No. RBA12QON
Hansard reference: Hansard, 5 February 2021, p. 26

Mr BANDT: Some of the work that the Australian government's Climate Change Authority produced a while ago worked on the basis of getting a global carbon budget, and then an Australian carbon budget that is consistent with that two degrees, and laid out some targets about what it might take to get there. Has the Reserve Bank looked at the recent work from the Climate Targets Panel about updating the budget and the state of Australia's carbon budget that is consistent with two degrees?

Dr Debelle: I will have to come back to you on that; I'm not sure. It's plausible that the staff have. Can I take that one on notice? I'm not sure exactly what they have been across.

ANSWER

Our understanding is that Mr Bandt MP was referring to the Climate Targets Panel report *Australia's Paris Agreement Pathways*, released on 27 January. This is one of a range of inputs that the RBA will be drawing on in its analysis of the climate change risks relevant to its monetary policy and financial stability mandates.

No. RBA13QW
Hansard reference: Written

Does the RBA expect government bonds will soon have a disclosure of climate change risks?

(a) What would be the advantages and disadvantages of such disclosures?

(b) Does the RBA think that Australian bonds should have climate risk disclosures?

(c) What preparation is the RBA doing in anticipation of the litigation against the AOFM and Treasury for the lack of climate disclosure on bonds?

ANSWER

No. Disclosure of climate-change risks relating to sovereign bonds is not currently common practice. There has been some issuance of green bonds by sovereign issuers, including Australian states. These involve issuers promising to direct the proceeds to finance particular environmental projects. Green bonds can provide sovereign issuers with access to capital at lower cost (owing to strong demand for green products), but involve additional reporting requirements.

(a) For the financial system as a whole, meaningful and useful disclosure of material climate change-related risks allows investors and institutions to assess and price climate-related risks and opportunities. From the perspective of the issuing entity, there is some cost to gathering and presenting additional information. This is a particularly challenging exercise for sovereign bonds.

(b) The RBA has not formed a view on whether Australian government bonds should have climate risk disclosures. That is a matter for the AOFM and Treasury.

(c) The current litigation is a matter for the AOFM and Treasury.

No. RBA14QW
Hansard reference: Written

Testimony provided to the committee showed that the RBA has consulted with the CSIRO on climate scenarios.

Have you also been consulting with the Bureau of Meteorology?

(a) Will the RBA be relying on the Bureau's current most likely scenario based on historical observations and future projections drawn from the IPCC 5th Assessment Report, that global warming of 3.4 degrees C by 2100 is estimated to translate to warming of between 3.4 and 4.4 degrees C for Australia?

(b) What are the RBA's initial views of the implications of this likely scenario of up to 4.4 degrees for Australia's economy and the financial system over the next 80 years?

ANSWER

Yes. The Council of Financial Regulators (CFR) Working Group on Financial Implications of Climate Change met with the Bureau of Meteorology (BOM) in April 2018 and February 2020. For the Climate Vulnerability Assessment (CVA) work currently under way, APRA is the point of contact between the CVA project and the BOM, and is consulting with the BOM.

(a) No. The CVA scenarios will be consistent with practices being developed and used by peer regulatory authorities internationally, notably those produced by the Network for Greening the Financial System (NGFS). Adapting the NGFS scenarios to an Australian context will draw on input from the BOM, along with the CSIRO, industry and other CFR agencies including the RBA.

(b) The RBA has not untaken analysis related to this specific scenario. The RBA's views on financial stability risks from climate changes are set out in Box C of the October 2019 *Financial Stability Review* (https://www.rba.gov.au/publications/fsr/2019/oct/box-c-financial-stability-risks-from-climate-change.html) and the macroeconomic risks in the speech by Deputy Governor Guy Debelle on 'Climate Change and the Economy' on 12 March 2019 (https://www.rba.gov.au/speeches/2019/sp-dg-2019-03-12.html).

No. RBA15QW
Hansard reference: Written

Please outline what temperature scenarios the RBA is relying on to do its work on financial stability reviews and preparation. What is the scenario that the RBA, in consultation with the CSIRO, is adopting as the most likely scenario?

ANSWER

The RBA looks at a range of climate and energy mix scenarios in order to monitor the evolving risks to financial institutions. The assumptions used depend on the analysis being undertaken and the objective of that work (e.g. for some work a domestic focus is sufficient, for other pieces of work it is important to enable comparability with the analysis undertaken by institutions in other jurisdictions). For the Climate Vulnerability Assessment (CVA), APRA will draw on the scenarios of the Network for Greening the Financial System. The CVA is currently in the design phase and the scenarios are being developed in consultation with the Bureau of Meteorology, along with the CSIRO, industry and other Council of Financial Regulators agencies, including the RBA.

No. RBA16QW
Hansard reference: Written

Did the RBA's recent electricity supply contract with Sunset Power require electricity to be provided from their renewable generation assets or coal fired power or a mix of the two? Please provide the ratio of renewable generation versus coal fired power that is required under the supply contract.

ANSWER

- The RBA's supply contract is with Delta Electricity, the retail arm of Sunset Power. The electricity purchased by the RBA is sourced from the national grid, which is supplied by multiple non-renewable and renewable power generation providers, including Sunset Power. There is no direct link between the electricity consumed by the RBA and Sunset Power's power generation activities.

- The RBA's supply contract with Delta Electricity includes GreenPower for 20 per cent of the electricity consumed, with the option to increase the share of green power over time. GreenPower is a commercially branded product that coordinates the sale of accredited renewable energy supplies. It is purchased from the retailer as an incremental cost to the base electricity price.

No. RBA17QW
Written

Economic impact of reduced JobSeeker payments

Answering questions after his speech to the National Press Club on 3 February 2021, Mr Lowe said:

> *“I think there’s a wide consensus in the community that the previous level should be increased permanently, and I've said on previous occasions that I would join that consensus.”*

Mr Lowe also said that if the JobSeeker supplement is not extended it would have an impact on the economy:

> *“It would obviously have some effect because these people are getting their supplement. A vast bulk of them spend the bulk of the income they get so there would be some effect on spending.”*

In addition, during the 5 February House Economics Committee hearing, Mr Lowe commented:

> *“…the rate at which we assist people who are on unemployment I think is relevant to the economic questions we face. It affects labour supply. It affects spending in the economy. And the way that we assist unemployed people affects the way they participate in the society and the economic system.”*

Noting the recent reduction of unemployment payments:

(a) In the Reserve Bank’s estimation, where are the impacts of reduced unemployment payments likely to be felt (i.e. particular regions, industries, market sectors or communities with certain socio-economic characteristics)?

(b) Would an increase in the base rate of unemployment payments generate outcomes that are consistent with the RBA’s goals on employment, inflation and wages?

(c) In the estimation of the RBA, would an increase to the base rate of unemployment payments boost spending, demand and jobs?

(d) Would increasing the base rate of unemployment payments boost spending, demand and jobs sooner than strategies that rely on the levers of monetary policy?

ANSWER

(a) The Department of Social Services (DSS) publishes regular data on the number of JobSeeker recipients across a range of demographic and geographic characteristics.[1] At the beginning of the pandemic the RBA assessed that the increase in the number of JobSeeker recipients was largest in those regions that had higher shares of employment in industries directly affected by social distancing restrictions (for example hospitality). Similarly, areas that are more reliant on tourism appear to have seen larger increases in the number of JobSeeker recipients. Younger people were also more likely to move onto income support at the onset of the pandemic.

(b) All else equal, an increase in the base rate of unemployment benefits would have the effect of increasing the amount of fiscal transfers to the household sector. This would boost household disposable income and, in turn, would be expected to boost aggregate demand, labour demand and employment and inflation.

The RBA has not undertaken an exercise itself to estimate the range of possible effects of a permanent increase in unemployment benefits on labour supply, or how this might change measures of spare capacity in the labour market and related effects on wages and inflation. However, recent studies by a number of researchers in Australia and overseas have explored the question of whether an increase in unemployment benefits results in a decline in employment, and have generally found that this did not occur in the episodes considered.[2]

(c) Prior to the pandemic, the average annual JobSeeker benefit was around $14,000 a year (around $40 a day). The amount received varies according to a number of criteria and many individuals also receive other benefits such as rent assistance. Annualised income for JobSeeker recipients before the pandemic was well below standard benchmarks of the poverty line in Australia, suggesting a permanent increase in this benefit would lead to higher consumption, given the expected higher marginal propensity to consume of recipients.

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1 See, for instance, <https://data.gov.au/dataset/ds-dga-728daa75-06e8-442d-931c-93ecc6a57880/details?q=JobSeeker> and <https://data.gov.au/data/dataset/dss-payment-demographic-data>. Additional data has been provided by DSS to the Senate Select Committee on COVID-19, available at: <https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/COVID-19/COVID19/Additional_Documents>.

2 For a review of the effects on the Australian labour market of changes to JobSeeker over 2020, see: Borland J (2020), 'Would a rise in JobSeeker affect incentives for paid work?', Labour Market Snapshot #71, November. For a review of international analysis and related considerations on this question, see: Daley et al (2020), 'The Recovery Book: What Australian governments should do now', Grattan Institute, June. For a study of labour market developments and changes to unemployment benefits in the United States over 2008–2014, see: Boone C, A Dube, L Goodman & E Kaplan (2016). 'Unemployment Insurance Generosity and Aggregate Employment', IZA Discussion Papers 10439, Institute of Labor Economics. Studies of the US experience during 2020 include, for instance: Altonji J, Z Contractor, L Finamor, R Haygood, I Lindenlaub, C Meghir, C O'Dea, D Scott, L Wang & E Washington (2020), 'Employment Effects of Unemployment Insurance Generosity During the Pandemic', Tobin Center for Economic Policy, Yale University, July; Dube A (2021), 'Aggregate Employment Effects of Unemployment Benefits During Deep Downturns: Evidence from the Expiration of the Federal Pandemic Unemployment Compensation', National Bureau of Economic Research, Working Paper No. 28470, February; and Finamor L & D Scott (2021), 'Labor Market Trends and Unemployment Insurance Generosity During the Pandemic', *Economic Letters* 199.

RBA staff (prior to the tapered extension of the Coronavirus Supplement) considered the impact of temporarily extending the initial Coronavirus Supplement by six months and concluded that such a policy extension could increase aggregate consumption spending by around 2 per cent by mid 2022, relative to a counterfactual in which the supplement was discontinued. Standard models would suggest that this increase in spending would flow through to increased demand for labour, and put upward pressure on inflation and wages relative to a counterfactual of no additional spending.

(d) The RBA has not undertaken an exercise to compare how quickly the economic effects of a permanent change to the base rate of unemployment payments would flow through to spending, demand and jobs, relative to the speed of monetary policy changes. In the case of monetary policy, empirical estimates for Australia and other countries typically find that a change to a central bank's policy interest rate has its peak effect on macroeconomic outcomes with a lag of 1½–2 years. In the RBA's macroeconometric model MARTIN, for instance, on average the peak effect on GDP would be around 6 quarters after the policy change, while the peak effect on employment would occur around 2 quarters later than that.[3]

3 For more information on the RBA's macroeconometric model MARTIN, see: Cusbert T & E Kendall (2018), 'Meet MARTIN, the RBA's New Macroeconomic Model', RBA *Bulletin*, March, available at <https://www.rba.gov.au/publications/bulletin/2018/mar/meet-martin-the-rbas-new-macroeconomic-model.html>; and Ballantyne A et al (2019), 'MARTIN Has Its Place: A Macroeconometric Model of the Australian Economy', RBA Research Discussion Paper No 2019-07, August, available at <https://www.rba.gov.au/publications/rdp/2019/2019-07.html>.

Question on Notice
Hansard reference: Hansard, 5 February 2021, p. 26

Mr BANDT: In my remaining time, I will shift to the question of bonds. Given the recent announcement about the range of purchases that the governor referred to in his opening address, what proportion of the government debt that has been issued by AOFM either during 2020-21 financial year or since the pandemic began is the Reserve Bank going to end up having on its books?

Dr Debelle: My computer has locked up at exactly the moment I need to answer your question. We have exactly those numbers; I'm going to talk off the top of my head but they are not going to be exactly right. My computer has asked me to change my pass code as I answer your question, so it obviously doesn't want me to do that! What I can tell you is that, over the next period, we are going to be buying a bit more than what the AOFM is issuing. This is starting from when the current program finishes through until September. We will be buying $80 billion worth of Australian government securities and the AOFM will be issuing less than that by about $10 billion net. I will come back to you with the exact number when I can access it.

And then over the period just gone—we bought less than the AOFM issued in the first few months of the pandemic. We had bond purchases to address the market dysfunction at the time. That was quite a bit less than what the AOFM was issuing. Since we started the bond purchase program in November, we've been buying around the same order of magnitude, but I am going to try to give you the exact figure in a second.

ANSWER

Between 20 March 2020 and 5 February 2021, the AOFM issued $248 billion (face value) of nominal Treasury Bonds. Over the same period the RBA purchased $115 billion of nominal Treasury Bonds. As such, RBA purchases were equivalent to 46 per cent of gross issuance over this period.

Over the 2020-21 financial year the AOFM has stated that it expects to issue $230 billion of nominal Treasury Bonds (https://www.aofm.gov.au/program/issuance-program). The RBA purchased $66 billion of nominal Treasury Bonds between 1 July 2020 and 5 February 2021 and is scheduled to purchase an additional $78 billion under the bond purchase program between 8 February and 30 June 2021. Total projected RBA purchases of $144 billion would be equivalent to 63 per cent of gross planned nominal Treasury Bond issuance over 2020-21.

As at 5 February 2021 there were $730 billion of nominal Treasury Bonds outstanding, of which the RBA owned $112 billion or 15 per cent of the total. As at 30 June 2021 there is projected to be $774 billion of nominal Treasury Bonds outstanding, of which the RBA is scheduled to own $182 billion or 24 per cent of the total.

Reserve Bank of Australia
26 February 2021