[Questions due to Committee by Monday, 30 August 2021]

House of Representatives Standing Committee on Economics
Questions on Notice and in Writing – 13 August 2021

RBA24QON
Asked by Ms Murphy
Reference: Hansard, 6 August 2021, p14

Ms MURPHY: ... My understanding is that the RBA is exempt from data reporting to WGEA, the Workplace Gender Equality Agency. I'm sure that's not the RBA's fault. It's probably how the legislation was drafted. But I'm wondering whether you would consider looking at the sort of data that other institutions or other companies do report to WGEA about the gender pay gap and then the RBA voluntarily publishing that sort of data, which you would understand is de-identified for employees, as another way of looking at dealing with the gender pay gap. We don't know at the moment what the gender pay gap is in the RBA, but one might assume from the statistics I just quoted and the fact that there were some pay transparency clauses that it perhaps isn't as good as it should be.
…

Ms MURPHY: …You don't have to answer now, but I would appreciate it, Governor and Dr Debelle, if you would look at whether the RBA publishes the sort of data that WGEA gets from other organisations and, if not, if you would look at doing that.

Mr Lowe: We certainly will do that.

Answer:

Each year since 2016, the RBA has analysed the relative salaries of men and women employed at the RBA and has examined the factors contributing to any differences. The gap has declined over this period from 16.6 to 14.5 per cent. The gap is largely explained by the fact that women occupy a larger proportion of positions at lower levels than men. The RBA is committed to increasing the share of women in management, with the objective being equal representation.

Where a man and a woman were performing the same role and were the same in all other identifiable respects, the salary of the man was 1.7 per cent higher than the salary of the woman on average.

These outcomes are published in the RBA Annual Report. The results of this analysis are also presented each year to staff. The information reported is similar to that reported by the WGEA. The RBA is also reviewing voluntary WGEA reporting.

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RBA25QON
Asked by Mr Simmonds
Reference: Hansard, 6 August 2021, p17-18

Mr SIMMONDS: I'll just change tack a little bit. In your discussions with other reserve bank governors, internationally, what is the general feel and discussion about the trend in China's GDP growth? We've seen it reduce. Is it the view, internationally, that we're going to continue to see that pre-COVID trend of it reducing downwards?

Mr Lowe: Before COVID, Chinese growth had slowed back to something like five or six per cent.

…

Mr SIMMONDS: Some economists have said that they expect to see it slow even to two or three per cent in the next few years. Is that your view, or do you see it not going down as far as that?

Mr Lowe: I don't know. That's not my central view. Luci, five to six per cent is probably the baseline for China in our forecasts?

Dr Ellis: That sounds about right, but I'd have to look it up.

Answer:

China’s GDP growth was moderating before the COVID-19 pandemic. In 2019, annual GDP growth in China was 6.0 per cent, and in 2018 GDP growth was 6.7 per cent. Abstracting from the effects of the pandemic, annual GDP growth in China is expected to slow gradually in coming years, but remain between 5 and 6 per cent until at least 2024. GDP growth is then expected gradually to moderate further in following years.

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RBA26QON
Asked by Dr Leigh
Reference: Hansard, 6 August 2021, p24-25

Dr LEIGH: Okay. The Bank for International Settlements has set up two green investment funds as an option for safe, liquid green investments. My understanding is that the European Central Bank has invested and the Reserve Bank of New Zealand has invested, and the Reserve Bank of Australia has very clearly talked about the risks to macroeconomic stability from climate change. Accordingly, has the RBA invested any of Australia's foreign reserves in the Bank of International Settlements green bond funds?

…

Dr Debelle: I will have to come back to you on that one, Deputy Chair. I know we're looking at a similar set-up in the Asian region currently, along with our counterparts across the EMEAP region. I will have to come back to you. We can own the green bonds directly; we don't have to go through the BIS investment vehicle. A green bond issued by sovereigns that we invest in, particularly in Europe, is an investable asset in our portfolio. I think the one thing I'd note at the moment, in this market, is that, with these bonds, there is more demand than supply globally at the moment. There's a lot of appetite to invest in such bonds, and at the moment, I would say, there is probably not enough supply to meet that in the end. But, as I said, we can own the bonds directly; we don't need to go via the BIS investment vehicle.

Dr LEIGH: If you could come back to me on that broad issue, I'd be grateful.

Answer:

The RBA has not invested in either of the Bank for International Settlements' (BIS) green bond funds. These are a US-dollar bond fund that was established in September 2019 and a euro bond fund that was established in January 2021. Although the average credit rating of the bonds held by these funds is strong, some of these bonds do not currently meet the credit criteria set for the RBA's foreign reserve portfolio. For bonds held in these funds that do meet these criteria, the RBA can hold them directly rather than investing in them via the BIS funds and the RBA does currently hold a small amount of green bonds in that portfolio. Due to generally strong demand for green bonds among a range of investors, the yields on green bonds tend to be lower than yields on conventional bonds from the same issuer. The RBA does hold some domestic green bonds issued by State governments that it has purchased through the bond purchase program.

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RBA27QW
Asked by Dr Leigh
Reference: Written

In the public hearing, you provided a weekly estimate on the economic impact of lockdown on NSW.

(a) Please provide estimates of the economic impact of lockdowns on all of the states/territories?
(b) What assumptions are these estimates based on?

Answer:

The RBA's estimates of the economic impact of lockdowns as at the time of the August 2021 *Statement on Monetary Policy* were based on assumptions about lockdown durations at that point in time.

2021 Lockdown Impact By State[(a)]

As at 6 August 2021

	June quarter	September quarter
NSW	\$0.8bn	\$12.2bn
of which through construction	–	*\$2.4bn*
VIC	\$1.4bn	\$2.5bn
QLD	\$0.2bn	\$0.5bn
WA	\$0.04bn	\$0.1bn
SA	–	\$0.2bn
ACT	–	–
NT	\$0.01bn	–
TAS	–	–
Total	\$2.4bn	\$15.6bn

(a) Economic impact on each state through household consumption, except NSW, which also includes construction.

Consumption: for each state, the estimated effect of lockdowns on household consumption was calculated as

15% x share of the population in lockdown x share of the quarter in lockdown

where 15 per cent is the RBA's estimate for the weekly effect on household consumption from restrictions on activity

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2021 Lockdown Duration Assumptions

As at 6 August 2021

	June quarter	**September quarter**
NSW	1 week	13 weeks
VIC	2 weeks	3 weeks
QLD	3 days	8 days
WA	1 day	3 days
SA	–	1 week
ACT	–	–
NT	5 days	–
TAS	–	–

Construction: for NSW, the effect of restrictions on construction was estimated by assuming that 75 per cent of private and public construction activity was classed as 'non-essential' and therefore required to pause. This was then applied to the share of activity that occurs in the affected regions.

Construction Lockdown Assumptions (as at 6 August 2021)

	Assumptions
Residential	2-week shutdown in Greater Sydney; + 4-week shutdown in LGAs of concern (representing ~10% per cent of national residential construction)
Non-residential	2-week shutdown in Greater Sydney; + 4-week shutdown in LGAs of concern (representing ~10% per cent of national non-residential construction).
Public	2-week shutdown in Greater Sydney

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RBA28QW
Asked by Dr Leigh
Reference: Written

The SMP forecasts were finalised before the ABS released their trade data for June.

(a) Given that exports prices outstripped nominal export growth in the June quarter, is there a chance net exports will detract from June quarter GDP growth?

(b) Will you be revising your forecasts in light of this?

(c) Is there now a chance of a second recession if we see a contraction in June?

Answer:

a) Yes. In the RBA's baseline forecasts published in the August *Statement on Monetary Policy*, net exports were expected to subtract from June quarter GDP growth. That reflected an expectation of weak export volumes in the quarter and continued growth in imports owing to the then-strong domestic economic recovery. These forecasts were informed by the available nominal trade data, which included ABS preliminary estimates of International Merchandise Trade in June and International Trade Prices Index data. In forecasting trade, the RBA also takes into account information from contacts in its liaison program, available indicators of resource export volumes, and information from paid data subscriptions. At the time of the August *Statement*, these sources together indicated that protracted maintenance and weather-related disruptions had affected June quarter resource export volumes, contributing to weak overall export volumes. The effects of these disruptions will be reversed in the September quarter.

b) While the ABS June trade data suggested a slightly more negative contribution to GDP than assumed in the forecasts published in the August *Statement*, it did not suggest a significantly different overall picture. That said, there is significant uncertainty around the mapping from nominal trade data to trade volumes, given large moves in resource export prices (in particular of late). The complete set of balance of payments and national accounts data for the June quarter will be released before the RBA next publishes its forecasts in the November SMP. If the actual trade outcomes are significantly weaker than forecast in August, the positive contribution of trade to GDP in the September quarter will be correspondingly larger.

c) As foreshadowed in the August 2021 *Statement*, GDP is expected to have increased in the June quarter and then contract in the September quarter. The negative contribution from net exports was expected to be offset by positive contributions to growth from other components of GDP. As noted above, news in the recent trade release does not change that overall picture. While it cannot be ruled out that the contraction in net trade more than offsets growth in domestic activity in the quarter, so that GDP contracts, we regard this as unlikely.

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RBA29QW
Asked by Dr Leigh
Reference: Written

In relation to the Committed Liquidity Facility, in an answer to Mr Falinski, Dr Debelle referred to a bank's deposit on the RBA balance sheet as 'the ultimate form of liquidity'. As a result of the RBA's QE program and the TFF, banks now hold more than $300 billion on deposit with the RBA.
Since the RBA can predict with quite high accuracy (1) when the government bonds you hold as a result of QE will mature and (2) when the TFF will be repaid in accordance with its terms and conditions, the RBA can in turn predict the quantity of cash banks are likely to hold with the RBA via their deposits, which are known as Exchange Settlement Accounts (ESAs).

APRA and the RBA define High Quality Liquid Assets (HQLA) as including only (1) ESA cash on deposit at the RBA, (2) Commonwealth government bonds, and (3) State government bonds. When the RBA last calculated the universe of available HQLA for banks to hold instead of holding the CLF, the RBA chose at that time to exclude the ESA cash on deposit at the RBA because historically the banks have not held much excess cash on deposit at the RBA.

However, since banks are now likely to hold hundreds of billions of dollars of excess cash at the RBA for as long as the RBA holds its bonds purchased under the QE program, and the TFF monies remain outstanding, would it now not make sense to include the excess ESA cash in RBA calculation of the HQLA universe for the purposes of in term determining the size of, and need for, the CLF?

Answer:

APRA is responsible for defining high-quality liquid assets (HQLA) in Australia and does so in accordance with internationally agreed (Basel) standards. In Australia, HQLA include: cash (banknotes); Exchange Settlement (ES) balances held with the RBA; Australian Government Securities (AGS); and securities issued by the borrowing authorities of the states and territories (semis). See <https://www.apra.gov.au/news-and-publications/apra-confirms-its-definition-of-high-quality-liquid-assets-for-liquidity>.

APRA calculates the minimum aggregate size of the CLF as the difference between APRA's assessment of the overall liquidity requirements of the locally incorporated banks that are subject to the LCR requirements and the RBA's assessment of the amount of AGS and semis that could reasonably be held by those banks without unduly affecting market functioning. The RBA also provides APRA with projections for aggregate ES balances in the period ahead, taking account of the RBA's policy measures. Drawing on this information, APRA incorporates its own projections of banks' holdings of banknotes and ES balances.

The CLF size approved by APRA is based on the calculated minimum size of the CLF and APRA's assessment of other factors. Examples of such factors include: the amount of additional funding that banks might need to raise to fund the HQLA needed to replace the CLF and the time they have to raise it; the impact of a reduction in the CLF on the markets for assets that are used to collateralise it; and consideration of other exogenous variables, such as TFF repayments and funding market conditions, etc.

APRA's assessment of banks' overall liquidity requirements incorporates its assessment of the aggregate Australian dollar net cash outflows for the locally incorporated LCR banks, including an allowance for the banks to have buffers over the minimum LCR requirement of 100 per cent.