, can the government start to say now that your measures have worked?

**NICK SHERRY:**

Well, I think Lindsay's right to be cautious. I mean I've just come back from the United States and it's pretty damn sobering I've got to say, with massive unemployment and worsening economic conditions.

So what we do know is that the situation we faced eight months ago with the collapse of the financial system; the decisive actions we took - bank guarantee and the various stimulus packages - certainly the stimulus packages have worked. I mean, retail spending, car sales, housing prices, haven't fallen off a cliff as they have in most comparable countries.

**VIRGINIA TRIOLI:**

So that is a kind of victory?

**NICK SHERRY:**

Well I don't, I don't declare victory, because, I think the future for the, for the economy is still pretty sobering. I mean, we still face increasing unemployment. Over the medium to longer term interest rates will increase off historic lows.

So I think it's far too early to claim any sort of victory.

**JOE O'BRIEN:**

So you're expecting you're going to have to fight next year's election on the back of successive interest rate rises. Just how many rises are you expecting?

**NICK SHERRY:**

Oh well, the interest rate decision is a matter for the Reserve Bank. It's independent. And it will determine what occurs.

**JOE O'BRIEN:**

But it's going to be tough for you next year with those rises.

**NICK SHERRY:**

Well, well, it's all, it's a tough period. I mean, we face a world economic recession. Now Australia hasn't gone into a technical recession. We're one of, only one of 30 countries that hasn't gone into a recession; and that's thanks to the decisive actions we've taken to cushion the economy.

But the rest of the world is still in very very bad shape, and that impacts on Australia. So it's, it's too early to call any sort of victory. We've got a tough period ahead. We're going to have a tough budget. We have to have tough restraints on spending. We know unemployment is going to go up, and there's no, no reason at this stage to be changing any of the budget forecasts.

**VIRGINIA TRIOLI:**

But, take me through as Assistant Treasurer then, the logic of us hearing Reserve Bank Governor Glenn Stevens warning, or suggesting, that there's going to have to be interest rate rises, which of course only come about when your economy is heating up. And you and the rest of the government members are saying, no, no, no, no, no, we're still looking at a period of negative growth.

How do we square that away?

**NICK SHERRY:**

Well I think Glenn Stevens was expressing a similar view to the Prime Minister in his essay at the weekend where it's indicated that medium to longer term, interest rates will come off what are historic lows at the present time. We haven't seen interest rates this low for decades.

**VIRGINIA TRIOLI:**

But Glenn Stevens was being more optimistic than that wasn't he?

**NICK SHERRY:**

Well, well, Glenn pointed out that the Australian economy has done comparatively well and done better given the stimulus packages. I mean, he acknowledged the important role of the bank guarantee and the stimulus package.

And, but it's simply too early to change the budget forecasts. Even though the budget forecast for the next financial year is growth of minus half a per cent - and that is comparatively very very good to other economies. I

mean other economies around the world are facing negative growth of four, five, six per cent.

**JOE O'BRIEN:**

I just want to take you to something you've mentioned there, and that's the bank guarantee. And Glenn Stevens expressed some concern about that.

Is there any chance that the government is going to increase the fee on that for the banks - which people are calling on you to do now?

**NICK SHERRY:**

Well the way the bank guarantee works at the moment is over time the banks reduce their dependency on the guarantee. I mean in October, November last year they were totally dependent on the guarantee for their funding. And that's phased down considerably - I think only about half their funding now, so...

**JOE O'BRIEN:**

So you're not going to increase it?

**NICK SHERRY:**

So, so, we'll keep an eye on the bank guarantee, and at some point in time, at some point in time - but we've got to be very careful about the bank guarantee because other countries in the world are still guaranteeing their banks, and the way in which it phases out as a policy has got to be done at an international level as well as taking into account the circumstances in Australia.

**VIRGINIA TRIOLI:**

Senator, when you say it's too early to revise the budget forecasts, does that suggest that between now and in the next six months the forecasts could be revised; just not now?

**NICK SHERRY:**

Well, well...

**VIRGINIA TRIOLI:**

Is that a possibility?

**NICK SHERRY:**

... well, we will release the mid-year economic forecast in November. And that's the appropriate time, if there is any change in forecasts, to do so.

But, let's look at the last three months. I mean, in May, Treasury and the Government were being criticised because we, the argument was we should have been forecasting higher unemployment and worse economic conditions.

And now three months later, there's a critique that says unemployment won't go as high as eight and a half per cent, and economic growth will be better than was forecast.

So in just three months we've moved, or many people in the economic community have moved from a position of a totally different type of criticism.

**VIRGINIA TRIOLI:**

Sure. But that goes to the heart of the suggestion that you over-reacted you see.

**NICK SHERRY:**

Well, I certainly don't believe we over-reacted. If you look at the state of the rest of the world, if you look at the state of the rest of the world and the decisive actions we've taken with our stimulus packages, that has helped cushion the Australian economy. But unemployment is still going to go up, and the forecast will be, if necessary, the forecast will be varied in the mid-year financial statement in November.

**JOE O'BRIEN:**

I just want to take you to something that's going to come up at the ALP National Conference; and a package was announced yesterday in relation to helping Australian businesses bidding for government contracts. Businesses that bid for government work will have to produce Australian Industry Participation Plans. Isn't this protectionism by stealth? You're effectively giving Australian firms a leg-up here.

**NICK SHERRY:**

Well, I think there are positive ways you can help Australian business and that can take a variety of forms.

But, outright protection, as we have warned consistently, is just not on.

We know from the experience of The Great Depression, you have to guarantee your banks, you have to have stimulus packages to cushion the economy, and you must not resort to, to outright protectionist measures.

**VIRGINIA TRIOLI:**

Senator Nick Sherry, good to have you on the program. Thanks so much.

**NICK SHERRY:**

Good morning.