

The Treasury

Reserve Bank Dual Mandate Change Information Release

February 2024

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Treasury Report: Cabinet Paper: Removing the "dual mandate" from the Reserve Bank of New Zealand Act 2021

Date:	Wednesday 29 November 2023	Report No:	T2023/2015
		File Number:	MC-1-3

Action sought

	Action sought	Deadline
Hon Nicola Willis Minister of Finance	<p>Provide feedback on the attached draft Cabinet paper</p> <p>Agree the timetable for issuing a new Monetary Policy Committee Remit and agreeing a new Charter</p>	Thursday 30 November 2023

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Hamish Dick	Analyst, [39] Macroeconomic and Fiscal Policy	[35]	✓
Simon McLoughlin	Manager, Macroeconomic and Fiscal Policy		
Ben Gaukrodger	Acting Director, Economic System		

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any feedback on the quality of the report

Enclosure: Yes (attached)

Treasury Report: Cabinet Paper: Removing the "dual mandate" from the Reserve Bank of New Zealand Act 2021

Decisions Sought

1. Attached to this report is a draft paper for the Cabinet meeting of Monday 4 December 2023, *Removing the "dual mandate" from the Reserve Bank of New Zealand Act 2021*. We seek your feedback on this paper ahead of its lodgement with the Cabinet Office on Friday 1 December 2023.
2. We understand that the proposed Bill to amend the Reserve Bank of New Zealand Act 2021 will be accorded urgency through all stages (with no Select Committee process) so that it may be enacted before Christmas. This is reflected in the timeline for the Bill's passage included in the attached draft Cabinet paper, and we seek confirmation that this is your intended approach.
3. While the Treasury's first-best advice is to follow standard processes for parliamentary scrutiny, given this commitment is well-publicised and a straightforward legislative change, passage under urgency is unlikely to have negative consequences.

New MPC Remit and Charter

4. Upon the passage of the Bill, a new MPC Remit will be required, as the MPC Remit must be consistent with the monetary policy framework set out in legislation.
5. Under section 122(2) of the Act, you have the power to issue a new Monetary Policy Committee (MPC) Remit at any time. Before a new MPC Remit is issued, however, the Reserve Bank must be consulted (as required by schedule 3, clause 8 of the Act). We recommend that Cabinet is informed, given this represents a significant policy change.
6. We recommend that you provide a draft of the new MPC Remit to Cabinet on Monday 11 December, alongside the draft Bill for introduction.
7. When issuing a new MPC Remit, you and the MPC are required to consider whether it is necessary or desirable to issue a replacement Charter at the same time (section 103).
8. We think you should agree a new MPC Charter to align with the new MPC Remit. At present, the MPC Charter has requirements relating to the maximum sustainable employment objective.
9. Any changes to the MPC Charter will require the agreement of the MPC. Ideally a new Charter will be agreed in time for publication alongside a new MPC Remit. If agreement is not possible within this timeframe, however, it is fair to agree a new MPC Charter at a later date (i.e., in the new year).
10. **Table 1** below sets out a possible timeline for the issuance of a new MPC Remit and agreement of a new MPC Charter, which we have shared with the Reserve Bank. We are considering the best way of ensuring that the new MPC Remit and Charter align with the commencement of the Bill, and we will inform you if key milestones in this timeline need to change.

Table 1: Process for Removing Dual Mandate

Date	Milestone
Wednesday 29 November to Thursday 30 November	Agreement to policy and process, incl. draft Cabinet paper
Friday 1 December	Lodgement of Cabinet paper seeking approval to remove the dual mandate
Monday 4 December	Cabinet approval to remove the dual mandate; Parliamentary Counsel Office instructed to draft changes to the Act
Monday 4 December	Options for new MPC Remit and Charter provided for your consideration
Tuesday 5 December	Your decision on new wording for MPC Remit
Tuesday 5 December	Draft MPC Remit and Charter shared with Reserve Bank, for their consultation (as required by schedule 3, clause 8 of the Act)
Wednesday 6 December	Draft Cabinet paper(s) provided for your feedback
Thursday 7 December	Feedback from you on Cabinet paper, and from the Reserve Bank on the new MPC Remit and Charter
Friday 8 December	Lodgement of Cabinet paper(s): <ul style="list-style-type: none"> - Approval to introduce Bill to amend the Reserve Bank of New Zealand Act 2021 - New MPC Remit and Charter (subject to agreement)
Monday 11 December	Cabinet approval
Monday 11 December	Bill introduced
Upon passage of Bill (late December)	New MPC Remit presented to House, notified in the <i>Gazette</i> (as soon as practicable after the new MPC Remit is issued, as required by schedule 3, clause 7(1) of the Act)

12. The above timeline provides no time for consultation with other Ministers ahead of Cabinet on the basis that introducing legislation to remove the dual mandate is a commitment agreed to by coalition partners. Creating time for Ministerial consultation would delay the consideration by Cabinet of the policy, Bill and/or Remit, meaning pre-Christmas introduction/issuance would be not possible.
13. These timelines are also understandably considerably more compressed than normal timelines for introducing a Bill or issuing a new Remit, and this increases the risk that unexpected circumstances hinder deliverability.
14. Removing the economic objective to support MSE will have an impact on functions of the Reserve Bank beyond monetary policy decision making, as set out in section 116 of the Act. Should this raise any issues during the drafting of the Bill, we will communicate these to you.

Next Steps

15. Following your feedback, the attached Cabinet paper will be revised in time for late lodgement on Friday 1 December (Cabinet papers are normally required to be lodged on the Thursday prior the Cabinet meeting). We are willing to meet with you to discuss any feedback that you may have.

Recommended Action

We recommend that you:

- a **provide** feedback on the attached draft Cabinet paper, *Removing the "dual mandate" from the Reserve Bank of New Zealand Act 2021*
- b **agree** the following timetable for the issuance of a new Monetary Policy Committee (MPC) Remit and Charter:

Date	Milestone
Monday 4 December	Cabinet approval to remove dual mandate
Monday 4 December	Options for new MPC Remit and Charter provided for your consideration
Tuesday 5 December	Your decision on new wording for MPC Remit
Tuesday 5 December	Draft MPC Remit and Charter shared with Reserve Bank, for their consultation (as required by schedule 3, clause 8 of the Reserve Bank of New Zealand Act 2021)
Wednesday 6 December	Draft Cabinet paper provided for your feedback
Thursday 7 December	Feedback from you on Cabinet paper, and from the Reserve Bank on the new MPC Remit and Charter
Friday 8 December	Lodgement of new MPC Remit and Charter Cabinet paper
Monday 11 December	Cabinet approval
Upon passage of Bill (late December)	New MPC Remit presented to House, notified in the <i>Gazette</i> (as soon as practicable after the new MPC Remit is issued, as required by schedule 3, clause 7(1) of the Reserve Bank of New Zealand Act 2021)

Agree / disagree

Simon McLoughlin
Manager, Macroeconomic and Fiscal Policy

Hon Nicola Willis
Minister of Finance