
The Parliament of the Commonwealth of Australia

Review of the Reserve Bank of Australia Annual Report 2016 (First Report)

House of Representatives
Standing Committee on Economics

March 2017
Canberra

© Commonwealth of Australia 2017

ISBN 978-1-74366-620-3 (Printed Version)

ISBN 978-1-74366-621-0 (HTML Version)

This work is licensed under the Creative Commons Attribution-NonCommercial-NoDerivs 3.0 Australia License.



The details of this licence are available on the Creative Commons website:
<http://creativecommons.org/licenses/by-nc-nd/3.0/au/>.



Chair's foreword

On 7 February 2017 the RBA decided to leave official interest rates on hold at 1.5 per cent. In making this decision, the Governor commented that 'holding the stance of policy unchanged at this meeting would be consistent with sustainable growth in the economy and achieving the inflation target over time.'

At the public hearing on 24 February 2017 the Governor noted that, given headline inflation has risen in most countries and is much closer to target than it has been for some years, the 'forecast for global growth has been revised up over recent months – and that is the first time that has happened for quite a few years.'

After a weaker than expected September quarter last year, Australia's GDP growth is expected to pick up, sustained by accommodative monetary policy and a lower Australian Dollar. The RBA forecasts that GDP growth will increase to 2½–3½ per cent during 2017.

While inflation remains low, it is expected to move closer to target, with the Consumer Price Index (CPI) forecast to rise to around two per cent by the middle of 2017.

Since its low point in January 2016, the Australian Dollar has appreciated by over 10 per cent against both the US dollar and on a trade-weighted basis. However, the Governor noted that the historical depreciation of the Australian dollar continues to support growth in a range of Australian industries, and has remained largely unchanged since the United States election.

The Governor's testimony suggests consumption growth is moderating and that wages growth continues to be restrained. Unemployment remains stable, with employment growth being driven by increases in part-time employment.

Housing markets across Australia have been mixed. While the Sydney and Melbourne markets continue to record strong growth, other markets such as Perth have experienced weaker conditions. There was a substantial improvement in the

number of building approvals in the last two years, mainly driven by strong growth in new apartments being built.

Australia's economic growth outlook is more optimistic than it was in March 2016, with evidence showing that the headwinds of declining mining investment and low commodity prices have eased. The RBA expects GDP growth in Australia of between two and three per cent by the end of 2017 to be supported by increases in the production of LNG and improving terms of trade.

On behalf of the committee, I thank the Governor of the Reserve Bank, Dr Philip Lowe, and other representatives of the RBA for appearing at the hearing on 24 February 2017.

David Coleman MP
Chair



Contents

Chair's foreword	iii
Membership of the Committee	vii
Terms of reference	ix
Abbreviations.....	x


THE REPORT

1	Introduction	1
	Background	1
	Scope and conduct of the review	2
2	Monetary policy and other issues	3
	Overview	3
	Forecasts	5
	The cash rate and monetary policy	7
	Business and the labour market.....	9
	Trends in the global economy	11
	Housing.....	15
	Supply	15
	Infrastructure.....	16
	Uneven performance of housing sector	17
	Affordability	18
	Corporate taxation and international competitiveness.....	19
	New Payments Platform	20

Other issues	22
Climate change and energy markets.....	22
Government bank deposit guarantee and the Committed Liquidity Facility.....	24
Corporate governance.....	25
Conclusion	26
Appendix A — Hearing, briefing and witnesses	29
Appendix B — <i>Seventh statement on the conduct of monetary policy</i>	31

LIST OF TABLES

Table 1 Output Growth and Inflation Forecasts (per cent)(a)	5
---	---



Membership of the Committee

Chair	Mr David Coleman MP
Deputy Chair	The Hon Matt Thistlethwaite MP
Members	Mr Adam Bandt MP Ms Julia Banks MP Mr Scott Buchholz MP Mr Trevor Evans MP Mr Kevin Hogan MP Mr Craig Kelly MP Mr Matt Keogh MP Ms Madeleine King MP

Committee Secretariat

Secretary	Mr Stephen Boyd
Inquiry Secretary	Dr John White
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.



Abbreviations

APRA	Australian Prudential Regulation Authority
BEPS	Base Erosion and Profit-shifting
CLF	Committed Liquidity Facility
CPI	Consumer Price Index
GDP	Gross Domestic Product
GFC	Global Financial Crisis
LNG	Liquified Natural Gas
NPP	National Payments Platform
OECD	Organisation for Economic Co-operation and Development
QE	Quantitative Easing
RBA	Reserve Bank of Australia