
For the record: Recent press releases

Review of policy on local incorporation of banks

27 September 2000

The Reserve Bank today announced its intention to seek regulatory changes that would require some overseas banks that do business in New Zealand to establish locally incorporated subsidiaries instead of operating here as branches.

Under the revised policy, banks in the following categories will be required to establish a locally incorporated subsidiary for their New Zealand operations:

- Systemically important banks – that is, banks large enough to materially affect the operation of the financial sector as a whole.
- Banks that take a significant level of retail deposits and come from countries with legislation giving home country depositors a preferential claim in a winding up. Currently both the United States and Australia have such legislation.
- Banks that take a significant level of retail deposits and which, in their home countries fail to publish the full information depositors would need to assess financial soundness.

Banks that do not fall into one of those categories can continue to choose whether they operate a branch or a subsidiary in New Zealand.

The new policy is intended to help the Reserve Bank manage a crisis affecting a systemically important bank. In a bank crisis the Bank can appoint a statutory manager. However, with a branch distinguishing the New Zealand business from other parts of the operation may be difficult. With a locally incorporated company it is clear which assets relate to the New Zealand business. This makes it easier to get a bank up and running quickly, minimising adverse effects on the financial sector and the economy.

The new policy will also help ensure that retail depositors can get the information they need to assess the risk of dealing with a particular bank, as locally incorporated banks are required to publish accounts and other prudential information on a quarterly basis.

Also, local incorporation means that legislation in a bank's home country giving preference to depositors in that country would not apply here in the event of a failure.

Draft regulations to implement this policy are currently being circulated for comment. The new policy and a copy of the draft regulations are available on the Reserve Bank's website at www.rbnz.govt.nz

Reserve Bank Monetary Policy Review submission

28 September 2000

The Reserve Bank today made public its submission to the Government's Independent Review of the Operation of Monetary Policy. The submission's conclusion is attached to this press statement.

The full 15-page submission is available on the Reserve Bank's website at www.rbnz.govt.nz.

In addition, an extensive series of background papers will be made available on the Bank's website within the next two weeks. The website version of this submission will have hyperlinks to these background papers where relevant.

Separately the non-executive directors of the Board of the Reserve Bank have prepared their own submission, primarily on governance issues as they apply to the Reserve Bank. It is expected that this will be made public tomorrow.

Concluding comments

The Reserve Bank of New Zealand Act 1989 and the current inflation targeting arrangements have been in place for over a decade. During that time, New Zealand has passed through a complete economic cycle. Based on that experience, and after reviewing the logic of the current framework and observing how others approach similar issues, the Reserve Bank draws the following conclusions:

- a) The broad framework embedded within the 1989 Act is well designed, and does not warrant change. In particular, the single focus required of monetary policy has assisted the achievement and maintenance of price stability.

- b) Inflation targeting is also an appropriate route to achieving the price stability objective set out in the 1989 Act. Inflation-targeting design naturally takes into account the impact of monetary policy actions on the volatility of the real economy – those aspects highlighted as important in Clause 4c of the Policy Targets Agreement – while maintaining the key focus on price stability, where it properly should be. It is noteworthy in this regard that inflation remained low and stable throughout most of the 1990s, while the volatility of the real economy was less in that decade than in the preceding two.
- c) In order to achieve the best possible outcomes on all these dimensions, the design of the inflation target and inflation-targeting practice need to evolve with the evolution of the economy's behaviour. This has happened, most notably in the lengthening of our policy horizon as the lags associated with the exchange rate have altered.

This favourable reflection on current and past arrangements is not intended to convey the impression that monetary policy has had a perfect record over the last decade or so, or that nothing new can be learned. Among the lessons that we draw from our experience, a few are particularly worth highlighting.

- a) The Policy Targets Agreement structure is a very useful one, in terms of increasing the transparency of monetary policy over and above what would be achieved by section 8's statement of the price stability objective alone. But matters can be carried too far if the PTA is used as a very precise statement of things that are inherently imprecise. For a period in the mid-1990s, encouraged by our success in achieving the target and nervous of being seen to fail, we perhaps drifted into a somewhat mechanical and unduly precise interpretation of the PTA.
- b) In any policy arrangement that involves lags, there is a considerable dependence on an unknowable future. We have observed occasions where our assessment of the economy's likely state at the time that monetary policy actions would have their effect was astray. And in these circumstances, the setting of policy is not able to make its maximum contribution to stability across all the

relevant dimensions. Although we do not believe that our forecasting capability is structurally weak, we have over the years tried to adapt the process in the direction of opening out to alternative perspectives on the current and likely future state of affairs. There may be more that we can do in this respect, but it is not obvious.

- c) Likewise, in terms of the data that we use in forming our view on the current and past state of the economy, there are occasions when we wish we had had better, more timely, and more relevant data. However, we doubt that there is a very high rate of return to spending large sums of money on more or different data collection – although the return on small and well targeted increases in expenditure on data may well make such increases justified.
- d) As to the selection of instruments, we believe that the OCR approach is a sound one, and considerably better than the previous approach with its inherent need to influence market conditions through the use of threats. Had we adopted the OCR regime some years ago, we would not have attempted to use the MCI as an implementation device. At the margin, the use of the MCI in this way was unhelpful for the economy, particularly through the injection of greater interest rate volatility.

As to the communications aspect of the monetary policy task – an aspect that we regard as very important and in some respects integral to our policy approach – broadly speaking we believe that it has added value. We do not claim a large impact on inflation expectations or on the public support for price stability, but we do claim some impact. While our messages are sometimes necessarily complex, most of the time they are well understood by the intended audience. And we do not claim that we always strike the right balance – probably the *Monetary Policy Statements* need further adaptation – but we are probably not too far off the mark.

Finally, there are some issues of governance that have been raised in the course of this and other submissions. We do not offer a conclusion as to the merits or otherwise of the sole decision-maker model versus a committee approach.

But we do acknowledge the weakness in the current arrangement for the chairmanship of the Board. This arrangement should be reconsidered.

RBNZ non-executive directors submission to Monetary Policy Review

29 September 2000

The non-executive directors of the Board of the Reserve Bank today made public their submission to the Government's Monetary Policy Review. The non-executive directors are those Bank directors that are from outside the Bank.

The 4 page Executive Summary of the submission is attached to this press statement. The full 39-page submission can be viewed on the Reserve Bank's website at www.rbnz.govt.nz.

The primary focus of the submission is on the governance arrangements that apply to the Reserve Bank. The submission recommends that:

- The current arrangement by which the Governor of the Reserve Bank (rather than a committee) makes monetary policy decisions should be retained. The submission says the main advantage of a single decision-maker for monetary policy is "the strong accountability and the coherence in decision-making and policy communication that it makes possible."
- The Governor should cease to be the chair of the Board of the Bank, this task going to a non-executive member of the Board, who should be elected by the non-executive directors.

The submission also responds to the specific terms of reference of the review.

For background, the role of the Board of Directors of the Reserve Bank is different from that of a listed company. The Board has no involvement in directing Reserve Bank policy, monetary or otherwise. The Board's primary function is to monitor the performance of the Bank and the Governor, on behalf of the Treasurer. Further details as to how the Board operates can be obtained from the Reserve Bank's *1999 Annual Report* on pages 8 and 9, which is also available on

the Bank's website. The *2000 Annual Report*, with an updated Board membership, will be made public next week.

Executive Summary

1 This submission is made by the Non-executive Directors' Committee of the Board of the Reserve Bank of New Zealand (NEDC). (See Appendix I for the current membership of the Committee.) A summary of our conclusions on the matters raised by the Terms of Reference for the Review follows.

Governance of and decision-making by the Reserve Bank

2 For the NEDC, the questions concerning whether the present governance and decision-making structures for monetary policy promote the best possible outcomes are central. Our **conclusions** are that:

- The existing single decision-maker model should be retained. Under this structure, all decisions that fall within the scope of the Bank's operational autonomy are the Governor's decisions.
- The Chair of the Board of Directors of the Bank should be a Non-executive Director, in place of the Governor, and that the Chair of the Board should be elected by the Non-executive Directors from amongst their number.

The Governor and Deputy Governor(s) should remain members of the Board, but that the Board should always include a majority of Non-executive Directors.

3 We have concluded that the single decision-maker model should be retained after weighing its advantages and disadvantages against those for alternative committee decision-making structures. The principal, and we think considerable, advantages of a single decision-maker structure model are the strong accountability and the coherence in decision-making and policy communication that it makes possible.

4 Possible weaknesses in a single decision-maker model are exposure to single person risk, possible capture of policy by a single train of thinking, and questioning by

the public about the legitimacy of vesting what appears to be a lot of power in a single individual. However, these possible weaknesses are already addressed within the existing structure, through:

- rigorous procedures for appointing a Governor, which substantially mitigate the risk of the “wrong person” being appointed;
 - constraints on the Governor from legislation and the Policy Targets Agreement (PTA), which mean that he/she does not have goal independence;
 - constant monitoring of the Governor by the Board, which provides a check against a Governor choosing not to respect the formal constraints, or failing to make full use of the wide range of information and analysis available from within and outside the Bank.
- 5 Our recommendation that the Chair of the Bank’s Board should be a Non-executive Director reflects the fact that one of the primary roles of the Board is to monitor the performance of the Bank, and of the Governor in particular. This makes it rather incongruous that the Governor, who is also chief executive of the Bank, should chair the Board. (This matter has been addressed to date by the Board having delegated formal monitoring of the Governor’s performance to the Non-executive Directors committee of the Board.)
- 6 Putting the chairmanship of the Board of the Bank in the hands of a Non-executive Director would better ensure that the on-going monitoring by the Board is unambiguously independent – and is seen to be unambiguously independent – of the Governor.
- 7 If the chair of the Board is to be an independent director, the question arises how the chair should be elected or appointed. Our clear view is that the chair should be elected by the Non-executive Directors from amongst their number.
- 8 Appointment of a non-executive chair directly by the Minister could be seen as undermining the monitoring independence of the Board and, indirectly, the operational autonomy of the Bank. It would likely be seen as creating a mechanism by which a government, through its own appointee, could bring influence to bear

on the Governor. Under the statutory framework established for the Reserve Bank, that would be wholly inappropriate. The appropriate way for the Crown to influence monetary policy is through the Policy Targets Agreement (PTA) or, if necessary, by using the override mechanism in section 12 of the Act.

Interpretation and application of the inflation target, with a view to achieving medium-term price stability consistent with avoiding undesirable instability

- 9 We make two main points on this issue.
- 10 First, the Bank, from the outset under the 1989 Act, has operated monetary policy in a manner that has taken account of the desirability of avoiding unnecessary instability in financial markets and in the real economy. The mandate for so doing has been provided in all PTAs to date. Specifically, the inflation target has been expressed as a range (which was widened from 0 to 2 per cent to 0 to 3 per cent in late 1996) and by consistent acknowledgement in those PTAs that unusual events may cause inflation to breach the target range.
- 11 Clearly there is always a potential tension between the weight to be given to avoiding instability in financial markets and the real economy, which calls for **flexibility** in inflation targeting, and the desirability of establishing an effective **anchor** for inflation expectations, which suggests less scope for flexibility.
- 12 This tension has manifested itself in various ways during the last decade. One example was the need to grapple in the mid-1990s, simultaneously, with concerns about the amplitude of the exchange rate cycle, and with concerns that internal inflation pressures would result in inflation becoming less well anchored. Another was the volatility in short-term interest rates induced in 1997 and 1998 by managing monetary conditions with reference to a Monetary Conditions Index. The Bank gave considerable attention to, and was responsive to, these issues.
- 13 Second there exists no single measure (akin to the inflation target) that can be used to evaluate whether

fluctuations in output, interest rates and the exchange rate have, or have not, been necessary. A potential consequence of these dimensions having been added to clause 4(c) of the most recent PTA, therefore, is a blurring of the objective of, and accountabilities for, monetary policy.

- 14 The Board is examining ways in which it can, in its on-going monitoring, evaluate more formally the performance of the Bank in avoiding unnecessary instability in financial markets and the real economy. In this context we also note that it is "In pursuing its price stability objective ..." that the PTA requires the Bank to seek to avoid unnecessary instability in output, interest rates and the exchange rate. In other words, we see the primacy of the price stability objective, rightly, as having been maintained.

Monetary policy instruments

- 15 It is primarily for the Governor to satisfy him/herself that he/she has the instruments needed to achieve the policy targets agreed with the Minister in the PTA. But the NEDC has a review role and, clearly, if the instruments available to the Governor were thought to be inadequate, that would be a concern. Overall, we have not had cause for concern to date.
- 16 Changes made in the design of the instruments used by the Bank, notably the change from a cash quantity operating regime, to a cash rate regime, have been essentially technical in nature. They were not motivated by a concern about instrument effectiveness in the more fundamental sense that the Bank was finding it not possible to alter monetary conditions in the desired direction.
- 17 The principal issue that has arisen in recent years with respect to the available policy instruments has concerned the Bank's inability to influence the "mix" of monetary conditions, as between the level of interest rates and the level of the exchange rate. Analysis of this issue has indicated that there exists little, if any, scope for monetary policy initiatives themselves to influence this "mix". The preferred responses lie in the area of policy initiatives

that would make the more sheltered domestic sectors of the economy more open to international competition and more flexible. Where it has seemed that the Government could take initiatives that would be helpful to monetary policy in this way, the Governor has referred the matter to the Government. The NEDC endorses this approach.

The data used by the Bank

- 18 The data used by the Bank is one of the matters that the NEDC keeps under review as part of its on-going monitoring activities. We have been generally satisfied that the data available to, and used by, the Bank has been adequate.
- 19 But we also identify this as a matter that requires on-going attention. We live in a period of rapid change that is affecting the structure of the economy and business practice. Statistical frameworks need to continue to be kept under constant review so as to provide assurance that the information used by the Bank accurately reflects developments in economic activity and pricing behaviours that bear on inflation trends.

The co-ordination of monetary policy with other elements of economic policy, including the Bank's prudential policy function

- 20 Co-ordination of other elements of Government policy with monetary policy is very important, in the sense that the thrust of other policies can either substantially help, or substantially hinder, monetary policy in maintaining medium-term price stability. In making this point, we are not advocating short-term fine-tuning in other areas of policy, but rather that the medium-term thrust of the Government's policy framework should be supportive of what it is asking monetary policy to achieve. Specifically, this indicates a need for:

- on-going fiscal discipline;
- competitive markets that are not hampered by unnecessary regulation;

- exposure to the competition that comes with openness to international trade; and
- a competitive and flexible labour market.

21 We observe that if recent Government policy changes with respect to the labour market, and the freeze on tariff reductions, result in less flexible and open markets, that could make it more difficult for monetary policy to maintain price stability. Similarly, if fiscal policy in the period ahead turns out to be more expansionary than currently is projected, that would not be helpful to monetary policy. We mention these matters in part because the recent policy changes well illustrate the general point, and also because they are of particular relevance at the present time. If monetary policy is to maintain medium-term price stability in the face of the recent increase in oil prices and the fall in the exchange rate, without causing a loss of output and an increase in unemployment, it will need all the help it can get from other Government policies.

The communication of monetary policy

- 22 The communication of monetary policy by the Bank comprises two elements: the statements by which it announces its monetary policy decisions, and a range of publications and speeches in which the Bank makes available the thinking and analysis that goes into its policy work.
- 23 The move from a cash quantity to a cash rate regime for implementing monetary policy resulted in a significant change in the way policy decisions are communicated. Previously, the Bank communicated changes in policy stance mostly by commenting on market conditions (in a way designed to move the markets). Now the centrepiece of the communication of a change in policy is a movement in the Official Cash Rate itself. The NEDC endorses this change.
- 24 The Bank's wider publications and communications programme is particularly comprehensive and, in the view of the NEDC, of high overall quality. Indeed, it is one of the standout features of the Reserve Bank of New Zealand.

Reserve Bank Governor Don Brash's speaking notes to Parliament's Finance and Expenditure Committee

4 October 2000

Mr Chairman,

It is almost exactly six months to the day since I last appeared before this Committee, and the prospects for the economy have changed quite considerably over that time.

Back in March, we thought it likely that the economy would slow from its rapid growth in the second half of 1999, but would continue to grow at a rate of 3 to 4 per cent per annum. We estimated that the surplus capacity which had been a feature of the economy over much of 1998 and 1999 had been largely drawn back into production, and indicated that, with the exchange rate at levels then regarded as "near historic lows", at around 54 on the trade-weighted index, it was appropriate that the Official Cash Rate move interest rates in a less stimulatory direction. This move was in line with the expectations of most commentators, and was fully priced into financial markets.

At the time of our May *Monetary Policy Statement*, there seemed to be clear evidence that general inflationary pressures were likely to increase over the next year or so unless there was some further firming in monetary conditions. The exchange rate remained around 54 on the trade-weighted index and seemed to be providing strong stimulus to the export sectors. The economies of our major trading partners similarly seemed to be buoyant. Both business and consumer confidence were high as at the end of April, when we were finalising the *Statement*; levels of capacity utilisation were similar to those in the mid-nineties; there were anecdotes of labour shortages coming in from many parts of the country; tourist arrivals were running at a rate some 18 per cent above the same month in 1999; and the latest official statistics indicated that there had been a strong 2.8 per cent increase in hours paid during the March quarter. Nevertheless, we thought that, with a relatively moderate increase in interest rates, and some then-projected appreciation in the exchange rate, inflation would continue not much above the mid-point of our target band. Again, the May increase in the Official Cash Rate was in line with

the expectations of most commentators, and was fully priced into financial markets.

A great deal changed between the preparation of that *May Statement* and the preparation of our *August Statement*. To begin with, the near-term outlook for CPI inflation deteriorated markedly, with a sharp increase in the excise tax on cigarettes announced even before the *May Statement* was actually published, a sharp further increase in international oil prices, and a fall (instead of the assumed rise) in the exchange rate. The near-term growth outlook also deteriorated markedly. Reported business confidence fell very sharply during May and again in June, and consumer confidence with it. It became clear that the very strong contribution made to March quarter GDP by the construction sector was likely to be reversed in the June quarter, while weather factors were likely to lead to a downturn in output from some parts of the agricultural sector. Just prior to finalising the Official Cash Rate in August, we learnt that official data which had suggested a strong increase in hours paid during the March quarter had been in error, and that instead of a 2.8 per cent increase the corrected data suggested a very small fall in hours paid. Together, this information suggested that the economy had been significantly weaker by the end of the June quarter than anyone could reasonably have foreseen in March, or expected in May.

So at that point, in August, we projected that CPI inflation would reach the top of the 0 to 3 per cent target band by the end of this year, and that there would be a small fall in GDP in the June quarter and a rise of only some 0.5 per cent in the September quarter. The inflation spike to 3 per cent wouldn't last, but on the basis of still-strong growth in the economies of our trading partners, and an exchange rate around 51 on the trade-weighted index, we still felt that there would probably be a need for some further small increase in interest rates some time over the next few quarters to ensure that inflation gradually returned to nearer the middle of the target band.

But we acknowledged that there were two alternative scenarios which were quite plausible, and which would have very different implications for the future track of interest rates. In one scenario, business confidence would bounce back

strongly from what seemed to be an unreasonably large fall in the generally healthy circumstances: growth would pick up quite strongly; in this environment businesses would be successful in raising prices to recover the increased costs arising from the lower exchange rate and the increased price of petroleum products; wages and salaries would rise rather strongly; and there would be a need to increase interest rates quite significantly to keep underlying inflation under control.

In the other scenario, business confidence would remain weak (perhaps feeding on itself, perhaps reflecting an underlying malaise that was not yet obvious in the hard numbers); growth would remain similarly weak; businesses would be unable to raise their prices to restore profit margins squeezed by increased costs; there would be little ability to increase wages and salaries; and there could well be a need to reduce interest rates to prevent the emergence of a deflationary situation.

On balance, we decided, as we had when we reviewed the Official Cash Rate early in July, to make no change in the OCR.

I should note as an aside that, although we did not increase the Official Cash Rate in either July or August, we believe it was right to have increased the OCR in the earlier part of the year. There can be little doubt that, without those increases, the exchange rate would be even lower than it is at present, and CPI inflation pressures probably higher.

Where are we today? Well, the near-term outlook for inflation has deteriorated further over the last six weeks or so. International oil prices have been volatile, but have been higher than assumed when we prepared the *August Statement*. The exchange rate has fallen still further, and at around 47 on a trade-weighted basis is some 15 per cent lower than the level assumed for this time back in May, and even some 9 per cent lower than the level assumed in the *August Statement*. No doubt in large part as a result of these developments, the National Bank's survey of business opinion in September found that a net 70 per cent of businesses in the retail sector, and a net 60 per cent of those in the manufacturing sector, intend to increase their prices over the next three months. It now seems likely that CPI inflation for the year to December this year will well exceed 3 per cent.

The economy has also turned out to be even weaker than we had projected in August, with production GDP falling by 0.7 per cent in the June quarter, and some commentators expecting a further fall in GDP in the September quarter.

This morning, we announced that there would be no change in the Official Cash Rate as a result of our review of the outlook for medium-term inflation this week.

And the rationale for that decision is essentially that the medium term inflation outlook remains unclear. Although there will clearly be a sharp increase in CPI inflation in the near term, most of that increase is the direct result of factors which are not expected to have an impact on ongoing inflation, which is the proper focus of monetary policy. Indeed, abstracting from the direct effect on the CPI of the increase in cigarette taxes, international oil prices, and the sharp fall in the exchange rate, it seems at this stage likely that inflation will remain comfortably within the target range.

Further out, although the economies of our trading partners continue to be reasonably strong and the exchange rate is obviously providing strong support for activity in the export and import-competing sectors of the economy, business confidence remains at moderate levels and consumer confidence is marginally on the negative side of neutral. Credit growth is low, and house prices flat to falling somewhat. This is an environment in which price increases may cost businesses sales, and wage increases beyond productivity may cost employees their jobs. So there is a tension between a growing desire to recoup higher costs of living and of doing business on the one hand, and, on the other, an environment in which doing that is increasingly difficult.

So we have left the OCR unchanged again.

As before, this tension may be resolved in various ways. It is possible that business confidence will recover more strongly as the increased competitiveness of New Zealand production stimulates additional investment and further growth in employment. This might make it easier for businesses both to increase the wages and salaries they pay and at the same time rebuild profit margins by increasing prices. This would require the Bank to increase the Official Cash Rate in order to protect the hard-won gains of low inflation, and this is

even more the case if the exchange rate remains at current low levels.

But it is also possible that there will be a reversal in the moderate recovery in business confidence, perhaps as a result of a sharper-than-expected slowdown in activity in our trading partners, or perhaps as a result of some totally unforeseen development. As we noted was a possibility in our August *Statement*, this might well lead to a greater risk of deflation than of inflation, and require a reduction in the Official Cash Rate.

There is a third scenario, and that is of a situation where confidence, and so economic growth, are low but where there is an aggressive push for higher prices and higher incomes, perhaps from those of us in the non-tradable sectors trying to insulate ourselves from the fall in real incomes implicit in the fall in the exchange rate and the rise in international oil prices. That situation would run the risk of creating low growth but relatively high inflation, often referred to as stagflation. A situation of that kind robs savers, savages those on fixed incomes, and enriches speculators. In that situation, the Bank would have to increase the Official Cash Rate to control inflation, even though, in the short term, that would further damage economic growth.

Given the continuing uncertainty, however, leaving the OCR stable at this point in time seemed our best course of action.

OCR unchanged

4 October 2000

The Reserve Bank today announced that the Official Cash Rate would remain at 6.50 per cent.

The next Official Cash Rate announcement will take place on 6 December with the release of the December *Monetary Policy Statement*.

Reserve Bank 2000 *Annual Report*

9 October 2000

The Reserve Bank today made public its 2000 Annual Report.

Reserve Bank Governor Don Brash commented: "The twelve months to June 2000 were a demanding time for the Reserve Bank. During that period, monetary policy entered a tightening phase, which always engenders some stress. We also weathered the Year 2000 date change, completed the introduction of polymer bank notes, and undertook a significant internal restructuring including the closure of the Christchurch branch. The Reserve Bank faced these challenges well.

"For the 12 months to June 2000, CPI inflation was 2.0 per cent. The economy grew very rapidly during the second half of 1999, before slowing in the first half of 2000.

"In addition, a new Policy Targets Agreement required the Reserve Bank, in delivering price stability, to 'seek to avoid unnecessary instability in output, interest rates and the exchange rate.' As I note in my 'Governor's Statement', I had no difficulty in agreeing to this proposal, and indeed the Bank has been operating in this way for some time. The amendment confirms that the Bank should be willing to accept some short-term variability in the inflation rate, if smoothing out such variability might produce unnecessary variability in output, interest rates and the exchange rate.

"In May, the Treasurer also announced the terms of reference for an independent review of monetary policy, to be conducted late in 2000 by Professor Lars Svensson. The terms of reference make it clear that the price stability objective and the Bank's operational independence are not on the table for discussion. I welcome the review, as an opportunity to get some fresh thought from outside the Bank on how we do things.

"Other highlights were that the banking sector got through the Year 2000 date change without difficulty; a special commemorative \$10 millennium bank note was issued; the introduction of the full range of polymer bank notes was completed; and the Reserve Bank's operational departments were restructured.

"The Reserve Bank's operating costs, where covered by its

Funding Agreement with the Government, were 3.5 per cent below the limit specified in the Agreement, and 1.4 per cent below actual costs the year before. The Bank's total surplus was \$159.3 million and \$157.7 million of this surplus has been paid to the Government," Dr Brash concluded.

Attention Chief Reporters/Financial Editors

18 October 2000

For your information, a series of supporting documents to the Reserve Bank's submission to the Government's Independent Review of the Operation of Monetary Policy has today been placed on the Reserve Bank's website at www.rbnz.govt.nz

The titles of the papers, including the parent submission already released, are:

Independent Review of the Operation of Monetary Policy:
submission by the Reserve Bank of New Zealand

The evolution of Policy Targets Agreements

The evolution of monetary policy implementation

Inflation targeting in principle and practice

Output volatility in New Zealand

Business cycle developments and the role of monetary policy
over the 1990s

Monetary policy in an uncertain world

Alternative monetary policy instruments

Data challenges in the monetary policy process

The monetary policy decision-making process

The projection process and accuracy of the RBNZ projections

Fiscal and monetary co-ordination

Prudential policy and monetary policy

Communication of monetary policy decisions

Publication of projections

Banking law updates proposed

30 October 2000

The Reserve Bank today began a consultation process with the banking sector on proposals for updating the rules under which the Reserve Bank supervises registered banks. Registered banks and other interested parties have today been sent a description of a series of proposed changes to the banking supervision sections (Parts IV and V) of the Reserve Bank of New Zealand Act 1989.

Reserve Bank Banking System Department Chief Manager Peter Ledingham said: "A significant number of amendments are being suggested, but they are mainly technical and do not change the overall framework of bank supervision in New Zealand. The Reserve Bank is satisfied with the current framework, which is working well. These changes merely fine-tune it."

Included among the changes would be:

- refinements to the rules covering the registration and supervision of banks by the Reserve Bank;
 - a new part that would allow the Reserve Bank to better monitor the inter-bank payment systems used in New Zealand;
 - improvements to the Reserve Bank's powers for dealing with banks that are in trouble.
- Mr Ledingham said: "The proposed changes reflect some of the recent technological innovations and changes in banking practice and will help bring us into line with recognised international standards."
- "The proposals are only the suggestions of the Reserve Bank at this stage, and have not yet been considered by the Government. We shall be suggesting that these changes be included in the Government's 2001 legislative programme."
- The deadline for responses is 31 December. A copy of the proposals is available on the Reserve Bank's web site at www.rbnz.govt.nz.
- amendments that deal with the restrictions on business names that include the word "bank" and its derivatives;