

Scoping Phase 2 of the Review.

My background is that I served on the Reserve Bank board from 1996/2010, through many periods of significant change. I am a professional director being awarded the Top 200 QBE Insurance Chairperson of the year in 2010. I was inducted into the Business Hall of Fame in 2015.

It is my experience that many very competent professional and business people do not understand governance [that is the fine line between governance and management] nor the importance and value of independence and transparency. It would be easy to disturb the sound framework in place.

My focus is therefore on this aspect of the Terms of Reference for Phase 2 of the Review.

I note the scoping statement 'The operational independence of the Reserve Bank remains paramount and will be protected'. The Hon Grant Robertson went further in his cabinet paper when he said 'We have committed to maintaining the independence of the Reserve Bank in any changes that will be made'. The word 'operational' was not included in that statement.

Maintenance of independence covers political, governance as well as operational activities. In the current Act, the relationships of the Minister, Governor, Chair/Board are clearly defined. The duties of the Governor and the Board are clearly articulated. There is no ambivalence regarding the distinction between governance and management responsibilities. Nor is there ambivalence regarding the role of the Minister which, following fixing, in agreement with the Governor, the Policy Targets Agreement, limits political influence and contributes to the reputation of an independent Central Bank.

With in mind then of the Minister's cabinet paper statement, the following are my comments on the scoping paper-

Merits of a committee decision-making model.

This is already in practice within the Reserve Bank. Alan Bollard canvassed the written views of his SLT. Graeme Wheeler formalised the practice. Given the level of expertise within the Bank, there should be an internal majority who are appointed [and dismissed] by the Governor. How otherwise can he fulfil his role as Chief Executive of the Bank [Sec 40 [2]]. The external members could be appointed by the Minister but surely better by the Governor who would know exactly what particular expertise would balance his source of advice.

Dual mandate.

The Hon Grant Robertson, in his Cabinet paper, noted the campaign undertaking to update the Reserve Bank Act to widen the objectives to ensure that monetary policy decision-makers give due consideration to maximising employment alongside price stability in implementing monetary policy. A dual mandate needs to be carefully articulated with consideration given to which is the primary objective. Price stability can be influenced more directly and sustainably than employment. It would be unfortunate if hard won inflation expectations became unanchored because of an expectation that monetary policy would be loosened for short-term employment.

Are there aspects of the review that may generate market concerns?

Political, governance and operational independence should be protected so perhaps those aspects of the current Act should be excluded from the review. The RB is a full service Central Bank which is relatively rare for a Central Bank. Local markets [businesses and investors] rely on the Reserve Bank for confidence that the economy is 'heading in the right direction'. Equally importantly, international markets currently have high confidence in, and respect for, our Central Bank. Any change should be made with care that there is no loss of confidence which would impact on the local economy or internationally - for example on our sovereign rating and thence on external costs of borrowing.

Potential government/Treasury priorities?

I have left out RB priorities. Treasury should best seek feedback from the Bank which will have a clear view. Their view is valuable since they know their business and the risks of it.

As far as other risks are concerned, care should be taken to protect the current funding model. Any change to more of a public sector model risks exposure to more political influence. Similarly, any assumption by the Board of governance powers currently vested in the Governor [rather than simply monitoring performance of the Governor, reporting to the Minister] cuts across the Governor's role and undermines his independence and effectiveness.



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8 March, 2018.