

The Treasury

Phase 1 RBNZ Act Review Information Release

December 2018

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Reference: T2018/1849 MC-1-7-6

Date: 4 July 2018

To: Minister of Finance (Hon Grant Robertson)

Deadline: Before LEG meets at 9.15am on Thursday 5 July
(if any)



Aide Memoire: LEG Briefing: Reserve Bank of NZ (Monetary Policy) Amendment Bill (2018): Approval for Introduction

On 5 July Cabinet's Legislation Committee (LEG) will consider the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill (2018) (the Bill). This aide memoire provides talking points for that meeting. For your information, operational details for the Treasury observer (the observer) are also included, given that the Bill is not prescriptive about those arrangements. In addition, the aide memoire informs you of the Reserve Bank Board's (the Board) views on the observer's appointment.

Talking points for LEG

- The Bill amends the objectives of monetary policy to require consideration of maximum sustainable employment alongside price stability. The revised objectives will direct the Reserve Bank to choose policy settings that best support employment outcomes, while ensuring price stability is achieved over the medium term.
- The Bill also institutes a monetary policy committee (MPC) to make monetary policy decisions. The introduction of a MPC will strengthen the Reserve Bank's institutional arrangements and help to bring a diversity of perspectives to decision-making.
- The high-level policy detail was announced in March after initial Cabinet decisions were taken. Since then Finance Ministers have agreed the secondary details necessary to make the new regime operational. Key decisions taken by Finance Ministers are (a summary of the Bill is included in Annex 1):
 - **How the operational objectives for monetary policy are set:** The Minister of Finance will set a *Remit for the MPC* every five years, following advice from the Reserve Bank that will be informed by public consultation.
 - **How the Charter will work:** The Minister and the MPC will agree a Charter that will set transparency, accountability and decision-making requirements the MPC must adhere to beyond what will be required by the Reserve Bank of New Zealand Act 1989 (the Act) once it is amended.
 - **Reporting requirements:** The Reserve Bank must report on monetary policy at least four times per year. A new report that reviews and assesses monetary policy performance will be required at least every five years.
 - **Board monitoring:** The monitoring role of the Board will be extended to the entire MPC.
- The intention is to pass the Bill in 2018. This requires the Bill to be introduced by 20 July for first reading on 26 July, before being considered by the Finance and Expenditure Committee (FEC) for a shortened four-month period.

Operational arrangements for the Treasury observer

Cabinet previously agreed that the MPC include a non-voting Treasury observer. The Bill provides that the Secretary to the Treasury nominates the observer, who may attend and speak at any meeting of the MPC. Other than this the Bill is non-prescriptive. This approach was agreed by Finance Ministers and the proposed arrangements were set out at a high-level in annex E of T2018/998. The Treasury and the Reserve Bank are now determining the detailed operational arrangements.

The Reserve Bank Governor and the Secretary to the Treasury have agreed that Gabs Makhlouf will be the observer, with Bryan Chapple attending in exceptional circumstances where Gabs cannot attend. It has also been agreed that the observer will join Reserve Bank meetings as early as practical and before the legislation is in force. We expect this to be in time for the 8 November 2018 Monetary Policy Statement. Further details, such as confidentiality and conflict of interest arrangements, will be agreed between the Treasury and the Reserve Bank before then.

Reserve Bank Board views on the Treasury observer

The Board has expressed concern with the provisions in the Bill relating to the observer. The Board's view is that the observer should be appointed by the Minister of Finance, rather than the Secretary to the Treasury. Such an arrangement would be consistent with the appointment process for the voting MPC members. The Board considers this necessary given that the observer could influence MPC decisions. The Board Chair may raise this with you when you meet him on 2 August. The issue could also emerge during the FEC process.

Given that the observer will not be able to vote, we do not consider that Ministerial appointments are necessary. Furthermore, we consider that a comprehensive agreement between the Treasury and the Reserve Bank about the arrangements for the observer will address many of the Board's concerns.

While we do not recommend any changes to the Bill, after discussing the issue with the Board Chair you may wish to make amendments to address the Board's concerns. If so, amendments could be made by a Supplementary Order Paper (SOP) during the select committee stage. Officials can provide you advice on this option after your meeting with the Board Chair if necessary.

Ben Gaukrodger, Senior Analyst, Macroeconomic & Fiscal Policy, ^[7]
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Annex 1: Summary of the Key Provisions in the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill (2018)

The Reserve Bank of New Zealand (Monetary Policy) Amendment Bill (2018) (the Bill) makes two key changes to the Reserve Bank of New Zealand Act 1989 (the Act). They are:

- Changing the monetary policy objectives to include supporting maximum sustainable employment alongside price stability as an objective of monetary policy.
- Requiring that monetary policy decisions be made by a Monetary Policy Committee (MPC) rather than by the Reserve Bank Governor (the Governor).

The key provisions in the Bill that give effect to these changes are explained below.

Monetary Policy Objectives

Issue	Description of Change	Relevant Section of Bill ¹
Purpose	The purpose statement has been changed to reflect that the Act aims to promote the prosperity and wellbeing of New Zealanders, contributing to a sustainable and productive economy.	s1A
Objectives	The objectives have been changed to focus on: (a) achieving and maintaining stability in the general level of prices over the medium term; and (b) supporting maximum sustainable employment.	s8
Different economic objective	The Governor-General retains the power to issue an Order in Council that directs the Bank to formulate monetary policy for different economic objectives than specified in the Act, for a period of up to 12 months.	ss13-15A
Remit	The operational objectives for monetary policy will no longer be set through the Policy Targets Agreement (PTA) agreed between the Minister of Finance and the Governor. Instead, the Minister of Finance will set the operational objectives through a <i>Remit for the Monetary Policy Committee</i> , after receiving advice from the Bank.	s10 and schedule 2 clauses 2-7
Monetary Policy Reports	The Bank must provide reports on monetary policy, similar to the Monetary Policy Statement, at least 4 times per year. This is consistent with existing practice. The Bank also has a new requirement to issue a report at least every 5 years that reviews past monetary policy performance. Further detail about reporting requirements can be set by the Charter (including requiring reports to be provided more frequently).	ss15C-15D

Monetary Policy Committee

Issue	Description of Change	Relevant Section of Bill
MPC function	The MPC is responsible for formulating monetary policy, which covers all substantive monetary policy decisions at the Bank. The Governor is responsible for implementing those decisions.	ss8-9 and s63B
Membership	The MPC will have 5-7 members. The Governor and Deputy Governor are <i>ex-officio</i> members, and 1 or 2 other members will be appointed from within the Bank. Either 2 or 3 members will be external members from outside the Bank. The external members will be in the minority on the MPC. The Governor also chairs the MPC.	s63C and schedule 2 clause 27
Appointments and term lengths	All members of the MPC are appointed by the Minister of Finance on the recommendation of the Reserve Bank Board. The Board must consult the Governor before recommending the Deputy Governor and the other internal members. All internal members serve 5 year terms, which can be renewed once. External members serve 4 year terms, which can be renewed once. Initial terms will be staggered.	ss42-45A. and schedule 2 clauses 8-15

¹ Schedule 1 refers to the new schedule on transitional, savings and related provisions. Schedule 2 refers to the new schedule on the remit and the MPC.

Issue	Description of Change	Relevant Section of Bill
Treasury observer	The MPC will also include a Treasury observer that may attend meetings but has no right to vote on decisions.	Schedule 2 clauses 23-26
Members' duties and dismissal	The Bill sets duties for the members of the MPC (including the Governor and Deputy Governor), with dismissal possible where members do not fulfil their duties. Duties are both individual (for example, members must act with reasonable care, diligence and skill and with honesty and integrity) and collective (for example, the MPC must formulate policy in a manner that is consistent with the Act and the remit, and must comply with the Charter). The Governor and Deputy Governor can also be removed from office for a failure to comply with the responsibilities of these roles. These grounds have been amended in light of the creation of the MPC – for example the Governor can no longer be removed from office for failing to achieve the policy targets as this is now a duty of the MPC. The Governor also has responsibilities as the Chair of the MPC.	ss49-50 and schedule 2 clauses 16-22 and 28-39
Decision-making	The Bill sets minimum decision-making rules, including that each member has one vote, and that in the event of a tied vote, the Chairperson has a casting vote. Further detail, such as whether decisions should be taken by vote or with consensus, can be set in the Charter. The Bill also sets rules for quorum and emergency procedures.	Schedule 2 clauses 40-45
Meeting records	The Bill requires the Bank to publish a record of each meeting of the MPC. The Charter sets requirements for the meeting records that the Bank must comply with. For example, the Charter could set guidelines or requirements for what information must be included or when the meeting record must be published.	s63E and schedule 2 clause 46
Charter	The Bill creates a Charter for the MPC, which will set out the detailed approach to transparency, accountability and decision-making, beyond what is provided for in the Act. The Charter will be agreed by the Minister of Finance and the MPC.	ss63D-63H
Code of conduct	The Bill creates a code of conduct that MPC members must follow, which will be prepared by the Reserve Bank and approved by the Board. The code of conduct must include rules for conflicts of interest and confidentiality.	ss63I-63K
The Reserve Bank Board	The Board's duty to keep the performance of the Governor under constant review is expanded to include the Deputy Governor, the other MPC members and the MPC itself. The Board also has a new duty to supply reports to the Minister as requested, and a new power to request information from the Bank to enable the Board to monitor performance.	ss53-53C
Board Chair and Deputy	The Bill gives the Minister of Finance the power to appoint the Chair and Deputy Chair of the Board. At present the Board elects its own Chair and Deputy.	s59A

Transitional Provisions

Issue	Description of Change	Relevant Section of Bill
Commencement	Commencement of the new economic objectives and decision-making processes is 3 months after Royal assent. Transitional provisions required to establish the new regime, such as those relating to the remit and the Charter, and appointments to the MPC, come into force the day after Royal assent, to enable the regime to be in force from the main commencement date.	s2
First remit and Charter	The Bill provides for the first remit and Charter to be set by agreement between the Minister of Finance and the Governor. If agreement cannot be reached in a reasonable period of time, the Governor-General may issue the first remit and/or Charter by Order in Council on the recommendation of the Minister.	Schedule 1 clauses 2-7