



3 April 2024

Professor Neil Quigley
Chair, Board of Directors
Reserve Bank of New Zealand
9(2)(g)(ii)

Dear Neil

MINISTER'S EXPECTATIONS FOR THE RESERVE BANK OF NEW ZEALAND

I am writing to outline how your board can support the delivery of the Coalition Government's priorities, and my specific and general governance expectations for the Reserve Bank of New Zealand (the Reserve Bank) over 2024/25. I ask that you identify opportunities to support the Reserve Bank to consider how to address these expectations in your Strategic Issues Letter and include actions in the Reserve Bank's 2024/25 business planning documents.

Government Priorities

I expect boards to be conscious of the Government's priorities. In an ongoing challenging fiscal environment these include:

- lifting New Zealand's productivity and economic growth to increase opportunities and prosperity for all New Zealanders; and
- improving the efficiency and effectiveness of the public service and of government-funded services.

The Reserve Bank plays a crucial role in the New Zealand economy. The Reserve Bank's actions influence the performance of the economy and financial system and therefore materially impact the prosperity of New Zealanders. It is important the Reserve Bank's approach to performing its functions has regard, where appropriate, to the Government's broader economic and social objectives.

The Government is committed to delivering results, and all public organisations, including the Reserve Bank, have a part to play. I expect the Reserve Bank to focus on delivering its core objectives and work alongside stakeholders to continue improving performance. I expect you to set ambitious targets and develop robust performance measures.

The Crown has been in operating deficit since 2019/20 with the level of government spending having increased significantly in recent years. Careful fiscal management is required to get the Government books back in order and ensure limited funds are directed towards the highest value investments. We expect any future funding proposals to align with the Crown's fiscal sustainability programme.

Entity-specific expectations

As the Reserve Bank undertakes its operations and plans for the future, I expect it to:

- maintain a clear focus on its core objectives and all aspects of performance improvement following the challenges arising during and post-pandemic;
- ensure the organisation operates efficiently and effectively, maintains a focus on driving down costs and seeking operational improvements wherever it can;
- adapt and innovate so as to ensure all the resources the Reserve Bank utilises remain fit-for-purpose; and
- report on performance in a manner that is clear on the extent to which the Reserve Bank is achieving its objectives and represents value for money.

Monetary policy decisions to focus on targeting low and stable inflation

Reducing the cost of living for New Zealanders is a priority for the Government. I acknowledge the critical role of the Reserve Bank in formulating and implementing monetary policy to help reduce cost of living pressures.

The Reserve Bank of New Zealand (Economic Objective) Amendment Act 2023 recently amended the Reserve Bank of New Zealand Act 2021 (the Act) to remove the dual mandate economic objective to support maximum sustainable employment. To support this change, I issued a new Remit for the Monetary Policy Committee (MPC) and agreed a new Charter. Both came into effect on 20 December 2023.

The Reserve Bank board should consider the implementation of these changes alongside any improvement opportunities recommended by the *Review and Assessment of the Formulation and Implementation of Monetary Policy* in the board's annual performance assessment of the MPC and how these can be supported by operational changes where necessary.

Effective coordination of monetary and fiscal policy is of crucial importance. I encourage engagement and the flow of information between the Reserve Bank and the Treasury to enable this. I also welcome the Reserve Bank keeping me informed of its views on the interaction between monetary and fiscal policy.

The Reserve Bank to continue on its modernisation pathway and address areas for improving organisational maturity

I acknowledge the progress the Reserve Bank has made in its modernisation programme, improving organisational maturity and embedding new legislative requirements of the Act. The Reserve Bank should continue its modernisation process and focus on improving organisational maturity by:

- Further developing and enhancing its performance framework and improving the quality and relevance of the Reserve Bank's performance reporting in its Statement of Performance Expectations for 2024/25. We expect the performance measures to show achievement of outcomes not just completion of activities.
- Strengthening financial management of operating and capital expenses. This includes ensuring there is an appropriate level of financial maturity in forecasting and planning.

- Implementing the 2022/2023 audit recommendations to improve the performance information and associated systems and controls.
- Investing appropriately to continue progress in improving IT infrastructure resilience, data management, and cybersecurity.

Align the 2025-2030 Funding Agreement proposal with the Crown's fiscal sustainability programme

I expect that the Reserve Bank's funding proposal for the 2025-2030 Five-year Funding Agreement (FYFA) aligns with the Crown's fiscal sustainability programme. I expect the Reserve Bank to consider reprioritising its existing funding to meet its spending before seeking any additional funding. Further detail on the parameters of the 2025-2030 FYFA will be provided in due course.

The Treasury will play a key role in assessing the Reserve Bank's funding proposal. I expect the Reserve Bank to continue to actively engage and collaborate with the Treasury, to ensure it has the information required on a timely basis to provide robust advice to me.

As the Reserve Bank prepares to upgrade its core vaulting infrastructure (Project Waitoa), and the refurbishment of the Reserve Bank's building on 2 The Terrace in Wellington, please give the same consideration to the Crown's fiscal sustainability when providing options and requesting funding in the business case.

Implementation of the Deposit Takers Act and Deposit Compensation Scheme

I acknowledge that the Reserve Bank is currently transitioning to a significantly expanded role in protecting and promoting financial stability in New Zealand in line with the new Deposit Takers Act (DTA) and Depositor Compensation Scheme (DCS).

I expect the initial DCS to be in place by mid-2025, (to be commenced by regulation) and for the Reserve Bank to cooperate closely with the Treasury on the funding arrangements for the scheme. I also expect the Reserve Bank to be prepared for the implementation of the wider DTA, including the development of a DCS Fund Risk Appetite Statement, DTA standards, associated regulations, and its new function to develop and maintain resolution plans for deposit takers.

I would appreciate the Reserve Bank keeping me and the Treasury informed of risks, and mitigation strategies, that may impact the DCS programme. I expect the Reserve Bank will publish a statement of Resolution Approach as required under the DTA and welcome updates on the implementation of the programme.

Regulatory Stewardship and the Government's expectations for Good Regulatory Practice

The Reserve Bank performs important regulatory functions. To support effective regulatory outcomes, the Government expects regulatory agencies to have regard and give effect, as appropriate, to the good regulation principles and regulatory stewardship expectations set out in the Government Expectations for Good Regulatory Practice.

Continue to engage with the Treasury on matters of joint interest

I would like to receive timely advice from the Reserve Bank on significant events, transactions and other issues that may be contentious or of public interest, and advice about:

- significant risks relating to the use of the Reserve Bank's balance sheet;
- 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.

To facilitate the Treasury's role as external monitor, I encourage the Reserve Bank to ensure the Treasury has access to the Reserve Bank's management and relevant information. I expect the information provided to be high-quality, timely and to include insights on the Reserve Bank's performance towards achieving its strategy and key work programmes.

General expectations

The Treasury's Owner's Expectations document

Strong board governance is critical to the performance and success of the Crown's companies and entities. Where appropriate, I refer you to the Treasury's [Owner's Expectations document](#), which discusses the role of boards and directors, the board appointment process, and expectations relating to governance. The document also outlines expectations for financial and other dimensions of performance, and matters such as reporting, disclosure, public accountability, and business cases.

The Treasury is updating its Owner's Expectations document and will contact you in due course to consult you on its contents.

Board charter/code of practice

The board is expected to have a charter/code of practice to provide guidance and to assist directors to carry out their duties and responsibilities effectively and in accordance with the highest professional and ethical standards. Each board's charter/code of practice should cover board procedures and reflect, among other duties and responsibilities:

- the requirement for directors to act in a politically impartial manner and conduct themselves in a way that enables them to act effectively under current and future governments. This includes not making political statements, engaging in political activity in relation to the functions of the Reserve Bank, and acting in ways that places Ministers or entities they are responsible for in a position of embarrassment; and
- the process in place for disclosing and dealing with conflicts of interest appropriately and promptly, including the maintenance of an interests register and the disclosure of interests at meetings or when certain issues are discussed. I expect your board to share this register with the Treasury as it is updated.

I expect you to disclose these documents in the interests of transparency and public accountability.

Board evaluations

Board evaluations are a tool for boards to improve their performance and allow Ministers to assess the performance of a board. Independent board evaluations should ideally take place biennially unless there have been significant changes to board composition or when commercial imperatives demand full board attention. Self-assessments of board performance are encouraged in between biennial independent board evaluations to assess performance to date and ensure the board is well positioned for future challenges. I expect you to share independent board evaluation and self-assessment results with the Treasury to contribute to its advice on board composition.

Further information

A timeline for the forthcoming business planning process is set out for your reference.

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 Catalina De Mendoza, Senior Analyst, Commercial and Institutional Performance 9(2)(g)(ii). Alternatively, you can contact Lars Piepke, Manager, Commercial and Institutional Performance 9(2)(g)(ii).

Yours sincerely



Hon Nicola Willis
Minister of Finance

cc Adrian Orr, Governor Reserve Bank of New Zealand, 9(2)(g)(ii)

Timetable for the 2024/25 business planning process

<i>Due</i>	<i>Key action</i>
April 2024	The chair and the Treasury discuss the LOE
By end of April 2024	The board sends its Strategic Issues Letter to the Minister of Finance
30 April 2024	The board sends its draft Statement of Performance Expectations (SPE) and Statement of Intent (SOI) to the Minister of Finance
31 May 2024	The board provides advice on: <ul style="list-style-type: none">• whether special fees are sought for 2024/25;• the professional development spend in 2023/24 and the proposed professional development budget for 2024/25; and• whether an evaluation of its performance in the past 12 months has taken place, what process was used and the outcomes of the evaluation
As soon as practicable after sending the final SPE and SOI	The Reserve Bank publishes the final SPE and SOI on its website

Please alert the Minister and the Treasury as soon as possible if you are unable to meet these deadlines or if clarification is required.

Further information is available in the Owner's Expectations document.

<http://www.treasury.govt.nz/publications/guide/owners-expectations>