



RESERVE BANK OF AUSTRALIA

Teacher Immersion Event 2023

Education



RESERVE BANK OF AUSTRALIA

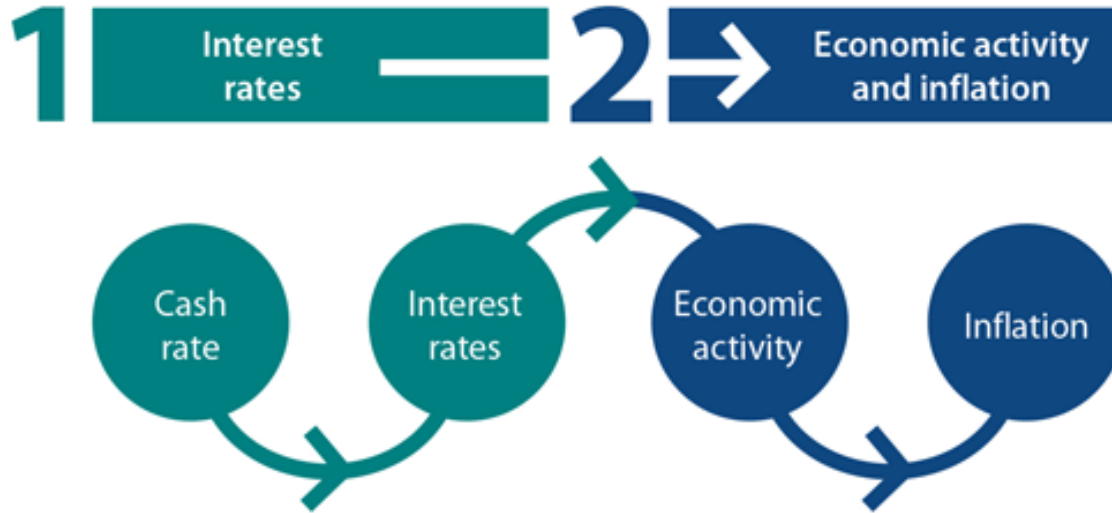
Transmission of Monetary Policy

James Bishop

Education



The Transmission of Monetary Policy

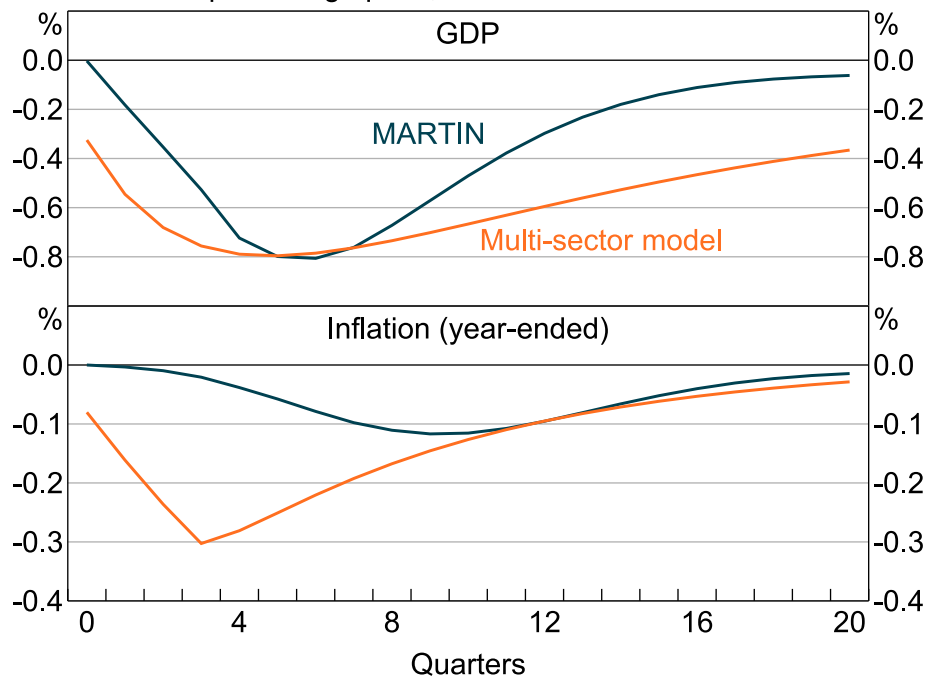


Source: RBA



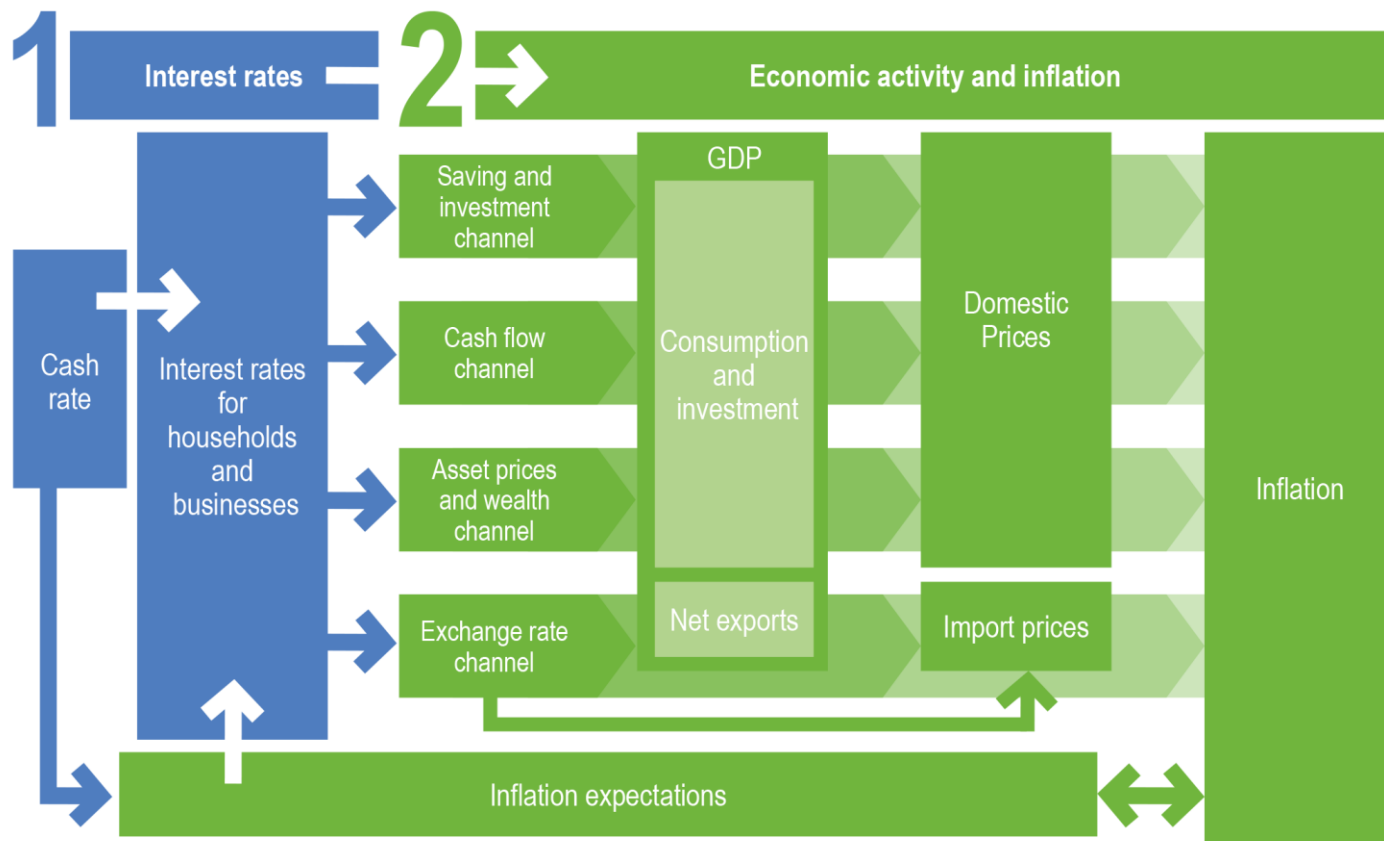
Response to an Increase in the Cash Rate

1 percentage point, selected macro models

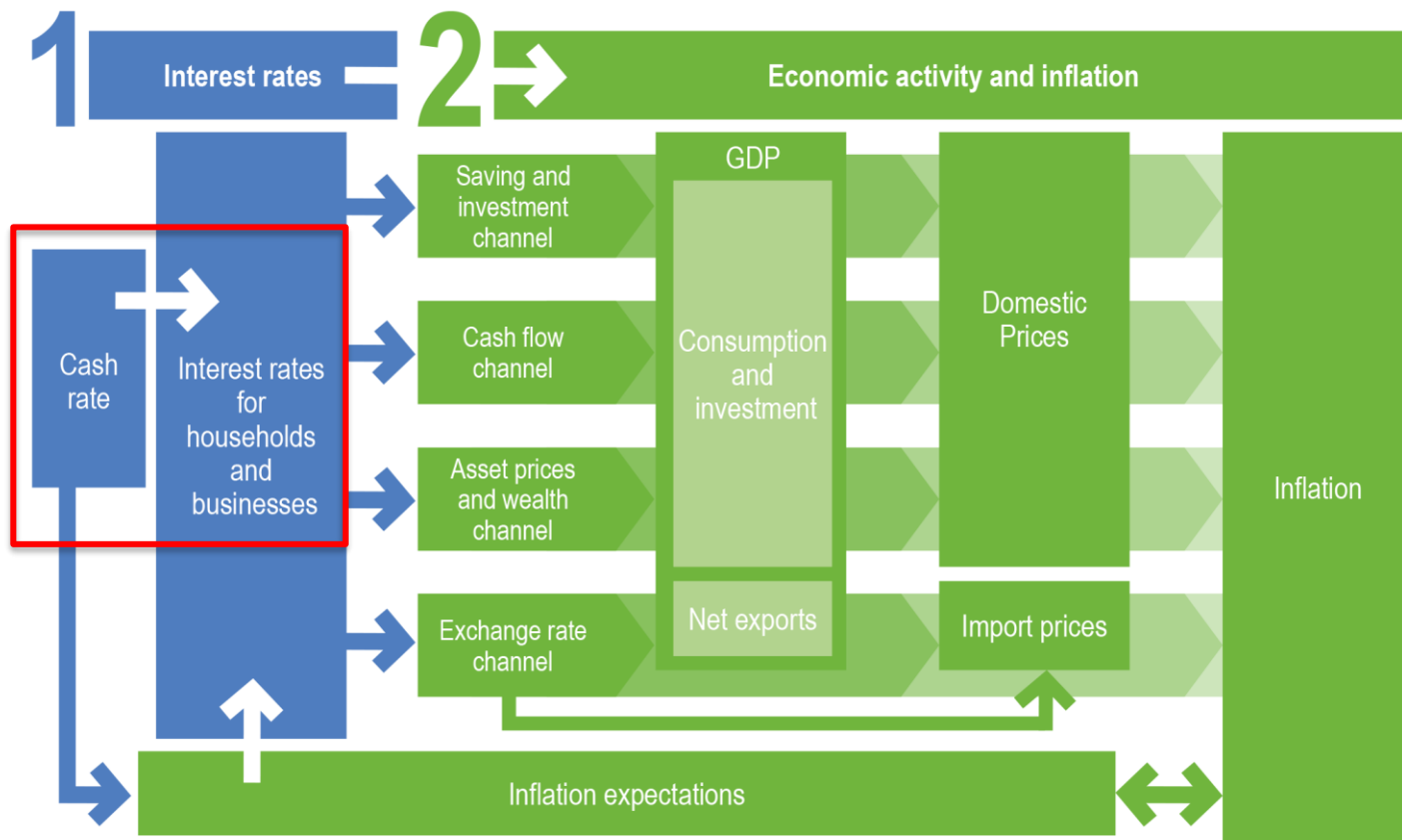


Sources: Ballantyne et al (2019); Gibbs et al (2018).

The channels of monetary transmission

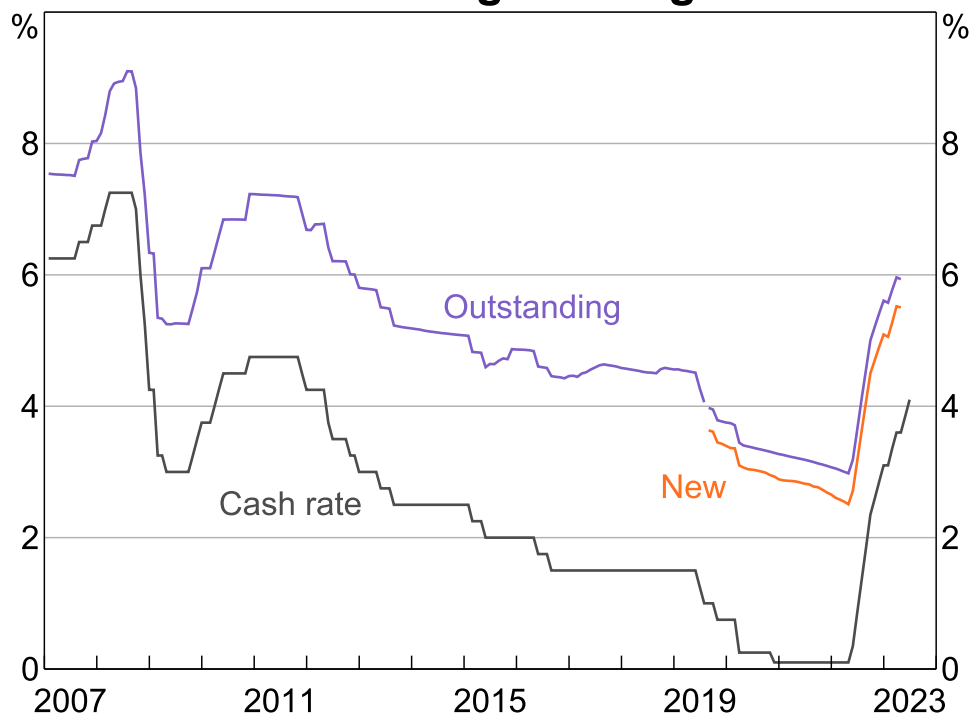


The channels of monetary transmission





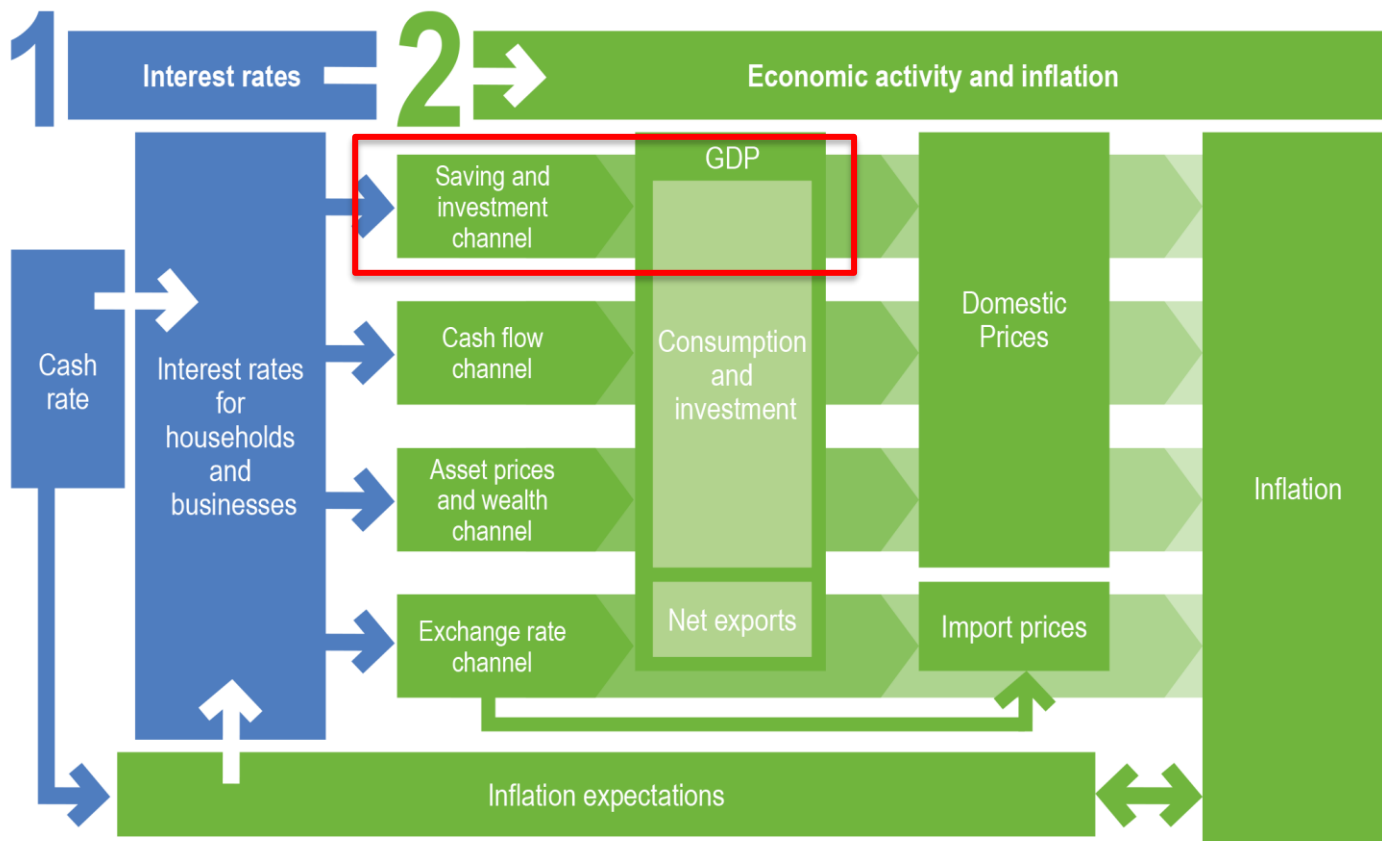
Variable Housing Lending Rates*



* New and outstanding rates to end April 2023. Series break for new and outstanding loans in July 2019.

Sources: APRA; Banks' websites; Perpetual; RBA; Securitisation System.

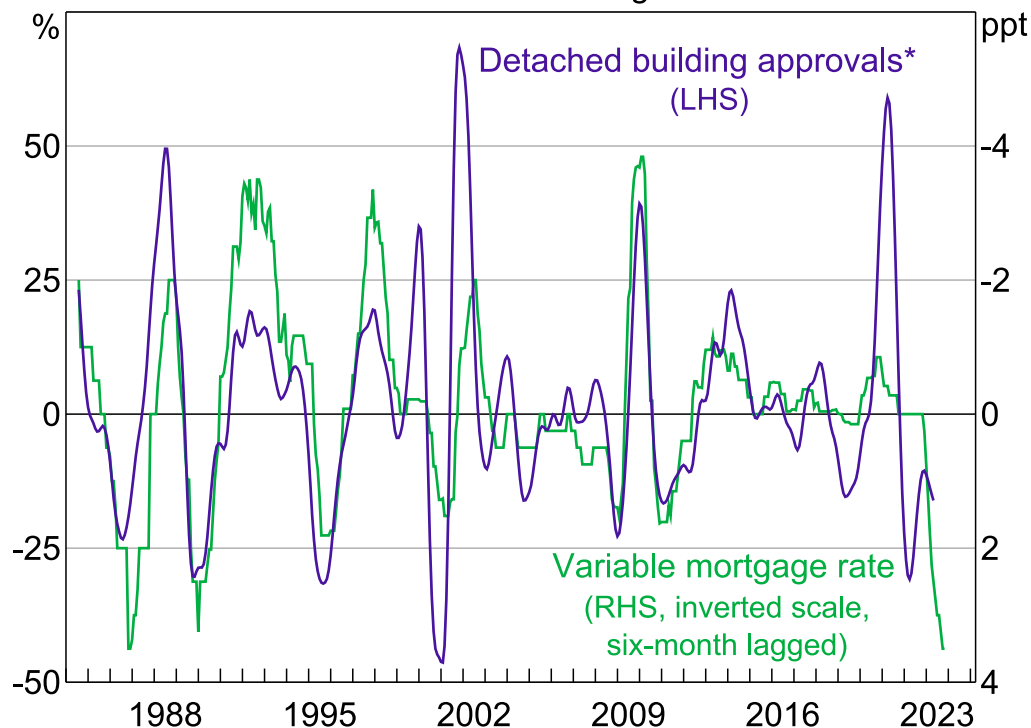
The channels of monetary transmission





Building Approvals and Interest Rates

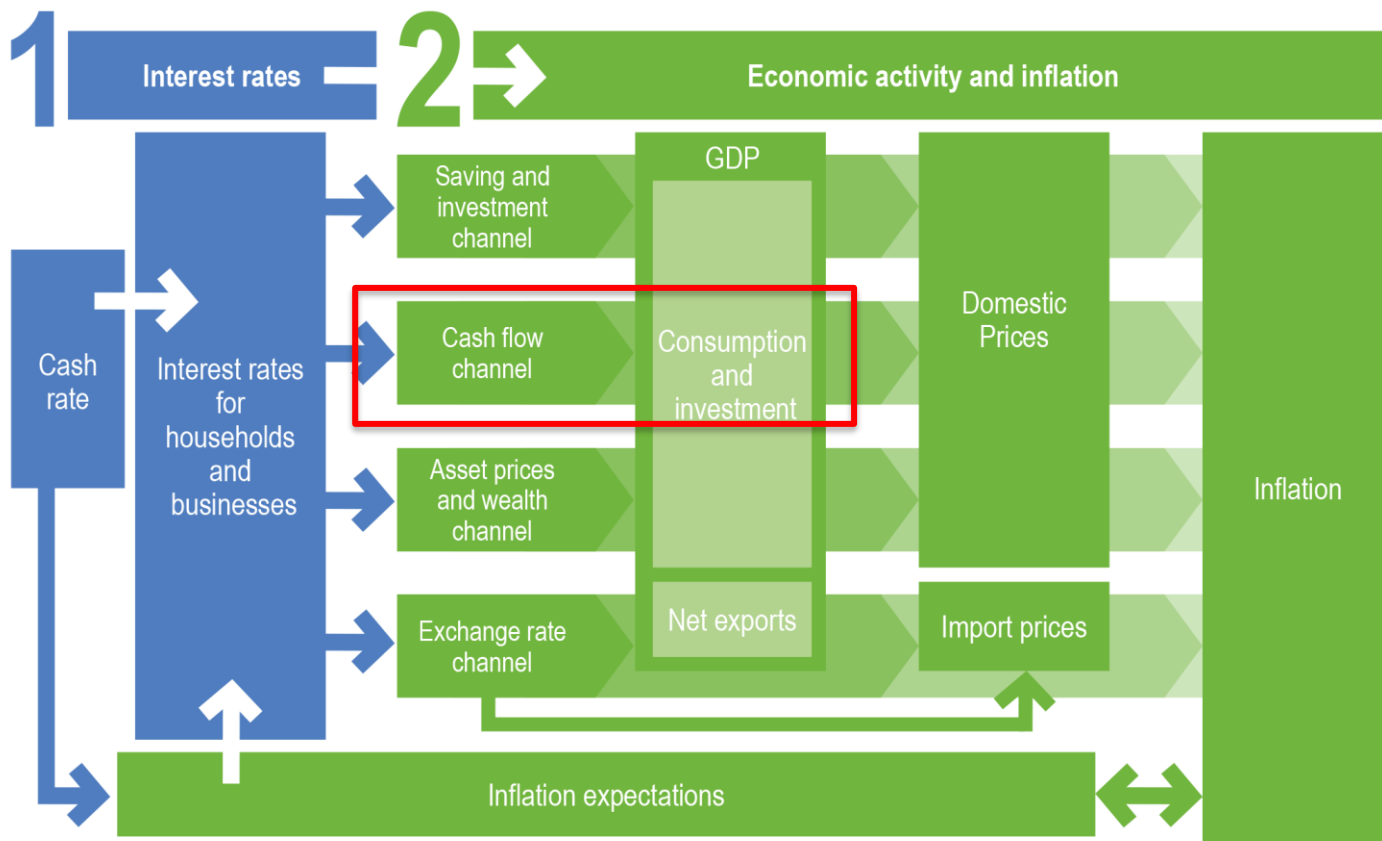
Year-ended change



* Year-ended growth in the Henderson trend level.

Sources: ABS; RBA.

The channels of monetary transmission





Cash flow channel with higher cash rate

- Borrowers
 - Lower disposable income, less spending



Cash flow channel with higher cash rate

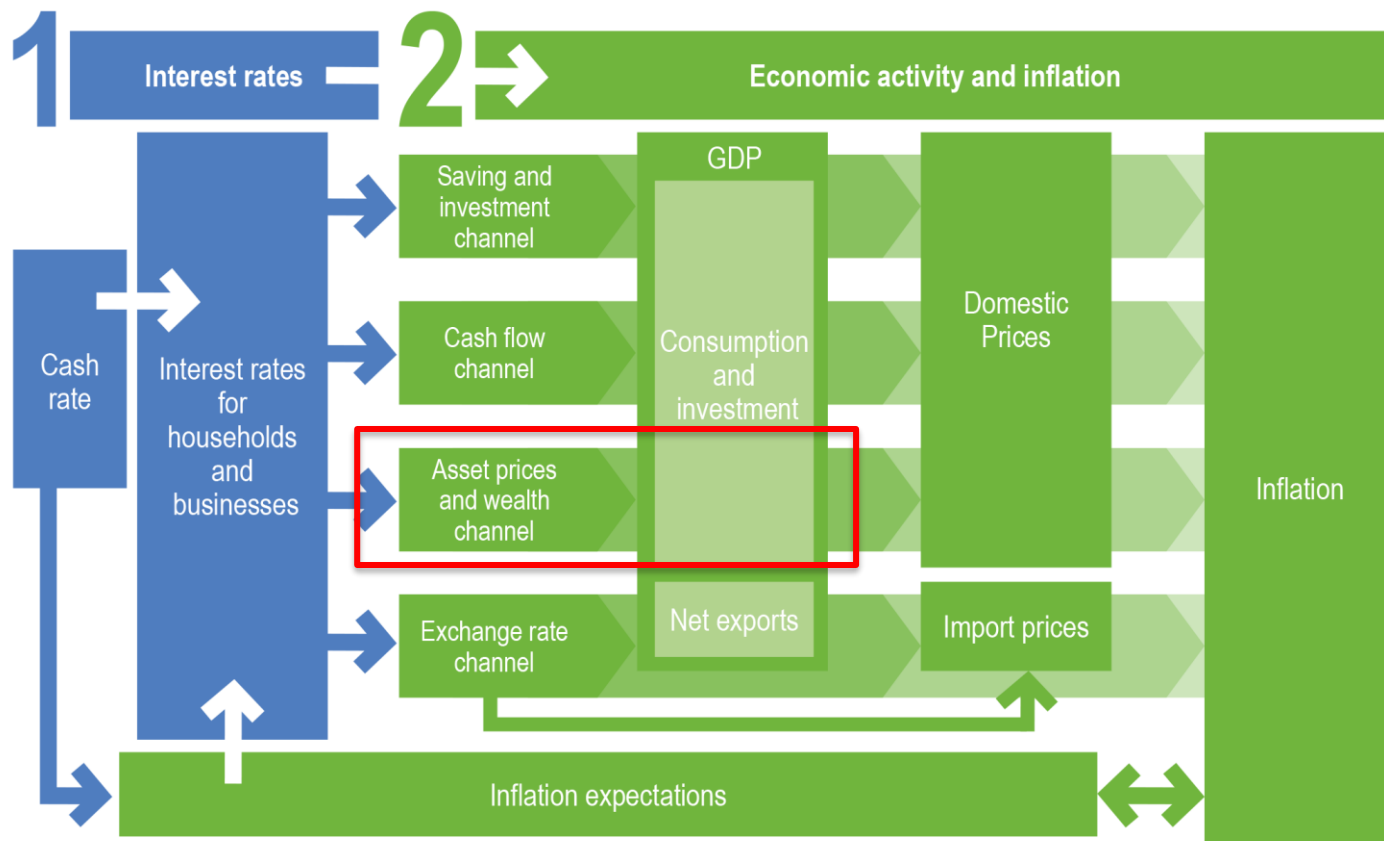
- Borrowers
 - Lower disposable income, less spending
- Savers/lenders
 - Higher disposable income, more spending



Is the cash flow channel (temporarily) slower?

- Fixed-rate mortgages
- Savings buffers

The channels of monetary transmission

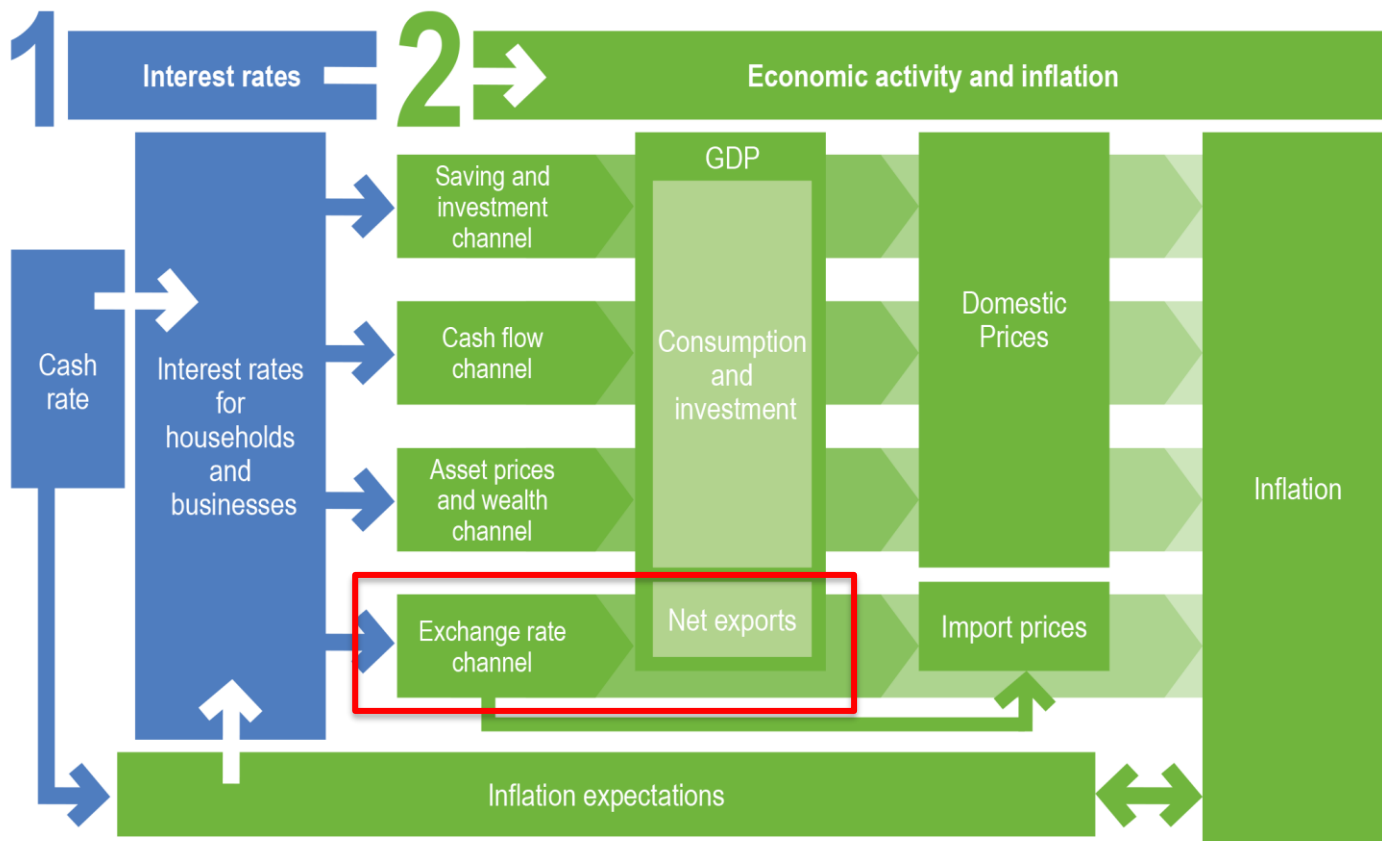




Higher cash rate leads to lower wealth

- Higher cash rate → housing and other asset prices decline, reduces wealth
- Households cut spending due to:
 - ‘wealth effect’
 - reduced borrowing capacity (balance sheet channel)

The channels of monetary transmission





Exchange rate channel

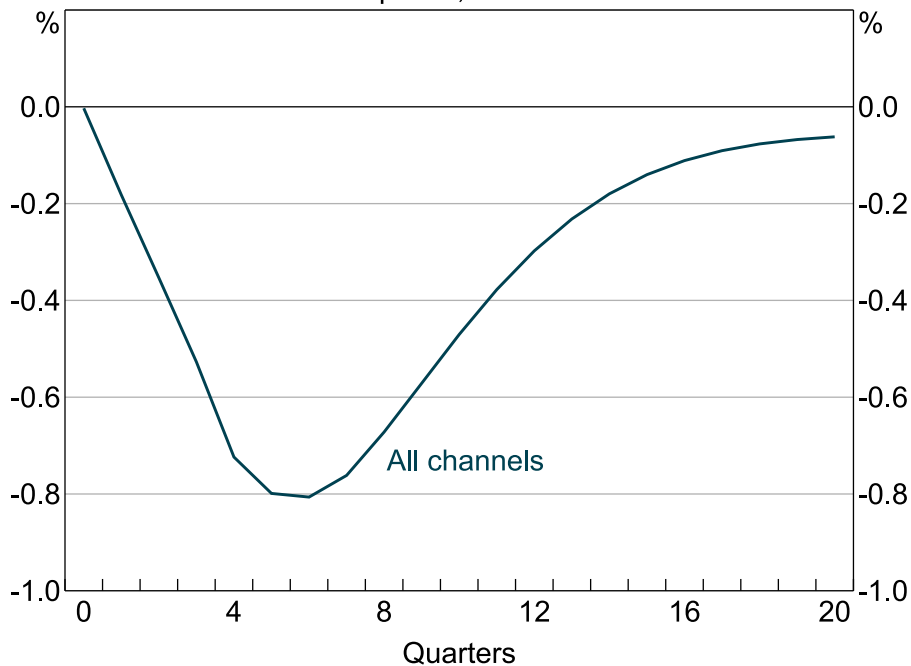
- Higher cash rate → exchange rate appreciates
 - Exports down
 - Substitution toward imported products



How strong is the exchange rate channel?

Response of GDP to a Cash Rate Increase

100 basis points, MARTIN model



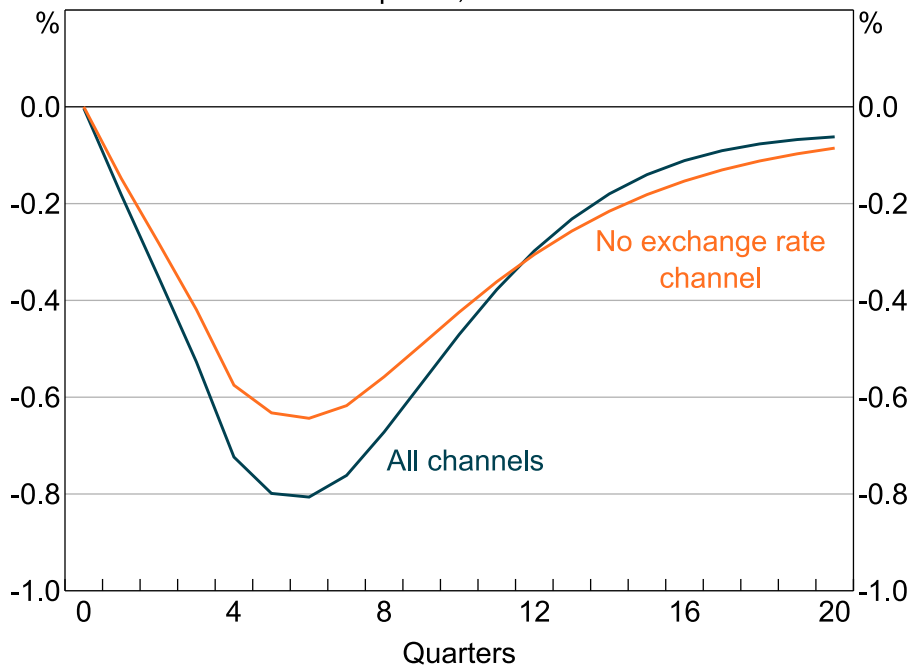
Source: Ballantyne et al (2019).



How strong is the exchange rate channel?

Response of GDP to a Cash Rate Increase

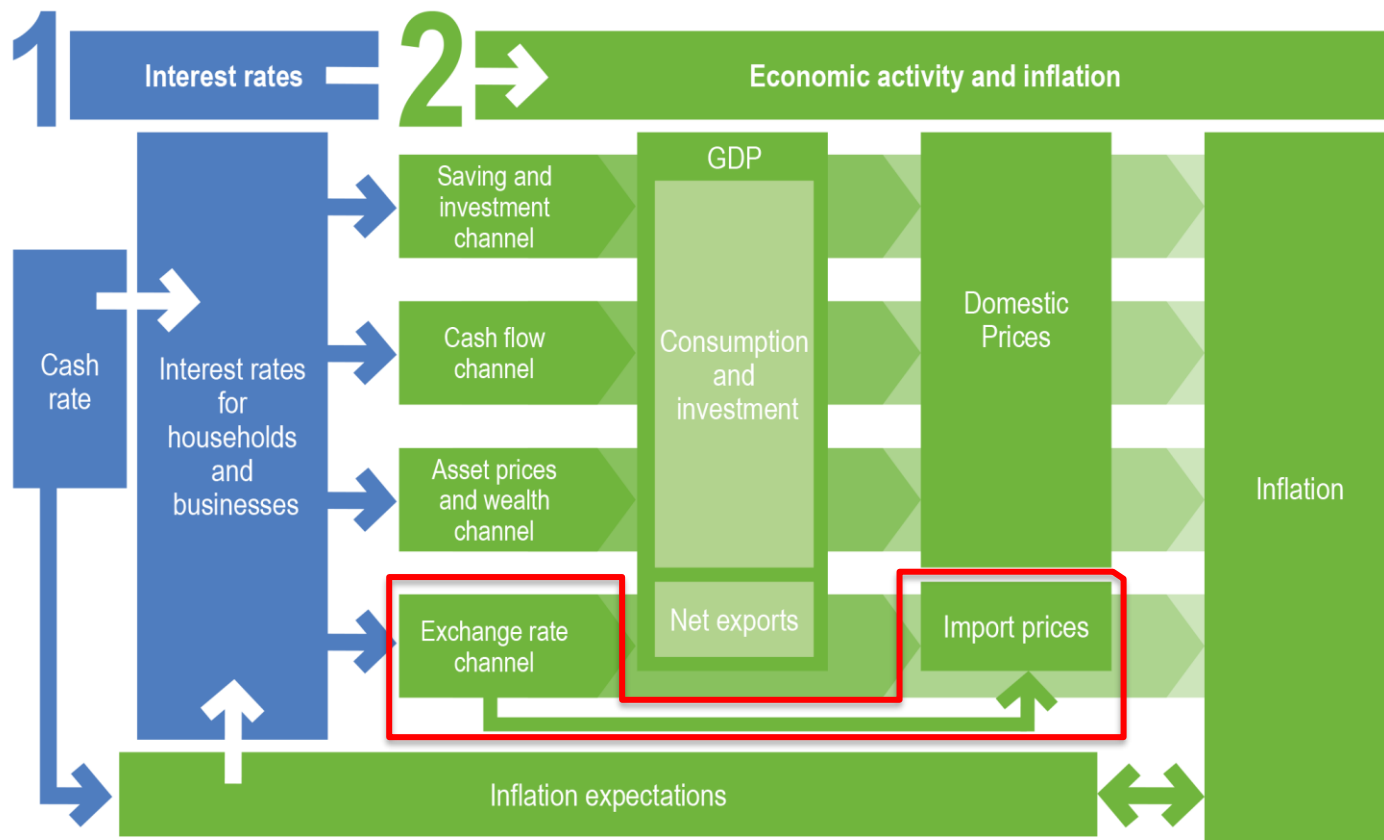
100 basis points, MARTIN model



Source: Ballantyne et al (2019).



The channels of monetary transmission





In sum

- Many channels of transmission
 - All are important
 - Active area of research
 - Lots of resources on the RBA website!