

# Our Role

In its role as Australia's central bank, the Reserve Bank of Australia determines and implements monetary policy, fosters financial stability, undertakes a range of activities in financial markets, acts as a banker to the Australian Government, issues Australia's banknotes and has policy, supervisory and operational roles in the payments system.

The Reserve Bank of Australia is established by statute as Australia's central bank. Its enabling legislation is the *Reserve Bank Act 1959*. The Bank pursues national economic policy objectives. Its responsibility for monetary policy is set out in section 10(2) of the Reserve Bank Act, which states:

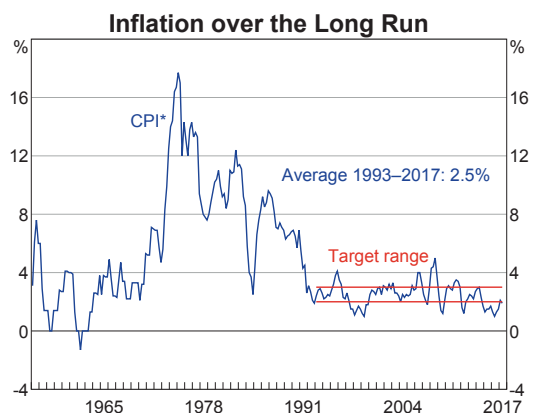
It is the duty of the Reserve Bank Board, within the limits of its powers, to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia and that the powers of the Bank ... are exercised in such a manner as, in the opinion of the Reserve Bank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

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

Policies in pursuit of these objectives have found practical expression in a flexible, medium-term inflation target, which has formed the basis of Australia's monetary policy framework since the early 1990s. The policy objective is for consumer price inflation to average between 2 and 3 per cent over time. Monetary policy aims to achieve this objective as a precondition for the promotion of sustainable economic growth and employment.

The seventh *Statement on the Conduct of Monetary Policy*, agreed by the Treasurer and the Governor on 19 September 2016, records the common understanding of the government and the Reserve Bank on key aspects of the monetary policy framework. This latest update of the statement confirmed the monetary policy framework in Australia, explicitly recognising that it is appropriate for the Reserve Bank Board to take account of financial stability considerations in determining the appropriate setting of monetary policy.

The Reserve Bank works with other regulatory agencies in Australia to foster overall financial stability, which is an important underpinning of a stable macroeconomic environment.



\* Excludes interest charges prior to September quarter 1998 and adjusted for the tax changes of 1999-2000

Sources: ABS; RBA

The Governor chairs the Council of Financial Regulators (CFR), a non-statutory coordinating body for Australia's main financial regulatory agencies, whose role is to contribute to the efficiency and effectiveness of regulation and to promote the stability of the Australian financial system. Its members – the Reserve Bank, the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investments Commission (ASIC) and the Australian Treasury – share information, discuss regulatory issues and, if the need arises, coordinate responses to potential threats to financial stability. The CFR also advises the Australian Government on Australia's financial regulatory arrangements.

Australia's financial stability policy framework includes mandates for financial stability for both APRA and the Reserve Bank. APRA is responsible for prudential supervision of financial institutions and the Bank is responsible for promoting overall financial system stability. In the event of a financial system disturbance the Bank and relevant agencies would work to mitigate the risk of systemic consequences. The Bank's responsibility to promote financial stability does not, however, equate to a guarantee of solvency for financial institutions and the Bank does not see its balance sheet as being available to support insolvent institutions. Nevertheless, 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.

The Reserve Bank conducts operations in domestic and international financial markets and undertakes analysis of markets and institutional developments in support of the Bank's policy objectives. These include ensuring there is sufficient liquidity in the domestic money market on a daily basis, in support of the Bank's monetary policy and financial system stability objectives. It operates in the foreign exchange market to meet

the foreign exchange needs of its clients (the largest of which is the Australian Government) and to assist with liquidity management in domestic markets. The Bank holds and manages Australia's foreign currency reserves, and has the capacity to intervene in the foreign exchange market to address any apparent dysfunction in that market or significant misalignment in the value of the currency, consistent with the objectives of monetary policy.

The Reserve Bank has responsibility for ensuring the stability, efficiency and competitiveness of the payments system through the Payments System Board, which was established in 1998. The Bank's powers in relation to the payments system are set out in a number of statutes, including the *Payment Systems (Regulation) Act 1998* and the *Payment Systems and Netting Act 1998*. Under the *Corporations Act 2001*, the Bank, through the Payments System Board, has responsibility for determining financial stability standards for licensed clearing and settlement facilities and assessing facilities' compliance with those standards.

The Reserve Bank also has an operational role in the payments system, as owner and manager of Australia's high-value payments system – the Reserve Bank Information and Transfer System (RITS). A separate area of the Bank assesses RITS against international standards for such infrastructure on an annual basis.

The Reserve Bank provides specialised banking services to government and foreign official institutions, including payments and collections as well as general account maintenance and reporting.

The Reserve Bank works with its wholly owned subsidiary, Note Printing Australia Limited, to design and produce Australia's banknotes. The Bank issues banknotes with the objective of ensuring public confidence in them as an effective payment mechanism and a secure store of value.