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SHADOW RBA SHEDS LIGHT ON INTEREST RATES

The general consensus view of members of a new shadow RBA board is that the current interest rate is at the correct level, however there is some uncertainty.

Made up of senior Australian economists, the shadow board was set up as a research project by The Australian National University to look at interest rate setting by monetary policymakers.

Director of the Centre for Applied Macroeconomic Analysis at ANU Professor Shaun Vahey said board members were asked to rank their preferred target interest rate, and to give the probability that each interest rate is appropriate.

“Each economist gave a percentage value for how much they preferred each interest rate using an electronic voting system,” he said.

“For example, I ranked a five per cent interest rate as my first preference at 50 per cent, 4.75 per cent was ranked second at 35 per cent, 4.5 at 15 per cent, 5.25 at 5 per cent and all other options were at zero.

“The board members are not forecasting actual RBA board behavior, but are considering what they believe is the appropriate rate.”

The overall opinion pool revealed that the current interest rate of 4.75 per cent was the most preferred at roughly 60 per cent, followed by a five per cent interest rate at about 25 per cent, but there was a range of views.

Professor Vahey said the project aimed to study the collective views of shadow board members, taking into account each individual’s uncertainty.

“This is an exciting project as many economies operate with a shadow board but none have considered formally the uncertainty of each individual shadow board member,” he said.

“This might prove to be a more transparent method of communicating monetary policy setting by incorporating explicitly the diversity of opinions within the shadow board.”

The outcomes from the first forecasts of the members and aggregated votes are available at <http://cama.anu.edu.au/ShadowRBAboard.asp>

The pilot project runs from August until October with each round occurring on the Thursday before the decision by Reserve Bank of Australia (RBA) board.

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