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Review of the Reserve Bank of Australia Annual Report 2015 (First Report)

**House of Representatives
Standing Committee on Economics**

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Chair's foreword

On 2 February 2016 the RBA decided to leave official interest rates on hold at 2.0 per cent following the most recent rate cut in May 2015. In making this decision, the Governor commented that the current circumstances called for accommodative monetary policy, with inflation continuing to remain close to target and reasonable projections for continued economic growth.

At the public hearing on 12 February 2016 the Governor stated that the Australian economy is continuing to progress through significant adjustment challenges, with current growth being driven by the non-mining sectors of the economy, particularly the services sector. The RBA forecasts that year-ended GDP growth will be 2½–3½ per cent over the year to December 2016, increasing to 3–4 per cent over the year to June 2018. The Governor remarked that the modest growth of the economy has been producing more employment growth and lower unemployment than anticipated, while inflation remains low with the CPI rising by 1.7 per cent over 2015.

Given that current labour conditions have been better than expected, unemployment is likely to reduce further, while the participation rate is expected to increase over the coming years. Wage growth is not expected to increase substantially over the next few years due to spare capacity in the labour market. The RBA reports that household consumption growth has increased, which has been supported by lower interest rates and increasing employment. House prices, particularly in Sydney and Melbourne, have eased since their peak in September 2015. Substantial increases in higher density housing in recent years have led to slower growth in apartment prices, which has been linked to a rise in rental vacancy rates, while rental yields remain low.

While the Australian dollar has appreciated a little against the US dollar and on a trade-weighted basis from its lowest level in September 2015, the effects of the dollar's long-run depreciation are still coming through. The RBA anticipates the effects of the exchange rate depreciation will continue to put some upward pressure on CPI inflation over the course of the next few years. The Governor

noted that, at its current level, the Australian dollar was supporting demand for locally produced goods and services, which has been reflected by strong growth in the services sector.

On behalf of the committee, I thank the Governor of the Reserve Bank, Mr Glenn Stevens and other representatives of the RBA for appearing at the hearing on 12 February 2016.

David Coleman MP
Chair



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Membership of the Committee

Chair	Mr David Coleman (from 11 March 2016) Mr Craig Laundry MP (to 18 February 2016)
Deputy Chair	The Hon Ed Husic MP
Members	Mr John Alexander OAM MP Mr Scott Buchholz MP Mr Pat Conroy MP Mr Kevin Hogan MP Mr Craig Kelly MP Mr Craig Laundry MP (to 24 February 2016) Ms Clare O'Neil MP Mr Clive Palmer MP Ms Fiona Scott MP (from 2 March 2016)

Committee Secretariat

Secretary	Mr Stephen Boyd
Inquiry Secretary	Dr John White
Administrative Officer	Ms Jazmine Rakic Mr Danny Miletic



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.