

# STRENGTHENING THE RESERVE BANK OF AUSTRALIA

## BACKGROUND NOTES

- The Treasurer committed that a Coalition Government would ensure that the Reserve Bank is properly resourced to conduct its monetary policy and foreign exchange operations and meet whatever challenges may be around the corner in a volatile world.
- In February 2013 the Treasurer told the CEDA Economic & Political Overview that:
  - “If I become Treasurer I will as a matter of urgency meet with the Reserve Bank to discuss its Reserve Fund requirements. It is absolutely essential to the public interest that the Reserve Bank has all the tools it needs to deal with the challenges of a volatile global economy. This includes appropriate reserves at all times.”  
*(Source: Joe Hockey, Speech, CEDA Economic & Political Overview, 28 February 2013)*
- The Reserve Bank’s capital buffer – known as its reserve fund – has been depleted in recent years.
- This has come about because of losses from the sustained appreciation of the Australian dollar and the determination of the previous Government to take extraordinary dividends from the Reserve Bank.

### RBA Dividends Paid to the Government, and the Reserve Bank Reserve Fund

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Dividends Paid \$ mn	1,300	1,338	1,383	1,477	1,085	1,403	5,227	750	-	500
RBRF Balance \$mn	6285	6285	6285	6286	6286	6863	6183	1317	1913	2502
RBRF % Assets At Risk	14%	13%	12.5%	12%	11%	10%	9.6%	2.1%	3.1%	3.8%

- In September 2011, the then Treasurer, Wayne Swan, gave his in-principle agreement to a request from the Reserve Bank Board that all future profits be paid into its reserve fund until it reached its targeted level, before any further dividends were paid to the Commonwealth.
- In August 2012, Wayne Swan determined, against the advice of the Reserve Bank, that \$500 million of the Bank’s total earnings in 2011-12 (of \$1.1 billion) be credited to the Commonwealth as a dividend in 2012-13.

- Following discussions with the Reserve Bank Governor, we have determined that a one-off cash transfer from the Commonwealth to the Reserve Bank is a prudent course of action.

This transfer will bring the balance of the Bank's main capital reserve (the Reserve Bank Reserve Fund) equal to 15 per cent of its "assets at risk" – a level deemed by the Reserve Bank Board as sufficient to place the Bank in an extremely strong financial position.

- Today's decision ensures that the RBA is able to maintain a strong balance sheet over the medium term in what is likely to continue to be a volatile global economy.
- The Government's decision to grant this transfer does not mean that the solvency of the Reserve Bank, or its ability to perform its vital functions, is in any way under threat. Rather, it prudently increases the Reserve Bank Reserve Fund to the level currently assessed to be desirable by the Reserve Bank Board, thereby enhancing the independence of the Bank in conducting its operations.
- The transfer will detract from the underlying cash balance in 2013-14 by \$8.8bn.

