ECONOMIC BULLETIN

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Restoring the RBNZ's dual mandate: mechanics and possible implications

- **The next general election will take place on 7 November. Current polling is very tight and thus clients are understandably interested in how economic policy settings might evolve should there be a change in Government.**
- **If elected to lead the next Government, the Labour Party has pledged to restore the RBNZ's dual mandate, requiring monetary policy to achieve price stability while supporting maximum sustainable employment.**
- **Reinstating the dual mandate would require amendments to the Reserve Bank of New Zealand Act 2021 and the issuance of a new Remit by the Minister of Finance.**
- **The legislative process could be completed relatively quickly, with the National Party-led Government demonstrating in 2023 that significant mandate changes can be enacted within weeks.**
- **For demand-driven economic cycles, a dual mandate would likely have little impact on OCR decisions, as inflation and employment objectives generally move in the same direction.**
- **The main difference would emerge during supply shocks, such as that occurring at present, where inflation rises even as economic activity and employment are weakened, forcing policymakers to balance competing objectives.**
- **We believe a restored dual mandate could result in a slightly slower return of inflation to target, a slower rise in or slightly lower peak OCR and slightly greater tolerance of temporary inflation overshoots when labour market conditions are weak.**

One of the more significant economic policy proposals heading into the General Election on 7 November is the Labour Party's proposal to restore the RBNZ's dual inflation and employment mandate. The proposal would reverse one of the first legislative changes made by the National Party-led Government after taking office in late 2023, when it removed the objective of supporting maximum sustainable employment and returned the RBNZ to the prior single statutory objective of price stability.

Current polling is very tight and thus clients are understandably interested in how economic policy settings might evolve should there be a change in Government. In this article we discuss what would need to be done to give effect to the Labour Party's proposed policy change, together with the more important question of whether a return to dual objectives would materially alter future monetary policy decisions.

What is the Labour Party proposing?

The Labour Party has indicated it would restore the monetary policy framework that existed between 2018 and 2023. Under that framework, the RBNZ's Monetary Policy Committee (MPC) was required to formulate policy in a manner consistent with two economic objectives:

- achieving and maintaining stability in the general level of prices; and
- supporting maximum sustainable employment.

It is worth emphasising that the concept of "maximum sustainable employment" is distinct from "maximum employment". That is, it is recognised that there will always be some level of unemployment or underutilisation in a dynamic economy, and that the level of unemployment consistent with stable inflation will also depend on frictional and structural factors impacting the labour market.

The dual mandate was introduced in 2018 through amendments to the former Reserve Bank Act and subsequently carried over into the Reserve Bank of New Zealand Act 2021. In December 2023, the National Party-led Government removed the employment objective, restoring a sole focus on price stability. Therefore, a future Labour Party-led Government would largely be reinstating a framework that was already in place prior to the current Government's reforms.

At this stage, it is not clear whether there would be any tweaks to the prior framework, such as seeking to express the employment goal as a numerical target. However, we think that both a future Government and the RBNZ would be reluctant to go down this route. There is a high degree of uncertainty about what constitutes “maximum sustainable employment”, and conceptually this can change over time depending on other factors (including other economic policies) impacting the operation of the labour market. For this reason, the **RBNZ has historically emphasized** that the concept of “maximum sustainable employment” is difficult to capture in a single indicator, and there has been no presumption that the RBNZ can influence factors such as the equilibrium employment rate or labour force participation rate.

What legislative changes would be required?

Restoring the dual mandate would require both legislative change and a new Remit to provide operational guidance to the MPC.

The primary step would be amending the Reserve Bank of New Zealand Act 2021. The 2023 legislation removed the employment objective from the Act and established price stability as the sole economic objective of monetary policy. A future Labour Government would need to introduce an amendment bill reversing those changes and reinstating "supporting maximum sustainable employment" as a statutory objective. Because the previous framework already existed, the legislative drafting exercise would likely be relatively straightforward. In practical terms, Parliament could simply restore much of the wording that existed prior to the 2023 amendment.

Following the removal of the dual mandate in 2023, the Remit was amended to remove references to maximum sustainable employment while retaining the inflation objective of keeping CPI inflation between 1% and 3%, with a focus on the 2% midpoint over the medium term. A Labour Government would need to issue a revised Remit alongside the legislative amendments.

The revised Remit would likely retain the existing inflation target band; restore references to maximum sustainable employment; require the MPC to assess labour market conditions alongside inflation outcomes; and explain how policy decisions balance the two objectives. It is worth noting that the RBNZ already monitors and reports on many labour market variables (**see, for example, the “heatmap” depicted in Figure 2.9 of the September 2026 Monetary Policy Statement**). Under the current framework, contributing to its assessment of how the overall economy is tracking relative to its productive potential.

How quickly could these changes occur?

Once a new Government is formed, experience suggests the process could move rapidly. The National-led Government was officially sworn in on 27 November 2023. A week later Cabinet agreed to remove the RBNZ’s dual mandate. An amendment bill was introduced on 12 December 2023, the same day that a revised Remit was issued by the Minister of Finance. This bill was passed under urgency and received Royal Assent on 19 December 2023 before coming into force (along with the Remit) a day later. Thus, the whole process was complete just over three weeks after the new Government took office.

A future Labour Party-led Government could potentially move at a similar pace if it regarded restoration of the dual mandate as a priority (whether it would be a priority is unclear at this stage). Achieving fully legislated change before the Christmas holiday break will be much more difficult than in 2023, given that this year’s election is three weeks later than that which took place in 2023, and so official results will not be released until 27 November.

It is also unclear how long it would take to form a new Labour Party-led Government. However, by law, the last day for the new Parliament to sit is 14 January 2027 – six weeks after the return of the writ on 3 December. So, while unlikely, if Parliament was to sit in mid-January, the new arrangements could theoretically be in place ahead of the MPC’s first meeting next year, which is scheduled to take place on 10 February.

Given the timeframes above, the MPC meeting on 9 December this year will almost certainly take place under the current legislation and Remit. That said, knowledge of impending changes could conceivably colour an MPC member’s view at that meeting if the change was already progressing, or about to progress, through the legislative process.

Would a dual mandate produce different interest rate outcomes?

The practical impact of restoring the dual mandate depends heavily on the type of economic shock confronting policymakers.

Historically, cycles in the New Zealand economy have been dominated by demand shocks. In the case of demand-driven cycles, a dual mandate will likely produce little change in monetary policy decisions. This is because when demand is running too strongly, inflation tends to rise and the labour market tends to tighten simultaneously. In this situation, both objectives point in the same direction. A rise in the OCR will act to both lower inflation and ease pressure in the labour market. Conversely, when demand weakens, inflation pressures fall and unemployment rises. A decline in the OCR will act to both prevent an undue decline in inflation and a rise in unemployment.

In these circumstances, price stability and maximum sustainable employment are largely complementary objectives rather than competing ones. This is one reason why monetary policy outcomes under the dual-mandate framework between 2018 and 2023 were not obviously different from what might have occurred under a single mandate. Indeed, the RBNZ delivered one of the most aggressive tightening cycles in its history between 2021 and 2023 as inflation surged (the latter, initially due to the supply shock that accompanied the pandemic, but later in response to the aggressive monetary and fiscal policy easing that occurred in New Zealand and most elsewhere). In these circumstances, employment considerations did not prevent substantial OCR increases because both high inflation and historically tight labour market indicators pointed toward the need for tighter monetary policy.

The biggest practical differences arise during supply shocks, such as the spike in global energy prices (and related products) that we are presently seeing because of the Middle East conflict (major trade disruptions, climate-related events and pandemics fall into the same category). Supply shocks often raise inflation while simultaneously reducing economic activity and employment. Under a single inflation mandate, the MPC's primary focus is restoring price stability. While policymakers would still consider broader economic conditions – including the longstanding secondary objective of avoiding unnecessary volatility in the real economy and financial conditions – the statutory objective clearly prioritises inflation control. In the past the RBNZ has rightly emphasised that there is no long run trade-off between the labour market and inflation. Although there may be scope, depending on circumstances, for some shorter run trade-offs that could be exploited that see inflation deviating from target for a bit longer to smooth the impact on the labour market.

Under a dual mandate, however, policymakers would be formally required to consider the employment consequences of their actions alongside the inflation outlook. They would need to seek balance in recommending policy actions that whilst helping to achieve one objective, might be detrimental to achieving the other. In practice, this could mean greater tolerance of temporary inflation overshoots; a slower pace of policy tightening; a longer horizon for returning inflation to target; and therefore, a somewhat lower peak in the OCR than would otherwise be the case.

What would it mean for the OCR outlook in the current context?

In normal economic conditions, the practical implications are likely to be very modest. Central banks, including the RBNZ, recognise that low and stable inflation is a prerequisite for sustained employment growth over the longer term. Consequently, most monetary policy decisions do not involve sharp trade-offs between inflation and employment objectives and there is certainly no trade-off in the long run.

But in the current context, with the unemployment rate at an 11-year high, an explicit dual mandate would likely encourage the MPC to place greater weight on potential employment outcomes than would be the case under the current single mandate. This might lead the MPC to tolerate a slightly longer horizon for returning inflation to target, leading to a slightly lower peak in the OCR than would otherwise be the case (but a rate that would likely remain elevated for longer given the slower adjustment to the inflation shock).

However, in practice things may not be that clear. For short-lived supply shocks, there's a clear case for looking through the inflation and reducing pressure on the labour market. However, recently we have been in an environment of more frequent supply shocks. If inflation expectations are high or rising the RBNZ might still conclude that some labour market slack is required to ensure inflation returns to target – even over an elongated timeframe. In the current case, it could be the case that the MPC might be encouraged to merely slow the pace at which they reduce stimulus/introduce restrictive conditions if they are uncertain about how quickly the labour market will return to a necessarily poorly defined estimate of "maximum sustainable employment".

The views recently expressed by clients seem to reflect the idea that the peak OCR could be reduced under a dual mandate in the current circumstances. In our recent **RBNZ pulse survey**, half of respondents thought that the reintroduction of the 'dual mandate' would lead to a moderately (25-50bps) lower peak in the OCR for the current cycle. And an informal poll during one of our recent client functions found mixed views on what a change of Government might mean for economic activity next year, but around half thought that the main impact would be higher inflation than otherwise. We should remember that a new government might lead to multiple shifts in policy settings, for example higher levels of government spending or higher future minimum wage settings.

Finally, it is worth noting that at this stage election polling remains tight. And it is unclear to what extent current market pricing for the RBNZ’s policy settings in 2027 might already incorporate some allowance for the possibility that there will be a change in Government and the restoration of the dual mandate.

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