1. The International Environment

Globally, headline inflation has continued to ease as energy prices have remained much lower than their peaks last year. However, core inflation has declined by much less, with services price inflation proving to be more persistent than many central banks in advanced economies had previously expected. This is consistent with demand remaining strong relative to supply, and labour markets remaining tight. Unemployment rates are still very low, with tightness in advanced economy labour markets easing only gradually to date. Growth in nominal wages and unit labour costs remains strong; in some economies, the recent pick-up in wages growth in an environment of weak productivity growth could further delay the return of core inflation to target.

Global economic growth has slowed as contractionary monetary policy and cost-of-living pressures have continued to weigh on demand, although activity in some advanced economies has been a little more resilient than had previously been expected. Conditions in the services sector remain relatively resilient, while conditions in the manufacturing sector have continued to weaken in a number of economies as household consumption has rebalanced away from goods into services. The conditions facing consumers have started to improve because of recovering real household disposable incomes, and a return to positive housing price growth in some advanced economies. Global growth is nevertheless expected to remain below average over the next two years.

The economic outlook for China has been revised lower compared to three months ago. In China, the economic recovery has slowed after the initial rebound from the COVID-19 lockdowns in late 2022. Household consumption growth has been relatively resilient but there has been a sharp deterioration in property sector conditions. Chinese authorities have acknowledged 'insufficient domestic demand' and have signalled more policy support could be provided for the property sector and household consumption.

Central banks in most advanced economies have increased policy rates further and several have indicated that additional policy tightening is likely to be required to return inflation to target. Market participants' expectations for the paths of policy rates have increased over the past few months, driven by signs that inflation may be more persistent than expected. Government bond yields have increased in line with policy rate expectations. Meanwhile, credit spreads narrowed and equity prices increased following the resolution of the US debt limit and as concerns around US banking stresses eased. However, credit growth in the United States and Europe has continued to slow, consistent with their significant tightening of monetary policy. The US dollar is little changed over recent months.

Inflation has fallen further from its peaks, but services inflation remains persistent

Globally, headline inflation remains high, but it has eased to be closer to central banks' targets

in some advanced economies. Inflation has also declined in the largest emerging economies in Asia; inflation is especially low in China, both by global standards and relative to the central bank's target (Graph 1.1).

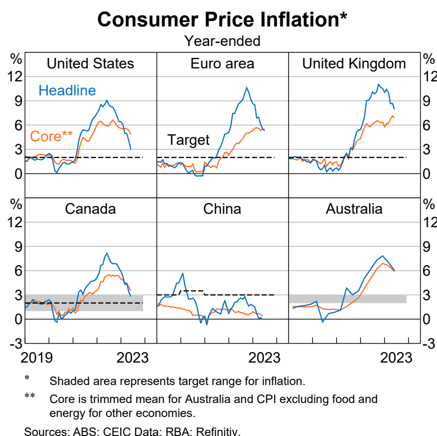
Declines in energy prices have been a key driver of the easing in headline inflation (Graph 1.2). Since the May *Statement*, thermal coal and natural gas prices have continued to decline, though oil prices have increased in response to further OPEC output cuts. Nevertheless, energy prices remain well below their levels of a year ago and are likely to continue to subtract from year-ended headline inflation over the coming months (Graph 1.3). Global food price inflation remains high, but many agricultural commodity prices (including prices of farm inputs such as fertiliser) have declined since late 2022. That said, the potential for future supply disruptions – including related to the emerging El Niño weather pattern and blockages of Black Sea exports from Ukraine – remains an upside risk to some agricultural prices, particularly in emerging market economies.

In contrast to the easing in headline inflation, core inflation is proving persistent at high levels in advanced economies. Core goods inflation has eased as demand and supply for consumer goods have moved into better balance, but in some cases this has been slower than expected. Services price inflation has eased by less, with a high degree of persistence evident for both rent and other services prices.

Rent inflation is high in most advanced economies and is also one of the largest items in CPI baskets (Graph 1.4). Rental price growth tends to be relatively persistent as both supply and demand for rental housing can be slow to adjust in response to price signals. In some euro area economies, rents are indexed to CPI, but some countries have capped the maximum increases. However, there are firm signs that CPI rent inflation has peaked in the United States, with the rate of price increases in new rental agreements slowing considerably as the supply

Graph 1.1

Consumer Price Inflation*



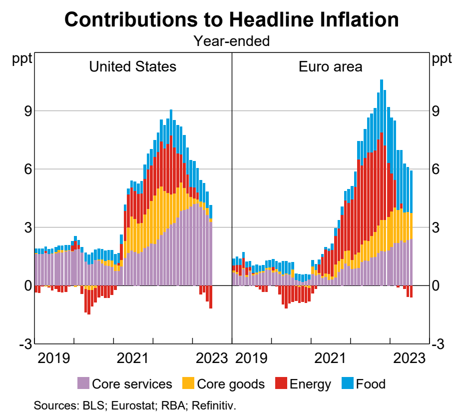
* Shaded area represents target range for inflation.

** Core is trimmed mean for Australia and CPI excluding food and energy for other economies.

Sources: ABS; CEIC Data; RBA; Refinitiv.

Graph 1.2

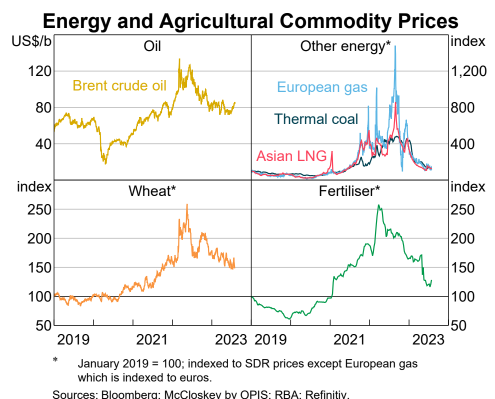
Contributions to Headline Inflation



Sources: BLS; Eurostat; RBA; Refinitiv.

Graph 1.3

Energy and Agricultural Commodity Prices



* January 2019 = 100; indexed to SDR prices except European gas which is indexed to euros.

Sources: Bloomberg; McCloskey by OPIS; RBA; Refinitiv.

response has started to materialise. Pass-through to CPI inflation from prices in new rental agreements typically takes around a year, suggesting it will take some time for the declines in advertised rent inflation to flow through.

Inflation in the prices of non-housing services also remains high in most advanced economies, consistent with the strength in demand relative to supply and the associated strong growth in nominal wages (and unit labour costs) and no easing in profit margins. However, there is variation across economies in the trajectory of non-housing services inflation. This component of inflation has recently started to edge lower in the United States; however, it has continued to increase to very high rates in the United Kingdom, underpinned in part by particularly strong wages growth there (Graph 1.5).

Labour markets have been resilient and wages growth remains strong

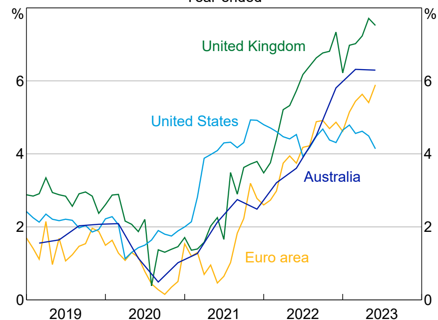
Labour market tightness in advanced economies is easing, but only gradually. Unemployment rates have edged slightly higher in some economies, but generally remain close to historical lows. Similarly, job vacancy-to-unemployment ratios have fallen from their early-2022 peaks but remain well above pre-pandemic levels in many advanced economies (Graph 1.6). Employment growth remains strong, having eased only slightly in many advanced economies over recent months. Looking ahead, central bank liaison suggests that labour market conditions will ease a little this year as demand for labour decreases and immigration and participation rates recover to their pre-pandemic levels, but labour markets are expected to remain tight overall.

Nominal wages growth remains strong and has picked up further in some economies in recent months (Graph 1.7). In some countries, particularly in Europe, additional pay increases to compensate workers for high rates of inflation are also supporting wages growth, including

Graph 1.5

Non-housing Services Inflation*

Year-ended



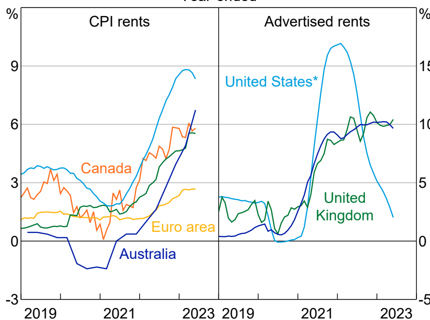
* PCE used for the United States, CPI elsewhere.

Sources: ABS; Employ America; Eurostat; Federal Reserve; ONS; RBA; Refinitiv.

Graph 1.4

Rent Inflation

Year-ended



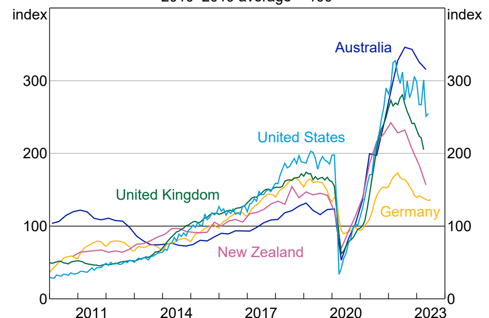
* Advertised rent inflation for the United States is the average of Apartment List and Zillow estimates.

Sources: ABS; Apartment List; CoreLogic; HomeLet; RBA; Refinitiv; Zillow.

Graph 1.6

Vacancies-to-unemployment

2010–2019 average = 100



Sources: RBA; Refinitiv.

recent and prospective increases to minimum wages. With current estimates of labour productivity growth remaining subdued in most economies, prevailing rates of wages growth remain above levels that would be consistent with many central banks' inflation targets over the medium term (Graph 1.8).

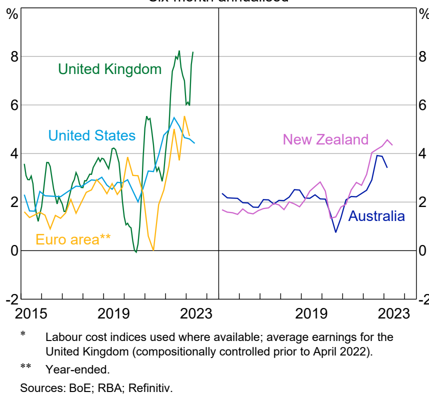
Global economic growth has been subdued in the first half of 2023

GDP growth has slowed in most advanced and east Asian economies over the past year, although the level of demand remains high relative to supply (Graph 1.9). Even so, the slowing in growth in major advanced economies has been less than previously expected, with June quarter GDP growth in the United States and the euro area both a bit above Consensus forecasts. The effects of tighter monetary policy and high inflation in these economies has been particularly evident in slowing household consumption growth. In most advanced economies, GDP per capita is around or a little below where it was prior to the COVID-19 pandemic; the United States is the main exception, with GDP per capita having recovered to around its pre-pandemic trend (Graph 1.10).

Services sector activity continues to be the main driver of growth in major advanced economies,

Graph 1.7

Wages Growth*



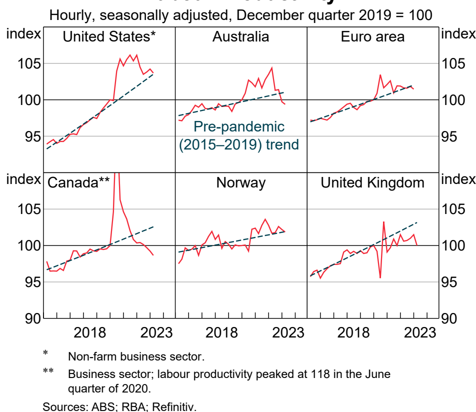
* Labour cost indices used where available; average earnings for the United Kingdom (compositionally controlled prior to April 2022).

** Year-ended.

Sources: BoE; RBA; Refinitiv.

Graph 1.8

Labour Productivity



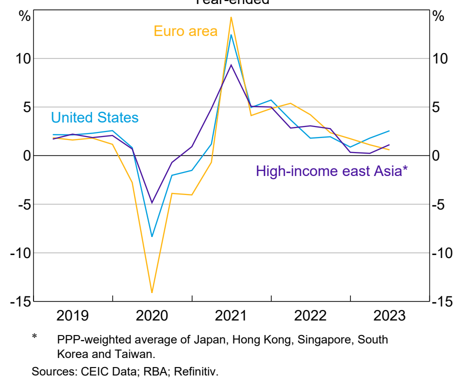
* Non-farm business sector.

** Business sector; labour productivity peaked at 118 in the June quarter of 2020.

Sources: ABS; RBA; Refinitiv.

Graph 1.9

GDP Growth

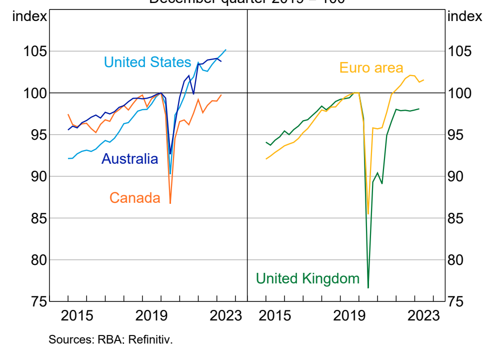


* PPP-weighted average of Japan, Hong Kong, Singapore, South Korea and Taiwan.

Sources: CEIC Data; RBA; Refinitiv.

Graph 1.10

GDP Per Capita



Sources: RBA; Refinitiv.

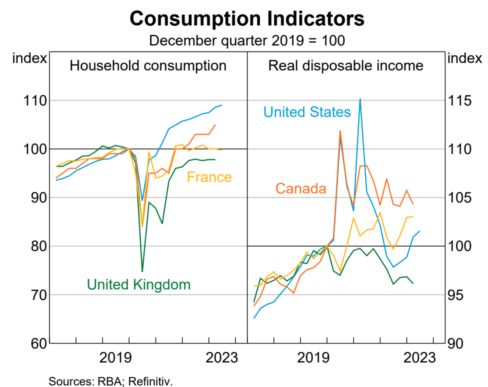
with goods demand and manufacturing sector activity remaining weak (Graph 1.11). Survey measures indicate that new orders in the manufacturing sector continued to weaken in a number of advanced economies in July, as did new export orders in Asia. The ongoing softness in goods demand has weighed on east Asian exports (including from China), with industrial production in the region also remaining weak.

Although household consumption growth has slowed in most advanced economies in recent months, the broader post-pandemic recovery in consumption has been notably stronger in the United States and Canada than it has been in Europe. Consumption growth in some advanced economies has been supported by recovering real household income growth as nominal wages growth has remained strong and the drag from inflation has eased (Graph 1.12; Graph 1.13). Stabilising housing prices may have also supported consumption in some economies. Acting in the other direction, household saving rates are now back down to around pre-pandemic levels. There is also uncertainty about how much further the earlier boost to consumption from drawdowns of additional savings that were accumulated during the pandemic will run, particularly as not all of these savings will be invested in liquid assets that can be easily drawn on.

Residential investment has been weak in advanced economies reflecting higher interest rates. However, housing prices have stopped falling across many advanced economies, and have started to increase again in some, driven variously by strong population growth, higher incomes due to low unemployment and low supply of housing (Graph 1.14). Forward-looking indicators such as building approvals have also increased in both the United States and New Zealand, but from low levels. Business investment has recently returned to its pre-pandemic level in most advanced economies,

Graph 1.12

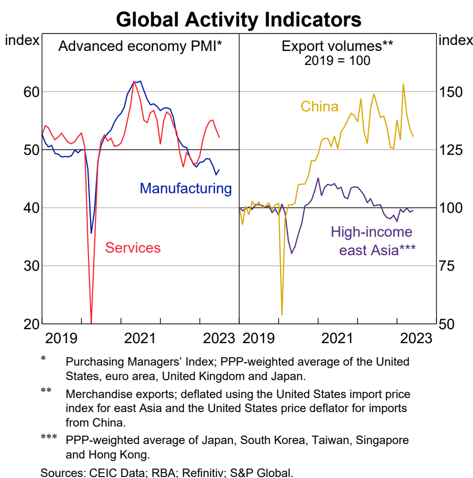
Consumption Indicators



Sources: RBA; Refinitiv.

Graph 1.11

Global Activity Indicators



* Purchasing Managers' Index; PPP-weighted average of the United States, euro area, United Kingdom and Japan.

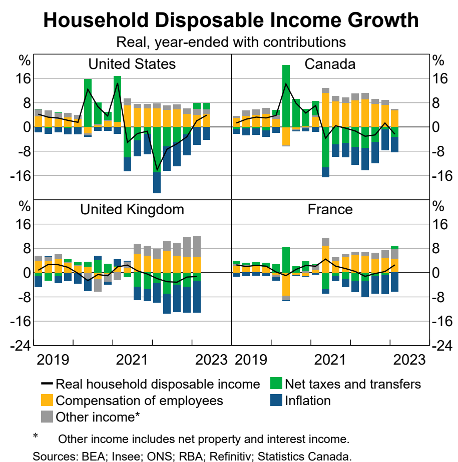
** Merchandise exports; deflated using the United States import price index for east Asia and the United States price deflator for imports from China.

*** PPP-weighted average of Japan, South Korea, Taiwan, Singapore and Hong Kong.

Sources: CEIC Data; RBA; Refinitiv; S&P Global.

Graph 1.13

Household Disposable Income Growth



* Other income includes net property and interest income.

Sources: BEA; Insee; ONS; RBA; Refinitiv; Statistics Canada.

but is somewhat stronger in the United States, where it has now returned to its pre-pandemic trend.

China's economic growth has declined following a strong initial bounce-back from COVID-19-related restrictions …

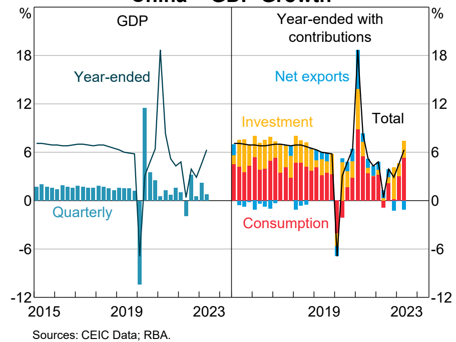
Growth in the Chinese economy was relatively subdued in the June quarter at 0.8 per cent, following an initial strong recovery after COVID-19-related restrictions were lifted at the end of 2022 (Graph 1.15). Net exports and ongoing weakness in the property sector have contributed to slower growth. Household consumption continued to recover despite a sharp deterioration in property sector conditions, but the level of consumption remains below its pre-pandemic trajectory (Graph 1.16). Chinese authorities have recently announced a range of policy measures intended to provide some support to household consumption.

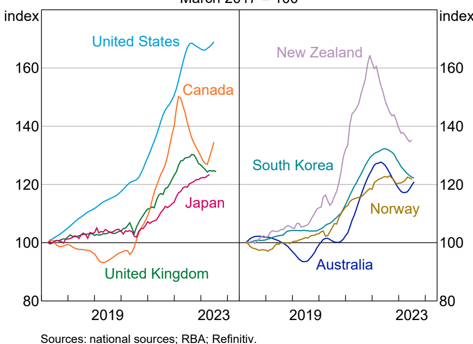
Improvement in China's aggregate labour market conditions has provided some support to consumption, with the total unemployment rate remaining broadly stable at around 5 per cent in the June quarter – close to its 2019 average (Graph 1.17). However, conditions in the labour market have been uneven, with the youth unemployment rate having doubled to almost 20 per cent since mid-2019. In contrast to most advanced economies, growth in urban household income from wages in China remains well below its pre-pandemic average, suggesting there is still considerable spare capacity in the labour market.

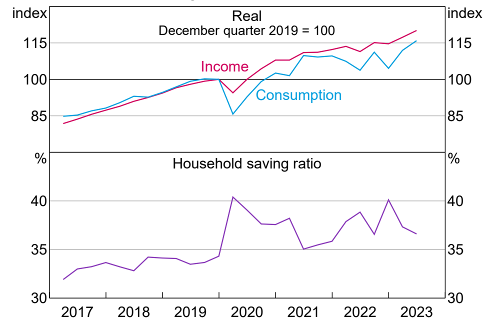
… alongside a significant further deterioration in property market conditions

Fixed asset investment in China continued to be supported by infrastructure and manufacturing investment in the June quarter, but real estate investment continued to subtract from growth (Graph 1.18)

Ongoing weakness in consumer confidence and uncertainty regarding the completion of homes





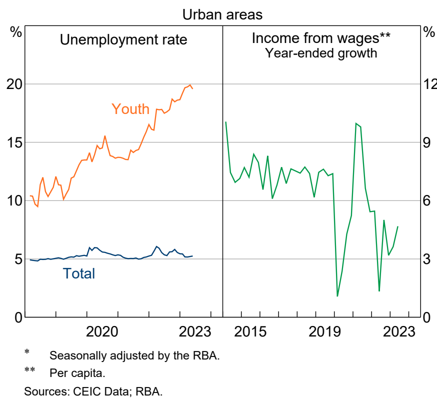


under construction have reduced the demand for new housing. As a result, sales have declined materially from the March quarter as pent-up demand from the COVID-19 restrictions in late 2022 has unwound (Graph 1.19). Authorities recently signalled a more positive tone on property sector support, with a further easing of city-level home purchase restrictions likely. However, the scope and impact of these changes is still uncertain, given household confidence is low and restrictions in many smaller cities have already been eased.

Reduced revenue from falling sales has exacerbated developers' financial pressures, making it more difficult for them to complete existing projects and begin new work. This has contributed to further defaults by developers on offshore debt and a further decline in their asset prices, which have largely retraced the sharp increase that followed the reopening of the economy in late 2022 (Graph 1.20). However, developers' equity prices increased over July following the extension of some existing support measures, and expectations of further policy easing.

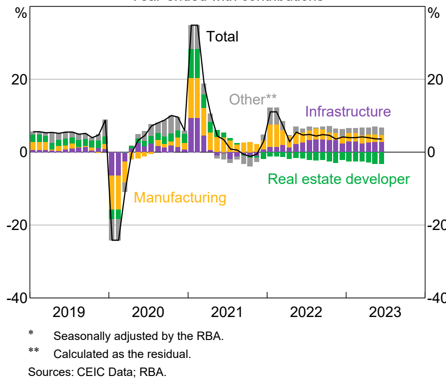
Graph 1.17

China – Labour Market Indicators*



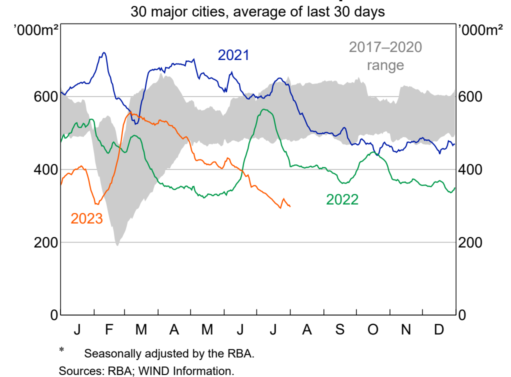
Graph 1.18

China – Fixed Asset Investment Growth*



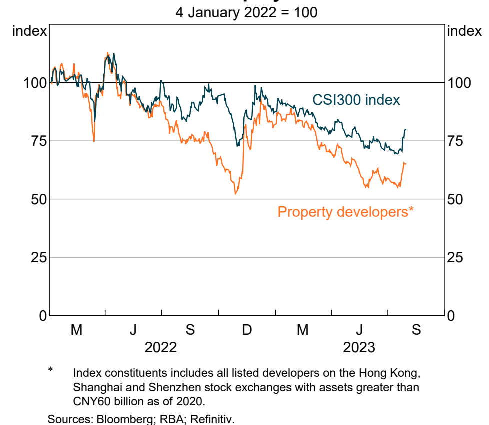
Graph 1.19

China – Residential Floor Space Sold*



Graph 1.20

China – Equity Prices



Chinese authorities have eased monetary policy a little further …

In June, the People's Bank of China (PBC) reduced two key policy rates – the one-year medium-term lending facility (MLF) rate and the seven-day repo rate – both by 10 basis points (Graph 1.21). Subsequently, banks lowered the five-year loan prime rate (LPR), a key mortgage reference rate, by 10 basis points. This modest easing of policy came alongside recent data which indicated the economic recovery has not been as strong as expected. This included weaker-than-expected total social financing (TSF) growth, which has moderated since March. Chinese Government bond yields have declined since the previous *Statement*, consistent with expectations of weaker economic activity, inflation and further easing in monetary policy.

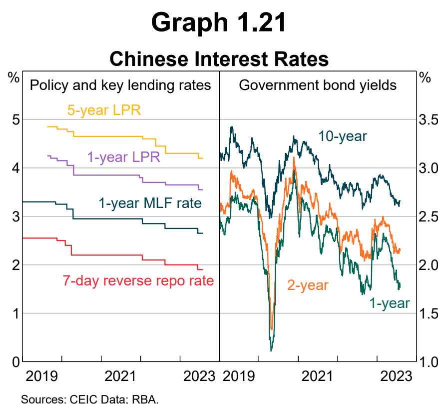
The Chinese renminbi depreciated against the US dollar and on a trade-weighted (TWI) basis to its lowest level since November 2022, consistent with a widening in the interest rate differential between US and Chinese Government bonds. The PBC has implemented several measures to reduce the pace of renminbi depreciation. Since late June, the PBC has set a stronger 'CNY fix' – the midpoint of the permitted daily trading range – for the renminbi than expected by surveyed market participants (Graph 1.22). Some state-owned banks have also lowered the interest rate on US dollar deposits, which may encourage exporters to settle foreign exchange receipts in yuan, supporting the exchange rate.

… and iron ore prices have been resilient on expectations of further Chinese policy stimulus

After falling earlier in the year, iron ore prices have been resilient to the weaker-than-expected Chinese activity data, driven by expectations of further policy stimulus for the property market (Table 1.1). The iron ore price has also been supported by low inventories at Chinese steel mills, while coking coal prices have been supported by restocking in China and India. Thermal coal prices have declined due to lower natural gas prices and high coal stocks, as well as weak industrial sector demand in China, despite heatwaves in Europe and north-east Asia boosting electricity demand.

The outlook for global growth has been revised a little lower and remains below average

Year-average GDP growth in Australia's major trading partners is forecast to be around 3¼ per cent in 2023 before declining to 3 per cent in 2024 (Graph 1.23). This is weaker than three months ago, with slower growth in China and an update to trading partner weights



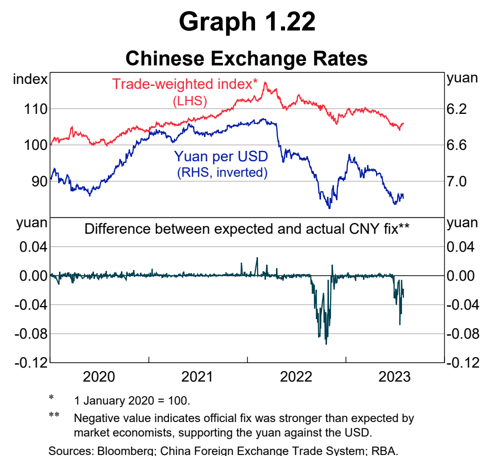


Table 1.1: Commodity Price Growth[(a)]

SDR terms; percentage change

	Since previous *Statement*	Over the past year
Bulk commodities	0	–21
– Iron ore	6	–5
– Coking coal	5	26
– Thermal coal	–25	–66
– Asian LNG spot	–4	–74
– Lithium (Australian Spodumene)	–27	–30
Rural	–5	–12
Base metals	0	–5
Gold	–5	9
Brent crude oil[(b)]	15	–18
RBA ICP	–5	–21
– Using spot prices for bulk commodities	–1	–21

(a) Prices from the RBA Index of Commodity Prices (ICP); bulk commodity prices are spot prices.

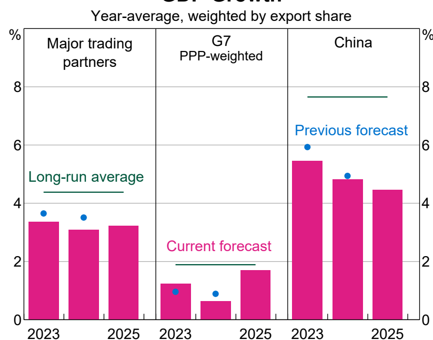
(b) In US dollars.

Sources: Bloomberg; McCloskey by OPIS; RBA; Refinitiv.

(which lowers the weight on the Chinese economy) the main drivers of the change.[1]

According to Consensus forecasts, GDP growth in major/G7 advanced economies is expected to remain subdued in 2023. They have been revised slightly higher in 2023 in aggregate as activity and labour market data have been more resilient than expected, but remain well below long-run averages. Downturns are now expected to occur later than was expected three months ago and GDP growth forecasts for 2024 have therefore been revised slightly lower. Consensus forecasts for GDP growth in east Asia excluding China are little changed for the region as a whole.

Graph 1.23



The outlook for global economic activity is highly uncertain:

- *Inflation in advanced economies could prove to be more persistent than currently expected and could require further tightening of monetary policy*. This would ultimately lead to a sharper slowing in economic activity. This risk could materialise if recent increases in wages growth were to gain further momentum, particularly if inflation expectations were to rise or via indexation in price- or wage-setting processes. The effect of persistently stronger wages growth on inflation would be further amplified if labour productivity growth remains weak.
- *There is uncertainty about the effects of the cumulative monetary policy tightening to date and therefore the outlook for economic activity.*

On the one hand, economic activity could continue to be surprisingly resilient, supported by initially strong private sector balance sheets or a slower-than-expected rise in unemployment rates (particularly if firms seek to hoard labour following a period where labour availability has been particularly tight). These factors could reduce or delay the effects of tighter monetary policy on activity relative to expectations. On the other hand, policy could have a larger effect than currently assumed. Central banks in advanced economies are forecasting that the current disinflation cycle will result in proportionately fewer employment losses than in previous disinflation episodes. While this partly reflects the unwinding of supply-induced inflation shocks – which causes less unemployment than demand-driven disinflation – there is still some risk that these forecasts are too optimistic and unemployment rises by more.

- *The recovery path for the Chinese economy is also uncertain.* Despite the recovery in Chinese household consumption so far, consumer confidence remains subdued and heightened economic uncertainty could lead to enduring incentives for households to build or maintain precautionary savings and reduce consumption. The outlook for the property sector also remains highly uncertain, with a recovery far from assured. Additional policy support for the property sector and household consumption could boost the recovery, but the scale and impact of any additional support measures are uncertain.

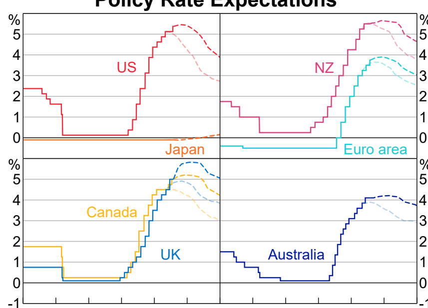
Central banks in advanced economies have raised policy rates further and market expectations have increased

Central banks in most advanced economies have increased policy rates further to reduce the risk that above-target inflation becomes embedded in price- and wage-setting behaviours. Market participants' expectations for the paths of policy rates have increased for most central banks over the past few months, with rates expected to stay higher for longer (Graph 1.24). These increases were driven by data that indicated inflationary pressures are more persistent than previously anticipated and statements from several central banks that additional policy tightening is likely to be required.

- The US Federal Reserve (Fed) increased the target range for its policy rate by 25 basis points to 5.25–5.5 per cent at its July meeting, after leaving rates unchanged in June. The Fed noted that while inflation had moderated, it remains well above its target and that decisions on whether additional policy rate increases are required would depend on incoming data.
- The European Central Bank (ECB) raised its key policy rate by a cumulative 75 basis points to 3.75 per cent at its May, June and July meetings. The ECB stated that it will continue to follow a data-dependent approach to determining the appropriate level and duration of policy restriction.

Graph 1.24

Policy Rate Expectations*



* Darker dashed lines show expectations implied by current overnight indexed swap rates; lighter dashed lines show the same expectations as at the May SMP.

Sources: Bloomberg; RBA.

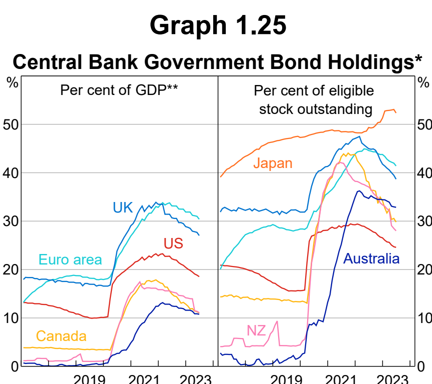
- The Bank of Japan (BoJ) maintained its policy rate at –0.1 per cent but announced it would conduct its yield curve control policy with greater flexibility. While the BoJ will continue to use a reference range of ±0.5 per cent for 10-year Japanese Government Bond yields in determining its market operations, it has raised its strict cap on 10-year yields to 1 per cent.
- The Bank of England (BoE) raised its policy rate by 50 basis points to 5 per cent at its June meeting, above the 25 basis points expected by markets. The BoE noted the greater persistence in UK inflation in the context of a tight labour market and continued resilience in demand. This followed an increase in the BoE's policy rate by 25 basis points at its May meeting.
- The Bank of Canada (BoC) increased its policy rate by a cumulative 50 basis points to 5 per cent at its June and July meetings. Prior to its June meeting, the BoC had last raised its policy rate in late January. The BoC said recent increases reflected a concern that inflation could become stuck well above its target if monetary policy was not tightened further.
- Norges Bank raised its policy rate by 50 basis points to 3.75 per cent at its June meeting, above the 25 basis points expected by market participants. It said that it is likely to increase its policy rate again at its next meeting in August. It also raised its policy rate by 25 basis points at its May meeting.

Most central banks have continued to reduce their holdings of assets purchased under quantitative easing programs (Graph 1.25). In July, the ECB ended partial reinvestment of maturities under its Asset Purchase Program and began to allow all asset holdings under this program to mature without reinvestment. It will continue to reinvest maturing assets under its Pandemic Emergency Purchase Program until the end of 2024. In June, the Riksbank announced it would accelerate its sales of government bonds while continuing to allow its other assets to mature without reinvestment. The BoJ is the only major central bank that is still adding to its bond holdings. The reduction in central bank holdings of government securities is expected to improve functioning in markets where there is a shortage of privately traded government bonds (see Box A: The Bond–Overnight Index Swap Spread and Asset Scarcity in Government Bond Market).

Central banks have continued to wind down term funding schemes established or expanded during the pandemic (Graph 1.26). A significant proportion of lending under the ECB's term funding scheme has now matured or been repaid, while most lending under the BoE and the Reserve Bank of New Zealand's (RBNZ) term funding schemes is not due to mature until 2024 or later.

Government bond yields have increased

Government bond yields have increased substantially over recent months, and most are near their highest levels in more than a decade (Graph 1.27). In most advanced economies, the increase in yields has been larger for short-term



* Central government debt only for all countries except the euro area. Holdings data for euro area only include bonds held as part of asset purchase programs; holdings data for the United Kingdom does not include purchases for financial stability purposes; holdings for other central banks also include bonds held for operational or liquidity purposes.

** Four quarter rolling sum. Japan (not shown) is currently 101% of GDP.

Sources: Central banks; debt management offices; RBA; Refinitiv.

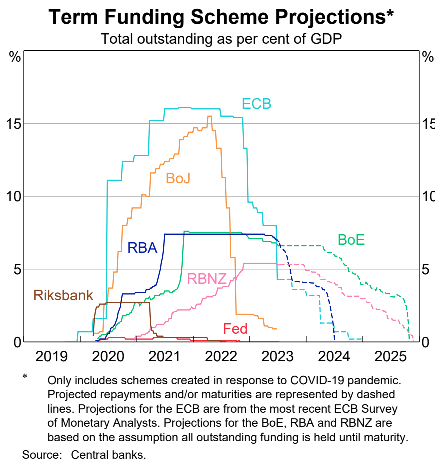
bonds reflecting market expectations that central banks are close to having tightened policy enough and will, in time, be able to lower rates as inflation returns to target. Consistent with this, longer term real yields are also near their highest levels in more than a decade. Longer term market-implied inflation expectations remain between 2 and 3 per cent in most advanced economies (Graph 1.28).

Private sector financial conditions have been mixed

Yields on investment grade corporate bonds have increased in line with government bond yields in recent months (Graph 1.29). At the same time, yields on sub-investment grade bonds have declined as credit spreads have narrowed following the resolution of the US debt limit and an easing of concerns around US regional banking stresses. Corporate bond issuance picked up in May, particularly in the United States as companies bought forward issuance to avoid potential market disruption if there was to be a default on US Government debt. However, it has since returned to subdued levels seen earlier in the year. Bank bond issuance in the United States has remained subdued since the collapse of Silicon Valley Bank, while in Europe issuance has been steady.

Equity prices in the United States and Japan have increased over recent months but are little changed in Europe (Graph 1.30). Equity prices in

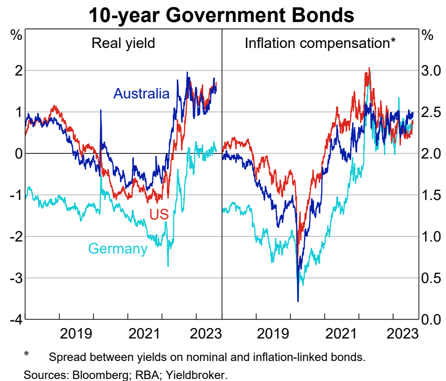
Graph 1.26



* Only includes schemes created in response to COVID-19 pandemic. Projected repayments and/or maturities are represented by dashed lines. Projections for the ECB are from the most recent ECB Survey of Monetary Analysts. Projections for the BoE, RBA and RBNZ are based on the assumption all outstanding funding is held until maturity.

Source: Central banks.

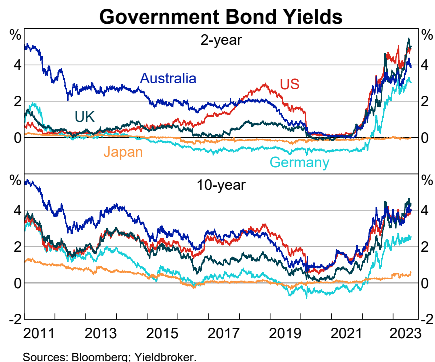
Graph 1.28



* Spread between yields on nominal and inflation-linked bonds.

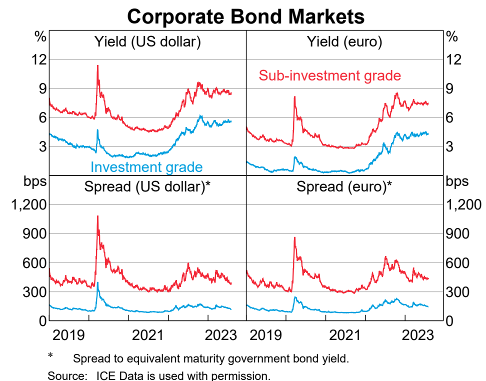
Sources: Bloomberg; RBA; Yieldbroker.

Graph 1.27



Sources: Bloomberg; Yieldbroker.

Graph 1.29



* Spread to equivalent maturity government bond yield.

Source: ICE Data is used with permission.

the United States have increased the most in the technology and consumer discretionary sectors, particularly in stocks perceived to benefit from developments in artificial intelligence. Equity markets also reacted positively to the resolution of the US debt limit. In Japan, the Topix reached a 33-year high, supported by a positive economic outlook, an expectation that monetary policy settings will remain accommodative and consistent foreign investor inflows.

Bank share prices in the United States, Europe and Japan have increased over recent months but remain around 10 per cent lower than their highs in 2023 in the United States and Europe. Better-than-expected second-quarter bank earnings results have contributed to increases in bank share prices in the United States. Regional bank share prices in the United States declined sharply following the collapse of First Republic Bank in early May and are still around 30 per cent lower than at the start of the year.

Credit growth in the United States and Europe has continued to slow in line with the earlier tightening in monetary policies. Meanwhile, deposit outflows from commercial banks in the United States have slowed significantly since the initial outflow of over US$400 billion following the emergence of stress at a number of US regional banks in early March. Aggregate bank deposits remain well below levels prior to the collapse of Silicon Valley Bank, particularly for smaller banks, and have been replaced with higher cost alternative sources of funding.

The US dollar is little changed

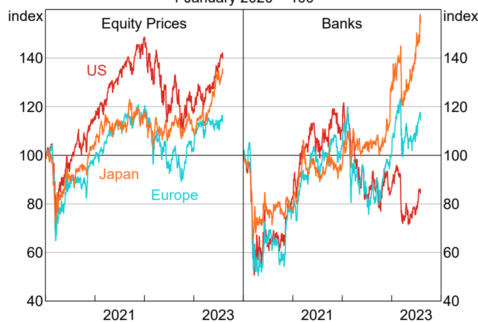
The US dollar is little changed on a TWI basis since the previous *Statement* but is almost 2 per cent lower since the beginning of the year. Although it depreciated in mid-July following lower-than-expected US inflation data, this has reversed of late (Graph 1.31). By contrast, the Japanese yen has depreciated further over recent months to be around 6 per cent lower on a TWI basis since the beginning of the year, reflecting the BoJ maintaining very accommodative monetary policy. Meanwhile, the euro is little changed over recent months.

The British pound has appreciated notably since the beginning of the year, supported by a large increase in UK Government bond yields relative to those of other advanced economies, which is consistent with higher policy rate expectations and inflation in the United Kingdom than elsewhere. Meanwhile, the currencies of commodity-exporting economies have been mixed. The Canadian dollar and Norwegian krone have appreciated on a TWI basis, while the New Zealand dollar and Australian dollar are

Graph 1.30

Equity Prices and Bank Indices

1 January 2020 = 100

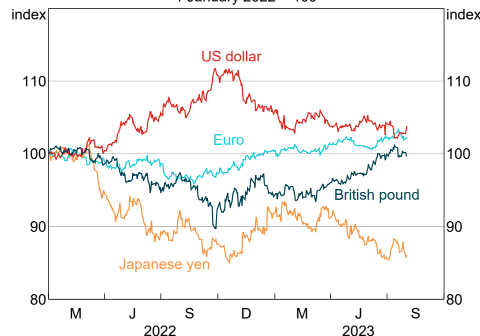


Source: Bloomberg.

Graph 1.31

Trade-weighted Exchange Rates

1 January 2022 = 100



Sources: Bloomberg; Board of Governors of the Federal Reserve System.

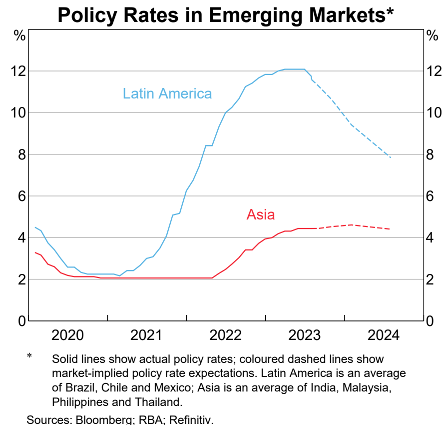
little changed (see Chapter 3: Domestic Financial Conditions).

Financial conditions in emerging markets have generally been stable

Central bank policy rates in many emerging markets are expected by markets to have peaked. Some central banks in Latin America – which started raising policy rates earlier and by more than advanced economies – have begun to reduce policy rates as inflation has continued to ease (Graph 1.32). Consistent with this, spreads between US-dollar-denominated bonds and US Treasuries have also declined. In Asia, spreads have narrowed to multi-decade lows alongside inflation returning to central banks' targets quicker than in many advanced economies (Graph 1.33).

Graph 1.32

Policy Rates in Emerging Markets*



* Solid lines show actual policy rates; coloured dashed lines show market-implied policy rate expectations. Latin America is an average of Brazil, Chile and Mexico; Asia is an average of India, Malaysia, Philippines and Thailand.

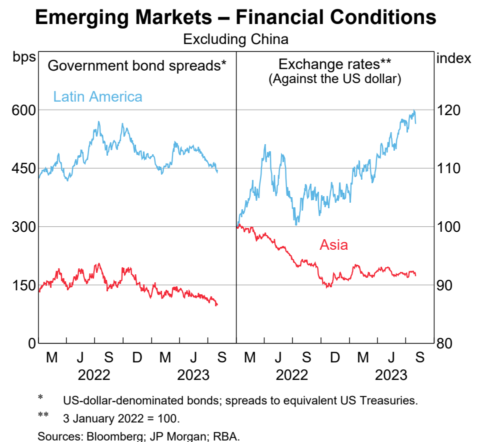
Sources: Bloomberg; RBA; Refinitiv.

Exchange rates in Asia have been broadly stable while those in Latin America have continued to appreciate, supported by a positive interest rate differential with the United States. By contrast, the Argentinean peso has continued to depreciate amid very high inflation and despite a rise in the policy rate from 91 per cent to 97 per cent. The Turkish lira has also depreciated sharply alongside the appointment of new central bank governor and finance minister, who are widely expected to pursue more conventional economic policies, including less foreign exchange intervention.

Graph 1.33

Emerging Markets – Financial Conditions

Excluding China



* US-dollar-denominated bonds; spreads to equivalent US Treasuries.

** 3 January 2022 = 100.

Sources: Bloomberg; JP Morgan; RBA.

Endnotes

[1] The major trading partner forecast downgrade also reflects a lower weight on the Chinese economy following an annual reweighting of Australia's export shares (Chinese GDP growth remains high relative to Australia's other trading partners despite the downward revisions to the forecasts).