



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.

**Nelson Aston, Economist**

Ph: 02-8254-1316

## Contact Listing

### Chief Economist

Besa Deda  
dedab@bankofmelbourne.com.au  
(02) 8254 3251

### Senior Economist

Janu Chan  
chanj@bankofmelbourne.com.au  
(02) 8253 0898

### Economist

Nelson Aston  
nelson.aston@bankofmelbourne.com.au  
(02) 8254 1316

### The Detail

The information contained in this report (“the Information”) is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom Bank of Melbourne has a contract to supply Information, the supply of the Information is made under that contract and Bank of Melbourne’s agreed terms of supply apply. Bank of Melbourne does not represent or guarantee that the Information is accurate or free from errors or omissions and Bank of Melbourne disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to Bank of Melbourne products and details are available. Bank of Melbourne or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. Bank of Melbourne owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of Bank of Melbourne.

---

Any unauthorised use or dissemination is prohibited. Neither Bank of Melbourne- A Division of Westpac Banking Corporation ABN 33 007 457 141 AFSL 233714 ACL 233714, nor any of Westpac’s subsidiaries or affiliates shall be liable for the message if altered, changed or falsified.

---