

The remit for the Monetary Policy Committee

Reserve Bank of New Zealand

The Government's Economic Objective

The Government's economic objective is to improve the wellbeing and living standards of New Zealanders through a sustainable, productive and inclusive economy. Our priority is to move towards a low carbon economy, with a strong diversified export base, that delivers decent jobs with higher wages and reduces inequality and poverty.

Context

Monetary policy plays an important role in supporting the Government's economic objective. The Reserve Bank of New Zealand Act 1989 (the Act) requires that monetary policy promote the prosperity and wellbeing of New Zealanders, and contribute to a sustainable and productive economy. Monetary policy contributes to public welfare by reducing cyclical variations in employment and economic activity whilst maintaining price stability over the medium term.

This remit is issued by the Minister of Finance to the Monetary Policy Committee (MPC) under Clause 3, Schedule 1 of the Act.

1) *Monetary Policy Objectives*

- a) Under Section 8 of the Act the Reserve Bank, acting through the MPC, is required to formulate monetary policy with the goals of maintaining a stable general level of prices over the medium term and supporting maximum sustainable employment.

2) *Operational Objectives*

- a) For the purpose of this remit the MPC's operational objectives shall be to:
 - i. keep future annual inflation between 1 and 3 percent over the medium term, with a focus on keeping future inflation near the 2 percent mid-point. This target will be defined in terms of the All Groups Consumers Price Index, as published by Statistics New Zealand; and
 - ii. support maximum sustainable employment. The MPC should consider a broad range of labour market indicators to form a view of where employment is relative to its maximum sustainable level, taking into account that the level of maximum sustainable employment is largely determined by non-monetary factors that affect the structure and dynamics of the labour market and is not directly measurable.
- b) In pursuing the operational objectives, the MPC shall:
 - i. have regard to the efficiency and soundness of the financial system;
 - ii. seek to avoid unnecessary instability in output, interest rates, and the exchange rate; and
 - iii. discount events that have only transitory effects on inflation, setting policy with a medium-term orientation.

Agreed by

Hon Grant Robertson
Minister of Finance

Adrian Orr
Governor of the Reserve Bank of New Zealand