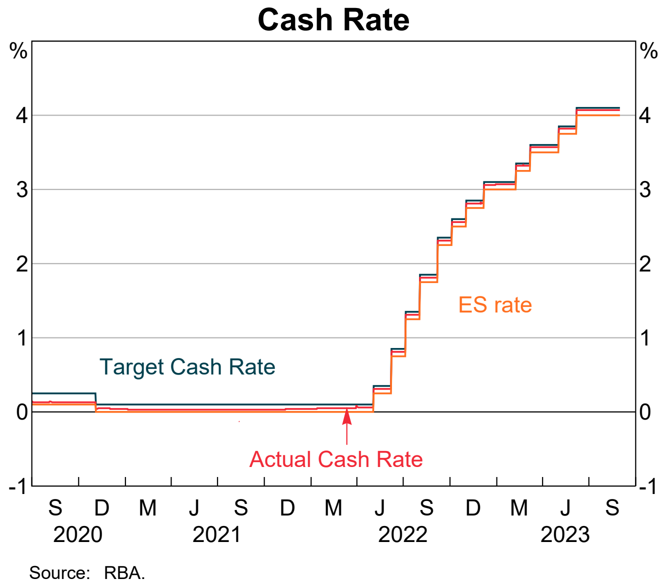
2.2 Operations in Financial Markets

The Reserve Bank operates in domestic and international financial markets to achieve its policy objectives. These operations include implementing the monetary policy decisions of the Reserve Bank Board, facilitating the smooth functioning of the payments system, managing the nation's foreign exchange reserve assets and providing banking services to clients (mainly the Australian Government, as well as foreign central banks). The Bank raised the cash rate target and the rate on Exchange Settlement (ES) balances by 325 basis points over 2022/23. The size of the Bank's balance sheet declined by around $16 billion over that period, but remains large.

Monetary policy implementation

The Reserve Bank Board's instrument for adjusting monetary policy is the cash rate. This is the rate at which banks borrow and lend to each other on an overnight, unsecured basis. The funds traded in the cash market are the balances held by financial institutions in their ES accounts at the Reserve Bank. These accounts are held by around 100 financial institutions and are used to settle payment obligations between these institutions. The aggregate level of ES balances changes as a result of payments made or received by customers of the Bank (principally the Australian Government) and ES account holders. It is also affected by transactions undertaken by the Bank on its own behalf, including repurchase agreements (repos) collateralised with eligible securities, buying or selling government securities on an outright basis, or using foreign exchange (FX) swaps involving Australian dollars.

The Board increased the cash rate target 10 times over 2022/23, taking it from 0.85 per cent to 4.1 per cent. The rate paid to banks on ES balances was increased by the same amount, from 0.75 per cent to 4 per cent. The cash rate target and ES rate were held steady at the July, August and September Board meetings.

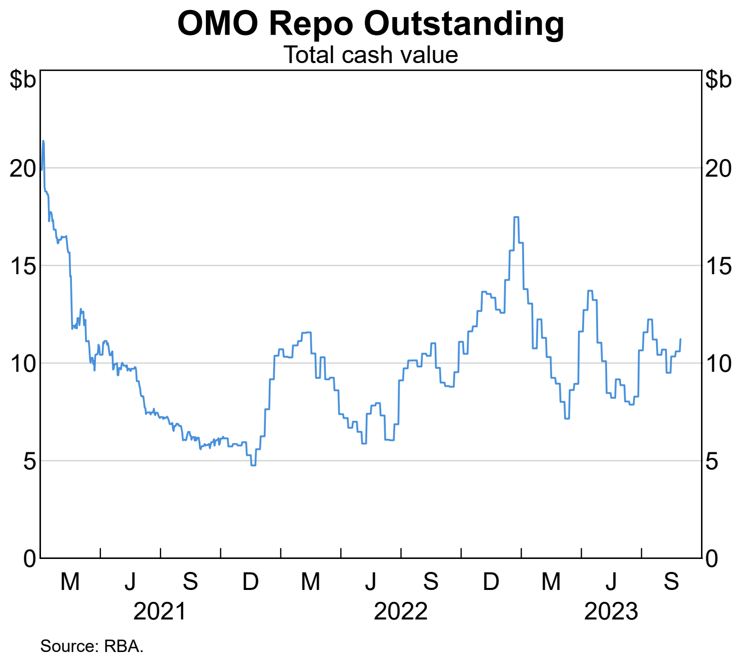


Given the increase in the Bank's balance sheet from pandemic-era policies, liquidity in the banking system (in the form of ES balances) is plentiful and well above pre-pandemic levels. This means that most banks are able to settle payments without borrowing funds in the overnight cash market. Nonetheless, as ES balances have started to fall, cash market activity has increased, from around $400 million per day on average over 2021/22, to around $900 million per day on average over 2022/23; this remains lower than prior to the pandemic. The cash rate continues to trade a little below the cash rate target but above the interest rate paid on ES balances, with the modest spread between these rates reflecting lenders' opportunity costs over and above the ES rate, as well as transaction costs and some credit risk. The Board has maintained the spread between the cash rate target and the interest rate on ES balances at 10 basis points, such that the actual cash rate remains close to the cash rate target.

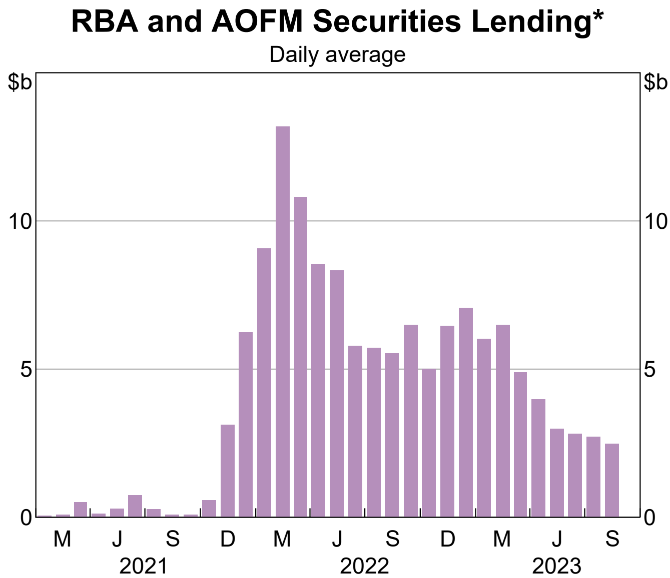
Open market operations

The Reserve Bank undertakes transactions in domestic financial markets where required to implement the policy decisions of the Reserve Bank Board and facilitate the smooth functioning of the payments system. This principally involves the Bank using repos contracted as part of its regular open market operations (OMO). Repos involve the purchase of high-quality securities whereby the Bank acquires the securities for a period of time in exchange for cash (i.e. funds deposited into an ES account). The Bank requires the value of the securities to exceed the cash lent by a specific margin (see below). As a result, there is very little risk of the Bank incurring financial loss from these transactions. The securities accepted by the Bank include Australian Government Securities (AGS), Australian state and territory government securities (semis), and securities issued by certain approved international sovereign and supranational entities. Securities issued by banks, asset-backed securities (ABS) and corporate bonds that meet certain criteria are also eligible for repo in the Bank's OMO. FX swaps are another type of transaction the Bank has used in the past to manage system liquidity; swapping Australian dollars for foreign currencies increases the supply of ES balances in the same way as a repo transaction.

The Bank does not target a specific level of ES balances. Rather, it offers to provide funds to banks via OMO at a set term and a cost that is closely linked to the cash rate; banks are then allowed to determine the size of the repo. This system is robust to unforeseen changes in the demand for ES balances and allows the quantity of ES balances to adjust in response to shocks. On average, around $11 billion in OMO repos was outstanding during 2022/23, compared with $7½ billion during 2021/22. FX swaps were not used for liquidity management purposes during 2022/23.



To aid market functioning, the Bank is prepared to lend government securities that it owns, in response to enquiries from eligible counterparties. The Bank also operates a Securities Lending Facility on behalf of the Australian Office of Financial Management (AOFM). Securities lending activity from the Bank's and AOFM's facilities averaged $5.3 billion and $57 million outstanding per day in 2022/23, respectively, compared with $5.5 billion and $98 million, respectively, in 2021/22. While activity has declined, it remains high by historical standards, reflecting the high (though declining) share of government bonds on the Bank's balance sheet.



* Face value.
Source: RBA.

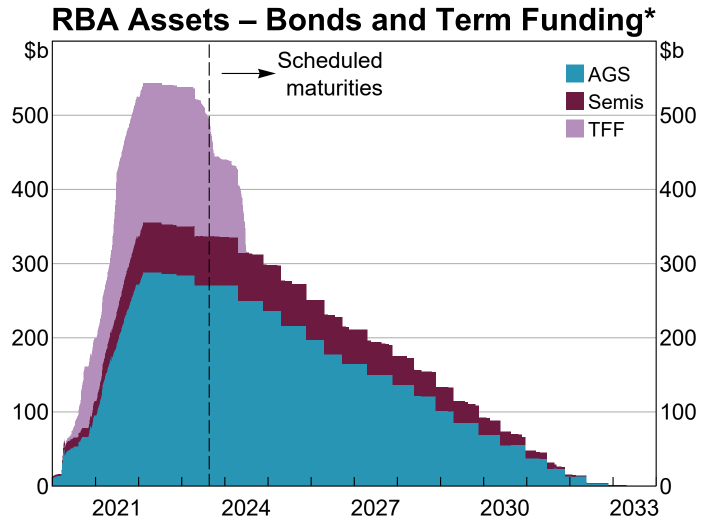
The Bank is also prepared to consider proposals from eligible counterparties to sell semis that it holds outright, in exchange for offsetting (duration-neutral) purchases of other semis. In 2022/23, the Bank conducted around $4.3 billion of these switch transactions.

Balance sheet

The Reserve Bank's balance sheet more than tripled in size between March 2020 and February 2022, the result of the monetary policy measures used to support the Australian economy during the pandemic. Over 2022/23, the size of the balance sheet declined by $16 billion to around $600 billion. Most of the decrease occurred in the final few months of the financial year.

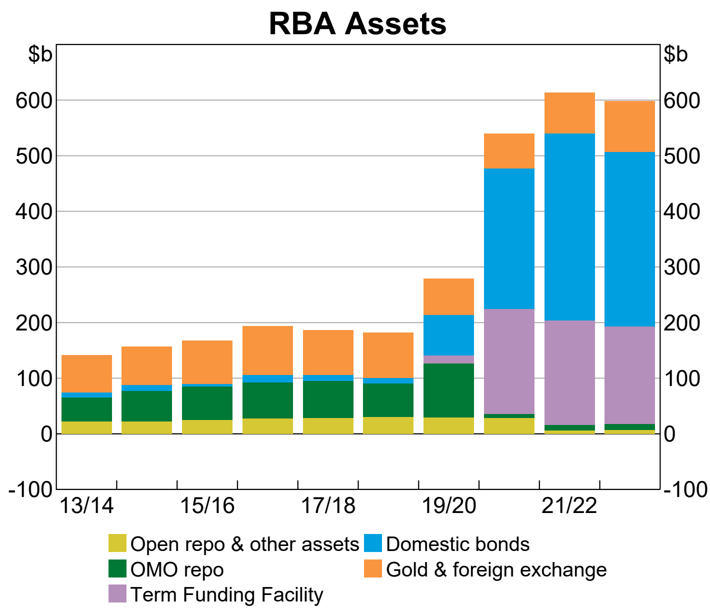
On the assets side, the value of the Bank's government bond holdings declined following the maturity of the April 2023 government bond and as higher bond yields led to valuation losses. In addition, scheduled maturities of the Term Funding Facility (TFF) began in April 2023, with $12 billion repaid by the end of 2022/23.[1] As at 30 June 2023, 84 banks had $175 billion of TFF loans outstanding. In the September quarter of 2023, the remaining $64 billion of loans drawn under the first tranche of the TFF will mature. The remaining $111 billion of outstanding TFF loans, relating to the second tranche of the TFF, will be fully repaid by mid-2024.

[1] The Reserve Bank announced the TFF in March 2020 as part of the package of extraordinary monetary policy measures to support the Australian economy in the wake of the COVID-19 pandemic. Although closed to new drawdowns since 30 June 2021, the TFF continues to provide funding to banks until the funds drawn down mature or banks repay the funding prior to maturity. See RBA (2021), 'Box C: Use of the Reserve Bank's Term Funding Facility', *Statement on Monetary Policy*, August.



* Face value of outright holdings of AGS and semis.

Source: RBA.



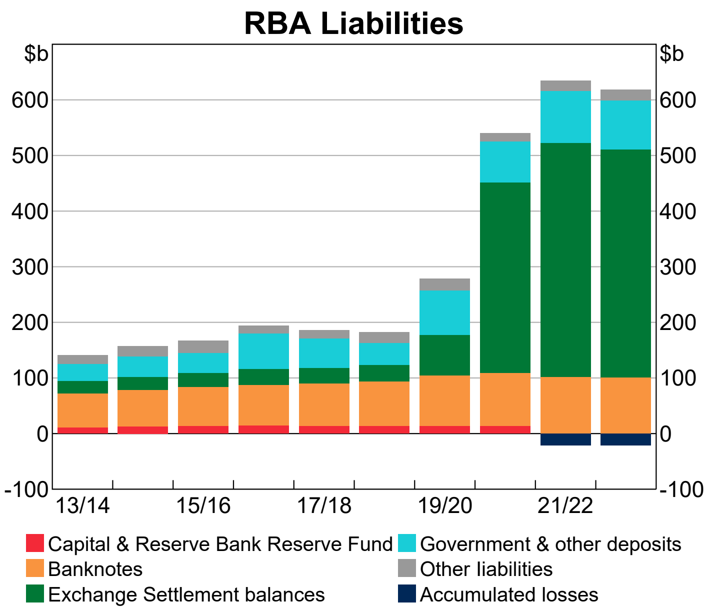
Source: RBA.

The corresponding decline in liabilities was primarily due to a reduction in ES balances, largely resulting from the repayment of TFF loans.

RBA Balance Sheet
$ billion, 30 June

	2022	2023
Assets	**614**	**598**
Foreign	73	91
Domestic	541	507
– Outright bond holdings	337	313
– Term Funding Facility	188	175
– OMO repo	9	11
– Open repo & others	7	7
Liabilities	**614**	**598**
Deposits	514	498
– ES balances	420	409
– Government & other	94	88
Banknotes	102	101
Accumulated losses	–21	–21
Other	18	20
Capital and Reserve Bank Reserve Fund	0	0

Source: RBA.



Source: RBA.

Standing facilities

Separate from its OMO, the Reserve Bank can also provide liquidity via repo through its standing facilities, where eligible counterparties temporarily exchange high-quality collateral for cash. These facilities are designed to support the smooth functioning of the payments system.

The most frequently used standing facilities are those for the provision of intraday liquidity to ES account holders, which carry no interest charge. In 2022/23, the Bank undertook an average of $2½ billion per day of intraday repos, compared with $2 billion in 2021/22. The Bank also makes available an overnight repo facility where ES account holders can exchange collateral for funding at an interest rate of 25 basis points above the cash rate target if they cannot source funds from another financial institution – for example, due to technical issues. This facility was not used during 2022/23.

Open repos are used to provide ES account holders with liquidity to facilitate their payments, particularly those made outside of normal business hours. ES account holders with after-hours payment obligations – such as 'direct-entry' payments and transactions through the New Payments Platform (see Chapter 2.3 Banking and Payment Services) – must hold sufficient ES balances at the close of each business day to settle these payments. Over 2022/23, open repo positions with the Bank declined from $3 billion to $2 billion.

Committed Liquidity Facility

The Committed Liquidity Facility (CLF) ceased on 1 January 2023. Under this facility, which was introduced in 2015, the Reserve Bank established a contractual commitment to provide repo funding to a range of institutions, subject to certain conditions including that they pay a fee on the committed amount. The CLF enabled banks subject to the Liquidity Coverage Ratio to meet the prudential requirement to hold sufficient high-quality liquid assets (HQLA) to meet outflows during a 30-day period of stress. (In the Australian context, HQLA consist of AGS, semis and ES balances.)

The CLF was introduced because relatively low levels of government debt outstanding in Australia at the time had limited the amount of HQLA securities that banks could reasonably hold without creating shortages for other participants in the market. However, the stock of AGS and semis outstanding increased substantially from early 2020, as the federal, state and territory governments issued bonds to finance the fiscal response to the COVID-19 pandemic. In addition, ES balances increased because of the Bank's policy response to the pandemic. Reflecting the increased availability of HQLA, in 2021 the Australian Prudential Regulation Authority announced that use of the CLF would be phased out by the end of 2022.[2] In accordance with that guidance, the overall size of the CLF was reduced from $66 billion in July 2022, to $33 billion in September 2022 and finally to zero in January 2023.

Eligible securities

The Reserve Bank accepts a range of eligible Australian dollar collateral for its market operations, as security in the event the Bank's counterparty does not meet its repurchase obligations. Acceptable collateral includes: AGS and semis; securities issued by authorised deposit-taking institutions (ADIs) and non-bank corporations with an investment-grade credit rating; and ABS and other securities with an average credit rating of AAA (for long-term securities) and A-1 (for short-term paper). To protect against a decline in the value of these securities, the Bank requires the value of the collateral to exceed the cash-leg of the repo by a specific margin when a trade is first entered. The Bank also requires counterparties to post additional collateral over the term of the repo if the value of the posted collateral falls. These margins, which are listed on the Bank's website, are considerably higher for securities that are not issued by

[2] See APRA (2021), 'APRA Phases Out Reliance on Committed Liquidity Facility', Media Release, 10 September.

governments.[3] Participants in the Bank's market operations tend to be the fixed-income trading desks of banks and securities firms, as well as bank treasuries. Reflecting this, around one-quarter of the value of the securities held by the Bank under repo (excluding those under open repo and the TFF) are government-related obligations.

In 2022/23, the Bank's repo collateral holdings decreased by around $13 billion, largely owing to the repayment of TFF repos.

The Bank's domestic securities are held in an account that it maintains in Austraclear, the central securities depository operated by the Australian Securities Exchange (ASX). Securities transactions conducted between the Bank and its counterparties are settled in the Austraclear system, mostly on a bilateral basis. The Bank also settles repo transactions contracted in its OMO within ASX Collateral, a collateral management service. During 2022/23, 55 per cent of the value of securities the Bank held under repo in OMO was settled within ASX Collateral, similar to the proportion in 2021/22. The use of this system reduces the manual processing that would otherwise be required to manage this collateral, including marking it to market and maintaining margins.

ABS form a significant share of the securities held by the Bank as repo collateral under the TFF. Around 90 per cent of the outstanding value of TFF repos is backed by self-securitised Residential Mortgage-backed Securities (RMBS) (which are not eligible as collateral for OMO or open repos). Given the importance of ABS to the Reserve Bank's operations, the Bank has mandatory reporting requirements for securitisations to remain eligible for repo. In 2022/23, the Bank received around 5,500 data submissions each month on around 400 ABS from issuers or their appointed information providers. For eligible RMBS, this covers around 2.4 million underlying individual housing loans with a combined balance of around $680 billion, which is around one-third of the total value of housing loans in Australia. The required data include key information on the structure of the RMBS and the counterparty relationships within that structure. The required data also include anonymised information on each of the residential mortgage loans and the underlying collateral backing the RMBS structures.

[3] See RBA (2020), 'Margin Ratios'.

Australian Dollar Securities Held under Repurchase Agreements[(a)]

30 June

	2019		2020		2021		2022		2023	
	$ billion	per cent of total	$ billion	per cent of total	$ billion	per cent of total	$ billion	per cent of total	$ billion	per cent of total
AGS	36.5	37	47.4	31	5.6	2	2.8	1	1.5	1
Semis	12.7	13	25.2	16	8.1	3	6.5	3	6.3	3
Supranational	2.8	3	3.4	2	0.7	0	0.9	0	0.8	0
ADI issued	12.9	13	27.8	18	11.2	4	15.9	6	17.6	7
Corporate issued	0.0	0	0.3	0	0.5	0	0.9	0	0.6	0
ABS	33.5	34	50.0	32	260.2	91	231.3	89	218.5	89
– of which: for open repo	32.4	33	32.4	21	31.5	11	0.7	0	0	0
– of which: for TFF	0.0	0	14.7	9	227.8	80	229.1	89	217.2	88
Other	0.4	0	1.1	1	0.2	0	0.1	0	0.2	0
Total	98.8	100	155.2	100	286.3	100	258.4	100	245.5	100
– of which: for open repo	34.5	35	35.3	23	34.3	12	3.1	1	2.1	1
– of which: for TFF	0.0	0	17.7	11	244.6	85	246.1	95	232.2	95
– of which: for OMO	64.3	65	102.2	66	7.4	3	9.2	4	11.3	5

(a) Market value of securities before the application of margins; includes securities held under triparty repurchase agreements.
Source: RBA.

Reflecting the Bank's interest in promoting transparency in ABS, issuers are also required to make securitisation information available to investors and other permitted users. The data provided to these users are broadly similar to the data provided to the Bank; however, issuers may redact particular fields where the information poses a potential risk to privacy obligations and provide aggregated data instead. The mandatory reporting requirements allow the Bank (and other investors in RMBS) to analyse in detail the underlying risks in ABS and therefore to price and manage risk accurately.

To promote strong financial markets, securities that reference the Bank Bill Swap Rate (BBSW) and are issued after 1 December 2022 must include a robust, reasonable and fair fallback to BBSW in order to be eligible securities in the Bank's operations. This ensures that the securities will continue to perform as expected in the unlikely scenario that BBSW ceases to be published at some point in the future.[4]

[4] See D Cole and L Pendle (2022), 'Fallbacks for BBSW Securities', RBA *Bulletin*, June.

The cash rate

The Reserve Bank is the administrator of the cash rate. This is a significant financial benchmark referenced in overnight indexed swaps and the ASX's 30-day interbank cash rate futures contracts, as well as in securities and transactions requiring a (near) risk-free reference rate (RFR). The cash rate is also known as AONIA (AUD Overnight Index Average). As the RFR for the Australian dollar, under International Swaps and Derivatives Association (ISDA) definitions published in 2020, it forms the basis of the fallback to BBSW (calculated as AONIA plus a spread).[5] The ISDA definitions were developed in the context of global benchmark reforms, which have included identifying alternatives to credit-based rates for use in securities and transactions.

Activity in the cash market increased during 2022/23 but remained lower than prior to the pandemic. The cash rate was determined by market transactions on around 70 per cent of days, compared with around 30 per cent of days in 2021/22.[6] Expert judgement was used on days when activity was below the thresholds required to calculate a cash rate from market transactions. In accordance with fallback procedures, the published cash rate on these days was either: the last cash rate published based on sufficient transactions (70 occasions); or another rate that reflected the interest rate relevant to unsecured overnight funds for cash market participants as determined by the cash rate administrator, in its expert judgement and based on market conditions (four occasions). Over the June quarter 2023, the cash rate was determined by market transactions on all days. During the first two months of 2023/24, there were five days when expert judgement was used.

The cash rate remained between the cash rate target and the interest rate on ES balances throughout 2022/23. Between July and December 2022, the cash rate was typically 4 basis points below the cash rate target and 6 basis points above the ES rate; from January to June 2023 the cash rate typically traded at 3 basis points below the cash rate target and 7 basis points above the ES rate. During 2022/23, the cash rate rose from 0.81 per cent to 4.07 per cent, and it remained at 4.07 per cent during the first two months of 2023/24.

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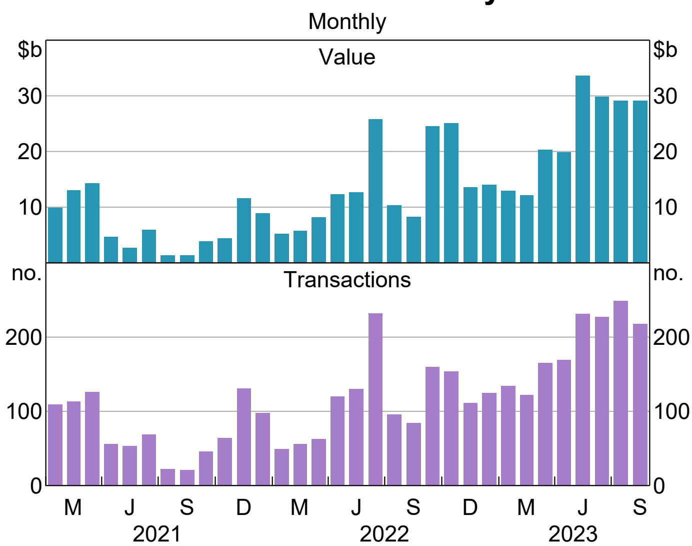
[5] See ISDA (2020), 'Amendments to the 2006 ISDA Definitions to Include New IBOR Fallbacks', 23 October.

[6] The Bank has outlined its arrangements for administering the cash rate and the procedures for handling errors and complaints in RBA (2023), 'Cash Rate Procedures Manual'.

Cash Market Activity



Source: RBA.

Foreign exchange operations

The Reserve Bank transacts in the FX market on almost every business day. Most of these transactions are associated with providing FX services to the Bank's clients, the most significant of which is the Australian Government.

The Bank typically purchases the necessary foreign currency in the spot market. During 2022/23, the Bank bought A$13.6 billion in the spot market to facilitate its customer business. The Bank also retains the option – especially during periods of market stress – to use its existing stock of foreign currency reserves to fund its customer business, replenishing those reserves when market conditions have stabilised. However, this has not been considered necessary since 2008, when global financial market functioning was significantly impaired. Similarly, the Bank has not intervened in the FX market since 2008. The Bank nevertheless retains the discretion to intervene in the FX market to address any dysfunction and/or a significant misalignment in the value of the Australian dollar. At the time each Annual Report is published, intervention data for the year under review are published on the Bank's website.[7] During 2022/23, the Bank's assessment was that trading conditions in the market were sufficiently orderly that it was not necessary to support liquidity in the market through its own transactions. Volatility in the Australian dollar was also contained, particularly when compared with previous episodes of market stress such as 2008.

The Bank also transacts in the FX market when managing its foreign currency reserves. As discussed below, the relative weightings of foreign currencies in the Bank's portfolio are tightly managed against a benchmark. To maintain the portfolio at these benchmark weights, or to accommodate discrete changes in the weights, the Bank transacts in spot FX markets. The final settlement of these rebalancing flows may be deferred for a short period of time through the use of FX swaps, whereby one currency is exchanged for another with a commitment to unwind the exchange at a subsequent date and at an agreed (forward) rate. Swaps can also be an efficient way to manage the shorter term investments within the reserves portfolio. During 2022/23, the Bank generally had around A$22 billion in swaps outstanding for these purposes.

The Bank also executes long-term FX swaps against Australian dollars for terms of up to five years. These longer term transactions are used to maintain the Bank's policy capacity, including to meet Australia's commitments as a member of the International Monetary Fund (IMF). These swaps do not affect the exchange rate. The Bank had A$10.2 billion in long-term swaps outstanding at the end of June 2023.

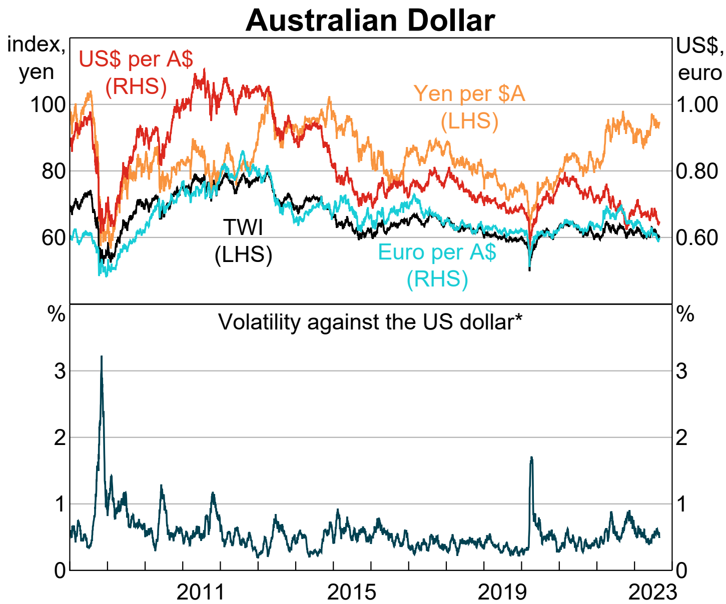
The Bank's forward FX positions with each of its counterparties are marked to market daily and collateral is held against net exposures. The terms under which collateral is exchanged are defined in two-way credit support annexes to the ISDA Master Agreements that the Bank has executed with each of its counterparties (see Chapter 3.3 Risk Management).

The Bank's activities in the FX market are conducted in a manner consistent with the principles of the FX Global Code. A 'Statement of Commitment to the FX Global Code' has been signed on behalf of the Bank.

[8] The Bank transacts in the FX market only with counterparties that have also signalled their adherence to the Code by signing a Statement of Commitment.

[7] See RBA, 'Statistical Table A5: Daily Foreign Exchange Market Intervention Transactions'.

[8] See RBA (2021), 'Statement of Commitment to the FX Global Code', 8 December.



* Daily absolute percentage change, 22-day rolling average.
Sources: RBA; Refinitiv.

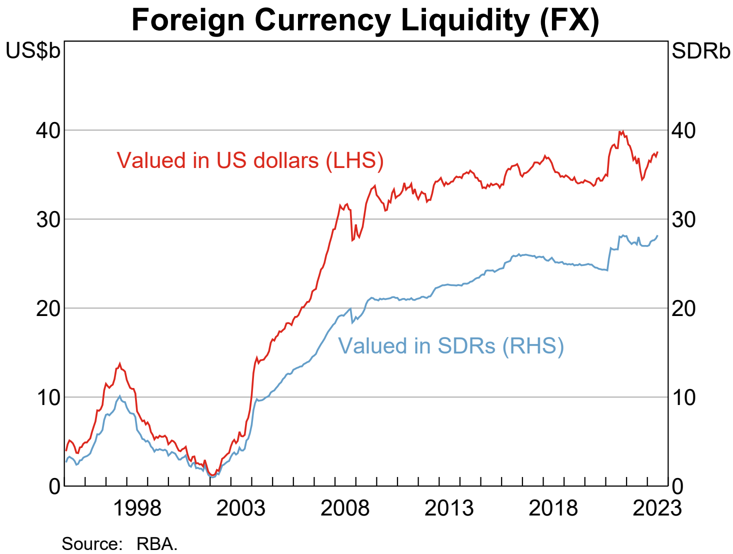
Reserves management

Australia's official reserve assets include foreign currency assets, gold, Special Drawing Rights (SDRs; an international reserve asset created by the IMF) and Australia's reserve position in the IMF. At 30 June 2023, these assets totalled A$89.4 billion. Most of these assets are owned and managed by the Reserve Bank. The Australian Government owns Australia's reserve position in the IMF and the bulk of Australia's SDR holdings.

Official reserve assets are held by the Bank to facilitate various policy operations, including in the FX market (described above) and to assist the Australian Government in meeting its commitments to the IMF. The Reserve Bank Board reviews the adequacy of the Bank's reserve holdings on a regular basis, including by considering historical FX intervention episodes and other potential stress scenarios. The most recent review of reserves adequacy was undertaken in March 2023 and concluded that the Bank's capacity for intervention should increase gradually over the coming years.

One gauge of the Bank's capacity to undertake FX operations is measured by its foreign currency assets net of any short-term forward commitments (such as an obligation to deliver foreign currency on a swap due to mature within 12 months against Australian dollars). As at 30 June 2023, these assets – referred to as 'foreign currency liquidity (FX)' – were SDR 28.2 billion or US$37.6 billion. Over time, foreign currency liquidity (FX) can increase with earnings on the Bank's foreign currency assets, with purchases of foreign currency in the spot market and via long-term swaps.

The foreign assets held by the Bank can expose it to market, liquidity and credit risk, which it seeks to mitigate where possible – for example, by holding a diversified portfolio and investing only in assets of high credit quality and appropriate liquidity (see Chapter 3.3 Risk Management).



Foreign Assets

30 June 2023

	A$m
Official reserve assets	
– Foreign currency	55,673
– Gold	6,019
– SDRs	19,732
– Reserve position in the IMF	3,848
– Other reserve assets	4,141
Other foreign currency assets	334
Net forward foreign currency commitments: Short term	
– Foreign currency	434
– Gold loans	279
Net forward foreign currency commitments: Long term	–10,245
Memo item:	
Foreign currency liquidity (FX)[(a)]	*56,706*

(a) Foreign currency liquidity (FX) includes foreign currency holdings and other foreign currency assets, net of short-term foreign currency forward commitments (commitments with less than 12 months to maturity).
Source: RBA.

The composition of the Reserve Bank's foreign currency reserve holdings, net of forward commitments against the Australian dollar, is managed against an internally constructed benchmark that reflects the Bank's need to maintain effective intervention capacity. Subject to this constraint and the Bank's overall risk tolerance, the benchmark is assessed to be the combination of foreign currencies and foreign currency assets that maximises the Bank's expected returns over the long run. Within the portfolio, the largest allocation is to the US dollar (55 per cent), reflecting the significant liquidity in US dollar currency and asset markets.

Duration targets are relatively short for most of the foreign currency portfolios. This has limited any capital losses associated with increasing global yields during 2022/23.

Investments in the benchmark currencies are limited to deposits at official institutions (such as central banks) and debt instruments issued (or guaranteed) by sovereign entities, central banks and supranational agencies. Debt instruments issued by quasi-sovereign entities can also be accepted as collateral under reverse repos.

Sovereign credit exposures are currently limited to the United States, Germany, France, the Netherlands, Japan, Canada, China, the United Kingdom and South Korea.

Benchmark Foreign Currency Portfolio

30 June 2023

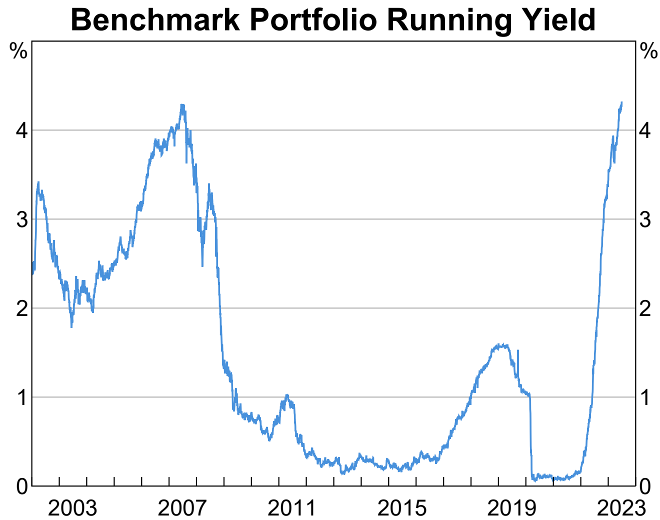
	US dollar	Euro	Japanese yen	Canadian dollar	Chinese renminbi	UK pound sterling	South Korean won
Currency allocation (per cent of total)	55	20	5	5	5	5	5
Duration (months)	6	6	<3	6	18	3	18

Source: RBA.

As has been the case for some years, when the cost of hedging currency risk is taken into account, yields on short-dated Japanese and South Korean investments have generally exceeded those available in the other currencies in the Bank's portfolio. Reflecting this, the Bank has swapped other currencies in its foreign currency reserves portfolio against the Japanese yen and South Korean won to enhance returns. As a consequence, while the Bank's exposure to changes in the value of the yen and won remains small (allocations in the benchmark to each of these currencies were only around A$2 billion), an additional A$17.1 billion of yen and A$2.2 billion of won was held at the end of June 2023 as a result of swaps against other foreign currencies in the portfolio.

A small component of the Bank's foreign currency risk is managed outside the benchmark framework. The Bank invests in a number of Asian debt markets through participation in the Executives' Meeting of East Asia-Pacific Central Banks Asian Bond Fund Initiative. This initiative was established following the Asian currency crisis in the late 1990s to assist in the development of bond markets in the region. At the end of June 2023, the total allocation of the Bank's reserves to these funds was A$757 million. In SDR terms, there was a return of 1.9 per cent on these investments over the year, reflecting capital gains on Asian government bonds as yields decline.

Measured in SDRs, the overall return on the Bank's foreign currency assets over 2022/23 was 3.1 per cent. The average running yield on the benchmark portfolio increased from 1.4 per cent to 4.3 per cent over 2022/23, reflecting increases in yields across most individual currency portfolios.



Source: RBA.

The Bank's holdings of SDRs at 30 June 2023 amounted to A$9.4 billion – A$3 billion higher than the previous year, mainly reflecting net purchases of SDRs. Under voluntary arrangements with the IMF, the Bank is willing to transact in SDRs on request from other countries or prescribed holders. In these transactions, the Bank will generally either buy or sell SDRs in exchange for foreign currencies (such as euros or US dollars). While such transactions do not alter the level of Australia's reserve assets (only the respective proportions held in SDRs and foreign currency), the Bank will typically replenish foreign currency sold in exchange for SDRs by purchasing foreign currency in long-term swaps against Australian dollars. At 30 June 2023, the Australian Government's holdings of SDRs amounted to A$10.3 billion.

Australia's reserve position in the IMF comprises that part of Australia's quota in the IMF that is paid in foreign currency, as well as other credit that Australia has extended to the IMF in support of its lending programs. At the end of June 2023, Australia's reserve position in the IMF was A$3.8 billion – A$0.1 billion larger than a year earlier, mainly reflecting the depreciation of the Australian dollar. As noted above, Australia's reserve position in the IMF is not held on the Bank's balance sheet. However, the Bank will sell to (or purchase from) the Australian Treasury the foreign currency it needs to complete its transactions with the IMF. As with SDR transactions, the Bank will typically replenish the foreign currency sold to the Treasury by purchasing foreign currency in long-term swaps against Australian dollars.

Gold holdings (including gold on loan) at the end of June 2023 were around 80 tonnes, unchanged since 1997. Gold prices increased by 9.4 per cent in Australian dollar terms over 2022/23, increasing the value of the Bank's holdings of gold by around A$0.6 billion to A$7.4 billion.

The Bank also seeks to earn income on its holdings by lending gold. Any gold lending by the Bank has the benefit of a government guarantee on the borrower's payment obligations to the Bank or is structured as a gold swap, such that the loan is fully collateralised by cash (either foreign currency or Australian dollars). Returns from these activities totalled A$1.1 million in 2022/23 – higher than the previous year, mostly due to increased activity. As at 30 June 2023, the Bank had outstanding gold loans amounting to 15 tonnes. Gold is held by the Bank in an allocated account at the Bank of England. All bars meet the London Bullion Market Association's (LBMA) 'Good Delivery' standards.

Foreign Currency Assets[(a)]

A$ million, 30 June 2023

Currency	Securities held outright	Securities lent under repurchase agreements	Deposits at official institutions[(b)]	Forward FX commitments[(c)] Total (gross)	Against A$	Against other currencies	Other	Total (net)
US dollar	15,739	–2,642	835	13,932	–7,381	13,087	5,627	25,265
Euro	3,307	–916	337	2,728	–8	5,200	1,517	9,437
Japanese yen	18,774	–	10,996	29,770	–9,804	–17,077	–	2,889
Canadian dollar	1,980	–	4	1,984	–	411	–	2,395
Chinese renminbi	1,430	–	775	2,205	–	–	–	2,205
UK pound sterling	598	–	8	607	–3	1,831	–	2,435
South Korean won	4,447	–	–	4,447	–	–2,194	–	2,253
Total	46,275	–3,558	12,955	55,673	–17,196	1,258	7,144	46,879

(a) Excludes gold, SDRs, the reserve position in the IMF, investments in the Asian Bond Fund, balances with overseas banks, futures margins and non-reserve currency holdings.

(b) Includes deposits at foreign central banks and the Bank for International Settlements.

(c) In accordance with IMF guidelines, 'forward commitments' reflect notional values of unsettled spot and forward transactions, converted to Australian dollars at the prevailing forward exchange rate. Other forward commitments largely reflect cash lent under repurchase agreements. This excludes forward commitments for non-reserve currencies and gold on loan.

Source: RBA.

The Bank's activities in the gold market are conducted in a manner consistent with the principles of the LBMA's Global Precious Metals Code. Following the publication of a revised Code in December 2022, an updated 'Statement of Commitment to the Global Precious Metals Code' was signed on behalf of the Bank.[9]

Bilateral currency swaps

The Reserve Bank has bilateral local currency swap agreements with the People's Bank of China, the Bank of Japan, the Bank of Korea and Bank Indonesia. The purpose of these agreements is to allow each central bank to support trade settlement in local currencies, particularly in times of market stress, or to support financial stability. Over the past year, the agreement with the Bank of Korea was renewed for a further five years.

	Expiry	Size (A$ billion)
People's Bank of China	July 2026	41
Bank of Japan	March 2025	20
Bank of Korea	February 2028	12
Bank Indonesia	February 2025	10

Source: RBA.

[9] See RBA (2023), 'Statement of Commitment to the Global Precious Metals Code', 5 April.