

# TERMS OF REFERENCE FOR THE REVIEW OF THE RESERVE BANK ACT

## Background

It is almost 30 years since the Reserve Bank of New Zealand Act 1989 (“the Act”) came into force. While the Act has generally served New Zealand well there have been significant changes to the global and New Zealand’s economy since 1989, as well as considerable debate on the best way to conduct monetary and financial policy. The time is now right to review the Act, and to ensure it best supports a sustainable, export led New Zealand economy, and helps to deliver the quality of life New Zealanders desire and deserve.

The Coalition Agreement between the New Zealand Labour Party and New Zealand First included a commitment to review and reform the Reserve Bank Act.

The New Zealand Labour Party campaigned on a policy to update the Reserve Bank Act to:

- 1.1 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
- 1.2 Institute a committee-based decision making model for monetary policy matters to replace the Governor as single decision maker.

## Goal

The goal of the review is to modernise New Zealand’s monetary and financial stability policy frameworks and the Reserve Bank’s governance and accountability settings. This will ensure that the Reserve Bank’s approach supports good economic management and reflects the changing environment in which New Zealanders live and work, which will support the development of a New Zealand economy that delivers sustainable and shared prosperity. The operational independence of the Reserve Bank remains paramount and will be protected.

## Terms of Reference

The review will be undertaken in two phases of work.

### Phase 1:

The review will:

- recommend changes to the Act to provide for requiring monetary policy decision-makers to give due consideration to maximising employment alongside the price stability framework; and
- recommend changes to the Act to provide for a decision-making model for monetary policy decisions, in particular the introduction of a committee approach, including the participation of external experts.
- consider whether changes are required to the role of the Reserve Bank Board as a consequence of the changes to the decision making model.

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. This will give greater certainty on the direction of reform in advance of the appointment of the next Reserve Bank Governor, currently scheduled in March 2018.

Phase 1 of the review will be led by the Treasury, on behalf of the Minister of Finance. The Treasury will work closely with the Reserve Bank who will provide expert and technical advice. An Independent Expert Advisory Panel will be appointed by the Minister of Finance to provide input and support to both phases of the Review.

Phase 2:

In line with the Government's coalition agreement to review and reform the Reserve Bank Act, the Reserve Bank and the Treasury will jointly produce a list of areas where further investigations of the Reserve Bank's activities are desirable. This list will be produced in consultation with the Independent Expert Advisory Panel.

This list, and the next steps for the review, will be communicated early in 2018. This phase of the review will incorporate the review of the macro-prudential framework that was already scheduled for 2018.