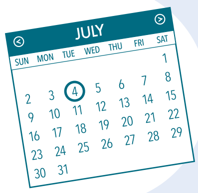
Monetary Policy in Australia

The Reserve Bank conducts monetary policy to achieve its goals of price stability, full employment, and the economic prosperity and welfare of the Australian people.

2-3%

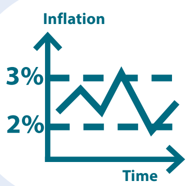
It does this by targeting inflation between 2-3%, on average, over time. The cash rate is the primary tool used to manage inflation. The RBA has, at times, also used other tools, including targeting longer-term interest rates and buying and selling government bonds.

The Reserve Bank Board meets eleven times a year, on the first Tuesday of the month, to determine the appropriate monetary policy settings.



Monetary policy, including the cash rate, has a strong influence over interest rates in the economy, such as lending and deposit rates.

More expansionary monetary policy, like a reduction in the cash rate, typically stimulates spending and inflation. Tighter monetary policy, like an increase in the cash rate, typically dampens spending and inflation.



If inflation is likely to be too high (low) for too long, the Reserve Bank Board would typically tighten (loosen) monetary policy, such as by increasing (decreasing) the cash rate.