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

House of Representatives
Standing Committee on Economics

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Chair's foreword

On 1 August 2017, the Reserve Bank of Australia (RBA) decided to leave official interest rates on hold at 1.50 per cent. In making this decision, the Governor commented that 'holding the stance of monetary 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 11 August 2017, the Governor noted that the global economy has strengthened and, as a result, the RBA expects domestic economic conditions to improve. The RBA forecasts Australia's GDP growth to rise above two per cent in late 2017, to 2³/₄–3³/₄ per cent over the year to December 2018. Continued growth is being supported by accommodative monetary policy, an increase in LNG exports, and employment growth.

Underlying inflation is higher than late last year, and the RBA forecasts that it will reach around two per cent over the second half of 2017. Headline inflation is expected to lie between two and three per cent over the year to December 2019, with the Consumer Price Index (CPI) forecast to rise to around two per cent by the end of 2017.

Since its low point in January 2016, the Australian Dollar has appreciated significantly against the US dollar and on a trade-weighted basis. The Governor stated that the current exchange rate will 'contribute to subdued price pressures in the economy.' The Governor added that an appreciating exchange rate would be expected to result in slower economic growth and inflation than currently forecast.

Since the beginning of 2017, around 165,000 full-time jobs have been created in Australia, average hours worked have increased, and labour force participation has risen. The RBA expects that the recent strong growth in employment will support consumption growth, moderated by high levels of household debt and low wage growth.

Business investment in Australia is expected to increase gradually as growth in demand increases. The RBA noted that conditions are currently favourable for stronger growth in business investment, including low interest rates and reduced tax rates for small and medium businesses.

Overall, Australia's economic growth outlook is positive, with the transition to lower levels of mining investment almost complete. Increases in the production of LNG are expected to lead to GDP growth in Australia of between 2 and 3 per cent by the end of 2017.

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 11 August 2017.

David Coleman MP
Chair



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Membership of the Committee

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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

AUSTRAC	Australian Transaction Reports and Analysis Centre
CBA	Commonwealth Bank of Australia
CPI	Consumer Price Index
GDP	Gross Domestic Product
HILDA	Household, Income and Labour Dynamics in Australia
LNG	Liquified Natural Gas
RBA	Reserve Bank of Australia
RMB	Chinese Renminbi