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Effective monetary policy committee deliberation in New Zealand



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The Reserve Bank of New Zealand targets price stability and supports maximum sustainable employment using monetary policy. In late 2018, the Reserve Bank of New Zealand Act was amended to make a committee of decision makers responsible for monetary policy decisions, replacing the previous single decision-maker approach. A key goal of a monetary policy committee (MPC) is to make unbiased, and evidence-based monetary policy strategy decision which requires good committee design, high quality inputs and effective monetary policy deliberations. This article introduces a set of guiding principles and formal processes that support strategic decisions by facilitating an environment of robust deliberations. Our principles are (i) clear objectives, (ii) diversity, and (iii) inclusion. Our formal processes for MPC deliberations are based on these principles.

1 Introduction

The Reserve Bank of New Zealand (RBNZ or Reserve Bank) is leaving behind its ‘single decision maker’ era and moving towards a statutory monetary policy committee. Recent amendments to the Reserve Bank of New Zealand Act (1989) (the Act) established a committee consisting of both ‘internal’ Reserve Bank members and ‘external’ (non-Reserve Bank) members to make monetary policy decisions. This change to the Act brings the Reserve Bank in line with international norms in inflation-targeting central banks. Prior to these amendments, the Governor of the Reserve Bank was the sole decision maker for monetary policy decisions in the legislation. In practice, the Governor made his monetary policy decisions based on the advice of a monetary policy advisory committee and following deliberations with an internal Governing Committee.²

¹ The authors would like to thank Lucy Greig, Dean Ford, Adam Richardson and Amy Wood for their contributions.

² The Bank's previous decision-making model and processes are described in Wheeler (2013) and Richardson (2016).

This move to a statutory MPC with external members requires a rethink of how monetary policy deliberations can best take place. This article draws on the international literature on monetary policy deliberations and governance committees, and combines this with the Reserve Bank's own experience to design a set of principles and processes that support the newly established committee. At a high level, good MPC deliberation can be supported by the principles of (i) clear objectives, (ii) diversity, and (iii) inclusion. When implemented, these principles and processes will contribute towards a culture of genuine policy deliberation and decision making that is unbiased.

The rest of this article is set out as follows. Section 2 explains why principles are beneficial for strategic decision-making committees. Section 3 sets out and explains principles that support MPC deliberation. Section 4 describes how the Reserve Bank's monetary policy deliberation and review processes have been designed to reflect these principles, and section 5 describes the new formal MPC policy review timetable. Section 6 concludes.

2 Why do we need principles?

Principles are rules or beliefs that govern behaviour. These can be influential at a group level or at an individual level. Warsh (2016) comments "institutional dynamics influence policy decisions more than is commonly appreciated". For example, personal preferences, cognitive shortcuts and unconscious biases can dictate the way people think or assess situations, instead of facts and logical analysis. Even in a group of people, dynamics such as freeriding and groupthink (conformity to group norms or decisions) can drive decisions, instead of rigorous

debate, questioning and analysis.³ To overcome these decision-making hurdles, committees often define and agree to an explicit set of decision-making principles to guide group behaviours to avoid suboptimal decision heuristics.⁴

Principles can also provide useful guidance to deliberations on decisions that are not straightforward, such as monetary policy. Broadly, monetary policy decisions are strategic decisions and much more than a single decision about the level of the Official Cash Rate.

The nature of deliberations regarding strategic decisions can be broad, not least because there are many different schools of thought regarding what strategy is and how to set it.⁵ Broadly, Rumelt (2011) summarises that strategy is a cohesive response to an important challenge and describes the setting of good strategy as 1) the careful diagnosis of the important challenge, which requires educated judgement about the meaning of observed facts, 2) a guiding policy for dealing with the challenge and 3) a set of coherent actions to carry out this guiding policy.

How monetary policy strategy is defined and formed in New Zealand depends on the collective agreement of the MPC. Putting the aforementioned definitions of strategy and its formation together, we can infer that monetary policy strategy in New Zealand is a guiding policy to enact a cohesive set of actions that achieves price stability and supports maximum sustainable employment. Given the ambiguity regarding

3 See Wagner (2002), Gigerenzer (2004), Gabaix et al. (2006), Kahneman (2003), Blinder (2006), Bhattacharjee and Holly (2006). Gerlach-Kristen (2003) adds that imperfect information sharing due to differences in information processing skills or different models can also result in different policy preferences in committees.

4 Decision heuristics are simple rules or mental shortcuts people use (often unconsciously) to form judgements.

5 For example, Mintzberg, Ahlstrand and Lampel (1998) survey business and academic literature and find five broad groups of strategies: a plan, a pattern, a position, a perspective, or a ploy. They also find that strategy can be set as an analytical process, as a reactive process or even an emergent process.

strategy, a set of principles regarding how to deliberate on monetary policy strategy would provide clarity to MPC deliberations.

3 Principles of monetary policy committee deliberation

Three core components of rigorous monetary policy decisions are high quality inputs, effective deliberation, and optimal committee design.⁶ The principles and processes in this article focus on how effective deliberation by the MPC can be supported. The remaining components (high quality inputs and optimal committee design) are supported by the Reserve Bank's analytical functions and the Act respectively.

With the recent change from a single decision maker to an MPC, it is appropriate to revisit and update the beliefs that underpin monetary policy strategy deliberations at the Reserve Bank. Formerly, monetary policy strategy was set by the Governor, based on the advice of the Governor's colleagues and monetary policy staff. The policy deliberations between the Governor and colleagues followed overarching values of free and frank, evidence-based discussions, as well as ensuring all discussions were completed before the policy decision was made. These overarching values provide the starting point for the principles in this paper.

The recently established MPC is tasked with reaching decisions by consensus, as per the MPC charter.⁷ The Committee consists of four Bank and three non-Bank members. The principles of MPC deliberation have been updated to reflect a greater diversity of views and transparency in the decision-making process. This section refines our earlier values and introduces three high-level principles for MPC decision making.⁸

Principle 1: Clear objectives

In any committee meeting, there is an optimal time to spend deliberating and making decisions before participants lose focus and energy. The principle of clear objectives harnesses the collective focus of the group and directs it to the Committee's overall purpose, and specific meeting objectives.

a) Clear objectives for the MPC

The MPC's overall purpose is set by the Act, remit and charter. It is crucial that the MPC understand and are committed to these objectives to ensure collective focus on the important challenge of inflation targeting and supporting maximum sustainable employment. Clark and Urwin (2008b) studied board decision making and found that a lack of focus could be a barrier to collective decision making. Clark and Urwin (2008a) recommend that it is best practice to have a clear sense of mission and strong beliefs.

The MPC Handbook aims to facilitate productive conversations among the MPC members on their objectives, duties, principles and strategies.

6 Warsh (2016).

7 If consensus cannot be reached/achieved, policy decisions will be determined by votes, with the Governor having an additional casting vote if required. The current MPC charter can be accessed at <https://www.rbnz.govt.nz/monetary-policy/about-monetary-policy/monetary-policy-framework>.

8 These principles are detailed in chapter two of the first edition of this MPC Handbook. <https://www.rbnz.govt.nz/monetary-policy/about-monetary-policy/monetary-policy-handbook>

In particular, the Handbook describes the duties of the MPC set by the Act, remit and charter. It then describes principles and processes of policy deliberation and presents the Bank’s analytical starting point on the background, strategy, transmission, and tools of monetary policy. It is expected that the Handbook will be updated as required.

b) Clear objectives for MPC meetings

Each formal MPC meeting must have clear objectives to use the Committee’s time and expertise effectively. Clarity can be facilitated by setting clear agendas and ensuring meetings run to time. Previously, the MPC advisers and governors followed a high-level agenda for the monetary policy meetings. This high-level agenda is now broken down into more detailed agendas for each of the Committee’s meetings. A clear agenda encourages important discussions to take place within the meetings and makes it easier to include such discussions in meeting records.

Principle 2: Diversity

The MPC is designed to be diverse by ensuring some non-Reserve Bank membership. Section 63C (2) of the Act states that the MPC will consist of five to seven members, and that while the majority will be Reserve Bank staff (including, by default, the Governor and Deputy Governor), the other members will be from outside the Reserve Bank. In the initial MPC, which was formally appointed on 1 April 2019, there are four internal and three external members.

Diversity is beneficial for robust deliberations in a committee and can reduce the likelihood of biased decisions. Governance committees benefit from diversity of thought by including members with a range of skills, personal characteristics and experiences. Hong and Page (2004) find that diverse individuals solve complex problems using different cognitive processes and diverse groups can out-perform single decision

makers; Blinder and Morgan (2005) and Blinder and Morgan (2007) find that committees have genuine gains from group interactions resulting in a higher decision quality than the average wisdom of the group.

Diverse committees can make better decisions because they have access to a greater pool of knowledge, they insure against extreme views, and are less likely to suffer from groupthink.⁹ These three characteristics contribute towards unbiased decisions.

First, knowledge pooling can lead to better analysis and decisions in an uncertain environment. For example, the previous monetary policy advisory group (under the single decision maker model) consisted of members with economics or finance backgrounds as well as two external advisers. The external advisers came from various professional backgrounds and brought different expertise to the table, which provided a larger pool of knowledge to the discussions.

Second, diverse thinking provides a defence against extreme views. For example, a single decision maker may take a strong view against a particular risk to the economic forecasts, while a group of decision makers can more robustly consider and weigh all of the known risks to the forecasts. Levin (2014) comments that external MPC members are particularly well placed to contribute to contingency planning and risk analysis due to their outside perspectives.

Third, the presence of outside perspectives and diverse views reduces the likelihood of groupthink. Groupthink occurs when group members adhere to the general trend of thought within a group without engaging in a robust debate.¹⁰ The Institute of Directors in New Zealand comments

⁹ Blinder (2006), Gerlach-Kirsten (2006), Maier (2010) Sibert (2005).

¹⁰ International Finance Corporation (2015).

that diverse boards ask a wider variety of questions, which reduces the risk of groupthink.¹¹ In this sense, the principle of diversity does not require members to remove their own perspectives from the deliberation process to make unbiased decisions. Rather, it advocates for each individual to contribute their own interpretation of data, events, risks and trade-offs to group deliberations.

There are several pitfalls of diversity when making policy decisions. For example, multilateral organisations are bastions of diversity, yet, even when the objectives are clear, deliberations can end in stalemate. This suggests there can be decreasing benefits of diversity once groups reach a certain size. The small size of the MPC (five to seven people), commitment to consensus decision making, and frequency of policy decisions should minimise the likelihood of diverse decision makers reaching stalemate.¹²

Diverse committees with a range of views may, however, be less suited to tactical or operational decision-making, or crisis situations. A small team of experts may be more suited to make these decisions as they can respond quickly and effectively. However, MPCs are well placed to make group decisions due to the medium term and strategic nature of their decisions.

Principle 3: Inclusion

A diverse committee with clear objectives is well on its way to effective policy deliberations. The principle of inclusive processes ensures that the committee gets the most out of key economic data and information, RBNZ staff advice, and the diversity of views within the committee.

11 Institute of Directors in New Zealand (2016).

12 Maier (2010) and Blinder (2008) give optional MPC sizes of between five and eight members depending on the characteristics of the central bank and country

a) All information is included in the deliberations

The RBNZ has long-held practices to ensure that all information relating to policy decisions are absorbed and understood before decisions are made. In particular, the Governor's decisions on monetary policy were set following several days of formal meetings that moved from informational presentations through to policy deliberations. The decision on monetary policy was typically made on the final day of deliberations.¹³ Therefore, it is appropriate that policy deliberation meetings continue to be separate and distinct from decision-making meetings to ensure that all data and information pertaining to the decision have been understood and debated. It follows that MPC meetings should be set in three broad stages:

1. Information pooling.
2. Deliberation.
3. Decision making.

Governance literature also recommends that formal processes are used to combat groupthink and decision heuristics.¹⁴ In particular, structuring MPC meetings to separate deliberations from decision making helps avoid biased decisions. For example, when an individual states his or her policy preference early in group discussions or during information pooling sessions, information cascades and anchoring can occur:¹⁵

13 This process is detailed in Richardson (2016).

14 Clark and Urwin (2008b).

15 Wagner (2002).

An information cascade refers to when members begin revealing their policy preferences in turn. The group is then at risk of making a decision without considering all relevant information.

Anchoring bias refers to individuals becoming anchored to their stated preference. If this occurs early in information pooling sessions (when only some information has been presented) then subsequent information and arguments must be relatively more convincing than early information to effectively challenge anchored preferences. This means data and forecasts that are presented earlier in the process might have arbitrarily more weight than data and forecasts presented later on.

As well as ensuring information is presented before decisions are made, monetary policy deliberations should also be designed to ensure all relevant expertise and advice is included in discussions. Wagner (2002) comments that expertise, or specialist knowledge in one discipline, is not easily transferable to other disciplines. Broader governance literature recognises that not all members on governance boards are experts in all operations.¹⁶ Therefore, although it is likely that MPC members are experts in their field, this does not equate to expertise in monetary policy. In addition, external members of the MPC do not have dedicated research staff to inform their policy decisions.

Historically, the Reserve Bank managed differences in expertise in the internal MPC advisory group by requiring staff to present their forecasts and be available to take questions and provide further explanations. Additionally the Head of Economics chaired the policy review meetings. These practices helped ensure that policy deliberations were evidence-based and focused. The principle of inclusion suggests that it would be

appropriate to retain the role of the Head of Economics (as the lead-facilitator) and forecasting staff (as presenters) in the information pooling stage of the MPC's meetings. External members of the MPC also have access to RBNZ staff and research between formal meetings.

Some inflation targeting central banks place a greater value on the independence of staff forecasts from the MPC to prevent staff from being unduly influenced by the preferences of the committee. For example, some central banks do not allow staff to appear before the committee. This premium on independence is afforded as most MPC members at these central banks are experts in monetary policy or have access to dedicated research staff. For example, governors in the European Central Bank's (ECB) governing committee and in the Federal Reserve System's Federal Open Market Committee (FOMC) each have a regional bank providing background policy analysis and support.¹⁷ Further, the Bank of England (BoE) and Sveriges Riksbank provide dedicated staff for the external members of their MPCs. Conversely, the external MPC members at the Reserve Bank are likely to have fewer resources, as the Reserve Bank, and the Economics Department in particular, is significantly smaller than those elsewhere. Reflecting these resource constraints, the Reserve Bank places a greater value on the presence of monetary policy analysts in discussions.

Finally, allowing Reserve Bank staff to interact with MPC members boosts the quality of MPC inputs. As mentioned, high quality inputs is one of the three contributing factors to good MPC decision making. By directly presenting material and answering MPC members' questions, analysts can better understand how members use information, and interpret the

¹⁶ See Clark and Urwin (2008b), Treasury, H. M. S. (2008), and Myners (2002). The Myners (2002) review of 250 pension fund trustees in the UK found that many trustees were not experts in investment.

¹⁷ The ECB's governing committee and the FOMC are the monetary policy decision making committees for the ECB and the Federal Reserve System in the United States respectively.

model outputs. This interaction empowers RBNZ analysts to provide information to the MPC in the most direct and effective manner.

b) All views are included in the deliberations

Consensus decision making implies that the views of all decision makers, including dissenting views, have been aired and understood in the decision-making process. A consensus decision is “a voluntary agreement following the deliberation and synthesis of different propositions”. Consensus building is different from groupthink as members work through differing and even opposing positions to come to an agreement.¹⁸

The presence of diverse members and a consensus decision-making framework do not alone guarantee unbiased and rigorous decision making. Effective conduct during meetings is crucial. Committee members should be allowed to air their views freely and be open to considering other viewpoints. One challenge to effective conduct could be unacknowledged differences in decision-making styles among diverse members, which could side-track discussions and result in unproductive meetings.¹⁹ Therefore, it is good practice to appoint a chairperson to ensure effective conduct during MPC meetings.

The Institute of Directors in New Zealand advises that a chairperson has a pivotal influence on the culture of decision-making boards by stimulating debate, fostering a respectful and inclusive culture, limiting overly verbose members, drawing out contributions from reticent members, and guiding discussions so that all views are aired and dissent is normalised. The chairperson also has a role to see that decisions are

reached.²⁰ In the MPC, the chairperson should encourage open debate and genuinely collective decision making and guide the committee to a consensus decision. The Act states that the Governor is the chairperson of the MPC. The chairperson role is particularly important during the deliberation and decision-making meetings.

The principle of inclusion also suggests that the MPC chairperson should not be overly dominant. A dominant chairperson can overpower the views of members of the committee and ultimately reduce the level of deliberation behind decisions. In particular, Maier (2010) states that a powerful or authoritarian chairperson can lead to groupthink and conformity in a MPC.

The risk of an overly dominant chairperson is higher for a consensus-based MPC and lowest for an individualistic MPC. Blinder’s (2006) typology of monetary policy committees (table 1) suggests it is possible that a consensus decision-making MPC (such as the RBNZ MPC) could arrive at decisions in a ‘genuinely-collegial’ manner or an ‘autocratically-collegial’ manner depending on the behaviour of the chairperson. As an example, Blinder (2006) asserts that historically the personality of the FOMC chairperson dictated how much influence he or she had over the decision of the committee. When Alan Greenspan chaired the FOMC he was never on the losing side of a vote. Based on transcripts of the FOMC’s meetings, Blinder notes that the committee members behaved as if they had one choice: agree with Greenspan; or go on the record as opposing Greenspan (Blinder observes that Paul Volcker chaired the FOMC in a similar manner). However, when Ben Bernanke was the chair of the FOMC, transcripts show the committee engaged in genuine debate and decisions reflected a group majority.

18 Consensus definitions provided by the International Finance Corporation (2015).

19 Clark and Urwin (2008b).

20 Institute of Directors in New Zealand (2015).

Table 1
A summary of Blinder’s monetary policy committee typology

Committee types			Single decision maker
Individualistic committee	Genuinely collegial	Autocratically collegial	
Members express views with votes and individual statements. Decision is made by a majority vote.	Members argue behind closed doors before compromising on a group decision and each member then takes ownership of that decision.	The chair dictates the group consensus decision.	The single decision maker makes a decision typically based on the advice of an advisory committee.
Bank of England	European Central Bank	Federal Open Market Committee (Greenspan and Volcker eras)	RBNZ (previous), Bank of Israel
High	Resource requirements		Low

The role of a chairperson is not the only mechanism to encourage open deliberations. Group decision-making conventions can also help discourage or reduce the influence of dominant personalities on an MPC. Maier (2010) advocates that MPC members should take turns putting forward the initial policy proposal for a decision to prevent a dominant chairperson, decision-making patterns or groupthink. This can be via a formal rotating agreement or an informal understanding. Historically, the Reserve Bank’s group of advisers to the Governor and the Governing Committee did not have any arrangement (formal or otherwise) regarding who puts forward an initial policy proposal during the debate. This is one area that could be formalised in the new Committee.

Furthermore, to ensure all views are included in the deliberation, committee members should come to MPC meetings prepared to engage in rigorous and open deliberations, and to be both persuasive and open to being persuaded. Warsh (2016) encourages MPC members to engage in inquiry not advocacy, open and balanced information sharing, critical

thinking and assumption testing to get the most out of information pooling and deliberations.

One example of an open deliberation is the ‘Hawks and Doves’ exercise the previous monetary policy advisers have undertaken. When the economic outlook seemed to be near a turning point, one adviser would play the role of the ‘Hawk’, presenting all analysis that would support contractionary monetary policy, and then another would play the role of the ‘Dove’, presenting all analysis that would support expansionary monetary policy. This exercise aims to ensure the deliberation does not become anchored to the status quo by default. Another example of open deliberation in the previous monetary policy process is that alternative scenarios were presented to the advisers to test sensitivities around the central forecast and assess monetary policy trade-offs.

Table 2
Summary of the principles of MPC deliberation

Principles of MPC deliberation	
Clear objectives	<ul style="list-style-type: none"> The MPC understands and is committed to the objectives of monetary policy. MPC meetings have clear objectives and formal protocols to ensure efficient use of time, expertise and collective commitment.
Diversity	<ul style="list-style-type: none"> Decision makers are diverse in personal characteristics, skills, and thought.
Inclusion	Information <ul style="list-style-type: none"> Meetings occur in three stages: Information pooling, deliberation, and decision making. Experts present data and advice in information pooling meetings. Decisions are based on all information and evidence.
	People <ul style="list-style-type: none"> Decision meetings are chaired by the Governor to ensure all views are aired and dissent is normalised. Members come prepared to engage in open and constructive deliberations. Decisions are made by consensus and reflect the balance of views held.

Normalising dissent also encourages the group to be open to alternative evidence and views rather than discounting them.²¹ Blinder's (2006) analysis suggests that the level of dissent accepted within the committee could be a key indicator of whether a collegial committee makes decisions collectively or by following the preferences of the chairperson. Lastly, normalising dissent during deliberations enables individuals to take ownership of the shared decision and therefore balances the

21 Maier (2010).

consensus decision with individual accountability. This reduces the likelihood of members freeriding in the MPC. If each person is expected to bring his or her own view during deliberations then each can be held accountable for such views.²²

4 A policy process to uphold the principles

The new MPC and the principles underpinning MPC deliberations require a new process for setting monetary policy strategy. The new process is designed to support good committee decision making, while having its roots in the processes that have traditionally been used to support effective monetary policy decision making at the RBNZ.²³

Broadly, the process of setting monetary policy occurs within a continuous 12-week cycle of analysis, policy advice, and decision making. The shape of this cycle is set out in figure 1.

Each 12-week cycle includes two monetary policy reviews: an interim review of monetary policy settings at week six, and a full policy review at week 12 where the *Monetary Policy Statement (MPS)* is produced.²⁴ For example, the 27 March 2019 OCR announcement is the outcome of the interim policy review in week six and the 8 May 2019 OCR

22 Blinder (2006).

23 See Richardson (2016) for a description of earlier decision-making processes.

24 There is no interim review between the November and February *Statements* due to the difficulty of scheduling meetings between Christmas and New Year.

Figure 1
The 12-week policy cycle



announcement and *MPS* release is the result of the full policy review (weeks 10-12). The cycle then repeats through the year.

During policy reviews in week six and weeks 10 to 12, the MPC engages in information pooling, deliberation, and makes a policy decision that follows a formal policy review process. Given our new MPC and the principles previously outlined, this process has been modified to suit the new framework. The application of the principles to the policy setting process is described in table 3.

The principle of “**clear objectives**” is upheld by having a defined purpose for each meeting to keep discussion focused.

The principle of “**diversity**” is upheld by designing the policy process to be inclusive of different intellectual and personal styles. In practice, this means allowing time and space for committee members to absorb information and raise queries in ways that suit them. Spreading the information-pooling phase and the deliberation phase across two days

Table 3
Principles of good MPC deliberations and related process elements

Principle		Process implications
1	Clear objectives	Each meeting has a defined purpose and agenda.
2	Diversity	Inclusive of different intellectual and personal styles.
3	Inclusion of information	Information and deliberation meetings expert-led (chaired by a senior expert with information presented by analysts).
		Initial focus on understanding and discussing information; decision meetings clearly separated from information and deliberation meetings.
	Inclusion of people	Decision meetings chaired by Governor.
		Deliberation meetings allocated enough time for discussion.
		Clear avenues provided for expressing minority views.

allows for reflections between meetings, and provides time for MPC members to engage informally with analytical staff if needed.

The principle of “**inclusion of information**” is upheld by having experts lead discussion at the information-pooling and deliberation phases. These meetings are led by a senior policy expert in a signal that the focus is on facts and understanding. Staff present their own work so that the committee has direct access to experts when forming their views. To ensure decision making is evidence based and unbiased, the decision phase is clearly separated from the information-pooling and deliberation phases.

The principle of “**inclusion of people**” is upheld by scheduling ample time for discussion. Having enough time at the deliberation phase encourages open information sharing, and plenty of time at the decision phase creates space for constructive dissent. To ensure that dissent is heard and respected, the summary record of meeting provides an avenue for differing views to be expressed publicly (see box A below). The Governor chairs decision meetings (in accordance with the Act) to ensure that the decision is collegial and reflects diverse views.

5 MPC decision meetings

Applying the principles of MPC deliberation to the formal process results in the MPC meeting timetable set out in table 4. The full policy review process (weeks 10-12) includes:

- Information-pooling meetings spread over two working days, allowing members time to consider the new information;
- Deliberation meetings spread over two days, allowing time for open discussion;
- Decision meetings taking place after the deliberation meetings, clearly separating them from the information-pooling phase; and
- A decision about the policy instrument taking place on the morning of *MPS* release day, reducing the risk of sensitive information being inadvertently leaked.

The process for interim policy reviews (week six) is a two-day condensed version of the full process.

Table 4
New timetable for monetary policy strategy decisions

Monday	Tuesday	Wednesday	Thursday	Friday	Monday	Wednesday
Staff present recent developments, issues, and risks	Staff present outlook and strategy	MPC discuss risks and external messages	MPC discuss strategy and tactics	MPC decide on strategy and tactics	MPC finalise risks and external messages	MPC decide level and direction of policy instrument MPS release
Information-pooling (Staff as presenters)		MPC deliberations (Staff as advisers)		MPC decisions (Staff not present)		

This internal decision timetable may be changed as needed to accommodate the availability of MPC members, public holidays, and other relevant factors. MPS release dates and times are fixed (except in extreme circumstances) and published on the RBNZ website at least a year in advance.

This process and timetable upholds the decision-making and communication requirements of the MPC which are specified in the MPC charter. In particular, the charter requires the MPC to produce a summary record of meetings after each policy review, and for this to be accompanied by a *Monetary Policy Statement* (MPS) on a quarterly basis. The production of these two documents has been incorporated into the process timetable.

The *MPS* contains the MPC's views on the economic outlook and risk environment. As background to the policy decision, the *MPS* is drafted after the information-pooling phase and finalised two days before the policy announcement. The first chapter of the *MPS*, which is the same as the media release, contains the policy decision and MPC's view on the key current risks that need to be emphasised. This chapter is inserted on the day of the announcement.

The summary record of meeting is a record of the decision meetings. It captures the diversity of views that were presented during the discussion. Along with the media release, this summary is finalised on the day of the policy decision.

Box A

External communication by the MPC

The MPC charter specifies the external communication obligations of the MPC. Monetary policy communication must provide a clear and effective policy signal and enable the accountability of the MPC.²⁵ The charter also provides directions on how to meet these two goals while also making provisions to allow for the public expression of diverse views by committee members.

1. Clear and effective policy signal

Monetary policy communication aims to enable a clear and effective signal of policy. Sections 3a-b in the charter set out requirements to achieve this signal. Effective communication helps financial market participants, economic analysts, the government and the public understand how the central bank will respond to different forces that affect the economy. This helps improve policy outcomes by keeping inflation expectations anchored at 2 percent through maintaining credibility in the Reserve Bank's ability to meet its dual mandate.

In general, there are three broad audiences for monetary policy communication. The MPC's communication must be accessible to each group in both its writing style and distribution. First, the OCR announcements aim to influence the behaviour of financial markets. This refers to the traders and allocators of capital in financial markets who have direct influence on short- and long-term interest rates, as well as other asset classes in the economy. Second, the *MPS* is intended to educate and advise media, economic analysts and advisers to financial

²⁵ Bascand (2013) discusses the need for monetary policy communication to enable accountability through transparency, aid understanding and credibility of the central bank's actions and be an effective monetary policy signal.

market participants on recent and future economic developments. Third, the OCR announcement, press conference, and visual summary of the *MPS* are intended to communicate the MPC's general intuition and high level outlook for policy, inflation and employment to businesses, journalists, government and the general public. For these reasons, it is crucial that monetary policy communication conveys targeted information and limits confusion.²⁶

2. Open and transparent accountability

Monetary policy communication should also enable public accountability. The transparency and accountability requirements for the committee's publication are expressed in section 2 of the charter and Section 15c of the Act.

Open and transparent communication is crucial for the public legitimacy of monetary policy. Communicating what data were used to inform policy, what perspectives were shared in the deliberations, and how decisions were made enables the public and financial markets to assess the credibility of policy decisions *ex ante*. It also enables the public and markets to assess the credibility of the institution's processes *ex post*. Subsequent communication of how key assumptions are updated as new information arises also enhances accountability.

With the move to a collective decision-making model, public accountability of the decision can be at a group level, individual level, or both. Section 1b of the charter requires the MPC to aim to reach decisions by consensus. Section 1c states that if consensus cannot be reached, the committee will take a vote; section 2a states that a non-attributed record of any vote taken will be published. This process

suggests that for the most part, the MPC will be held collectively accountable by the *public* for decisions made. Section 53) 2) d of the Act also states that each MPC member will be held individually accountable by the Reserve Bank Board.

3. Considering diverse views

There are several areas of alignment between the two goals of MPC communication and expressing diverse views. For example, portraying the diverse range of views behind policy strategy could increase the public's understanding of the final MPC decision, increase the public legitimacy of policy, and improve the market's assessment of how the balance of views in the committee is developing. Publicly communicating the views behind the policy decision could also prevent groupthink in the MPC to the extent it increases accountability at a group level and at an individual level.

However, at times there is a risk that publicly expressing diverse views might be in conflict with the goal of a clear and effective policy signal. In particular, greater transparency of different views behind the monetary policy trade-offs and strategy could reduce the clarity of the policy signal to the market and expressing dissenting views could reduce the credibility of the decision.

The provisions in the charter balance the communications risks against the benefits of robust decision making enabled by a diverse, transparent and accountable committee. First, sections 2a, 3a and 3c of the charter direct that the Governor is the "sole spokesperson" for the MPC decision, which supports a clear decision announcement.

Second, the decision announcement is accompanied by a summary record of the MPC meetings (including a description of material

²⁶ Richardson (2016) documents how the RBNZ's *MPS* supports effective and transparent communication of monetary policy decisions.

differences of view and judgement discussed). This summary record of MPC meetings provides diversity of views around the decision.

Third, MPC members may make additional public comments after the decision. These comments must “draw on the MPC’s official communications and on the Governor’s media conference remarks”. Allowing MPC members to reiterate official communications to their communities or economic sectors via public remarks could increase the reach of MPC communications. Further, the charter states that any non-public remarks by members regarding the decision should “avoid providing, or appear providing, new information to a subset of individuals.”

Fourth, the charter also permits MPC members to publicly communicate different views on the balance of risks and economic outlook behind the monetary policy decision. The risk of these comments reducing policy clarity is mitigated as the charter requires members to speak “with respect for other members and the MPC as a whole. Members are to consult with the MPC within a reasonable timeframe in advance of any public communication, refrain from characterising the individual views of other MPC members, and ensure such communication is publicly advised in advance and on the record (on the Bank’s website) in real-time.”

Finally, the provisions in the charter leave space for the MPC to consider its etiquette regarding what information is included in the summary record of meeting and how members should demonstrate respect for one another when speaking publicly on the policy decision.

6 Conclusion

Recent changes to the RBNZ Act (1989) mean that monetary policy is now decided by an MPC comprising of up to four Reserve Bank staff members and three external members. This is a substantial legal change from the Reserve Bank’s previous single decision-maker model. A key goal of the MPC is to make unbiased, evidence-based decisions on monetary policy strategy. Effective monetary policy decisions require good committee design, quality inputs and open deliberations. This article introduces principles of clear objectives, diversity and inclusion to support robust MPC deliberations. This article also explains how these principles have been built into the Reserve Bank’s decision-making processes for setting monetary policy strategy.

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