

Review of the Reserve Bank Act

Release Document

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phase-1-reviewing-reserve-bank-act](https://treasury.govt.nz/publications/information-release/phase-1-reviewing-reserve-bank-act)**

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In the June 2018 update some previously withheld information was released.

Key to sections of the Official Information Act 1982 under which information has been withheld.

- [1] 9(2)(a) - to protect the privacy of natural persons, including dead people.
- [2] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage.

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From: Ganesh Nana

Sent: Wednesday, 7 February 2018 10:43 AM

To: Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Bryan Chapple [TSY] <Bryan.Chapple@treasury.govt.nz>

Subject: RB review - some thoughts for your consideration

Kia ora.

Some notes from me following the discussion last Thursday.

You may be aware I have never been a fan of inflation-targeting, nor of CB independence (for a numerous variety of reasons), but did wish to be constructive in the Thursday discussion noting the parameters you were working within.

However, I do feel obliged to lodge my (brief) comments. In particular, I would encourage a broader perspective. While, for arguments sake, I'll concede that inflation-targeting has been successful in controlling inflation, the question remains in my mind 'for what end'?

That is, controlling inflation must be placed in the context of the broader goals/objectives of government (whatever they may be)?

In turn, the supposition that inflation is somehow a superior goal to all other objectives remains anathema to my thinking. I have never understood the argument that other economic targets – like govt debt reduction, fiscal surpluses, current account balance, employment growth, real income growth, financial sector stability – are somehow of secondary importance to price stability. And this is not to mention other 'non-economic' goals, such as equity, poverty reduction, climate sustainability, water quality, health

Over the past decade we have been told that monetary policy 'needs friends' (whether it be fiscal policy, macro-prudential, etc) if it is to achieving its goal. However, it's a bit rich for monetary policy to be asking for friends, when it places itself above others and is, implicitly, unwilling to 'be friends' with others when they (the others) need assistance to achieve their other goals.

I would also refer you to my note on <http://www.berl.co.nz/in-focus/curtailing-the-power-of-central-bankers/> .

Consequently, I would argue that the current review – in explicitly bringing in an employment goal, as well as external decision makers – should be seen in such a context. It is a (small) step towards bringing some balance back to our policy and goal setting. I would also see the reluctance of some to change from the status quo, in this light – as they continue to view price stability as sacrosanct and the "be all and end all".

In truth, I have qualms about introducing another goal for monetary policy, as I am uncomfortable with giving the central bank even more power/influence. The quid-pro-quo for this is a rigorous decision-making committee with a majority of non-RB staff – and public circulation of minutes (but, agree, transcript unnecessary) and voting. As I said at the meeting, the wording of the goal has to ensure that both employment and price stability targets are of equal weight. Of course, I would prefer other targets, but again acknowledge the parameters you are working within. At the very least, I would suggest the Act/PTA notes that monetary

policy is seen as a subset of all economic policy settings, with the overall objectives as outlined within a Living Standards Framework perspective. Further, if given a chance, I would support a re-look at the definition of price stability – there is a case for inclusion of asset prices.

As for the other functions of the central bank – if CB independence remains the order of the day, it can only be argued on the basis of independent monetary policy (subject to the Act and the agreed PTA). Other functions – regulation and maintenance of financial stability – in my opinion are just functions of a properly constituted public service and so should be separated from those implementing monetary policy. Continuing to treat finance and banking issues as ‘special’ and ‘above’ other aspects of a modern economy and society only serves to perpetuate the notion that finance and banking are the master, and the economy and the society are the servants. Whereas finance and banking should really be the servants, constrained by the broader objectives/goals of the economy and society.

Hope this is of some use to you. Happy to talk more if you wish.

Ngā mihi nui,
Ganesh.

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