



Statement by Philip Lowe, Governor: Monetary Policy Decision

Date 19 March 2020

The coronavirus is first and foremost a public health issue, but it is also having a very major impact on the economy and the financial system. As the virus has spread, countries have restricted the movement of people across borders and have implemented social distancing measures, including restricting movements within countries and within cities. The result has been major disruptions to economic activity across the world. This is likely to remain the case for some time yet as efforts continue to contain the virus.

Financial market volatility has been very high. Equity prices have experienced large declines. Government bond yields have declined to historic lows. However, the functioning of major government bond markets has been impaired, which has disrupted other markets given their important role as a financial benchmark. Funding markets are open to only the highest quality borrowers.

The primary response to the virus is to manage the health of the population, but other arms of policy, including monetary and fiscal policy, play an important role in reducing the economic and financial disruption resulting from the virus.

At some point, the virus will be contained and the Australian economy will recover. In the interim, a priority for the Reserve Bank is to support jobs, incomes and businesses, so that when the health crisis recedes, the country is well placed to recover strongly.

At a meeting yesterday, the Reserve Bank Board agreed to the following comprehensive package to support the Australian economy through this challenging period:

1. A reduction in the cash rate target to 0.25 per cent.

The Board will not increase the cash rate target until progress is being made towards full employment and it is confident that inflation will be sustainably within the 2–3 per cent target band.

2. A target for the yield on 3-year Australian Government bonds of around 0.25 per cent.

This will be achieved through purchases of Government bonds in the secondary market. Purchases of Government bonds and semi-government securities across the yield curve will be conducted to help achieve this target as well as to address market dislocations. These purchases will commence tomorrow. The Bank will work closely with the Australian Office of Financial Management (AOFM) and state government borrowing authorities to ensure the efficacy of its actions. Further details about the implementation of this are provided in the accompanying notice.

3. A term funding facility for the banking system, with particular support for credit to small and medium-sized businesses.



RESERVE BANK OF AUSTRALIA

The Reserve Bank will provide a three-year funding facility to authorised deposit-taking institutions (ADIs) at a fixed rate of 0.25 per cent. ADIs will be able to obtain initial funding of up to 3 per cent of their existing outstanding credit. They will have access to additional funding if they increase lending to business, especially to small and medium-sized businesses. This facility is for at least \$90 billion. Further details are available in the accompanying notice.

The Australian Government has also developed a complementary program of support for the non-bank financial sector, small lenders and the securitisation market, which will be implemented by the AOFM.

4. Exchange settlement balances at the Reserve Bank will be remunerated at 10 basis points, rather than zero as would have been the case under the previous arrangements.

This will mitigate the cost to the banking system associated with the large increase in banks' settlement balances at the Reserve Bank that will occur following these policy actions.

The Reserve Bank will also continue to provide liquidity to Australian financial markets by conducting one-month and three-month repo operations in its daily market operations until further notice. In addition, the Bank will conduct longer-term repo operations of six-month maturity or longer at least weekly, as long as market conditions warrant.

The various elements of this package reinforce one another and will help to lower funding costs across the economy and support the provision of credit, especially to small and medium-sized businesses.

Australia's financial system is resilient and well placed to deal with the effects of the coronavirus. The banking system is well capitalised and is in a strong liquidity position. Substantial financial buffers are available to be drawn down if required to support the economy. The Reserve Bank is working closely with the other financial regulators and the Australian Government to help ensure that Australia's financial markets continue to operate effectively and that credit is available to households and businesses.

Today's policy package from the Reserve Bank complements the welcome fiscal response from governments in Australia. Together, these measures will support jobs, incomes and businesses through this difficult period and they will also assist the Australian economy in the recovery.