2.1 Annual Performance Statement

I, as the accountable authority of the Reserve Bank of Australia, present the Annual Performance Statement of the Reserve Bank for the 2022/23 reporting period, prepared under paragraph 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In my opinion, this Statement accurately presents the performance of the Reserve Bank in the reporting period and complies with subsection 39(2) of the PGPA Act.

Philip Lowe
Governor, Reserve Bank of Australia
6 September 2023

Introduction

This Statement outlines the key objectives of the Reserve Bank as set out in the 2022/23 corporate plan and provides an assessment of the Bank's performance in achieving those objectives. Where necessary, additional context is provided, including an analysis of significant factors that have contributed to the outcomes.

Price stability and full employment

Purpose

Under 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 Reserve Bank Board's opinion, will best contribute to:

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

In support of these objectives, 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 1959*. 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 Board's decisions on what monetary policy will best keep inflation at its target 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 that there is sufficient liquidity in the domestic money market every day.

Results

Performance Summary: Price Stability and Full Employment

Key activities	Performance measures and targets	Results
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.	Consumer price inflation was 6.0 per cent over the year to the June quarter 2023. Inflation remains well above the target band but has declined from its peak of 7.8 per cent over the year to the December quarter 2022. Inflation is forecast to be back within the 2–3 per cent target band in late 2025.
	Foster sustainable growth in the economy.	The Australian economy has continued to grow, expanding by 2.3 per cent over the year to the March quarter. GDP growth has moderated over the past year, including in response to cash rate increases to achieve a more sustainable balance between supply and demand in the economy. The unemployment rate has remained around 3½ per cent since mid-2023, the lowest rate in nearly 50 years.
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 each business day. 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.	The cash rate was within the interest rate corridor around the cash rate target on each business day throughout 2022/23.
Manage the Reserve Bank's Term Funding Facility (TFF).	While closed to new drawdowns, the TFF will provide low-cost funding to June 2024.	The Bank managed the TFF, undertaking collateral management and processing maturities and early repayments as required.
Provide adequate liquidity to the financial system.	Use open market operations (OMO) to ensure financial institutions have access to liquidity and that funding costs are appropriate to achieve our goals.	Financial institutions have been able to draw on liquidity as required, using the Bank's weekly OMO. Funding costs have risen in line with increases in the cash rate.
Manage reserves to portfolio benchmarks.	Reserves portfolio managed within permitted deviations around benchmarks for interest rate and currency risk.	Deviations from the benchmarks were in line with predefined tolerances.
Intervene in foreign exchange market as appropriate.	Publish data and explanations of any intervention.	No foreign exchange market intervention was conducted.

Key activities	Performance measures and targets	Results
Review of the Reserve Bank.	Support the Panel and Secretariat to undertake the Review, including by seconding staff to the Secretariat.	The Bank seconded four staff to the Secretariat, provided a large quantity of background documents and answered numerous questions posed by the Secretariat.

Analysis

Over 2022/23, many advanced economies, including Australia, experienced the highest rates of inflation in decades. Inflation rose much more quickly than had been expected, reflecting a combination of supply-side disruptions and stronger-than-expected demand. In response, central banks significantly increased their policy interest rates to bring inflation back towards target. The intent was to help bring demand and supply back into balance before medium- and long-term inflation expectations rose. While inflation has declined since the end of 2022 it has remained persistently high, particularly for services. This is partly because economic conditions have been resilient, particularly in labour markets.

At the time of the July 2022 Board meeting:

- The Australian economy had recovered strongly from pandemic-related disruptions and the labour market was tighter than it had been for a long time. The level of GDP had increased to be around 4½ per cent higher than prior to the COVID-19 pandemic. The unemployment rate had fallen by more than expected, to 3.9 per cent – then the lowest rate in almost 50 years. Underemployment had also fallen significantly. Job vacancies and hiring intentions were both at very high levels, with a further decline in unemployment and underemployment expected in the period ahead.
- Wages growth had picked up but remained low. The Wage Price Index (WPI) had increased by 2.4 per cent over the year. The Bank's liaison program and business surveys were pointing to a lift in wages growth from the very low rates of recent years as firms competed for staff in a very tight labour market. Wages growth was expected to pick up further to around 3¾ per cent by mid-2024, which would be the fastest pace since 2012.
- Inflation had increased sharply, to be above the 2–3 per cent target band for the first time in a decade, but remained lower than in other advanced economies. Headline inflation was 5.1 per cent over the year to March 2022 (the latest available data at the time). Underlying inflation was somewhat lower at 3.7 per cent. Inflation was forecast to peak at 6 per cent at the end of 2022 and then decline back to the top of the 2–3 per cent target range by mid-2024.
- The cash rate target had been increased by 25 basis points at the May meeting and by a further 50 basis points at the June meeting, taking it to 0.85 per cent. The interest rate on ES balances had increased by the same amount. The Board noted that the resilience of the economy and the increase in inflation meant that the extraordinary monetary support put in place to insure the Australian economy against the worst possible effects of the pandemic was no longer needed. The Board noted that further steps in the process of normalising monetary conditions in Australia were expected over the months ahead, given the outlook for inflation and the labour market.

By early-August 2023:

- Economic growth in Australia had slowed as the bounce-back from the pandemic had run its course, and in response to cost-of-living pressures and higher interest rates. GDP growth was 0.2 per cent in the March quarter (the latest available national accounts data) and 2.3 per cent over the year. By contrast, the labour market remained tight. The unemployment rate remained around its 50-year low of 3½ per cent, having hovered around that level since mid-2022. A range of other indicators suggested that the tightness in the labour market had eased slightly from late 2022, including some increase in the underemployment rate and firms reporting an improvement in labour availability in some sectors.

- Wages growth had picked up a bit more than had been expected, reflecting the strength in the labour market and higher-than-expected inflation in late 2022. The WPI was 3.7 per cent higher over the year to the March quarter, which was the strongest growth rate in a decade.
- Inflation remained high but was moderating. Year-ended growth in the Consumer Price Index peaked at 7.8 per cent in the December quarter of 2022, its highest level since 1990 (and since 1987 excluding interest charges) and much higher than had been earlier expected. By the June quarter of 2023, headline inflation had eased to 6.0 per cent and underlying inflation as measured by the trimmed mean had declined to 5.9 per cent. This rate of inflation is at least as high as in some other advanced economies.
- The cash rate had been increased at each Board meeting during 2022/23, apart from the April 2023 meeting, to be 4.1 per cent (4.0 per cent for ES balances).

Higher-than-expected inflation has been a key challenge facing many economies over the past year. Central banks around the world have responded by lifting their policy interest rates significantly. Inflation has eased as supply disruptions have unwound and contractionary monetary policy settings have taken effect. The decline in headline inflation has been helped by falls in energy and some food prices, but core inflation remains high and progress in reducing it has been slow. Inflation has been especially persistent in the services sector. In many countries, labour costs, which are a key driver of costs in the services sector, are growing more strongly than is consistent with inflation targets. This has been partly a function of subdued growth in labour productivity in many countries over recent years.

Economic growth in advanced economies has slowed in response to cost-of-living pressures and higher interest rates, but it has been more resilient than expected by most forecasters. This has been particularly true in the services sector. Labour market conditions remain tight, with unemployment rates at historically low levels in many countries, and this has underpinned strong wages growth. Central banks in advanced economies generally expect it will take another year or two to return inflation to target.

In Australia, inflation has followed a similar path to that in many other advanced economies, albeit with a slight delay. The high degree of commonality in the inflation experience globally has been a striking feature of the current episode. High inflation domestically has been broadly based across the CPI basket. A range of global and domestic developments have caused the current bout of high inflation, including global supply issues related to the war in Ukraine and the COVID-19 pandemic, and domestic supply disruptions from poor weather. Strong domestic and global demand have also played an important role, reflecting the significant fiscal and monetary policy responses to the pandemic and the faster-than-expected development of effective vaccines that enabled a rapid economic recovery.

Initially, global and domestic supply-side factors were key drivers of the rapid increase in inflation in Australia. As global supply chain disruptions were resolved, however, demand factors became increasingly important. Around one-half to three-quarters of the pick-up in inflation over the year to December 2022 is estimated to have been attributable to supply-side shocks, with around one-quarter to one-half due to demand conditions. The relative importance of these factors has started to shift over the first half of 2023.

While economic growth in Australia has slowed in response to higher interest rates and cost-of-living pressures, the economy continues to operate at a level of resource utilisation that is not sustainable and is leading to high inflation. The unemployment rate remains around its lowest level in close to 50 years and broader measures of underemployment also remain low. There has, however, been some easing in labour market conditions since late last year.

More firms have had to pay higher wages to attract and retain staff. Wages growth has increased to between 3½ and 4 per cent over the year to the June quarter. Meanwhile, labour productivity has been particularly weak recently, with little growth overall since 2019. At the aggregate level, current rates of wages growth are still consistent with the 2–3 per cent inflation target, provided that productivity growth picks up to around the average pace recorded before the pandemic.

The Board has stated that it is resolute in its determination to return inflation to the 2–3 per cent target over a reasonable time period. Given typical lags, the full effects on the economy of the tightening in policy rates are yet to flow through. The current forecasts are for inflation to moderate to be around 3¼ per cent by the end of 2024 and to be back within the 2–3 per cent target band in late 2025.

The Bank met the operational objectives of implementing monetary policy over 2022/23. The cash rate remained close to the cash rate target and within the policy rate corridor at all times. The cash rate was guided by the Bank's administered ES and OMO rates. TFF loans began to be repaid. The Bank's current operational framework for implementing monetary policy – supplying the reserves demanded by commercial banks at a fixed interest rate determined by the Bank – ensured the financial system had the liquidity needed. Foreign exchange reserves were also managed prudently within set limits and no foreign exchange interventions were required.

The stability of the financial system

Purpose

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 Reserve Bank also has specific responsibility to oversee financial market infrastructures (FMIs) that could have implications for financial stability.

The Bank works 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 (ASIC) 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, the Australian Transaction Reports and Analysis Centre (AUSTRAC), and the Australian Taxation Office at least annually to discuss broader financial sector policy. 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.

Results

Performance Summary: Stability of the Financial System

Key activities	Performance measures and targets	Results
Support overall financial stability.	A stable financial system that can support the economy.	The Australian financial system is strong. Australian banks are well regulated, strongly capitalised, profitable and highly liquid. The Australian banking system remained resilient in the face of stresses in parts of the international banking system in March 2023. Most households and businesses managed the impact of higher interest rates and inflation, supported by strong labour market conditions and sizeable saving and equity buffers; however, some experienced significant financial pressures. As economic conditions became more challenging, the share of non-performing loans increased somewhat, albeit from very low levels. Agencies represented on the CFR continued to monitor potential risks to financial system stability and stand ready to respond as necessary.

Key activities	Performance measures and targets	Results
	Work with CFR agencies and international bodies to identify and appropriately address evolving systemic risks.	The CFR closely monitored the response of households and businesses to high inflation and rising interest rates. Later in 2022/23, CFR agencies closely engaged with their international counterparts to understand developments and share learnings following recent stresses in parts of the international banking system. While the Australian banking system was resilient, the CFR is assessing Australia's crisis management settings to ensure they remain robust in light of recent events. Other areas of attention for the CFR over the past year included: • the importance of cybersecurity and operational resilience, given the risks posed by the increasing incidence and sophistication of cyber-attacks • trends in non-bank financial intermediation; payments regulation, including in relation to payments service providers and crypto-assets • risks associated with geopolitical tensions and climate change. The CFR issued quarterly statements that outlined its discussions and assessments of these and other areas of focus.
	Assess and communicate risks to financial stability, including through the Bank's half-yearly *Financial Stability Review*.	The Bank used a wide set of data and information sources, as well as scenario analysis, to identify and assess emerging vulnerabilities in the Australian financial system, as well as potential cross-border channels of risk. The Bank communicated its assessments of these and other risks both with the other CFR agencies, and more broadly to a wider audience with the October 2022 and April 2023 issues of the *Financial Stability Review* (and accompanying short videos and infographics), as well as *Bulletin* articles, and speeches on financial stability issues.

Analysis

Over 2022/23, the Reserve Bank continued to conduct extensive analysis of developments and emerging risks in the financial system, relating to financial institutions, households and businesses. It also closely engaged with APRA and other CFR agencies to identify and appropriately address evolving systemic issues. This work informed the Reserve Bank Board's policymaking process. The Bank published much of its analysis of financial stability in its semi-annual *Financial Stability Review*, *Bulletin* articles, Research Discussion Papers and speeches.

A key area of focus in the past year was the effect of high inflation and rising interest rates on households, businesses and the financial system. Most households and businesses were able to manage the higher interest rates and cost-of-living pressures over 2022/23, supported by strong labour market conditions and the large additional savings and equity buffers accumulated in recent years. However, household resilience is unevenly spread, and some households and businesses are under significant financial pressure. The households most affected have been those with lower incomes, as well as recent borrowers who have larger debts relative to their income. There has been some increase in the levels of non-performing loans, though from very low levels.

The Bank monitored a number of timely indicators of financial stress among borrowers and renters, focusing on the debt-servicing challenges faced by a small share of households with high levels of debt relative to their income and low savings and equity buffers. Scenario analysis was also used to gauge the effects of high inflation and higher interest rates over the period ahead for indebted households. The analysis examined how households' spare cash flows (i.e. the income available after meeting loan payments and essential living expenses) would evolve, as well as how long savings buffers would last under various assumptions; it also considered the individual and system-wide implications of a rise in unemployment in this framework.

Another area of focus was the share of borrowers who took out fixed-rate loans during the period of very low interest rates. These borrowers face large increases in their scheduled mortgage repayments once their fixed-rate periods expire over 2023 and beyond, similar in size to the increases experienced by variable-rate loans to date. The Bank drew attention to this issue in both the October 2022 and April 2023 issues of the *Financial Stability Review*, and in a March 2023 *Bulletin* article. Bank research found that the vast majority of both variable- and fixed-rate borrowers rolling onto higher variable rates were, to date, able to manage these pressures by drawing on their savings buffers, reducing their spending and/or their rate of saving.

Most businesses have benefited from the strong economy and entered the interest rate tightening cycle in a healthy financial position. That said, the Bank drew particular attention to the financial difficulties in parts of the construction industry, given the potential for financial stress to spread to other businesses and some households.

During the recent period of overseas banking stress, CFR agencies closely monitored developments abroad, met frequently to share analysis and information, and assessed whether the stress overseas was transmitting to the Australian financial system. The Bank published its analysis of the causes and implications of the banking stress in a Box in the April 2023 *Financial Stability Review*. Australia has a well-capitalised, profitable and highly liquid banking system that is well placed to continue supporting the domestic economy. The banking sector remained resilient during the March 2023 bank stresses seen overseas. This was a result of banks' significant capital and liquidity buffers, well-established risk controls and a strong domestic regulatory and supervisory framework administered by APRA. The CFR has well-developed arrangements for managing distress at regulated financial institutions and financial market infrastructures. CFR agencies have been assessing Australia's crisis management settings to ensure they remain robust in light of recent events. In particular, international experience has highlighted the importance of crisis management tools, including Additional Tier 1 capital operating as intended, and deposit insurance schemes being able to provide depositors timely access to funds.

That episode of stress, along with earlier periods of heightened financial stress such as the global financial crisis and the COVID-19 pandemic, highlighted the benefits of the CFR framework in helping to support a stable financial system. This is consistent with the findings of the recent Review of the Reserve Bank on the effectiveness of the CFR.

While the non-bank sector in Australia accounts for a relatively small share of system-wide lending and has limited direct links with the banking system, the Bank and other CFR agencies continue to monitor the sector closely given the rapid growth in non-bank lending over recent years. Non-bank lending standards have been broadly maintained and lending growth has moderated since late 2022. These developments were discussed by the CFR during the year and the Bank published an article on non-bank lending in the March 2023 *Bulletin*.

The Bank's work on both fixed-rate borrowers and non-bank lenders made extensive use of the Securitisation Dataset, which is one of several databases used by the Bank to analyse financial system developments, emerging risks and distributions within aggregate outcomes. A September 2022 Research Discussion Paper also provided an overview of the Bank's macrofinancial stress-testing model for the banking system, which complements APRA's 'bottom-up' stress-testing approach.

The Bank continued to share its perspectives with overseas counterparts during meetings on international financial sector issues held by global bodies, such as the Financial Stability Board and the Basel Committee on Banking Supervision. This international engagement was particularly relevant during the March 2023 overseas banking stress as it provided insights on causes and possible cross-border impacts, and allowed the Bank to contribute to global work in response to issues raised by this event. The Bank places a high priority on these international forums, which also allow Australian perspectives to be provided when these bodies discuss and agree on new global standards applying to banks and other financial institutions.

A secure, stable and efficient payments system

Purpose

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

In relation to the Bank's policymaking role, it is the duty of the Payments System Board to ensure the Bank's payments system policy is directed to the greatest advantage of the people of Australia, and to ensure 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:

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

In addition, it is the Payments System Board's duty to ensure the powers and functions of the 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 its 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 there is no build-up of settlement obligations associated with high-value transactions and thereby promotes the stability of Australia's financial system.

Results

Performance Summary: A Secure, Stable and Efficient Payments System

Key activities	Performance measures and targets	Results
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 • 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.	The Bank supported the Australian Government's payments regulatory reforms through engagement with Treasury and industry, participation in CFR working groups and submissions to consultations. The Bank monitored compliance with the Bank's card payments regulations, which remains high.
	Undertake policy work to: • support the shift towards digital payments • monitor the winding down of legacy payment systems • identify and respond to any competition and efficiency issues associated with new technologies and new players in the payments system.	The Bank successfully encouraged industry to deliver enhancements to New Payments Platform (NPP) functionality, contributed to the government's policy work on winding down legacy payment systems, and delivered public statements on the issues associated with new technologies and new players in the payments system.
	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.	The Bank consulted with industry on a range of enhancements to the retail payments statistics.
	Support work being undertaken as part of the G20 Roadmap on Enhancing Cross-border Payments.	The Bank participated in work on cross-border payments as part of the G20 Roadmap and established an industry study group on interlinking fast payment systems.

Key activities	Performance measures and targets	Results
	Work with industry to modernise payment messaging standards via participation in the ISO 20022 migration project.	In March 2023, the High Value Clearing System (HVCS) successfully adopted the ISO 20022 message standard. This ongoing work is being coordinated by AusPayNet's 20022 Program Management Office and is overseen by an Industry Migration Steering Committee.
	Improve retail payments service reliability through enhanced disclosure by industry.	Data on the reliability of retail payment services provided to households and businesses are being published on the websites of the individual payment service providers. The list of providers and their URLs can be found at RBA (2023), 'Disclosures on Retail Payments Service Reliability', March.
	Conduct research to advance the Bank's understanding of the case for, and implications of, a central bank digital currency (CBDC).	The Bank conducted a pilot CBDC project with the Digital Finance CRC and industry participants, which involved testing 15 potential use cases for CBDC.
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.	Assessments were published for the ASX CS facilities, LCH Limited's SwapClear service and CME, in September 2022. In these assessments, the Bank judged that the entities had conducted their affairs in a way that promotes overall stability in the Australian financial system. In May 2023, the Bank published a targeted assessment of RITS against relevant Principles for Financial Market Infrastructures and found it broadly observed the principle on governance and partly observed the principles on the risk management framework and operational risk.
	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.	The Bank assisted Treasury with the preparation of draft legislation to implement the reforms.
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.	The Bank surveyed CS facilities and participants in the retail payments system to obtain feedback on its regulatory performance. The feedback was generally positive, with most respondents highlighting the Bank's willingness to listen to issues that arise and to take a pragmatic approach. Some entities encouraged the Bank to devote more effort to scanning the environment to understand the latest developments, including by participating in more industry discussions. Others noted the challenges faced by the Bank in addressing emerging payments issues while reforms to the *Payment Systems (Regulation) Act 1998* were underway.
	Ensure regulatory requirements are streamlined, proportionate to risks and coordinated with other regulators, and build capability in data analysis to efficiently monitor compliance.	Survey feedback on cooperation between the domestic regulators was positive. Respondents generally reported that the Bank's regulatory requirements were streamlined and proportionate to the risks involved. Respondents noted the value of the Bank's regulatory

Key activities	Performance measures and targets	Results
		reporting project, which streamlines FMI data collection as part of the monitoring of compliance, and the need for the Bank to continue to consider proportionality with regard to the risks associated with its regulatory requests. To minimise ad-hoc requests, some stakeholders noted there would be benefits in the Bank further automating its reporting requirements and providing greater clarity and context for information requests, as well as better acknowledgement of when compliance has been met.
	Communicate with regulated entities in a timely, clear and consistent way, including on regulatory priorities.	Survey feedback generally characterised the Bank's communications as timely, clear and consistent. A few stakeholders noted that they found the Bank's published material on its regulatory priorities very useful (e.g. in speeches by staff and Payments System Board updates) and that receiving more regular updates or a roadmap document setting out the Bank's payments priorities would help them plan more effectively to meet the Bank's expectations. Some responses requested additional engagement by the Bank prior to the announcement of decisions requiring regulatory compliance and a greater appreciation by the Bank of the challenges faced by organisations to meet those requirements.
Ensure the operational reliability and cybersecurity of RITS.	RITS availability at 99.95 per cent during core hours.	RITS availability was 99.972 during core hours in 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. Implement enhancements to RITS and related back-office systems to support the ISO 20022 industry go-live date of November 2022.	FSS availability was below target at 99.941 per cent due to a technology outage in October 2022. The industry go-live date for the HVCS was delayed from November 2022 to March 2023 to align with international ISO 20022 migration timelines. The industry successfully went live with ISO 20022 messaging in March 2023. RITS and the Bank's back-office system went live with ISO-based messaging at the same time. During the current 'co-existence' phase, industry participants can send both the old message types and ISO messaging. Full adoption of ISO20022 messages is targeted for end-2024.
	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.	In November 2022, the Bank completed an internal assessment against the SWIFT Customer Security Controls Framework (CSCF). In May 2023, an internal audit was completed to assess the Bank's Information Security Management System against the ISO 27001 standard. RITS members have attested against updated business continuity and security standards that became mandatory at the end of 2022; 39 members are fully compliant and 26 members are partially compliant. New business continuity and security standards for the ASX-operated feeder systems to RITS are due to be introduced in 2023. Work has also commenced on planning for an industry cyber exercise, to be conducted in the first half of 2024 to test RITS members' response to a simulated cyber event involving RITS.

Analysis

The Reserve Bank's work on payments policy in 2022/23 occurred in an environment that was changing rapidly. There was a substantial shift in consumer payments away from cash and cheques to cards and other electronic payments. There was also rapid technological innovation and the entry of new players into the payments system. These changes can improve the convenience of payments for end users, but also bring risks and competitive issues.

The Bank welcomes the Australian Government's payments regulatory reforms, including the strategic plan for the payments system, measures to modernise the Bank's regulatory powers and the introduction of a licensing regime for payments service providers. The Bank also supports the reforms to the regulation of FMIs, aimed to ensure the Australian financial system is supported by resilient, efficient and stable FMIs. The reforms include enhancements to the licencing regimes for CS facilities and stronger supervision and enforcement powers for ASIC and the Bank.

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

Purpose

Insofar as the Commonwealth of Australia requires it to do so, the Reserve Bank must act as banker for the Commonwealth. The Reserve Bank's banking services comprise two activities: management of the Australian Government's core accounts; and the provision or 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 services.

Results

Performance Summary: Delivery of Efficient and Effective Banking Services to the Australian Government

Key activities	Performance measures and targets	Results
Ensure central banking services remain fit for purpose.	Maintain and enhance the central banking services provided to the Commonwealth.	The Bank continued to work with the Department of Finance and the Australian Office of Financial Management on its Commonwealth cash management operations. This included cooperation on areas such as reporting, resilience of services, and the compliance of industry participants.
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.	The Bank's banking services achieved the minimum required return in 2022/23. Pro forma accounts for the transactional banking business can be viewed in Chapter 2.3 Banking and Payment Services.
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:	The Bank extended service provision to several new customers during 2022/23, while retaining all existing agency customers.
	– continued development of banking services and systems, including NPP capabilities	The Bank: • implemented the capability to process cross-border and domestic high-value payment messages in the modern ISO 20022 standard, enabling the capability to carry more structured and richer data • continued to work with suppliers and customers to uplift and enhance data flows for payment and reconciliation • participated in industry work and consultations regarding the future of cheques and the Bulk Electronic Clearing System (BECS).

Key activities	Performance measures and targets	Results
	– supporting agency customers as they migrate payments from legacy payment systems to new systems	The Bank: • supported agency customers with their planning and analysis to reduce reliance on cheques • engaged with government agencies to consider the implications of a migration away from BECS towards modern payment systems; larger BECS users were included in industry consultations.
	– renewal of third-party supplier arrangements to ensure these remain innovative and align with key service objectives.	The Bank: • tendered for card acquiring and payment gateway services • extended contracts with existing providers of various banking services.

Analysis

During 2022/23, the Reserve Bank continued to provide the Australian Government with convenient, secure, reliable and cost-effective central banking and transactional banking services. This included supporting government agencies as they responded to natural disasters, such as the flooding on the east coast of Australia in mid-2022. The Bank was able to provide rapid delivery of support payments through the NPP, on behalf of Services Australia.

The Bank continued to participate in multi-year industry-driven initiatives, including uplifting capability to process cross-border and domestic HVCS messages using modern standards (ISO 20022). While the industry-wide program is ongoing, the Bank is increasing functionality for customers and suppliers to ingest richer data as part of payment and reporting messages. The Bank is also building out its customer-focused technology to enable more seamless connectivity.

Alongside building new functionality, the Bank continued to inform and support agencies as they look to transition from legacy payment systems to more modern solutions. In particular, the Bank focused on the future of BECS and cheques, including engagement with customers, government policymakers and participation in broader industry initiatives.

The provision of secure and reliable banknotes

Purpose

The Reserve Bank is responsible for the issuance, reissuance 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. We also monitor and analyse trends in cash usage and counterfeiting and conduct research into banknote security technology.

Results

Performance Summary: Provision of Secure and Reliable Banknotes

Key activities	Performance measures and targets	Results
Ensure Australian banknotes provide a safe, secure and reliable means of payment and store of value.	Maintain or improve public perceptions of Australian banknotes, as measured in the Reserve Bank survey.	The Bank's survey on perceptions, usage and behaviour related to Australia's banknotes showed that public perceptions of Australian banknotes remained favourable: 72 per cent of respondents perceived the new generation banknote (NGB) series to be sufficiently secure against counterfeiters; and 77 per cent noted they liked the NGB banknotes (largely unchanged from the 2021/22 results).
Meet banknote demand.	More than 95 per cent of banknote orders from commercial banks fulfilled by the Bank within three days of request.	All transactions were fulfilled on the same day as requested.
Ensure Australian banknotes remain secure, durable and cost effective.	Monitor actual and emerging counterfeiting trends.	Australian banknote counterfeiting rates continued to be very low by historical and international standards. The estimated counterfeiting rate was six counterfeits per million banknotes in circulation in 2022/23, down from a peak of around 31 counterfeits per million banknotes in 2014/15. The Bank continued to monitor international developments in counterfeiting, including through engagement with other central banks and international organisations
	Evaluate and develop security features that could be deployed on Australian banknotes to combat counterfeiting threats, extend circulation life and/or reduce production costs.	The Bank's key initiative to enhance banknote security in recent years was the release of the NGB banknote series with upgraded security features, which was completed in 2020. Since then, the Bank has continued to develop and test security features for future Australian banknotes, along with testing and implementing solutions to reduce costs and increase circulation life. This program has provided options for cost reduction, product improvements and includes candidates for the $5 banknote redesign.
Ensure high-quality banknotes.	Banknote production orders by the Bank to be met by NPA within agreed quality parameters.	NPA did not deliver any Australian banknotes in the 2022/23 financial year. This was due to agreed scheduling between the Bank and NPA to accommodate NPA's export production. This delay did not compromise the Bank's ability to meet public demand or jeopardise its target contingency stock of banknotes.
	Maintain quality of banknotes in circulation above the minimum quality standard agreed with industry.	Banknote quality remains good. The update of standards to include NGB security features was delayed due to the Review of Banknote Distribution Arrangements.

Analysis

The value of banknotes in circulation declined over 2022/23, with below-average growth for all denominations. This likely reflected a return to more usual spending behaviour post-pandemic, a reduction in precautionary savings and higher interest rates. Nonetheless, the value of banknotes in circulation remained around record highs. The Bank has continued to meet demand for banknotes by ensuring orders are fulfilled. The release of the NGB series of banknotes with upgraded security features has supported public confidence in banknotes. Australia's level of counterfeiting remains low by international standards.