

DRAFT FOR CONSULTATION

Reserve Bank of New Zealand (Amending Primary Function of Bank) Amendment Bill

Member's Bill

Explanatory note

General policy statement

Since its inception, the Reserve Bank of New Zealand Act 1989 has had several fundamental flaws that have inevitably, over time, created significant imbalances within New Zealand's economy. Not the least of these flaws has been the myopic focus on price stability, to the exclusion of other critical economic indicators. The simple fact is that interest rates, the only tool available to the Governor of the Reserve Bank to combat inflation, impacts on far more than just inflation—it is not a siloed effect. Most obviously it impacts on the exchange rate. Additionally, many other facets of government policy, such as immigration, impact on inflation. A far more co-ordinated approach between monetary and fiscal policy is required to both combat inflation and keep the economy balanced.

This Bill amends the Reserve Bank of New Zealand Act 1989 to ensure that the primary function of the Reserve Bank is broadened to include other critical macro-economic factors such as the rate of growth, export growth, the value of the dollar, and employment as well as price stability. This would then have the flow-on effect of altering the Policy Targets Agreement between the Minister of Finance

and the Governor of the Reserve Bank to reflect the impact of interest rates on these other critical factors.

Clause by clause analysis

Clause 1 is the Title clause.

Clause 2 is the commencement clause. It provides that the Bill comes into force on the day after the date on which it receives the Royal assent.

Clause 3 states that the Reserve Bank of New Zealand Act 1989 is the principal Act.

Clause 4 sets out the purpose of the Bill, which is to broaden the economic factors that are considered as part of the primary function of the Reserve Bank.

Clause 5 replaces section 8 of the principal Act to broaden the economic factors that are considered as part of the primary function of the Reserve Bank. The *new section 8* provides that the primary function of the Reserve Bank is to formulate and implement monetary policy directed to the economic objective of maintaining stability in the general level of prices while maintaining an exchange rate that is conducive to real export growth and job creation.

Rt Hon Winston Peters

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The Parliament of New Zealand enacts as follows:

- 1 Title**
This Act is the Reserve Bank of New Zealand (Amending Primary Function of Bank) Amendment Act **2012**.
- 2 Commencement**
This Act comes into force on the day after the date on which it receives the Royal assent.

3 Principal Act amended

This Act amends the Reserve Bank of New Zealand Act 1989 (the **principal Act**).

4 Purpose

The purpose of this Act is to broaden the economic factors that are considered as part of the primary function of the Reserve Bank.

5 Section 8 replaced (Primary function of Bank)

Replace section 8 with:

“8 Primary function of Bank

The primary function of the Bank is to formulate and implement monetary policy directed to the economic objective of maintaining stability in the general level of prices while maintaining an exchange rate that is conducive to real export growth and job creation.”