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TREASURY EXECUTIVE MINUTE

Minute No. 20080567

26 February 2008

Treasurer

REGISTER OF CANDIDATES FOR APPOINTMENT TO THE RESERVE BANK BOARD

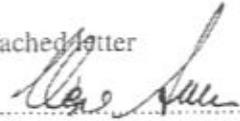
Timing: At your convenience

Recommendation/Issue:

- That you agree to the approach outlined in the attached letter

Agreed/Not Agreed

Signature:



8 / 2 / 2008

KEY POINTS

- The attached letter seeks your endorsement for the general principles, selection criteria, and processes that the Governor and I propose for the register of candidates for appointment to the Reserve Bank Board.
- Also attached is the Statement on the Conduct of Monetary Policy of 6 December 2007.

Ken Henry
Secretary

Contact Officer: Rose Verspaandonk Ext 3913

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Australian Government

The Treasury



Reserve Bank of Australia

26 February 2008

The Hon Wayne Swan MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

REGISTER OF CANDIDATES FOR APPOINTMENT TO THE RESERVE BANK BOARD

On 6 December 2007 you and the Prime Minister announced that 'the Secretary to the Treasury and the Governor of the Reserve Bank will maintain a register of eminent candidates of the highest integrity from which the Treasurer will make appointments to the Reserve Bank Board'.¹ This letter seeks your endorsement of the general principles, selection criteria, and processes that we propose for the register.

The purpose of the register is to improve the transparency of Reserve Bank Board appointments and remove any perception of political considerations in the appointment process. This ensures the integrity and independence of the Reserve Bank Board in the conduct of monetary policy, and reinforces the current practice of Board members seeing themselves as representing the broad national interest, rather than narrower sectional interests.

Subject to your agreement, we suggest the following selection criteria be adopted in considering any candidate for inclusion on the register:

- a high degree of personal integrity;
- political independence;
- extensive leadership and governance experience — which would typically include having leadership experience in a large and influential organisation, or demonstrated intellectual leadership; and

¹ Treasurer's Press Release No.003/2007 "Rudd Government Announces New Era of Independence for RBA."

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- sufficient grasp of economic and financial matters to contribute meaningfully to the Board's monetary policy deliberations.

We intend that the register include enough individuals, with a sufficient diversity of backgrounds, to provide you with a meaningful choice of candidates.

To ensure that the Board be — in both perception and reality — politically independent, we propose the exclusion of current or former Members of Parliament (at either the State or Federal level), office bearers of major political parties or registered lobbyists from consideration.

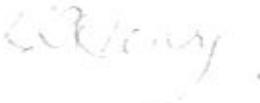
We will jointly be responsible for the maintenance of the register.

We suggest that the names on the register not be made public, and individuals not be informed when their name is placed on (or taken off) the register. However we can reasonably be expected to respond to questions on the procedures and processes surrounding the register.

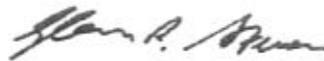
Due to privacy considerations (including the restrictions of the *Privacy Act 1988*), background checks on individuals should be limited to information available from public sources (including, for example, Australian Electoral Commission data on political donations). On being approached regarding a proposed appointment, candidates would be asked to permit background checks, including taxation, financial, corporate and criminal records.

In the event that you propose names for consideration, we anticipate that their inclusion on the register would be subject to assessment against the selection criteria outlined above.

Yours sincerely



Ken Henry
Secretary
The Treasury



Glenn Stevens
Governor
The Reserve Bank of Australia

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ATTACHMENT B

STATEMENT ON THE CONDUCT OF MONETARY POLICY

The Treasurer and the Governor of the Reserve Bank of Australia 6 December 2007

This statement records the common understanding of the Governor, as Chairman of the Reserve Bank Board, and the Government on key aspects of Australia's monetary policy framework.

Since the early 1990s, inflation targeting has formed the basis of Australia's monetary policy framework. Since 1996, this framework has been formalised in a Statement on the Conduct of Monetary Policy.

Monetary policy is a key element of macroeconomic policy and its effective conduct is critical to Australia's economic performance and prospects. For this reason, it is appropriate and timely for the Governor, and the Treasurer on behalf of the new Government, to outline their mutual understanding of the operation of monetary policy in Australia.

This statement should continue to foster a better understanding, both in Australia and overseas, of the nature of the relationship between the Reserve Bank and the Government, the objectives of monetary policy, the mechanisms for ensuring transparency and accountability in the way policy is conducted, and the independence of the Reserve Bank.

Relationship between the Reserve Bank and the Government

The Reserve Bank Act 1959 (the Act) gives the Reserve Bank Board the power to determine the Reserve Bank's monetary policy and take the necessary action to implement policy changes. The Act nominates the Governor as Chairman of the Reserve Bank Board.

The Government recognises the independence of the Reserve Bank and its responsibility for monetary policy matters and will respect the Reserve Bank's independence as provided by statute.

The Government will implement two new initiatives to further enhance the Reserve Bank's independence.

The positions of the Governor and Deputy Governor will have their level of statutory independence raised to be equal to that of the Commissioner of Taxation and the Australian Statistician. As such, their appointments will be made by the Governor-General in Council, and could be terminated only with the approval of each House of the Parliament in the same session of Parliament.

The Secretary to the Treasury and the Governor will maintain a register of eminent candidates of the highest integrity from which the Treasurer will make new appointments to the Reserve Bank Board. This procedure removes the

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potential for political considerations in the appointment process and ensures only the best qualified candidates are appointed to the Reserve Bank Board.

Section 11 of the Act prescribes procedures for the resolution of policy differences between the Reserve Bank Board and the Government. The procedures, in effect, allow the Government to determine policy in the event of a material difference; but the procedures are politically demanding and their nature reinforces the Reserve Bank's independence in the conduct of monetary policy. Safeguards like this ensure that monetary policy is subject to the checks and balances inherent and necessary in a democratic system.

In addressing the Reserve Bank's responsibility for monetary policy, the Act provides that the Reserve Bank Board shall, from time to time, inform the Government of the Reserve Bank's policy. Such arrangements are a common and valuable feature of institutional systems in other countries with independent central banks and recognise the importance of macroeconomic policy co-ordination.

Consistent with its responsibilities for economic policy as a whole the Government reserves the right to comment on monetary policy from time to time.

Objectives of Monetary Policy

The goals of monetary policy are set out in the Act which requires the Reserve Bank Board to conduct monetary policy in a way that, in the Reserve Bank Board's opinion, will best contribute to:

- a. the stability of the currency of Australia;
- b. the maintenance of full employment in Australia; and
- c. the economic prosperity and welfare of the people of Australia.

The first two objectives lead to the third, and ultimate, objective of monetary policy and indeed of economic policy as a whole. These objectives allow the Reserve Bank Board to focus on price (currency) stability while taking account of the implications of monetary policy for activity and, therefore, employment in the short term. Price stability is a crucial precondition for sustained growth in economic activity and employment.

Both the Reserve Bank and the Government agree on the importance of low inflation and low inflation expectations. These assist businesses in making sound investment decisions, underpin the creation of jobs, protect the savings of Australians and preserve the value of the currency.

In pursuing the goal of medium-term price stability, both the Reserve Bank and the Government agree on the objective of keeping consumer price inflation between 2 and 3 per cent, on average, over the cycle. This formulation allows for the natural short-run variation in inflation over the cycle while preserving a clearly identifiable performance benchmark over time.

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Since the adoption of inflation targeting in the early 1990s inflation has averaged around the midpoint of the inflation target band. The Governor takes this opportunity to express his continuing commitment to the inflation objective, consistent with his duties under the Act. For its part the Government indicates that it endorses the inflation objective and emphasises the role that disciplined fiscal policy must play in achieving such an outcome.

Transparency and Accountability

Monetary policy needs to be conducted in an open and forward looking way. A forward looking focus is essential as policy adjustments affect activity and inflation with a lag and because of the crucial role of inflation expectations in shaping actual inflation outcomes. In addition, with a clearly defined inflation objective, it is important that the Reserve Bank continues to report on how it sees developments in the economy, currently and in prospect, affecting expected inflation outcomes. These considerations point to the need for effective transparency and accountability arrangements.

The Reserve Bank takes a number of steps to ensure the conduct of monetary policy is transparent. Changes in monetary policy and related reasons are clearly announced and explained. The Reserve Bank's public commentary on the economic outlook and issues bearing on monetary policy settings, through public addresses, its quarterly statements on monetary policy and monthly bulletins, have been crucial in promoting increased understanding of the conduct of monetary policy. The Reserve Bank will continue to promote public understanding in this way.

The Governor has also indicated that he plans to continue the practice of making himself 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 Governor has announced that the Reserve Bank Board will release a statement explaining the reasons behind its decision on monetary policy following each meeting, irrespective of whether there is a change in the cash rate target. This statement will be made on the afternoon of the day of each Board meeting (rather than the morning of the following day), with the minutes of the Board meeting being released publicly as soon as possible after the meeting.

The Governor has also indicated that the Reserve Bank will continue to extend the scope of the economic forecasts in its quarterly statement on monetary policy to enhance public understanding of the conduct of monetary policy.

The Treasurer expresses support for these arrangements, which bring the transparency and accountability of the Reserve Bank's conduct of monetary policy into line with international best practice, further enhancing the public's confidence in the independence and integrity of the monetary policy process.

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