

# **The Expectation of Monetary Policy and Long Term Interest Rates in Australia**

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The purpose of this paper is to investigate the impact of monetary policy expectation on long term interest rates in Australia. Three month OIS (Overnight Indexed Swap) rate is used as market expectation of monetary policy by the RBA. As for long term interest rates, AGB (Australian Government Bond) yields of two years, five years and ten years and NTCB (NSW Treasury Corporation Bond) yields of three years, five years and ten years are used.

AGB yields of two years, three years, five years and ten years and NTCB yields of three years, five years and ten years are in a relationship of long term equilibrium with OIS rate of three months. In other words, expectation of monetary policy by the RBA within a range of three months is incorporated in AGB yields of two years, three years, five years and ten years and NTCB yields of three years, five years and ten years. But expectation of monetary policy is not in a relationship of one to one with these long term interest rates.

The results of this paper have following policy implication. The RBA can partially influence AGB yields of two years, three years, five years and ten years and NTCB yields of three years, five years and ten years through monetary policy expectation formed in financial market. The RBA can give more impact on shorter maturities of AGB and NTCB yields. In other words, the impact gets smaller as the maturities of AGB and NTCB yields get longer.

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