

---

The Parliament of the Commonwealth of Australia

# **Review of the Reserve Bank of Australia Annual Report 1997-98**

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

August 1999  
Canberra

---

© Commonwealth of Australia 1999

ISBN 0 642 36611 X



# Contents

Foreword.....	v
Membership of the Committee.....	vii
Terms of reference .....	ix
List of abbreviations.....	xi

## THE REPORT

<b>1</b>	<b>Introduction.....</b>	<b>1</b>
	Background.....	1
	Scope and conduct of the review .....	2
<b>2</b>	<b>Conduct of Monetary Policy .....</b>	<b>5</b>
	Review of forecasts presented in December 1998.....	5
	Reasons for Australia's economic success .....	7
	Australian economy passes the Asian crisis stress test .....	8
	Australia's links with the US business cycle.....	8
	Impacts of tax reform and the GST.....	10
	Business investment .....	12
	The household saving ratio.....	13
	Recommendation .....	15
	Employment.....	15
	The current account deficit .....	17

---

The exchange rate .....	18
Hedge funds .....	20
Inflation forecasting and targeting .....	22
Prospects for the rest of 1999 and 2000 .....	23
<b>3 Financial System Stability .....</b>	<b>27</b>
Year 2000 problem (Y2K) .....	27
The regulatory framework .....	30
The payments system .....	31
Transparency .....	32
<b>4 Bank Fees and Profits .....</b>	<b>35</b>
Introduction .....	35
Margins and fees .....	36
Bank profits .....	40
Conclusion .....	42
<b>APPENDICES</b>	
Appendix A – List of submissions .....	45
Appendix B – List of hearings and witnesses .....	47



## Foreword

In this unanimous report the Committee deals with the June 1999 public hearing with the Reserve Bank of Australia and the Bank's associated *Semi-Annual Statement on Monetary Policy, May, 1999*. The public hearing was one of the Committee's bi-annual meetings with the Governor of the Reserve Bank that have become an important component of the Committee's work and the Bank's public accountability strategy. As a result of this scrutiny process the Parliament, financial sector and community have an excellent opportunity to monitor the way in which the Bank conducts its activities and monetary policy. Interest in the process continues to grow.

The benefits of the openness and accountability of the Australian financial system have been clearly demonstrated in the impressive performance of Australia's economy over the past year. Two years after the Asian crisis first broke, and despite a global economic slowdown, the Australian economy continues to show growth rates exceeding 4 per cent and exceptionally low inflation. The Bank's steady, deliberate approach to monetary policy rightly deserves much of the credit for Australia's economic success.

This hearing saw considerable focus on bank fees and charges. In the report, the Committee also alludes to its interest and concern about more recent developments relating to bank ethics as publicised in the media about John Laws and the Australian Bankers' Association.

In undertaking this scrutiny work the Committee appreciates the assistance and cooperation it received from Ian Macfarlane, Dr Stephen Grenville, Glenn Stevens and their staff. The professionalism of the Bank's management and staff was clearly reflected in the Bank's approach to the public hearing and in the contents of the *Semi-Annual Statement, May, 1999*.

The Committee also appreciates the briefings it received prior to the hearing from two leading Chief Economists, Mr Barry Hughes and Mr Saul Eslake, of CS First Boston and ANZ Bank, respectively.

In conclusion, I thank all members of the Economics, Finance and Public Administration Committee for their contributions to the public hearing and to this report.

**David Hawker MP**  
Chair



## **Membership of the Committee**

**Chair**            Mr D P M Hawker MP

**Deputy Chair**   Mr G S Wilton MP

**Members**        Mr A N Albanese MP

                      Mrs K E Hull MP

                      Mr M W Latham MP

                      Dr A J Southcott MP

                      Ms A E Burke MP

                      Ms T Gambaro MP

                      Mr C M Pyne MP

                      Hon A M Somlyay MP

## **Committee Secretariat**

**Secretary**                    Ms B Forbes

**Inquiry Secretary**        Ms S McInnis

**Advisor**                     Mr D Richardson

**Administrative Officer**    Ms B Zolotto







## **Terms of reference**

The Standing Committee on Economics, Finance and Public Administration is empowered to inquire into and report on any matter referred to it by either the House or a Minister, including any pre-legislation proposal, bill, motion, petition, vote or expenditure, other financial matter, report or paper.

Annual reports of government departments and authorities tabled in the House stand referred to the relevant committee for any inquiry the committee may wish to make. Reports stand referred to committees in accordance with a schedule tabled by the Speaker to record the areas of responsibility of each committee.

The *Reserve Bank of Australia annual report 1997-98* was tabled in the House of Representatives on 11 November 1998.





## List of abbreviations

ABA	Australian Bankers' Association
ABS	Australian Bureau of Statistics
ADI	Authorised deposit-taking institution
APCA	Australian Payments Clearing Association
APRA	Australian Prudential Regulation Authority
ATM	Automatic Teller Machine
CAD	Current account deficit
EFPA	House of Representatives Standing Committee on Economics Finance and Public Administration
EFTPOS	Electronic funds transfer at point of sale
ESA	Exchange Settlement Account
GDP	Gross Domestic Product
GST	Goods and Services Tax
IMF	International Monetary Fund
IWG	Inter-bank Working Group
RBA	Reserve Bank of Australia

RTGS      Real-time gross settlement

Y2K      Year 2000