

Functions and Objectives of the Reserve Bank

The Reserve Bank of Australia was established as Australia's central bank by the *Reserve Bank Act 1959*. This act sets out the powers of the Bank and the objectives of the Bank's policies. Section 10(2) of the Reserve Bank Act 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.'

For almost 20 years now, this general mandate has found concrete expression in the form of a medium-term inflation target. Monetary policy aims to keep the rate of consumer price inflation at 2–3 per cent, on average, over the cycle. The fifth *Statement on the Conduct of Monetary Policy*, signed by the Treasurer and the Governor in September 2010, records the common understanding of the Government and the Reserve Bank on key aspects of the monetary policy framework.

In addition to conducting monetary policy, the Reserve Bank:

- promotes the overall stability of the financial system;
- holds and manages Australia's foreign currency reserves;
- operates Australia's main high-value payments system;
- provides banking services to government and overseas official institutions; and
- designs, produces and issues Australia's banknotes.

Amendments to the Reserve Bank Act in 1998 removed from the Bank responsibility for the prudential supervision of banks but gave it responsibility for ensuring the stability, efficiency and competitiveness of the payments system. These amendments also established the Payments System Board, which is separate from the Reserve Bank Board and issues its own annual report. The Reserve Bank's main powers in relation to the payments system are set out in the *Payment Systems (Regulation) Act 1998*.