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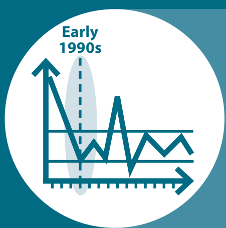
The Inflation Target

The Reserve Bank has an inflation target to achieve the goals of price stability, full employment, and prosperity and welfare of the Australian people.

2–3%

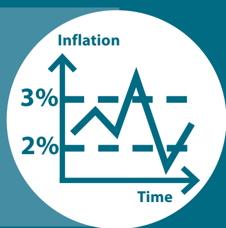
Australia's inflation target is to keep consumer price inflation between 2–3%, on average, over time. The inflation target is flexible and allows for temporary fluctuations in inflation above or below the target.

Low and stable inflation reduces uncertainty in the economy, helps people make saving and investment decisions, and is the basis for strong and sustainable economic growth.



The Reserve Bank adopted the inflation target in the early 1990s. The Bank and the government agree on the importance of the inflation target and formally set out this agreement in the *Statement on the Conduct of Monetary Policy*.

The Reserve Bank uses the cash rate to stimulate or dampen economic activity such that inflation is in the target range over the medium term.



If inflation is likely to be too high for too long, the Reserve Bank Board would typically increase the cash rate to bring inflation back to the target. If inflation is likely to remain too low, the Board would typically lower the cash rate.