

Economic Note

Reserve Bank Governor Appointment

12 December 2017

A new sheriff in town

- Adrian Orr to be the next Governor of the Reserve Bank and will take up his role in March.
- Orr is the logical choice to the role given his widespread experience and skill set.
- The RBNZ requires strong leadership during a time of change. Orr will give them that.

Implications

Adrian Orr is a strong choice for Governor given his background and skills and will start the role with a lot of goodwill based on his reputation. He has excellent qualifications for the role, both through his economic and financial stability policy background and CEO experience. He is capable of building a positive working relationship with the new Government, including the potential for constructive input into the Government's desire to alter the RBNZ's objectives and in developing a committee structure for making monetary policy decisions.

The announcement of Orr now provides more certainty to markets and also provides an opportunity for Orr to get up to speed with current issues and to potentially have an input into the new proposed changes.

Orr will be a pragmatic hand on the tiller at a time when the role of monetary policy is being revisited and when the mechanics of monetary policy and the inter-relationships with macro-prudential policy in a post-Global Financial Crisis (GFC) world are still very much open to debate. A lot of the hard work on macro-prudential policy has been done during the Wheeler Tenure that Orr will build upon. **We expect further emphasis on the need for an expanded RBNZ policy toolkit to meet the challenges faced by delivering twin inflation and employment monetary policy objectives.**

Debate may turn to whether Orr is a 'hawk' or 'dove' in terms of his monetary policy bias. We think this is a little premature given we are at initial stages of the monetary policy review. We note, however, that Orr's strong communication and influencing skills will be a key asset with the proposed move to a monetary policy committee structure and more collaborative approach to policy making. **Selling the message will be a key pre-requisite to markets in the early stage of the new framework and Orr will be able to do this with aplomb.**

On the monetary policy front, there are a considerable number of uncertainties ahead. **The new policy framework will take time to bed in and it will take time for uncertainties around the monetary policy process to clear.** We see a prolonged period of stability on OCR settings, with the RBNZ remaining on hold until early 2019.

The Details

Yesterday the Government announced that Adrian Orr will be appointed as the next Governor for the Reserve bank of New Zealand. Orr starts his tenure on 27 March 2018, once Acting Governor Grant Spencer finishes his tenure.

CEO experience

Orr has managed key departments within the RBNZ. His roughly 10 years at the Superfund have provided him with vital chief executive experience in running an organisation charged with a high level of financial responsibility. **These experiences leave him well placed to step up to leading an organisation with the complexities of the RBNZ.** We expect that Adrian will foster a positive culture within the RBNZ. Maintaining strong team morale at a time of policy and legislative change will be crucial to its success.

Strong credentials

Orr has strong credentials and widespread experience in both the public and private sector. Prior to taking up his current role at the Superfund, Orr has had stints at the NZ Treasury, the OECD, and has been Chief Economist for two New Zealand banks. Orr also has prior experience at the RBNZ, having served as the Head of Economics under Governor Brash and the Head of Financial Stability and Deputy Governor under Governor Bollard. **Orr knows the monetary policy and financial stability roles extremely well and is known and widely respected in financial markets.**

This experience has also given Orr a strong background in understanding the drivers of the economy, the linkages between monetary policy and financial stability, the limitations and practicalities of economic forecasting, and a thorough understanding of monetary policy through being on the inside helping with decisions and on the outside assessing the likely decisions. He has the ability to see the interconnections between developments in one area and other seemingly disconnected sectors. **Orr recognises the importance of research, but also the pragmatism to identify its limitations and identify how key lessons can be applied in a real world sense.**

Financial markets are an important transmission mechanism to the economy. Orr's experience as head of NZ's biggest fund manager will have strengthened his understanding of this. A lot of the hard work on macro-prudential policy has been done during the Wheeler Tenure, but Orr will be able to build on this and refine it.

The right person during a time of change

The world of central banking has moved beyond inflation targeting, with the realisation that delivering low inflation on its own will not be sufficient to guarantee wider economic and financial stability. Orr's tenure as the Head of Financial Stability at the RBNZ has given him a strong grounding in an increasingly important part of the RBNZ's role. Phase 2 of the RBNZ review will focus on macro-prudential issues (amongst others). Orr's background will mean that he will be able to quickly get up to speed on some of the key issues that will be covered in the review.

With the Bank facing a broader remit of employment as well as price stability objectives, Orr is likely to make the case for the addition of more tools to the RBNZ toolkit. We expect fresh lobbying for additional tools, including debt to income limits (DTIs).

Communication skills and relationship management

Orr has strong communication skills, and can alter the message to suit his audience. He is personable and will be able to build a rapport with audiences and instil loyalty. **More broadly, we would expect the RBNZ to be open and transparent in its signalling, with a strong appreciation of the importance to financial markets of a consistent and clear message.**

Orr has charisma and mana and will effectively build and maintain relationships with the Government, the business community and financial markets. He has a strong appreciation of the perspectives of these external stakeholders. His Super Fund role has involved interacting with key Government stakeholders and periodic public engagement.

Orr is likely to build a constructive working relationship with Finance Minister Robertson, which will be important as the RBNZ goes through 2 phases of reviewing its role. Importantly, **Orr will be able to give the Finance Minister a realistic, yet 'outsider' view, on what the limits of monetary policy are likely to be.**

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