

TREASURY EXECUTIVE MINUTE

Minute No.

13 September 2012

Deputy Prime Minister and Treasurer

Section 22

Recommendation/Issue:

- That you note this briefing.

Noted

Signature:

15/9/2012

KEY POINTS

- Section 22
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- Consistent with our previous advice (EM: 2012/2356), the RBA reports distributable earnings in 2011-12 of around \$1.1 billion. After accounting for the \$596 million transfer to the Reserve Bank Reserve Fund as per your instruction, the RBA will pay \$500 million to the Government early in 2012-13.
 - In commenting on this outcome, the Governor's foreword (p.1) in the Annual Report notes that "... it is the Board's view that the capital buffers run down to absorb the losses of the preceding two years need to be replenished. To that end, the Deputy Prime Minister and Treasurer determined that a substantial proportion of the earnings in 2011/12 should be transferred to the Reserve Bank Reserve Fund."
 - : This contrasts the foreword in the 2011 Annual Report (p.1), in which the Governor noted that the "prudent course will be to apply future earnings to rebuilding the RBRF before the resumption of dividend payments. The Government's Budget projections have been made on this assumption."
 - The accounting profit is largely driven by underlying earnings of \$710 million which, in nominal terms, are at their lowest level since before the float of the Australian dollar, owing to extremely low global interest rates.
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Manager
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TALKING POINTS

RBA dividend

- Consistent with long-standard practice, the Government believes that it is appropriate that taxpayers receive a dividend from the Reserve Bank, where circumstances permit.
- However, (as the Governor noted) it is prudent that the Reserve Bank work towards replenishing the Reserve Bank Reserve Fund, and for this reason a substantial proportion of the RBA's 2011-12 earnings will be transferred to the fund.
 - The purpose of this transfer is to begin replenishing the Bank's capital, to a level deemed desirable by the Reserve Bank Board, following its recent accounting losses.
 - The amount agreed upon strikes an appropriate balance between the tax payer receiving an appropriate return from the Reserve Bank's earnings, and ensuring the Bank can replenish its reserves to an appropriate level.

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