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Review of the
Reserve Bank of Australia
Annual Report 2005
(Second Report)

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

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Chairman's foreword

Australia's current economic expansion has continued for an unprecedented 15 years. This is an enviable performance and one which many western countries would like to emulate. The Reserve Bank of Australia (RBA) has played a critical part in this success by carefully monitoring inflation and conducting monetary policy so that it contributes to the stability of the Australian currency, the maintenance of full employment, and the continuing economic prosperity and welfare of the people of Australia.

This long period of expansion has resulted in capacity constraints which are creating some inflationary concerns. The RBA is quick to point out that full capacity is not something to fear. For example, the unemployment rate is the lowest in 30 years. Nevertheless, the RBA, taking into account capacity constraints and domestic pressure on prices, together with rising global inflationary pressures has recently raised rates taking the cash rate to 6.25 per cent.

The RBA advised that the current level of interest rates were in the 'neutral' area where interest rates are having neither an expansionary nor contractionary affect on the economy.

In relation to housing affordability, the RBA was surprised at the enormous public focus placed on the recent rate increases and their apparent impact on housing affordability. Mr Macfarlane, the then Governor of the RBA, suggested that the real problem for people was not the rate increases but the fact that houses were so expensive.

During the examination of housing affordability, scrutiny focused on the role of state governments in relation to land release. Mr Macfarlane commented that the reluctance to release new land plus the new approach whereby the purchaser has to pay for all the services up front - the sewerage, the roads, and footpaths - has enormously increased the price of the new, entry level home.

The public hearing held on 18 August 2006 was particularly productive and marked the final appearance of Mr Macfarlane who retired during September. I take this opportunity, on behalf of the committee, to congratulate Mr Macfarlane on his leadership of the RBA over ten successful years and commend him for his outstanding contribution to the stability and growth of the Australian economy.

I would also like to take this opportunity to welcome Mr Glenn Stevens as the new Governor of the RBA and look forward to formally meeting with him at the next public hearing with the RBA in February 2007.

The Hon Bruce Baird MP
Chair



Contents

Chairman's foreword	iii
Membership of the Committee	vii
Terms of reference	ix
List of abbreviations	xi

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 2006-07	7
Inflation targeting and monetary policy	8
The 'neutral level' of interest rates?	10
Exchange rates and external trade.....	11
United States, China and the global economy	13
Oil prices.....	14
Housing and household debt.....	15
Housing affordability and land release	17
Supply side (capacity) constraints	18

APPENDICES

Appendix A — Submission21

Appendix B — Hearing, briefings, and witnesses23

Appendix C — *Third statement on the conduct of monetary policy*.....25

Appendix D — Glossary of terms29



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Terms of reference

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List of abbreviations

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

