

# The Reserve Bank of New Zealand Act 1989 Review

Jan Etwell, Scott Abel, Simon Jensen, Lara Wood, Rebecca Green

1 September 2020

## Current Status

As at 17 August 2020, the Reserve Bank of New Zealand Act 1989 review is in the 3<sup>rd</sup> public consultation round of Phase 2. The deadline for submissions on the 3<sup>rd</sup> public consultation round has been extended from 23 April 2020 to 23 October 2020 due to disruptions caused by COVID-19.

Please see the [Treasury's Reserve Bank Act Review webpage](#) for further details on submissions.

## Background

On 7 November 2017, the Government [announced](#) that it would undertake a review of the Reserve Bank of New Zealand Act 1989 (Reserve Bank Act) to modernise and improve the efficiency of New Zealand's monetary policy framework.

The Review was split into two phases:

- Phase 1 was completed in 2018. As a result, “supporting maximum sustainable employment” has been added to the economic objectives for the Reserve Bank of New Zealand (RBNZ) and a Monetary Policy Committee (MPC) has been created with responsibility for formulating monetary policy.
- Phase 2 is underway. This review will be carried out by a joint team comprising of members of the Treasury and RBNZ. There will be three rounds of public consultation.

## Phase 1

### Consultation with Stakeholders

On 7 November 2017, the Government released a Terms of Reference document for Phase 1 of the Reserve Bank Act review (Phase 1 Review) and began a process of consultation, publishing a [summary of stakeholder engagement](#) on 22 February 2018. An Independent Expert Advisory Panel (the Panel) was also established to provide advice on the changes to the Reserve Bank Act and published its [final report](#) on the Phase 1 Review on 31 January 2018.

The Reserve Bank [released documents](#) that were produced during the process of the Phase 1 Review in stages, with the final release of documents released in March 2019.

### Reserve Bank of New Zealand (Monetary Policy) Amendment Act 2018 (“Monetary Policy Act”)

On 23 July 2018, as a result of the Phase 1 Review, the Reserve Bank of New Zealand (Monetary Policy) Amendment Bill was introduced to Parliament.

The [Monetary Policy Act](#) received royal assent on 20 December 2018, following which the Minister of Finance [appointed the members](#) of the MPC. The full provisions of the Monetary Policy Act came into force on 1 April 2019.

The Monetary Policy Act implemented two key changes to New Zealand's monetary policy framework:

- Amends the objective of monetary policy to require consideration of maximum sustainable employment alongside price stability in monetary policy decision making
- Creates the MPC to formulate monetary policy.

The Monetary Policy Act also introduced three new instruments to support the monetary policy framework:

- Remit: sets the operational objectives of monetary policy (for example, specifying a numerical inflation target)
- Charter: sets the decision-making process and transparency requirements for the MPC
- Code Of Conduct: sets out the minimum standards of ethical and professional conduct that must be adhered to by

members of the MPC.

## Scoping Phase 2

The Government sought written submissions and hosted stakeholder meetings to inform on the scope of the Phase 2 of the Reserve Bank Act review (Phase 2 Review), publishing a [summary of stakeholder engagement](#) on 21 March 2018. The Panel met on 2 March 2018 and 16 March 2018 on the scope of the Phase 2 Review, publishing [panel papers](#) on its recommendations.

On 5 April 2018, the Reserve Bank and the Treasury published a [joint report](#) to the Minister of Finance on the proposed scope of the Phase 2 Review that informed the [Minister's paper](#) to cabinet seeking agreement to the scope of the Phase 2 Review.

## Phase 2

On 7 June 2018, the Government announced the commencement of the Phase 2 Review and released a [Terms of Reference document](#) setting out the scope of the Phase 2 Review.

## Consultation Round 1

On 1 November 2018, the Government announced the first round of public consultation and released the first consultation document, 'Safeguarding the future of our financial system: The role of the Reserve Bank and how it should be governed'.

Round 1 was closed on 25 January 2019. In February 2019, the Treasury published the [summary of submissions](#) from the second round of public consultation along with other [supporting documents](#).

## Consultation Round 2

On 24 June 2019, the Government announced the second round of public consultation and released a number of [supporting documents](#), most notably the second consultation document. The Government released this second consultation document in two parts:

- Consultation Document 2A: 'Safeguarding the future of our financial system: In-principle decisions and follow-up questions on: The role of the Reserve Bank and how it should be governed'
- Consultation Document 2B: 'Safeguarding the future of our financial system: The Reserve Bank's role in financial policy'.

Round 2 was closed on 16 August 2019. On 2 March 2020, the Treasury proactively released the [summary of submissions](#) from the second round of public consultation along with [other supporting documents](#).

## Consultation Round 3

On 13 March 2020, the Government announced the third round of public consultation and released a number of [supporting documents](#), most notably third consultation document, 'Safeguarding the future of our financial system: Further consultation on the prudential framework for deposit takers and depositor protection'.

Round 3 was initially scheduled to close on 23 April 2020, however, due to disruptions caused by COVID-19, the deadline for submissions has been extended to 23 October 2020.

## Reserve Bank of New Zealand Bill introduced

On 28 July 2020, the [Reserve Bank of New Zealand Bill](#) (Reserve Bank Bill) was [introduced](#) to Parliament. This is the first of two bills resulting from the Phase 2 Review. The Government has decided that the current Reserve Bank Act will be replaced with two new pieces of legislation - the 'Reserve Bank Act' and a 'Deposit Takers Act'.

The Reserve Bank Bill is expected to pass into law by September 2021, with full commencement targeted by July 2022 after a nine-month transition period.

The Reserve Bank Bill focuses on reforming the overall institutional, governance, accountability, and funding arrangements of the RBNZ. Key provisions of the Reserve Bank Bill include:

- Introduction of an overarching financial stability objective, to complement the recently updated monetary policy objectives
- Moving from a 'single decision maker' model to a 'board' model
- Amending the RBNZ's funding model to allow for recovery of costs through industry levies and fees

- Amending the RBNZ's accountability and reporting frameworks (eg introducing a new framework for management of foreign reserves) and providing more ministerial guidance on matters the RBNZ must consider when setting and implementing its strategic approach.

See the [Reserve Bank's website](#) for more information on the Reserve Bank Bill.

## **Auckland**

**PwC Tower  
188 Quay Street  
Auckland 1010**

**PO Box 1433  
Auckland 1140  
New Zealand**

**P: +64 9 358 2555  
F: +64 9 358 2055**

## **Wellington**

**Aon Centre  
1 Willis Street  
Wellington 6011**

**PO Box 2694  
Wellington 6140  
New Zealand**

**P: +64 4 499 4242  
F: +64 4 499 4141**

## **Christchurch**

**83 Victoria Street  
Christchurch 8013**

**PO Box 322  
Christchurch 8140  
New Zealand**

**P: +64 3 379 1747  
F: +64 3 379 5659**