Reserve Bank of Australia

Corporate Plan 2022/23

RESERVE BANK OF AUSTRALIA

Reserve Bank of Australia Corporate Plan

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Corporate Plan 2022/23

1. Introduction

This corporate plan is prepared for 2022/23 in accordance with section 35(1)(b) of the *Public Governance, Performance and Accountability Act 2013* and covers the reporting periods from 1 July 2022 to 30 June 2026. The plan outlines our purpose and key objectives, the activities we undertake to achieve these and how we measure performance. It also discusses the external environment we operate in, our organisational capability, and our approach to managing and overseeing the key risks we face.

The accountable authority of the Reserve Bank of Australia is the Governor.

2. Our purpose

The Reserve Bank's purpose is to promote the economic welfare of the Australian people through our monetary and financial policies and operations. To deliver on this purpose, the Bank has five key objectives:

- price stability and full employment
- the stability of the financial system
- a secure, stable and efficient payments system
- the delivery of efficient and effective banking services to the Australian Government
- the provision of secure and reliable banknotes.

Price stability and full employment

As set out in 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:

- the stability of the currency of Australia
- the maintenance of full employment in Australia
- the economic prosperity and welfare of the people of Australia.

In support of this, 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, consistent with its duties under the Reserve Bank Act. The flexible medium-term inflation target underpins the monetary policy framework in Australia. Since the early 1990s, it has provided the foundation for the Bank to achieve its monetary policy objectives, including by providing an anchor for inflation expectations.

Achieving the inflation target preserves the value of money and facilitates strong and sustainable growth in the economy over the longer term. This helps businesses and households make sound investment decisions, underpins the creation of jobs and protects the savings of Australians. Sustaining high employment means not only do more people have jobs, but they also have better opportunities in life. High rates of unemployment are costly for the economy and hurt our society.

The Reserve Bank's monetary policy framework, including the *Statement on the Conduct of Monetary Policy*, is being considered by the independent Review of the Reserve Bank (see 'Operating Environment'), which will provide its recommendations to the government by March 2023. The Treasurer has confirmed that all existing arrangements will remain in place until the review is completed.

The stability of the financial system

Given the serious damage to employment and economic prosperity that can be caused by financial instability, the Reserve Bank Act has long had an implied mandate to pursue financial stability. This responsibility is included in the *Statement on the Conduct of Monetary Policy*. The Bank also has specific responsibility to oversee financial market infrastructures (FMIs) that could have implications for financial stability.

We work 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 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, AUSTRAC and the Australian Taxation Office at least annually to discuss broader financial sector policy matters. The Bank's central position in the financial system, and 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.

A secure, stable and efficient payments system

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

In relation to the 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:

- controlling risk in the financial system
- promoting the efficiency of the payments system
- promoting competition in the market for payment services, consistent with the overall stability of the financial system.

In addition, it is the 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).

Our operational role in the payments system is effected through the Bank's 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.

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

Insofar as the Commonwealth of Australia requires it to do so, the Reserve Bank must act as banker for the Commonwealth. Our government banking services broadly comprise two activities: management of the Australian Government's core accounts; and the provision of transactional banking services to Australian Government agencies. In common with many other central banks, we also provide 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.

The provision of secure and reliable banknotes

The Reserve Bank is responsible for the issue, reissue and cancellation of Australian banknotes. Our 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. We work with our wholly owned subsidiary, Note Printing Australia Limited (NPA), to design and produce banknotes. NPA also produces banknotes for other countries, as well as Australian passports. We distribute banknotes to financial institutions, monitor and maintain banknote quality in circulation, and withdraw unfit banknotes from circulation.

3. Our operating environment

Economic conditions in the wake of COVID-19

The global economy has recovered strongly from the COVID-19 pandemic, supported by the rollout of effective vaccines and significant fiscal and monetary policy support. But the outlook has become clouded by high inflation. The increase in inflation to levels well above central banks' targets has reflected ongoing disruptions to global goods production at a time of strong demand, as well as sharp increases in energy, food and other commodity prices following Russia's invasion of Ukraine. At the same time, underlying inflationary pressures have broadened in many economies given the strength in demand, with labour market conditions having tightened and services inflation increasing to its fastest rate in more than two decades. The general strength of demand reflects the impact of stimulatory monetary and fiscal policies as economies reopened. In response, central banks in most economies are withdrawing the extraordinary monetary stimulus that was put in place during the pandemic.

The Australian economy has been resilient throughout this period and a strong expansion is underway. Supported by fiscal and monetary policy, economic activity has weathered the disruptions induced by outbreaks of COVID-19 and the east coast floods. Household and business balance sheets are generally in good shape and there is a large pipeline of investment that will support activity in the period ahead. Conditions in the labour market are the tightest they have been in many years and labour costs are picking up.

In line with the global experience, inflation in Australia has increased significantly and unexpectedly. Global factors, including COVID-19-related disruptions to supply chains and the war in Ukraine, have accounted for much of this increase in inflation. But domestic factors have also played a role, with the east coast floods, capacity constraints in some sectors, strong demand and the tight labour market contributing to the upward pressure on prices. Inflation is expected to increase further over the course of 2022 and be back around the top of the 2 to 3 per cent target range by the end of 2024. Higher interest rates will assist with the return of inflation to target over time.

In an environment of high inflation and historically low unemployment, the Bank has been tightening monetary policy.

- In response to the significant downside risk posed by the pandemic, the Bank had put in place a comprehensive package of policy measures designed to keep funding costs low across the economy and support the provision of credit. As the health situation improved, economic outcomes turned out much better than expected, inflation has increased significantly and wages growth is starting to pick up. As such, this support was no longer appropriate.
- The yield target of 0.10 per cent for the April 2024 Australian Government bond was discontinued in November 2021. Purchases under the Bank's bond purchase program ceased in February 2022, and in May 2022 the Board announced that the Bank would not reinvest the proceeds of its maturing government bond holdings. This means that the contribution of the Bank's bond holdings to lower bond yields will slowly diminish over time as these bonds mature. The Term Funding Facility for the banking system (with particular support for credit to small and medium-sized businesses) was closed to new drawdowns on 30 June 2021, although banks retain access to their already-drawn funding for up to three years from the date of drawdown.
- The cash rate target has been increased from its record low of 0.10 per cent, to be 1.85 per cent as at 31 August 2022.

The evolving payments system

There is a long-term trend towards greater use of electronic methods for retail payments. Merchants and consumers are shifting to online, contactless and mobile payments, and away from cash and cheques. There has also been significant innovation in consumer-facing technology, and there continues to be potential for the entry of new service providers to widen payment options further. While the proportion of payments made using banknotes is declining, cash is still used for many face-to-face transactions. Further, the number and value of banknotes on issue has risen over recent years, highlighting the importance of banknotes as a store of value as well as a means of payment.

User and industry expectations concerning the speed of payments, and the capacity to combine information with payments, have been increasing. These trends have been reflected in strong growth in transactions enabled by the New Payments Platform (NPP), which facilitates 24/7 real-time payments between individuals and organisations. Ongoing development of NPP capabilities will provide the community with new functionality and digital services. These developments are also relevant to the Reserve Bank in our role as provider of banking services to the Australian Government. The government is seeking to implement more modern electronic payment services, and its banking requirements will continue to change in response to improvements in payments technology and changes in the way government agencies interact with the public.

Globally, there is significant interest in the potential use of new technologies as a means of providing payments, clearing and settlement services, including possibly by the introduction of a central bank digital currency (CBDC). The G20 and Financial Stability Board (FSB) are focused on making cross border payments faster, cheaper and more transparent, including by exploring the potential for linking fast payment systems and developing central bank digital currencies. At the same time, new players in payment systems have highlighted the need for regulatory frameworks to be modernised to manage the risks and opportunities. There is also a strong focus on fraud prevention and cyber resilience among payment service providers and operators of payments infrastructure. International standard setting bodies are responding to these developments by promoting enhancements in resilience and crisis management for FMIs.

Review of the Reserve Bank

On 20 July 2022, the Treasurer announced the terms of reference of the independent Review of the Reserve Bank.[1] The review is designed to ensure that Australia's monetary policy arrangements and the operations of the Bank continue to support strong macroeconomic outcomes for Australia in a complex and continuously evolving landscape. The review will assess: Australia's monetary policy arrangements, including the objectives for monetary policy and the interaction of monetary policy with fiscal and macroprudential policies; the Bank's performance in meeting its objectives; the Bank's governance, including Board structure, experience and expertise, composition and the appointments process; and the Bank's culture, management and recruitment processes. The Bank's payments, financial infrastructure, banking and banknotes functions are not included in the review.

A panel of three independent experts will conduct the review and will be supported by a secretariat with Treasury and other staff. The review panel will produce a final report with recommendations to the government by March 2023.

The Reserve Bank Board and staff welcome the independent review and look forward to learning from it.

4. Our priorities

To deliver on our mission and objectives and achieve our vision to be a world-leading central bank, we are targeting six strategic focus areas that form our Strategic Plan. The most important focus area is returning inflation to the 2 to 3 per cent target over time, while fostering sustainable economic growth. Supporting the evolution of payments is also an important focus area, while the remaining strategic focus areas of people, technology resilience, data management and communications effectiveness are intended to strengthen our capability to deliver successfully on our mission and key objectives. The Bank will review the strategic focus areas in light of the Review of the Reserve Bank.

The delivery of our strategic plan is underpinned by our core values – promoting the public interest, integrity, excellence, intelligent inquiry and respect.

Mission

To promote the economic welfare of the Australian people through our monetary and financial policies and operations

Key Objectives

- Price stability and full employment
- The stability of the financial system
- A secure, stable and efficient payments system
- The delivery of efficient and effective banking services to the Australian Government
- The provision of secure and reliable banknotes

Vision

To be a world-leading central bank that is trusted for our analysis, service delivery and policies

Strategic Focus Areas

- Return inflation to the target over time
- Support the evolution of payments
- Attract and maintain a high-quality and innovative workforce
- Strengthen the resilience of technology services
- Harness the power of data
- Ensure we communicate effectively in a changing world

Values

Promoting the public interest, integrity, excellence, intelligent inquiry and respect

Return inflation to the 2 to 3 per cent target

A major priority for the Reserve Bank is to return inflation to the 2 to 3 per cent range over time while keeping the economy on an even keel. It is possible to do this but the path ahead is a narrow one and clouded in uncertainty.

The main instrument for achieving this objective is the cash rate target, which the Board reviews monthly. The Bank also operates in financial markets to: implement the decisions of the Board; ensure the stable functioning of the financial system, including through the provision of liquidity; and, if necessary, to intervene in the foreign exchange market, consistent with the objectives of monetary policy (such interventions are rare). We also work with CFR agencies to ensure that the financial system continues to function smoothly and that vulnerabilities are identified and addressed. We actively assess the effectiveness of the previous policy actions in meeting our objectives and learn from these findings. The Bank is committed to communicating and explaining our actions clearly.

Support the evolution of payments

As noted above, a well-functioning economy needs an effective payments system, and the landscape in this area is evolving rapidly. Additional major changes could be in prospect if new forms of digital money, such as CBDC and stablecoins, are adopted. The trend towards greater use of electronic payment methods presents both opportunities and risks. Policy issues for the Reserve Bank include the importance of keeping the costs of electronic payments low while maintaining the security, resilience and innovation in the payments system, and responding to any competition or access issues that emerge.

Over the period of this corporate plan, we will work with participants in the payments system on policy issues relating to both legacy and emerging payment methods. This includes:

- implementing the conclusions from our recent review of the regulatory framework for retail payments, which are aimed at improving competition in the payments system and reducing merchants' payment costs, including by promoting least-cost routing
- working with the Treasury to implement payments system regulatory reforms, including a new licencing regime for payments service providers and access requirements for payment systems
- under our various roles as regulator, infrastructure provider and banker to the government, continuing to work with the industry to realise the potential of the NPP to deliver payments that are real-time, data-rich and easily addressed, with expanded services and functionality for end users
- working to support the ongoing provision of cash services, given that cash is still used intensively by some segments of the population, and overseeing industry efforts to wind-down the cheques system and planning for the eventual closure of the direct entry system
- promoting resilience and security in core payments infrastructure and services
- conducting research with external partners on use cases for CBDC and evaluating the case for issuing CBDC
- engaging with international efforts to enhance the efficiency, transparency and accessibility of cross-border payments.

Attract and maintain a high-quality and innovative workforce

To deliver on our objectives, the Bank needs a high-quality, effective workforce. The tight labour market has created challenging conditions and addressing this is a key priority. We will continue to focus on attracting and retaining high-quality employees with a diversity of skills and experience who are innovative and adaptable. This involves fostering an environment in which all employees are engaged and empowered to contribute to the full extent of their abilities.

Over the period of this corporate plan, we will continue to:

- focus on the current and future needs of the Bank, and enhance how we attract and retain employees, including by finding ways to encourage a more diverse field of applicants for positions in the Bank
- maintain focus on the Bank's core values
- develop the leadership capabilities of executive leaders and managers
- foster a diverse and inclusive culture, including by enhancing cultural awareness and implementing our Reconciliation Action Plan, which focuses on providing opportunities for First Nations peoples
- develop policies and practices to ensure a safe and effective workplace, with a focus on hybrid work and employee mental health and wellbeing
- increase the efficiency and effectiveness of our human resources practices, including by implementing a new workforce management platform.

In addition to these actions, the Bank is undertaking a significant refurbishment of our Head Office at 65 Martin Place, Sydney. The refurbishment is upgrading base building infrastructure that is at end of life, and will create a safe, contemporary and flexible workplace that promotes sustainability and enables modern work practices.

Strengthen the resilience of technology services

The Bank maintains highly resilient, efficient, fit-for-purpose technology systems that underpin the Bank's core payment systems, banking and financial markets operations, policy analysis and banknote distribution. Maintaining and further strengthening key system resilience and availability is a strategic focus area, and seeks to avoid system downtime caused by unplanned events. This will be achieved by minimising security vulnerabilities to protect against cyber-attacks, enhancing compliance and awareness of security threats and controls, improving the stability of Bank systems, and reducing the complexity of the Bank's technology environment.

Over the period of this corporate plan, we will continue to:

- keep technology systems patched for security vulnerabilities, remain aligned with Australian Signals Directorate guidelines and evolving industry best practice, and ensure that staff understand and adopt safe cyber behaviours
- manage technology obsolescence and increase automation of core technology delivery processes, including patching, testing and release management
- invest in the technology skills of our people
- manage system design and adopt cloud services where appropriate to reduce complexity.

Harness the power of data

Data are a strategic asset for any central bank. Over the period of this corporate plan, we will continue to:

- increase the maturity of our data governance and data management processes across the bank
- refresh and enhance our strategic platforms and tools for storing and analysing data
- migrate data from legacy systems and consolidate strategic platforms with modern tools
- enhance our employees' data technology skills.

Ensure we communicate effectively in a changing world

We are committed to explaining our policies effectively, providing credible analysis of the Australian economy and being held accountable. Over the period of this corporate plan, we will continue to:

- maintain regular communication on monetary and payments policies, banknote issuance, and reviews of financial stability and financial markets infrastructure
- provide information about the work the Bank is doing in cooperation with the Australian Government and other financial regulators, particularly through the CFR
- maintain the Bank's liaison program to understand the community's perspectives, priorities and concerns, to gather information and insights, and to explain the Bank's monetary policy initiatives
- develop new means of communication that are better aligned with the information needs of the community
- encourage a diverse body of students to study economics.

5. Key activities and measuring performance

This section outlines the key activities we will undertake to deliver on our objectives, and how we will measure and assess our performance.

Reserve Bank of Australia – Summary Measures of Performance

2022/23–2025/26

Key objectives	Key activities	Performance measures and targets 2022/23	Performance measures and targets 2023/24–2025/26
Price stability and full employment	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.	As for 2022/23.
		Foster sustainable growth in the economy.	As for 2022/23.
	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. The very high Exchange Settlement (ES) account balances mean the cash rate is likely to range between the target and the remuneration rate on ES balances.	As for 2022/23, subject to changes reflecting decisions by the Reserve Bank Board.
	Manage the Reserve Bank's TFF.	While closed to new drawdowns, the TFF will provide low-cost funding to June 2024.	As for 2022/23 to June 2024.
	Provide adequate liquidity to the financial system.	Use open market operations to ensure that financial institutions have access to liquidity and that funding costs are appropriate to achieve our goals.	As for 2022/23.
	Manage reserves to portfolio benchmarks.	Reserves portfolio managed within permitted deviations around benchmarks for interest rate and currency risks.	As for 2022/23, with benchmarks subject to periodic review.
	Intervene in foreign exchange market as appropriate.	Publish data and explanations of any intervention.	As for 2022/23.
	Review of the Reserve Bank.	Support the panel and secretariat to undertake the review, including by seconding staff to the secretariat.	Consider and implement the recommendations of the review.
The stability of the financial system	Support overall financial system stability.	A stable financial system that is able to support the economy. Work with CFR agencies and international bodies to identify and appropriately address evolving systemic risks. Assess and communicate risks to financial system stability, including through our half-yearly *Financial Stability Review*.	As for 2022/23.

Key objectives	Key activities	Performance measures and targets 2022/23	Performance measures and targets 2023/24–2025/26
A secure, stable and efficient payments system	Support competition and efficiency in the payments system and financial system stability.	Work with the Australian Government to implement reforms, including those stemming from: the conclusions of the Review of Retail Payments Regulation; the Treasury Payments System Review; and the review of the regulation of stored-value facilities (and subsequent work on the use of stablecoins for payments). Ensure compliance with the Bank's card payments regulations and monitor the outcomes for consumers and businesses from this regulation.	As for 2022/23.
		Undertake policy work to: support the shift towards digital payments; monitor the winding down of legacy payment systems; and identify and respond to any competition and efficiency issues associated with new technologies and new players in the payments system.	As for 2022/23.
		Conduct a review of the suitability of our retail payments data collections for supporting the assessment of payments-related policy issues, in light of the changing nature of the payments system.	Implement changes to the retail payments data collections.
		Support work being undertaken as part of the G20 roadmap on enhancing cross-border payments.	As for 2022/23.
		Work with industry to modernise payment messaging standards via participation in the ISO 20022 migration project.	As for 2022/23.
		Improve retail payments service reliability through enhanced disclosure by industry.	As for 2022/23.
		Conduct research to advance the Bank's understanding of the case for, and implications of, CBDC.	As for 2022/23.
	Promote the safety and resilience of FMIs.	Undertake assessments of systemically important payment systems and licensed clearing and settlement (CS) facilities against relevant standards. Establish recommendations and regulatory priorities as appropriate for each high-value payment system and CS facility based on these assessments.	As for 2022/23.
		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.	As for 2022/23.
	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.	As for 2022/23.
		Ensure regulatory requirements are streamlined, proportionate to risks and coordinated with other regulators, and build capability in data analysis to efficiently monitor compliance.	As for 2022/23.
		Communicate with regulated entities in a timely, clear and consistent way, including on regulatory priorities.	As for 2022/23.
	Ensure the operational reliability and cyber security of RITS.	RITS availability at 99.95 per cent during core hours.	As for 2022/23.
		RITS FSS availability at 99.995 per cent on a 24/7 basis, with most transactions processed in less than one second. Complete a refresh of FSS infrastructure by mid-2023.	As for 2022/23.

Key objectives	Key activities	Performance measures and targets 2022/23	Performance measures and targets 2023/24–2025/26
		Implement enhancements to RITS and related back office systems to support the ISO 20022 industry go-live date of November 2022.	
		Ongoing investment and regular reviews and testing to support cyber resilience. In 2022/23, this will include updating the security standards for operators of external feeder systems that interface with RITS and planning an industry cyber exercise.	As for 2022/23.
The delivery of efficient and effective banking services to the Australian Government	Ensure central banking services remain fit for purpose.	Maintain and enhance the central banking services provided to the Commonwealth.	As for 2022/23.
	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.	As for 2022/23.
	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, through:	As for 2022/23, through:
		• continued development of banking services and systems, including NPP capabilities	• ongoing development of new NPP services
		• supporting agency customers as they migrate payments from legacy payment systems to new systems	• continued support for agency customers
		• renewal of third-party supplier arrangements to ensure these remain innovative and align with key service objectives.	• implementation of new supplier arrangements for card acquiring and payments gateway.
The provision of secure and reliable banknotes	Ensure Australian banknotes provide a safe, secure and reliable means of payment and store of value, as follows:	Maintain public confidence in Australian banknotes, as measured in the Reserve Bank survey.	As for 2022/23.
	• meet banknote demand	More than 95 per cent of banknote orders from commercial banks fulfilled by the Bank within three days of request.	As for 2022/23.
	• ensure Australian banknotes remain secure, durable and cost effective	Monitor actual and emerging counterfeiting trends. Evaluate and develop security features that could be deployed on Australian banknotes to combat counterfeiting threats, extend circulation life and/or reduce production costs.	As for 2022/23.
	• ensure high-quality banknotes	Banknote production orders by the Bank to be met by NPA within agreed quality parameters.	As for 2022/23.
		Maintain quality of banknotes in circulation above the minimum quality standard agreed with industry.	As for 2022/23.

Price stability and full employment

The Reserve Bank Board will seek to ensure that monetary policy is set appropriately to produce consumer price inflation outcomes in Australia that are consistent with the inflation target and to foster sustainable economic growth.

Assessing the conduct of monetary policy involves judging whether the policy decisions taken were consistent with the objectives of monetary policy, based on the information available at the time. Inflation outcomes for the period 2022/23–2025/26 will be measured by annual percentage changes in the Consumer Price Index as published by the Australian Bureau of Statistics. Some variation in inflation from year to year is acceptable and expected; the inflation target does not require that inflation is always between 2 and 3 per cent. It is less straightforward to assess the extent to which the Bank succeeds in fostering sustainable growth in the economy, partly because the levels of output and unemployment that are consistent with stable inflation and maintaining financial stability risks at manageable levels cannot be observed directly and must be inferred from other data. Over the short term, monetary policy can affect cyclical deviations of output and unemployment from their equilibrium levels; however, over the long term, the Bank's contribution to sustainable growth comes mainly through achieving the inflation target and preserving financial stability.

Over the remainder of 2022 we will review the Bank's experience with the bond purchase program and with forward guidance during the pandemic period. The Bank plans to publish these reviews over the coming months (a review of the yield target was published in June 2022).

We will actively support the Review of the Reserve Bank by providing information and analysis to the panel and the secretariat and by participating in the review's activities. We have seconded four staff to the review's secretariat.

We will assess other developments that may have a bearing on the design or implementation of the framework for monetary policy. As part of these activities, we will continue to monitor developments in Australia's economic and financial environment where relevant to the design or implementation of monetary policy, and undertake and monitor relevant research and evaluate overseas experience. This will include engaging with public institutions, the academic community and other stakeholders, both domestically and internationally.

We will continue to engage in activities that support the transparency and accountability of our monetary policy activities, including through parliamentary testimonies, speeches and other public statements, and a range of publications.

Operations in financial markets

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 there is sufficient liquidity in the domestic money market.

The Reserve Bank Board sets the cash rate target and the interest rate on banks' ES balances. The cash rate is the rate at which commercial banks borrow from and lend to each other on an overnight, unsecured basis.[2] It is determined by the demand for and supply of ES balances that commercial banks hold at the Reserve Bank. The Bank operates an interest rate corridor around the cash rate target. The balances that banks hold with the Bank overnight in ES Accounts earn an interest rate set at a margin below the cash rate target (the floor of the corridor). At the top of the corridor, if a bank needs to borrow from the Reserve Bank overnight, it is charged an interest rate set at a margin above the cash rate target.

The policy measures implemented by the Bank since March 2020 have contributed to a large increase in the volume of ES balances. As expected, the abundance of ES balances has caused the cash rate to sit a little bit below the cash rate target, to trade at a margin above the rate of remuneration on ES balances (the floor of the corridor). This is expected to remain the case for some time. In light of this, the Board continues to set and communicate both the interest rate on ES balances and the cash rate target in policy announcements.

Under the TFF established by the Board, the Bank provided fixed-rate three-year funding to banks on the terms set out on the Bank's website.[3] While the TFF closed to new drawdowns at the end of June 2021, TFF funding extends to mid-2024, with banks having the option to repay funding at an earlier date. Total amounts of funding allocations and drawdowns are reported on the Bank's website, including institution-level data for the 10 largest users.[4]

The Bank also provides liquidity in open market operations to support the operation of the payments system, consistent with the Board's objective to ensure funding costs are appropriate to achieve the Bank's goals. This can be measured by yields on repurchase agreements conducted in the Bank's open market operations moving broadly in line with the target for the cash rate expected over the term of the agreement.[5]

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, these foreign reserves enable the Bank to address apparent dysfunction in the foreign exchange market and/or a significant misalignment in the exchange rate. Such interventions occur rarely.

The Bank manages its foreign reserves portfolio relative to a benchmark. This benchmark is assessed to be the combination of foreign currencies and foreign currency assets that will maximise the Bank's expected returns over the long run, subject to the Bank's policy requirements and tolerance for risk. Managers' discretionary positions are limited. A measure of performance in managing the portfolio is provided by the close adherence to the benchmarks for interest rate and currency risk over time.

We communicate our views and decisions regarding any foreign exchange intervention at the appropriate time in various written publications and speeches. Intervention data are also published on the Bank's website when our Annual Report is published each year.[6] This facilitates the Bank's accountability for its performance in relation to any foreign exchange market intervention over the period of the corporate plan.

The stability of the Australian financial system

To achieve our mandate for financial system stability, we work with other CFR agencies as appropriate, to identify, assess and respond to domestic sources of systemic risk and enhance the resilience of the Australian financial system. We work with overseas bodies to monitor and address emerging cross-border risks as these can impinge on domestic financial system stability. The Bank's powers in relation to the payments system and FMIs also have a bearing on financial stability outcomes. During stress faced by a domestic financial market or institution, the Bank's facilities to provide liquidity would continue to be available as appropriate.

With banks at the core of the financial system, our ability to monitor and analyse financial stability risks depends heavily on data collected by APRA. In this respect, APRA's announcement in March 2022 of a five-year roadmap to collect richer data from regulated entities through its new data collection system – 'APRA Connect' – is of particular relevance. The proposed collections will enable APRA, the Bank and other agencies to produce deeper insights in the activities of not just banks but also insurers and pension funds.

A key focus area for the Bank over 2022/23 is the assessment of household balance sheets and housing market trends and risks in an environment of rising interest rates. The results will be shared, as in the past, with CFR agencies on a regular basis and communicated to the public through speeches and publications.

Two other areas of focus relevant in the years ahead are:

- *The risks posed by climate change for the financial sector* – The Bank participates in the CFR Climate Working Group, and our staff will continue working with APRA on the Climate Vulnerability Assessment of financial risks from climate change that are faced by Australian banks. The Bank is also a member of the Network for

Greening the Financial System. The Bank's participation in a new FSB working group conducting an assessment of climate vulnerabilities and data over the next year or so will be a useful input to our work.

- *The risks posed by new forms of finance* – The fast-developing nature of new forms of finance, including crypto-assets and in particular 'stablecoins', and growing links with traditional finance mean they warrant increasing attention by regulators. Many global bodies and national jurisdictions have initiated work to assess the growing risks and/or developed policies to address these risks. The Bank has participated in global work and discussions on these issues, with these likely to intensify in the period ahead.

CFR agencies undertake ongoing development and refinement of arrangements to deal with periods of severe stress at individual financial institutions or in the financial system more broadly. The crisis management framework covers areas such as policy settings, inter-agency coordination and resolution processes. There is a renewed focus among CFR agencies on capacity building, including through an agreed annual program of crisis exercises, which began in 2021/22 and covers the use of tools such as exceptional liquidity assistance and the Financial Claims Scheme. In addition, the Bank, bilaterally and via the Trans-Tasman Council on Banking Supervision, continues to liaise with New Zealand agencies on areas of shared interest; significant focus areas include financial sector policy and regulatory issues, given the large presence of Australian-owned banks in New Zealand.

More broadly, we will continue to engage with international bodies on financial stability issues. The key international groups from a financial stability perspective are the FSB, the Basel Committee on Banking Supervision, the Committee on Payments and Market Infrastructures, and the Executives' Meeting of East Asia-Pacific Central Banks. The Bank is a member of these and other bodies.

In the next year or two, Australia is likely to undergo its next regular Financial Sector Assessment Program (FSAP) review by the International Monetary Fund (IMF). This will involve a review by IMF assessors of the quality and effectiveness of Australia's financial, regulatory and crisis management frameworks, and will provide recommendations for improvement in line with global best practice and international benchmarks. Intensive IMF discussions are likely with all CFR agencies regarding their mandates, regulatory frameworks and tools. The most recent FSAP review of Australia occurred in 2018. We look forward to participating in this exercise.

How the Bank performs in promoting overall financial system stability will continue to be best assessed by the stability of the Australian financial system itself. We will continue to publish our assessments of financial stability in the half-yearly *Financial Stability Review* and provide speeches and other communication on financial stability matters. This communication informs banks, households, businesses and the wider community about risks they should consider when investing and borrowing. It also forms the basis of the Bank's accountability for the performance of its responsibilities for financial system stability.

A secure, stable and efficient payments system

The Bank will continue its work on its mandate under the Payment Systems (Regulation) Act to promote competition and efficiency and to control risk. The Bank will also continue its work on its mandate under the Corporations Act to perform assessments of licensed CS facilities against relevant standards and to set regulatory priorities as appropriate.

The Payments System Board meets at least quarterly to determine payments system policy in accordance with its statutory responsibilities. The Board's focus over the period of this corporate plan will be on a number of strategic priorities, including to:

- support the shift towards digital payments
- research CBDCs and other innovations in payment systems and FMIs

- identify and resolve any competition and efficiency issues associated with new technologies and players in the payments system
- promote the safety and resilience of FMIs and payment systems
- work with the government to implement reforms to the regulation of FMIs, including crisis management powers over Australian CS facilities.

Consistent with our longstanding approach, the focus will be on working with industry participants to achieve outcomes that are in the public interest. We will implement the regulatory framework for payment systems and FMIs consistent with the Australian Government's Regulator Performance Guide.

We will implement the conclusions from the comprehensive Review of Retail Payments Regulation, which was completed in late 2021. The review's conclusions aim to promote competition and efficiency and to control risk in the payments system, with a particular focus on reducing merchants' card payment costs. This includes measures to:

- promote least-cost routing, including in the online environment
- support the issuance of dual-network debit cards
- reduce some debit interchange fees
- increase the transparency of scheme fees
- improve competition in the acquiring market.

We will continue to execute our responsibilities as overseer of systemically important payment systems and supervisor of Australian-licensed CS facilities. As part of this, we will continue to conduct and publish assessments. The frequency, scope and level of detail of a compliance assessment will be proportional to the systemic importance of a CS facility to the Australian financial system. We will monitor whether additional FMIs should be subject to its supervision or oversight. We will also support international supervisory cooperation, including implementation and monitoring of international standards, and participate in cooperative cross-country oversight arrangements for individual operators where appropriate.

We will continue to cooperate with the Australian Government and other financial regulators on payments issues. We will work with the government on implementing the reforms to the regulatory framework for payments stemming from the Treasury Payments System Review. We will also work with the government on implementing the reforms to the regulation of FMIs, including stronger supervisory powers and a crisis management regime for Australian CS facilities. This will involve developing operational plans to use powers granted under the regime. We will continue to contribute to international policy work on central counterparty resilience and FMI crisis management.

The Bank is supporting the newly established Digital Finance Cooperative Research Centre (DFCRC), which has received government and industry funding. The Bank has established a collaborative research project with the DFCRC to explore potential business models that the issuance of a CBDC might support. The project will also be helpful in evaluating different technological, operational and regulatory options for an Australian CBDC.

Reflecting the critical importance of RITS to the Australian financial system, we will continue to invest in the infrastructure supporting the smooth operation of RITS and the FSS. In particular, given the increased adoption of, and demand for real-time 24/7 payment capabilities, we have begun work on a major upgrade of FSS components ensuring a modern system that is able to meet future needs. We also plan to use this opportunity to further enhance system resilience through more automation of patching and maintenance activities, and simplification of the underlying architecture of the FSS. We will continue to monitor the operation of the FSS, which facilitates 24/7 real-time settlement of NPP payments exchanged by households, businesses and government agencies. As the owner of RITS, we will continue working with the industry on the migration of payments messaging used by Australia's payments systems to ISO 20022.

The Bank ensures that RITS is appropriately protected from cyber-attacks, taking into account emerging threats and international standards. Security controls are aligned to the Australian Government Information Security Manual and the International Organization for Standardization's information security management standards (ISO 27001); the Bank's payments settlements systems have received certification for ISO 27001. Regular reviews will be undertaken to ensure that appropriate security controls are maintained and are appropriately tested. The Bank has recently updated RITS member security standards to ensure that cyber-related risks arising from institutions that interface with RITS are appropriately managed. Over the coming period, RITS members will be required to comply with these new standards to ensure the delivery of efficient and effective banking services to the Australian Government.

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

We will continue to work with government agencies and other key stakeholders to maintain and improve the central banking services we provide. This includes liaising with the Department of Finance to consider ongoing changes in the banking and payments landscape to identify opportunities to further modernise cash management arrangements.

In addition, we will continue to develop our services and systems to ensure our customers have access to the products and services they need, while at the same time meeting the objectives of security, reliability and cost-effectiveness. This includes working with the industry to develop additional NPP services and continuing to provide agency customers with advice and support as they adopt new payment capabilities. Overall, this work will ensure that we continue to meet the needs of our government and other official agency customers and, in turn, the public.

The Bank operates in a competitive environment to provide banking services to Australian Government agencies. It must cost and price these services separately from its other activities, as well as meet an externally prescribed minimum rate of return on capital for its transactional banking business over a business cycle. This prescribed minimum rate of return is equivalent to the yield on 10-year Australian Government Securities plus a margin for risk. At present, the return on capital is one of our measures of financial performance for our transactional banking business. Other measures include the retention of customers, growth and use of the Bank's suite of banking products and services, and customer satisfaction as assessed by the results of the Bank's customer calling program. Service availability through the monitoring of core systems infrastructure is another important measure.

The provision of secure and reliable banknotes

The Reserve Bank aims to meet the public's demand for banknotes in a timely way, by ensuring it has a sufficient supply of banknotes it can readily distribute to the private sector. NPA supports the Bank by printing new banknotes as required, including to replace the outgoing banknote series. That said, with less capacity needed to meet ongoing production demands for the new series of Australian banknotes, NPA's corporate strategy also involves undertaking more export work (banknote and passport projects that are within risk appetite) to sustain the viability of the print works and keep the cost of Australian banknotes at reasonable levels. The National Banknote Site (NBS), located in Craigieburn, Victoria, is the distribution site for banknotes and was designed to be able to meet Australia's estimated needs for the distribution, processing and storage of banknotes over the medium term. The Bank also has contingency distribution arrangements in place, should any event prevent it from meeting banknote demand from the NBS.

The Bank aims to ensure that public confidence in banknotes remains high and that threats from counterfeiting are minimised. Over the past decade, the Bank's key initiative to enhance banknote security has been its Next Generation Banknote program, which involved the issuance of a new series of banknotes with upgraded security features. While the program has now come to an end, wide acceptance and distribution of these new banknotes over subsequent years will be an important focus to support this objective, along with the Bank's monitoring of counterfeiting trends in Australia and overseas.

The Bank has a banknote research and development program focused on new banknote security features and detection equipment. The primary aim of this program is to ensure that Australia's banknotes remain secure against counterfeiting, are easy to authenticate for a wide variety of users, and are durable and cost effective. This is achieved in part through collaboration with domestic and international experts from various external organisations, including universities, public and private companies, research institutes and other central banks.

Maintaining suitably high-quality banknotes in circulation also supports public confidence in banknotes, as high-quality banknotes are more readily handled by machines and make it more difficult for counterfeits to be passed. For new banknotes, the Bank achieves this by working closely with NPA to ensure that the Australian banknotes produced meet the Bank's specifications and quality standards. For banknotes in circulation, the Bank has arrangements that encourage the commercial banks and the cash-in-transit companies to sort the banknotes they handle to agreed quality standards and to return to the Bank those that are deemed unfit for recirculation. We will continue to collect information on the quality of banknotes in circulation to ensure that a quality standard in excess of the minimum standard is maintained.

We will also continue to take steps to ensure public recognition of the new banknote series is high, including through our ongoing public awareness campaign that provides information about the new banknotes, and through engaging in extensive discussions with business stakeholders, such as banks, retailers and relevant machine manufacturers.

Public confidence in Australian banknotes is measured directly by a Reserve Bank survey on perceptions of Australian banknotes conducted at least every two years, with the most recent survey conducted in late 2021. This survey asks questions about the public's attitude to, and awareness of, banknotes, including the level of concern about counterfeiting.

6. Risk oversight and management

The Bank's approach to managing its key strategic, financial, people and operational risks is described in its Risk Management Policy, which includes the Risk Appetite Statement. The Bank's management are responsible for the identification of risks and implementation of controls consistent with this Statement. A substantive review of both the Risk Management Policy and the Risk Appetite Statement was undertaken in 2021/22 with the aim of improving risk-based decision-making, in turn helping to achieve better strategic outcomes. The updated Risk Management Policy (which includes the Risk Appetite Statement) is on the Bank's website.[7]

Following the update, an internal change management and communication program was initiated, seeking to ensure that the updated Risk Appetite Statement is embedded into work practices.

Key risks and risk appetite

The Reserve Bank faces a broad range of risks reflecting its responsibilities as a central bank, including in the areas of monetary, financial stability and payments system policy as well as its day-to-day operational activities.

The risks arising from the Bank's policy and regulatory responsibilities can be significant. These risks are managed through processes that emphasise the importance of integrity, intelligent inquiry, maintaining high-quality staff and public accountability.

The Bank faces significant financial risks, largely because it manages Australia's foreign reserves and holds domestic financial assets in the pursuit of monetary policy objectives, including outright holdings of Australian Government Securities and semi-government securities. It accepts that the balance sheet risks are large and manages these risks carefully, but not at the expense of its policy responsibilities. The Bank has a limited appetite for credit risk and manages exposures accordingly.

The Bank manages a range of enterprise risks where particular attention is required. These risks – including those relating to cyber resilience, business process resilience and talent management – are considered to apply across the organisation, potentially adversely affecting the Bank's ability to discharge its responsibilities effectively. They inform decision-making at the executive level, promote a risk dialogue among management, and enable effective risk oversight through the assignment of risk and control ownership and the monitoring of actions around those risks and controls. The Bank works to mitigate these risks to levels that are consistent with meeting its policy and operational objectives. Any of these risks that are temporarily outside of target are regularly reported to the Risk Management Committee (chaired by the Deputy Governor) and leads to a review of actions, controls and mitigation strategies for these risks.

We recognise that it is not possible or desirable to eliminate all risks inherent in the Bank's activities. Acceptance of some degree of risk is necessary in these areas to foster innovation in business practices. Nonetheless, we have a limited appetite for most types of operational risk and make resources available to limit operational risk to as low as reasonably practicable.

Risk management framework

The Reserve Bank's Executive Accountability Framework outlines where accountability lies within the executive team for the Bank's functions and operations. The risk management framework supports this by establishing a process to manage risks that are specific to those functions and operations. Management have a responsibility to evaluate their risk environment, put in place appropriate controls, assign ownership of risks and controls, and monitor the effectiveness of controls. The risk management culture emphasises careful analysis and management of risk in all business processes. The Risk Management Committee has oversight of these processes. The Committee meets at least six times a year and provides reports on its activities to the Executive Committee (chaired by the Governor) and the Reserve Bank Board Audit Committee.

The Bank's Risk and Compliance Department supports the application of the Bank's framework for managing risk. It monitors and reports on portfolio risks and compliance with respect to the Bank's operations in financial markets. Incident reports are prepared for events not covered by, or which occur other than in accordance with, Bank policies and procedures, and which have (or could have) undesirable consequences. The Risk Management Committee receives regular reporting on the Bank's performance against its nominated risk tolerances, as well as on incidents and related action plans. Depending on the nature and severity of an incident, there is also further escalation to the Reserve Bank Board Audit Committee and the Reserve Bank Board and/or Payments System Board.

Endnotes

[1] For more information, see <https://rbareview.gov.au/>.

[2] See RBA, 'Cash Rate Methodology'. Available at <https://www.rba.gov.au/mkt-operations/resources/cash-rate-methodology/overview.html>.

[3] See RBA, 'Term Funding Facility to Support the Australian Economy'. Available at <https://www.rba.gov.au/mkt-operations/term-funding-facility/overview.html>.

[4] See RBA, 'Statistical Tables', Statistical Table A3. Available at <https://www.rba.gov.au/statistics/tables/>. See also RBA (2021), 'Box C: Use of the Reserve Bank's Term Funding Facility', *Statement on Monetary Policy*, August.

[5] For details of how the Reserve Bank conducts open market operations and sets the hurdle rate, see Kent C (2022), 'Changes to the Reserve Bank's Open Market Operations', Remarks to the Australian Financial Markets Association, Sydney, 22 February.

[6] See RBA, 'Statistical Tables', Statistical Table A5. Available at <https://www.rba.gov.au/statistics/tables/>.

[7] See RBA (2021), *Risk Management Policy*, November.