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Review of the Reserve Bank of Australia Annual Report 2017 (First Report)

House of Representatives
Standing Committee on Economics

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Chair's foreword

On 6 February 2018, the Reserve Bank of Australia (RBA) left official interest rates unchanged at 1.50 per cent. In making this decision, the Governor commented that accommodative monetary policy was continuing to support growth in the Australian economy and the Board did not see the need to adjust the cash rate at this time.

At the public hearing on 16 February 2018, the Governor noted that many advanced economies are experiencing a synchronised pick-up in growth. Reflecting this broader trend, the RBA forecast Australia's GDP growth to further strengthen from 2¾ per cent in mid-2018 to be a little over 3 per cent over 2018 and 2019. Inflation has been slow to increase, and underlying inflation is expected to rise gradually to around 2¼ percent by 2020.

Australia's labour market has been especially strong, with over 400 000 new jobs being created in 2017, three-quarters of which were full-time. Labour force participation is close to its record high. Australia has experienced 16 consecutive months of employment growth, which is the first time that has happened in the history of the labour force survey. The RBA expects continued growth in employment to further reduce spare capacity in labour markets and generate a gradual increase in wages and inflation.

Australia is transitioning successfully out of the mining boom and there is a large pipeline of infrastructure investment currently underway. These projects are creating new jobs now, while building Australia's productive capacity for the future.

Internationally, there is increasing competition between countries to attract foreign investment. One way other countries such as the United States are seeking a competitive advantage is to reduce their corporate tax rates. While there are a number of other factors that make Australia a desirable place to invest including our diverse, skilled and growing population, natural resources and financial stability, our corporate tax rates are high by international standards.

The RBA noted that a source of uncertainty in its forecasts is the strength of consumer spending because many households are experiencing slow growth in their incomes and have high levels of household debt. The Governor said that measures to reinforce sound lending practices by the Australian Prudential Regulation Authority have contained the build-up of risk in this area, particularly in relation to interest-only loans.

In relation to the major banks' decision to increase interest rates on existing interest-only loans, the committee reiterates its view from the third report of its Review of the Four Major Banks. Banks should not be using macroprudential regulation, which is designed to reduce risks in the financial system, as cover for profiteering.

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 16 February 2018. The next hearing will be on 17 August 2018 in Canberra.

Sarah Henderson 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

ADI	Authorised Deposit-taking Institution (ADI)
APRA	Australian Prudential Regulation Authority
CPI	Consumer Price Index
GDP	Gross Domestic Product
LNG	Liquefied Natural Gas
LVR	Loan-to-valuation ratio
MYEFO	Mid-Year Economic and Fiscal Outlook
NAIRU	Non-accelerating inflation rate of unemployment
NPP	New Payments Platform
OECD	Organisation for Economic Co-operation and Development
RBA	Reserve Bank of Australia