

Functions and Objectives

The Reserve Bank of Australia is established by statute as Australia's central bank. Under its enabling legislation, the *Reserve Bank Act 1959*, the Bank's responsibilities include determining and implementing monetary policy, promoting financial stability, issuing banknotes, providing banking services to government, managing Australia's foreign reserves, setting payments system policy and operating the high-value payments system.

The Reserve Bank's responsibility for monetary policy is set out in section 10(2) of the Reserve Bank Act, which states:

It is the duty of the Reserve Bank Board, within the limits of its powers, to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia and that the powers of the Bank ... are exercised in such a manner as, in the opinion of the Reserve Bank Board, will best contribute to:

- (a) the stability of the currency of Australia;
- (b) the maintenance of full employment in Australia; and
- (c) the economic prosperity and welfare of the people of Australia.

Policies in pursuit of these objectives have found practical expression in a flexible, medium-term inflation target, which has formed the basis of Australia's monetary policy framework since the early 1990s. The policy objective is to keep consumer price inflation between 2 and 3 per cent, on average, over the business cycle. Monetary policy aims to achieve this over the medium term as a crucial precondition for the promotion of sustainable economic growth and employment. The sixth *Statement on the Conduct of Monetary Policy*, signed by the Treasurer and the Governor in October 2013, following the election of the Coalition Government, records the common understanding of the government and the Reserve Bank on key aspects of the monetary policy framework.

The Reserve Bank conducts operations in financial markets, operates Australia's main high-value payments system and undertakes analysis of markets and institutional developments. It also participates in discussions with government and other domestic regulators about regulatory design initiatives, largely through the Council of Financial Regulators (CFR). The CFR is chaired by the Governor and brings together the Bank, the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission and the Australian Treasury so as to contribute to the efficiency and effectiveness of regulation and the stability of the financial system.



Under the *Corporations Act 2001*, the Reserve Bank, overseen by the Payments System Board, has responsibility for determining financial stability standards for licensed clearing and settlement facilities and assessing facilities' compliance with those standards. The Corporations Act also establishes a regime for the regulation of over-the-counter derivatives markets, which includes an advisory role for the Bank on a range of matters.

These diverse roles assist the Reserve Bank in promoting the overall stability of the financial system. The Bank does not have responsibility for the prudential supervision of financial institutions, but in the event of a financial system disturbance, the Bank and relevant agencies would work to mitigate the risk of systemic consequences.

The Reserve Bank also:

- designs, produces and issues Australia's banknotes, with the objective of ensuring public confidence in banknotes as an effective payment mechanism and a secure store of wealth
- provides specialised banking services to government and foreign official institutions, including payments and collections as well as general account maintenance and reporting
- holds and manages Australia's foreign currency reserves, and operates in the foreign exchange market to meet the foreign exchange needs of its clients and to assist with domestic liquidity management.

The Reserve Bank has responsibility for ensuring the stability, efficiency and competitiveness of the payments system through the Payments System Board, which was established in 1998. The Bank's powers in relation to the payments system are set out in a number of other statutes, including the *Payment Systems (Regulation) Act 1998* and the Corporations Act.