

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

17 October – 18 October 2012

Question: SBT 12

Topic: Reserve Bank of Australia (RBA) – Capital Reserves

Hansard Page: pg 59-60, Thursday 18 October 2012

Senator CORMANN asked:

Senator CORMANN: Who advises the Treasurer—the question I have here is about the appropriate dividend, but I probably need to rephrase that—on how much is appropriate to leave with the RBA at any point in time?

Mr Ray: Treasury.

Senator CORMANN: Is that your area?

Mr Ray: No. It is the Macroeconomic Group, actually. It is also something that you can expect the secretary to be involved in.

Senator CORMANN: Can you talk us through the process: the basis on which you have determined that a \$500 million dividend this year is the appropriate figure?

Mr Ray: No. Technically, the Treasurer determines how much can be left with the Reserve Bank.

Senator CORMANN: Sorry?

Mr Ray: Technically, the determination is not about how much the dividend is; it is how much can be retained by the Reserve Bank.

Senator CORMANN: I am asking because two years ago the RBA described capital reserves of \$6.2 billion below what it regarded as desirable in the long term. The reserves now are below \$2 billion in 2012-13, so, when you put it to me that the government decides how much is appropriate to be left with the RBA, it seems to me that there is a bit of a disconnect between what the RBA thinks is appropriate and what the government thinks is appropriate, because there is now more than \$4.2 billion less than there was only two years ago.

Mr Ray: I think that is a question for the Treasurer, but I am happy to take it—

Senator CORMANN: A question for whom?

Mr Ray: The Treasurer.

Senator CORMANN: I do not have the Treasurer here. Maybe the minister representing the Treasurer might assist us.

Mr Ray: He makes the determination.

Senator Wong: We will take it on notice. Was that the question you wanted on notice?

Senator CORMANN: Sure, but are you able to assist us?

Senator Wong: No.

Senator CORMANN: At least you are honest!

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Mr Ray: I think there is a statement in the Reserve Bank annual report.

Senator CORMANN: In relation to the government's net financial worth in June 2012, can you confirm that it is the lowest on record?

Mr Ray: When you say 'on record', are you referring to table B5 on page 104 of the FBO?

Senator CORMANN: Indeed, yes.

Mr Ray: I am not going to say it is the worst on record; what I am going to say is—

Senator CORMANN: Which one was worse?

Mr Ray: I am going to say it is largest negative on record, and the major reason for that is the valuation of the superannuation liability, and that is being driven by the fact that interest rates are very low. Whether they are the lowest in that period, I would need to check, but I would not be surprised.

Answer:

In accordance with the requirements of the *Reserve Bank Act 1959*, each year the Treasurer, in consultation with the Reserve Bank Board, determines how much of the Bank's net profits are to be transferred to the Reserve Bank Reserve Fund (RBRF) or set aside for contingencies with the remainder to be paid as a dividend to the Commonwealth.

As noted in the Reserve Bank's 2012 Annual Report, after consultation with the Board, the Deputy Prime Minister and Treasurer determined that a sum of \$596 million be placed to the credit of the RBRF from earnings available for distribution in 2011-12. This will start to replenish the Bank's capital buffers following the large valuation losses in recent financial years.

The Governor of the Reserve Bank, in his forward to the Annual Report, described the proportion of retained funds as 'substantial'.