22 July 2022

The professional excellence pathway

Economics Department
Reserve Bank of New Zealand
PO Box 2498
WELLINGTON 6140

By email: remit-review@rbnz.govt.nz

Dear Sir / Madam,

**Supporting New Zealand's economic stability – Review of the RBNZ Monetary Policy Remit**

Thank you for the opportunity to provide a submission in response to the Reserve Bank New Zealand consultation paper on Supporting New Zealand's economic stability and for giving us a brief extension to finish this submission.

FINSIA – the Financial Services Institute of Australasia – is the leading professional body in the financial services industry in Australia and New Zealand with a membership base of more than 10,000 members across the two markets. Our members operate in a range of sectors across the financial services industry including banking, institutional markets, funds management, securities, and professional financial advice. Our purpose, since 1886, has consistently been to support the financial services industry by driving the highest levels of professionalism for the betterment of our community through consistent standards of competency and conduct.

At FINSIA's core is a deep and unrivalled history of excellence in the area of professionalism within financial services. We believe this expertise creates a unique opportunity for us to contribute to the work being undertaken as part of this Review. Our responses to the consultation questions are set out below.

## Part A: The Remit Review and Economic Wellbeing

Our monetary policy framework has contributed to wellbeing by keeping inflation low and stable, thereby enabling the MPC to support MSE. Part A outlines the pros and cons of changing the long-run targets for the MPC's economic objectives.

1. **Do you have any comments on the design principles for the Remit review or the description of global practice in Box 6.A? Are there any other principles that you think would be important for the Remit review?**

   In our view, the current monetary policy target of 1% to 3% remains appropriate. It is important though, to consider whether the upper range of that band is consistent with maintaining maximum sustainable employment across the economy.

2. **The current Remit (see Annex) sets a target to 'keep future annual inflation between 1 and 3 percent over the medium term, with a focus on keeping future inflation near the 2 percent midpoint.' Do you think this target is about right? If not, what do you suggest the target range should be changed to, and why?**

   The current target should be retained, in our opinion. An assessment of the medium-term rolling average is an important feature of the strategy in this area, which should lead to consideration of a mid-point 2% target being a priority for the future.

3. **The Remit defines that inflation should be measured using the "All Groups Consumer Price Index as published by Statistics New Zealand". What is your view on this measurement approach, and whether an alternative approach should be considered?**

   We believe that the All Groups CPI should be maintained as a key reference point, with the following two points to be considered:

   - The All Groups index should incorporate other indices, e.g., the construction index, which will assist in giving an activity base view of what's driving in the economy at different points in time.
   - It is important to consider how movements in long-term rolling averages can be appropriately incorporated.

4. **Do you have any thoughts on how maximum sustainable employment could be reliably measured, or whether the Remit should refer to the benefits of high employment?**

   In our view, multiple objectives can create heightened risk of conflicting and competing priorities for the role of monetary policy. The RBNZ should primarily be tasked with a clear focus on the execution of monetary policy and overall financial stability within the economy. Any other mandates relevant to employment should primarily be the responsibility of government.

### Part B: Price Stability and Maximum Sustainable Employment

Price Stability and Maximum Sustainable Employment - The Remit guides the MPC's strategy for how best to achieve its economic objectives. Part B sets out the trade-offs involved in determining how prescriptive the Remit is about the MPC's strategy.

5. **Do you think the Remit provides the MPC with the right level of guidance to approach the price stability objective? What changes to the Remit, if any, should the Reserve Bank focus on?**

   The RBNZ should provide more guidance on the productivity gains needed to sustain full employment. This role assists government to ensure the right policy frameworks are in place to support the economy over the long-term.

6. **Do you think the Remit should include guidance on the weight of the inflation and employment objectives? What changes to the Remit, if any, should the Reserve Bank focus on?**

   Yes, inflation ought to be the most important target, which, along with financial stability, will deliver lifts in employment. If weighting is necessary or appropriate, then we believe that inflation should carry a significantly larger weighting overall, given the significant risks and challenges associated with this policy objective.

7. **Should the Remit be changed to aid the MPC's response to future economic downturns? If changes should be made, what options should we focus on?**

   A key substantive theme to be considered here is the benefit of a greater focus on 'rolling averages', which will allow for more economic 'shocks' to work through markets without the need to feel as though an immediate and one-off policy response is required.

### Part C: Additional considerations for Monetary Policy

The MPC uses the flexibility of its mandate to take into account certain factors in its decision-making. Part C assesses the relevance of housing, distributional outcomes and climate change for monetary policy.

8. **Do you have any comments about the current additional considerations in the Remit?**

   Yes, managing multiple mandates can create heightened risk of conflicting priorities and potentially lead to a de-prioritisation of a clear focus on the inflation policy priority. It could be argued that a target of achieving higher employment while sustainable house price growth could be in conflict with one another from a monetary policy perspective.

9. **Do you have any comments about the relevance of house price sustainability for monetary policy?**

   Yes, house price sustainability is conflicted with rising interest rates to manage inflation. Supply of housing stock is something that manages house price sustainability but with high interest rates no one can afford to borrow the funds to buy the housing stock. These themes, in our view, are broader community and societal goals that ought to be the domain of government to manage and prioritise as appropriate.

10. **Do you have any comment on the relevance of distributional effects for monetary policy?**

    Some of the distribution consequences are an inevitable consequence of rising and falling interest rates. In our view, it is important to consider these effects as part of monetary policy decision making, and therefore we regard the issue as being relevant, along with other considerations.

11. **Do you have any comments on the relevance of climate change for monetary policy?**

    Our view is that climate change policy should of course be the primary domain of government, and that everyday decision making around sustainable finance practices are best left to the private sector and capital markets to manage in a way that is appropriate domestically as well as internationally. We do not believe that climate change, in and of itself, should form a feature of the RBNZ's monetary policy decision making processes.

12. **Are there any other issues that the Reserve Bank should consider for inclusion in the additional considerations of the Remit?**

    As stated above, we strongly advocate for the RBNZ to consider the adoption of long-term rolling averages, where appropriate, as part of the monetary policy mandate. We also believe it is important for the RBNZ to play an active role in maintaining financial stability through well-targeted regulation of financial institutions.

We trust that you find the points and recommendations made above helpful in your deliberations as part of this Review.

We look forward to continuing to provide input to you over coming weeks and months. If you have any specific questions in respect of the views set out in this submission, please contact me on +61 2 9275 7900 or by email at ceo@finsia.com.

Yours sincerely

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