

Introduction

Background

- 1.1 The House of Representatives Standing Committee on Economics, Finance and Public Administration (the committee) is responsible for scrutinising the Reserve Bank of Australia (RBA) and for ensuring its transparency and accountability to the Parliament, the community, and the financial sector.
- 1.2 The RBA Governor's appearances before the committee at biannual public hearings are an important element of the Bank's accountability framework. The details of this framework were set out in the July 2003 *Second Statement on the Conduct of Monetary Policy*, agreed between the Treasurer, the Hon Peter Costello, MP, and the then RBA Governor, Mr Ian Macfarlane. On 18 September 2006 the *Third Statement on the Conduct of Monetary Policy*, agreed between the Treasurer and the new RBA Governor, Mr Glenn Stevens, was released. The statement provides for the RBA's accountability framework and formalises the biannual appearance before the committee. The statement, which is reproduced at Appendix C, states:

The Governor has also indicated that he plans to continue to be available to report on the conduct of monetary policy twice a year to the House of Representatives Standing Committee on Economics, Finance and Public Administration. The Treasurer expresses continuing support for these arrangements, which ensure the continued transparency and accountability of the

Reserve Bank's conduct of monetary policy—and therefore the credibility of policy itself.¹

- 1.3 A second procedural mechanism for achieving this accountability is set out in the Standing Orders of the House of Representatives, which provide for the referral of annual reports within a committee's area of portfolio responsibility for any inquiry the committee may wish to make. Accordingly, the committee may inquire into aspects of the annual reports of the RBA and the Bank's Payments System Board.
- 1.4 The biannual hearings coincide with the release of one of the RBA's quarterly *Statements on Monetary Policy*. At the August 2006 hearing in Sydney, the committee scrutinised the RBA's *Statement on Monetary Policy* released on 4 August 2006.

Scope and conduct of the review

- 1.5 The fourth public hearing of the committee with the RBA during the 41st parliament was held in Sydney on 18 August 2006.
- 1.6 The proceedings of the Sydney hearing were audio streamed over the internet through the Parliament's website, allowing interested parties to hear the proceedings as they occurred. The Governor's opening statement was taken as a submission and the transcript of the hearing is available through the committee's website.²
- 1.7 Before the hearing, the committee received a private briefing from Mr Stephen Walters, Chief Economist, JPMorgan. This briefing provided valuable background information for the committee and perspectives on issues for discussion at the public hearing. The committee appreciates Mr Walters cooperation and assistance.
- 1.8 The committee also appreciates the provision of additional briefing material from Mr Dave Richardson of the Parliamentary Library Research Service.
- 1.9 The Sydney hearing was well attended by members of the public and students from secondary schools, including Woollooware High School, Gymea High School, Caringbah High School, East Hills Girls Technology High School, Fort Street High School, MLC School, Pymble Ladies College, Sydney Secondary College, Domremy College and St Augustine's College. The committee appreciates the work of Ms Anne Nelson from the Parliamentary Education Office in organising these schools to attend.

1 RBA, *Third Statement on the Conduct of Monetary Policy*, September 2006.

2 See:< http://www.aph.gov.au/house/committee/efpa/RBA2003_04/index.htm>

- 1.10 The public hearings with the RBA continue to bring issues of monetary policy into the public arena, and also have assisted in providing a public face to parliamentary committees and the RBA. The committee welcomes the Governor's frank and open comments at the hearings. In addition, the hearings are an important means whereby financial markets can be better informed on the current thinking of the RBA.
- 1.11 The report focuses on matters raised at the public hearing, and also draws on issues raised in the RBA's *Statement on Monetary Policy*. The *Statement on Monetary Policy* may be viewed through the RBA's website³, and the transcript of the hearing is available from the committee's website⁴.

Next public hearing with the RBA

- 1.12 The committee will conduct the next public hearing with the RBA on Wednesday, 21 February 2007 in Perth. More details about the hearing will be circulated in the weeks leading up to the hearing.

3 See: <www.rba.gov.au>

4 See:< <http://www.aph.gov.au/house/committee/efpa/index.htm>>

