

Media Release

5 May 2015

RBA concerned about Sydney house prices, Government continues subsidies to real estate speculators

The Reserve Bank of Australia today cut interest rates to a new record low of 2%, but cited surging house prices in Sydney as a concern.

In the lead up to next week's Federal Budget, the Government has ruled out any changes to generous subsidies for real estate investors, in particular the Capital Gains Tax (CGT) discount and negative gearing.

The RBA said this when announcing the rate cut:

"Dwelling prices continue to rise strongly in Sydney, though trends have been more varied in a number of other cities. The Bank is working with other regulators to assess and contain risks that may arise from the housing market."

Senior Economist at The Australia Institute, Matt Grudnoff, said that negative gearing and the CGT discount were increasing speculation, and risk of a bubble.

"These policies are clearly making monetary policy more difficult for the RBA."

"The RBA may have lowered interest rates sooner or further if the government was not encouraging speculation in the residential property market."

"It's also keeping many first home buyers out of the market, by pitting them against investors who are being encouraged to buy houses with generous tax arrangements, which they can therefore afford to make a loss on."

Last week a [TAI report](#) showed that two thirds of financial benefit of negative gearing and CGT went to the top 20% of income earners.

Today, claims that negative gearing helps keep rental costs lower have been [challenged](#) on the Facts Fight Back website.

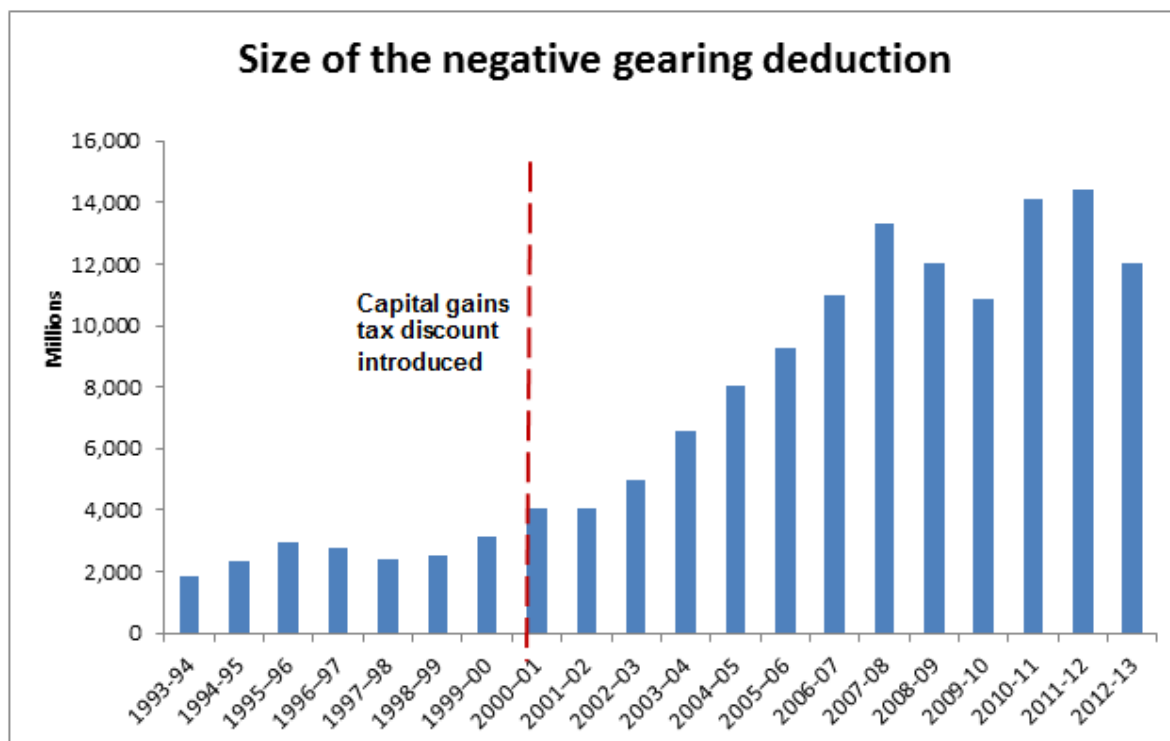
"Any party that claims to be interested in housing affordability needs to act on negative gearing and CGT. It's not helping renters or first home buyers.

"In the long run, market distortions like this can create bubbles and increase risk for investors too. So it's a bad policy all-round.

For media enquiries, please contact:

Tom Burmester 0468 926 833

“If the Government continues to bury its head in the sand and ignore the evidence, the ALP should end its silence and show the leadership on this issue,” Grudnoff said.



ATO (2015) *Taxation Statistics*

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