Independent Expert Panel for the Reserve Bank Act Review
Meeting Minutes – 20 December 2017, 8.30am-12 pm
Meeting Rooms 14.1/14.2, New Zealand Treasury, 1 The Terrace

Attendees: Suzanne Snively, Dr Girol Karacaoglu, Malcolm Edey, Gabriel Makhlouf, Grant Spencer, Geoff Bascand, John McDermott, Bryan Chapple, Roger Perry, Renee Philip, Chris White, Ben Gaukrodger, Felicity Barker, Tom Smith, Nicholas Cross.

1. Introduction

- Treasury Secretary Gabriel Makhlouf made opening remarks stressing the importance of the Panel's role in testing official's advice during the Reserve Bank Act review. He stated that the monetary policy framework had worked well since the Reserve Bank Act 1989 was introduced, and that the purpose of this review was to ensure that it continued to work well into the future. He stated that it was important that substantial progress was made on phase one of the review by March.

- Reserve Bank Governor Grant Spencer made opening remarks. He stated that the Act wasn't broken, but that there was room for improvement. He stated that each aspect of phase one posed a unique challenge. The challenge of introducing a dual mandate was to ensure that monetary policy remained focused on medium term price stability. On the introduction of a monetary policy committee, the challenge was to achieve the benefits of diversity while ensuring decision making remained integrated into the Reserve Bank's frameworks. On the role of the Board, the challenge was to ensure the Board was an effective agent of the Minister.

After the introductory remarks, a number of issues were raised in discussion.

- It was noted that changing the legislation to provide for a committee structure would necessitate some changes to the specification of the Board's functions in the Act.

- The Panel asked about officials' views on the current monetary policy objective in the Act. It was noted that flexible inflation targeting, which is the Bank's practice, was not well described by a single price stability mandate. Under flexible inflation targeting the Bank has a medium term focus on price stability, but in the short term also seeks to minimise volatility in the real economy. Inserting reference to employment in the Act would be consistent with the flexible inflation targeting framework, and give the Minister assurance that in the future the Reserve Bank would continue to take into account employment or output volatility.

- Whether there was room to consider all functions and tools available to the Reserve Bank and how they relate to each other as part of the review. It was

noted that the Panel could address any issues it considers important in its report, but this should not come at the expense of delivering the mandate for phase one in the Terms of Reference for the review.

2. Process for the Review Panel

- Officials noted the need for a new PTA between the Minister and incoming Governor to be signed in March. This meant that the Treasury was aiming to provide advice to the Minister in mid-late February. The Panel would be provided with options for phase one issues at the second Panel meeting in late January, and officials would take the Panel's views into account when forming recommendations for the Minister. Officials will provide the Panel with their advice to the Minister on the legislative objective in early February to allow the Panel to report to the Minister around the same time as officials. Advice on the committee structure is likely to be a couple of weeks later.

- The Minister is interested in the Panel's views and expected the Panel's views to be reported. This reporting could be in many forms, for example the Panel's views could be expressed along-side official's views in reports to Ministers and Cabinet or the Panel's views could be expressed in a stand-alone report or reports. The Panel Chair has arranged to meet with the Minister.

3. Legislative Objectives for Monetary Policy

- The Panel discussed the paper that had been provided on international approaches to the monetary policy objective in legislation.

- The Reserve Bank noted that central banks generally take account of employment or output stability in formulating monetary policy. This is done under a flexible inflation targeting framework through adjusting how long it takes to return inflation to target. Although, following a shock, a "norm" was to forecast a return to target in 18-24 months, there have been times when the Bank has forecast inflation outside of the band for longer to take account of other considerations.

- It was noted that in New Zealand, real variables such as output are mentioned in the PTA, but not the Act. This differs from the approaches taken by the US Federal Reserve and the Reserve Bank of Australia in their primary legislation and secondary instruments. The PTA also requires the Bank to take account of interest rate and exchange rate stability.

A number of issues were raised in discussion.

- Whether Nominal Gross Domestic Product (NGDP) targeting had been considered as a possible target. The Treasury did review NGDP targeting as

part of its 2016 Monetary Policy Frameworks review. While there may be some benefits from NGDP targeting, there were also some disadvantages. For example, NGDP targeting included a focus on output prices, where most central banks focused on consumer prices, and that output prices could be heavily impacted by terms of trade shocks which may make it unsuitable in New Zealand.

- Whether there should be greater fiscal/monetary coordination. Panel members questioned the purpose of a Treasury representative on the Monetary Policy Committee in some other countries. Others noted that substantial information sharing already existed between the Treasury and the Reserve Bank and expressed the view that this worked well. It was noted that section 10(b) of the Reserve Bank Act requires the Bank to consult with and give advice to the Government. Panel members, the Treasury and the Reserve Bank agreed that it was important to preserve monetary policy operational independence. The importance of monetary/fiscal co-ordination in a crisis situation (e.g. at the effective lower bound), but also the potential for fiscal/monetary coordination where the usual relationship between inflation and employment breaks down were discussed.

- The issue of how the monetary policy objective addressed a Government's broader goals (e.g. equity and broader measures of living standards). It was noted that Reserve Bank of Australia's legislation required the RBA to operate monetary policy to contribute to the welfare of the people of Australia. It was suggested that section 1A of the Reserve Bank Act, which provided the purpose of the Act, could state the purpose of the framework thereby recognising that monetary policy is intended to improve overall welfare and is not an end in itself. It was also noted that monetary policy was only one policy tool and other policies are needed to improve living standards.

4. *Governance and Decision Making at the Reserve Bank*

- The Reserve Bank outlined its existing decision making arrangements. The Reserve Bank currently has a committee structure, with an advisory committee to advise on monetary policy, and the Governing Committee which makes the final Official Cash Rate decision, but this is not reflected in the legislation. The problem with this was that the legislation provided for a single decision maker model, so a future Governor could ignore or dismantle these arrangements. It was noted that the advisory committee currently contained external members. The Committee operates in a way that ensures all points of view are considered (for example, the Governor does not express a view early in the decision making process to encourage more junior staff members to express their views). While a committee is one element to ensure good decision making a number of other factors are relevant (such as ensuring the Bank is linked into global debates).

- The Panel discussed slides that had been prepared, outlining the key strategic choices in designing a Monetary Policy Committee. Each choice carried potential risks, and the goal was to design a system which managed those risks in a coherent way.

A number of issues were raised in discussion.

- The merits of a single decision maker model were discussed. Panel members, the Treasury and the Reserve Bank agreed that there are advantages in formalising a committee approach to decision making.

- The question of how monetary policy decisions would be communicated was discussed. Issues raised included whether decisions should be taken by consensus or by voting, how much freedom committee members should have to publicly discuss their views on monetary policy, and whether the minutes of Committee meetings should be published under either a consensus decision model or voting decision model.

- The role of external members on the Committee was discussed. Issues raised included whether external members should be experts in monetary policy or possess other expertise, what proportion of the committee might be made up of externals, and how external members might be provided with information to inform their views.

- The issue of how external members might be appointed, and be accountable for performance was raised. It was noted that the Reserve Bank of Australia had a code of conduct for external members and Panel members asked for this to be provided.

5. *Next Steps*

- The Panel will observe the Reserve Bank's decision making process on 25-26 January and will meet together from 8-10 on the morning of the 26th.

- Officials will provide Panel members the next round of discussion papers by 24th January to facilitate the Panels next round of discussions.

- Malcom Edey will give a presentation of the differences between Australia's Board process and the Reserve Bank's decision making process after observing the Reserve Bank's forecast meeting on 26 January.

- The Panel will meet again with the Treasury and the Reserve Bank on 31 January 2018, followed by a final meeting as part of the Reserve Bank's forecast round at 4 pm.

- The Panel will meet for the third time on 27 February 2018.