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MEDIA RELEASE

Whatever it takes

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This is a 'whatever it takes' moment for Australia and, indeed, the rest of the world. Former RBA Governor Glenn Stevens' had a dictum: "first do no wrong". In the current circumstance that means erring on the side of excess when it comes to stimulus.

The June quarter is likely to see the biggest ever quarterly decline in Australia's GDP probably since the Great Depression. And that by a significant margin. The challenge is to make the period of negative growth as short as possible. In this sense Australia is fortunate that it does have fiscal firepower. However, the way that firepower is deployed is vitally important in order to mitigate what is certainly in an economic sense, and in other ways, going to be the most challenging 6+ months, for many of us, in our lifetimes.

In this sense the RBA measures are a welcome and positive step involving as they do innovative approaches to monetary policy through QE and the Term Funding Facility. But they may be just another instalment. Only time will tell. I think it is implicit in the RBA's statement today that they stand ready to do more if needed. They may need to be a little more explicit a la Draghi's 'whatever it takes' at some point.

While the purchase of RMBS via the AOFM is also welcome, a determination to do 'whatever it takes' also applies to the Government with its fiscal measures. Perhaps it might have helped had the Government foreshadowed a little more explicitly a capacity for even more fiscal support should it be required, although to be fair these were things both the PM and Treasurer said at their press conference were "being worked on". I certainly expect further significant fiscal support will be needed. Further fiscal support beyond the 1% of GDP already announced will undoubtedly be required (NZ and the US packages amount to 4% of GDP by comparison).

To summarise, these measures will assist. But the extent of any recovery in the economy and markets will mean that key policymaking institutions overseas (The US, the Fed, the EU, the ECB, the governments of Japan and China and their central banks) need to make meaningful responses. On the basis that those overseas authorities do get to that spot then these measures will assist.

I think one of the things that might be required down the track is a version of 'helicopter money' with the development of a clearly calibrated mechanism whereby the RBA funds a portion of any fiscal stimulus via 'monetary financing'. This means some transparent and calibrated mechanism for direct RBA crediting of private sector accounts. For this to work it will also need to be adopted elsewhere - the US, Europe, Japan etc. If that happens then markets may well begin to rebound at some stage in the second half of the year. That will be well ahead of economies but at least it may constitute a light at the end of the tunnel.

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