

Functions and Objectives of the Reserve Bank

The Reserve Bank of Australia is established by statute as Australia's central bank. The Reserve Bank's responsibilities include formulating and implementing monetary policy, promoting financial stability, issuing banknotes, providing banking services to government, operating the high-value payments system, managing Australia's foreign reserves and setting payments system policy.

Under its enabling legislation, the *Reserve Bank Act 1959*, the Bank has broad powers, including to take deposits, borrow and lend money, give guarantees, effect transfers of money and deal in Commonwealth and other securities, foreign currency and gold.

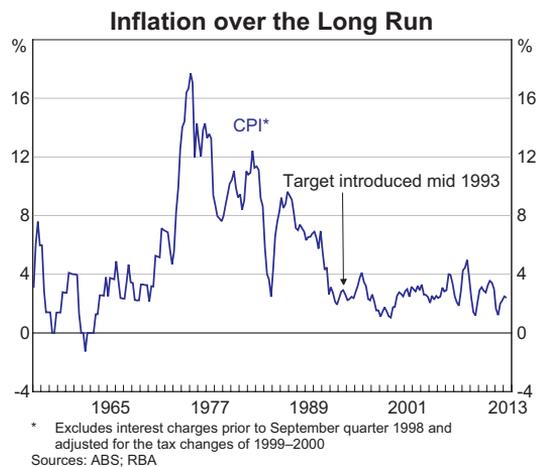
The Reserve Bank's responsibility for monetary policy is set out in the Reserve Bank Act. Section 10(2) states:

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.

Since 1993, policies in pursuit of these objectives have found practical expression in a target for consumer price inflation of 2 to 3 per cent, on average, over the cycle. Monetary policy aims to achieve this over the medium term so as to encourage strong and sustainable growth in the economy. The fifth *Statement on the Conduct of Monetary Policy*, signed by the Treasurer and the Governor in September 2010, records the common understanding of the Government and the Reserve Bank on key aspects of the monetary policy framework.

The Reserve Bank also works to promote the overall stability of the financial system, seeking to mitigate the risk of financial disturbances that may have systemic consequences, and responding to a financial system disturbance should it occur. The Bank works on these matters with other relevant agencies, including through the Council of Financial Regulators (CFR). The CFR, which is chaired by the Reserve Bank Governor, brings together the Bank, the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission (ASIC) and the Australian Treasury, with a mandate to contribute to the efficiency and effectiveness of regulation and the stability of the financial system.



The Reserve Bank designs, produces and issues Australia's banknotes, with the ultimate objective of ensuring public confidence in banknotes as an effective payment mechanism and a secure store of wealth.

The Reserve Bank provides specialised banking services to government and foreign official institutions. The services include payments and collections as well as general account maintenance and reporting. The Bank also operates Australia's main high-value payments system.

The Reserve Bank holds and manages Australia's foreign currency reserves, operating in the foreign exchange market on a regular basis to meet the foreign exchange needs of its clients and to assist with domestic liquidity management.

Since 1998 the Reserve Bank has not had responsibility for the prudential supervision of banks, but has responsibility for ensuring the stability, efficiency and competitiveness of the payments system through the Payments System Board, which was established at that time. The Bank's powers in relation to the payments system are set out in a number of other statutes, including the *Payment Systems (Regulation) Act 1998* and the *Corporations Act 2001*. Under the Corporations Act, the Bank, overseen by the Payments System Board, has responsibility for determining financial stability standards for licensed clearing and settlement facilities and assessing facilities' compliance with those standards. Amendments to the Corporations Act in January 2013 in relation to the regulation of over-the-counter (OTC) derivative transactions gave the Bank an additional role, complementary to its financial stability mandate. The amendments include a formal structure for the Minister and ASIC to consult with or seek advice from the Bank in relation to some of their responsibilities under the new regime. The amendments also provide for regulation of trade repositories by ASIC and give the Bank access to valuable data with which to assess the risks associated with OTC derivatives.