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**HOUSE OF  
REPRESENTATIVES**

STANDING COMMITTEE ON ECONOMICS

**Reference: Reserve Bank of Australia annual report 2008**

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**HOUSE OF REPRESENTATIVES**  
**STANDING COMMITTEE ON ECONOMICS**

**Friday, 20 February 2009**

**Members:** Mr Craig Thomson (*Chair*), Mr Andrews (*Deputy Chair*), Ms Julie Bishop, Mr Bradbury, Mr Hockey, Ms Jackson, Mr Marles, Ms Owens, Mr Anthony Smith and Mr Turnour

**Members in attendance:** Mr Andrews, Mr Bradbury, Mr Briggs, Mr Hockey, Ms Jackson, Mr Marles, Ms Owens, Mr Anthony Smith, Mr Craig Thomson and Mr Turnour

**Terms of reference for the inquiry:**

To inquire into and report on:

Reserve Bank of Australia annual report 2008

**WITNESSES**

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**Committee met at 9.31 am****BATTELLINO, Mr Ric, Deputy Governor, Reserve Bank of Australia****EDEY, Dr Malcolm Lawrence, Assistant Governor, Economics, Reserve Bank of Australia****LOWE, Dr Philip William, Assistant Governor, Financial System, Reserve Bank of Australia****STEVENS, Mr Glenn Robert, Governor, Reserve Bank of Australia**

**CHAIR (Mr Craig Thomson)**—I declare open this hearing of the House of Representatives Standing Committee on Economics and welcome the Governor and representatives of the Reserve Bank of Australia, members of the public and the media. I also extend a welcome to the students and staff from Canberra College, Canberra Girls Grammar School, Canberra Grammar, Dickson College, Erindale College, Marist College, Narrabundah College, St Claire's College and St Edmunds.

Since the previous committee hearing on 8 September 2008 the RBA has reduced the cash rate by a further 3.75 per cent. The committee will examine the RBA about the stimulatory effect of these cuts and whether the economy is responding sufficiently. The RBA has provided its most up-to-date forecasts in the February statement on monetary policy. The committee will seek further elaboration on these forecasts. The committee will also seek the governor's views about the current state of the global credit crisis and the impact of the international stimulatory responses to the crisis.

Once again, Governor, on behalf of the committee, I welcome you and other senior members of the Reserve Bank to today's hearing. I remind you that, although the committee does not require you to give evidence under oath, the hearings are legal proceedings of the parliament and warrant the same respect as proceedings of the House or the Senate. The giving of false or misleading evidence is a serious matter and may be regarded as contempt of parliament. Mr Stevens, I invite you to make your opening statement before we proceed to questions.

**Mr Stevens**—Thank you for the opportunity to meet again with the House Standing Committee on Economics. I thought it would be useful to take up where we left off last time when we met. Of course, as you know, shortly after that meeting—only about a week or so later—the global financial system took a serious turn for the worse. On 15 September, the American firm Lehman Brothers filed for bankruptcy. That was the biggest actual failure of a major American financial institution in many years. It had been widely known that Lehmans was under intense pressure. Nonetheless, the event when it came was still a shock. It triggered a massive reappraisal of risk around the world and ushered in a period of the most intense financial turmoil seen in decades.

The worst of the turmoil was actually fairly short lived—a matter of weeks—but in that time a number of events occurred which have had a significant bearing on the outlook for the global economy. Those included the incipient failure and/or public support of a number of major financial institutions in the US, the UK and continental Europe; the effective closure of many

important capital markets; and a worldwide decline in equity values of about one quarter, leaving them some 50 per cent or so lower than their peak.

I believe that the extraordinary actions of governments and central banks in that period in supporting key institutions, supplying huge quantities of liquidity and offering guarantees on various obligations of banks helped to stabilise what could have been a catastrophic loss of confidence in the global financial system. All of that remains a work in progress and sentiment in markets remains fragile; nonetheless, since October we have seen term spreads in money markets decline—back to still elevated levels, but certainly down from the peaks; we have seen long-term markets reopen to banks, largely on the back of the government guarantees; and public confidence in the security of the banking system has been maintained and the exceptional volatility in a lot of financial prices has abated somewhat.

Inevitably, however, the turmoil of September and October took a large toll on household and business confidence around the world. Observing all those events in real time, as we all do these days, people everywhere understandably have become much more cautious, and we are now seeing the effects of that. Consumers have pulled back discretionary spending sharply, are more inclined to save and are looking to repay debt. Businesses around the world have seen the fall in demand and have responded very quickly to cut production and costs as well as putting on hold plans for expansion. Nowhere is this more evident than in the automobile sector, where global demand has fallen by around 20 per cent since August and production has declined equally sharply. Global trade has fallen away, driven by those trends in demand as well as the significant disruption in trade finance.

For many of the world's largest economies the contraction in output in the last quarter of 2008 was the sharpest in decades. Nor is the weakness confined to the major economies. Emerging countries around the world that were relatively little affected by the crisis in the major countries until September are now suffering both the effects of weaker demand in the advanced world and the shock to domestic demand as their own citizens respond in the same way to the financial turmoil. Many indicators for Asian economies stepped down abruptly in the last few months of 2008. China's economy recorded little GDP growth in the fourth quarter and industrial production actually declined for some five months or so late last year. There are some tentative indications of a turn for the better in China, in some of the most recent data, although it is too soon to know yet whether that will continue.

It is all that news that bodies such as the IMF have factored into their growth forecasts for 2009, which put global GDP growth at just one half of one per cent—which would be a very weak outcome. As recently as October their forecast was three per cent. Needless to say, this amounts to a very major change in the international environment for Australia. As one metric of that, our terms of trade, which rose by about 65 per cent over five years—the biggest such rise in half a century—look like they will fall by about 20 per cent over the next year or so. That would still leave them historically high, and several commodity prices important to Australia have stabilised in recent months after quite sharp falls. At these levels the stronger mining companies will still make good profits but the confidence seen in 2008 has given way to a much more sober outlook, at least for the near term, and internationally the availability of risk capital has declined.

Locally, businesses are anticipating tougher times ahead. Measures of business confidence have diminished sharply. Firms are altering their strategies quite quickly, looking to conserve

cash, pay down debt and reduce costs. They are also experiencing tougher credit conditions. Indications are that investment plans, which had been exceptionally strong in the middle of last year, are being quickly curtailed.

Households, for their part, are affected, of course, by a significant loss of wealth, especially over the latter part of last year. Understandably they are tending to save more and in many cases are looking to get debt levels down. That said, measures of consumer confidence and spending in Australia have held up much better than in many other countries over recent months. Six months ago our judgment was that Australia was experiencing an economic slowdown that would turn out to be not unlike that of 2001 in its magnitude and that inflation would gradually decline. Absent the events of September and October that still would, I think, have been a reasonable expectation, but the financial turmoil and the real economic impacts that have flowed from that altered the balance of risks for the Australian economy and the world economy significantly.

The board quickly came to the judgment that the gradual easing of monetary policy that appeared to be in prospect and which had begun last time we met should be accelerated. It moved to reduce the cash rate quite aggressively. The total decline of 400 basis points since August, which is as rapid an easing as any we have seen in Australia's history, takes monetary policy to an expansionary setting. The government, as you know, is in the process of implementing a major discretionary easing of fiscal policy, and the exchange rate is significantly lower now than it was in the middle of last year.

The deterioration in international conditions was so rapid that no policy response could prevent a period of near-term weakness in the Australian economy or, for that matter, other economies. We are being affected by the global downturn and we cannot realistically expect other than weak conditions, at least in the first part of 2009. But the very large reduction in interest rates, the lower exchange rate and the major fiscal initiatives will work to support demand, increasingly so as the year goes on. Inflation is likely to continue the moderation that we saw begin in the December quarter and probably will do so faster than envisaged six months ago.

Compared with the sort of growth that we enjoyed until recently, this is a weak near-term outlook, to be sure. But, if the outcomes we see turn out to be even close to that growth, Australia will have done well in comparison with most other countries. We, as you know, have claimed all along that Australia was better positioned than many countries to ride out the international difficulties. Credit standards do seem to have tightened further over recent months and banks are seeing the inevitable increase in bad debts as the economy slows. But our major financial institutions are still in a strong condition. They have access to debt and equity markets, are still earning good profits and are still in a position to lend for sound proposals.

Our housing sector is not overbuilt; instead there is considerable pent-up demand and affordability is improving quickly. Most of the corporate sector is not overgeared. Going into this episode, the scope to use macroeconomic stimulus was bigger than most countries enjoyed, and that scope is being used. Moreover—and this is important—the transmission channels are still working. Interest rates paid by borrowers do generally fall when the cash rate is reduced. In contrast, mortgage rates in the UK and the US did not fall through most of 2008 because margins

rose by about as much as the central banks lowered their policy rates. Only quite recently, in fact, have UK and US mortgage rates begun to decline.

So there are reasonable grounds at this stage, I think, to believe that the Australian economy will come through this difficult episode—not unscathed, but well placed to benefit from a renewed expansion. Things will be difficult over the next year, but, as I have said before, the long-run prospects for Australia have not deteriorated by as much as we may all be feeling just now. China’s emergence, for example, has not finished. China has slowed a lot recently, but its emergence has years to run and Australia will benefit from that. So we should not lose sight of that or of the other positives that we have. We can have confidence in our long-run future and in our demonstrated capacity to adjust to changing circumstances. If we retain all that, there is no reason for any downturn to be a deep one.

The board is, of course, continually assessing whether the stance of policy is the right one to foster a durable expansion, consistent with the inflation target. A very large easing of policy has been put in place, on the basis of the anticipated effects of the global downturn and more risk-averse behaviour at home. Those effects are yet to be seen in many of the figures for the economy, though they are certainly being felt in businesses around the country. The effects of the policy adjustments are only beginning. So, in evaluating the information we receive in the months ahead, our task will be to distinguish between that which confirms the anticipated trends to which we have already responded and that which tells us something genuinely new about prospects for demand and prices over the medium term. Our objective, however, remains the same: sustainable growth and low inflation.

Perhaps, Mr Chairman, I might make a few comments about payments matters because, as you know, there are some reforms to arrangements for ATMs which are about to begin. Those arrangements seek to remove several undesirable features of the existing system. In particular, fees paid between banks when their customers use each other’s ATMs—so-called ‘interchange’ fees—are not transparent. Fees paid by customers using ATMs other than those of their own banks—so-called ‘foreign’ fees—are not always properly disclosed and in our view are in many cases higher than necessary. The earnings stream for owners of independent ATMs—and that is about half the ATMs in Australia—are limited to the interchange fees paid by banks, who are, of course, their competitors, and access by new entrants is difficult, potentially limiting competition.

Under the new arrangements, there will be no interchange fees. An ATM owner will be able to charge the customer directly a fee for the use of the machine but must disclose that fee prior to the transaction. Banks probably will allow fee-free withdrawals by their customers at their own machines, because they expect to cover those costs elsewhere in the customer relationship. Use of another bank’s ATM will attract, I expect, a fee by that other bank. But the only cost to the cardholder’s bank associated with the use of a ‘foreign’ ATM is the cost of electronically processing the transaction—a matter, in our view, of no more than about 10c. So, given that, we cannot see any strong case for ‘foreign’ fees.

Independent ATM owners will charge for the use of their machines, but that gives them an incentive to maintain and grow their network. Otherwise, it is likely that independents as a source of competition would diminish over time, reducing consumer choice. Access to the system will be governed by a code, which caps the price of new connections, so that new

competitors cannot unduly be hampered by the incumbent players overcharging for the connection.

So the essence of the changes is simple. People always have been paying, one way or another, to use ATMs. There is a cost of operation and that will be recouped somewhere. Even where the institution does not explicitly charge a fee it is being made up somewhere else in the relationship; they do not do this for free. Now people will know exactly what the price of an ATM transaction is, and they will know it before they complete the transaction. There should be, in our view, no 'foreign' fees of any significance. And competition will be maintained, by allowing the independent ATM owners to remain viable and new competitors to enter more easily. That, in our judgment, is an improvement over past arrangements and is, I think, the best way of keeping competition in the system and costs down over the long run. With that, Mr Chairman, I and my colleagues look forward to your questions. Thank you.

**CHAIR**—Thank you, Mr Stevens.

Resolved (on motion by **Mr Andrews**, seconded by **Mr Bradbury**):

That a statement by the Governor of the Reserve Bank be received as evidence and authorised for publication.

**CHAIR**—Mr Stevens, we intend to adopt the usual method of going up and down the line, but we are keen to also try to deal with some of the matters thematically and not just chronologically in terms of the order in which people are sitting, so there will be some interflow between the two when we are on similar topics. On page 1 you talk about governments and central banks supporting the economy globally, and you have also raised the issue of the size of the loosening of monetary policy by some 400 basis points. How important has it been, both in the Australian context and globally, that governments have acted in terms of their various fiscal responses to this global crisis as well as central banks loosening the ties on monetary policy?

**Mr Stevens**—What we face is this. Let us take the G7 countries as a group. There is a data series for G7 GDP as a group that goes back to 1960. It is compiled by the OECD. I think when that figure for the December quarter is finally available we will find that is the biggest contraction in the history of that series. It is the sharpest contraction in that 50 years. It is probably only a bit bigger than some of the really sharp ones we saw in the mid-70s, but nonetheless it is a big one. So you have got, as I said in the opening statement, a financial turn of events which really spun out of control for four or six weeks. You had tremendous turmoil and instability. That required, I think, a response by policy makers to the turmoil itself in order to stabilise the financial system and stop that spiralling down any further. That itself is very hard to do, but, as I say, I think that the truly extraordinary things that were done did avert what could have been a really disastrous outcome. So that was extremely important to do.

Having done that, what we have seen emerge—what I think we could all tell was going to happen to some extent at the time, but you do not get the data till later—is that the rest of the economy, the households and businesses who saw all that turmoil and saw the brief period of doubts about the stability of banking systems and so on, became more cautious and they have cut back their spending. That is a macroeconomic phenomenon. Given the world economy was already slowing, to have a sharp contraction in demand on top of that, it is then time for macroeconomic policy to move quite decisively in an expansionary direction.

Most central banks have cut rates quite a bit. We, of course, had the luxury I suppose you could say of having more ammunition to use than most, and we still have more if needed. Governments have also moved. It was striking to me that the IMF at the G20 finance ministers and governors meeting in November called for fiscal expansion. I do not think I can recall the IMF saying that before. The assembled finance ministers very quickly agreed. What that says, I think, is that serious people felt that there is a big need for getting moving in an expansionary direction here, and I think that is important. In a period where the financial system has already been weakened, where it has then delivered a shock to the real economy which is now weakening around the world and that will feed back into the financial system via asset quality and so on, it is important that macro policies adjust quickly to contain the weakness in demand as far as they can. So I think that is important. What is striking, I think, is how quickly that has been done in many countries, including here.

**CHAIR**—What, in your view, would have been the consequences for the Australian economy if the government had not looked to move in concert with the Reserve Bank with a fiscal stimulus?

**Mr Stevens**—I do not think we would be seeing too many consequences of that right now. They would be coming later. The policy expansion cannot really head off whatever is happening in the economy today; it does not work that fast. But later in the year we are going to be seeing more and more effects of those measures. That is when we would have seen the impact of a different course of action. The economy, I think, would have been considerably weaker than it will be, had that course of action been followed.

**CHAIR**—There have been lots of comment both here domestically but also internationally about the relative size of stimulus packages acting in concert with monetary policy. Do you have any comment to make relative to the size of the stimulus package recently announced in Australia?

**Mr Stevens**—No, I do not want to make any particular points about that. It is happening around the world. Some of the packages look bigger than ours, some look smaller. Some countries are in fact going to run very large budget deficits—much bigger than we will run—as a result of a weaker starting point. In addition, they have got the burden of rescuing banking systems. So in countries like the UK and the US you are going to see very big budget deficits and quite a large run-up in debt. This is an example where Australia is in a position as a result of prudent policies run in the past over many years to use our discretion to move in an expansionary direction quite strongly when the time came. From that point of view I think we have found ourselves in a good position compared with most countries you could think of.

**CHAIR**—Following that up, you would agree that the size of the stimulus package is consistent with many actions of governments overseas?

**Mr Stevens**—It is bigger than some, smaller than others. It does not seem to me to be outrageously large or small in that context. The benchmark, I suppose, to the extent there is one, is that the IMF called for discretionary stimulus globally of about two per cent of GDP. Some countries will do more than that, some will do less. In total we will have done some more by the time the packages are all done. But I do not have any particular strong observations to make on that.

**CHAIR**—Would you agree, though, to the proposition that the risks for the economy would be greater if the stimulus package was (a) not put in place at all or (b) not sufficiently large—that the risks related to those two scenarios certainly outweigh the risks of it being slightly larger stimulus in terms of the affect we are wanting to achieve with the economy?

**Mr Stevens**—I doubt the hypothetical scenario where there was going to be no package—there was always going to be something, wasn't there? It was a matter of you folks in the political process having your debate and coming up with something at the end. More generally, it is a judgment call how large these things should be and when they should be done. I do not really want to get into what I know has been quite a political debate in any particular way. I am comfortable enough with what has been done.

**Mr ANDREWS**—Mr Stevens, you said that we have still more ammunition to use.

**Mr Stevens**—If needed, yes.

**Mr ANDREWS**—How much more?

**Mr Stevens**—Many countries, as you know, have found their interest rates either at zero or close enough that it no longer matters. Our interest rate structure is very low now, by our historical standards, and I think that will have quite a powerful impact on the economy as time goes by. We have an overnight rate of 3¼ per cent, which as it turns out is one of the higher ones in the world—in the advanced world, anyway—and if there is a need to use more interest rate stimulus, and if that is prudent, then we can. I do not really want to steer expectations about that particularly today; it is just that we have scope to do more if more is needed.

**Mr ANDREWS**—So, somewhere between naught and the current level is what you are contemplating?

**Mr Stevens**—I would rather not pick a number as the resting point. The market is currently toying with something like two per cent or 2¼ per cent. I have no particular desire today to either encourage or disabuse them. But it is not my present expectation that we are going to find ourselves at nothing—put it that way.

**Mr ANDREWS**—Is there a point where potential further reductions reach the point of diminishing returns?

**Mr Stevens**—That is a very good question, and I suspect the answer is that there probably is a point at which it starts to not do the same good that it did previously. My predecessor, Mr Macfarlane, used to say that there is kind of a normal range that monetary policy works pretty well in and that, once you start getting outside that, you get into areas where you can be less confident that you can anticipate what the effects will be—not that the effects are that precisely calibrated, anyway, even in normal times. I think that is probably right. The reason that a lot of other central banks have found themselves right down to the zero bound is that, when they reduced the cash rate, nothing happened to the rates that borrowers were paying—in fact, for much of 2008 mortgage rates in the US were rising, not falling, even though the Fed was cutting its rate to nothing. That has been a serious problem for them. In other words, their transmission process was not really working. Our transmission process is working here—mortgage rates have

come down. Rates to business have not come down as much, that is true, but they have come down. So, when we are moving our instrument, the things that do the work are actually moving, which I think lessens greatly the probability that you end up getting to zero to begin with. That puts us in a position where policy here is working much more effectively, much more like it normally would, than it has been in some other countries.

**Mr ANDREWS**—Why do you think there has been less pass-on in non-mortgage products?

**Mr Stevens**—I think the facts here generally are—I can get one of my colleagues to go through the numbers more exactly—that the banks' overall funding costs have not come down quite as much as the cash rate has, so the overall rates that they have to earn off the whole portfolio of loans were not going to come down as much as the cash rate did. Of course, we took account of that in deciding how far down to go on the cash rate.

In the case of business loan rates, they have not brought those down as much and frankly they have not been under quite the same public pressure on those rates as they have been on housing rates. That is probably not the whole explanation but it may be part.

**Mr ANDREWS**—Do you have any data on how many additional fixed rate mortgages were taken out between January and September of last year?

**Mr Stevens**—I do not have those figures off the top of my head, though they can be gleaned, I think, from the ABS releases because there are figures on it. We have some information on the share of fixed rate loans, I think.

**Dr Edey**—Yes, the ABS collects data on that in their housing finance release, and those numbers do show that there was quite a big increase in the proportion of fixed rate loans. I think that peaked around about March/April last year.

**Mr ANDREWS**—The Chairman asked you about the combined effect—

**CHAIR**—Before we go to that, to keep it consistent, there are a couple of questions on interest rates.

**Mr HOCKEY**—Governor, I want to ask you about the transmission process that you were talking about a little bit earlier when you said that in the United States, for example, many householders still have fixed rate mortgages, which are only gradually coming down, and in Australia more than 50 per cent are variable rate mortgages. But there was a spokesperson from one of the major banks recently who said that 80 per cent of those people holding variable rate mortgages are in fact not reducing their repayments even though the interest rate is coming down. They are choosing to use their existing repayment levels to pay off the principal on the loans. What impact does that have on the stimulatory effect of an easing of monetary policy?

**Mr Stevens**—The default thing that happens is the same as with my bank; you have to write to them if you want to get your payment to go down—not that it is that hard to do that. But it is usually the case when interest rates fall that many borrowers choose to leave the payment unchanged and just run that principal down faster. With probably half the mortgages in Australia people are ahead on their payments for that reason.

In a sense you could argue, I think, that the stimulatory effect would be bigger if everybody chose to just keep the payment at the minimum and then spend the discretionary income; obviously that is right. But this behaviour of leaving it constant happens in every down cycle, so it is not new, which means, I think, that the extent of stimulatory power today versus on other occasions will not be materially different.

Of course, a lot of the action is for new borrowers who take out the new loan today. We can already see that the rate of approvals for new housing loans is rising quite quickly, and I think that will continue over the months ahead. Obviously, they are going on at the low rate.

So, yes, you are right, people do make that choice. What that means is that their balance sheet is getting strengthened more quickly and the day when that mortgage is gone forever is also here sooner, or it might be the day when they feel that they are ready to step up to a bigger house or retire the debt and have more free income, and that would also have gotten closer. So that is still strengthening their balance sheet even though they have made the decision not to take a larger amount of free cash flow for the time being.

**Mr HOCKEY**—Coming back to the statement about the fiscal stimulus packages—on a global basis—and your comment that the IMF—

**CHAIR**—We might come back to that.

**Mr HOCKEY**—Well, it is directly related to this. The IMF encouraged governments to spend and they did not hold back. When the IMF did that, did it take into account the fact that monetary policy settings in most of those countries are already extremely soft—

**Mr Stevens**—They did.

**Mr HOCKEY**—In Australia we still had a relatively high interest rate; therefore, we had enormous capacity, through monetary policy, to ease up. The combination of monetary and fiscal policy—

**Mr Stevens**—They did. They were also advising central banks to ease. The fund did take that on board. With the two per cent, they did not recommend that every country should do two. In fact, what they said is that some countries have less scope. If you are starting with an already substantial deficit and a lot of debt, you probably cannot do two; maybe you cannot do any. But they said that those who can do it should and, by implication, presumably, those who have more scope—if it is appropriate for them—should also use that. The fund was taking on board the fact that monetary policy was being eased.

**Mr HOCKEY**—So in Australia—

**CHAIR**—We need to be mindful—

**Mr HOCKEY**—This is important.

**CHAIR**—We will come back to you; we need to be moving through, as well. We have given you—

**Mr HOCKEY**—This is an important follow-up—

**CHAIR**—We have given you a fair go in terms of adding an additional question. We need to be moving through the list. You will get an opportunity to ask that question.

**Mr ANTHONY SMITH**—I will cede to Mr Hockey.

**CHAIR**—You will not cede to Mr Hockey; if you are not going to ask the question, we will go back to the deputy chair and his questions.

**Mr ANTHONY SMITH**—With respect, Mr Chair, the matters are interrelated. We have a few hours. These discussions normally flow a bit. If there is a sequence, you had better outline it, I think.

**CHAIR**—This is not a matter of debate. Where there are obvious additional, follow-up questions that can be asked, I am allowing people to ask them at the time. If we are going to a series of questions, we will go up and down the table and people will get the opportunity in the three hours to ask those questions. We are getting to the stage where Mr Hockey was getting into quite substantive questions. He was on to his third question. I was happy to allow a follow-up question, but if it is more than that then he will get a turn later.

**Mr HOCKEY**—It is a follow-up question, Mr Chair.

**CHAIR**—I have made my ruling. I will now go back to Mr Andrews and his questions on this issue.

**Mr ANDREWS**—I want to ask about two things: one is the forecasts and the second is a related matter. Can you elaborate on the reliability of the bank's forecasts?

**Mr Stevens**—The reliability?

**Mr ANDREWS**—Yes. You said, for example, in the February statement, that, given the extraordinary circumstances at present, the uncertainty surrounding the forecast is significant. I was wondering if you could elaborate on that general comment.

**Mr Stevens**—There are a couple of elements there. One is to do with turning points, which we are obviously having. Historical experience is that economic forecasts are not particularly good around turning points. We have seen that at every turning point that I can recall. In my experience as an economist, some turns, we over predict and some we under predict. That is one. That is a normal sort of feature of forecasting the cycle.

The second factor, and probably the more important, is that extent of financial instability globally that we saw and the complex and non-linear, unpredictable ways that those things can interact with economies. That is an additional point of uncertainty around anyone's forecasts at this particular time. It is an old forecaster's cliché that the extent of uncertainty is unusually large. In fact, they usually say, 'It is unusually large to an unusual degree.' But it is actually the case now that, if we are honest, there is tremendous uncertainty around any point number. That means that in thinking about policy you should be thinking about not just the central forecast but

what the risks are either side and about how to respond to them. We are certainly attempting to do that.

**Mr ANDREWS**—So the general stimulus package that the Australian economy has been subject to so far could be judged as meritorious in one set of circumstances according to particular assumptions, but if the economic slump is more severe than is being forecast then that package may not be adequate.

**Mr Stevens**—Yes. If the economic slump globally is more protracted or deeper, then the outlook for Australia would be weaker and obviously macroeconomic policy then has to reconsider the appropriate stance that we all pursue. Likewise, if there were a sudden return to confidence and growth, policy would have to get out of the way of that smartly.

**Mr ANDREWS**—What are the indicators of recovery?

**Mr Stevens**—If the question is, ‘Are there any indicators of that today?’ in Australia there will not be that many just now—it is a bit soon. But I think I can say, if I am thinking about monetary policy when we start to ease interest rates and what would we expect to happen, I would expect after a little while that amongst entities in the economy, mainly households that have reasonable financial situations, the demand to borrow is going to rise, and we will see that flow through into the housing sector. We have seen quite a tangible pick-up in loan approvals for housing, particularly for owner-occupiers. That has been rising for the last couple of months; I think it will keep rising. That is about what I would expect to see at this point in time given when we started to lower rates and so on. I think that probably is going to have some impact particularly on the lower end of the housing market and it will have an impact later in the year—not yet but later on—on demand for construction of new dwellings. At the moment that is contracting, but I think that will probably bottom out and start to turn up sometime later this year. That is what you would normally expect to happen.

**Mr ANDREWS**—My question is perhaps misunderstood. More broadly, the Reserve Bank has reduced interest rates by 400 basis points. The government put in place prior to Christmas a \$10-plus billion package. It has now come forward with a \$42 billion package. These are enormous uses of both monetary and fiscal levers. How do we judge whether or not this is working? What are the specific measures that you as the Governor of the Reserve Bank, your board and, indeed, we as policymakers should be looking at? I presume it is more than house loan approvals and I presume we cannot simply rely upon turnover of Westfield in December.

**Mr Stevens**—No. I think the indications are that the pre-Christmas package did have quite a measurable impact on consumer demand.

**Mr ANDREWS**—I am asking a specific question, Mr Stevens. Can you elaborate the measures going forward by which we would judge the efficacy of these policy decisions, both at the monetary level and at the fiscal level, taken broadly.

**Mr Stevens**—We will look at all the data that comes in on the economy and try to track whether the outlook that has been written down embodies our estimates of what the effects of those measures will be. While that is all uncertain, the best we can do is build those measures in and then track how the data flows relative to that set of expectations.

**Mr ANDREWS**—Can I drill down a bit further. Prior to Christmas the government said that a number of packages were going to create some tens of thousands of jobs. The latest indication from the government's lips is that the \$42 billion package will 'support' 90,000 jobs. So, in terms of one data set—namely, employment and unemployment—is that something you will be looking at?

**Mr Stevens**—Of course, but the point is that there will not be a statistic you can look up that says that the effect of that policy measure turned out to be 90,000 or 900,000 or 9,000—or whatever—because you cannot observe the counterfactual that would have unfolded without the measures. As to the estimates of how many jobs are created or supported, I have not been privy to how they put those—

**Mr ANDREWS**—So it is a nonsensical claim in the first place. Is that what you are saying?

**Mr Stevens**—No. What I am saying is that it cannot be measured. To estimate the number of jobs what you would do is come up with an estimate of how much GDP will be affected. If you raise GDP by one per cent, roughly speaking, over time you would expect there to be one per cent more jobs relative to the unobservable baseline. So the problem will always be that estimated impacts are estimated impacts. They are the best estimates that can be done, but you cannot go and look up a figure to discover whether that estimate turned out to be right or not, because the counterfactual path of the economy, without the measures, cannot be observed.

**Mr ANDREWS**—But what I am asking is: are there half a dozen measures, for example, have a dozen data sets, that you would be looking at to say, 'This is an indication that all of this extraordinary activity has worked' or 'It is not working as we expected'? How are we to judge this?

**Mr Stevens**—That is the difficult question. We track about two or three thousand data sets on a monthly basis and come up with, as best we can, an integrated view of what the economy is doing. We then ask ourselves, 'Is it doing what it should be?' and 'If not, what can we do to nudge it in the right direction?' There is no single data series, and I do not think there are even half a dozen individual indicators that you can look at to say, 'Yep, it's working,' or, 'No, it's not'—it will almost certainly never be that clear; it never is.

**Mr ANDREWS**—Of 3,000 surely, Mr Stevens, there are some that are much more significant than others.

**Mr Stevens**—In the end, from our point of view, we have an inflation target and a general desire to support durable growth and we assess that in a forward looking sense every month. But all those 3,000 data series go into forming the judgment about that.

**Mr ANDREWS**—So inflation is a significant one?

**Mr Stevens**—Of course.

**Mr ANDREWS**—Unemployment?

**Mr Stevens**—Of course.

**Mr ANDREWS**—Growth?

**Mr Stevens**—Yes.

**Mr ANDREWS**—Any other significant ones that we can say, when we are all making a judgment—which the Australian people are entitled to do—are the key indicators?

**Mr Stevens**—They are certainly key ones. Most other things are the things you look at to help you get to the answers on those in a prospective sense, because you have to make a judgment today about how things are likely to look in six or nine months from now. When you get to six or nine months from now, things will probably in some respects look different from what you thought—they always do—but the job is about putting the jigsaw puzzle together in a way that tries to give you a picture of where we are going to be in the future.

The other thing I would say is experience suggests that, in trying to gauge the durability, the sustainability, of everything that is happening, you have to look at the financial part of the economy too. I think that the countries that have got into the worst trouble in this episode have been the ones who let, or could not stop, those things from going wrong—leverage built up too much and so on. Those also should be part of the picture if you are really about trying to achieve a durable expansion over a long period.

**CHAIR**—Just as a follow-up question to that, to try and encapsulate some of what Mr Andrews, the deputy chair, was asking: you are saying that, in examining the 3,000 indicators, in your judgment the reduction in monetary policy and the government acting fiscally put the economy in a better and sounder position than if the central bank, the Reserve Bank, and the government had not acted at all.

**Mr Stevens**—Growth will be stronger than it would have been without those actions. I do not think there is any doubt about that. It seems to me that what is in debate is: will it be strong enough or too strong or about right? And of course ex ante, ahead of time, that is always going to be very hard to judge.

**CHAIR**—Mr Turnour.

**Mr TURNOUR**—Good morning, Mr Stevens. It is good to see you again. My questions go to the stimulus package as well. You talked about the collapse of Lehman's, the rapid change that happened in confidence and consumer demand, and the flow-throughs of that. You also mentioned the fact that there are delays in terms of the impacts of monetary policy, changes in the economy and in growth, and the impacts those could possibly have on unemployment. My question goes therefore to the role of fiscal policy as well in terms of the stimulus package and the importance of being able to move quickly with transfer payments—like cash bonuses and the like, which we talked about before Christmas, and also those in this current package—and the importance of those payments in your forward estimates of growth.

**Mr Stevens**—They are built into our forecasts as best we can. I think, in designing these packages, you have got a few considerations. One is that you have got to reach a judgment as to: how soon do we want to have an effect? Do we want to still be having an effect in a year from now or 18 months from now? You may well be wanting to have that. That hinges, to a large

extent, on: how long do you think the international situation is going to remain bad? Of course, we do not know but at some point you have to make an assumption there. Some of these transfer payments can be done very quickly. They went out on—I think it was—8 December and actually you could see an impact of that in things like withdrawals from ATMs out of some banks and the rise in debit card transactions before Christmas. I think all of that was related to that package. As I say, I think it has had a measurable effect on the economy over the summer. Then you have got things that take longer to start. Infrastructure things take a lot longer. So for those designing the package, I assume—and I was not involved in it—it was a matter of trying to work out what kind of balance you want or should have between those various sorts of elements.

**Mr TURNOUR**—Just following up on that, you said you would factor that into your forward estimates.

**Mr Stevens**—Yes, we have.

**Mr TURNOUR**—Looking at your forward estimates, you have growth, pretty much later this year or in the not too distant future, coming to pretty much not negative growth but no growth or pretty close to it. Effectively, if we had not had those transfer payments would you have been forecasting negative growth in the Australian economy?

**Mr Stevens**—I think if you take the vast bulk of mainstream economists and you give them scenario A—the government does a fiscal expansion of something like a per cent of GDP—and scenario B—it does not do it—over a time horizon of, let us say, a year, the mainstream economists are going to come up with an outcome for growth that is higher in scenario A than in B, obviously.

**Mr TURNOUR**—So with a fiscal stimulus of around two per cent this year without that stimulus we could have expected growth to be possibly two per cent lower?

**Mr Stevens**—We would expect growth to be lower. I am not sure I want to play the game of trying to estimate for you exactly how much. It would have been lower. The year 2009, and to some extent 2010, would have been a lower pace of growth of aggregate demand in Australia absent those measures. I think that is obviously right.

**Mr ANTHONY SMITH**—Governor, I have got a series of questions. If I could go back to the issue of fixed mortgages, what proportion of mortgages are fixed in Australia?

**Mr Stevens**—About one-fifth.

**Mr ANTHONY SMITH**—And the US is much higher, isn't it?

**Mr Stevens**—Most of them.

**Mr ANTHONY SMITH**—And what was the magnitude of the increase last year in that context?

**Mr Stevens**—The increase of what?

**Mr ANTHONY SMITH**—Fixed mortgages. I think you said—

**Mr Stevens**—For the flow of new mortgages the share rose by how much, Malcolm?

**Dr Edey**—It is normally about 10 per cent or a bit higher. It went up to over 20 per cent for a while early last year.

**Mr ANTHONY SMITH**—And what was the level before then?

**Mr Stevens**—Of the total stock outstanding—I cannot quote the figures as I do not have them in my head—it would have raised it a bit, though, the monthly flow is of course not that big compared to the total stock that is out there so—

**Mr ANTHONY SMITH**—How would that compare with previous cycles?

**Mr Stevens**—I am not really sure; I have not done the sums. It usually happens that when interest rates rise, and some people expect they may rise further, the share of fixed rate loans goes up, though that hinges of course on the pricing because the pricing has got embodied in it a set of expectations about the future path of interest rates.

**Mr ANTHONY SMITH**—That is an important point, because it goes to expectations, doesn't it? People fix on the assumption that interest rates will keep going in an upward direction.

**Mr Stevens**—They may fix on that or they may fix because they decide: 'I can afford the fixed rate payment. It is a form of insurance. I do not want to have to think about this any more for the next three years. I will fix at that and just forget about it.' In a sense, every time you take insurance that is what you are doing.

**Mr ANTHONY SMITH**—You would be more inclined to fix if you were told the inflation genie was out of the bottle, wouldn't you?

**Mr Stevens**—I do not know. You would be inclined to fix based on your own assessment of what you can afford and what you think might happen and how much you want to worry about interest rates varying every month.

**Mr ANTHONY SMITH**—It is not a phrase the Reserve Bank would ever use, is it?

**Mr Stevens**—It is not a phrase we did use.

**Mr ANTHONY SMITH**—You mentioned in your opening statement that Australia had a better starting point because of the good position we are in. You referred, I think, to the absence of debt. Just to clarify, you said in recent years that you were referring there to the fact that \$96 billion of debt was paid off and that has left us in a better starting point.

**Mr Stevens**—What I am referring to is that you earn the capacity to expand both fiscal and monetary policy by being prepared to tighten it when that is appropriate. That involved, over many years running, surpluses in the budget, which helped to pay off debt, as did privatisations; and it involves being prepared to put interest rates up when inflation threatened—and that was

the right thing to do. So when that has been done you have earned the capacity to then go quickly in the other direction when a set of circumstances comes along that needs that. Therefore, you are in a much better position than countries that did not do those disciplined things, either fiscal or monetary, in the past, which is where a number of countries find themselves.

**Mr ANTHONY SMITH**—Going back to some of the earlier questions and your answers on the size of the stimulus package, you said that you did not have a particular figure in mind about whether it was too large or too small. By that, I take it that the Reserve does not have the view that if it had not been \$42 billion then the sky would have fallen in—there is no magic figure in your mind?

**Mr Stevens**—If it had been \$41 billion? You think that if the outlook for the economy is anything like what we have here it might be wrong, but that is the outlook that we thought was roughly right. Growth is going to be weak. It is going to pick up in due course. Inflation is going to fall. That figure has all these measures built in. It does not jump out that all of this was excessive, does it? If it were excessive, the numbers ought to be going off course in some way. It could be that our forecasts will be wrong and they will go off course, but as to the judgment here—and I doubt our forecasts are likely to be accused by too many people of being excessively pessimistic—it does not strike me as obvious that somehow it is grossly excessive.

**Mr ANTHONY SMITH**—You said just before that the Reserve was not involved in the design or construction of either the first or the second package, which makes sense.

**Mr Stevens**—That is correct.

**Mr ANTHONY SMITH**—Given that and your statement today that consumers have pulled back their discretionary spending sharply and are ‘more inclined to save and are looking to repay debt’—and we have spoken a bit about mortgages as well—does that say that, for the \$900 payments following the one-off cash payments in the first package, that pattern will continue and a significant portion of it will be saved?

**Mr Stevens**—The reference to consumers pulling back was a global one. I think that is also true in Australia but, as it turns out, consumption in Australia looks considerably stronger than it does in many other countries. I think that will be at least in part due to that pre-Christmas package. Will some of the future transfer payments be saved? I would assume so. Our assumption, I think, Malcolm, was that about half of the pre-Christmas one would be saved and half would be spent.

**Dr Edey**—That is right.

**Mr Stevens**—I guess we are assuming something similar to that.

**Dr Edey**—Yes.

**Mr Stevens**—That is my assumption, which of course means two things. The first thing is that some of it will be spent today. As to the second thing, let us suppose that I am right and that households in some cases at least are looking to strengthen the balance sheet, get that debt down

a bit, have a bit more cash in the bank and get to a more comfortable feeling. The sooner they get there, the sooner they are in a position to then start growing their actual spending in line with their income, as opposed to growing it a bit slower, which is what I think they are trying to do just now. So I would say, and I have said it in public, that, even if some of it is saved, it is true that that does not give you a stimulus to spend today. But it does help speed up the process of the balance sheet strengthening, if that is what households want to do, and that is still helping them get to a position where they are able to expand spending, even though that may well be some time down the track.

**Mr ANTHONY SMITH**—I have one last question. I would like to go back to the deliberations over deposit guarantees throughout last year. There have been reports in the media—and I would like to get confirmation of whether this is accurate or not—that there was a meeting between the Prime Minister, Treasury officials, perhaps other senior ministers here in Canberra and the Treasurer, who I think was on the phone from the United States where he was attending meetings either at the IMF or the World Bank; I am not sure. It was reported that you were not on the phone hook-up. Is that correct?

**Mr Stevens**—I do not think I was. I had some phone hook-ups involving the PM and the Treasurer a couple of times in October, but from my recollection I do not think I was involved in the one you are referring to.

**Mr ANTHONY SMITH**—This was immediately prior to the announcement which occurred, I think, within—

**Mr Stevens**—On the announcement of the deposit guarantee?

**Mr ANTHONY SMITH**—Yes.

**Mr Stevens**—That was on a Sunday. I was not in a meeting that day.

**Mr ANTHONY SMITH**—What about the day before?

**Mr Stevens**—No.

**Mr BRADBURY**—I have further questions on the comments that were just made in relation to the guarantees. I note that your statement, on the first page, indicates that we have seen long-term markets reopen to banks by virtue of the guarantees. Could you comment specifically on the impact of putting those guarantees in place and the extent to which that may have had an impact on the broader issue relating to the potency of the decisions that you make on monetary policy. We have seen that decisions taken by central banks elsewhere have not had the same flow-through effect on variable mortgage rates and therefore in the hands of homeowners. Firstly, have the deposit guarantees been effective? Secondly, to what extent have those guarantees contributed towards allowing a greater flow-through of cuts in the official cash rate to be passed on to homeowners?

**Mr Stevens**—There are a few elements to that. Some in the community were worrying: ‘Gee, is my money safe in the bank?’ People all over the world actually started to worry about that during that period, particularly when they saw a whole bunch of large European banks having to

be rescued. Even in Australia—it certainly was not widespread—there were a few murmurings. People were ringing money programs on TV and so on. I saw some of them and they were saying, ‘Is my money okay in the banks?’ Of course the answer they were given was yes. For 999 people out of 1,000 in the community the guarantee just said, ‘The money is safe,’ and that issue went off the agenda and has stayed off, and that is good.

The other part of the guarantee is the guarantee on wholesale obligations that banks issue in international markets. That has worked very well. I will ask one of my colleagues to talk about the details, but banks have returned to those markets globally. Australian banks, behind American banks, are the largest raisers of funds in those wholesale bond markets since November and they have mainly used the guarantee to secure that access. I think that has been very effective. The pricing is such that, when market conditions normalise, as we all trust they will eventually, the use of the guarantee will be too expensive in that world and the banks will just stop using it and will revert to issuing on their own, which is of course what we want to get back to. Ric might like to add something to that.

**Mr Battellino**—Only to confirm that, yes, the guarantee has been of major benefit to the banks in their international bond raisings. In fact, very few banks in any country have been able to raise debt in markets around the world unless it has been guaranteed by their government. As Glenn said, our banks have made extensive use of it. Our banks are held in very high regard around the world and this has put them at a quite competitive advantage. It has been a very good thing for the banks.

**Mr BRADBURY**—How significant a factor is that on the issue of flow-through? How significant has the impact of the guarantee been in putting the banks in a position where they can pass on cuts in the official cash rate to their customers?

**Mr Battellino**—The main impact of the guarantee is that it has helped the banks secure their funding. It is not so much on the pass-through of interest rates. In fact, the cost of this money is pretty high. The fact is that the cost of that money has not come down as much as the cash rate, which is one of the reasons why banks have not passed on the full effect to lending rates. The main thing it has done is make the banks very confident of their funding. It has allowed them to continue lending to customers. If you look around the world, in many countries banks have basically stopped lending because they are so uncertain of their own access to money that they cannot lend to customers. That is not the case for Australian banks, and that is really the most important thing because the economy cannot grow unless there is a flow of credit to the economy.

**Mr BRADBURY**—Thank you for that. I have one more follow-up question from Mr Smith’s questions. Mr Stevens, he alluded to comments around inflation and the effect that that may have on someone fixing their interest rates and tried to place you in the shoes of someone making that decision. Putting a different scenario to you: equally, would someone consider entering into a fixed interest rate if they started to see interest rates move down after a history of 10 interest rate rises over the preceding period?

**Mr ANTHONY SMITH**—Got another letter from Wayne Swan, have you?

**Mr Stevens**—I think people are able to draw their own conclusions about what they think they should do. I will just leave it at that, Mr Chairman. I sense we are getting into sticky territory for me here.

*Mr Hockey interjecting—*

**Mr ANTHONY SMITH**—You are next anyway, I think.

**CHAIR**—No, you are not quite next, but if you have a follow-up question that is fine, Mr Hockey. We are about to go to the very hard questions from the schoolchildren, which is going to put us in a very poor light, because I know their questions are far more rigorous than what you are getting from us.

**Mr HOCKEY**—Well, certainly more than yours! Does that mean that I actually have an opportunity to ask a question now?

**CHAIR**—Not now, it doesn't, no!

**Mr HOCKEY**—It's amazing, isn't it.

**CHAIR**—I would like to ask Peldon Tenzin from Canberra Girls Grammar School to ask the first of the school questions.

**Miss Tenzin**—My question is: how low are you willing to allow interest rates to go, remembering we are at the all-time low since 1964, to help stimulate the economy considering other leading economies such as the UK are at one per cent and America is at 0.25 per cent?

**Mr Stevens**—We will be prepared to go low enough to do what is needed. The reason those other countries are that low is that they have been in a position where they are pushing on their accelerator but the linkage to the engine got broken because the interest rates that the borrowers actually paid did not fall and they had to keep pushing harder on the accelerator to try to get some effect. We do not have that problem and I do not think we will have, so I am not sure we will need to go that low. We have, I think, enough power yet in the interest rate instrument to do what will be appropriate.

**Miss Tenzin**—Thank you.

**Mr Stevens**—You are welcome.

**CHAIR**—Andrew Gibson from Canberra Grammar School.

**Mr Gibson**—Hello.

**Mr Stevens**—Andrew.

**Mr Gibson**—How much foreign liability do we need to build up before foreign investors lose confidence in the Australian economy?

**Mr Stevens**—That is a question that is often asked. Australian entities do have substantial foreign obligations, though they also have substantial foreign assets—this is a thing which is often not appreciated. But it is in Australia's interests to absorb capital from the rest of the world, which is what we are really talking about here. What is important is that we use that inflow of capital productively rather than wasting it. I think the task of maintaining the confidence of the people who have lent to us is really the task of making sure that that capital is sensibly used. If it is then we will be able to service the obligations with no trouble. If we waste that capital then we will have a problem that would actually still be true even if the capital were provided by our own people and not from overseas. It is still a problem if you misuse it. The main thing is to make sure that the capital is productively used. If it is then I am sure we will be able to maintain the confidence of the people who sent it here. Thank you.

### **Proceedings suspended from 10.50 am to 11.04 am**

**Mr MARLES**—My questions are about China and the US and your thoughts about them in relation to our own economy. You addressed that in your opening statement. We could start with your sense of where the US is going. Having the cash rate so low, for example, in America, does that effectively mean that monetary policy is no longer a tool that is usable over there? What do you think is going to happen in the US over the next year or so? What will be the impact on Australia?

**Mr Stevens**—If I go back a year, what was surprising me was that the US economy was not weaker than it turned out to be. Of course, it weakened a bit subsequently. Certainly on some indicators that I am aware of, by about July or August it was weak; it was in recession. But, if you look at, say, housing starts, they had fallen a lot but seemed to be levelling out at a very low level and the inventory of unsold houses was coming down. It looked like that was forming a base for growth at some point. After the turmoil of September, confidence was hit and all those things came down a lot more. I think they have been set back in their efforts to restart growth by the same set of turmoil and confidence things that everybody faces. They are in what looks to be a very nasty recession, as is the UK. In a number of dimensions, I would say the UK is probably weaker than the US. Mainland Europe is also in recession. So you have a G7 recession which, as I said earlier, is one of the big ones.

Regarding monetary policy, yes, the fed fund's rate is effectively nothing and, as I said before, most of the cuts they made did not really manage to get those longer term fixed rate mortgages to come down that most Americans use. What has brought them down, I think, is that the Federal Reserve, as they approached the zero point, started to do other things. It is not that the central bank cannot do anything anymore when interest rates get that low, but the things that they do are more in the line of purchasing assets of various kinds from the private sector and, in effect, taking onto the government sector's balance sheet some of the credit risk that the private sector does not want to bear. I think the fed has started a program of purchasing agency securities issued by Fannie and Freddie, who of course are very big players. It is probably that that started to bring down the long-term mortgage rates. That has been quite recent, since November really. They have not run out of things they can do. Of course the fed's balance sheet has more than doubled in the space of a couple of months as they stepped up the liquidity programs in a major way, and then they invented other programs to start purchasing assets. These so-called unconventional things are the kinds of things that they are working on. The UK is also working on that.

Japan has had interest rates effectively at zero for a decade. They did so-called quantitative easing much earlier. I think that was less effective because what that mainly did was to purchase high-quality assets from the banks which has pushed up the bank account at the central bank, but that is all it did and they never lent the money. What the fed is doing is more directly influencing market interest rates by purchasing those other assets. It is not that they cannot do anything, but the nature of what you do has changed if you find yourself at the zero point.

**Mr MARLES**—Given the answer to that question, does that imply—well, it seems to me to imply—that this event has a long time to run?

**Mr Stevens**—I think in all honesty there are a few signs right now of early recovery in the United States. I think one thing that is important is that the overhang of unsold homes is plummeting very fast. Sooner or later population growth means you have got to house people, and they are building way too few to meet the flow so once the stock that is overhanging is worked off that will help construction. But as for the banking system, they have to complete that repair of the banking system and, of course, they have got their own stimulus package to bring in. So I think the near term does not look easy for them and it will be later this year or next year by the time we have got clear evidence that a recovery is underway. I wish I could say it will be sooner, but I do not think that would be realistic based on what we can see at the moment.

**Mr MARLES**—In terms of China, I thought your opening statement sounded optimistic to me about where China is going, albeit that there has been a slowdown in the growth of China in recent months.

**Mr Stevens**—China has slowed down far more than was anticipated. There are some datasets that show something that looks like a bottom. I think we believe, Malcolm, that industrial production might have stopped falling in the latest month or at least has fallen more slowly.

**Dr Edey**—Yes, the latest data show that it is too early. I think the issue with China and all around East Asia is that there was a very sharp deterioration in all the major indicators of production and international trade in the December quarter. We just do not have enough data subsequent to that to know whether we are getting a new trend emerging after that that will see some growth happening or whether that downward adjustment is still occurring. There are some tentative things that, as Glenn said, do point to some bottoming—for example, the industrial production numbers for China stopped falling in the last month or two but these are quite volatile statistics so it is hard to discern a trend from that.

**Mr Stevens**—I think all I would add is that my general optimism about China is a long-run one. I think what we have had is a reminder that China's is an economy that has business cycles like all of us and it was never going to grow every year at 12 per cent in the way it did for several years until recently. In fact, they themselves wanted to slow down because they were overheating. So it has a cycle. But it seems to me still the case that the emergence of China as a large industrialised economy has years and years to run. So it will be a volatile ride on occasion as it is today. But I cannot believe that that emergence is finished and it seems to me that Australia has plenty of potential to benefit from that over the long run, as we have for the past couple of years. That is my main point.

**Mr MARLES**—I suppose my question is really: what underpins the view that it has a long time to run? I have heard some economic historians say that when that run is complete China ought to be the biggest economy in the world. Is there some sort of assumption about that?

**Mr Stevens**—If it were able to achieve a per capita productivity remotely approaching any of the currently advanced economies, it would be the biggest by a long way because of the population size. I think that point is probably decades in the future. Even on market exchange rates, without doing purchasing power calculations, it is nothing like as big as the United States on that basis, but it is getting up there with some of the other G7 countries. It is already one of the big importing/exporting nations after the United States and the Euro area. I think China is probably just about next. So it is already a pretty sizeable economy and the history of development generally shows that per capita incomes, particularly if you run sensible policies, tend to converge up towards the high-income countries over time. It is not written in stone that that happens; you can go backwards. Much of Africa, for example, has in recent times. But I think China is very likely to get on that convergence path in per capita terms for a long time and it will get to be a very big economy on that track.

**Mr MARLES**—Given what you just said, does that then mean that that emergence does literally have decades to run?

**Mr Stevens**—These things typically do take a long time. The smaller countries in Asia have managed to go from low-income countries to having an income like ours in maybe one generation or a bit more for, say, Singapore. But Singapore is very small. Even Japan is a lot smaller than China and it will eventually be the same. I doubt that China can do it in the same way, so it will be a long-run process. But I still cannot see any reason to think that it will not be quite a powerful economy. But it is a very long-run phenomenon.

**Mr ANDREWS**—Do you have any observations about the value of the Chinese currency?

**Mr Stevens**—Let me say what I have been prepared to say before—that is, that I think in the long run it is in China's interest to have a more flexible exchange rate. What I say is that it will want to get to a position where it has flexibility because it is good for it, not because some other country in particular wants it, even though other countries do. It is in China's interest to get to that position over time. But these are difficult issues to manage. I think it is often unhelpful the way the megaphone is taken out by some other countries on that issue. I think it is preferable to try to work with China to get it to the point where it sees it as in its own interest to have more flexibility. I am quite sure the central bank understand that very well, but of course it is not their decision. What exchange rate regime you have is a government decision.

**Mr ANDREWS**—But it is used by that government, presumably to its advantage at the right time.

**Mr Stevens**—Let us give a bit of credit. They have been moving it more in the past couple of years than they used to, and it did appreciate against the dollar. In recent times the US dollar has firmed and China's has gone up with that. I think I am right in saying that their effective exchange rate, which is a trade-weighted thing, has gone up quite noticeably in the past year or so. So they have allowed more flexibility recently than used to be the case. Of course, the Asian way of developing, since the Japanese did it, has always been to have a fairly low currency, to

try to promote export-led growth and to, in a sense, suppress domestic consumer and household activities and try to gear things for the businesses to grow by exporting. It is a very successful strategy but it cannot really be done in the long run, I do not think, by a country of China's size because they are going to be too big. That strategy is a great one for a country that is small but when you get big it cannot be done that way, and they will have to get to a position of generating more domestic growth and, I think, allow the exchange rate to be more flexible. It is in their interests to do that over time.

**CHAIR**—Mr Hockey?

**Mr HOCKEY**—How many questions do I have, Mr Chair?

**CHAIR**—If you want to play games—

**Mr HOCKEY**—Thanks very much. I will go back to the issue that we had an hour and a half ago—

**CHAIR**—Actually, before you start: we have an hour and 10 minutes to go. You will have the opportunity to ask the questions you want to ask. I think the petulant attitude you have taken here is totally unwarranted. If you would like to ask your question, please do so.

**Mr HOCKEY**—I will go back to the issue we were dealing with an hour and a half ago, which was the 400 basis point easing in monetary policy together with the significant fiscal stimuli over the last six months. It would be fair to say, would it not—this is a genuine question about your opinion—that the impact of the combined monetary stimulus and fiscal stimulus in Australia is very significant by global standards for an economy that started in pretty good shape going into this downturn?

**Mr Stevens**—Yes, I think I would agree with that. We have eased our policy rate by pretty much as much as anybody. As I said earlier, that has had more impacts through to borrowing rates than in some other countries. And the fiscal package is substantial by global standards.

**Mr HOCKEY**—What are the ramifications of having such a large monetary and fiscal stimulus so early in the cycle?

**Mr Stevens**—I trust, hope and expect that the main ramification is going to be that the path of the Australian economy is going to be considerably better than it would otherwise have been, and considerably better than a number of other countries around the world whom we can see contracting at a very large pace. Take Japan for instance. Real GDP fell by over three per cent in one quarter, in the December quarter. Our peak-to-trough fall in the whole recession of the early nineties was not that big—it was maybe not more than half that big. So that is a very major contraction, and it all happened in three months.

So there is a very large global event going on, and we cannot realistically expect to be unaffected, but we are seeking to cushion, as much as is prudent, this economy from those kinds of outcomes. That is the expectation we are looking at.

**Mr HOCKEY**—So, if you do go very hard early, you would hope it was a 100-metre sprint rather than a marathon.

**Mr Stevens**—I think the point is that, on our part at least, the point of using monetary policy early on the way down, as on the way up, is that you end up curtailing the down part of the cycle and you do not end up in the marathon—you make more likely, say, that it is a short-term event and not a long, drawn out one. That is the intention.

**Mr HOCKEY**—I am more focused on the combination of monetary and fiscal policy. I know you only have control of monetary policy, but it is the combination.

**Mr Stevens**—Sure. I take it that you are going to the question of should some ammunition be saved for later, in case it is longer. You can make that argument, but I think you can also make the argument that, the longer you wait, the more ammunition you will end up having to use. These things can get a sort of self-fulfilling momentum behind them and we may or may not be able to head that off. But I think you should try to head that off, if that is possible—certainly, on monetary policy that is my thinking. The same thinking, of course, means that, if you frontload your measures, you are going to have to stop doing measures earlier than you did in other cycles, but that ought to be a good thing, because you hopefully will have got ahead of things.

**Mr HOCKEY**—Can I go to a statement by the Governor of the Bank of England in which he talked about ‘quantitative easing’, which is a newfangled term for printing money, I think. Can you explain to the committee what it means when central banks get into the business of printing more money?

**Mr Stevens**—I think what is meant in most of the occasions when that is used is not the literal printing of currency notes, of course, but the use of the central bank’s power to create money—the electronic money in the accounts of banks. It is what we would call exchange settlement funds or what the Fed would call fed funds. Any time the central bank purchases an asset—it does not matter what the asset is—we credit the bank’s account and that literally creates funds. On a typical day—and I could get Ric, who is one of the top experts in the world in this stuff, to elaborate if you want—we would be sterilising inflows and outflows and keeping the level of the banks’ funds with us constant at a roughly steady number. The idea of ‘quantitative measures’—the Fed has called what they are doing ‘credit easing’—is that the central bank uses its balance sheet to actually buy assets. They may in extremis not sterilise those asset purchases so that the settlement funds that the banks have in their account with the central bank just go up. In that world, the overnight cash rate would collapse, because the banks have got all this spare liquidity. None of them would need to borrow overnight—they would all be up to here with it. They would all want to lend. No-one would want to borrow and the cash rate would go to nothing. So the reason that you do not typically think of these measures while interest rates are still positive is that you would find it hard to keep them positive if you started doing these so-called printing money things.

In normal times a central bank taking the step of so-called printing money would be almost certain to generate extraordinarily high inflation. This is what Zimbabwe is doing—they are literally printing money. In an economy that is not in the throes of a financial crisis, that would be the likely result. But I think what is being attempted or contemplated in countries like the UK is a measured creation of so-called money as a counterpart to the asset purchase. It is the asset

purchase itself that is really going to be doing the work—the government and central bank combined taking some credit risk that the private sector does not want to take, freeing up a lending channel that is clogged directly. It is an extraordinary measure but that is the sort of thing they are talking about. Do you want to add anything or correct any mistakes?

**Mr HOCKEY**—Not if he wants a job!

**Mr Battellino**—Normally the central banks use their market operations to provide funds to the banks and the banks in turn will lend that to customers. That creates the money supply. In normal times that works. In some situations, as we saw in Japan a decade ago, the central bank provides the money to the banks and the banks are so risk averse that they do not lend the money; they just keep it on deposit at the central bank. So we have the situation where the base money is going up but there is no money created in the economy more widely, so businesses and households have not got any additional funds to go spend and do what they have to do. That really did not work from the Japanese. The Fed has rightly said that they are getting to this stage as well. Having studied the Japanese situation, they realise that it is not really just a case of providing funds to the banks and then expecting the banks to lend them because, when the banks are risk averse, they will not lend. So what the Fed is saying in talking about credit easing policies is that it is important to buy assets off the banks that minimise or reduce the risks existing on banks' balance sheets. So, if the banks have got assets that they do not really want any more or they feel are too risky, they can put them to the central bank.

That has two effects: first of all, it does provide new funds to the banks to lend; and, secondly, it gets rid of some assets that the banks do not want to hold. So it reduces their risk aversion. And that is really what the Fed is on about. Then it is saying that if even that does not work it will take a third step and start buying assets directly off the markets thereby circumventing the banks and effectively lending directly to the households and businesses through buying, say, mortgage backed securities directly from the market.

**Mr HOCKEY**—The next question—and it is not unrelated—relates to the funding sources of Australia, because Australia at a sovereign level is now quite aggressively trying to raise money in markets by issuing bonds both at a state and semigovernment level. Do you have any concerns about the availability of funds for Australia and the impact on our sovereign credit rating?

**Mr Battellino**—I personally do not—not at all. Australia's sovereign credit rating is very strong. Our debt position is among the very best in the world. Probably Norway and one or two other countries are in a similar position. So, no, the sovereign position is incredibly strong. The banks—

**Mr HOCKEY**—What about the availability of funding?

**Mr Battellino**—For governments?

**Mr HOCKEY**—Yes, for governments.

**Mr Battellino**—This is an interesting question because there are periods when governments can crowd out private borrowers. That is usually during periods when governments want to run deficits and the economy is running strong, so everybody wants to borrow simultaneously, and

we see interest rates rise in those circumstances. It is harder for that to happen when the economy is weak because basically the demand for funds overall in the market is quite low and governments usually can borrow without pushing up interest rates. If you look around the world, generally, during periods when budgets move into bigger deficits because of cyclical reasons, that is usually not associated with any increase in government interest rates; it is usually associated with a fall in interest rates because the dominant effect is that there are more lenders than borrowers.

**Mr HOCKEY**—Do you have any concerns about the ability of state governments to raise funding?

**Mr Battellino**—No, I do not think so. I think our state governments also went through a period from the second half of the nineties and the last few years as well of being very prudent in their finances. The amount of debt they have got on issue is very low. They could easily expand their borrowing.

**Mr HOCKEY**—It still remains that corporates are struggling to raise debt; they are not having trouble raising equity or capital. The banks appear to be having no troubles raising capital but what about non-banks and the corporate sector generally raising capital and raising debt?

**Mr Battellino**—I think that is true. The lenders are very risk averse at the moment and they are not lending to corporates: they have stopped lending to mortgage backed securities markets around the world, which have dried up, and corporate debt markets have contracted a lot. So, yes, it is the case that corporates are having trouble raising debt.

**Mr HOCKEY**—So if they cannot raise debt they need to raise equity in order to de-leverage.

**Mr Battellino**—Yes.

**Mr HOCKEY**—The question is, how hard is it going to be for them to raise equity over the next few months?

**Mr Battellino**—Or they will have to rely more on the banking sector to lend them the money, because they cannot go to the market directly. In a lot of countries this is a big problem because the banks themselves will not lend. In Australia it has not been a problem. Our four major banks, particularly, have continued to lend very strongly to the corporate sector.

**Mr HOCKEY**—Including SMEs?

**Mr Battellino**—Yes, including SMEs.

**Mr HOCKEY**—Do you have any forward concerns on that?

**Mr Battellino**—In making their lending decisions the banks are going to take into account how easily they can access money, because they cannot lend money they have not got and that they cannot raise themselves. That is why the guarantee has really helped in that regard. But they also take into account how risky the lending is. At the moment, banks have come to the view, for

example, in the commercial property market, that the risks there are big and they do not really want to expand their lending. These things are something that needs to be judged by the banks.

**Mr HOCKEY**—Have we yet seen the true impact of falling asset prices on bank balance sheets?

**Mr Battellino**—The good thing about our banks is that they are not exposed to asset prices in the same sorts of ways that the overseas banks were. The big losses that the international banks have recorded over the past year or so are getting up to about a trillion dollars. The bulk of those have come from write-down of asset values, not from bad loans. It has roughly been two-thirds to one-third. Our banks do not hold assets or securities that go up and down in value, so their main risk is to the loans they have given to customers. Their exposure to asset markets is a second-round effect, in the sense that the customer has to suffer from a fall in asset values which in turn might impact on the bank down the road. So I think our banks have been very prudent, and they remain in good shape.

**Mr HOCKEY**—The fall in asset values is broader than just banking. Have we seen the real impact of falling asset values yet in Australia?

**Mr Stevens**—We are seeing the impacts of a number. Share prices fell. That did affect people's perception of their wealth and therefore their spending. Those effects are, I think, with us now, and we will presumably see a bit more of that. House prices actually have drifted down; they have not slumped badly. I think the impact there is that affordability for ordinary people is improving, actually, which on balance is a good thing.

**Mr HOCKEY**—Is that because prices are coming down or because mortgages are cheaper?

**Mr Stevens**—Both. Prices, particularly in lower priced suburbs, had tended to fall for a couple of years. More recently the larger falls have been in the high-value suburbs which had run up in the preceding few years. For ordinary people looking in the lower priced areas, with the interest rates having come down a lot and the prices lower and things like petrol prices also lower, things have improved a lot from the housing affordability point of view, and I think we will see the effect of that on housing finance and housing construction over the coming couple of years.

Commercial property values are now, I think, tending to decline. As you know, we have seen that in some areas where relative entities were quite geared those people have got into trouble. That is all being dealt with through the system, and a big chunk of the loan provisions that the banks have been making have come from a few of those large entities. So those effects are, I think, with us now, and there will no doubt be some more of that as time goes by. We have less in the way of build-up of oversupply in that area. Twenty years ago there was a much bigger build-up of excess supply. Until quite recently those buildings were all pretty much full, vacancy rates were falling and there were, prospectively, a large number of projects to build more, a lot of which have now been put on hold. So I think that there is certainly some adjustment happening there and some to go, but it should not be of the order of magnitude we had 20 years ago, because the earlier excesses were not as great.

**Mr HOCKEY**—Finally, can you see any justification for the government stepping in to try and hold up commercial property prices?

**Mr Stevens**—I was not aware that that was what they were doing.

**Mr HOCKEY**—You must know something.

**Mr Stevens**—What I am aware of is that there is a proposal to have a special vehicle which would, under fairly strict conditions, provide finance where the current provider of finance decided to withdraw. That may well, I guess, have the effect of preventing fire sale prices.

**Mr HOCKEY**—Or falling prices.

**Mr Stevens**—I thought the justification was to prevent fire sales of assets that people just did not want to hold and wanted to get out of at any cost. I think that is probably worth avoiding. So I do not have any problem with there being a plan in the top drawer to do that should it be needed. Whether it will be needed I think remains to be seen. The earlier plan on car finance, to my knowledge, has been tapped very little if at all so far. It may not be needed. But I think it is probably sensible enough to have thought about what you might do if there were a sudden withdrawal of funding from a sector and to have that ready in case. To be clear, I did not think that plan was about just holding up the values at some particular level; I thought it was about avoiding a set of fire sale prices. If the prices really are too high they will come down, and you cannot stop that, actually. But I think it is about avoiding a fire sale sort of situation.

**CHAIR**—Now to Ms Jackson.

**Ms JACKSON**—I want to go back to some of your earlier comments about small to medium enterprises. I have heard you talk about how the Australian banks are in pretty good shape and they have been quite prudent. Anecdotally, in my electorate I hear a lot from small businesses about their concerns in the current economic environment. In particular, I think there was reference earlier to interest rates that small businesses are experiencing with loans; questions on cash flow, particularly where small businesses maintain an overdraft, maybe not even a very big overdraft; and pressure from banks to consider refinancing which does not suit the small business at this particular time because of the potential impact on their assets. I would be interested in your comments on our banks' behaviour in that regard and whether there are perhaps other strategies or mechanisms that we should be looking at to try to assist small to medium enterprises.

**Mr Stevens**—I think there are a few things going on. I think on any given set of objective credit standards that might be set fewer borrowers today will look like they meet those than would have been the case a year ago because the economy has slowed, and it is inevitable that the credit worthiness of some of the borrowers is going to deteriorate—that is normal. I am sure it is also true that banks have tightened standards at least to some degree. In our liaison, we pick up that a significant proportion of businesses—of the 100 or so businesses that we talk to each month; we have been tracking this through the past year—say, 'Yes, credit is harder.' It is either more expensive or in a supply sense less available—or some of each of those. That is certainly true.

We are also aware that banks are looking at the pricing of facilities as they roll off. You might have a facility that is in place over a period of years and eventually it ends and the bank and you then sit down to negotiate new terms. There is, I think, some repricing of those facilities as they get renewed. I think that is inevitable in the kind of world that we are in. I guess that does not sound very helpful, but it will happen. The key thing is for the banks not to overdo that. My guess is that it will not be that an edict has come down from the board or the CEO to say, 'Let's get tough on business'. By the way, I think the lending standards for big businesses are probably rising at least as much as for small ones—

**Ms JACKSON**—As they should be.

**Mr Stevens**—The CEO will not be saying, 'Get tough on these guys,' but the phenomenon one would like to see them try to guard against is the one where the lending officers at the coalface do not need to be told to be more cautious because they fear for their own job if they make a bad loan. It is human nature. In my private conversations with bankers I say, 'Make sure they don't overreact.' That is the credit crunch that you do not want to have.

What more could be done? The best thing we can do, I think, is to have an interest rate structure that comes down enough that people are still getting some reduction in their lending rates. Yes, margins have widened on some of those, but we do get numbers on what the ultimate actual lending rate that is paid on the loans is, and it has come down, not as much as the cash rate but it is tending to fall. That is the main thing we can do in the Reserve Bank. Whether there are further government interventions, I do not have anything to suggest. In other countries, there are sometimes programs where governments take some co-insurance on some of those loans, but I think there are a lot of issues that you would have the sort before you went down that track. You would not want to somehow end up with the public sector taking on all the bad loans and the private sector keeping the good ones—and they certainly would if they could find a way. The only thing I could suggest is that we might study what other countries have done and whether it has succeeded or not in that area. I am aware that in some countries in Asia there is a kind of co-insurance where the government takes some of the risk.

**Ms JACKSON**—There is very much a perception out there that we have stepped in to support the banks and there are larger businesses doing better out of it. I accept what you are saying, but we have forgotten the smaller operator, which, frankly, for a lot of us is the main source of employment.

**Mr Stevens**—The reason to support the banks in the way that it was done is to keep their funding channels open so they can lend—

**Ms JACKSON**—Sure, I am not arguing with that; I think it is just that the perception is that it was the banks and the financial system that got us into this situation in the first place.

**Mr Stevens**—It was not our banks.

**Ms JACKSON**—No, but maybe there is a bit of a desire out there in the community for us to have a bit of a look at that supervision and regulation—not just of our banks but, indeed, what more we could be doing internationally.

**Mr Stevens**—Sure. There is a lot of work going on. Innumerable working groups are working on various elements of regulatory reform. I would have to say that that process is bound to be one that is grindingly slow over the years, judging by how long it usually takes to get international agreements on supervisory matters. But you are right: ordinary people around the world feel that somehow the system did not deliver what was promised. Our system, I have to say, has been much better run than those in some of the other countries we have talked about. But internationally there is a very strong feeling, not surprisingly, that people have to take another look at this, and that is being done, though the first order of business is to stabilise things now and get the problems sorted pronto and get banks back to lending again.

**Mr ANTHONY SMITH**—On that issue of our banking and regulatory system, it would not be an exaggeration to say what we would be a model for most countries—that we have one of the best systems in the world. That would not be an exaggeration, would it?

**Mr Stevens**—I am reluctant to call our system a model lest that be tempting fate. Two years ago almost no-one had heard of a subprime loan. They came into prominence about two years ago and then the serious problems began in July or August 2007. They were kind of under control for a year and then, as we were saying earlier, it elevated further late last year. We are, say, 18 months into the episode and what we find is that the Australian banking system is taking its lumps because the economy is slowing but it remains strongly capitalised, profitable and able to lend and it has good access to debt and equity markets. They have all been able to raise equity in the past number of months as they have needed to or wanted to. There are a dwindling number of AA-rated banks in the world. We have four of them. The capitalisation of Citibank today is smaller than any of our major four. I think that is still right. The numbers go up and down, but that is a big change from a couple of years back. We have a system which in some ways is unpopular for earning big profits but it has held up under a pretty significant test for quite a while. The test is not over, but so far they have done very well in a way that few countries have. That must say something about the prudence of their own management—not that they do not make mistakes but, by and large, it is pretty prudent. It has to say something about the way they have been supervised and about the way the financial system in Australia is structured and operated generally.

**Mr ANTHONY SMITH**—And regulated.

**Mr Stevens**—Yes.

**Mr TURNOUR**—I have a question to follow up on that. I noticed your speech in Kuala Lumpur recently which has been reported, in terms of our regulatory changes and the system that we have operating at the moment. I know this debate has been going on for some time, but obviously, following the recent crisis, there might be some changes in thinking. Could you elaborate on some of your comments in relation to monetary policy or the role of the central banks in managing asset bubbles and what you might be looking for in terms of policy changes, advice from government in relation to that or involvement of government in relation to policy changes.

**Mr Stevens**—That is a very important question that has been debated for nearly 20 years, from my recollection—really since Japan had to battle their economy and the ensuing lost decade. Phil Lowe has done a lot of work on this over the years so I will invite him to add to this

in a moment. In a nutshell the question is about how we have all had a de facto inflation target. Even countries that do not have an explicit one have an implied one. The way in which we have run policy for 20 years is that, when the economy is strong and inflation will rise, you tighten; when it is weakened and inflation will fall, you ease. We have all known that there is a financial system out there that occasionally has low-frequency, long period swings of size and behaviour which impact on the real economy but often do not exactly coincide with the regular business cycle. We have all known that. There has been a big debate about: should you respond to that with monetary policy or not? Reasonable people differ on that. I have agonised over this privately a lot over the years. The fed's approach under Alan Greenspan was: 'We don't know if it's a bubble until it's burst. What we'll do is clean up the mess after, if it bursts, but we'll be agnostic until then.' That actually worked okay for a while. After the dotcom bursts, they were able to restart the US economy and clean up fairly well.

In this episode it is proving harder, so the question is now back on the table as to asset prices. It is not so much the asset prices, in my view. It is the debt; it is the leverage behind it. My guess is that if you have an asset bubble in, say, some new exotic art, and there is no borrowing, it is not going to do a lot of damage to the economy. It will damage a few people who are involved, but it is not going to bring down the banking system. It is the bubble where you have leverage and then the collapse happens—the borrower is under water and then so is the lender—where you have a big problem. Should you have lent into that bubble with tighter monetary policy, even though that would have meant slower growth, inflation below target and you would have had to explain why you were doing that—and that is not easy to do? Or should you attack this with regulatory arrangements? Should you use supervisory tools to lean into the asset bubble by kind of telling the banks, 'Yes, we know you are meeting all the standard matrix but we want you to hold even more capital and slow down please'? The supervisors would debate that at great length. Should you do both? These are the sorts of issues. What I was saying in my speech the other day was that in the previous chapter the people who argued for doing more about asset prices did not win the day. The people who argued to let it run and then clean up won the day in the previous round, but now there is a new chapter. I suspect the answer may not be the same after this one is over. We will obviously need to keep in touch with that whole discussion. I have talked at length. Phil, if you want to, feel free to add anything.

**Dr Lowe**—If you cut through all the explanations for what has happened over the last few years, I see a fundamental explanation as being this cycle in risk appetite that we have seen. We had a number of years where things in the global economy were going very well, people could not see risk anywhere, risk premiums were low and everyone was prepared to borrow. Then the subprime problems came along, people started to reassess and then Lehman's failed and a huge reassessment occurred. So we have had this huge cycle in risk appetite in the demand for leverage, and that has led to instability in the global financial system and now in the macro economy. The issue that we really face here is: how, going forward, are we going to deal with these cycles in appetites for risk? The financial system has become so big relative to the economy that these cycles in risk appetite can have much bigger effects than they ever had in the past.

In the various international groups we are involved in, there are a lot of things that are under discussion. As Glenn said, should the supervisors now be trying to push up capital requirements at a time when risk premiums are coming down? Should the provisioning system of banks be changed to force banks to hold more provisions in the good times when they do not want to hold

them? Do we need to think about the accounting systems so that the big changes in the price of risk do not flow through the balance sheets of financial institutions in the way they do. These are all big issues that are all on the table at the moment. As Glenn mentioned, the other one is the role of monetary policy. When people do not see very much risk and they are borrowing a lot, what role is there for tighter monetary policy to increase the price of leverage, even if inflation is low? No consensus has emerged there yet but I think it is one of the really big issues we are going to need to confront in the years ahead.

**Mr TURNOUR**—Given that we have got ourselves in a big mess at the moment and we are talking about risk, what are the downside risks from the banks' point of view of staying with the old policy as opposed to looking at adopting a new policy? Obviously there are arguments about not changing prudential regulation or making changes to it. Have you made any assessments on those risks in terms of not making policy changes to tackle asset bubbles as opposed to leaving the system as it is?

**Dr Lowe**—The immediate issue that is facing regulators right around the world is how to address the current problems. This issue about how to deal with the next asset price boom is some way off, and I do not think it is one of the immediate things that we need to address. But over the next five years we are going to have to make serious progress there. Economic history is that these things repeat themselves. These cycles of fear and greed keep on returning. We have seen them in many different countries and in many different centuries. It is a fundamental aspect of human nature and we are going need to address it. But it is not today's problem. It is a problem for some years down the track.

**Mr ANDREWS**—Has the huge growth in derivatives over the last couple of decades compounded the adverse consequences when things go wrong, and is that something that needs some re-examination as well?

**Dr Lowe**—I think there are two aspects here. One is that many plain vanilla derivatives have played a very useful role in allowing banks to hedge risk. The foreign currency borrowings that banks do are hedged back using derivatives. For bonds that they raise with fixed rates when they have variable rate liabilities, that risk is hedged back using derivatives. So derivatives play a very important part in our financial system. I think the issue is some of the more complex derivatives, which have been used to build up embedded leverage. People ended up finding out they had much more exposure to small movements in the underlying assets through these structures, and we do need to look at how those structures develop, what incentives within financial institutions there are to promote them and, when people are buying them, do they really understand them? So I think there are two answers. There are good derivatives that are used for good risk management and then there are derivatives that have really been used to build up embedded leverage and that really are not transparent to people. When people start looking at the true risks they get very scared, and that exacerbates the cycle.

**Mr Stevens**—It is the complex structured products. Things like swaps and options are routinely used. They are plain vanilla—there is no problem there. It is the complex structured products where you have all these tranches of levels of rating, and then the prices really start moving once some of those tranches start to fall over. People did not understand. As Phil says, once things started to go wrong, there was a sudden realisation they did not understand it and, not only that, but in the market where you wanted to get rid of them there wasn't any liquidity.

So I suspect for a few years we are in for a financial sector where there is a bit more simplicity. It will still involve derivatives, but more of the plain vanilla type ones that have very well understood properties and, for a while anyway, a bit less of the CDOs and the CDO squareds and all these kinds of things where, quite patently, people did not really understand the risk they were taking on.

**Mr BRIGGS**—Governor, earlier you confirmed to Mr Hockey—this is in relation to the government's decision on the bank deposit guarantee—that you were not part of the meeting which I think took place on the weekend of 11 and 12 October in Canberra, with a phone hook-up in New York, I think it was. Following that decision, there was quite a deal of press in the following weeks about some concern that it was suggested that you had about the impact of the unlimited aspect of the bank deposit guarantee and that maybe a figure should have been put on it such as \$100,000 or the like. What we have seen since is an impact on real people. A couple of people in my electorate have mortgage funds in institutions not covered by the guarantee. Was that the sort of issue that you were concerned about?

**Mr Stevens**—The issue we were taking up in the celebrated leaked email was not really that one. There were some other issues surrounding the functioning of money markets and things which are closer substitutes. But let me make a couple of general comments. No, I was not part of the meeting, but I knew on the Sunday that they were likely to take that decision—

**Mr BRIGGS**—The unlimited—

**Mr Stevens**—because the Secretary of the Treasury had told me. I did not seek to dissuade them. The circumstances that we faced were such that we had governments around the world having to do this and in which we had, as I said earlier, people starting to ring up talk radio and TV shows and querying whether they should take their money out of Australian banks. You do not want to let that run. You will have to act, and the sooner you act to stop that, the better. We never got to queues in the street or anything like that, but you would never want to get near that.

The second thing is a lesson that came out of the Northern Rock issue in the UK. They had three goes at issuing the guarantee before it stemmed the problem. They ultimately had to guarantee basically everything to calm it down. The lesson I took from that was that you should probably err on the generous side at first and if necessary trim back later. The decision was taken. No, I was not there. It was not my decision. But I think that the decision, by and large, did what was needed, which was that it avoided any perception of a systemic problem in the Australian banking system. That is the core thing. The main thing that you had to do here was preserve confidence in the core. If need be, you have to issue a guarantee. With many other countries doing it, if it was not done that day it would have had to have been done on a day not long after.

It was obvious ahead of time that whoever was not guaranteed was not going to like it and that people who had those assets might well suddenly want the guarantee. You cannot guarantee everybody. That would be wrong. You have to support, as much as needed, the core of the system. If you do not do that, you are going to have a very serious problem. Yes, there were some boundary issues. Other countries that I am aware of that took similar decisions had similar issues to deal with. I appreciate that many people found that upsetting.

On the whole, though, the sequence of decisions, including the subsequent adjustments with pricing and limits and so on, have led to what we see now, which is that the banking system retains the confidence of the Australian public. We do not see, in my view, excessive use of the guarantee for large deposits—by and large, that is not being used much. We see the banks making active use, as Ric said earlier, of the guarantee for offshore funding and they have reopened that access. For most people in the street, the question of ‘Is my money safe in the bank?’ has gone away. That is a very much better outcome than we might have otherwise had. I know all of that was controversial. A lot of work needed to be done once the initial blanket decision was taken to try to get a structure that would last for a longer period. That took a little while, but that was done fairly quickly. That structure is working pretty well to date.

In the future, what we are going to have to do is design a more permanent set of arrangements. Australia never had deposit insurance. We had and still have depositor preference, which in some respects is a powerful protection but in other respects is a bit vague. Over time, we in the regulatory world will have to work on improving these arrangements. That is something that we have on our work program over the next couple of years in the banking sector in conjunction with Treasury and other people. I have to say that I think that what was done stabilised a potentially quite dangerous situation pretty effectively. Many of the predicted bad consequences of the structure that was put in place have not really occurred. There have been some flows between institutions but not all that many, and I think things are actually quite stable—and that is good.

**Mr BRIGGS**—To switch topics a little, I am sure you remember comments you have made at previous hearings about labour market deregulation. In the hearing of April last year, in answer to a question from my friend and colleague Mr Marles, who is sitting in front of me, you said:

I would say that, as a general proposition, we are most likely to get the best productivity performance when firms and their employees are able to bargain pretty widely across the whole range of practices. That is, I think, where productivity comes from.

Also, in answer to another question, you said:

Generally speaking, a well-functioning labour market means unemployment can be as low as possible, sustained and compatible with stable inflation.

Given that during your opening statement today you described the global financial system as taking a serious turn for the worse, do you see an increased danger in policies that would re-regulate the labour market at this time?

**Mr Stevens**—Well, we have had this question—

**Mr BRIGGS**—Reasonably consistently.

**Mr Stevens**—pretty consistently over the years.

**Mr BRIGGS**—I guess my point is that conditions have changed, as you had said earlier.

**Mr Stevens**—I stand by all the things I said about this in the past. There is no question that a flexible labour market, from an economic efficiency point of view and from the point of view of having as many people in jobs as the economy can manage, is a good thing. I think a wholesale return to days of much more intrusive centralised regulation, if that is in prospect, would be a retrograde step. The question is whether that is in prospect or whether something lesser than that is. I am not a small business employer and I do not know enough about the legislation to give an opinion as to how big an effect what is being proposed will have. At a high level, it seems to me that there are two considerations which dovetail a fair way but occasionally are counter to each other. There is pure economic efficiency—and the textbook says that minimal regulation points you towards the high-efficiency end of the spectrum—but there are also community notions of fairness and equity. Someone has to decide how to balance those two things. That is your job in the parliament, and that is what you are doing. I am not here to tell you how to do it; I cannot.

**Mr BRIGGS**—In that respect, and respecting the advice you have just offered, I presume you would be concerned when well-respected employer organisations with a great deal of experience in these sorts of matters make comments like those made, for instance, yesterday by the Australian Industry Group—which these days is seen as quite a bipartisan organisation, certainly by the Labor Party—that there are seven areas where it would put our prosperity at risk, particularly in relation to unemployment. As the person in control of setting our economic policy from your end, does that concern you?

**Mr Stevens**—I have not actually read what Heather said, but she is a very sensible, balanced person, so if she has raised concerns I presume reasonable people will look into them and respond as they think appropriate.

From my point of view monetary policy works on demand. Industrial relations policy is mainly about supply; it is about the supply structure of labour and, therefore, the supply structure of the economy, or at least part of it. What we have got to do when we are trying to run our part of demand management is to take supply as given. If you make supply more elastic what we will observe over time is that the economy can operate, either temporarily or maybe quite persistently, with lower levels of unemployment, more demand and more output than it used to, without generating inflation. And we will accommodate that. Even if we cannot work it out ahead of time we will, sort of, observe through our forecast errors and how things go that, yes, things can run faster, and we will let that happen.

If you make it less elastic we will get more inflation at a lower level of production than we used to, and we will restrain demand to accommodate that. That is what we do and that is all we can do. From a macroeconomic point of view this is about supply-side elasticity in the economy. The fairness side of it and how you balance the power of employees and employers and what the role of unions is and how much you empower them or do not is all part of the mix, but that is for the political process to do. And I entirely respect your prerogative to do that.

**Mr BRADBURY**—I have two questions. Governor, if I could take you back to some statements you made at the last hearing in Melbourne in September last year. In particular, in relation to a question that was asked by Mr Marles on the issue of the subprime crisis in the US, in your response you referred to the existence within the Australian marketplace of some fringe lenders that had begun to engage in some practices that might have been at the more, I guess, risky end of the spectrum. You went on to say:

I think we are fortunate, to be honest, that the turn of events that we have seen internationally has closed off that type of lending. Had that gone on for five more years, we could quite possibly have, I think, ended up in a situation where there would have been a lot more of that type of lending here than we in fact saw.

I represent an electorate in Western Sydney and, anecdotally, I certainly am aware of some of these practices having occurred within the region that I represent. That has for some time been a source of some concern to me. My concern in part, as we acknowledge the magnitude of the US subprime problem, is that that is sometimes perhaps stopping us from seeing that there was the potential for problems to emerge within our banking sector and non-banking sector, because a lot of the lenders were in fact non-bank lenders. Given your statements to the committee back in September, would you agree that there is a case for greater regulation insofar as the issue of lending practices are concerned, particularly in relation to these fringe lenders?

**Mr Stevens**—I think you are right to add the caveat that most of this was done outside the banks. It was some of the non-bank lenders who had the securitisation model that was quite prominently overrepresented in these loans. I think there is—isn't there, Phil—a stronger set of regulatory arrangements coming for—

**Dr Lowe**—The mortgage broking industry. We and many others have been calling for quite a few years for stronger regulation of mortgage broking, and that is now in prospect. I think that is a good thing because many of the problem loans were in fact introduced by brokers, who encouraged people to borrow more than they ultimately could service. So I think we are seeing an improvement in the regulatory arrangements there and I think that is a good thing.

**Mr BRADBURY**—You are comfortable that what is proposed goes towards addressing the issues that the Governor previously raised, and that I am reinforcing today?

**Dr Lowe**—Yes, I think the arrangements being proposed will significantly improve the quality of advice that people get through the mortgage-broking industry; and it is an area that we will need to continue to watch when the cycle inevitably turns. I think it is a useful step. The banks as a whole did not get into that type of lending and APRA has been very careful in looking at the banks' operations there.

**Mr BRADBURY**—My final question is in relation to ATM fees, and I have to say that this is an issue that has sparked much interest within my electorate. I have received many representations from members of my local community about the impact of reforms to ATM fees. Whilst I certainly can appreciate the benefits of a more transparent regime and I certainly see some benefit in having the fee disclosed at the point of access of a foreign ATM, what concerns me is what I would see as a reprehensible approach that some banks have indicated they are looking to take—that is, in relation to the bank of the cardholder continuing to charge fees. I note that in your statement to the committee today, Governor, you have indicated that you would estimate the administrative costs of processing that transaction would be somewhere in the vicinity of 10c—

**Mr Stevens**—No more than 10c.

**Mr BRADBURY**—What is to be done if banks continue to charge these fees? There is clearly no justification for continuing to charge the fees of \$1, \$1.50 or \$2 because there is no cost to

them—that is being borne directly by the cardholder and the foreign bank. What is to be done to eliminate practices such as these, because I know some of the banks have already indicated to their customers that they wish to continue to charge those fees?

**Mr Stevens**—As I say, to the extent that there was ever any logic for the foreign fee it seems to me that it was because the interchange fee had to be paid and therefore you wanted to recoup that because the bank was paying the other bank. The actual foreign fee is a lot higher than what the interchange fee was, but, anyhow, there is no interchange fee now. On our estimates it would be at most 10c, and quite possibly a lot less, to do the electronic processing of sending the signal along the wire and back to square up the accounts. So, as we say quite clearly, we see no logic for there being a foreign fee, certainly no more than that much.

What can we do? Our approach has always been, after we think we have understood a set of issues, to try to make it as explicit and transparent as possible what is really going on here—and it never has been transparent. I think that itself is a big step because it puts the spotlight on what fees are reasonable and what are not. It is true that it costs money to run an ATM. I think it is 75c a transaction. It does cost the owner money to run it and someone has to pay that. It is going to be extracted either directly or through some cross subsidy from your other accounts or something, but we may as well be clear what the cost is and therefore be able to evaluate the fees we are being charged.

The Reserve Bank do not actually have the power to say, ‘There must not be a fee here of X or it cannot be any more than Y,’ because we do not have a legal power to set a price in a private business. As far as I know, nowhere really does the government have that power. The power we have is the one of disclosing, of setting a standard that requires disclosure and also gives some backing to the access regime that the industry itself has come up with, and then letting public debate proceed. I cannot tell you that we can make the banks not charge a foreign ATM fee. I do not have that power. The Payments System Board has not been given it and does not seek it. I think if we can manage to help people understand how this works and what is going on then people will be able to form their own better informed opinion of what is reasonable and therefore be empowered in dealing with their bank—in the same way that many of the previous reforms to do with EFTPOS and credit cards were actually in part about changing the power balance between merchants and credit card companies so that the merchants would be able to extract a better deal for themselves and their customers. I think information brings that empowerment—whether or not it is enough to get rid of foreign fees I do not know, but that is as good as I can do for you at the moment.

**Mr BRADBURY**—But all of the disclosure requirements in the world do not shine a light on the continuation of those fees being imposed between the cardholder’s bank and the cardholder so what is the point of pursuing a more transparent set of arrangements if the outcome is simply a case of consumers being slugged twice?

**Mr Stevens**—The Reserve Bank cannot really step into the gap between the consumer and their bank and deal with that. I do not have that capacity. I think that disclosure, transparency and more competition—which is also what this is about—lowers costs over time for consumers. That is what we believe, and this I think will over time have that result. We do not know yet what all the banks are going to do actually, as far as I know. I think one bank has mentioned a fee

of 50c, which itself is a much lower foreign free than there used to be, but to my knowledge the other banks have not announced what they are going to do.

**Mr HOCKEY**—My follow-up question is to Dr Lowe and it refers to the regulation of mortgage brokers. As you will recall, until very recently mortgage brokers were basically regulated by the states—and in the most celebrated way by Western Australia, with the scandal about mortgage brokers in Western Australia. Consumer credit has been regulated by the states up until very recently as well. Has it been the case that the most obvious systemic risk has been in those areas of consumer credit and mortgage lending rather than actually in the overall banking system, which is regulated by the Commonwealth government?

**Dr Lowe**—I would not go so far as to say that this has posed a systemic threat. What we and others have identified over the last few years was that the regulation of mortgage broking was very different in different states and in some cases it was really nonexistent. The states had recognised that and they had a process in place that had been running for quite a few years to come up with a national approach to regulation that would be reflected in the uniform credit code. The difficulty was that it never really came to fruition. It was taking too long. The result of that is that we did not have uniform regulation of the mortgage-broking industry across the country, and that is why it has been taken over by the Commonwealth. I think that is entirely appropriate because the state based process was not delivering the outcome that we needed.

**Mr HOCKEY**—I would also like to come back to a question asked earlier about sovereign risk. There has been a slight blow-out in the credit default swap costs—the price of credit default swaps for government bonds—in the last 24 hours. This comes back to what Mr Battellino was talking about in relation to sovereign risk. Given the fact that governments are borrowing so much money at the moment—and it was said before the South American countries started to default back in the 1980s that ‘governments do not default only corporations default’—is there a risk with the very aggressive borrowing behaviour of a number of jurisdictions that there will be a cost to be paid by countries further down the track?

**Mr Battellino**—Governments need to be very careful that they do not ruin their own balance sheets, because it is very important for confidence in the community for governments to be in a sound financial position. At the moment the Australian situation is so sound that it is beyond reproach. Basically we are in a very strong position. There is plenty of room to do things.

**Mr HOCKEY**—Why is that?

**Mr Battellino**—Because we are starting from a position where the government has net financial assets. That is a very strong position to be in. Unfortunately, not every government in the world is in that position. Investors in government bonds are going to be spoilt for choice over the next few years; there are going to be government bonds everywhere. They are starting to realise that and that is why government bond yields have already moved up a bit. Whether that will become a serious issue, who knows? It depends on how long these deficits continue.

**Mr HOCKEY**—Given there will be so many government bonds available from so many different jurisdictions, surely that has a flow-on impact on the cost of funds to obviously riskier borrowers such as small businesses and farmers and a range of others?

**Mr Battellino**—If governments continue to run deficits in a period when the private sector wants to again start investing and borrowing, that will definitely be the case.

**CHAIR**—There is a particular member who has not had any questions yet, Mr Hockey, so we will move to her. I think you have had a pretty good go at this stage.

**Ms OWENS**—I want to go micro again. I doorknocked in my suburbs on the stimulus package on Tuesday, and the biggest decision facing families out there at the moment is the spend or save decision. Interestingly, while they want to do the right thing by their families, they are actually quite concerned that they make a decision which is good for the nation as well—which I suspect is quite new in our decision making. I want to go back over a few things that have been said and pull some of them together and get a little bit of expansion. Mr Stevens, I think you said earlier that the extent to which people save or spend, the decision that they make, has not changed?

**Mr Stevens**—I said that we assumed, when the pre-Christmas package was announced, that about half would be spent, and we would still assume that for future initiatives of that type.

**Ms OWENS**—So that 50 per cent is factored into your monetary decisions and your forecast on the stimulus as well?

**Mr Stevens**—Yes.

**Ms OWENS**—Is there any evidence at this stage that it is changing?

**Mr Stevens**—It is too soon to say, because I think the evidence on the first package is still coming in. My guess as of today would be that when the dust has settled there we probably will find that roughly half of that was spent over December, January and February. But the data and all the indicators for that period are of course still not with us yet, so it is too soon to know for sure and it is obviously too soon to have any reading on what will happen with the next instalment.

**Ms OWENS**—How dramatically would that pattern have to change either way before it became a concern? Or would it become a concern?

**Mr Stevens**—It is not so much a concern as: if people spent all of it then demand would be a bit stronger than we had assumed. From the forecast we have here, I do not think it will be a great drama if that happens for a little while. Likewise, if they saved all of it then I would be thinking that actual current demand is a bit weaker than we earlier thought for a little while—but then balance sheets of households are improving faster than we thought, which means that down the track some way they are likely to be able to resume spending in a stronger way a bit quicker. So there would be a kind of shifting of timing, I think, in that scenario.

**Ms OWENS**—So families do not need to be concerned that there is a right or wrong decision for them?

**Mr Stevens**—I would not pretend to tell people what to do with money that they have either earned or been given back in taxes or whatever. By and large, people are going to be the most sensible judges of that by their own circumstances.

**Ms OWENS**—That is what I have been telling them.

**Mr Stevens**—Occasionally, I think people do silly things, but I am not feeling I need to go out and give any exhortation on this particular matter.

**Ms OWENS**—Thank you very much. I am sure that will make them feel much more comfortable with their decision. Can I just go macro very briefly. Dr Lowe talked about a theory that stability causes instability. Is that Minsky? It has been a long time since I studied economics. But my question is to Mr Stevens. I assume that is one of many theories that the RBA would be looking at. How broadly are you looking at what flaws there might have been in our systems or in our regulation at this point? Is there a time frame for that going forward?

**Mr Stevens**—Phil has done extensive research on this, and it is very highly regarded and widely cited internationally. On our own system, I would say in thinking about what changes we want that we are talking about adjustments and incremental changes based on experience rather than root and branch reform. And that is an ongoing, continual process. The international standards for banks are being worked over again under the Basel committee and various others, and Australia will take note of those through APRA and so on as they come through. Some of that work has been done pretty quickly, because it has been asked for by the G20 leaders, but other parts of it will take a lot longer. From our point of view, it is best to regard these sorts of things as things that are continually subject to review and gradual, incremental amendments in the light of experience. There have been a lot of bad experiences—fortunately, in other countries, not here, but we can still learn from all that.

**Ms OWENS**—Thank you.

**CHAIR**—Thank you, Governor. I am aware that we have kept you over time, but we have an important question from Amanda Maclean, a student who missed out earlier.

**Mr Stevens**—Fire away, Amanda.

**Miss Maclean**—I was wondering, along with my school: have you considered that it is possibly a supply-side shock that has started the global financial crisis? And, if that is the case, what are you planning to do for it?

**Mr Stevens**—That is a very sophisticated question. There have been a few supply-side shocks in recent years. One of them was the increase in financial technology and availability of credit. I guess you can think of that as a shock to the supply of finance, which drove down its price and induced more demand—and, unfortunately, the shock has now gone back the other way. That actually is part of what makes this whole thing very difficult for so many countries—that we do not have a policy lever that directly moves the supply of finance curve, in that particular space. So it is quite a good question. The answer is yes, there is an element of that in what is going on, and it is a very difficult problem to solve—in fact, it is hard for policymakers with any supply shock to adjust to the situation. Quite a good question.

**Miss Maclean**—Thank you.

**CHAIR**—Governor, against my best judgment, Mr Smith has convinced me that he has a question that will require a single-word answer. I am not sure we can guarantee the answer, but I will let him go with the question.

**Mr ANTHONY SMITH**—Just as we are finishing up, we don't often ask what you do in your spare time, but I wondered whether you had read Kevin Rudd's 7,700-word essay on the evils of neoliberalism.

**Mr Stevens**—No, I have not read that particular essay.

**Mr ANTHONY SMITH**—Thanks, that is fine!

**CHAIR**—And, Governor, I can say that that was against my better judgment, which proved to be wrong.

**Mr HOCKEY**—Can I say that I know it has been a very testing time for the Reserve Bank over the last few months and on behalf of all Australians we want to thank you for the way you have handled the challenges over the last few months. It has been a very significant and challenging time for all Australians and we are very lucky. Even though we might not always agree with what the Reserve Bank does we do appreciate the professionalism of the Reserve Bank.

**Mr Stevens**—Thank you. I appreciate that very much.

Resolved (on motion by **Mr Marles**):

That this committee authorises publication, including publication on the parliamentary database, of the transcript of the evidence given before it at public hearing today.

**Committee adjourned at 12.40 pm**