

Monetary Policy Recommendation Statement

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Recommended Target (X=4.25%)	
target rate	probability
X+75bp	0
X+50bp	0.05
X+25bp	0.25
X	0.45
X-25bp	0.20
X-50bp	0.05
X-75bp	0

Balanced Risks

Domestic economic conditions remain balanced, with the unemployment rate low and inflation headed towards the target range. External risks have also become more balanced, with more evidence of recovery in the United States and more responsiveness of the ECB to risks in Europe.

Recent cuts in the policy rate and increasing capital flows should feed through to lower costs of funds for domestic banks. Thus, my recommendation puts the most weight on holding rates steady, with fairly balanced, but sizable weights on raising or lowering. The slight bias towards raising reflects the possible need to return the policy rate to its neutral level over the medium term.

James Morley is a Professor of Economics at the University of New South Wales and a member of the Shadow RBA Board. This statement reflects the views of its author only and does not necessarily reflect the views of other Shadow RBA Board members or any institution the author is affiliated with.