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The Parliament of the Commonwealth of Australia

# Review of the Reserve Bank of Australia Annual Report 2004 (Second Report)

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

September 2005  
Canberra

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ISBN 0 642 786631



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## Foreword

The committee's August 2005 public hearing with the Governor of the Reserve Bank of Australia (RBA and the Bank) was the second meeting for the House Economics Committee in the 41<sup>st</sup> parliament. The RBA continued to report on a healthy economy which is in its fourteenth year of continuous growth. Earlier in the year, the RBA was concerned about the economy over-heating and responded by raising rates in March 2005. At the August hearing, the Bank reported on an economy where the risks are now balanced rather than being on the up side.

The August hearing came at a time when interest rates had risen by 25 basis points in March which ended a 15 month period of no changes to official rates. While there was much speculation surrounding the February hearing regarding an imminent rise in rates the August hearing did not attract similar speculation; on the contrary, many media commentators were predicting a period of no further upward movement with some even suggesting rates may fall before the end of the year. Where interest rates will be at the end of the year and forecasts for inflation were central to the discussions. Other issues examined at the hearing included the relationship between housing prices and household expenditure, the prospects for the global economy and what steps have been taken to address some of the capacity constraints. The committee also sought an update on the reform agenda of the payments system.


The evidence given at the hearing enabled the committee to examine further the setting of monetary policy as well as discuss other aspects of the economy not directly under the control of the RBA.

The hearing continued to provide the community, financial sector, and the media with a valuable opportunity to monitor the way in which the Bank conducts monetary policy in Australia.

At the hearing, the committee welcomed school students and their teachers from the Melbourne metropolitan area. It was gratifying to see students of economics taking an interest in monetary policy and the role of the Reserve Bank.

On behalf of the committee, I thank the Governor of the Reserve Bank of Australia, Mr Ian Macfarlane, for his discussion and for the contribution of his staff. The committee also appreciates the pre hearing briefings from Dr Alan Oster from the National Australia Bank and Mr Bill Evans from Westpac. I also appreciate the hard work of the Deputy Chair Chris Bowen and our fellow committee members and that of our secretariat staff and advisers.

The Hon Bruce Baird MP  
Chairman



## Membership of the Committee

Chair           The Hon Bruce Baird MP

Deputy Chair   Mr Chris Bowen MP

Members       Mr Steven Ciobo MP

Mr Andrew Robb AO, MP

Mr Joel Fitzgibbon MP

The Hon Alex Somlyay MP

Ms Sharon Grierson MP

Mr Lindsay Tanner MP

Mr Stewart McArthur MP

Mr Malcolm Turnbull MP

## Committee Secretariat

Alg Committee       Mr Peter Keele  
secretary

Adviser            Mr David Richardson

Administrative officer   Ms Natasha Petrovic







## 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.

The focus of the hearing was on the following documents:

- the *Reserve Bank of Australia annual report 2004* which was tabled in the House of Representatives on 17 November 2004
- the *Payments System Board annual report 2004* which was tabled in the House of Representatives on 30 November 2004
- *Statement of Monetary Policy*, Reserve Bank of Australia, August 2005



## List of abbreviations

ABS	Australian Bureau of Statistics
ACCI	Australian Chamber of Commerce and Industry
AIG	Australian Industry Group
ASX	Australian Stock Exchange
ATM	Automatic Teller Machine
CAD	Current Account Deficit
EFTPOS	Electronic Funds Transfer at Point of Sale
GDP	Gross Domestic Product
GNE	Gross National Expenditure
OPEC	Organization of Petroleum Exporting Countries
PSB	Payments System Board
\$(US)	American dollars
RBA or the Bank	Reserve Bank of Australia
TWI	Trade Weighted Index