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Review of the Reserve Bank of Australia Annual Report 2018 (First Report)

House of Representatives
Standing Committee on Economics

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Chair's foreword

On 5 February 2019 the Reserve Bank of Australia (RBA) left official interest rates unchanged at 1.50 per cent. Commenting on the decision to keep rates on hold, the Governor stated that the central scenario is for the Australian economy to grow by around 3 per cent this year and by a little less in 2020 due to slower growth in exports of resources.

At the public hearing on 22 February 2019, the Governor noted that the RBA expects the Australian economy to continue to grow above trend, supported by rising business investment and higher levels of spending on public infrastructure. Inflation continues to remain low and stable with CPI inflation at 1.8 per cent over 2018 and underlying inflation at 1¾ per cent. The Governor noted that underlying inflation is expected to increase gradually to around 2¼ per cent by 2020.

Despite housing markets in the major cities going through a period of adjustment, the Governor noted they are occurring at a time of low unemployment, low interest rates and strong population growth. The RBA remains confident that the Australian economy and financial system remain resilient, and that lower house prices will open up the market for more people to purchase their own home.

In relation to quantitative easing, the Deputy Governor noted that while it was prudent to look at the option of quantitative easing from a risk management perspective, the Australian economy is not currently in a situation that would call for it. The RBA does not expect the Australian economy to be in a circumstance that requires quantitative easing within the foreseeable future and has not proposed quantitative easing as a monetary policy response outside of extreme circumstances. This topic prompted discussion about its necessity and should be closely watched by future committees.

While the global economy is continuing to grow at a solid rate, the Governor reported that global growth moderated in the second half of 2018 and that risks to the global outlook have increased. The RBA listed trade and technology tensions between China and the United States, Brexit, the rise of populism, strains in some Western European economies, and the slowing growth of the Chinese economy as

particular areas of concern. He noted that while the RBA was not concerned by the blocking of thermal coal imports from Australia to China, it was too early to tell as to how the situation would impact the Australian economy.

Outcomes in Australia's labour market have been better than forecast with the unemployment rate already reaching 5 per cent, and expected to move lower to 4¾ over the next couple of years. Wages are also growing faster in almost all industries and states than they were a year ago.

Although the aggregate household disposable income has grown at an average rate of 2¾ per cent per year since 2016, there is good news ahead with growth in disposable income forecast to increase, boosted by the announced tax cuts.

On behalf of the committee, I thank the Governor of the Reserve Bank, Dr Philip Lowe, and other representatives of the RBA for appearing at the hearing on 22 February 2019.

Tim Wilson MP
Chair



Contents

| | |
|-----------------------------------|------|
| Chair's foreword | iii |
| Membership of the Committee | vii |
| Terms of reference | viii |
| Abbreviations..... | ix |

THE REPORT

| | |
|-------------------------------------------------|----------|
| 1 Introduction | 1 |
| Background | 1 |
| Scope and conduct of the review | 2 |
| 2 Monetary policy and other issues | 3 |
| Overview | 3 |
| The cash rate and monetary policy | 5 |
| Forecasts | 6 |
| Labour market and income growth | 9 |
| Wages growth | 10 |
| Household sector | 12 |
| Housing market | 14 |
| Mortgage brokers | 15 |
| Trends in the global economy | 16 |
| China and GDP growth | 17 |
| Other issues | 18 |
| Note Printing Australia and Securrency..... | 18 |


| | |
|-----------------------------------|----|
| New Payments Platform System..... | 19 |
| Australia's gold reserves | 20 |
| Conclusion | 20 |

APPENDICES

| | |
|-------------------------------------------------------------------------------|----|
| Appendix A — Hearing, briefing and witnesses | 23 |
| Appendix B — <i>Seventh statement on the conduct of monetary policy</i> | 25 |

LIST OF TABLES

| | |
|----------------------------------------------------------------|---|
| Table 1 Output Growth and Inflation Forecasts (per cent) | 7 |
|----------------------------------------------------------------|---|



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| | |
|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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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.



Abbreviations

| | |
|------|-------------------------------------------|
| CPI | Consumer Price Index |
| GDP | Gross Domestic Product |
| IPCC | Intergovernmental Panel on Climate Change |
| NPP | New Payments Platform |
| RBA | Reserve Bank of Australia |