Annual Performance Statement

I, as the accountable authority of the Reserve Bank of Australia, present the annual performance statement of the Reserve Bank for the 2021/22 reporting period, prepared under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In my opinion, this annual performance statement accurately presents the performance of the Reserve Bank in the reporting period and complies with subsection 39(2) of the PGPA Act.

Philip Lowe
Governor, Reserve Bank of Australia
7 September 2022

Introduction

This performance statement outlines the key objectives of the Reserve Bank as set out in the 2021/22 Corporate Plan and provides an assessment of the Bank's performance in achieving those objectives. Where necessary, additional context is provided, including an analysis of significant factors that have contributed to the outcomes.

Price stability and full employment

Purpose

Under the *Reserve Bank Act 1959*, it is the duty of the Reserve Bank Board to ensure that the monetary and banking policy of the Reserve Bank is directed to the greatest advantage of the people of Australia and that the powers of the Bank are exercised in a way that, in the Board's opinion, will best contribute to:

a. the stability of the currency of Australia

b. the maintenance of full employment in Australia

c. the economic prosperity and welfare of the people of Australia.

In support of these objectives, the *Statement on the Conduct of Monetary Policy* confirms the Bank's continuing commitment to achieving consumer price inflation between 2 and 3 per cent, on average, over time. Achieving the inflation target preserves the value of money and facilitates strong and sustainable growth in the economy over the longer term. This assists businesses and households in making sound investment decisions, underpins the creation of jobs and protects the savings of Australians.

The Board's monetary policy decisions are implemented through the Bank's operations in domestic financial markets. Operations in financial markets are also undertaken to ensure the stable functioning of the financial system, including by ensuring that there is sufficient liquidity in the domestic money market every day.

The Bank's foreign reserves are held to give the Bank the capacity to intervene in the foreign exchange market, consistent with the objectives of monetary policy. In particular, the foreign reserves enable the Bank to address any apparent dysfunction in the foreign exchange market and/or a significant misalignment in the exchange rate. Such interventions occur rarely.

Results and Analysis

Performance Summary: Price Stability and Full Employment

Key Activities	Performance measures and targets	Results
Conduct monetary policy in a way that will best contribute to: • stability of the currency • maintenance of full employment • economic prosperity and welfare of the people of Australia	Flexible medium-term inflation target to achieve consumer price inflation of between 2 and 3 per cent, on average, over time	Consumer price inflation was 6.1 per cent over the year to the June quarter 2022, considerably above the target band and much higher than had been expected. Inflation is forecast to peak towards the end of 2022 and then decline to be back around the top of the 2 to 3 per cent target range by the end of 2024
	Foster sustainable growth in the economy	The Australian economy is resilient and has grown strongly over the past year, to be around 4½ per cent above its pre-pandemic level. The unemployment rate was 3.5 per cent in mid 2022, which is the lowest rate in nearly 50 years
Achieve cash rate consistent with the Reserve Bank Board's objectives	Keep the cash rate within the interest rate corridor around the cash rate target each business day. The very high Exchange Settlement account balances mean the cash rate is likely to range between the target and the remuneration rate on Exchange Settlement balances	The cash rate was within the interest rate corridor around the cash rate target each business day
Achieve April 2024 Australian Government bond yield target	April 2024 Australian Government bond yield consistent with the target at the close of each business day	The April 2024 Australian Government bond yield was consistent with the target at the close of each business day until late October 2021. It then rose sharply alongside a broader increase in yields globally, reflecting rising inflation expectations and expectations that central banks would begin to reduce stimulus earlier than previously expected. The yield target was discontinued on 2 November 2021 as it had become less effective and was inconsistent with the economic outlook. See Review of the Yield Target
Provide low-cost term funding to the banking system	Manage the Reserve Bank's Term Funding Facility (TFF), which, while closed to new drawdowns, will provide low-cost funding to June 2024	The Bank managed the TFF, undertaking collateral management and processing early repayments as required

Key Activities	Performance measures and targets	Results
Provide adequate liquidity to the financial system	Use open market operations to ensure financial institutions have access to sufficient liquidity	Financial institutions' use of Open Market Operations (OMO) has remained limited given the high level of liquidity in the banking system. The Bank made operational changes to its OMO (reducing the frequency from daily to weekly in October 2021 and adjusting tenor and pricing in March 2022) to ensure that OMO continued to provide liquidity to financial institutions consistent with the Bank's policy settings
Support the smooth functioning of government bond markets	Purchase government securities if required to support the smooth functioning of government bond markets as reflected in various measures of liquidity, including bid-offer spreads	The purchase of government securities, beyond those scheduled under the bond purchase program and those made in support of the yield target, was not required to support the smooth functioning of government bond markets in 2021/22. The Bank lent government bonds back into the market for short periods, adjusting pricing as required, to support the smooth functioning of government bond markets
Provide support for lower risk-free yields across the yield curve, thereby lowering funding costs for all borrowers through a government bond purchase program	Execute a program of government bond purchases in the secondary market as directed by the Reserve Bank Board	The Bank purchased government bonds in the secondary market as directed by the Board under the bond purchase program. The bond purchase program worked to lower longer-term government bond yields, complementing the other policy measures to lower the whole structure of interest rates in Australia, lowering borrowing costs and supporting confidence in the economy. In February 2022, the Board decided to cease further purchases under the bond purchase program given actual progress towards the Bank's goals and the likelihood of further progress.
Manage reserves to portfolio benchmarks	Reserves portfolio managed within permitted deviations around benchmarks for interest rate and currency risk	Deviations from the benchmarks were in line with pre-defined tolerances
Intervene in foreign exchange market as appropriate	Publish data and explanations of any intervention	No foreign exchange market intervention was conducted

Over 2021/22, the global and domestic economy was significantly more resilient than expected by the Reserve Bank and most other central banks. Inflation and employment have risen much more quickly than expected as downside risks to growth did not materialise.

At the time of the July 2021 Board meeting:

- The Australian economy was transitioning from recovery to expansion. GDP had increased to be almost 1 per cent above its pre-pandemic level. The unemployment rate had declined further and faster than had earlier been expected and was 5.1 per cent, according to the latest available data (which was for May 2021). The effect of virus outbreaks and the lockdowns had created uncertainty about the outlook, but the experience had been that the economy bounced back quickly once outbreaks were contained and restrictions eased.
- Inflation and wage outcomes remained subdued, despite the strong recovery. Headline and underlying inflation were 1.1 per cent in the year to March 2021 (the latest available data) and the

Wage Price Index (WPI) had increased by 1½ per cent over the year. A pick-up in inflation and wages growth was anticipated, but it was likely to be only gradual and modest.

- The cash rate target was 10 basis points and the interest rate on Exchange Settlement balances was zero per cent. There was a yield target of 10 basis points for the April 2024 Australian Government bond and the second $100 billion tranche of purchases under the bond purchase program was scheduled to be completed in September 2021. At the July meeting, a decision was made to extend the bond purchase program past September 2021, but at a reduced rate of $4 billon a week. The Board communicated that it would not increase the cash rate until actual inflation is sustainably within the target range. The Bank's central scenario for the economy was that this condition will not be met before 2024 and that meeting it would require the labour market to be tight enough to generate materially high wages growth.

By early-August 2022:

- The latest available data indicated that the level of GDP had increased to be around 4½ per cent higher than prior to the COVID-19 pandemic. Conditions in the labour market were the tightest they had been in decades. The unemployment rate had declined to 3.5 per cent in mid 2022, its lowest rate in nearly 50 years.
- Consumer price inflation increased significantly over 2021/22. While inflation is lower than in most other advanced economies, it was much higher than earlier expected. Headline inflation was 6.1 per cent over the year to the June quarter 2022. Underlying inflation was 4.9 per cent.
- The cash rate had been increased to 1.85 per cent and the interest rates on Exchange Settlement balances had increased to 1.75 per cent, with increases at each Board meeting from May 2022 to August 2022. The yield target had been discontinued at the November 2021 meeting. The Board had decided to cease further purchases under the bond purchase program at its February 2022 meeting.

Inflation has increased strongly in many advanced economies over the past year, to be at the highest levels in decades. During the pandemic, global supply chains were interrupted, delivery times increased and firms' costs of production rose. All have contributed to higher prices for consumers. Furthermore, Russia's invasion of Ukraine caused major disruptions to the global markets for energy and food. As a result, oil prices have increased substantially and global food prices, including the prices of wheat and vegetable oils, have increased sharply. These events have occurred alongside strong growth in demand globally, supported by the stimulatory fiscal and monetary policy settings put in place to respond to the pandemic.

Headline inflation in Australia has risen to its highest level in many years, although it remains below that of most other advanced economies. In addition to powerful global influences on inflation, domestic factors have also contributed to the upward pressure on prices. The capacity of the economy to meet the demand for goods and services has been tested by disruptions to global supply, domestic disruptions (such as the east coast floods), a tight labour market and strong growth in domestic spending. In the labour market, measures of spare capacity have declined to their lowest levels in several decades. Given the tight labour market and increase in job mobility, more firms have had to pay higher wages to attract and retain staff. Wages growth has picked up and a period of faster growth in overall labour costs for the year ahead is forecast.

The increase in domestic and global inflation has been much stronger than was expected by most forecasters even six months ago. This is partly because of unforeseen events such as Russia's invasion of

Ukraine and the subsequent increase in global energy and food prices. But the combination of strong growth in demand globally, supported by stimulatory fiscal and monetary policy, and constrained supply chains due to the effects of the pandemic have had a much larger impact on inflation than had been expected. Some of the pandemic-related supply-side problems in the global economy are gradually being resolved. Higher interest rates will also help to create a more sustainable balance between the demand for goods and services and the ability of economies to meet that demand.

The Board is committed to doing what is necessary to ensure that inflation returns to the 2 to 3 per cent target range over time. It is seeking to do this in way that maintains the economy on an even keel, but recognises that the path ahead is a narrow one and clouded in uncertainty.

The recent strength in inflation follows a period of heightened uncertainty about the global economic outlook. Following the onset of the COVID-19 pandemic, measures implemented to contain the spread of the virus resulted in very large economic contractions in most economies over the first half of 2020. The sharp contraction in activity came at a time when inflation pressures were already subdued. The outlook for the global economy deteriorated significantly and involved a high degree of uncertainty. Even as the recovery in global and domestic activity got under way in the second half of 2020 and in to 2021, the outlook for activity and inflation remained highly uncertain.

In Australia, the high degree of uncertainty about the outlook extended well in to 2021. Outbreaks of the Delta variant of COVID-19 led to long lockdowns in parts of Australia affecting a large share of economic activity. The setback to the economy from this outbreak was significant; GDP contracted by around 2 per cent in the September quarter 2021 – one of the largest quarterly declines on record. The labour market was also materially affected by the lockdowns in response to the Delta variant. The Australian economy staged a strong recovery in late 2021 and economic activity remained quite resilient to the disruptions caused by the outbreak of the Omicron variant and the east coast floods in 2022.

Underlying inflation was 1½ per cent over the year to June 2021, just prior to the Delta outbreak. Inflation picked up in the second half of 2021, but large price movements in a small number of components accounted for a significant share of the increase in headline inflation. At the time it was difficult to disentangle the contribution to inflation from temporary disruptions from the Delta lockdowns from more persistent trends. Wages growth had remained subdued through the second half of 2021; growth in the Wage Price Index was 2.3 per cent over 2021, well below the rate consistent with inflation being sustainably in the Bank's target range.

Prior to the COVID-19 pandemic, consumer price inflation had been below the Bank's target for a number of years. Low inflation had also become the norm internationally during this period, with many advanced economies recording average inflation outcomes below 2 per cent. Several factors contributed to low inflation in Australia and internationally. Many countries experienced a prolonged period of spare capacity in the labour market. In Australia, the unemployment rate was relatively low by historical standards, but the unemployment rate that would typically generate meaningful upward pressure on wages growth was likely to have been lower than in the past. Additionally, globalisation and advances in technology affected the level of prices in many countries for much of the past decade. This occurred through increased competition for a wide range of goods and services and reductions in the cost of production.

The package of monetary policy measures the Bank put in place in response to the pandemic has supported the economy to recover from the pandemic and transition to strong durable growth with low unemployment and a pick-up in wages growth from low levels observed in the years prior to the pandemic. These actions were taken to support a transition to a strong and durable expansion characterised by the Bank's goals of full employment and price stability in the economy, with inflation consistent with the target over time.

The Bank's use of unconventional monetary policy measures allowed the Bank to provide significant monetary policy support to the economy in the wake of the pandemic despite the already low level of the Bank's main policy tool, the cash rate. At the same time, lessons can be drawn from Australia's evolving experience with using these policy measures.

- While the time-based forward guidance implied in the yield target helped to ease financial conditions at the height of the pandemic, this feature meant the yield target was not well-suited to respond to changing conditions and eventually became ineffective as the economic recovery progressed.
- The Bank discontinued the yield target when it was assessed to be inconsistent with the Bank's policy aims. In the event, the exit was disorderly and associated with bond market volatility and some dislocation in the market, as market participants interpreted the Bank's actions in real time, ahead of communication from the Bank following the subsequent Board meeting. Following this experience, the Board decided to strengthen the way it considers the full range of scenarios when making policy decisions, taking into account the flexibility of policy to respond to changing circumstances and the associated operational and communication challenges.
- Compared with the yield target, the bond purchase program provided more flexibility to respond to evolving economic circumstances. The fairly short-time frames of each of the various stages of the bond purchase program to which the Board committed facilitated a timely and relatively smooth end to purchases under the program. However, the program is expected to entail a sizeable financial cost to the Bank, although there are some offsetting financial benefits for the broader public sector balance sheet. In light of this experience, the Board remains of the view that it is appropriate to consider use of a bond purchase program only in extreme circumstances. The Board has also noted the importance of evaluating any potential future use of a bond purchase program against other policy options at the time, taking into account the costs of the bond purchase program under a full range of scenarios. A review of the bond purchase program will be published on the Reserve Bank's website.

The Bank has implemented the policy measures as directed by the Board and remained flexible in the course of achieving its operational targets as set by the Board in the changing environment. This included: adjusting the operational details of the Bank's regular open market operations so that they remain fit for purpose as liquidity conditions, the economic outlook and the Bank's monetary policies evolve; and adjusting the Bank's securities lending activities as required to support the smooth functioning of government bond markets.

The challenge now is to return inflation to the 2–3 per cent inflation target over time.

The stability of the financial system

Purpose

The Reserve Bank has a responsibility for fostering overall financial stability in Australia. Given the serious damage to employment and economic prosperity that can occur in times of financial instability, the Bank has long had an implied mandate to pursue financial stability. The Bank's longstanding responsibility for financial system stability is recorded in the *Statement on the Conduct of Monetary Policy*.

The Bank works with other regulatory bodies to foster financial stability. The Governor chairs the Council of Financial Regulators (CFR), which brings together the Reserve Bank, the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC) and the Australian Treasury. The CFR is a non-statutory body whose role is to promote the stability of the Australian financial system and support effective and efficient regulation by the financial regulatory agencies. The CFR draws on the expertise of other non-member government agencies where appropriate, and meets jointly with the Australian Competition and Consumer Commission (ACCC), AUSTRAC and the Australian Taxation Office at least annually to discuss broader financial sector policy. The Bank's central position in the financial system, and its position as the ultimate provider of liquidity to the system, gives it a key role in financial crisis management, in conjunction with the other members of the CFR.

Results and Analysis

Performance Summary: Financial System Stability

Key activities	Performance measures and targets	Results
Support overall financial stability	A stable financial system that is able to support the economy	The financial system has remained resilient despite the ongoing effects of the pandemic. The Bank's expansionary monetary policy measures supported the economic recovery through further COVID-19 waves by providing low-cost funding throughout the economy. Higher-than-expected inflation and rising interest rates have the potential to pose a risk to the financial system. The Bank's assessment is that household and business balance sheets are well placed to manage the rise in interest rates. CFR agencies continue to monitor potential risks to financial system stability, and stand ready to respond as necessary
	Work with CFR agencies and international bodies to identify and appropriately address evolving systemic risks	The CFR closely monitored the impact of pandemic-related lockdowns and disruptions on the economy and financial institutions. It also continued its ongoing focus on housing-related risks, supporting APRA's decision in October 2021 to increase the interest rate serviceability buffer on residential mortgages. Later in 2021/22, there was a major focus on Russia's invasion of Ukraine and risks arising from increasing interest rates and higher inflation. Other areas of attention included the regulation of crypto-assets and risks associated with climate change and cyber attacks. The CFR issued quarterly statements that outlined its discussions and assessments of these and other areas of focus
	Assess and communicate risks to financial stability, including through the Bank's half-yearly *Financial Stability Review*	The Bank uses a wide set of data and information sources to identify and assess emerging vulnerabilities in the Australian financial system, as well as potential cross-border channels of risk. The Bank communicates its assessments of these and other risks primarily through the half-yearly *Financial Stability Review* but also through *Bulletin* articles and speeches

The Australian financial system has remained resilient throughout the year. With banks at the core of the financial system, their underlying financial health (with high capital levels and strong profitability) and high asset quality (evidenced by low and declining arrears rates) enabled them to continue supporting the economic recovery from the pandemic via ongoing lending to households and businesses. The implementation of G20 financial sector reforms after the global financial crisis (such as Basel III), APRA's robust domestic regulatory and supervisory framework, and input on emerging trends and systemic risks by the Bank and other CFR agencies helped to achieve these outcomes.

Both capital levels and arrears rates improved further during 2021/22, reflecting regulatory requirements (such as 'unquestionably strong' capital ratios), prudent risk management by institutions and the overall healthy position of household and business balance sheets going into the second year of the pandemic. The latter in turn was due to several factors, including the cumulative effects of substantial fiscal payments by governments (which boosted incomes and savings), and other measures such as loan repayment deferrals and a pause on insolvency proceedings. The accommodative policies of the Bank also supported the expansion, with a stimulatory setting of the cash rate target and the provision of low-cost funding for the banking system.

The experience with the COVID-19 pandemic highlighted the benefits of the CFR framework. While each CFR member has its own mandate, the forum allowed the CFR agencies to share insights and draw on each other's expertise in assessing and responding to developments. The CFR provides the Bank, jointly with the other members, an important 'tool' for meeting its financial stability mandate via its communications. The CFR's public statements during the year helped present a consistent cross-agency view on a range of developments affecting the financial system, thereby both informing public debate and enhancing confidence. CFR quarterly statements complemented the assessments issued by the Bank in its semi-annual *Financial Stability Review* – the main way in which the Bank expresses its views on trends and emerging risks in the financial system.

The Bank's analysis of financial stability trends and risks during the year depended heavily on databases and other information available to the Bank. The Bank continued to make use of existing databases, in particular the individual financial institution regulatory data it receives from APRA. While the Bank does not regulate individual banks, insurers or pension funds, the APRA data are central to the Bank's assessment of risks in parts of the financial system. New data providing additional insights were also used, as was the case for a September 2021 *Bulletin* article on the potential impact of climate change on Australian banks.

Highly disaggregated (or 'unit record') databases were also critical for analysing the financial stability risks facing households and businesses given risks emanate from individual borrowers. For these sectors, survey data such as those contained in the Household, Income and Labour Dynamics in Australia (HILDA) and Survey of Income and Housing (SIH) surveys of the Australian Bureau of Statistics (ABS), allowed pockets of vulnerability (such as higher-risk borrowers) to be identified by 'drilling down' into the data. The Bank has also made increasing use of the loan-level data contained in the Securitisation Dataset and the disaggregated business level data available in the Business Longitudinal Analysis Data Environment (BLADE) of the ABS, with both featuring heavily in analysis presented in issues of the *Financial Stability Review*. As interest rates increased in the face of high inflation overseas and also domestically, the Bank used applied scenario analysis to analyse the impact of higher interest rates on indebted households and businesses, and on financial institutions. The results, which were published in the April 2022 *Financial Stability Review*, were a timely contribution to the public discussion about possible effects of interest rate increases. Models in this case, and also its bank stress-testing framework, were important tools used by the

Bank during the year to estimate potential effects of certain events or triggers. Results from the Bank's stress tests were published in the October 2021 *Financial Stability Review*, which indicated that banks' capital levels would remain above minimum requirements even in a severe economic contraction.

The participation by the Bank in global bodies also provided an important source of intelligence and insights, both in terms of established work areas such as ongoing financial vulnerabilities assessment, but also regarding the shock created by Russia's invasion of Ukraine. In terms of the latter, this enabled a more comprehensive analysis of the financial consequences of the war by Australian regulators, including of the effect on Australia's economy and financial system. The Bank places a high priority on these international forums, which also allow Australian perspectives to be provided when these bodies develop global assessments of risks and relevant international policy responses.

A secure, stable and efficient payments system

Purpose

There are several distinct aspects to the Reserve Bank's role in the payments system, including those of policymaker, overseer and supervisor, and owner and operator of key national payments infrastructure.

In relation to the Bank's policymaking role, it is the duty of the Payments System Board to ensure that the Reserve Bank's payments system policy is directed to the greatest advantage of the people of Australia, and to ensure that the powers of the Bank under the *Payment Systems (Regulation) Act 1998* and the *Payment Systems and Netting Act 1998* are exercised in a way that, in the Board's opinion, will best contribute to:

a. controlling risk in the financial system

b. promoting the efficiency of the payments system

c. promoting competition in the market for payment services, consistent with the overall stability of the financial system.

In addition, it is the Payments System Board's duty to ensure that the powers and functions of the Reserve Bank under Part 7.3 of the *Corporations Act 2001* are exercised in a way that, in the Board's opinion, will best contribute to the overall stability of the financial system. These powers and functions relate to the supervision of central counterparties and securities settlement facilities, which are key components of the infrastructure that supports financial markets. The Bank's payments policy area also acts as overseer of Australia's high-value payment system, the Reserve Bank Information and Transfer System (RITS).

The Bank's operational role in the payments system is effected through its ownership and management of RITS (including the Fast Settlement Service (FSS)), which is used by banks and other approved institutions to settle their payment obligations efficiently on a real-time, gross settlement basis. This ensures that there is no build-up of settlement obligations associated with high-value transactions and thereby promotes the stability of Australia's financial system.

Results and Analysis

Performance Summary: A Secure, Stable and Efficient Payments System

Key activities	Performance measures and targets	Results
Support competition and efficiency in the payments system and financial system stability	Monitor the outcomes for consumers and businesses following past reviews of the regulatory framework for card payments. Undertake policy work focusing on the strategic priorities identified by the Payments System Board (including supporting the shift to low-cost, convenient, inclusive and reliable digital payments, and responding to any access, competition or efficiency issues associated with new technologies and participants in the payments system) and any issues of competition, efficiency or risk identified in liaison with stakeholders	In 2021/22, the Bank focused on: • least-cost routing (LCR) functionality, where merchants can choose to route transactions on dual-network debit cards to the lowest-cost processing network • progress on the delivery of real-time payments services for consumers and businesses • policy issues associated with the rise of 'buy now, pay later' services and large technology companies in payments
	Complete work on the comprehensive Review of Retail Payments Regulation, which commenced in late 2019. Monitor compliance with the Bank's card payments regulations	This work is complete. The Bank published a conclusions paper (and associated draft standards) and worked on implementing the conclusions of the Review in the first half of 2022
	Respond to any recommendations on the Bank's regulatory framework for payments stemming from the Treasury Payments System Review	The Bank provided support to the Treasury on implementing the recommendations from the Review. This work has focused on modernising the Bank's regulatory framework under the *Payment Systems (Regulation) Act 1998* and introducing a licencing regime for payment service providers. As part of a future licencing regime, the Bank is developing common payment system access requirements and a new authorisation regime for industry standard-setting bodies, in consultation with the payments industry
	Prepare for and design the latest triennial Consumer Payments Survey (CPS)	Staff have worked on the design of the survey and a tender for the provision of the CPS will be conducted in late 2022
	Undertake research and work with industry on policy issues relating to both legacy and emerging payment methods, including work to support the ongoing provision of cash services, monitoring the wind-down of the cheques system and planning for the eventual closure of the direct entry system, and research on the possible issuance of CBDC and other innovations in payment systems	In 2021/22, this work focused on: • analysing policy issues associated with the emergence of digital wallets and 'buy now, pay later' services • overseeing industry efforts on the future of the cheques and direct entry systems • research on the case for, and implications of, issuing CBDC

Key activities	Performance measures and targets	Results
	Support work being undertaken as part of the G20 roadmap on enhancing cross-border payments	The Bank participated in work on cross-border payments as part of the G20 Roadmap
	Work through the CFR to review the regulatory framework for stablecoin arrangements. Work with the Australian Government and other CFR agencies to implement the changes to the regulatory framework for stored-value facilities stemming from the recommendations in the CFR's 2019 report to the government	The Bank has been assisting Treasury with implementing the Government's reforms to the payments licensing framework, including for stored-value facilities. The Bank has also contributed to CFR work on incorporating stablecoins used for payments into this regulatory framework
	Work with industry to modernise payment messaging standards via participation in the ISO 20022 migration project	This work is ongoing. It is being coordinated by AusPayNet's 20022 Program Management Office and overseen by an Industry Migration Steering Committee. Full migration of the Australian high value payments system is expected by the end of 2024
	Implement the new reporting and disclosure framework for retail operational performance	This work is complete. Data on the reliability of retail payment services provided to households and businesses are being published on the websites of the individual payment service providers. The list of providers and their URLs can be found on the RBA website at: https://www.rba.gov.au/payments-and-infrastructure/resources/reliability-disclosures.html
	Work by the Bank's Innovation Lab and with external partners to research the case for, and implications of, CBDCs	The Bank completed: • a proof-of-concept with industry partners on the use of CBDC to improve the settlement of tokenised syndicated loans (Project Atom) • a proof-of-concept with other central banks and the BIS Innovation Hub on the potential for a common international platform that could be used to settle transactions in CBDCs across different jurisdictions and currencies (Project Dunbar). This work also formed part of the Bank's contribution to supporting the G20 roadmap on enhancing cross-border payments • other research into the merits of issuing CBDC, and the potential forms it could take
Promote the safety and resilience of FMIs	Assess RITS and licensed clearing and settlement (CS) facilities against relevant standards. The frequency, scope and level of detail of a compliance assessment is proportional to the systemic importance of a CS facility to the Australian financial system. Establish recommendations and regulatory priorities as appropriate for each high-value payment system and CS facility based on these assessments	Assessments were published for the ASX clearing and settlement (CS) facilities in September 2021 and for LCH Limited's SwapClear service in December 2021. In these assessments, the Bank judged that the entities had conducted their affairs in a way that causes or promotes overall stability in the Australian financial system, and had made progress against regulatory priorities set by the Bank. The Bank also set out a series of regulatory priorities for each of the facilities for the subsequent year. In June 2022, the Bank published its assessment of RITS against the Principles for Financial Market Infrastructures, concluding that RITS observed all relevant

Key activities	Performance measures and targets	Results
		principles other than the principle on operational risk, which RITS was assessed to be broadly observed
	Undertake reviews as appropriate to determine whether additional FMIs should be subject to supervision or oversight by the Bank	Following the most recent review, RITS and CLS remain the only payments systems subject to ongoing oversight by the Bank at this stage The Bank assisted the Department of Home Affairs with the application of the Government's critical infrastructure reforms to the operators of payment systems specified as critical in Australia
	Work with the Australian Government on implementing the reforms to the regulation of FMIs, including crisis management powers over Australian CS facilities. Develop operational plans to execute any powers granted under the regime	The Bank continued work preparing for the implementation of the reforms
	Contribute to international policy work on FMI resilience and crisis management	Bank staff participated in international policy development and implementation on crisis management and the resilience of FMIs
	Adapt domestic regulatory standards in response to international developments. Support international supervisory cooperation	No changes to domestic regulatory standards were required. In February 2022, the Bank and ASIC agreed a revised Memorandum of Understanding on supervisory cooperation with the European Securities and Markets Authority, in order to align with recent changes to the EU regime for recognition of non-EU central counterparties
Ensure the regulatory framework for payment systems and FMIs is consistent with the Australian Government's principles of regulator best practice	Actively engage with stakeholders and conduct research to understand emerging issues affecting the environment in which regulated entities operate	The Bank surveyed CS facilities and participants in the retail payments system to obtain on feedback on its regulatory performance. The feedback was generally positive. Some entities encouraged the Bank to devote more effort to scanning the environment to understand the latest developments Respondents generally reported that the Bank's Review of Retail Payments Regulation was carried out well, and suggested some areas for improvement including by giving stakeholders more time to provide submissions. A few entities suggested that the Bank could provide more updates during the final phase of regulatory reviews to allow stakeholders a final opportunity to provide feedback and plan earlier for any changes that might be needed Respondents generally reported that the Bank's regulatory requirements were streamlined and proportionate to the risks involved. In order to minimise ad-hoc requests, some stakeholders noted there would be benefits in the Bank further automating its reporting requirements and providing greater clarity and context around how some information reported to the Bank is used
	Ensure regulatory requirements are streamlined, proportionate to risks and coordinated with	Survey feedback on cooperation between the domestic regulators has been positive and also highlighted that the Bank's engagement with,

Key activities	Performance measures and targets	Results
	other regulators, and build capability in data analysis to efficiently monitor compliance	and reliance on, overseas home regulators of FMIs helps to minimise regulatory duplication The Bank has enhanced its capacity for data analysis, with the first group of CS facilities commencing regular reporting as part of the FMI data project. This project introduced modern data delivery methods, which also provides an opportunity for FMIs to rationalise and automate their reporting processes
	Communicate with regulated entities in a timely, clear and consistent way, including on regulatory priorities	Survey feedback generally characterised the Bank's communications as timely, clear and consistent. A few stakeholders noted that they found the Bank's published material on its regulatory priorities very useful (for example in speeches by staff) and that receiving more regular updates about the Bank's payments priorities would help them plan more effectively to meet the Bank's expectations
Ensure the operational reliability of RITS	RITS availability at 99.95 per cent during core hours	RITS availability was 99.995 per cent during core hours in 2021/22
	RITS FSS availability at 99.995 per cent on a 24/7 basis, with most transactions processed in less than one second	FSS availability was below target at 99.990 per cent due to a vendor software issue that occurred in April 2022
	Complete a refresh of FSS infrastructure by mid 2023	The Bank has completed the detailed design and commenced building the non-production environments. The project is on track to finish in mid-2023
	Develop enhancements to RITS, and related back office systems, to support ISO 20022 readiness for testing by the first quarter of 2022	The Bank is actively involved in the industry-led migration to the ISO 20022 standard as both an operator and participant of related payments infrastructure. The project has now entered the industry testing phase. The Bank has also continued work in preparation for the migration of legacy messages used by some batch administrators as well as the RITS Automated Information Facility (AIF) to the ISO 20022 standard. To minimise the disruption of migration to members, the new message standards will be introduced in phases, including an industry-agreed coexistence phase
Ensure the cyber security of RITS	Ongoing investment and regular reviews and testing to support cyber resilience. In 2021/22, this will include completion of the Bank's role in supporting the testing of RITS as part of the CFR-sponsored pilot 'red team' exercise for financial institutions	The Bank's ongoing program of cyber resilience work helped underpin the reliable operation of RITS in 2021/22. In July 2021, the Bank's payment settlement systems were recertified under the ISO 27001 standard for Information Security Management and, in November 2021, the Bank completed its independently assessed compliance attestation to the SWIFT Customer Security Controls Framework, with full compliance to all mandatory controls. During the period, RITS was part of a CFR sponsored threat intelligence exercise, testing the cyber maturity and resilience selected of institutions and market infrastructures. This confirmed the strength of the Bank's current RITS security controls while highlighting some areas for further improvement
	Complete the implementation	The Bank has updated its RITS member security

Key activities	Performance measures and targets	Results
	of updated RITS member end point security requirements	requirements in line with an independent risk assessment conducted in late 2020. Members are required to comply with these standards by the end of 2022. The Bank is also in the process of updating the equivalent security standards applicable to RITS feeder system operators

The Reserve Bank's work in the payments area in 2021/22 occurred in an environment that was continuing to change rapidly. There has been an ongoing shift in consumer payments away from the use of cash and cheques and towards cards and other electronic means of payment. There has also been rapid technological change and innovation, with new payment products and services being adopted, and the entry of new players into the payments system. These changes can improve the convenience and security of payments to end users, but can bring particular risks and competitive issues into sharper focus.

The Bank considers that the existing regulatory arrangements for the payments system in Australia have worked well and have helped shape a payments system that generally provides high-quality services for Australian households and businesses. However, the payments ecosystem is now more complex than when the current regulatory arrangements were put in place in the late 1990s. Given this, the Bank welcomes the Government's proposed payments regulatory reforms, including the development of a strategic plan for the payments ecosystem and measures to modernise the Bank's regulatory powers.

The Bank supports the Government proposed reforms to the regulation of FMIs. The aim of the reforms is to ensure that the Australian financial system is supported by resilient, efficient and stable FMIs. The reforms include enhancements to the licensing regimes for clearing and settlement (CS) facilities and stronger supervision and enforcement powers for ASIC and the Reserve Bank. The reforms also include crisis management powers over Australian CS facilities.

To ensure the Bank does not unnecessarily impede the efficient operation of CS facilities, the Bank's regulatory framework is closely aligned with international standards. The Bank is committed to making sure the frequency, scope and level of detail of assessments appropriately aligns with each CS facility's systemic importance to the Australian financial system. This 'graduated' approach is set out in the Bank's Approach to Supervising and Assessing Clearing and Settlement Facility Licensees, which is published on the Bank's website.

The delivery of efficient and effective banking services to the Australian Government

Purpose

Insofar as the Commonwealth of Australia requires it to do so, the Reserve Bank must act as banker for the Commonwealth. The Reserve Bank's banking services fall into two categories: those services provided in its capacity as the central bank; and those transactional banking services it provides to Australian government agencies. In common with many other central banks, the Bank also provides banking and custody services to a number of overseas central banks and official institutions. The banking services offered to the Australian Government and other central banks include payments and collections, as well as general account maintenance and reporting services.

Results and Analysis

Performance Summary: Deliver Efficient and Effective Banking Services

Key activities	Performance measures and targets	Results
Ensure central banking services remain fit for purpose	Work with key stakeholders to maintain and improve, where possible, the central banking services provided to the Commonwealth of Australia	As the provider of the Commonwealth's Official Public Account, the Bank works closely with both the Department of Finance (Finance) and the Australian Office of Financial Management (AOFM) to ensure the services associated with management of this account remain fit for purpose. Following the implementation of new cash management arrangements in 2020/21, the Bank maintained its engagement with Finance and the AOFM to identify opportunities for further improvement. The Bank also worked with Finance and a third party payments provider to ensure compliant payment services can be provided to Australian Government agencies
Satisfy financial performance benchmarks	Minimum return on capital for transactional banking business equivalent to the yield on 10-year Australian Government Securities plus a margin for risk	The Bank's banking services achieved the minimum required return in 2021/22. Pro forma accounts for the transactional banking business can be viewed in the chapter on 'Banking and Payment Services'
Progress on activities to deliver convenient, secure, reliable and cost-effective banking services to customers	Provision of high-quality, cost-effective banking services to government and other official agency customers and, in turn, the public, including:	The Bank extended service provision to several new customers during 2021/22, while retaining all existing agency customers
	• continued development of banking services and systems, including NPP capabilities	The Bank continued to work with the industry to develop new NPP capabilities, particularly a new way to pre-authorise payments, known as PayTo. The first phase of this service was completed in June 2022 and will enable the Bank's customers to enter into a PayTo payment agreement with a creditor for the payment of goods or services. This could be a one-off or recurring payment arrangement. The next phase of PayTo will enable the Bank's customers to establish PayTo payment agreements with debtors
	• supporting agency customers as they migrate payments from legacy payment systems to new systems	The Bank: • assisted Services Australia in processing and delivering COVID-19 and disaster recovery payments on a 24 hour/7 day basis • supported agency customers with their planning and system implementation of new payment and data capabilities

As the COVID-19 pandemic continued into 2021/22, the Bank maintained its focus on service delivery, supporting the Australian Government's business-as-usual and COVID-19 payment programs. In collaboration with Services Australia, the Bank leveraged its real-time fully integrated payment capabilities for the processing and delivery of COVID-19 support payments to the Australian public. This comprised a range of payments to businesses and consumers affected by the pandemic and included almost 700,000 payments distributed via the NPP on Sunday 15 August 2021. The NPP was also used to ensure the rapid delivery of payments to those in need as a result of catastrophic flooding in NSW and Queensland. As with 2020/21, this was achieved with the majority of the Bank's staff working remotely.

Delivery of these large-scale payment programs via the NPP demonstrated the maturity of the NPP in terms of account reach and highlighted the importance of 24/7 reliability.

Notwithstanding the continued focus on delivery of government payments and other related effects of the pandemic, significant progress was made on new payment initiatives, culminating in the delivery of NPP PayTo Payer services in June 2022. The Bank continues to work on a large number of multi-year payment related initiatives, encompassing NPP related services, participating in the industry migration of cross-border and domestic payments traffic to ISO 20022 international messaging standards, and upgrading of its underlying banking technology services. During 2021/22, the Reserve Bank continued to ensure it remained in a position to respond appropriately to the Australian Government's needs with convenient, secure, reliable and cost-effective central banking and transactional banking services.

The provision of secure and reliable banknotes

Purpose

The Reserve Bank is responsible for the issue, reissue and cancellation of Australian banknotes. Its primary purpose in carrying out this role is to maintain the capacity of Australian banknotes to provide a safe, secure and reliable means of payment and store of value. The Bank works with its wholly owned subsidiary, Note Printing Australia Limited (NPA), to design and produce banknotes. NPA also produces banknotes for other countries and Australia's passports. The Bank distributes banknotes to financial institutions, monitors and maintains banknote quality in circulation and withdraws unfit banknotes from circulation. It also monitors and analyses trends in cash usage and counterfeiting, and conducts research into banknote security technology.

Results and Analysis

Performance Summary: Provide Secure and Reliable Banknotes

Key activities	Performance measures and targets	Results
Ensure Australian banknotes provide a safe, secure and reliable means of payment and store of value, as follows:	Maintain or improve public perceptions of Australian banknotes, as measured in the Reserve Bank survey	The Bank conducted a survey on perceptions, usage and behaviour related to Australia's banknotes. The results show that public perceptions of Australian banknotes have remained favourable, with 69 per cent of respondents perceiving the NGB series to be sufficiently secure against counterfeiters, similar to the 2020 results. In addition, 76 per cent of respondents noted that they liked the new banknotes, largely unchanged from the previous year's results
Meet banknote demand	More than 95 per cent of banknote orders from commercial banks fulfilled by the Bank within three days of request	The target was met. All transactions were fulfilled on the same day as requested with the exception of one transaction in September 2021, which was deferred by one day. This was as a result of necessary precautionary measures after both the National Banknote Site (NBS) and the Bank's contingency site in Craigieburn were identified as potential COVID-19 exposure sites. Liaison with the commercial bank concerned confirmed there was no material impact resulting from the delay as there was sufficient banknote stock on

Key activities	Performance measures and targets	Results
		hand to meet immediate demand
Ensure Australian banknotes remain secure, durable and cost effective	Monitor actual and emerging counterfeiting trends	Australian banknote counterfeiting rates, remained low by historical and international standards. The estimated counterfeiting rate was 8 counterfeits per million banknotes in circulation in 2021/22, down from a peak of around 31 counterfeits per million banknotes in 2014/15. The Bank also continued to monitor international developments in counterfeiting, including through engagement with other central banks and international organisations
	Evaluate and develop security features that could be deployed on Australian banknotes to combat counterfeiting threats, extend circulation life and/or reduce production costs	The Bank's key initiative to enhance banknote security has been the release of the new banknote series with upgraded security features. Work on the Next Generation Banknote (NGB) program concluded in 2020/21, with the new $100 banknote entering circulation on 29 October 2020. In addition the Bank operates an R&D program to develop and test security features for future Australian banknotes, along with testing and implementing solutions to reduce costs and increase circulation life
Ensure high-quality banknotes	Banknote production orders by the Bank to be met by NPA within agreed quality parameters	NPA met 95 per cent of the Bank's orders for new series banknotes to the required quality standard and as per the initial annual delivery schedule. The shortfall of 5 per cent was the result of minor production delays owing to the pandemic. These banknotes will be delivered as part of the 2022/23 order. This shortfall in the banknote order did not compromise the Bank's ability to meet public demand or jeopardise its target contingency stock of banknotes
	Maintain quality of banknotes in circulation above the minimum quality standard agreed with industry	The measurement of the quality of banknotes in circulation was interrupted by the COVID-19 pandemic, but the introduction of virtual sampling (using video-conferencing technology) allowed normal sampling to resume. From the sample of banknotes obtained, quality remains good. The update of standards to include NGB security features has been delayed due to the Review of Banknote Distribution Arrangements

While the proportion of payments made using banknotes is declining relative to electronic payments, the value of banknotes on issue increased at an above average pace over 2021/22. This increase was driven by fewer banknotes being returned to the Bank from circulation, as well as ongoing demand for high-denomination banknotes, which is likely to reflect the importance of cash as a store of value in times of uncertainty and dislocation. The Bank has continued to meet demand for banknotes by ensuring orders are fulfilled. The release of the new series of banknotes with upgraded security features has supported public confidence in banknotes. Australia's level of counterfeiting remains low by international standards.