

The Treasury

Monetary Policy Information Release

Release Document May 2017

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[1]	to protect the privacy of natural persons, including deceased people	9(2)(a)
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) and section 18 of the Official Information Act.

Treasury Report: Reserve Bank of New Zealand: Appointment of Governor

Date:	26 April 2017	Report No:	T2017/981
		File Number:	MC-1-1-1

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Steven Joyce)	Note the contents of the report and finalise the appointment of the interim Reserve Bank Governor	Wednesday 3 May 2017

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Ben Gaukrodger	Senior Analyst, Macroeconomic and Fiscal Policy	[1]	N/A
Renee Philip	Manager, Macroeconomic and Fiscal Policy	[1]	

Actions for the Minister's Office Staff (if required)

Arrange a meeting with Grant Spencer to sign the attached PTA and the letter of appointment, and initial the conditions of employment.

Arrange with the office of the Leader of the House for the signed PTA to be laid before the House of Representatives.

Return the signed report to the Treasury.

Note any
feedback on
the quality of
the report

Enclosure: Yes (attached)

[Policy Targets Agreement for Signature \(Treasury:3696854\)](#)

[RBNZ Interim Governor - Letter of Appointment \(Treasury:3696866\)](#)

Treasury Report: Reserve Bank of New Zealand: Appointment of Governor

Purpose of Report

1. Following Cabinet consultation, you announced on 7 February 2017 that Grant Spencer will be appointed interim Governor of the Reserve Bank for a period of six months upon the completion of the current Governor's term. This report seeks your agreement to complete Mr Spencer's appointment by signing the Policy Targets Agreement (PTA) and letter of appointment, and initialling the conditions of employment.

Policy Targets Agreement

2. Section 9 of the Reserve Bank of New Zealand Act 1989 (the Act) requires you to fix policy targets, in agreement with the Governor, before the Governor is appointed. A PTA is required for the appointment of both a permanent and an interim Governor.
3. You have also announced that you have agreed with Mr Spencer that there will be no change to the content of the PTA for the period Mr Spencer will be interim Governor.
4. To give effect to this agreement, you and Mr Spencer will need to sign a PTA with no changes to the current wording. A PTA has been prepared for yourself and Mr Spencer to sign on this basis, and is attached to this report.
5. The signed PTA must be tabled by the Governor at the first meeting of the Reserve Bank's Board (the Board). In addition, you must publish it in the *Gazette* and lay a copy before the House of Representatives as soon as practicable after it is signed.
6. We recommend that you arrange a meeting with Mr Spencer to sign the attached PTA as soon as possible. This will give certainty to both the markets and Mr Spencer, and allow you to complete the other necessary steps in the appointment process (as discussed below). Once signed, the Governor should arrange for the PTA to be tabled at the next Board meeting, and Treasury will arrange for publication in the *Gazette*. At this point your office will need to arrange for a copy of the PTA to be laid before the House of Representatives.

Letter of Appointment

7. After signing the PTA with Mr Spencer, we recommend confirming his appointment through a letter of appointment. A proposed letter of appointment is attached to this report.

8. While the Act does not require a letter of appointment, we consider that such a letter is appropriate to confirm Mr Spencer's appointment. To date his appointment has only been recorded in your press release.
9. Given that the PTA must be signed before the Governor is appointed, we recommend that you sign this letter immediately after the PTA has been signed by Mr Spencer.

Conditions of Employment

10. The final step in the appointment process is for you to agree the conditions of employment with Mr Spencer. The Act specifies that this is done after consultation with the Board, and the conditions of employment must be tabled at the first Board meeting after they are agreed.
11. The Board recommends that Mr Spencer be appointed on the same terms and conditions as the current Governor. This is also the basis upon which Mr Spencer has accepted the appointment.
12. We recommend that you agree the conditions of employment, as proposed by the Board, that have been sent to you separately by the Reserve Bank.
13. The process of agreeing the conditions of employment is complicated by the Act requiring you to agree the conditions of employment, including remuneration, with the Governor. As Mr Spencer will not be the Governor until after assuming the office of Governor, the conditions of employment should not be formally signed until Mr Spencer's appointment takes effect.
14. This process is not ideal, given that it relies on any prospective Governor agreeing an appointment and signing a new PTA without finalisation of their conditions of employment.
15. To provide certainty to Mr Spencer in the interim, we recommend that you and Mr Spencer initial a final draft of the conditions of employment immediately after you have signed the appointment letter. Promptly after Mr Spencer assumes the office of Governor on 27 September, this final draft of the conditions of employment would be converted into an execution version that is then signed. The signed conditions of employment would then be tabled at the next meeting of the RBNZ Board on 26 October.

Application of the Caretaker Convention

16. As noted in previous advice, Mr Spencer will assume the office of Governor on 27 September 2017, just after the general election. This means the appointment occurs during the caretaker period, and regard needs to be had to the principles of the convention on caretaker government, as articulated in the Cabinet Manual and related Cabinet Office guidance.

17. The decision to appoint an interim Governor has been taken with regard to the principle that issues with long-term implications that would be likely to limit the freedom of action of an incoming government (such as making a significant appointment) should be handled by way of temporary or holding arrangements that do not commit the government in the longer term, if deferral is not possible.
18. The actions recommended in this report give effect to your previous decision to appoint Mr Spencer as interim Governor, announced on 7 February 2017, in accordance with these principles.

Consultation

19. In preparing this report, we have consulted with the Chair of the Reserve Bank's Board and the Cabinet Office. The discussion in this report and our recommendations have also been informed by advice from Crown Law.

Communication

20. We recommend proactively releasing this report at the same time as the signed PTA is announced publicly. There is considerable public interest in Mr Spencer's appointment, and a proactive release would pre-empt an expected OIA request.
21. We also consider the proactive release of this report desirable as it would help to ensure that future public commentary on Mr Spencer's appointment is well-informed. This is because some commentary about Mr Spencer's appointment has questioned whether the appointment is legal, based on an inappropriate interpretation of the Act and an erroneous assumption that you would not be signing a PTA with Mr Spencer.

Recommended Action

We recommend that you:

- a **note** that to formalise the appointment of the interim Governor, the steps you need to take now are to:
 - i. **sign** a Policy Targets Agreement with Mr Spencer; then
 - ii. **sign** Mr Spencer's letter of appointment; then
 - iii. **initial** the conditions of employment for Mr Spencer.
- b **note** that after signing the Policy Targets Agreement you must publish it in the Gazette as soon as possible and lay a copy before the House of Representatives.
- c **note** that the Board has recommended that Mr Spencer be appointed on the same terms and conditions as the current Governor, and that this is the basis upon which Mr Spencer has accepted the appointment.

d **note** that the conditions of employment are being supplied separately by the Reserve Bank, and these should be signed immediately after Mr Spencer assumes the office of Governor on 27 September 2017.

e **agree** to formalise the appointment of the interim Governor by meeting with Mr Spencer to sign the PTA and letter of appointment attached, and initial the conditions of employment.

Agree / Disagree.

f **agree** to publish the Policy Targets Agreement in the Gazette and lay a copy before the House of Representatives.

Agree / Disagree.

g **agree** to proactively release this report at the same time the PTA is announced.

Agree / Disagree.

Renee Philip
Manager, Macroeconomic and Fiscal Policy

Steven Joyce
Minister of Finance

Policy Targets Agreement

This agreement between the Minister of Finance and the Governor of the Reserve Bank of New Zealand (the Bank) is made under section 9 of the Reserve Bank of New Zealand Act 1989 (the Act). The Minister and the Governor agree as follows:

1. Price stability

- a) Under Section 8 of the Act the Reserve Bank is required to conduct monetary policy with the goal of maintaining a stable general level of prices.
- b) The Government's economic objective is to promote a growing, open and competitive economy as the best means of delivering permanently higher incomes and living standards for New Zealanders. Price stability plays an important part in supporting this objective.

2. Policy target

- a) In pursuing the objective of a stable general level of prices, the Bank shall monitor prices, including asset prices, as measured by a range of price indices. The price stability target will be defined in terms of the All Groups Consumers Price Index (CPI), as published by Statistics New Zealand.
- b) For the purpose of this agreement, the policy target shall be to keep future CPI inflation outcomes between 1 per cent and 3 per cent on average over the medium term, with a focus on keeping future average inflation near the 2 per cent target midpoint.

3. Inflation variations around target

- a) For a variety of reasons, the actual annual rate of CPI inflation will vary around the medium-term trend of inflation, which is the focus of the policy target. Amongst these reasons, there is a range of events whose impact would normally be temporary. Such events include, for example, shifts in the aggregate price level as a result of exceptional movements in the prices of commodities traded in world markets, changes in indirect taxes, significant government policy changes that directly affect prices, or a natural disaster affecting a major part of the economy.
- b) When disturbances of the kind described in clause 3(a) arise, the Bank will respond consistent with meeting its medium-term target.

4. Communication, implementation and accountability

- a) On occasions when the annual rate of inflation is outside the medium-term target range, or when such occasions are projected, the Bank shall explain in Policy Statements made under section 15 of the Act why such outcomes have occurred, or are projected to occur, and what measures it has taken, or proposes to take, to ensure that inflation outcomes remain consistent with the medium-term target.
- b) In pursuing its price stability objective, the Bank shall implement monetary policy in a sustainable, consistent and transparent manner, have regard to the efficiency and soundness of the financial system, and seek to avoid unnecessary instability in output, interest rates and the exchange rate.
- c) The Bank shall be fully accountable for its judgements and actions in implementing monetary policy.

Steven Joyce
Minister of Finance

Grant Spencer
Governor Designate
Reserve Bank of New Zealand

Dated at Wellington this _____ day of _____ 2017



Office of Hon Steven Joyce

Minister of Finance
Minister for Infrastructure

Grant Spencer
Deputy Governor
Reserve Bank of New Zealand
PO Box 2498
Wellington 6140

Dear Grant,

I am writing to confirm your appointment as Governor of the Reserve Bank of New Zealand to take effect on the date and at the time the office of the present Governor becomes vacant. This appointment is for a period of six months, and will commence on 27 September 2017 and finish on 26 March 2018.

During this period, you shall have all the duties, responsibilities and functions of the Governor under the Reserve Bank of New Zealand Act 1989 (the "Act") and may exercise all the powers of the Governor under the Act. You shall also be a director of the Reserve Bank of New Zealand during this period.

Consistent with the Act, we shall agree your conditions of employment, including remuneration, immediately after you have assumed the office of the Governor.

Yours sincerely

Steven Joyce
Minister of Finance