

24 November 2020

Hon Grant Robertson
Minister of Finance
Parliament
WELLINGTON

Dear Minister

Thank you for your letter received 24 November 2020 seeking our views on ways we can work together to address your concerns regarding rising house prices. We welcome the opportunity to contribute to your work programme aimed at improving housing affordability. As I've said publicly on many occasions, monetary and financial regulatory policy alone cannot address this challenge. There are many long-term, structural issues at play.

I acknowledge that you do not propose any change to the economic objectives set out in Section 8 of the Reserve Bank Act – to maintain overall price stability and employment objectives.

I also acknowledge your ongoing commitment to the operational independence provided by the Act for specific monetary policy decisions.

We will consider your suggestion of how the Monetary Policy Committee (MPC) could further take into account house prices when formulating monetary policy, and will respond with considered feedback in due course.

I can assure you that the MPC, in making its decisions, gives consideration to the potential impact of monetary policy on asset prices, including house prices. These are important transmission channels that affect employment and inflation. Housing market related prices are also included in the Consumer Price Index, for example rents, rates, construction costs, and housing transaction costs.

Higher-risk lending for housing purposes is also an important consideration for financial stability. We have for many years identified the risk that highly-indebted households and businesses can pose to the financial system. This concern is why we recently signalled our intention to reinstate loan-to-value ratio restrictions for higher risk lenders, in particular, property investors.

As you note in your letter, the Reserve Bank has faced challenges in response to the economic shocks and uncertainty that has resulted from the COVID-19 pandemic. We are committed to continuing to provide stability and support.

Like other central banks globally, our key response to the COVID-19 economic shock has been to lower interest rates using a variety of tools. Lower interest rates promote spending and investment, thereby enabling us to meet our inflation and employment mandate over the medium-term.

Our monetary policy actions have been, and will continue to be, effective in supporting the economy through the COVID-19 economic shock. Effective monetary policy is incredibly important for our shared objective of promoting the prosperity and wellbeing of all New Zealanders.

Yours sincerely

A handwritten signature in blue ink, consisting of a series of loops and a long horizontal stroke at the end.

Adrian Orr
Governor