

# 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 more than 15 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 fourth *Statement on the Conduct of Monetary Policy*, signed by the Treasurer and the Governor in December 2007, 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 also:

- conducts market operations in Australian dollar assets on its balance sheet;
- holds and manages Australia's foreign currency reserves;
- operates Australia's main high-value payments system;
- provides banking services to government; and
- designs, produces and issues Australia's banknotes.

The Reserve Bank has not, since 1998, been responsible for prudential supervision of banks. It has, however, a general responsibility, within the limits of its powers, to foster stability in the overall financial system.

Amendments to the Reserve Bank Act in 1998 gave the Bank 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*.

