



## Objectives of Monetary Policy

The *Reserve Bank Act 1959* sets out the specific goals for monetary policy. The overarching objective for monetary policy is to promote the economic prosperity and welfare of the Australian people both now and into the future. The Monetary Policy Board can best fulfill this mandate by conducting monetary policy in a way that will best contribute to both price stability and full employment.

The Monetary Policy 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 Monetary Policy Board's price stability objective. The Monetary Policy 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 Monetary Policy Board and Government agree that the Monetary Policy 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 Monetary Policy 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 Monetary Policy 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 will communicate how long it expects it will be before it again meets each of its objectives and why.