RESERVE BANK OF AUSTRALIA

Monetary Policy Unpacked:

Student Webinar With the RBA

Emma Chow and Dominic Megow

What we will cover

- What is monetary policy and its objectives?
- How does monetary policy affect the economy?
- Activity: You be the Monetary Policy Board
- May 2026 monetary policy decision

1

Monetary policy and its objectives

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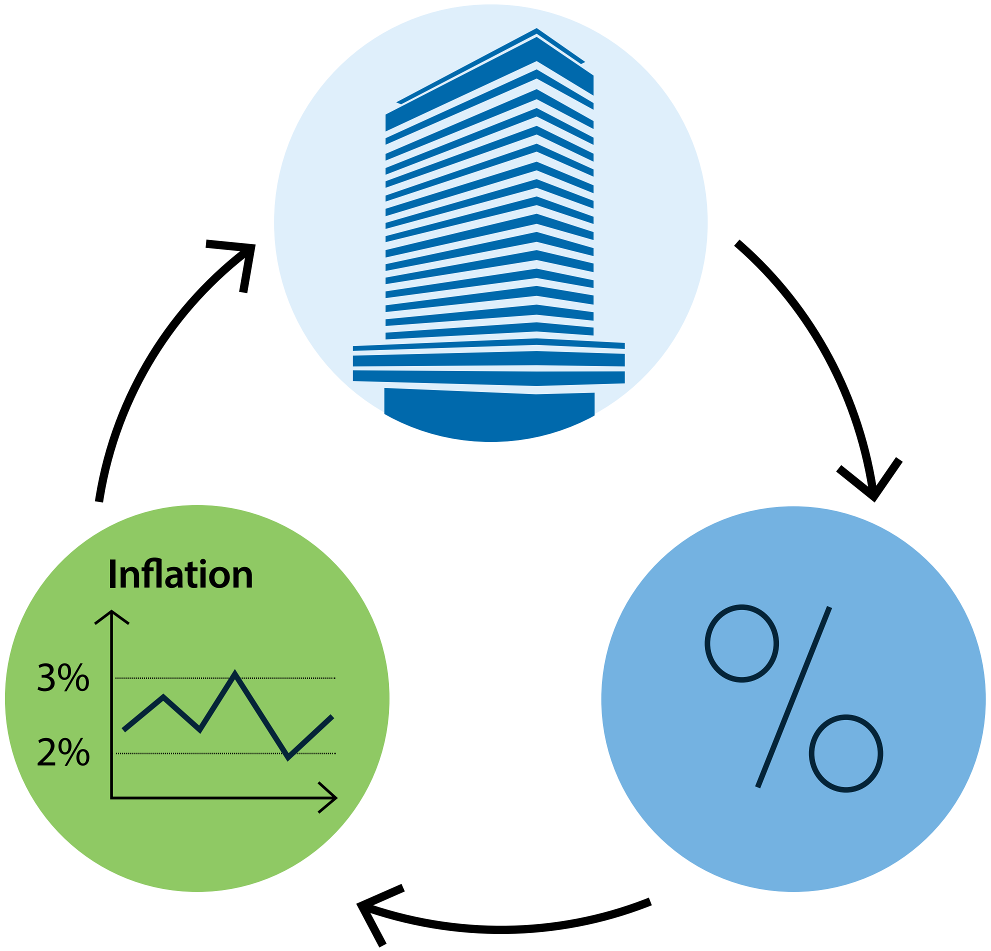
What is Monetary Policy?



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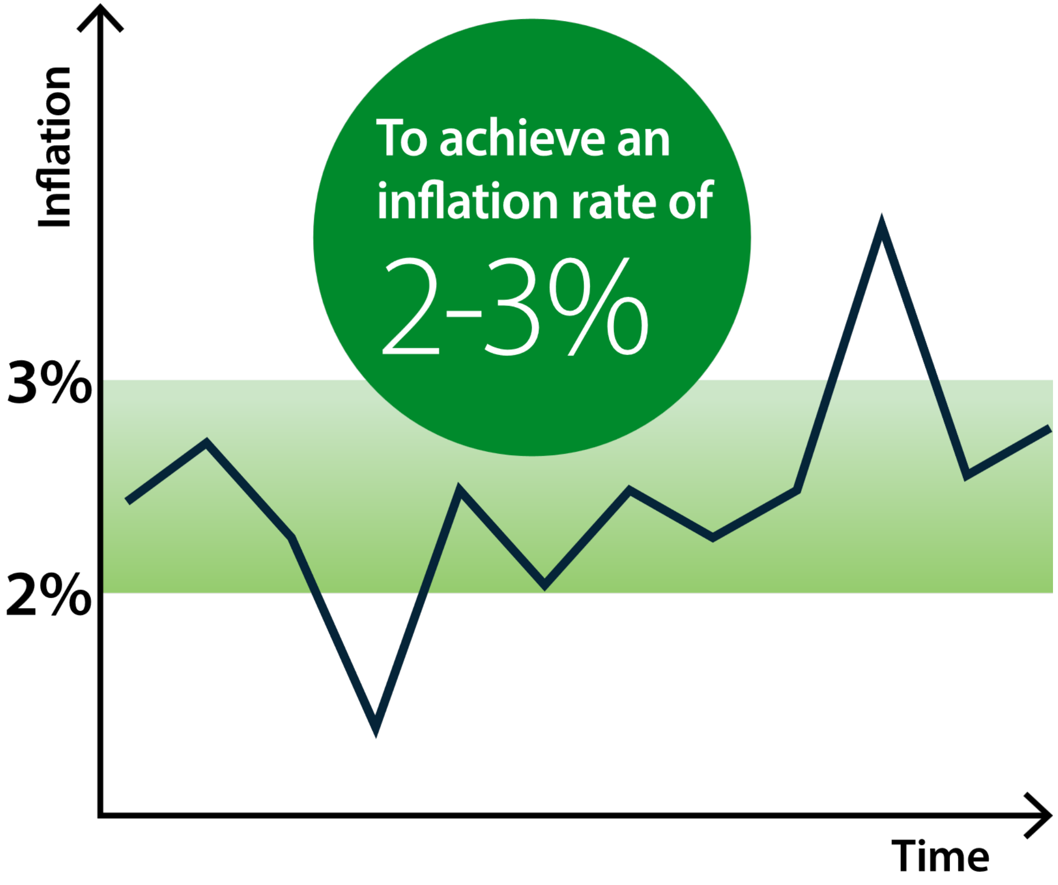
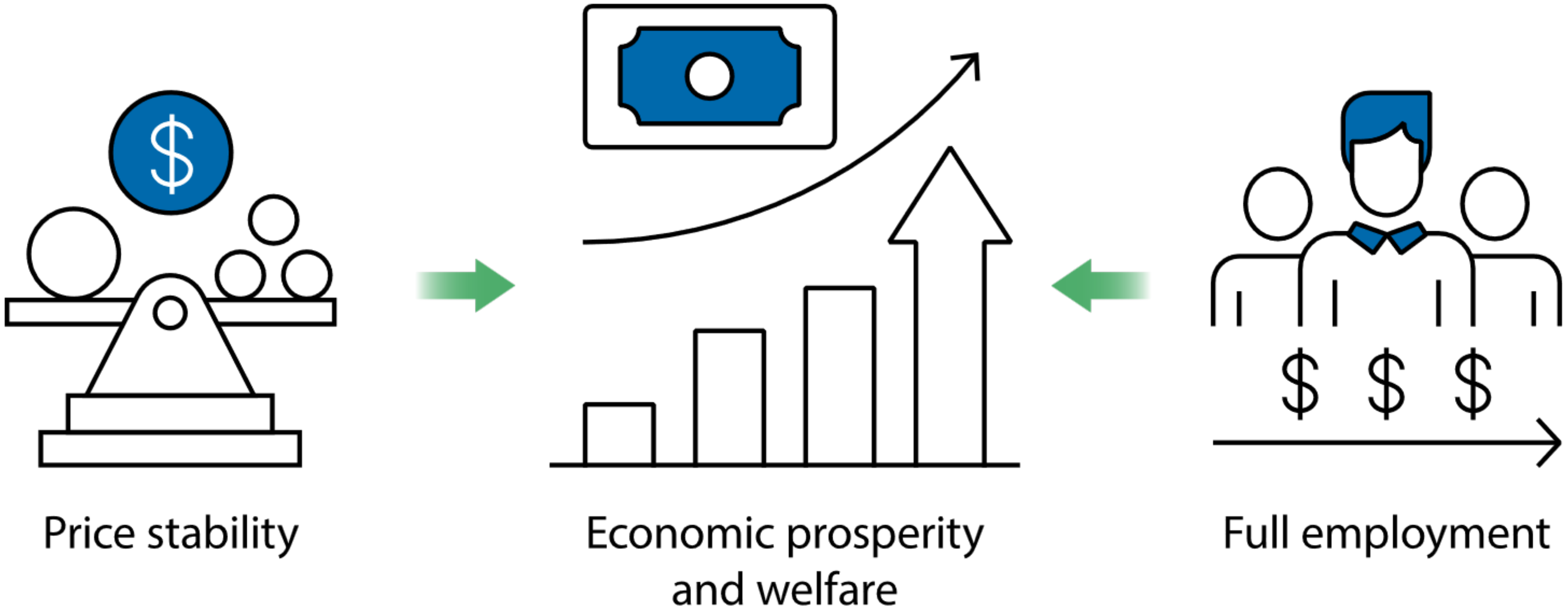
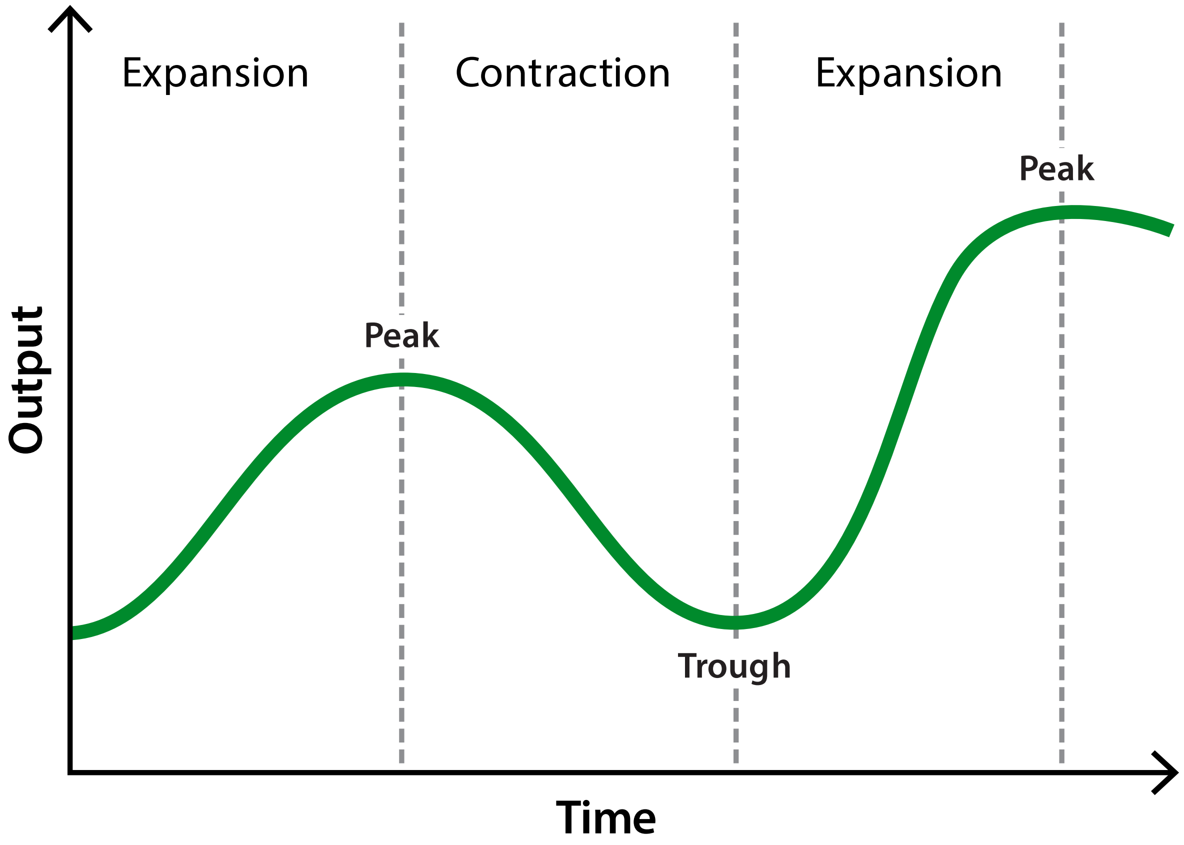
RBA's inflation target



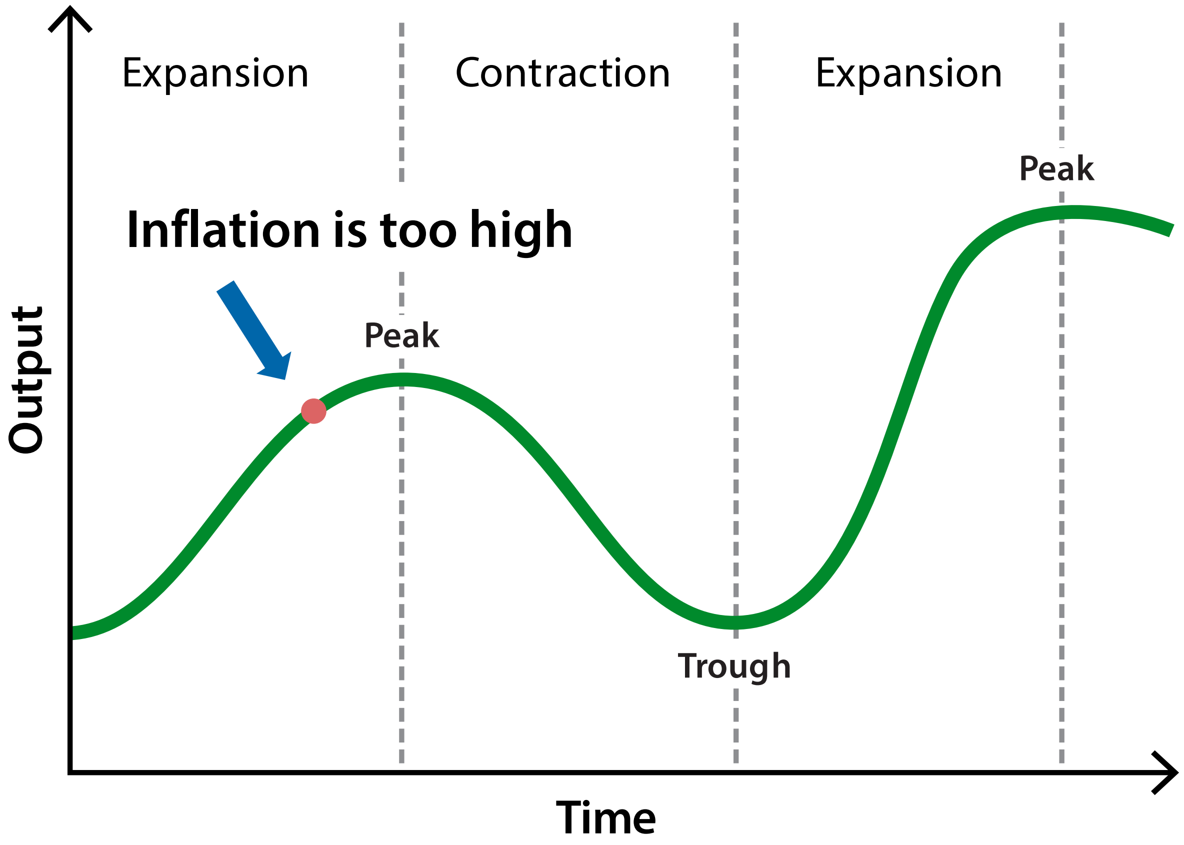
What are the objectives of monetary policy?



Monetary policy is used to stabilise the business cycle

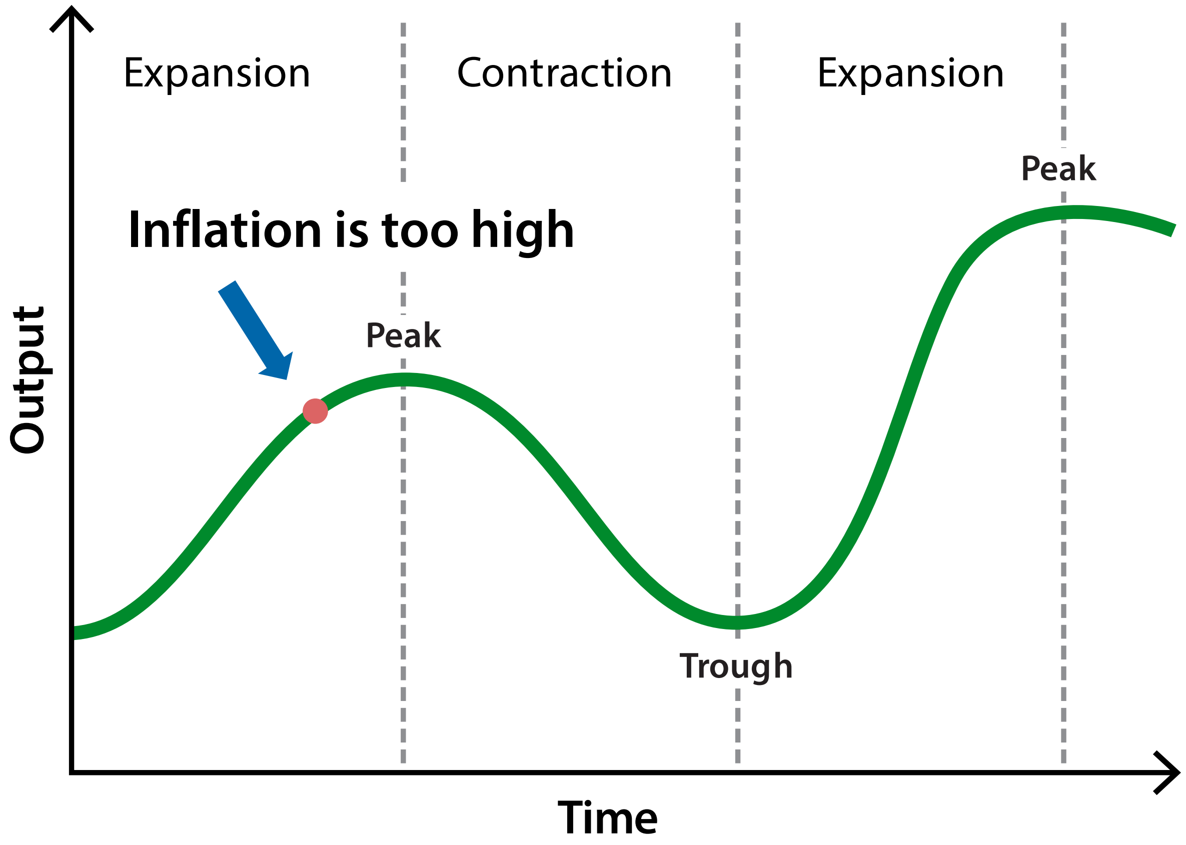


If inflation is expected to be too high …



If inflation is expected to be too high …

The Board
raises the cash rate
to lower inflation



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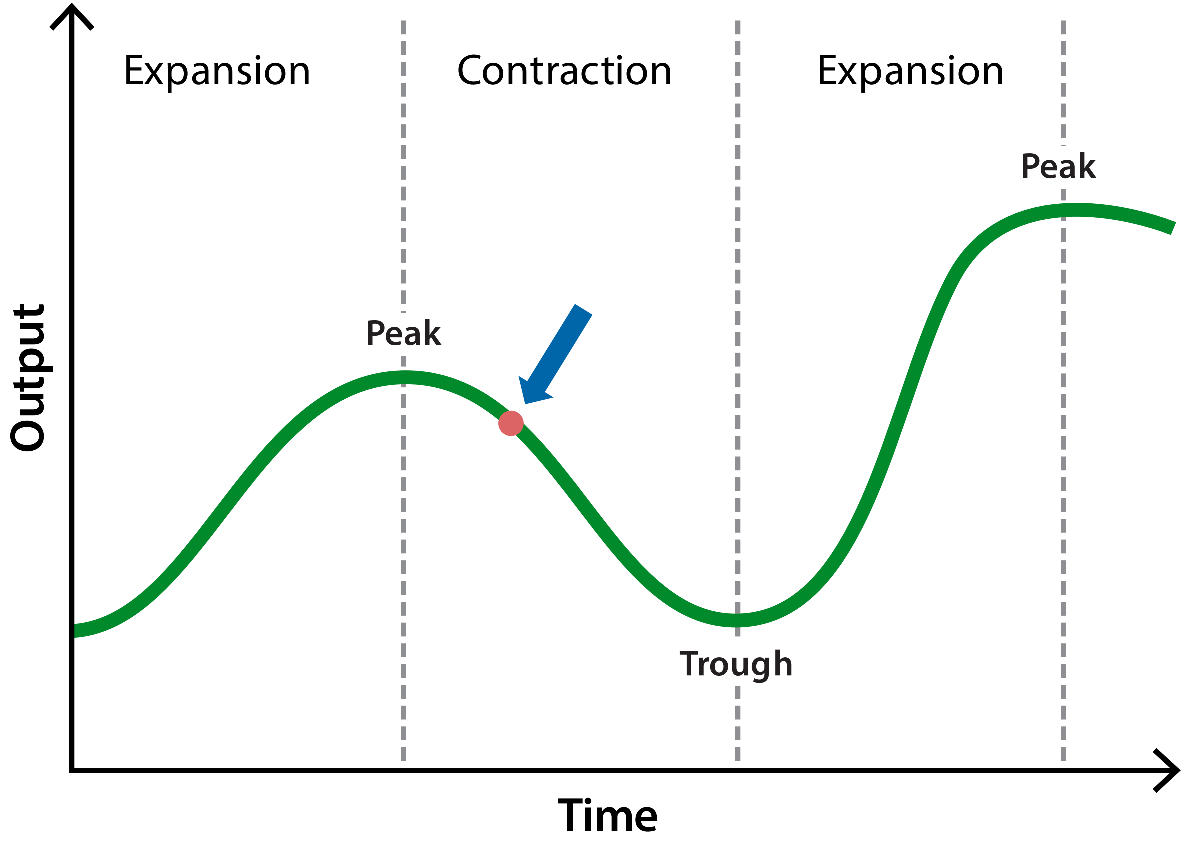
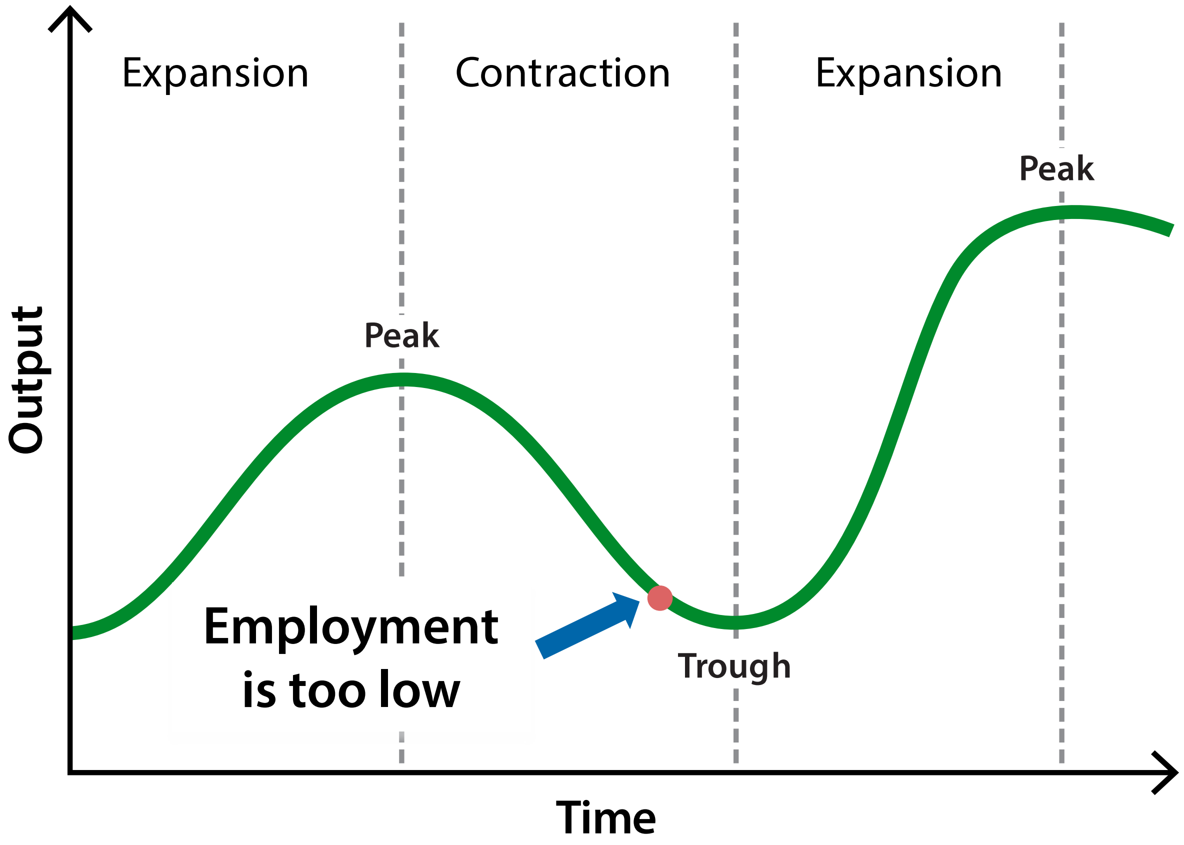


If employment is expected to be too low (below full employment)



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

The Board
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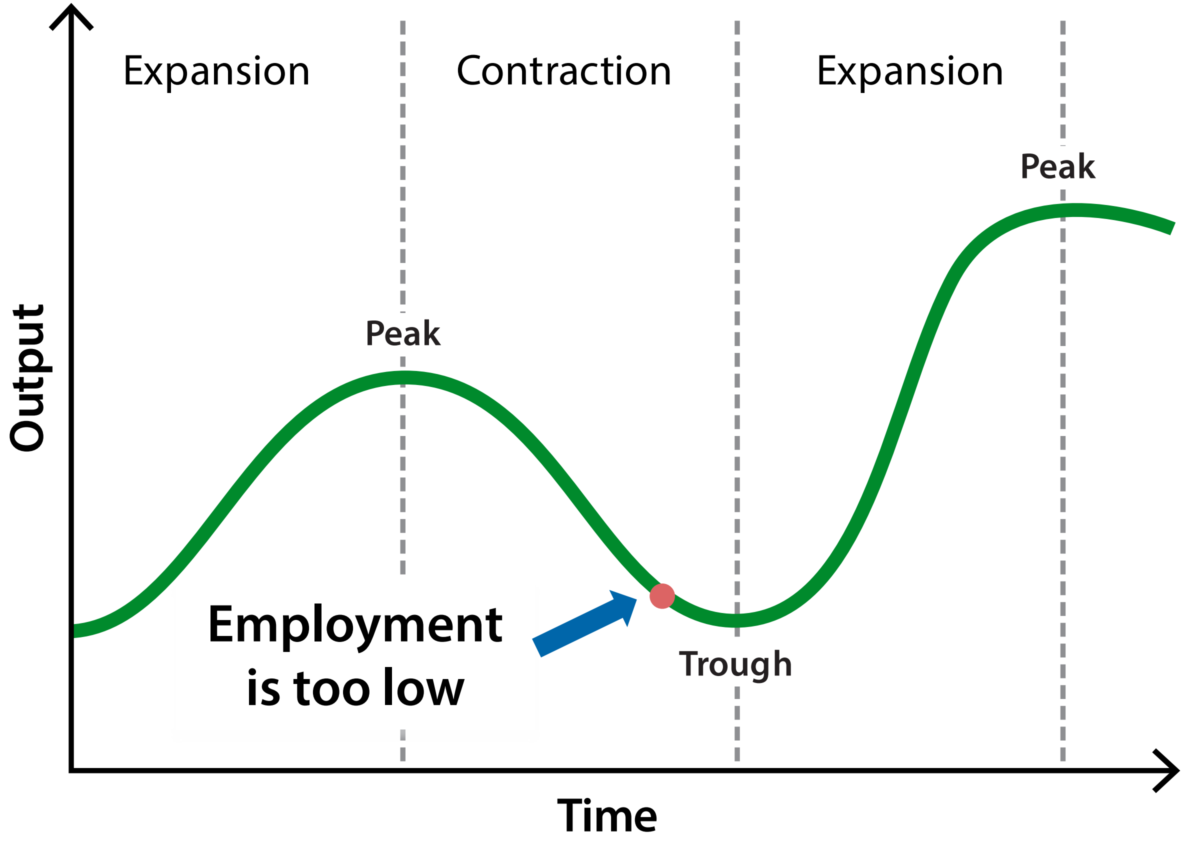

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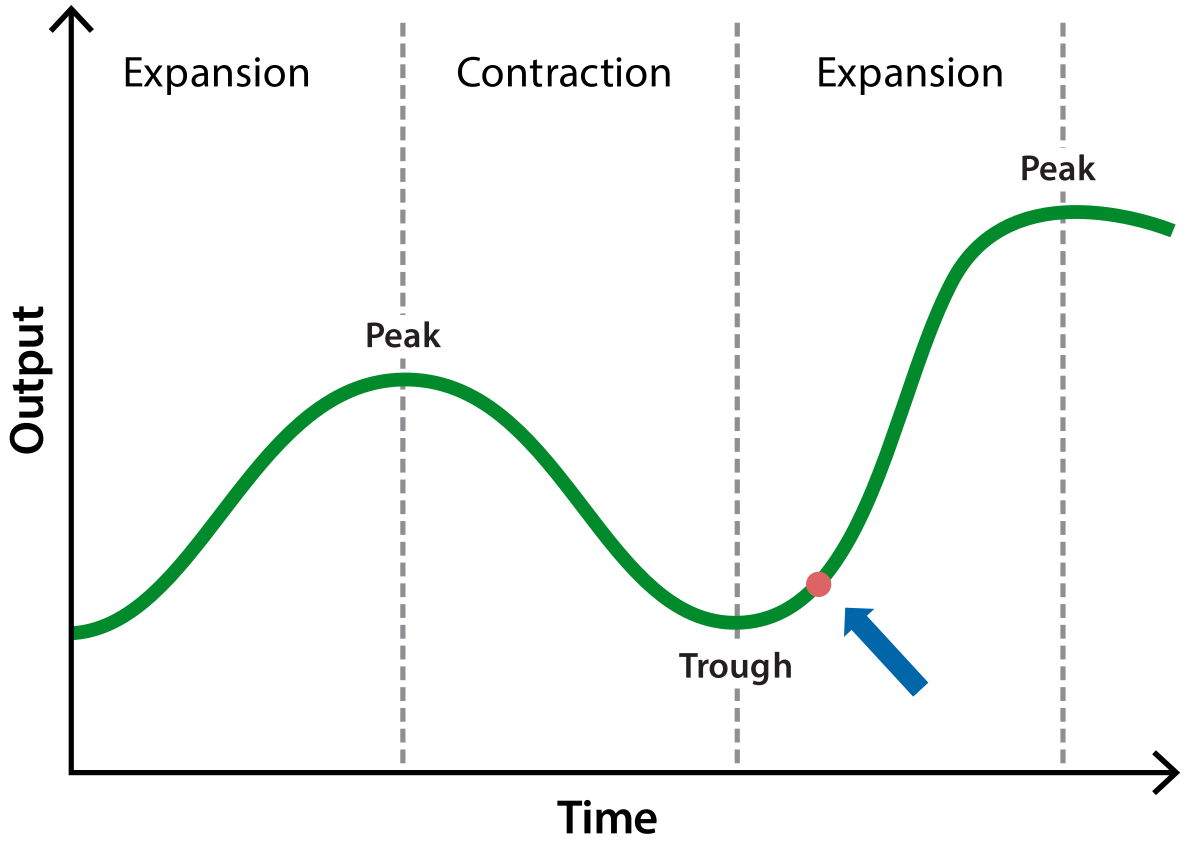

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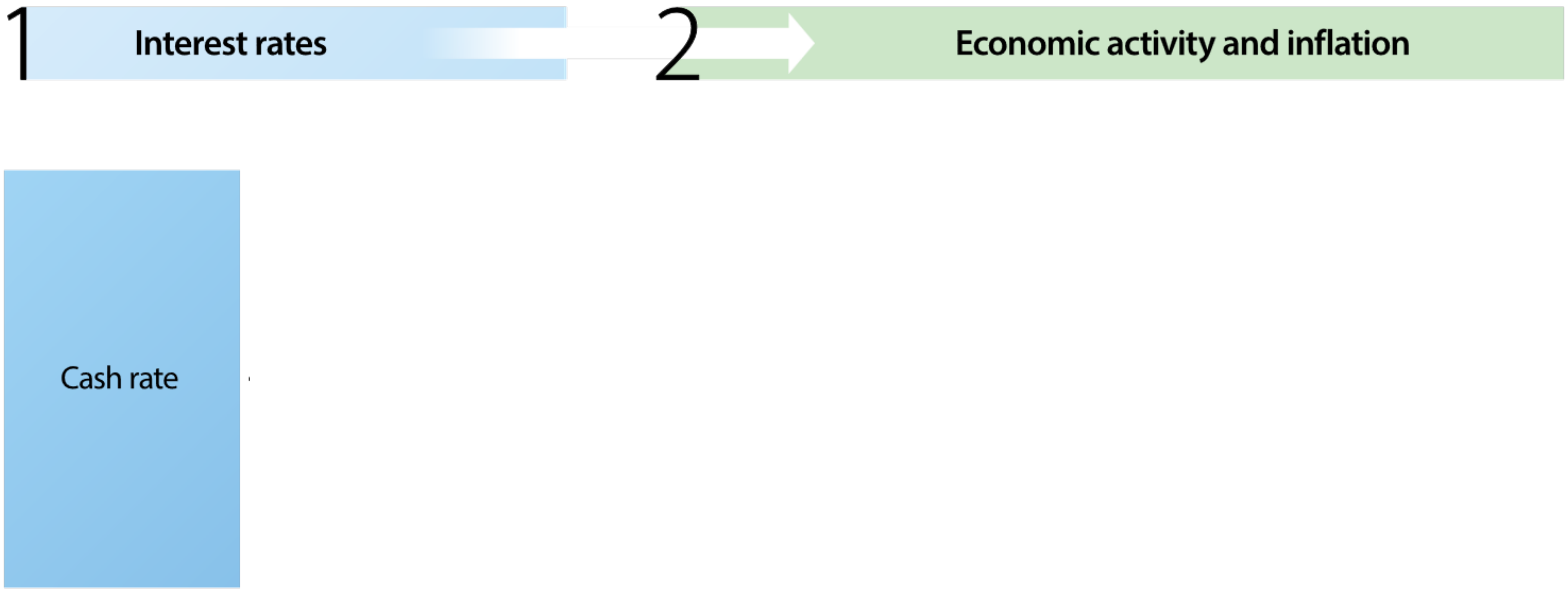
How does monetary policy affect the economy?

The transmission of monetary policy

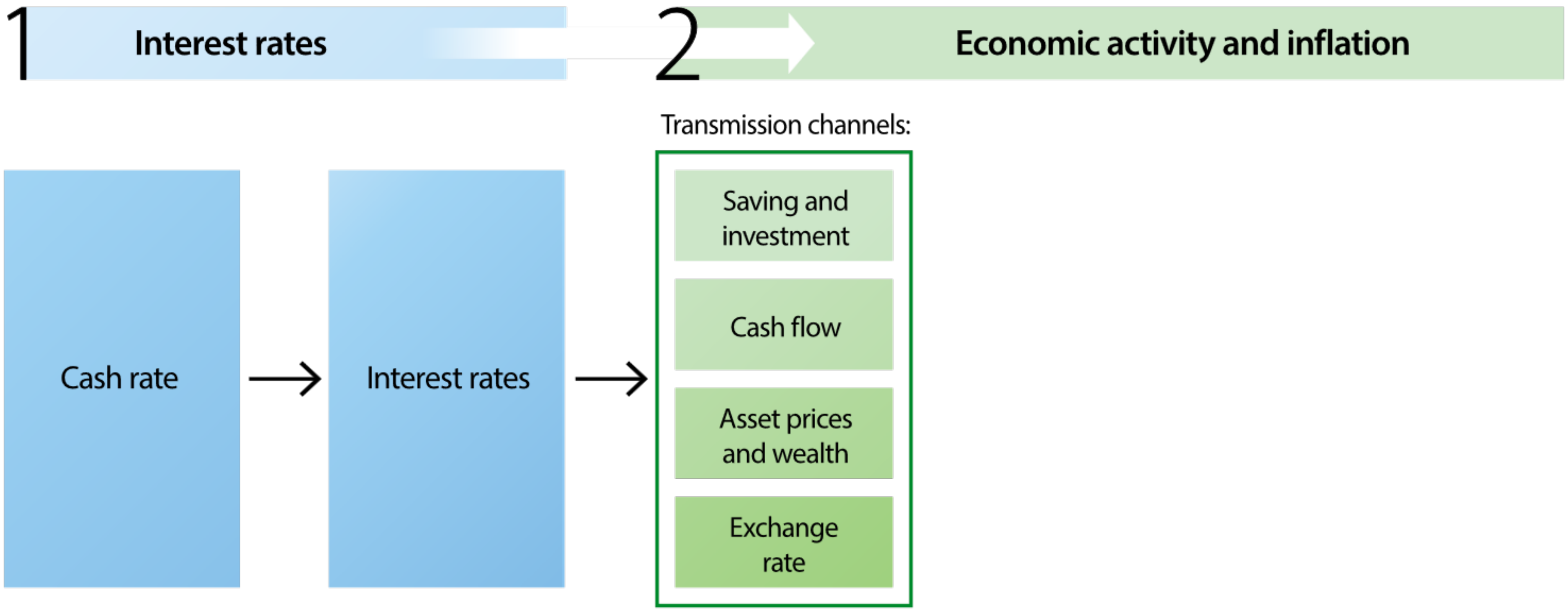


The transmission of monetary policy

1 **Interest rates** → 2 **Economic activity and inflation**

Cash rate → Interest rates

The transmission of monetary policy



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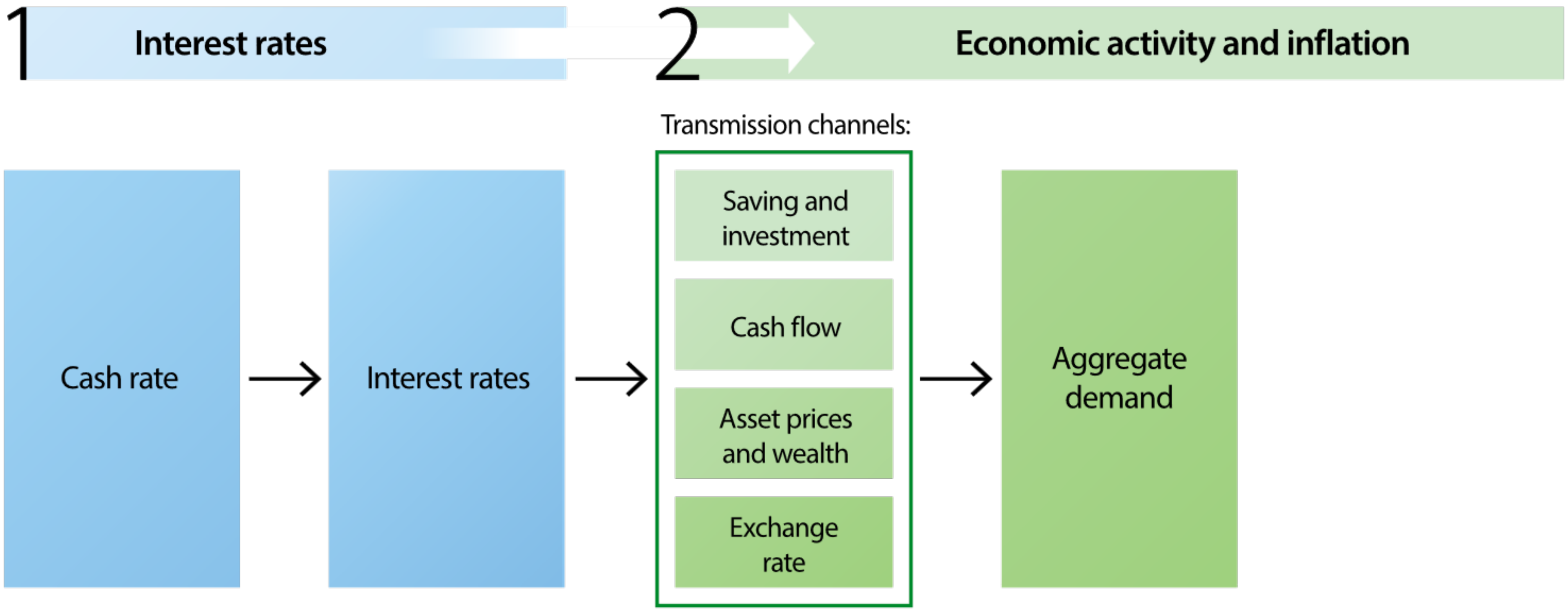

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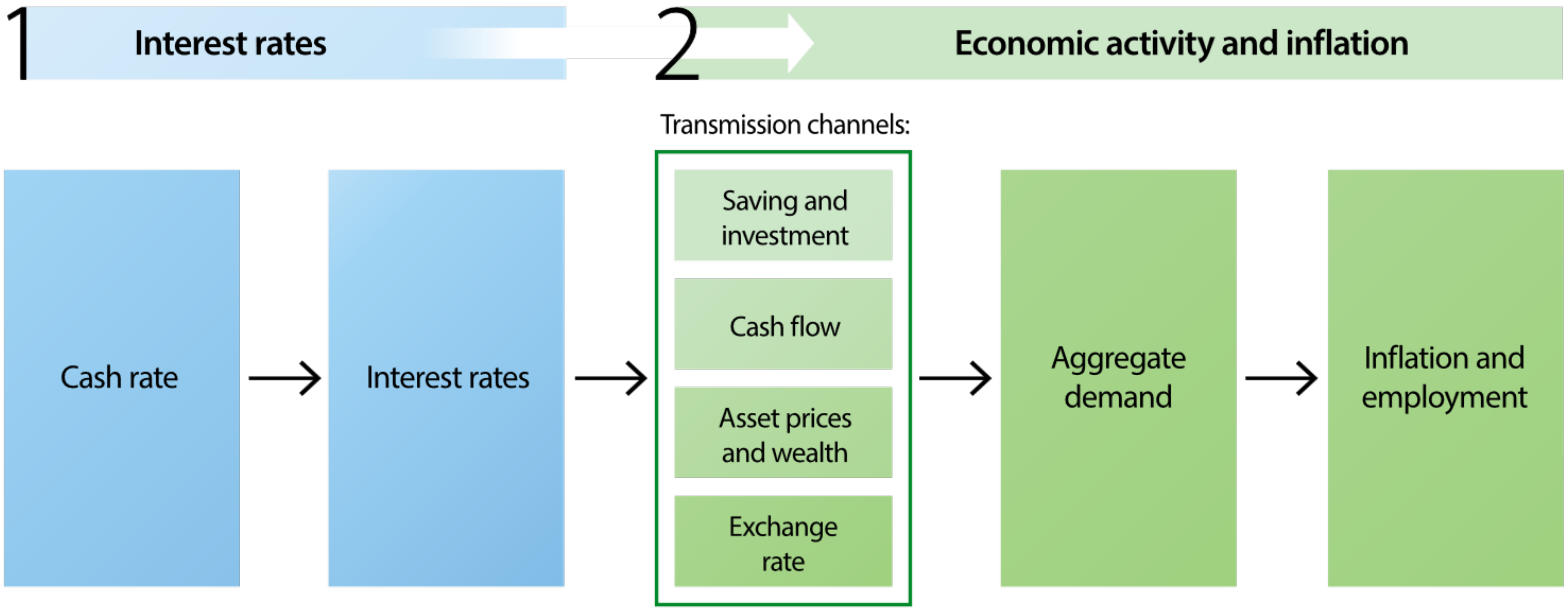

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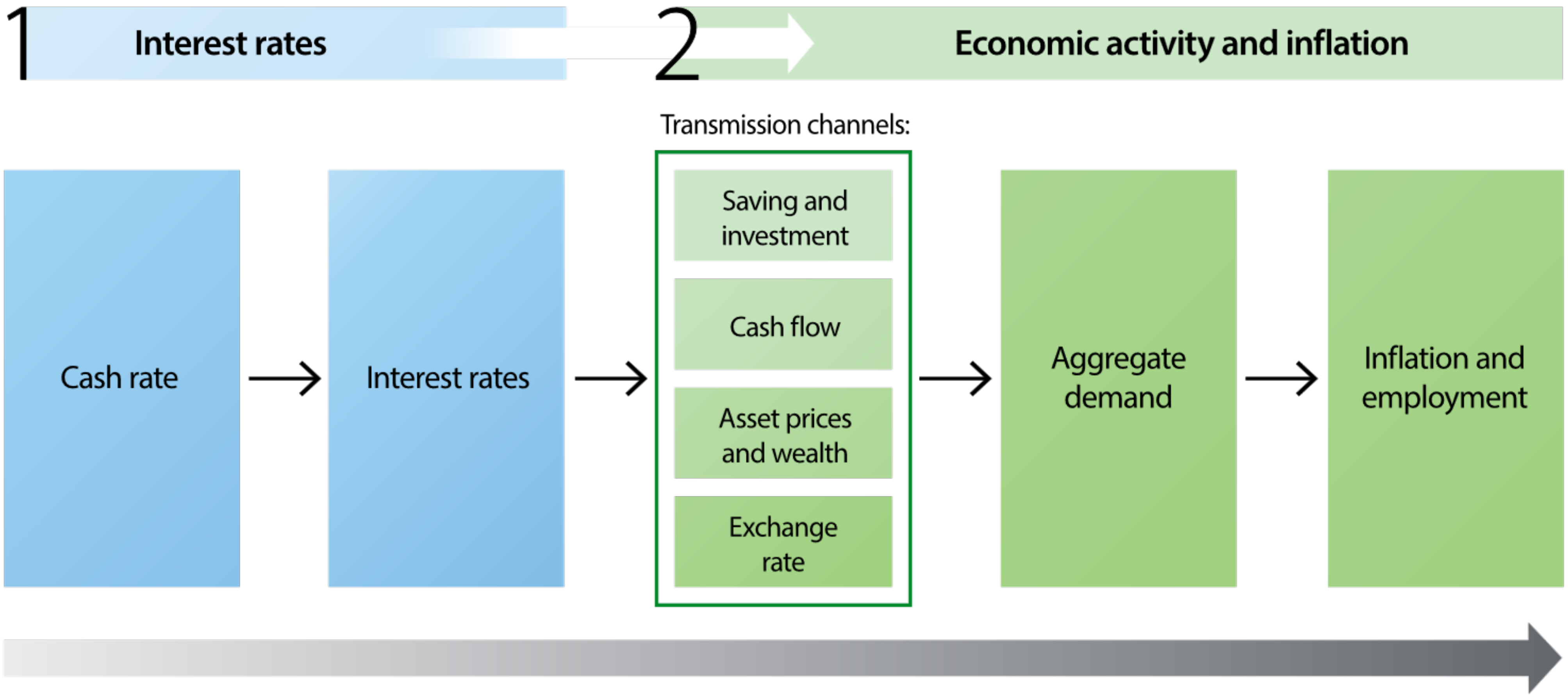


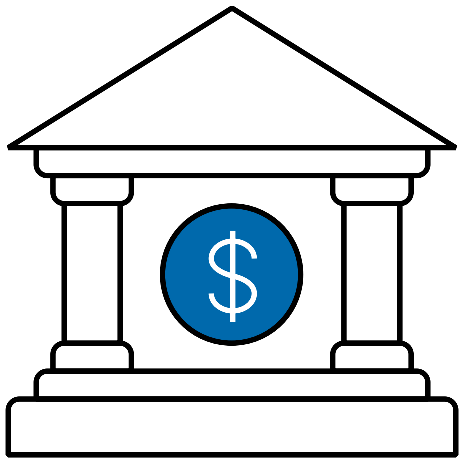
Takes 1 to 2 years for cash rate changes to have their full impact.

Example: How **higher interest rates** affect aggregate demand

Transmission channels:

- Saving and investment
- Cash flow
- Asset prices and wealth
- Exchange rate

1. Savings and investment channel



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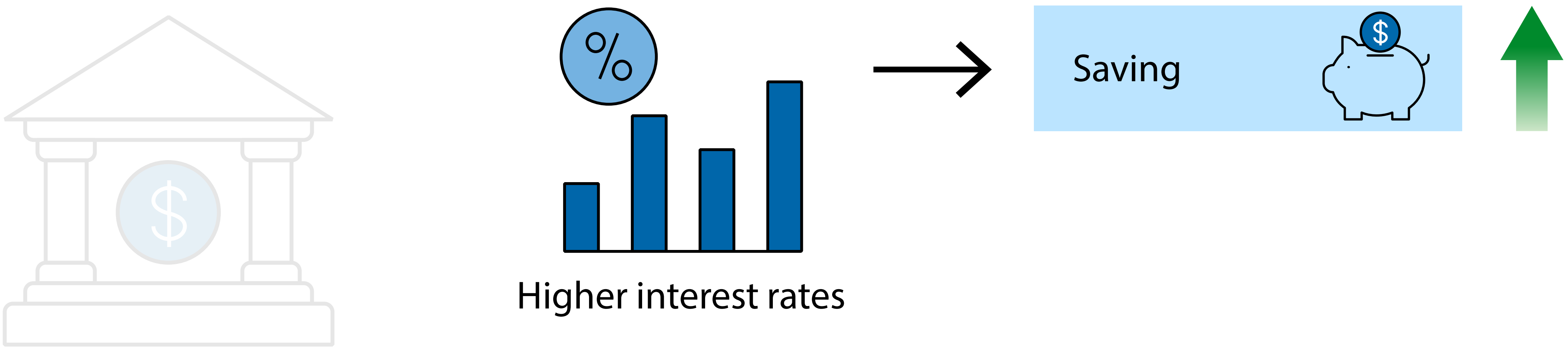

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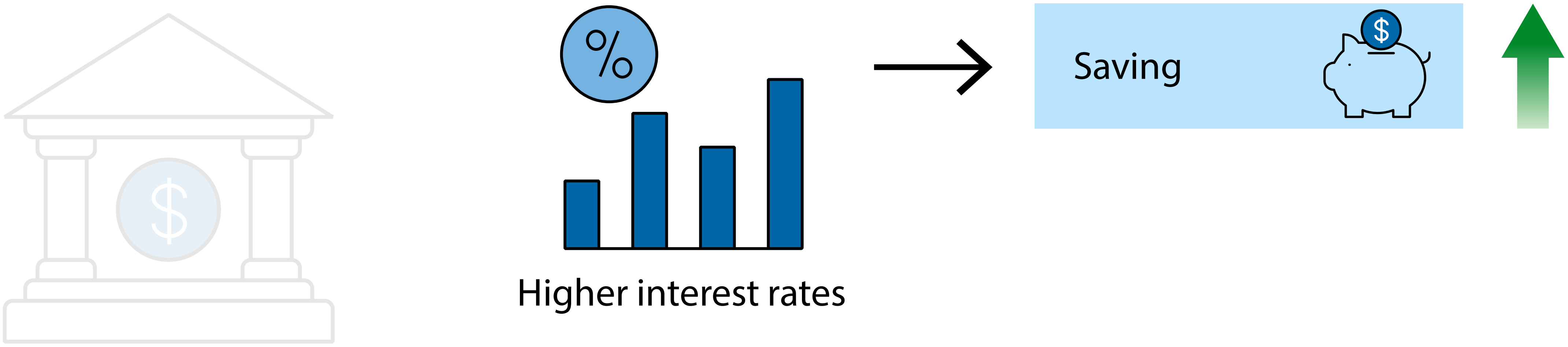

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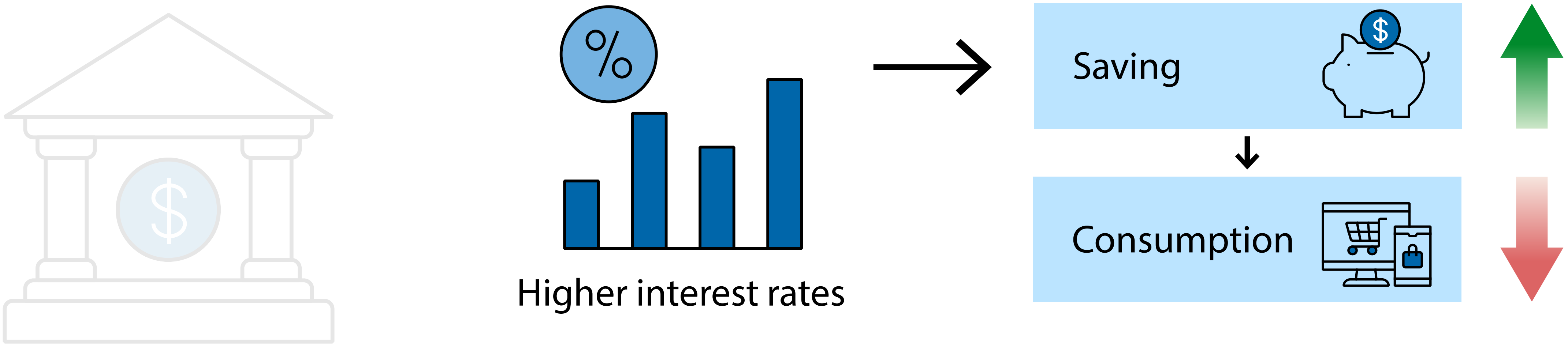
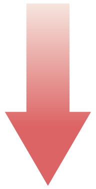


1. Savings and investment channel

$$AD = C + I + G + (X - M)$$



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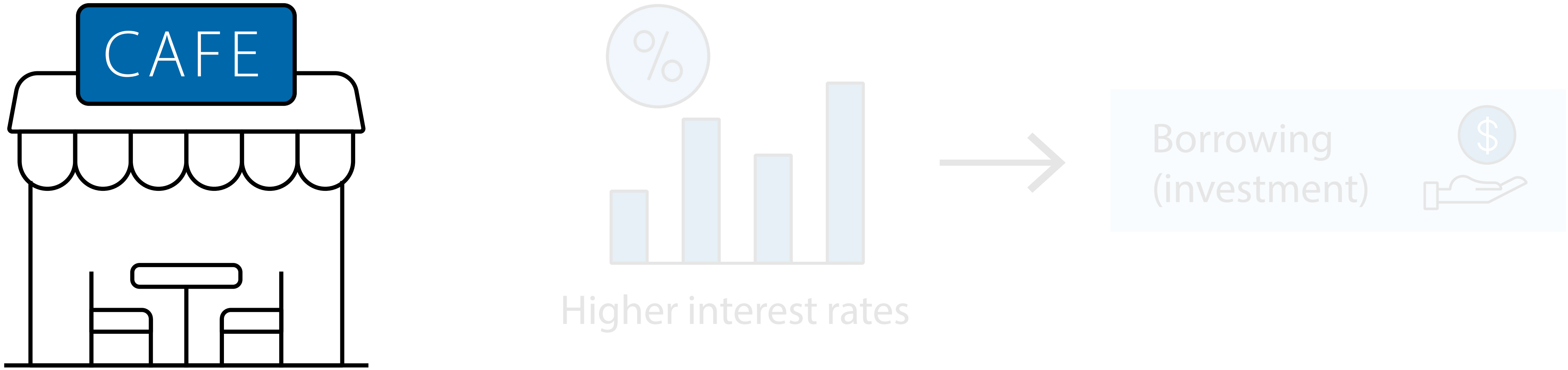

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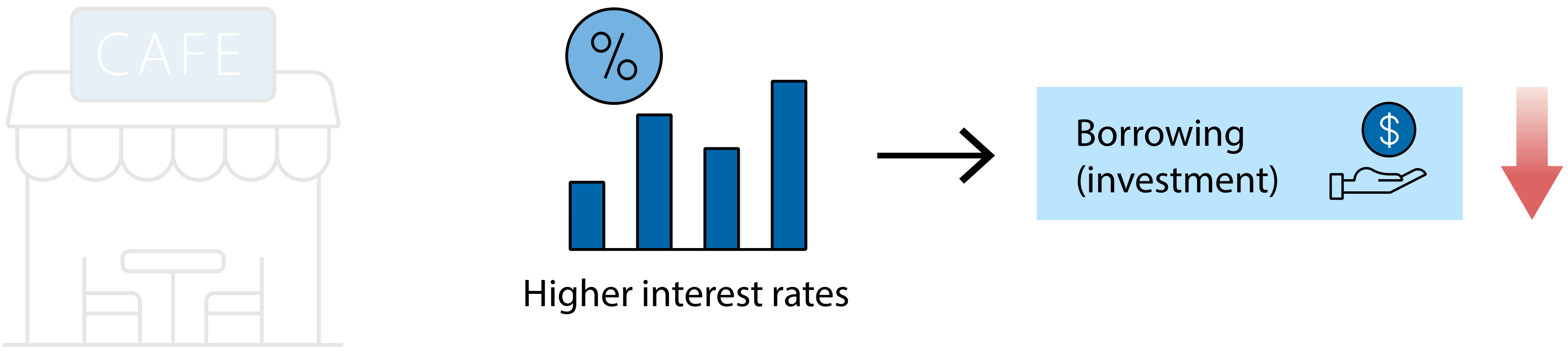

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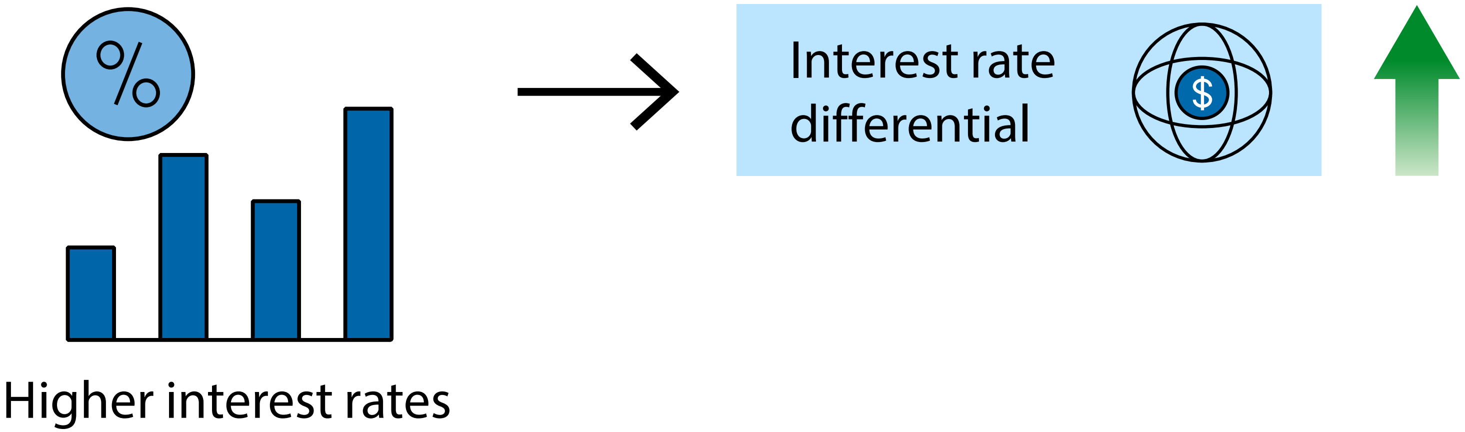
2. Exchange rate channel



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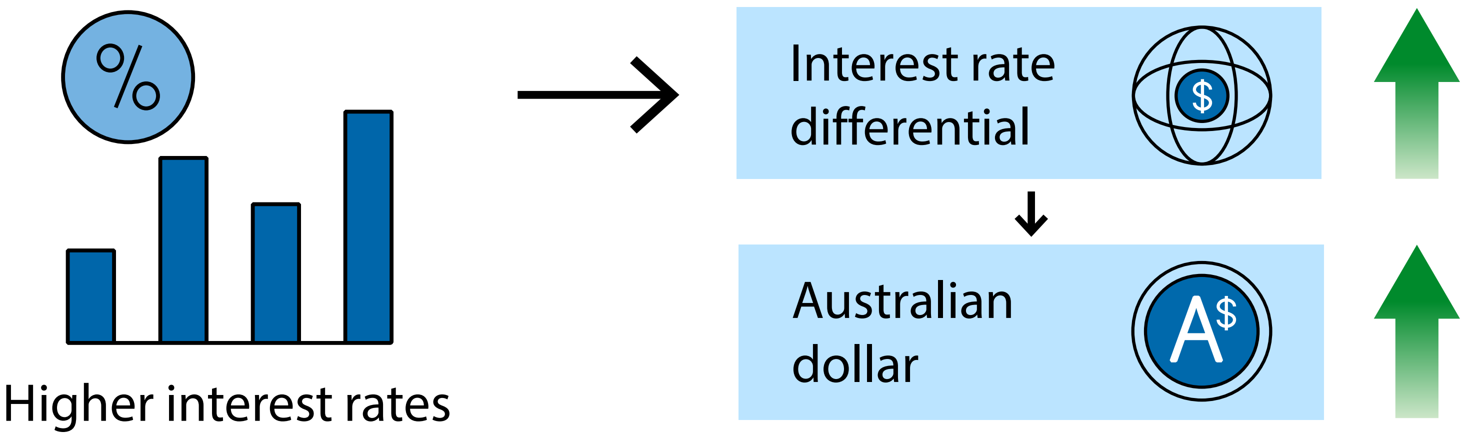

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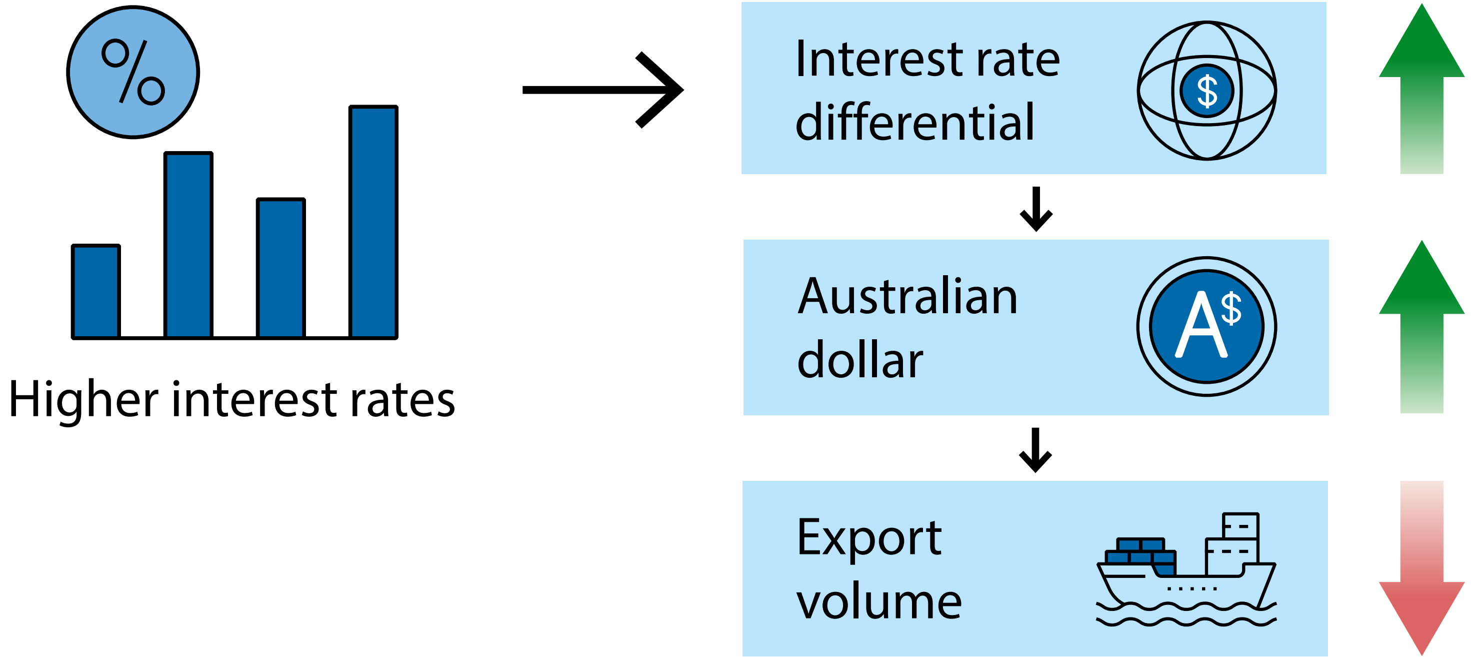

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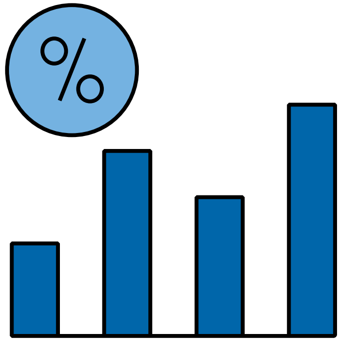


Higher interest rates

→

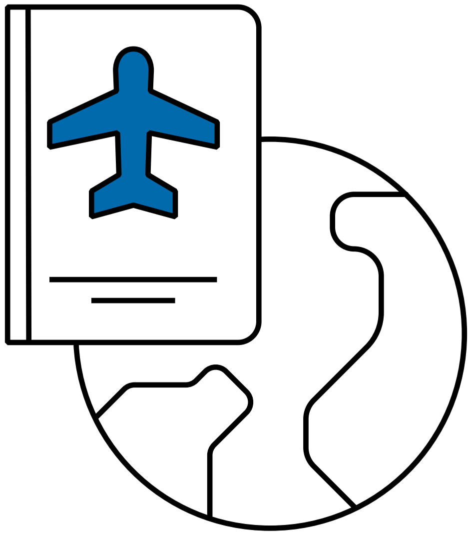
Interest rate differential ↑

↓

Australian dollar ↑

↓

Export volume ↓



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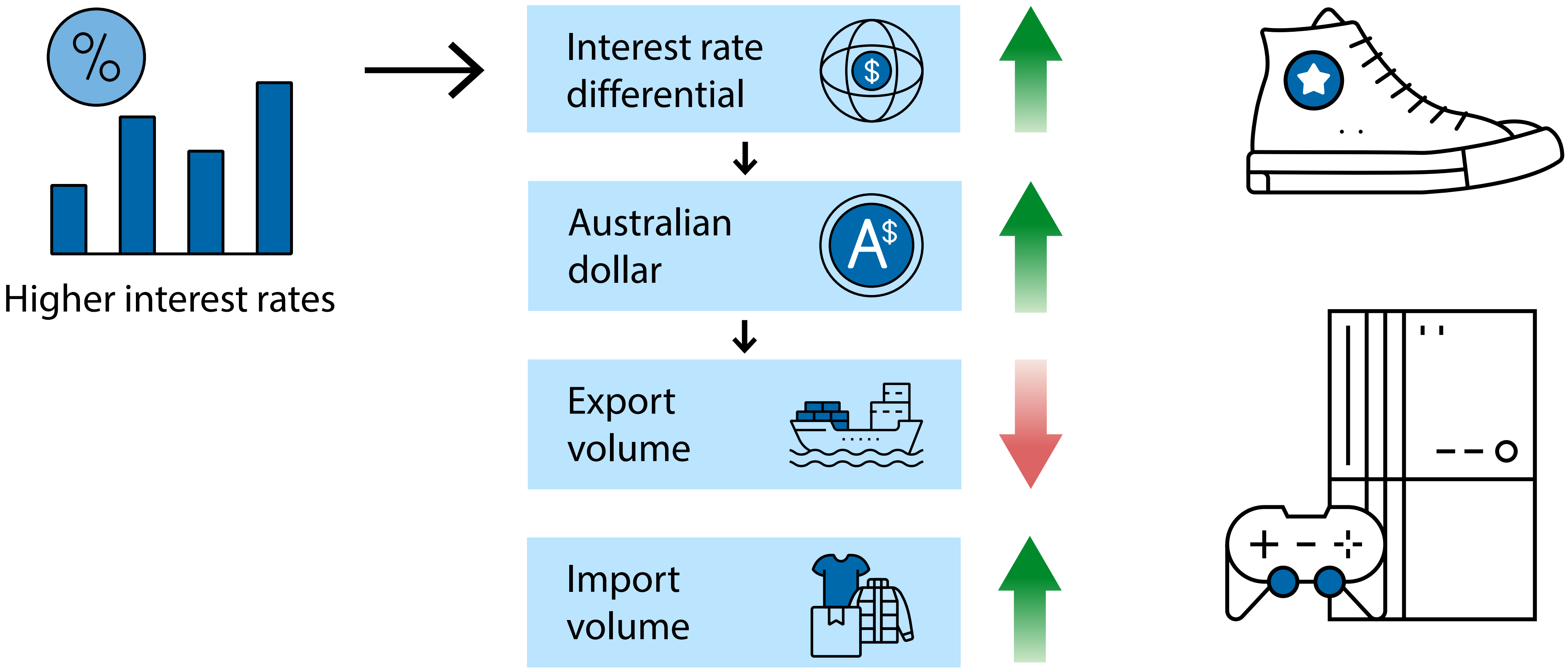

2. Exchange rate channel

$$AD = C + I + G + (X - M)$$

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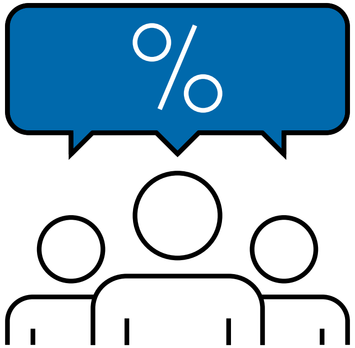
3

You make the decision

You have joined the Monetary Policy Board.



What's happening in the economy?

- Raise cash rate
- Lower cash rate
- Keep cash rate on hold

Scenario 1: Economic conditions

Global uncertainty is rising

Concerns about future trade policies are weighing on confidence and global trade

Economic growth is slowing (1.5%)

Households are cutting back spending, while businesses are delaying investment due to uncertainty

Inflation is low (1.5%), reflecting weak demand

Labour market is softening

Unemployment rate is high (6%)

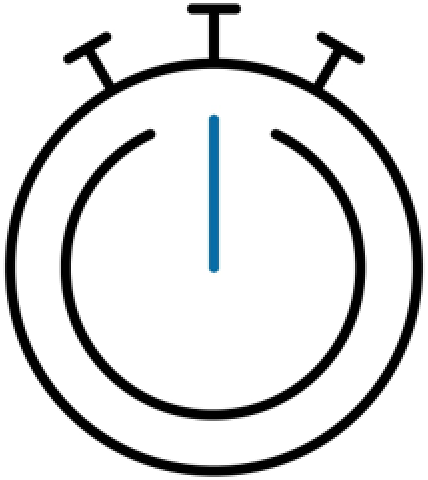
The economy is expected to slow further

Scenario 1: Your decision

Raise
cash rate

Lower
cash rate

Keep cash rate
on hold

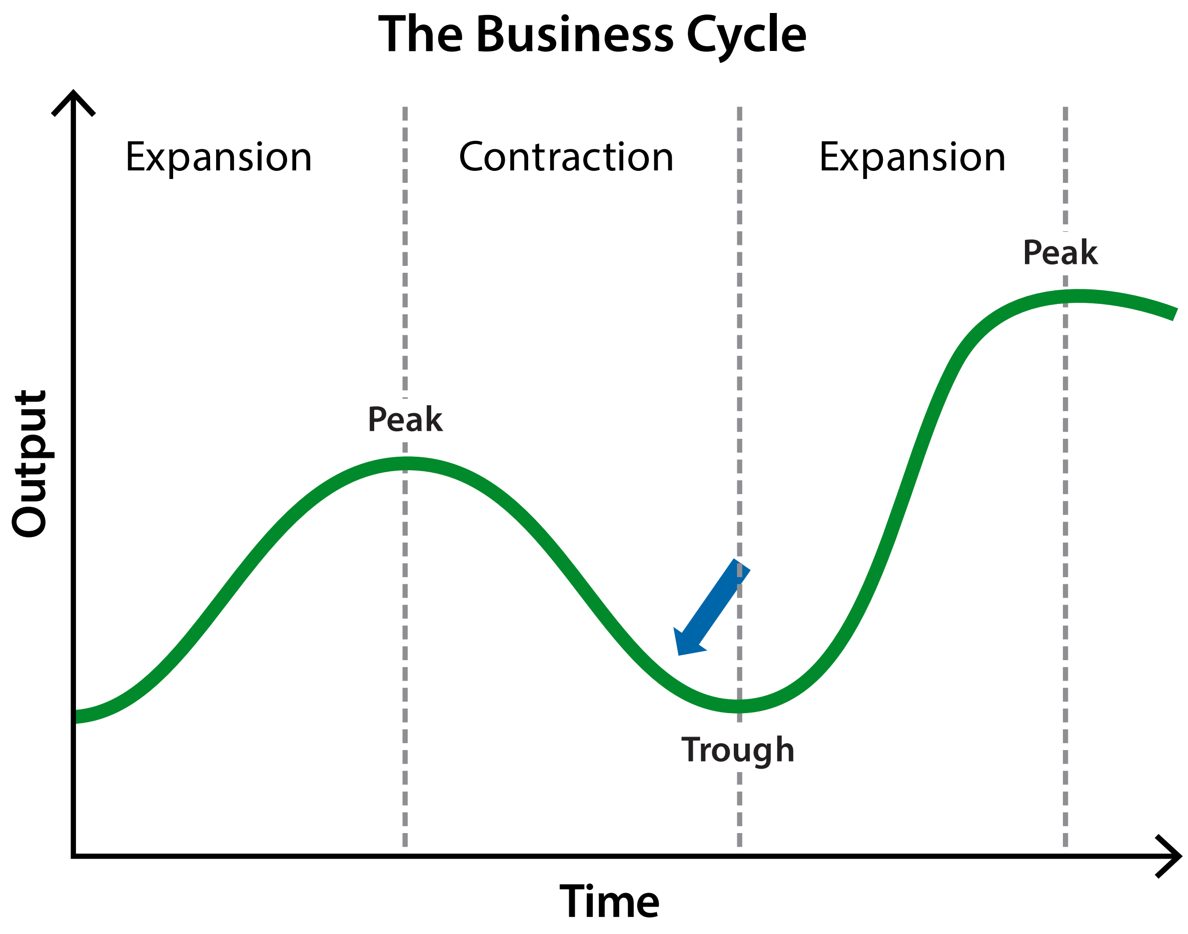


Scenario 1: Your decision

Raise cash rate

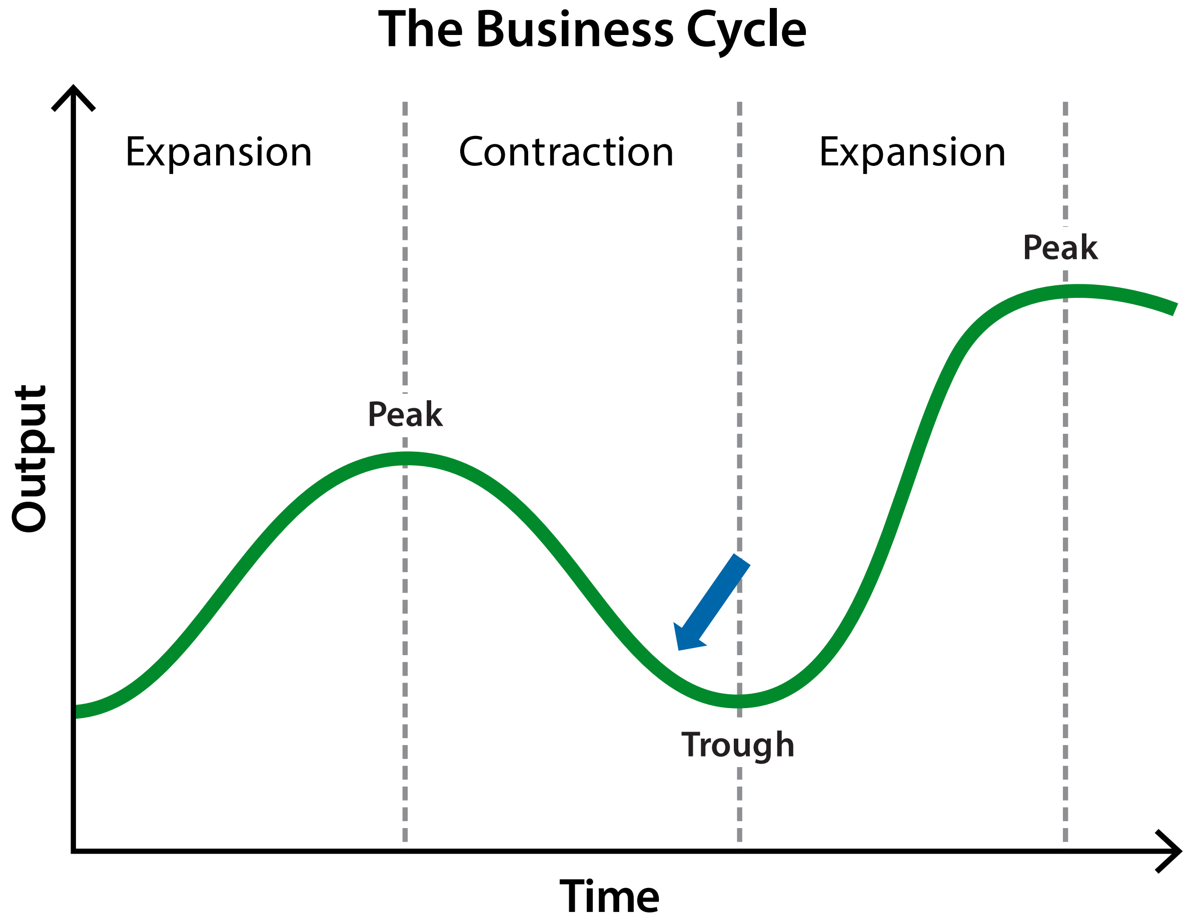
Lower cash rate

Keep cash rate on hold



Scenario 1: Your decision

Lower
cash rate



Scenario 2

Economic growth is growing at 3.5%, supported by strong domestic demand

Spending has picked up as incomes have increased

Inflation is above target at 5%, driven by strong demand and supply constraints

Labour market is very tight

The unemployment rate is low (3.4%)

Businesses report difficulty finding suitable workers

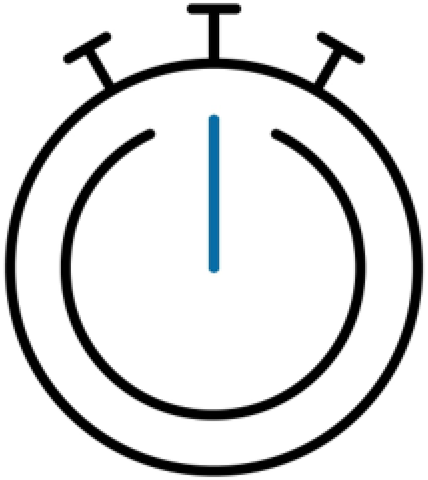
The economy is expected to slow gradually, but inflation is likely to remain elevated

Scenario 2: Your decision

Raise cash rate

Lower cash rate

Keep cash rate on hold

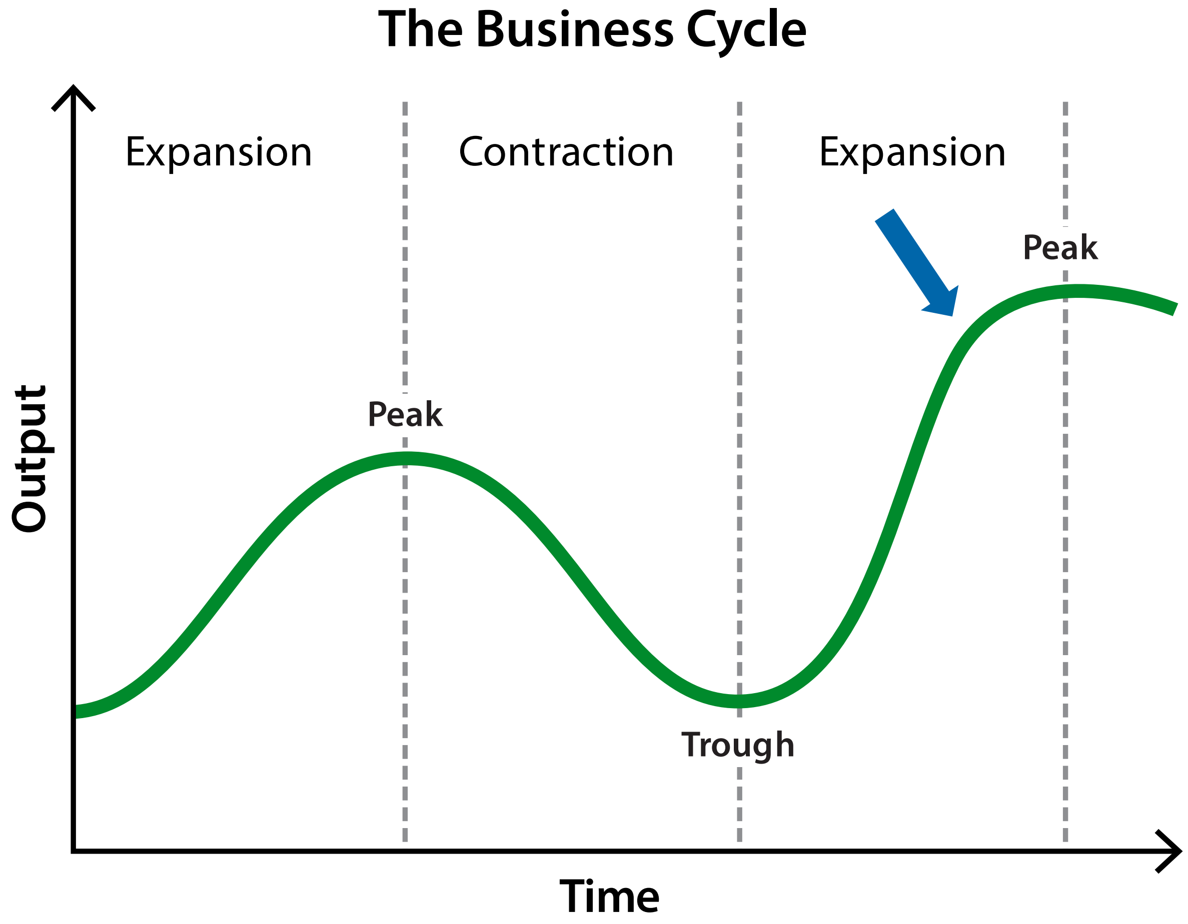


Scenario 2: Your decision

Raise cash rate

Lower cash rate

Keep cash rate on hold



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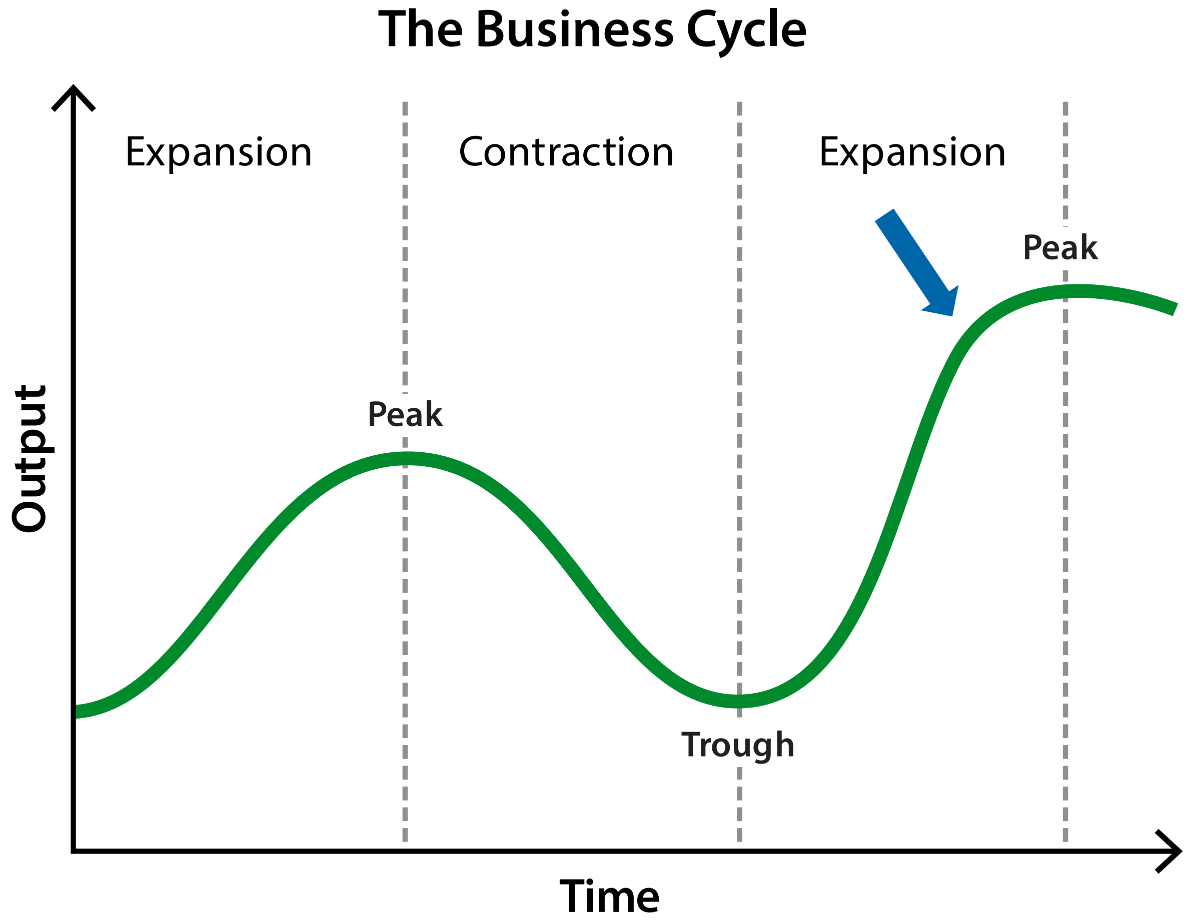
Scenario 2: Your decision

Raise
cash rate



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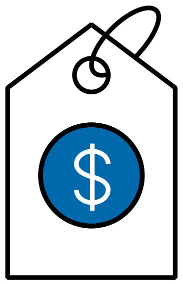
Examining the May 2026 monetary policy decision

What is going on in the economy?

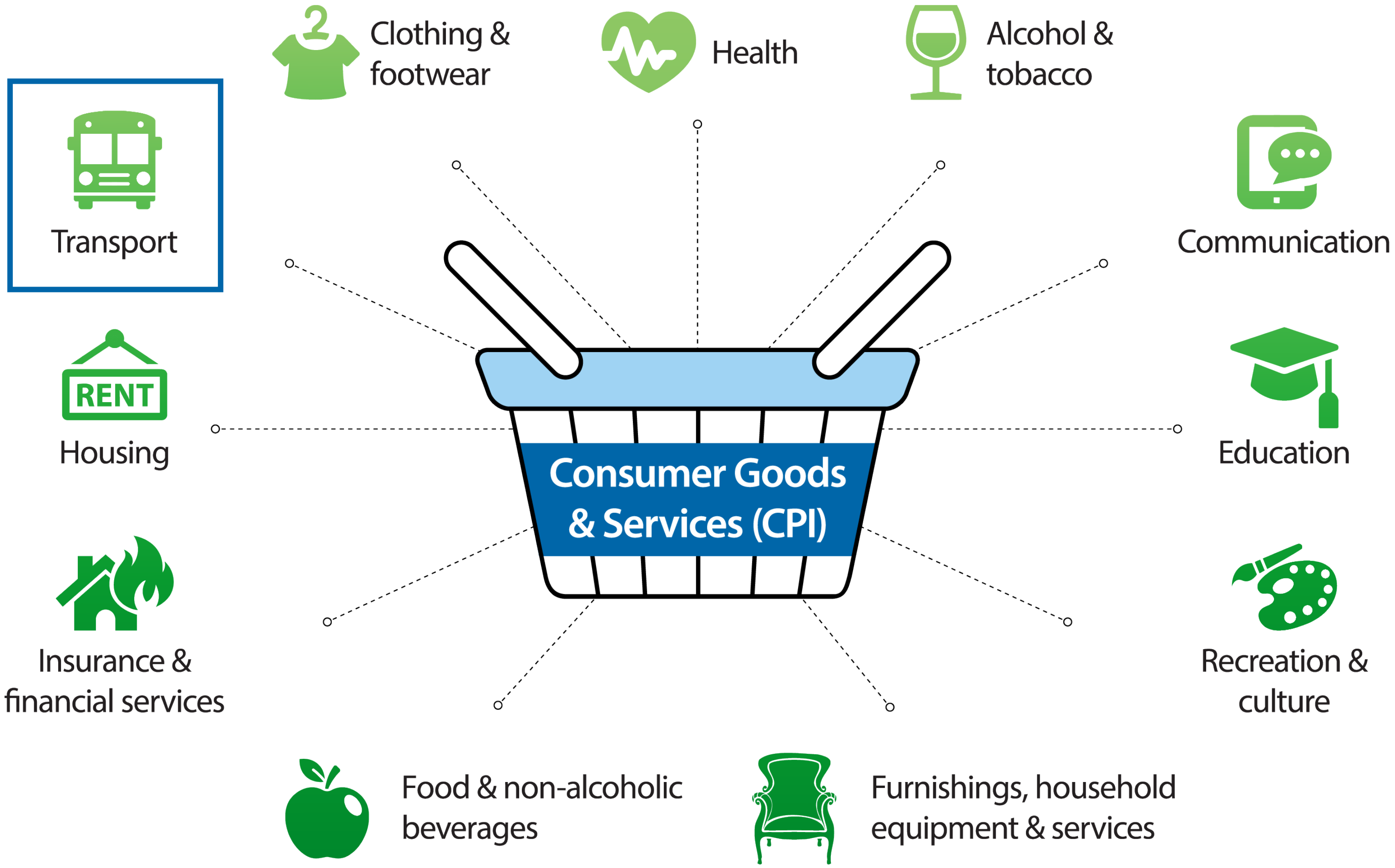


Inflation has been increasing strongly since the middle of last year and is above the RBA’s 2 – 3 per cent target band.

- Demand for goods and services has been greater than supply
- Higher fuel prices have added to inflation.

Data as of May 2026 SMP

Groups in the CPI Basket



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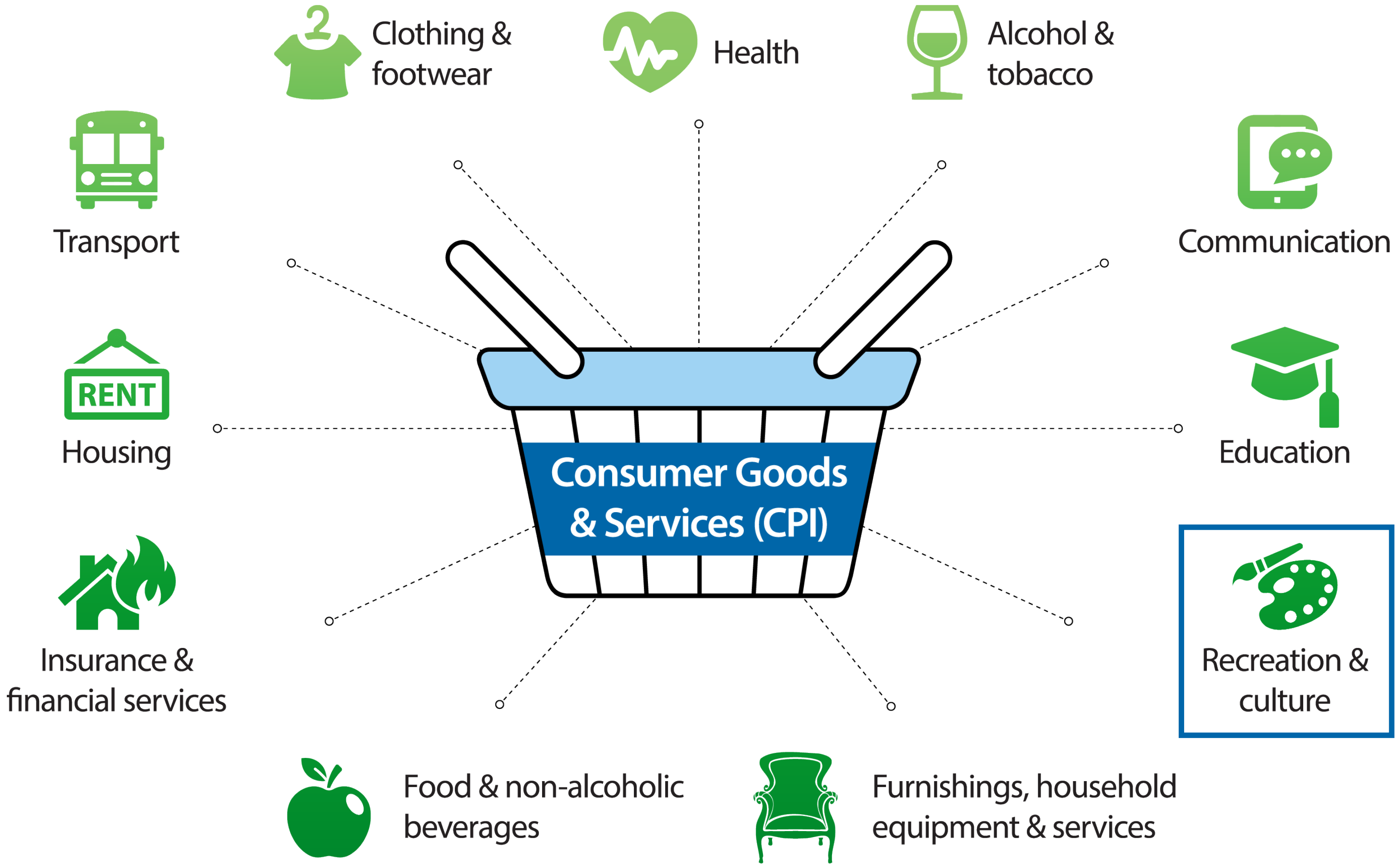

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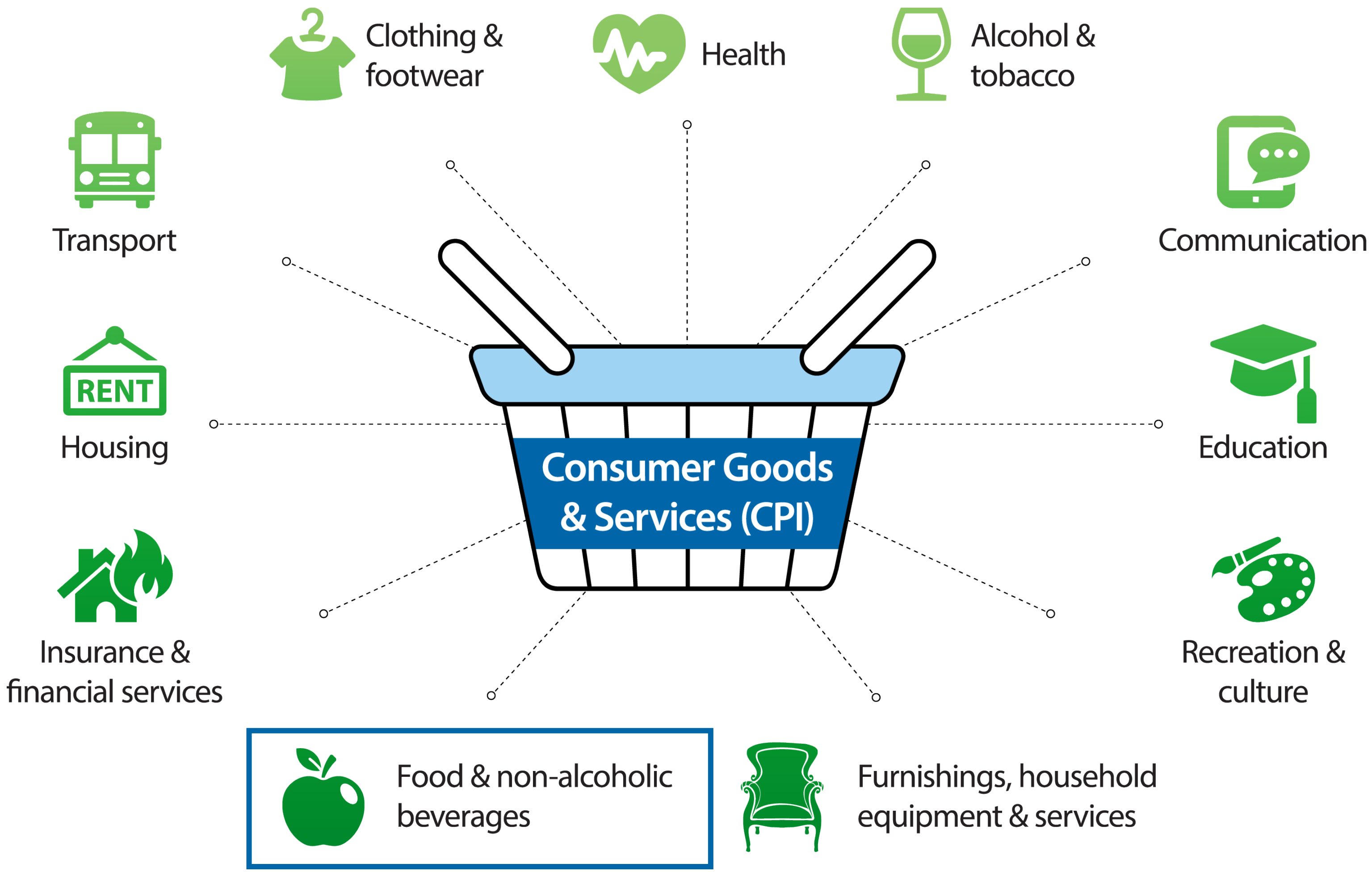

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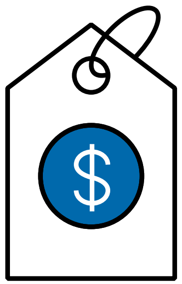

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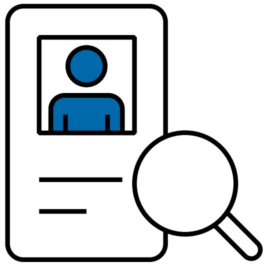
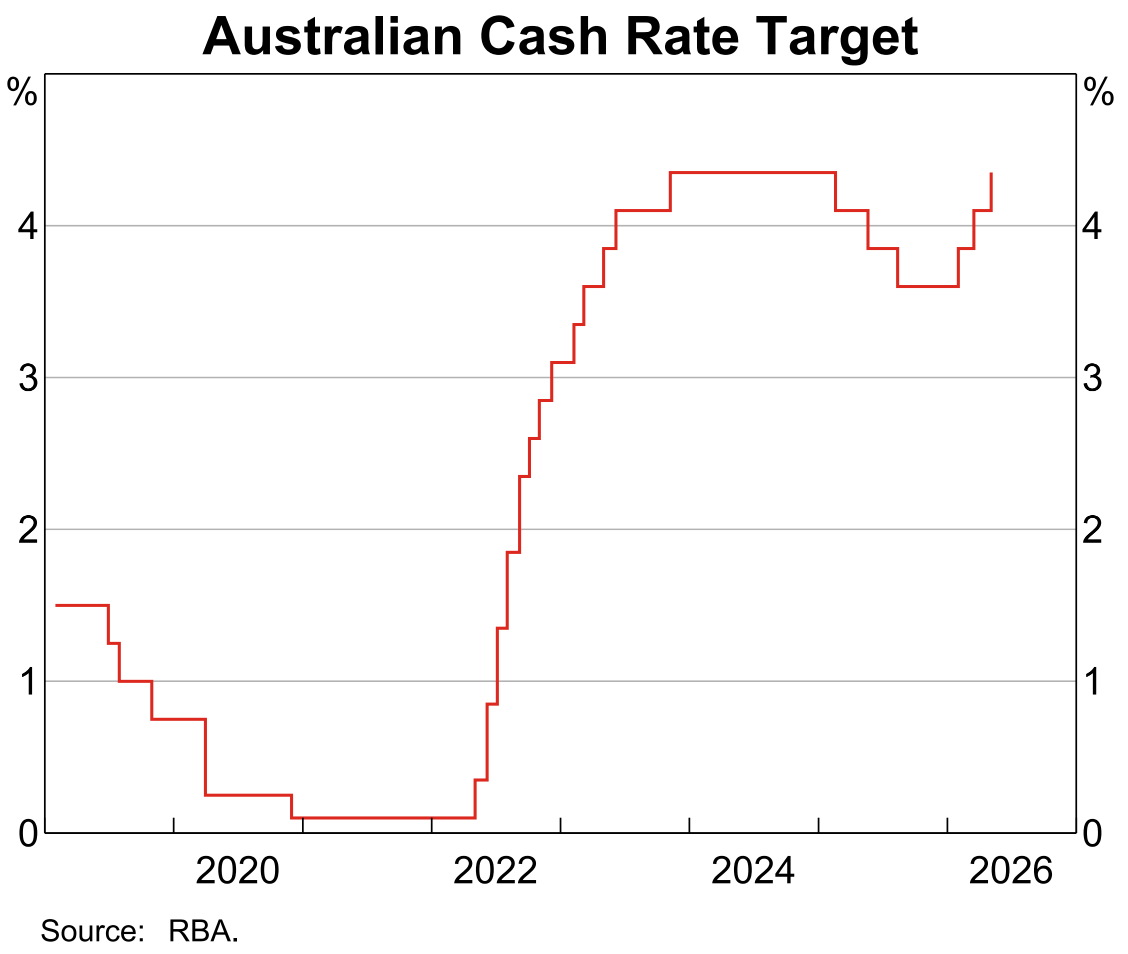


The labour market has remained strong.
The unemployment rate remained low at 4.3 per cent.

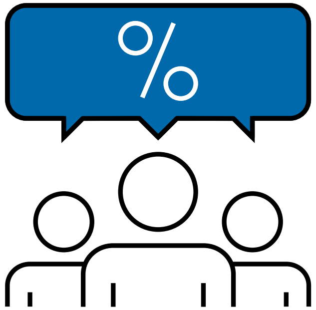
Data as of May 2026 SMP

What did the Monetary Policy Board decide?



You might ask:

a higher cash rate won't bring down fuel prices, so what's the point?



The aim is to slow growth in aggregate demand to help rebalance the economy and bring inflation down.

A higher cash rate will help to stop higher fuel prices from pushing up other prices in the economy.