RESERVE BANK OF AUSTRALIA

Monetary Policy

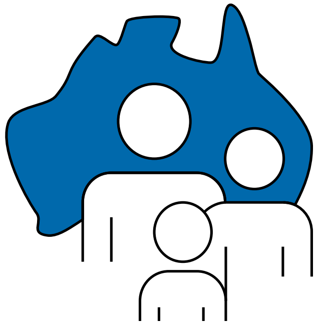
Kate Hickie

Monetary Policy Strategy

1

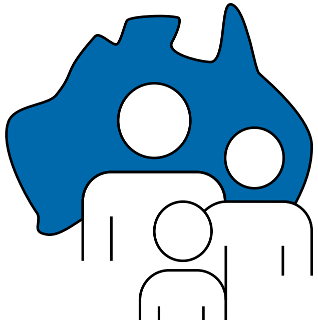
Monetary policy and its objectives

What are the objectives of monetary policy?

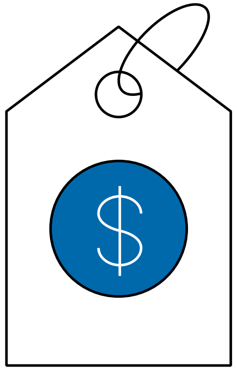


Economic prosperity and welfare of the Australian people

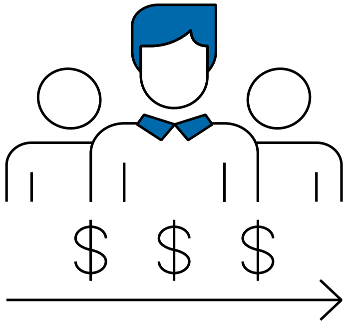
What are the objectives of monetary policy?



Economic prosperity and welfare of the Australian people

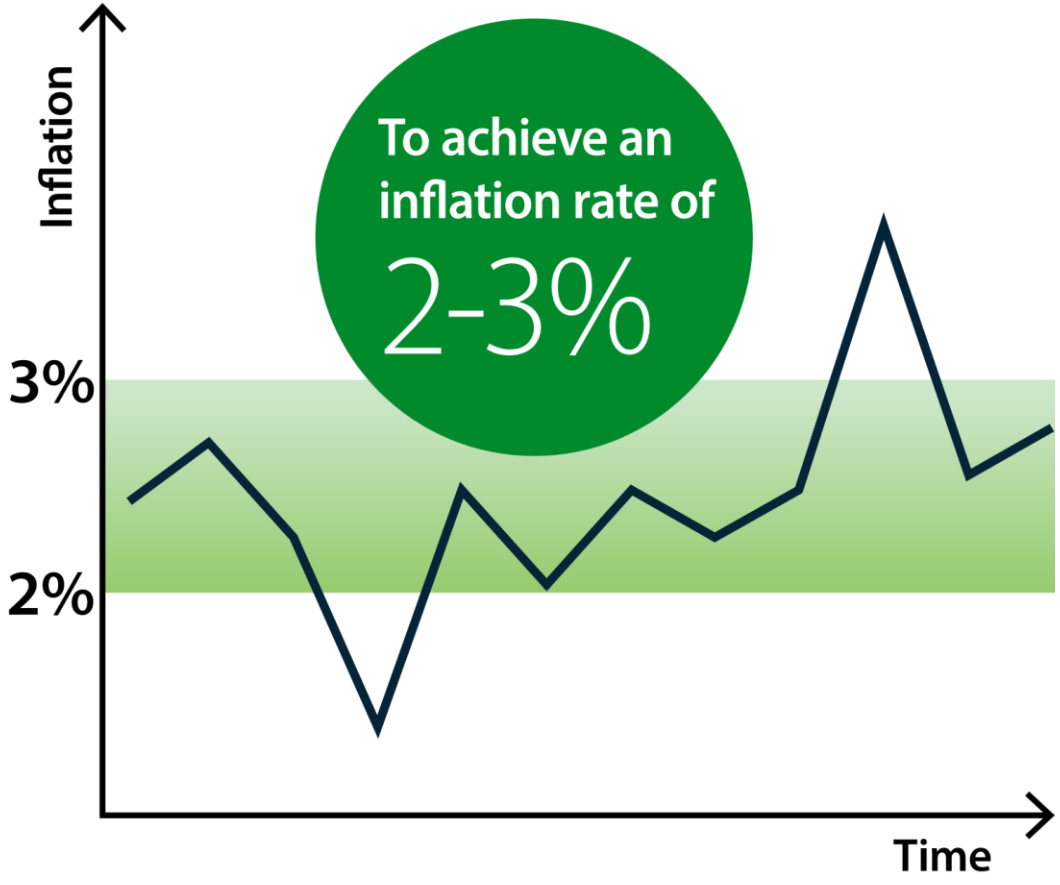


Price stability



Full employment

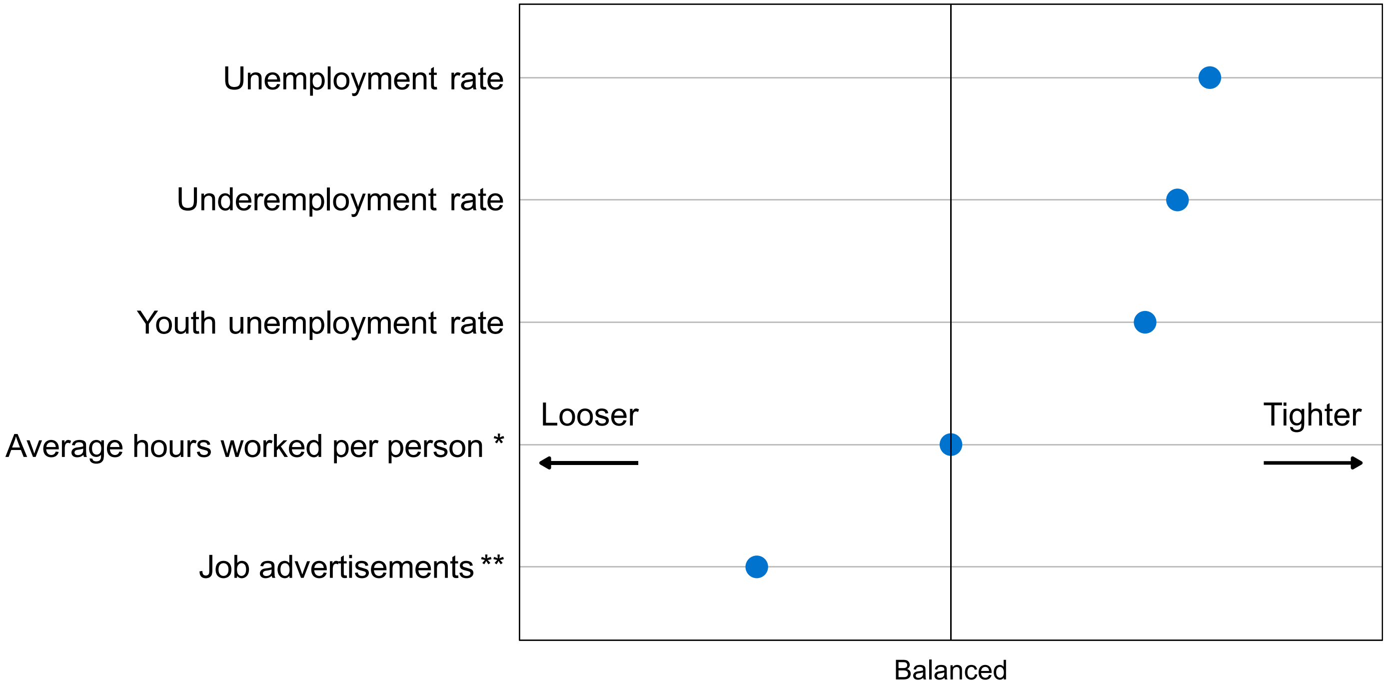
What are the objectives of monetary policy? *Price stability*



What are the objectives of monetary policy? *Full employment*

Labour Market Indicators – An Example

Gap between current conditions and estimated trends



* Average hours worked per person tell us whether people are working more or fewer hours on average.

** Job advertisements tell us about demand for workers by showing how many new jobs employers are trying to fill.

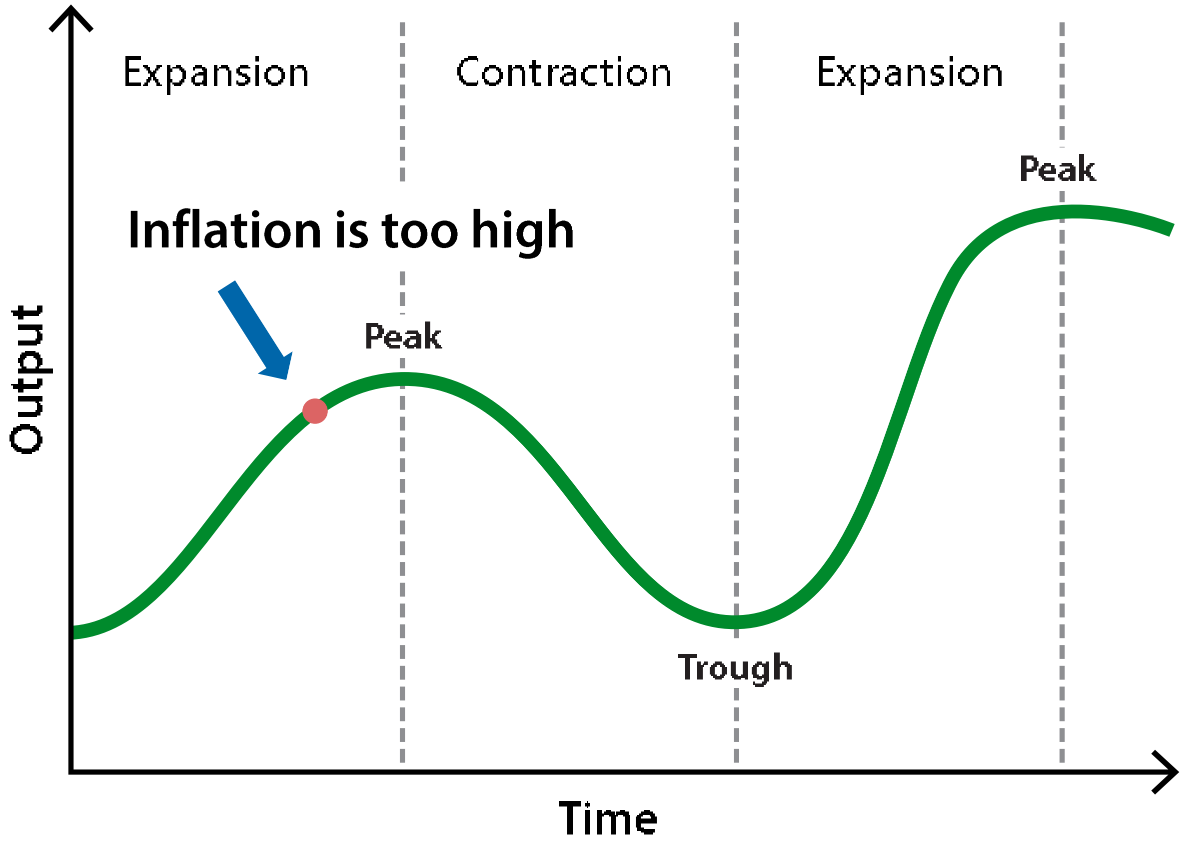
Source: RBA.

2

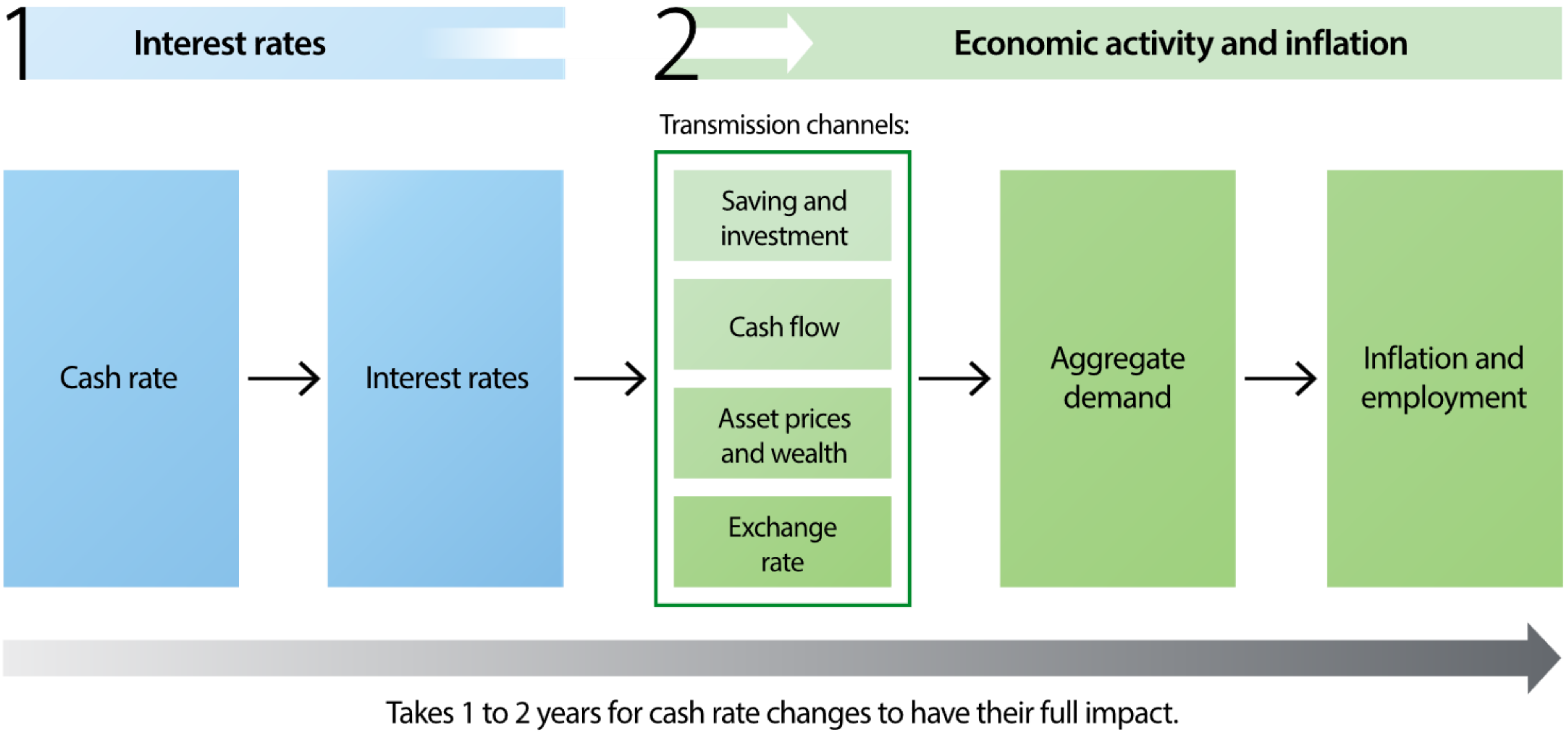
Monetary policy transmission

If inflation is expected to be too high …

The Board
raises the cash rate
to lower inflation

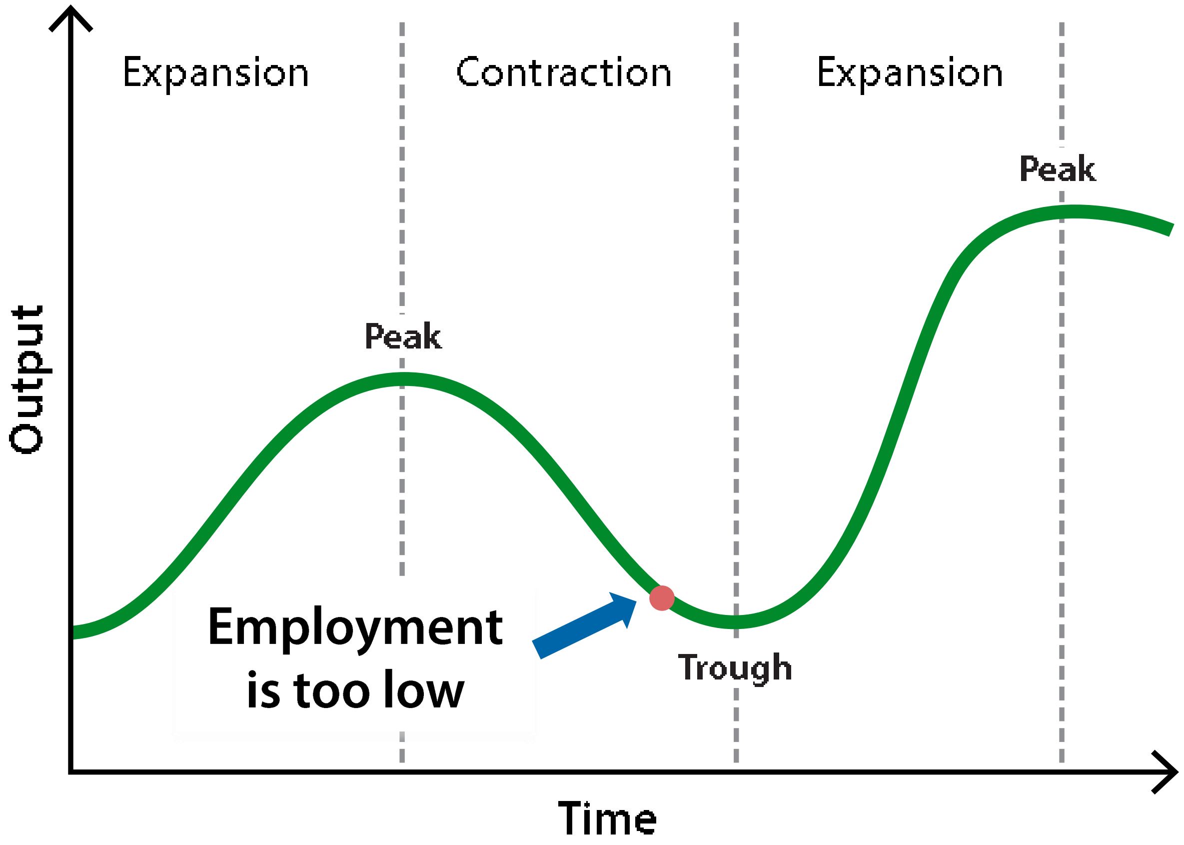


The transmission of monetary policy



If employment is expected to be too low (below full employment)

The Board
lowers the cash rate
to increase employment



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Monetary policy trade-offs

What trade-offs are involved?

- Over the longer term, price stability and full employment usually go hand-in-hand

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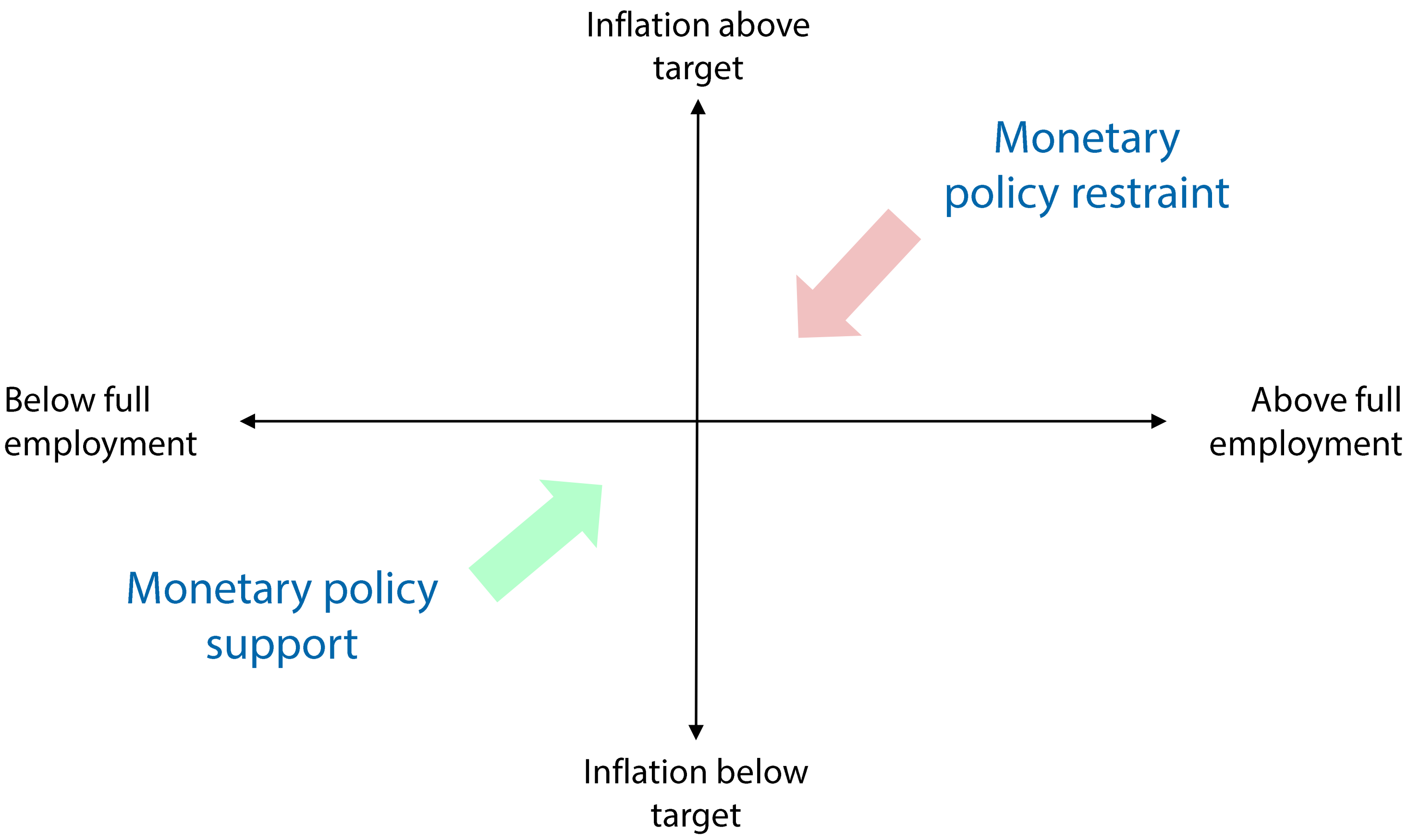
- Even in the short-term, objectives often align

Policy trade-offs



What trade-offs are involved?

- Over the longer term, price stability and full employment usually go hand-in-hand
- Even in the short-term, objectives often align
- But there are cases where trade-offs can arise

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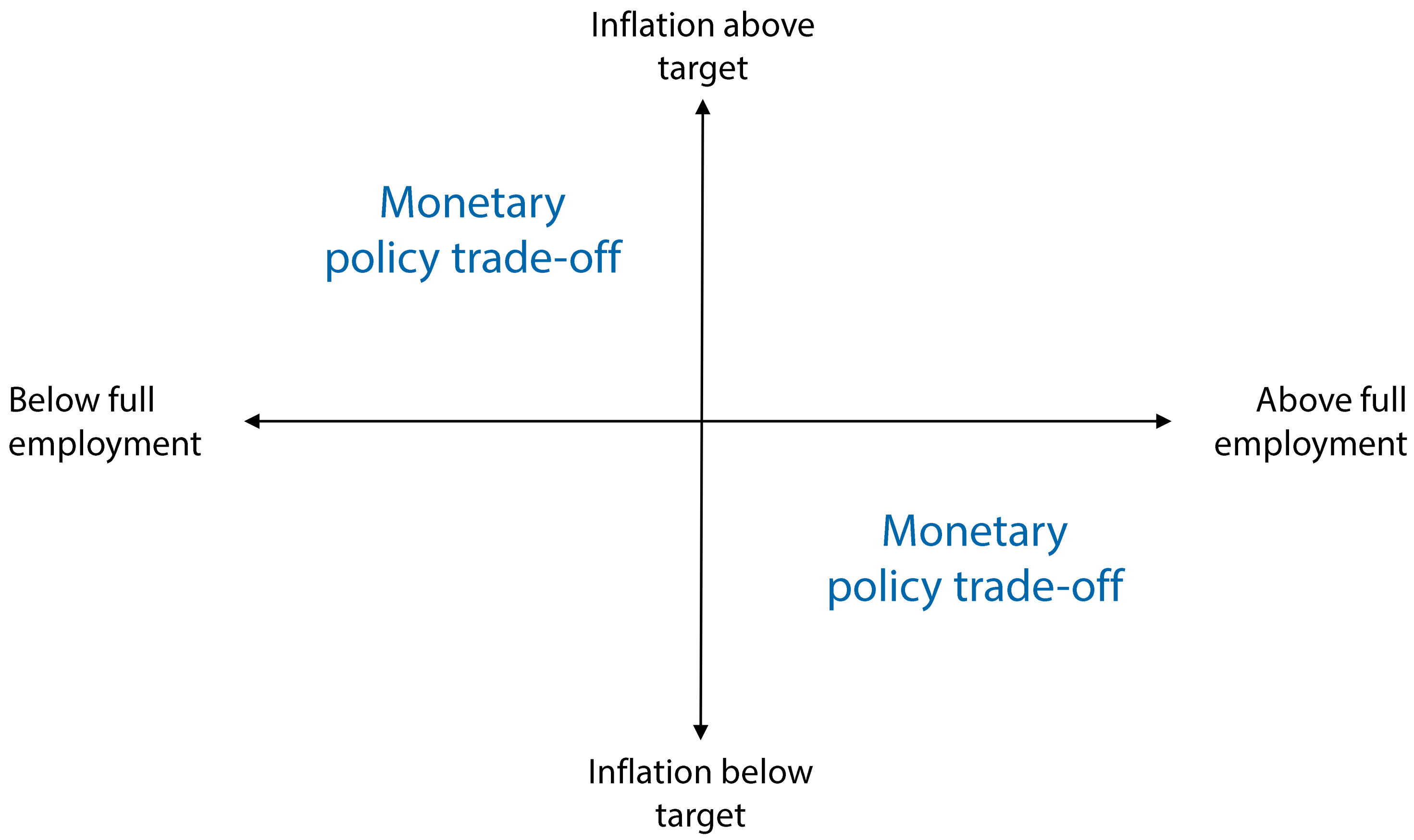
Example of policy trade-offs: Negative supply shock



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Monetary policy in practice

To achieve objectives

The RBA's Monetary Policy Board meets eight times a year…

… are provided briefing material from the staff and discuss a broad range of issues…

… and makes decisions about the cash rate.

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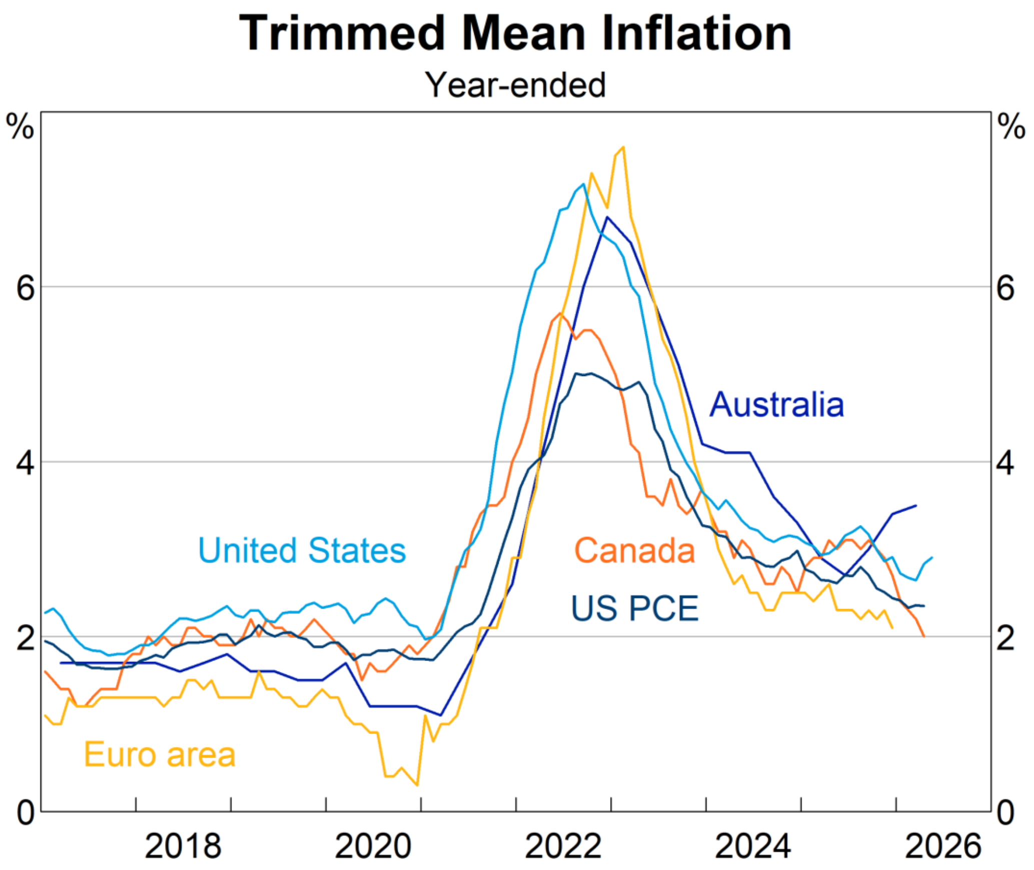
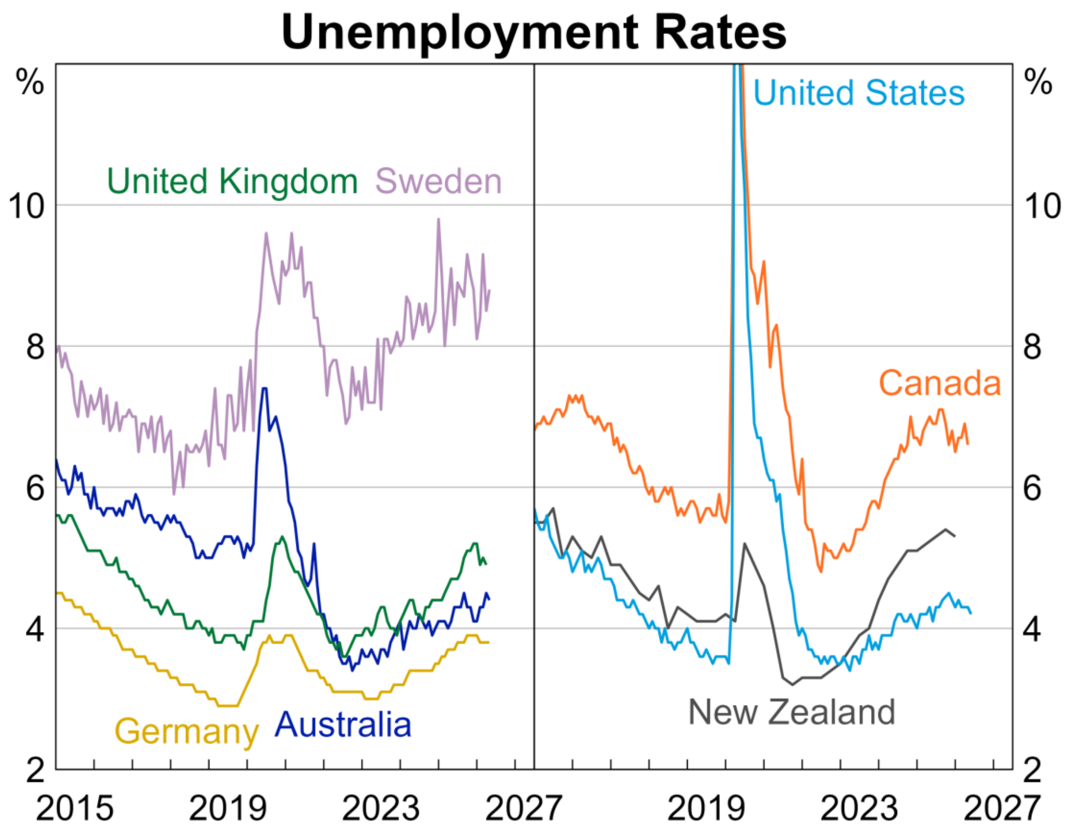
Recent high inflation episodes and policy responses

Navigating back to target after the COVID-19 pandemic



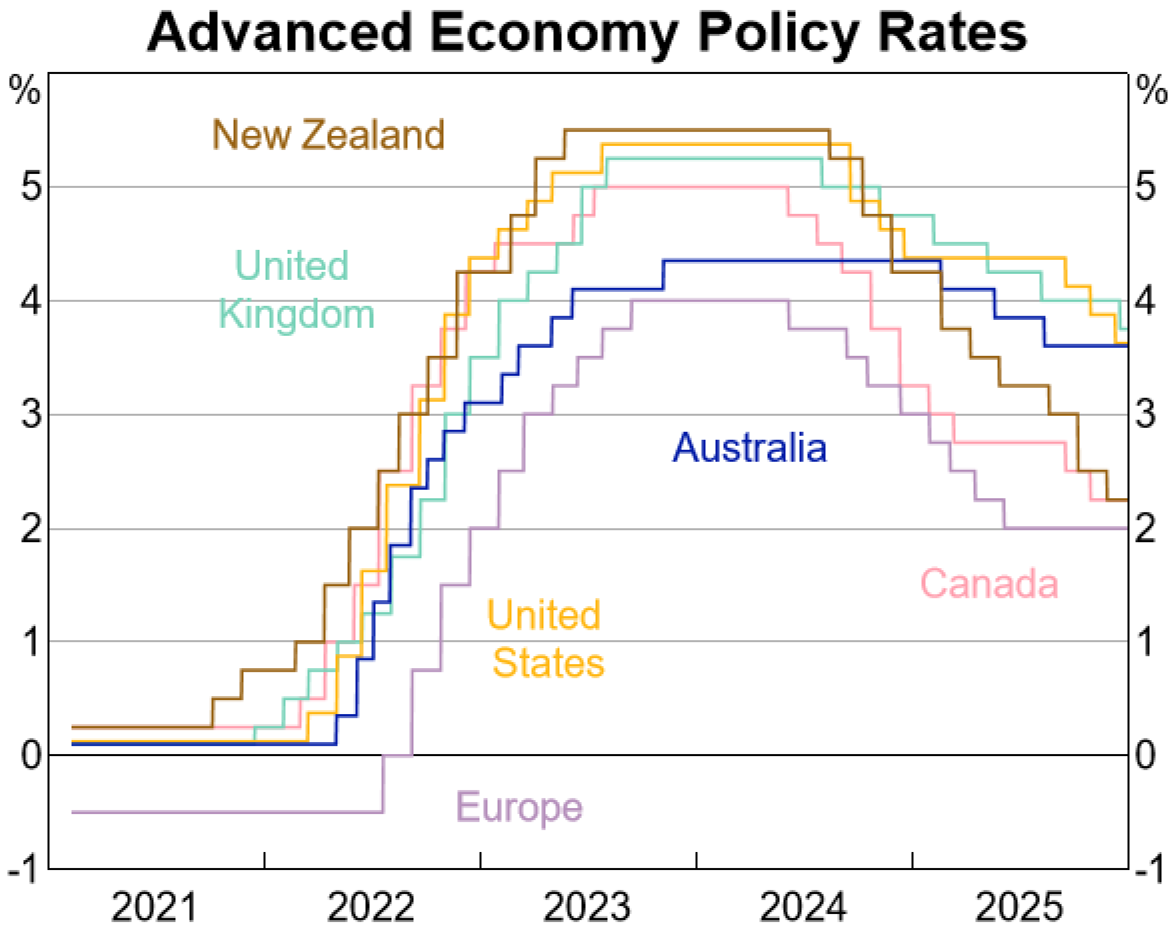
* Share of CPI basket included in trimmed mean calculation varies by country.

Source: LSEG, RBA.



Sources: LSEG; RBA.

Navigating back to target after the COVID-19 pandemic



Sources: Bloomberg; RBA.

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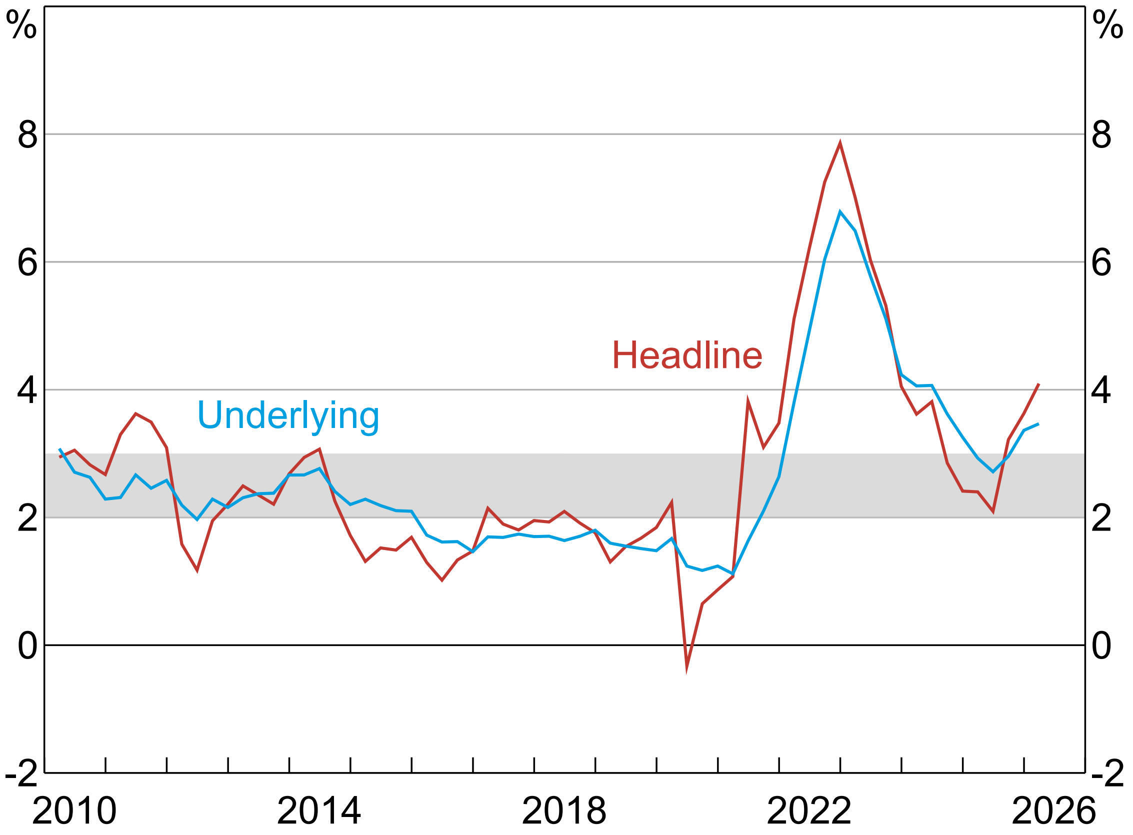
Responding to the current high inflation episode

Inflation

Year-ended



Sources: ABS; RBA.

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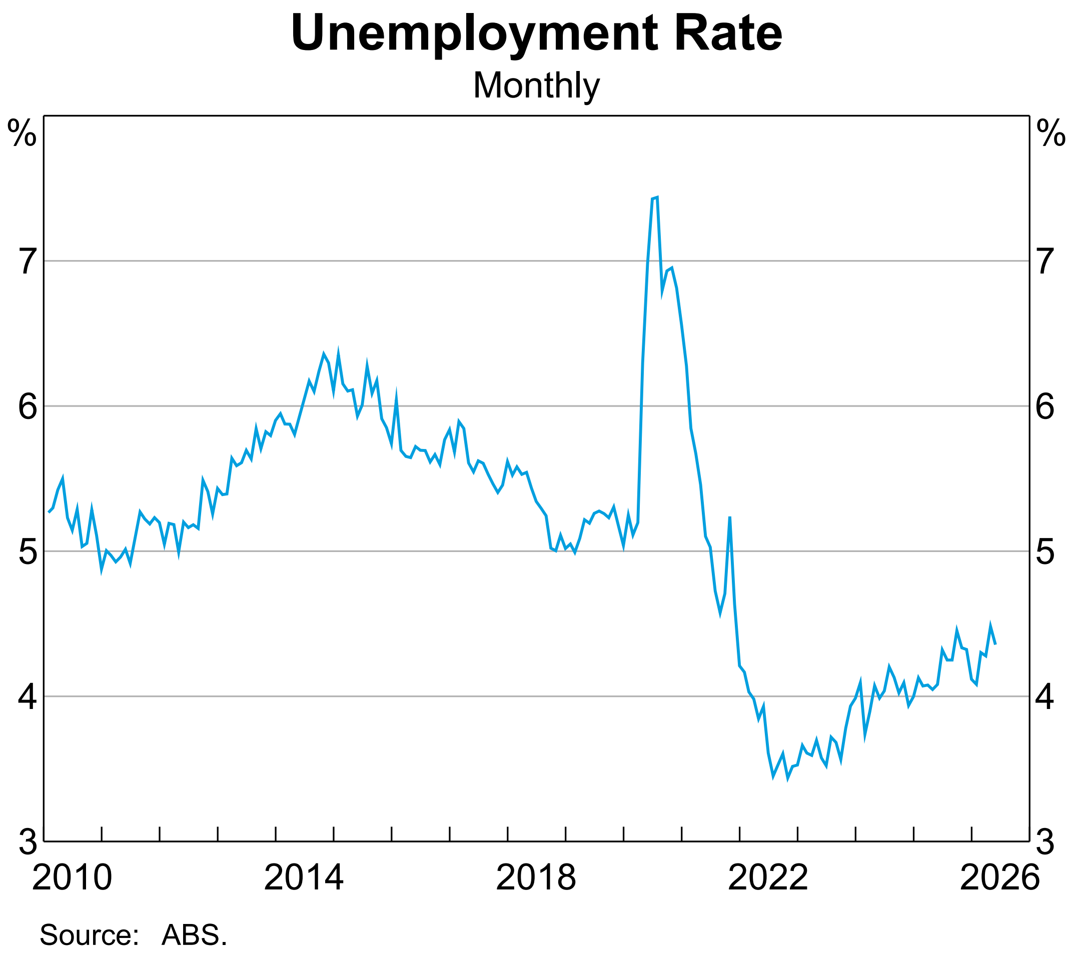

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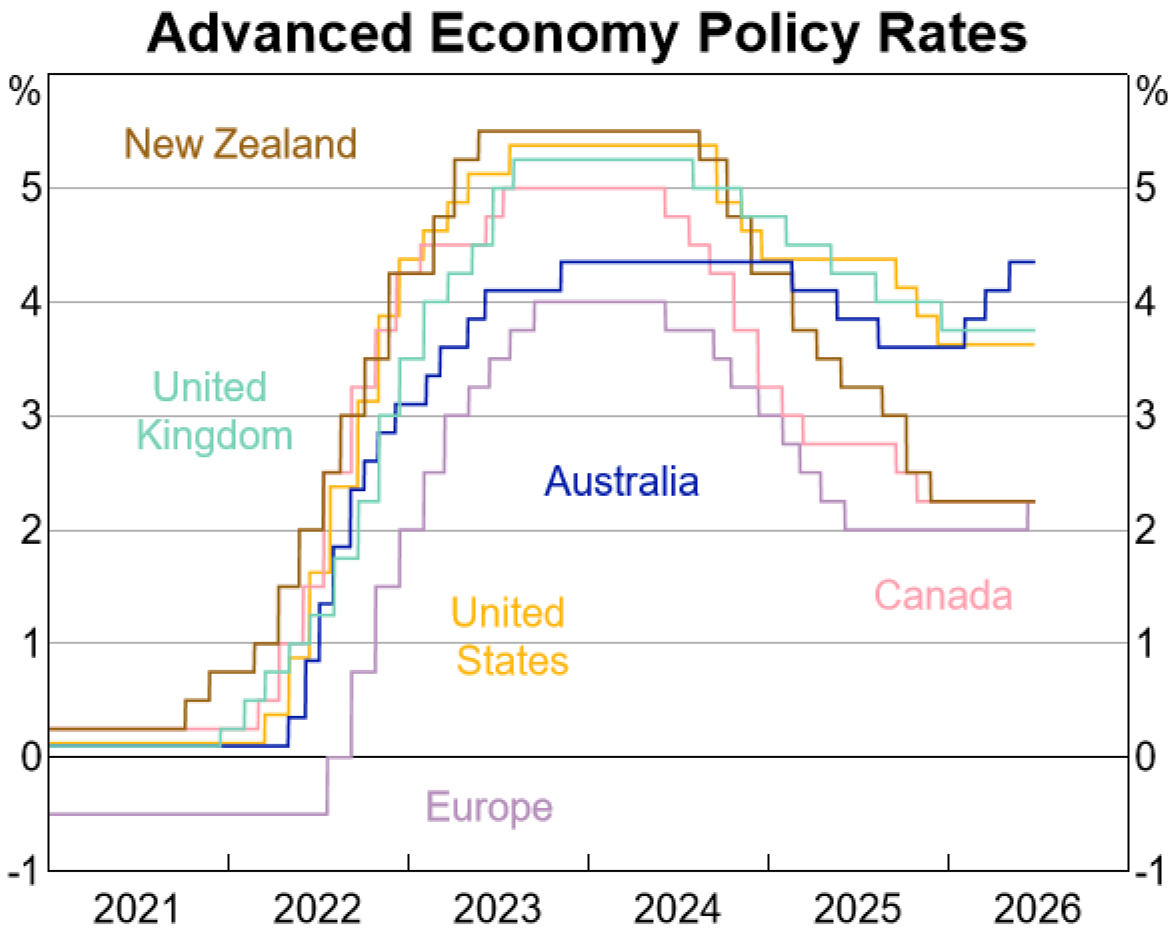

Sources: Bloomberg; RBA.

Q&A