



Australian Government

Review of the
Reserve Bank of Australia

Review of the Reserve Bank of Australia

Issues Paper

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The Review of the Reserve Bank acknowledges the Traditional Custodians of country throughout Australia and their connections to land, sea and community. We pay our respect to their Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples today.

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Preface

We are honoured the Australian Government asked us to undertake this comprehensive review of the Reserve Bank of Australia (RBA) – the first of its kind since Australia’s current monetary policy arrangements were instituted in the 1990s.

Effective monetary policy arrangements are critical to Australia’s economic prosperity, helping ensure that our economy remains resilient to a complex and changing economic environment.

The context for the Review is that monetary policy arrangements and central bank operations around the world have faced many challenges in recent years. Following the Global Financial Crisis, interest rates fell as far as they could practically go in many countries and inflation was persistently below central banks’ targets. More recently, monetary policy makers have been dealing with the economic impact of the COVID-19 pandemic and related supply chain disruptions, as well as the impact of sharp commodity price moves caused by Russia’s invasion of Ukraine, which have contributed to a significant increase in global inflation. At the same time, our economy and society have been changing, due to factors such as the population ageing, the progression of digital technology, changes in global economic integration and climate change.

This Review is an important opportunity to evaluate Australia’s monetary policy arrangements in light of those challenges, and to ensure that the framework and the RBA itself are set up in the best possible way for the future.

The Terms of Reference for this Review give us the opportunity to make broad-ranging recommendations on the RBA’s objectives and mandate, the interaction between monetary, fiscal and macroprudential policy, as well as the way the RBA operates: including its governance, culture, and management.

The RBA and monetary policy settings affect all Australians. As we undertake this Review, we are eager to hear from as many Australians as possible, so we have the broadest evidence base from which to draw our recommendations. This Issues Paper begins that discussion. Its purpose is to generate a pool of ideas to inform further consultations and ultimately the findings and recommendations of the Review.

This Paper will help you prepare a submission to the Review. It is not expected that all submissions will cover all issues – you can focus on the areas of interest to you. The Review also welcomes views and ideas beyond the questions outlined in this paper (though submissions should relate to the Terms of Reference of the Review).

Advice on the Review and its progress, including how to engage with the Review, can be found on the Review website: www.rbareview.gov.au.

We will provide a final report with clear recommendations to Government in March 2023.

We look forward to hearing from all interested parties as we progress the work of the Review.

Ms Carolyn Wilkins
Panel Member

Professor Renée Fry-McKibbin
Panel Member

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Panel Member

Introduction

The RBA is Australia's central bank. It aims to contribute to the stability of the currency, full employment and the economic prosperity and welfare of the Australian people. One of the most important ways it does this is by conducting monetary policy – that is, influencing various interest rates – to keep inflation low and stable. The RBA Board meets regularly to make decisions on monetary policy.

On 20 July 2022 the Government announced an independent review of the Reserve Bank of Australia, to be conducted by a Panel of 3 independent experts.

The Review is intended to ensure Australia's monetary policy arrangements, and the way the RBA itself operates, continue to support the best possible economic outcomes for Australia. The full Terms of Reference for the Review are provided on Page 4, which set out its scope in more detail. Other countries have undertaken similar reviews of their monetary policy frameworks in recent years.

This Paper briefly outlines a number of the issues that the Review will consider. The answers to these questions have not been determined, and this Paper is not intended to be a comprehensive coverage of every issue the Review might need to consider.

The Paper is set out as follows.

Theme 1 focuses on Australia's current monetary policy framework as outlined in the *Reserve Bank Act (1959)* and the *Statement on the Conduct of Monetary Policy*. Issues canvassed include the ability of Australia's flexible-inflation-targeting regime to respond to various economic challenges, alternative monetary policy arrangements and the interaction of monetary policy with other macroeconomic policy levers.

Theme 2 focuses on the RBA's implementation of the framework, with a view to identifying what lessons can be learned for the future, including the choice of tools and approach to communication.

Theme 3 looks at the RBA's governance arrangements and invites views on how these arrangements can best contribute to an effective institution and high-quality monetary policy settings.

Finally, Theme 4 is focused on the RBA's institutional culture, including its management and recruitment practices.

It is important that all Australians have an opportunity to have their say on the issues covered by the Review.

Formal submissions open on Thursday, 15 September 2022 and are due by Monday 31 October 2022. Electronic submissions are preferred and can be submitted at the Review website: www.rbareview.gov.au.

Glossary

Balance sheet policies	Monetary policies other than changes in the cash rate that typically involve a central bank buying or selling large amounts of bonds or lending to banks in order to influence interest rates in the economy.
Bond	A loan made by an investor to a borrower for a set period of time in return for regular interest payments; rights to the loan and interest payments are often bought and sold among investors in financial markets.
Cash rate	The interest rate charged on overnight loans between banks; the primary way the RBA implements monetary policy is by influencing the cash rate.
Consumer price index (CPI) inflation	The change in the price of goods and services that households buy, and is often reported as the change in prices over a year.
Headline inflation	A measure of consumer price inflation that includes prices for all goods and services collected by the Australian Bureau of Statistics.
Fiscal policy	Decisions about how much governments spend and how much they raise in revenue.
Forward guidance	The RBA's communication about its intentions for future monetary policy.
NAIRU	The non-accelerating inflation rate of unemployment – the lowest level of unemployment that can be sustained without causing excessive inflation.
Gross domestic product	A measure of the amount of economic activity that occurs within a given time period and often reported in terms of the growth of economic activity since the year before.
Gross national expenditure	A measure of the consumption and investment expenditure of domestic households, governments and businesses within a given time period and often reported in terms of the growth since the year before.
Macroprudential policy	The use of regulations to mitigate risks to financial stability at a system level.
Monetary policy	The influencing of interest rates in the economy to affect overall demand, employment and inflation.
Term Funding Facility	A lending program introduced by the RBA in March 2020 to provide cheaper financing for banks, with incentives to lend to small- and medium-sized businesses.
Trimmed mean inflation	A measure of consumer price inflation that excludes the prices of goods and services with the largest movements (positive or negative).
Unemployment rate	The number of people who are able and willing to work but do not have a job, as a percentage of all people who are able and willing to work.

Yield The expected rate of return for an investor who buys a bond; at the time the bond is issued, it is also the cost of the loan for the borrower.

Yield curve target A monetary policy tool that involves setting a target for the yield of specified bonds to reduce borrowing costs for households and businesses and reinforce forward guidance.

Terms of Reference

The Review of the Reserve Bank of Australia (RBA) is designed to ensure that Australia's monetary policy arrangements and the operations of the Bank continue to support strong macroeconomic outcomes for Australia in a complex and continuously evolving landscape.

1. The Review will assess Australia's monetary policy arrangements:
 - 1.1. The RBA's objectives, as outlined in the Reserve Bank Act (1959) and in the Statement on the Conduct of Monetary Policy, including the continued appropriateness of the inflation targeting framework.
 - 1.2. The interaction of monetary policy with fiscal and macroprudential policy, including during crises and when monetary policy space is limited.
 - 1.2.1. This will include Australia's macroprudential governance arrangements, but exclude the Australian Prudential Regulation Authority's statutory role or functions.
2. It will also assess the following aspects of the RBA:
 - 2.1. Its performance in meeting its objectives, including its choice of policy tools, policy implementation, policy communication, and how trade-offs between different objectives have been managed.
 - 2.2. Its governance (including Board structure, experiences and expertise, composition and the appointments process) and accountability arrangements.
 - 2.3. Its culture, management and recruitment processes.
3. The Review will exclude the RBA's payments, financial infrastructure, banking, and banknotes functions.
4. The Review will consult extensively with domestic and global experts and members of the public.
5. The Review will take account of analysis conducted in prior reviews of other central banks, including the US Federal Reserve, the Bank of Canada, the Reserve Bank of New Zealand and the European Central Bank.
6. The Review may invite and publish submissions and seek information from any persons or bodies.
7. A final report, with a set of clear recommendations to Government, is to be provided to the Treasurer no later than March 2023.

Theme 1: Monetary policy arrangements

The *Reserve Bank Act (1959) (the Act)* tasks the Board of the RBA with setting monetary policy in a way that best contributes to:

- stability of the currency of Australia
- maintenance of full employment in Australia and
- economic prosperity and welfare of the people of Australia.

To assist the implementation of the *Act*, the RBA Governor and the Government publish the *Statement on the Conduct of Monetary Policy*, which records their common understanding on key aspects of Australia's monetary policy arrangements. It also notes that the RBA has operational independence in carrying out its duties, while putting in place standards of transparency and accountability. The *Statement* is renewed periodically, and the Treasurer has stated that it will next be renewed following the finalisation of the RBA Review.

The *Statement* specifies that the objectives of the RBA are best achieved by maintaining low and stable inflation, and that this is a crucial precondition for long-term economic growth and employment. It states that the appropriate goal is to keep consumer price inflation between 2 and 3 per cent, on average, over time. By allowing inflation to be temporarily higher or lower than the target, this provides flexibility for the RBA to take account of the effects of monetary policy on economic activity and employment in the short term. However the *Statement* does not say how exactly the RBA should balance its inflation and employment objectives in making such trade-offs. Australia's inflation-targeting arrangements have been in place since the early 1990s.

The *Statement* also recognises the RBA's role in promoting the stability of the Australian financial system. It does this by contributing to sustainable economic growth and low and stable inflation. Financial stability, in turn, supports stable macroeconomic outcomes more broadly. The RBA also plays a prominent role in monitoring the health of the financial system, and in responding to financial crisis situations when they occur; in both cases the RBA coordinates with other regulatory agencies through the Council of Financial Regulators.

Inflation-targeting arrangements like those in Australia are common practice among the RBA's peers overseas. For example, key peers such as the US Federal Reserve, European Central Bank, Bank of England, Bank of Canada, and Reserve Bank of New Zealand all operate a form of inflation targeting. Countries do have differing specifications of the target. For example, the US Federal Reserve and the Reserve Bank of New Zealand have 'dual mandates' in that they aim to control inflation at 2 per cent (or within a 1 to 3 per cent range, with a focus on the 2 per cent midpoint, in the case of the RBNZ), while supporting full employment. The European Central Bank, Bank of England and Bank of Canada have inflation control as the primary goal, and specify a target of 2 per cent inflation, with the Bank of Canada specifying an operational band of 1 to 3 per cent. Countries with inflation control as the primary objective typically also specify secondary objectives, such as sustainable economic growth and full employment.

Many of these central banks have conducted reviews of their monetary policy arrangements in recent years. These reviews have tended to affirm their inflation-targeting arrangements but embed greater flexibility to focus on reducing volatility in economic activity and employment in the short-run.

The RBA Review has been asked to examine Australia's monetary policy arrangements to ensure they are well placed to meet future challenges. Two challenges have gained increasing prominence:

Lower interest rates: The structural decline in interest rates over recent decades, across all advanced economies including Australia, has placed some constraints on the ability of the RBA to use its policy

interest rate to support the economy to achieve its inflation objective during economic downturns. That is because, with interest rates lower on average, there is less room for the RBA to reduce its policy interest rate before reaching the effective lower bound – when it is as low as it can practically go.

Supply-side shocks: For much of the time that inflation targeting has been in place, the most significant economic disturbances have been related to the demand for goods and services. In that environment, a central bank can set monetary policy to stabilise demand and in doing so broadly meet both its employment and inflation objectives. However, at times economies can also experience substantial disruptions to the supply of goods and services. The disruptions in production and supply related to COVID-19, and the energy price increases related to Russia’s invasion of Ukraine, are important recent examples. Changes to the supply capacity of the economy can push inflation higher but employment lower. In that case a central bank faces a trade-off between meeting its inflation and full employment objectives. It is possible that supply disruptions will be more prevalent in the future, for example because of further pandemic related impacts, changes in the extent of global economic integration, geopolitical tensions or natural disasters related to climate change. This is prompting further consideration of the operation of monetary policy in response to supply disruptions. Climate change also raises questions related to the appropriate role of central banks, if any, in the transition to a lower carbon economy.

Australia’s monetary policy framework needs to support the achievement of the RBA’s objectives in the face of these and other future challenges. Flexible inflation targeting frameworks, in various permutations, provide one set of options. But others have been suggested. For example, some academics and commentators have advocated for central banks to target a path for the level (rather than change) of prices that increases steadily each year. In practice, this requires periods of higher (or lower) inflation to make up for earlier periods of lower (or higher) inflation. Others have suggested a shift to a target for the level or growth of nominal gross domestic product or nominal gross national expenditure. There is a body of research that assesses the benefits and risks of alternative frameworks that the Review will consider, along with the views of monetary policy experts and a broad cross-section of the community.

In considering the appropriate monetary policy arrangements, the Panel is mindful that there are limits to what monetary policy can achieve. Monetary policy does not directly set the rate of inflation or employment, and many other outcomes that are outside the central bank’s remit or control are important. Changes in monetary policy affect individual households and businesses differently, depending on their circumstances. However, monetary policy makers have no way of adjusting how their policy changes impact individual households and businesses. Similarly, while monetary policy can influence overall inflation, it is not well suited to managing which prices rise and fall. The much richer set of policies available to the Government provide more scope to effectively target desired distributional outcomes.

The Review will assess the interactions between monetary, fiscal and macroprudential policies. While each are designed to pursue particular objectives, they can have important reinforcing or opposing impacts.

Fiscal policy refers to how much governments spend and how much they raise in revenue. Fiscal policy can pursue a range of objectives, including promoting an efficient and competitive economy, ensuring community safety and security, providing public services, and affecting the distribution of income and opportunity. Fiscal policy has important implications for the macroeconomic environment and can complement monetary policy. For example, fiscal policy can play an automatic stabilising role in the economy with government spending tending to increase and revenues tending to decrease when economic conditions weaken. During the COVID-19 pandemic, fiscal policy played a larger role than usual in supporting the economy, when monetary policy was constrained by the effective lower bound on policy interest rates. Compared to monetary policy, it can also allow for more targeted policy

responses. For example, government investment can have important implications for how fast the economy can grow without creating inflationary pressures. At the same time, monetary policy can affect the overall cost of government borrowing.

Macroprudential policies are designed to manage risks to the stability of the financial system as a whole (as opposed to the prudential risks of individual financial institutions). They can include rules about how much capital institutions set aside to manage risk and what standards institutions apply to products such as loans. The Australian Prudential Regulation Authority (APRA) has responsibility for macroprudential policy, with the aim of preventing the excessive build-up of risks to financial stability. While APRA's statutory role and functions are not within the scope of the Review, there are important interactions between monetary and macroprudential policy which will be considered. For example, when policy interest rates are low for a long time, monetary policy can contribute to the build-up of financial vulnerabilities, through increased credit growth, asset prices and risk-taking. In this case, complementary macroprudential policy can act as a mitigating force, and give monetary more 'space' to pursue its inflation and employment objectives.

Given these strong interactions, it is important that monetary, fiscal and macroprudential policy take heed of each other. Beyond this, whether and how these policies can better complement each other is open for debate.

Issues for discussion

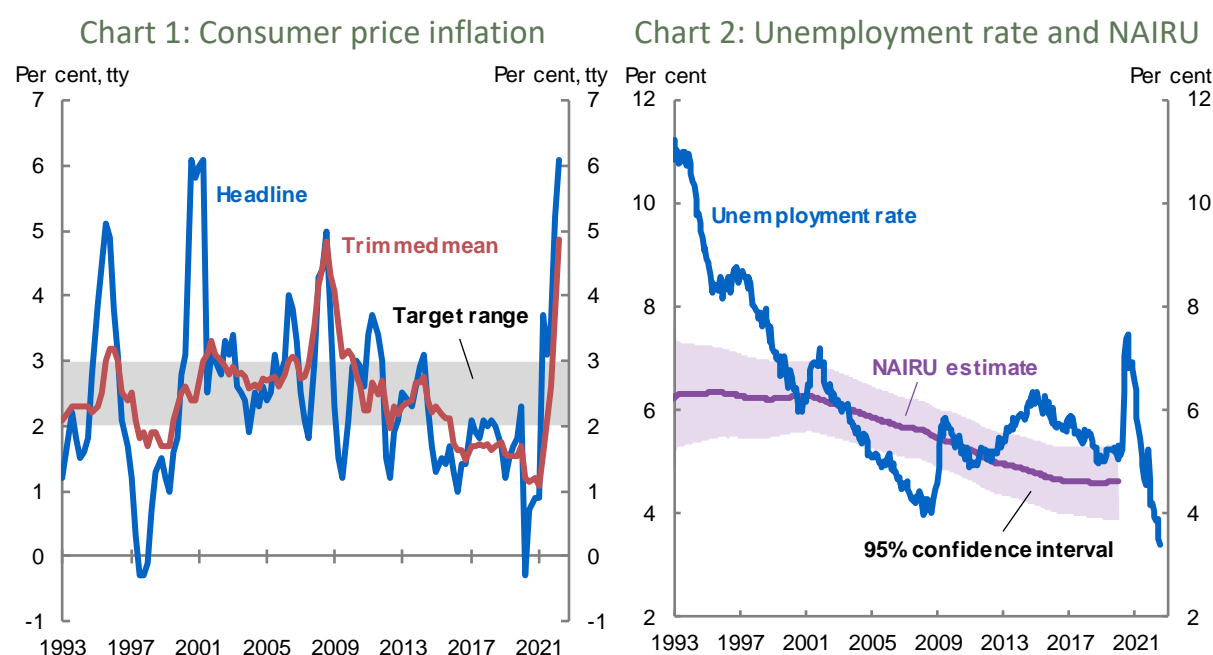
- What changes, if any, should be made to the objectives set out in the *Reserve Bank Act (1959)*: stability of the currency, maintenance of full employment, and economic prosperity and welfare of the Australian people – or do these remain the right objectives?
- What adjustments, if any, are warranted to the RBA's flexible inflation targeting arrangement as described in the *Statement on the Conduct of Monetary Policy*, or what alternative arrangement is most appropriate, in light of current and future challenges? How should the RBA balance its objectives in its approach to monetary policy?
- How should monetary, fiscal and macroprudential policies complement each other, including during economic downturns and when interest rates are close to their effective lower bound? What implications does that have for the design of Australia's monetary policy framework, and its interaction with fiscal and macroprudential policy arrangements?

Theme 2: Performance against objectives

This Review will consider the RBA’s past performance in achieving the objectives set out in the *Reserve Bank Act (1959)* and *Statement on the Conduct of Monetary Policy*, with a view to identifying what lessons can be drawn for the future. The Review will consider the inputs to the policy process, including the RBA’s analysis and forecasts for the economy, as well as its choices of monetary policy tools, its policy implementation and communication, and how it has managed the trade-offs between its policy objectives.

The *Statement* points out that the numerical inflation target range of 2 to 3 per cent provides a ‘clearly identifiable performance benchmark’, although it does not specify the period over which performance should be measured (only ‘on average, over time’).

Chart 1 shows measures of consumer price index (CPI) inflation in Australia since the adoption of current monetary policy arrangements in the early 1990s. Headline CPI inflation has averaged 2½ per cent, on a through-the-year basis, since 1993. However, in the 5 years prior to the pandemic, headline CPI inflation averaged 1¾ per cent. Trimmed mean inflation, which excludes prices with particularly large movements, showed similar trends. Below-target inflation was also common in other advanced economies over this period.



Note: Model-based estimate of the NAIUR up to December quarter 2019 from Bishop J and Greenland E (2021) ‘Is the Phillips Curve Still a Curve? Evidence from the Regions’, *RBA Research Discussion Paper*, no 2021-09. The 95% confidence intervals are ± 2 standard error bands.

Sources: ABS Consumer Price Inflation, ABS Labour Force Survey, RBA Statistical Table G1, Bishop and Greenland (2021)

Chart 2 shows that the unemployment rate in Australia has declined on average since the early 1990s. The *Act* and *Statement* do not specify numerical targets for the full employment or welfare objectives. One measure of full employment that is commonly used by economists is the non-accelerating inflation rate of unemployment (NAIRU). This is the lowest level of unemployment that can be sustained without causing excessive inflation. It is estimated, rather than observed, and estimates are subject to a high degree of uncertainty. The NAIRU can also change over time and estimates of the NAIRU have tended to decline since the 1990s due to various structural changes in the economy. The unemployment rate has tended to fluctuate around estimates of the NAIRU, although was higher in the 1990s, lower in the years just before the Global Financial Crisis, and higher again in the 2010s.

The Review will consider the RBA's choice of policy tools used in pursuing its objectives. The RBA primarily conducts monetary policy by setting a target for the cash rate, which is the interest rate charged on overnight loans between banks. Changes in the cash rate influence other interest rates in the economy, such as rates on mortgage loans, business loans, government debt and bank deposits. When the RBA lowers the cash rate target, it aims to increase economic activity by boosting domestic spending and supporting demand for Australian products via a lower exchange rate than otherwise. This supports employment and places upward pressure on inflation. The effect can be reinforced if households and businesses adjust wages and prices in anticipation of higher inflation. The opposite occurs when the RBA increases the cash rate. In this way, the RBA can use the cash rate to influence inflation and employment to pursue its objectives.

The cash rate is not the only tool that central banks can use. The Global Financial Crisis led many central banks overseas to use a broader range of tools, including balance sheet tools such as bond purchases. In response to the pandemic, the RBA reduced the cash rate target to 0.1 per cent, which was judged to be the lowest it could practically go, and also used a range of other tools to provide additional support to the economy:

- Forward guidance about the RBA Board's expectations for future policy decisions to reinforce its commitment to low interest rates and reduce uncertainty about the economic and financial outlook
- A target on the yield of the 3-year government bond to further lower borrowing costs and reinforce the RBA's forward guidance
- A Term Funding Facility to provide the banking system with access to low-cost funding, with incentives to lend to small and medium-sized businesses
- Purchases of government bonds from the private sector to further reduce borrowing costs in the economy and place downward pressure on the exchange rate.

While most of these monetary policy actions were similar to those taken by overseas central banks, the adoption of a yield curve target to reinforce its forward guidance was a relatively novel aspect of the RBA's approach.

The strong recovery of the Australian economy led the RBA to discontinue its yield curve target in November 2021 and cease its purchases of Australian government bonds in February 2022. Overall, the RBA purchased roughly \$280 billion of bonds (equivalent to around 13% of GDP) issued by the Australian Government and states and territories, as part of its bond purchase program. The RBA has published an internal review of its yield curve target, as well as an initial assessment of its bond purchase program. The RBA has said that it intends to publish further reviews covering its forward guidance and bond purchase program.

During the pandemic and the earlier Global Financial Crisis, the RBA also took actions to support the stability of the financial system and the functioning of financial markets that are core to the transmission of monetary policy. Outside crisis periods, the RBA has worked closely with other agencies through the Council of Financial Regulators to promote financial stability. Increasingly, this has included consideration of risks related to climate change and cyber security. The RBA is a member of the Network of Central Banks and Supervisors for Greening the Financial System.

As part of its assessment of the RBA's performance, the Review will consider the inputs to its monetary policy decisions. Economic forecasts are one key input, because policy changes take time to have their full effect on the economy. Effective forecasting combines the use of economic and statistical models with judgement, and forecast processes require regular updating to ensure that they reflect changes in the structure of the economy and best-practice techniques. Other key inputs to the decision-making process include the RBA's internal research and analysis, and liaison with financial

market participants, community organisations and businesses across Australia, which complements economic forecasts in helping the RBA assess current conditions, the economic outlook and related risks to inflation and employment. The Review will consider the breadth and depth of the various inputs that the RBA draws on in supporting monetary policy decision making.

The Review will also consider the effectiveness of the RBA's communication. Effective communication about the economic outlook, direction of policy and risks can help the RBA achieve its monetary policy objectives. For example, a central bank that explains clearly how its policy response will help it meet its inflation objective can influence the public's expectations about future inflation, which in turn can support favourable actual inflation outcomes. More broadly, effective communication can improve understanding about how the RBA responds to changes in the economic outlook, including how it manages trade-offs between policy objectives, and this reduces uncertainty for the public and financial market participants. Clearly communicating the reasoning behind its decisions, including trade-offs, also helps build and maintain public trust in the institution.

In assessing communication, the Review will examine how the RBA engages with households, businesses, and financial market participants, as well as how this has evolved over time. The RBA produces a range of reports and research that discuss the state of the economy and outlook, and considerations for monetary policy. The RBA Board produces minutes of its meetings to explain the monetary policy decisions of the Board, and the Governor and senior staff give speeches on a range of topics. The RBA also operates a public education program for teachers, students, and the public, and uses various social media platforms.

Issues for discussion

- What lessons can be drawn from the RBA's performance against its objectives to strengthen the future decisions and implementation of monetary policy?
- Where trade-offs arise between the RBA's objectives, how has the RBA managed these in the past, and how should it manage them into the future?
- What improvements could be made to the set of inputs the RBA draws on to support monetary policy decision making?
- What monetary policy tools should the RBA use in pursuit of its monetary policy objectives, and how can it use them most effectively in the future?
- What aspects of the RBA's approach to communications have worked well and helped it achieve its objectives, and where could its communications be improved?

Theme 3: Governance

Two key pieces of legislation determine the RBA's governance arrangements – the *Reserve Bank Act 1959* (the Act) and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act).

The Act specifies that the RBA has two Boards, the Reserve Bank Board and the Payments System Board, and sets out their respective responsibilities. The Review will only consider the Reserve Bank Board (the Board). The Review will consider the Board's structure, experiences and expertise, composition, and the appointments process.

The Board has responsibility for monetary and banking policy decisions, financial stability and the corporate governance of the RBA. It has an Audit and a Remuneration Committee to assist it and the Governor in fulfilling their statutory requirements in relation to corporate governance. The RBA's board structure is not the only way that central bank boards can be configured. For example, in some central banks overseas, the group responsible for corporate governance is not the same as the group responsible for monetary and banking policy decisions.

Under the Act, the Board is comprised of 9 members: the Governor (who is Chair), the Deputy Governor (who is Deputy Chair), the Secretary to the Treasury, and 6 other members who are appointed by the Treasurer. At least 5 of the other members cannot be RBA staff members or appointed or engaged under the PGPA Act. The Act also disqualifies directors, officers, or employees of an authorised deposit-taking institution for the purposes of the *Banking Act 1959*.

The Governor and Deputy Governor are appointed for terms of up to 7 years and are eligible for reappointment. The 6 other members are appointed for terms of up to 5 years and there is no limit on the number of terms they may serve. While some comparable central banks have similar tenure arrangements, others place a limit on the number of terms any one member may serve.

The *Statement*, agreed between the RBA and Government, sets out the procedure for new appointments to the Board. The Treasurer appoints Board members from a shortlist of candidates maintained by the Secretary to the Treasury and the Governor. The current members are from a range of backgrounds, including business, academia, public policy and the not-for-profit sector. The composition of central bank boards and monetary policy committees varies across countries. Some overseas central banks have a separate monetary policy board, with a narrower composition of mainly monetary policy experts and professional economists. Some central banks include a representative from Treasury on their board or monetary policy decision-making body, though not always with voting rights.

Consistent with the Act, the Board makes decisions by a majority of the members present, with the Chair having a casting vote if necessary. The Board's deliberations are supported by papers covering domestic and international economic developments and monetary policy options, prepared by Reserve Bank staff with oversight from the executive. Senior staff also provide presentations at Board meetings.

The Review will also consider accountability arrangements for the RBA. As an independent central bank, the RBA is accountable to Parliament for its actions. The Governor of the RBA is the accountable authority under the PGPA Act. The PGPA Act requires the Governor to prepare an annual report, for presentation to the Treasurer and tabling in Parliament, which discloses information about the RBA's capability and performance. In the *Statement* it is agreed that the Governor will appear before the House of Representatives Standing Committee on Economics twice yearly to report on the conduct of monetary policy and other matters falling within the responsibility of the RBA. Senior RBA officials also participate in other Parliamentary processes to answer questions about the operations and performance of the Bank.

The *Statement* also sets out the steps taken by the RBA to ensure the conduct of monetary policy is transparent. The RBA publishes minutes following each monthly Board meeting that provide background to the Board's policy deliberations. There is no individual attribution in these minutes. While this is comparable to many overseas central banks, others have opted to publish voting history for individual board members. Another approach is to acknowledge opposing views where they exist in the minutes, but without individual attribution. Commentary and analysis on the economic outlook are provided through public addresses and regular publications such as the quarterly *Statement on Monetary Policy* and *Bulletin* and the half-yearly *Financial Stability Review*.

Issues for discussion

- What governance arrangements are best suited to discharging the RBA's monetary policy and corporate governance responsibilities?
- Given this, what appointments process, composition, professional experience, qualifications and tenure of the Reserve Bank Board is most appropriate for fostering internal deliberation and effective decision making?
- What communication practices would best promote accountability, transparency and support public understanding of the RBA's policy strategy and decisions?
- Are there any other aspects of the RBA's governance and accountability arrangements that the Review should consider?

Theme 4: Institution

The Review will consider the culture, management, and recruitment processes of the RBA. It will be particularly focused on the extent to which these aspects of the organisation support its overall effectiveness in meeting its policy objectives. For example, successful organisations are likely to recruit staff with an appropriate mix of skills and experience, develop their staff's capability, maintain a high level of staff engagement and commitment to the organisation's objectives and encourage diversity of thought and enquiry, internal challenge and debate, and innovation.

This is particularly important in the context of the economic and social challenges that many countries including Australia are facing, for example demographic change, digitalisation of finance and the risks and opportunities associated with climate change and sustainable natural capital management.

The culture of an organisation can be difficult to observe, and changes over time, but is critical to its success. Current and former RBA staff and those who have had close interactions with the RBA are likely to have particular insights on some of the questions in this section. The Review also welcomes the views of outside observers who interact with the organisation.

Values are an important part of any organisation's culture. The stated values of the RBA, and its expectations of staff, are set out in the RBA *Code of Conduct*: promotion of the public interest, integrity, excellence (technical and professional excellence); intelligent inquiry (staff are encouraged to debate, ask questions and speak up when they have concerns) and respect.

The Review is interested in how these values are reflected in the RBA's culture (as experienced by current and former staff and outside observers), how they are reinforced by its management, and whether the right values have been identified by the RBA.

The Review will consider how the RBA's staff profile, and recruitment and staffing processes, contribute to its ability to deliver on its objectives. The RBA has approximately 1,400 staff working across a range of disciplines and locations. Roughly a quarter of RBA employees work in IT, a quarter in policy areas and the remainder in business services (banking, banknote and payment services) and corporate support. Women make up around 44 per cent of all employees and hold around 34 per cent of management roles (up from 26 per cent about a decade ago). Just under 10 per cent of all employees work part-time (and around 80 per cent of those that do are women). As at 2019, around 25 per cent of RBA staff identify as having been born overseas from a non-English-speaking background, and 1.8 per cent of employees identify as having a disability.

While the RBA has offices in most capital cities in Australia as well as in London, New York and Beijing, the vast majority of staff are based in the RBA's head office in Sydney. Some RBA staff are also seconded to other Australian and international institutions, including the Australian Prudential Regulation Authority, the Australian Treasury, the Bank for International Settlements, the International Monetary Fund and overseas central banks.

As at 30 June 2021, 61 staff held positions with an annual salary at or above \$230,000 a year. These staff include 17 Heads of Department and 25 Deputy Heads of Department. The RBA has committed to increase the diversity of people who hold management positions, including a stated objective to have women in 40 per cent of management roles by 2023 and equal representation in the longer term.

The RBA recruits staff with varying expertise and experience. The RBA offers both internship and graduate programs, with staff on the two-year graduate program working largely in the RBA's core policy areas and IT. Of the 155 employees hired in 2020-21, 24 were in the graduate program.

Issues for discussion

- To what extent does the institutional culture at the RBA reflect its values?
- Are there any changes to the RBA's culture and/or values that would help it to foster high quality decision-making and more effectively achieve its objectives?
- How well does the culture at the RBA balance clarity of purpose, institutional identity, and deep subject matter knowledge while also encouraging innovation and appropriate risk taking?
- Does the RBA's management approach support staff engagement and effective decision making?
- What kind of workforce does the RBA need, including in terms of skills, experience and diversity?
- Are there changes the RBA should make in how it attracts, develops and retains staff, that would help it achieve the right mix of skills, experience and diversity?