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

House of Representatives
Standing Committee on Economics

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Chair's foreword

On 1 September 2015 the RBA decided to leave official interest rates at 2.0 per cent following the most recent rate cut in May 2015. The Governor commented that accommodative monetary policy was appropriate in the current circumstances and the economic and financial conditions over the period ahead will inform the RBA as to whether the current policy will most effectively foster sustainable growth and inflation in line with the target.

At the public hearing on 18 September 2015 the Governor noted that the Australian economy is progressing through a major adjustment, with terms of trade declining by a third and reaching 2006 levels. Investment in the resource sector is about halfway through its decline and will likely fall to about five per cent of GDP from its peak of about eight per cent. In comparison, some of the non-mining sectors have shown significant improvements over the last 12 months and the Governor was optimistic about the Australian economy noting GDP growth was likely to exceed three per cent by June 2017.

Current labour conditions have generally been better than expected with unemployment likely to remain unchanged for about 18 months before declining in 2017. While there is still excess capacity in the labour market, employment has increased by about two per cent over the last 12 months and surveys indicate conditions in the household and business service sector have been above average.

The exchange rate has fallen to around its lowest level since 2009 and may depreciate further once the US Federal Reserve begins increasing interest rates. The Governor noted that a lower exchange rate was unlikely to lead to increased inflationary pressures, and the Australian dollar at its current level was helping to support demand for locally produced goods and services, which should in time lead to more investment.

It is encouraging to note the Governor's view that underlying fundamentals of the economy have continued to improve. The adjustment of the decline in the terms of trade is well underway and if non-mining activity continues to improve this will

likely lead to better output growth as the Australian economy reaches the later phases of the decline in mining investment.

On behalf of the committee, I would like to thank the Governor of the Reserve Bank, Mr Glenn Stevens and other representatives of the RBA for appearing at the hearing on 18 September 2015. The next public hearing will be held on 12 February 2016 in Sydney.

Craig Laundy MP
Chair



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Membership of the Committee

Chair	Mr Craig Laundry MP (from 13 October 2015) Mr John Alexander OAM MP (to 12 October 2015)
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Terms of reference

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