

Hon Grant Robertson

MP for Wellington Central
Deputy Prime Minister
Minister of Finance
Minister for Infrastructure
Minister for Sport and Recreation
Minister for Racing



29 March 2022

Prof Neil Quigley
Chair, Transition Board
Reserve Bank of New Zealand
1231

Dear Neil

2022/23 EXPECTATIONS FOR THE RESERVE BANK OF NEW ZEALAND

I am writing to convey my expectations of the Reserve Bank of New Zealand (the Bank) for the financial year ahead. These expectations should inform the Bank's business planning and its preparation for the commencement of the new Reserve Bank of New Zealand Act 2021 (the new Act).

The Bank's role in the New Zealand economy is crucial. The Bank's actions influence the performance of the economy and therefore impact materially the prosperity and wellbeing of New Zealanders. While maintaining operational independence, it is important the Bank's approach to performing its functions has regard, where appropriate, to the Government's broader economic and social objectives.

Government priorities and the response to COVID-19

The Government has three goals for its term: to keep New Zealanders safe from COVID-19, to accelerate the recovery and rebuild; and to tackle foundational challenges.

The response to COVID-19 remains of central importance in the coming year. Investing in critical infrastructure and public services will be important to our economic recovery, along with a focus on renewable energy, waste reduction, sustainability and pursuing carbon neutrality.

The Bank, through its operations, plays an important role in supporting the response to COVID-19 and social and economic recovery. Responsible management of entity assets and finances, including careful control of operating costs, capex and investments are part of the contribution the Bank makes to the Government's goals.

I appreciate the Bank's wider contribution to the government's pandemic response over the past two years, and I look forward to continuing collaboration as the recovery progresses.

This letter contains the following information:

- my specific expectations of the Bank;
- general expectations for entities owned by the Crown, with reference to the Bank as appropriate; and
- a timeline for the 2022/23 business planning process.

Entity-specific expectations

Co-ordination of Monetary, Financial and Fiscal Policy

Effective co-ordination of fiscal, monetary and financial policy continues to be of crucial importance as we work together to recover and rebuild from COVID-19. I thank you for the continuing engagement and flow of information between the Bank and the Treasury, and I encourage this to continue. I welcome the Bank keeping me informed of its views on the interaction between fiscal and monetary policy going forward.

To support an informed public debate on the distributional consequences of the Bank's monetary and financial policy actions, I encourage you to share insights from your analysis of the impact that your policies have on distributional outcomes in New Zealand.

Implementation of the Reserve Bank of New Zealand Act 2021

The new governance and accountability framework set out in the new Act represents a significant milestone. I appreciate the Bank's efforts to support its successful passage and implementation, and I endorse the work of the Transition Board as it paves the way for the new governance arrangements.

Under the new governance and accountability framework the board has overall responsibility for the Bank's strategy and all of its functions and operations, apart from monetary policy. I expect the Board will provide delegations to the Governor (as chief executive) and senior management that provide for the efficient and effective operation of the Bank on an ongoing basis, but retain decision rights on major policy development and material operational and regulatory decisions in a manner consistent with its objectives, functions, and accountability obligations, and that the board will remain fully accountable for all the Bank's outcomes.

I expect the Bank will effectively manage the changes in a way that allows the Bank to continuously focus on delivering its core functions.

I look forward to the Bank continuing to collaborate with the Treasury, as the new monitoring agency, upon implementation of the new framework.

The new Act gives a statutory basis to the Council of Financial Regulators (the Council). This highlights the importance I place on continuing co-ordination and collaboration between the Bank and the other members on the Council. I welcome your continued engagement with the Council on its priority themes, which currently include climate risks, conduct and governance, digital and innovation, inclusion, regulatory burden and barriers to entry.

Deposit Takers Bill

I expect the Bank to continue to progress work on the Deposit Takers Bill (the Bill), working alongside the Treasury and the Parliamentary Counsel Office. I look forward to the introduction of the Bill into the House in the first half of this year, following appropriate consideration of stakeholder feedback from the public consultation process on the exposure draft of the Bill. I expect key elements of a new depositor compensation scheme to be in place around six months after the new legislation is passed.

Reviewing the experience with Additional Monetary Policy Tools

The COVID-19 shock represents our first experience with implementing Additional Monetary Policy tools, including Large Scale Asset Purchases and the Funding for Lending Programme. I expect the Bank to undertake a thorough review of the effectiveness of these policies, including the degree to which they provided economic stimulus, and the unintended distribution impacts of these tools, including the financial risks for the Crown's balance sheet. I expect the Bank to engage with the Treasury on the scope of this review. This review would inform decisions on the use of these tools in future, especially given the monetary and fiscal interactions of these tools. I understand that the Bank intends to include this work as part of its review of the formulation and implementation of monetary policy under s131 of the new Act.

Financial Policy Remit

I will soon be consulting the Bank, the Governor and appointed members of the new governance board, before issuing the first Financial Policy Remit, which will come into force on the main commencement date of the new Act (expected to be 1 July 2022). I will expect the board to have regard to the Financial Policy Remit as required by the new Act.

Cyber Resilience

Cyber-related events continue to highlight the importance of cyber resilience across the financial system. I encourage the Bank to continue to keep me informed on the strengthening of systems and processes, and on any significant threats to the cyber resilience of the financial system, or of the Bank.

Engagement and no surprises

I expect to receive from the Bank timely advice of significant events, transactions and other issues that may be contentious or of public interest and, in particular, advice regarding:

- any financial institutions facing material risk of financial difficulty,
- any reasonable likelihood that I may need to exercise my powers (for example, crisis management powers under prudential legislation), and
- any significant policy developments relating to macroprudential policy, or of emerging risks to the financial system.

I expect the Bank to continue engaging with the Treasury on areas of joint interest and providing the Treasury with timely and substantive information, including any relevant regulatory impact assessments, on any policy development that may have fiscal impacts or otherwise materially impact New Zealanders. Providing this information well ahead of any public consultation enables constructive discussion and consideration of implications for other areas of government policy.

I recognise the Bank's effort to ensure policy processes are transparent and clearly communicated. There is significant value in the Bank continuing to proactively seek stakeholder views, and to communicate key information and policy changes to the public.

General expectations

I also have some general expectations that apply to varying extents across the range of different entities under my purview. These are set out in **Annex 1**, and they are each qualified as appropriate to reflect the Bank's particular status.

Timeline

A timeline for the forthcoming business planning process is set out in **Annex 2**. This timeline reflects the unique requirements this year with the Bank's new accountability regime coming into force from 1 July 2022.

Further information

Your Treasury relationship managers will be in contact shortly after you receive this letter to discuss my expectations in more detail. If you have any questions, please contact Lars Piepke ^[39]. Alternatively, you can contact Shelley Hollingsworth, Manager, Commercial Performance ^[39]

Yours sincerely



Hon Grant Robertson
Minister of Finance

cc Adrian Orr, Governor Reserve Bank of New Zealand, ^[39]

Annex 1

General Expectations

Enduring Letter of Expectations

On 15 October 2019, the Government published an updated Enduring Letter of Expectations to all statutory Crown entities.¹ It focusses on Ministers' expectations for seamless government, board role and integrity, workforce matters, supporting Maori Crown relationships and entities applying a well-being approach to their work, including the need to address climate change.

Although the Bank is not a Crown entity, I expect the Bank to have regard to the enduring expectations set out in that letter, adapted as appropriate to the Bank's particular status.

Workforce Policy Statement and Public Service Pay Gap Action Plan

You and your board are encouraged to consider the relevance of the Government Workforce Policy Statement and the Public Service Pay Gap Action Plan for the Bank.

The Government Workforce Policy Statement sets out the Government's expectations about public sector agencies' management of employment relations.² This Statement also emphasises the importance of pay restraint in the COVID-19 environment and the fiscal context of the Government.

Consistent with the Government's support for diversity, gender balance and wider ethnicity on boards, boards are encouraged to support diversity and inclusion in the workplace and in leadership teams. On 15 November 2021, the Government launched the Public Service Pay Gap Action Plan, which aims to help close pay gaps and create fairer workplaces for all employees.³

Wellbeing approach and Carbon Neutral Government Programme

The Government's wellbeing approach is based on the Treasury's Living Standards Framework, which considers a broad range of impacts over 12 domains for our individual and collective wellbeing, our institutions and governance, and the wealth of Aotearoa New Zealand, now and into the future.⁴ Boards are expected to consider and reflect the broader impact of their decisions and initiatives in planning and performance reporting, and I note the Bank's efforts to direct its activities toward the purpose of enabling economic prosperity and wellbeing for all New Zealanders.

In pursuit of our carbon reduction ambitions, the Carbon Neutral Government Programme (CNGP) has been set up to accelerate the reduction of emissions within the public sector.⁵ We encourage the Bank to support the Government by joining with businesses and communities already leading the way to reducing their emissions. The Bank is encouraged to report its emissions and publish reduction plans from the 2022/23 financial year, as set out in the timeline for the CNGP.

1 <https://publicservice.govt.nz/resources/enduring-letter-of-expectations-to-statutory-crown-entities-2019>

2 <https://www.publicservice.govt.nz/our-work/er/government-workforce-policy-statement/>

3 <https://www.publicservice.govt.nz/assets/SSC-Site-Assets/Workforce-and-Talent-Management/Kia-Toipoto-Public-Service-Pay-Gaps-Action-Plan-2021-24.pdf>

4 <https://www.treasury.govt.nz/publications/tp/living-standards-framework-2021>

5 <https://environment.govt.nz/what-government-is-doing/key-initiatives/carbon-neutral-government-programme/>

Board evaluations and strengthening the director pipeline

Performance evaluations help boards to improve performance and contribute to the Treasury's advice to Ministers on board composition. I expect that evaluations will take place annually, once the new board has been in place for a year and should ideally be conducted by an independent evaluator. Along with skills matrices, evaluations contribute to the Treasury's advice to Ministers on board composition and so should be shared with the Treasury.

In addition, we have a general expectation that you will engage a 'Future Director' as an observer of the board, where possible, to grow the pipeline of new and diverse director talent.

Annex 2

Timetable for the Business Planning Process for 2022/23

Table 1: Summary timetable for the Business Planning Process

<i>Due by</i>	<i>Key Action</i>
March	The Treasury to discuss the Letter of Expectations (LOE) with the Chair.
April	Transition Board sends strategic issues letter to the Minister.
March – June	Bank develops drafts of Statement of Intent (Sol), Statement of Performance Expectations (SPE), Statement of Financial Risk Management (SFRM) and Statements of Prudential Policy (SPP), in consultation with the Treasury.
As soon as practicable after the main commencement date (1 July 2022)	<ul style="list-style-type: none">• Board delivers draft Sol, SPE, and SFRM to the Minister.• Bank publishes SPP.
As soon as practicable after any comments from the Minister	Bank submits final Sol and SPE to the Minister and publishes final Sol, SPE, and SFRM on its website.

The Minister and the Treasury should be alerted as soon as possible if any of these deadlines cannot be met.

Further information is available in the Owner's Expectations document www.treasury.govt.nz/publications/guide/owners-expectations