



# An update on the transmission of monetary policy

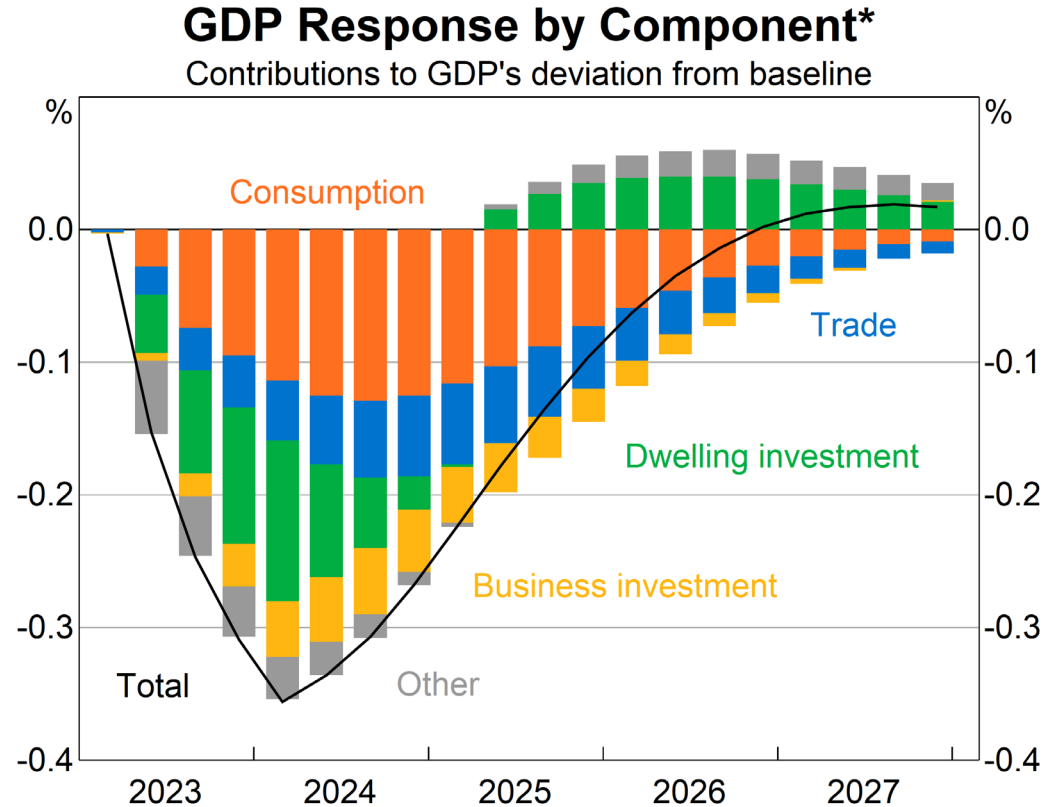
EC Policy

23 March 2023

ER and SAMM

# MARTIN's estimates of the channels

- Consumption and dwelling investment key drivers
  - Faster moving
- Investment and trade also moderate contribution
  - Later moving



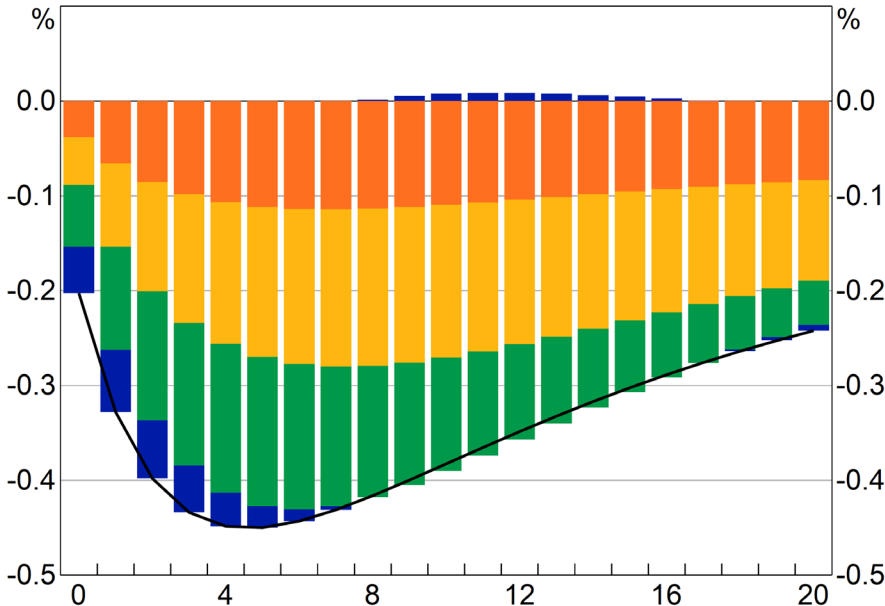
\* The cash rate is increased by one percentage point for one quarter.

Source: RBA

# DSGE model

## GDP Response by Component

Contribution to GDP's deviation from baseline



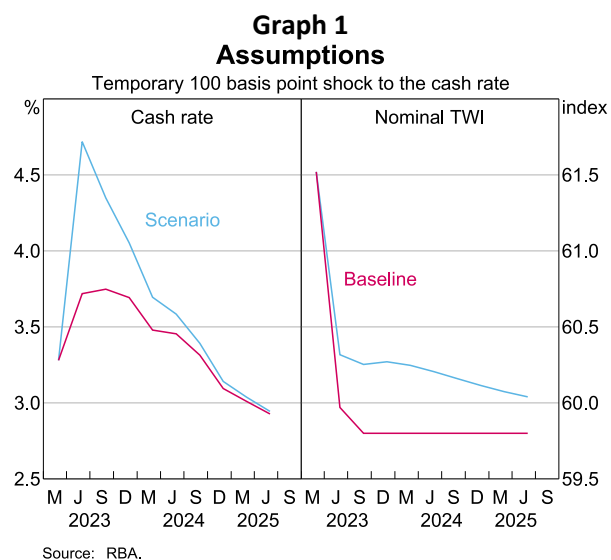
- GDP
- Consumption contribution
- Business Investment
- Dwelling investment
- Other

\* The case rate is increased by one percentage point for one quarter.  
Other includes trade fiscal and measurement error.

Source: RBA

## MONETARY POLICY TRANSMISSION IN EA'S FORECASTING FRAMEWORK<sup>1</sup>

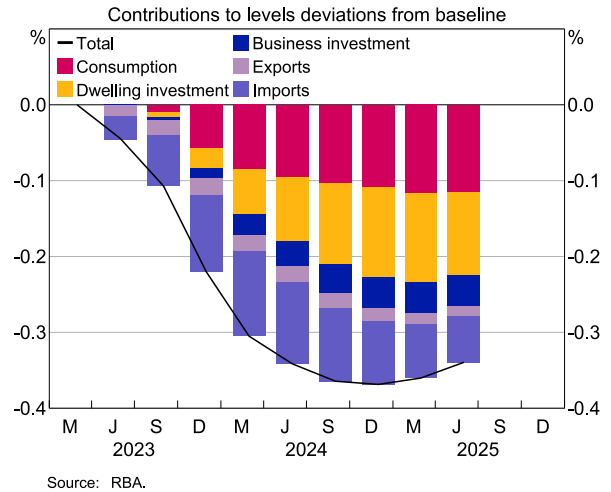
### Background



The baseline cash rate path is the one underlying the May 2023 SMP forecasts. The alternative cash rate path includes a one-off 100 basis point increase in the June quarter 2023, after which the cash rate path reverts to the baseline path

**Graph 3**

**GDP**



Dwelling investment is the most responsive to the cash rate shock, with levels declining by nearly 2.5 per cent by the end of the forecast period relative to the baseline. This is largely driven by higher density dwelling investment, with smaller declines in detached investment and alterations and additions.