

---

The Parliament of the Commonwealth of Australia

Review of the  
Reserve Bank of Australia  
Annual Report 2008  
(First Report)

House of Representatives Standing Committee on Economics

March 2009  
Canberra

---

© Commonwealth of Australia 2009  
ISBN 978-0-642-79154-2 (Printed version)  
978-0-642-79155-9 (HTML version)



## Chair's foreword

On 4 February 2009 the Reserve Bank of Australia (RBA) announced a 100 basis point reduction in the official cash rate bringing it down to 3.25 per cent. The RBA Board decided to reduce the cash rate when it became apparent that the global economic outlook was worsening. The collapse of the global financial services firm Lehman Brothers in September of last year was the catalyst that prompted a massive reassessment of risk globally.

The RBA took quick and decisive action over this time to reduce the official cash rate. Between September 2008 and February 2009 the official cash rate was reduced five times, a total decrease of 400 basis points since 3 September 2008.

In January, the International Monetary Fund took the unprecedented step of calling on governments of advanced and emerging economies to implement fiscal stimulus in order to support world growth.

Governments around the world have taken steps to bolster their financial systems with a number of domestic and international measures.

The Governor of the RBA in his statement announcing the 4 February rate cut noted the significant deterioration in world economic conditions late in 2008 and that substantial falls in commodity prices has had a significant dampening effect on confidence.

Australia's economy has been impacted by the deterioration in international economic conditions which has substantially slowed growth. While Australia's economy has slowed, comparatively the economic downturn has not been as severe as in other advanced economies.

These are the worst global economic conditions seen for some time and there is still considerable uncertainty about the economic outlook. It is therefore more critical than ever for the committee to scrutinise the RBA on its key forecasts for economic growth, inflation and employment.

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 20 February. The next hearing will be held on 14 August 2009 in Sydney.

Craig Thomson MP  
Chair



# Contents

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

## THE REPORT

<b>1 Introduction .....</b>	<b>1</b>
Background .....	1
Scope and conduct of the review .....	2
Next public hearing with the Reserve Bank of Australia .....	3
<b>2 Monetary policy and other issues .....</b>	<b>5</b>
Overview .....	5
Forecasts for 2009-2010 .....	7
Economic forecasting .....	10
Inflation targeting, monetary policy and fiscal stimulus .....	11
Labour market .....	18
Exchange rates and external trade .....	19
United States, China and the global economy .....	19
Housing and household debt .....	21
ATM interchange fees .....	23
Conclusions .....	23

## APPENDICES

Appendix A — Submission .....	25
Appendix B — Hearing, briefing, and witnesses .....	27
Appendix C — <i>Fourth statement on the conduct of monetary policy</i> .....	29
Appendix D — Glossary of terms .....	33

## TABLE

Table 2.1 RBA Output and Inflation Forecasts .....	9
--	---



## Membership of the Committee

Chair Mr Craig Thomson MP

Deputy Chair Hon Kevin Andrews MP

Members Mr David Bradbury MP

Mr Richard Marles MP

Hon Julie Bishop MP (to 25/2/09)

Ms Julie Owens MP

Mr Jamie Briggs MP (from 25/2/09)

Hon Tony Smith MP

Hon Joe Hockey MP

Mr Jim Turnour MP

Ms Sharryn Jackson MP

## Committee Secretariat

Secretary Mr Stephen Boyd

Inquiry Secretary Mr Paul Zinkel

Administrative Officers Ms Natasha Petrovic

Ms Renee van der Hoek



## 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

ATM	Automatic Teller Machine
BCDC	Business Cycle Dating Committee of the US National Bureau of Economic Research
CPI	Consumer Price Index
The Fed	US Federal Reserve
FHOG	First Home Owner Grant
G7	Canada, France, Germany, Italy, Japan, UK, and US
GDP	Gross Domestic Product
IMF	International Monetary Fund
RBA	Reserve Bank of Australia
UK	United Kingdom
US	United States of America
WEO	World Economic Outlook

