

Governor's Foreword



Governor Philip Lowe spoke about inflation and recent economic data at the Financial Review Business Summit 2023 in March. Photo: Natalie Boog, *Australian Financial Review*.

The past year saw the highest inflation rate in more than 30 years. The Reserve Bank Board's priority has been to return inflation to the 2–3 per cent target range within a reasonable timeframe. It has sought to do this while also preserving as many of the gains in the labour market as possible, with the unemployment rate at a near 50-year low during 2022/23.

Interest rates increased significantly over the course of the year. Monetary policy is now in restrictive territory and is working to establish a better balance between supply and demand in the Australian economy. The Board acknowledges that higher interest rates are having an uneven effect across the community and are contributing to a painful financial squeeze for some households. That said, allowing high inflation to persist would lead to more financial stress in future and damage the longer term functioning of the economy. The Board is resolute in its determination to return inflation to target.

Another of the Reserve Bank's priorities over the past year has been the promotion of an efficient and competitive payments system. We have continued our work exploring the future of money, including through a modest issue of a central bank digital currency on a trial basis, in conjunction with the Digital Finance Cooperative Research Centre. We are also investing heavily in the resilience of the Bank's high-value settlement system, RITS, after a major technology outage in October 2022. And, as banker to the Australian Government, we processed over \$1.5 trillion of government payments and collections over the year. We transitioned to the ISO 20022 global messaging standard and will soon enable the final leg of cross-border payments to be processed via the New Payments Platform. At the same time, we continued to produce high-quality, secure banknotes and to support their availability for people who need or want to use them.

Another major focus area for the Bank over the past year has been the government-commissioned Review of the Reserve Bank of Australia. The Board and the Bank's staff welcomed the Review and participated constructively in the process. The Review was released in April 2023, with 51 recommendations for how the Bank can build on its strengths.

In response, the Bank has announced extensive changes to its monetary policy process and approach to communication. From 2024, there will be eight Reserve Bank Board meetings a year, rather than the current 11, and the Governor will give a media conference after each meeting to explain the policy decision. Within the Bank, increased investments are being made in leadership to help us be the open and dynamic organisation that we aspire to be. We are also working constructively with the Australian Treasury on the most extensive changes to the Bank's enabling legislation since it was passed in 1959. This legislation is important for the future prosperity of all Australians and it is important to get the details right.

The increase in interest rates over the past year saw the Bank record a loss of \$6 billion during 2022/23, including valuation losses from higher bond yields. The Bank continues to operate with negative equity, with the negative equity position increasing over the past year to \$17.7 billion. This does not affect the Bank's operations or its ability to perform its policy functions. Nonetheless, the Board will seek to restore the Bank's capital over time through the retention of future profits, rather than paying these as dividends to the government. The Treasurer has indicated his continued support for this approach, noting that a decision about retention of earnings is made each year.

My seven-year term as Governor, and 43-year career at the Bank, finishes in mid-September. I will leave the Bank proud of our contribution to the functioning and stability of the Australian economy and financial system. The staff of the Bank do a wonderful job and are committed to advancing the public interest. It has been both an honour and a privilege to lead them in that work. I was very pleased to see Michele Bullock appointed as my successor to lead the Bank through a period of significant change.

Finally, the Board joins me in thanking the Bank's staff for their service to Australia. They carry out their work with great dedication and professionalism. Thank you.



Philip Lowe
Governor

6 September 2023