

Hon Grant Robertson

MP for Wellington Central

Minister of Finance

Minister for Sport and Recreation

Associate Minister for Arts, Culture and Heritage



25 FEB 2019

Mr Adrian Orr
Governor
Reserve Bank of New Zealand
PO Box 2498
WELLINGTON 6140

Dear Adrian

I am writing to convey my expectations for the Reserve Bank of New Zealand for the year ahead. This should inform the development of the Bank's business planning process and Statement of Intent for the forthcoming year.

The Reserve Bank has a crucial role to play in the performance of the New Zealand economy and therefore its actions have a material impact on the prosperity and wellbeing of New Zealanders. In performing its functions it is important that the Bank's approach is consistent with the Government's broader economic objectives while maintaining the Bank's operational independence. We should have regular conversations about how the Bank's work might affect the Government's objectives, and I would encourage you to raise with me any matters of importance during the course of the year.

Areas of Particular Interest for 2019/20

I have a number of particular areas of interest for the upcoming year.

Implementing changes to the Reserve Bank of New Zealand Act

The recent amendments to the Reserve Bank of New Zealand Act 1989 represent a significant change for the Bank, which you have already taken many positive steps to implement. I expect you to continue this process, in particular by:

- Realising the benefits of the new Monetary Policy Committee (MPC) model. The external and internal MPC members I have appointed on the Board's recommendation have substantial expertise to offer both monetary policy decision making, and the communication of these decisions to the public. I look forward to you, as Chairperson of the MPC, to make the most of this expertise by encouraging

open and engaged discussion among MPC members and facilitating public engagement in line with the charter.

- Making productive use of the new role of the Treasury observer to develop and enhance monetary and fiscal policy coordination. I expect the increased flow of information between the Treasury and the Reserve Bank to help both institutions develop their thinking on how our policy levers interact, in both normal times and in any future economic shocks we may face.
- Further developing your procedures for the review and assessment of monetary policy performance.

Review of the Reserve Bank Act phase 2

I expect the Bank to continue to support the Review Team and the Independent Expert Advisory Panel in their work to identify, evaluate and, as appropriate, develop the case for change to the Bank's legislation in each of the areas outlined in the terms of reference. The Bank's expertise and assistance will be essential in ensuring that the final recommendations delivered to me in late 2019 are robust and well-founded. I acknowledge that a review of this kind can be unsettling to an organisation, but encourage you to continue to grasp the opportunity to consider the full set of options, and develop an enduring legislative framework.

The Reserve Bank's next funding agreement

As you know, the current five year funding agreement with the Bank will expire at the end of the coming financial year. I appreciate that, given the review of the Reserve Bank Act, there is some uncertainty over both the Bank's future functions and whether this method of setting funding for the Bank will continue. However, this should not prevent us agreeing funding for the Bank's existing functions, including identifying cost savings where these can be made, and accounting for any major areas of spending the Bank anticipates in the near future.

I expect the Bank to work closely with the Treasury to reach a funding agreement that effectively manages this uncertainty, where existing costs are considered carefully, and any new spending is supported by a strong business case.

People and Culture

The Bank's people and culture are important in ensuring that the Bank achieves its objectives, but they are also critical to maintaining New Zealanders' trust in a key financial institution, their central bank. I am interested in following the Bank's efforts to enhance its performance culture, leadership capabilities, and employee engagement and wellbeing to drive its achievements. I am also interested in your plans for increasing the number of women in leadership positions at the Bank.

Relationship with the Crown

In addition to maintaining a strong relationship between the Minister and the Governor, the Bank should look to continuously develop its relationships with the rest of government. While maintaining the Bank's independence on operational matters, I expect you to consider ways that the Bank can use its resources and knowledge to engage more broadly within government on economic challenges facing New Zealand. One issue that we will expect to work on is the expectations for banks in terms of their culture and conduct. This may also include issues relating to regional services and branch closures.

I expect you to inform me in advance of any material or significant events, transactions and other issues that could be considered contentious or attract wide public interest, whether positive or negative. Specifically on crisis management policy, I expect you to inform me as soon as practicable if any institution regulated by the Bank faces a material risk of financial difficulty, or as soon as the Bank is aware of any reasonable likelihood that you may need to recommend that I exercise crisis management powers under prudential legislation.

I look forward to working with you and the Bank to improve the prosperity and wellbeing of New Zealanders.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Grant Robertson', written in a cursive style.

Hon Grant Robertson
Minister of Finance