

5th April 2023

RBA Decision – April 2023

The Reserve Bank of Australia (RBA) Board has left the cash rate unchanged at 3.60% at its April meeting.

Leading into the meeting, we thought there was a 50/50 chance of no rate rise versus another 0.25% increase. An increase might flag that they're seriously worried about inflation (and consequently less so about the economy) whilst a no change decision might suggest they're done raising rates in this cycle, bringing expectations of rate cuts forward.

At this juncture, it's best for the RBA to keep their policy options open and we feel the statement accompanying the decision achieved that. That is, monetary policy is likely tight enough to see meaningful falls in inflation in the period ahead, but the inflation fight is far from over given it was 7.8% in December 2022 and 6.8% according to the February 2023 monthly indicator.

There were some subtle changes and some re-ordering to their April statement relative to the prior month.

Key points of focus include:

- **Reiterated that monetary policy operates with lag** but validated that the pause this month as giving them additional time to assess the impact of the increase in rates to date.
- **Referenced that the recent banking system problems are expected to lead to tighter financial conditions** (ie. banks further constrict lending growth which is akin to more central bank rate rises).
- **Made a very clear statement that the Australian banking system is “strong, well-capitalised and highly liquid”**, and interestingly emphasised that Australian banks are well placed to provide the credit the economy needs (ie. possibly flagging to the banks that they need to be careful as to how far they constrict lending).
- **Comments on inflation were consistent that inflation had peaked** but also referenced the price of utilities rising quickly (new dimension).
- **Left the door open for further rate rises to ensure inflation returns to target**, giving them some policy flexibility if inflation doesn't continue to fall at an appropriate pace.

We still believe that the RBA is near the end of this hiking cycle given the lagged effect of the cumulative 3.5% of rate increases since May 2022. They continue to balance these lagged effects, which we think will be considerable and evident over the coming months, with maintaining their credibility on the inflation fighting front of bringing inflation down into the 2-3% range over the medium term.

Following their announcement, Australian equities moved higher, the AUD/USD fell, and bond prices rose (ie. yields lower).



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