



Office of Hon Steven Joyce

Minister of Finance

Minister for Infrastructure

-9 MAY 2017

Mr Graeme Wheeler
Governor
Reserve Bank of New Zealand
PO Box 2498
WELLINGTON 6140

Dear Graeme

This letter continues the convention of recent years of the Minister of Finance providing you with their expectations for engagement with the Reserve Bank and to inform the development of the Bank's Statement of Intent.

A high-performing Reserve Bank plays a crucial role in New Zealand's economic performance. The Reserve Bank undertakes a number of key roles relating to price and financial stability, the provision of currency, regulation and supervision of financial entities, oversight and operation of payment systems and anti-money laundering supervision. The roles and functions undertaken by the Bank are specified in the Reserve Bank Act 1989, the Insurance (Prudential Supervision) Act 2010, the Non-bank Deposit Takers Act 2013 and the Anti-Money Laundering and Countering Financing of Terrorism Act 2009.

The Government continues to take a consistent and deliberate approach to balance sheet management. The Reserve Bank has both direct and indirect impacts on the Crown's balance sheet. This reflects the Bank's own balance sheet management as well as the important impacts stemming from a growing and stable macroeconomy. I remain interested in the balance sheet implications associated with managing financial stability, including how potential risks are managed.

I continue to envisage ongoing constructive engagement, including through our regular financial systems meetings, briefings on Monetary Policy Statements and our other regular discussions.

I expect that the Bank will engage with my office to:

- provide me with substantive information on policies that are in the development phase and well ahead of public consultation;
- inform me in advance of speeches and major communications in preparation for any enquiries that I may receive;
- provide me with final consultation documents on material policy issues at least two weeks prior to their intended release in order to allow sufficient time to raise any final queries;
- advise me as soon as practicable if any significant institution regulated by the Reserve Bank faces a material risk of financial difficulty;

- inform me in a timely manner of any risk to financial institutions where there is a material likelihood that you may need to recommend that I exercise any of my powers within a month.

As the Bank progresses work across a number of policy areas, I expect the Bank to continue to proactively communicate key information and policy changes to the public.

Areas of Particular Interest for 2017/18

Looking ahead to 2017/18, I am particularly interested in the following areas:

Macroeconomic developments

I remain interested in the Bank's understanding of how key relationships and behaviours may have changed in the economy as well as likely future changes and the implications of such changes for the operation of monetary policy. As you are aware a new Policy Targets Agreement is required to be put in place next year. I would appreciate the Bank's views on how the Policy Targets Agreement has been working in practice and whether changes in the economic environment have implications for the Policy Targets Agreement.

Financial stability

I expect the Bank to keep me regularly informed of its assessment of the risks to financial system stability:

Macro-prudential policy

I am pleased that the Bank is continuing to improve its analytical base for macro-prudential policy. I look forward to the Bank's consultation and cost-benefit analysis on the case for introducing a debt-to-income tool to the Memorandum of Understanding on Macro-prudential Policy.

I expect the Bank to regularly review the effectiveness and need for macro-prudential tools.

Prudential regulation

I recognise the Bank's overall purpose of promoting the maintenance of a sound and efficient financial system and that the Bank's approach towards prudential supervision continues to rest on the three pillars of supervision (self-discipline, market discipline and regulatory discipline). In the coming year, I will be particularly interested in:

- progress with the review of the Insurance (Prudential Supervision) Act;
- the ongoing suitability of policies to reduce the likelihood of the failure of financial institutions in New Zealand. I look forward to being kept informed about progress with the Bank's capital review. Capital settings can play an important role in avoiding the significant damage, including to depositors and the Crown, that could result from the failure of a registered bank;

- progress from the Bank in responding to the recommendations from the IMF's Financial Sector Assessment Programme. I will expect to see careful analysis of the various recommendations addressed to the Bank, and a description of the proposed action to be taken in response, or the reasons as to why you think specific recommendations should not be taken forward.

Regulatory practice

The Government continues to have a strong interest in improving the quality and effectiveness of regulation, and I recognise the changes that the Bank has put in place in support of this. Where you intend to adopt policies under the powers provided in your legislation, I continue to expect to receive your assessments of the expected regulatory impacts of these policies in advance, and at appropriate intervals thereafter, in accordance with section 162AB of the Reserve Bank of New Zealand Act. Please agree with the Treasury a framework for deciding whether a policy is of a minor or technical nature.

I am particularly interested in analysis that considers the impact of policy proposals on New Zealand's wider economic performance. I expect the Statement of Intent to refer to the Bank's plans to take forward its regulatory stewardship responsibilities over the coming years.

I hope this provides you with a clear sense of my expectations for the coming year. I look forward to seeing a draft Statement of Intent that captures the areas of interest above, and having the opportunity to provide comments. In addition, I welcome your suggestions on other areas of engagement that may be important to New Zealand's macroeconomic and financial stability.

The Board's function is to keep the performance of the Reserve Bank and the Governor under constant review. In fulfilling this role, the Board should be aware of my expectations. As such, I am copying this letter to the Chair of the Board and I will also directly engage the Chair of the Board on relevant issues.

Yours sincerely



Steven Joyce
Minister of Finance

cc: Professor Neil Quigley, Chair, Reserve Bank of New Zealand Board of Directors