

The Treasury

Phase 1 RBNZ Act Review Information Release

April 2019

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Key to sections of the Act under which information has been withheld:

- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [3] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [4] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [5] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [6] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [7] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [8] Not relevant

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Treasury Report: RBNZ Letter of Expectations for 2019/20

Date:	4 December 2018	Report No:	T2018/3342
		File Number:	MC-1-2

Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Grant Robertson)	Comment or agreement on proposed letter of expectations to the RBNZ	17 December 2019

Contact for Telephone Discussion (if required)

Name	Position	Telephone	1st Contact
Angus Hawkins	Senior Analyst, Macroeconomic and Fiscal Policy	[7]	[1] ✓
Renee Philip	Manager, Macroeconomic and Fiscal Policy		

Actions for the Minister's Office Staff (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes (attached)

Treasury Report: RBNZ Letter of Expectations for 2019/20

Purpose of Report

1. This report seeks your views on the 2019/20 letter of expectations for the Reserve Bank of New Zealand (the Bank). We have attached a first draft including several issues we recommend raising.
2. We have consulted with the Bank on this draft, and the Governor is comfortable with the attached version. We are seeking your views on any other issues you feel should be included in the letter, which will in turn allow you to inform the Bank's statement of intent and strategic priorities for the next year.

Letter Content

3. The attached letter is modelled on the letter sent in 2018. We have amended the introductory paragraph to reflect that (at the point of sending) the Reserve Bank of New Zealand Act Amendment Bill is expected to have been passed, and the remit and the Monetary Policy Committee (MPC) will be in place.
4. We propose raising the following in the letter as areas of particular interest:
 - a Implementing the changes to the Act:** the draft letter emphasises the effective transition to the new MPC decision making model, and making best use of the function of the Treasury observer.
 - b Review of the Reserve Bank Act phase 2:** this retains similar text from the 2018/19 letter setting out the expectations for the Bank's continued support for the review.
 - c The Reserve Bank's next funding agreement:** the Reserve Bank's five year funding agreement expires in June 2020. A new funding agreement must be ratified by Parliament before that point; we expect the Bank to begin engaging on this from June next year. This sets the expectation for the approach you expect the Bank to take in these negotiations.
 - d People and culture:** this text was included in the 2017/18 letter, and indicates your support for the Governor's ongoing change process at the Bank. It remains relevant given ongoing reforms, and the further organisational change expected from phase 2 of the review.
 - e Relationship with the Crown:** this sets your practical expectations for the engagement with the Reserve Bank and the Governor. We have retained the same text as used in the 2017/18 letter. If you wish to change any practical aspects of your relationship with the Bank (for example, the frequency of communication), we suggest you do so here.
5. The letter is also an opportunity to raise issues you believe should be strategic priorities for the Bank, or which you would like the Bank to regularly update you on.

6. We have shared the attached draft with the Bank, including the Governor. They are content with its current drafting and that it covers all required issues.

Next Steps

7. If you advise that there are further issues you would like to include in the letter, we will draft and agree any new sections with the Bank and provide you with revised letter in January 2019.
8. We recommend sending a final agreed letter following the appointment of the MPC members and issue of the remit, likely to be in February or March 2019.

Recommended Action

We recommend that you:

- a **comment** on the attached draft letter of expectations for the Reserve Bank of New Zealand, noting any further issues you wish to raise in the letter.

Comment/no comment.

- b **agree** to send the attached letter of expectations, revised with your comments as required, in March 2019.

Agree/disagree.

Renee Philip
Manager, Macroeconomic and Fiscal Policy

Hon Grant Robertson
Minister of Finance

Mr Adrian Orr
Governor
Reserve Bank of New Zealand
PO Box 2498
WELLINGTON 6140

Dear Adrian

I am writing to convey my expectations for the Reserve Bank of New Zealand for the year ahead. This should inform the development of the Bank's business planning process and Statement of Intent for the forthcoming year.

The Reserve Bank has a crucial role to play in the performance of the New Zealand economy and therefore its actions have a material impact on the prosperity and wellbeing of New Zealanders. In performing its functions it is important that the Bank's approach is consistent with the Government's broader economic objectives while maintaining the Bank's operational independence. We should have regular conversations about how the Bank's work might affect the Government's objectives, and I would encourage you to raise with me any matters of importance during the course of the year.

Areas of Particular Interest for 2019/20

I have a number of particular areas of interest for the upcoming year.

Implementing changes to the Reserve Bank of New Zealand Act

The recently passed Reserve Bank of New Zealand (Monetary Policy) Amendment Bill represents a significant change for the Bank, which you have already taken many positive steps to implement. I expect you to continue this process, in particular by:

- Realising the benefits of the new Monetary Policy Committee (MPC) model. The external and internal MPC members I have appointed on the Board's recommendation have substantial expertise to offer both monetary policy decision making, and the communication of these decisions to the public. I look forward to, as Chairperson of the MPC, to make the most of this expertise by encouraging open and engaged

discussion among MPC members and facilitating public engagement in line with the charter.

- Making productive use of the new role of the Treasury observer to develop and enhance monetary and fiscal policy coordination. I expect the increased flow of information between the Treasury and the Reserve Bank to help both institutions develop their thinking on how our policy levers interact, in both normal times and in any future economic shocks we may face.
- Further developing your procedures for the review and assessment of monetary policy performance.

Review of the Reserve Bank Act phase 2

I expect the Bank to continue to support the Review Team and Expert Panel in their work to identify, evaluate and, as appropriate, develop the case for change to the Bank's legislation in each of the areas outlined in the terms of reference. The Bank's expertise and assistance will be essential in ensuring that the final recommendations delivered to me in late 2019 are robust and well-founded. I acknowledge that a review of this kind can be unsettling to an organisation, but encourage you to continue to grasp the opportunity to consider the full set of options, and develop an enduring legislative framework,.

The Reserve Bank's next funding agreement

As you know, the current five year funding agreement with the Bank will expire at the end of the coming financial year. I appreciate that, given the review of the Reserve Bank Act, there is some uncertainty over both the Bank's future functions and whether this method of setting funding for the Bank will continue. However, this should not prevent us agreeing funding for the Bank's existing functions, including identifying cost savings where these can be made, and accounting for any major areas of spending the Bank anticipates in the near future.

I expect the Bank to work closely with the Treasury to reach a funding agreement that effectively manages this uncertainty; where existing costs are considered carefully, and any new spending is supported by a strong business case.

People and Culture

The Bank's people and culture are important in ensuring that the Bank achieves its objectives, but they are also critical to maintaining New Zealanders' trust in a key financial institution, their central bank. I am interested in following the Bank's efforts to enhance its performance culture, leadership capabilities, and employee engagement and wellbeing to drive its achievements.

Relationship with the Crown

In addition to maintaining a strong relationship between the Minister and the Governor, the Bank should look to continuously develop its relationships with the rest of government. While maintaining the Bank's independence on operational matters, I expect you to consider ways

that the Bank can use its resources and knowledge to engage more broadly within government on economic challenges facing New Zealand.

I expect you to inform me in advance of any material or significant events, transactions and other issues that could be considered contentious or attract wide public interest, whether positive or negative. Specifically on crisis management policy, I expect you to inform me as soon as practicable if any significant institution regulated by the Bank faces a material risk of financial difficulty, or as soon as the Bank is aware of any reasonable likelihood that you may need to recommend that I exercise crisis management powers under prudential legislation.

I look forward to working with you and the Bank to improve the prosperity and wellbeing of New Zealanders.

Yours sincerely

Hon Grant Robertson
Minister of Finance