rba.gov.au/education
twitter.com/RBAInfo
facebook.com/ReserveBankAU/
youtube.com/user/RBAinfo

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 has implemented a comprehensive package of monetary policy measures in Australia to support jobs, incomes and businesses. This Illustrator outlines the measures currently in place.

| What measures are used? | How do they work? | Why are they used? |
|---|---|---|
| Policy interest rate | The target for the cash rate is 0.1 per cent. | 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 makes it easier to borrow and increases confidence to spend. |
| Forward guidance | The cash rate will not be increased until actual inflation is sustainably within the 2 to 3 per cent target range. The Board does not expect this condition to be met before 2024. Meeting it will require the labour market to be tight enough to generate wages growth that is materially higher than it is currently. | To reinforce the RBA's commitment to low interest rates and reduce uncertainty about the economic and financial outlook. |
| Asset purchases | The RBA targets a yield of 0.10 per cent on the Australian Government Bond expiring in April 2024 and is prepared to purchase whatever quantity is required to achieve the target. This is a **price target** at the shorter part of the yield curve.<br>The RBA purchases government bonds issued by the Australian, state and territory governments in the secondary market. This is a **quantity target** at the longer part of the yield curve and is also known as quantitative easing (QE). | To lower the whole structure of interest rates across the economy and affirm the RBA's commitment to keep interest rates low. This will work 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 makes it easier to borrow and increases confidence to spend. |
| Term Funding Facility | Banks (and other authorised deposit taking institutions) have borrowed funding from the RBA until mid-2024 at an interest rate equal to the cash rate target. Banks can use this funding to make loans to businesses and households. The Term Funding Facility is now closed to new borrowing. | To lower the cost of funding loans for the entire banking system, which will support the supply of credit to businesses and households and lower the interest rates they pay to borrow. |
| Interest rate on Exchange Settlement balances | The interest rate that banks receive on Exchange Settlement balances is zero. | Zero interest paid on Exchange Settlement balances puts a floor under the cash rate which in turn puts a floor under all interest rates in the economy. |