
The Parliament of the Commonwealth of Australia

Review of the
Reserve Bank of Australia
Annual Report 2007
(First Report)

House of Representatives Standing Committee on Economics

May 2008
Canberra

© Commonwealth of Australia 2008
ISBN 978-0-642-79044-6 (Printed version)
978-0-642-79045-3 (HTML version)



Chair's foreword

The current upward trend in inflation has prompted the Reserve Bank of Australia (RBA) to increase the official cash rate to 7.25 - up 75 basis points since the former committee met with the Bank in August 2007. The RBA has now increased the cash rate 12 times since 2001; with a total of a 100 basis point increase from 8 August 2007. The April 2008 hearing, therefore, provided a timely opportunity to scrutinise the RBA's conduct of monetary policy.

On top of these official rate rises, commercial banks have been raising rates independently of the RBA. This has placed a heavy load on people struggling with their mortgages who, at the same time, are facing increasing pressures to pay their bills. High rate environments which are designed to slow the economy and bring downward pressure on inflation have a human cost which cannot be ignored.

The committee, taking these issues into account, will continue to scrutinise the RBA over its conduct of monetary policy and seek the most up to date forecasts for inflation, growth and rates. The RBA's forecasts for inflation indicate that underlying inflation should start moderating from June 2009 and reach about 2.75 percent by December 2010. The public hearing scheduled for 8 September 2008 will be an opportunity for the RBA to report on the most recent data available.

The role of commercial banks in lifting rates independently of the RBA has not gone unnoticed. The banks have argued the need to increase their rates because of problems arising from the US sub-prime mortgage crisis and the consequent increasing cost of credit. These banks should be responsive to the needs of their customers. At the next hearing, the RBA's report on credit conditions will be particularly useful as part of the wider community debate about the actions of commercial banks.

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 4 April. The next hearing will be held on 8 September 2008 in Melbourne.

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 RBA.....	3
2 Monetary policy and other issues	5
Overview	5
Forecasts for 2007-2008	7
Inflation targeting and monetary policy	8
Wages growth and a deregulated labour market.....	12
Exchange rates and external trade.....	13
United States, China and the global economy	14
Housing and household debt.....	15
Climate change and its economic impact	18
Capacity constraints.....	19
Transparency and accountability	20

APPENDICES

Appendix A — Submission23

Appendix B — Hearing, briefing, and witnesses25

Appendix C — *Fourth statement on the conduct of monetary policy*27

Appendix D — Glossary of terms31



Membership of the Committee

Chair Mr Craig Thomson, MP

Deputy Chair Hon Chris Pearce, MP

Members Mr David Bradbury, MP

Hon Michael Dutton, MP

Ms Sharryn Jackson, MP

Mr Michael Keenan, MP

Mr Richard Marles, MP

Ms Julie Owens, MP

Hon Malcolm Turnbull, MP

Mr Jim Turnour, MP

Committee Secretariat

Secretary Mr Stephen Boyd

Research staff Ms Sharon Bryant

Ms Bhuvana Radhakrishnan

Administrative Officer Ms Natasha Petrovic

Mrs Frances Wilson



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

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