



8 April 2020

Mr Adrian Orr
Governor
Reserve Bank of New Zealand
PO Box 2498
WELLINGTON 6140

Dear Adrian

2020/21 EXPECTATIONS FOR THE RESERVE BANK OF NEW ZEALAND

I am writing to convey my expectations for the Reserve Bank of New Zealand for the year ahead. These expectations should inform the development of the Bank's business planning process and Statement of Intent for the forthcoming year.

The Bank's role in the New Zealand economy is crucial. The Bank's actions influence the performance of the economy and therefore impact materially the prosperity and wellbeing of New Zealanders. While maintaining operational independence, it is important the Bank's approach to performing its functions are consistent with the Government's broader economic objectives.

Our relationship is working well and we should continue speaking openly and constructively on areas of shared interest. I appreciate you raising matters of importance with me and encourage you to continue doing so, in particular:

- I welcome you informing me about significant events, transactions and other issues that could be considered contentious or of wide public interest. This helps me support you and respond to enquiries I may receive.
- I encourage the Bank to continue engaging with the Treasury on areas of joint interest and providing it with timely and substantive information on any policy development that may have fiscal impacts or otherwise materially impact New Zealanders. Providing this information well ahead of any public consultation enables constructive discussion.
- It is important you inform me and the Treasury, as soon as practicable, if you are aware of any financial institutions facing material risk of financial difficulty. You should also inform me if there is any reasonable likelihood you may need to recommend I exercise crisis management powers under prudential legislation.

I recognise the Bank's effort to ensure policy processes are transparent and clearly communicated. There is significant value in the Bank continuing to proactively communicate key information and policy changes to the public.

Areas of Particular Interest for 2020/21

In these unprecedented times the Government's focus is on supporting New Zealanders through the public health crisis and leading our economic recovery. I welcome the Bank's decision to delay most of its regulatory initiatives for an initial period of six months. This provides financial institutions with headroom for customer-focus and risk management. These remain important pieces of work and should be continued at an appropriate stage.

Monetary Policy

Effective co-ordination of fiscal and monetary policy is increasingly crucial in the current economic environment, as we work together to cushion the impact on New Zealand from COVID-19. I thank you for the increased flow of information between the Bank and the Treasury and encourage this to continue. I support the Bank's decision to use alternative monetary policy tools to provide further monetary stimulus. I encourage the Bank to continue collaborating with the Treasury and other agencies in this area to maximise the effectiveness of macroeconomic stabilisation policy and to help manage any potential side effects of alternative monetary policies. I welcome the Bank informing me of its thinking on the interaction between fiscal and monetary policy in response to COVID-19.

Phase 2 of the Review of the Reserve Bank Act

Thank you for your efforts in jointly leading Phase 2 of the Review of the Reserve Bank Act alongside the Treasury. I recognise the expert resource you have devoted to this work, which has been key to ensuring the policy recommendations received to date have been robust and well founded. I expect the Bank to continue this effort going forward as the team works to introduce the Institutional Bill to Parliament later this year. This will ensure the resulting legislative framework achieves the appropriate balance between operational independence and accountability and is enduring. I appreciate the team's flexibility in extending the consultation period for the Deposit Takers Act until October 2020. This will enable meaningful engagement with the financial sector. I also encourage the Bank to continue its efforts to co-chair the Council of Financial Regulators.

Banking and Insurance

Effective, well-functioning and competitive banking and insurance sectors are important to the performance of the New Zealand economy and New Zealanders' general wellbeing. While continuing to support the operational independence of the Bank, effective co-ordination is of increased importance to secure and support the financial and business sector in response to COVID-19. Beyond this, the Government is interested in several key areas including:

- *Bank capital requirement changes:* Following the Bank's announcement to delay the start date of increased capital requirements, I encourage the Bank to keep me informed on any developments in this area.
- *Regional banking:* I am interested in the extent to which banks offer transactional services in regional communities and any changes being made in this area. I welcome the Bank's input into policy work on this issue.
- *Property insurance:* The Government is interested in ensuring property insurance appropriately contributes to New Zealand's long-term resilience to natural disasters. When

setting standards or undertaking policy work, I encourage the Bank to consider both affordability and availability of insurance, and public access to information on insurance

- *Insurance framework reviews:* Following the Bank's announcement to defer external-facing work on the review of the Insurance (Prudential Supervision) Act, at the appropriate time I look forward to receiving advice from the Bank on options and choices for restarting the review and whether the terms of reference need to be updated. I also look forward to advice on the progress of the review of solvency standards for insurers and the expected impact of any future proposals.
- *Competition:* I encourage the Bank to consider the impact on competition in the banking and insurance sectors when setting conditions and standards, or undertaking more general policy work.
- *Climate risks:* I welcome the Bank's continued engagement with regulated entities where appropriate to understand how climate risks are being addressed. This work supports the Government's objective of a smooth transition to a low-carbon economy.

People and Culture

The Bank's people and culture are important in ensuring it achieves its objectives and are critical to maintaining New Zealanders' trust in their central bank. I am interested in following the Bank's efforts to enhance its performance culture, leadership capabilities, and employee wellbeing to drive its achievements. I remain interested in your plans for increasing diversity in leadership positions, in particular the number of women in leadership positions at the Bank.

Supporting future-focussed Māori-Crown relations

I congratulate you on the development of a Te Ao Māori strategy within the Bank. It aligns with my expectation for the Bank to embody the Government's good faith and collaborative approach to the Māori-Crown relationship by ensuring a Māori world view is incorporated into core functions. I look forward to seeing how the strategy matures and is embedded within the Bank.

Relationship with the rest of government

I am pleased to see the Bank develop and use its relationships with the rest of government. While maintaining the Bank's independence on operational matters, I encourage you to continue considering ways the Bank can use its resources and knowledge to engage more broadly within government on economic challenges facing New Zealand.

I look forward to working with you and the Bank to improve the prosperity and wellbeing of New Zealanders.

Yours sincerely



Hon Grant Robertson
Minister of Finance