

Hon Dr Michael Cullen
Minister of Finance



30 May 2001

Media Statement

EMBARGOED TO 10am, WEDNESDAY Govt's response to Monetary Policy Review

Finance Minister Michael Cullen today released the Government's proposed response to the recommendations of the Independent Review of the Operation of Monetary Policy by Professor Lars Svensson.

"I am now seeking feedback from the other political parties to achieve the highest level of cross-party consensus," he said.

Letters setting out the Government's position were sent out earlier this month to the various finance spokespeople: Bill English [National], Winston Peters [New Zealand First], Rodney Hide [Act], Rod Donald [Greens] and Peter Dunne [United].

Dr Cullen will contact those people within the next couple of weeks to discuss their reaction.

"It is important that any changes enjoy the broadest possible support to ensure policy stability in this area," Dr Cullen said.

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ATTACHED: Table outlining the Review recommendations and the Government's proposed response to them.

Table 1: Proposed responses to the Review’s recommendations

Review’s recommendations	Proposed response	COMMENT
<i>Governance</i>		
The Board of Directors should only consist of non-executive directors	<p>The Governor should not be Chair of the Board but should continue to be on the Board.</p> <p>The Deputy Governors should not be on the Board.</p>	<p>I consider the balance between the Board’s independence and its access to the information necessary to enable effective monitoring can be best achieved by retaining the Governor on the Board.</p> <p>Minor legislative amendments are required.</p>
To ensure sufficient independence of the Board the chair of the Board should be selected by the non-executive directors among themselves and not by the Treasurer	Support	<p>An independent chairperson is important to the maintenance of a credible and unbiased system of accountability for the Bank and the Governor.</p> <p>Minor legislative amendments are required.</p>
The Board of Directors should publish an annual report with an evaluation of the Bank’s monetary policy. This report could be separate or part of the Bank’s <i>Annual Report</i> . The Board may appoint a panel of experts for its assistance.	Support	<p>This proposal will raise the visibility of the Board and strengthen the accountability of the Bank.</p> <p>The non-executive directors have indicated their support for this proposal making legislation unnecessary. Legislation may also restrict the ability to make future changes that would enhance the effectiveness of monitoring.</p>

Table 1: contd

Review's recommendations	Proposed response	COMMENTS
<p><i>Decision-making</i></p> <p>A formal Monetary Policy Committee of the Reserve Bank, responsible for monetary policy decisions, should be formed. The committee should have five members the Governor as chair (with the casting vote), the two Deputy Governors, and two other senior Bank staff. The Governor and Deputy Governors should be appointed in the same way as now. The MPC should only be responsible for decisions related to monetary policy. In all other respects the Governor should continue to be the single decision-maker of the Bank. A suitable time for this is at the beginning of the next term of Governor. The two senior staff should be appointed by the Board of Directors on the recommendation of the Governor.</p> <p>Named votes and non-attributed minutes should be published with a lag of about two weeks.</p>	<p>Do not support.</p> <p>I favour retaining the Governor's sole responsibility for monetary policy. I believe there may be some benefits to the decision-making process by exposing the Governor to a wider range of views when decisions are made.</p> <p>This may be achieved by appointing external people with relevant skills, experience and knowledge of the economy, to advise the Governor on the state of the economy and on monetary policy decisions.</p> <p>I have invited the Bank to consider the best way to improve external input into the decision-making process, particularly from those with a practical knowledge of financial markets.</p>	<p>Consistent with the operational independence of the Bank, the Bank is responsible for deciding how best to incorporate external input into the decision-making process.</p>

Table 1: contd

Review's recommendations	Proposed response	COMMENT
Accountability		
The Reserve Bank should fund an annual conference for the evaluation of monetary policy. The conference should be organised by an independent committee.	I agree there may be some merit in a regular conference, although it should be convened on either a biennial basis or at the request of the Bank's Board or its external advisors.	
Parliament's Finance and Expenditure Select Committee should, with the help of appointed experts, conduct thorough and detailed hearings of the Governor and other Reserve Bank officials. This may require additional resources for the Committee.	I am discussing with FEC the best way to meet their needs	
Svensson's recommendations		
Policy Targets Agreement		
Section 2b (of the PTA) should be modified to read "...the policy target shall be 12-monthly increases in the CPI of 1.5% over the medium term"	I agree with the need to be explicit about the medium term orientation of monetary policy, but do not support the proposal for a point target.	The Bank already targets the mid-point of the 0-3% band making any gains from moving to a specific point small and potentially confusing the key message of flexibility.
This change to the PTA should be made at the beginning of a new term for the Governor	The decision to renegotiate the PTA should lie with the Government of the day. I expect that in the future changes to the PTA will be less frequent than they have been in the last 10 years.	I will seek to clarify the flexible and medium-term orientation of monetary policy the next time the PTA is renegotiated.
DATA ISSUES		
Statistics New Zealand should collect monthly data on the Consumer Price Index and industrial production	Do not support	I have little confidence that monthly data would provide statistically meaningful data, rather they would be subject to a great deal of volatility. Continued progress on the other priorities for statistics (eg the timeliness of data releases) will yield better value for money.

