



RESERVE BANK OF AUSTRALIA

Monetary Policy and Recent Developments

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The Reserve Bank of Australia is responsible for

- Monetary policy and market operations
- Payments system stability & efficiency
- Financial system stability
(not supervisory responsibility for banks)
- Issuing Australia's currency notes
- Banker to the government
- Managing foreign exchange reserves



The Reserve Bank of Australia's objectives are

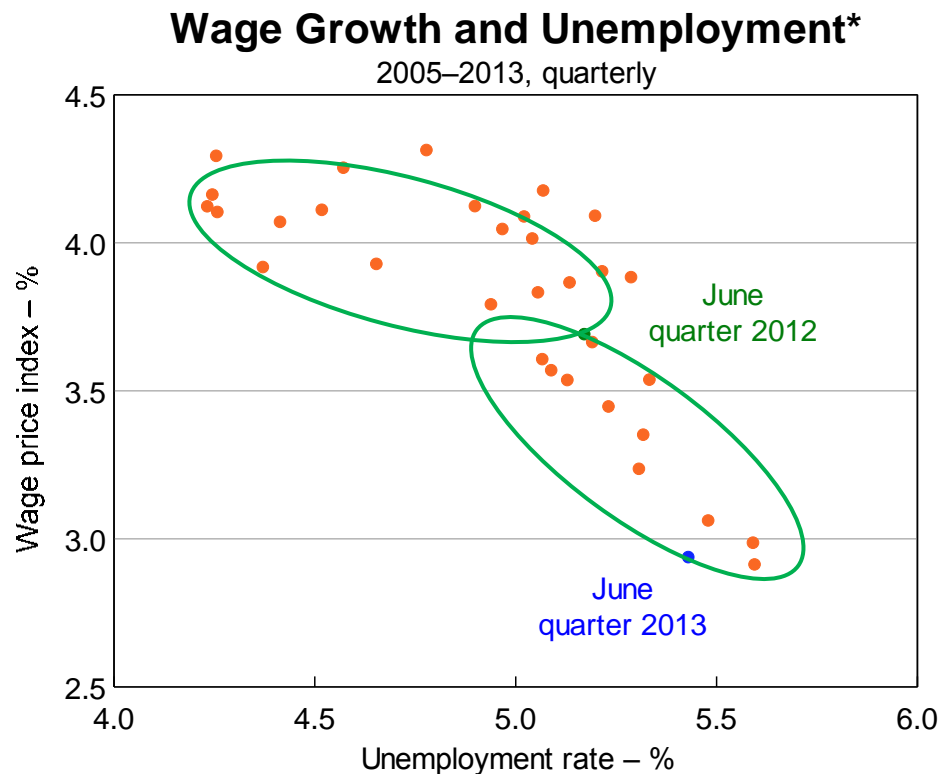
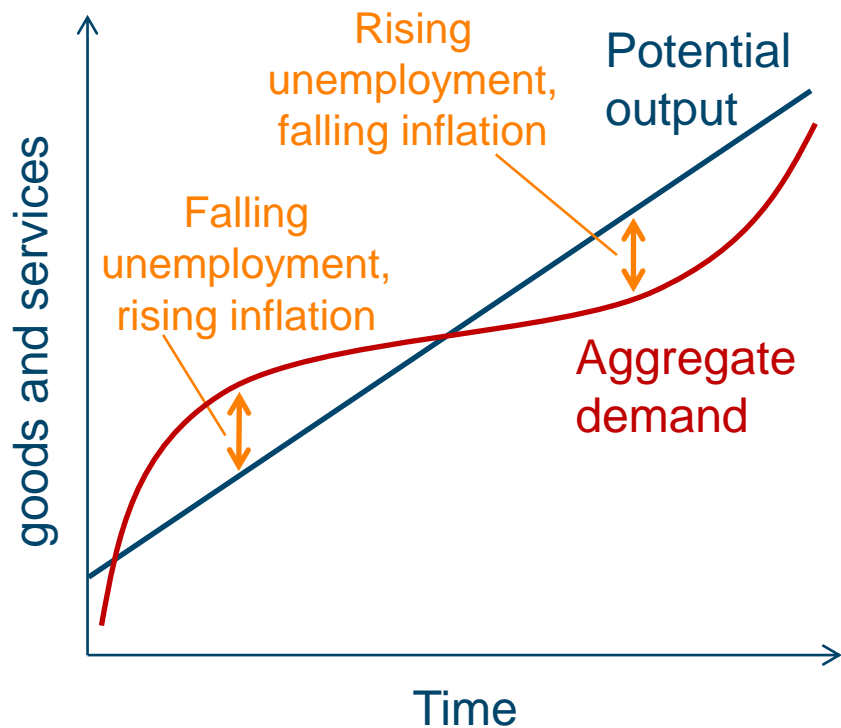
- Stability of the currency
- Maintenance of full employment
- Economic prosperity and welfare of the people of Australia

As specified in the *Reserve Bank Act (1959)*

Monetary Policy

- The best way for the RBA to achieve these objectives is to maintain low and steady inflation
- Specifically, the objective is to achieve annual CPI inflation of 2-3 per cent, on average, over cycle
- Main tool is the overnight interest rate that banks charge to lend to other banks
- Liquidity operations are used to make sure the supply of liquidity in the system is sufficient to ensure this

How Does Monetary Policy Affect the Economy



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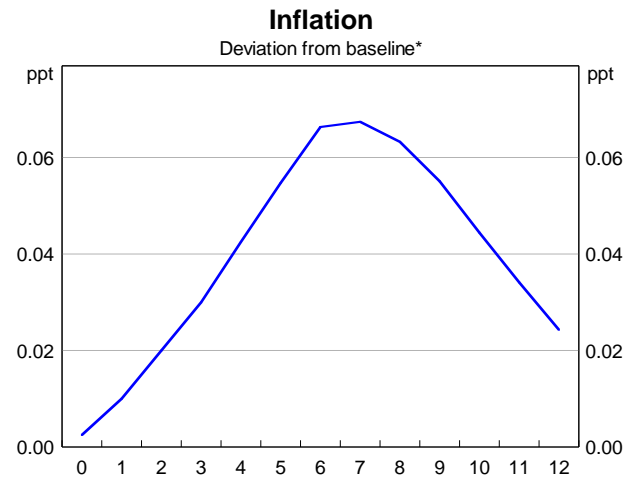
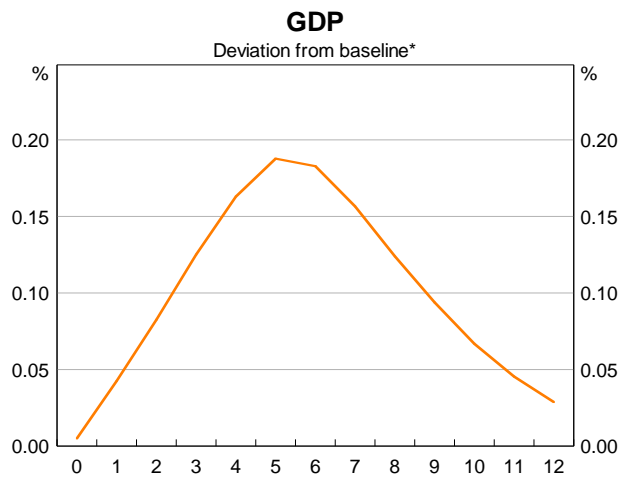
Lower interest rates:

- encourage agents in the economy to bring activity forward by saving less or borrowing more (intertemporal substitution)
- increase disposable income of borrowers by reducing their interest payments, thus increasing their consumption and investment, but reduce the income of savers (cash flow channel – dominated by borrowers in Australia)
- increase asset prices and therefore consumption and investment activity (wealth effect)
- typically lead to a depreciation of the exchange rate



How Does Monetary Policy Affect the Economy?

- Interest rates affect activity and inflation with a lag



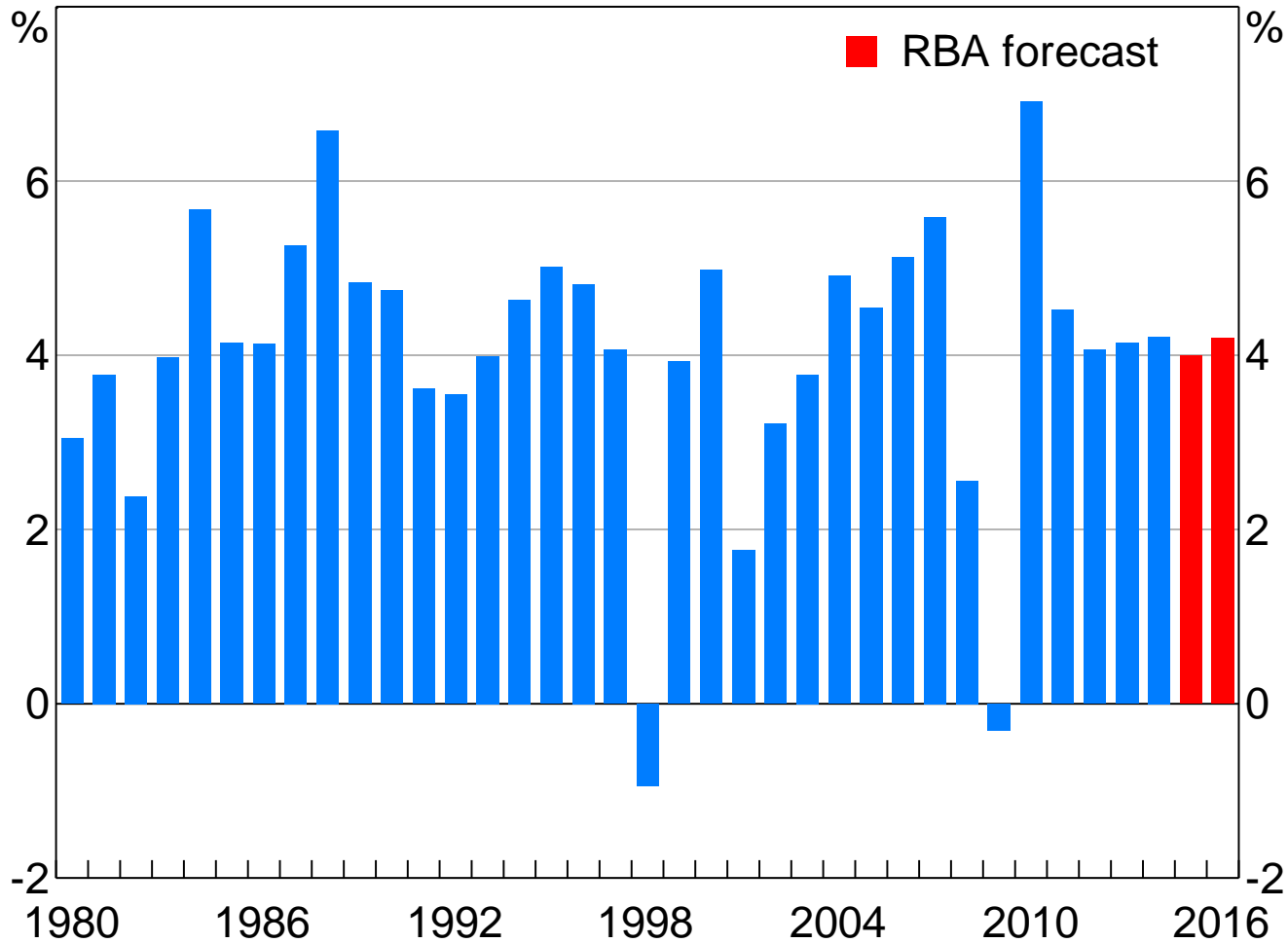
- This means that it is necessary to forecast important macroeconomic variables, which is hard

Recent Developments



Australia's Trading Partner Growth*

Year-average



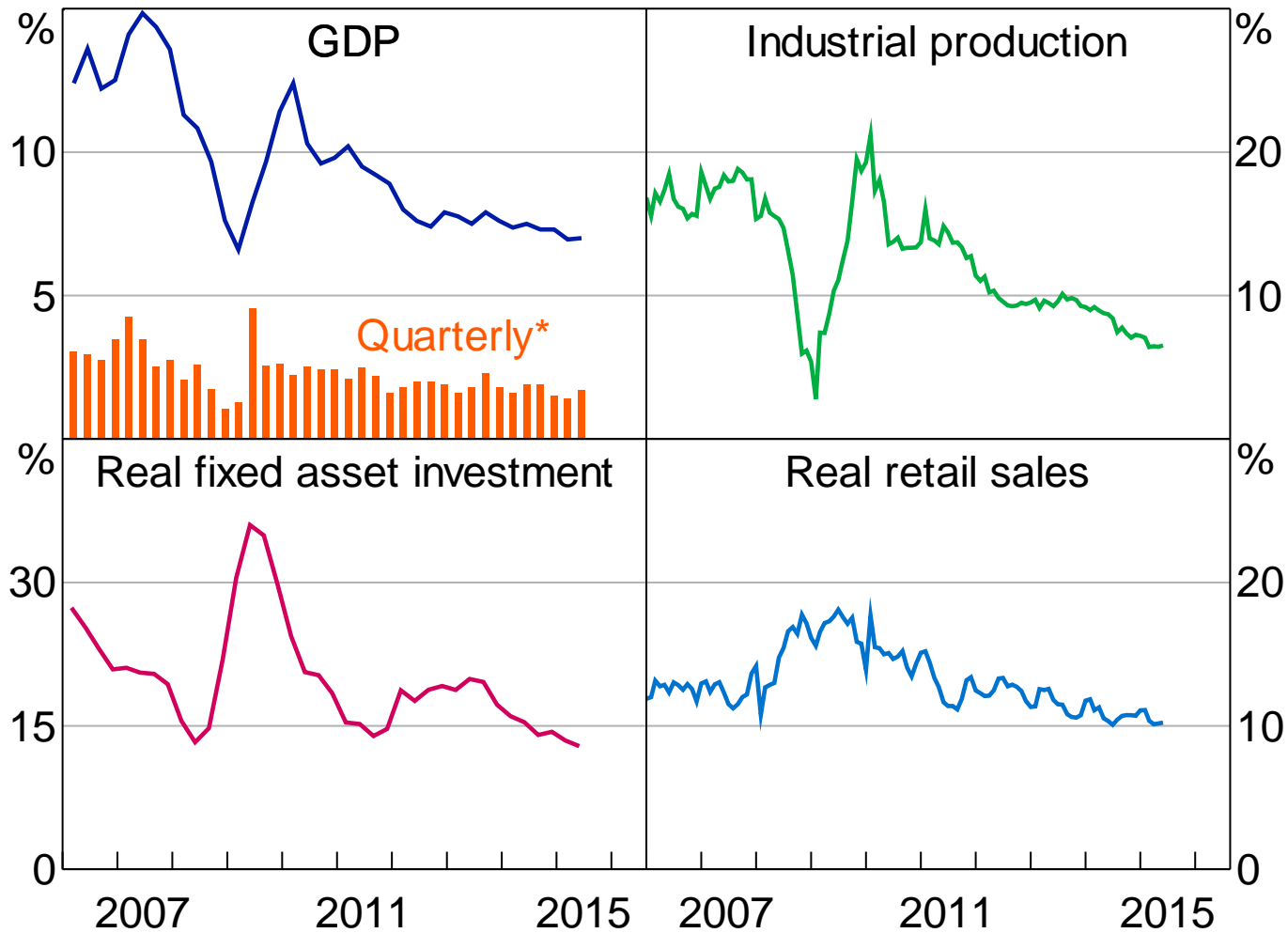
* Aggregated using total export shares

Sources: ABS; CEIC Data; RBA; Thomson Reuters



China – Activity Indicators

Year-ended growth

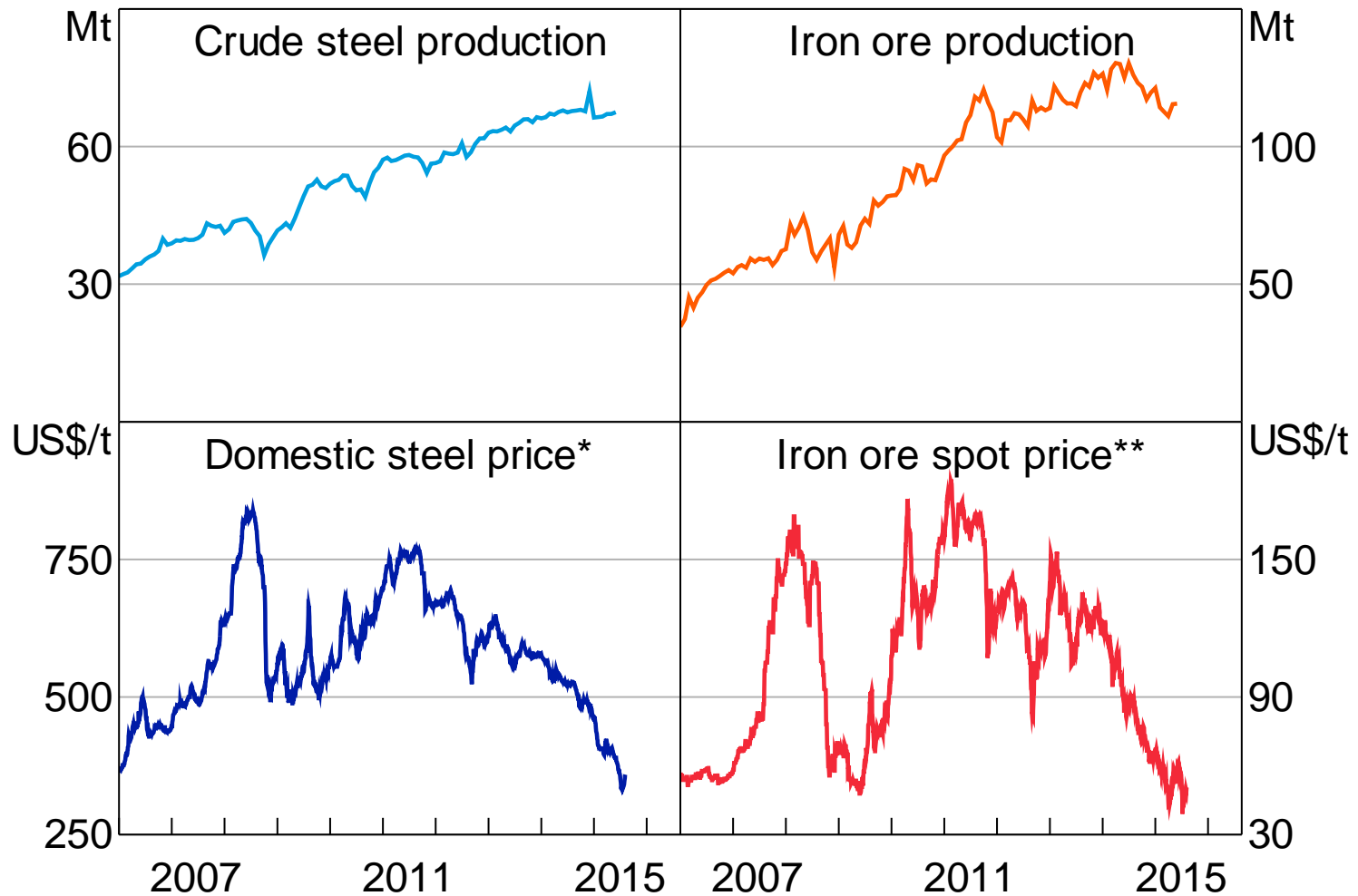


* RBA estimates prior to December quarter 2010

Sources: CEIC Data; RBA



China – Steel and Iron Ore Markets



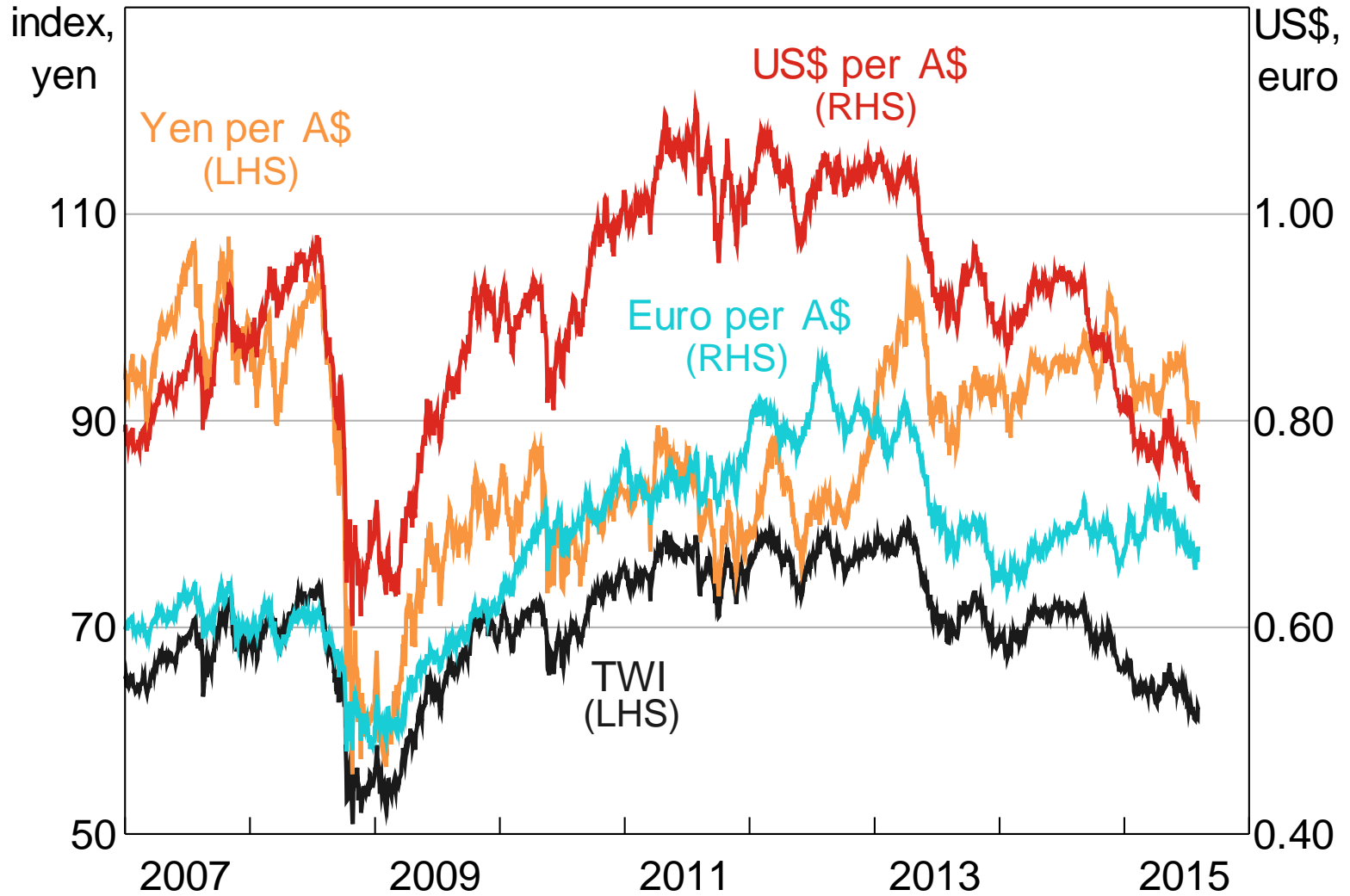
* Average of hot rolled steel sheet and steel rebar prices

** Free on board basis

Sources: Bloomberg; CEIC Data; RBA

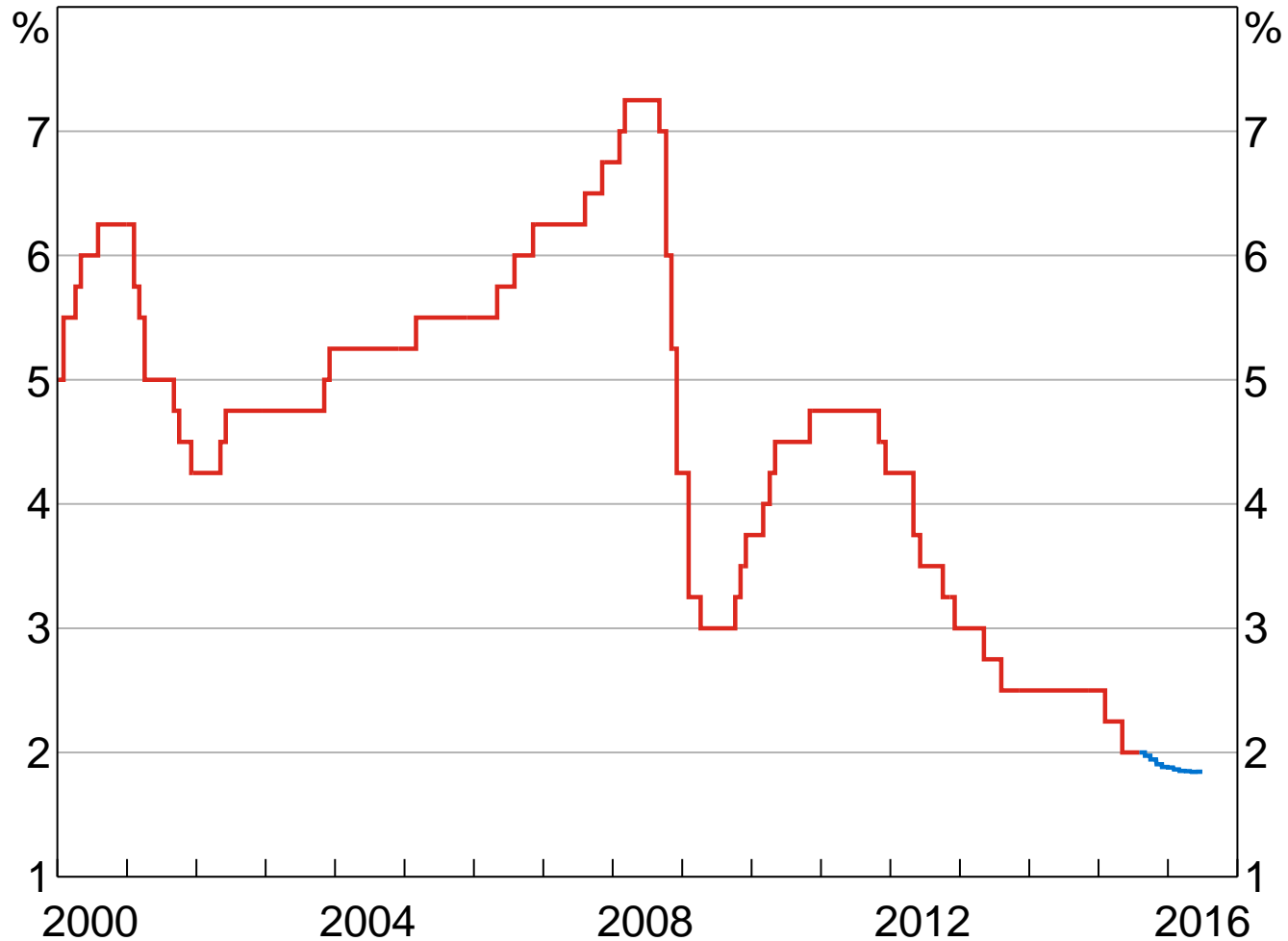


Australian Dollar



Sources: Bloomberg; RBA

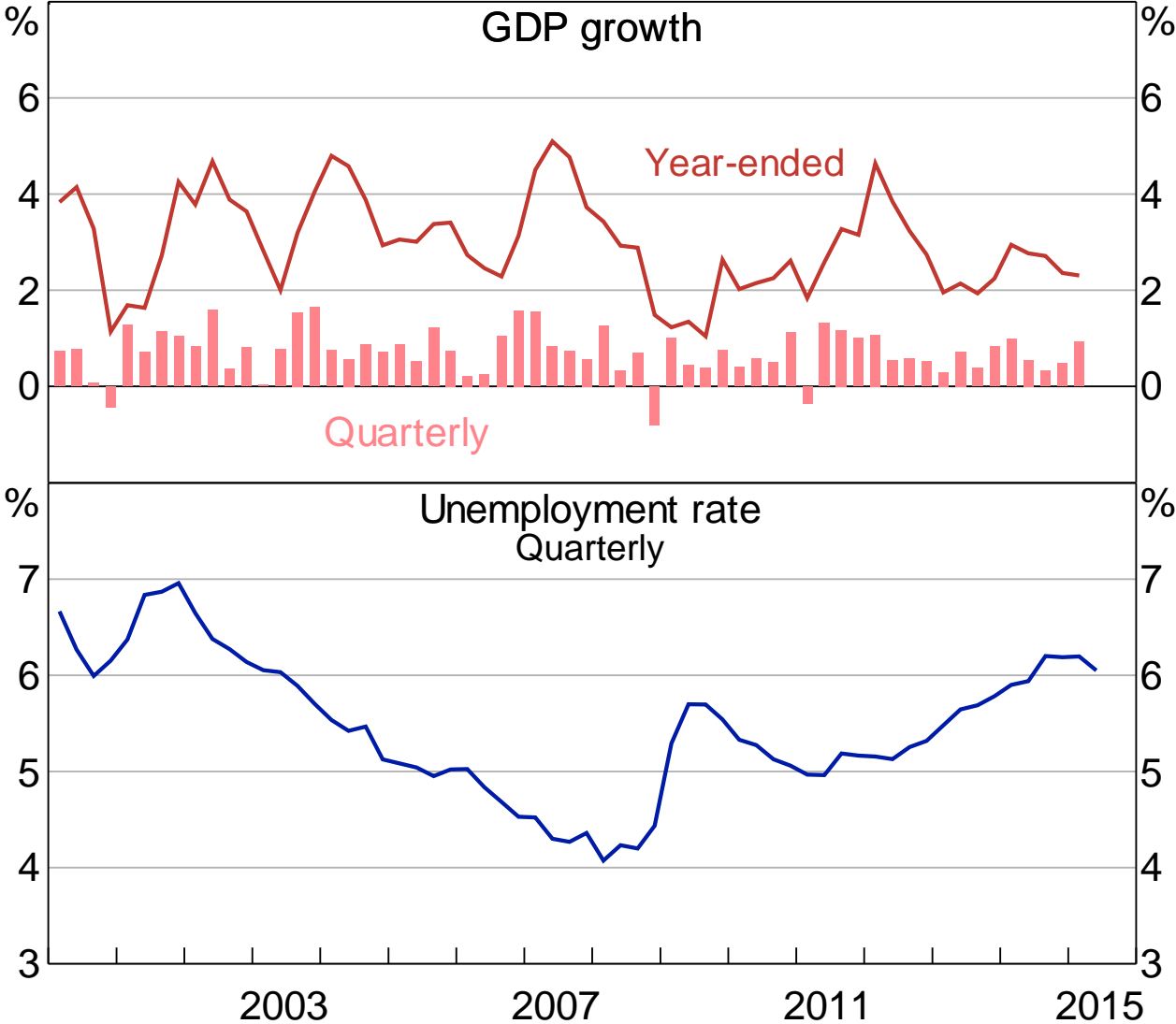
Cash Rate*



* Data from September 2015 onwards are expectations derived from interbank cash rate futures

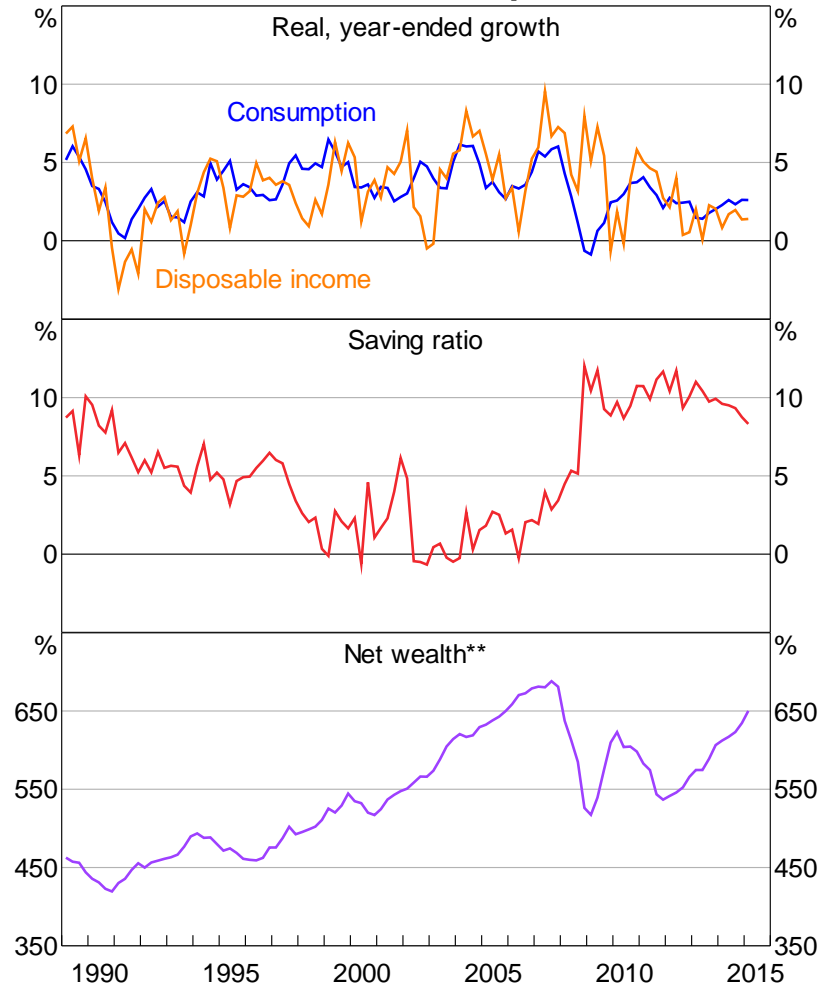
Sources: ASX; Bloomberg

GDP and Unemployment



Source: ABS

Household Income, Consumption and Wealth*



* Household sector includes unincorporated enterprises; disposable income is after tax and interest payments; income level smoothed with a two-quarter moving average between March quarter 2000 and March quarter 2002; saving ratio is net of depreciation

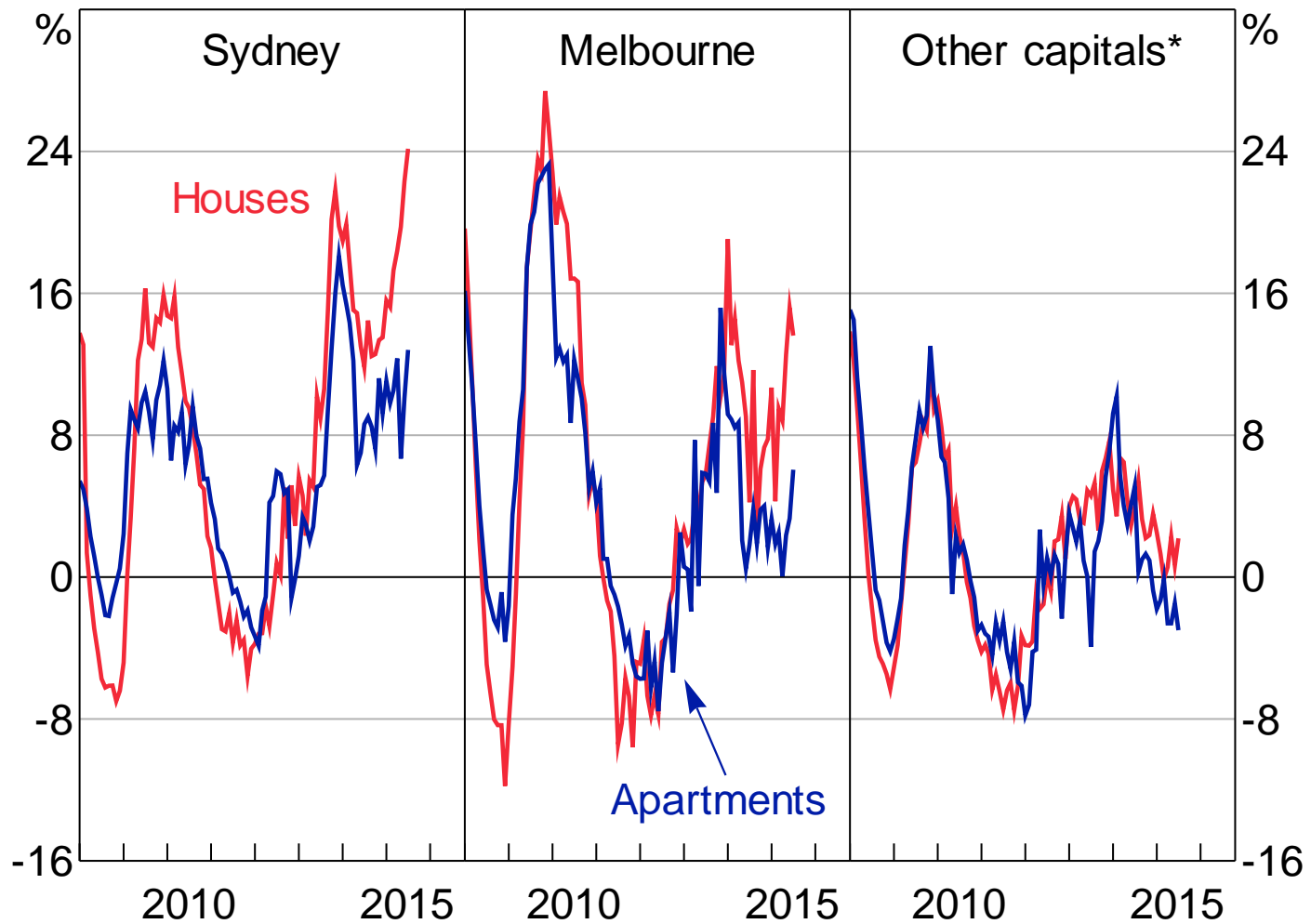
** Per cent of annual household disposable income, before the deduction of interest payments

Sources: ABS; RBA



Capital City Housing Price Growth

Six-month-ended annualised growth



* Weighted average of Adelaide; Brisbane; Canberra; Darwin and Perth

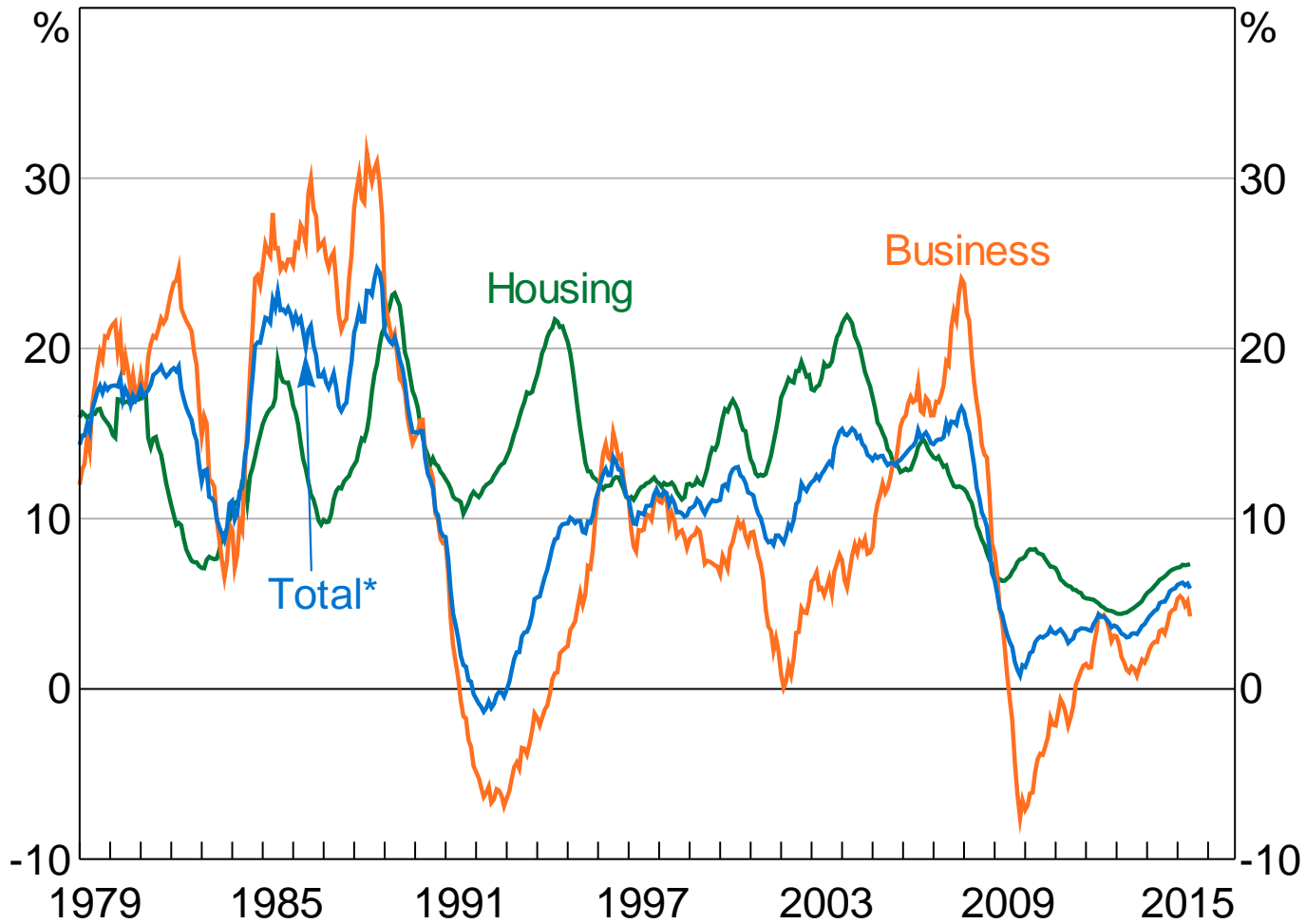
Sources: ABS; CoreLogic RP Data; RBA



RESERVE BANK OF AUSTRALIA

Credit Growth by Sector

Year-ended

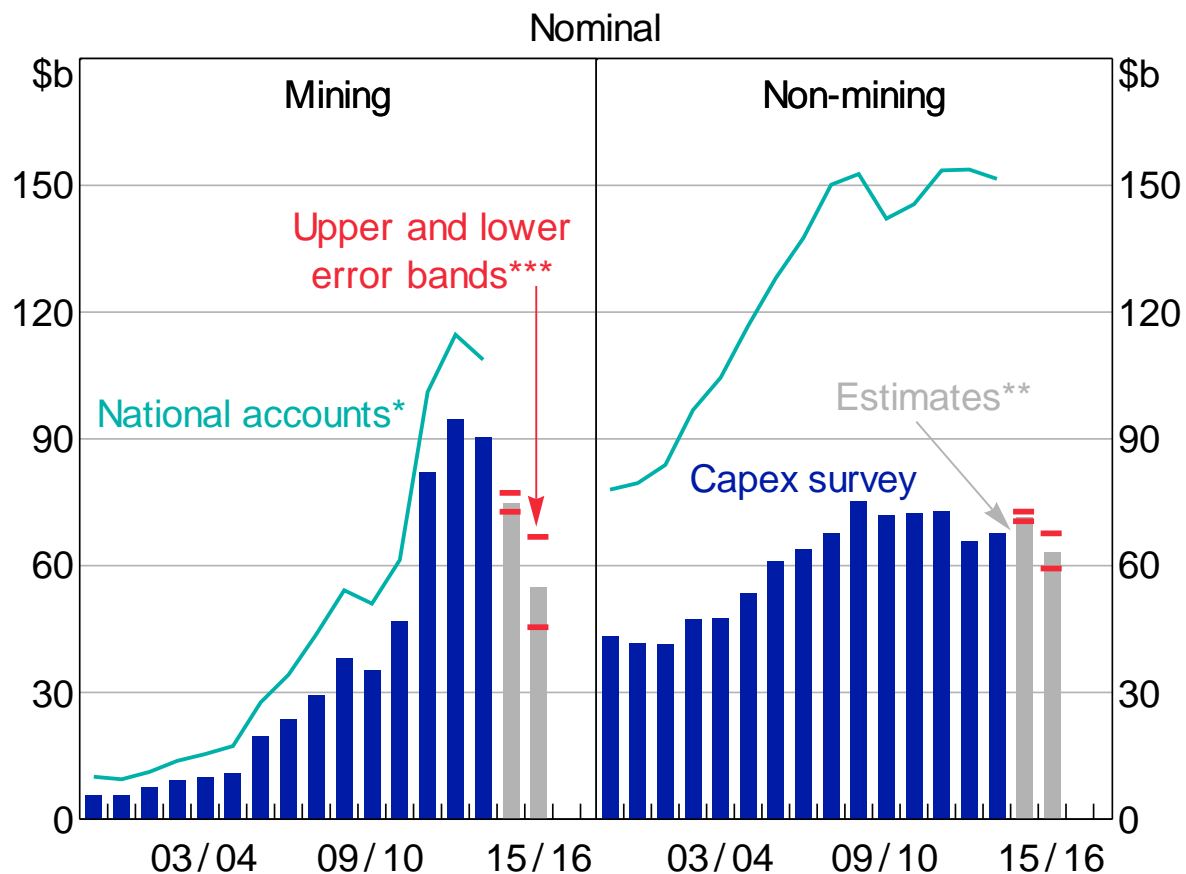


* Includes housing, personal and business credit

Sources: ABS; APRA; RBA



Measures of Private Business Investment



* Adjusted for second-hand asset transfers between the private and other sectors; excluding cultivated biological resources

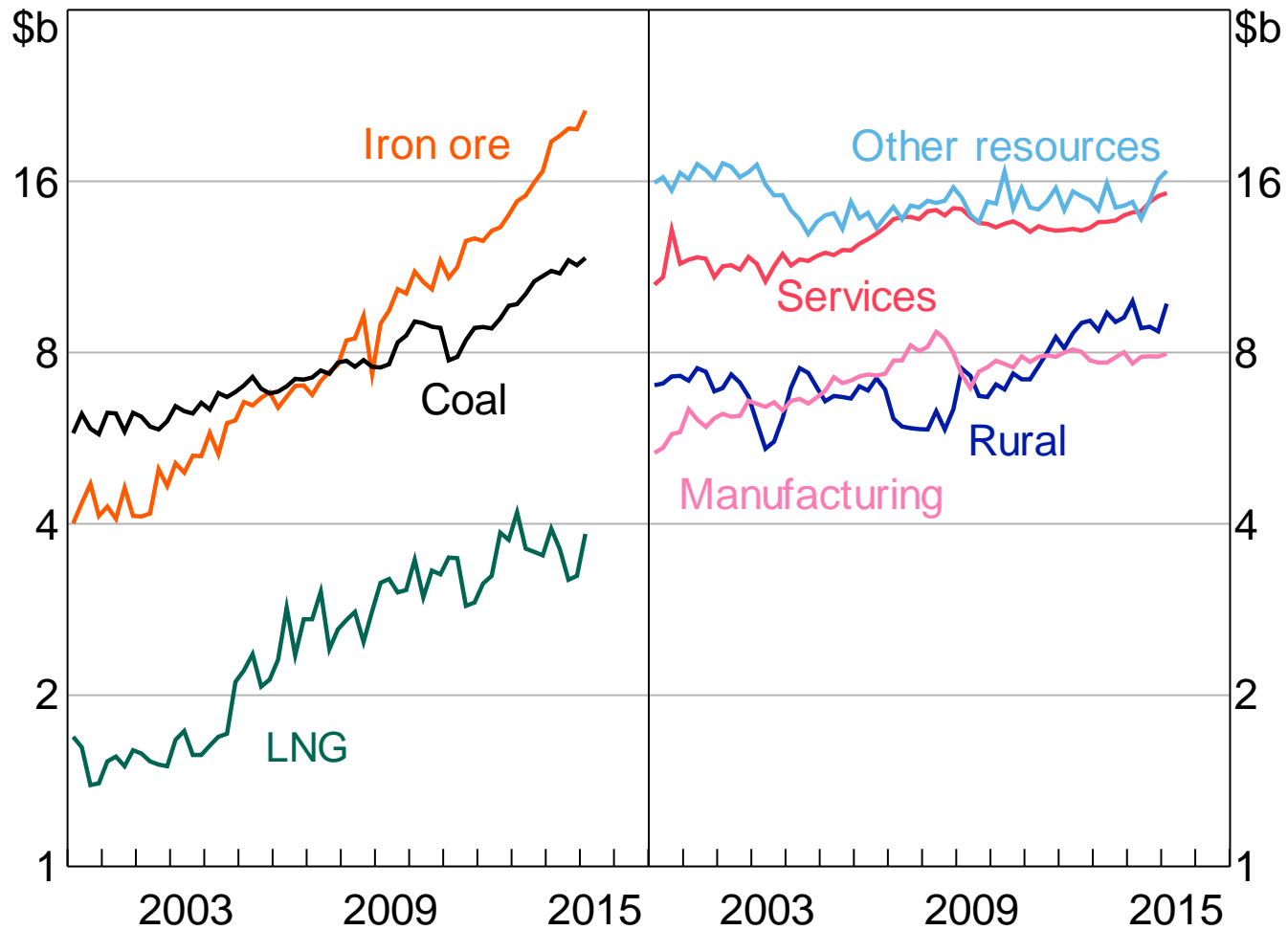
** Estimates are firms' expected capital expenditure, adjusted for the past average difference between expected and realised spending

*** Error bands are based on the root mean square error of each adjusted estimate compared with the final outcome for investment in each year

Sources: ABS; RBA

Export Volumes*

Log scale, quarterly



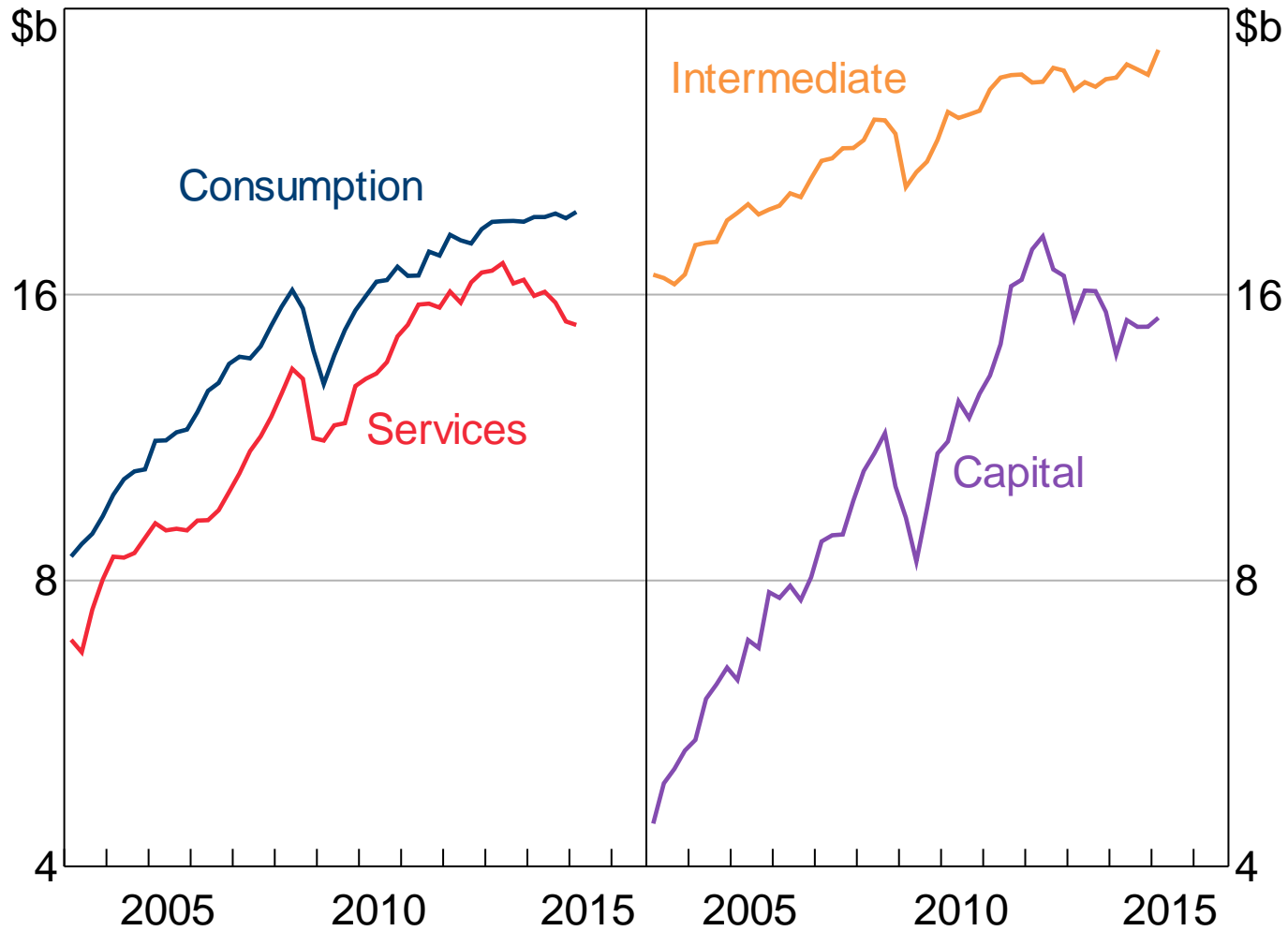
* Reference year is 2012/13

Sources: ABS; Department of Industry and Science; RBA



Import Volumes*

Log scale, quarterly

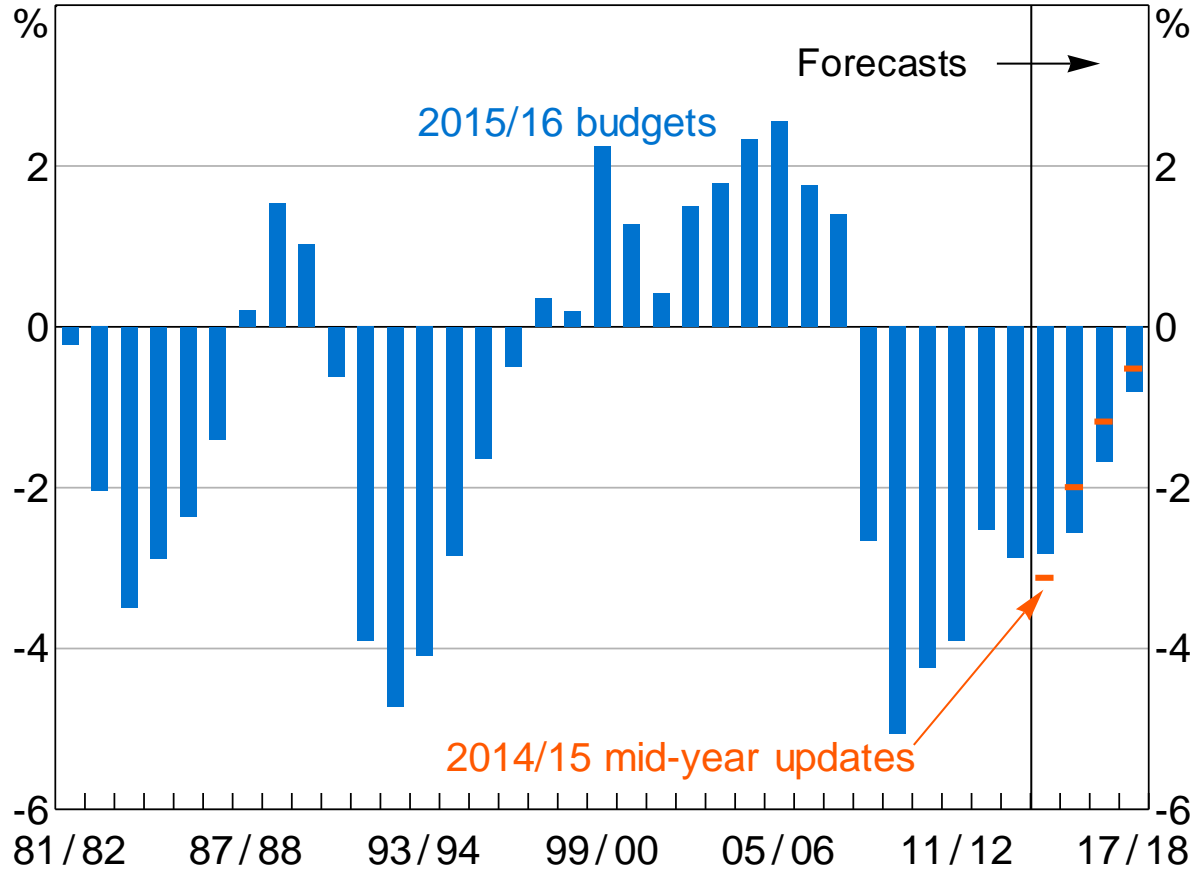


* Reference year is 2012/13

Source: ABS

Consolidated Budget Balance*

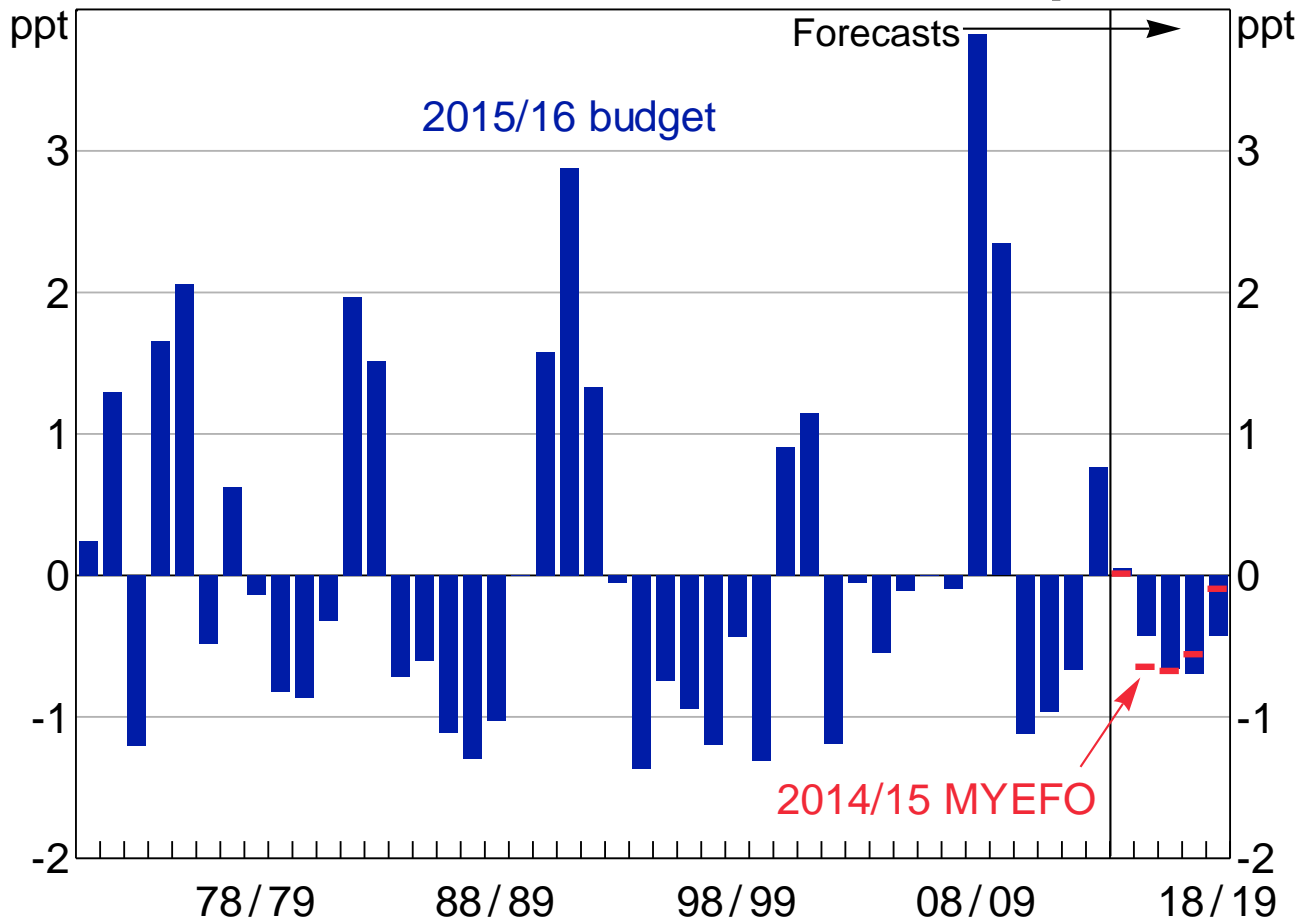
Per cent of nominal GDP



* Federal, state and territory governments; underlying cash balance adjusted for the RBA grant, excess RBA dividend payments and timing changes for some large payments

Sources: ABS; Australian Treasury; RBA; State and Territory Treasuries

Australian Government Fiscal Impact*

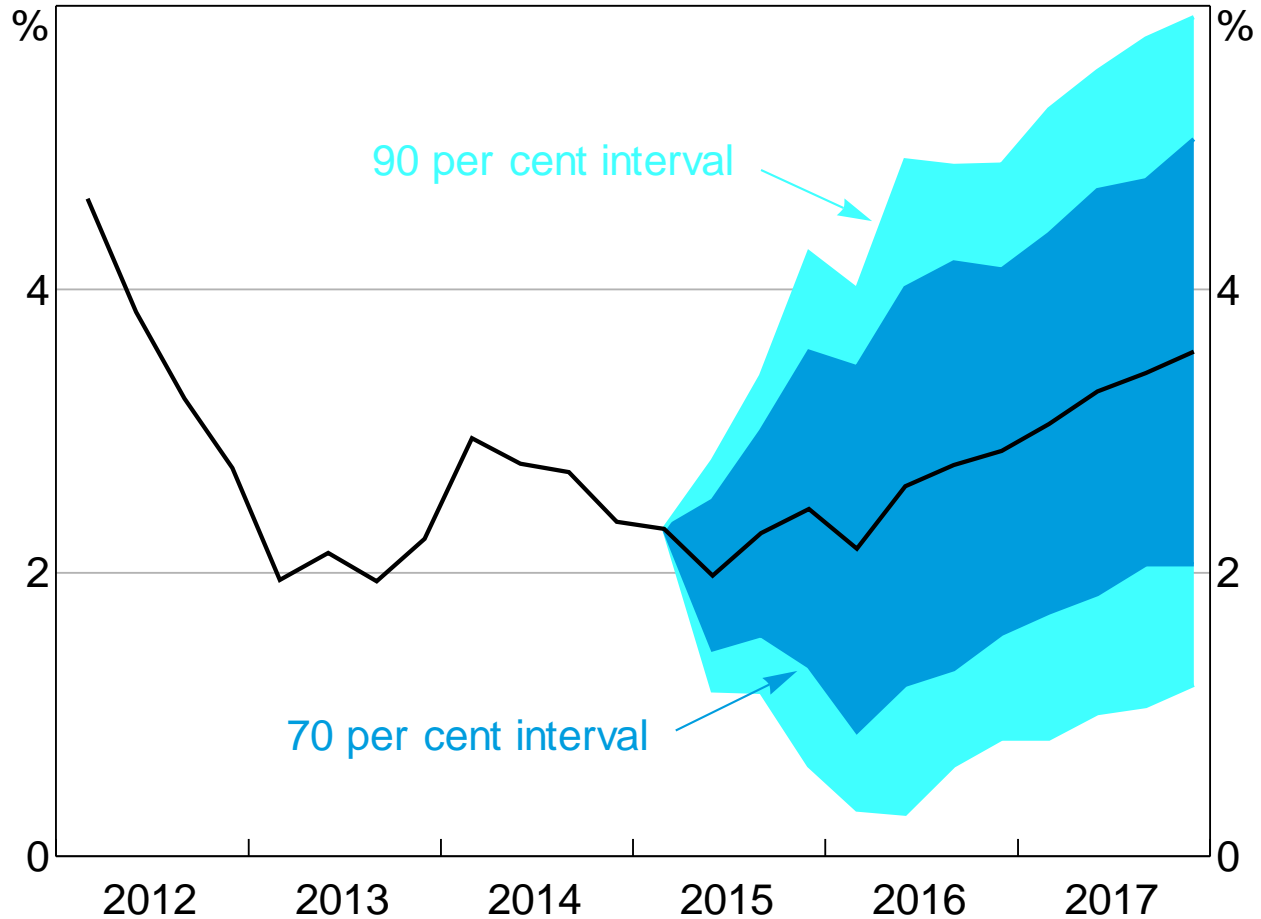


* Negative change in the underlying cash balance as a per cent of nominal GDP, adjusted for the RBA grant, excess RBA dividend payments and timing changes for some large payments

Sources: ABS; Australian Treasury; RBA

GDP Growth Forecast*

Year-ended

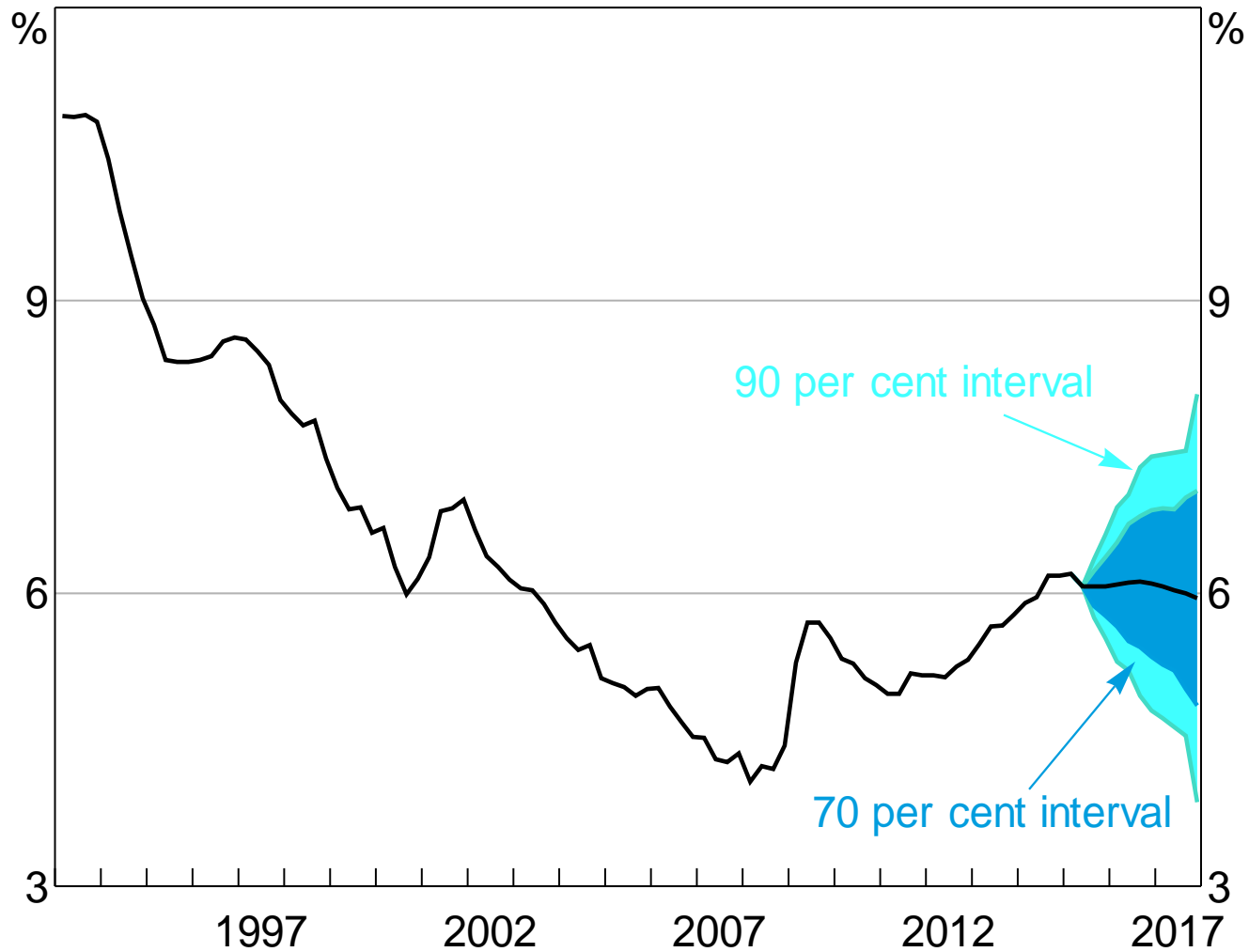


* Confidence intervals reflect RBA forecast errors since 1993

Sources: ABS; RBA

Unemployment Rate Forecast*

Quarterly

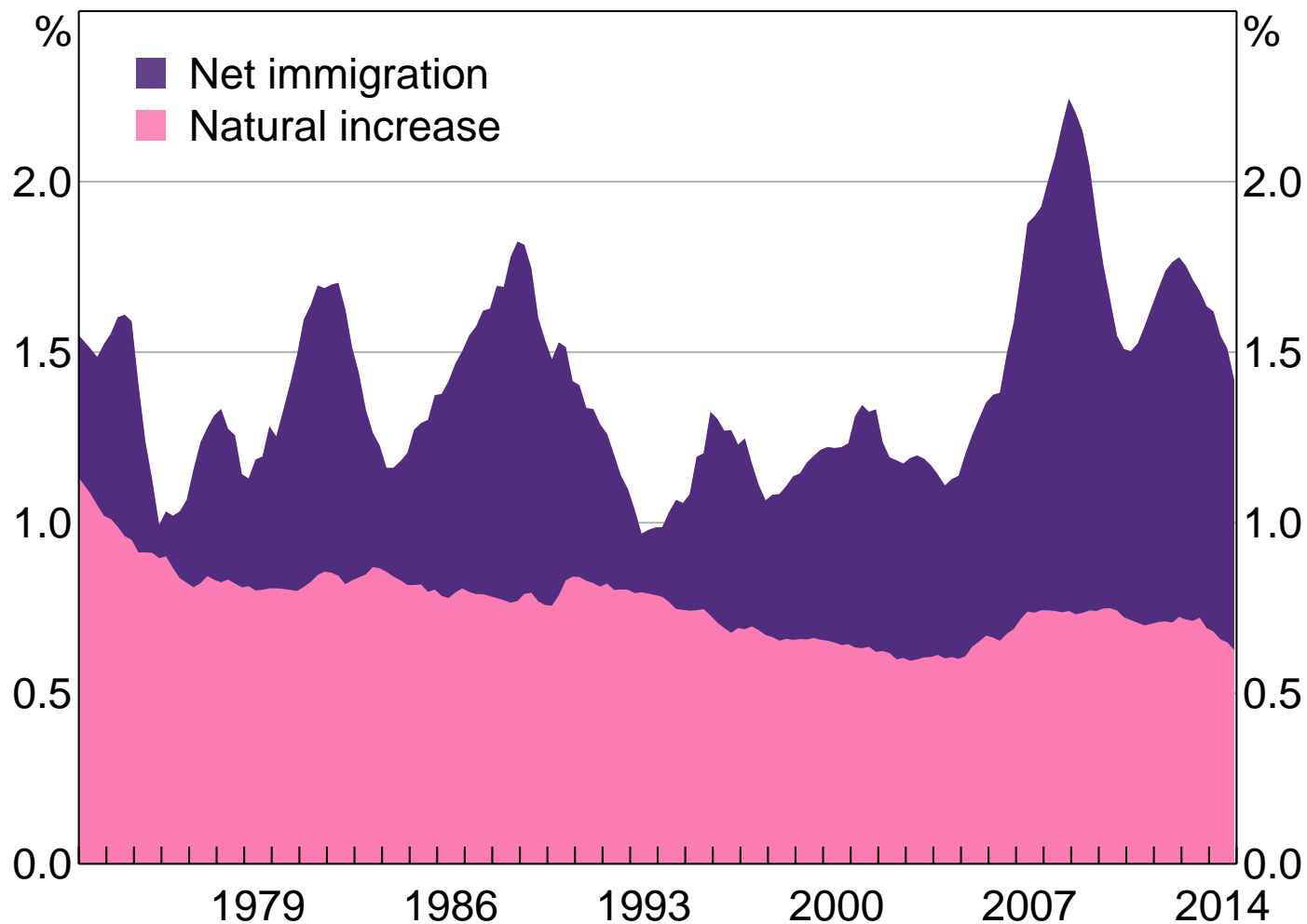


* Confidence intervals reflect RBA forecast errors since 1993

Sources: ABS; RBA

Population Growth*

Year-ended contributions



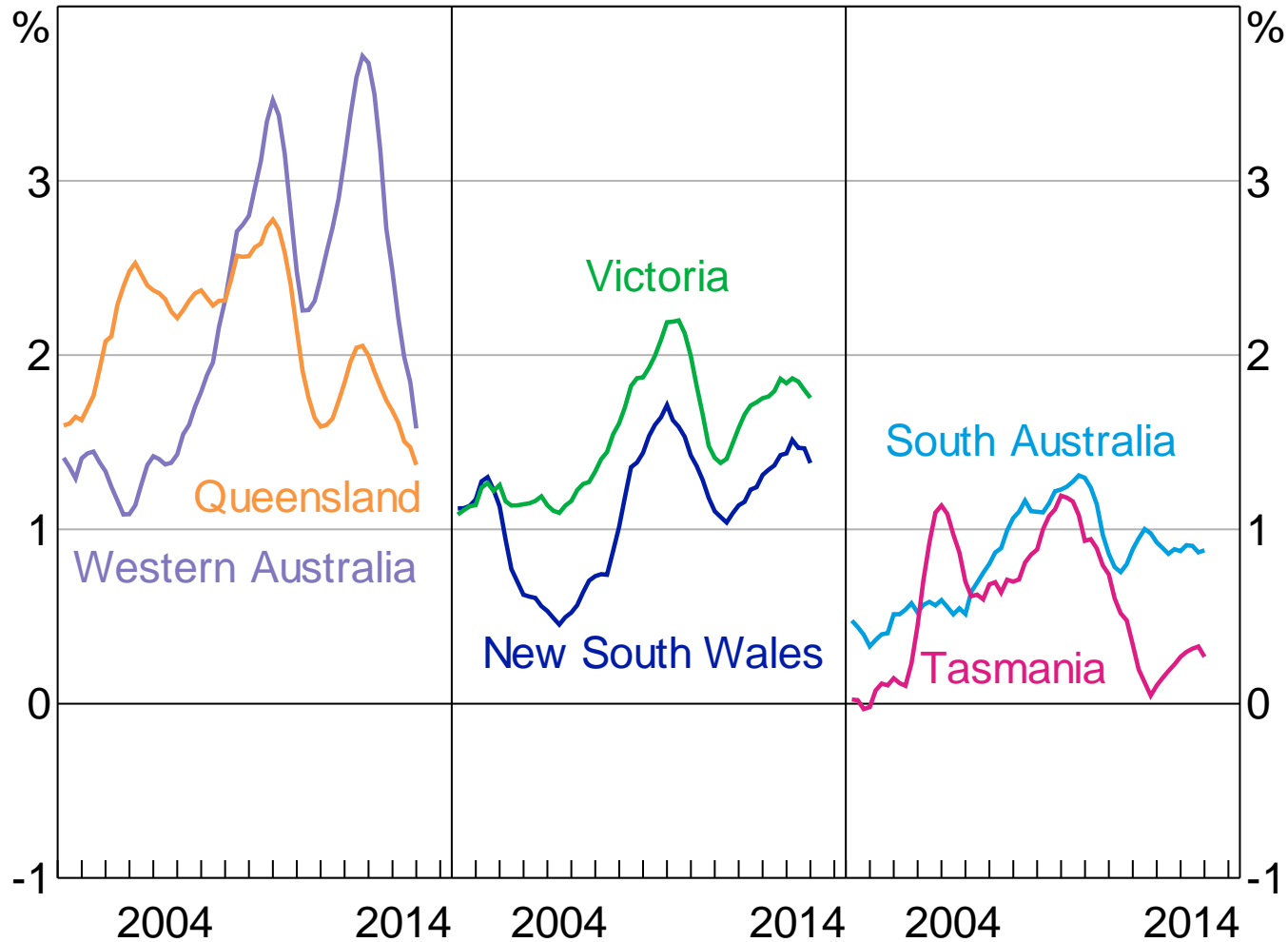
* Total population growth is the sum of the components

Sources: ABS; RBA



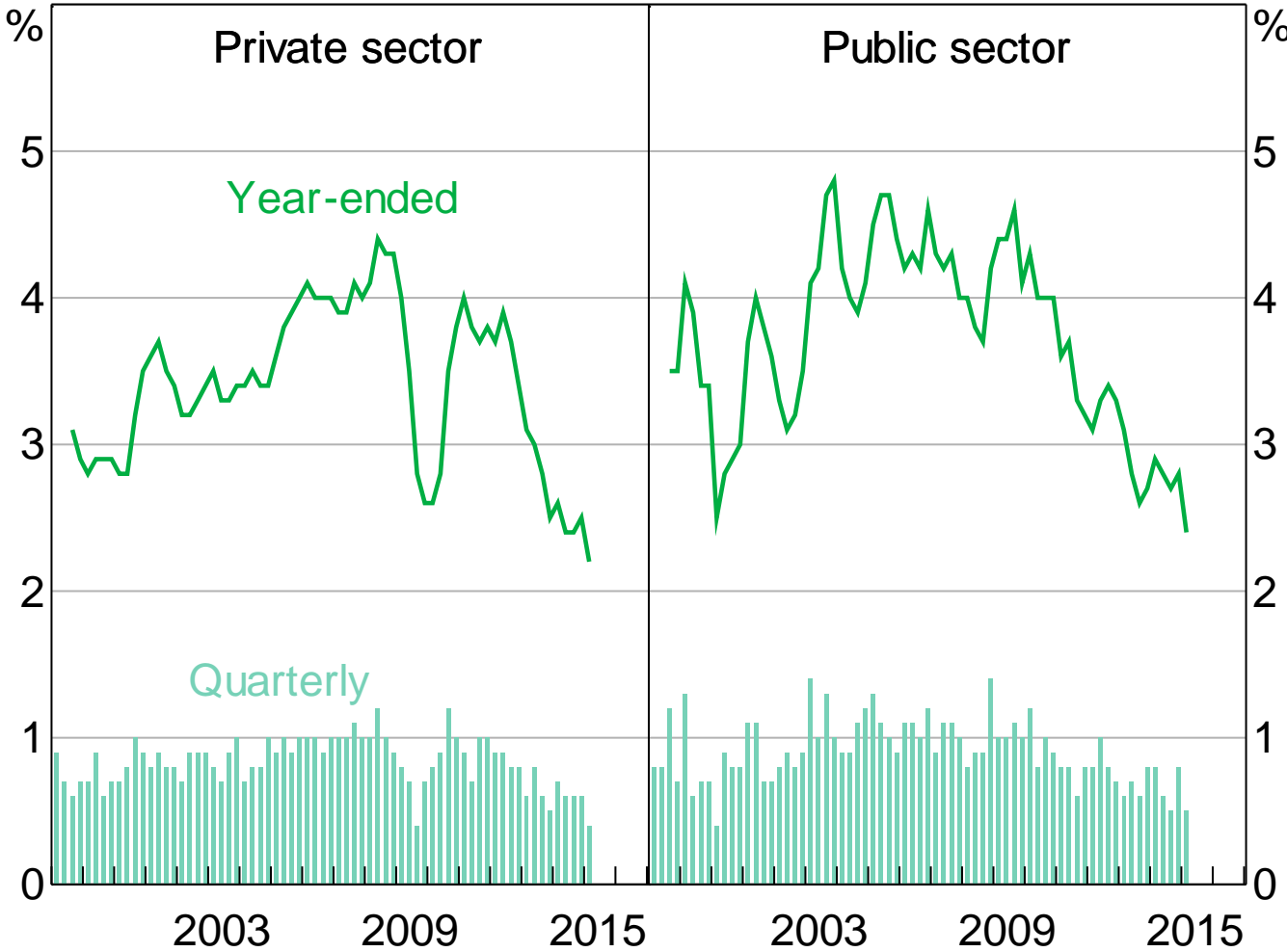
Population Growth by State

Year-ended



Source: ABS

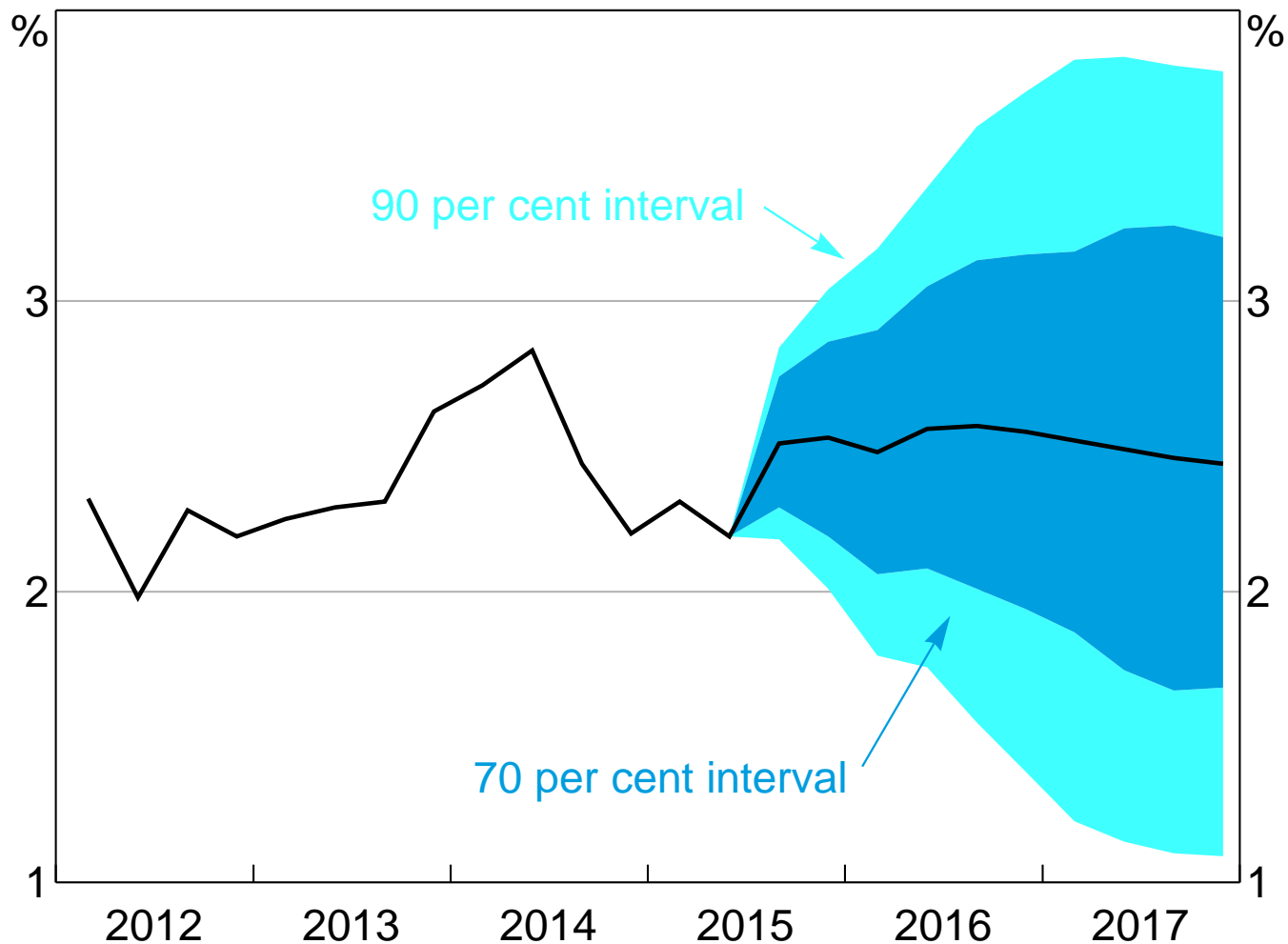
Wage Price Index Growth



Source: ABS

Trimmed Mean Inflation Forecast*

Year-ended



* Confidence intervals reflect RBA forecast errors since 1993

Sources: ABS; RBA



For more information

Visit the Reserve Bank website:

- [Chart Pack](#) (updated monthly)
- [Education](#)
- [Statistics](#)

