

Monetary Policy Implementation in Australia

The Reserve Bank has several monetary policy tools. It conducts transactions in domestic financial markets to implement monetary policy.



Prior to the COVID-19 recession, the cash rate target was the only actively used tool of monetary policy. The Reserve Bank kept the cash rate on target by conducting 'open market operations'.

The Reserve Bank operated a 'corridor system', lending cash to banks a little above the cash rate target and accepting deposits a little below the cash rate target.



During the COVID-19 recession, the Reserve Bank actively used tools in addition to the cash rate, including 'forward guidance', price and quantity targets for the purchase of government bonds and a 'term funding facility'.

In addition to reducing longer-term interest rates, these policies have substantially increased the amount of cash in the banking system, reducing banks' need to borrow cash from the Reserve Bank or each other.



As a result, the Reserve Bank now effectively operates a floor system. The cash rate trades just above the interest rate at which banks can deposit cash with the Reserve Bank.