

Australian central bank cuts interest rates amid global economic turmoil

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The Reserve Bank of Australia (RBA) board yesterday cut its official cash rate by 25 basis points for the second time in three months, reflecting growing concern in the financial elite about the impact of the Trump administration's trade war offensive.

The RBA reduced the rate to 3.85 percent, now down 50 points overall from 4.35 percent, to which it had hiked rates since 2022, primarily in order to suppress workers' wage demands.

Despite being welcomed by the Albanese Labor government as providing cost-of-living relief, the decision will have only a marginal effect on home mortgage payments and rents, which have soared since the government first took office in May 2022.

Treasurer Jim Chalmers said the rate cut would "help millions of Australians with a mortgage."

A household with a \$750,000 mortgage could see their minimum monthly repayments fall by \$228 a month as a result of the two rate cuts. But that is after suffering a rise of around \$1,500 a month since the RBA began aggressively hiking rates.

The RBA's decision was overshadowed by the global economic turmoil, instability and uncertainty generated by the US Trump administration's unprecedented trade war, which is above all aimed against China, Australia's biggest export market by far.

In its statement, the board used the word "uncertain" 134 times. It referred to "the heightened level of uncertainty" in the world economy and said it had "considered a severe downside scenario."

"Geopolitical uncertainties also remain pronounced. These developments are expected to have an adverse effect on global economic activity, particularly if households and firms delay expenditure pending greater clarity on the outlook. This has also contributed to a weaker outlook for growth, employment and inflation in Australia," it stated.

Despite the current 90-day partial "pause" in Trump's punitive tariffs imposed on China, the decision indicates anxiety that Washington's offensive against China will

continue with disastrous consequences for the world economy, and therefore for Australian capitalism.

At her media conference, RBA governor Michelle Bullock described the situation over the past few months as a "roller coaster." Without naming the Trump White House, she underscored the turmoil its measures had triggered on world markets by saying she would describe the situation as "unpredictable," rather than just "uncertain."

In response to journalists' questions, Bullock said there was a risk of a recession in Australia. One of the scenarios in the board's statement estimates that unemployment could jump to 6 percent—which would mean about 900,000 out of work—if the US-China trade conflict worsened.

Even in its official outlook, the RBA downgraded its key economic forecasts. It lowered its projections for growth in exports, business investment and household consumption, and slashed its forecasts for US economic activity.

"The global economic outlook is highly uncertain; various US policies and responses by other countries could materially affect trading partner growth and inflation outcomes," it declared.

For all the misleading claims by the Labor government during the May 3 election campaign about the "resilience" of the Australian economy, it is among the most vulnerable in the world to trade war and war. It is highly dependent economically on China, but at the same time is tied to the US financially and militarily.

Not only is China by far Australian capitalism's biggest market, accounting for 37 percent of all exports in 2024 but some of the next biggest export destinations are also threatened by Trump's tariff war. Japan, South Korea and India together took 24 percent of the exports last year.

Moreover, the United States is the largest foreign investor in Australia, with its investment stock reaching \$1.17 trillion in 2023. This makes the US by far Australia's largest source of foreign direct investment, accounting for a quarter of the total of \$4.7 trillion invested in Australia at the end of 2023.

Before the RBA announcement, some corporate media commentators warned of the "storm clouds" building

internationally.

Stephen Miller, an investment strategy advisor, wrote in the *Australian Financial Review* that “the upending of the global trade system occasioned by the Trump administration’s tariff agenda will constitute severe headwinds for the global economy in the period ahead. That remains the case despite the president walking back some elements of the ‘liberation day’ announcements.”

Equally disturbing for the capitalist class are the signs of disintegrating international financial market confidence in America, at the heart of the post-World War II economic order, signified by soaring interest rates on US Treasury bonds and the Moody’s rating agency’s decision to join other agencies in stripping the US government of its AAA credit ranking for the first time in history.

The Australian Broadcasting Corporation’s chief business correspondent Ian Verrender warned: “Bond markets are now openly questioning America’s place in the global financial system and remain unconvinced about Washington’s ability or commitment to strike a lasting peace in its trade wars.”

Verrender concluded: “Armed conflicts in Europe, Africa and the Middle East continue to threaten fragile alliances and evolve into broader disputes. But, disturbingly, the greatest uncertainty overhanging the global economy is America, once the bedrock of global financial stability.”

As was the case during the Great Depression of the 1930s and the global financial crisis of 2008-09, a worldwide crash would swiftly dry up the funds on which the Australian corporate elite relies. Australia’s major banks are among the biggest institutional borrowers in the world, tapping global markets for about \$30 billion to \$40 billion every year.

Whatever the immediate gyrations of the Trump regime and the financial markets, this means that the Labor government must intensify its assault on the living and working conditions of the working class.

During the election campaign, S&P Global, another key credit ratings institution, warned that Australia’s AAA credit rating could be at risk due to mounting government budget deficits unless the Albanese government cut social spending.

Through the ongoing cost-of-living and housing affordability crisis, workers and young people have already suffered the greatest fall in living standards since World War II over the past five years.

According to the RBA’s calculations, “the combined drag from higher interest rates, lower gross mixed income (mainly small business income) and tax has reduced disposable income by 5 percentage points since December 2019.”

Despite the election claims of Chalmers and Prime

Minister Anthony Albanese that real wages had finally started to “turn the corner,” the decline is continuing.

Over the 12 months to the March 2025 quarter, the official Wages Price Index rose 3.4 percent. That was after a decade of being kept below 2.5 percent, largely as a result of sellout deals by the trade union bureaucracy, while inflation soared, officially peaking at near 7 percent at the end of 2022.

While the RBA’s core inflation rate has eased to 2.9 percent, the real cost of living for employee households remains much higher. As measured by the Australian Bureau of Statistics, living costs for employee households rose 3.4 percent over the 12 months to March, and by an annual rate of 4.4 percent during the March 2025 quarter, outstripping the wage growth.

There are also early signs of rising unemployment. In April, the artificially low official jobless rate—which only counts those actively applying for jobs—remained 4.1 percent. But employment vacancies fell 9.3 percent over the preceding year. An estimated 621,000 people were counted as unemployed, seasonally adjusted, but the number of job vacancies had fallen to 328,900.

For workers aged 15 to 24, the official youth unemployment rate remained more than twice as high at 8.9 percent, despite many being forced into low-paid work.

This social reality, combined with soaring economic and social inequality, places the Labor government and its trade union enforcers on a collision course with the working class under highly volatile conditions globally and in Australia.



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