
The Parliament of the Commonwealth of Australia

Review of the Reserve Bank of Australia Annual Report 2013 (First Report)

House of Representatives
Standing Committee on Economics

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Canberra

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Chair's foreword

The RBA noted in its November 2013 *Statement on Monetary Policy* that 'the prospect of a pick-up in conditions in many advanced economies is likely to see growth for the world as a whole improve from a below-average pace in 2013 to around average in 2014'. The RBA also forecast 'a little above average' growth in Australia's major trading partners in 2014.

Australian growth was two to three per cent of GDP in 2013 and the RBA assessment is that inflation will remain consistent with the medium term target over the next one to two years.

The economies in China, the United States, Japan and Europe are all showing signs of recovery. The Governor commented that global financial conditions remain very accommodative, market volatility has abated, and there is ample funding available for creditworthy borrowers.

Despite these initial signs of recovery in developed economies, there is still a lot of work required to avoid further economic instability.

The RBA Board decided to leave the cash rate unchanged at 2.5 per cent at its December meeting. The Governor stated that although the Board viewed this as appropriate, it would continue to assess and adjust policy as needed.

The exchange rate has been a significant source of economic uncertainty and the Australian dollar has appreciated significantly over the past decade. The Governor commented that a lower rate is likely to be needed for balanced growth, which would also likely see a sooner than forecast growth increase with some upward pressure on inflation. The Governor does not favour intervention in the exchange rate at this stage.

The RBA welcomed the one-off \$8.8 billion grant to the Reserve Bank Reserve Fund which will be made by the Government before the end of the financial year. The MYEFO states that this grant will ensure that the RBA is adequately resourced to conduct foreign exchange and monetary policy operations. The Governor stated

that this one off injection of funds will be important in bringing the fund up to 15 per cent of assets at risk, the level sought by the RBA, on as early a schedule as possible.

Australia is transitioning to a post-mining boom era with both the MYEFO and RBA forecasting declining investment in the resources sector. This may create opportunities to invest in other sectors of the economy, including infrastructure. Such investments will be needed to realise productivity gains and future growth but the decision making in this regard must be sound.

Finally, on behalf of the committee I would like to thank the Governor of the Reserve Bank, Mr Glenn Stevens, and other representatives of the RBA for appearing at the hearing on 18 December 2013.

Kelly O'Dwyer MP
Chair



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Membership of the Committee

Chair	Ms Kelly O'Dwyer MP
Deputy Chair	The Hon Ed Husic MP
Members	Mr Scott Buchholz MP Dr Jim Chalmers MP Mr David Coleman MP Mr Pat Conroy MP Dr Peter Hendy MP Mr Kevin Hogan MP Mr Craig Kelly MP Mr Clive Palmer MP

Committee Secretariat

Secretary	Mr Peter Banson
Inquiry Secretary	Dr Kilian Perrem
Research Officer	Ms Susan Dinon
Administrative Officer	Ms Jazmine Rakic



Terms of reference

The House of Representatives Standing Committee on Economics is empowered to inquire into, and report on, the annual reports of government departments and authorities tabled in the House that stand referred to the committee for any inquiry the committee may wish to make. The reports stand referred in accordance with the schedule tabled by the Speaker to record the areas of responsibility of the committee.

Introduction

Background

- 1.1 The House of Representatives Standing Committee on Economics (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 appearance by the Governor of the RBA at biannual public hearings of the committee is an important element of the RBA's accountability framework. The details of this framework are set out in the *Statement on the Conduct of Monetary Policy*, agreed between the Treasurer, the Hon Joe Hockey MP, and the RBA Governor, Mr Glenn Stevens. The statement formalises the biannual appearance before the committee. The statement, which is reproduced at Appendix B, states:
 - ... the Governor will continue to be available to report twice a year to the House of Representatives Standing Committee on Economics, and to other Parliamentary committees as appropriate.The Treasurer expresses support for the continuation of these arrangements, which reflect international best practice and enhance the public's confidence in the independence and integrity of the monetary policy process.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 report of the RBA.

1 Reserve Bank of Australia, *Statement on the Conduct of Monetary Policy*, 24 October 2013.

Scope and conduct of the review

- 1.4 The first public hearing of the committee with the RBA during the 44th Parliament was held in Canberra on 18 December 2013.
- 1.5 The proceedings of the hearing were webcast over the internet, through the Parliament's website, allowing interested parties to view or listen to the proceedings as they occurred. The transcript of the hearing is available on the committee's website.²
- 1.6 Before the hearing, the committee received a private briefing from Ms Su-Lin Ong, Managing Director, Head of AU/NZ Economics & Fixed Income Strategy, RBC Capital Markets. This briefing provided valuable background information for the committee and perspectives on issues for discussion at the public hearing. The committee appreciates Ms Ong's cooperation and assistance.
- 1.7 Public hearings with the RBA continue to bring issues of monetary policy into the public arena, and have assisted in providing a public face to parliamentary committees and the RBA. The committee welcomes the Governor's statement and his 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.
- 1.8 This report focuses on matters raised at the public hearing, and also draws on issues raised in the RBA's November 2013 *Statement on Monetary Policy*. The *Statement on Monetary Policy* may be viewed through the RBA website.³

2 See: <<http://www.aph.gov.au/economics>>

3 See: <<http://www.rba.gov.au/monetary-policy/index.html>>

Monetary policy and other issues

Overview

- 2.1 On 3 December 2013 the Reserve Bank of Australia (RBA) decided to hold official interest rates at two and a half per cent. In his statement on the decision, the Governor noted that:

Overall, global financial conditions remain very accommodative. Volatility in financial markets has abated recently. Long-term interest rates remain very low and there is ample funding available for creditworthy borrowers.¹

- 2.2 The Governor further noted in this statement that 'in Australia, the economy has been growing a bit below trend over the past year and the unemployment rate has edged higher'.² The Governor stated that:

Recent data on prices and wages show inflation consistent with the medium-term target. The Bank's assessment is that this is likely to remain the case over the next one to two years.³

- 2.3 The Governor also commented:

... the Board judged that the setting of monetary policy remained appropriate. The Board will continue to assess the outlook and adjust policy as needed to foster sustainable growth in demand and inflation outcomes consistent with the target.⁴

1 Mr Glenn Stevens, Governor of the RBA, *Media Release: Statement by Glenn Stevens, Governor: Monetary Policy Decision*, see: <<http://www.rba.gov.au/media-releases/2013/mr-13-25.html>>

2 Mr Glenn Stevens, Governor of the RBA, *Media Release: Statement by Glenn Stevens, Governor: Monetary Policy Decision*, see: <<http://www.rba.gov.au/media-releases/2013/mr-13-25.html>>

3 Mr Glenn Stevens, Governor of the RBA, *Media Release: Statement by Glenn Stevens, Governor: Monetary Policy Decision*, see: <<http://www.rba.gov.au/media-releases/2013/mr-13-25.htm>>

4 Mr Glenn Stevens, Governor of the RBA, *Media Release: Statement by Glenn Stevens, Governor: Monetary Policy Decision*, see: <<http://www.rba.gov.au/media-releases/2013/mr-13-25.html>>

- 2.4 During the hearing on 18 December 2013 before the committee, the Governor outlined his forecasts for both the global and Australian economies. The Governor noted in his opening remarks that:
- At the previous meeting we had with the committee early in the year, we noted several developments. The first of those was the fear of a break-up of the euro area, which had at an earlier time been quite real but had in fact abated. The United States economy was gradually recovering, and the slowdown in China appeared to have run its course.⁵
- 2.5 The Governor further noted that ‘those outcomes were roughly as expected, but perhaps of greater significance at that time – and this was back in February – was the fact that various so-called downside risks had not in fact eventuated’.⁶ The Governor stated:
- Global growth was running below average, though not disastrously so, and it was thought likely to pick up a little in 2013. The period since then could be described as more of the same.⁷
- 2.6 The Governor further commented in his opening remarks that ‘looking ahead, the issue that most people are focusing on at the moment is the so-called tapering of US monetary policy’.⁸ The Governor explained:
- What is meant by this is that the Federal Reserve is expected, at some point, to begin to moderate the rate at which it buys securities in the market. Presently that is US\$85 billion per month. Eventually it is expected to stop those purchases.⁹
- 2.7 The Governor concluded in relation to US tapering that:
- We do not know when that process will begin ... We can be fairly sure, though, that there is ample potential for this shift in direction to reverberate around global markets when it occurs. That is what usually occurs when the Fed changes course. The anticipation of this shift has already been a factor affecting markets over the past year at various times, including in particular in some important emerging market economies.¹⁰
- 2.8 The Governor expressed the view that Australian growth would be in the range of two to three per cent of GDP for 2013 and that this ‘reflects quite

5 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 1.

6 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 1.

7 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 1.

8 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 1.

9 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 1.

10 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, pp.1-2.

subdued growth in private domestic demand, partly offset by strong growth in exports'.¹¹

- 2.9 During the hearing, the committee questioned the Governor on a number of areas of fiscal and monetary policy and their impacts on the economy. The topics discussed included the current cash rate, the high exchange rate, the Reserve Bank Reserve Fund, productivity and economic reform and quantitative easing in the United States.

Forecasts

- 2.10 In its November 2013 *Statement on Monetary Policy*, the RBA concludes that 'the Australian economy has expanded at a bit below trend pace this year' stating that:

Business surveys and the Bank's liaison suggest that current business conditions have been below average for some time. Consistent with this, business investment declined in the first half of the year; estimates suggest that much of this owed to a large fall in mining investment ...¹²

- 2.11 This RBA statement goes on to say that 'for the Australian economy, there are both upside and downside risks for growth and so for inflation'.¹³ The RBA comments that:

There is uncertainty surrounding the profile for mining investment, which will depend on the viability and timing of some projects as well as any variations in costs for projects already underway. Also, it is difficult to predict the timing and strength of the expected upturn in non-mining investment.¹⁴

- 2.12 The RBA further states that 'the path of the exchange rate is also a significant source of uncertainty for the domestic economy', commenting that:

The Australian dollar appreciated significantly over the past decade, as higher commodity prices led to increased capital inflows to fund the substantial increase in mining investment ... A lower exchange rate is likely to be needed to achieve balanced growth in the economy. A lower exchange rate, if it came about,

11 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 2.

12 RBA, *Statement on Monetary Policy*, November 2013, p. 2.

13 RBA, *Statement on Monetary Policy*, November 2013, p. 4.

14 RBA, *Statement on Monetary Policy*, November 2013, p. 4.

would also see growth strengthening sooner than forecast and place some upward pressure on inflation for a time.¹⁵

- 2.13 The *Mid-Year Economic and Fiscal Outlook* (MYEFO) released by the Department of the Treasury on 17 December 2013 forecasts that ‘the Australian economy will continue to transition from resources-investment led growth to broader sources of growth over the forecast period’.¹⁶ The MYEFO states:

While the fall in resources investment is expected to be sharper than previously forecast, the recovery in the non-resources sector is expected to be more gradual.

As a result, real GDP is forecast to grow at a slower rate of 2½ per cent in 2014-15, compared to 3 per cent in the 2013 PEFO [Pre-Election Economic and Fiscal Outlook]. With domestic prices and wages also forecast to be softer than at the 2013 PEFO, nominal GDP has been revised down significantly.¹⁷

- 2.14 At the hearing, the Governor noted that RBA forecasts for growth in the Australian economy in 2013 were two to three per cent of GDP (see Table 1) and stated that:

The very large run-up in mining investment has reached its peak, while non-mining investment remains, at this point, at a low ebb and dwelling investment spending is only in the early stages of an upturn. Consumer spending has been rising but at a little bit below average pace as people adjust to slower growth in income and look to contain or reduce debt.¹⁸

The Governor went on to say that ‘inflation has remained consistent with the two to three per cent target’ and that ‘our assessment is that inflation will remain consistent with the target over the next one to two years’.¹⁹ The Governor commented that resource sector investment is likely to fall significantly over the next few years and that there is ‘scope for other forms of private spending to grow more quickly, the more so as government spending is scheduled to be subdued over this period’.²⁰ The Governor stated that:

15 RBA, *Statement on Monetary Policy*, November 2013, p. 4.

16 Department of the Treasury, *Mid-Year Economic and Fiscal Outlook* (MYEFO), December 2013, p. 2.

17 Department of the Treasury, *Mid-Year Economic and Fiscal Outlook*, December 2013, p. 2.

18 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 2.

19 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 2.

20 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 2.

Putting all of that together, our expectation is that the below trend growth in GDP we have seen for a little while now will probably continue for a bit longer. Over the more medium term, there are good grounds to think that growth can strengthen.²¹

Table 1 RBA Output growth and inflation forecasts (per cent)^(a)

<i>Year-ended</i>							
		June 2013	Dec 2013	June 2014	Dec 2014	June 2015	Dec 2015
GDP growth		2.6	2¼	2½	2–3	2¼–3¼	2¾–4¼
Non-farm GDP growth		2.7	2¼	2½	2–3	2¼–3¼	2¾–4¼
CPI inflation^(b)		2.4	2½	2¾	2–3	2–3	1½–2½
Underlying inflation^(b)		2½	2¼	2½	2–3	2–3	1¾–2¾
<i>Year-average</i>							
		2012/ 2013	2013	2013/ 2014	2014	2014/ 2015	2015
GDP growth		2.6	2½	2½	2–3	2–3	2½–3½

(a) Technical assumptions include A\$ at US\$0.95, TWI at 72 and Brent crude oil price at US\$104 per barrel.

(b) Based on current legislation for the price of carbon

Source Reserve Bank of Australia, *Statement on Monetary Policy*, November 2013, p. 65.

2.15 The RBA comments in its November 2013 *Statement* that ‘growth in Australia’s major trading partners in the September quarter looks to have been close to its average of the past decade’.²² The RBA notes that economic conditions in China had picked up over the course of 2013, with growth likely to reach the authorities’ target of seven and a half per cent, that economic activity had strengthened noticeably in Japan, the US economy appeared to have continued to grow at a moderate pace and that economic conditions in Europe seemed to have improved a little.²³

2.16 As mentioned earlier, at the hearing, the Governor noted his advice to the committee at the previous RBA hearing in February 2013 that ‘global

21 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 2.

22 RBA, *Statement on Monetary Policy*, November 2013, p. 5.

23 RBA, *Statement on Monetary Policy*, November 2013, p. 5.

growth was running below average, though not disastrously so, and it was thought likely to pick up a little in 2013'.²⁴ The Governor stated:

The period since then could be described as more of the same. The euro area economy contracted in the first part of the year but may be starting to grow again now. It still faces immense challenges with its banks and public finances and some years of uncertainty yet. But once again the worst fears have not been realised. The United States continues a path of gradual recovery, despite the budget 'sequester' and the divisive debate about the debt ceiling. The recovery is more gradual than policymakers there would like, but that is often the nature of things in the wake of a financial crisis. China is growing at a solid pace, roughly in line with policymakers' announced intentions, despite fears around the world that it might have slowed more sharply.²⁵

The cash rate

2.17 The RBA Board decided to leave the cash rate unchanged at two and a half per cent at its meeting on 3 December 2013. At the hearing, the Governor informed the committee that 'monetary policy has been playing its part to support demand' commenting that:

Because inflation has been consistent with the target, the board has been quite comfortable in easing policy by a significant amount. The cash rate has been reduced twice more since we last met with the committee, by a total of 225 basis points over the past two years. Borrowing rates are at their lowest levels in a long time ... Low interest rates are doing the sorts of things we would normally expect them to do. This is the way expansionary monetary policy works.²⁶

2.18 The Governor further informed the committee that 'the board has maintained an open mind about whether we may need to lower interest rates further'.²⁷ The Governor stated:

At this point, however, there are few serious claims that the cost of borrowing *per se* is what is holding back growth. On the contrary, I think it is pretty clear that monetary policy is supporting growth

24 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 1.

25 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 1.

26 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 2.

27 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 2.

by altering incentives between spending and saving, and working to create an environment in asset and credit markets that eases the restraints on the relevant sorts of activity.

In the end, though, firms and individuals have to have the confidence to take advantage of that situation ... Monetary policy can't force that process. We can't force spending to occur. That is why the conduct of other policies is also important.²⁸

The exchange rate

2.19 The RBA notes in its November 2013 *Statement* that 'similar to other currencies, the Australian dollar has appreciated against the US dollar as market participants have adjusted their expectations about the timing of future reductions in asset purchases by the Federal Reserve'.²⁹ The RBA further states that:

The Australian dollar has also been affected by a scaling back of market expectations for additional cuts to the domestic cash rate and broadly positive Chinese economic data. In trade-weighted terms, the Australian dollar nevertheless remains around 10 per cent below its April peak, though it is still at a high level.³⁰

2.20 In his opening remarks to the committee, the Governor commented that: 'The bank has in recent times described the exchange rate as "uncomfortably high" and suggested that balanced growth in the economy would probably require a lower exchange rate.'³¹

2.21 The Governor was asked by the committee to provide his views on intervention policies in relation to the value of the Australian dollar and the floating currency. He stated that intervention can be useful at certain times but also commented that:

It is not a substitute for sound monetary policy. It cannot fight against fundamentals but, on occasion, intervention can be useful. That has long been our position; it still is. It is just that we have lived through a very, very unusual episode here. I do not think it was the standard temporary period of high currency: 'Maybe we'll lean on it and then realise some profits later on when it goes down.' This has been quite a different episode and that is why,

28 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, pp. 2-3.

29 RBA, *Statement on Monetary Policy*, November 2013, p. 23.

30 RBA, *Statement on Monetary Policy*, November 2013, pp. 23-24.

31 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 2.

although I have thought about intervention more than once through the past several years, we have by and large eschewed it to date. I do not want that to mean that we always will.³²

2.22 The Governor commented in relation to the floating dollar that:

On the question of ‘when do we move to not having a floating currency’ I do not think you are proposing that we would do that. I certainly would not. Despite the frustrations that we have often had about why it is doing what it is doing – there have been many such frustrations in both directions over the years – by and large it has worked very well, and I expect that it still will, over time.³³

Reserve Bank Reserve Fund

2.23 The Australian Government announced on 23 October 2013 that it would make a one-off \$8.8 billion grant to the RBA in order to ‘strengthen its financial position’.³⁴

2.24 The RBA annual report observes that the Reserve Bank Reserve Fund (RBRF) was:

substantially depleted in 2009/10 and 2010/11 by large accounting losses as the exchange rate appreciated. Following these losses, the Reserve Bank Board considered the balance of the RBRF to be below a level appropriate to the market risks on the Bank’s balance sheet.³⁵

The RBRF stood at approximately \$2.5 billion at 30 June 2013 (3.8 per cent of assets at risk) following distributions from earnings available that were transferred to the RBRF (\$596 million in 11/12 and \$588 million in 12/13) and paid as a dividend to the Commonwealth (\$500 million in 11/12).

2.25 The RBA Board considered that ‘further transfers to this reserve will be needed in future years to restore its balance to a level that adequately reflects the Bank’s risks’.³⁶ The Governor explained the Board’s view that it would be appropriate for the RBRF to hold an amount equal to 15 per cent of assets at risk.³⁷

32 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 9.

33 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 9.

34 Department of the Treasury, *Mid-Year Economic and Fiscal Outlook*, December 2013, p. 37.

35 RBA, *Reserve Bank of Australia: Annual Report*, 2013, p. 71.

36 RBA, *Reserve Bank of Australia: Annual Report*, 2013, p. 71.

37 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, pp. 4-5.

- 2.26 The Governor was questioned by the committee about the decision of the Australian Government to grant \$8.8 billion to the RBA. He confirmed that the matter was discussed at a meeting between himself and the new Treasurer, shortly after the new Treasurer was sworn in.³⁸
- 2.27 The Governor was asked about the Treasurer's decision to provide a one-off capital injection, rather than replenishing the capital over a number of years, to which he responded:
- I do not think I could say that it was ever my opinion that it was mandatory that it be done in one go. It was, in my opinion – how do I put this? – extremely important that it be rebuilt on as early a schedule as we could manage.³⁹
- This supported his views expressed in the February 2013 hearing in which he stated, from the RBA's viewpoint, 'the prudent and best course is to rebuild that reserve as quickly as we can'.⁴⁰
- 2.28 The Governor explained that the \$8.8 billion figure was 'based on projected balance sheet footings for the end of the year', calculated by staff of the RBA and the Treasury.⁴¹ The Governor also explained that the intention was for the grant to be made before 30 June 2014, and when that occurred the Bank would advise the Treasurer 'to retain sufficient of that profit to make the fund up to the 15 per cent'.⁴²
- 2.29 The Governor was asked by what mechanism the \$8.8 billion was to be granted. The question was taken on notice, and after the hearing, the RBA provided a written answer to the committee stating that the money would 'be included in the annual appropriation bills to be presented to Parliament in February 2014'.⁴³
- 2.30 The Governor was asked what effect a zero or negative balance in the RBRF would have. The Governor advised that the bank would continue to operate, and that there are central banks that have negative capital, but that he was 'concerned about the perception that that may create'.⁴⁴
- 2.31 The MYEFO stated that 'the grant will ensure that the RBA is adequately resourced to conduct its monetary policy and foreign exchange operations

38 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 6.

39 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 12.

40 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 22 February 2013, p. 12. See also, House of Representatives Standing Committee on Economics, *Review of the Reserve Bank of Australia Annual Report 2012 (First Report)*, March 2013, p. 11.

41 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, pp. 8 and 12.

42 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 5.

43 Reserve Bank of Australia, *Submission 1, Answer to Question on Notice*, p. 1.

44 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 9.

in an environment of financial market volatility'.⁴⁵ The Governor was asked whether the injection of funds into the RBRF enabled the RBA to intervene in the market to influence the Australian dollar. The Governor responded by saying:

I view the balance sheet strength as prudent resources against the risks that are on our balance sheet. It is certainly true that were we to end up at some point with a much larger foreign currency exposure, which we would if we decided to do large-scale intervention, that would be relevant. But the capital that is in prospect with this proposed transaction is ... appropriate for the general balance sheet risk that exists.⁴⁶

Productivity

2.32 In his opening statement, the Governor said that for a long time society has assumed that 'solid growth of the economy will simply continue' but that now was a time when 'that assumption has to be questioned'.⁴⁷ He further set out his views on the path that should be taken:

The path of pro-growth, pro-productivity, confidence-building reforms would mean that the basis for investment and growth in real incomes would improve. That would mean that consumption could grow more strongly without recourse to excessive borrowing. That would provide a revenue base for governments to offer the services and infrastructure that the community needs and wants ... The alternative path would be a much less attractive one.⁴⁸

2.33 The committee was interested in the RBA's views on Australia's productivity growth compared to other developed countries. The Governor stated that Australia was not the only country that had 'suffered some slow-down'.⁴⁹ The Governor also indicated that it was difficult to compare levels of productivity across countries but it was the case that 'the level of output per hour worked in Australia is short of where it is in the leading countries, such as the US, in many sectors'.⁵⁰ The Governor

45 Department of the Treasury, *Mid-Year Economic and Fiscal Outlook*, December 2013, p. 194.

46 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 12.

47 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 3.

48 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 3.

49 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 17.

50 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 17.

indicated that ‘there must be some opportunities for relative improvement there’.⁵¹

2.34 On Australia’s trends in productivity, Dr Phillip Lowe, Deputy Governor of the RBA, explained that the rate of productivity growth has basically halved since the 1990s. Growth in real effective income has not slowed down, however, because the price of resources being exported was rising very quickly compared to the price of goods being imported. Dr Lowe also explained that now the price of exports relative to the price of imports was falling, and if the rate of productivity growth did not pick up then society would notice a much slower growth of productivity. He saw this as an issue that monetary policy could not address.⁵²

2.35 The Governor was asked for his views on the challenges that lie outside of monetary policy that are important to economic growth. In the course of his response, the Governor stated that:

... the long-run source of our growth in prosperity does not come from manipulating interest rates or the exchange rate ... it comes from the productivity efforts of the million-plus enterprises that are out there in the economy, how they manage themselves and how their workforces cooperate with them. That is where the improvements in the way things are done happens to produce the productivity that we need.⁵³

2.36 The Governor reiterated this later in the hearing, saying that the ‘ultimate path to prosperity is in skills, productivity and entrepreneurial dynamism in our business enterprises’.⁵⁴ Further, ‘there is no productivity lever that anyone sitting here can pull ... it is about incentives, capabilities and flexibilities out there in the enterprises in our country’.⁵⁵

2.37 In commenting on this issue, Dr Lowe highlighted a list of things, identified by the Productivity Commission, that could be done to expand the supply side, including:

... improving incentives for people to innovate and take a risk; to make workplaces more flexible; to build the infrastructure that we need so that people can connect with one another, both physically and electronically, more efficiently; ... making sure the taxation system promotes innovation and growth.⁵⁶

51 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 17.

52 Dr Philip Lowe, Deputy Governor of the RBA, *Transcript*, 18 December 2013, p. 17.

53 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 14.

54 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 17.

55 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 17.

56 Dr Philip Lowe, Deputy Governor of the RBA, *Transcript*, 18 December 2013, p. 14.

2.38 Dr Lowe explained the importance of ‘improving the risk-taking and entrepreneurial culture of business, because ultimately the supply side of the economy only expands if business is prepared to take a risk’.⁵⁷ He also explained the impact on productivity of a lack of investment in transport infrastructure:

... the lack of investment in transportation increases the cost of moving goods around our cities, makes it more difficult to get stuff to market, adds to the stress in people’s lives and makes it more difficult for people to move around our cities to access opportunities. Many people who have looked at this say that we have underinvested in transportation infrastructure and that it is impacting our productivity.⁵⁸

2.39 The committee was interested in the RBA’s opinion on what the government should be investing in, in order to avoid capacity constraints in infrastructure and skills. Dr Lowe suggested that because we are entering a period of decline in business investment due to lower investment in the resource sector, this may give rise to opportunities to spend more on infrastructure, and particularly transportation infrastructure.⁵⁹

2.40 The related issue of project selection was also canvassed with Dr Lowe, who stated that the process needed to be independent, rigorous and transparent, with clear cost-benefit analyses undertaken. This would encourage community support for borrowing for infrastructure or charging for the use of infrastructure.⁶⁰

2.41 The committee was also interested in the RBA’s views on what would occur if the rate of productivity growth was not lifted. Dr Lowe responded:

We will have to get used to slower growth in our living standards. That means slower growth in wages, slower growth in profits, slower growth in asset prices and less money for the government to spend to deliver services to the community.⁶¹

57 Dr Philip Lowe, Deputy Governor of the RBA, *Transcript*, 18 December 2013, p. 17.

58 Dr Philip Lowe, Deputy Governor of the RBA, *Transcript*, 18 December 2013, p. 18.

59 Dr Philip Lowe, Deputy Governor of the RBA, *Transcript*, 18 December 2013, p. 8.

60 Dr Philip Lowe, Deputy Governor of the RBA, *Transcript*, 18 December 2013, pp. 8-9.

61 Dr Philip Lowe, Deputy Governor of the RBA, *Transcript*, 18 December 2013, p. 18.

Quantitative easing

- 2.42 On 18 December 2013, the US Federal Reserve announced that it was to reduce its buying of mortgage-backed and Treasury securities from \$85 billion to \$75 billion per month, beginning in January 2014. This announcement was made after the hearing had concluded.
- 2.43 In his opening statement, the Governor speculated that in the first six months of 2014 the US Federal Reserve would begin to taper its bond buying program.⁶² As mentioned earlier, the Governor told the committee:
- ... there is ample potential for this shift in direction to reverberate around global markets when it occurs ... The anticipation of this shift has already been a factor affecting markets over the past year at various times, including in particular in some important emerging market economies. It is sensible to assume that this will be the case over the period ahead, as tapering begins and as market participants try to ascertain its extent and pace.⁶³
- 2.44 The Governor stated that it could have disruptive effects, or it may be that when tapering actually occurs, 'enough of the preview has already been absorbed and priced into things and that it is not disruptive'.⁶⁴
- 2.45 In response to a question about the consequences for the world economy of long-term quantitative easing by the US, the Governor said 'that certainly would not fill me with enthusiasm'.⁶⁵ He also noted that it is not just the US Federal Reserve practicing quantitative easing but also the Bank of Japan.
- 2.46 The Governor painted his best case scenario for Australia as being:
- ... the Fed see their way clear to start the taper soon and that they manage to do that without too much disruption in global markets so that they can therefore continue it and eventually end the buying of securities and, at some point after that, gradually start the process of the Fed's fund rate going back to a normal level.⁶⁶

62 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, pp. 1, 21-22.

63 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 2.

64 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 10.

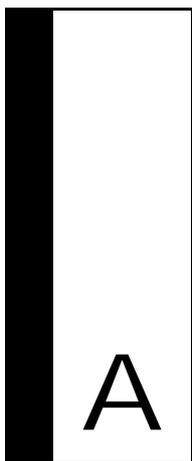
65 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 10.

66 Mr Glenn Stevens, Governor of the RBA, *Transcript*, 18 December 2013, p. 20.

Conclusion

- 2.47 It is pleasing that there was positive economic growth in Australia and among Australia's major trading partners in 2013 and that, although below trend, this growth is set to continue for the next few years. It is clear however that Australia faces considerable challenges as investment in the resources sector is declining. Productivity gains and investment need to occur in non-mining sectors of the economy to sustain and increase future growth. The committee considers the current monetary policy settings to be appropriate but the Government and the RBA must ensure that sound decisions continue to be made to ensure that Australia's economy transitions successfully to a post-mining boom era.

Kelly O'Dwyer MP
Chair
12 February 2014



Appendix A — Hearing, briefing, witnesses and submission

Public hearing

Wednesday, 18 December 2013 – Canberra

Reserve Bank of Australia

Mr Glenn Stevens, Governor

Dr Philip Lowe, Deputy Governor

Dr Christopher Kent, Assistant Governor (Economic)

Dr Malcolm Edey, Assistant Governor (Financial System)

Private briefing

Wednesday, 11 December 2013 – Canberra

Ms Su-Lin Ong, Managing Director, Head of AU/NZ Economics & Fixed Income Strategy, RBC Capital Markets

Submission

Submission 1 Reserve Bank of Australia (Answer to Question on Notice)



Appendix B — *Sixth statement on the conduct of monetary policy*

The Treasurer and the Governor of the Reserve Bank

24 October 2013

The Statement on the Conduct of Monetary Policy (the Statement) has recorded the common understanding of the Governor, as Chairman of the Reserve Bank Board, and the Government on key aspects of Australia's monetary and central banking policy framework since 1996.

The Statement seeks to foster a sound understanding of the nature of the relationship between the Reserve Bank and the Government, the objectives of monetary policy, the mechanisms for ensuring transparency and accountability in the way policy is conducted, and the independence of the Reserve Bank.

The centrepiece of the Statement is the inflation targeting framework, which has formed the basis of Australia's monetary policy framework since the early 1990s.

The Statement has also been updated over time to reflect enhanced transparency of the Reserve Bank's policy decisions and to record the Bank's longstanding responsibility for financial system stability.

Building on this foundation, the current Statement reiterates the core understandings that allow the Bank to best discharge its duty to direct monetary policy and protect financial system stability for the betterment of the people of Australia.

Relationship between the Reserve Bank and the Government

The Reserve Bank Governor, its Board and its employees have a duty to serve the people of Australia to the best of their ability. In the carrying out of their statutory obligations, through public discourse and in domestic and international forums,

representatives of the Bank will continue to serve the best interests of the people of Australia with honesty and integrity.

The Governor and the members of the Reserve Bank Board are appointed by the Government of the day, but are afforded substantial independence under the *Reserve Bank Act 1959* (the Act) to conduct the monetary and banking policies of the Bank, so as to best achieve the objectives of the Bank as set out in the Act.

The Government recognises and will continue to respect the Reserve Bank's independence, as provided by the Act.

The Government also recognises the importance of the Reserve Bank having a strong balance sheet and the Treasurer will pay due regard to that when deciding each year on the distribution of the Reserve Bank's earnings under the Act.

New appointments to the Reserve Bank Board will be made by the Treasurer from a register of eminent candidates of the highest integrity maintained by the Secretary to the Treasury and the Governor. This procedure ensures only the best qualified candidates are appointed to the Reserve Bank Board.

Objectives of Monetary Policy

The goals of monetary policy are set out in the Act, which requires the Reserve Bank Board to conduct monetary policy in a way that, in the Reserve Bank Board's opinion, will best contribute to:

- a. the stability of the currency of Australia;
- b. the maintenance of full employment in Australia; and
- c. the economic prosperity and welfare of the people of Australia.

These objectives allow the Reserve Bank Board to focus on price (currency) stability, which is a crucial precondition for long-term economic growth and employment, while taking account of the implications of monetary policy for activity and levels of employment in the short term.

Both the Reserve Bank and the Government agree on the importance of low inflation.

Low inflation assists business and households in making sound investment decisions. Moreover, low inflation underpins the creation of jobs, protects the savings of Australians and preserves the value of the currency.

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. This formulation allows for

the natural short-run variation in inflation over the cycle while preserving a clearly identifiable performance benchmark over time.

The Governor expresses his continuing commitment to the inflation objective, consistent with his duties under the Act. For its part the Government endorses the inflation objective and emphasises the role that disciplined fiscal policy must play in achieving medium-term price stability.

Consistent with its responsibilities for economic policy as a whole, the Government reserves the right to comment on monetary policy from time to time.

Transparency and Accountability

Transparency in the Reserve Bank's views on economic developments and their implications for policy are crucial to shaping inflation expectations.

The Reserve Bank takes a number of steps to ensure the conduct of monetary policy is transparent. These steps include statements announcing and explaining each monetary policy decision, the release of minutes providing background to the Board's policy deliberations, and commentary and analysis on the economic outlook provided through public addresses and regular publications such as its quarterly *Statement on Monetary Policy* and *Bulletin*. The Reserve Bank will continue to promote public understanding in this way.

In addition, the Governor will continue to be available to report twice a year to the House of Representatives Standing Committee on Economics, and to other Parliamentary committees as appropriate.

The Treasurer expresses support for the continuation of these arrangements, which reflect international best practice and enhance the public's confidence in the independence and integrity of the monetary policy process.

Financial Stability

Financial stability, which is critical to a stable macroeconomic environment, is a longstanding responsibility of the Reserve Bank and its Board.

The Reserve Bank promotes the stability of the Australian financial system through managing and providing liquidity to the system, and chairing the Council of Financial Regulators (comprising the Reserve Bank, Australian Prudential Regulation Authority, the Australian Securities and Investments Commission and the Treasury).

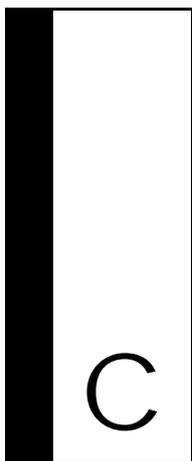
The Payments System Board has explicit regulatory authority for payments system stability. In fulfilling these obligations, the Reserve Bank will continue to

publish its analysis of financial stability matters through its half-yearly *Financial Stability Review*.

In addition, the Governor and the Reserve Bank will continue to participate, where appropriate, in the development of financial system policy, including any substantial Government reviews, or international reviews, of the financial system itself.

The Reserve Bank's mandate to uphold financial stability does not equate to a guarantee of solvency for financial institutions, and the Bank does not see its balance sheet as being available to support insolvent institutions. However, the Reserve Bank's central position in the financial system, and its position as the ultimate provider of liquidity to the system, gives it a key role in financial crisis management. In fulfilling this role, the Reserve Bank will continue to coordinate closely with the Government and with the other Council agencies.

The Treasurer and the Governor express their support for these longstanding arrangements continuing.



Appendix C — Glossary of terms

Australian Competition and Consumer Commission (ACCC). A Commonwealth statutory authority responsible for ensuring compliance with the *Trade Practices Act 1974* and the provisions of the Conduct Code and for administering the *Prices Surveillance Act 1983*. The Commission's consumer protection work complements that of State and Territory consumer affairs agencies.

Australian Payments Clearing Association Limited (APCA). A public company owned by banks, building societies and credit unions which has specific accountability for key parts of the Australian payments system, particularly payments clearing operations.

Australian Prudential Regulation Authority (APRA). APRA is the prudential regulator of the Australian financial services industry. It oversees banks, credit unions, building societies, general insurance and reinsurance companies, life insurance, friendly societies, and most members of the superannuation industry.

Australian Securities and Investments Commission (ASIC). One of three Australian Government bodies (the others being the Australian Prudential Regulation Authority and the Reserve Bank of Australia) that regulates financial services. ASIC is the national regulator of Australia's companies. ASIC has responsibility for market protection and consumer integrity issues across the financial system.

accrual accounting. Revenues and expenses are recorded as they are earned or incurred, regardless of whether cash has been received or disbursed. For example, sales on credit would be recognised as revenue, even though the debt may not be settled for some time.

acquirer. An institution that provides a merchant with facilities to accept card payments, accounts to the merchant for the proceeds and clears and settles the resulting obligations with card issuers.

average weekly earnings. Average gross (before tax) earnings of employees.

average weekly ordinary time earnings (AWOTE). Weekly earnings attributed to award, standard or agreed hours of work.

average weekly total earnings. Weekly ordinary time earnings plus weekly overtime earnings.

balance on current account. The difference between receipts and payments as the result of transactions in goods, services, income and current transfers between Australia and the rest of the world. A current account deficit means that total payments exceed total receipts, while a current account surplus means the reverse.

bankruptcies. Bankruptcies and Administration Orders under Parts IV and XI of the Bankruptcy Act.

basis point. A basis point is 1/100th of 1 percent or 0.01 per cent. The term is used in money and securities markets to define differences in interest or yield.

BPAY. BPAY is a payments clearing organisation owned by a group of retail banks. Individuals who hold accounts with a BPAY participating financial institution can pay billing organisations which participate in BPAY, using account transfers initiated by phone or internet. The transfers may be from savings, cheque or credit card accounts.

business investment. Private gross fixed capital formation for machinery and equipment; non-dwelling construction; livestock; and intangible fixed assets.

card issuer. An institution that provides its customers with debit or credit cards.

cash rate (interbank overnight). Broadly defined, the term cash rate is used to denote the interest rate which financial institutions pay to borrow or charge to lend funds in the money market on an overnight basis. The Reserve Bank of Australia uses a narrower definition of the cash rate as an operational target for the implementation of monetary policy. The Reserve Bank of Australia's measure of the cash rate is the interest rate which banks pay or charge to borrow funds from or lend funds to other banks on an overnight unsecured basis. This measure is also known as the interbank overnight rate. The Reserve Bank of Australia calculates and publishes this cash rate each day on the basis of data collected directly from banks. This measure of the cash rate has been published by the Reserve Bank of Australia since June 1998.

cash rate target. As in most developed countries, the stance of monetary policy in Australia is expressed in terms of a target for an overnight interest rate. The rate used by the Reserve Bank of Australia is the cash rate (also known as the interbank overnight rate). When the Reserve Bank Board decides that a change in monetary policy should occur, it specifies a new target for the cash rate. A decision to ease policy is reflected in a new lower target for the cash rate, while a decision to tighten policy is reflected in a higher target.

charge card. A charge card is a card whose holder has been granted a non-revolving credit line enabling the holder to make purchases and possibly make cash advances. A charge card does not offer extended credit; the full amount of any debt incurred must be settled at the end of a specified period.

consumer price index. A measure of change in the price of a basket of goods and services from a base period. Changes in the Consumer Price Index are the most commonly used measure of inflation.

collateralised debt obligations. Collateralised debt obligations (CDOs) are securities that are exposed to the credit risk of a number of corporate borrowers. In the simplest form of a CDO, this credit risk exposure is generated in the same way as for any asset-backed security (ABS): the CDO is backed by outright holdings of corporate debt, such as corporate bonds and corporate loans. Increasingly, however, the exposure to corporate credit risk is synthesised through the use of credit derivatives. Unlike other forms of ABS, where the collateral pools usually consist of loans with broadly similar characteristics, CDO reference pools are typically quite heterogeneous, with exposures to a variety of borrower types and credit ratings and across a number of countries. A CDO will usually have exposures to between 50 and 200 bonds or large corporate loans, or up to 2,000 loans to small and medium-sized businesses.

The simplest forms of CDOs are known as 'cash' or 'vanilla' CDOs, and are similar to other forms of ABS. A special purpose vehicle buys loans and securities from financial institutions and other market participants, and funds these acquisitions by selling securities to investors. The manager of the CDO vehicle will usually deduct fees and expenses from the interest income received from the assets in the collateral pool, with the remainder used to make regular coupon payments to investors. The term to maturity of the loans and bonds in the collateral pool will determine the maturity of the CDO securities sold to investors.

credit card. A credit card is a card whose holder has been granted a revolving credit line. The card enables the holder to make purchases and/or cash advances up to a pre-arranged limit. The credit granted can be settled in full by the end of a specified period or in part, with the balance taken as extended credit. Interest may be charged on the transaction amounts from the

date of each transaction or only on the extended credit where the credit granted has not been settled in full.

debit card. A debit card is a card that enables the holder to access funds in a deposit account at an authorised deposit-taking institution.

derivative. A financial contract whose value is based on, or derived from, another financial instrument (such as a bond or share) or a market index (such as the Share Price Index). Examples of derivatives include futures, forwards, swaps and options.

employed persons. Persons aged 15 and over who, during a period of one week, worked for one hour or more for pay or worked for one hour or more without pay in a family business or on a family farm.

G-10. Group of Ten countries: Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, and USA; plus Bank for International Settlements (BIS), European Commission, International Monetary Fund (IMF), and the Organisation for Economic Co-operation and Development (OECD). It was formed in conjunction with the establishment of the General Arrangements to Borrow, under which members agreed to make resources available to the IMF.

G-20. Group of Twenty Forum: Members are finance ministers or central bankers from - Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, UK and US; plus representatives of the IMF, European Union and World Bank. The G-20 aims to broaden the dialogue on key economic and financial policy issues among systemically significant economies, and promote co-operation to achieve stable and sustainable world economic growth.

G-22. Group of Twenty-two. The G-22's aim was to advance issues related to the global financial architecture. It operated through three Working Parties - on Transparency and Accountability, International Financial Crises, and Strengthening Financial Systems. The group made its recommendations in 1998, and its work has since been taken up in other forums.

G-7. Group of Seven countries: Canada, France, Germany, Italy, Japan, UK and USA. The G-7 Summit deals with issues covering macroeconomic management, international trade, international financial architecture, relations with developing countries, and other global issues.

G-8. Group of Eight countries: G-7 countries and Russia.

gross domestic product. The total market value of goods and services produced after deducting the cost of goods and services used up in the process of production but before deducting for depreciation.

gross domestic product—chain volume measure. Also known as *real GDP*, this is a measure used to indicate change in the actual quantity of goods and services produced. Economic growth is defined as a situation in which real GDP is rising.

gross domestic product at factor cost. Gross domestic product less the excess of indirect taxes over subsidies.

gross foreign debt. All non-equity financial claims by non-residents on residents of Australia. The major component of gross foreign debt is the amount of borrowings from non-residents by residents of Australia.

household debt ratio. The amount of household debt at the end of a quarter expressed as a proportion of annual household gross disposable income.

household gross disposable income. The amount of income that households have available for spending after deducting any taxes paid, interest payments and transfers overseas.

household net disposable income. Household gross disposable income less depreciation of household capital assets.

household saving ratio. The ratio of household income saved to household net disposable income.

housing loan interest rate. The variable rate quoted by banks for loans to owner-occupiers.

implicit price deflator for non-farm gross domestic product. A measure of price change that is derived (hence the term implicit) by dividing gross non-farm product at current prices by gross non-farm product at constant prices.

index of commodity prices. A Reserve Bank of Australia-compiled index (based 2001/02=100) which provides a measure of price movements in rural and non-rural (including base metals) commodities in Australian Dollars (AUD), Special Drawing Rights (SDR) and United States Dollars (USD).

inflation. A measure of the change (increase) in the general level of prices.

inflation target. A tool to guide monetary policy expressed as a preferred range or figure for the rate of increase in prices over a period. In Australia, the inflation target is between 2 and 3 per cent per annum on average over the course of the business cycle.

interchange fee. A fee paid between card issuers and acquirers when cardholders make transactions.

interest rate. The term used to describe the cost of borrowing money or the return to the owner of the funds which are invested or lent out. It is usually expressed as a percent per annum of the amount of money borrowed, lent or invested.

labour force. The employed plus the unemployed.

labour force participation rate. The number of persons in the labour force expressed as a percentage of the civilian population aged 15 years and over.

labour productivity. Gross domestic product (chain volume measure) per hour worked in the market sector.

long-term unemployed. Persons unemployed for a period of 52 weeks or more.

macroeconomy. The economy looked at as a whole or in terms of major components measured by aggregates such as gross domestic product, the balance of payments and related links, in the context of the national economy. This contrasts with microeconomics which focuses upon specific firms or industries.

market sector. Five industries are excluded from the market sector because their outputs are not marketed. These industries are: property and business services; government administration and defence; education; health and community services; and personal and other services.

monetary policy. The setting of an appropriate level of the cash rate target by the Reserve Bank of Australia to maintain the rate of inflation in Australia between 2 and 3 per cent per annum on average over the business cycle.

natural increase. Excess of live births over deaths.

net foreign debt. Gross foreign debt less non-equity assets such as foreign reserves held by the Reserve Bank and lending by residents of Australia to non-residents.

net overseas migration. Net permanent and long-term overseas migration plus an adjustment for the net effect of 'category jumping'.

non-farm gross domestic product. Gross domestic product less that part which derives from agricultural production and services to agriculture.

overseas visitors. Visitors from overseas who intend to stay in Australia for less than 12 months.

prime interest rate. The average rate charged by the banks to large businesses for term and overdraft facilities.

profits share. Gross operating surplus (the excess of gross output over costs incurred in producing that output) of all financial and non-financial corporate trading enterprises as a percentage of gross domestic product at factor cost.

quantitative easing. Quantitative easing involves central banks purchasing financial assets (such as government bonds, corporate bonds and mortgage-backed securities). It increases the money base with a view to driving down long-term borrowing costs.

real average weekly earnings. Average weekly earnings adjusted for inflation as measured by the Consumer Price Index.

real prime interest rate. The prime interest rate discounted for inflation as measured by the Consumer Price Index.

reserve bank reserve fund. The bank's permanent general reserve, established by the Reserve Bank Act. Sums are credited to the fund from earnings available for distribution, as determined by the Treasurer after consulting the Reserve Bank Board. The balance of distributable earnings after any such transfer is payable as a dividend to the Commonwealth. The fund is essentially the bank's capital. Its primary purpose is to provide a capacity to absorb losses when it is necessary to do so.

seasonally adjusted estimates. Estimates in which the element of variability due to seasonal influences has been removed. Seasonal influences are those which recur regularly once or more a year.

terms of trade. The relationship between the prices of exports and the prices of imports. The usual method of calculating the terms of trade is to divide the implicit price deflator for exports by the implicit price deflator for imports.

trade weighted index. A measure of the value of the Australian dollar against a basket of foreign currencies of major trading partners.

turnover. Includes retail sales; wholesale sales; takings from repairs, meals and hiring of goods; commissions from agency activity; and net takings from gaming machines. From July 2000, turnover includes the Goods and Services Tax.

unemployed persons. Persons aged 15 and over who, during a period of one week, were not employed but had actively looked for work in the previous four weeks and were available to start work.

unemployment rate. The number of unemployed persons expressed as a percentage of the labour force.

wage price index. A measure of change in the price of labour (i.e. wages, salaries and overtime) unaffected by changes in the quality or quantity of work performed.

wages share. Wages, salaries and supplements (the total value of income from labour) as a percentage of gross domestic product at factor cost.

west texas intermediate. A type of crude oil used as a benchmark in oil pricing and the underlying commodity of New York Mercantile Exchange's oil futures contracts.

youth unemployment. Number of 15–19 year olds looking for full-time work.

youth unemployment rate. Number of 15–19 year olds looking for full-time work expressed as a percentage of the full-time labour force in the same age group.

Source: *Parliamentary Library and Reserve Bank of Australia*

