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**Economics Committee Report Tabling
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RESERVE BANK ANNUAL REPORT

Ms GRIERSON (Newcastle) (12.45 p.m.)—I also rise to speak on the *Review of the Reserve Bank of Australia Annual Report 2006*. This was the first hearing between the House of Representatives Standing Committee on Economics, Finance and Public Administration and Governor Glenn Stevens since his appointment last year. Governor Stevens was both frank and open. He shared his thinking and concerns in his strongly stated determination to advance the prosperity and welfare of the Australian people, control inflation and maintain stability of the Australian currency. The governor also directly stated that the maintenance of full employment was a goal of monetary policy. He was frank about his willingness to pursue the independence of the Reserve Bank, stating that election year political sensitivities were not determinants of monetary policy. In response to a question on raising interest rates in an election year, he stated:

"I do not think any central bank could accept the notion that somehow a rate change is off limits for one year out of three. That would be crazy. So the answer to the question is: if in August it needs to be done it will be done."

Current scenarios suggest that the governor may not face that particular dilemma, but we welcome his commitment to always put monetary policy and the needs of the Australian economy and people before political considerations.

A major feature of the committee discussions with the Reserve Bank reinforced the concern with the potential impact of capacity constraints on inflation. As his predecessor Governor Macfarlane had done before him, Governor Stevens once more drew attention to the constraints in both capital and labour. Indeed, 16 years of continuous growth built on the reforms of previous Labor governments and the Asian industrial revolution have brought about high labour participation rates and low unemployment. But there still exist major challenges in skill and labour shortages and in fixing the infrastructure problems that constrain our ability to fully respond to demand and opportunities, particularly in the resource sector. The governor noted, however, that business investment was trying to keep up with the demand. That is so, particularly in the Port of Newcastle, where we have seen \$17 million worth of expansions completed, another \$78 million expansion by Port Waratah Coal Services approved, and \$922 million approved for a new coal-loading terminal. But of course it takes a long time to realise exports. Infrastructure does require a major review and commitment from federal government, and that has been lacking. Neglect has a very

human response. In the Hunter, 500 mining job losses in the last month arose from the scaling back of production to match capacity while demand keeps escalating.

High commodity prices from the resource sector mean strong terms of trade and an improving balance of payments. But in terms of inflation the governor was very explicit in explaining the underlying inflation and the measurements that suggested that inflation was, at this stage, where the governor would like it to be—'neutral'. Three interest rate rises last year took the cash rate to 6.25 per cent, and that certainly saw a human response, evident through an increase in housing repossessions. Home seizures and sales resulting from loan defaults have jumped more than 25 per cent in the past year, according to the debt collection agency Prushka. Writs of possession data from the Supreme Court in Sydney show the highest numbers of repossessions are from Western Sydney and south-west Sydney, not from Mosman or Vaucluse.

So, as the governor said, interest rates are more likely to increase this year than decrease. But given the disparity in the impacts of any changes in cash rates we would hope that can be averted. The Reserve Bank did not see household debt as a major problem, because of asset value increases. But I have to say I am with Saul Eslake on that one. There exists in this country significant disparity when it comes to the distribution of debt, wealth and asset increases. Certainly some Australians have been missing out.

Another item raised was the productivity dilemma reflected in the employment and unemployment figures and the workplace participation rates. Figures do seem to suggest that there is a need for some statistical overhaul, and I know the ABS and the RBA have been working on that. Private equity was also raised. It was interesting that in our Perth hearing we were in an Alan Bond developed resort. I think many of us remember debt funding and the economic destruction that some of that caused. Unlike his predecessor Macfarlane, Governor Stevens did not see private or debt equity scenarios as a problem.

According to recent Reserve Bank figures on banking fees growth, household fee income rose 10 per cent last year while business fee returns remain steady. Pleasingly, merchant service fees have fallen, reflecting increased competition—a shared quest of the committee and the Reserve Bank of Australia. So, although the Reserve Bank claims that fee increases are in line with increased banking volumes and product choice, I think the Australian people would like to see more competition when it comes to bank service fees. I endorse the committee's report and wish to thank the secretariat, the committee and the Reserve Bank. *(Time expired)*