

Statement on the Conduct of Monetary Policy

The Treasurer and the Reserve Bank Board

8 December 2023

The Statement on the Conduct of Monetary Policy (the Statement) records the common understanding of the Reserve Bank Board and the Government on key aspects of Australia's monetary and central banking policy framework.

The Statement seeks to foster a sound understanding of the nature of the relationship between the Reserve Bank Board and the Government, the objectives of monetary policy, the mechanisms for ensuring transparency and accountability in the way monetary policy is conducted, and the independence of the Reserve Bank.

The Statement also sets out ways in which the Reserve Bank and Government are responding to the Review of the Reserve Bank (the Review). The Reserve Bank and Government welcome the Review and its recommendations, which focus on strengthening Australia's monetary policy framework and decision making, enhancing accountability and transparency, and maintaining a high performing institution.

Relationship between the Reserve Bank and the Government

The Governor, Deputy Governor and Reserve Bank Board are afforded substantial independence under the *Reserve Bank Act 1959* (the Act) to conduct the monetary and banking policies of the Reserve Bank to achieve the objectives as set out in the Act. The Government supports and will continue to uphold the Reserve Bank's independence. For its part, the Reserve Bank Board will serve the best interests of the people of Australia with honesty and integrity.

New appointments of external members to the Reserve Bank Board will be made by the Treasurer from a shortlist of candidates. A panel comprising the Secretary to the Treasury, the Reserve Bank Governor and an independent third party will compile the shortlist through a process that is transparent and focused on ensuring the Reserve Bank Board has the right balance of skills and experience to best discharge its functions. To support this, the Government commits to maintaining and publishing a skills matrix for the Reserve Bank Board on the advice of the Secretary, Governor and Reserve Bank Board.

The Secretary to the Treasury is an ex officio member of the Reserve Bank Board. The Government and Reserve Bank Board recognise that the Secretary to the Treasury acts in their individual capacity, and not at the direction of the Treasurer. They also acknowledge the unique responsibility of the Secretary to the Treasury to provide independent insight on the outlook for the economy and fiscal policy.

The Government recognises the role that sound fiscal management plays in achieving the Reserve Bank Board's objectives. In recognition of this, the Reserve Bank and the Government (through the Treasury) commit to working together to enhance their understanding of prevailing macroeconomic conditions and the impact that monetary and fiscal policy settings have in influencing these conditions.

The Government also recognises the importance of the Reserve Bank having a strong balance sheet and the Treasurer will pay due regard to that when deciding each year, in consultation with the Board, on the distribution of the Reserve Bank's earnings under the Act.

Objectives of Monetary Policy

The *Reserve Bank Act 1959* sets out the specific goals for monetary policy. The Reserve Bank Board and Government agree that the goal of economic prosperity and welfare of the Australian people is an overarching objective for monetary policy. The Reserve Bank Board can best fulfil this mandate by conducting monetary policy in a way that will best contribute to both price stability and full employment.

The Reserve Bank Board and the Government agree that a flexible inflation target is the appropriate framework for achieving price stability, recognising the importance of low and stable inflation. They agree that an appropriate goal is consumer price inflation between 2 and 3 per cent. This approach supports the anchoring of inflation expectations, while recognising that all outcomes within the target range are consistent with the Reserve Bank Board's price stability objective. The Reserve Bank Board sets monetary policy such that inflation is expected to return to the midpoint of the target. The appropriate timeframe for this depends on economic circumstances and should, where necessary, balance the price stability and full employment objectives of monetary policy.

The Government's objective is sustained and inclusive full employment where everyone who wants a job can find one without searching for too long. The Reserve Bank Board and Government agree that the Reserve Bank Board's role within this is to focus on achieving sustained full employment, which is the current maximum level of employment that is consistent with low and stable inflation. The Reserve Bank Board commits to regularly communicating its assessment of how conditions in the labour market stand relative to sustained full employment, drawing on a range of indicators and recognising that full employment is not directly measurable and changes over time.

The Reserve Bank Board commits to clearly communicating how it is balancing its inflation and full employment objectives. More generally, when inflation is expected to be significantly away from the midpoint of its target of between 2 and 3 per cent or labour market conditions are expected to deviate significantly from those consistent with full employment, the Board commits to communicating how long it expects it will be before it again meets each of its objectives and why.

Monetary Policy Tools

The Reserve Bank Board's primary approach to implementing monetary policy will be through varying the level of the cash rate target.

The Reserve Bank Board and Government acknowledge that there may be circumstances under which other monetary tools may help to achieve the Board's objectives for monetary policy. They agree that the Board should use its judgement to determine what these tools are, when they are needed and how they are to be deployed most effectively.

The Reserve Bank Board will communicate a framework to guide the use of additional monetary tools, including the benefits, costs and risks associated with available tools. It will draw on a range of inputs, including international experience, independent expert assessments and lessons from the Reserve Bank's use of additional monetary tools.

The framework will also detail the decision-making approach that the Board intends to adopt when it believes that there may be a need to use or discontinue alternative monetary tools. This includes how monetary policy will work together with other arms of policy. In addition, the framework will set out considerations at the outset about how these additional tools might be exited under different scenarios.

Framework and Tool Reviews

The Reserve Bank Board and Government (through the Treasury) agree to work together to conduct and publish a formal review of the monetary policy framework and tools every five years, drawing on independent experts with a wide range of viewpoints. These reviews will help to inform future changes to this Statement.

Transparency and Accountability

The Reserve Bank Board takes a number of steps to ensure transparency and accountability in its decision-making. This includes regularly communicating the factors affecting its decisions. The Reserve Bank Board agrees to publish statements announcing and explaining each of its monetary policy decisions and to release minutes of its meetings. The Governor will hold media conferences after each Board meeting. In addition, the Governor agrees to continue to be available to report twice a year to the House of Representatives Standing Committee on Economics, and to other Parliamentary committees as appropriate.

The Reserve Bank Board agrees to publish information relevant to its decisions. This includes commentary and analysis on the economy and outlook provided through the Reserve Bank's publications, such as its regular *Statement on Monetary Policy*, *Bulletin* and *Financial Stability Review*. The Reserve Bank will also ensure that insights from its business and community liaison are published, along with assessments of potential output and full employment, and detailed forecast data and assumptions including for the cash rate.

Once the new Monetary Policy Board is operational it will publish an unattributed record of votes and will publish Board papers after five years. Members will conduct at least one speech or public engagement each year. The Monetary Policy Board will convene and engage with an expert advisory group on monetary policy to provide the Board with a wide range of external views.

Financial Stability

The Reserve Bank Board will continue to contribute to financial stability by setting monetary policy to achieve its inflation and full employment objectives. The Reserve Bank holds a central position in the financial system, as the ultimate provider of liquidity to the system and key participant in financial crisis management. In addition, the Board and the Bank will contribute to financial stability by:

- working in close cooperation with the agencies represented on the Council of Financial Regulators to identify and monitor risks to financial stability, and how those risks might interact with monetary policy
- working with the Government and other agencies, where needed, to coordinate policies that would address these risks
- providing adequate liquidity to the financial system, including in exceptional circumstances
- publicly communicating its assessment of financial stability risks, including through regular publications and speeches as appropriate
- participating, where appropriate, in the development of financial system policies.

The Reserve Bank Board also commits to working cooperatively with the Payments System Board (which has explicit responsibility for payments system stability) as required in support of financial stability in Australia.

The Reserve Bank's mandate to uphold financial stability does not guarantee solvency for financial institutions, and the Bank does not see its balance sheet as being available to support insolvent institutions.

Governance and Capability

The Governor commits the Bank to maintain high standards of governance to support sound decision-making and public trust into the future. The Reserve Bank will also foster an open and dynamic culture that values constructive debate. It will invest in its people and leaders, so it can continue to attract and retain a high-quality and diverse workforce. To ensure that the Reserve Bank Board is provided with the highest quality advice, the Governor commits the Reserve Bank to further develop its research and modelling capabilities. The Reserve Bank's boards will work collaboratively and constructively to achieve the Bank's objectives.

Consistent with the Review's recommendations, the new Monetary Policy Board will take responsibility for monetary policy decisions and oversight of the Reserve Bank's contribution to financial system stability (except payments system policy). The Monetary Policy Board will be made up of the Governor, Deputy Governor, the Secretary to the Treasury, and six external members. It will be chaired by the Governor.

Oversight of the management and organisational affairs of the Reserve Bank, the delivery of banking services to the Government and the provision of secure and reliable Australian banknotes will become the responsibility of the new Governance Board. It will be made up of the Governor, the Deputy Governor, the Reserve Bank's Chief Operating Officer, and six external members. It will initially be chaired by the Governor and the Deputy Chair will be an external member, with this arrangement to be reviewed after five years.

The Reserve Bank Board will continue to determine the policy of the Bank in relation to any matter, other than its payments system policy, until the new boards are in place.