

Contact Officer: Shaun Collard  
Contact Phone: (03) 9290 1878  
File Ref: D17/154432

6 November 2017

Luci Ellis  
Assistant Governor – Economic  
Reserve Bank of Australia  
GPO Box 3947  
SYDNEY NSW 2001

By email: [ellisl@rba.gov.au](mailto:ellisl@rba.gov.au)

Dear Dr Ellis

### **Regulatory treatment of inflation – inflation expectations**

Thank you for your correspondence dated 5 July 2017 providing your comments on our review of different inflation expectation estimation methods. We have now completed the next stage of the review and recently published our Preliminary Position Paper.

Our preliminary position is to continue using our current approach which is the midpoint of the Reserve Bank of Australia (RBA) CPI forecasts (where available) and midpoint of the RBA inflation target thereafter.

Late in our review process, some stakeholders proposed we use a glide path approach to recognise a possible slower reversion to the mid-point of the RBA's target band following a disturbance. This was not discussed in either the *ACCC Working Paper #11, Consideration of best estimates of expected inflation: comparing and ranking approaches* or our Discussion Paper we previously sent you.

Our Preliminary Position Paper discusses the evidence presented to us by stakeholders on the glide path. Our view, based on the evidence is that the reversion to the mid-point is relatively rapid in Australia. That is, within one to two years. We also consider that the mid-point of the target band is the best estimate of expected inflation beyond two years.

Our intention is to finalise this review by mid-December and would greatly appreciate any further comments you may wish to make, particularly on the issues of the speed of reversion. Any response the RBA provides is likely to be referenced in AER regulatory decisions and made public.

If you have any queries, please contact Shaun Collard at [Shaun.Collard@aer.gov.au](mailto:Shaun.Collard@ aer.gov.au) on (03) 9290 1878.

Yours sincerely



Warwick Anderson  
General Manager  
Network Finance and Reporting

Attached:

1. AER Preliminary Position – Regulatory Treatment of Inflation

---

**From:** ELLIS, Luci  
**Sent:** Thursday, 7 December 2017 5:44 PM  
**To:** Fernando, Pradeep  
**Cc:** Collard, Shaun; Anderson, Warwick; RANKIN, Ewan; CASSIDY, Natasha  
**Subject:** RE: Letter from AER, GM Networks [SEC=UNCLASSIFIED]

Dear Pradeep

Thank you for this letter. The RBA has no further comment to make.

Kind regards

Luci

**Luci Ellis** | Assistant Governor (Economic)  
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000

---

**From:** Fernando, Pradeep  
**Sent:** Monday, 6 November 2017 9:15 AM  
**To:** ELLIS, Luci  
**Cc:** Collard, Shaun; Anderson, Warwick  
**Subject:** Letter from AER, GM Networks [SEC=UNCLASSIFIED]

Dear Dr Ellis

Please find attached a letter from Warwick Anderson, GM Network Finance and Reporting.

Regards

Pradeep

**Pradeep Fernando**  
Director | Network Finance and Reporting Branch  
**Australian Energy Regulator**  
23 Marcus Clarke St Canberra 2601 [www.aer.gov.au](http://www.aer.gov.au)

---

**IMPORTANT:** This email from the Australian Energy Regulator (AER), and any attachments to it, may contain information that is confidential and may also be the subject of legal, professional or other privilege. If you are not the intended recipient, you must not review, copy, disseminate, disclose to others or take action in reliance on, any material contained within this email. If you have received this email in error, please let the AER know by reply email to the sender informing them of the mistake and delete all copies from your computer system. For the purposes of the Spam Act 2003, this email is authorised by the AER

[www.aer.gov.au](http://www.aer.gov.au)

---

This e-mail message (along with any attachments) is intended only for the named addressee and could contain information that is confidential or privileged. If you are not the intended recipient you are notified that any dissemination, copying or use of any of the information is prohibited. Please notify us immediately by return e-mail if you are not the intended recipient and delete all copies of the original message and attachments.

This footnote also confirms that this message has been checked for computer viruses.