

7 March 2024

Adam Irish
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Dear Adam

Thank you for your Official Information Request Act (OIA) request of 19 February 2024 for:

I am writing to request information under the Official Information Act regarding the consultation process that the RBNZ undertakes with the Ministry of Social Development, The Treasury, and Immigration New Zealand regarding its forecasted unemployment rate.

The trade-off that the RBNZ makes in relation to tightening monetary policy and the pace at which it pursues its target inflation level of 1 to 3 percent evidently impacts unemployment levels, as represented by the somewhat semi-strong Phillips curve relationship. I am interested in understanding whether the RBNZ communicates these forecasts to the government and provides advice on the necessary fiscal support for beneficiaries and the reduced migration levels required to address rising unemployment.

It appears that external price shocks are influencing commodity prices, and the RBNZ's historically loose monetary policy (as indicated by the increased growth in the M3 money supply in 2020:(<https://tradingeconomics.com/new-zealand/money-supply-m3>)) is thanks to past interest rate decisions is, in part, contributing to growing unemployment. Considering the recent actions taken by the new government against the unemployed, effectively pushing some victims of the RBNZ's monetary policy and the government's fiscal decisions, I am curious about the guidance provided by the RBNZ to the government regarding fiscal policy, its implications for unemployment, and the recommended fiscal response to balance its monetary policy actions.

Background

Te Pūtea Matua – Reserve Bank of New Zealand (RBNZ) is responsible for monetary policy decisions to achieve the Government's target of keeping inflation between 1% and 3% on average over the medium term. The Monetary Policy Committee (MPC) decides what monetary policy action to take. They do this by using current conditions and forecasts to inform the Official Cash Rate, basing decisions on the best information and data available at the time.

The MPC Charter provides directions on decision-making procedures, transparency and accountability, including that the MPC should seek to understand material interactions between fiscal and monetary policy and support information-sharing between the RBNZ and the Treasury- Te Tai Ōhanga.

The RBNZ regularly shares its views on the economy with the Treasury, including discussing forecasts for unemployment. There is also an observer from the Treasury participating in the monetary policy process, which supports information sharing between the RBNZ and the Treasury. The RBNZ also briefs the Minister of Finance on the forecast outlook for the economy.

As we stated in the February Monetary Policy Statement, the unemployment rate, currently 4.0%, is lower than earlier projected after rising only slightly in the December 2023 quarter. The labour market is assumed to continue to ease over the medium term, with fewer job vacancies and rising unemployment, projected to reach about 5% at the end of 2024.

Meanwhile, net immigration remains strong, supporting overall demand in the economy. Although migration data are subject to considerable revision until 16 months after the initial estimate, the most recent data indicate that the surge in migration may have peaked. Migration is assumed to return to its 2014- 2019 average rate over the medium term.

Response

Beyond this level of information-sharing described above, the RBNZ's remit does not extend to providing fiscal advice. As such, the information you have requested does not exist and is refused under section 18(e) of the OIA.

The Treasury is the Government's lead economic and financial adviser and steward of the public sector financial management, including advice on fiscal strategy.

You have the right to seek an investigation and review by the Ombudsman of this OIA response. Information about how to make a complaint is available at www.ombudsman.parliament.nz or freephone 0800 802 602.

We intend to publish this response on the Reserve Bank's website at: www.rbnz.govt.nz/research-and-publications/official-information-requests. We do this in order to improve transparency and provide an additional resource for anyone seeking information.

Yours sincerely

Government and Industry Relations Team
Reserve Bank of New Zealand – Te Pūtea Matua