

# CAMA RBA SHADOW BOARD – COMMENTS

OCTOBER 2020

Each CAMA RBA Shadow Board member is invited (but not obliged) to provide a personal comment on monetary conditions. Neither the comments nor the probabilities constitute financial advice. The views of the Shadow Board members are not those of CAMA. Any individuals utilizing these comments, or the probabilities, do so at their own risk.

PAUL BLOXHAM

No comment.

RENÉE FRY-MCKIBBIN

No comment.

MARIANO KULISH

No comment.

GUAY LIM

No comment.

WARWICK MCKIBBIN

No comment.

JAMES MORLEY

Like the Federal Reserve has done recently, the RBA should focus on managing (i.e., preventing a fall in) inflation expectations by clearly communicating that they intend to offset the effects of undershooting their target range now by allowing inflation to run at the high end of the target range for longer than otherwise in the future. I discuss the rationale behind this forward-guidance strategy in <https://johnmenadue.com/james-morley-the-rba-should-stick-to-inflation-targeting/#more-49963>.

This forward-guidance strategy implies that the RBA is likely to need to maintain the policy rate at 25bps (a further cut is less effective than clear forward guidance about future policy and its link to economic conditions) for the next three years and beyond until inflation runs at high enough levels to bring average inflation over a five-year horizon back up to well within the target range. It is possible, albeit with low probability, that inflation will rise quickly enough and to a high enough level that the RBA will be in a position to return the policy rate to a somewhat more neutral level. Quantifying this low probability is difficult (it is more a matter of “uncertainty” than “risk”), but it would be a mistake to assume the probability is exactly zero.

JOHN ROMALIS

No comment.

JEFFREY SHEEN

No comment.