

Introduction

Background

- 1.1 The House of Representatives Standing Committee on Economics (the committee) is responsible for scrutinising the Reserve Bank of Australia (RBA) and for ensuring its transparency and accountability to the Parliament, the community and the financial sector.
- 1.2 The appearance by the Governor of the RBA at biannual public hearings of the committee is an important element of the RBA's accountability framework. The details of this framework are set out in the *Seventh Statement on the Conduct of Monetary Policy*, agreed between the then Treasurer, the Hon Scott Morrison MP, and the RBA Governor, Dr Philip Lowe. The statement formalises the biannual appearance before the committee and is reproduced at Appendix B. It states:
 - ...the Governor will continue to be available to report twice a year to the House of Representatives Standing Committee on Economics, and to other Parliamentary committees as appropriate.
 - The Treasurer expresses support for the continuation of these arrangements, which reflect international best practice and enhance the public's confidence in the independence and integrity of the monetary policy process.¹
- 1.3 A second procedural mechanism for achieving this accountability is set out in the Standing Orders of the House of Representatives, which provide for the referral of annual reports within a committee's area of portfolio responsibility for any inquiry the committee may wish to make.

1 Reserve Bank of Australia (RBA), *Seventh Statement on the Conduct of Monetary Policy*, 19 September 2016.

Scope and conduct of the review

- 1.4 The second public hearing of the committee with the RBA during the 46th Parliament was held in Canberra on 7 February 2020.
- 1.5 The proceedings of the hearing were webcast over the internet, through the Parliament's website, allowing interested parties to listen to the proceedings as they occurred. The transcript of the hearing is available on the committee's website.²
- 1.6 A list of the RBA representatives who appeared before the committee at the public hearing can be found at Appendix A.
- 1.7 Before the hearing, the committee received a private briefing from Dr Sally Auld, Chief Economist at JP Morgan. This briefing provided valuable background information for the committee and perspectives on issues for discussion at the public hearing. The committee appreciates Dr Auld's cooperation and assistance.
- 1.8 The public hearings with the RBA continue to bring issues of monetary policy into the public arena, and have assisted in providing a public face to parliamentary committees and the RBA. These hearings are also an important means whereby financial markets can be better informed on the current thinking of the RBA.
- 1.9 This report focuses on matters raised at the public hearing and draws on issues raised in the RBA's February 2020 *Statement on Monetary Policy*. The *Statement on Monetary Policy* may be viewed through the RBA's website.³

Further evidence sought

- 1.10 Following the hearing, the committee sought further clarification in writing from the RBA on a range of topics including:
- the impact of the coronavirus and drought on GPP growth of terms of trade
 - the competing narratives about the Australian macroeconomy and how the RBA has sought to shape them
 - the research undertaken by the RBA in regards to the effectiveness of lowering interest rates below current levels

2 House of Representatives Standing Committee on Economics, *Past Public Hearings and Transcripts*, 7 February 2020,

<https://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/RBAReview2019/Public_Hearings>, accessed 17 February 2020.

3 Reserve Bank of Australia, *Statement on Monetary Policy*, February 2020, <<https://www.rba.gov.au/publications/smp/2020/feb/>>, accessed 13 February 2020.

- how changes in monetary policy compare to changes in prudential controls in reduce risks posed by the over-expansion of credit, and
- the research undertaken by the RBA in regards to the possibility of an economic downturn and the size of its macroeconomic effects

1.11 The RBA's responses to questions in writing are available on the inquiry website.⁴

Next public hearing with the Reserve Bank of Australia

1.12 The committee will conduct the next public hearing with the RBA on 14 August 2020 in Canberra. More details will be circulated in the weeks leading up to the hearing.

4 House of Representatives Standing Committee on Economics, *Review of the RBA Annual Report 2019*, <https://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/RBARReview2019/Documents>, accessed 28 February 2020.