

Hon Grant Robertson

MP for Wellington Central
Deputy Prime Minister
Minister of Finance
Minister for Infrastructure
Minister for Sport and Recreation
Minister for Racing



9 March 2021

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

Dear Adrian

2021/22 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.

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Areas of Particular Interest for 2021/22

I recognise the unique set of challenges that has arisen from the COVID-19 pandemic and commend you on your key role in New Zealand's recovery. New challenges will continue to arise as the Government's focus shifts to recovering and rebuilding from the impacts of COVID-19.

Looking ahead I am particularly interested in effective co-ordination of fiscal and monetary policy, the distributional consequences of monetary and financial policy actions and addressing access to affordable housing. An effectively functioning housing market is a critical component of a sustainable and inclusive economy and promotes the maintenance of a sound and efficient financial system. I also look forward to your continued work on the Review of the Reserve Bank Act.

Co-ordination of Monetary, Financial and Fiscal Policy

Effective co-ordination of fiscal, monetary and financial policy continues to be of crucial importance as we work together to recover and rebuild from COVID-19. I thank you for the increased flow of information between the Bank and the Treasury and encourage this to continue. I welcome the Bank's willingness to use alternative monetary policy tools in pursuit of its objectives. I welcome the Bank informing me of its thinking on the interaction between fiscal and monetary policy going forward.

To support an informed public debate on the distributional consequences of the Reserve Bank's monetary and financial policy actions, I encourage you to publish further research on the impact that your policies have on distributional outcomes in New Zealand.

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 during the recovery from COVID-19. Beyond this, the Government is interested in several key areas including:

- *Housing affordability*: Pursuant to section 68B of the Reserve Bank of New Zealand Act 1989, I recently issued a direction to the Reserve Bank to have regard to Government policy to support more sustainable house prices, including by dampening investor demand for existing housing stock which would improve affordability for first-home buyers. I look forward to engaging with the Bank on how it has had regard to this direction in relation to its relevant financial policy functions.

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- *Property insurance:* The Government is interested in ensuring property insurance appropriately contributes to New Zealand's long-term resilience to natural disasters. I encourage the Bank to support the Government's work on affordability and availability of insurance, and to contribute where possible to improving public access to information on insurance. I also look forward to receiving advice as the Bank resumes work on the review of the Insurance (Prudential Supervision) Act.
- *Cyber risks:* Recent cyber-related events highlight the importance of cyber resilience across the financial system. I encourage the Bank to continue to keep me informed on the strengthening of systems and processes, and the outcome of work to improve the Bank's cyber resilience.
- *Regional banking:* I encourage the Bank to continue to update me on any material changes to the provision of physical transactional banking services in regional communities. I also welcome the Bank's input into policy work on this issue, including ongoing support and monitoring of the regional banking hub trials.
- *Changes in the financial system:* The Bank has an important role to play in a number of upcoming changes. I encourage the Bank to keep me informed on any developments on implementing the bank capital requirement changes. I also welcome the Bank's continued engagement with regulated entities to encourage them to understand and prepare for climate risks, supporting the Government's objective of a smooth transition to a low-carbon economy. The Government is also working on regulation of merchant service fees, and I encourage the Bank to contribute to developing this regulation to ensure it contributes to a sound and efficient financial system.

Phase 2 of the Review of the Reserve Bank Act

I appreciate the Bank's efforts to ensure work on the Reserve Bank Bill remained on track during last year's COVID-19 lockdown. I expect the Bank to continue to work with the Treasury through the joint Review team as the Bill progresses through the House with enactment by the end of 2021.

The new governance framework introduced through the Bill will represent a significant milestone. I look forward to the Bank collaborating with the Treasury, as the new monitoring agency upon implementation of the framework. I expect the Bank to continue to support the Treasury in the appointment of a transition board and subsequent full board. I acknowledge that establishment of a new board can be unsettling and will require good communication with the current board as it continues its role until disestablished.

The Bill will give a statutory basis to the Council of Financial Regulators. This highlights the importance I place on continuing co-ordination and collaboration between the Bank and the other regulators on the Council.

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I expect the Bank to continue to progress work, jointly with the Treasury, on the Deposit Takers Bill and to finalise policy recommendations for Cabinet shortly. I encourage the Bank to collaborate with the Treasury and the Parliamentary Counsel Office to have key elements of the Bill, such as a deposit insurance scheme, commencing in 2023.

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.

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

A handwritten signature in blue ink, appearing to read 'Grant Robertson'.

Hon Grant Robertson
Minister of Finance