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Review of the Reserve Bank of Australia Annual Report 2014 (First Report)

House of Representatives
Standing Committee on Economics

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Chair's foreword

On 3 February 2015 the RBA lowered the official interest rate for the first time in 18 months from 2.5 to 2.25 per cent. At the public hearing on 13 February 2015, the Governor commented that this decision was taken because of a more sustained period of below trend growth than previously forecast, a higher peak in unemployment, and slightly lower inflation.

The lower interest rate is expected to provide some support to demand in the short term although the Governor noted at the hearing that the capacity for monetary policy to do so is perhaps lower than it used to be. The non-resources sectors and Australia's growing trade partnerships with Asia are most likely to generate GDP growth in the long-term.

Current labour conditions in Australia are still somewhat subdued and the unemployment rate is expected to peak later than previously anticipated. Dr Christopher Kent of the RBA commented at the hearing that 'with the prospect that growth will remain at current levels for a little bit longer than we had hoped, the unemployment rate will rise a bit from here.'

The Australian dollar has depreciated considerably against the US dollar in recent months which is expected to benefit the traded sectors of the economy. However, the RBA has commented that our dollar still remains above most estimates of its fundamental value. The exchange rate is therefore expected to adjust further and this will depend to a large degree on how far the terms of trade fall.

It is encouraging to note the Governor's view that productivity growth has begun to improve. The committee is also mindful of the Governor's comments at the hearing that Australia's public sector debt needs to be kept low so that, as he explained, 'when something big goes wrong and the government wants to expand fiscal policy to help the economy, like we did in 2009, you want the scope to do that.'

On behalf of the committee I would like to thank the Governor of the Reserve Bank, Mr Glenn Stevens, and other representatives of the RBA for appearing at the hearing on 13 February 2015.

John Alexander OAM MP
Chair



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Membership of the Committee

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Terms of reference

The House of Representatives Standing Committee on Economics is empowered to inquire into, and report on, the annual reports of government departments and authorities tabled in the House that stand referred to the committee for any inquiry the committee may wish to make. The reports stand referred in accordance with the schedule tabled by the Speaker to record the areas of responsibility of the committee.