

## **Summary: Cabinet decisions on phase 1 of the Review of the Reserve Bank Act**

The Government has made decisions on phase 1 of the Review of the Reserve Bank Act. Decisions were made after receiving advice from the Independent Expert Advisory Panel that the Government set up for the Review.

### **Adding employment to the objectives of monetary policy**

The Reserve Bank Amendment Bill (the Bill) that will be introduced later in 2018 will:

1. Amend the preamble to Section 1A of the Act, to explicitly recognise that the purpose of the Act is to promote the prosperity and wellbeing of the people of New Zealand and contribute to a sustainable and productive economy.
2. Re-specify the objectives of monetary policy towards achieving and maintaining stability in the general level of prices over the medium term and supporting maximum sustainable employment.

### **A Committee Decision-Making Model for Monetary Policy**

The Bill will legislate for a Monetary Policy Committee (MPC). This will formalise and strengthen the Reserve Bank's decision-making practices. The Reserve Bank will retain operational independence.

The key features of the MPC are:

- the MPC will be responsible for the formulation of monetary policy (decisions and strategy)
- the Governor will retain responsibility for the implementation of monetary policy and will retain the same functions outside of monetary policy
- the MPC will be established with 7 members (the Act will allow 5 to 7 members)
- in the initial MPC, it is intended that 4 MPC members will be from the Reserve Bank and 3 members will be appointees from outside the Reserve Bank
- the Governor and Deputy Chief Executive will be members of the MPC by virtue of their role
- the Governor will be the Chair of the MPC
- all of the MPC members will be appointed by the Minister of Finance on the nomination of the Reserve Bank Board
- the MPC will also include one non-voting observer from the New Zealand Treasury
- the MPC will be required to agree a Charter with the Minister of Finance setting out the detailed approach to issues defined by the Act, which will include the approach to the MPC's communications, and
- details of the first Charter are yet to be determined, however the intention is that the MPC will aim to reach decisions by consensus, but publish non-attributed votes where there is not a consensus and non-attributed meeting records that reflect any differences of view.

The Board will continue its role of monitoring monetary policy performance, although some modifications will be required in light of Phase 1 changes. The

Board's role in appointments will be expanded, as the Board will nominate candidates for the MPC to the Minister.

The Government has also agreed that the Chair and Deputy Chair of the Board will be appointed by the Minister of Finance. This will make the practice consistent with most other state sector boards.

### **The 'PTA' setting process**

Currently, policy targets for monetary policy are set through the Policy Targets Agreement (PTA), an agreement between the Minister of Finance and the Governor, and must be consistent with the price stability objective of the Act

With the introduction of the MPC, the process for setting the operational objectives for monetary policy needs to change to reflect that the MPC will be collectively responsible for making monetary policy decisions. In line with the recommendation from the Panel, Cabinet has agreed that the process going forward will be that:

- the Minister of Finance will set the operational objectives for monetary policy every 5 years, consistent with the high-level objectives specified in the Act, and
- the objectives will be set after a formal review process undertaken by the Reserve Bank that culminates in the receipt by the Minister of public advice from the Reserve Bank, and advice from the Treasury as the Minister's advisor.