

The Treasury

Reserve Bank Dual Mandate Change Information Release

February 2024

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Cabinet Document Details

Title: **Cabinet Paper: CAB-23-SUB-0488: Reserve Bank of New Zealand (Economic Objective) Amendment Bill: Approval for Introduction**

Date: **11 December 2023**

Creator: **Office of the Minister of Finance**

No information has been withheld

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Reserve Bank of New Zealand (Economic Objective) Amendment Bill: Approval for Introduction

Proposal

- 1 This paper seeks approval for the introduction of the Reserve Bank of New Zealand (Economic Objective) Amendment Bill (the Bill).
- 2 This paper also provides Cabinet with:
 - 2.1 a copy of the new Monetary Policy Committee (MPC) Remit that I intend to issue under section 122 of the Reserve Bank of New Zealand Act 2021 (the Act), attached as Appendix 1, and
 - 2.2 a copy of the new Charter that I have agreed with the MPC, attached as Appendix 2.
- 3 The first monetary policy decision under the new legislation, MPC Remit, and MPC Charter will be the Official Cash Rate decision at the 28 February 2024 Monetary Policy Statement.

Policy

- 4 Low and stable inflation helps to ensure that monetary policy makes its largest possible contribution to enhancing economic and social outcomes. This Bill therefore seeks to ensure that the Reserve Bank of New Zealand (the Reserve Bank), in taking monetary policy decisions, is principally focused on targeting low and stable inflation.
- 5 At present, the Reserve Bank, acting through the MPC, is required to formulate monetary policy directed to the dual economic objectives (the “dual mandate”) of:
 - 5.1 achieving and maintaining stability in the general level of prices over the medium term, and
 - 5.2 supporting maximum sustainable employment (MSE).
- 6 On Monday 4 December 2023, Cabinet agreed to remove the dual mandate from the Reserve Bank of New Zealand Act 2021, by removing from the Act the economic objective to support MSE [CAB-23-MIN-0469]. A Bill is required to amend the Act.
- 7 This change will provide clarity to the Reserve Bank, financial markets and the public as to how monetary policy decisions should, and will, be formulated, ensuring that MPC decision making is not clouded by dual economic objectives that may, at times, be in tension with one another.

- 8 The introduction of legislation was a commitment set out in the coalition agreement for the 54th Parliament between the National Party and ACT New Zealand, and included in the Government's 100-day Plan [CAB-23-MIN-0468]. The introduction of this Bill is therefore expected by financial markets and the public.

Impact analysis

- 9 Regulatory impact analysis was completed and provided to Cabinet last week, when I sought Cabinet's agreement to the policy change to remove the dual mandate [attached to CAB-23-SUB-0469].

Compliance

- 10 The proposed legislation complies with:
- 10.1 the principles of the Treaty of Waitangi
 - 10.2 the rights and freedoms contained in the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993
 - 10.3 the disclosure statement requirements (a disclosure statement has been prepared and is attached to this paper as Appendix 3)
 - 10.4 the principles and guidelines set out in the Privacy Act 2020
 - 10.5 relevant international standards and obligations, and
 - 10.6 the Legislation Guidelines (2021 edition), which are maintained by the Legislation Design and Advisory Committee.

Consultation

- 11 The Reserve Bank of New Zealand (the Reserve Bank) has been informed of this policy change, and I have consulted with the Reserve Bank on the attached new Remit for the MPC. The attached new Charter for the MPC has been jointly agreed by me, as Minister of Finance, and the MPC. There is no legal requirement for other parties to be consulted on the new MPC Remit and Charter.
- 12 Other than with the Department of the Prime Minister and Cabinet, no other consultation has taken place with government parties, government departments, or the public. This is because of the discrete nature of the change proposed by this Bill – which provides the Reserve Bank with a single economic objective – and the fact that this change is a commitment set out in our agreed 100-day plan [CAB-23-MIN-0468].

Binding on the Crown

- 13 As the Reserve Bank of New Zealand Act 2021 binds the Crown, so too will this Bill.

Creating new agencies or amending law relating to existing agencies

- 14 The Bill proposes to amend the law for the Reserve Bank, acting through the MPC, relating to its function of formulating monetary policy.

- 15 The legislation does not create any new agencies.
- 16 The legislation will not amend the existing coverage of the Ombudsmen Act 1975, the Official Information Act 1982, or the Local Government Official Information and Meetings Act 1987.

Allocation of decision-making powers

- 17 The Bill does not affect the allocation of decision-making powers between the executive, the courts and tribunals.

Associated regulations

- 18 Regulations will not be needed to bring the Bill into operation.

Other instruments

- 19 The Bill does not include any new provision empowering the making of other instruments that are deemed to be legislative instruments or disallowable instruments (or both). It does, however, amend section 125 of the Reserve Bank of New Zealand Act 2021. Section 125 empowers the Governor-General, by Order in Council, and on the advice of the Minister of Finance, to direct the MPC to formulate, and the Reserve Bank to implement, monetary policy for 1 or more economic objectives for a period not exceeding 12 months. This Bill makes only necessary amendments to section 125 of the Act to reflect the change from dual economic objectives to a single economic objective.

Definition of Minister/department

- 20 The Bill does not contain a definition of a Minister, a department, or chief executive of a department (or equivalent position). Such definitions are included in the Reserve Bank of New Zealand Act 2021, and remain unchanged.

Commencement of legislation

- 21 The Bill will come into force on the day following the date of Royal assent.
- 22 The attached new MPC Remit and Charter will also come into effect on the day following the date of Royal assent of the Bill. The attached MPC Remit will replace the existing Remit, and the attached MPC Charter will replace the existing Charter.

Parliamentary stages

- 23 On Monday 4 December, we indicated that the Bill should be introduced and passed before Christmas.
- 24 I seek agreement for this Bill to be introduced today, Monday 11 December, and for it to receive its first, second and third readings this week.
- 25 I intend for the Bill to be accorded urgency, and not be referred to a select committee.

New Monetary Policy Committee Remit

- 26 The MPC Remit sets out the operational objectives for carrying out the function of formulating monetary policy. The Minister of Finance can issue a new MPC Remit at any time.
- 27 As the current MPC Remit references the economic objective to support MSE, it is necessary at this time to issue a new Remit for the MPC under section 122 of the Act. On Monday 4 December, I indicated that I would provide Cabinet with a copy of the new MPC Remit that I intend to issue.
- 28 I have consulted the Reserve Bank on the content of this Remit, as required by schedule 3, clause 8 of the Act.
- 29 The MPC Remit that I intend to issue is attached as Appendix 1.
- 30 Alongside the removal of MSE as an operational objective of monetary policy, I have made some minor changes to the MPC Remit to ensure that price stability is the primary focus of monetary policy decision makers. Specifically, I have removed from the context section various requirements relating to the impact of monetary policy on the sustainability of house prices, financial risk, interactions between fiscal and monetary policy, and information sharing.
- 31 I have removed these requirements from the MPC Remit because I believe that they fit more naturally in the MPC Charter (where they are included). The context section of the MPC Remit still indicates that the MPC should, where appropriate, seek to understand and communicate material interactions between monetary policy and the Government's economic objectives.
- 32 I have also inserted "employment" into section 2(ii), which requires that the MPC seek to avoid unnecessary instability in output, employment, interest rates, and the exchange rate. This insertion clarifies that, with or without a dual mandate, consideration of the real economy (including employment) remains relevant to monetary policy decision making.
- 33 Before considering whether to define the "medium term" more clearly in the MPC Remit, I recommend that detailed advice is considered on this matter (as set out in the Coalition Agreement between the National Party and ACT New Zealand).

New Monetary Policy Committee Charter

- 34 Whenever a new MPC Remit is issued, the MPC and I must consider whether it is necessary or desirable to issue a replacement MPC Charter at the same time (required by section 103 of the Act).
- 35 The MPC Charter sets out requirements to promote transparency and accountability in connection with the performance of the MPC's functions, and sets out decision-making procedures. Unlike the Remit, which is issued by the Minister of Finance, the Charter is agreed between the Minister of Finance and the MPC.

- 36 As the current MPC Charter references the economic objective to support MSE, it is desirable at this time to agree a new Charter with the MPC, alongside the issuance of a new Remit.
- 37 The Charter that I have agreed with the MPC is attached as Appendix 2.
- 38 Alongside the removal of the requirement to report on how monetary policy decisions support MSE, the MPC and I have agreed to shift in the MPC Charter the requirement that the MPC explain their assessment of the effects of monetary policy decisions on the sustainability of house prices. We have agreed to shift this requirement to 2(e), where it better fits alongside the requirement for the MPC to understand interactions between fiscal and monetary policy, as well as the Government's economic objectives.
- 39 We have also agreed to set out an expectation that, when inflation outcomes and/or expected inflation outcomes are outside of the target range, the MPC should explain the reasons for this, *the timeframe over which inflation is expected to return to the target midpoint and the reasons for that timeframe* (italics represented added text).

Communication

- 40 The MPC Remit is market sensitive, so there should be no communication of its content prior to it and the MPC Charter being formally issued. Publication of the new Remit and Charter will take place ahead of, or alongside, the Royal assent of the Reserve Bank of New Zealand (Economic Objective) Amendment Bill.

Proactive Release

- 41 This Cabinet paper will be proactively released within 30 business days following its consideration, subject to any redactions that may be required, and which are consistent with the Official Information Act 1982.

Recommendations

I recommend that Cabinet:

- 1 **note** that Cabinet agreed on 4 December 2023 its intention to pass the Reserve Bank of New Zealand (Economic Objective) Amendment Bill (the Bill) in 2023 [CAB-23-MIN-0469];
- 2 **note** that the Bill will remove from the Reserve Bank of New Zealand Act 2021 the economic objective to support maximum sustainable employment;
- 3 **approve** the Reserve Bank of New Zealand (Economic Objective) Amendment Bill for introduction, subject to the final approval of the Government caucus and sufficient support in the House of Representatives;
- 4 **agree** that the Bill will be introduced on 11 December 2023;
- 5 **note** that Cabinet agreed on 4 December 2023 that the Bill be accorded urgency in the House so that it may be enacted ahead of the February 2024 Monetary Policy Statement [CAB-23-MIN-0469];

- 6 **agree** that the Government propose that the Bill be passed through all stages in the week of 11 December 2023, without reference to a select committee;
- 7 **note** the new Monetary Policy Committee (MPC) Remit, attached as Appendix 1, to be issued by the Minister of Finance;
- 8 **note** the new MPC Charter, attached as Appendix 2, that has been agreed between the Minister of Finance and the MPC;
- 9 **note** that the new MPC Remit and Charter will come into effect on the day after the date of Royal assent of the Bill; and
- 10 **note** that the Minister of Finance and Associate Minister of Finance, Hon David Seymour, will jointly consider advice on whether to define the “medium term” more clearly in the MPC Remit before bringing any potential subsequent recommendations to Cabinet.

Authorised for lodgement

Hon Nicola Willis

Minister of Finance