RESERVE BANK OF AUSTRALIA

Framework for Additional Monetary Policy Tools at Low Interest Rates

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Contents

1. Introduction

The *Framework for Additional Monetary Policy Tools at low interest rates* (the 'AMPT Framework') sets out how the Monetary Policy Board (MPB) would approach the design and use of additional monetary policy tools in a low-interest rate environment. It also describes how the MPB would take account of the Governance Board's (GB) risk management framework and policies and how it would seek GB advice on the design and use of AMPTs.

The MPB will review the AMPT Framework at least every two years, or as needed, such as after fire drill exercises to test the AMPT Framework or after an episode of use of Additional Monetary Policy Tools (AMPTs).

1.1. Purpose

The MPB's primary and preferred instrument for achieving its monetary policy goals of low inflation and full employment is the cash rate target. However, if the cash rate target is nearing zero and further monetary stimulus is judged to be required to deliver the MPB's monetary policy objectives, the MPB would need to consider the deployment of AMPTs.

The AMPT Framework outlines the RBA's governance arrangements around decision making and principles for the design and use of these tools. A supplementary document sets out the staff's assessment of each tool.

The AMPT Framework operates alongside the general principles set out in the *Delegation to the Governor and Deputy Governor*; the Memorandum of Understanding Among the Monetary Policy Board, Payments System Board, Governance Board and Executive; and the Monetary Policy Board Charter. The AMPT Framework builds on previous advice to the Board in the August 2019 Board Paper on *Unconventional Monetary Policy* and Reviews of the Monetary Policies Adopted in Response to COVID-19. Where appropriate it also draws on lessons learned in other jurisdictions.

The AMPT Framework will be updated over time to reflect advancements in areas such as risk management frameworks, staff or external research and operational readiness related to AMPTs.

1.2. Scope

The AMPT Framework focuses on the design and use of tools to stimulate the macroeconomy to meet the monetary policy goals of low inflation and full employment. The AMPT Framework should be considered when there is a risk that lowering the cash rate target to near zero might not provide sufficient stimulus to meet those objectives.

Historically, in Australia and elsewhere, AMPTs have been used once the policy rate is already constrained. However, they could also be deployed alongside reductions in the cash rate target to near zero, to front-load stimulus to greater effect and/or reduce the total AMPT stimulus required. More generally, in a low-interest rate environment, the MPB might have a lower tolerance than otherwise for inflation undershooting its target and might therefore consider pre-emptively lowering the cash rate target in response to disinflationary shocks to minimise the need for AMPTs. Such a strategy would reflect the limited and uncertain benefits and material potential costs of AMPTs and diminishing effectiveness if low inflation expectations were to become entrenched.

In some circumstances, some of the tools discussed in the AMPT Framework could also be deployed to support market functioning. The MPB would need to determine whether it is doing so as part of its monetary policy responsibilities (to sustain or repair monetary policy transmission channels) and/or to meet its statutory obligations of contributing to financial stability as an independent goal. The MPB would clearly outline the purpose of each tool and interactions between them.

In choosing the settings for AMPTs that are judged necessary to meet its statutory goals, the MPB will also need to take fiscal and prudential policy settings as given, including how they might interact with monetary policy. Even so, there may be room to consult with the Treasury and the Australian Prudential Regulation Authority (APRA) to clarify their intended policies in the face of adverse shocks that had precipitated the need to consider AMPTs.

Several AMPTs have potentially significant implications for the RBA's balance sheet and the consolidated public sector balance sheet. AMPTs that embed a subsidy to stimulate aggregate demand – such as term funding priced below market rates – can also have similarities to fiscal policy. This has two practical implications. First, AMPTs that have implications for the balance sheet should be subject to robust internal *ex ante* financial risk analysis and challenge before they are used, including under severe but plausible adverse scenarios, to ensure the potential consequences are understood and risk accepted. Second, the potential implications for the consolidated public sector balance sheet should be clearly communicated to the Treasury.

1.3. Elements

The AMPT Framework has three core elements:

- **Principles** that outline the MPB's intended approach to the design and use of AMPTs (Section 3)
- **Decision-making approach** that identifies the key judgements and decisions the MPB is likely to make, and the type of advice staff will provide to support that (Section 4)
- **AMPT toolkit** that provides practical guidance and illustrative examples to support the application of the principles and inform certain judgements (Section 5).

To support effective risk management, the AMPT Framework also sets out the RBA's governance arrangements for AMPT decision-making, including how the MPB would work with the GB, and how the three lines of accountability would operate.

A supplementary document sets out the staff's detailed assessments of individual tools against the principles and outlines key operational considerations. This material is intended to support staff analysis and is technical in nature.

2. Governance

A memorandum of understanding has been agreed among the MPB, the GB, the Payments System Board and Executive, including for decisions of the MPB that affect the size and composition of the RBA's balance sheet.

In summary, the MPB has complete authority to set monetary policy in order to deliver its monetary policy objectives but must have regard to the duties of the GB as the accountable authority of the RBA. This is likely to be most relevant for those AMPTs that have material subsidies and/or implications for the RBA and consolidated public sector balance sheet. Reflecting this, when considering the possible use of AMPTs, the MPB will identify and assess the benefits, costs and risks associated, including in light of the GB's risk management framework and policies. This supports disciplined governance and risk consideration while preserving the MPB's autonomy to act where necessary. How this will interact with the GB's Risk Appetite Statement is discussed in Section 5.4.

As agreed in the memorandum of understanding, every effort will be made to ensure that, whenever timing and circumstances permit, the GB is given the opportunity to identify any considerations it believes are relevant ahead of the MPB making its decision. For decisions that must be taken quickly, an expedited pathway will operate to ensure that the MPB can act within the required timeframe while still enabling the GB to provide input. The GB will be informed of any decision that materially affects the RBA's balance sheet.

3. Principles

These principles describe the MPB's intended approach to the design and use of AMPTs. Any use of AMPTs by the MPB will:

- **Align to its monetary policy objectives.** The tool or package should contribute to the MPB's objectives of low inflation and full employment over the medium term, and be consistent with financial stability objectives. The choice, design and use of tools will reflect the economic and financial context, and the MPB will continue to assess the appropriateness of the tools as the economy evolves.
- **Have reasonable expected benefits relative to potential costs.** The design of tools will involve assessing the expected benefits and potential costs over the short, medium and long term. This includes effects on financial stability, expected costs and financial and non-financial risks to the RBA, and possible distortions across sectors and asset classes. Benefits and costs will be assessed across a range of future states, including those in which costs could outweigh benefits.
- **Be operationally viable and sufficiently flexible.** The design and choice of tools will account for the efficiency and effectiveness by which the RBA can implement, operate, modify and exit the tool. This includes weighing trade-offs between a tool's flexibility and effectiveness. The design will also incorporate a communication strategy to support the tool's use and exit.

- **Have regard for broader public sector policies and the consolidated public sector balance sheet, while maintaining operational independence.** The MPB recognises that the use of additional tools can impose some risks to the consolidated public sector balance sheet and have implications for public policy choices, and that in some circumstances other agencies might be better placed to respond. The RBA will consult with the Treasury, APRA and other agencies as appropriate to ensure that all agencies can understand potential policy responses as well as the MPB's intention should AMPTs be used, while at the same time maintaining the MPB's operational independence.

Table 1 presents this set of principles in more detail, providing key questions to help staff support the MPB's consideration of the appropriate choice, design, calibration and use of an individual AMPT or package of tools.

Table 1: Principles for assessing a given tool

Principle		Key Questions
Alignment with the RBA's policy objectives	Context and policy intent	• What is the nature of the shock, including expected persistence and severity? How was the broader economic and financial environment before the shock? • Is a tool required to help address an impairment in market functioning and restore the transmission of monetary policy, or is the policy response to alter the stance of monetary policy?
Reasonable cost-benefit trade-off	Expected effectiveness	• To what extent is the tool likely to support the MPB's monetary policy objectives over the medium term? How robust is this to alternative scenarios? • How would the tool interact with the cash rate target or any other AMPTs in use or contemplated?
	Effects on financial stability	• Could the tool contribute to, or adversely affect, market functioning? • Could it contribute to the build-up of longer-term systemic vulnerabilities (e.g. leverage, asset quality)? • How quickly and effectively can the tool be exited from without creating meaningful risks to financial stability?
	Risks to the RBA	• What are the potential financial costs to the RBA – both in a central case and in severe but plausible alternative scenarios? • What operational and implementation risks should be considered? • How might the tool impact the RBA's reputation or credibility, including the ability to use the tool again in the future? • To what extent can these risks be mitigated through design choices, including the exit strategy?
	Neutrality	• Could the tool advantage or disadvantage certain sectors or asset classes disproportionately, in a way that differs from conventional monetary policy?

Principle		Key Questions
Operational viability and flexibility	Implementation and lifecycle	• How efficiently and effectively can the tool be implemented? • Are there legal or mandate considerations relevant to the use or design of the tool? • How easy is it to communicate the use of the tool, including its intended effect, implementation and exit? • What is the exit strategy and is it sufficiently flexible and robust across a range of circumstances, while taking into account the tool's effectiveness?
Have regard for broader public policies and the consolidated public sector balance sheet	Consultation with other agencies	• Could the tool contain subsidies or create risks to the consolidated public sector balance sheet in a way that differs from conventional monetary policy? What consultation with the Treasury is appropriate given these characteristics? • Does the tool impact or rely on policies or objectives of other government agencies, such as APRA or the Treasury? • Can the RBA's instrument independence be maintained over the tool's life cycle and into the future?

4. Decision-making approach

The decision-making approach sets out the key judgements and decisions that the MPB is likely to make when designing and using AMPTs and advice that staff would provide to support members in forming these judgements.

The judgements are presented in Table 2 and are not intended to be sequential steps; it is likely that these elements would be considered collectively when designing and deploying AMPTs. These judgements will also be revisited regularly throughout the lifecycle of a tool or package as the MPB and staff update and deepen their understanding of the policy environment and the tool's effects.

Table 2: Decision-making approach

MPB judgement	Staff advice	Possible considerations in staff advice
Usual policy process		
A. Policy environment	Nature of the economic weakness, expected persistence and severity	• What is the outlook for inflation and unemployment, and what is driving this? • How could policy actions and economic conditions elsewhere influence the Australian outlook? • Are key transmission mechanisms of monetary policy operating as usual or is there impairment? • How certain are we? What are the key uncertainties? What is the balance of risks?
B. Policy assessment	Level of policy stimulus likely to be needed to achieve monetary policy objectives	• Given the outlook for inflation and employment how much monetary stimulus is needed? • How might this assessment be affected by knowledge of other agencies' policy responses? • How should the purpose of policy stimulus and the outlook be communicated?
Designing and using AMPTs		
C. Tool and package design	Design AMPT response based on the principles	• Which tool or package best meets the policy assessment, given the AMPT principles? • What key parameters are policy decisions for the MPB to determine? What are operational decisions for the staff to make? • How should the AMPTs be communicated? Is this robust enough to different economic and policy outcomes?

MPB judgement	Staff advice	Possible considerations in staff advice
D. Risk assurance	Identify and develop plans to manage the pertinent risks	• What are the key risks associated with the tool or package both in the central case and in severe but plausible scenarios? Are these risks acceptable given the MPB's objectives? • How would these risks be managed over the full lifecycle? If a tool is in use, how have the risks evolved and do they remain acceptable?
E. Consideration for the Governance Board	Consult the Governance Board	• Are risks associated with the tools expected to be appropriately managed while meeting the MPB's objectives?
F. Regard for broader public policies	What consultation is needed with the Treasury and/or other agencies, such as APRA, Australian Securities and Investments Commission (ASIC) and the Council of Financial Regulators (CFR)?	• Do design features of any tool, such as the use of the RBA's balance sheet, warrant consultation with the Treasury? Are other agencies better placed to respond? • Would any engagement or coordination with other agencies benefit the effectiveness of the tool or package? • Are there implications for the RBA's operational independence?
G. Review points	Determine when to review the tool or package's effects	• How do we expect the effects of the tool or package to develop over time? How and when will exit decisions be made? • What metrics might indicate the policy environment is not unfolding as expected, or that risks are becoming unacceptable? • When will the tool or package next be reviewed and/or reassessed?

5. Additional Monetary Policy Toolkit

This section supports the MPB in applying the principles and making key judgements when required, and helps guide staff in forming advice for the boards. It outlines the AMPTs most likely to be considered by the MPB, their likely suitability in different environments, and key considerations for designing and exiting a policy package.

This draws on staff assessments, which cover how each tool works, the expected effectiveness and potential costs of the tool, its viability and flexibility, and tool design considerations. The assessments are available in the supplementary document '*Staff's detailed assessment of additional monetary policy tools*'.

5.1. Overview of tools

The toolkit features six tools: term lending facilities, government bond purchase programs, forward guidance with commitment, negative interest rate policy, term rate targets and foreign exchange asset purchases. These are tools that the RBA has used previously or publicly commented on. Further tools could be added over time.

AMPTs would be used to achieve the same monetary policy objectives as with the cash rate target, but they largely operate through specific financial transmission channels:

- negative interest rates are an extension of the traditional cash rate target, albeit with limited and uncertain policy space
- government bond purchase programs, term rate targets and forward guidance with commitment are aimed at lowering risk-free rates along the yield curve, which transmits to broader markets
- term lending facilities work by improving bank funding, rather than lowering risk-free rates, and flow through to the price and supply of credit to households and businesses
- foreign exchange (FX) asset purchases work directly through the exchange rate channel, usually to engineer a sustained depreciation (or resist appreciation).

Evidence on the efficacy of these tools is more uncertain and more complicated than for the traditional cash rate target. Efficacy depends on two components. First, the extent to which these tools influence market pricing, portfolio balancing towards riskier assets and expectations for economic activity and inflation. Second, the impact that these factors then have on the real economy and inflation. In practice, tools have usually been deployed as part of a package that has mutually reinforcing elements.

Table 3 summarises estimates from international and domestic studies on how AMPTs affect inflation. These estimates are highly uncertain and would vary with the nature of the shock and within the Australian context; the table includes judgement on how applicable each estimate is to the Australian economy.

Table 3: Rules of thumb for AMPT impact on inflation

Tool	Estimated impact on inflation[(a)] Mostly from international literature, across a variety of shocks.	Australian context Relative to the literature.
Conventional cash rate cuts	**+0.03-0.15ppt** effect on **inflation** (peak) per 25bp cash rate cut.	Similar.
Term lending facilities	**+0.02-0.2ppt** on the **price level** per 1 per cent of GDP worth of lending.	Effects likely at the **upper end** of the range due to Australia's bank-based financial system.
Government bond purchase programs	**+0.01-0.3ppt** on the **price level** per 1 per cent of GDP purchased. Higher in early US/UK studies.	Effects likely at the **lower end** of the range because funding in Australia is focused at the shorter end of the yield curve.
Forward guidance with commitment	**+0-0.15ppt** on **inflation** per 25 bp reduction in policy rate expectations**.**	**Potentially similar.** Australian households are sensitive to movements in the short-end of the yield curve, which could make this tool more effective. However, the RBA's COVID-19 experience is likely to impair the credibility of future forward guidance.
Negative interest rate policy (NIRP)	**60-90 per cent** as effective as a **conventional cash rate cut,** effectiveness declines as rates become more negative.	Effects likely at the **upper end** of the range due to our profitable bank-based financial system, assuming the financial system is functioning as normal and continues to do so with NIRP in place.
Term rate targets (TRT)	**+0.15ppt** on **inflation** from TRTs that lower the yield curve by around 35bps. Based on limited evidence from Australia.	Future TRTs will likely have **smaller effects** as they may not be as credible due to the RBA's COVID-19 experience.
FX asset purchases (FXAP)	**+0.5-1.5ppt** on **inflation**, from studies on the Czech National Bank's exchange rate ceiling.	FXAP would likely have **smaller effects** because the AUD is highly liquid and is already a risk-sensitive currency.

(a) Estimated impact of an individual tool. Total impact would depend on interactions with other AMPTs in operation.

5.2. Scenario-based assessment of tools

The appropriate tool or package will depend on the nature, persistence and severity of the shock and the economic and financial environment, reflecting that tools operate through different transmission channels. To demonstrate this, Table 4 provides a scenario-based assessment of the six tools using four plausible scenarios:[1]

- **Financial system shock.** An adverse shock hits the banking sector and/or financial markets, leading to a rapid tightening in financial conditions and drop in aggregate demand that is expected to be persistent. This is similar to the Global Financial Crisis (GFC).
- **Real economy shock.** An adverse shock primarily hits aggregate demand (household consumption and business investment), with banks and core financial markets remaining largely functional. This is similar to the early stages of the COVID-19 pandemic.
- **Slow grind down.** A prolonged period of persistently weak demand and low inflation and productivity outcomes. This scenario has similarities to the real economy shock, but a key difference is that low inflation expectations become entrenched, excess savings build up and credit demand is subdued. This has some similarities to a Japan-style liquidity trap.
- **Mixed supply/demand shock.** An adverse shock weakens both demand and supply capacity and it is not clear which shock dominates. While some relative price pressures emerge in affected sectors, the decline in aggregate demand initially dominates, pushing inflation down. However, the longer-term inflation outlook is uncertain, making the exit strategy and tool flexibility key considerations in the policy response. This is similar to the combination of the COVID-19 pandemic and the global effects of Russia's invasion of Ukraine in 2022.

Table 4 provides a high-level assessment of the suitability of each tool within the four scenarios and highlights some scenario-specific considerations. As an example, in the first scenario a term lending facility may be well suited to addressing funding and liquidity frictions that could be restricting credit supply. By contrast, a term rate target would have low suitability in this scenario because heightened uncertainty could weaken the credibility of the target and defending it could amplify market dysfunction if it led to bond scarcity or increased uncertainty.

These scenario-based assessments suggest that term lending facilities and, in some cases, bond purchase programs are likely to be more effective across a range of situations. Forward guidance with commitment and negative interest rates are generally suited to more severe shocks; their effectiveness is more uncertain and context-dependent, and they carry higher risks. Term rate targets and FX asset purchases remain part of the toolkit but are best reserved for exceptional circumstances, as they are generally less effective and carry significant risks.

These assessments are indicative, not prescriptive. The appropriate tool or package will depend on the specific circumstances, which are unlikely to match the stylised scenarios in Table 4. Judgements might also differ when tools are used in combination and could evolve as the AMPT Framework is reviewed. All options would therefore be considered by the MPB.

1 These scenarios were chosen because they are plausible high-level scenarios that draw on features of recent domestic and international episodes where AMPTs have been used previously, while also capturing elements relevant across a broad range of other potential future scenarios. However, this is noted as a starting point, and more scenarios will be required in the future to better explore the advantages and disadvantages of each tool.

Table 4: Scenario-based assessment of tools

Suitability across stylised scenarios, tools assessed individually as at early 2026

	Financial system shocks *Dysfunctional markets & banks; elevated risk premia depress demand (GFC)*	**Real economy shock** *Domestic demand suppressed; banks and markets functional (November 2020)*	**Slow grind down** *Persistently low demand and inflation due to entrenched low inflation expectations (Japan)*	**Mixed supply/demand shock** *Aggregate demand and supply capacity weaken at the same time; uncertain path of inflation (2022).*
Term lending facilities	**HIGH** Could help to resolve funding/liquidity frictions, supporting the supply of credit to businesses and households.	**HIGH** Could help support cash rate pass-through and could be designed to spur demand for credit.	**MEDIUM** Could support cash rate pass-through but might struggle to stimulate (already weak) credit demand even if provided at generous terms.	**HIGH** Could help support cash rate pass-through, be deployed quickly and be designed to withdraw accommodation as the cash rate rises.
Government bond purchase programs	**HIGH** Could be particularly effective as they help to resolve market dysfunction by providing liquidity, as well as lowering term premia and encouraging portfolio balancing[(a)]	**MEDIUM** Likely to provide some stimulus but carries substantial financial risk.	**LOW-MEDIUM** Likely to provide some stimulus but carries substantial financial risk, particularly if the policy is in place for a prolonged period.	**LOW-MEDIUM** Likely to provide some stimulus but carries substantial financial risk and will be difficult to exit quickly if inflation picks up.
Forward guidance with commitment	**MEDIUM** Could stabilise policy rate expectations but elevated uncertainty makes it challenging to credibly commit, which risks overly stringent, time-inconsistent guidance.	**MEDIUM** Can lower rate expectations and anchor longer-term inflation expectations at no financial cost to the RBA but carries material risk to the RBA's credibility around the exit.	**LOW-MEDIUM** In-principle can support inflation expectations and while not financially costly to the RBA, forward guidance might be less stimulatory if cash rate expectations are already low.	**LOW** Uncertainty about future inflation and supply constraints makes it challenging to credibly commit to forward guidance, which risks overly stringent, time-inconsistent forward guidance.
Negative interest rate policy	**LOW** Could exacerbate financial sector distress by pressuring banks' profits and may be deeply unpopular with the public.	**LOW-MEDIUM** Modestly expands policy space, but could undermine transmission, create financial stability vulnerabilities and be deeply unpopular with the public.	**LOW-MEDIUM** Modestly expands policy space, but could undermine transmission, create financial stability vulnerabilities and be deeply unpopular with the public.	**LOW-MEDIUM** Modestly expands policy space and allows for front-loaded stimulus that can be quickly withdrawn, but could undermine transmission, create financial stability vulnerabilities and be deeply unpopular with the public.
Term rate targets	**LOW** High uncertainty can make TRT commitment less credible. Defending the target could exacerbate market dysfunction and be costly. Exit risks are high.	**LOW** Would offer some additional stimulus but comes with large exit and financial risks, so would likely be in effect over only a short time horizon.	**LOW** Would offer some additional stimulus but comes with large exit and financial risks, so would likely be in effect over only a short time horizon.	**LOW** High uncertainty can make TRT commitment less credible. Defending the target could exacerbate market dysfunction and be costly. Exit risks are high.
FX asset purchases	**LOW** The AUD typically already depreciates in stress, so FXAP can offer limited additional stimulus with a high risk of creating market dysfunction and generating financial losses for the RBA.	**LOW** The AUD typically already depreciates alongside risk assets, so FXAP can offer limited additional stimulus with a high risk of creating market dysfunction and generating financial losses for the RBA.	**LOW** Could be used to 'jump start' inflation expectations but leaves balance sheet risks uncapped for an extended period.	**LOW** Offers limited additional stimulus with high exit risks, so a high risk of creating market dysfunction and generating financial losses for the RBA.

(a) The AMPT Framework focuses explicitly on the use of AMPTs for monetary policy and not financial stability purposes. However, we note the relevant positive FS effects of tools, where these effects are likely to also contribute to the RBA's monetary policy objectives (for example, resolving banking sector frictions through a term lending facility can help support credit supply).

5.3. Considerations for designing a package

5.3.1. Tools for addressing market dysfunction and providing macroeconomic stimulus

The MPB could use some of the tools discussed in the AMPT Framework for various purposes. This includes: to stimulate aggregate demand when the policy rate is very low, to address market dysfunction and sustain or repair monetary policy transmission channels, and/or to meet the MPB's statutory obligations of contributing to financial stability as an independent goal.

While they can be operationally similar, tools to stimulate aggregate demand are typically broader, larger and longer-lasting than those adopted to address market dysfunction. They can also have larger implications for the consolidated public sector balance sheet and for risk; tools to address market-dysfunction tend to be more targeted and short-lived. Staff advice to the boards would clearly outline the **purpose** of each tool and how tools interact.

Where possible, interventions aimed at market functioning should be clearly distinguished from those aimed at macroeconomic stimulus. Even though some tools could be used for either purpose, they should always be **designed** to meet their specific purpose. But flow-on effects matter: some tools aimed at macroeconomic stimulus can support market functioning, while market functioning tools can help restore and support monetary policy transmission.

Clear **communication** of a tool's primary purpose will support effectiveness, public trust and accountability. Where there is overlap, communication will explicitly acknowledge and explain any dual purpose. Unclear communication can create ambiguity that undermines effectiveness and complicates exit, as seen with the US Federal Reserve's 2020 asset purchases, which were publicly justified on both monetary policy and financial stability grounds.[2] By contrast, the Bank of England's response to the 2022 liability-driven investment funds (LDI funds) episode clearly framed its temporary gilt purchases as a financial stability intervention, allowing it to address the risk and exit the policy without undermining the monetary policy settings.

5.3.2. Tool interactions

Staff advice to the MPB would assess which combination of tools and design options best meets the AMPT principles. While a package of tools is generally more effective than relying on a single tool, not all tools work well together, and some combinations could weaken policy transmission or create unnecessary risks. Designing a package therefore requires balancing how tools interact with the overall risk profile, and how both are shaped by the economic environment and specific design choices.

In preparing advice, staff would consider how tools interact across the principles. This includes whether a tool might reinforce or undermine another tool's **effectiveness** (e.g. a term rate target could bolster the credibility of forward guidance, but may undermine the effectiveness of a bond purchase program), whether a tool could amplify or lessen other tools' **potential costs** (e.g. a term lending facility can lessen concerns about negative rates – such as pressures on bank profitability – but unwinding it alongside other balance sheet tools risks draining liquidity too quickly and creating financial stability concerns), and whether there are implications for operational **viability**

2 For a case study summary, see Kashyap (2024) 'Monetary Policy Implications of Market Marker of Last Resort Operations', Panel Discussion, Jackson Hole Symposium.

and flexibility, including how a combination of tools is implemented, operated or unwound. For example, the implementation details of other tools could inadvertently change or introduce forward guidance (e.g. committing to not raising rates until other tools have been exited).

5.3.3. Policy exit

When preparing advice for the MPB, staff will detail options for how tools could be exited. This includes planning both for the end of the policy (policy exit) and for the return to normal settings (policy normalisation and unwind).[3]

This enables the MPB to understand the risks, assess how much flexibility the package provides and balance this against the effectiveness of the tool. This trade-off is important; stronger commitments can make a tool more powerful, but they also make it harder to exit. And while most benefits arise early in a tool's life, many of the costs tend to accumulate over the medium to long run.

The MPB may choose to publicly communicate the conditions that might lead to an exit or unwind, to help clarify its potential reaction function, but this guidance should typically be framed as indicative rather than as a commitment.

5.3.4. Consulting Treasury and other agencies

The use of some AMPTs to achieve monetary policy objectives can create risks for the consolidated public sector balance sheet. Some tools generate subsidies or directly influence government bond markets. These tools expose the RBA's balance sheet – and therefore the broader public sector balance sheet – to financial risks. Tools such as government bond buying can lower government financing costs in the short to medium term. Although this may strengthen the consolidated balance sheet for a time, as economic conditions improve higher interest rates could increase refinancing costs for government debt and result in capital losses for the bonds held by the RBA. By stimulating economic activity, these tools can also lift tax revenues, which should be considered as part of a holistic assessment of the economic impact and the implications for the consolidated public sector balance sheet.

The MPB should explicitly assess and account for these financial risks. The RBA should also clearly communicate the purpose and intended use of the tools to the Treasury while preserving the RBA's operational independence in monetary policy.

When responding to a shock, it is also important to consider the overall effects of different tools across institutions. This includes whether another agency is better placed to respond. Where AMPTs may affect the policy responsibilities or objectives of other agencies, such as APRA or the Australian Office of Financial Management (AOFM), the MPB will consider consulting these agencies where timing and circumstances permit, including to manage operational and financial risks appropriately.[4]

3 Unwind typically refers to normalising the composition of the central bank's balance sheet – such as the maturity or active sales of government bond purchases – but there are also broader considerations around normalising policy settings and risks.

4 When applicable, consultation with APRA will be conducted in accordance with the Memorandum of Understanding Between the RBA and APRA.

5.4. Risk management

Staff advice and challenge

When preparing a proposal for the MPB, staff will identify and evaluate the severity and likelihood of the potential risks that could arise from the use of AMPTs. Advice will consider any design features or considerations that might mitigate these risks, as well as broader risk mitigants (more frequent monitoring, clearer decision criteria and exit conditions, additional governance checks etc.). Advice will also include a range of plausible but severe scenarios and, to the extent possible, should seek to quantify the expected benefits and potential costs. This would include modelling the range of outcomes for financial and other quantitative risks, and a detailed discussion of how qualitative risks could materialise and their possible consequences.

Policy proposals will be subject to internal review and challenge, including by line 2, consistent with the RBA's three lines of accountability framework.[5] If line 1 cannot engage with line 2 ahead of providing policy advice to the MPB around the use of AMPTs, line 1 will seek explicit approval for an exemption from the Chief Risk Officer. This exemption should only be requested in genuinely extreme scenarios where staff have insufficient time to consult line 2. For example, when delaying the announcement of a monetary policy response could lead to a sharp loss in market participants' confidence that significantly worsens the disinflationary shock. These exemptions should be documented in the materials presented to the boards to help members understand that the advice presented to them is missing this challenge.

As scenario analysis is further developed, staff will run fire-drill exercises of severe but plausible scenarios, including with the MPB and GB. These exercises might reveal gaps in understanding and allow staff and the boards to practise working under pressure with incomplete information.

Governance Board consultation and Monetary Policy Board's decision

Every effort will be made to ensure that, whenever timing and circumstances permit, the GB is consulted on whether the risks are being appropriately managed. These views will be incorporated into the proposal for the MPB. For decisions requiring rapid action, an expedited process will ensure the MPB can act within the required timeframe while still informing the GB.

Trade-offs will be clearly presented to the MPB for explicit decision. In a crisis, a prominent risk is likely to be that the stimulus is insufficient and there is a severe recession. Additionally, the longer inflation stays persistently low, the greater the risk that low inflation expectations become entrenched, which makes it harder to reduce real rates and would require even stronger stimulus to prevent inflation drifting lower or deflation. Managing this risk would require the MPB to be prepared to take on a range of other potential costs and/or risks. This could include operational and implementation risks, as well as broader risks to the RBA's balance sheet, to public trust in the RBA, or to financial stability and market functioning. These are discussed in detail in the staff's tool assessments.

5 See RBA (2026), '[Risk and Compliance Management Framework]', April.

Risk appetite

Staff and the MPB should have regard to any relevant framework, policy or risk appetite that has been established by the GB. Implementation of MPB decisions may in some circumstances require the RBA to operate outside its pre-existing risk tolerance, for example where asset purchases require the assumption of additional market risk, or the speed or scale of actions required involve additional operational risks. Nevertheless, the MPB will have regard to the GB's risk appetite, without preventing or impairing the implementation of decisions that are necessary to achieve its objectives. This includes considering options and potential mitigants that can achieve the MPB's objectives at lower risk.

When the use of AMPTs takes risks outside of previously established tolerances, the resultant risk exposure will be communicated transparently by staff to both the MPB and GB. The GB may choose to set new tolerance thresholds that accommodate increased risks taken in pursuit of policy objectives. Alternatively, given the duration of such positions may be uncertain, it may suspend the requirement to establish a remediation plan in such instances for a defined period.