

Reserve Bank slashes interest rates to 5.25pc

Allison Jackson | *November 04, 2008*

THE Reserve Bank cut interest rates by 75 basis points today, reducing borrowing costs to the lowest level in more than five years.



The overall path of economic activity appears until recently to have been close to what the RBA Board had expected Glenn Stevens said in his statement.

The **RBA** reduced the official cash rate to 5.25 per cent from 6 per cent, a deeper cut than expected by financial markets which had bet on a more modest 50-point drop.

Under scoring the central bank's concern about the deteriorating domestic and global economic outlook, the rate is now at its lowest since December 2003.

And the move marked the third reduction in as many months, adding to the 100 basis point cut in October – the biggest lowering since May 1992 -- and the quarter-point reduction in September.

Expectations for an aggressive move intensified yesterday after the release of much worse than expected statistical findings on house prices, retail sales, manufacturing output and job ads.

House prices had their biggest quarterly drop in 30 years, retail sales recorded the biggest fall in 3 years, manufacturing output dropped to recession levels and job ads fell by the most in 10 years.

RBA deputy governor Ric Battellino last week tried to hose down expectations for more aggressive rate reductions, saying the task of lowering inflation was significant and could limit further interest rate falls.

Central banks around the world have been cutting interest rates in a desperate effort to stimulate economic growth and prevent a global recession.

Monetary authorities in the United States, China, India, South Korea and Japan have all cut official rates in the past week.

The European Central Bank and Bank of England are expected to follow suit when they meet later