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Review of the
Reserve Bank of Australia
Annual Report 2006
(Second Report)

House of Representatives
Standing Committee on Economics, Finance and Public Administration

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Chairman's foreword

The August 2007 hearing was conducted in the light of a strong domestic economy but at the same time some volatility on global markets as a result of growing problems in the US sub-prime mortgage market.

The rising delinquency rates in the sub-prime mortgage market have resulted in a sharp fall in prices to mortgage backed securities and collateralised debt obligations which created problems for the holders of these products. A range of central banks acted during this period to increase liquidity in the banking system.

Notwithstanding these problems, the RBA reported that global growth remains strong. The RBA stated that 'while there has been a slowing in the United States, this has so far been largely confined to the housing sector, with the wider economy still growing at a reasonable pace.'

The June quarter CPI figures revealed an increase in inflation. The RBA raised its December 2007 underlying inflation forecast to 3.0 per cent, the top of its target band. On 8 August the RBA, based on the new inflation data and other information, raised rates by 25 basis points to 6.50 per cent.

The committee examined the RBA on the accuracy of its inflation forecasts in view of the fact that its August forecast for December 2007 inflation was 50 basis points above its May forecast. The RBA Governor explained that while there was a pick up in inflation during 2006, one quarter revealed a softer figure. It was not clear whether that was a new trend or an aberration. Notwithstanding this, Mr Stevens concluded that 'ongoing strength of demand in a fully employed economy might leave us with inflation pressure that is harder to manage than expected.'

In conclusion, I take this opportunity to say a personal farewell. The public hearing held on 17 August 2007 was my final hearing as Chair of the committee as I will not be standing for re-election at the forthcoming 2007 election. I have thoroughly enjoyed the responsibility and challenge of being Chair of the committee and appreciate the contribution of my fellow committee members.

The Hon Bruce Baird MP
Chair



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Membership of the Committee

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Members Mr Steven Ciobo MP

Mr Stewart McArthur MP

Dr Craig Emerson MP

Mr Patrick Secker MP

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The Hon Alex Somlyay MP

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Terms of reference

The House of Representatives Standing Committee on Economics, Finance and Public Administration 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.



List of abbreviations

CAD	Current Account Deficit
CPI	Consumer Price Index
GDP	Gross Domestic Product
GST	Goods and Services Tax
RBA	Reserve Bank of Australia