

Governor's Foreword

The past year, my first as Governor, has been marked by considerable change at the Reserve Bank of Australia. We have welcomed new leadership, uplifted our capabilities in several areas and altered how we work in many ways. In response to the recommendations of the independent reviews of the RBA and the Reserve Bank Information and Transfer System (RITS), we have commenced a substantial transformation agenda, which will continue in 2024/25. These changes will support our vision of being an open and dynamic central bank that is trusted for the quality of its analysis, policy and service delivery.

The most visible changes to the way we operate have been those relating to monetary policy. In 2023/24, the Reserve Bank Board agreed a new *Statement on the Conduct of Monetary Policy* with the Treasurer, which clarifies the objectives of the Board. The rhythm of Board meetings and supporting processes were changed to facilitate deeper discussion and more engagement between Board members and staff. We also reshaped the nature of the advice provided by staff to the Board and enhanced the public transparency surrounding the Board's deliberations, including through media conferences following Board meetings.

Other changes in 2023/24 have been less visible to the public, but no less important. Our staff have carefully detailed how the RITS ecosystem needs to be transformed to ensure that we deliver our payment services with high reliability. There has been a thorough reassessment of our approach to risk management, including how we can enhance our 'Three Lines of Accountability' model across the organisation. We have also carefully considered the changes that are needed to support the proposed Governance Board. Over time, I expect these changes will significantly strengthen our capacity to meet our objective of promoting the welfare of the Australian people.

In 2023/24, we launched our aspiration for a more 'Open & Dynamic' workplace culture. This is something I am passionate about because the success of our transformation efforts will rest on how well we harness the skills and energy of our staff. The launch of this new aspiration has been supported by a range of activities, including goal setting, guidance, workshops, leadership training and 360-degree feedback, as well as clear expectations of our leadership. I am already seeing the benefits of this in addressing some of the cultural shortcomings identified in the RBA Review. We will seek to embed this cultural change over the next few years.

Alongside the transformation of the RBA, we have continued to address our ongoing objectives.

Inflation remained high in 2023/24, and we expect that it will take another year or two before it is sustainably back to the Reserve Bank Board's target of between 2 and 3 per cent. Nonetheless, there has been significant progress in lowering inflation over the past year. At the same time, the unemployment rate has stayed very low and almost 400,000 additional jobs were created in 2023/24. There is still a high level of uncertainty about the economic outlook and the Board remains concerned about the degree of excess demand in the economy. It recognises the challenging task it faces in bringing inflation back to target in a reasonable timeframe while preserving as many of the gains in the labour market as possible. The Board is committed to both goals and believes it can achieve them.



Michele Bullock, Governor

Our work in banking and payments has required us to be agile, given the speed at which technology is evolving. Our staff and the Payments System Board have considered and responded to the implications arising from new business models and technologies in the payments space, the continued shift away from cash and the need to wind down legacy payment systems. We partnered with others in academia and industry to conduct an innovative pilot project examining a range of possible use cases for central bank digital currency. And we have focused on lifting the governance and risk management at Australia's systemically important financial market infrastructures to be commensurate with the criticality of their operations.

Changes in technology have also been a theme for our own banking and payments operations. We have begun to migrate several core transactional banking systems to the cloud and have deployed new functionality to enhance international transfer payments and messaging standards. We have been able to do this while meeting our high reliability targets for RITS and processing over \$1.6 trillion in government payments and collections during the year.

Developments in the cash distribution industry remain a key focus. Consumers are choosing to use cash less frequently for everyday transactions, but it remains an important means of payment for many. We therefore worked hard over the past year to coordinate industry solutions to the immediate and longer term challenges in cash distribution. We also introduced more standardised arrangements for governing the distribution of banknotes to the major banks and consulted extensively on the redesign of the \$5 banknote.

The increase in the cash rate over the past two years resulted in another accounting loss for the RBA in 2023/24, totalling \$4.2 billion. The loss reflects the fact that returns on most of our assets were fixed at the low rates prevailing in 2020 and 2021, but the cost of our liabilities rose with the cash rate target. This mismatch has diminished significantly since the maturation of the Term Funding Facility on 1 July 2024. We nevertheless continue to operate with negative equity, with this liability totalling \$20.4 billion at 30 June 2024. Negative equity does not affect our operations or ability to perform our policy functions, but the Reserve Bank Board considers it important that the RBA's capital be restored over time. The Treasurer has indicated his continued support for rebuilding capital by retaining future profits, noting that a decision about retention of earnings is made each year.

The extent of the transformation under way at the RBA, and the importance of maintaining the highest standards in our day-to-day operations, has placed significant pressure on our staff this year. I am grateful to our people for the way they have risen to the challenge of delivering on our objectives while dealing with substantial change. We have a dedicated and professional staff who share my aspiration to be open and dynamic. Members of the Reserve Bank Board join me in wholeheartedly thanking them for their services to Australia over the past year.



Michele Bullock
Governor

25 September 2024