



Reserve Bank Governor Ian Macfarlane at the House Economics Committee hearing. Photo: Dan Peled, AAP Image

Without reserve

Public hearings by the House of Representatives Economics Committee have opened the Reserve Bank of Australia to greater public scrutiny. The Reserve Bank gives its perspective on appearing before the committee twice a year.

During the 1990s the practice of central banking underwent significant reform in many countries. Broadly speaking, the changes introduced in the past 15 years or so included adoption of inflation targeting in the framework of monetary policy and in some countries the separation of banking supervision from central banking. The changes were generally associated with a marked shift towards greater openness and transparency, when

previously there was thought to be considerable mystique in central banking; importantly, they included more accountability to the wider community.

Moves towards greater transparency and accountability in the conduct of monetary policy in Australia were formalised in the *Statement on the Conduct of Monetary Policy*, agreed between the Treasurer and the current Governor of the Reserve Bank, Ian Macfarlane, at the time of his appointment in 1996.

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The statement noted that monetary policy needed to be conducted in an open and forward-looking way because changes in monetary policy affect economic activity and inflation with a lag, and because of the key role of inflation expectations in shaping actual inflation outcomes. One of the main steps towards a more effective framework for accountability of the Reserve Bank included an agreement that the Governor would be available to report on the conduct of monetary policy twice a year to the House of Representatives Economics Committee.

The first parliamentary hearing under these arrangements was in May 1997, running for about three and a half hours. The Reserve Bank had previously appeared before the parliamentary committee on six occasions, but these appearances were ad hoc and focused mainly on banking matters rather than monetary policy. Now, the regular six-monthly cycle of appearances has become a major feature on the calendar of events for 'central bank watchers'. The appearances attract considerable media attention, typically with live webcasts, top billing in that day's financial news, including on radio and television, and extensive reporting in the press over following days. The hearings have taken place mainly in Sydney and Melbourne, but the committee has ventured to other capital cities and, on two occasions, to regional locations to hold its hearings with the Reserve Bank, namely Wagga Wagga in 2000 and Warrnambool in 2002, in order to interact with the local community.

The hearings are timed to follow the publication by the Reserve Bank of its quarterly *Statement on Monetary Policy* in February and August; the other two statements during the year are not followed by appearances before the committee. The hearings, which are conducted under the rules applying to parliament, begin with an opening statement by the Governor and are followed by an extensive question and answer session, which takes up the bulk of the time. During the Q&A session the Governor is assisted by a small group of senior colleagues and, in practice, the session tends to embrace more than the conduct of monetary policy—it encompasses the Reserve Bank's broader responsibilities, including for financial stability and the payments system, and other matters as they arise from time to time. Apart from a large media contingent, the hearings are usually observed by members of the public, including groups



House Economics Committee hearing with the Reserve Bank in the Victorian Legislative Assembly chamber during the Centenary of Federation year in 2001. Photo: AUISPIC

Monetary policy has become a matter of considerable public interest.

of high school students, who can watch senior policy makers describing and explaining a range of real-world policy challenges.

Each country's institutional arrangements differ as they pertain to the accountability of the central bank, but the key features of the Australian system described above are common to many other countries. In particular, accountability to parliament is important in many countries where the central bank operates independently from government. In the US, for example, the Chairman of the Board of Governors of the Federal Reserve System appears before congressional committees twice a year, and in the UK members of the top management of the Bank of England appear before a Treasury select committee of the House of Commons each quarter, following release of the Bank of England's *Inflation Report*. Appearances before Congress by Federal Reserve Chairman Alan Greenspan in particular attract very extensive interest among financial markets and the media around the world, given the pre-eminent role of the US in the world economy.

Over the past few years, the stance of monetary policy adopted by the Reserve Bank of Australia has become a matter of considerable public interest—indeed, the growing intensity of interest in matters relating to monetary policy among media commentators has bordered on frenzied at times. Governor Macfarlane has indicated publicly that he takes his appearances before the House Economics Committee very seriously and appreciates the valuable opportunity it gives him to explain the Reserve Bank's policy

position. At the first hearing under the current arrangements he acknowledged that "we have always taken seriously the responsibilities that go with independence. One important responsibility is to explain carefully and honestly to the public and the parliament what we are doing with monetary policy".

Appearances before the committee can be used to review the medium-term aspects of economic policy rather than go over the very detailed information provided in each *Statement on Monetary Policy*. Furthermore, the nature of the Q&A session with members of the committee means that the comments and explanations are generally expressed in more 'every-day' language than may occasionally be used in some of the Reserve Bank's more specialised publications. Prior to each hearing, members of the committee are usually briefed by several experienced private sector economists, thereby assisting them to put some penetrating and constructive questions to the Governor and his colleagues.

Over time, the twice-yearly hearings before the House Economics Committee have become more demanding for the Reserve Bank, and as a consequence they require a great deal of effort and preparation by the Governor and his senior staff. As the appearances before the committee provide the only occasion for the Reserve Bank Governor to be publicly questioned so extensively over a wide range of issues, it is likely that they will continue to offer the community, financial sector and the media an important opportunity to monitor the way in which the Reserve Bank conducts monetary policy and engages with the economy more generally. ■

The next House Economics Committee hearing with the Reserve Bank is on 12 August 2005 in Melbourne (Dallas Brooks Centre, 300 Albert Street).

Links

Transcripts of RBA hearings are available from the House Economics Committee's website.

Web: www.aph.gov.au/house/committee/efpa
Phone: (02) 6277 4587
Email: efpa.reps@aph.gov.au

Opening statements to the committee's hearings by the Governor of the Reserve Bank are also available from the Reserve Bank's website (links to the Hansard transcript are also provided).

Web: www.rba.gov.au/MonetaryPolicy/opening_statements.html
Email: rbainfo@rba.gov.au