
The Parliament of the Commonwealth of Australia

Review of the Reserve Bank of Australia Annual Report 2010 (First Report)

House of Representatives Standing Committee on Economics

February 2011
Canberra

© Commonwealth of Australia 2011

ISBN 978-0-642-79411-6 (Printed version)

ISBN 978-0-642-79412-3 (HTML version)



Chair's foreword

Over the last several years the Australian economy has, by any reasonable standard, been an outstanding performer. While many leading economies across the world continue to suffer from the effects of the global financial crisis, Australia has experienced steady growth throughout its economy as a whole, with significant gains in key sectors, such as the export-oriented mining industry. The hearing confirmed the wisdom of the economic reforms that Australia has undertaken over the last generation, reforms that have provided us with a legacy of hard-won economic resilience.

The forecasts for Australian growth and stability provided by the RBA in late 2010 were positive. At the time of the hearing, Australian consumer price inflation was about 2½ per cent in underlying terms and about 2¾ per cent in headline terms and the bank forecast was for the economy to grow by 3½ per cent on an annual basis from the December quarter 2010, rising to a possible high of 4 per cent by the end of 2011.

This forecast preceded the cataclysmic flooding that has swept across the eastern states, especially Queensland and shall most likely be revised subject to a systematic reconsideration of the latest developments. Yet, regardless of what revised form the updated forecast ultimately takes, the November hearing offered us a valuable insight into the Australian national economy before the floods.

Largely due to our favourable terms of trade (made possible by the urbanisation of China and India, with its resultant pressure on the price for minerals and fuel) Australia was rapidly closing the gap between actual and potential output. The principal drivers for economic growth were increases in private investment, robust income growth and a strong labour market. In the view of the RBA, the great challenge ahead was to raise productivity and expand the supply side of the economy. While inflation was lower than expected, the bank board expected that the prospect of further increases in the cash rate was sufficiently serious to justify their decision to raise interest rates in early November.

In conclusion, I would like to thank, on behalf of the committee, the Governor of the Reserve Bank, Mr Glenn Stevens, and the other representatives of the RBA for appearing at the hearing on 26 November 2010.

Craig Thomson MP
Chair



Contents

Chair's foreword	iii
Membership of the Committee	vii
Terms of reference	viii
List of abbreviations	ix


THE REPORT

1	Introduction	1
	Background	1
	Scope and conduct of the review	2
	Next public hearing with the Reserve Bank of Australia	2
2	Monetary policy and other issues	3
	Overview	3
	Forecasts for the economy	5
	Inflation targeting and monetary policy	6
	The 'neutral' or 'normal cash rate'.....	8
	The multi-speed economy	9
	Capacity constraints.....	9
	Labour market flexibility.....	10
	Fiscal stimulus	11
	Bank profits and bank competition	12

Bank guarantee and moral hazard.....	14
Exchange rates and external trade.....	16
United States, China and the global economy	17
Household savings	19
ATM fees	19
Conclusions.....	20

APPENDICES

Appendix A — Hearing, briefing, and witnesses	21
Appendix B — <i>Statement on the conduct of monetary policy</i>	23
Appendix C — Glossary of terms	27



Membership of the Committee

Chair Mr Craig Thomson MP

Deputy Chair Mr Steven Ciobo MP

Members Mr Scott Buchholz MP
Mr Stephen Jones MP
Dr Andrew Leigh MP
Ms Kelly O'Dwyer MP
Ms Julie Owens MP

Committee Secretariat

Secretary Mr Stephen Boyd

Inquiry Secretary Dr Phillip Hilton

Administrative Officer Ms Emily Costelloe
Ms Natasha Petrovic



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.



List of abbreviations

CPI	Consumer Price Index
GDP	Gross Domestic Product
IMF	International Monetary Fund
RBA	Reserve Bank of Australia