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Interest rates cut before Christmas

Australian were handed an early Christmas present as bank cut interest rates for 2nd month in a row.

But it warned the slowing global economy continued to pose risks.

Despite expectations of strong domestic growth in the third quarter to September, the Reserve Bank of Australia again slashed by 25 basis points to 4.25 percent having cut in November for the first time since April 2009.

Economists were split on whether they would move again ahead of a summit of European leaders this week seen as crucial for the future of the eurozone, but the bank said the inflation outlook "afforded scope for a modest reduction".

"The Board will continue to set policy as needed to foster sustainable growth and low inflation over time," RBA governor Glenn Stevens said, with rates now at their lowest level since April 2010.

It was the first back-to-back monthly cuts since the depth of the global financial crisis in April 2009 and the dollar sank more than half a US cent to US\$1.0188 cents following the announcement.

While the Australian economy remains resilient, Stevens said global growth had moderated, including in China, a major trade partner, with Asia starting to see some effects of a significant slowing in economic activity in Europe.

"Financial markets have experienced considerable turbulence, and financing conditions have become much more difficult, especially in Europe," he said.

"This, together with precautionary behaviour by firms and households, means that the likelihood of a further material slowing in global growth has increased.

"Commodity prices have reflected this, declining further over recent months and taking pressure off CPI inflation rates. This has increased the scope for some easing in monetary policy in a number of countries."

Australian growth data for April-September is due for release Wednesday, with economists forecasting the economy expanded between one and 1.3 percent quarter on quarter. Growth in the three months to June was 1.2 percent.

Inflation was running at 0.6 percent in the September quarter.

RBC economist Su-Lin Ong said the decision to cut rates was all about concerns over the impact of the European debt crisis on global growth.

"We think that really, while the Australian economy is in reasonable shape, it's the threats to global growth and the potential spillover to Asia and Australia that is driving today's decision," she said.

Treasurer Wayne Swan said the latest interest rate cut should buoy families and small businesses.

"Today's decision to cut interest rates again will provide Christmas cheer to families and small businesses that is particularly welcome around Christmas," he said.

Swan added that Australia's economic fundamentals remained strong "but as this decision shows, we are facing turbulent times in the global economy with serious risks arising from Europe".

Retailers had been calling for a rate reduction to help bolster tepid sales heading in the final few weeks of 2011 and Australian National Retailers Association chief executive Margy Osmond welcomed the move.

"Christmas retailing is immediately impacted by changes in the cash rate, people feel more confident to spend and more comfortable with managing their mortgage repayments," she said.

The Reserve Bank has a break in January and does not meet again to consider rates until February.

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