

An RBA Fit for the Future

In July 2022, Treasurer Jim Chalmers announced an independent review of the Reserve Bank of Australia. It is the first wide-ranging review of the RBA since current monetary policy arrangements were implemented in the 1990s.

The review's scope was to examine the RBA's performance against four measures: its objectives, policy implementation, governance processes and public communications.

The Full Review Report "An RBA Fit for the Future" was released this morning and can be accessed [here](#).

It made 51 recommendations.

The Albanese government will support all of the report's 51 recommendations in principle, although some of the changes will fall to the RBA to implement and some will require legislative changes.

While all 51 recommendations have been summarised below, key recommendations include:

- The establishment of two RBA boards
 - Monetary Policy Board
 - A Governance Board
- The agreement of a new Statement on the Conduct of Monetary Policy between the government and the RBA board.
- Two new board members to be appointed to the existing nine-member RBA board structure, which will remain in place until the new dual board system is legislated

Recommendations

The Review makes 51 specific recommendations under 14 broader headings, grouped into 5 themes:

1. A clearer monetary policy framework

- Flexible inflation targeting operated by an independent RBA has generally worked well over three decades, contributing to lower, more stable inflation and unemployment. *f*
- Some modest improvements to the current framework and objectives will ensure it remains well-suited to Australia's future challenges.
- The RBA should have dual monetary policy objectives of price stability and full employment, with equal consideration given to each. The economic prosperity and welfare of Australians now and in the future should be an overall purpose for the institution.
- The RBA should retain a flexible inflation target of 2 to 3 per cent and aim at the midpoint to maximise the chance that the target is met and best anchor inflation expectations.
- The RBA should systematically set out its assessment of its full employment objective, as reflected in a range of relevant indicators of labour market conditions.
- The RBA should clearly explain how it is balancing its two monetary policy objectives, including how long inflation is expected to be materially away from the midpoint of the target and why, and how long labour market conditions are expected to deviate from full employment and why.

- There should be increased joint work between the Treasury and the RBA on the relative roles of fiscal and monetary policy.
- There should be 5-yearly reviews of the RBA's monetary policy framework and policy tools.
- There should be more formalised cooperation arrangements for financial stability policy including by the RBA providing formal advice to APRA for its use of macroprudential tools.

2. Stronger monetary policy decision-making and accountability

- Monetary policy decision-making should be strengthened to deal with an increasingly complex environment that includes more supply-side shocks and a broader monetary policy toolkit.
- The Reserve Bank Board's composition and decision-making processes have not sufficiently enabled it to shape policy decisions, strategy, and the RBA's underlying analysis and judgements.
- The Government should form a Monetary Policy Board with greater economic expertise and participation in decision-making while maintaining diverse perspectives and knowledge.
- The Monetary Policy Board should move to 8 monetary policy meetings a year to allow more time to consider the issues and engage with RBA staff within each meeting cycle.
- Monetary policy processes should be more transparent, with press conferences after each meeting, papers published after 5 years, and Board members occasionally speaking publicly about the work of the Board.
- The RBA should strengthen its strategic communications capability, with a new Chief Communications Officer position.

3. An open and dynamic RBA

- The RBA has a high calibre, deeply committed people and a supportive and collegiate culture. It is respected domestically and internationally for its expertise, the quality of its work and the contribution it makes in global forums. *f*
- The RBA should build on the steps it has already taken to become more open and dynamic.
- The RBA should appoint a Chief Operating Officer, focusing on improving systems and processes and creating a more agile organisation that better empowers staff. *f*
- The RBA should improve its leadership capability with a compulsory leadership training program, externally facilitated 360-degree feedback and improved performance management. *f*
- The RBA should promote constructive debate and openness to diverse views by assessing how leaders engage with staff on ideas, more openness to external hires, and diversity targets. *f*
- The RBA should strengthen the role of research in policy formulation by developing a new research strategy overseen by the Monetary Policy Board and establishing a monetary policy strategy team.

4. More robust corporate governance

- The RBA's corporate governance should be strengthened to deal with a complex operating environment and drive change.
- The Government should establish an RBA Governance Board with an external chair to support and oversee management, drawing on best practice elsewhere.
- The Governance Board's role should include oversight of the RBA's organisational strategy, finances, strategic staff planning and risk management (including cyber risks). It should have no role in monetary, financial stability or payments policy or the day-to-day running of the RBA.

5. RBA leaders drive institutional and cultural change

- RBA leaders should be assessed on how they deliver and model cultural change, and measure change through annual staff surveys.
- The Governance Board should assess progress on implementation and report by June 2025.
- The RBA should participate in 5-yearly Australian Public Service capability reviews.

Next Steps

Some of the review recommendations will need legislative change, cooperation with the Council of Financial Regulators, or agreement of a new statement on the conduct of monetary policy between the RBA board and the government. Others would fall to the RBA itself to implement.

Subject to consultations with the Opposition, the Government intends to introduce legislation to:

- reinforce the independence of the RBA in the operation of monetary policy;
- strengthen the RBA's mandate and clarify that Australia's monetary policy framework will have dual objectives of price stability and full employment; and
- establish a separate Monetary Policy Board and Governance Board to ensure decision-making and corporate governance arrangements are as effective as they can be.

The Government will legislate changes to commence from 1 July 2024.

The treasurer will work with the RBA Board to agree on a new *Statement on the Conduct of Monetary Policy* to be finalised before the end of 2023. The statement will:

- Will reaffirm the Government's commitment to the independence of the Reserve Bank and support for the inflation targeting framework.
- set out a shared understanding for strengthening decision-making, accountability and transparency in monetary policy decisions, in line with the Review's recommendations.

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