
The Parliament of the Commonwealth of Australia

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

House of Representatives Standing Committee on Economics

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Chair's foreword

On 2 September 2008 the Reserve Bank of Australia (RBA) announced a 25 basis point reduction in the official cash rate. The first rate cut since December 2001. Since the start of the US sub-prime mortgage crisis there has been severe instability in global financial markets. The level of uncertainty and fluidity in international financial markets has provided a challenge for financial regulators around the world.

In April 2008 when the RBA previously appeared before the committee the focus was on the underlying rate of inflation and the need to bring this under control with a restrictive monetary policy setting.

The change in economic conditions between April and September provided the RBA with the evidence to cut rates. The Governor of the RBA in his statement announcing the 2 September rate cut noted the tighter financial conditions but also Australia's terms of trade which were working in the opposite direction.

A measure of the volatility in global financial markets is the significant downturn in conditions that occurred between the 2 September and the 7 October meetings of the RBA Board. The series of events that occurred during this period led the RBA Board to cut the official cash rate by 100 basis points, the largest single reduction since 1992. It was evident that there was a shift in emphasis from inflation to growth.

One of the key functions of the committee in scrutinising the RBA is to hold it to account for its conduct of monetary policy and, in particular, that its decisions are in the best interest of the economy. In line with this objective, the committee was intent on examining the need for the official rate increases of 25 basis points each that occurred in February and March 2008. There was concern that these rate rises may have been too much for the economy to tolerate. The RBA defended its decision to raise rates on both these occasions based on the information that was available.

The conduct of monetary policy during the previous 12 months demonstrates the uncertainty that the Reserve Bank can be subject to as a result of volatility in financial markets. More than ever, this underpins the need for robust and effective scrutiny of the RBA. The next hearing with the RBA will provide further

opportunity for the RBA to account for its conduct of monetary policy and its forecasts for 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 8 September. The next hearing will be held on 20 February 2009 in Canberra.

Craig Thomson MP
Chair



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Membership of the Committee

Chair Mr Craig Thomson MP

Deputy Chair Hon Chris Pearce MP

Members	Hon Julie Bishop MP (from 25/9/08)	Mr Richard Marles MP
	Mr David Bradbury MP	Ms Julie Owens MP
	Mr Steve Ciobo MP (from 28/8/08)	Hon Tony Smith MP (from 25/9/08)
	Hon Peter Dutton MP (to 25/9/08)	Hon Malcolm Turnbull MP (to 28/8/08)
	Ms Sharryn Jackson MP	Mr Jim Turnour MP
	Mr Michael Keenan MP (to 25/9/08)	

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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
CBA	Commonwealth Bank of Australia
CPI	Consumer Price Index
CPRS	Carbon Pollution Reduction Scheme
GDP	Gross Domestic Product
GST	Goods and Services Tax
IMF	International Monetary Fund
RBA	Reserve Bank of Australia
US	United States of America