

HOT TOPICS – ABE DINNER AND SENATE ESTIMATES 9 & 10 NOVEMBER 2022

New questions (black); existing questions (grey)

Monetary Policy

- What data will you be watching over the summer to determine if the increases in the cash rate are having an impact?
- Does the runoff of fixed rate mortgages make it harder to know when tighter monetary policy will have an impact? Many mortgages are fixed below 2% until 2024. Do you think the full force of higher interest rates won't be felt for another year when these fixed mortgages run off? What sort of modelling have you done on this?
- The RBNZ has raised its policy rate to 3.5% and they have inflation levels similar to Australia. Our cash rate is well behind. Can you explain why we are taking a less aggressive approach?
- Are we simply 12 months behind the US? Is our circumstance really different to the US?
- The Governor has acknowledged that monetary policy operates with a lag. Are households curbing their consumption? Are businesses responding? If not, how long is the lag?
- The Governor noted that the Bank would return to larger increases if necessary. Market economists expect the threshold for that is very high and don't expect another 50bp rise this cycle. What would it take for you to revert to 50bp rises?
- What does it mean when you say you want to keep the economy on an even keel? Will you sacrifice inflation staying higher for longer to keep unemployment low and avoid a recession? What are the trade-offs that you're willing to make?
- What do you mean by a narrow path? And under what scenarios might Australia's economy not achieve a soft landing, given the path is already quite a narrow one? Are you concerned about a deep recession in the US? Do you have particular concerns about China?
- Have we reached neutral yet? The Governor has previously said he thinks it's at least 2½ and the cash rate is currently 2.6 per cent. A graph in Luci Ellis' recent speech implied it is closer to 3. How will you know, especially given we haven't been in a shock-free environment for quite a while?
- What's your view on the ability of Australian mortgage owners to cope with the rapid increase of interest rates given they've already gone past the interest rate buffer they were assessed on when receiving the loan?
- Is tighter monetary policy impacting rents? How do you expect people on very low incomes to cope?
- Many people say they were caught out by the Bank's unexpected decision to start increasing interest rates before 2024. Do they have any grounds to feel upset and angry at the Bank? Is compensation an option for those who relied on this guidance?
- How does raising the cash rate help with addressing inflation, which is already hurting households?

Government

- Do you view the recently announced Federal Budget to be supportive of tighter monetary policy?

- If the Government intervenes in the energy market, what impact will that likely have on inflation? What was the impact on inflation in Western Australia of the reservation policy and the public ownership of electricity assets?
- Do you use the same estimates as Treasury for energy prices over the medium term? Do you model the impact, and what is the impact likely to be?
- The Australian Government is trying to pass legislation that would allow unions to pursue pattern bargaining and drive wage increases not backed by productivity gains across industries. Are you concerned about the legislation being passed in the current high inflation climate? Would this stoke wages growth and increase inflation even further?

Inflation/Economy

- You recently revised up your inflation forecasts – why? How confident are you that inflation will ease off next year given other forecasting mistakes the Bank has made?
- What happens if inflation continues to climb in 2023? Under what scenarios would this continue to happen and how will the RBA respond?
- You said in the SMP that the current high inflation is expected to be relatively short lived. If that's the case, why are you raising rates so aggressively? Can't you just let inflation sit above target for a little while until it resolves itself?
- Are you concerned with the impact higher rates will have on employment? Are people going to lose jobs?
- Do you think the Australian economy faces the prospect of stagflation in the next few years?
- Do you think there are institutional or structural factors in Australia that are keeping wages at a lower level than elsewhere and, therefore, it sort of makes your task a bit easier than other central banks, or is it another lag and what we've seen in the United States and elsewhere, a risk of occurring here?
- You released an animation about the costs of high inflation the Friday before the last meeting. Was this a way to indicate what you planned to do without breaching the blackout period restrictions?
 - Answer: the animation is a general explanation of the costs of high inflation. The timing of its release was to coincide with the CPI data release when people might have questions about the relationship between inflation and the cash rate. It is not a comment on the current economic conditions or monetary policy considerations.
- Are we heading for a wave of corporate defaults as a large portion of zombie firms kept alive by cheap money fail?
- What is your liaison program telling you about wage growth? Has anything changed?
- What evidence does the Board have that businesses are lifting, or intending to lift, wages? Are you relying on this information from a small number of firms in the liaison program?
- What impact will the recent increase in public sector wages have on inflation and the economy?
- You said missing the inflation forecast so badly has led to soul searching at the RBA. What steps have you taken to make sure it doesn't happen again?
- Has low-inflation psychology already shifted?

Financial Markets / BPP:

- The swap market is a core market for hedging interest rate risk and is usually very liquid, but over the past few weeks it's been malfunctioning – are you worried, and will you do something?
- The Bank is currently in a position of negative equity. Is the Bank still exposed to the risk of more losses if yields move even higher? Do you have forecasts on these expected losses?
- The Bank has experienced a \$21 billion loss. Based on accounting forecasts how big will this loss be at the end of the 22/23 FY if interest rates align with market expectations?
- How long will it take for the Bank to go into positive equity?
- Why won't the Bank sell the bonds now to offset some of the losses?
- The RBA has bought some bonds quite far out along the curve. Was this deemed necessary or should you have stopped buying in the secondary market earlier than you did?
- There's about \$200 billion of bank funding rolling off in the next 18 months. What modelling or forecasting has the RBA done on the impact of that on bank funding costs?
- Was the TFF effectively a subsidy for the Banks? Is it appropriate to still be subsidising the banks now while making mortgages more costly and tightening the screws on households? And what impacts will this cheap money have on the financial system over the longer term?
- Did the TFF directly contribute to the inflation levels we are experiencing now?
- When is the Bank publishing its review of its forward guidance? Is it going to publish a review of the TFF?
- What impact does the depreciation of the AUD against the USD have on Australian consumer prices and what do you expect to happen to the AUD in 2023 as the US continues to tighten? What impact will this have on exports?
- Is this the biggest financial loss the Reserve Bank has ever experienced? And what about in Australian corporate history? When did you make the Government aware of this loss?
- Can the Bank seek an indemnity from the Government on its debt? Did you consider an indemnity on the bond purchases?
- Has the Bank previously recorded a loss and/or failed to pay a dividend to the Government?
- Are you still exposed to the risk of more losses if yields move even higher?
- One of the scenarios in the BPP review paper projects the ES rate will be 4½ per cent by June 2023. This would require a number of interest rate rises between now and June next year. Does this align with the RBA's forecasts for this tightening cycle? Under what scenario would we get to 4½ per cent?
- The BPP was extended several times. At any stage did the Board consider the financial risks the BPP could have on the Bank and its capital position if interest rates moved earlier? Can you discuss those deliberations?
- To what extent was the decision to extend the BPP based on your forecasts that interest rates wouldn't rise before 2024?

Housing:

- The Governor recently said he anticipates property prices to retreat by as much as 10 per cent and Jonathan Kearns said a 200 basis point increase could cause a 15 per cent decline in housing prices, but that the system was still financial stable. How far do house prices have to fall before they impact on the stability of the financial system?
- Are you concerned that any increase in interest rates introduced by the banks will have an impact on consumer consumption?
- What is the solution to the overvaluation of housing in Australia? You say it's a problem best solved by things other than the cash rate, but what should we actually be doing? And what will be the fallout when prices do come down?

Payments

- What is the cost of producing a retail CBDC?
- Have you considered how the Bank will phase out cash if it releases a retail CBDC?
- What is the timeframe for the Reserve Bank issuing a retail CBDC?
- In the past, you have been sceptical about releasing a retail CBDC because Australia has a well-functioning electronic system. What has changed?
- What are the regulatory gaps for the introduction of a retail CBDC or a wholesale CBDC?
- What is the potential for a CBDC to destabilise the financial system? Would individuals be able to withdraw money from commercial banks and instead target it to the central bank?
- Certain Blockchain platforms such as Ethereum have a considerable environmental footprint. In the event the RBA develops a retail CBDC, how will it reduce the impact of its digital currency on the environment?
- What do you see is the future of payments in relation to cross border transfers? Or what sort of issues do we need to actually confront and overcome in making this work?
- Does the RBA plan on selling its shares in NPPA upon completion of the merger of eftpos, BPAY and NPPA? How much are these worth?
- There seems to be a view that the PSB is scrambling to stay ahead of payments innovation in general, particularly when it has lack of access to payments data from the commercial banks and big tech companies such as Apple Pay etc. What is your view on this?
- It sounds like there is disagreement between the RBA and other regulators about whose job it will be to assess the risks of Apple and Google in the payments system. Does this mean they are able to slip through the net and operate without appropriate supervision? How will this be resolved? Do you have a model in mind?

Technology Outage

- What was the root cause of the technology outage? Was it human error?

- Why would you plan a software update to coincide with when so many government payments and payrolls are processed? Was this poor planning on the RBA's part?
- Does this indicate a greater vulnerability and lack of contingency for our payments system?
- What are you doing to ensure it doesn't happen again?
- Do you have sufficient back up for the payments infrastructure if something as simple as a failed software update can bring the whole thing down?

RBA Review

- Is the RBA involved in the RBA Review panel's discussion at a CEDA event later this month? Are there any updates being given by the panel to RBA staff directly separate from what is being said publicly?
- What has been the internal response to the review from staff at the Bank? I understand staff were invited to complete a survey. What has the response rate been and what types of comments are they making?
- The Governor has said he supports flexible inflation targeting and a board consisting of business people? Do you agree with the Governor?
- At what stage is the RBA Review at now and when do you expect to receive a preliminary report? How long is the review expected to take?
- You set up panels of private-sector economist and academics. Was this in response to the RBA Review? How were participants chosen?
- What kind of outcomes is the RBA anticipating from the review? i.e. a change in the inflation target or changes to the structure of the Board?

Others

- The Governor said you are consulting with the government on whether to put King Charles on the \$5 banknote. There are calls for you to instead use more popular people like Kylie Minogue or Steve Irwin, Aboriginal leaders like Uncle Jack Charles, or other Australian icons like Uluru and Vegemite. Who or what are you considering and will it be open to public discussion?
- How will any change to the banknote impact the Bank's operations and circulation of \$5 notes?
- What were the latest findings from the Bank's audit of its gold holdings at the BoE? Was all the gold there? How much does the Bank hold at the BoE versus as in Australia?
- There have been calls for the Governor to resign by several public figures. What do you make of this? If the Governor does resign after the review, will you step in as Governor?
- What is the RBA doing towards making its own climate disclosures? Why isn't the RBA doing as much as other central banks on climate change?
- What's the Bank's views on the government's climate change policies?