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Illustrator

Monetary Policy and COVID-19

The emergence of the COVID-19 pandemic became an economic event of extraordinary scale across the world. In response to the economic effects of COVID-19, the RBA implemented a comprehensive package of monetary policy measures in Australia to support jobs, incomes and businesses. This Illustrator outlines the measures used.

What measures were used?	How did they work?	Why were they used?
Policy interest rate	The target for the cash rate was lowered to 0.1 per cent during the COVID-19 recession. On 3 May 2022 the Board began to increase the cash rate target towards more normal levels.	To support the economy through the normal transmission mechanisms, including lower borrowing costs, a lower exchange rate than otherwise and higher prices of some assets than otherwise. This made it easier to borrow and increased confidence to spend.
Forward guidance	The RBA had committed to not increase the cash rate until actual inflation was sustainability within the 2 to 3 per cent target range.	To reinforce the RBA's commitment to low interest rates and reduce uncertainty about the economic and financial outlook.
Asset purchases	The RBA targeted a yield of 0.10 per cent on the Australian Government Bond expiring in April 2024. This was a **price target** at the shorter part of the yield curve. On 2 November, the Board announced that the target on the April 2024 bond had been discontinued.	To lower the whole structure of interest rates across the economy and affirm the RBA's commitment to keep interest rates low. This worked to support the economy through the same mechanisms as the cash rate target, including lower borrowing costs, a lower exchange rate than otherwise and higher prices of some assets than otherwise. This made it easier to borrow and increased confidence to spend.
	The RBA purchased government bonds issued by the Australian, state and territory governments in the secondary market. This was a **quantity target** at the longer part of the yield curve and was also known as quantitative easing (QE). On 1 February 2022, the Board announced that purchases of bonds would end after 10 February 2022.	
Term Funding Facility	From April 2020 to June 2021, banks (and other authorised deposit taking institutions) borrowed funding from the RBA for a period of 3 years at an interest rate equal to the cash rate target at the time. Banks used this funding to make loans to businesses and households.	To lower the cost of funding loans for the entire banking system, which supported the supply of credit to businesses and households and lowered the interest rates they pay paid to borrow.
Interest rate on Exchange Settlement balances	The interest rate that banks received on Exchange Settlement balances was zero. Currently the interest rate on Exchange Settlement balances is 0.1 percentage points below the cash rate target.	Zero interest paid on Exchange Settlement balances put a floor under the cash rate which in turn put a floor under all interest rates in the economy.