



Report – Reserve Bank Of Australia Public Hearing

ATT: National Media
Report tabling on Monday 25 June 2001

Reserve Bank told to 'get its act together on bank fees'

The House of Representatives Economics Committee has demanded the Reserve Bank get its act together on ATM and EFTPOS 'interchange' fees.

These fees are charged by banks to each other - and then passed on to consumers - when certain transactions are made using ATMs and EFTPOS.

The call comes in a report tabled in Parliament today, following the House Economics Committee's public hearing with the Governor of the Reserve Bank in Melbourne last month.

In the report the Committee says the Reserve Bank has not achieved the right balance in examining interchange fees. The Reserve is currently acting to regulate credit card fees but has said it will not deal with the other interchange fees until after it has finished with credit cards. The Committee recommends that ATM and EFTPOS fees should be examined sooner than 'some time next year', as the Reserve Bank currently plans.

The Chair of the House Economics Committee, Mr David Hawker, says: "The Reserve Bank should be acting more quickly on ATM and EFTPOS fees. It is a well known rip-off and there seems to be no good reason for not acting as soon as possible."

The Committee has also expressed concern about 'loyalty' programs, especially how they are funded. These programs are covered in the Committee's recommendation on interchange fees.

On the operation of monetary policy, the Committee recommends the Reserve Bank give greater attention to business confidence surveys. Such surveys seem to have been a good indicator of the economic downturn in the second half of last year – a downturn the size and nature of which the Reserve Bank did not expect or anticipate.

Other important matters addressed by the Committee in today's report are:

- the impact on Australia of the slowdown in the US and world economies;
- the impact of the substantial downturn (37%) in the housing sector;
- the reasons why the Bank misread the economy in the second half of last year;
- the Bank's expectations for an improvement in economic growth for 2001-02;
- transparency of the Reserve Bank and the effectiveness of its current board structure;
- the Bank's comments on the HIH collapse and the need for legislative change for general insurance; and
- the Bank's concerns relating to supervision of the 10,000 or so medium size superannuation funds.

The Report released today is the Committee's report on *the Centenary of Federation Hearing: Reserve Bank of Australia annual report 1999-2000*. The Reserve Bank Governor will appear again before the Committee later in the year.

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Final Report - Inquiry into Reserve Bank – Media Release (continued)

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A copy of Mr Hawker's tabling speech is attached.

To arrange comment:

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For a copy of the Committee's report see:

- internet (<http://www.aph.gov.au/house/committee/efpa/rba>)
- or contact the Committee Secretariat.

Committee Membership

Chairman: Mr David Hawker MP

Deputy Chair: Ms Anna Burke MP

Members:

Mr Anthony Albanese MP	Ms T Plibersek MP
Ms Teresa Gambaro MP	Mr Christopher Pyne MP
Mrs Kay Hull MP	Hon Alex Somlyay MP
Mr Mark Latham MP	Dr Andrew Southcott MP

Ends // 25 June 2001

THE CENTENARY OF FEDERATION HEARING: REVIEW OF THE RESERVE BANK OF AUSTRALIA ANNUAL REPORT 1999-2000

**TABLING SPEECH: MONDAY 25 JUNE 2001
DAVID HAWKER MP, CHAIRMAN**

Mr Speaker,

This report of the House Economics Committee, that I present to you today, is again a unanimous report of the committee. It reviews the performance of the Reserve Bank and its management of monetary policy over the past six months. It is based on discussions between the Governor and the committee at a public hearing in Melbourne on 11 May this year.

The two important matters highlighted in the report are - first, how the Reserve Bank seemed to get its projection of economic growth so wrong in the second half of last year; and second, the rip-off on ATM and EFTPOS interchange fees.

First, the Reserve Bank's apparent misreading of the economy.

The past six months have been a fairly turbulent period for the Reserve Bank. There have been two major changes in the economic environment and in response the Bank has dropped interest rates three times between February and April this year by a total of 125 basis points and monetary policy has returned to an expansionary setting.

The first major change was that the outlook for the world economy deteriorated sharply at the turn of the year. This was mainly a result of developments in the United States, but it was widespread enough to cause significant downward revisions to world growth prospects. At the hearing the Reserve Bank stressed that the speed and extent of any recovery in the Australian economy will primarily depend on international conditions, chiefly in the US. While cautious about the future, the Bank expects the US to have a 'soft landing'.

The second major change was that it became apparent that the Australian economy had been a lot weaker in the second half of 2000 than anyone, including the Reserve Bank, had formerly thought. By May 2001 growth estimates for 2000-01 had been revised down from 4% to around 2%.

The reason for the decline was the exceptionally large decline in dwelling investment as a result of the transitional effects of the GST.

The fall in the growth of the housing sector was over 37% in the six months to December 2000. This turned a relatively unexceptional slowdown into a small contraction of GDP.

The Bank admitted that it had got those growth figures wrong.

In the Bank's analysis of the experiences of other countries that have introduced a GST, the Bank did not expect such an enormous fall in housing investment would occur in Australia.

The backlog of house building that did not get completed prior to the introduction of the GST was smaller than the industry had predicted.

On the up side the Bank reported that recently the Housing Industry Association and the banks have commented that house building is in the process of turning around and that its upswing could be very pronounced. In addition, the Bank expects the combined effects of lower interest rates and the \$14,000 grant for the purchase or construction of a new house will start to show up by the June quarter.

A very significant factor in the current economic climate is consumer and business confidence. While consumer confidence stayed above its average level until March 2001, it then fell sharply to levels below their long-term average. This fall was directly linked to the sharp contraction of GDP in the December quarter and the fall in the exchange rate to record lows.

In terms of business confidence, there is a noticeable divide between small businesses and medium/large businesses. ABS quarterly survey figures for smaller businesses show a more marked decrease in confidence, compared with larger businesses.

In its report the committee acknowledges the Reserve Bank's outstanding record on monetary policy since the early 1990s, but by the Bank's own admission, it simply got the extent of the economic slowdown wrong. One of the factors that the committee believes that the Bank did not appear to give sufficient attention to was business confidence, especially for small business. This was indicated by the Bank's dismissive comments on business confidence surveys at the committee's December 2000 hearing.

Accordingly, the committee has recommended that in future conduct of monetary policy when there is a major structural change, the Reserve Bank should give appropriate weight to examining business confidence data.

It was pleasing to note that the March national account figures released in the past few weeks showed that in volume terms GDP increased by 1.1% in the March quarter. Recent surveys have also shown a pick-up in both business and consumer confidence.

Another matter of concern is that the committee feels that the short term approach of so many in today's financial markets could run the risk of declining private investment in long term projects. The committee will ask the Bank for a more considered view on this issue.

I will now focus on the rip-off on ATM and EFTPOS interchange fees.

Mr Speaker, members will be aware that recent research by the Reserve Bank and the Australian Competition and Consumer Commission has shown that the banks have been overcharging consumers on interchange fees. In the past few months the Reserve Bank has used its powers under the Payment Systems Act to designate interchange fees of credit cards operated in Australia by MasterCard, Bankcard and Visa.

While the Reserve Bank is currently acting to regulate credit card fees it stated it will not deal with the other interchange fees (EFTPOS and ATMs) until after it has finished with credit cards. That will be some time next year.

The committee believes that the Reserve Bank should be acting more quickly on ATM and EFTPOS fees. The mark-up in ATM fees is of the order of 175% and the mark-up in EFTPOS fees is about 23%. There is strong community sentiment that this is a rip-off. It seems that there is little reason for not acting as soon as possible.

Accordingly, the committee has recommended that the Reserve Bank give the same priority to investigate ATMs and EFTPOS interchange fees, including loyalty programs, as it gives to credit card interchange fees.

Other important matters addressed by the committee report are:

- the transparency of the Reserve Bank's decision making and the effectiveness of its current board structure;
- the Bank's comments on the HIH collapse and the need for legislative change for general insurance; and
- the Bank's concerns relating to supervision of the 10,000 or so medium size superannuation funds.

The May hearing with the Reserve Bank was a Centenary of Federation national and Victorian event. We were privileged to hold that hearing in the Chamber of the Victorian Legislative

Council. The committee appreciates the assistance of the Hon Bruce Chamberlain, President of the Council, and his staff, for making the Chamber available to us.

I thank the Governor Ian Macfarlane and his staff for their cooperation and assistance with the hearing. I also thank all members of the committee, the committee secretariat and others in the parliament for their contributions to this inquiry and report.

In this the Centenary of the Australian Public Service, I also acknowledge the information and support that our committee receives in its inquiries and briefings from many government agencies.

I commend this report to the House.