

SENATE STANDING COMMITTEE ON ECONOMICS QUESTION
(Supplementary Budget Estimates 20 October – 21 October)

Question: SBT 63

Topic: Monetary Policy

Senator Bushby asked:

Did the statement on the Conduct of Monetary Policy recently agreed to by the Australian Government and the Reserve Bank of Australia, outline any changes to the way in which monetary policy was conducted in regards to financial stability and /or asset price inflation?

Does the Reserve Bank Monetary policy framework include targeting asset price inflation? Does the advice that Treasury prepares for RBA board meetings consider asset price inflation data?

How confident can we be that monetary policy makers will get the settings right in regards to asset prices?

Answer:

The updated Statement on the Conduct of Monetary Policy released on 30 September 2010 recognises the longstanding responsibility of the Reserve Bank and its Board for financial stability, which is critical to a stable macroeconomic environment. The relevant section of the Statement notes that:

“Without compromising the price stability objective, the Reserve Bank seeks to use its powers where appropriate to promote the stability of the Australian financial system.”

The price stability objective is unchanged from the previous Statement:

“In pursuing the goal of medium-term price stability, both the Reserve Bank and the Government agree on the objective of keeping consumer price inflation between 2 and 3 per cent, on average, over the cycle.”