

Tuesday, 17 March 2020

## RBA Minutes of the March Meeting COVID-19 in Focus

- The Reserve Bank (RBA) met on March 3 and cut the cash rate to 0.50%
- The minutes highlight the rapid shift in financial markets in the wake of the COVID-19 pandemic.
- Further interest rate cuts and other policy initiatives are likely.
- Board members were increasingly concerned about the economic fallout from the spread of COVID-19.
- Since the meeting, the outbreak has worsened and the RBA has already introduced measures to address liquidity issues and ensure the effective functioning of financial markets. The RBA also released a statement on Monday it was ready to provide further policy measures to be announced on Thursday.
- Growth in Australia's major trading partners was expected to be around ½ percentage point lower in 2020 than previously forecast.
- There is a material downside risk to the RBA' forecasts given the rapid turn in the global outbreak over the past few weeks.
- We expect the RBA will cut interest rates again to their effective lower bound of 0.25%. From there, further monetary policy easing measures are likely to take the form of quantitative easing, and include the purchasing of government bonds.

The minutes of the Reserve Bank (RBA)'s March 3 board meeting highlight the rapid shift in financial markets in the wake of the COVID-19 pandemic. The RBA cut interest rates by 0.25 percentage points to 0.50%. It signalled that it was willing to cut the interest rate further and was prepared to introduce additional liquidity measures if required.

The minutes show that members were increasingly concerned about the economic fallout from the spread of COVID-19. There was uncertainty about how long it would take economic activity to return to normal. Since the meeting, the outbreak has worsened and the RBA has already introduced measures to address liquidity issues and ensure the effective functioning of financial markets.

When assessing the economic impact of COVID-19, the RBA noted that growth in Australia's major trading partners was expected to be around ½ percentage point lower in 2020 than previously forecast. Services exports alone were forecast to decline by 10% in the March quarter, lowering the March quarter growth forecast by ½ percentage point. There is a material downside risk to

these forecasts given the rapid pace of the global outbreak since the meeting. Additionally, these forecasts do not incorporate any domestic containment measures.

Prior to the outbreak of COVID-19 the unemployment rate had risen to 5.3%. The relatively weak footing of the labour market was noted by the RBA in its decision. It welcomed the Commonwealth Government's stimulus announcement, suggesting that further coordinated action to support the economy is likely.

The minutes reveal that there was some discussion among board members about the longer lags associated with monetary policy meaning that the boost to the economy might not eventuate until after the shock had passed. This risk was deemed low. The RBA also said that the risk of a surge in borrowing due to the rapid recovery in house prices and low interest rates was also now much lower.

The rapid evolution of the COVID-19 pandemic render much of the information in the RBA's March meeting minutes outdated. However, they provide an indication of a coordinated fiscal and monetary policy response. The RBA has shown that it is not willing to sit on the sidelines during the current health crisis. It has flagged further policy initiatives to be announced on Thursday.

We expect the RBA will cut interest rates again to their effective lower bound of 0.25%. From there, further monetary policy easing measures are likely to take the form of quantitative easing, and include the purchasing of government bonds.

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