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The Parliament of the Commonwealth of Australia

# Review of the Reserve Bank of Australia Annual Report 2012 (First Report)

House of Representatives  
Standing Committee on Economics

March 2013  
Canberra

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## Chair's foreword

Last year the global economy faced some serious downside risks. These included the US fiscal cliff, China's slowdown and instability in the Eurozone. These risks were not fully realised and as the Governor noted 'a truly disastrous outcome was avoided'.

The Governor was generally optimistic about the global economic outlook. World GDP is forecast to grow at 3½ per cent in 2013 before picking up to 4 per cent in 2014. If managed satisfactorily the US economy has a good chance of delivering an upside surprise. The slowdown in China's economy has ended and the medium-term outlook is for a steady pace of growth.

On the downside, the Governor cautioned that Europe still faces immense economic challenges. In the longer term the Governor noted that it was unclear how the global economy would react when countries, like Japan and the United States, tighten monetary policy.

Domestically the economy is slightly weaker than was forecast by the RBA in November 2012. The downwards revision reflects the impact of fiscal consolidation, the high level of the Australian dollar, the expectation that mining investment will peak and weakness in non-mining business investment. However, growth is expected to pick up in 2014.

Growth in Australia's mining sector is predicted to peak towards the end of this year. As a result, there will be some tough structural adjustments in the Australian economy over the years ahead. However, as businesses and governments adapt to the new conditions, productivity in Australia will be further strengthened.

Forecasts continue to embody a gradual recovery in dwelling investment and non-mining business investment. The sentiments of households have improved and consumer demand is expected to increase.

Over the next few quarters underlying inflation is expected to remain at an annual rate of 2½ per cent.

The cash rate has been reduced six times over the last 16 months for a decline of 175 basis points. As a result lending rates have fallen to near historic lows. The Governor indicated that the effects of monetary policy are flowing through the economy with share prices increasing and 'safe assets', such as bonds and bank deposits, decreasing. The Governor confirmed that at present the Board has 'a bias to ease' on rates.

Finally, 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 22 February 2013.

Julie Owens MP  
Chair



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## Membership of the Committee

Chair	Ms Julie Owens MP
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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.



