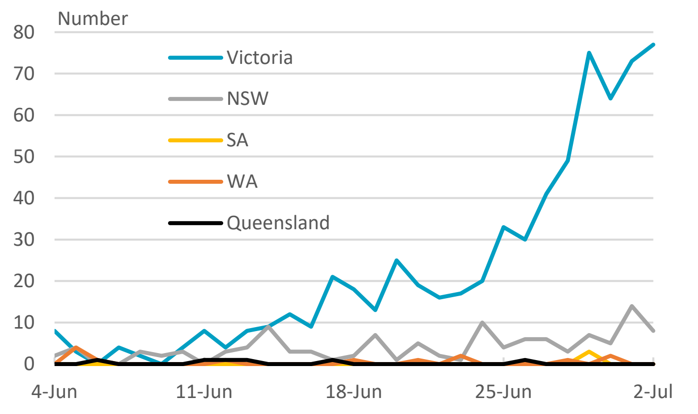
# ASFA Economic Snapshot: week ending 3 July

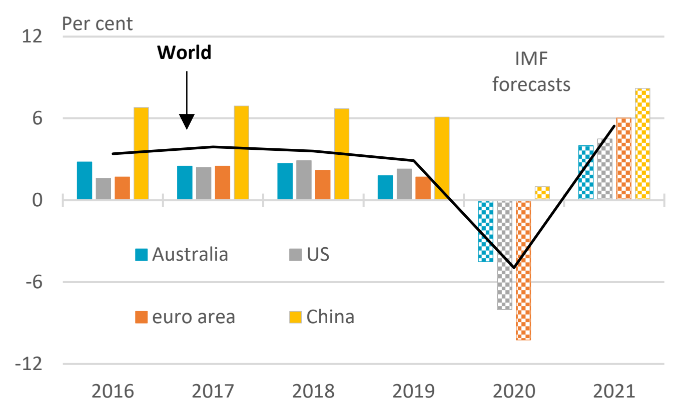
This is a weekly update on the impact of the COVID-19 pandemic on financial and economic conditions, in Australia and globally, and government policy measures to support economic activity and employment.

## New virus cases surge in Victoria



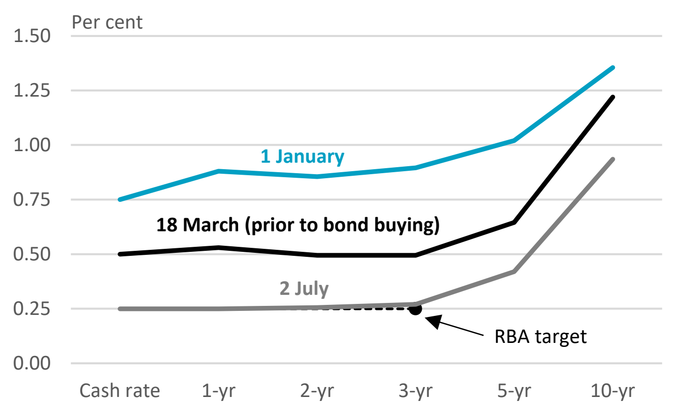

In Victoria, 409 new cases were recorded in the week to 2 July, up from 143 for last week. In response, the Victorian government has imposed tighter social restrictions on affected suburbs. NSW also reported a rise in new cases (though most are returned travellers in quarantine). This highlights the difficult balancing act that governments will face for some time – containing the virus, while re-booting economic activity.

## Australia's growth outlook revised up, but risks remain



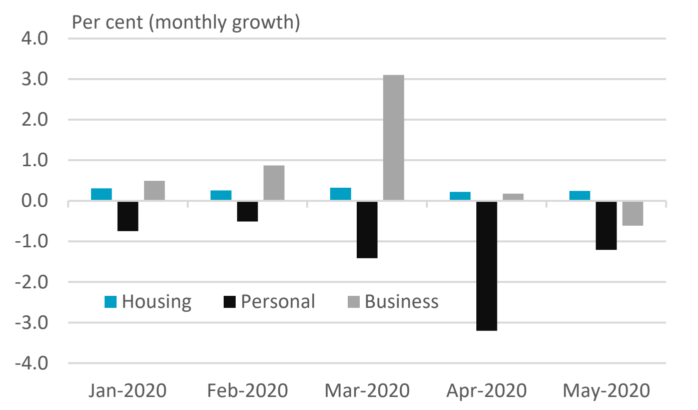

The IMF has down-graded its global outlook only two months after its previous report. Larger drops in GDP are expected for the US and the euro zone for 2020. In contrast, Australia's GDP is now expected to fall by 4.5% in 2020, rather than 6.7%. That said, Australia's revised forecast is contingent on ongoing policy support, while the risks to growth (a resurgence of virus cases) are skewed to the down-side.

## Monetary policy is at its limit …



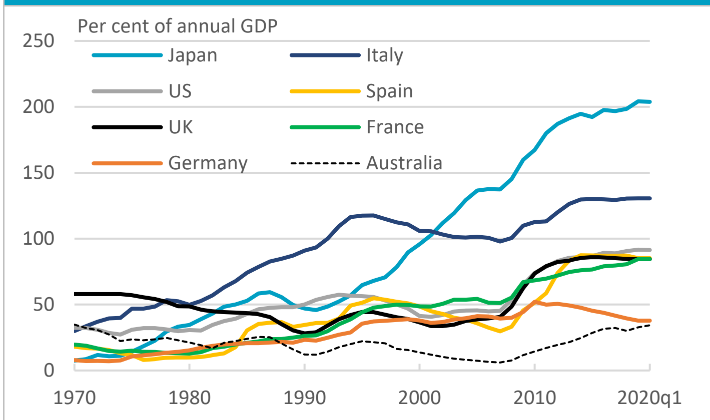

After cutting the cash rate to near-zero, the RBA has been buying government bonds (in the secondary market) across the yield curve to reduce bond interest rates (out to 3 years). While the RBA's expansionary policy has led to lower rates on loans and other forms of debt, its success in boosting real activity appears mixed (next panel).

## … with little impact on credit growth



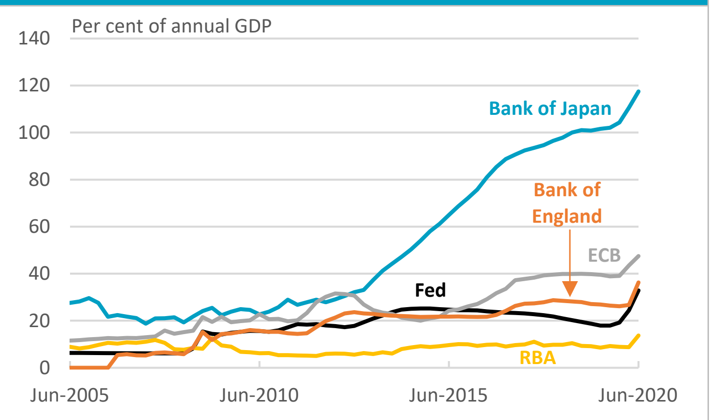

The efficacy of monetary policy depends on the willingness of banks to extend credit, and business and individuals to increase borrowings. The RBA's aggressive policy approach did coincide with a spike in business credit, but this has since fallen. Personal credit has declined by 8% since the end of 2019, while housing credit has risen by just 1%.

## Government has plenty of capacity on its balance sheet …




This chart shows the debt of central (federal) governments of selected advanced economies. At around 34% of annual GDP, Australia's level of central government debt is relatively low (the average for advanced economies is approaching 100% of annual GDP). This suggests that the Australian government has far more capacity than other advanced-economy governments to use fiscal policy to boost demand.

## … as does the RBA




This chart shows total assets of central banks. The RBA has significant capacity to deploy its balance sheet – which at present involves buying bonds in the secondary market. So-called 'monetary financing' would, in effect, involve the RBA buying bonds issued to it by government (to fund deficits). Government debt and central bank assets would both increase, but offset on the consolidated government balance sheet.

Sources for each panel: (1) https://www.covid19data.com.au/; (2) IMF, *WEO*, June; (3) RBA, *Statistical tables*, F1 and F2; (4) RBA, *Statistical tables*, D1; (5) IMF, *Government Finance Statistics* and *FRED database*; (6) *FRED database*.