

Introduction

Background

- 1.1 In August 1996 the Treasurer, the Hon Peter Costello MP, and the Governor of the Reserve Bank of Australia, Mr Ian Macfarlane, agreed on a *Statement on the conduct of monetary policy* which set out a common understanding between the Governor and the Government on key aspects of Australia's monetary policy framework. The new arrangements extended and formalised the Reserve Bank of Australia's (RBA's) accountability framework by securing the Bank's agreement to the issue of two annual statements on the conduct of monetary policy as well as the appearance of the Bank Governor twice a year before the House of Representatives Standing Committee on Financial Institutions and Public Administration and subsequent committees (now the Economics, Finance and Public Administration Committee, EFPA) to answer questions about monetary policy.
- 1.2 This Committee and its predecessors have now held five meetings with the RBA under the arrangement and participants are satisfied that the arrangements are working very well. There is a considerable amount of public interest in the Bank's appearances before the Committee as these provide the Parliament, financial sector and community as a whole with valuable insights into the way the Bank conducts management of monetary policy.
- 1.3 At the basis of the Committee's review of the Reserve Bank are the Bank's semi-annual statements on the conduct of monetary policy and its annual reports. The basis for the review of Bank's annual reports is House of Representatives' standing order 324 (b) which provides for the referral of annual reports within a committee's area of portfolio responsibility for any inquiry the committee may wish to make.

- 1.4 The terms of reference for the EFPA Committee are on page ix.

Scope and conduct of the review

- 1.5 At its meeting on 10 December 1998 the Committee resolved to examine the RBA's annual report 1997-98 and related semi-annual statements.
- 1.6 This report focuses on the *Reserve Bank of Australia 1998: Report and Financial Statements*¹ and the *Semi-Annual Statement on Monetary Policy, May 1999*², both of which were discussed at a public hearing in Melbourne on 17 June 1999. Details of the hearing are in Appendix B. A copy of the transcript of evidence from the hearing has been published by the Committee and is available from its secretariat or from the Committee's internet site³.
- 1.7 The Committee's review is clearly a public process. However, it is not as comprehensive as an inquiry into a specific reference, since the review is not formally advertised in the media, and submissions generally are sought only from those organisations directly involved in the review process.
- 1.8 Prior to the June hearing the Committee continued its practice of holding private briefings with two leading economists from the financial sector. On this occasion the economists chosen were Mr Saul Eslake, Chief Economist, ANZ, and Mr Barry Hughes, Chief Economist, CS First Boston. These briefings presented alternative views on some aspects of monetary policy, the Australian economy and the international economic outlook.
- 1.9 In addition to the above-mentioned briefings, this year the Committee received a private briefing from Mr John Buttle, Chair of KPMG's Financial Services Industry Group, to look at the *1999 Financial Institutions Performance Survey*.
- 1.10 In this report the Committee does not repeat the detail of the Bank's views as set out in its annual report and most recent semi-annual statement. Rather, the report highlights the significant matters raised at the public hearing, most of which are concerned with monetary policy, but some of which are more broadly focused on financial system stability issues of, for example, financial system regulation, central bank transparency and Y2K.

1 *Reserve Bank of Australia report and financial statements 30 June 1998*. Sydney, RBA, 103 p.

2 Reserve Bank of Australia. *Semi-Annual Statement on Monetary Policy, May 1999*. Sydney, RBA, 45p.

3 <http://www.aph.gov.au/hansard/rep/committee/r2018.pdf>

- 1.11 This year the subject of bank fees and charges assumed considerable salience in the public hearing with the Bank, and this is reflected in this report.

