

Chair
Cabinet

REVIEW OF THE RESERVE BANK OF NEW ZEALAND ACT 1989

Proposal

1. This paper notes my intention to announce a review of the Reserve Bank of New Zealand Act 1989, and to re-sign the current Policy Targets Agreement as an interim measure.

Background

2. The Reserve Bank of New Zealand Act 1989 specifies that the primary function of the Reserve Bank shall be to deliver "stability in the general level of prices." Section 9 of the Act then says that the Minister of Finance and the Governor of the Reserve Bank shall together have a separate agreement setting out specific targets for achieving and maintaining price stability. This is known as the Policy Targets Agreement (PTA).
3. The Reserve Bank Act is almost 30 years old. Since 1989, there have been significant changes to New Zealand's economy and the financial system, while the Reserve Bank's functions have also expanded considerably. In recent years in the wake of the Global Financial Crisis monetary policy around the world has been under pressure. It is timely to undertake a review and update the Act.
4. The Coalition Agreement between New Zealand First and the New Zealand Labour Party included a commitment to review and reform the Reserve Bank Act - to help modernise the Act and ensure that it played its part in the delivery of an export-led economy.
5. The New Zealand Labour Party campaigned on a policy to update the Reserve Bank Act to:
 - a) Widen the objectives of the Bank to ensure that monetary policy decision-makers give due consideration to maximising employment alongside price stability in implementing monetary policy; and
 - b) Institute a committee-based decision making model for monetary policy matters to replace the Governor as single decision maker.
6. Both of the above approaches are successfully used in other central banks around the world, and their experiences provide some guidance for how they could be implemented in New Zealand. They would better align the goals of monetary policy with our wider economic objectives and provide greater transparency and accountability for decision making. We have committed to maintaining the independence of the Reserve Bank in any changes that will be made. We have also committed to maintaining the existing inflation target band in a re-negotiated Policy Targets Agreement.

Comment

7. I intend to announce a review of the Reserve Bank Act, which will be undertaken in two phases. Phase 1 of the review will:
 - a) recommend potential changes to the Act to provide for requiring monetary policy decision-makers to give due consideration to maximising employment alongside the price stability framework;
 - b) recommend changes to the Act to provide for a committee decision-making model for monetary policy decisions that includes the participation of external experts; and
 - c) consider whether changes are required to the role of the Reserve Bank Board as a consequence of the changes to the decision making model.
8. Phase 1 of the review will be led by the Treasury, on my behalf. The Treasury will work closely with the Reserve Bank who will provide expert and technical advice.
9. In addition an Independent Expert Advisory Panel will be established to provide input and support to both phases of the Review. I will appoint the members of the Panel.
10. I expect Phase One of the Review to be completed early in 2018. Following this, a Bill to progress the policy elements of the review, including on the details necessary to introduce a potential committee for monetary policy decisions, will be introduced as soon as possible in 2018. The intent of this is to give greater certainty on the direction of reform in advance of the appointment of the next Reserve Bank Governor, currently scheduled in March 2018.
11. Phase 2 of the review will look at any other elements of reform to the Act. To deliver this, the Reserve Bank and the Treasury will jointly produce a list of areas where further investigations of the Reserve Bank's activities and operations are desirable. This list will be produced in consultation with the Independent Expert Advisory Panel.
12. This list, and the next steps for the review, will be communicated in early 2018. This phase of the review will incorporate the review of the macro-prudential framework that is scheduled for 2018.
13. There is some urgency in taking, and announcing, these decisions before the next Monetary Policy Statement, which will take place on Thursday 9 November. The absence of clarity on the scope and nature of the review could lead to uncertainty and a resulting loss of confidence at a time when there is focus on the Reserve Bank.

Re-signing the Policy Targets Agreement

14. It is my intention to re-sign the current Policy Targets Agreement with the Reserve Bank Governor. I am not required to do so but it is important to provide confidence and certainty to financial markets about the policy settings while the review is underway. The appointment of a new Governor, currently scheduled for March, will trigger a further automatic review of the Policy Targets Agreement. This offers the opportunity to update the agreement in line with Phase One of the Review.

Consultation

15. The Department of Prime Minister and Cabinet has been informed of this paper. The Reserve Bank of New Zealand has been informed of the scope of the review.

16. I have consulted with the Associate Ministers of Finance Hon. Shane Jones and Hon. David Parker in the production of this paper. They will continue to assist in the review process as it develops.

Financial Implications

17. There are no financial implications arising from the recommendations in this paper.
18. Changes to the Reserve Bank Act may have financial implications if the Reserve Bank requires any additional resources to implement policy changes. I will report to Cabinet on any financial implications when progressing policy proposals.

Human Rights

19. There are no human rights implications arising from the recommendations in this paper.

Legislative Implications

20. There are no legislative implications arising from the recommendations in this paper.
21. Legislation will be required to amend the Reserve Bank Act once the review is complete. I will report to Cabinet on proposed options for reform as policy progresses.

Publicity

22. Since the coalition agreement was announced, there has been considerable media attention on what the Review of the Reserve Bank Act will entail. To provide certainty to the financial markets, I intend to announce these Terms of Reference for the Review on or before 8 November 2017.
23. The next Monetary Policy Statement will be released by the Reserve Bank on 9 November 2017. An 8 November announcement will ensure that the Terms of Reference are known when the Monetary Policy Statement is released.

Recommendations

24. I recommend that Cabinet:
- 1 **note** the Draft Terms of Reference for the Review of the Reserve Bank Act; and
 - 2 **note** that I intend to publicly announce the Terms of Reference for the Review of the Reserve Bank Act on or before 8 November 2017; and
 - 3 **note** that I also intend to resign the current Policy Targets Agreement on or before 8 November 2017

Authorised for lodgement
Hon Grant Robertson
Minister of Finance

Date: