Review of the Reserve Bank Act

Independent Expert Advisory Panel Report to the Minister of Finance on Phase 1 of the Review

March 2018

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Foreword

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7 March 2018

The Independent Expert Advisory Panel (the Panel) is pleased to provide our report arising from the review of the Reserve Bank Act, phase 1.

Work with Officials from the Reserve Bank and the Treasury has been collegial, enabling us to reach a comprehensive resolution. This will change the objectives of monetary policy by promoting a dual mandate.

Even though we have consulted fully with Officials and closely observed the processes associated with the Reserve Bank's monetary policy settings, what follows in this report are the objective and independent views of the Panel.

One of the positive findings of this exercise is that both institutions are already prepared to move to a dual mandate, focused on maximising employment alongside achieving and maintaining price stability. In addition, since the dual mandate has been widely adopted by other relevant international jurisdictions, there is useful international experience available, both positive and negative, to guide the Panel and the Reserve Bank.

To appropriately support the operation of the dual mandate, the Panel considers that instead of reposing final decisions with the Governor, as the single decision-maker, a Monetary Policy Committee should be mandated to make monetary policy decisions, a process that the Reserve Bank has already been moving towards. The Panel also recommends, however, that the role of external members be formalised, with three included in the Monetary Policy Committee to join four internal members.

While overall changes to Reserve Bank governance are to be considered in phase 2, the Panel's report foreshadows the nature of the changes we think should be considered.

The report contains a number of recommendations that the Panel considers will be necessary steps for the Reserve Bank to progress satisfactorily to a dual mandate.

Our inquiry has benefited from the input of Officials from the Treasury and the Reserve Bank. We thank them for their assistance, both with the supply of evidence-based research and advice based on experience.

Yours sincerely

Suzanne Snively, ONZM, Panel Chair
Dr Malcolm Edey
Dr Girol Karacaoglu

Executive Summary

In November 2017 the Government announced that it would undertake a review of the Reserve Bank of New Zealand Act 1989 (the Act). The goal of the review, as set out in the *Terms of Reference*, is to modernise New Zealand's monetary and financial stability policy framework. The review is to be conducted in two phases. Phase 1 of 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;
- recommend changes to the Act to provide for a committee decision-making model for monetary policy decisions, in particular the introduction of a committee which includes external experts; and
- consider whether changes are required to the role of the Reserve Bank Board as a consequence of the changes to the decision-making model.

In line with the Government's coalition agreement to review and reform the Reserve Bank Act, a list of areas for further review of the Reserve Bank of New Zealand's (the Bank's) activities will be developed for phase 2 of the review.

An Independent Expert Advisory Panel (the Panel) has been established to provide advice on potential changes to the Act. The members of the Panel are Suzanne Snively, Dr Girol Karacaoglu, and Dr Malcolm Edey. The Panel has met with Officials from the Treasury and the Reserve Bank several times, and considered papers and options provided by Officials (see Treasury website: http://www.treasury.govt.nz/publications/reviews-consultation/rbnz-act-1989).

This report contains the key findings of the Panel in respect of phase 1 of the review regarding: the specification of the objectives of monetary policy; the decision-making procedures for monetary policy (including the communication of these decisions to the wider public); and implications for the role of the Board. It also comments on the scope of phase 2, to the extent that these matters are directly related to the issues considered in this report. For the avoidance of doubt, the Panel's initial views on the scope of phase 2 of the review as expressed in this report are not exhaustive. The Panel's complete views on phase 2 will be reported at a later date.

Regarding the specification of policy objectives, the Panel considers that monetary and financial stability policies are crucial ingredients in achieving the wider aim of improving the living standards and welfare of New Zealanders. The Panel considers that this ultimate aim for monetary and financial policies should be recognised as one of the purposes of the Act in setting the Bank's responsibilities. In terms of setting the specific objectives for monetary policy, the Panel considers that it is important that monetary policy continue to seek to maintain price stability over the medium to long term, while also recognising that monetary policy contributes to welfare by assisting in stabilising economic activity and employment – by, for example, reducing the depth and length of periods of unemployment. The Panel considers that recognising these "dual" objectives of monetary policy in legislation would clearly set the Government's expectations regarding monetary policy. The Panel's preferred wording is that monetary policy be directed at the economic objectives of "achieving and maintaining stability in the general level of prices over the medium term, while supporting maximum sustainable employment".

The Panel discussed the benefits of amending the Act to require that monetary policy decisions be taken by a committee that includes external members. The Panel recognises that committee decision-making for central banks is more common internationally than decision-making by a single individual, and also recognises that the Reserve Bank has informally altered its internal processes to put in place committee decision-making for monetary and financial policy decisions. The benefits of committee decision-making arise from ensuring that a diversity of perspectives are included in the decision-making process, and from moderating the influence of extreme views that may be held by individuals. The Panel recognises that there are a number of different committee models that are workable and a range of practices internationally, and that the design of a committee implies a number of trade-offs. Having considered these trade-offs, the Panel's recommendation is for a Monetary Policy Committee (MPC) that:

- includes seven members, four being internal Bank staff and three external appointees;
- has all members appointed by the Minister of Finance on the recommendation of the Bank's Board; and
- takes decisions by consensus where possible, but publishes a record of meetings that records divergent views where they exist without individual attribution.

The establishment of an MPC requires reconsideration of the duties of the Governor versus the MPC. Furthermore, given the move to an MPC, the mechanism to set monetary policy objectives needs to be adapted. The Panel's recommended model is that the Minister sets the monetary policy objectives, having received public advice from the Reserve Bank and the Treasury. The MPC would be collectively responsible for monetary policy decisions and strategy, which must be in accordance with the monetary policy objectives, while the Governor would be responsible for the implementation of monetary policy in accordance with the decisions of the MPC. At present, in light of the phase 1 changes, it is recommended that the Board retain the role of monitoring monetary policy performance, although a number of adaptions to the Board's role are recommended in this report.

These adaptations recognise that the Board will now be responsible for monitoring the performance of the MPC and the Governor, and also monitoring that members of the MPC comply with their statutory duties. The Panel also makes a number of recommendations regarding the Board's powers aimed at ensuring that the Board is sufficiently empowered to take a medium-term performance focus in undertaking its duty to monitor the performance of the MPC. Nonetheless, the Panel's initial view is that phase 2 of the review should consider the case for broader reform of the Bank's governance structure, including establishing a financial policy committee and making the Board the Governing body of the Bank. These broader changes would require further assessment of the duties of the Board.

Summary of Recommended Action

The Panel makes the following recommendations:

Monetary Policy Objectives

1. That, subject to any drafting requirements of the Parliamentary Counsel Office (PCO), monetary policy be directed towards the economic objectives of:

   "achieving and maintaining stability in the general level of prices over the medium term, while supporting maximum sustainable employment."

2. That, subject to any drafting requirements of the PCO, the preamble of section 1A be amended to recognise the role of monetary and financial policy in promoting the prosperity and welfare of the people of New Zealand.

Monetary Policy Committee

3. That a Monetary Policy Committee (MPC) should be introduced at the Reserve Bank that has full responsibility for the formulation of monetary policy.

4. That the Governor be required to implement monetary policy in accordance with the decisions of the MPC.

5. That the MPC be composed as follows:

   (a) Legislation should allow between five and seven members, with the MPC having seven members initially.

   (b) Four of the members should be internal Bank staff, including the Governor and the Deputy Chief Executive as *ex-officio* members, with the Governor as MPC Chair.

   (c) The remaining three members should be externals with knowledge and experience in relevant policy areas, who are engaged on a part-time basis.

   (d) All MPC members should be nominated by the Board and appointed by the Minister, with the Governor consulted over internal appointments.

   (e) All MPC members could be removed by the Governor-General via Order in Council on the advice of the Minister of Finance, on specified criteria, with or without a recommendation from the Board.

   (f) The Board could, based on defined criteria, remove poorly performing external members, in consultation with the Minister.

   (g) The Governor would retain the power to redeploy internal members of the MPC to different roles within the Bank, which may necessitate their removal from the MPC.

(h) Members’ terms should be staggered, with the internal members serving five year terms on the MPC and the external members serving four year terms.

(i) Members’ terms should be renewable once, which in the case of the internal members applies to their term in any one role.

(j) The MPC should aim to reach decisions by consensus, with decisions taken by a majority vote where a consensus cannot be reached, and with the Governor having the casting vote where necessary.

6. That the MPC should be required to publish records of meetings and agree a Committee Charter (or similar mechanism) with the Minister of Finance that sets out the detailed approach to communications for a set of issues defined by the Act. The first Charter should:

(a) require the MPC’s meeting records to reflect differences of view where they exist, but without attributing views to individual MPC members, and;

(b) allow members to make individual speeches, after consultation with their colleagues on the MPC.

7. That Officials from the Treasury and the Reserve Bank should develop options for improving policy coordination between the Reserve Bank and the Treasury.

Governance and the Role of the Board

8. That the Board continue to act as monitoring agent, but the Board’s role be modified such that it monitors:

(a) the MPC in discharging its responsibilities for monetary policy (including acting in a manner consistent with the monetary policy objectives);

(b) the individual MPC members in discharging their statutory responsibilities, and;

(c) the Governor in discharging his or her responsibilities.

9. That, as a consequence of codifying an MPC, Officials should consider adapting the Board’s powers and duties, with Officials providing their views later in phase 1 of the review, including on:

(a) whether it is necessary to formally require the Board to review every MPS;

(b) whether the Board should be empowered to undertake periodic substantive reviews of the performance of the Bank, at least in relation to monetary policy, and whether these should be published;

(c) whether the Board should be given an independent budget to enable it to undertake the periodic substantive reviews referred to above;

(d) whether Board members should be given the power to observe MPC meetings and request relevant documents from the Bank, and;

(e) whether the Board should be required to provide a performance report to the Minister of Finance at least every six months, and more frequently if requested by the Minister, and whether these should be made public.

10. That the Board's code of conduct be reviewed.

11. That the Minister of Finance appoint the Board Chair and Deputy Chair of the Board.

12. That a review of the Bank's governance structure be conducted in phase 2 of the review, which will at least include consideration of:

    (a) constituting the Board as the governing body of the Reserve Bank;

    (b) the introduction of a committee(s) for financial policy;

    (c) the size and composition of the Board (including the Governor's position on the Board);

    (d) the Board's advisory role beyond monetary policy;

    (e) the skills required of Board members, including appointment criteria for Board candidates; and

    (f) whether the Board should undertake periodic substantive reviews of the performance of the Bank in relation to financial policy.

13. That the Panel's initial view is that the funding model for the Bank (including the option to fund the Bank's prudential operations through industry levies) be re-evaluated in phase 2 of the review.

14. The Panel notes that a number of detailed legislative changes will be required to implement these recommendations, and that Officials will need to advise on these issues later in phase 1 of the review.

Setting the Operational Objectives for Monetary Policy

15. That the current approach of the Minister of Finance and Governor of the Reserve Bank agreeing on the monetary policy objectives, embodied by the Policy Target Agreement (PTA), is no longer appropriate under a committee decision-making structure.

16. That the process to set the objectives for monetary policy be amended such that the Minister of Finance would set the objectives following the receipt of advice from the Treasury and the Reserve Bank.

Chapter 1: Changes to the Objectives of Monetary Policy

1. The terms of reference direct the review to "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". This chapter discusses the Panel's recommendations in respect of this part of the review.

The Current Specification of Monetary Policy Objectives

2. Section 8 of the Act provides that the Reserve Bank must "formulate and implement monetary policy directed to the objective of achieving and maintaining stability in the general level of prices". This formulation of the objective dates from 1989, a time when New Zealand had experienced an extended period of persistently high inflation. The single objective of the Act and the design of the monetary policy regime were aimed at inflation control and, through this, aimed to help consolidate lower inflationary expectations, assist public and private sector planning, and improve the international competitiveness of the New Zealand economy. The regime has proved very successful in reducing inflation, and in maintaining low and stable inflation.

3. The PTA, required under Section 9 of the Act, is an important element of the monetary policy regime. The PTA is currently set by way of agreement between the Minister of Finance and an incoming Governor. While early PTAs took a relatively strict approach to inflation targeting, the approach to monetary policy has evolved through the PTA to be a "flexible inflation targeting" regime, where the Bank is also required to "avoid unnecessary volatility in output, interest rates or the exchange rate". In practice, this means the Bank takes a more gradual approach to achieving the inflation target than it would under a strict inflation targeting regime, and will allow inflation to deviate from target for some time in order to avoid creating undue volatility in the real economy.

4. Other sections of the Act relevant to this part of the review are:

   - **Section 1A** sets out the purpose of the Act, including *"formulating and implementing monetary policy designed to promote stability in the general level of prices, while recognising the Crown's right to determine economic policy".*

   - **Section 10** of the Act requires the Reserve Bank to, in formulating and implementing monetary policy, "have regard to the efficiency and soundness of the financial system".

Monetary Policy Objectives

Modern monetary policy regimes recognise the role of monetary policy in maintaining medium term price stability and its role in reducing the volatility of business cycles

5. Broadly conceived, the ultimate objective of a nation's economic policy is to maintain and enhance the wellbeing and prosperity of its citizens. Price stability is an essential element in achieving this objective. This is because high or volatile inflation can reduce a country's long-run ability to produce output, thereby reducing the well-being of its citizens. Price stability also supports equity goals by avoiding unexpected redistributions of purchasing power between savers and borrowers.

6. As well as its role in maintaining price stability, monetary policy is one of the main tools policy-makers have to influence the business cycle and help the economy adjust to unexpected economic events, such as events that might result in sudden reductions in economic activity or employment. This is important to the wellbeing of New Zealanders, as protracted periods of unemployment could give rise to long term costs. For example, individuals who have extended periods out of employment may see their skills decline, impacting on the economy's overall productivity. This "stabilisation" role for monetary policy has been important globally in the extended period of economic weakness following the global financial crisis.

7. In setting monetary policy objectives one must be cognisant of the limits of monetary policy. The role of monetary policy in influencing cyclical fluctuations is to help the economy adjust in periods of economic slack or exuberance. It does this by influencing the price of borrowing and lending, thereby shifting the preferred time period for individuals and businesses to consume or invest. In doing so, monetary policy encourages a faster adjustment of resource use to the level of "full employment" (or capacity), as compared to the adjustment time of other means, such as wage deflation.

8. Monetary policy is not, however, a primary determinant of the level of full employment, which is largely determined by structural factors such as the level of skills in an economy, the tax system, and labour and product market regulations. If monetary policy attempts to push employment beyond this level it can generate inflationary pressures in violation of the price stability objective, and over time, underlying structural and frictional forces will tend to push employment back to its sustainable level.

9. Further, full or maximum employment does not mean that there is no unemployment in an economy; there are both structural drivers of unemployment, including those arising from a mismatch in the skills demanded by business and those skills supplied by households, and frictional drivers of unemployment from people changing jobs. These factors result in a "natural rate"[1] of unemployment above zero.

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[1] Or the non-accelerating inflation rate of unemployment.

Monetary policy that aims to stabilise inflation can also help to stabilise employment

10. Using monetary policy to stabilise inflation over the medium to long term can assist in keeping the economy operating at close to full employment. For example, in a downturn driven by an unexpected fall in demand (e.g. if foreigners stop buying New Zealand goods), unemployment puts downward pressure on wages and prices thereby reducing inflationary pressures. Stimulatory monetary policy used to increase inflation will increase the demand for goods, and therefore also for labour, thereby supporting increased employment.

But the relationship is not perfect, and trade-offs need to be made

11. However, there may be times when using monetary policy to achieve low and stable inflation would not help stabilise output. This could, for example, occur in a downturn that is driven by a supply shock. A sharp fall in oil supply, perhaps due to military conflict, that causes global oil prices to rise would in turn cause production costs in New Zealand to rise, and thereby slow the pace of growth in output and employment, while also directly generating inflationary pressures. Stimulatory monetary policy would help to stabilise output and employment, but would also accentuate inflationary pressures. In contrast, contractionary monetary policy would help reduce inflation, but would also reduce domestic demand and thereby accentuate the slowdown in activity and employment.

12. These short-term trade-offs between achieving the inflation target and stabilising employment around its sustainable level are recognised in flexible inflation targeting frameworks, which generally require the central bank to focus on medium term price stability, while allowing decision-makers to avoid unnecessary volatility in the real economy in the shorter term.

Recommendations for Changes to Legislation

13. In the Panel's view there are a number of benefits to updating the Act to recognise the broader objectives, and trade-offs, for monetary policy as discussed above. Including an employment objective in the Act would recognise the role monetary policy plays in stabilising fluctuations in the business cycle, and thereby minimising periods of unemployment. This is important given the significance of employment to welfare and social inclusion. Formalising an employment objective in the Act would make this objective durable, allow for increased transparency, and underpin the Bank's accountability.

14. The Panel also recognises the importance of maintaining price stability over the medium term. The flexible inflation targeting framework has contributed to a significant reduction in inflation over the past 25 years or so, while also contributing to relatively low levels of volatility in output. It is important that changes to the Act maintain these achievements.

15. Taking these considerations into account, the Panel used the following criteria to guide its assessment of changes to the Act:

    i. The objectives in the Act need to be achievable through monetary policy tools.

    ii. The Act needs to retain a clear and credible commitment to medium term price stability.

    iii. The Act should ensure that monetary policy decision-makers put sufficient weight on supporting the stabilisation of employment around sustainable levels, in order to support maximum employment levels in the long term.

    iv. The Act should be durable over time.

    v. The objectives in the Act should be easy to communicate to the public.

Specification of the Monetary Policy Objective

16. In considering the specification of the monetary policy objective, the Panel considered how other countries have specified their central bank objectives (Annex 1). Internationally, there are a variety of ways that central bank objectives are specified. One high-level difference is whether price stability is mandated as the primary objective of monetary policy (as in the UK and Sweden) or whether it is mandated as an objective alongside other aims (as in Australia and the United States). Internationally, it is most common for central banks to pursue price stability as their primary objective and to recognise the role monetary policy plays in stabilising employment and/or output as secondary or subsidiary aims. Moreover, while the expression of the objectives takes many forms, the practice of monetary policy has coalesced around the principle of flexible inflation targeting.

Weighting of objectives

17. The key high-level decision the Panel faced when considering how best to incorporate an employment objective into the current legislation was whether the objectives should be assigned a hierarchy; that is, whether the legislation should give more prominence to price stability over employment and, if so, how strong the preference should be.

18. The Panel considered (criteria ii) that it was important that the legislative objective continued to provide a clear commitment to price stability *in the medium to long term*. This recognises a number of factors, in particular that monetary policy has limited impact on short term inflation outcomes; that there are benefits of maintaining a commitment to low and stable inflation over longer time periods; and that monetary policy does not determine the sustainable (or long term) level of employment at which the economy operates in the absence of shocks. However, in the shorter term, the objective should require the Bank to take into account the benefits of stabilising the real economy and also the potential trade-offs between stabilising inflation and employment. The Panel recommends that the objective require the Bank to consider employment outcomes (criteria iii), which will require judgement as how to manage the trade-offs when the objectives conflict, while also requiring that the Bank seek to maintain low and stable inflation over the medium term.

19. The Panel also put weight on the objectives being specified in a way that is durable over time (criteria iv). To be durable, the legislation needs to be flexible enough to allow for policy frameworks to evolve and for different approaches to monetary policy to be taken in different circumstances. The Panel considers a secondary instrument such as the PTA should continue to be empowered by the Act to set the specific parameters of the regime that would apply at any one time, including high-level guidance as to how potential trade-offs between the objectives should be managed. This would need to be flexible enough to allow the specific targets of monetary policy to adapt to changing circumstances.

20. Given this, the Panel considers that each of the objectives should be included in the same section of the Act (i.e. not adopting the current approach by which the Bank must have regard to other matters in section 10), and prefers the wording that the employment objective be pursued “while” still achieving the medium term price stability objective – that is, the Bank must consider employment outcomes, but not at the expense of losing inflation control over the medium term.

Specification of the employment objective

21. The Panel considered a range of ways to specify the employment objective, including use of the words maximum employment, high and stable employment, sustainable employment, or a combination thereof.

22. The Panel recognises (criteria i) that it is important that the objective does not “over-promise” on what monetary policy can deliver – that is, the objective must be consistent with what monetary policy can do. Given this, the Panel’s preference is for the wording “maximum sustainable employment”. The use of the word sustainable best communicates the concept that monetary policy’s role is to assist in the adjustment of employment to the level of full employment – that is, its role is one of stabilisation. Given that employment at any one time is determined by a range of factors, the Act should recognise the way monetary policy can “support” employment being at its sustainable level, rather than requiring the Bank to “achieve” this objective. The reference to “maximum” sustainable employment recognises that the Bank should act in a way that best supports the long term prosperity of New Zealanders.

23. The Panel also considers that the objective should be specified in terms of the level of employment, rather than as a growth rate. This recognises that in setting monetary policy, central banks typically take account of the extent to which the level of employment deviates from the level of full employment.

24. The Panel does not support a numerical target (in the PTA) for the objective of maximum sustainable employment, as concepts such as full employment or the “natural rate of employment” are unobservable, difficult to measure and therefore difficult to agree on. Rather, we expect the Bank will undertake research into what constitutes maximum sustainable employment and provide a qualitative assessment of where actual employment is in relation to that concept.

“Employment” versus “employment and output”

25. The Panel considered whether the legislative objective should refer to “employment” or to “employment and output”. The legislative objective of the Norges Bank, for example, refers to both output and employment.

26. The argument for including output in addition to employment is that it provides a more comprehensive description of the level of economic activity. However, while the level of employment and output are highly related, the precise calibration of monetary policy to meet an employment objective may not be the same as to meet an output objective, and therefore adding both objectives could make it more difficult for the Bank to communicate whether it is meeting its objectives (criteria v). On balance, the Panel considered that an employment objective was sufficient.

27. In light of the above, the Panel’s preferred specification is that monetary policy be directed at:

    “the economic objectives of achieving and maintaining stability in the general level of prices over the medium term, while supporting maximum sustainable employment.”

Other Changes to the Act

28. While Section 8 sets the specific objectives of monetary policy, the ultimate aim of monetary and financial policy is to improve the overall welfare and prosperity of New Zealanders. The Panel considers that incorporating a statement in the Act recognising this ultimate objective would help to promote a better understanding of the contribution of monetary and financial policy to societal welfare.

29. The Panel considers that section 1A would be a suitable section to set out the higher level purpose of the Bank’s functions. The Panel recommends that the preamble of section 1A recognise that the higher level of purpose of the Act is to promote the prosperity and welfare of the people of New Zealand.

30. The Panel also recognises that there will need to be a number of consequential amendments to the Act in light of these changes. This includes consequential changes to section 12, section 15 and section 1A(a) (to match the specification of the objective). Chapter 5 also discusses changes to the mechanism to set the PTA, which is related to this chapter. The Panel also recognises that the final wording of the drafting will be recommended by the Parliamentary Counsel Office, in line with the Government’s final decisions.

Chapter 2: Governance and Decision-Making Overview

31. Chapters 3, 4 and 5 are linked, and set out the Panel's recommendations in respect of:

- amending the Act to provide for a committee decision-making model in respect of monetary policy;
- consequential changes to the role of the Board in light of the move to a committee decision-making model for monetary policy; and
- consequential changes to the setting of monetary policy operational objectives in light of the change to committee decision-making.

This chapter provides an overview of the accountability issues that are common to each of these three chapters.

32. The Panel considers that there would be significant benefits to formalising a committee decision-making model at the Reserve Bank. Committee decision-making allows for a broader range of perspectives to be included in decision-making, and guards against extreme preferences. The Reserve Bank has recognised this; monetary policy decisions at the Reserve Bank have been made by the Governing Committee for several years. However, the current legislation is not designed around a committee decision-making model, and hence limits the evolution of committee decision-making and results in a number of anomalies (such as the current Governing Committee being appointed through three different processes).

33. In particular, the current Act is based on the individual accountability of the Governor, who holds the functions that would normally sit with a Board and is also the Bank's chief executive. This single decision-maker model works with a number of mechanisms in the Act, such as the clear and specific goals set through the PTA and the ability to remove the Governor from office for inadequate performance, to provide a high degree of individual accountability for both the formulation and the implementation of monetary policy consistent with the PTA. Other key features of the accountability model are the constitution of the Reserve Bank Board as the Minister's monitoring agent, and the requirement for regular Board reports on the Bank's approach to monetary policy (Monetary Policy Statements) that are referred to the Finance and Expenditure Committee (FEC).

34. Most of these mechanisms to hold the Bank to account for monetary policy decisions remain appropriate on moving to a committee based decision-making model. In particular, the Panel considers that it remains appropriate to retain an instrument to set the specific operational objectives of monetary policy (currently the PTA), and to assess the performance of the MPC against these objectives. The Panel also considers that Monetary Policy Statements are an important transparency element and should continue to be published and referred to the FEC. Further, in the context of the changes recommended in this paper, the Panel

considers that the Board should continue to act as the Minister's monitoring agent, including assessing the MPC's performance.

35. A key consideration in creating a committee is defining the respective roles of the committee, the members of the committee and the Governor. The Panel sees that there are three main elements in the new model:

- the MPC will be collectively responsible for monetary policy strategy (e.g. the decision about which instrument to use) and monetary policy decisions (e.g. the calibration of the instrument), which must be set in accordance with the specified operational objectives;
- individual members of the MPC will be charged with statutory responsibilities regarding their roles as committee members;
- the Governor will be responsible for implementation of the MPC's decisions and strategy.

36. Pending any changes from phase 2 of the review, the Governor would remain the single decision-maker in respect of all of the Bank's other roles.

37. To elaborate on the points above, as will be discussed in chapter 5, the Panel recommends that the operational objectives for monetary policy be set by the Minister, in accordance with the process set out in chapter 5. The duty of the MPC under the Act will be to *formulate* monetary policy in order to meet the specified operational objectives. The MPC will be collectively responsible for monetary policy decisions and strategy, and will be collectively held to account through three main mechanisms:

- monitoring by the Board;
- decisions by the Board and Minister regarding reappointments;
- transparency, including the current requirements to publish a Monetary Policy Statement and defend its content before FEC, and the recommendations in respect of public records of meetings made in chapter 3.

38. Given that the Board will now be monitoring a *committee* in respect of the formulation of monetary policy, rather than a *single individual*, chapter 4 discusses several potential ways to adapt the Board's monitoring function, to which the Panel recommends Officials give further consideration.

39. As well as this collective responsibility, individual members including the Governor, will have statutory duties, and may be dismissed if they fail to meet, or are not capable of adequately carrying out, these duties. These statutory duties will include acting in accordance with the monetary policy objectives set by the Minister. However, individual MPC members should not be at risk of dismissal if they make a decision that they considered was consistent with achieving the monetary policy objectives, but in hindsight the objectives were not achieved. For example, this situation may occur following an unforeseen shock. The Board will monitor individual MPC members against these duties.

40. The Governor, as chief executive of the Bank and Chair of the MPC will have additional statutory duties.

41. As chief executive of the Bank, the Governor will be responsible for the implementation of monetary policy in accordance with the decisions of the MPC. Some adaptations to the current duties and dismissal provisions for the Governor will be needed in light of the new allocation of responsibilities between the MPC and the Governor. While the exact detail will need to be worked through, the Panel foresee that the Governor will be responsible for ensuring that the Bank acts in accordance with the decisions of the MPC in implementing monetary policy and may be dismissed (by the Governor General following advice from the Minister) for failure to do so.

42. As Chair of the MPC, the Governor is ultimately accountable for leading the MPC, and directing the process of analysis and decision-making that leads to the MPC publishing its decisions. In this role, the Governor will be responsible for facilitating the effective operation of the MPC, and the Act will require that the Governor's performance in ensuring the MPC acts in accordance with the operational objectives is adequate. The dismissal provisions relating to this duty will need to be considered in order to ensure the Governor is incentivised to fulfil this duty. To this end, the Panel foresees allowing the dismissal of the Governor for failure to Chair the MPC in accordance with the MPC's Charter (see chapter 3) or the monetary policy objective set by the Minister. The Governor would also be required to ensure that the MPC has sufficient access to the Bank's available resources and information in order for it to make effective decisions, and would be subject to a dismissal provision for failing to adequately perform this role.

Chapter 3: The Monetary Policy Committee

43. The Panel recommends legislating for a Monetary Policy Committee (MPC) at the Reserve Bank to take decisions on monetary policy.

44. While having the Governor as the single decision-maker has served New Zealand well since 1989, in terms of a direct impact on price stability, a committee decision-making model should result in better decisions on average over time, especially in the context of the changes to the monetary policy objective. This is because committees limit the risk of extreme preferences, and allow for different perspectives to shape decisions. While the Reserve Bank has already adopted a committee decision-making model for these reasons, legislating for a committee model (including the introduction of external perspectives and advice) will strengthen the Committee towards delivering its mandate. Accordingly, legislating for an MPC should also strengthen public support for, and knowledge of, the Reserve Bank's activities.

45. The Panel's recommendations for establishing the MPC are set out below. In coming to these recommendations, the Panel has prioritised four objectives for reform:

    i. **High-quality deliberation and decision-making**: the MPC should support high-quality decision-making by enabling deliberation, debate, and the challenge of ideas. The group dynamic should enhance the achievement of positive outcomes for the Bank, by including different analytical frameworks, skills, and information sets.

    ii. **Accountability and incentives**: the MPC as a whole should be accountable for decisions, and for publicly communicating the rationale for those decisions. Individually, members should be accountable for meeting their statutory duties, and the overall dynamic should limit the risk that decisions are influenced by hierarchies inside or outside the MPC.

    iii. **Institutional legitimacy**: given the considerable powers delegated to the MPC, the MPC should be designed to build and maintain wider public support and legitimacy.

    iv. **Functionality and transition costs**: the committee model should be practical and suited to the Bank's roles, while the costs and risks of transition should be managed.

46. There are trade-offs between these objectives when designing the MPC. For example, choices about the approach to communications will determine the level of transparency, which has consequences for institutional legitimacy. However, those same choices will also affect the risk of transition from the status quo and potentially the clarity of the MPC's communications.

47. In coming to recommendations, the Panel has sought to balance these objectives while ensuring that the MPC model is coherent as a whole. The Panel considers that the model proposed below best achieves this balance.

Recommendations

Scope of the Committee's Remit

48. The Panel recommends the MPC have overall responsibility for all monetary policy decisions and strategy. As set out in chapter 2, the implementation of monetary policy would remain the responsibility of the Governor.

49. The MPC's responsibilities would include decisions about the Official Cash Rate (OCR), but would not be limited to OCR decisions. For example, the MPC would take responsibility for the choice of tools used by the Bank (that is, strategic choices). This approach ensures that significant monetary policy decisions will be taken by the MPC.

Size of the Committee

50. The Panel recommends that the MPC should have seven members, but with the flexibility to manage vacancies when they arise.

51. A committee of seven members will ensure sufficient space for a range of skills and perspectives, while still supporting deliberative decision-making. Beyond seven members, the marginal benefits of additional members is likely to be small.

52. The Panel recognises that it may be desirable to specify a range in the legislation, rather than a specific committee size. This will give flexibility for the committee to evolve over time without requiring legislative change, and to manage long-term vacancies on the MPC, should they occur. In addition, detailed implementation should define the quorum for MPC meetings and decisions, which should preserve the balance between internal and external members as recommended below.

Balance of external and internal members

53. The Panel recommends that external members should be included on the MPC to bring different viewpoints to the decision-making process. The Panel's recommendation is that the seven member MPC include four internal members and three external members, with the Governor as Chair.

54. In recommending the balance of external and internal members, the Panel places emphasis on expertise in monetary policy, while also achieving a requisite level of diversity in decision-making.

Type of external members

55. The Panel recommends that external members should have knowledge and experience in relevant policy areas (such as economics, finance, banking, or public policy), but not be limited to being monetary policy experts. They should be free from conflicts of interest, and should not be on the MPC for the purpose of representing a particular sector. Such an approach will allow the MPC to operate as an expert committee, engaging deeply on the substance of the decisions, while also allowing for a relatively wide range of external members to be included in the MPC. This approach also provides flexibility, which is important given the relatively small number of pure monetary policy experts in New Zealand.

56. To ensure that external committee members remain "external", the Panel recommends that committee members are engaged on a part-time basis. While it will be necessary to manage conflicts of interest, part-time employment enables external members to be engaged in other parts of the community, which will help them to bring different perspectives to the MPC.

57. Notwithstanding this, external members' engagement at the Bank should be substantive, allowing them to engage fully in the MPC's deliberations.

Appointment processes

58. The Panel recommends that all MPC members are appointed by the Minister of Finance on the recommendation of the Board. This is the current process for appointing the Governor. As each committee member will hold considerable decision-making powers that impact on the wider public, the Panel considers Ministerial appointments necessary to ensure members have democratic legitimacy. Ministerial appointments are consistent with typical international practice, and the arrangement whereby the Minister appoints on the recommendation of the Board should be retained to ensure merit-based selection of external MPC members, and to limit the risk that policy decisions of the MPC are politically influenced.

59. For the internal members other than the Governor, it is necessary to be specific about how the appointment process works in a practical sense given that internal MPC members will also be Bank staff.

60. The Panel recommends that the Bank's Deputy Chief Executive be an *ex-officio* member of the MPC. This would mean the Deputy Chief Executive would be appointed to their position in the Bank by the Minister on the nomination of the Board, and would automatically join the MPC in the same way as the Governor. The Panel recommends the Board makes this nomination in consultation with the Governor. The Panel recommends that the other internals are not *ex-officio*, with the current processes for appointing them to their positions remaining.[2] The Board should also be required to consult the Governor when nominating these other internal members to the MPC. These recommendations reflect the difficulty

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[2] For Deputy Governors, the current process is for the Board to appoint based on a recommendation from the Governor. The Governor has the power to appoint all other staff directly.

of an *ex-officio* approach, where there could be either three or four internal members, and will help to maintain a degree of flexibility of the Bank's senior management structures.

Dismissal processes

61. Consistent with the appointment process, the Panel recommends applying the current approach to dismissing the Governor to all committee members. That is, the Governor-General can remove members by Order in Council, on the advice of the Minister. As is the case now, the Minister would be able to tender that advice, with or without a recommendation from the Board, if the Minister is satisfied that the member has failed to meet certain criteria as specified in the Act. Recognising their *ex-officio* positions, removal of the Governor or the Deputy Chief Executive from the MPC would also mean they are removed from their positions. However, for internal members other than the Governor and the Deputy Chief Executive, the Minister would have the power to dismiss the member from the MPC, but not from their position. These recommendations reflect the Panel's view that the Minister needs to be able to dismiss the MPC members to ensure democratic legitimacy and accountability.

62. While Officials will need to review the exact criteria that can trigger dismissal before introducing legislation, the Panel recommends two substantive changes.

63. First (as noted in chapter 2), it should be possible to dismiss individual members, including the Governor, if they fail to meet, or are not capable of adequately carrying out, their statutory duties. Their statutory duties would include acting in accordance with the specified monetary policy objectives.

64. Second, the Panel considers it necessary for the Board to have the power to remove a poorly performing external member, in consultation with the Minister. The Panel makes this recommendation because an MPC member that is unnecessarily disruptive to the overall dynamic of the MPC can have a significant impact on the efficacy of the MPC. It will be necessary to develop this mechanism in a way that clearly sets out the possible causes for dismissal, as members should not be removed for simply taking a policy stance that the other MPC members disagree with. The Panel recommends that Officials take this forward as part of the detailed implementation of phase 1.

Length and timing of term

65. The Panel recommends five year terms for all internal MPC members, with internal members limited to a maximum of two terms in any one role. For example, this would mean the Governor's tenure as Governor would be limited to a single renewal (ensuring a maximum period on the MPC in the role of the Governor of 10 years). The Panel's views is that this recommendation will protect the Bank's operational independence by providing security of tenure and will limit the risk of volatility due to excessive turnover, but will also bring in new perspectives over time.

66. Furthermore, the Panel notes that the internal members filling the non-*ex-officio* positions may need to change if their roles within the Bank change. The Governor would retain the right to redeploy internal MPC members to different roles in the Bank (provided that such a shift is consistent with employment law and the individual's contract), and if it is no longer appropriate for the individual to sit on the MPC in their new role, they will be removed from the MPC. The resulting vacancy on the MPC would be filled through the normal appointment process for internal members.

67. For external members the Panel recommends four year terms, again with a maximum of two terms. Shorter terms for external members will ensure that new perspectives are brought onto the Committee regularly, which is consistent with the overall rationale for including external members. Four year terms are long enough to give external members time to learn and gain experience in the role, and reflects the time it takes for monetary policy decisions to have effect. Allowing renewal of membership is practical, while also increasing the likelihood of attracting and retaining individuals who bring knowledge, experience, and collegiality to the MPC.

68. In addition, the Panel recommends that appointments are staggered. This is consistent with international practice and reduces the risk that the entire committee is replaced at once. This should reduce policy volatility and also limit the risk of politicisation, but will require that initial terms of members are set to ensure that staggering occurs.

Decision-making processes

69. While the Committee's exact decision-making process does not require legislation, the Panel recommends that the MPC adopt a principle of decision-making by consensus, and aims at finding a constructive resolution of issues where there are different views. This is to ensure that the MPC engages in in-depth discussions and a true exchange of perspectives before decisions are taken. However, in those cases where consensus cannot be reached, it may be necessary for decisions to be taken by a majority vote, with the Governor having the casting vote in the event of a tie.

Communications approach

70. There are two broad objectives for the MPC's communications: to ensure the MPC's decisions are clearly communicated, and to ensure that there is sufficient transparency about the issues influencing those decisions. At times, there will be tensions between these objectives.

71. The Panel recommends the MPC adopt a communications model that balances transparency about the decision-making process with the clarity and coherence of the Bank's communication of decisions. This would see the Bank publishing a record of its meetings that reflects differences of view when they exist, as well as the trade-offs and risks considered regarding a decision, but without attribution of views to individual MPC members. Where a vote is required, the balance of votes would not be made public. We envisage that the Charter (discussed next) would empower individual members to make speeches, but they would be required to consult with their MPC colleagues before doing so.

This recommendation should also limit the risk of transition from the current consensus model operated by the Bank. However, the Panel expects that the communications model will be able to evolve over time to potentially become more open as the MPC matures and markets become familiar with the changes. For this reason, the Panel recommends the use of a committee Charter (or similar mechanism) agreed by the MPC and the Minister to set the details of the communications model employed by the MPC, rather than including this in the legislation.

The use of a Committee Charter

72. As a general principle, the Panel considers that Parliament should fix the Bank's broad decision-making framework to ensure an appropriate level of accountability. Moreover, legislation will constrain the power of the Minister, which will protect the Bank's operational independence for monetary policy.

73. It is, however, desirable to have a degree of flexibility in some of the MPC's procedures. The MPC is likely to learn from experience, so the ability for the MPC to evolve its practices without requiring legislative change is valuable. Such flexibility is likely to be particularly important for the MPC's approach to communications.

74. To enable flexibility, the Panel recommends that primary legislation require the publication of a record of the MPC's meetings and a Charter (or similar mechanism) that covers a defined set of issues, to be agreed by the Minister and the MPC. The Charter would then set out specific requirements for that defined set of issues, which could include what is published and the timeframes for publication, as well as the protocol for individual members to publicly express views that are inconsistent with the views of the MPC as a whole.

75. While there is merit in enabling the communications approach to evolve, the Panel does not think it should be left entirely to the MPC to determine. This is because it is an integral part of the overall accountability framework. Consequently, the Panel recommends that the MPC agree the Charter with the Minister.

76. The Charter could also be used to agree the approach to other issues where the Minister of Finance is likely to have an interest, where practice may need to evolve over time, or where more detail is required than can be set in primary legislation. For example, while legislation should set out issues that disqualify external members from being appointed, any qualifications required and their terms of engagement should be set in the Charter.[3]

77. Beyond these examples, most issues relating to committee procedure, such as meeting frequency and procedure, can be left to the MPC to determine through a separate code of conduct, or otherwise. The Panel recommends the MPC develop its code of conduct once it has been established.

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[3] Specifically, the Charter could set out the expected time commitment for external members and their level of support. While these matters could be left to individual contracts, these terms of engagement are likely to effect the ability of external members to offer robust challenge to the internal members, so a Minister may wish to set a minimum.

The role of the Treasury

78. The Panel has considered whether a non-voting Treasury representative should sit on the MPC. The key benefit of this arrangement would be for the Treasury to gain a rich understanding of the debate and issues, which could then inform the Treasury's advice. This goes beyond Treasury's advice on fiscal policy, and could also help to inform the Treasury's advice on other parts of the economy that will be discussed by the MPC, such as the labour and housing markets. A non-voting Treasury representative would also support decision-making by the MPC (especially in terms of having information on fiscal policy when taking decisions) and could support the coordination of monetary and fiscal policy, especially given the additional challenges presented by pursuing a dual mandate.

79. On balance, the Panel does not support having a non-voting Treasury member on the MPC. The Panel considers that other mechanisms exist to ensure the necessary coordination, including:

- the MPC directing well-structured questions to the Treasury before each MPC round to ensure their decisions are well informed. This will ensure those questions are answered in a considered way, and will ensure that the most appropriate information is used in the forecasts and associated analyses that are provided to the MPC;

- the establishment of a regular, formal consultation process between the Minister of Finance, the Governor and the Secretary to the Treasury, specifically focused on the coordination of monetary and fiscal policy.

80. Moreover, the Panel considers these mechanisms would be necessary even if the Treasury were on the MPC, as a non-voting Treasury representative alone would not be sufficient to ensure an appropriate level of coordination. Accordingly, the Panel recommends that Officials undertake work on these proposals for improving policy coordination between the Reserve Bank and the Treasury.

Consequential issues

81. Beyond the issues considered in this section, the Panel recognises that a number of consequential issues will need to be progressed before legislation can be introduced. Such issues include the transition process from the status quo, as well as details such as the exact qualification criteria for MPC members. The Panel recommends that Officials advise the Government on these issues of detail.

82. A further consequential issue relates to ensuring that the Bank, the Treasury and Statistics New Zealand and adequately resourced, and have the capacities and capabilities to deliver the requirements of the new dual mandate for monetary policy, involving an increased focus on sustainable employment, alongside low and stable inflation.

Chapter 4: Implications for the Board

83. This chapter discusses the implications of codifying an MPC for the Bank's governance model and the role of the Board. Under the current legislation, as summarised and illustrated in Annex 3, the Board acts as a monitoring agent of the Bank. Annex 4 illustrates how the Board's role would adapt in the new model.

84. In terms of governance, the Panel considers that the direct implications of codifying an MPC are limited. The MPC can be constituted without creating any conflicts or significant co-ordination challenges within the Bank, and can largely fit within the current structure of the Bank. The MPC can operate while the Governor retains responsibility for the Bank's functions outside of monetary policy. Hence, given the focus of phase 1 on identifying changes to the Board that are consequential to the change to an MPC, the Panel does not recommend fundamental changes to the current governance model at this point of time. In particular, the Board remains as a monitoring agent of the Bank in this model. Nonetheless, as discussed at the end of this chapter, the Panel's initial view is that broader governance issues should be considered in phase 2 of the review. This chapter discusses implications for the Board's monitoring role first.

The Board's Monitoring Role

85. In the recommended model the MPC will have overall responsibility for all monetary policy decisions and strategy, while the Governor will be responsible for the implementation of monetary policy in line with the MPC's decisions and for leading and chairing the MPC.

86. As discussed in chapter 2, the Panel considers that the Board remains an important part of the accountability regime. However, the new allocation of roles arising from the creation of an MPC requires some adjustments to the Board's role. The Panel recommends that the Board would become responsible for keeping under constant review the performance of:

- the MPC in discharging its responsibilities for monetary policy, including acting in a manner consistent with the monetary policy objectives;
- the individual members of the MPC in discharging their statutory responsibilities; and
- the Governor in discharging his or her statutory duties, including as the Chair of the MPC and the chief executive of the Bank.[4]

87. Further policy work needs to be undertaken as part of the detailed implementation of phase 1 to specify the precise statutory duties.

[4] To be clear, the Panel also recommends that the Board continue monitoring the performance of the Bank and the Governor in respect of all of the other functions of the Bank beyond monetary policy.

Adapting the Board’s Monitoring Powers

88. The Panel considers that the Board’s monitoring activities should focus on a medium-term perspective, and also have consideration for the quality and effectiveness of the decision-making processes and procedures.

89. Given this, the Panel sees merit in adapting the Board’s monitoring powers to better enable it to take a medium term focus in reviewing monetary policy performance. Reform of the Act also provides an opportunity to formalise some existing procedures that are not recognised in the Act.

90. Due to timing constraints, the Panel has not had the opportunity to consider in detail potential changes to the Board’s monitoring powers. Therefore, during the detailed design of phase 1 recommendations, the Panel recommends Officials explore whether the Board should be:

- required to undertake periodic substantive reviews of the performance of the Bank in relation to monetary policy (e.g. evaluating the Bank’s approach to forecasting or the performance of the Bank’s open market operations) and whether these reviews should be published;

- given an independent budget to enable it to commission the substantive reviews discussed above and undertake its other functions;

- given the legal power to observe MPC meetings, including considering how to manage conflicts of interest and confidentiality;

- given the power to request relevant documents from the Bank;

- required to provide a performance report to the Minister of Finance at least every six months, and more frequently if requested by the Minister, and whether these should be made public.

91. Given the medium term performance focus, the Panel also recommends removing the Board’s specific duty to assess each monetary policy statement (MPS) i.e. the requirement in section 53(1)(d) of the Act. In taking a medium-term performance focus, the Board should focus on evaluating the MPC’s overall approach to monetary policy against the objectives and therefore does not need to provide a formal report on each decision. Moreover, the Panel expects the Board to draw on a range of material to monitor monetary policy performance, and this should extend beyond the MPS.

92. It would not be desirable for detailed requirements stipulating what is required of the Board when carrying out this monitoring role to be set in legislation, as this would unnecessarily limit the Board’s flexibility in carrying out its role. However, the Minister could provide guidance on his or her expectations to the Board, such as via a Minister’s Letter of Expectations to the Board, which could be specifically empowered by the Act.

The Board's Composition

93. In light of these recommendations, the Panel recommends changing the composition of the Board in two ways:

- first, to strengthen the link between the Board and the Minister, the Panel recommends having the Minister appoint the Board Chair and Deputy (whether directly or by the Governor-General by Order in Council on the recommendation of the Minister). At present, the Board appoints its own Chair and Deputy, which is unusual in the wider New Zealand public sector. Having the non-executive directors elect their own Chair was intended to reduce the risk of politicisation of the Board. However, having the Minister appoint the Board Chair and Deputy would bring the Minister closer to the Board and increase Ministerial engagement, which the Panel considers to be important.

- second, there is a case to remove the Governor from the Board if the Board's role is primarily monitoring and appointments. However, as discussed in the following section, the Panel's view is that phase 2 of the review should consider the allocation of the Bank's governance powers in more detail than has been done to date. Accordingly, the Panel consider that a decision on the Governor's position on the Board should be made in phase 2 of the review.

Substantive Governance Changes

94. As noted above, the Panel has recommended limited governance changes in response to the introduction of the MPC. However, given the unusual nature of the Bank's governance arrangements, both in the New Zealand state sector and amongst central banks internationally, some further governance changes may be warranted. The Panel's view is that wide consideration should be given to the Bank's governance model and structure as part of phase 2 of the review.

95. A key issue is the lack of separation between the governance and policy/operations roles in the Bank at present. Phase 2 of the review should consider the relative allocation of responsibilities between the Governor and the Board, and should provide advice on making the Board the governing body of the Reserve Bank. Any such changes will require reconsideration of the composition of the Board and the required skills of members.

96. Moreover, the Panel's view is that phase 2 of the review should consider the introduction of a committee(s) for financial policy and re-evaluate the Bank's funding model, particularly for financial policy. Phase 2 should also consider the Board's ability to undertake reviews of the Bank's financial policy function.

97. For the avoidance of doubt, the Panel's views on the scope of phase 2 of the review as expressed in this report are not exhaustive but relate to issues directly related to the matters in this report.

Chapter 5: The setting of the operational objectives for monetary policy

98. Section 9 of the Act currently requires that the Minister of Finance agree a PTA with the Governor of the Reserve Bank, prior to the Governor assuming their role. Amending the Act to provide for a committee decision-making model requires reconsideration of this approach. This chapter discusses the rationale for change and the Panel's proposed solution. A description of approaches taken by other countries to set the operational objectives for monetary policy is set out in Annex 5.

99. As an agreement, the PTA is part of the model under which the Governor is individually accountable for ensuring adequate monetary policy performance. In the new model, with committee decision-making, the Governor will be individually responsible for implementing monetary policy consistent with the decisions of the MPC, while the MPC will be collectively responsible for making monetary policy decisions. It would not be consistent with this model for the Governor to be the sole member of the MPC to agree the operational objectives for monetary policy. Therefore the Panel considers it necessary to reconsider how the operational objectives are set.

100. Furthermore, there are three areas where the current PTA process could be improved to better reflect best practice and workability:

- the Act currently provides no explicit process for routine robust review of the operational objectives. In the Panel's view such a process would include a requirement for an analytical review programme, a clear role for the Bank to capture their technical expertise, and an opportunity for public input in the setting of the operational objectives.

- the person-dependent model which is linked to the Governor's appointment provides no timing flexibility for agreeing new operational objectives. This can be problematic if the renewal process coincides with events, such as general elections, when it's undesirable for the existing Minister of Finance to negotiate a new agreement.

- the narrow legislative wording for the scope of the PTA ("policy target") should be reconsidered in light of the Bank having a wider legislative objective. In particular, the operational objective for employment should not be in the form of a numerical target and therefore the current wording may not be appropriate for setting the operational objective for the employment mandate.

Criteria for Assessing Arrangements for Setting Operational Objectives

101. For the reasons outlined above the Panel believes the case underpinning the current single-person model, as embodied by the PTA, is significantly weaker than it was in 1989. Accordingly, the Panel has considered the question of what is the appropriate model for setting the operational objectives under the new framework from a "first principles" basis, in accordance with the following criteria. The objective setting mechanism should:

    1. *Ensure a transparent allocation of responsibility for setting the operational objectives*. This ensures stakeholders can easily determine who sets the operational objectives, ensuring clear public accountability.

    2. *Maintain a role for Government in making substantive policy decisions.* Recognising that setting the operational objectives for monetary policy is a significant policy decision.

    3. *Provide clear and effective operational objectives for the MPC*. The mechanism should seek to set a clear set of responsibilities for the MPC and capture technical knowledge.

    4. *Promote sound monetary policy decisions.* The mechanism should avoid inflation bias.

    5. *Promote a robust review process.* The mechanism should support regular reviews of the operational objectives so that sound decisions can be made on the setting of the operational objectives.

Options Analysis and Preferred Model

102. The Panel considers that there are two main options for setting the operational objectives for monetary policy.

103. One option is that the current agreement model could be transferred to the MPC, such that the Minister of Finance and the MPC would agree the operational objectives. The Panel considers that there are some practical difficulties with this model. In particular, it raises issues with the nature of the instrument as an agreement, given that the agreement would be with a revolving committee membership. This would either require new agreements to be negotiated every time a new member joined the MPC, or for new members to be bound by (and accountable against) the agreement of previous members until it was time for a periodic renewal. Furthermore, this approach is likely to result in limited public input into the setting of objectives, and low public visibility of the negotiation process would make it difficult to determine how the operational objectives were decided.

104. In addition, the Panel puts weight on the significance of the operational objectives for monetary policy and considers this suggests a primary role for the Minister of Finance in making the decision on the operational objectives, whilst at the same time recognising the need for capturing the Bank's technical expertise in the design of the operational objectives. The Minister having a primary role in the setting of objectives is consistent with the Reserve Bank retaining operational independence for monetary policy.

105. Given this, the Panel favours an alternative model where the Minister of Finance sets the operational objectives following the receipt of non-binding advice from the Bank. This balances the Government's right to set economic policy against the need to ensure technical expertise is captured, and will provide clear responsibilities for undertaking a review. The Treasury would provide advice to the Minister of Finance in its role as advisor to the Minister of Finance. While details are still to be developed, this model at a high-level would include the following features:

- the operational objectives for monetary policy would be set by the Minister of Finance following the receipt of formal (non-binding) advice from the Bank. As at present the operational objectives would be set out in a document that was empowered by the Act.
- the Bank would conduct a formal review, ideally supported by a research programme, which would culminate in formal advice to the Minister. The Treasury would advise the Minister on the setting of the objectives, taking account of the Reserve Bank's advice. The scope of the review could be informed by a public consultation element, to provide a regular channel for external stakeholders to express their views. The Bank's advice and research would then be published to ensure transparency.
- the operational objectives would be reviewed at a regular interval (e.g. every five years), with timing decoupled from the Governor's appointment. Legislation would provide some flexibility over the timing of this review (a delay of up to six months), and give an incoming Minister the ability to request an interim review if required.
- the Minister could then be required to publicly respond to the Bank's advice, potentially at an appearance before the FEC, to support transparency and public accountability.
- MPC members will be required to sign up to the operational objectives, signifying that they are aware of the objectives and also that they believe they are equipped with the expertise, experience, knowledge and capability to undertake the task.

Chapter 6: Operationalising the changes to the Act

The New Mandate

106. The Reserve Bank has identified that the adoption of the new legislative objective would require development of the Bank's analytical and decision making framework in the following ways:

- Reserve Bank staff will need to assist the MPC in defining "maximum sustainable employment" and has commenced research in this regard.

- Bank staff will need to provide the MPC with a framework to help them assess the relevant trade-offs in making monetary policy decisions, particularly when the employment and price stability objectives come into conflict. The Bank will undertake research into decision-making approaches, and some changes are likely to be required to the Reserve Bank's modelling framework.

- More timely and detailed labour market statistics would aid decision making. The Treasury and the Reserve Bank have begun engaging with Statistics New Zealand about what is possible within current data collection frameworks.

107. Generally, the research required to define the approach to meeting the broader objectives, and to support the MPC, is expected to be able to be met through the reallocation of existing research resources. However if major changes to the modelling framework are required, this will require additional funding.

The Monetary Policy Committee

108. The MPC will need to be recruited, remunerated, and receive ongoing support.

109. There will be an initial recruitment effort for external members managed by the Board, with associated costs. External MPC members will need to be appropriately remunerated, including travel, accommodation, and disbursements. External MPC members are likely to need to have access to desk space and technology while at the Reserve Bank, and also access to Bank staff for liaison and support. The Panel recommends that external members have access to assistant support, although significant research questions should be progressed by the MPC, through Bank staff.

110. The Bank has identified that the existing monetary policy process will also require some amendment. The appropriate point in the process to introduce the MPC will need to be determined, so that external members can make informed decisions and influence the Bank's work programme, while also being sufficiently distant from internal processes to retain the desired degree of critical thinking and hence ensure diversity of decision making.

111. The process for communicating monetary policy decisions will also require some consideration. The MPC will need to agree a record of its meetings that accurately reflects the balance of MPC views. Publishing this record at the same time as the monetary policy decision would ensure complete transparency and avoid unnecessary volatility in financial markets. The timely preparation of the records of meetings and other MPC secretarial matters will require additional resourcing for the Bank.

Resultant Board changes

112. The Board will have an enhanced role in recruitment, specifically of the external MPC members. This will place some initial time pressure on the Board for the recruitment of the foundation external MPC members, although once the staggered appointments are in place this will become more manageable. The Board will need to be allocated some financial resources to assist in this process.

113. The cumulative effect of the proposed changes to the Board’s monitoring role should be roughly neutral in terms of the time required of Board members, provided the Board has sufficient financial resources to commission any substantive reviews.

114. The Board has a code of conduct. The Panel recommends that this be reviewed in light of the legislative changes.

Annex 1: Summary of International Monetary Policy Legislative Frameworks

United States

Primary legislation

The Monetary Policy Objective for the Federal Reserve (the Fed) is set in the Federal Reserve Act 1913, which states:

> "The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates."

Secondary instrument

The Fed has full discretion to interpret their legislative mandate. Since January 2012, the Fed has published a Statement on Longer-Run goals and Monetary Policy Strategy (the Statement) where it outlines how it will implement monetary policy.[5] The need for a Statement is not provided for in legislation, and the Fed is not directly accountable to it. The Statement is merely public guidance on how they intend to implement monetary policy.

The Statement interprets "stable prices" as a target of 2% inflation over the medium term.

The Statement notes that a large number of factors, which are not controlled by the Fed, impact maximum employment, and that the level of maximum employment is not directly measurable. Because of this, the maximum employment goal is not specified numerically. The 2017 Statement notes that the median of FOMC participants' estimates of the longer-run, normal rate of unemployment was 4.8 percent.

The Statement details how the Fed will balance these two objectives:

> "These objectives are generally complementary. However, under circumstances in which the Committee judges that the objectives are not complementary, it follows a balanced approach in promoting them, taking into account the magnitude of the deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate."

The Statement also provides for the Committee to consider risks to the financial system in its decision-making.

[5] https://www.federalreserve.gov/monetarypolicy/files/FOMC_LongerRunGoals.pdf

Australia

Primary legislation

The monetary policy function of the Bank is to set out in s 10(2) of the Reserve Bank Act 1959:

> "It is the duty of the Reserve Bank Board, within the limits of its powers, to ensure that the monetary and banking policy of the Bank is directed to the greatest advantage of the people of Australia and that the powers of the Bank under this Act and any other Act, other than the Payment Systems (Regulation) Act 1998, the Payment Systems and Netting Act 1998 and Part 7.3 of the Corporations Act 2001, are exercised in such a manner as, in the opinion of the Reserve Bank Board, will best contribute to:
>
> (a) the stability of the currency of Australia;
>
> (b) the maintenance of full employment in Australia; and
>
> (c) the economic prosperity and welfare of the people of Australia."

Section 11(1)(a) of the primary Legislation provides for the Bank to set its monetary policy objective:

> "(1) The Government is to be informed of the Bank's policy as follows:
>
> (a) the Reserve Bank Board is to inform the Government, from time to time, of the Bank's monetary and banking policy."

Section 11(2), however, provides for the Treasurer to overrule the Bank's determination of its objective and set a different objective.

Secondary instrument

In practice, the Australian Treasurer and Governor of the Bank agree on a common Statement on the Conduct of Monetary Policy (the Statement) which outlines the Bank's monetary policy objective. Two key paragraphs are set out below:[6]

> "These objectives [the objectives in section 10(2) of the Reserve Bank Act 1959] allow the Reserve Bank Board to focus on price (currency) stability, which is a crucial precondition for long-term economic growth and employment, while taking account of the implications of monetary policy for activity and levels of employment in the short term.
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> …

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6 https://www.rba.gov.au/monetary-policy/framework/stmt-conduct-mp-7-2016-09-19.html

> Both the Reserve Bank and the Government agree that a flexible medium-term inflation target is the appropriate framework for achieving medium-term price stability. They agree that an appropriate goal is to keep consumer price inflation between 2 and 3 per cent, on average, over time. This formulation allows for the natural short-run variation in inflation over the economic cycle and the medium-term focus provides the flexibility for the Reserve Bank to set its policy so as best to achieve its broad objectives, including financial stability. The 2-3 per cent medium-term goal provides a clearly identifiable performance benchmark over time."

The Statement explicitly describes Australia's approach as "flexible medium-term inflation targeting", and calls for the Board to focus on price stability, while "taking account of" the implications for activity and employment.

Section 10(2)(a) is interpreted as allowing for an inflation targeting regime (internal price stability), even though the terms "stability of the currency of Australia" could also refer to a managed exchange rate regime (external price stability). While the Australian monetary policy regime has evolved over time, the primary legislation has remained the same since at least 1973 and a number of different monetary policy frameworks have been implemented under this set of objectives.

The Statement also notes that financial stability is a monetary policy objective.

United Kingdom

Primary legislation

Sections 11 - 12 of the Bank of England Act reads:

"11 In relation to monetary policy, the objectives of the Bank of England shall be –

(a) to maintain price stability, and

(b) subject to that, to support the economic policy of Her Majesty's Government, including its objectives for growth and employment.

12(1) The Treasury may by notice in writing to the Bank specify for the purposes of section 11-

(a) what price stability is to be taken to consist of, or

(b) what the economic policy of Her Majesty's Government is to be taken to be."

Secondary instrument

The current direction under section 12 is a letter by Chancellor Hammond, sent on March 8 2017.[7] It provides a 2% inflation target as the primary target. The inflation target is "forward-looking to ensure inflation expectations are firmly anchored in the medium term". The letter also defines the Government's economic strategy, which consists of four high level goals:

- Operationally independent monetary policy, responsible for maintaining price stability and supporting the economy.
- A credible fiscal policy, returning the public finances to health, while providing the flexibility to support the economy.
- Addressing long-term economic weaknesses in order to sustain high employment, raise productivity, and improve living standards for people across the UK.
- Continuing to strengthen the financial system, improving the regulatory framework to reduce risks to the taxpayer and building resilience, so that it can provide finance and financial services to the real economy and realise better outcomes for consumers, supporting sustainable economic growth and encouraging productive investment.

Other matters, such as how the Bank should approach quantitative easing, are included in the remit.

Norway

Primary legislation

Key Provisions in the Legislation (the Act of 24 May 1985 relating to Norges Bank and the Monetary System etc):

> "Section 2
>
> The Bank shall conduct its operations in accordance with the economic policy guidelines drawn up by the government authorities and with the country's international commitments….
>
> The King in Council may adopt resolutions regarding the operations of the Bank. Such resolutions may take the form of general rules or instructions in individual cases."

The Act does not specify the primary objective of the Bank, and leaves this to the King in Council to make (the King in Council is effectively the Government, as regulations in Norway are made in the name of the King).

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[7] http://www.bankofengland.co.uk/monetarypolicy/Documents/pdf/chancellorletter080317.pdf

Secondary instrument

The Regulation made under section 2 specifies the Norges Bank mandate. Key paragraphs include:[8]

> "Monetary policy shall be aimed at stability in the Norwegian krone's national and international value, contributing to stable expectations concerning exchange rate developments. At the same time, monetary policy shall underpin fiscal policy by contributing to stable developments in output and employment.
>
> Norges Bank's implementation of monetary policy shall, in accordance with the first paragraph, be oriented towards low and stable inflation. The operational target of monetary policy shall be annual consumer price inflation of approximately 2.5 per cent over time.
>
> In general, the direct effects on consumer prices resulting from changes in interest rates, taxes, excise duties and extraordinary temporary disturbances shall not be taken into account."

The third paragraph specifies that the Norges Bank should look through specific price shocks.

The Norges Bank, in describing its mandate, suggests that inflation is the primary target, with stable output and unemployment a secondary target although the regime could be described as a dual target.[9]

Review

In June 2017 the Central Bank Law Commission delivered a report on a new Central Bank Act.[10] It suggested a new objective section:

> "(1) The purpose of the Norges Bank's functions is to maintain monetary stability and promote stability of the financial system and an efficient and secure payment system
>
> (2) Norges Bank shall otherwise contribute to high and stable output and employment."

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8 http://www.norges-bank.no/en/about/Mandate-and-core-responsibilities/Legislation/Regulation-on-Monetary-Policy/

9 http://www.norges-bank.no/en/about/Mandate-and-core-responsibilities/Monetary-policy-in-Norway/

10 https://www.google.co.nz/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0ahUKEwiW_9__-N3XAhXIH5QKHXW6CpgQFggoMAA&url=https%3A%2F%2Fwww.regjeringen.no%2Fcontentassets%2F2527f6878b03409696b5e6cf11dcc5e0%2Fen-gb%2Fpdfs%2Fnou201720170013000engpdfs.pdf&usg=AOvVaw2y010VgN_SYwd7SRmrmVfd

Canada

Primary legislation

The Bank of Canada Act governs the Bank of Canada. Section 14 establishes the method for setting monetary policy objectives:

> “Section 14
>
> (1) The Minister and the Governor shall consult regularly on monetary policy and on its relation to general economic policy.
>
> (2) If, notwithstanding the consultations provided for in subsection (1), there should emerge a difference of opinion between the Minister and the Bank concerning the monetary policy to be followed, the Minister may, after consultation with the Governor and with the approval of the Governor in Council, give to the Governor a written directive concerning monetary policy, in specific terms and applicable for a specified period, and the Bank shall comply with that directive.”

The primary legislation does not specify a primary function for the Bank.

Secondary instrument

Canada adopted an inflation targeting framework in 1991. The most recent joint statement between the Government and the Bank of Canada from October 2016 sets out its monetary policy objective for 5 years. The statement provides for a 2% inflation target mid-point, with range of 1-3%. No other considerations for monetary policy are included. The policy is described as a “flexible inflation targeting framework”.[11]

The agreement does not include any other objectives for monetary policy. The Bank investigated whether to include a financial stability consideration, but in a letter from the Governor to the Minister of Finance in September 2016, the Governor concluded that “monetary policy should be adjusted to address financial vulnerabilities only in exceptional circumstances”. It sees financial sector reforms, macroprudential policy, and its role as a lender of last resort as the main tools to promote financial stability.[12]

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[11] http://www.bankofcanada.ca/wp-content/uploads/2016/10/Joint-Statement.pdf

[12] http://www.bankofcanada.ca/wp-content/uploads/2016/10/Letter-Minister-Finance.pdf

Sweden

Primary legislation

Article 2 of the Sveriges Riksbank Act states that:

> “The objective of the Riksbank's activities shall be to maintain price stability.”

Secondary instrument

The Riksbank does not use a secondary instrument, and simply announces its policy intentions. Since 1995 the Riksbank has set an objective of 2% annual CPIF inflation. In September 2017 the Riksbank introduced a “variation band” in the inflation target of 1-3%, but stressed that it was still targeting 2% inflation.[13] The Riksbank exclusively decides the meaning of price stability, with no need for an agreement with the Government.

[13] http://www.riksbank.se/en/Monetary-policy/Inflation/Adoption-of-the-inflation-target/

Annex 2: Summary of the Monetary Policy Committee Model

Issue	Panel Recommendation	Legislative Approach
Scope of Remit	MPC has responsibility for all monetary policy decisions and strategy.	Legislate
Size of MPC	7 members, with flexibility to have between 5 and 7.	Legislate
External/Internal Balance	Internal majority, with 4 internal members and 3 external. Governor as Chair.	Legislate
Type of Externals	Externals require knowledge and experience in relevant policy areas; engaged on a part-time basis.	Legislate for qualification criteria; other details set in Charter/contracts
Appointment Processes	All members nominated by Board, appointed by Minister. Governor consulted on internal appointments.	Legislate
Dismissal Processes	Governor-General removes members by Order in Council, on advice of the Minister. Board can remove external members in consultation with the Minister in limited circumstances. The Governor may appoint internal members to new roles within the Bank, which may trigger their removal from the MPC.	Legislate
Length and Timing of Term	5 year terms for internals; 4 year terms for externals; all members limited to two terms in any role; staggered appointments.	Legislate
Decision-making Process	Decisions by consensus. Majority vote where consensus cannot be reached, with the Governor having the casting vote. In the event of a vote, neither the individual votes nor the balance of votes would be made public.	Legislate
Communications Model	Records of the MPC's meetings to be published. Divergent views to be made public, but not attributed. Committee Charter agreed between the MPC and the Minister to set detail.	Committee Charter

Annex 3: The Reserve Bank's Current Governance Structure

The Reserve Bank's powers are currently vested in the Governor, who is responsible for almost all elements of policy/operations and governance (consistent with the single decision-maker model).

In terms of operations/policy, the Governor's responsibilities include:

- all policy and regulatory decisions of the Bank;
- the management and operation of the Bank, and;
- agreeing the PTA (with the Minister).

In terms of governance, the Governor's responsibilities include:

- setting the Bank's strategic direction and producing the Bank's Statement of Intent (SOI);
- performance reporting, including the Annual Report and the financial statements;
- risk management and audit, and;
- resource use and allocation, which includes agreeing the Bank's level of funding with the Minister of Finance.

The Board is not a board in the traditional sense, and is better thought of as a monitoring agent for the Minister of Finance (with specific roles in key appointments and giving advice). In its monitoring role, the Board is required to keep the performance of the Bank and the Governor under constant review. This includes specific duties to:

- review the performance of:
    i. the Bank in carrying out its functions;
    ii. the Governor in discharging the responsibilities of that office, and;
    iii. the Governor in ensuring that the Bank achieves the PTA;
- determine whether the Bank's monetary policy statements are consistent with the Bank's primary function and the PTA, and;
- review the use of the Bank's resources.

Consistent with this monitoring role, the Board is required to prepare an annual report that sets out the Board's assessment of the Bank's performance.[14] The Board also provides quarterly reports to the Minister of Finance, although this is not a statutory requirement.

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[14] Separately, the Treasury also has a role in monitoring the Bank (in its role of advising the Minister on matters relating to accountability and performance of the Bank, funding and policy advice), although the role of the Treasury in monitoring the Bank is not specifically set out in legislation.

In addition to its monitoring role, the Board has two other notable statutory functions:

- Appointments and dismissals: the Board plays a key role in the appointment and dismissal processes for both the Governor and the Deputy Governors. The Board's involvement in the process to appoint the Governor is intended to reduce the risk of Ministerial influence over the Bank, which could arise if the Minister held this power alone (and accordingly helps protect the operational independence of the Bank).

- Advice: in its advisory role, the Board may give advice to the Governor[15] on any matter relating to the performance of the Bank's functions and the exercise of the Bank's powers.

This governance structure is illustrated below.

Monitoring and Oversight	**The Board**
	- Monitors the performance of the Governor and the Bank
	- Reports annually on Bank performance
	- Assesses each Monetary Policy Statement (MPS)
	- Can advise the Governor on the Bank's performance
	- Key roles in appointment and dismissal
		The Treasury
		- Advises the Minister on matters relating to the Bank's performance and operation, including:
		  - the PTA
		  - legislative frameworks
		  - the funding agreement

Governance	**Governor** Legally responsible for: - Setting strategic direction and the SOI - Performance reporting, including financial statements - Resource use and allocation - Risk management and audit - Signing the funding agreement (with the Minister)	
Policy and Operations	**Governor** Legally responsible for: - All policy and regulatory decisions of the Bank - Management and operation of the Bank - Agreeing the PTA (with the Minister)	

15 Although this may need to be extended to giving advice to the MPC.

Annex 4: The Reserve Bank's Proposed Structure

To help illustrate the changes from the current structure to the Panel's proposed structure, changes are either struck out or underlined in red where an element has been removed or added to the current structure, respectively.

Monitoring and Oversight

The Board

- Monitors the performance of the Governor (as Chair of the MPC and CE of the Bank), ~~and~~ the Bank, the MPC, and members of the MPC
- Reports annually on Bank performance
- ~~Assesses each Monetary Policy Statement (MPS)~~
- Can advise the Governor on the Bank's performance
- Key roles in appointment and dismissal

The Treasury

- Advises the Minister on matters relating to the Bank's performance and operation, including:
  - ~~the PTA~~
  - legislative frameworks
  - the funding agreement
  - setting the operational objectives for monetary policy

Governance

Governor

Legally responsible for:

- Setting strategic direction and the SOI
- Performance reporting, including financial statements
- Resource use and allocation
- Risk management and audit
- Signing the funding agreement (with the Minister)

Board

The Panel has recommended that consideration be given to moving some or all of the Governor's governance functions to the Board as part of phase 2 of the review

Policy and Operations

Monetary Policy Committee

Legally responsible for:

- All monetary policy decisions and strategy

Governor

Legally responsible for:

- All other policy and regulatory decisions of the Bank
- Management and operation of the Bank, including implementation of monetary policy decisions by the MPC
- ~~Agreeing the PTA (with the Minister)~~
- Chairing the MPC

Annex 5: International approaches to setting operational objectives for monetary policy

Country	Operational objective set by	Statutory status	Legislative framework
New Zealand	Agreement between the Minister of Finance and the Governor of the Reserve Bank of New Zealand	Statutorily required agreement	The Minister shall, before appointing, or reappointing, any person as Governor, fix, in agreement with that person, policy targets for the carrying out by the Bank of its primary function.
Australia	Agreement between the Treasurer and the Governor of the Reserve Bank of Australia	Voluntary agreement	De jure, the Bank is provided with the powers to set operational objectives, however the Minister can bring to Parliament a directive for the Bank. De facto, the Bank and the Minister consult prior to setting objectives.
Brazil	National Monetary Council (statutory body) – comprising the Minister of Finance, the Minister of Planning, Development and Management and the Governor of the Bank of Brazil	Resolution	Each year the National Monetary Council sets the inflation target and tolerance band around the target.
Canada	Agreement between the Bank of Canada and the Government	Voluntary agreement	The Minister and the Governor are required to consult regularly on monetary policy. If a disagreement occurs, the Minister can give the Governor a directive.
Chile	Central Bank of Chile Board	Statement	The Minister of Finance is able to attend Board meetings. The Minister can suggest resolutions or veto resolutions during the meetings. The Minster's veto power can be overridden by unanimous agreement of the Board.
Czech Republic	Czech National Bank Board	Statement	The Czech National Bank Board is granted the legislative authority to set the operational objectives for monetary policy. The Act on the Czech National Bank does not specify how frequently objectives should be set.
Iceland	Central Bank of Iceland Board of Governors and Prime Minister	Voluntary agreement	With approval of the Prime Minister, the Board of Governors may declare a numerical target for price stability.
Israel	Government and Governor of the Bank of Israel	Direction	The Government, in consultation with the Governor, shall determine the price stability range.
Japan	Bank of Japan Policy Board	Statement	The Bank of Japan Act grants the Bank of Japan Policy Board the authority to set the operational objectives for monetary policy. The Act does not specify how frequently objectives should be set.
Mexico	Bank of Mexico Board of Governors	Statement	The Bank of Mexico Act grants the Bank of Mexico Board of Governors the authority to set the operational objectives for monetary policy. The Act does not specify how frequently objectives should be set.

Country	Operational objective set by	Statutory status	Legislative framework
Norway[16]	Government	Regulation	The Act Relating to Norges Bank and the Monetary System sets out that the Government may adopt resolutions regarding operational objectives. The Act grants Norges Bank the right to state its opinion before such resolutions are passed.
Poland	National Bank of Poland Monetary Policy Council	Statement	The Constitution of the Republic of Poland requires each year the National Bank of Poland Monetary Policy Committee set the operational objectives for monetary policy committee.
South Korea	Bank of Korea and Government	Statement	The Bank shall, in consultation with the Government, set the price stabilisation target annually.
Sweden	Sveriges Riskbank Governing Board	Statement	The Sveriges Riskbank Act allows the Riksbank to issue regulations within the scope of its price stability objective. The Act does not specify how frequently operational objectives should be set.
Switzerland	Swiss National Bank Governing Board	Statement	The Federal Act on the Swiss National Bank grants the Governing Board the authority to set the operational objective for monetary policy. The Act does not specify how frequently operational objectives should be set.
Euro area	European Central Bank Governing Council	Statement	Article 127 of the Lisbon Treaty grants the European Central Bank the authority to define and implement monetary policy. The Treaty does not specify how frequently operational objectives should be set.
United Kingdom	Government	Remit	The Bank of England Act grants the Chancellor of the Exchequer (Minister of Finance equivalent) the power to specify to the Bank, in writing, what price stability is taken to consist of.
United States	Federal Reserve Federal Open Market Committee	Statement	The Federal Reserve Act grants the Federal Reserve Bank authority to set the operational objective for monetary policy. The Act does not specify how frequently operational objectives should be set.

Sources: Naudon and Pérez (2017), Wood and Reddell (2014), central bank websites.

[16] The legislative framework for the Norges Bank has recently been reviewed by the Central Bank Law Commission. For setting operational objectives for monetary policy the Commission proposed that the Government should retain its right to set objectives and the Norges Bank should be given the opportunity to express an opinion prior to the objectives being set. https://www.regjeringen.no/contentassets/2527f6878b03409696b5e6cf11dcc5e0/en-gb/pdfs/nou201720170013000engpdfs.pdf

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