

Hon Grant Robertson

MP for Wellington Central

Deputy Prime Minister

Minister of Finance

Minister for Infrastructure

Minister for Sport and Recreation

Minister for Racing



Adrian Orr
Governor
Reserve Bank of New Zealand

Dear Adrian

I am writing to you to seek your views on ways the Government and Reserve Bank can work together to address the issue of rising house prices, as part of a wider suite of work that the Government is carrying out on housing market settings in the economy, both on the demand and supply sides of the housing market.

In the February 2019 Monetary Policy Remit, the Government states that its 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"*.

I am aware that the Monetary Policy Committee is facing increased challenges following the large and unusual shock to the domestic and global economies as a result of COVID-19. This is a phenomenon around the world, which Governments and central banks are grappling with. For New Zealand, I am concerned that the recent rapid escalation in housing prices, and forecasts for this to continue, are affecting the Government's ability to meet the economic objective set out in the Remit. I am also concerned about the potential that these price increases may present a financial stability risk to the economy, particularly when monetary policy returns to more normal settings.

Housing price instability is harmful to our aims of reduced inequality and poverty, and is also likely to negatively impact the Government's aim of creating a more productive and inclusive economy. This is particularly the case where investments in the economy are increasingly being made in the existing housing stock, rather than in other more productive assets.

House prices are influenced by more than monetary policy. In addition to the changes suggested here, the Government has a wide ranging work programme aiming to improve housing affordability.

I am aware that the MPC is making increasing use of Alternative Monetary Policy tools by making interventions into financial markets to support the economy as a consequence of the impact COVID-19 is having on the domestic and global economies. The Alternative Monetary Policy tools that are now being used by the MPC were not envisaged at the publication of the February 2019 Remit. I believe it is right that we consider how these tools might be impacting the housing market, with particular regard to housing price inflation.

I want to make clear that I am not proposing any change to the overall price stability and employment objectives of the Monetary Policy Remit. I also remain committed to upholding the operational independence of the setting of monetary policy by the Monetary Policy Committee (MPC).

I am open to a discussion with you about what is the best approach that the Reserve Bank could take to support the Government in meeting our goals.

One option I would be interested in your views on is changing Section 2b of the February 2019 Remit to better highlight that the MPC takes house prices into consideration when formulating monetary policy to help achieve the Government's objectives. I have included a suggestion for how this might be done, and would be interested in your views on this:

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, the exchange rate, and house prices; and
- iii. Discount events that have only transitory effects on inflation, setting policy with a medium-term orientation

I would welcome your views on any alternative proposals with regard to the Reserve Bank's monetary or financial policy that would help address our concerns. This includes your views on any other changes that the Bank could make to support the aim of achieving the sustained moderation in house prices that we have both sought. I look forward to your response to this. The Government is planning to make any changes, if agreed, soon, and so I would request that you give it your earliest possible consideration.

I want to finish by thanking you and the MPC for your role in providing stability and support through the difficult period of COVID-19. I have greatly appreciated the collaborative way that you have approached your task, and I look forward to continuing to work that way.

Yours sincerely



Hon Grant Robertson
Minister of Finance