

Introduction

Background

- 1.1 The House of Representatives Standing Committee on Economics, Finance and Public Administration (the committee) is responsible for scrutinising the Reserve Bank of Australia (RBA) and for ensuring its transparency and accountability to the Parliament, the community, and the financial sector.
- 1.2 The RBA Governor's appearances before the committee at biannual public hearings are an important element of the Bank's accountability framework. The details of this framework are set out in the July 2003 *Second Statement on the Conduct of Monetary Policy*, agreed between the Treasurer, the Hon Peter Costello, MP, and the RBA Governor, Mr Ian Macfarlane. The statement provides for the RBA's accountability framework and formalises the biannual appearance before the committee. The statement, which is reproduced at Appendix D, states:

The Governor has also indicated that he plans to continue to be available to report on the conduct of monetary policy twice a year to the House of Representatives Standing Committee on Economics, Finance and Public Administration. The Treasurer expresses support for these arrangements, which ensure the continued transparency and accountability of the Reserve Bank's conduct of monetary policy – and therefore the credibility of policy itself.¹

1 RBA, *Second Statement of Monetary Policy*, July 2003.

- 1.3 A second procedural mechanism for achieving this accountability is set out in the Standing Orders of the House of Representatives, which provide for the referral of annual reports within a committee's area of portfolio responsibility for any inquiry the committee may wish to make. Accordingly, the committee may inquire into aspects of the annual reports of the RBA and the Bank's Payments System Board.
- 1.4 The biannual hearings coincide with the release of one of the RBA's quarterly statement on monetary policy. At the February 2006 hearing in Canberra, the committee scrutinised the RBA's *Statement on Monetary Policy* released on 13 February 2006.

Scope and conduct of the review

- 1.5 In the 41st parliament the third public hearing of the committee with the RBA was held in Canberra on 17 February 2006.
- 1.6 The proceedings of the Canberra hearing were streamed over the internet through the Parliament's website, allowing interested parties to hear and see the proceedings as they occurred. The Governor's opening statement was taken as a submission and the transcript of the hearing is available through the committee's website.²
- 1.7 Before the hearing, the committee received a private briefing from Mr Alex Erskine of Erskinomics. This briefing provided valuable background information for the committee and perspectives on issues for discussion at the public hearing.
- 1.8 The Canberra hearing was well attended by members of the public and students from secondary schools.
- 1.9 The public hearings with the RBA continue to bring issues of monetary policy into the public arena, and also have assisted in providing a public face to parliamentary committees and the RBA. The committee welcomes the Governor's frank and open comments at the hearing. In addition, the hearing is an important means whereby financial markets can be better informed on the current thinking of the RBA.
- 1.10 As with previous committee reports, this report focuses on matters raised at the public hearing. The report does not repeat the detail in the *Statement on Monetary Policy*, the RBA's annual report or proceedings of the public

2 See: < http://www.apb.gov.au/house/committee/efpa/RBA2003_04/index.htm >

hearing. These documents may be viewed through the RBA's website³ or on the committee's website⁴.

Review of the Payments System Board Annual Report 2005

- 1.11 In addition to scrutinising the RBA on monetary policy, the committee also examined aspects of the payments system through its scrutiny of the Payments System Board Annual Report 2005. The committee conducted public hearings on 15 and 16 May in Sydney and on 17 June 2006 in Canberra as part of its review. Chapters 3 and 4 discuss the payments system and the findings and recommendations arising from the examination.
- 1.12 Information about the review and the dates of the public hearings were advertised in the *Australian* on 19 April and 3 May 2006.
- 1.13 The Payments System Board (PSB), established in 1998, is responsible for promoting efficiency, competition and stability in the Australian payments system. The Board has focused on the promotion of price signals which encourage efficient payment choices. One of the key aspects of this is the regulation of interchange fees. A second objective of the PSB is the removal of restrictions in the payments system that effectively limits entry and stifles competition.
- 1.14 In addressing these issues, the RBA has undertaken a number of studies and sought public comment on reform of the credit card system, the EFTPOS system, the Visa Debit System and the ATM system. The committee, through its public hearings, examined the RBA on progress with its reforms, and sought comment from key stakeholders including card providers, banks, consumer groups, academics and individuals with an interest in the matter.

Next public hearing with the RBA

- 1.15 The committee will conduct the next public hearing with the RBA on Friday, 18 August 2006 in Sydney. More details about the hearing will be circulated in the weeks leading up to the hearing.

3 See: <www.rba.gov.au>

4 See: <<http://www.aph.gov.au/house/committee/efpa/index.htm>>

