

RBA cuts interest rates

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The Reserve Bank has cut interest rates for the first time in more than two and a half years, bringing relief to households and corporate borrowers.

As widely tipped by economists, the central bank today lowered its key cash rate by 25 basis points to 4.5 per cent. The move reversed the increased imposed on Melbourne Cup Day last year, the most recent time the RBA has shifted rates.

A survey by Bloomberg found 16 of 27 economists had tipped the bank would slice rates by 25 basis points.

If passed on by commercial banks, today's rate cut will trim mortgage repayments on a typical 25-year, \$300,000 home loan by \$46 a month.

The Reserve Bank had stoked expectations of a rate cut with officials in recent weeks saying they had room to move if needed to bolster the economy, particularly if inflation figures remained subdued.

Last week, core inflation data - the measure watched by the RBA - slowed to 0.3 per cent in the September quarter, the weakest pace in 14 years.

The Australian dollar dropped on the RBA decision, losing about a quarter of a US cent to trade recently at just over \$US1.05.

Attention will now shift to the precise wording used by the Reserve Bank to explain today's decision - and whether today's move is a one-off event.

Financial markets were earlier today pricing in four cuts of today's size over the next 12 months, with three more now to come.