

Accountability and Communication

Relationship with Government

The Reserve Bank is established under federal legislation as a body corporate distinct from the Commonwealth of Australia. The Governor, Deputy Governor and members of the Reserve Bank Board are appointed by the Treasurer. The Board is afforded substantial independence under the *Reserve Bank Act 1959* to determine and implement the monetary and banking policy of the Bank, as will best contribute to the objectives of the Bank set out in the Act. The *Statement on the Conduct of Monetary Policy*, as updated from time to time, has recorded the common understanding of the Governor, as Chair of the Reserve Bank Board, and the government on key aspects of Australia's monetary and central banking policy framework since 1996. The Statement, which seeks to foster a sound understanding of the nature of the relationship between the Reserve Bank and the government, records that the government recognises and continues to respect the Reserve Bank's operational independence.

The Reserve Bank's independence is accompanied by an obligation to inform the government of its monetary and banking policy 'from time to time'. The Reserve Bank Act sets out a clear process for managing differences of opinion between the Board and the government on monetary and banking policy matters. Regular discussions between the Governor and the Treasurer (at the date of signing, The Hon Joe Hockey MP, and earlier in the year in review, The Hon Chris Bowen MP) served to keep the government informed.

Reporting Obligations

For the purposes of the preparation and contents of this Annual Report, the Reserve Bank is a Commonwealth authority and the members of the Reserve Bank Board are the directors of the Bank under the *Commonwealth Authorities and Companies Act 1997* (CAC Act). At its meeting on 5 August 2014, the Board resolved that the Governor sign the annual report and financial statements as at 30 June 2014 and provide them to the Treasurer for presentation to the Parliament, in accordance with the provisions of the CAC Act.

From 1 July 2014, the Reserve Bank became a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). Under the PGPA Act, the Governor became the 'accountable authority' of the Bank, although the Reserve Bank Board must also approve the Bank's financial statements. Future annual reports will be prepared in terms of provisions of the PGPA Act.

The House of Representatives Standing Committee on Economics has, in its Standing Orders, an obligation to review the Annual Report of the Reserve Bank and the Annual Report of the Payments System Board. The Committee holds twice-yearly public hearings, at which the Bank presents its views on the economy and financial markets and other matters pertaining to the Bank's operations, and responds to questions from Committee members. In 2013/14, the Governor and senior Bank officers attended Committee hearings for this purpose in Canberra in December 2013 and in Sydney in March 2014. The Committee issued a report on 3 March 2014, *Review of the Reserve Bank Annual Report 2013 (First Report)*, which covered the December 2013



Assistant Governor (Economic) Christopher Kent, Governor Glenn Stevens and Deputy Governor Philip Lowe at a hearing of the House of Representatives Economics Committee in March 2014

hearing, and a report on 16 June 2014, *Review of the Reserve Bank Annual Report 2013 (Second Report)*, which covered the March 2014 hearing.

The regular twice-yearly appearances before the House of Representatives Standing Committee on Economics and the quarterly *Statement on Monetary Policy* (see below) are important elements of the arrangements embodied in the understandings between the Governor and the Treasurer (outlined in the sixth *Statement on the Conduct of Monetary Policy*, which was issued in October 2013).

In addition to these appearances, the Reserve Bank made four public written submissions to Parliamentary inquiries during the year:

- in February 2014, to the inquiry by the Senate Economics Legislation Committee into the Reserve Bank Amendment (Australian Reconstruction and Development Board) Bill 2013
- in February 2014, to the inquiry by the Senate Economics References Committee into affordable housing
- in March 2014, to the inquiry by the Joint Committee of Public Accounts and Audit into *Public Governance, Performance and Accountability Act 2013* rules development. Following completion of the inquiry, the Joint Committee's report was tabled on 13 May 2014
- in May 2014, to the inquiry by the House of Representatives Standing Committee on Economics into foreign investment in residential real estate. In June 2014, senior officers appeared at a hearing of this inquiry in Sydney.

Communication

The Reserve Bank seeks to ensure a high degree of transparency about its activities, goals, decision-making processes and the basis of its policy decisions. Transparency facilitates the Bank's accountability and aligns with its operational independence. Importantly, it also increases the effectiveness of policy decisions by promoting a better understanding of those decisions in the wider community.

In addition to the regular announcements about the monetary policy decisions of the Reserve Bank Board, the Bank has an active communication program.

Publications

The quarterly *Statement on Monetary Policy* provides information to the general public, financial markets and media about the Reserve Bank's views on monetary policy and developments in financial markets. It also provides a basis for the Parliamentary Committee's questioning of the Bank. The *Statement* contains a detailed analysis of conditions in the economy and financial markets and describes the outlook for inflation and the economy more generally.

The *Financial Stability Review*, published each March and September, provides a detailed assessment of the condition of Australia's financial system, along with analysis of financial system issues of special interest. During the year in review, these issues included discussion of self-managed superannuation funds and mortgage insurance, drivers of profit in the Chinese banking system and falls in non-performing loans of Asian banks. More generally, the *Review* reports on international regulatory reforms, the Reserve Bank's involvement in these reforms and their potential effects. In addition, the *Review* reports on domestic regulatory issues, including through the Bank's work with the Council of Financial Regulators (CFR), which is the coordinating body for Australia's main financial regulatory agencies.¹

Australia's financial stability policy framework includes mandates for financial stability for several of the CFR agencies. The Reserve Bank is responsible for promoting overall financial system stability; the prudential elements of that framework rest with the Australian Prudential Regulation Authority (APRA). During the year in review and together with other CFR agencies, the Bank prepared two papers about the Australian over-the-counter derivatives market and one on regulation of cross-border clearing and settlement facilities in Australia.

The Reserve Bank's quarterly *Bulletin* contains analysis of a broad range of economic and financial developments as well as aspects of the Bank's operations. *Bulletin* articles during the year in review ranged from regular subjects such as bank fees and bank margins through to other topical issues such as foreign investment in property markets. There were also articles on developments in household saving, patterns of cash use and an explanation of the Next Generation Banknote program. Some articles explored aspects of the economies of China and India, and with Australia's terms of trade declining from its historical peak, other articles explored the implications of this and structural change in the Australian economy. There were also items that complemented the *Statement on Monetary Policy* by providing more detail about specific economic developments and measurement issues.

The Reserve Bank made a substantial submission covering a range of topics to the Financial System Inquiry in March 2014. The submission outlined the key developments in the Australian financial system over the 17-year period since the Wallis Inquiry, while exploring in more detail those areas where the Bank had a larger influence in shaping the system. The latter included areas where the Bank had been given an explicit mandate following the Wallis Inquiry, particularly the oversight of payments and settlements matters, and the Bank's submission included an account of its activities in the payments system over those years.

The *Financial System Inquiry Interim Report* was released on 15 July 2014, seeking views and further information on a number of issues and policy options. The Reserve Bank prepared a supplementary submission, responding to the issues that most closely related to the responsibilities of the Bank for the stability of the financial system

¹ The CFR is a non-statutory body whose role is to contribute to the efficiency and effectiveness of financial regulation and to promote stability of the Australian financial system. Its members share information, discuss regulatory matters and, if the need arises, coordinate responses to potential threats to financial stability. The CFR also advises the Australian Government on Australia's financial regulatory arrangements.



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Photo: Pat Rick Hamilton



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Photo: Jason McCormack/CEDA



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Photo: G20 Taskforce, Department of Prime Minister and Cabinet



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Photo: G20 Taskforce, Department of Prime Minister and Cabinet



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Photo: Daryl Charles Photography/CFIR



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Photo: Lesley Parker, UTS Business School

1. Governor Glenn Stevens at an Economic Society of Australia (Queensland) Business Luncheon, July 2013 2. Assistant Governor (Economic) Christopher Kent addresses a CEDA conference, February 2014 3. Deputy Governor Philip Lowe at a G20 meeting, February 2014 4. Deputy Governor Philip Lowe and Governor Glenn Stevens with Treasurer The Hon Joe Hockey MP and Barry Sterland PSM, Australia's G20 Finance Deputy, at a G20 meeting, February 2014 5. The then Head of Economic Research Department, Alexandra Heath, speaks at the Bank's annual conference on 'Financial Flows and Infrastructure Financing', March 2014 6. Assistant Governor (Financial Markets) Guy Debelle at the Forum on Perspectives on Financial Markets, November 2013 7. The Head of Financial Stability Department, Luci Ellis, speaks at the Paul Woolley Centre for the Study of Capital Market Dysfunctionality Conference, October 2013

and the efficiency and stability of the payments system. The Committee is expected to provide its Final Report, including its recommendations, to the Treasurer in November 2014.

Speeches

During 2013/14, the Governor, Deputy Governor and senior officers gave 42 speeches on various topics, the same number as in the previous year. Questions were taken after all speeches. Senior staff also participated in a number of public panel discussions. In addition to explaining current economic and financial conditions, many speeches addressed the longer-term influences on the economy and the challenges associated with adapting to structural change and raising productivity. There were also speeches devoted to innovation and reform in the payments system along with reflections on financial system stability in the post-crisis environment. Audio files of these speeches, the associated Q&A sessions and panel discussions were published on the Reserve Bank's website to improve accountability and communication.

Research

The Reserve Bank disseminates the results of longer-term research conducted by staff in the form of Research Discussion Papers (RDPs). The aim of the RDP series is to promote deeper understanding of policy-relevant issues. The views expressed in RDPs are those of the authors and do not necessarily represent those of the Bank. During 2013/14, 12 RDPs were published on a range of topics, including: the impact of the terms of trade on the Australian economy; the housing market; trends in the Australian banking sector; and developments in payment systems. Bank staff also published their research in various external journals, including the *Journal of Financial Market Infrastructures*, the *Journal of Macroeconomics*, the *International Journal of Central Banking* (IJC) and *JASSA: The Finsia Journal of Applied Finance*.

Research undertaken at the Reserve Bank is frequently presented at external conferences and seminars. In 2013/14, Bank staff presented at a number of domestic conferences, including: the 42nd Australian Conference of Economists, in Perth; the Econometric Society Australasian Meeting, in Sydney; the Annual Conference of the Chinese Economists' Society of Australia, in Brisbane; the Workshop on Macroeconomic Dynamics, in Melbourne; the CAMA Commodity Cycles Workshop, in Canberra; and the HILDA Survey Research Conference, in Melbourne. Bank staff also presented the results of their research work at seminars at a number of domestic institutions, including Monash University, the University of New South Wales, the Australian Treasury and the Australian Bureau of Statistics. Research papers were presented at a number of international conferences and workshops, including: the Annual IJC Research Conference, at the National Bank of Poland; the Central Bank Conference on Business Liaison, at the Federal Reserve Bank of Atlanta; the 17th Annual Conference of the Central Bank of Chile, in Santiago; the Chinese Economics Society Australia Conference, in Guangzhou; and the Bank of Korea Conference, in Seoul.

The Reserve Bank hosts regular conferences, which foster interaction between academics, central bankers and other economic practitioners on topical policy issues. To support one of the main items on the agenda during Australia's presidency of the G20 in 2014, the Bank's annual conference focused on financial flows and infrastructure financing. The conference was held in March 2014 in Sydney jointly with the Productivity Commission and the Lowy Institute for International Policy. A volume containing the conference papers and discussions was published in July 2014. More detail on the Bank's involvement in G20 meetings during 2013/14 can be found in the chapter on 'International Financial Cooperation'. In December 2013, the Bank hosted the annual Quantitative Macroeconomics workshop, which featured 10 papers by international and Australian academics and central bankers. Another macroeconomic workshop will be held in December 2014.

In 2013/14, the Reserve Bank hosted visits from a number of central bankers from the Bank of Canada, the Reserve Bank of New Zealand and Sveriges Riksbank, as well as academics from a range of institutions, including the Center for Monetary and Financial Studies in Spain, Monash University and the University of Tasmania. These visitors presented seminars, taught short courses and participated in research activities at the Bank.

Online communication

The Reserve Bank publishes information in both electronic and hardcopy formats, though most information is now accessed online. The website is heavily visited, with over 62 million page views and downloads during 2013/14, and large spikes in visitation at the time of release of market-related information. The number of followers on Twitter has grown to 20 000, while the number of subscribers to the website's conventional email alert service continued to fall (to around 11 000 at the end of June 2014). Visitors to the website also made greater use of the RSS feeds, which allowed them to receive alerts about updates to selected data, media releases, speeches, research papers and other publications.

Efforts to improve public understanding of the Reserve Bank's role included the publication of videos on the Bank's main website. One explains the Bank's role and functions, while another explains the framework for monetary policy. A video about the Bank's business liaison program was also published. In June 2014, a new web portal was launched to assist banknote equipment manufacturers prepare for the Next Generation Banknote series. The banknotes microsite, which had been separated from the Bank's main website and launched in August 2012 as www.banknotes.rba.gov.au, was further developed as an education resource during 2013/14.