Departmental Disclosure Statement

Reserve Bank of New Zealand (Monetary Policy) Amendment Bill

The departmental disclosure statement for a government Bill seeks to bring together in one place a range of information to support and enhance the Parliamentary and public scrutiny of that Bill.

It identifies:

- the general policy intent of the Bill and other background policy material;
- some of the key quality assurance products and processes used to develop and test the content of the Bill;
- the presence of certain significant powers or features in the Bill that might be of particular Parliamentary or public interest and warrant an explanation.

This disclosure statement was prepared by The Treasury.

The Treasury certifies that, to the best of its knowledge and understanding, the information provided is complete and accurate at the date of finalisation below.

27 June 2018.

Contents

Part One: General Policy Statement

The Reserve Bank of New Zealand (Monetary Policy) Amendment Bill has 2 main objectives as follows:

- amending the objectives of monetary policy to require consideration of maximum sustainable employment alongside price stability in monetary policy decision making; and
- instituting a monetary policy committee (MPC) to make decisions on monetary policy.

The Reserve Bank of New Zealand Act 1989 (the Act) currently requires that monetary policy is directed towards the single objective of price stability. This single objective was considered important at the time the Bill was passed in 1989, given that New Zealand had experienced a long period of high inflation, and it was hence important to create a regime that would provide a credible commitment to reducing inflation.

However, monetary policy is also an important tool in assisting with stabilising the real economy, for example, in helping to reduce fluctuations in unemployment. Recognising this, successive Policy Targets Agreements (PTA), which set the policy target for monetary policy, have set a medium-term price stability target and have required the Reserve Bank of New Zealand (the Bank) to take account of the impact of monetary policy on the real economy while pursuing this target. This flexible approach to monetary policy improves welfare, as compared to a single price stability objective, by ensuring that monetary policy does not exacerbate periods of economic decline. Updating the legislation to include consideration of employment formally recognises this second objective of monetary policy and ensures that this consideration will be taken into account in the future.

In order to implement the employment objective, the Bill requires that the MPC direct monetary policy at maintaining stability in the general level of prices over the medium term and supporting maximum sustainable employment. This specification recognises a number of matters as follows:

- monetary policy can only affect prices with a lag, and hence the MPC should seek to ensure price stability over the medium term, rather than at all times:
- monetary policy is only 1 influence on employment outcomes, therefore its role should be to support, rather than determine, employment outcomes:
- monetary policy has relatively little influence on the long-term or sustainable level of employment (sometimes referred to as the natural rate of employment), which is more influenced by factors such as the level of skills and labour market laws. Monetary policy primarily plays a role by stabilising employment around the sustainable level:
- monetary policy-makers have a number of choices as to the path of monetary policy and it is expected that they choose the one that best supports maximum sustainable employment.

The second objective of the Bill is to institute an MPC to make decisions on monetary policy. Under the Act currently, the Governor has sole responsibility for monetary policy decisions and the implementation of monetary policy. Evidence suggests that committees make better decisions on average than individuals, including for monetary policy, because they include a diversity of perspectives and guard against extreme views. This diversity of perspective will become especially important given the widening of the objectives of monetary policy to include employment. While the Governor's decisions are currently informed by the views of an internal committee, at present there is no requirement for monetary policy decisions to be made by a committee and the approach to decision making is constrained by the Act, which has been designed around a single decision-maker model. Legislating for a committee will make committee decision making durable and allow the committee to be designed from first principles.

A number of consequential or supplementary amendments to the Act are also proposed in order to implement these changes, including amendments—

- to the role of the Board to adapt its monitoring responsibilities in light of the institution of an MPC; and
- to alter the process for the setting of operational objectives for monetary policy, currently set through the PTA, such that the objectives will be set by the Minister of Finance following the receipt of public advice from the Bank. This change recognises that a committee, rather than a single individual, will be responsible for the formulation of monetary policy; and
- that aim to enhance the transparency of monetary policy decisions and provide for more formalised review processes for monetary policy, hence ensuring that an appropriate level of accountability is maintained for monetary policy decisions under the committee decision-making model.

The policy decisions in this Bill were informed by advice from an Independent Expert Advisory Panel (the Panel). The proposals follow closely the recommendations of the Panel, as set out in their report entitled: "Review of the Reserve Bank Act: Independent Expert Advisory Panel Report to the Minister of Finance on Phase one of the Review", March 2018.

Part Two: Background Material and Policy Information

Published reviews or evaluations

2.1. Are there any publicly available inquiry, review or evaluation reports that have informed, or are relevant to, the policy to be given effect by this Bill?	**YES**
An Independent Expert Advisory Panel (the 'Panel') was established as part of the Review of the Reserve Bank of New Zealand Act 1989 and provided a report to the Minister of Finance in relation to the matters in the Bill. This report is entitled "Review of the Reserve Bank Act: Independent Expert Advisory Panel Report to the Minister of Finance on Phase one of the Review", March 2018. The Bill closely follows the recommendations of the Panel. The report can be accessed at: https://treasury.govt.nz/sites/default/files/2018-04/rbnz-rev-panel-report-phase1.pdf The Treasury commissioned a number of reports on Reserve Bank reform, including a report by Iain Rennie entitled "Decision-making and Governance at the Reserve Bank of New Zealand", which was peer reviewed by a number of international experts, and a report by Piers Ovenden on decision-making structures at the Bank of England. The Reserve Bank also commissioned a review by Philip Turner of the Reserve Bank's decision-making processes. These reports are available on the Treasury website at: https://treasury.govt.nz/publications/information-release/phase-1-reviewing-reserve-bank-act	

Relevant international treaties

2.2. Does this Bill seek to give effect to New Zealand action in relation to an international treaty?	**NO**

Regulatory impact analysis

2.3. Were any regulatory impact statements provided to inform the policy decisions that led to this Bill?	**YES**
The Treasury has provided Cabinet with two Regulatory Impact Statements to inform the policy decisions that led to the Bill. These are: - Regulatory Impact Statement – Reserve Bank Act Review, The Treasury, 7 March 2018 https://treasury.govt.nz/publications/risa/regulatory-impact-statement-reserve-bank-act-review - Regulatory Impact Statement – Detailed decisions on Phase one of the Review of the Reserve Bank Act, The Treasury, 27 June 2018 https://treasury.govt.nz/publications/risa/regulatory-impact-statement-reserve-bank-act-review-detailed-design	

2.3.1. If so, did the RIA Team in the Treasury provide an independent opinion on the quality of any of these regulatory impact statements?	**YES**

The Treasury's Regulatory Impact Analysis team provided an independent opinion on both RISs.

In respect of the RIS dated 7 March 2018 – Reserve Bank Act Review – they provided the following opinion for Cabinet: "The Regulatory Impact Analysis Team at The Treasury has reviewed the RIS and considers that it meets the quality assurance requirements. The Government's objectives and potential ways of meeting them are clearly set out and well analysed and evidenced, including by reference to extensive stakeholder consultation."

In respect of the RIS dated 27 June 2018 – Detailed decisions on Phase one of the Review of the Reserve Bank Act – they provided the following opinion for Cabinet: "The Regulatory Impact Assessment Team at The Treasury has assessed Regulatory Impact Summary "Reserve Bank Act Review – Detailed Design" and considers that it meets the required standards. The policy context and detailed design options are clearly set out and the reasons for preferring particular approaches well explained."

2.3.2. Are there aspects of the policy to be given effect by this Bill that were not addressed by, or that now vary materially from, the policy options analysed in these regulatory impact statements?	**NO**

Extent of impact analysis available

2.4. Has further impact analysis become available for any aspects of the policy to be given effect by this Bill?	**NO**

2.5. For the policy to be given effect by this Bill, is there analysis available on:	
(a) the size of the potential costs and benefits?	YES
(b) the potential for any group of persons to suffer a substantial unavoidable loss of income or wealth?	NO

The costs and benefits of the proposals are discussed in the Regulatory Impact Statements (see Section B: Summary Impacts, Benefits and Costs), the Panel report and the Cabinet paper available at: https://treasury.govt.nz/publications/information-release/phase-1-reviewing-reserve-bank-act. The mains costs and benefits are as follows:

The main benefit of the proposed change to the objectives of monetary policy is to ensure that monetary policy decision-makers continue to give due regard to the short-term impacts of monetary policy on the real economy, including employment outcomes. This is intended to improve the wellbeing of New Zealanders by ensuring that monetary policy seeks to minimise, or does not exacerbate, periods of economic decline. While monetary policy decision-makers currently have regard to employment outcomes, the main risk of the change is that it could at times result in a weaker focus on maintaining price stability and therefore higher inflation outcomes than would be the case under a single price stability objective. The Reserve Bank can mitigate this risk to some extent by publicly communicating its commitment to a numerical inflation target.

The benefits of introducing an MPC in the legislation are that it will: (1) allow for the committee to be designed from first principles and ensure that the legislation is consistent with, and appropriate for, the preferred committee decision-making model; (2) ensure that a committee decision-making model continues to be used in the future; (3) better ensure quality decisions over time, as evidence shows committees produce better decisions on average; (4) bring New Zealand in line with international practice. The main monetary cost from implementing an MPC is the employment and recruitment costs associated with external monetary policy committee members. Future dividends from the Reserve Bank to the Government may be reduced to meet this cost. Moving to a committee decision-making structure means that a single person can no longer be held accountable for monetary policy formulation. The policy proposals therefore provide other accountability mechanisms to replace the strong single-person accountability – such as enhanced monitoring, review and assessment requirements.

The transition to the new arrangements may create some uncertainty in markets. The Reserve Bank can reduce this uncertainty through its market communications.

It is not expected that the policy will give rise to substantial unavoidable loss of income or wealth for any group of persons.

2.6. For the policy to be given effect by this Bill, are the potential costs or benefits likely to be impacted by:	
(a) the level of effective compliance or non-compliance with applicable obligations or standards?	NO
(b) the nature and level of regulator effort put into encouraging or securing compliance?	NO

Part Three: Testing of Legislative Content

Consistency with New Zealand's international obligations

3.1. What steps have been taken to determine whether the policy to be given effect by this Bill is consistent with New Zealand's international obligations?
The Reserve Bank has confirmed that this policy does not impact upon any of New Zealand's international obligations.

Consistency with the government's Treaty of Waitangi obligations

3.2. What steps have been taken to determine whether the policy to be given effect by this Bill is consistent with the principles of the Treaty of Waitangi?
The Reserve Bank has confirmed that this policy is not inconsistent with the principles of the Treaty of Waitangi.

Consistency with the New Zealand Bill of Rights Act 1990

3.3. Has advice been provided to the Attorney-General on whether any provisions of this Bill appear to limit any of the rights and freedoms affirmed in the New Zealand Bill of Rights Act 1990?	**YES**
Advice provided to the Attorney-General by the Ministry of Justice is generally expected to be available on the Ministry's website upon introduction of a Bill at: https://www.justice.govt.nz/justice-sector-policy/constitutional-issues-and-human-rights/bill-of-rights-compliance-reports/	

Offences, penalties and court jurisdictions

3.4. Does this Bill create, amend, or remove:	
(a) offences or penalties (including infringement offences or penalties and civil pecuniary penalty regimes)?	**NO**
(b) the jurisdiction of a court or tribunal (including rights to judicial review or rights of appeal)?	**NO**

Privacy issues

3.5. Does this Bill create, amend or remove any provisions relating to the collection, storage, access to, correction of, use or disclosure of personal information?	**NO**

External consultation

3.6. Has there been any external consultation on the policy to be given effect by this Bill, or on a draft of this Bill?	**YES**
In addition to the establishment of an Independent Expert Advisory Panel to provide advice in respect of the Review, the Treasury undertook targeted consultation with a range of stakeholders as the policy was developed from January – March 2018. The Treasury also sought and received a number of submissions on the policy during its development. A summary of the stakeholder engagement and the submissions received is available at: https://treasury.govt.nz/publications/information-release/phase-1-reviewing-reserve-bank-act	

Other testing of proposals

3.7. Have the policy details to be given effect by this Bill been otherwise tested or assessed in any way to ensure the Bill's provisions are workable and complete?	**YES**
The Treasury has compared the policy proposals against a number of frameworks that are in place for other central banks. Most central banks operate under a committee decision-making structure and it is not unusual to include real economy considerations (employment or output) as a formal objective of monetary policy. The Treasury also commissioned expert advice on a number of aspects of Reserve Bank reform. Papers setting out this analysis are available at: https://treasury.govt.nz/publications/information-release/phase-1-reviewing-reserve-bank-act	

Part Four: Significant Legislative Features

Compulsory acquisition of private property

4.1. Does this Bill contain any provisions that could result in the compulsory acquisition of private property?	**NO**

Charges in the nature of a tax

4.2. Does this Bill create or amend a power to impose a fee, levy or charge in the nature of a tax?	**NO**

Retrospective effect

4.3. Does this Bill affect rights, freedoms, or impose obligations, retrospectively?	**NO**

Strict liability or reversal of the usual burden of proof for offences

4.4. Does this Bill:	
(a) create or amend a strict or absolute liability offence?	**NO**
(b) reverse or modify the usual burden of proof for an offence or a civil pecuniary penalty proceeding?	**NO**

Civil or criminal immunity

4.5. Does this Bill create or amend a civil or criminal immunity for any person?	**NO**

Significant decision-making powers

4.6. Does this Bill create or amend a decision-making power to make a determination about a person's rights, obligations, or interests protected or recognised by law, and that could have a significant impact on those rights, obligations, or interests?	**NO**

Powers to make delegated legislation

4.7. Does this Bill create or amend a power to make delegated legislation that could amend an Act, define the meaning of a term in an Act, or grant an exemption from an Act or delegated legislation?	**YES**

The Act provides the Minister of Finance with the power to issue the “Remit for the Monetary Policy Committee” every five years. The Remit will specify in more detail the operational objectives for monetary policy, which must be consistent with the legislative objectives. This power is necessary to give more detailed specification to the objectives of monetary policy (such as the price stability target) which is likely to change over time as circumstances change. The Minister may only set the Remit at the five-yearly reset after having received formal advice from the Reserve Bank. This advice will be made public. The Minister must also defend his or her decision before the House of Representatives. The Remit will replace the Policy Targets Agreement (PTA), which is the mechanism under the current Act to set the operational objective for monetary policy. The PTA is an agreement between the Minister of Finance and Governor. This mechanism to set the operational objectives will no longer be appropriate once a committee is established to be responsible for monetary policy. A Remit set by the Minister of Finance at the five yearly reset will not be a legislative instrument (in particular it does not define a term in the Act). However the Remit may also be reset at a different time, and in this case it will be set by Order in Council on the advice of the Minister. The use of an Order in Council is to ensure sufficient scrutiny of the use of an out of cycle reset and thereby support policy stability. Where the Remit is set by Order in Council it will be both a legislative instrument and also disallowable by Parliament.

4.8. Does this Bill create or amend any other powers to make delegated legislation?	**YES**
The Act also provides for the MPC and Minister to agree a Charter that sets out in more detail the MPC’s detailed approach to accountability, transparency and decision-making procedures, which must be consistent with the legislative requirements. The Charter is necessary to set the detail of these procedures, which are expected to evolve over time. Its nature, as an agreement, provides a safeguard for the setting of these procedures. The Charter is not a legislative instrument. The current Act also provides a power for the Governor-General to replace the legislative objective with another objective through Order in Council on the advice of the Minister of Finance. It is intended that this power be retained to recognise the right of the Government of the day to conduct economic policy and to allow for flexible responses to emergency events. Such an Order in Council is not currently a legislative instrument (as it fits within an exception for OICs). Under the Bill such as instrument will be a legislative instrument going forward.	

Any other unusual provisions or features

4.9. Does this Bill contain any provisions (other than those noted above) that are unusual or call for special comment?	**NO**