

OIA 20210065

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Out of scope

From: Bryan Chapple [TSY] <Bryan.Chapple@treasury.govt.nz>
Sent: Monday, 23 November 2020 5:55 pm
To: Renee Philip [TSY] <renee.philip@treasury.govt.nz>
Cc: James Beard [TSY] <James.Beard@treasury.govt.nz>; Robbie Taylor [TSY] <Robbie.Taylor@treasury.govt.nz>
Subject: RBNZ monetary policy remit

Kia ora Renee,

At her one-on-one with the MoF, he indicated that he intends to take a noting paper to Cabinet on the issue. He does not need us to write the paper, but is keen for our view on whether he should mention house prices or asset prices in it. Caralee and I both think that house prices is probably more sensible, and I understand that Caralee has discussed it with you, too.

Let me know if you don't agree – otherwise can you please email Natalie L in the office saying that our view is house prices.

MoF is keen for our view on that by tomorrow am at the latest – so sending something this evening if possible would be great.

Cheers
Bryan

Bryan Chapple (he/him) | **Te Tai Ōhanga – The Treasury**

Deputy Secretary Macroeconomics and Growth

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From: Renee Philip [TSY]
Sent: Monday, 23 November 2020 7:06 pm
To: ^Parliament: Natalie Labuschagne
Cc: Bryan Chapple [TSY]; James Beard [TSY]; Robbie Taylor [TSY]
Subject: Monetary policy remit

Hi Natalie

I understand that the Minister is interested in our view on the issue of whether the remit should mention the term 'house prices' or 'asset prices'.

We think the term used should reflect the policy intent.

If the main concern is around house price stability and the impact of house price increases on particular groups (eg first home buyers), we think this would be more clearly captured by using the term 'house prices'.

The term 'asset prices' is commonly used in the monetary policy literature when discussing the financial stability implications that can arise from asset price booms, particularly those fuelled by credit booms which can increase the risk of future asset price corrections. There has been a lot of debate on the extent to which monetary policy should take these financial stability risks into account, or whether they are best left for other (eg macro prudential) policies. So in the central bank context, there is some risk that the term 'asset prices' could be interpreted as referring to these financial stability concerns, which I understand is not the intent.

Given this, we think it makes sense to use the term 'house prices'. Either way, it would be good to be clear about the policy intent so the MPC is clear about intended interpretation.

Cheers
Renee



Renee Philip | Manager, Macroeconomic & Fiscal Policy | Te Tai Ōhanga – The Treasury

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From: Renee Philip [TSY]
Sent: Tuesday, 24 November 2020 9:09 am
To: Bryan Chapple [TSY]; James Beard [TSY]; Caralee McLiesh [TSY]
Cc: Neil Kidd [TSY]
Subject: Discussion with Aus Tsy about house prices/monetary policy

Hi

We had a conversation yesterday with Australian Tsy to find out whether they have similar concerns about house price increases and any thinking they had done about the role of monetary policy. A summary of key points is below for your information. The main takeaway is that they are not seeing similar increases or concerns as in NZ at present – and to the extent they have had house price concerns in the past these have tended to be financial stability concerns, rather than distributional ones.

- Like NZ, most people in Australia had been expecting house prices to fall following COVID, and there was initially some concern there could be large falls
- Instead, the outlook has improved / stabilised. House price growth year-on-year is still low
- General sense is they are pleased that fiscal and monetary policies have stabilised the economy
- In thinking about house prices, there are a couple of trigger points that could be a concern, one is a lot of investor activity, the other a pick up in the pace of house price growth. They are not seeing either of these. Most recent activity reflects owner-occupiers, reflecting fiscal support and first home buyer subsidies
- Rental markets have borne the brunt of the COVID shock with vacancy rates up, new rents are declining
- There was strong housing investment from about 2013-2018 which contributed to supply, and although activity has been slowing since, there continues to be supply come onstream from this period of strong investment
- Two fundamentals drivers - population growth and interest rates – are going in opposite directions at the moment (slow population growth, low interest rates) whereas in previous periods they had both been positive drivers
- Don't think the AMP transmission mechanisms are too different from conventional monetary policy, although seeing a bit more transmission through fixed rather than variable mortgage rates
- The Treasurer recently announced changes to responsible lending requirements (reduction in requirements) but these will require legislative change
- Australia hasn't made any changes to LVR policies. However, percentage of high LVR lending has drifted up reflecting a switch of the composition from investors towards owner occupiers (who tend to have higher LVRs)
- The Statement on the Conduct of Monetary Policy (equivalent to our Remit) for the current Governor's term included more on financial stability than previously to allow the RBA to put more weight on this. So even when not concerned about robustness of the financial system as a whole, they could take into account the risk to financial stability that could arise through the impact of a disruptive correction in asset prices on household balance sheets



Renee Philip | Manager, Macroeconomic & Fiscal Policy | Te Tai Ōhanga – The Treasury

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From: Neil Kidd [TSY]
Sent: Tuesday, 24 November 2020 4:06 pm
To: Nathan Spence [TSY]
Subject: RE: foreign central bank remits

Thanks – another Q: what is the status of the fed's statement on longer term goals. Is that part of the Act i.e. are they required to have one?

From: Nathan Spence [TSY] <Nathan.Spence@treasury.govt.nz>
Sent: Tuesday, 24 November 2020 3:55 PM
To: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>
Subject: RE: foreign central bank remits

Yeah I did mean that. I looked at the Monetary Policy section of the Bank of England Act: <https://www.legislation.gov.uk/ukpga/1998/11/part/II> - there was nothing on financial stability in this section. But there was a reference to financial stability in the monetary policy remit. i.e. I was distinguishing between the Act and the Remit.

Does that make sense?

From: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>
Sent: Tuesday, 24 November 2020 3:44 PM
To: Nathan Spence [TSY] <Nathan.Spence@treasury.govt.nz>
Subject: RE: foreign central bank remits

Thanks – just one minor question – did you mean to say financial stability (first highlighted bit below) given the bit you quite says financial stability?
Neil

From: Nathan Spence [TSY] <Nathan.Spence@treasury.govt.nz>
Sent: Tuesday, 24 November 2020 1:34 PM
To: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Korban Gell [TSY] <Korban.Gell@treasury.govt.nz>; Anna Hamer-Adams [TSY] <Anna.Hamer-Adams@treasury.govt.nz>
Subject: RE: foreign central bank remits

Hopefully this covers what you are after – let me know if you want me to add anything else/have any questions.

Country	Monetary policy framework	Financial policy framework
---------	---------------------------	----------------------------

USA	<p>Financial stability is not referenced in the Monetary policy objectives section of the Federal Reserve Act: https://www.federalreserve.gov/aboutthefed/section2a.htm</p> <p>The Federal Reserve Act states that the Board of Governors and the FOMC should conduct monetary policy “so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.”</p> <p>The ‘<i>statement on longer-run goals and monetary policy</i>’ strategy writes “the Committee’s policy decisions reflect its longer-run goals, its medium-term outlook, and its assessments of the balance of risks, including risks to the financial system that could impede the attainment of the Committee’s goals”: https://www.federalreserve.gov/monetarypolicy/files/FOMC_LongerRunGoals.pdf</p>	<p>Financial stability doesn’t appear to be explicitly referenced in the Federal Reserve Act, but looks to be covered off in the Dodd-Frank act which also establishes the Financial Stability Oversight Council (FOSC).</p> <p>The FOSC advises the Federal Reserve and has the Chair of the Fed as one of 10 voting members on the FOSC. Its statutory purposes are to:</p> <ul style="list-style-type: none"> • identify risks to the stability of the U.S. financial system that could arise from the distress or failure, or ongoing activities, of large, interconnected bank holding companies or nonbank financial companies or that could arise outside the financial service marketplace; • promote market discipline by eliminating expectations on the part of the shareholders, creditors,
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		<p>and counterparties of such companies that the U.S. government will shield them from losses in the event of the company's failure; and</p> <ul style="list-style-type: none"> • respond to emerging threats to U.S. financial stability <p>https://www.govinfo.gov/content/pkg/USCODE-2016-title12/html//USCODE-2016-title12-chap53-subchapl-partA-sec5322.htm</p>
UK	<p>Nothing in the monetary policy section in the Bank of England Act on financial stability.</p> <p>"The government's economic policy objective is to achieve strong, sustainable and balanced growth. Price and financial stability are essential pre-requisites to achieve this objective in all regions and sectors of the UK economy." – Monetary Policy Remit: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871684/MPC_RemmitFINAL.pdf</p>	<p>The Bank of England Act 1998 writes "<i>an objective of the Bank shall be to protect and enhance the stability of the financial system of the United Kingdom</i>"</p> <p>https://www.legislation.gov.uk/ukpga/1998/11/contents</p> <p>Nothing on housing in the financial policy remit – issued March 2020: https://www.bankofengland.co.uk/-/media/boe/files/letter/2020/c</p>

		hancellor-letter-11032020-fpc.pdf?la=en&hash=29B4977F925DDF52FF9F4DB627F94B475C01F0C1
Euro Area	<p>Nothing in the monetary policy section of the on Treaty of the Functioning of the European Union on financial stability (article 127). https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12012E/TXT:en:PDF</p> <p>“Regarding the ECB’s monetary policy, the contribution to financial stability is subordinated to the objective of price stability. This assignment reflects the view that the maintenance of price stability is ultimately the best contribution monetary policy can make in support of financial stability.” Pg. 83 - Overview of ECB’s monetary policy: https://www.ecb.europa.eu/pub/pdf/other/monetarypolicy2011en.pdf?4004e7099b3dcdbf58d0874f6eab650e</p>	<p>Financial stability is not an objective under article 127. But article 127 does write: “The European System of Central Banks (ESCB) shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system”</p> <p>“Beyond that, the ECB’s financial stability role is embedded within the ECB’s basic monetary policy task and the ECB’s microprudential supervisory tasks” – from a speech by a member of the ECB Board: https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp180906.en.html</p>

From: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>
Sent: Tuesday, 24 November 2020 11:37 AM
To: Nathan Spence [TSY] <Nathan.Spence@treasury.govt.nz>; Korban Gell [TSY] <Korban.Gell@treasury.govt.nz>; Anna Hamer-Adams [TSY] <Anna.Hamer-Adams@treasury.govt.nz>
Subject: foreign central bank remits
Importance: High

Hello,

Could I divert you on to an urgent request please? We need to find out what foreign banks have in their monetary policy frameworks with respect to both financial stability generally and specifically house prices (if anything). If possible this could also cover anything in their financial policy frameworks too.

We just want to know the exact wording of the requirement. Could I ask you to have a look at the following please:

- Nathan – USA, UK, Euro Area
- Anna – Aussie, Canada, Japan
- Korban – Norway, Sweden

For the first 6 of these (for Nathan and Anna) – there should be links to the relevant bits of the leg in the attached thing that Jenna did for us (looking at something slightly different) - [CB Distributional Impacts - JB \(Treasury:4377329v2\)](#) [Add to worklist](#)

Korban – she didn't cover Norway and Sweden (that's why you've only got 2).

Just ASAP please, and an email with the results would be fine – maybe put it in a table with two columns: country and what's in their framework, so I can cut and paste into something quickly.

Give me a shout if you have questions,

Thanks – and please treat sensitively
Neil

Neil Kidd | Principal Advisor, Macroeconomic & Fiscal Policy | **The Treasury**

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From: Korban Gell [TSY] <Korban.Gell@treasury.govt.nz>

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Subject: RE: foreign central bank remits

Apologies for starting to work on this later, please let me know if you have any further questions or requests.

Country	Monetary Policy Framework	Financial policy framework
Norway	<p>https://www.norges-bank.no/en/topics/about/Mission-core-responsibilities/Legislation/Central-Bank-Act/ -</p> <p>The Norges Bank Act states a clear mandate for maintaining <i>financial stability</i>.</p> <p>The Central Bank Act states that (1) “The purpose of the central banking activities is to maintain <i>monetary stability</i> and to promote the <i>stability of the financial system</i> and an efficient and secure payment system” and (2) “The central bank shall contribute to high and stable output and employment”</p> <p>Section 2-7 of the Act. Duties of the Monetary Policy and Financial Stability Committee states that (1) The Committee is responsible for Norges Bank’s role as the executive and advisory monetary policy authority and is responsible for the use of policy instruments to attain the monetary policy objectives. (2) The Committee shall contribute to the promotion of <i>financial stability</i> by providing advice and using the policy instruments at its disposal.</p> <p>No specific reference to house prices nor assets in the Act.</p>	<p>https://www.norges-bank.no/en/topics/financial-stability/financial-stability-primary-objective/</p> <p><i>Financial stability</i> is one of Norges Bank’s primary objectives. It shares its work and responsibilities on financial stability with two other government authorities: Ministry of Finance, and Finanstilsynet (Financial Supervisory Authority of Norway)</p> <p>The financial responsibilities of the Norges Bank (outlined in the Norges Bank Act) are as follows:</p> <ul style="list-style-type: none"> • To promote a robust and efficient financial system. • Monitor financial institutions, securities markets and payment systems to identify trends that may weaken the stability of the financial system. • Oversee the payment system and other financial infrastructure and contribute to contingency arrangements. • If a situation should arise that poses a threat to financial stability, Norges Bank and other authorities will, if necessary, take action to strengthen the financial system – Norges bank will be able to provide extraordinary liquidity to individual banks or to the wider banking system.
Sweden	<p>https://www.riksbank.se/en-gb/about-the-riksbank/policy-documents/the-sveriges-riksbank-act/</p> <p>The Sveriges Riksbank Act states a clear mandate for maintaining <i>financial stability</i>.</p>	<p>https://www.riksbank.se/globalassets/media/rapporter/riksbanken-och-finansiell-stabilitet/engelska/2013/rap_riksbanken_och_finstab_130204_eng.pdf</p> <p>The Riksbank Act states that “promoting a safe and efficient payments system” is one of the Riksbank’s primary objectives – A Riksbank publication about <i>Financial</i></p>

<p>The Central Bank Act states that (1) “The objective of the Riksbank’s activities shall be to maintain Price stability” (2) “The Riksbank shall also promote a safe and efficient payments system”</p> <p>The Act states “The Riksbank may issue regulations within the scope of its responsibility for Monetary policy. The Riksbank may also issue regulations that concern activities connected with the Riksbank’s payment system or cash-provision mandate”</p> <p>No specific reference to house prices nor assets in the Act.</p>	<p>stability suggests that this objective entails a <i>responsibility to promote stability in the financial system</i>. The publications states that “the Riksbank’s practical work on promoting financial stability consists of several different tasks” and are as follows:</p> <ul style="list-style-type: none">• Gathering, compiling and distributing information on the financial system,• Regularly analysing and supervising developments in the financial system and the economy as a whole• Affecting the financial regulatory framework so that it contributes to stability and efficiency• Preventing threats to financial stability by informing and warning of risks, and where necessary providing recommendations of measures to deal with these risks• Managing a financial crisis if one should arise• Ensuring that there is a central payments system which banks and other agents can use to make payments
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Hopefully this covers what you are after – let me know if you want me to add anything else/have any questions.

Country	Monetary policy framework	Financial policy framework
USA	<p>Financial stability is not referenced in the Monetary policy objectives section of the Federal Reserve Act: https://www.federalreserve.gov/aboutthefed/section2a.htm</p> <p>The Federal Reserve Act states that the Board of Governors and the FOMC should conduct monetary policy “so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.”</p> <p>The ‘<i>statement on longer-run goals and monetary policy</i>’ strategy writes “the Committee’s policy decisions reflect its longer-run goals, its medium-term outlook, and its assessments of the balance of risks, including risks to the financial system that could impede the attainment of the Committee’s goals”: https://www.federalreserve.gov/monetarypolicy/files/FOMC_LongerRunGoals.pdf</p>	<p>Financial stability doesn’t appear to be explicitly referenced in the Federal Reserve Act, but looks to be covered off in the Dodd-Frank act which also establishes the Financial Stability Oversight Council (FOSC).</p> <p>The FOSC advises the Federal Reserve and has the Chair of the Fed as one of 10 voting members on the FOSC. Its statutory purposes are to:</p> <ul style="list-style-type: none"> • identify risks to the stability of the U.S. financial system that could arise from the distress or failure, or ongoing activities, of large, interconnected bank holding companies or nonbank financial companies or that could arise outside the financial service marketplace; • promote market discipline by eliminating expectations on the part of the shareholders, creditors, and counterparties of such companies that the U.S. government will shield them from losses in the

		<p>event of the company's failure; and</p> <ul style="list-style-type: none"> • respond to emerging threats to U.S. financial stability <p>https://www.govinfo.gov/content/pkg/USCODE-2016-title12/html/USCODE-2016-title12-chap53-subchapl-partA-sec5322.htm</p>
UK	<p>Nothing in the monetary policy section in the Bank of England Act on financial stability.</p> <p>"The government's economic policy objective is to achieve strong, sustainable and balanced growth. Price and financial stability are essential pre-requisites to achieve this objective in all regions and sectors of the UK economy." – Monetary Policy Remit: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/871684/MPC_RemmitFINAL.pdf</p>	<p>The Bank of England Act 1998 writes "<i>an objective of the Bank shall be to protect and enhance the stability of the financial system of the United Kingdom</i>"</p> <p>https://www.legislation.gov.uk/ukpga/1998/11/contents</p> <p>Nothing on housing in the financial policy remit – issued March 2020: https://www.bankofengland.co.uk/-/media/boe/files/letter/2020/c/hancellor-letter-11032020-fpc.pdf?la=en&hash=29B4977F925DDF52FF9F4DB627F94B475C01F0C1</p>
Euro Area	<p>Nothing in the monetary policy section of the on Treaty of the Functioning of the European Union on financial stability (article 127). https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12012E/TXT:en:PDF</p> <p>"Regarding the ECB's monetary policy, the contribution to financial stability is subordinated to the objective of price stability. This assignment reflects the view that the maintenance of price stability is ultimately the best contribution monetary policy can make in</p>	<p>Financial stability is not an objective under article 127. But article 127 does write: "The European System of Central Banks (ESCB) shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system"</p>

	<p>support of financial stability.” Pg. 83 - Overview of ECB’s monetary policy: https://www.ecb.europa.eu/pub/pdf/other/monetarypolicy2011en.pdf?4004e7099b3dcd58d0874f6eab650e</p>	<p>“Beyond that, the ECB’s financial stability role is embedded within the ECB’s basic monetary policy task and the ECB’s microprudential supervisory tasks” – from a speech by a member of the ECB Board: https://www.ecb.europa.eu/press/key/date/2018/html/ecb.sp180906.en.html</p>
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From: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>
Sent: Tuesday, 24 November 2020 11:37 AM
To: Nathan Spence [TSY] <Nathan.Spence@treasury.govt.nz>; Korban Gell [TSY] <Korban.Gell@treasury.govt.nz>; Anna Hamer-Adams [TSY] <Anna.Hamer-Adams@treasury.govt.nz>
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Thanks – and please treat sensitively

Neil

Neil Kidd | Principal Advisor, Macroeconomic & Fiscal Policy | **The Treasury**

Tel: s9(2)(k) | Neil.Kidd@treasury.govt.nz

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From: Neil Kidd [TSY]
Sent: Tuesday, 24 November 2020 8:41 pm
To: Caralee McLiesh [TSY]
Cc: Renee Philip [TSY]; James Beard [TSY]; Bryan Chapple [TSY]; Matthew Galt [TSY]
Subject: financial stability in central bank remits - international comparisons

Hi Caralee,

You asked Renee how other central banks are required to take into account financial stability in their monetary policy considerations.

In summary, of the central banks we've looked at, Norway and Australia probably go the furthest in acknowledging that there should be some flexibility to the inflation target to allow for financial stability considerations. In other central banks, some of the remits (e.g. UK) make reference to the need for financial stability and others (e.g. US) have published papers discussing how financial stability is a consideration in the committee's policy decisions - these tend to be subordinate to the price stability objective (as the ECB explicitly sets out). To state the obvious, the greater focus on financial stability tends to sit in the financial policy remit, as there is generally considered to be less of a trade-off with other objectives in using macroprudential policy tools to target financial stability.

My reading of all this is that the current requirements on the RBNZ "to have regard to the efficiency and soundness of the financial system" are in line with international comparators – albeit perhaps not going as far as Australia or Norway. What would be different about the current proposal for the RBNZ to consider house prices (specifically in the context of the government's broader objectives with respect to inequality, productive capacity etc) is that house prices are not being considered from solely a financial stability perspective, wherein consideration of financial stability could be done to further the Bank's other objectives – at least in the long-run e.g. if financial stability were a longer-term risk to output and employment stability.

As such, there could be more of a trade-off between giving consideration to house prices (from a distributional perspective) and the Bank's objectives on price stability and maximum sustainable employment. That the Bank just needs to "have regard to" house price stability significantly lessens the trade-off in that it is a subordinate consideration (but also risks it not having the desired effect on house prices). I think it would be useful for the Bank to think quite broadly as to whether there are other changes to their frameworks that would allow them to maintain a focus on delivering price stability and maximum sustainable employment whilst also taking pressure off the housing market (to deliver distributional goals, not just financial stability ones) – for example, it could be that other parts of the framework e.g. giving a direction under section 68B (to have regard to a government objective in the setting of prudential policy) could be considered as well as changes to the monetary policy framework.

...

- **Norway:** The Norges Bank's objectives are set out by law and by regulation. The regulation states that Inflation targeting shall be forward-looking and flexible so that it can contribute to high and stable output and employment, and to counteracting financial imbalances. Norges Bank notes that to some extent, monetary policy can contribute to counteracting the build-up of financial imbalances and thereby reduce the risk of sharp economic downturns further ahead. If there are signs that financial imbalances are building up, the consideration of high and stable output and employment may in some situations suggest keeping the policy rate somewhat higher than would otherwise be the case. The regulation and supervision of financial institutions are the primary means of addressing shocks to the financial system
- **Australia:** Their statement on the conduct of monetary policy says "they (the RBA and the Government) agree that an appropriate goal is to keep consumer price inflation between 2 and 3 per cent, on average, over time. This formulation allows for the natural short-run variation in inflation over the economic cycle

and the medium-term focus provides the flexibility for the Reserve Bank to set its policy so as best to achieve its broad objectives, including financial stability.”

- **UK:** The Act sets out the monetary policy objectives as price stability and “subject to that, to support the economic policy of Her Majesty’s Government, including its objectives for growth and employment.” The monetary policy remit states that “The government’s economic policy objective is to achieve strong, sustainable and balanced growth. Price and financial stability are essential pre-requisites to achieve this objective in all regions and sectors of the UK economy.”
- **US:** The Fed’s monetary policy objectives do not make reference to any financial stability consideration. They publish a ‘statement on longer-run goals and monetary policy’ strategy which states... “Moreover, sustainably achieving maximum employment and price stability depends on a stable financial system. The Committee’s policy decisions reflect its longer-run goals, its medium-term outlook, and its assessments of the balance of risks, including risks to the financial system that could impede the attainment of the Committee’s goals”.
- **Euro area:** There is nothing in the monetary policy section of the on Treaty of the Functioning of the European Union on financial stability. An overview of the ECB’s monetary policy states that “Regarding the ECB’s monetary policy, the contribution to financial stability is subordinated to the objective of price stability. This assignment reflects the view that the maintenance of price stability is ultimately the best contribution monetary policy can make in support of financial stability.”

Happy to look at more if you have some specific ones in mind?

Neil Kidd | Principal Advisor, Macroeconomic & Fiscal Policy | **The Treasury**

Tel: s9(2)(k) | Neil.Kidd@treasury.govt.nz

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From: [Renee Phillip \[TSY\]](#)
To: [Natalie Labuschagne](#)
Cc: [Bryan Chapple \[TSY\]](#); [Caralee McLiesh \[TSY\]](#); [Andrew Rutledge \[TSY\]](#); [James Beard \[TSY\]](#)
Subject: RE: Letter
Date: Tuesday, 24 November 2020 10:15:00 am
Attachments: [24th November RBNZ letter.docx](#)
[image001.jpg](#)

Hi Natalie

A couple of comments tracked into the attached.

I also wanted to flag that if we had more time, it is possible that there are other changes to the remit that could be considered in response to AMP, in addition to the housing change. For example, some of the factors that are currently included in the indemnity (such as the requirement to take into account bond market functioning), or some of the factors in the MPC's "AMP principles". Our work programme on AMP is considering some of these issues, but we haven't yet formed a view on them. Given that the remit will change anyway, you could consider asking the Governor whether there are any further changes the Bank would propose reflecting the introduction of AMP tools more generally?

You have also asked which part of the Act the remit change would be done under. The Act allows the remit to be changed under section 6 of Schedule 2, which is:

Remit may be replaced or issued

(1) The Governor-General may, by Order in Council made on the recommendation of the Minister,—

(a) replace a remit issued under [section 10](#) (or [Schedule 1](#) or this clause) before the term of that remit expires; or

(b) issue a new remit as referred to in [section 14\(2\)\(b\)](#).

(2) The Minister must, before making a recommendation,—

(a) consult the Bank on the proposed remit; and

(b) consider the Bank's comments (if any) on the proposal.

(3) The MPC may ask the Minister to make a recommendation.

(4) A remit may be replaced before the expiry of its term only in accordance with this clause or [section 13](#).

(5) [Section 10\(2\) to \(4\)](#) applies with all necessary modifications.

(6) Despite [section 15](#) of the Interpretation Act 1999, a remit may not be amended.

(7) Subclause (6) does not prevent the operational objectives in a remit from being amended or replaced as referred to in [section 19\(4\)\(b\)](#).

The other option is section 12. However, that section applies when the changes are being made to 1 or both of the economic objectives in section 8 (price stability and maximum sustainable employment). If the economic objectives are not changing, this section wouldn't apply.

Cheers
Renee

From: Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>
Sent: Tuesday, 24 November 2020 9:13 am
To: Renee Philip [TSY] <renee.philip@treasury.govt.nz>
Cc: Bryan Chapple [TSY] <Bryan.Chapple@treasury.govt.nz>; Caralee McLiesh [TSY] <Caralee.McLiesh@treasury.govt.nz>; Andrew Rutledge [TSY] <Andrew.Rutledge@treasury.govt.nz>
Subject: Letter

Hi Renee,

As just discussed, the draft letter is attached and the Office is requesting comment from Tsy within the next 60 minutes if possible.

The office has also requested to please not share more widely than is necessary at this stage.

Apologies for the tight turnaround,

Natalie



Natalie Labuschagne | Economic Advisor

Office of Hon Grant Robertson

Minister of Finance

Level 7.6 Executive Wing, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand

T: s9(2)(k) | M: s9(2)(g)(ii)

E: natalie.labuschagne@parliament.govt.nz

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From: [Neil Kidd \[TSY\]](#)
To: [Clara Rowe \[TSY\]](#); [Renee Philip \[TSY\]](#); [Leona Feng \[TSY\]](#); [Dasha Leonova \[TSY\]](#)
Subject: RE: Advice on RBNZ options to address housing
Date: Friday, 27 November 2020 3:12:00 pm
Attachments: [image001.png](#)
[MoFs lever wrt RBNZ.nrl](#)
[4382464_A3- housing macro-pru measures.DOCX](#)

Hi Clara,

Attached for Caralee are a list of powers/levers that MoF has with respect to the RB, excluding appointment and dismissal. The most pertinent of these options for the Minister's interest in house prices are probably the monetary policy and the first two financial policy levers. The attached A3 from Leona in the FM team elaborates on the relevant financial policy levers and we already have a separate process in place for possible monetary policy framework changes, given the MoF's letter to the Bank.

Hope that is helpful?

Thanks
Neil

From: Clara Rowe [TSY] <Clara.Rowe@treasury.govt.nz>
Sent: Thursday, 26 November 2020 4:48 PM
To: Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>
Subject: RE: Advice on RBNZ options to address housing

Thanks – I think this should be provided separately to the cross-TSY housing advice.

Clara Rowe (she/her) | Analyst, **Office of the Executive | Te Tai Ōhanga – The Treasury**

Tel: [s9\(2\)\(k\)](#) | mob: [s9\(2\)\(g\)\(iii\)](#) | Clara.Rowe@treasury.govt.nz

From: Renee Philip [TSY] <renee.philip@treasury.govt.nz>
Sent: Thursday, 26 November 2020 4:41 PM
To: Clara Rowe [TSY] <Clara.Rowe@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>
Subject: Re: Advice on RBNZ options to address housing

Hi Clara

Neil is leading our team input to housing advice at the moment. But macro pru is being led by Leona, in Financial Markets. Leona, is this in scope of what you're already planning?

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From: Clara Rowe [TSY] <Clara.Rowe@treasury.govt.nz>

Sent: Thursday, November 26, 2020 4:34 PM

To: Renee Philip [TSY]; Angus Hawkins [TSY]

Subject: Advice on RBNZ options to address housing

Kia ora Renee, Angus,

A request has come for your team from Caralee. This is related to advice you've likely fed into, pulled together by housing team on options to address housing affordability on the fiscal side. In addition, Caralee is keen to understand the broad suite of macro-prudential options the bank has (beyond LVR etc). Would the team be able to provide some information/advice on this? If possible **by 3pm tomorrow**, that would be fabulous. Caralee is meeting with CE's to discuss the housing advice on Monday and I think she is keen to have this as background material if possible.

Happy to discuss/clarify anything if needed.

Thanks,
Clara



Clara Rowe (she/her) | Analyst, **Office of the Executive | Te Tai Ōhanga – The Treasury**

Tel: s9(2)(k) | Mob: s9(2)(g)(ii) | Clara.Rowe@treasury.govt.nz

From: Caralee McLiesh [TSY]
Sent: Monday, 18 January 2021 9:50 AM
To: Bryan Chapple [TSY]
Subject: FW: Near term actions for agreement/information

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RBNZ-Treasury individual and joint work

Monetary Policy

- Advice to the MoF on how best to include:

- a) Regard to house price inflation (or asset price volatility more generally) in the RBNZ's
- Current legislation s68b
 - Future legislation in the Financial Stability Remit
 - And, as a least preferred option (the least-worse) into the current MPC Remit amongst the issues we already have regard to.

[For agreement and work plan]

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Nga mihi

Adrian

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From: Caralee McLiesh [TSY]
Sent: Monday, 18 January 2021 4:24 PM
To: Andrew Rutledge [TSY]
Subject: email

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On the points:

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RBNZ-Treasury individual and joint work

- Monetary Policy

- I agree we need a work program on this. We are awaiting MOFs view as to whether he wishes to pursue the FP option (S68b or otherwise), MP option (and if so, how), or both. Once clear I will ask the team to reach out to yours as we develop advice. Regardless I think we should ask our teams to accelerate work on the FP remit.
- As discussed, I agree that consideration of house prices is more likely to be effective through financial policy than monetary policy, given the alignment between stable house prices and financial stability, and the potential conflict between moderating house prices and achieving inflation/employment targets. I expect the proposed changes to the MP remit would have only a limited impact on house prices (and other outcomes), although it does send a signal that government would like more awareness/visibility of secondary consequences of monetary policy.
- In the event the Minister were to proceed with changing the MP remit, I am of the view the proposed changes in wording (ie adding "house prices" to section 2.b.ii) is the most appropriate. It places house prices alongside other transmission channels. The wording "avoid unnecessary instability" further reinforces that it is a secondary objective—so that house price changes are consistent with the remit if MPC considers they are a necessary part of meeting the primary economic objectives.

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Cheers
Caralee

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From: Caralee McLiesh [TSY]
Sent: Wednesday, 20 January 2021 8:51 AM
To: Neil Kidd [TSY]; Ben Gaukrodger [TSY]; Dasha Leonova [TSY]; Bryan Chapple [TSY]; Renee Philip [TSY]; James Beard [TSY]; Sam Thornton [TSY]; Leona Feng [TSY]; Matthew Galt [TSY]; ^Parliament: Natalie Labuschagne
Subject: RE: Readout from MoF - Treasury Report: requiring the Reserve Bank to have regard to house prices

Thanks Neil, very helpful.

It strikes me there are two main policy concerns about house prices that could be addressed in the monetary policy remit: financial stability and distributional impacts. Clearly neither should be a primary consideration for monetary policy, the question is whether and if so how to indicate that consideration should be given to the tradeoffs for stability/distribution in formulating monetary policy.

I think there is a strong case to be made to reference house prices through financial policy links, as you suggest. I just read an IMF paper you may have seen already: "[Low for Long](#)" and Risk-Taking ([imf.org](#)), which makes the argument "a 'low for long' monetary policy faces a tradeoff between short-term output growth and medium-term financial stability risks...(and)... This paper argues that it is time to position the endogenous buildup of macro-financial vulnerabilities at the heart of monetary policymaking and proposes a parsimonious model to that effect." (my emphasis). It is worth us developing some options to discuss with the RBNZ that speak to the link between financial and monetary policy (and for that matter, an option that also references coordination with fiscal).

The other question is referencing distributional concerns, which has been the emphasis of government to date. Per our Tsy advice, amending section 2bii appears to be the most straightforward way to address this at a high level – but we should also consider a couple of other options given the feedback from yesterday's meeting. I am keen to know whether there is any literature on distributional consequences of monetary policy or practices in other central banks that we could draw on for when I discuss this with Adrian. I think the question is more one of awareness and analysis of distributional impacts rather than tools to manage it. As discussed, the PIIE panel had a few statements on the importance of monetary policy being cognisant of (but not responsible for) distributional impacts [Monetary Policy and Inequality: COVID-19 and Beyond | Event | PIIE](#). I'm planning to contact PIIE to check if they are willing to discuss with us.

Natalie grateful for any further context and also indication of timing (Andrew mentioned MOF would like an agreed approach by 24 Feb?).

Kind regards

Caralee

From: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>
Sent: Tuesday, 19 January 2021 10:42 pm
To: Ben Gaukrodger [TSY] <Ben.Gaukrodger@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Caralee McLiesh [TSY] <Caralee.McLiesh@treasury.govt.nz>; Bryan Chapple [TSY] <Bryan.Chapple@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Matthew Galt [TSY] <Matthew.Galt@treasury.govt.nz>; ^Parliament: Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>
Subject: Readout from MoF - Treasury Report: requiring the Reserve Bank to have regard to house prices

Just resending as I had Natalie's Tsy email and not her Parly one...

Natalie – see below

From: Neil Kidd [TSY]

Sent: Tuesday, 19 January 2021 10:41 PM

To: Ben Gaukrodger [TSY] <Ben.Gaukrodger@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Caralee McLiesh [TSY] <Caralee.McLiesh@treasury.govt.nz>; Bryan Chapple [TSY] <Bryan.Chapple@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Matthew Galt [TSY] <Matthew.Galt@treasury.govt.nz>; Natalie Labuschagne [TSY] <Natalie.Labuschagne@treasury.govt.nz>

Subject: Readout from MoF - Treasury Report: requiring the Reserve Bank to have regard to house prices

Natalie called me with MoF's feedback on our report on house prices in the RB remits following his meeting with the Governor earlier today. Given I'm not in tomorrow I thought I would jot down that conversation. Natalie – you said you would email round tomorrow, feel free to just update this email with anything I've missed or not quite interpreted correctly if that suits better.

- Financial policy: He would like to progress a section 68B direction, which would then be reflected in the forthcoming financial policy remit. He acknowledged that consideration would be required as to how to phrase the government policy the RB should have regard to under the direction and that this could be a complicated question. He would like joint advice from Tsy and the RB on this issue.
- Monetary policy: He noted that Tsy and the RB were not on the same page on this issue – specifically with respect to the preferred wording, with the Governor favouring something added to the government objective set out at the beginning of the remit and Tsy preferring the Minister's wording in his letter – “to seek to avoid instability in house prices”. MoF would like us to explore if there is something that the Governor would be content with but still delivers the Minister's objectives. There were several points the MoF raised with respect to this:
 - Is it possible to have words in another part of the remit, other than including it as a new requirement to have regard to in section 2B, while still achieving something?
 - Is there a way of having something in the remit that captures what is already happening with respect to the RB considering house prices and just makes that explicit. As the Governor set out in his response, they do already consider house prices – so can we reflect that somewhere?
 - Is it possible that the monetary policy remit could acknowledge the relationship that monetary policy has with financial policy

On the final sub-bullet above...I take this to mean: could we acknowledge somewhere in the remit that monetary policy creates some negative consequences and it is appropriate that monetary and financial policy be coordinated to tackle those consequences. Setting out an explicit expectation for coordination somewhere strikes me as useful – it might be that this should be broader than just wrt house price considerations and is mirrored in the forthcoming financial policy remit.

I will pick up on Thursday
Neil

From: Neil Kidd [TSY]

Sent: Friday, 15 January 2021 1:53 PM

To: ^Parliament: Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>

Cc: Ben Gaukrodger [TSY] <Ben.Gaukrodger@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Caralee McLiesh [TSY] <Caralee.McLiesh@treasury.govt.nz>; Bryan Chapple [TSY] <Bryan.Chapple@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; James Beard [TSY]

<James.Bead@treasury.govt.nz>

Subject: Draft Treasury Report: requiring the Reserve Bank to have regard to house prices

Hi Natalie,

Please find attached the draft TR on requiring the Reserve Bank to have regard to house prices. We are still awaiting some further views from the Governor so we might have some things to add to a final version. Either way, we will provide a finalised version through the proper channels on Monday.

Thanks
Neil

Neil Kidd | Principal Advisor, Macroeconomic & Fiscal Policy | **The Treasury**

s9(2)(k)

Neil.Kidd@treasury.govt.nz

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From: Caralee McLiesh [TSY]
Sent: Thursday, 28 January 2021 12:29 PM
To: adrian.orr@rbnz.govt.nz
Subject: quick update on joint work

Kia ora Adrian

A few points following from our conversation last Friday and my subsequent check-in with MOF. All moving in the right direction at this point.

- The Minister confirmed he is comfortable with a forward-looking approach to remits, announcing “what we will be doing” rather than “what we have done” before next MPC.
- I believe we are all on the same page on requirements for remit as we discussed Friday: Sec 68b, joint work on financial policy remit, work to agree language for MP remit on house prices with a focus on financial stability links, and also options to reference govt policy objectives. I flagged with the Minister, as discussed with you, exploring how we better understand distributional consequences without assigning responsibility to the RB to manage them - and strengthen links to fiscal/regulatory policy.

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- MOF asked for Tsy advice on DTIs. Our team here can connect with yours on this and any other financial policy tools as part of the financial policy remit discussions.
- We should have (or will have soon) a meeting in our diaries next week also with Christian, Bryan and James Beard in which we can discuss:
 - o Remits
 - o Governance
 - o MP meeting with Ministers on the 9th

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Cheers
Caralee

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From: [Chris Bloor](#)
To: [Michael Thornley](#); [Neil Kidd \[TSY\]](#); [Renee Philip \[TSY\]](#)
Subject: MPC remit
Date: Thursday, 28 January 2021 4:44:57 pm
Attachments: [Revised Remit for the Monetary Policy Committee.docx](#)

Hi Neil and Renee,

We've had quite a bit and back and forth internally about direction to go with the remit. After discussion with Adrian and Christian, we've come up with the attached as the general direction we would like to go.

We're still doing a bit of work with legal, and likely to do a bit of wordsmithing, but would appreciate your feedback about whether you and the Minister would be happy with this general approach.

We're meeting up with Adrian again tomorrow at 10.15 – any early thoughts you could provide by then would be helpful, but not essential.

Cheers,
Chris

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The remit for the Monetary Policy Committee

Reserve Bank of New Zealand

The Government's Economic Objective

The Government's 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.

Commented [CH1]: Update to 2021 Government Economic Objective

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Context

Monetary policy plays an important role in supporting the Government's economic objective. The Reserve Bank of New Zealand Act 1989 (the Act) requires that monetary policy promote the prosperity and wellbeing of New Zealanders, and contribute to a sustainable and productive economy. Monetary policy contributes to public welfare by reducing cyclical variations in employment and economic activity whilst maintaining price stability over the medium term.

This remit is issued by the Minister of Finance to the Monetary Policy Committee (MPC) under Clause 3, Schedule 1 of the Act.

1) Monetary Policy Objectives

- a) Under Section 8 of the Act the Reserve Bank, acting through the MPC, is required to formulate monetary policy with the goals of maintaining a stable general level of prices over the medium term and supporting maximum sustainable employment.

2) Operational Objectives

- a) For the purpose of this remit the MPC's operational objectives shall be to:
 - i. keep future annual inflation between 1 and 3 percent over the medium term, with a focus on keeping future inflation near the 2 percent mid-point. This target will be defined in terms of the All Groups Consumers Price Index, as published by Statistics New Zealand; and
 - ii. support maximum sustainable employment. The MPC should consider a broad range of labour market indicators to form a view of where employment is relative to its maximum sustainable level, taking into account that the level of maximum sustainable employment is largely determined by non-monetary factors that affect the structure and dynamics of the labour market and is not directly measurable.
- b) In pursuing the operational objectives, the MPC shall:
 - i. have regard to the efficiency and soundness of the financial system over the medium term;
 - ii. seek to avoid unnecessary instability in output, interest rates, and the exchange rate; and
 - iii. discount events that have only transitory effects on inflation, setting policy with a medium-term orientation; and -
 - iii. outline how they have given effect to i-iii above, including any potential material impact the Government's Economic Objectives or the Bank's financial stability objectives.

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The MPC should consider whether its decisions could materially impact the Government's Economic Objective and, where possible, describe those material impacts in any statement on its decisions, the Record of the Meeting and its Monetary Policy Statements.

[Possible requirement on MPC to co-ordinate monetary policy and the Bank's financial policy.]

iv.

Agreed by

Hon Grant Robertson
Minister of Finance

Adrian Orr
Governor of the Reserve Bank of New Zealand

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From: Chris Bloor <Chris.Bloor@rbnz.govt.nz>
Sent: Friday, 29 January 2021 1:34 pm
To: Neil Kidd [TSY]; Michael Thornley; Renee Philip [TSY]; Mario DiMaio [TSY]
Subject: RE: MPC remit

Follow Up Flag: Follow up
Flag Status: Flagged

Hi Neil,

I think the desire was to appear as joined up as possible on the monetary policy and financial policy side, which is what lead to the direct reference to 68b.

Agree that this could look dated in the future. But there will probably need to be an update with the financial stability remit later anyway, so can probably be addressed at that time.

We did think about the possibility of other s68b directions – we thought that was probably addressed by the “any potential material impacts” wording. That is if the direction is irrelevant to monetary policy, it can be disregarded as not being material.

All sound reasonable?

Cheers,
Chris

From: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>
Sent: Friday, 29 January 2021 12:50 PM
To: Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>
Subject: RE: MPC remit

Hi Chris,

2 thoughts:

Section 68B is going to disappear when the new Act comes into force – is your intention that the requirement on the MPC should endure even after the power under section 68B disappears? Which might make the remit look a bit dated at that point?

Do you want this to apply to any future section 68B direction too – which might have less relevance to monetary policy, if used at all.

The way around both these issues is just to use the exact wording of the section 68B and replicate it in the remit but not to actually refer to section 68B.

Thoughts?

From: Chris Bloor <Chris.Bloor@rbnz.govt.nz>
Sent: Friday, 29 January 2021 12:39 PM
To: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>
Subject: RE: MPC remit

Hi all,

After a lot of back and forth, we've got Adrian's preferred option on the MPC remit. This option does tie closely back to the s68b direction, so it may be hard to separate timing of advice on these.

One question: what do you want to do with the Government economic objective section? We're essentially leaving that in your hands, but feel that the objective should marry up with the s68b direction.

Just a heads up: Adrian seems pretty keen to get the s68b sorted quickly, and is looking for Treasury/RB agreement by end of Monday. He has a particular preference around something like sustainable house prices, but not sure how this will fly with MoF.

Cheers,
Chris

From: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>
Sent: Friday, 29 January 2021 12:22 PM
To: Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>
Subject: RE: MPC remit

We are keen to put the proposed wording to Caralee to check her comfort today. Are you likely to have updated wording today or should I just consult her on what you have already sent?
Thanks

From: Chris Bloor <Chris.Bloor@rbnz.govt.nz>
Sent: Friday, 29 January 2021 10:41 AM
To: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>
Subject: RE: MPC remit

Thanks for getting back to us so quickly.

We are making similar suggestions at our end, so we'll see how Adrian responds. In particular agree with the confusion caused by the over the medium term on financial stability.

We're also having a 2b or not 2b debate. The wording sits a little awkwardly with respect to section 10 of the RBNZ act, so we are considering whether this clause should just move down to be a standalone section outside of the operational objectives section.

We can regroup after hearing back from Adrian.

From: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>
Sent: Friday, 29 January 2021 10:04 AM
To: Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>
Subject: RE: MPC remit

Hi Chris, Mike,

Comments from us. At a high-level, we have no problem with what you have suggested but have a few questions.

On this: “outline how they have given effect to i-iii above, including any potential material impact the Government’s Economic Objectives or the Bank’s financial stability objectives”

- Do you need the words “or the Bank’s financial stability objective”? Is that covered by 2bi?
- Outlining how the MPC has had regard to i-iii and outlining the impact of the MPC’s decisions on the government’s economic objective are quite different things. Should you separate those out? Or at least should the word “including” be “and” instead. The Government’s economic objective isn’t included in the things referred to?

On this: “have regard to the efficiency and soundness of the financial system **over the medium-term**”

- What’s the thinking behind adding “medium term”? No immediate allergic reaction but we will need to explain.
- More broadly – do you want to update this sentence to align with the financial stability objective in the new Bill? Might avoid any further remit changes after the Bill is passed?

We will need to update the Government economic objective but I think ideally we would do that once we know what the wording of the section 68B is going to be to see if we can’t align with that.

Finally, we will still want the report to present the alternative option of “having regard to” instability in house prices. I think at a high level the choice for MoF is whether he wants the MPC to have regard to those impacts or to outline them. And the report should give advice on that.

Let me know how the discussion with the Governor goes and we can pick up from there,
Neil

From: Chris Bloor <Chris.Bloor@rbnz.govt.nz>

Sent: Thursday, 28 January 2021 4:45 PM

To: Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>

Subject: MPC remit

Hi Neil and Renee,

We’ve had quite a bit and back and forth internally about direction to go with the remit. After discussion with Adrian and Christian, we’ve come up with the attached as the general direction we would like to go.

We’re still doing a bit of work with legal, and likely to do a bit of wordsmithing, but would appreciate your feedback about whether you and the Minister would be happy with this general approach.

We’re meeting up with Adrian again tomorrow at 10.15 – any early thoughts you could provide by then would be helpful, but not essential.

Cheers,
Chris

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From: Neil Kidd [TSY]
Sent: Monday, 30 November 2020 8:32 pm
To: Leona Feng [TSY]; Renee Philip [TSY]
Cc: Dasha Leonova [TSY]; Siobhan Duncan [TSY]
Subject: RE: Summary of catch-up on RBNZ and housing

Follow Up Flag: Follow up
Flag Status: Flagged

Thanks Leona – I found this really useful. I jotted down a few of my thoughts below in case useful, in red. Not sure we landed a view on whether we were sending this to anyone e.g. James? I can trim back a touch if we do decide to do that.
 Neil

From: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>
Sent: Monday, 30 November 2020 6:04 PM
To: Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>
Cc: Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Siobhan Duncan [TSY] <Siobhan.Duncan@treasury.govt.nz>
Subject: Summary of catch-up on RBNZ and housing

Hi Renee, Neil

Below is our summary of our chat today and next steps – I think the last two points were actions for Macro to test with Housing.

I'll also get in touch with Robbie to see whether OE is okay with us sharing our A3 (without the last column on Treasury recommendations) with the RBNZ.

Cheers
 Leona

- The Minister is expecting the RBNZ to respond to his letter before Christmas. It is not yet known how the RBNZ will respond to the Minister's letter, but MoF's office has indicated that Treasury may be asked for advice on the RBNZ's upcoming response. We may need to prepare advice and provide options to the Minister with short notice.
- Whilst we need to do some further work, our tentative view is that requiring the MPC to have regard to instability in house prices when formulating monetary policy is unlikely to have a significant impact on house price growth. The MPC will still be required to formulate monetary policy to achieve their objectives of price stability and maximum sustainable employment and the requirement "to have regard to house prices" would be unlikely to significantly alter their approach, especially as the Act stipulates that any "having regard to" requirements must not be inconsistent with the MPC's economic objectives. Further, if they did significantly alter their approach to setting monetary policy, this could come at significant costs in terms of their price and employment objectives. Although we have not done a full cost-benefit analysis of this trade-off, our view is informed by the leaning against the wind literature which finds significant costs when deviating from monetary policy targeted at price and employment objectives. The possible caveat to this is the extent to which AMP tools could be designed so as to provide more targeted economic stimulus. Much of the impact of AMP tools to date has worked through the standard, broad interest rate channels (e.g. LSAPs) but we still need to explore whether some tools could feasibly be designed so as to avoid pressure on the housing market, without losing effectiveness.

- It's possible the RBNZ's response may point to alternative measures in the financial stability space, such as debt-to-income tools, or even the section 68B power which could change their mandate to consider broader matters beyond financial stability. Presently, the RBNZ states it does not have a mandate to target house price growth.
- Either way, we want to be ready to identify alternative options that could be explored. Requiring the Bank to consider government objectives on housing when conducting macroprudential policy may create less of a trade-off with other objectives e.g. requiring them to have regard to broader government objectives on housing would be an additional consideration – and would not necessarily conflict with their financial stability objective (other than in the extreme). At the moment this is just an idea for further exploration, Treasury needs to consider what options it could put forward to the Minister if further advice is requested on RBNZ tools that could address the issue of rising house prices, including whether section 68B is viable; what this would achieve, the benefits (potential downward impact on house prices, but they are likely to be marginal) and costs/risks (as a big impact on house prices is unlikely, risks to stability are expected to be small, but these policies could have an impact on the investor funded parts of the market like the rental market and multi-unit developments), and whether we would recommend this as an option. We would also need to consider whether it would still be appropriate for the Bank to be the decision maker, if broader government objectives were being targeted.
- ~~We think that options in the RBNZ's financial policy space may be more viable than changes to the monetary policy remit, which may counter the effectiveness of monetary policy and could adversely impact the economic recovery and unemployment. [don't disagree but now captured above]~~
- Like most of the initiatives aimed at reducing investor demand for housing, it would be useful to have a clearer model of the implications for both house prices and the rental market, so that we understand any possible adverse consequences (i.e. less investors mean there are less properties for rent, which drives up rental prices – but may also be offset by less demand for rental properties as some households move into home ownership).
- However if we do further work, we need to be clear whether reducing investor demand is the right objective from the housing work perspective, and the impacts on the housing market and rental prices.
- We think that the Housing teams should clarify the policy objectives for this work and do further analysis of the implications of reduced investor demand on the broader housing market (home ownership vs rental market and multi-unit developments which tend to rely more on investor funding).

From: Matthew Galt [TSY]
Sent: Tuesday, 12 January 2021 6:47 pm
To: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>
Subject: RE: Monetary policy remit - sensitive

Hi Neil,
 I've been trying to write a useful email but have been struggling to get it in a logical order and I'd like to go home now. So I thought I'd just send you what I've got in case you're online later.

Thoughts on the proposal in general: Monetary policy remit

I agree that the best formulation of a house price objective for monetary policy, based on my understanding of MOF's objectives, would probably be something like **"avoid unnecessary instability in house prices"**.

I agree that it would seem MOF's objectives are mostly distributional, specifically:

- Supporting first home buyers who are struggling with a deposit and taking on very large mortgages (with potentially large interest costs should interest rates rise in the coming decades)
- Leaning against the large and regressive transfer of wealth that is underway towards existing property owners*

**I'd note that I don't entirely agree with Angus's comments that the distributional impact on first home buyers should be given little for policy purposes (and hopefully not just because I don't currently own a house!). While first home buyers do tend to be reasonably well off, particularly in places like Auckland and Wellington, I would expect that enormous and random redistributions of the sort we're seeing - \$200k-300k for an Auckland house for example - would be best avoided to maintain a fair society where contributions are rewarded. Only a fraction of that redistribution is due to monetary policy of course - mostly it's a combination of structural changes and other policy choices that has led to it, ie. the falling neutral interest rate, high trend population growth, and the way the planning and tax system treats housing. But I don't think distributional concerns in this instance are limited to households in the greatest housing stress (though of course those households do need to be helped). In addition to that: (1) the redistribution is predominantly going towards the most very well off fraction of society - property owners who have for the most part already profited from previous bouts of house price inflation, and (2) not long ago it was possible for fairly low income earners to buy a house in many regional parts of NZ (down to about the fourth income decile) so the lift in prices is not exclusively impacting high income earners.*

As for how it could achieve MOF's objectives, I've put the various options in the table below and added my comments. Overall, as mentioned earlier, I actually think adding house prices to the remit is a good idea, and that it would make the objectives of monetary policy better specified.

Option	Matt's comments
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<p>Give greater weight to house prices as part of the Bank's objective of "achieving and maintaining stability in the general level of prices over the medium term"</p>	<ul style="list-style-type: none"> As you've noted, in my view, owner-occupied housing costs are underweighted in the CPI – specifically the cost of owner-occupied urban land doesn't enter the CPI. There would appear to have been major inflation of this good over recent decades (whether measured as raw cost, imputed rents, or mortgage servicing costs). It has been the main driver of house prices rises. This means that the RBNZ has probably been setting monetary policy to be slightly looser (ex ante) than optimal. It could be viewed as classic surprise inflation – inflation expectations are pegged at 2%, then inflation surprises the public on the upside, with many of its associated effects. Eg. random redistributions of wealth. However, systematically underestimating inflation pressures has more than compensated for this mis-measurement. Adding 'have regard for house prices' is an indirect way of compensating for this. It's probably the most practical way Since I view inflation to be mis-measured, I don't agree that adding regard for house prices will necessarily lead to worse macroeconomic outcomes on the whole.
<p>Reduce the level of house prices to reduce inequality</p>	<ul style="list-style-type: none"> Would likely be counterproductive – monetary policy probably couldn't permanently lean against house prices to any material extent without creating a deflationary spiral
<p>Improve affordability for first home buyers</p>	<ul style="list-style-type: none"> A bit too specific and probably hard for the RBNZ to know what to do with it. On the one hand higher interest rates would help first home buyers with their deposit and reduce the amount of debt they have to take on. On the other hand, lower interest rates could help with servicing a mortgage. (Although empirically, this cycle, the drop in mortgage servicing costs has already been fully capitalised into house prices, so in this instance FHBs are worse off on both the deposit and the serviceability fronts).
<p>Have regard for asset prices</p>	<ul style="list-style-type: none"> Possibly a better formulation as its more encompassing. However, I think house prices are different to asset prices because they're a consumption good: no one needs stocks to live, but you do generally need to rent or own housing. So it's more important to adequately include house prices than other asset prices. And housing is the biggest asset class in NZ, and considering other asset classes is out of scope of this advice anyway.

Thoughts on the proposal in general: Financial policy remit

For financial stability, I think it should be specified more precisely in terms of housing affordability, something like **“have regard to housing affordability for [target group]”**. The target group could be some combination of first home buyers, owner-occupiers and renters. I think a more specific target would suit the financial policy remit because there are a wider range of tools with financial stability policy that can be aimed more precisely at the government’s objectives. Eg. lower deposits for owner-occupiers than investors. I don’t think it would be helpful to simply ask financial policy to stabilise house prices in general as it wouldn’t give the RBNZ a mandate to favour first home buyers or other particular cohorts. Though there may be no harm in asking financial stability policy to do all three of (1) support financial stability (2) mitigate instability in house prices (3) support target groups. In practice this is probably what financial stability policy has tried to do over the last five years or so.

Impact of falling interest rates on rents

I haven’t seen much work trying to identify the causal impact of falling interest rates on rents, but here’s what I would expect to happen, in rough order of the significance of the effects:

1. **First order effect:** a drop in interest rates should have roughly no impact on rents because the drop in landlords’ desired rental yields should match the drop in the required return for investors. Rents stay the same and house prices undergo an upward level shift to equilibrate rental yields and interest rates.
2. **Second order effects:**
 - a. There may be upward pressure on rents because lower interest rates will encourage net housing (floor area/bedrooms) to be removed from the rental market as first home buyers purchase and owner-occupiers move, each on average trading up in the process. This effect isn’t very well studied but I did see one RBA paper touch on it.
 - b. There should be downward pressure on rents in the long term because lower interest rates make development more economic and encourages greater housing supply (if supply is able to respond)

Of these two second order effects, I think (a) would probably outweigh (b) in the short to medium term in NZ, giving rise to modest upward pressure on rents.

3. **Behavioural effects (probably third order):**
 - a. Higher asset prices may lead to higher rents if landlords are slow to update their required percentage returns.
 - b. On the other hand, price rises may lead to slower rent increases if landlords feel like they’re making enough from capital gains or charge low rent to be nice or get higher quality tenants.
 - c. Turnover in the housing stock tends to rise when interest rates drop, and turnover tends to be associated with faster increases in rents (a behavioural effect as it’s easier for landlords to reprice with new tenants, and/or landlords with the highest assessed rent on a property are more likely to buy).

Empirically, rents tend to rise at the same time as interest rates. However, this is probably general inflation pressures causing the lift in interest rates rather than interest rates causing the lift in rents.

The 2012 PTA

The 2012 PTA had the following in it:

*"In pursuing the objective of a stable general level of prices, the Bank shall **monitor prices, including asset prices**, as measured by a range of price indices. The price stability target will be defined in terms of the All Groups Consumers Price Index (CPI), as published by Statistics New Zealand."*

I've seen some commentary about this. It looks to me like a fairly weak clause that we wouldn't want to use, and is not specifically about house prices, but it might be worth noting this used to be in the PTA for completeness.

Novelty

I agree that in a sense what MOF is considering is novel. However, in some senses it is not entirely out of step:

- I'm not entirely sure, but I think it might be fairly common for central banks to have regard to asset prices when setting policy (in practice even if not stated in their objectives).
- There is a wide variety in ways that housing costs enter into central banks' objectives via the CPI

Impact of exchange of letters on the market:

You asked what impact the exchange of letters had on market interest rates. I've summarised this in the table below based on RBNZ morning markets reports (attached) and shown the longer term trends in interest rates. If you want to quote these in the advice it might pay to double check with me, but this is the general market response:

	Expected OCR in 2021Q3	10-year bond yield	Exchange rate	Other events impacting interest rates that day
Release of MOF's letter and the Bank's initial response (24 November)	Up 9bp (from 0.12% to 0.20%, presumably some rounding)	Up 11bp (from 0.81% to 0.91%)	NZD/USD +0.7%	The move happened immediately after the release of MOF's letter. Furthermore, markets generally rose that day, but interest rates in other countries changed by far less than in NZ, suggesting the move was attributable to the MOF's letter
Bank's letter back (11 December)	No change	Down 2bp to 0.88%	No change	Routine volatility of US congress debating fiscal stimulus, Brexit,

24 November:



11 December



I hope that helps, sorry it couldn't be more thought through.

Cheers,
Matt

From: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>

Sent: Tuesday, 12 January 2021 10:30 am

To: Angus Hawkins [TSY] <Angus.Hawkins@treasury.govt.nz>; Ben Gaukrodger [TSY] <Ben.Gaukrodger@treasury.govt.nz>; Matthew Galt [TSY] <Matthew.Galt@treasury.govt.nz>

Subject: RE: Monetary policy remit - sensitive

I've been thinking a little more since last night...

I wonder if the justification for changes rather than levels is that the Bank are considering changes to the OCR away from the neutral rate in order to hit their economic objectives. It is the neutral rate that, in part, determines house prices in the medium term (assuming housing supply is constrained) and not the short term changes to the OCR around the neutral rate. The Bank can't do much about the neutral rate (the level of house prices), but they can consider the impact on house price changes in moving the OCR away from neutral – noting that these will only be short-term impacts if the OCR eventually returns to the neutral rate. In other words, they could look to take the peaks and troughs off the cycle – akin to the exchange rate. (with the usual caveat that it is only a have regard to etc)

On your alternative – isn't that what the Bank already do? – to the extent that the consumption costs of housing are already captured in the CPI (which Matt disputes – but that could be solved). So if CPI is 2% and housing costs are captured – is there a problem with house cost inflation? Even if there were, presumably it is offset by lower inflation in the rest of the bundle of goods and services? Or are you saying that some households spend more on housing than others (poorer households) and so for them the CPI basket is not a representative basket? If that was the problem though, why focus on just housing costs – and not just make them consider different baskets for different groups somehow?

And a question in red below...

From: Angus Hawkins [TSY] <Angus.Hawkins@treasury.govt.nz>

Sent: Tuesday, 12 January 2021 9:29 AM

To: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Ben Gaukrodger [TSY]

<Ben.Gaukrodger@treasury.govt.nz>; Matthew Galt [TSY] <Matthew.Galt@treasury.govt.nz>

Subject: RE: Monetary policy remit - sensitive

Cheers. I think that structure looks good. I agree on your fourth bullet in particular – the choice of targeting stability struck me as odd in the original letter, as the objective is surely levels. Comparing it to how the bank treats the exchange rate might be helpful – the 'seek to avoid unnecessary instability in exchange rates' provision in the current remit doesn't prevent the Bank targeting sustained appreciation/depreciation for monetary policy objectives, it just means the bank shouldn't let the exchange rate fly all over the place (or maybe it should, if such instability is necessary).

That said – targeting levels increases the risk of a conflict with the core monetary policy objectives, so is probably a bad idea. The only alternative I can think of (which would have quite different economic implications) would be a new bullet under section 2(b) of the remit along the lines of: "have regard to impact of monetary policy on housing costs" – with the intention that housing costs refers to rents and mortgage servicing costs, i.e. the consumption value rather than the asset prices. I'd see the advantages being:

- Loose monetary policy will tend to reduce housing costs for owner occupiers, but raise it for renters (through higher assets prices – **do higher asset prices raise rents? If prices are up b/c interest rates are low, then haven't house prices risen for a given level of rent?**) so the conflict with monetary policy objectives is less direct, and it may work better as a distributional objective.

- It could be met through more thorough consideration of how housing costs enter CPI, and considering (alongside CPI) measures of inflation that place greater weight on housing costs.
- There could be a distributional/living standards case to be made focusing on those aspects would help the most distressed households at the sharp end of the housing crisis, rather than otherwise quite well off first time buyers (sorry Matt).

I'm not convinced this is better wording, and may not meet MoF's objectives – but offering it in the interests of getting more options on the table.

I have one other thought I'll talk to you about.

Thanks,

Angus

Angus Hawkins | Macroeconomic & Fiscal Policy | Te Tai Ōhanga – The Treasury

Tel: s9(2)(k)

From: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>

Sent: Monday, 11 January 2021 9:04 PM

To: Ben Gaukrodger [TSY] <Ben.Gaukrodger@treasury.govt.nz>; Angus Hawkins [TSY] <Angus.Hawkins@treasury.govt.nz>; Matthew Galt [TSY] <Matthew.Galt@treasury.govt.nz>

Subject: Monetary policy remit - sensitive

THIS IS SENSITIVE

This is a bit of a brain dump - I'd appreciate your thoughts

Heard from MoF's office that he would like advice – ideally this week – on the wording of the house price addition to the monetary policy remit. This would be a relatively focussed piece of advice on the wording and less so on the pros and cons of adding house price considerations to the remit. Natalie was clear this was about the MP remit but I think it should probably also cover the proposed change to the financial policy remit. Or at least mention it so that he can request further advice if he wants it. There's nothing going over from the housing team that we can tie into – so will have to be standalone.

I think perhaps structure of the report should be:

- Context – MoF wrote to RB proposing change and RB wrote back with their suggestion that would prefer this be a financial policy issue.
- Our view: The MPC do already consider house prices but largely to the extent that it impacts on CPI or affects monetary policy transmission, as opposed to the welfare impacts that high house prices create – the way the MPC considers house prices probably does not therefore align with the Ministers concerns. Requiring the RB to have regard to house prices when setting monetary policy is more likely to create a conflict between their economic objectives and consideration of house prices – in some scenarios, particularly at present when house prices are high and growing but

unemployment is elevated and CPI inflation is below the midpoint. Given that the house price requirement is just a “have regard to” – in these circumstances the Bank probably won’t place much weight on it. If they did place significant weight on it, it is likely to come at the cost of their other economic objectives. There is less likely to be a fundamental conflict between the financial stability objective and controlling house prices.

- Understand that MoF wants to put a reference to house prices in both the monetary policy and financial policy remits. This advice specifically focusses on the question of what wording to use for the monetary policy remit. I think we could also attach the previous draft financial policy remit here too – which did mention house prices.
- What wording to choose depends on what government objective the Minister wants the Bank to have regard to – if the Minister were concerned with the impact that monetary policy might have on levels of inequality, then house prices would only capture one part of that impact, for example. We understand the Ministers objective is primarily around housing affordability, in particular for first home buyers – and that this impact is what you would like that Bank to take into account when setting monetary policy. Where does that take us – MoF’s proposal is to add “to seek to avoid unnecessary instability in house prices” – that suggests to me that the Bank would consider the impact on changes in house prices and would need to have regard to seeking to avoid large changes in house prices, as opposed to levels. That would be true in both directions i.e. don’t crash the housing market. Consideration of levels is probably more aligned with the Ministers concern about housing affordability. But they are even less likely to be able to have a long-run material impact on house price levels, which is driven by fundamentals, but they could have an impact on short term changes in house prices and changes in the OCR create instability in house prices as opposed to long-term levels impacts – so changes perhaps better? So does that mean we are comfortable with MoF’s suggested wording? I can’t think of anything better.
- Would we recommend something different for the financial policy remit (bearing in mind not our team’s lead)? I have 2 thoughts: 1. the same wording is an option – have regard to house price instability. Changes in interest rates are a source of that instability and this might encourage the RB to use financial policy tools to limit that instability? 2. We could go further – given there is less of a trade-off between financial stability and house prices – what about “have regard to housing affordability (for first home buyers)”? I think it largely depends on how ambitiously MoF wants them to use the tools and the potential for them to have a fundamental impact on house price levels, which we have not done any work on. So possibly alignment with the MP remit is the better option? Or we could be silent on this issue and just say we will provide another draft of the FP remit?
- Should we say that internationally this would be quite novel – especially for the MP remit?

Thanks
Neil

Neil Kidd | Principal Advisor, Macroeconomic & Fiscal Policy | The Treasury

Tel: s9(2)(k) | Neil.Kidd@treasury.govt.nz

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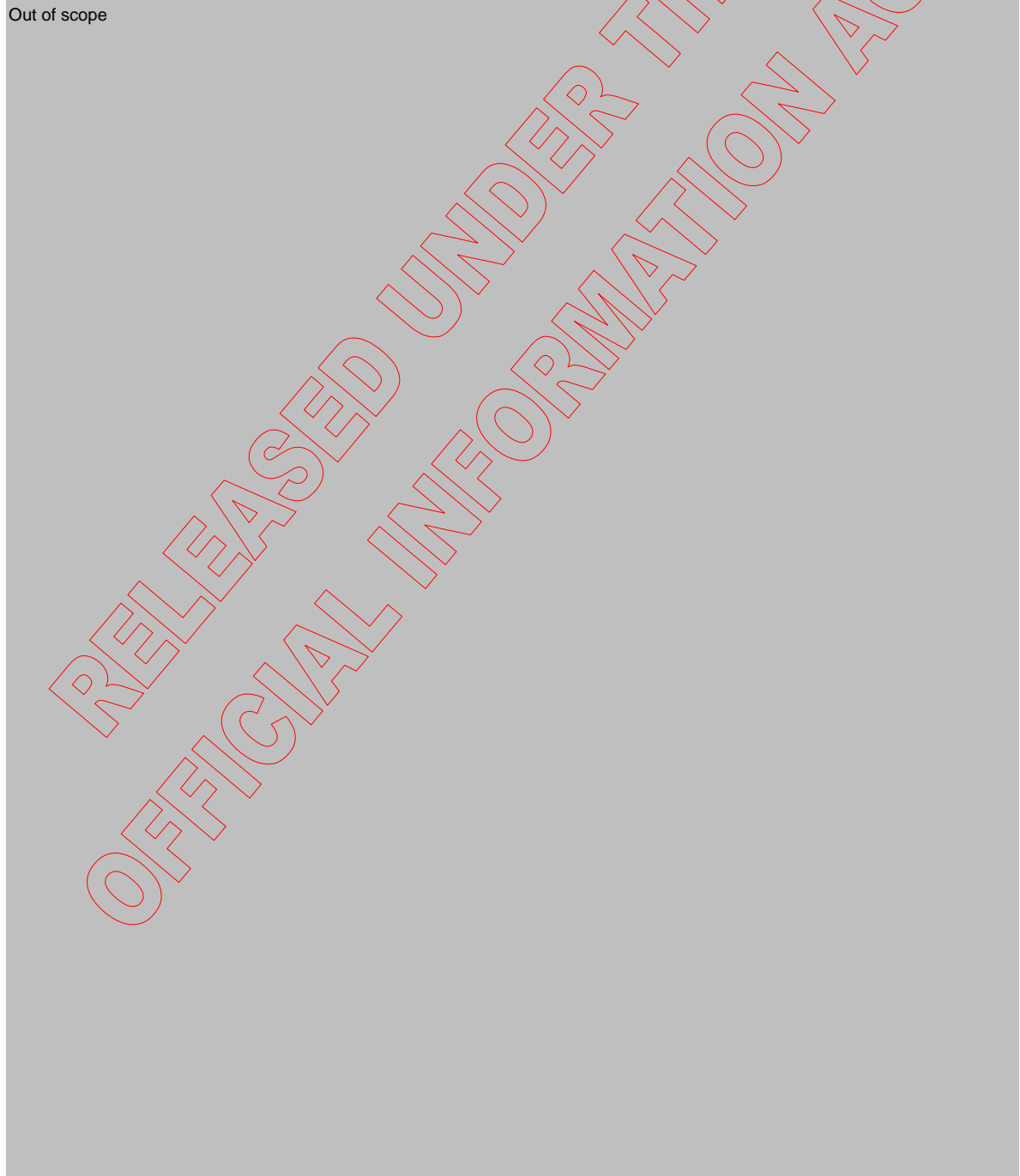
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higher on correspondence from the Minister of Finance to the RBNZ

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- The NZD/USD appreciated by 0.7% yesterday, to a multi-year high, following the release of correspondence from Finance Minister Robertson to the RBNZ regarding a potential change to the wording of the Bank's remit. On the release, the NZD/USD reached a high of 0.6984 as stops were triggered. The surprise also caused investors to re-evaluate bets on a lower OCR, with OIS market pricing rate cuts out of the curve (25% chance of a cut over 2021 vs. 50% prior to release), and the 2-year swap rate rising by 9bps.

Out of scope



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Out of scope

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From: Matthew Galt [TSY]
Sent: Wednesday, 13 January 2021 2:59 pm
To: Neil Kidd [TSY]; Dasha Leonova [TSY]; Leona Feng [TSY]; Sam Thornton [TSY]; Daniel Jury [TSY]; Ben Gaukrodger [TSY]; Angus Hawkins [TSY]
Subject: RE: adding house prices to the RB remits

Hi all,

I think this paper is shaping up well and I think it adequately captures my comments. I've tracked some comments in the new document here: [Treasury Report: Requiring the Reserve Bank to have regard to house prices MG comments \(Treasury:4402836v1\)](#) [Add to worklist](#)

I'll double check with someone in forecasting and modelling that my thinking about the components of the CPI are accurate without explaining the context of this work given its sensitivity (I've left this section largely as Neil had it as it incorporated my comments, with just a few wording suggestions).

A few other comments that I haven't tracked in as they're not as directly relevant:

- I wonder if we should comment on what other countries do? I think someone reviewed other countries mandates before Christmas but can't recall the results. My impression is that while it would be unusual to single out house prices, I don't think it would be internationally unusual to consider asset prices when formulating monetary policy, and since housing is NZ's dominant asset class this might mean the proposal is only a bit removed from the mainstream (though this might already be captured by the financial stability clause in the remit). It might also be worth briefly mentioning the asset price reference in the 2012 remit. I've seen some commentary that this simply shouldn't have been removed, but it was quite a weak clause so I don't think we're recommend reinstating it: *"In pursuing the objective of a stable general level of prices, the Bank shall monitor prices, including asset prices, as measured by a range of price indices. The price stability target will be defined in terms of the All Groups Consumers Price Index (CPI), as published by Statistics New Zealand."*
- Neil had asked how lower interest rates impact rents – I assume this was more for background than for inclusion in the paper. I've outlined my thinking below FYI, although I haven't seen any comprehensive external analysis putting each effect together the way I have below.

Cheers,
Matt

The causal impact of falling interest rates on rents

Here's what I would expect to happen, in rough order of the significance of the effects:

1. **First order effect:** a drop in interest rates should have roughly no impact on rents because the drop in landlords' desired rental yields should match the drop in the required return for investors, and rents are set by balancing demand for accommodation with supply for accommodation, not interest rates. Therefore rents stay the same and house prices undergo an upward level shift to equilibrate rental yields and returns on other assets.
2. **Second order effects:**
 - a. There may be upward pressure on rents because lower interest rates will encourage net housing (floor area/bedrooms) to be removed from the rental market as first home buyers purchase and owner-occupiers move, each on average trading up in the process using the extra purchasing power from lower interest rates. This effect isn't very well studied but I did see one RBA paper that outlined how this effect had occurred in supply-constrained US cities.

- b. There should be downward pressure on rents in the long term because lower interest rates would make development more economic and encourage greater housing supply (if supply is able to respond)

Of these two second order effects, I think (a) would probably outweigh (b) in the short to medium term in NZ, giving rise to modest upward pressure on rents following a drop in interest rates.

3. Behavioural effects (probably third order):

- a. Higher asset prices may lead to higher rents if landlords are slow to update their required percentage returns and try to push through rent increases.
- b. On the other hand, price rises may lead to slower rent increases if landlords feel like they're making enough from capital gains or charge low rent to be nice or get higher quality tenants.
- c. Turnover in the housing stock tends to rise when prices are rising, and turnover tends to be associated with faster increases in rents (a behavioural effect, probably reflecting that it is easier for landlords to reprice with new tenants, and/or landlords with the highest assessed rent on a property are more likely to buy).

Empirically, rents tend to rise at the same time as interest rates. However, this is probably general inflation pressures causing the lift in both rents and interest rates rather than interest rates causing the lift in rents.

From: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>

Sent: Tuesday, 12 January 2021 9:36 pm

To: Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Daniel Jury [TSY] <Daniel.Jury@treasury.govt.nz>; Ben Gaukrodger [TSY] <Ben.Gaukrodger@treasury.govt.nz>; Angus Hawkins [TSY] <Angus.Hawkins@treasury.govt.nz>; Matthew Galt [TSY] <Matthew.Galt@treasury.govt.nz>

Subject: adding house prices to the RB remits

Hi All,

Attached is the TR. I've done it in e-copy as well as link b/c imange was being difficult and I'm concerned the link won't work. If it does work, I'd prefer comments in the imange version (it should be about 5 and a half pages long and have two recs).

[Treasury Report: Requiring the Reserve Bank to have regard to house prices \(Treasury:4402242v1\)](#) [Add to worklist](#)

It still needs a bit of polishing in places but is at a good point to get comments. I'm not working tomorrow but I will pick up comments tomorrow evening and then probably try to turn this into a version for Bryan and Caralee either Wednesday night or Thursday morning. You are strongly encouraged to get stuck in and draft some text into this (in tracked changes please) and equally discouraged from providing high level comments that would be hard to address.

Matt – I'm not sure I did justice to your very thorough set of comments you sent me, so please do feel free to get stuck into the document and draft something – not least b/c it would seem you are the most open to the idea of adding house prices to the MPC remit, and I'm concerned that I don't give it enough of a hearing.

Thanks
Neil

Neil Kidd | Principal Advisor, Macroeconomic & Fiscal Policy | **The Treasury**

Tel: s9(2)(k) | Neil.Kidd@treasury.govt.nz

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From: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>
Sent: Thursday, 26 November 2020 3:24 pm
To: Matthew Galt [TSY] <Matthew.Galt@treasury.govt.nz>; @Macroeconomic and Fiscal Policy <MacroeconomicAndFiscalPolicy@treasury.govt.nz>
Subject: RE: House prices and the RBNZ's Remit - Damned if they do, damned if they don't

Thanks Matt

These are good points. When you read the monetary policy review from this phase the description of Graeme's decisions are nowhere to be found. Funny that. I like the Riksbanks approach to getting an external assessment of the conduct of monetary policy at regular intervals. Even Stephan Ingves – s9(2)(g)(i) has acknowledged the Riksbank conduct of policy in this period was wrong.

I haven't followed all the informed commentary but it seems to vary from politically driven but harmless because it will have no impact on decisions to something more like below. To be honest I would prefer the former to the later. I guess there will be time to work through exactly what this might mean in the advice – but I think the evidence is rather clear that the costs of seeking to minimise financial disruption through interest rates are a net negative for growth. However, given the wide range of tools in the RBNZ's kit now (including FLP) perhaps there are some choices that come with fewer costs.

Interestingly one way suggested in commentary to get less pressure interest rates would be through an easier fiscal policy... A trade-off some of us have discussed before.

In other words, a risk began to build up that the role of the inflation target as benchmark for price-setting and wage formation would begin to weaken – that the nominal anchor that has been an important part of the favourable developments in Sweden since the early-1990s crisis would begin to slip. As the basic premise of inflation targeting policy is to anchor long-term inflation expectations at the target, this development made it urgent to bring inflation back up towards 2 per cent fairly rapidly. It was therefore clear that the Riksbank needed to focus entirely on the task of maintaining confidence in the inflation target. Consequently, there was no longer any scope for conducting a policy that "leans against the wind". As a result, the Riksbank cut the policy rate quite rapidly down to -0.50 per cent and also began to purchase substantial volumes of government bonds, particularly in relation to the size of the sovereign debt. This of course did not mean that we ceased to concern ourselves with the problems associated with debt and housing prices. Throughout this entire period, we have highlighted this development in our communication as a significant risk in the Swedish economy that needs to be dealt with but that we do not have the scope to address under the prevailing circumstances.

Mario

From: Matthew Galt [TSY] <Matthew.Galt@treasury.govt.nz>
Sent: Thursday, 26 November 2020 12:00 PM
To: @Macroeconomic and Fiscal Policy <MacroeconomicAndFiscalPolicy@treasury.govt.nz>
Subject: FW: House prices and the RBNZ's Remit - Damned if they do, damned if they don't

FYI – I think this is pretty good analysis

From: Westpac IQ <financialmarkets@email6.westpac.com.au>

Sent: Thursday, 26 November 2020 9:22 am

To: Matthew Galt [TSY] <Matthew.Galt@treasury.govt.nz>

Subject: House prices and the RBNZ's Remit - Damned if they do, damned if they don't

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House prices and the
RBNZ's Remit -
Damned if they do,
damned if they don't



Article by Dominick Stephens

Published 7:06AM, 26 Nov 2020

NZ Chief Economist Dominick Stephens's thoughts on the exchange of letters between the Minister of Finance and the Governor of the RBNZ.

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- The Minister of Finance proposes changing the RBNZ's Remit, as is his right.
- The RBNZ's main goals will still be inflation and employment.
- Watching out for house prices will make the RBNZ more gradualist.
- That makes near-term OCR cuts less likely. Our OCR forecast is under review.

- However, we still favour monetary easing at some point due to the closed border, low inflation, the rising exchange rate, the LSAP running out of fuel, et al.
- Central banks that pursue side goals usually end up missing their inflation targets and have to play catch-up later.
- The RBNZ could nix house price inflation in an instant by lifting interest rates...
- ... but that would boost the exchange rate, create unemployment, and cause deflation.
- It is great to see the government acknowledging the role of interest rates in pushing up house prices.
- However, changing the Remit won't make much difference to long-run interest rates or house prices.

The Minister of Finance's letter to the Governor of the Reserve Bank has thrown a spanner in the works for financial markets and economic forecasters. The Minister has expressed concern about low interest rates boosting house prices. He proposes a change to the monetary policy Remit that would add house prices to the list of things that RBNZ is supposed to avoid unnecessary instability in, alongside output, interest rates and the exchange rate.

I am pleased to see the highest level of government acknowledging the important role that interest rates play in the New Zealand housing market. Over many years the public sector has tended to over-emphasise the role of physical supply and demand in house prices. This has led to poor house price forecasting, ultimately affecting policy advice. We first predicted a big lift in house prices due to falling interest rates and the ruling out of capital gains tax in June 2019.¹ I'll publish more on the link between interest rates and house prices next week, as well as discussing what I think the best policy responses are.

Adding house prices to the list of things in which the RBNZ is supposed to avoid unnecessary instability probably makes sense – a reference to asset prices was included in the RBNZ's targets prior to 2018, and we questioned why it was removed. This will make the RBNZ more gradualist in the pursuit of its inflation and employment targets, but it is not going to make a great deal of difference to the long-run level of interest rates or house prices.

Near-term OCR cuts less likely.

After this change to the Remit, the RBNZ will continue to pursue its medium-term inflation target, but it may take a more gradual approach to getting there. That might make the RBNZ less gung-ho about lowering interest rates in the near term. We were forecasting OCR cuts in April, May and August, but that timing now looks less likely. We are reviewing our OCR forecasts and will update them in due course.

During the Covid crisis the RBNZ's approach has been "least regrets". They have erred on the side of providing monetary stimulus more aggressively, because they judged the cost of overshooting the inflation and employment targets would be less than the cost of an undershoot.

That was appropriate during the darkest days of the Covid crisis, but the calculus is different now. If it does turn out that the RBNZ has over-egged the salad, then it will regret causing an unnecessary increase in house prices alongside its regret about inflation. This means that the RBNZ will require a higher burden of proof before easing monetary policy any further.

Another possibility is that the RBNZ could alter the Funding for Lending Programme (FLP) in order to skew it more towards business lending. For example, banks might be allowed access to more lending under the FLP if they increase their lending to businesses. This is the approach that the Reserve Bank of Australia has taken, and was what we thought would happen prior to the last Monetary Policy Statement. If the RBNZ does opt for more stimulus next year, this might be the way it goes.

Central banks can't cheat nature.

While the timing of OCR cuts is now in question, changing the Remit will make little difference to the level of interest rates over a longer timeframe. While we might have to alter the timing of our forecast OCR cuts, it is less likely that we will alter the longer-term outlook.

The thing is, no central bank can cheat nature. Falling interest rates are a global phenomenon caused by deep fundamentals like the global return on capital and global savings patterns. If the Reserve Bank of New Zealand tried to stand like King Canute in the face of that tide, it would soon be swept away by deflation.

If a central bank holds interest rates too high or too low in pursuit of some side goal, it tends to find that inflation drifts away from target. It then has to play catchup, moving interest rates even further in order to restore inflation to target. History is littered with examples of central banks failing to achieve side goals.

During the mid-2000s, then-Governor Alan Bollard was concerned about the high exchange rate and yawning current account deficit, and so became very reluctant to hike the OCR further. The eventual result was that inflation rose well above target, requiring bigger OCR hikes later to rein inflation back in. The exchange rate still rose.

In the mid-2010s then-Governor Graeme Wheeler was concerned that lower interest rates would exacerbate house price inflation, and so became reluctant to cut rates. During Wheeler's tenure inflation remained consistently below target,

and the RBNZ was eventually forced to cut the OCR well below their own lines in the sand. House prices still rose.

Also in the mid-2010s, Sweden tried keeping interest rates high in order to prevent a house price boom. The result was deflation, and Sweden was eventually forced to reduce policy rates below zero.

The reality is that central banks can only permanently alter one thing – inflation. They cannot permanently alter the level of real house prices, or the real exchange rate, or anything else. The key decision central bank governors make is how assiduously to pursue the inflation target. If they move interest rates slowly, inflation tends to vary more, but (arguably) there are less abrupt changes in things like the exchange rate and house prices. Focusing on rapidly meeting the inflation goal, as the RBNZ has done this year, tends to require rapid changes in interest rates, which can (arguably) cause volatility elsewhere in the economy.

The RBNZ's many side goals, considerations, and requirements to avoid volatility all amount to roughly the same thing – more gradualism in pursuit of the inflation target. We think this gradualism is, broadly, a good idea. But it won't make the inherent tensions of running monetary policy go away.

Be careful what you wish for.

The RBNZ's expanding list of side goals are going to come into conflict with one another, sooner rather than later. The Reserve Bank could nix rising house prices in an instant by lifting interest rates. But that would send the exchange rate through the roof, as well as causing more unemployment and deepening the recession – all in contravention of the RBNZ's other side goals.

The trouble is that the RBNZ has many side goals but only one tool (the OCR, LSAP and FLP are all just variations on the theme of influencing private sector interest rates). The exchange rate is already rising as financial markets give up on the idea of the RBNZ cutting the OCR in the future. As the exchange rate rises further, this might become a 'be careful what you wish for' situation.

We still favour OCR cuts at some point. The damage Covid has done to the tourism sector has created a huge hole in economic demand. The non-tourism part of the economy may be doing well, but we are still not completely convinced that medium-term inflation is on track. To make matters worse, the recent rise in the exchange rate and wholesale interest rates amounts to a de facto tightening of monetary policy that will constrain the economy and inflation. And finally, the RBNZ's Large Scale Asset Purchase Programme (LSAP) is going to run out of fuel and will have to be replaced with another form of monetary easing.

Playing by the rules.

The Minister's letter to the RBNZ was heavy-handed, but he is perfectly within his rights. Crucially, nothing the Minister said changes the Reserve Bank's primary focus on inflation and employment, which is written in law. The Remit *defines* the inflation and employment goals – it sets out the rules by which the Monetary Policy Committee must play. The Minister decides the Remit, and he can change it whenever he pleases (although he must first consider advice – hence the letter). Before 2019 things were different. The RBNZ's policy targets were decided jointly by the Governor and the Minister, so they tended to change only when there was a change in personnel in either position.

Changing the Remit is not an infringement on the Reserve Bank's operational independence, although it does demonstrate the limits of that independence. However, I was less comfortable with the Minister of Finance's reference to the alternative monetary tools the RBNZ is using to achieve its goals. That particular aspect of the letter did feel closer to telling the RBNZ how it should meet its goals, rather than leaving the RBNZ to its operational independence.

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From: Matthew Galt [TSY] <Matthew.Galt@treasury.govt.nz>
Sent: Wednesday, January 13, 2021 11:14:22 AM
To: Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; Bastiaan van der Scheer [TSY] <Bastiaan.vanderScheer@treasury.govt.nz>; Gabrielle Groube <Gabrielle.Groube@treasury.govt.nz>
Subject: RE: Media Release: Reserve Bank's response to Minister of Finance

Thanks Chris, yes it is bizarre. I expect the CPI would be a bit higher – perhaps averaging 2 rather than a bit below, with spikes when prices really shot up in 2015/16 and now. Though it would depend a bit on the methodology (eg. imputed rents vs direct cost).

Do you know where I could get data on nationwide urban/residential land costs to test this out?

I'm feeling emboldened on this because I used to think rents were undermeasured back when I was at the Bank. And when they reviewed the rents methodology in 2018 it turned out that I was right (not that the change was due to my influence, just coincidence!)

From: Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>
Sent: Wednesday, 13 January 2021 11:03 am
To: Matthew Galt [TSY] <Matthew.Galt@treasury.govt.nz>; Bastiaan van der Scheer [TSY] <Bastiaan.vanderScheer@treasury.govt.nz>; Gabrielle Groube <Gabrielle.Groube@treasury.govt.nz>
Subject: RE: Media Release: Reserve Bank's response to Minister of Finance

Thanks Matt, it's great you're hounding this. It does seem bizarre that the good with the greatest price inflation is excluded from the national measure of price inflation because it's durable. We don't exclude cars and whitewear from the index, despite them being durable. Further, land prices when land markets are uncompetitive are extremely sensitive to interest rates, which is RBNZ's main tool. So it's doubly bizarre. Regardless of whether this ends up being wrong or right, someone needs to account for it, and explain the issues.

Do you know what the price index might've said in hindsight if land were fully included? Would it be tracking some huge sustained level of price inflation, with only a temporary dip after the late 80s when inflation targeting was introduced before land price escalation started?

Cheers
Chris

From: Matthew Galt [TSY] <Matthew.Galt@treasury.govt.nz>
Sent: Wednesday, 13 January 2021 10:44 am
To: Bastiaan van der Scheer [TSY] <Bastiaan.vanderScheer@treasury.govt.nz>; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; Gabrielle Groube <Gabrielle.Groube@treasury.govt.nz>
Subject: FW: Media Release: Reserve Bank's response to Minister of Finance

Hey Bastiaan, Chris and Gabbi,

I've been further pondering how housing enters the CPI and increasingly coming to the view that urban land is significantly underrepresented. The home ownership component only includes construction costs because the land is treated as an asset. To me, this unreasonably overlooks the significant consumption cost of urban land (whether measured as the direct land price, imputed rents, or mortgage costs), and inflation of urban land costs has been, if anything, the rising price of greatest social concern over the last decade. Urban land is included to a minor extent – it'll be indirectly captured in market rentals and real estate fees (to the extent that these are correlated with house prices), but owner-occupied urban land costs are otherwise omitted. I've outlined my thoughts in a bit more detail in the email below from December.

I'm wondering what the CPI would look like if it had, say, 5% weight on urban land (whether measured as direct land price, imputed rents, or mortgage costs). Do you know what the best long term nationwide time series of urban land prices would be? Would it be REINZ median section prices?

Cheers, Matt

From: Matthew Galt [TSY]

Sent: Friday, 11 December 2020 11:44 am

To: @Macroeconomic and Fiscal Policy <MacroeconomicAndFiscalPolicy@treasury.govt.nz>; Bastiaan van der Scheer [TSY] <Bastiaan.vanderScheer@treasury.govt.nz>; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; Victor Kuipers [TSY] <Victor.Kuipers@treasury.govt.nz>; Stephen Revill [TSY] <Stephen.Revill@treasury.govt.nz>; Siobhan Duncan [TSY] <Siobhan.Duncan@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>

Subject: RE: Media Release: Reserve Bank's response to Minister of Finance

In case of interest, I had a few observations on the letter:

- I think this is a pretty reasonable response from the Bank on the whole given the time pressures
- **On paragraph 13 (establishing a housing agency):** I thought we already had a single agency intended to act as a 'clearing house' to co-ordinate the Government's response to housing across agencies: this was why the Ministry of Housing and Urban Development was established.
- **On paragraph 18 (housing being in the CPI):** I still question whether the CPI adequately accounts for housing prices.
 - o First, it doesn't include house prices directly, and this is the price of interest to the government. (The reason is that it is considered an asset, not a consumption good, but there is a more first principles question as to whether consumption goods are the right prices for monetary policy to exclusively target – this is an old debate around the world of course)
 - o Second, even with the components it does have, I suspect it underweights owner-occupied housing costs. Below are the weights in the CPI of the items the Bank points to. Two things stand out to me:
 - Summing the homeownership components (highlighted) gives 16.07% of the CPI weight, and rents (actual market rentals, social rentals and student accommodation) are 10.26%. Yet owner-occupied housing accounts for around 3/4 of the value of housing in New Zealand, so

you might expect homeownership weights to sum to something closet to 4x the weights on rents.

- The key concern with house prices is the cost of land, but that does not enter directly into the CPI (because it's viewed as an asset, not a consumption good). Purchase of new housing is only the cost of the building only if I recall correctly.

There are a range of methods of reflecting housing costs in price indexes (imputed rents, new builds, mortgage costs etc.), so if MOF had doubts that housing costs were adequately captured for the purposes of monetary policy formulation, it may be possible to review alternative price targets for monetary policy.

Group, subgroup, or class	Base quarter expenditure weight		
	June 2014	September 2017	June 2020
		Percent ⁽¹⁾	
Actual rentals for housing	9.22	9.20	10.26
Home ownership	4.20	5.50	8.65
Purchase of new housing	4.20	5.50	8.65
Property maintenance	3.09	2.14	2.27
Property maintenance materials	0.59	0.52	0.67
Property maintenance services	2.49	1.62	1.60
Property rates and related services	3.18	3.54	3.23
Water supply	0.38	0.37	0.38
Refuse disposal and recycling	0.18	0.14	0.10
Local authority rates and payments	2.63	3.01	2.74
Other property related services	0.02	0.02	0.01
Dwelling insurance	0.41	0.60	0.77
Professional services (including property conveyancing)	0.26	0.25	0.25
Real estate services	0.75	1.01	0.90

Cheers,
Matt

From: Matthew Galt [TSY] <Matthew.Galt@treasury.govt.nz>
Sent: Friday, 11 December 2020 11:14 am
To: @Macroeconomic and Fiscal Policy <MacroeconomicAndFiscalPolicy@treasury.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>; Tamiko Bayliss [TSY] <Tamiko.Bayliss@treasury.govt.nz>; Bastiaan van der Scheer [TSY] <Bastiaan.vanderScheer@treasury.govt.nz>; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>
Subject: FW: Media Release: Reserve Bank's response to Minister of Finance

[UNCLASSIFIED]

FYI – the RBNZ's response to MOF's letter is now public.

From: Reserve Bank of New Zealand <no-reply@lists.rbnz.govt.nz>
Sent: Friday, 11 December 2020 11:05 am
To: Matthew Galt [TSY] <Matthew.Galt@treasury.govt.nz>
Subject: Media Release: Reserve Bank's response to Minister of Finance

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Reserve Bank's response to Minister of Finance

11 December 2020

The Reserve Bank of New Zealand – Te Pūtea Matua – has this morning published its detailed response to the letter from the Minister of Finance, Hon Grant Robertson sent on 24 November 2020.

A copy of the Bank's response is available on the Reserve Bank's website.

More information

- [Copy of detailed response from the Reserve Bank to Minister of Finance \(Sent on 9 December 2020\) \(PDF 50KB\)](#)
- [Copy of initial response letter from Governor Adrian Orr to Minister of Finance \(Sent on 24 November 2020\)\(PDF 65 KB\)](#)

Media contact

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From: [Neil Kidd \[TSY\]](#)
To: [^Parliament: Natalie Labuschagne](#)
Cc: [Ben Gaukrodger \[TSY\]](#); [Dasha Leonova \[TSY\]](#); [Caralee McLiesh \[TSY\]](#); [Bryan Chapple \[TSY\]](#); [Renee Philip \[TSY\]](#); [James Beard \[TSY\]](#)
Subject: Draft Treasury Report: requiring the Reserve Bank to have regard to house prices
Date: Friday, 15 January 2021 1:53:00 pm
Attachments: [TR Requiring the Reserve Bank to have regard to house prices 15012021.doc](#)

Hi Natalie,

Please find attached the draft TR on requiring the Reserve Bank to have regard to house prices. We are still awaiting some further views from the Governor so we might have some things to add to a final version. Either way, we will provide a finalised version through the proper channels on Monday.

Thanks

Neil

Neil Kidd | Principal Advisor, Macroeconomic & Fiscal Policy | **The Treasury**

Tel: s9(2)(k) | Neil.Kidd@treasury.govt.nz

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SENSITIVETE TAI ŌHANGA
THE TREASURY

Treasury Report: Requiring the Reserve Bank to have regard to house prices

Date:	15 January 2021	Report No:	T2021/11
		File Number:	MC-1-1-1-2

Action sought

	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Agree to the recommendations with respect to requiring the Reserve Bank to consider house prices in the formulation of monetary and financial policy	15 January 2021

Contact for telephone discussion (if required)

Name	Position	Telephone	1st Contact
Neil Kidd	Principal Advisor, Macroeconomic and Fiscal Policy	s9(2)(k)	N/A (mob) ✓
Ben Gaukrodger	Acting Manager, Macroeconomic and Fiscal Policy		N/A (mob)

Minister's Office actions (if required)

Return the signed report to Treasury.

Note any
feedback on
the quality of
the report

Enclosure: No

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Treasury Report: Requiring the Reserve Bank to have regard to house prices

Executive Summary

On 24 November 2020, you wrote to the Governor of the Reserve Bank (the Bank) to consult on a proposed change to their monetary policy remit, specifically whether to require the Monetary Policy Committee (MPC) to “seek to avoid unnecessary instability in house prices” whilst pursuing their operational objectives. The Bank’s response indicated that they would prefer that consideration of house prices be explicitly required in their forthcoming financial policy remit, and possibly by issuing a section 68B direction, instead of their monetary policy remit. This report provides the Treasury’s advice on your proposed change and the Bank’s alternative.

We consider that there is more potential to deliver your housing objectives by issuing a section 68B direction or through an addition to the forthcoming financial policy remit.

Compared with monetary policy, there is less conflict between financial policy objectives and your broader objectives around housing affordability and house prices. The objectives are more likely to complement each other in many regards. Whilst it is still unclear how much of an impact a secondary, “have regard to” requirement would have on Bank decision making, there is the potential that a house price requirement could encourage the Bank to go further in using some of their financial policy tools than they would from considering housing as solely a financial stability issue.

If you wish to strengthen the Bank’s role in relation to house prices, we recommend that you issue a direction under section 68B of the current Reserve Bank Act. This allows you to direct the Bank to have regard to a specific government policy when formulating financial policy. The effect of any section 68B direction could be carried over into the financial policy remit after the passage of the Reserve Bank of New Zealand Bill. An alternative to issuing a section 68B direction is to consult the Bank on a draft financial policy remit now, but this would only come into force after the passage of the Reserve Bank of New Zealand Bill.

The proposed change to the monetary policy remit could be a useful signal to send that you expect the MPC to consider the broader impacts of their decisions. However, the primacy of the MPC’s economic objectives of stable inflation and sustainable employment mean the impact on house price inflation is likely to be limited.

The way in which the MPC considers house prices probably does not align with the broader concerns you have about high house prices. The MPC largely considers house prices to the extent that they are important for their economic objectives of price stability and maximum sustainable employment. Adding a requirement for the MPC to have regard to house prices is a useful signal that you expect some of the broader impacts of high house prices to be considered when formulating monetary policy.

However, we would not expect the addition of a requirement to have regard to house prices to have a significant impact on monetary policy decisions. Using monetary policy to reduce house price growth requires tighter monetary policy, which, all else equal, leads to lower inflation and higher unemployment. In the current economic context, if monetary policy were used to moderate house price growth, it would likely come at the expense of the MPC’s primary economic objectives. Given that the proposed requirement to consider house price instability would be secondary to the MPC’s economic objectives, the MPC is unlikely to adjust policy in any substantial way and the impact on house price inflation is likely to be limited. To some extent, this is also true of some existing requirements in the MPC’s remit.

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For example, the requirement to “seek to avoid unnecessary instability in interest rates” would, at times, conflict with the primary objectives and likely be given relatively less weight.

If you wish to include a reference to house prices in the monetary policy remit, we think the wording you proposed in your letter to the Governor is the best option.

We have considered the alternatives identified by your office but consider that these risk representing your concerns about house prices as solely a financial stability or macroeconomic stability issue, rather than representing your broader concerns about house prices. We also considered an update to the specification of the Government’s economic objective set out in the remit but think that this would carry less weight than requiring the Bank to “have regard to” house prices. Finally, we considered specifying a housing affordability consideration, rather than a house price consideration, in the monetary policy remit but think this could be difficult to capture in a clear way, given that interest rate changes have different impacts on housing affordability for different groups.

If you wish to proceed with changing the monetary policy remit and/or issuing a section 68B direction or commencing work on the future financial policy remit, we recommend you:

- Direct Treasury to consult with the Bank on the wording for either a section 68B direction or for the future financial policy remit that would best enable them to contribute to your housing objectives.
- Write to the Governor indicating your decision on the monetary policy remit. An order in Council is then required to implement the change.

We are also aiming to provide you with some further advice in February on options for Ministerial involvement in the future Deposit Takers Act, for example in the setting of standards for bank regulation, that could progress your broader government objectives.

Recommended Action

We recommend that you:

- a **agree**
- i. to proceed with work on a section 68B direction for the Bank to have regard to a government policy on housing in relation to its financial stability functions and consult with the Bank before issuing a direction
- Agree/Disagree*
- or
- ii. to consult the Bank on a draft financial policy remit before the Reserve Bank of New Zealand Bill is passed, including a requirement for the Bank to have regard to the Government’s housing policy objectives
- Agree/Disagree*
- b **indicate** if you wish to proceed with amending the monetary policy remit as proposed in your letter of 24 November
- Yes/No*

If yes:

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- c **agree** to write to the Governor setting out your decision on adding a house price consideration to the monetary policy remit

Agree/Disagree

- d **note** the Treasury will provide you with a draft Cabinet paper proposing the change for your agreement
- e **note** that further advice on the appropriate level of Ministerial involvement in financial policy under the future Deposit Takers regime will be provided to you in February.

Ben Gaukrodger
Acting Manager, Macroeconomic and Fiscal Policy

Hon Grant Robertson
Minister of Finance

SENSITIVE**Treasury Report: Requiring the Reserve Bank to have regard to house prices**

Purpose and Background

1. This report sets out some considerations in adding house prices to the monetary policy remit and forthcoming financial policy remit, and provides advice on what the wording of any change to the monetary policy remit should be.
2. This advice follows from your 24 November 2020 letter to the Governor of the Reserve Bank (the Bank) that consulted on a change to their monetary policy remit. Your proposal was to require the Monetary Policy Committee (MPC) to “seek to avoid unnecessary instability in house prices” whilst pursuing their operational objectives. The Bank replied that, amongst other things, they would prefer that consideration of house prices be explicitly required in their forthcoming financial policy remit, and possibly by issuing a section 68B direction, instead of their monetary policy remit.

Analysis

3. The MPC and the Bank, when setting monetary and financial policy, already considers house prices and housing costs to an extent. However, the way in which they consider them probably does not align with the broader concerns you have about high house prices.
4. Housing costs – for example, rents, maintenance and the cost of construction of a new house – enter into the measure of the Consumer Price Index (CPI) that the Bank target. However, the CPI does not include house prices directly, and it gives little weight to the cost of land (there is no measure of the cost of land for owner-occupiers in the CPI - the homeownership component only includes the cost of the building). Since land has been the main component of the increase in house prices over recent decades, these exclusions may mean the CPI gives an incomplete picture of housing inflation for policy purposes.
5. Residential lending is an important channel for the transmission of monetary policy, which provides another lens through which the Bank will consider house prices. Importantly though, the MPC considers housing costs, and to a lesser extent house prices, to the extent that they affect the MPC’s economic objectives as opposed to being given weight as they affect broader government objectives. Similarly, for financial policy the Bank are not required to consider the impact that house prices have on broader government objectives, only financial policy objectives.

Including a house price consideration in the monetary policy remit

6. The Reserve Bank Act allows you to specify, in the remit for the MPC, a requirement for the MPC to have regard to one or more matters in connection with seeking to achieve an economic objective.
7. Requiring the MPC to have regard to house prices when formulating monetary policy has the potential to better align the MPC’s decision making with your broader objectives. In the short-term, it is possible that requiring the Bank to have regard to house price stability might result in slightly higher interest rates and lower house prices than otherwise. Whether this is welfare enhancing would depend on the benefits of

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greater house price stability outweighing any costs that might arise from marginal impacts on the Bank's primary economic objectives.

8. However, we would not expect that the MPC would be able to have a significant impact on house prices in the long-run. Persistently higher interest rates than warranted by the MPC's economic objectives are likely to be costly. The primacy of the MPC's economic objectives of stable inflation and sustainable employment mean the impact on house price inflation is likely to be limited.
9. As the Reserve Bank set out in their response, monetary policy is a cyclical tool: it aims to adjust interest rates relative to their structural level (the level of interest rates that are neither stimulatory nor contractionary). Over time, a large reduction in the structural level of interest rates has contributed to rising house prices. The MPC have little control over the structural level of interest rates: they set the OCR (or use alternative monetary policy tools) to influence interest rates relative to this structural rate in order to manage the economic cycle.
10. Attempting to use monetary policy to change the long-run level of house prices would require a persistently higher level of interest rates than warranted by the MPC's economic objectives. At most, we would expect that the MPC would only mitigate the extremes of the interest rate cycle. Even then, if that entailed significant trade-offs with their economic objectives, then the requirement to have regard to house prices is unlikely to result in a significantly different monetary policy stance. This is likely to be the case presently, where there is a risk of further high house price growth but unemployment is elevated and CPI inflation is below the midpoint of the target band.
11. This is likely to be true for other, existing requirements in the MPC's remit too. For example, the MPC is currently required to "seek to avoid unnecessary instability in output, interest rates, and the exchange rate". At times, this requirement will be complementary to the MPC's primary objectives and at times in conflict. When it is in conflict, the MPC likely do not place significant weight on it – or they consider that the instability in output, interest rates and the exchange rate is necessary, not unnecessary.
12. Finally, there is a risk that requiring the Bank to have regard to house price instability creates uncertainty as to the MPC's commitment to their economic objectives. It could come at the cost of higher expected interest rates – for example, following your letter to the Governor, market expectations of interest rates for the 3rd quarter of 2021 shifted up by 9 basis points and the NZD/USD exchange rate by +0.7 per cent.

What wording would the requirement take?

13. What wording to choose depends on what government objective you are aiming to achieve when requesting the MPC to have regard to house prices. For example, if you were concerned with the impact that monetary policy might have on levels of inequality, then house prices would only capture one part of that impact and ignore other impacts such as broader asset prices and any offsetting impacts from low interest rates e.g. higher than otherwise employment for those on the margins of the labour market. Having said that, house prices will capture some aspects of the wealth inequality generated by high house prices, which create a large transfer of wealth towards property owners.
14. We understand there are three main options that have been identified by your office to require the Bank to have regard to house prices. These are marked up as potential additions to the monetary policy remit in bold below.

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"In pursuing the operational objectives, the MPC shall:

- i. have regard to the efficiency and soundness of the financial system, **as well as the stability of house prices** (option 1);*
- ii. seek to avoid unnecessary instability in output, interest rates, **house prices** and the exchange rate (option 2);*
- iii. discount events that have only transitory effects on inflation, setting policy with a medium-term orientation.*
- iv. **give consideration to the effect of monetary policy decisions on house prices and the potential associated risks to macroeconomic stability** (option 3)"*

15. Our preference is for option 2, to "seek to avoid unnecessary instability in house prices". It places house prices alongside unnecessary instability in output, interest rates and the exchange rate, which are *some* of the other potentially negative economic impacts that could be generated as the MPC pursue their economic objectives. That the wording would be to seek to avoid unnecessary instability helps to further clarify that this is a secondary objective – presumably there would be times when the MPC considered that house price changes were a necessary consequence of meeting their economic objectives.
16. Option 1 risks making consideration of the stability of house prices more of a financial stability consideration, whereas your letter to the Bank makes it clear that your concern with regard to house prices is broader than just financial stability. Option 3, "to give consideration to the effect of monetary policy decisions on house prices" does not make it clear what you want to happen to house prices, and the bank already consider the effect of monetary policy on house prices to the extent it impacts on their operational objectives. It also makes house prices a consideration with respect to macroeconomic stability, as opposed to your broader considerations. Our second preference would be option 1, rather than option 3.
17. In addition, we understand there has been a proposal that instead of a requirement to have regard to house prices, that house prices could instead be added to the Government economic objective that is specified in the remit. We think that adding a reference to house prices to the Government economic objective would carry less weight than adding an additional requirement to the remit.
18. A final alternative would be something that more explicitly specified the outcome that you are trying to achieve e.g. have regard to housing affordability, perhaps for specific groups. However, it might be that the objective is complicated to specify, given that you will have concerns about a number of different groups e.g. prospective first home buyers, recent buyers with large mortgages, as well as any flow on impacts on the rental market. It would be necessary to specify what groups you wanted to improve housing affordability for, as interest rates are a blunt tool and they would have different impacts on affordability for different groups.

Including a house price consideration in the formulation of financial policy

19. There is less likely to be a conflict between financial policy objectives and a requirement to consider house prices when setting financial policy, compared with the trade-off involved for monetary policy. More often, reducing house price growth will reinforce financial stability. Financial policy tools can also be more targeted to specific sectors of the housing market e.g. residential investors, in contrast to interest rates, which are quite a blunt tool.
20. Section 68B of the Reserve Bank of New Zealand Act allows you to issue a direction to the Bank to have regard to a government policy that relates to the Bank's financial

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policy functions. If you wish to proceed with a section 68B direction, you will need to consult with the Bank before giving a direction. This will need to be set out in a signed written statement, presented to the House of Representatives and published in the Gazette. The effect of any section 68B direction could be carried over into the financial policy remit after the passage of the Reserve Bank of New Zealand Bill.

21. Whilst choosing similar wording as for the monetary policy remit could be an option, section 68B refers to “a government policy”, which the Bank would be required to have regard to. Given the potential for financial policy tools to provide a more targeted approach in certain areas (for example on LVR settings), it would be important to consider exactly how to specify the government policy the Bank should have regard to and how the Bank would interpret any direction in carrying out its financial policy functions.
22. An alternative to issuing a section 68B direction is to begin consulting the Bank on the forthcoming financial policy remit. The financial policy remit will set out matters the Bank board should have regard to when pursuing the financial stability objective. However, this would only come into force once the Reserve Bank of New Zealand Bill is passed.
23. If you prefer this option, we can begin a process with the Bank of drafting a financial policy remit for your agreement before the Bill is passed, which includes a request for the Bank to have regard to the Government’s housing policy objectives. s9(2)(f)(iv)

Next Steps

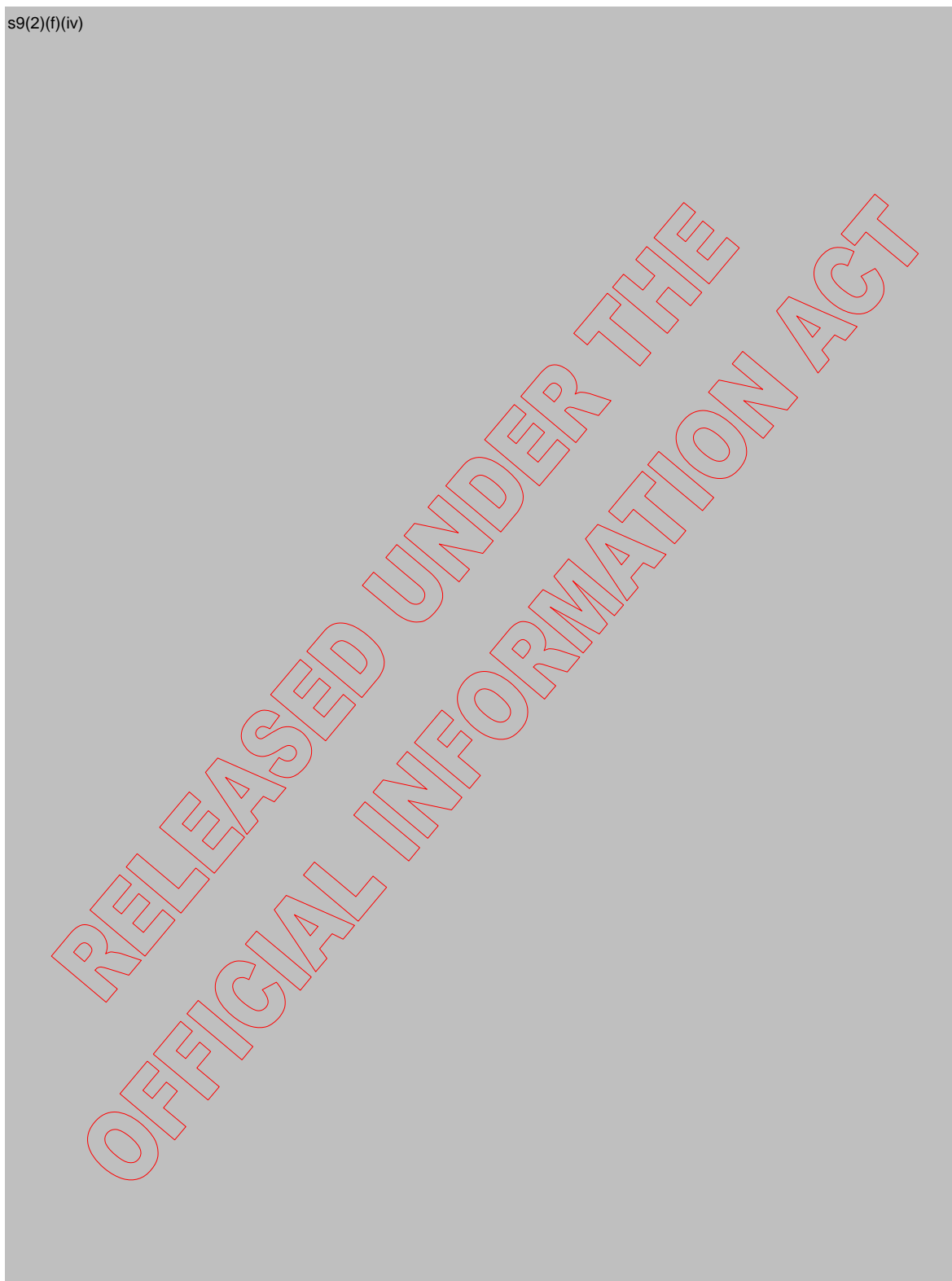
24. As you have already consulted the Bank on the change to the MPC’s monetary policy remit, if you are minded to proceed, no further consultation is necessary. However, we would recommend a letter be sent to the Reserve Bank informing them of your decision. This could also set out your decision on the section 68B direction or the future financial policy remit and that you would like to work with them to consider how best to articulate this. If you agree, we can draft the letter.

Ministerial involvement in financial policy under the Deposit Takers Act

25. In the future Deposit Takers Act (DTA) regime, there will also be a new process for how financial policy is developed and implemented. The Treasury and the Reserve Bank are currently considering the role of the Minister in financial policy decisions under the DTA (including standards for bank regulation). We are aiming to provide you with some advice in February on options for Ministerial involvement, for example in the setting of standards for bank regulation, that could progress broader government objectives.

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s9(2)(f)(iv)



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SENSITIVE**Annex 2: Current monetary policy remit**

The Government's Economic Objective

The Government's 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.

Context

Monetary policy plays an important role in supporting the Government's economic objective. The Reserve Bank of New Zealand Act 1989 (the Act) requires that monetary policy promote the prosperity and wellbeing of New Zealanders, and contribute to a sustainable and productive economy. Monetary policy contributes to public welfare by reducing cyclical variations in employment and economic activity whilst maintaining price stability over the medium term.

This remit is issued by the Minister of Finance to the Monetary Policy Committee (MPC) under Clause 3, Schedule 1 of the Act.

1) Monetary Policy Objectives

Under Section 8 of the Act the Reserve Bank, acting through the MPC, is required to formulate monetary policy with the goals of maintaining a stable general level of prices over the medium term and supporting maximum sustainable employment.

2) Operational Objectives

For the purpose of this remit the MPC's operational objectives shall be to:

- i. keep future annual inflation between 1 and 3 percent over the medium term, with a focus on keeping future inflation near the 2 percent mid-point. This target will be defined in terms of the All Groups Consumers Price Index, as published by Statistics New Zealand; and
- ii. support maximum sustainable employment. The MPC should consider a broad range of labour market indicators to form a view of where employment is relative to its maximum sustainable level, taking into account that the level of maximum sustainable employment is largely determined by non-monetary factors that affect the structure and dynamics of the labour market and is not directly measurable.

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

From: Neil Kidd [TSY]
Sent: Monday, 18 January 2021 2:46 pm
To: Yulia Gonina [TSY]; Ben Gaukrodger [TSY]
Subject: RE: Sign out in moto

Follow Up Flag: Follow up
Flag Status: Flagged

Ben – I've made the minor changes Caralee wanted. If you wanted to have a read – it is para 7 that has changed and a new para 13 added. A couple of other words changed but not really worth pointing out I don't think.

I have also got some feedback from Mario:

He has said – 1. AMP tools, whilst primarily working by lowering interest rates, could in future be designed so that they deliver stimulus but encourage less house price growth – at least in theory.

2- It is not clear the extent to which financial policy tools can impact on affordability / government housing objectives – this could be worth noting.

I've been concerned about whether we should acknowledge the first of these but I didn't want to have a big discussion of it – I think, so far, AMP tools have worked overwhelmingly by lowering interest rates and not e.g. encouraging lending directly. I would expect this would continue to be the case but I guess I acknowledge the idea that there could be tools out there (or circumstances) in which AMP works through different routes. I have added the following to para 9 – open to thoughts:

1. As the Reserve Bank set out in their response, monetary policy is a cyclical tool: it aims to adjust interest rates relative to their natural level (the level of interest rates that are neither stimulatory nor contractionary). Over time, a large reduction in the natural level of interest rates has contributed to rising house prices. The MPC have little control over the natural level of interest rates: they set the OCR (or use alternative monetary policy tools) to influence interest rates relative to this natural rate in order to manage the economic cycle. **In theory, AMP tools could offer a way to stimulate the economy whilst focussing stimulus away from the housing market. However, to date, these have worked primarily by further reducing market interest rates, and would have similar house price impacts to reductions in the OCR.**

On 2 – I have added the following to para 22:

2. Whilst choosing similar wording as for the monetary policy remit could be an option, section 68B refers to "a government policy", which the Bank would be required to have regard to. **We have not done a full assessment of the extent to which financial policy tools could impact on housing objectives.** Given the potential for financial policy tools to provide a more targeted approach in certain areas (for example on LVR settings), it would be important to consider exactly how to specify the government policy the Bank should have regard to and how the Bank would interpret any direction in carrying out its financial policy functions.

I've added those to the current version in imanage.

Given not going until tomorrow now, the actual signing can wait until then.

Neil

Out of scope

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From: [Neil Kidd \[TSY\]](#)
To: [Ben Gaukrodger \[TSY\]](#); [Dasha Leonova \[TSY\]](#); [Bryan Chapple \[TSY\]](#); [Renee Philip \[TSY\]](#); [James Beard \[TSY\]](#); [Sam Thornton \[TSY\]](#); [Leona Feng \[TSY\]](#); [Matthew Galt \[TSY\]](#); [Caralee McLiesh \[TSY\]](#)
Subject: RE: Readout from MoF - Treasury Report: requiring the Reserve Bank to have regard to house prices
Date: Tuesday, 26 January 2021 12:08:00 pm
Attachments: [financial stability in central bank remits - international comparisons.msg](#)
[UMP on distribution.docx](#)

Hi Caralee,

Thanks for this. A response to your specific questions and a couple of general thoughts.

You said “I am keen to know whether there is any literature on distributional consequences of monetary policy or practices in other central banks that we could draw on”.

1. What do other central banks do? We have looked at what other central banks have in their monetary policy remit, or equivalent. We’ve looked across a range of the main central banks and have not found any references to distributional outcomes, or house prices, to the extent that central banks are explicitly required to consider these factors in setting monetary policy. However, it is more common for the Government’s economic objective, often referenced in the remit (e.g. in the UK and NZ), to set out a distributional consideration. The much more common requirement is for some form of consideration to be given to financial stability – I reattach an email we sent in November last year setting out the requirements in several central banks. As the email says, In summary, of the central banks we’ve looked at, Norway and Australia probably go the furthest in acknowledging that there should be some flexibility to the inflation target to allow for financial stability considerations. In other central banks, some of the remits (e.g. UK) make reference to the need for financial stability and others (e.g. US) have published papers discussing how financial stability is a consideration in the committee’s policy decisions - these tend to be subordinate to the price stability objective (as the ECB explicitly sets out). In terms of practice, it is a little harder to say definitively what has motivated specific decisions and whether some of these concerns have played a role, perhaps at the margin. Most of what I read though – from both academics and practitioners, sets out a view/assumption that distributional concerns do not drive much decision making. Finally, there doesn’t seem to be much in the way of requirements for central banks to assess the impact that they have on distributional outcomes, at least in comparison to fiscal policy (although I admit I’ve done less of a significant search looking for it).
2. What is the literature on distributional impacts: with thanks to Mario - the best thing we have found on distributional impacts of monetary policy is a summary of the literature by the IMF produced last year – attached. It has a particular focus on AMP tools. Our summary of the summary would be: the evidence is mixed on the impact of monetary policy on income and wealth inequality but it is probably true to say that there are greater concerns with respect to AMP’s impact on inequality, particularly wealth inequality, than there are for conventional monetary policy. The note sets out several studies that found evidence of negative impacts on income and wealth inequality from AMP tools (whilst still noting that overall the evidence is mixed). There is also a speech

by Andy Haldane from the BoE, setting out their view of the impacts on inequality from the large monetary policy easing (conventional and AMP) following the GFC. They conclude that there were benefits from monetary easing across the income distribution, that these benefits were greatest for those at the top of the distribution but in proportion to existing income and wealth distributions and therefore did not exacerbate inequality. <https://www.bankofengland.co.uk/-/media/boe/files/speech/2018/how-monetary-policy-affects-your-gdp-speech-by-andy-haldane.pdf?la=en&hash=FCBD26BEE0C888B53856C099796780DED35190A4>

More broadly, the panel discussion gave me some confidence that we are broadly in the right area with our proposals: in particular, requiring the MPC to have regard to broader government objectives – whether that is distributional outcomes or house prices - but that this should not come at the cost of the primary objective. The panel were asked pretty explicitly how central banks should take into account some of these distributional concerns, and my reading of their answers was that the panellists all stopped short of suggesting anything particularly dramatic. Blanchard, for example, said he would like to see more assessment of the distributional impacts when decisions are taken and several of the panellists pointed to financial policy, rather than monetary, as being the more relevant lever. I think that is probably what we are aiming for wrt the monetary policy remit changes – require the Bank to transparently assess the broader impacts they are having (distributional, financial, house prices etc), have regard to them but not at the cost of the primary objective, and coordinate as appropriate with other parts of the system that can help to address those impacts. There might be options outside of the remit e.g. letter of expectations that can re-enforce these.

Finally, on financial stability considerations. Thanks for the paper – I had not already seen it. I'm still taking some time to think about how the argument that "it is time to position the endogenous buildup of macro-financial vulnerabilities at the heart of monetary policymaking" and the modelling that argues for incorporating financial vulnerabilities into the Taylor rule, sits with our, and the IMF's, more standard view that "leaning against the wind" is likely to be excessively costly in terms of the impact on the MPC's economic objectives. The author seems to square this away by arguing that his proposal is not leaning against the wind, as the adoption of his proposed rule would reduce the build-up of financial vulnerabilities as there is a credible commitment to respond to them – without necessarily needing to respond with higher rates (i.e. expectations play a role). Given we are mostly considering better coordination, as opposed to changes to the remit wrt financial stability (?), I think perhaps that question can wait – either way, we would want better identification of risks and coordination with financial policy to address them.

Thanks
Neil

From: Caralee McLiesh [TSY] <Caralee.McLiesh@treasury.govt.nz>

Sent: Wednesday, 20 January 2021 8:51 AM

To: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Ben Gaukrodger [TSY]

<Ben.Gaukrodger@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>;

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<Leona.Feng@treasury.govt.nz>; Matthew Galt [TSY] <Matthew.Galt@treasury.govt.nz>;

^Parliament: Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>

Subject: RE: Readout from MoF - Treasury Report: requiring the Reserve Bank to have regard to house prices

Thanks Neil, very helpful.

It strikes me there are two main policy concerns about house prices that could be addressed in the monetary policy remit: financial stability and distributional impacts. Clearly neither should be a primary consideration for monetary policy, the question is whether and if so how to indicate that consideration should be given to the tradeoffs for stability/distribution in formulating monetary policy.

I think there is a strong case to be made to reference house prices through financial policy links, as you suggest. I just read an IMF paper you may have seen already: "[Low for Long" and Risk-Taking \(imf.org\)](#), which makes the argument "a 'low for long' monetary policy faces a tradeoff between short-term output growth and medium-term financial stability risks...(and)... This paper argues that it is time to position the endogenous buildup of macro-financial vulnerabilities at the heart of monetary policymaking and proposes a parsimonious model to that effect." (my emphasis). It is worth us developing some options to discuss with the RBNZ that speak to the link between financial and monetary policy (and for that matter, an option that also references coordination with fiscal).

The other question is referencing distributional concerns, which has been the emphasis of government to date. Per our Tsy advice, amending section 2bii appears to be the most straightforward way to address this at a high level – but we should also consider a couple of other options given the feedback from yesterday's meeting. I am keen to know whether there is any literature on distributional consequences of monetary policy or practices in other central banks that we could draw on for when I discuss this with Adrian. I think the question is more one of awareness and analysis of distributional impacts rather than tools to manage it. As discussed, the PIIE panel had a few statements on the importance of monetary policy being cognisant of (but not responsible for) distributional impacts [Monetary Policy and Inequality: COVID-19 and Beyond | Event | PIIE](#). I'm planning to contact PIIE to check if they are willing to discuss with us.

Natalie grateful for any further context and also indication of timing (Andrew mentioned MOF would like an agreed approach by 24 Feb?).

Kind regards

Caralee

From: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>

Sent: Tuesday, 19 January 2021 10:42 pm

To: Ben Gaukrodger [TSY] <Ben.Gaukrodger@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Caralee McLiesh [TSY]

<Caralee.McLiesh@treasury.govt.nz>; Bryan Chapple [TSY] <Bryan.Chapple@treasury.govt.nz>;
 Renee Philip [TSY] <renee.philip@treasury.govt.nz>; James Beard [TSY]
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 Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Matthew Galt [TSY]
 <Matthew.Galt@treasury.govt.nz>; ^Parliament: Natalie Labuschagne
 <Natalie.Labuschagne@parliament.govt.nz>

Subject: Readout from MoF - Treasury Report: requiring the Reserve Bank to have regard to house prices

Just resending as I had Natalie's Tsy email and not her Parly one...

Natalie – see below

From: Neil Kidd [TSY]

Sent: Tuesday, 19 January 2021 10:41 PM

To: Ben Gaukrodger [TSY] <Ben.Gaukrodger@treasury.govt.nz>; Dasha Leonova [TSY]
 <Dasha.Leonova@treasury.govt.nz>; Caralee McLiesh [TSY]
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 Renee Philip [TSY] <renee.philip@treasury.govt.nz>; James Beard [TSY]
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 Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Matthew Galt [TSY]
 <Matthew.Galt@treasury.govt.nz>; Natalie Labuschagne [TSY]
 <Natalie.Labuschagne@treasury.govt.nz>

Subject: Readout from MoF - Treasury Report: requiring the Reserve Bank to have regard to house prices

Natalie called me with MoF's feedback on our report on house prices in the RB remits following his meeting with the Governor earlier today. Given I'm not in tomorrow I thought I would jot down that conversation. Natalie – you said you would email round tomorrow, feel free to just update this email with anything I've missed or not quite interpreted correctly if that suits better.

- Financial policy: He would like to progress a section 68B direction, which would then be reflected in the forthcoming financial policy remit. He acknowledged that consideration would be required as to how to phrase the government policy the RB should have regard to under the direction and that this could be a complicated question. He would like joint advice from Tsy and the RB on this issue.
- Monetary policy: He noted that Tsy and the RB were not on the same page on this issue – specifically with respect to the preferred wording, with the Governor favouring something added to the government objective set out at the beginning of the remit and Tsy preferring the Minister's wording in his letter – “to seek to avoid instability in house prices”. MoF would like us to explore if there is something that the Governor would be content with but still delivers the Minister's objectives. There were several points the MoF raised with respect to this:
 - o Is it possible to have words in another part of the remit, other than including it as a new requirement to have regard to in section 2B, while still achieving something?

- Is there a way of having something in the remit that captures what is already happening with respect to the RB considering house prices and just makes that explicit. As the Governor set out in his response, they do already consider house prices – so can we reflect that somewhere?
- Is it possible that the monetary policy remit could acknowledge the relationship that monetary policy has with financial policy

On the final sub-bullet above...I take this to mean: could we acknowledge somewhere in the remit that monetary policy creates some negative consequences and it is appropriate that monetary and financial policy be coordinated to tackle those consequences. Setting out an explicit expectation for coordination somewhere strikes me as useful – it might be that this should be broader than just wrt house price considerations and is mirrored in the forthcoming financial policy remit.

I will pick up on Thursday
Neil

From: Neil Kidd [TSY]
Sent: Friday, 15 January 2021 1:53 PM
To: ^Parliament: Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>
Cc: Ben Gaukrodger [TSY] <Ben.Gaukrodger@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Caralee McLiesh [TSY] <Caralee.McLiesh@treasury.govt.nz>; Bryan Chapple [TSY] <Bryan.Chapple@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>
Subject: Draft Treasury Report: requiring the Reserve Bank to have regard to house prices

Hi Natalie,

Please find attached the draft TR on requiring the Reserve Bank to have regard to house prices. We are still awaiting some further views from the Governor so we might have some things to add to a final version. Either way, we will provide a finalised version through the proper channels on Monday.

Thanks
Neil

Neil Kidd | Principal Advisor, Macroeconomic & Fiscal Policy | **The Treasury**
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Source: IMF Intendent evaluation of the IMF work on UMP impacts

<file:///C:/Users/dimaioM/Downloads/ump-bp05-the-risks-side-effects-of-ump-an-assessment-of-imf-views-analysis.pdf>

UNCONVENTIONAL MONETARY POLICIES AND INEQUALITY

Portfolio and labor income channels

6. It has long been recognized that monetary policy actions have distributional effects (Greenspan, 1998). Expansionary monetary policy, i.e., lowering of policy interest rates, lowers interest incomes, other things equal. At the same time, it also raises labor incomes by reducing unemployment and bringing about a recovery of the economy. Depending on their asset positions and labor force status, households can be affected differentially through these portfolio and labor income channels. The presumption, supported by some empirical evidence, has been that for the vast majority of households, the latter effect dominates and moreover that the gains in labor income are fairly evenly distributed (Romer and Romer, 1999). Thus, conventional expansionary monetary policy is generally believed to decrease income inequality. Moreover, since the monetary easing is usually reversed in a year or two as the economy recovers, the policy is considered not to have a permanent impact on the distribution of income, i.e., there is little impact on wealth inequality from conventional monetary policy.

7. Though similar channels operate in the case of UMP, there have been concerns that UMP may be more prone to raising inequality. The nature of the portfolio channel may be somewhat different with UMP than with conventional monetary policy. On the one hand, the cut in policy interest rates to zero and even to negative values—and the forward guidance to hold rates low for an extended period of time—lowers interest incomes on fixed-income assets, which tend to be held by older, retired people often with limited alternatives.¹ This point was emphasized in a 2013 study by McKinsey Global Institute, which shared that “younger households that are net borrowers” had benefited from UMP. On the other hand, with UMP, central banks are rather explicitly trying to push up the prices of risky assets (e.g., equity prices and house prices), which have larger shares in the portfolios of higher-income households. Critics have argued that this effect can be substantial and can even offset the equalizing impact of UMP through the labor income channel. Moreover, by leading to a persistent increase in the prices of risky assets, UMP may also have led to an increase in wealth inequality, not just income inequality, in part because UMP have persisted for much longer than a conventional monetary policy cycle.

8. Central banks undertaking UMP have been open to considering the possibility that their effects on income and wealth distribution may be less benign than in the case of conventional monetary policy (Fontan, Claveau, and Dietsch, 2016). In particular, central banks acknowledge that encouraging some risk-taking, and raising asset prices in the process (particularly benefiting wealthy households) is an important part of the transmission channel from UMP to the economy. However, they argue that while this channel taken in isolation might raise inequality, the beneficial—and fairly evenly distributed—gains in labor income from economic recovery are also likely to have been substantial, given the depth of the recession. Haldane (2018) argues that had UMP not been undertaken, the

¹ 4 Note, however, that in countries with negative interest rates, banks have typically chosen to protect retail customers by not applying negative rates to their deposits (Honohan, 2019).

distributional consequences would have been worse. Central banks also recommend that to the extent that there are adverse distributional consequences on some segments of the population, these would be better addressed through fiscal policy rather than by scaling back UMP.

Empirical evidence

9. The evidence on the impacts of UMP on income and wealth inequality is mixed. This is not surprising given the lack of a commonly accepted framework for analysis of such effects, the numerous ways in which inequality can be measured, the heterogeneity in household portfolio and labor force composition across countries (and even over the course of the decade), and differences in the timing and specifics of UMP programs. Nevertheless, a number of credible studies do find some evidence of an increase in inequality from UMP. At the same time, these studies do not generally provide evidence on what inequality would have been if UMP had not been carried out or if alternate policies had been adopted; hence, they do not offer a rebuttal of central banks' argument that the counterfactual would have been worse.

10. Key studies, many of them carried out by central banks, on the link between UMP and income inequality include the following:

- I. United States: Montecino and Epstein (2017) decompose changes in households' net income (total income minus interest payments on debt) between 2010 and 2013 into changes coming from employment and returns on various financial assets. They find that while employment changes and mortgage refinancing tended to narrow income inequality, these impacts were outweighed by the increase in inequality from realized equity returns. Using estimates from the literature on the impact of QE on the different 37 components, they conclude that the Fed's UMP led to modest increases in inequality over this period.⁵
- II. United Kingdom: Bunn, Pugh, and Yeats (2018) compare the actual change in income components of U.K. households between 2008 and 2014 with their hypothetical values had the BoE kept its monetary policy as in 2008 before the GFC. While UMP had a positive overall impact on aggregate household income, the upper part of the income distribution benefited from a larger increase than the lower part; in fact, the bottom decile percent are estimated to have lost out from the loosening of monetary policy. Mumtaz and Theophilopoulou (2017) also find that quantitative easing worsened income inequality in the United Kingdom, in contrast to the effects of conventional monetary policy easing.
- III. Japan: Saiki and Frost (2014) estimated UMP's effects on income inequality based on Japanese household survey data spanning from 2008 to 2013. They find that the use of UMP significantly widened income inequality in Japan, mostly through higher realized capital gains for the households at the top of the income distribution. Saiki and Frost (2018) revisited their initial study on a longer time span and confirm their initial results. Using a similar measure for QE on an extended sample (2002–17), TaghizadehHesary, Yoshino, and Shimizu (2018) confirm Saiki and Frost's results.⁶
- IV. Euro area: Empirical findings on the distributional impact of UMP in the euro zone have only recently started to emerge. In contrast to the literature cited above for the other countries, these studies tend to conclude that the ECB's UMP have or will lead to a decrease in income inequality. Some rely on the assumption that an equalizing impact through the labor market will eventually materialize and offset an initial increase in inequality due to lower interest incomes (Bundesbank, 2016). Others translate UMP into a decline in shadow policy interest rates, an assumption likely to understate the impact

of the portfolio balance channel—and the consequent increases in asset prices—which are a key transmission channel of UMP (Lenza and Slacalek, 2018).

11. The impact of UMP on wealth inequality is particularly difficult to assess, given greater challenges in measuring wealth than income. Nevertheless, there is suggestive evidence:

- The Bank of England (2012) notes that their UMP programs pushed up the prices of equities—of which 40 percent are held by the top 5 percent richest households—by at least as much as it has pushed up the price of the government bonds they bought.
- Adam and Tzamourani (2016) study the distributional consequences of asset price increases for euro area households. They find that gains from bond price increases have been spread evenly across households, leaving wealth inequality largely unchanged. In contrast, equity price increases largely benefited the top of net wealth (and income) distribution, and thus increased wealth inequality. House price increases display a hump shaped pattern over the net wealth distribution, with the poorest and richest households benefiting least.
- Domanski, Scatigna, and Zabai (2016) explore the impact of QE in different advanced economies using household survey data. They find that, while low interest rates and rising bond prices have had a negligible impact on wealth inequality, rising equity prices have been a key driver of inequality. Higher housing prices have only partly offset this effect.
- Dobbs and others (2013)⁷ examine the distributional effects and risk of QE and ultra-low interest rates in the United States, the United Kingdom, and the euro zone. They provide suggestive evidence that ultra-low interest rates have produced large distributional effects on both incomes and wealth in different segments of the population in advanced economies through changes in interest income and interest expense and through gains in house prices.

From: Neil Kidd [TSY]
Sent: Thursday, 28 January 2021 2:28 pm
To: Leona Feng [TSY]; Sam Thornton [TSY]; Mario DiMaio [TSY]; Renee Philip [TSY]; Dasha Leonova [TSY]; James Beard [TSY]
Subject: RE: Draft timetable of options for s 68B and remit.docx

Follow Up Flag: Follow up
Flag Status: Flagged

My view is that it would be good to have one TR that covered by the MP remit and the section 68B together. I think there are some interactions between the 2 of them. This is what I can envisage us recommending....

Updating the Government economic objective in the monetary policy remit to include a reference to house prices (possibly, but not necessarily, the exact language that the section 68B uses to describe the Government policy that financial policy should have regard to)

A new section in the MP remit that requires the MPC to assess (and possibly communicate) the impact their decisions are having on the government economic objective

A new requirement in the remit requiring the MPC to coordinate with financial policy with regards the impacts that monetary policy is having (on the government objective, or just generally?)

A section 68B that e.g. requires the Bank to have regard to some house price consideration when formulating financial policy

This hangs together as a package for me because it requires the MPC to assess the impact they are having on house prices, communicate that and coordinate with financial policy. In turn financial policy is required to have regard to house prices. So we are not requiring monetary policy to have regard to house prices but they do have to assess the impact and coordinate with the (more) appropriate financial levers for tackling high house prices.

So – one report would be useful. But that means we have to switch to option 2 timing or the section 68B gang need to hurry up and join us on option 1 – thoughts?

From: Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>
Sent: Thursday, 28 January 2021 12:07 PM
To: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>
Cc: Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>
Subject: RE: Draft timetable of options for s 68B and remit.docx

Hi Everyone,

I made a few tweaks (for clarity, not substance) to the timetable before sending it onto the Minister last night. I have attached that version which:

- Makes it clearer in Option 1 that there will be 2 Cabinet papers - one on Tax/Housing and one on the remit/s68 decisions. I understood from discussions that 2 separate cab papers is the preference for officials/RBNZ. Both Cab papers are essentially on the same time track, except that the first draft of the Tax/Housing is due to the office on the 4th.
- Based on the first bullet, and that your timetable noted that the Minister will receive the draft Cab paper on the 10th Feb, I made changes to clarify that MoF would not take an Oral item to Cabinet on the 15th but would take the actual s68 and remit paper Cab paper.
- Also to note, Ministers are being asked to always take papers through a Cab committee (hence my emphasis on the 2 oral items at DEV).

Please shout out ASAP if there are concerns with any of the tweaks attached but hopefully not.

Based on the attached the Minister noted:

- The slower timetable for both (Option 2) is not the Minister's first preference but he can accept it if that is necessary to make sure "we get it right". Particularly for S68B where we are in new territory.
- However, the trade-off for the Minister is the remit. The Minister accepts that either way the Governor will be asked how this would have affected the decision or has affected the decision.
- But the Minister's view is that officials should see if they can get the remit done in the next week or two before the Tax/Housing Cabinet paper. If not, then officials can revert to the intention for both.

I hope this clarifies things but give me a call if not.

Natalie



Natalie Labuschagne | Economic Advisor

Office of Hon Grant Robertson

Minister of Finance

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From: Leona Feng [TSY] [<mailto:Leona.Feng@treasury.govt.nz>]

Sent: Wednesday, 27 January 2021 5:31 PM

To: Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>

Cc: Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>;

Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Neil

Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>

Subject: RE: Draft timetable of options for s 68B and remit.docx

Hi Natalie

Below is the updated timetable doc for MoF and some comments from Treasury and RBNZ. Much appreciated if you could let us know if MoF has any feedback (particularly around preferred timing of the announcement and what he would like to announce).

Treasury view

Option 2 would be preferable to allow more time to develop options and think through the broader policy implications. However, we think Option 1 would also be workable, though there are some risks to timing as we undertake consultation and seek agreement on the wording of s 68B and the remit changes. There may also be some legal risks around the definition of what 'government policy' is and what the RBNZ's relevant 'functions' are.

There is a judgement to be made about whether to announce the confirmed wording of the remit before or after the MPC statement on 24 February. If the wording of the remit is announced before the MPC statement, the Governor would likely be questioned on how the decision would have been different under the new remit (acknowledging that it is not yet in effect).

RBNZ view

Option 2 would allow for extra consultation time so that the wording for s.68B is exactly right. It would be the first time this option in the legislation has been exercised and we would want to make sure it is done well, also with a view to how the RBNZ might be able to respond to it.

Option 2 will give us more time to think about how the Reserve Bank will respond to the Direction before it is announced and would bring the public announcement closer to the Governor's speech. That should make communications easier for both sides, aligning messages where possible and demonstrating that Treasury and the Reserve Bank are coordinating effectively around this issue.

Allowing some time between the RBNZ LVR announcement and the s 68B direction will also make it easier to articulate how the direction has been taken into account, which RBNZ thinks would also be in the Minister's interest. The gap between the LVR announcement in early February and the s.68B announcement in later February should also make it clear that the s.68B Direction is not a reaction to the LVR decision, which otherwise could be misinterpreted by the media as RB and Tsy/minister not being fully coordinated. The RBNZ's LVR decision announcement is likely to include an indication that they will be monitoring the impact of the new settings and will revisit them in a few months' time, with a view to using the FSR as a vehicle for any potential update announcements.

From a monetary policy point of view, Option 2 would give the RBNZ more time to coordinate with MPC and the board on the changes, and also provides greater clarity that February MPS decisions are being made under the existing remit.

Cheers
Leona

From: Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>
Sent: Wednesday, 27 January 2021 3:26 pm
To: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>
Cc: Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>
Subject: RE: Draft timetable of options for s 68B and remit.docx

Fab – thank you everyone.



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 Minister of Finance
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From: Leona Feng [TSY] [<mailto:Leona.Feng@treasury.govt.nz>]
Sent: Wednesday, 27 January 2021 3:22 PM
To: Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>
Cc: Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>
Subject: Draft timetable of options for s 68B and remit.docx

Hi Natalie

As discussed, here is a draft timetable for options to implement s 68B and the MP remit changes.

We will get back to you later this afternoon to confirm whether RB has any feedback once we have had a chat with them, along with any further background/comments on timing risks.

Cheers
Leona



Leona Feng | Senior Analyst, Financial Markets | Te Tai Ōhanga – The Treasury

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Date	Option 1 (fast track) - MoF announces <i>actual</i> <ul style="list-style-type: none"> 68B direction changes to MP remit 	Option 2 (slower track) - MoF announces <i>intention to</i> : <ul style="list-style-type: none"> issue s68B direction changes to MP remit
1 Feb	Tsy to work up text for s68B, consult with RBNZ on text RBNZ and Tsy to agree text for remit	Draft options for remit changes and s68B, discuss approach with RBNZ
4 Feb	TR: Tax policy advice paper signals next steps on s68B and remit TR: Substantive advice on s68 and remit (You will receive a draft Tax/Housing Cab paper)	TR: Tax policy advice paper signals next steps on s68B and remit (You will receive a draft Tax/Housing Cab paper)
5 or w/c 9 Feb	RBNZ announces LVR decision	RBNZ announces LVR decision Tsy to finalise draft text for remit and s68B, consult with RBNZ on text
W/c 8 Feb	DEV: Oral item on upcoming Tax/Housing Cab paper Oral item on upcoming Cab paper on direction on remit and s68B	DEV: Oral item on upcoming Tax/Housing Cab paper includes high level direction on remit and s68B
10 Feb	You will receive a draft Cab paper with s68 and remit decisions for lodging that week	TR: Substantive advice to MoF on s68B and Remit
11/12 Feb	Lodging of Tax Cab paper Lodging of s68 and remit Cab paper	Lodging of Tax Cab paper (includes high level direction on remit and s68B)
15 Feb	CAB: Tax Cabinet paper considered. CAB: s68B and remit Cab paper considered	CAB: Tax Cabinet paper considered (paper signals intention to issue s68B and remit).
15-24 Feb	Possible Govt announces and issues s68B alongside other housing measures (Gazette and table s68B in Parliament) Govt announces actual wording of remit changes	Govt announces <u>intention</u> to issue s68B and <u>direction</u> of MP remit changes alongside other housing measures
22 Feb	Executive Council – OIC – for remit changes	<i>Incorporate feedback from MoF and revise draft Cab paper on s68 and remit</i>
24 Feb	MPS (decision taken under old remit)	MPS (decision taken under old remit)
After 24 Feb	Govt issues new MP remit (following OIC process) Present remit to the House	
25 Feb		Lodging of s68 and remit Cab paper
1 March		Cabinet approval, Executive Council approves OIC for remit changes
After 1 March		Gazette and table s68B in Parliament Announcement of s68B and remit changes (following OIC process)

3 or 4 March	Governor speech outlining how the Bank will take new remit / s68b into account	Present remit to the House Governor speech outlining how the Bank will take new remit / s68b into account
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From: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>
Sent: Friday, January 22, 2021 3:18 PM
To: Michael Thornley <Michael.Thornley@rbnz.govt.nz>

Cc: Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>

Subject: RE: RBNZ Tsy Alternative Monetary Policy catch up

Hi Mike, Chris,

I thought I would jot down my readout about what the Minister decided on section 68B, financial policy remit and monetary policy remit (received from our secondee in his office) to help ensure we are on the same page. I know it will be your first day back Mike but do you think we could meet on Tuesday? I'm out of office on the Wednesday and an initial chat might be useful? It can probably wait til Thursday if not.

- Financial policy: He would like to progress a section 68B direction, which would then be reflected in the forthcoming financial policy remit. He acknowledged that consideration would be required as to how to phrase the government policy the RB should have regard to under the direction and that this could be a complicated question. He would like joint advice from Tsy and the RB on this issue.
- Monetary policy: He noted that Tsy and the RB had different preferences for the exact wording to capture a house price consideration. MoF would like us to explore if there is something everyone would be content with but still delivers his objectives. There were several points the MoF raised with respect to this:
 - Is it possible to have words in another part of the remit, other than including it as a new requirement to have regard to in section 2B, while still achieving something?
 - Is there a way of having something in the remit that captures, and makes explicit, what is already happening with respect to the MPC considering house prices?
 - Is it possible that the monetary policy remit could acknowledge the relationship that monetary policy has with financial policy

On the final sub-bullet above...I take this to mean: could we acknowledge somewhere in the remit that monetary policy creates some negative consequences (including the distributional consequences of high house prices) and it is appropriate that monetary and financial policy be coordinated to tackle those consequences.

Hope you both have/had a good long weekend,
Neil

Out of scope

Out of scope

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OFFICIAL INFORMATION ACT

From: Elle Hughes [TSY]
Sent: Wednesday, 3 February 2021 3:06 pm
To: Michael Thornley
Subject: RE: Consultation timeframes - joint report on RB housing objectives

Amazing, thanks! Leona incorporating in her section now. On track to have something with you within the next half a

From: Michael Thornley <Michael.Thornley@rbnz.govt.nz>
Sent: Wednesday, 3 February 2021 2:56 pm
To: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>
Subject: RE: Consultation timeframes - joint report on RB housing objectives

Elle,

I owed you wording on how the Bank would interpret 'sustainable house prices'. I suspect you're manically compiling comments as I type, but if you have the chance to include it, here are some words:

'Supporting sustainable house prices' requires the Bank to consider how its financial policies, including capital requirements and loan-to-value ratio policies, affect house prices against some sustainable level. In practice, this would require an assessment of whether house prices are within some range of 'fair value'.^[1] This includes looking for signs of shorter-term portfolio investment drivers related to expected capital gains, eg a significant rise in the share of houses purchased by property investors or an unwarranted fall in rental yields.

^[1] Measures of fair value include comparison of house prices to (i) the affordability of owner occupiers in the prevailing macroeconomic environment or (ii) the cost of building a new house.

No problem if it is too late!

Mike

From: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>
Sent: Wednesday, February 3, 2021 12:28 PM
To: Michael Thornley <Michael.Thornley@rbnz.govt.nz>
Subject: RE: Consultation timeframes - joint report on RB housing objectives

Hi Mike,

Just tried to call you re this, to relay a bit of the discussions we're having with legal – not sure how in the loop Nick's been to date, but might be worthwhile bringing him closer in to review when report circulated later today.

Thanks for relaying, and will consider it – and reflect in report partly in light of how PCO are likely to react to such drafting instructions.

Out of scope

From: Michael Thornley <Michael.Thornley@rbnz.govt.nz>
Sent: Wednesday, 3 February 2021 11:37 am
To: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>
Subject: RE: Consultation timeframes - joint report on RB housing objectives

Hi Elle,

On the MPC remit and need to remove the cross-reference with s68B, Christian has asked:

I don't understand how asking the MPC to "assess" something can be "inconsistent with the economic objective", as it does call on any action from the MPC in regard to its tools or objective.

I think that is a fair challenge. Grateful if you could consider it. Ultimately, we could propose the policy with having a s68B cross-reference and let PCO weigh up this question.

Cheers
Mike

From: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>
Sent: Tuesday, February 2, 2021 2:53 PM
To: Michael Thornley <Michael.Thornley@rbnz.govt.nz>
Subject: RE: Consultation timeframes - joint report on RB housing objectives

Superb, and yes! Relevant folk will be there. See you level 3 – advanced apologies for squishy room booking.

From: Michael Thornley <Michael.Thornley@rbnz.govt.nz>
Sent: Tuesday, 2 February 2021 2:50 pm
To: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>
Subject: RE: Consultation timeframes - joint report on RB housing objectives

Hi Elle – just to confirm that Chris, Cavan and I will head over to TSY at 3:30. Useful if you can bring along the key people at your end (if they are free).

See you soon ☺

From: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>
Sent: Monday, February 1, 2021 11:35 AM
To: Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Stephen Revill [TSY] <Stephen.Revill@treasury.govt.nz>; Stephen Bond [TSY] <Stephen.Bond@treasury.govt.nz>; Felicity Barker [TSY] <Felicity.Barker@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>
Cc: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>
Subject: Consultation timeframes - joint report on RB housing objectives

Hi all,

This email provides a heads up on our intended timelines for consulting you on the upcoming joint report on requiring the Bank to have regard to house prices, due with the Minister on Thursday. As you know, the report will provide follow-up advice on options to issue a s68b direction, and options to amend the remit, to support the Government's housing objectives.

On timelines, we're planning for –

- i. **COP today** – circulate a first draft to you for working-level comments.
- ii. **12pm Tuesday** – receive working-level comments, Treasury teams to revise accordingly.
- iii. **COP Tuesday** – circulate a revised draft for comments from Caralee, Bryan Chapple, Bank SLT (via Mike, Chris).
- iv. **12pm Wednesday** – receive SLT-level comments, revise accordingly.
- v. **COP Wednesday** – circulate for Treasury managers' sign out (Renee, Dasha/Sam), and for near-final Bank visibility.
- vi. **Thursday** – to Minister, final version circulate fyi.

Please let us know if that doesn't look practicable, or if there are any others we should also be include in circulation rounds.

Best,

Elle



**TE TAI ŌHANGA
THE TREASURY**

Elle Hughes | Macroeconomic and Fiscal Policy | **Te Tai Ōhanga – The Treasury**

Tel: s9(2)(k) | Email: Elle.Hughes@treasury.govt.nz

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^[1] Measures of fair value include comparison of house prices to (i) the affordability of owner occupiers in the prevailing macroeconomic environment or (ii) the cost of building a new house.

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

From: Elle Hughes [TSY]
Sent: Thursday, 4 February 2021 11:24 am
To: michael.thornley@rbnz.govt.nz; chris.bloor@rbnz.govt.nz
Cc: Neil Kidd [TSY]; Renee Philip [TSY]
Subject: Expiry of replacement remit

Hi Mike, Chris,

There's a choice about when we specify the replacement remit should expire (up to 5 years from being issued). We'd like to get MoF's agreement to an expiry date in this TR to help inform drafting for the Cab paper. We're leaning to recommend it expire in line with when the current remit would expire (14 February 2024). Do you have views/preferences? Happy to chat.

Elle



Elle Hughes | Macroeconomic and Fiscal Policy | **Te Tai Ōhanga – The Treasury**

Tel: s9(2)(k) | Email: Elle.Hughes@treasury.govt.nz

From: Bryan Chapple [TSY]

Out of scope

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

From: Renee Philip [TSY] <renee.philip@treasury.govt.nz>

Sent: Thursday, 4 February 2021 6:13 PM

To: Bryan Chapple [TSY] <Bryan.Chapple@treasury.govt.nz>

Cc: James Beard [TSY] <James.Beard@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>

Subject: FW: For review - DRAFT Treasury Report on Housing Policy and the Reserve Bank

Hi Bryan

RB comments attached - We didn't manage to get this out before Natalie went home so will be picking up the Bank's comments overnight, doing some consistency checks and sending it across tomorrow.

Their most significant comment was about the remit. Consistent with what you agreed, the Bank have redrafted the remit recommendation to the following (changes in bold):

The Treasury and the Bank jointly recommend that you seek a new remit that incorporates the government's housing policy **via a reference to s68b directions**. Indicative proposed wording agreed between the Treasury and the Bank is:

*In pursuing the operational objectives, the MPC shall: [...] Assess the potential material impacts of its monetary policy decisions **on Government policies outlined in section 68B directions**.*

As discussed, we are a bit uncomfortable with this s9(2)(h)

s9(2)(h) One option would be to delete the words "agreed between the Treasury and the Bank" just before the wording, which we would be slightly more comfortable with, but we are cognisant of your agreement and don't want to go back on that. Also we know the MoF had wanted us to agree wording. Let me know if you would be comfortable with us making this change, otherwise we'll leave it as is.

If you want to see it the latest imange version is here: [Treasury Report: Housing policy and the Reserve Bank \(Treasury:4414750v1\)](#) [Add to worklist](#)

I'm WFH in the morning but we're aiming to get to Natalie by 10

Cheers
Renee

From: Chris Bloor <Chris.Bloor@rbnz.govt.nz>
Sent: Thursday, 4 February 2021 5:49 pm
To: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>
Cc: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Freya Dean [TSY] <Freya.Dean@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>; Stephen Revill [TSY] <Stephen.Revill@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>
Subject: RE: For review - DRAFT Treasury Report on Housing Policy and the Reserve Bank

We have a few minor edits, reflecting our understanding of the discussion. Let me know if any issues.

Cheers,
Chris

From: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>
Sent: Thursday, 4 February 2021 5:24 PM
To: Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Chris Bloor <Chris.Bloor@rbnz.govt.nz>; James Beard <james.beard@treasury.govt.nz>
Cc: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Freya Dean [TSY] <Freya.Dean@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>; Stephen Revill [TSY] <Stephen.Revill@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>
Subject: RE: For review - DRAFT Treasury Report on Housing Policy and the Reserve Bank

Hi all

Please see attached the final draft report for your review.

This includes Legal advice that this is being shared for reasons of common interest, subject to confidentiality, and is not intended to be a waiver of legal privilege. We are still working through the final text for the Legal advice. We have highlighted in the comments where substantive changes for your review.

Much appreciated if you could get back to us within the next 15 minutes, apologies for the tight timeframes.

Kind regards
Leona

From: Michael Thornley <Michael.Thornley@rbnz.govt.nz>
Sent: Thursday, 4 February 2021 9:29 am
To: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Chris Bloor <Chris.Bloor@rbnz.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>
Cc: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Freya Dean [TSY] <Freya.Dean@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>; Stephen Revill [TSY] <Stephen.Revill@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>
Subject: RE: For review - DRAFT Treasury Report on Housing Policy and the Reserve Bank

Hi Elle,

Ahead of our meeting, please find attached our comments on the report.

We understand that Adrian will discuss the report with Caralee later today and is seeking to narrow the options down to one joint recommendation. Our comments are based on the current draft, which includes a TSY and Bank option for the direction.

The key points are:

- We have concerns about the 'creating opportunities for first home buyers' language in Option 2. We think that is a separate objective and one we can't achieve. We would also be very uncomfortable with using that wording in the MPC remit
- We continue to believe it is best to remove option 3

A more minor but important point is that 'we' is used throughout the report. It will be necessary to check that 'we' cannot be misconstrued to refer to the Bank and TSY in places (I've picked up a few in the attached comments)

Regards
Mike

From: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>
Sent: Wednesday, February 3, 2021 3:32 PM
To: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; James Beard <james.beard@treasury.govt.nz>
Cc: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Freya Dean [TSY] <Freya.Dean@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>; Stephen Revill [TSY]

<Stephen.Revill@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>

Subject: For review - DRAFT Treasury Report on Housing Policy and the Reserve Bank

Hi all,

Please find attached the latest draft of the report, and section 68B direction. As discussed, there are still placeholders we're working to resolve (particularly on process implications), but expect this should be close enough to tease out any final comments, and/or views to be reflected. Could you please provide comments by tomorrow morning.

This has still yet to be reviewed by our senior leadership team, and we'll touch base on any significant consequential changes we propose.

Let's pencil in a feedback chat tomorrow morning to work through any outstanding issues (and update where we get to between now and COP)? 9.30am?

Elle

From: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>

Sent: Tuesday, 2 February 2021 6:01 pm

To: Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>

Cc: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>;

Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Cam Vannisselroy [TSY]

<Cam.Vannisselroy@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Renee Philip [TSY]

<renee.philip@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Freya Dean [TSY]

<Freya.Dean@treasury.govt.nz>

Subject: For review: Draft s 68B and advice on interest-only loans

Hi Cavan, Chris and Mike

Thanks for your comments below and meeting with us today.

As discussed, attached is a first draft of the section 68B direction for your review. This is based on Option 2 in the draft briefing, and would obviously be subject to the Minister's final preferences on wording.

We have also decided to put the advice on interest-only mortgages into a separate report, which is attached for your review.

We will get the revised TR over to you tomorrow for consultation. It would be useful if you could also provide us with any text on the Reserve Bank's views on the options and how it would interpret the policy of 'sustainable house prices'.

Kind regards



**TE TAI ŌHANGA
THE TREASURY**

Leona Feng | Senior Analyst, Financial Markets | Te Tai Ōhanga – The Treasury

Tel: s9(2)(k) | Email/IM: Leona.Feng@treasury.govt.nz

From: Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>

Sent: Tuesday, 2 February 2021 12:57 pm

To: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Stephen Revill [TSY] <Stephen.Revill@treasury.govt.nz>; Stephen Bond [TSY] <Stephen.Bond@treasury.govt.nz>; Felicity Barker [TSY] <Felicity.Barker@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>; Ben Thirkell-White <Ben.Thirkell-White@rbnz.govt.nz>

Cc: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>

Subject: RE: For review: Draft report on RB and housing objectives

Hi Leona,

Thanks for sharing the first draft of the report with us. It is shaping up nicely and a great effort in such a short period of time. Below is a list of high level comments, and there are a few more track changes in the document.

Feel free to contact me if you have any questions.

Regards,

Cavan

Summary of comments to Treasury:

High level comments:

- This report seems to assume that the Minister can direct or encourage the Reserve Bank to use specific tools, and that this is both desirable and within the spirit / letter of s68b (this comes through most clearly in the discussion of interest-only lending and in option 3). However, s68B specifically states that "The Minister may not give a direction that requires the performance or non-performance of a particular act by the Bank". That is, the notion of s68B is to give the Reserve Bank an idea of a government policy and the Reserve Bank chooses how to take account of it via its various tools (rather than be directed or encouraged to use a particular tool, including whether or not to restrict interest only mortgages).
- Some of the positioning throughout the document, including in paragraphs 24, 27 and 30 needs to be reframed. We suggest that this is reframed to note that Reserve Bank and Government have separate objectives, and while Government will not instruct the Reserve Bank how to do its job, it can give the Bank some of the Government's objectives to have regard to when setting policy. This will not lead the Reserve Bank to noticing new risks, but may lead to the Bank tilting their tools / calibration to achieve the same outcome in a different way.
- There seems to be some confusion between the Reserve Bank's functions (which the s68b direction should relate to) and the Bank's objectives. That is, the direction should not be tied back to soundness and efficiency (the Reserve Bank's objectives), rather it should be giving the Bank another factor to have regard to, while leaving the Bank to determine what constitutes a risk to soundness and efficiency. This is a technical point but worth correcting, in our opinion.

Options:

- There is reference to a government economic objective to "decrease house price acceleration". This is slightly confusing, we suggest reframing this as "sustained low/moderate house price growth over time".
- It may be worth dropping Option 3 for the s68B direction as it adds nothing above Option 2. The additional wording "which could be considered when the RBNZ is developing relevant financial policy, for example on loan-to-value ratios, debt-to-income ratios and risk weighted assets" adds nothing, as under the Act the Bank will already have to have regard to the direction when setting financial policy.

MPC remit:

- The MPC remit section all looks fine, and is consistent with our preferred direction.

From: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>

Sent: Monday, 1 February 2021 6:05 PM

To: Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Stephen Revill [TSY] <Stephen.Revill@treasury.govt.nz>; Stephen Bond [TSY] <Stephen.Bond@treasury.govt.nz>; Felicity Barker [TSY] <Felicity.Barker@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Ben Thirkell-White <Ben.Thirkell-White@rbnz.govt.nz>

Cc: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; James Beard <james.beard@treasury.govt.nz>

Subject: For review: Draft report on RB and housing objectives

Hi all

Attached is the first draft of the report on changes to the remit and s 68B direction.

Please note that this draft (and any preferred options/recommendations) only reflects working level views at the moment, and the draft has yet to be reviewed by managers or go through the QA process.

We will also be adding in some text on the interdependencies between section 68B and the remit changes in the next version of the report, and will aim to circulate this along with a draft section 68B and remit for review later tomorrow. In the meantime, we would welcome any initial comments you have on this first draft.

Kind regards



Leona Feng | Senior Analyst, Financial Markets | Te Tai Ōhanga – The Treasury

Tel: s9(2)(k) | Email/IM: Leona.Feng@treasury.govt.nz

From: Chris Bloor <Chris.Bloor@rbnz.govt.nz>

Sent: Monday, 1 February 2021 2:17 pm

To: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Stephen Revill [TSY] <Stephen.Revill@treasury.govt.nz>; Stephen Bond [TSY] <Stephen.Bond@treasury.govt.nz>; Felicity Barker [TSY] <Felicity.Barker@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>

Cc: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>

Subject: RE: Consultation timeframes - joint report on RB housing objectives

Hi Elle,

We should be able to work to these timeframes. Adrian is keen to stay looped in earlier, so we will be sharing the draft report with him when it comes around tonight.

I've copied in Cavan for the s68 material – he should be added to the circulation list as well.

Cheers,
Chris

From: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>

Sent: Monday, 1 February 2021 11:35 AM

To: Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Stephen Revill [TSY] <Stephen.Revill@treasury.govt.nz>; Stephen Bond [TSY] <Stephen.Bond@treasury.govt.nz>; Felicity Barker [TSY] <Felicity.Barker@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>

Cc: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>

Subject: Consultation timeframes - joint report on RB housing objectives

Hi all,

This email provides a heads up on our intended timelines for consulting you on the upcoming joint report on requiring the Bank to have regard to house prices, due with the Minister on Thursday. As you know, the report will provide follow-up advice on options to issue a s68b direction, and options to amend the remit, to support the Government's housing objectives.

On timelines, we're planning for –

COP today – circulate a first draft to you for working-level comments.

12pm Tuesday – receive working-level comments, Treasury teams to revise accordingly.

COP Tuesday – circulate a revised draft for comments from Caralee, Bryan Chapple, Bank SLT (via Mike, Chris).

12pm Wednesday – receive SLT-level comments, revise accordingly.

COP Wednesday – circulate for Treasury managers' sign out (Renee, Dasha/Sam), and for near-final Bank visibility.

Thursday – to Minister, final version circulate fyi.

Please let us know if that doesn't look practicable, or if there are any others we should also be include in circulation rounds.

Best,

Elle



Elle Hughes | Macroeconomic and Fiscal Policy | **Te Tai Ōhanga – The Treasury**

Tel: s9(2)(k) | Email: Elle.Hughes@treasury.govt.nz

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RELEASED UNDER THE
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From: Bryan Chapple [TSY]

Out of scope

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

From: Renee Philip [TSY] <renee.philip@treasury.govt.nz>

Sent: Thursday, 4 February 2021 6:13 PM

To: Bryan Chapple [TSY] <Bryan.Chapple@treasury.govt.nz>

Cc: James Beard [TSY] <James.Beard@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>

Subject: FW: For review - DRAFT Treasury Report on Housing Policy and the Reserve Bank

Hi Bryan

RB comments attached - We didn't manage to get this out before Natalie went home so will be picking up the Bank's comments overnight, doing some consistency checks and sending it across tomorrow.

Their most significant comment was about the remit. Consistent with what you agreed, the Bank have redrafted the remit recommendation to the following (changes in bold):

The Treasury and the Bank jointly recommend that you seek a new remit that incorporates the government's housing policy **via a reference to s68b directions**. Indicative proposed wording agreed between the Treasury and the Bank is:

*In pursuing the operational objectives, the MPC shall: [...] Assess the potential material impacts of its monetary policy decisions **on Government policies outlined in section 68B directions**.*

As discussed, we are a bit uncomfortable with this s9(2)(h)

s9(2)(h) One option would be to delete the words "agreed between the Treasury and the Bank" just before the wording, which we would be slightly more comfortable with, but we are cognisant of your agreement and don't want to go back on that. Also we know the MoF had wanted us to agree wording. Let me know if you would be comfortable with us making this change, otherwise we'll leave it as is.

If you want to see it the latest imange version is here: [Treasury Report: Housing policy and the Reserve Bank \(Treasury:4414750v1\)](#) [Add to worklist](#)

I'm WFH in the morning but we're aiming to get to Natalie by 10

Cheers
Renee

From: Chris Bloor <Chris.Bloor@rbnz.govt.nz>
Sent: Thursday, 4 February 2021 5:49 pm
To: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>
Cc: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Freya Dean [TSY] <Freya.Dean@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>; Stephen Revill [TSY] <Stephen.Revill@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>
Subject: RE: For review - DRAFT Treasury Report on Housing Policy and the Reserve Bank

We have a few minor edits, reflecting our understanding of the discussion. Let me know if any issues.

Cheers,
Chris

From: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>
Sent: Thursday, 4 February 2021 5:24 PM
To: Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Chris Bloor <Chris.Bloor@rbnz.govt.nz>; James Beard <james.beard@treasury.govt.nz>
Cc: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Freya Dean [TSY] <Freya.Dean@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>; Stephen Revill [TSY] <Stephen.Revill@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>
Subject: RE: For review - DRAFT Treasury Report on Housing Policy and the Reserve Bank

Hi all

Please see attached the final draft report for your review.

This includes Legal advice that this is being shared for reasons of common interest, subject to confidentiality, and is not intended to be a waiver of legal privilege. We are still working through the final text for the Legal advice. We have highlighted in the comments where substantive changes for your review.

Much appreciated if you could get back to us within the next 15 minutes, apologies for the tight timeframes.

Kind regards
Leona

From: Michael Thornley <Michael.Thornley@rbnz.govt.nz>
Sent: Thursday, 4 February 2021 9:29 am
To: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Chris Bloor <Chris.Bloor@rbnz.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>
Cc: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Freya Dean [TSY] <Freya.Dean@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>; Stephen Revill [TSY] <Stephen.Revill@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>
Subject: RE: For review - DRAFT Treasury Report on Housing Policy and the Reserve Bank

Hi Elle,

Ahead of our meeting, please find attached our comments on the report.

We understand that Adrian will discuss the report with Caralee later today and is seeking to narrow the options down to one joint recommendation. Our comments are based on the current draft, which includes a TSY and Bank option for the direction.

The key points are:

- We have concerns about the 'creating opportunities for first home buyers' language in Option 2. We think that is a separate objective and one we can't achieve. We would also be very uncomfortable with using that wording in the MPC remit
- We continue to believe it is best to remove option 3

A more minor but important point is that 'we' is used throughout the report. It will be necessary to check that 'we' cannot be misconstrued to refer to the Bank and TSY in places (I've picked up a few in the attached comments)

Regards
Mike

From: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>
Sent: Wednesday, February 3, 2021 3:32 PM
To: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; James Beard <james.beard@treasury.govt.nz>
Cc: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Freya Dean [TSY] <Freya.Dean@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>; Stephen Revill [TSY]

<Stephen.Revill@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>

Subject: For review - DRAFT Treasury Report on Housing Policy and the Reserve Bank

Hi all,

Please find attached the latest draft of the report, and section 68B direction. As discussed, there are still placeholders we're working to resolve (particularly on process implications), but expect this should be close enough to tease out any final comments, and/or views to be reflected. Could you please provide comments by tomorrow morning.

This has still yet to be reviewed by our senior leadership team, and we'll touch base on any significant consequential changes we propose.

Let's pencil in a feedback chat tomorrow morning to work through any outstanding issues (and update where we get to between now and COP)? 9.30am?

Elle

From: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>

Sent: Tuesday, 2 February 2021 6:01 pm

To: Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>

Cc: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>;

Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Cam Vannisselroy [TSY]

<Cam.Vannisselroy@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Renee Philip [TSY]

<renee.philip@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Freya Dean [TSY]

<Freya.Dean@treasury.govt.nz>

Subject: For review: Draft s 68B and advice on interest-only loans

Hi Cavan, Chris and Mike

Thanks for your comments below and meeting with us today.

As discussed, attached is a first draft of the section 68B direction for your review. This is based on Option 2 in the draft briefing, and would obviously be subject to the Minister's final preferences on wording.

We have also decided to put the advice on interest-only mortgages into a separate report, which is attached for your review.

We will get the revised TR over to you tomorrow for consultation. It would be useful if you could also provide us with any text on the Reserve Bank's views on the options and how it would interpret the policy of 'sustainable house prices'.

Kind regards



**TE TAI ŌHANGA
THE TREASURY**

Leona Feng | Senior Analyst, Financial Markets | Te Tai Ōhanga – The Treasury

Tel: s9(2)(k) | Email/IM: Leona.Feng@treasury.govt.nz

From: Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>

Sent: Tuesday, 2 February 2021 12:57 pm

To: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Stephen Revill [TSY] <Stephen.Revill@treasury.govt.nz>; Stephen Bond [TSY] <Stephen.Bond@treasury.govt.nz>; Felicity Barker [TSY] <Felicity.Barker@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>; Ben Thirkell-White <Ben.Thirkell-White@rbnz.govt.nz>

Cc: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>

Subject: RE: For review: Draft report on RB and housing objectives

Hi Leona,

Thanks for sharing the first draft of the report with us. It is shaping up nicely and a great effort in such a short period of time. Below is a list of high level comments, and there are a few more track changes in the document.

Feel free to contact me if you have any questions.

Regards,

Cavan

Summary of comments to Treasury:

High level comments:

- This report seems to assume that the Minister can direct or encourage the Reserve Bank to use specific tools, and that this is both desirable and within the spirit / letter of s68b (this comes through most clearly in the discussion of interest-only lending and in option 3). However, s68B specifically states that "The Minister may not give a direction that requires the performance or non-performance of a particular act by the Bank". That is, the notion of s68B is to give the Reserve Bank an idea of a government policy and the Reserve Bank chooses how to take account of it via its various tools (rather than be directed or encouraged to use a particular tool, including whether or not to restrict interest only mortgages).
- Some of the positioning throughout the document, including in paragraphs 24, 27 and 30 needs to be reframed. We suggest that this is reframed to note that Reserve Bank and Government have separate objectives, and while Government will not instruct the Reserve Bank how to do its job, it can give the Bank some of the Government's objectives to have regard to when setting policy. This will not lead the Reserve Bank to noticing new risks, but may lead to the Bank tilting their tools / calibration to achieve the same outcome in a different way.
- There seems to be some confusion between the Reserve Bank's functions (which the s68b direction should relate to) and the Bank's objectives. That is, the direction should not be tied back to soundness and efficiency (the Reserve Bank's objectives), rather it should be giving the Bank another factor to have regard to, while leaving the Bank to determine what constitutes a risk to soundness and efficiency. This is a technical point but worth correcting, in our opinion.

Options:

- There is reference to a government economic objective to "decrease house price acceleration". This is slightly confusing, we suggest reframing this as "sustained low/moderate house price growth over time".
- It may be worth dropping Option 3 for the s68B direction as it adds nothing above Option 2. The additional wording "which could be considered when the RBNZ is developing relevant financial policy, for example on loan-to-value ratios, debt-to-income ratios and risk weighted assets" adds nothing, as under the Act the Bank will already have to have regard to the direction when setting financial policy.

MPC remit:

- The MPC remit section all looks fine, and is consistent with our preferred direction.

From: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>

Sent: Monday, 1 February 2021 6:05 PM

To: Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Stephen Revill [TSY] <Stephen.Revill@treasury.govt.nz>; Stephen Bond [TSY] <Stephen.Bond@treasury.govt.nz>; Felicity Barker [TSY] <Felicity.Barker@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Ben Thirkell-White <Ben.Thirkell-White@rbnz.govt.nz>

Cc: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; James Beard <james.beard@treasury.govt.nz>

Subject: For review: Draft report on RB and housing objectives

Hi all

Attached is the first draft of the report on changes to the remit and s 68B direction.

Please note that this draft (and any preferred options/recommendations) only reflects working level views at the moment, and the draft has yet to be reviewed by managers or go through the QA process.

We will also be adding in some text on the interdependencies between section 68B and the remit changes in the next version of the report, and will aim to circulate this along with a draft section 68B and remit for review later tomorrow. In the meantime, we would welcome any initial comments you have on this first draft.

Kind regards



**TE TAI ŌHANGA
THE TREASURY**

Leona Feng | Senior Analyst, Financial Markets | Te Tai Ōhanga – The Treasury

Tel: s9(2)(k) | Email/IM: Leona.Feng@treasury.govt.nz

From: Chris Bloor <Chris.Bloor@rbnz.govt.nz>

Sent: Monday, 1 February 2021 2:17 pm

To: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Stephen Revill [TSY] <Stephen.Revill@treasury.govt.nz>; Stephen Bond [TSY] <Stephen.Bond@treasury.govt.nz>; Felicity Barker [TSY] <Felicity.Barker@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>

Cc: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>

Subject: RE: Consultation timeframes - joint report on RB housing objectives

Hi Elle,

We should be able to work to these timeframes. Adrian is keen to stay looped in earlier, so we will be sharing the draft report with him when it comes around tonight.

I've copied in Cavan for the s68 material – he should be added to the circulation list as well.

Cheers,
Chris

From: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>

Sent: Monday, 1 February 2021 11:35 AM

To: Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Stephen Revill [TSY] <Stephen.Revill@treasury.govt.nz>; Stephen Bond [TSY] <Stephen.Bond@treasury.govt.nz>; Felicity Barker [TSY] <Felicity.Barker@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>

Cc: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>

Subject: Consultation timeframes - joint report on RB housing objectives

Hi all,

This email provides a heads up on our intended timelines for consulting you on the upcoming joint report on requiring the Bank to have regard to house prices, due with the Minister on Thursday. As you know, the report will provide follow-up advice on options to issue a s68b direction, and options to amend the remit, to support the Government's housing objectives.

On timelines, we're planning for –

COP today – circulate a first draft to you for working-level comments.

12pm Tuesday – receive working-level comments, Treasury teams to revise accordingly.

COP Tuesday – circulate a revised draft for comments from Caralee, Bryan Chapple, Bank SLT (via Mike, Chris).

12pm Wednesday – receive SLT-level comments, revise accordingly.

COP Wednesday – circulate for Treasury managers' sign out (Renee, Dasha/Sam), and for near-final Bank visibility.

Thursday – to Minister, final version circulate fyi.

Please let us know if that doesn't look practicable, or if there are any others we should also be include in circulation rounds.

Best,

Elle



**TE TAI ŌHANGA
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From: Caralee McLiesh [TSY]
Sent: Friday, 5 February 2021 5:59 PM
To: Adrian Orr; Bryan Chapple [TSY]
Subject: RE: [] Working together

Kia ora Adrian

Deleted - Not Relevant to Request

I think there are times when we will disagree—not least because of different mandates, functions and perspectives—and not all disagreements reflect a poor process or quality of advice or outcome. The housing advice reflects we haven't agreed on everything, despite a lot of work of the teams to get there, but I do not see that as poor quality advice.

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and a core principle for Treasury is being specific enough on government's policy in S68B (vs outside communication), rather than the details of the words (which as you point out have not been agreed by government yet).

Deleted - Not Relevant to Request

Ngā mihi
Caralee

From: Adrian Orr <Adrian.Orr@rbnz.govt.nz>
Sent: Friday, 5 February 2021 2:41 pm
To: Caralee McLiesh [TSY] <Caralee.McLiesh@treasury.govt.nz>; Bryan Chapple [TSY] <Bryan.Chapple@treasury.govt.nz>
Subject: [] Working together

Kia ora folks,

Deleted - Not Relevant to Request

2. s9(2)(g)(i)

I also don't believe the discussion of option 1 versus 2 is balanced. The time dependency, asymmetry, and higher legal risk status of option 2 is not made clear as discussed. And a measure of fair value for housing is needed in both options (not just option 1). Instead there is a shor reference to the RB willingness to communicate.

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Nga mihi,
Adrian Orr

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From: [Stephen Bond \[TSY\]](#)
To: [^Parliament: Paul Young](#)
Cc: [James Beard \[TSY\]](#); [Daniel Cruden \[TSY\]](#); [Felicity Barker \[TSY\]](#); [John Beaglehole \[TSY\]](#); [Renee Philip \[TSY\]](#); [Jessica Rowe \[TSY\]](#)
Subject: RE: Talking Points
Date: Friday, 5 February 2021 2:40:31 pm
Attachments: [Speaking points\(4414718.1\).docx](#)

Hi Paul,

Apologies that these are a little late, but I've attached a set of speaking notes for MoF next Tuesday.

Stephen

Out of Scope

From: Paul Young <Paul.Young@parliament.govt.nz>
Sent: Thursday, 4 February 2021 6:05 pm
To: Jessica Rowe [TSY] <Jessica.Rowe@treasury.govt.nz>; Felicity Barker [TSY] <Felicity.Barker@treasury.govt.nz>
Subject: Talking Points

Hi Jess and Felicity

As discussed with Felicity earlier, the oral item on the housing demand side measures has been moved to Cabinet on Tuesday rather than CBC on Wednesday. This means that we will need some speaking points tomorrow on:

- What the proposals are.

- The things that are still to be decided following consultation.

Alex and Toby will add the political aspects.

Hope that this will be relatively easy to do and I'm sorry that we are having to ask for this early. I'm thinking that if possible about 2 pm would be great to give a little time for the political part.

Ngā mihi

Paul

Paul Young

Revenue and Finance Advisor

Office of the Hon Grant Robertson | Minister of Finance, Minister for Infrastructure, Minister for Sport and Recreation, Minister for Racing

7.6 Executive Wing, Parliament Buildings, PO Box 18041, Wellington

Phone: s9(2)(k) | Mobile: s9(2)(g)(ii) | Email: Paul.Young@parliament.govt.nz

SENSITIVE**Speaking points for oral item at Cabinet on housing measures*****Background and objectives***

1. Next week the Minister of Revenue, the Minister of Housing and I will bring a paper to Cabinet setting out measures that we propose to take to reduce demand in the housing market to support more sustainable house prices and create additional opportunities for first home buyers.
2. In particular they will target the speculative investment that has helped drive the price increases affecting all prospective homeowners in recent years.
3. To help coordinate many policy areas and future Cabinet papers relating to housing we will also propose a set of strategic policy objectives for the housing market covering our objectives on both the demand and supply side.

Out of Scope



SENSITIVE

Out of Scope

Macro/Reserve Bank Measures

14. The third measure will be to require the Reserve Bank to consider government housing policy when it is fulfilling both its financial stability and its monetary policy duties.
15. I intend to **issue a direction to the Bank under section 68B of the RBNZ Act that it must have regard to the Government's housing policy objectives** in relation to its financial policy functions.
16. I will also be **seeking agreement to a change in the monetary policy remit**, which sets out the Monetary Policy Committee's operational objectives for monetary policy. This revised remit will:
- set the expectation that the MPC comprehensively understands the effects its decisions have on the Government's housing objective, while it is pursuing its economic objectives, and
 - provide transparency and assurance about how the MPC understands these effects.
17. These changes follow my letter to the Governor in late 2020 seeking his views on requiring the MPC to "seek to avoid unnecessary instability" in house prices through the remit.
18. Upon receiving the Governor's response, I asked the Treasury and the Bank jointly to identify options for a section 68B direction and to replace the remit. The changes I will be taking to Cabinet reflect that advice from officials.
19. I am not changing anything regarding the Bank's primary objectives of maintaining a sound and efficient financial system, and price stability and maximum sustainable employment in conducting monetary policy. These changes are about elevating the prominence that the Bank and the MPC will give to housing affordability when pursuing those primary goals.
20. Alongside this third measure, I am also inviting the Bank to provide further advice on whether debt-to-income limits (DTIs) should be added to the Bank's macroprudential toolkit.
21. The Treasury has been relatively supportive of the addition of a DTI tool in the past. However officials recommended (and I have agreed) that more information is needed before a firm view of the merits of DTIs now can be reached, particularly in light of the upcoming section 68B direction.
22. I have also asked the Reserve Bank to provide advice on whether there are any stability risks associated with interest only mortgages, and whether any restrictions may also take into account any government policy direction issued under section 68B.

From: Elle Hughes [TSY]
Sent: Friday, 5 February 2021 3:48 pm
To: ^Parliament: Natalie Labuschagne
Cc: Renee Philip [TSY]; Neil Kidd [TSY]; Freya Dean [TSY]; Daniel Cruden [TSY]
Subject: LEG process for replacement remit

Hi Natalie,

Responding on your question about whether the recommended replacement remit text would need to go through LEG. Apologies this wasn't clearer in the first instance.

- Para 71 c sets out the usual process for Orders in Council (which includes LEG).
- But, we don't recommend going to LEG in this instance, because the timing wouldn't be practical (therefore not included in Next Steps).
 - ➔ PCO will not be able to turn around drafting between Cabinet authorisation on 15 February and LEG on 18 February (in time for Cabinet and Exec Council on 22 Feb).
- We note that PCO are not concerned with skipping LEG.
- I understand MoF needs to obtain permission from PMO to skip LEG (facilitated by Cabinet office) – assuming the Minister agrees with our proposed timeframes, please liaise with the Cabinet office on this (apparently Dan Cruden can provide some guidance on this!).
- Alternatively, the Minister could go to LEG if he is happy to delay the OIC process until after the MPS on the 24th February.

Elle



TE TAI ŌHANGA
THE TREASURY

Elle Hughes | Macroeconomic and Fiscal Policy | **Te Tai Ōhanga – The Treasury**

Tel: s9(2)(k) | Email: Elle.Hughes@treasury.govt.nz

From: [Natalie Labuschagne](#)
To: [Renee Philip \[TSY\]](#); [s9\(2\)\(q\)\(ii\)](#); [Elle Hughes \[TSY\]](#)
Cc: [Bryan Chapple \[TSY\]](#); [Caralee McLiesh \[TSY\]](#); [James Beard \[TSY\]](#); [Andrew Rutledge \[TSY\]](#); [Dasha Leonova \[TSY\]](#); [Sam Thornton \[TSY\]](#)
Subject: RE: TSY Bag: Treasury Report T2021-155; Housing objectives for the Reserve Bank
Date: Monday, 8 February 2021 2:16:37 pm
Attachments: [image002.jpg](#)
[image003.png](#)
[T2021-155 - Housing objectives for the Reserve Bank.pdf](#)

Hi everyone,

Well done on a good report in such compressed timeframes. The Minister has agreed with all of the Treasury recommendations in the report, with some commentary/amendments to the specific wording. I have included those comments on the attached and repeated below:

On the s68B direction:

- For the purpose of the Cabinet paper, the Minister would like all three options to be presented, with an acknowledgement of the RB preferred option, but with Option 2 listed as the Minister's and the Treasury's preferred option.
- The Minister would like to slightly alter the wording of Option 2 to say "to support more sustainable house prices, **including** by dampening...."

- s9(2)(g)(i)

- s9(2)(h)

On timing of the announcement:

- The Minister noted that it is important that both the s68B and MP remit decisions are announced at the same time.



Natalie Labuschagne | Economic Advisor

Office of Hon Grant Robertson

Minister of Finance

Level 7.6 Executive Wing, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand

T: s9(2)(k) | M: s9(2)(g)(ii)

E: natalie.labuschagne@parliament.govt.nz

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From: Yulia Gonina [TSY] [mailto:Yulia.Gonina@treasury.govt.nz]

Sent: Friday, 5 February 2021 9:57 AM

To: Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>; s9(2)(g)(ii)

s9(2)(g)(ii)

Cc: Bryan Chapple [TSY] <Bryan.Chapple@treasury.govt.nz>; Renee Philip [TSY]

<renee.philip@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>

Subject: TSY Bag: Treasury Report T2021-155; Housing objectives for the Reserve Bank

Good morning,

Kindly note that Treasury Report T2021-155; Housing objectives for the Reserve Bank has been sent to MAS for 10am electronic upload.

Please don't hesitate to contact me if you have any questions.

Kind regards,

Yulia Gonina | Team Assistant |

Macroeconomic & Fiscal Policy | Te Tai Ōhanga – The Treasury

Email/IM: yulia.gonina@treasury.govt.nz

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-

From: Elle Hughes [TSY]
Sent: Wednesday, 10 February 2021 12:49 pm
To: Natalie Labuschagne
Subject: RE: Draft remit format

“Housing policy and the Reserve Bank” – can change if you’ve got a preference otherwise.

Elle

From: Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>
Sent: Wednesday, 10 February 2021 12:30 pm
To: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>
Subject: RE: Draft remit format

Thanks Elle – quick question so that I can submit the “direct to cabinet” request form – what is the title of the Cabinet paper?

Thanks!



Natalie Labuschagne | Economic Advisor
Office of Hon Grant Robertson
 Minister of Finance
 Level 7.6 Executive Wing, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand
 T: s9(2)(k) | M: s9(2)(a)(ii)
 E: natalie.labuschagne@parliament.govt.nz

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From: Elle Hughes [TSY] [<mailto:Elle.Hughes@treasury.govt.nz>]
Sent: Wednesday, 10 February 2021 11:02 AM
To: Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>
Cc: Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Daniel Cruden [TSY] <Daniel.Cruden@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>
Subject: Draft remit format

Hi Natalie,

This email follows up our discussion yesterday about what a replacement remit could look like, to support your conversation with the Minister this afternoon. It also seeks confirmation on timing.

As mentioned in the report *Housing Policy and the Reserve Bank (T2021/155)*, the remit replacement will be drafted by PCO. Unlike the remit you issued, it is a legislative instrument. PCO will need to certify the content of not only the new change but the entirety of the current remit. PCO has not previously considered or certified the content of the existing remit, as the first remit was not subject to an OIC process.

s9(2)(h)

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

On timing – If we miss the bag, is it ok to send soft copies across by 4pm? If not, let us know when you need it by, and if you need hard copies.

Elle

From: Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>

Sent: Wednesday, 10 February 2021 10:45 am

To: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>

Cc: Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Sam Thornton [TSY]

<Sam.Thornton@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>

Subject: RE: Process requirements for s 68B

Thanks Leona - this is useful. I will let you know once I have spoken with the Ministerial advisors.

Natalie Labuschagne | Economic Advisor**Office of Hon Grant Robertson**

Minister of Finance

Level 7.6 Executive Wing, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand

T: s9(2)(k) | M: s9(2)(g)(ii)

E: natalie.labuschagne@parliament.govt.nz

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From: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>
Date: Tuesday, 09 Feb 2021, 17:55**To:** Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>
Cc: Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>, Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>, Renee Philip [TSY] <renee.philip@treasury.govt.nz>, Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>
Subject: Process requirements for s 68B

Hi Natalie

At the catch-up, you mentioned you were going to check the timing of potential announcements and how these might align with the process requirements.

Under section 68B,

- The Minister must consult the RBNZ before giving a s 68B direction – this is being done as part of the TR and Cab paper process.
- The direction must be set out in a written statement signed by the Minister – this could be done early next week as part of the Minister's response to the RBNZ's letter.
- As soon as practicable *after* the direction is given to the Bank, it needs to be
 - presented to Parliament by the Minister
 - published in the gazette – may take up to 2 working days.

I have seen announcements of other government policy statements after they are issued but before they are gazetted – e.g. a Government Policy Statement to the Commerce Commission was issued and announced on 22 March but published in Gazetted on 24 March.

Cheers

Leona


**TE TAI OHANGA
THE TREASURY**
Leona Feng | Senior Analyst, Financial Markets | Te Tai Ōhanga – The TreasuryTel: s9(2)(k) | Email/IM: Leona.Feng@treasury.govt.nz**CONFIDENTIALITY NOTICE**

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- b. any use, dissemination or copying of this email is strictly prohibited and may be unlawful.

From: [Daniel Cruden \[TSY\]](#)
To: [^Parliament: Natalie Labuschagne](#)
Cc: [Elle Hughes \[TSY\]](#); [Renee Philip \[TSY\]](#); [Neil Kidd \[TSY\]](#); [Leona Feng \[TSY\]](#); [Dasha Leonova \[TSY\]](#); [Mario DiMaio \[TSY\]](#); [Freya Dean \[TSY\]](#); [James Beard \[TSY\]](#)
Subject: Housing Policy and Reserve Bank: Updated Cabinet paper and advice re wording of 68B direction
Date: Thursday, 11 February 2021 5:54:00 pm
Attachments: [image001.png](#)
[Clean -- Draft Cabinet Paper - Housing policy and the Reserve Bank.docx](#)
[Draft Cabinet Paper - Housing policy and the Reserve Bank\(4415497.3\).docx](#)

Hi Natalie

Apologies for the delay on this. Updated paper attached, reflecting your feedback as well as some other changes. Have attached a clean and tracked change version. The majority of these other changes are minor drafting/grammatical changes. A couple worth bringing to your attention are:

- Fin Mkts s9(2)(h) have advised that option 2 re the 68B direction should say: "To support more affordable house prices, including by dampening investor demand for existing housing stock which would allow more opportunities for first-home buyers". This has flow-on implications for the housing objectives as they are articulated in the Tax and housing paper. If the Minister agrees with the changes, that paper would also be updated to reflect them.
- The Reserve Bank has indicated that it would like to reconsider its comment in par 34 of the paper in light of the Minister's change regarding "affordable" vs "sustainable" (more on their views below) – could you please refrain from lodging until we've confirmed that? We have asked the Bank to confirm their preferred wording by 9am tomorrow.

Both the above points are highlighted in the tracked change version.

Also, please see the below advice in response to the Minister's question whether the word 'affordable' could be used rather than 'sustainable' in the section 68B government policy direction to the Reserve Bank.

Legal requirements

s9(2)(h)



Reserve Bank views

The Reserve Bank has a strong preference for the direction to refer to 'sustainable' house prices. Sustainability is well linked to its financial stability mandate, where deviations from fair value suggest growing risks of future house price correction. The Bank considers that it is also an easier concept for the Bank to assess and build a modelling framework around. The Bank has noted that in contrast affordability is not a well-defined concept and is open to significant differences in interpretation. For example, all homes are affordable to those who have bought them – it is not clear whose affordability the Bank would be having regard to. In the Bank's view, this would lead to significantly less clarity as to how to incorporate the direction into the Bank's policy decision making, which could ultimately weaken the effectiveness of the direction.

While the Bank would prefer not to have the reference to affordability in the direction itself, it has suggested that if the Minister wishes to incorporate this in the direction, it could be done by including it at the end of the sentence, for example:

"support more sustainable house prices, including by dampening investor demand for existing housing stock which would improve affordability for first-home buyers"

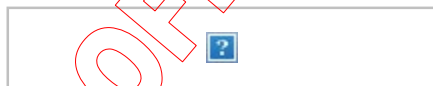
Conclusion

Affordability and sustainability are both challenging concepts to define and require judgements. However, the Treasury's view is that it is important that the government policy objective relates to financial stability but we do not think it is necessary that the objective be specified directly in term of financial stability concepts. s9(2)(h)

s9(2)(h) Therefore our preference is that the direction captures the Government's broader policy objective accurately. The Reserve Bank will need to have regard to the objective but they are not accountable for delivering it – they will need to communicate how they have had regard to it which would help to manage expectation to what they can achieve. Alternatively, if the Minister considers the RBNZ suggestion accurately reflects government policy then this could be presented as the revised Option 2.

Happy to discuss (if you need anything urgently, am available on my personal mobile:

s9(2)(g)(ii)



Daniel Cruden (he/him) | **Senior Analyst | Macroeconomic & Fiscal Policy | Te Tai Ōhanga – The Treasury**

Tel: s9(2)(k) | Email/IM: daniel.cruden@treasury.govt.nz

Visit us online at <https://treasury.govt.nz/> and follow us on [Twitter](#), [LinkedIn](#) and [Instagram](#)

From: Mario DiMaio [TSY]
Sent: Friday, 12 February 2021 2:51 pm
To: Chris Bloor; Ben Thirkell-White
Cc: Daniel Cruden [TSY]; Leona Feng [TSY]; ^RBNZ: Toby Fiennes
Subject: RE: Draft email: Tsy and RBNZ feedback on s68B wording

Hi Chris

We will send the paper when it has been lodge – should be shortly.

Mario

From: Chris Bloor <Chris.Bloor@rbnz.govt.nz>
Sent: Friday, 12 February 2021 2:01 PM
To: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Ben Thirkell-White <Ben.Thirkell-White@rbnz.govt.nz>
Cc: Daniel Cruden [TSY] <Daniel.Cruden@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; ^RBNZ: Toby Fiennes <Toby.Fiennes@rbnz.govt.nz>
Subject: RE: Draft email: Tsy and RBNZ feedback on s68B wording

Hi Mario, happy with that wording change. We also just wanted to make one other wording change to clarify our concerns around ambiguity of the affordability direction.

- 1 The Reserve Bank has a strong preference for the direction to refer to 'sustainable' house prices. Sustainability is well linked to its financial stability mandate, where deviations from fair value suggest growing risks of future house price correction. The Reserve Bank considers that it is also an easier concept for it to assess and build a modelling framework around. The Reserve Bank has noted that in contrast 'affordability' is not a well-defined concept and is open to significant differences in interpretation. For example, temporary reductions in interest rates can improve short-term affordability for home buyers, but can worsen long-run house price sustainability if this results in an increase in house prices. In the Reserve Bank's view, this would lead to significantly less clarity as to how to incorporate the direction into its policy decision making, which could ultimately weaken the effectiveness of the direction. The Reserve Bank's view is also that Option 1, unlike Options 2 and 3, would not create reduce the risk of unrealistic expectations about the ability of the Reserve Bank to target specific subsectors of the housing market. The Bank considers that Option 1 is a more enduring requirement, as it would be relevant in future circumstances where there was a desire to bolster housing demand from both owner occupiers and investors.
- 2 While the Bank would prefer not to have the reference to affordability in the direction itself, it has suggested that it could be incorporated in the direction by including it at the end of the sentence, for example: "support more sustainable house prices, including by dampening investor demand for existing housing stock which would improve affordability for first-home buyers"

Cheers,
Chris

From: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>
Sent: Friday, 12 February 2021 1:52 PM
To: Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Ben Thirkell-White <Ben.Thirkell-White@rbnz.govt.nz>
Cc: Daniel Cruden [TSY] <Daniel.Cruden@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>
Subject: RE: Draft email: Tsy and RBNZ feedback on s68B wording

Hi Chris

Thanks you for your help and patience. Not exactly. The full text of the RB section is copied below. The change we are suggesting is in yellow.

Mario

- 1 The Reserve Bank has a strong preference for the direction to refer to 'sustainable' house prices. Sustainability is well linked to its financial stability mandate, where deviations from fair value suggest growing risks of future house price correction. The Reserve Bank considers that it is also an easier concept for it to assess and build a modelling framework around. The Reserve Bank has noted that in contrast 'affordability' is not a well-defined concept and is open to significant differences in interpretation. For example, all homes are affordable to those who have bought them – it is not clear whose affordability the Bank would be having regard to. In the Reserve Bank's view, this would lead to significantly less clarity as to how to incorporate the direction into its policy decision making, which could ultimately weaken the effectiveness of the direction. The Reserve Bank's view is also that Option 1, unlike Options 2 and 3, **would not create reduce the risk of unrealistic expectations about the ability of the Reserve Bank to target specific subsectors of the housing market.** The Bank considers that Option 1 is a more enduring requirement, as it would be relevant in future circumstances where there was a desire to bolster housing demand from both owner occupiers and investors.
- 2 While the Bank would prefer not to have the reference to affordability in the direction itself, it has suggested that it could be incorporated in the direction by including it at the end of the sentence, for example: "support more sustainable house prices, including by dampening investor demand for existing housing stock which would improve affordability for first-home buyers"

From: Chris Bloor <Chris.Bloor@rbnz.govt.nz>

Sent: Friday, 12 February 2021 1:47 PM

To: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Ben Thirkell-White <Ben.Thirkell-White@rbnz.govt.nz>

Cc: Daniel Cruden [TSY] <Daniel.Crudan@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>

Subject: RE: Draft email: Tsy and RBNZ feedback on s68B wording

Hi Mario,

This has fallen to me, with no one else in the office right now.

Just to clarify, are you proposing replacing this paragraph with the words below?

- 1 The Reserve Bank has a strong preference for Option 1 because it considers this provides the most achievable objective for the Reserve Bank, as sustainable house prices are consistent with its financial stability mandate. Like Options 2 and 3, it would require the Bank to have regard to whether its financial policies could bring house prices closer to 'fair value', including if overvaluation were caused by investor speculation. The Reserve Bank's view is that unlike Options 2 and 3, it would not create unrealistic expectations about the ability of the Reserve Bank to target specific subsectors of the housing market. The Reserve Bank thinks that Option 1 is also a more enduring requirement, as it would be relevant in future circumstances where there was a desire to bolster housing demand from both owner-occupiers and investors.

Will revert shortly.

Cheers,
Chris

From: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>
Sent: Friday, 12 February 2021 1:30 PM
To: Ben Thirkell-White <Ben.Thirkell-White@rbnz.govt.nz>; Chris Bloor <Chris.Bloor@rbnz.govt.nz>
Cc: Daniel Cruden [TSY] <Daniel.Cruden@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>
Subject: RE: Draft email: Tsy and RBNZ feedback on s68B wording

Hi Ben

I just chatted to Toby on this and he asked me to send this through. The suggestion on the RBNZ views is to move from a binary statement to a risk based statement. The suggestion we have is below. I think Toby was keen to have your eyes on this as well. We have about 20 minutes at this end before the paper goes.

Regards
Mario

- 1 Option 1, unlike Options 2 and 3, would reduce the risk of unrealistic expectations about the ability of the Reserve Bank to target specific subsectors of the housing market. The Bank considers that Option 1 is a more enduring requirement, as it would be relevant in future circumstances where there was a desire to bolster housing demand from both owner occupiers and investors.

From: Ben Thirkell-White <Ben.Thirkell-White@rbnz.govt.nz>
Sent: Thursday, 11 February 2021 4:54 PM
To: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; ^RBNZ: Toby Fiennes <Toby.Fiennes@rbnz.govt.nz>
Cc: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Daniel Cruden [TSY] <Daniel.Cruden@treasury.govt.nz>
Subject: RE: Draft email: Tsy and RBNZ feedback on s68B wording

Hi Leona,

I think that accurately reflects the Reserve Bank view, thanks.

Just to re-confirm, if the Minister continues to prefer the affordability wording, we'd appreciate having the same wording about Reserve Bank preferences in what ultimately goes to Cabinet.

Thanks a lot
Ben

From: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>
Sent: Thursday, 11 February 2021 4:47 PM
To: Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Ben Thirkell-White <Ben.Thirkell-White@rbnz.govt.nz>
Cc: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Daniel Cruden [TSY] <Daniel.Cruden@treasury.govt.nz>
Subject: Draft email: Tsy and RBNZ feedback on s68B wording

Hi all

Please see our draft email to Natalie below for information – we will be sending this to Natalie at 5pm. If any inaccuracies please let me know asap.

DRAFT EMAIL

This email responds to the Minister's question whether the word 'affordable' could be used rather than 'sustainable' in the section 68B government policy direction to the Reserve Bank.

s9(2)(h)

Reserve Bank views

The Reserve Bank has a strong preference for the direction to refer to 'sustainable' house prices. Sustainability is well linked to its financial stability mandate, where deviations from fair value suggest growing risks of future house price correction. The Bank considers that it is also an easier concept for the Bank to assess and build a modelling framework around. The Bank has noted that in contrast affordability is not a well-defined concept and is open to significant differences in interpretation. In their view, this would lead to significantly less clarity as to how to incorporate the direction into the Bank's policy decision making, which could ultimately weaken the effectiveness of the direction.

While the Bank would prefer not to have the reference to affordability in the direction itself, it has suggested that if the Minister wishes to incorporate this in the direction, it could be done by including it at the end of the sentence, for example:

"support more sustainable house prices, including by dampening investor demand for existing housing stock which would improve affordability for first-home buyers"

Conclusion

Affordability and sustainability are both challenging concepts to define and require judgements. However, the Treasury's view is that it is important that the government policy objective relate to financial stability but we do not think it is necessary that the objective be specified directly in term of financial stability concepts. s9(2)(h)

s9(2)(h) Therefore our preference is that the direction captures the Government's broader policy objective accurately. The Reserve Bank will need to have regard to the objective but they are not accountable for delivering it – they will need to communicate how they have had regard to it which would help to manage expectation to what they can achieve. Alternatively, if the Minister considers the RBNZ suggestion accurately reflects government policy then this could be presented as the revised Option 2.

From: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>

Sent: Thursday, 11 February 2021 2:54 pm

To: Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>

Cc: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Dasha Leonova

[TSY] <Dasha.Leonova@treasury.govt.nz>

Subject: RE: Seeking RBNZ feedback on s68B wording

Thanks Chris

We will include the text that makes that clear s9(2)(g)(i)

Regards,
Mario

From: Chris Bloor <Chris.Bloor@rbnz.govt.nz>

Sent: Thursday, 11 February 2021 2:49 PM

To: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>;

Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>

Cc: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>

Subject: RE: Seeking RBNZ feedback on s68B wording

Thanks Mario,

One thing I should have probably noted in my response – we would prefer not to have the affordability language in the direction at all if possible. The alternative option is a pragmatic approach s9(2)(g)(i)

s9(2)(g)(i)

We'll await feedback from the Minister's office.

Cheers,
Chris

From: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>

Sent: Thursday, 11 February 2021 2:44 PM

To: Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Cavan O'Connor-

Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>

Cc: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>

Subject: RE: Seeking RBNZ feedback on s68B wording

Hi Chris

Thank you for the quick turnaround. The intention at this end is to go back informally to the Minister this afternoon responding to this question on S68B. This note will reflect the RBNZ advice below on its preference and the suggested alternative wording. Once we have his feedback (we are also waiting more) we will incorporate it into the Cab paper before lodging tomorrow.

Regards,
Mario

From: Chris Bloor <Chris.Bloor@rbnz.govt.nz>

Sent: Thursday, 11 February 2021 2:21 PM

To: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>

Cc: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Elle

Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>

Subject: RE: Seeking RBNZ feedback on s68B wording

Hi Leona,

I've consulted on the affordability language, s9(2)(g)(i)

We have a strong preference for the s68b direction to be to support sustainable house prices. Sustainability is well linked to our financial stability mandate, where deviations from fair value suggest growing risks of future house price correction. It is also an easier concept for us to assess and build a modelling framework around. In contrast affordability is not a well-defined concept and is open to significant differences in interpretation. This would lead to significantly less clarity as to how to incorporate the direction into our policy decision making, which could ultimately weaken the effectiveness of the direction.

One suggestion that may be helpful – if the Minister wishes to incorporate affordable into the objective, it would be acceptable to include it at the end of the sentence. For example:

“support more **sustainable** house prices, including by dampening investor demand for existing housing stock [in order to] / [which would] **improve affordability** for first-home buyers”

What is the approach from here? Are you going to go back to the Minister informally on feedback on his proposal, or does this get incorporated into cabinet paper?

Cheers,
Chris

From: Chris Bloor

Sent: Thursday, 11 February 2021 12:03 PM

To: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>

Cc: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>

Subject: RE: Seeking RBNZ feedback on s68B wording

Hi Leona,

We can get some comments to you this afternoon. Our initial reaction is that affordable is much more difficult for us to work with than sustainable.

- Affordable is very much in the eye of the beholder, and is a fairly nebulous concept. And whose affordability would we be concerned about?
- There are certainly scenarios in which house prices are sustainable, but may not meet some people's expectations of affordability.
- Sustainable is much closer to our financial stability mandate, where our concern relates to excessive volatility in house prices. Affordability will really be driven by other demand and supply side based policies.

Will revert with a more considered answer later this afternoon.

Cheers,
Chris

From: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>

Sent: Thursday, 11 February 2021 11:27 AM

To: Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Cavan O'Connor-Close <Cavan.O'Connor-Close@rbnz.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>

Cc: Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>

Subject: Seeking RBNZ feedback on s68B wording

Hi all

Just touching base on the initial feedback on the draft Cabinet paper from the Minister below. The Minister is seeking feedback on changing the wording of the proposed policy direction to:

“support more **affordable** house prices, including by dampening investor demand for existing housing stock [in order to] / [which would] allow more opportunities for first-home buyers”

s9(2)(h)

in the meantime we wanted to get the Reserve Bank’s feedback on this wording, whether you still have a strong preference for the word ‘sustainable’, and any concerns. A paragraph on this that we could include in the Cab paper would be useful. s9(2)(h)

We are still working towards a Cabinet paper for Monday, which would need to be lodged tomorrow, so any feedback by this afternoon would be much appreciated. Apologies for the tight timeframes again.

Kind regards



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Leona Feng | Senior Analyst, Financial Markets | Te Tai Ōhanga – The Treasury

Tel: +64 4 890 7230 | Email/IM: Leona.Feng@treasury.govt.nz

From: Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>

Sent: Thursday, 11 February 2021 10:05 am

To: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>

Cc: Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Daniel Cruden [TSY] <Daniel.Crudon@treasury.govt.nz>; Adam Antao [TSY] <adam.antaio@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>

Subject: RE: TSY Bag: Treasury report T2021/241; Housing policy and the Reserve Bank: Draft Cabinet Paper & Draft Cabinet Paper; Housing policy and the Reserve Bank

Morning,

The Minister will provide some feedback on the cabinet paper later today – this is not expected to result in major changes. In the interim, the MoF has provided the following feedback:

On Government’s Option 2: whether the word “affordable” rather than “sustainable” could be used.

s9(2)(h)

Next steps: I have alerted CabOffice that the paper will be lodged late (by 5pm tomorrow, but hopefully earlier).

Thanks,

Natalie

**Natalie Labuschagne | Economic Advisor**
Office of Hon Grant Robertson

Minister of Finance

Level 7.6 Executive Wing, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand

T: s9(2)(k) | M: s9(2)(q)(ii)

E: natalie.labuschagne@parliament.govt.nz

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From: Yulia Gonina [TSY] [<mailto:Yulia.Gonina@treasury.govt.nz>]**Sent:** Wednesday, 10 February 2021 5:20 PM**To:** Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>; s9(2)(g)(ii)s9(2)(g)(ii); Ministerial Services Inbox [TSY] <Ministerial.Services@treasury.govt.nz>**Cc:** Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Daniel Cruden [TSY] <Daniel.Cruden@treasury.govt.nz>; Adam Antao [TSY] <adam.anta@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>**Subject:** TSY Bag: Treasury report T2021/241; Housing policy and the Reserve Bank: Draft Cabinet Paper & Draft Cabinet Paper; Housing policy and the Reserve Bank

Good afternoon

Kindly note that we are sending electronic copies of two documents vis SEEMAIL as we have missed electronic upload in MsTeam:

- Treasury report T2021/241; Housing policy and the Reserve Bank: Draft Cabinet Paper
 - Word copy of Treasury Report
 - PDF copy of Treasury Report
- Draft Cabinet Paper; Housing policy and the Reserve Bank
 - Word copy of Draft Cabinet Paper With two annexes
 - PDF copy of Draft Cabinet Paper With two annexes.

Please let me know if you would like Annexes for Draft Cabinet Paper to be sent as separate PDF files.

Please don't hesitate to contact me if you have any questions.

Kind regards,

Yulia Gonina | Team Assistant |**Macroeconomic & Fiscal Policy | Te Tai Ōhanga – The Treasury**Email/IM: yulia.gonina@treasury.govt.nzVisit us online at <https://treasury.govt.nz/> and follow us on [Twitter](#), [LinkedIn](#) and [Instagram](#)**TE TAI ŌHANGA**
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From: [Daniel Cruden \[TSY\]](#)
To: [^Parliament: Natalie Labuschagne](#); [^Parliament: Paul Young](#)
Cc: [Renee Philip \[TSY\]](#); [Neil Kidd \[TSY\]](#); [Elle Hughes \[TSY\]](#); [Leona Feng \[TSY\]](#); [Mario DiMaio \[TSY\]](#); [Sam Thornton \[TSY\]](#); [Dasha Leonova \[TSY\]](#); [Felicity Barker \[TSY\]](#); [Jessica Rowe \[TSY\]](#); [Michael Sherwood \[TSY\]](#); [Bastiaan van der Scheer \[TSY\]](#); [John Beaglehole \[TSY\]](#)
Subject: Talking points for Cabinet papers on Housing
Date: Friday, 12 February 2021 3:24:00 pm
Attachments: [image001.png](#)
[4416489 Speaking points for Cabinet, Monday 15 February.DOCX](#)

Hi again Natalie and Paul,

Here are talking points to support the MoF for the two Housing papers that he's taking to Cabinet on Monday. Sorry for the delay sending and thanks for your continued patience.

Cheers,
Daniel



Daniel Cruden (he/him) | **Senior Analyst | Macroeconomic & Fiscal Policy | Te Tai Ōhanga – The Treasury**

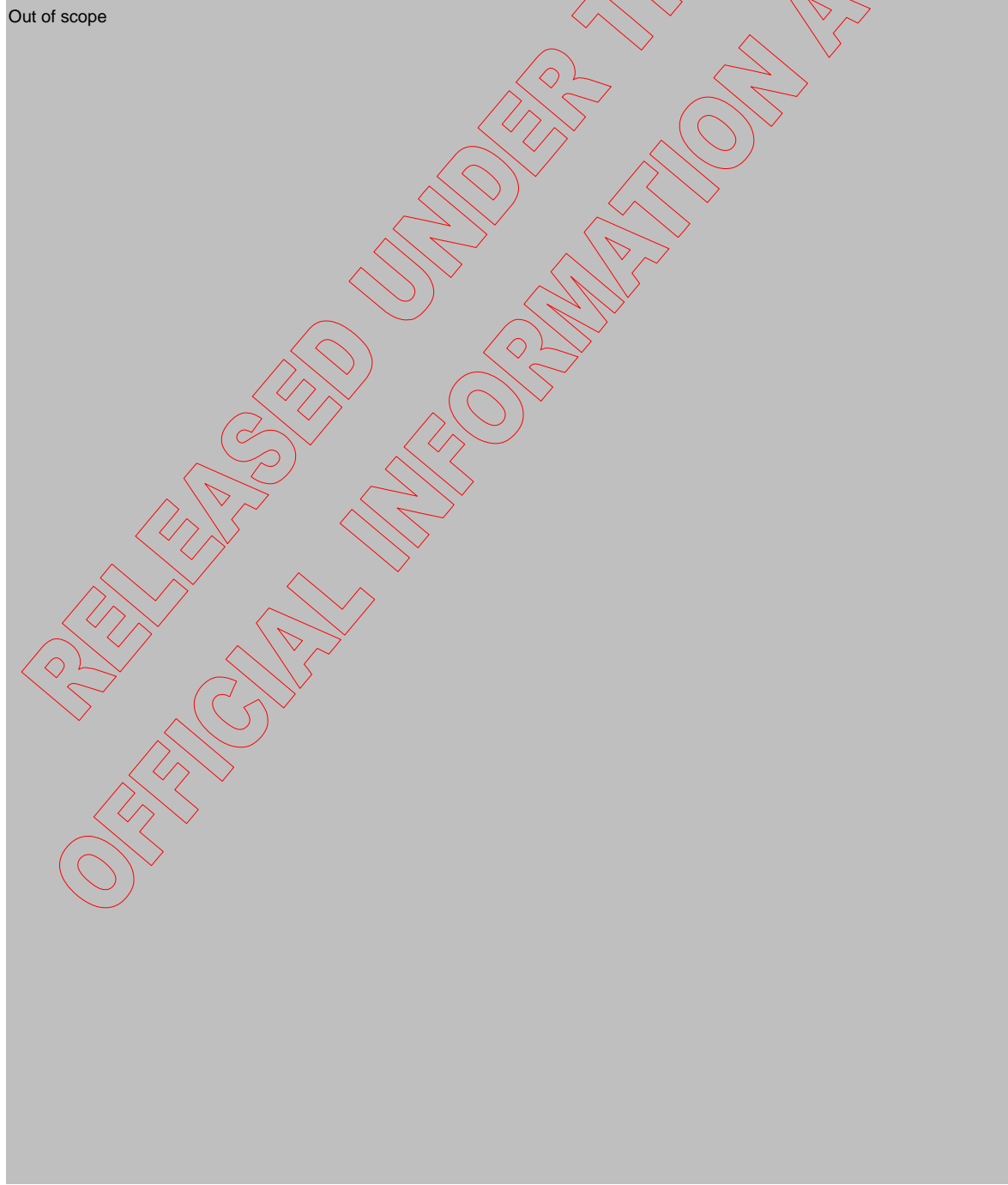
Tel: s9(2)(k) | Email/IM: daniel.cruden@treasury.govt.nz

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IN-CONFIDENCE**Speaking points for Cabinet, Monday 15 February on housing measures*****Background and objectives***

- You are taking two papers to Cabinet's Monday 15 February meeting that aim to reduce demand for housing through: (i) changes to the tax treatment of housing and (ii) increased attention to housing affordability in the Reserve Bank's monetary and financial stability policy decisions.

Out of scope



IN-CONFIDENCE***Housing Policy and the Reserve Bank***

- This paper proposes that Cabinet:
 - Authorise drafting instructions to replace the remit for the Monetary Policy Committee (MPC). The new remit would incorporate government policy objectives relating to housing affordability.
 - Note my intention to issue a direction to the Reserve Bank to have regard to a government policy on housing in relation to its financial policy functions, under section 68B of the Reserve Bank of New Zealand Act 1989 ('the Act').
 - Note my intention to invite the Bank to provide further advice about debt serviceability restrictions (i.e. debt-to-income limits) and the impact of interest-only mortgages on financial stability and Government housing objectives.
- These changes follow my letter to the Governor on 24 November 2020 seeking his views on requiring the MPC to "seek to avoid unnecessary instability" in house prices through the remit.
- Taken together, officials expect that these changes will have a modest impact on housing affordability. My proposals elevate the prominence the Bank and MPC give to housing affordability.
- I am not changing anything regarding the Bank's primary objectives of maintaining a sound and efficient financial system, and price stability and maximum sustainable employment in conducting monetary policy. These changes are about elevating the prominence that the Bank and the MPC will give to housing affordability when pursuing those primary goals.

Monetary policy remit

- **Treasury and Reserve Bank officials jointly recommended that a new remit be established that:**
 - sets the expectation that the MPC comprehensively understands the effects its decisions have on the Government's housing objective, while it is pursuing its economic objectives of price stability and maximum sustainable employment, and
 - provides transparency and assurance about how the MPC understands these effects.
- Officials expect this would achieve a similar outcome to the wording I originally suggested to the Governor in November. The MPC would retain autonomy over whether and how its monetary policy decisions take account of potential housing consequences. At the margin, the MPC's assessment of likely housing consequences may impact the mix of traditional and alternative tools it deploys.

IN-CONFIDENCE

- I will report back to Cabinet next week (on Monday 22 February) to seek endorsement of the final Order in Council.
- I propose that the replacement remit would expire on the same date that the current remit is due to expire (14 February 2024), so that the five-yearly full review of the remit can be undertaken by the Bank as planned.

Section 68B direction

- I intend to **issue a direction to the Bank under section 68B of the RBNZ Act that it must have regard to the Government's housing policy objectives** in relation to its financial policy functions.
- I propose the relevant Government housing policy objective is "to support more affordable house prices, including by dampening investor demand for existing housing stock which would allow more opportunities for first-home buyers".
- I consider that Option 2 best captures the Government's concerns about the housing market and the role of the Reserve Bank in relation to the complex drivers of the housing market, while also meeting the legislative requirements set out in the Act.
- The paper also analyses an option that the relevant Government policy is "to support more sustainable" house prices. This was preferred by the Reserve Bank because it considers that sustainability is more closely linked to its financial stability mandate and reduces the risk or unrealistic expectations about the impact on housing affordability.
- Affordability and sustainability are both challenging concepts to define and require judgement. In my view it is important that the direction captures the Government's broader policy objective accurately. Once issued, it is then up to the Reserve Bank to have regard to the policy in a way consistent with its financial stability mandate.
- The change is likely to influence the way in which financial policy is implemented, which could assist first home buyers. For example, it might lead to the Bank considering how it could undertake its financial policy functions without coming at the expense of first-home buyers, and how its policies might bring house prices closer to their fair value if overvaluation were caused by investor speculation.

IN-CONFIDENCE*Debt serviceability restrictions and interest-only mortgages*

- I am also inviting the Bank to provide further advice on whether debt-to-income limits (DTIs) should be added to the Bank's macroprudential toolkit in response to the request in the Governor's letter of 9 December.
- I also intend to request advice from the Bank on whether there are any stability risks associated with interest only mortgages, and whether any restrictions may also take into account any government policy direction issued under section 68B.

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From: Elle Hughes [TSY]
Sent: Monday, 15 February 2021 11:13 am
To: Michael Thornley; Chris Bloor
Cc: Neil Kidd [TSY]; Daniel Cruden [TSY]
Subject: RE: Replacement charter?

Roger that, thanks Mike – we'll include the MPC's views are our advice in the covering report for the next cab paper (which we're expecting to send across tomorrow afternoon).

Elle

From: Michael Thornley <Michael.Thornley@rbnz.govt.nz>
Sent: Monday, 15 February 2021 9:45 am
To: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Chris Bloor <Chris.Bloor@rbnz.govt.nz>
Subject: Replacement charter?

Hi Elle – your email below was quite prescient, but thankfully it's just level 2 lockdown for us!

I was reading the Act the other day (as you do) and noticed that under s63F(2) "The Minister and the MPC must consider whether it is necessary or desirable to issue a replacement charter when a new remit is to be issued by the Minister." [FYI - Schedule 2 s6 allows the Minister to replace the remit or issue a new remit. I understand that this is a replacement of the remit (not a new remit). But our legal advice is that the MPC should still consider whether the charter should be replaced.]

The MPC are meeting this week, so we plan to quickly consult them this and will email their views across today.

Cheers
Mike

From: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>
Sent: Tuesday, February 2, 2021 2:53 PM
To: Michael Thornley <Michael.Thornley@rbnz.govt.nz>
Subject: RE: Consultation timeframes - joint report on RB housing objectives

Superb, and yes! Relevant folk will be there. **See you level 3** – advanced apologies for squishy room booking.

From: Michael Thornley <Michael.Thornley@rbnz.govt.nz>
Sent: Tuesday, 2 February 2021 2:50 pm
To: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>
Subject: RE: Consultation timeframes - joint report on RB housing objectives

Hi Elle – just to confirm that Chris, Cavan and I will head over to TSY at 3:30. Useful if you can bring along the key people at your end (if they are free).

See you soon 😊

From: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>
Sent: Monday, February 1, 2021 11:35 AM
To: Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Chris Parker [TSY] <Chris.Parker@treasury.govt.nz>; John Beaglehole [TSY] <John.Beaglehole@treasury.govt.nz>; Michael Thornley <Michael.Thornley@rbnz.govt.nz>; Chris Bloor <Chris.Bloor@rbnz.govt.nz>; Stephen Revill [TSY] <Stephen.Revill@treasury.govt.nz>; Stephen Bond [TSY]

<Stephen.Bond@treasury.govt.nz>; Felicity Barker [TSY] <Felicity.Barker@treasury.govt.nz>; Greg Low [TSY] <Greg.Low@treasury.govt.nz>

Cc: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>

Subject: Consultation timeframes - joint report on RB housing objectives

Hi all,

This email provides a heads up on our intended timelines for consulting you on the upcoming joint report on requiring the Bank to have regard to house prices, due with the Minister on Thursday. As you know, the report will provide follow-up advice on options to issue a s68b direction, and options to amend the remit, to support the Government's housing objectives.

On timelines, we're planning for –

- i. **COP today** – circulate a first draft to you for working-level comments.
- ii. **12pm Tuesday** – receive working-level comments, Treasury teams to revise accordingly.
- iii. **COP Tuesday** – circulate a revised draft for comments from Caralee, Bryan Chapple, Bank SLT (via Mike, Chris).
- iv. **12pm Wednesday** – receive SLT-level comments, revise accordingly.
- v. **COP Wednesday** – circulate for Treasury managers' sign out (Renee, Dasha/Sam), and for near-final Bank visibility.
- vi. **Thursday** – to Minister, final version circulate fyi.

Please let us know if that doesn't look practicable, or if there are any others we should also be include in circulation rounds.

Best,

Elle



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Elle Hughes | Macroeconomic and Fiscal Policy | **Te Tai Ōhanga – The Treasury**

Tel: s9(2)(k) | Email: Elle.Hughes@treasury.govt.nz

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From: [Neil Kidd \[TSY\]](#)
To: [Bryan Chapple \[TSY\]](#); [Caralee McLiesh \[TSY\]](#)
Cc: [Ben Gaukrodger \[TSY\]](#); [Dasha Leonova \[TSY\]](#); [James Beard \[TSY\]](#); [Renee Philip \[TSY\]](#); [Matthew Galt \[TSY\]](#); [Sam Thornton \[TSY\]](#); [Leona Feng \[TSY\]](#)
Subject: RE: Treasury Report: requiring the Reserve Bank to have regard to house prices
Date: Friday, 15 January 2021 8:51:47 am

Hi Bryan,

Sorry but I think there has been an imamage issue – the attached doc and the attached link I sent round take you to the right version but the link in the body of the email takes you to an old version. I think the up to date version deals with your first point (I'll go through and pick up the other two)... this is the relevant bit of the executive summary. Everyone else – maybe read the attached version that I sent out yesterday rather than the link (at least the one in the body of the email anyway).

Neil

We consider that there is more potential to deliver your housing objectives by issuing a section 68B direction and/or an addition to the financial policy remit.

Compared with monetary policy, there is less conflict between financial policy objectives and your broader objectives around housing affordability and house prices. The objectives are more likely to complement each other in many regards. Whilst it is still unclear how much of an impact a secondary, "have regard to" requirement would have on Bank decision making, there is the potential that a house price requirement could encourage the Bank to go further in using some of their financial policy tools than they would from considering housing as solely a financial stability issue.

To progress this option we recommend that you issue a direction under section 68B of the current Reserve Bank Act. This allows you to direct the Bank to have regard to a government objective when formulating financial policy. An alternative would be to consult the Bank on a draft financial policy remit, which would only come into force after the passage of the Reserve Bank of New Zealand Bill.

From: Bryan Chapple [TSY] <Bryan.Chapple@treasury.govt.nz>
Sent: Friday, 15 January 2021 8:26 AM
To: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Caralee McLiesh [TSY] <Caralee.McLiesh@treasury.govt.nz>
Cc: Ben Gaukrodger [TSY] <Ben.Gaukrodger@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Matthew Galt [TSY] <Matthew.Galt@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>
Subject: RE: Treasury Report: requiring the Reserve Bank to have regard to house prices

Thanks Neil,

This is looking good.

A few relatively minor comments:

- I think we should be a bit more positive about a directive. Eg. We could say that if you wish to take action now, we recommend issuing a directive under 68B, and noting that this could then be replaced by the financial policy remit when the new legislation comes into force. That could go into the recs as well as the body. At the moment, it appears as an afterthought.
- The points about how these get interpreted relative to primary objectives are all correct. I just wonder whether it's worth also noting that this applies to the other factors listed in the remit too. Often they will point in the same direction, but not always. So it's not a 'new' concern.
- Trivially, there's a few places where we didn't have the tense right when talking about the Bank or the MPC. Both are singular, so at the proofing stage, it'd be worth someone looking specifically to make that we are consistent (and correct) on that.

Caralee and I are in training all morning – I'll see if she has heard from Adrian before that. But please don't send the note across unless we get the go-ahead from her.

Cheers
Bryan

From: Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>
Sent: Thursday, 14 January 2021 5:23 pm
To: Caralee McLiesh [TSY] <Caralee.McLiesh@treasury.govt.nz>; Bryan Chapple [TSY] <Bryan.Chapple@treasury.govt.nz>
Cc: Ben Gaukrodger [TSY] <Ben.Gaukrodger@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Matthew Galt [TSY] <Matthew.Galt@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>
Subject: RE: Treasury Report: requiring the Reserve Bank to have regard to house prices

Hi Caralee, Bryan,

Here is a further version of the TR on requiring the Bank to have regard to house prices: [Treasury Report: Requiring the Reserve Bank to have regard to house prices.doc](#)

I've spoken to Natalie and she has said that Monday is an option if we need longer to further consult the Governor, but she would prefer it if we can get it over tomorrow.

I've incorporated the comments received via Ben G – namely to put the option of adding house prices to the financial policy remit up front, to adopt the language you identified from the RB letter on the impact of adding house prices to the monetary policy remit, and to set out our preferences on the specific options being canvassed on the monetary policy remit. I have rejigged the executive summary to bring the financial policy remit option first but I've kept the

original structure in the body – this is because discussing how there is a potential conflict between house prices and monetary policy sets up the discussion about how financial policy provides a better option. Finally, I've made the option to issue a direction under section 68B more prominent, as well as to begin the process of drafting a financial policy remit, as I don't think there is a strong argument not to do a section 68B if we think this is a good idea – it achieves a similar thing to the financial policy remit, so why wait for the Act to pass? This was also identified as a possibility in the RB's response letter.

Comments welcome,
Neil

From: Neil Kidd [TSY]
Sent: Wednesday, 13 January 2021 9:29 PM
To: Caralee McLiesh [TSY] <Caralee.McLiesh@treasury.govt.nz>; Bryan Chapple [TSY] <Bryan.Chapple@treasury.govt.nz>
Cc: Ben Gaukrodger [TSY] <Ben.Gaukrodger@treasury.govt.nz>; Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>
Subject: Treasury Report: requiring the Reserve Bank to have regard to house prices

[Treasury Report: Requiring the Reserve Bank to have regard to house prices.doc](#)

Hi Caralee, Bryan,

For your comments, please see attached TR that we are proposing to send to MoF on Friday wrt adding a requirement to have regard to house prices into the monetary policy and financial policy remits.

I understand that MoF has now discussed with the Governor and that you are meeting with the Governor tomorrow – so we might need to set out our views on some additional specific options in this TR following that. We'd be grateful for a readout from that if there are things that we need to address.

Thanks
Neil

Neil Kidd | Principal Advisor, Macroeconomic & Fiscal Policy | **The Treasury**
Tel: s9(2)(k) | Neil.Kidd@treasury.govt.nz

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From: [Natalie Labuschagne](#)
To: [Elle Hughes \[TSY\]](#)
Cc: [Daniel Cruden \[TSY\]](#); [Renee Philip \[TSY\]](#)
Subject: RE: TSY Bag: Treasury Report T2021/295; Replacement remit for the Monetary Policy Committee & Draft Cabinet Paper; Reserve Bank of New Zealand (Replacement of Remit for Monetary Policy Committee) Order 2021
Date: Wednesday, 17 February 2021 4:04:00 pm
Attachments: [image001.jpg](#)
[image002.png](#)

Yes please. Talking points by Friday lunch would be great – thanks.

I have checked in with comms team re announcements and will let you know when I hear anything.



Natalie Labuschagne | Economic Advisor

Office of Hon Grant Robertson

Minister of Finance

Level 7.6 Executive Wing, Parliament Buildings, PO Box 18041, Wellington 6160, New Zealand

T: [s9\(2\)\(k\)](#) | M: [s9\(2\)\(g\)\(ii\)](#)

E: natalie.labuschagne@parliament.govt.nz

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From: Elle Hughes [TSY] [<mailto:Elle.Hughes@treasury.govt.nz>]
Sent: Wednesday, 17 February 2021 4:00 PM
To: Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>
Cc: Daniel Cruden [TSY] <Daniel.Cruden@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>
Subject: RE: TSY Bag: Treasury Report T2021/295; Replacement remit for the Monetary Policy Committee & Draft Cabinet Paper; Reserve Bank of New Zealand (Replacement of Remit for Monetary Policy Committee) Order 2021

Perfect, thanks Natalie.

Will the Minister want talking points for Cabinet on Monday? If so, let us know when you'll need them by. And keep us posted if there's anything else you need from us to support announcements etc.

Elle

From: Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>
Sent: Wednesday, 17 February 2021 3:47 pm
To: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Yulia Gonina [TSY] <Yulia.Gonina@treasury.govt.nz>; [s9\(2\)\(g\)\(ii\)](#)
Ministerial Services Inbox [TSY] <Ministerial.Services@treasury.govt.nz>
Cc: Daniel Cruden [TSY] <Daniel.Cruden@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>
Subject: RE: TSY Bag: Treasury Report T2021/295; Replacement remit for the Monetary Policy Committee & Draft Cabinet Paper; Reserve Bank of New Zealand (Replacement of Remit for Monetary Policy Committee) Order 2021

Signed report attached. The Minister has agreed to all of the recommendations.

Can you please let me know when the paper has been uploaded to Cabinet and I will finalise the lodging.

Thanks everyone.



Natalie Labuschagne | Economic Advisor

Office of Hon Grant Robertson

Minister of Finance

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From: Elle Hughes [TSY] [<mailto:Elle.Hughes@treasury.govt.nz>]

Sent: Wednesday, 17 February 2021 12:13 PM

To: Yulia Gonina [TSY] <Yulia.Gonina@treasury.govt.nz>; Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>; s9(2)(g)(ii)

s9(2)(g)(ii); Ministerial Services Inbox [TSY] <Ministerial.Services@treasury.govt.nz>

Cc: Daniel Cruden [TSY] <Daniel.Crudon@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>

Subject: RE: TSY Bag: Treasury Report T2021/295; Replacement remit for the Monetary Policy Committee & Draft Cabinet Paper; Reserve Bank of New Zealand (Replacement of Remit for Monetary Policy Committee) Order 2021

Hi Natalie,

Further to below, here are some summary bullet points:

- The report seeks the Minister's feedback on/approval of a draft replacement remit for the MPC, to be recommended to the Governor-General.
- Relative to the current remit, the draft replacement remit has the following changes:
 - i. Incorporating the Government housing affordability objective agreed at Cabinet on 15 February, to achieve the policy intent of the new remit, and
 - ii. Limited technical changes to the existing sections of the remit, s9(2)(h)
- If progressed, the replacement remit would also require consequential changes to the charter (e.g. updating cross-references). We'll report back on this.
- Subject to the Minister's feedback on the remit, this report seeks his approval of the attached Cabinet paper for 22 February. The Cabinet paper seeks agreement to:
 - i. Refer an Order in Council to replace the remit, and
 - ii. Waive the 28-day rule for regulation, so the replacement remit can come into effect on 25 February.

Happy to discuss.

Elle

From: Yulia Gonina [TSY] <Yulia.Gonina@treasury.govt.nz>

Sent: Wednesday, 17 February 2021 12:10 pm

To: ^Parliament: Natalie Labuschagne <Natalie.Labuschagne@parliament.govt.nz>; s9(2)(g)(ii)

s9(2)(g)(ii)

Ministerial Services Inbox [TSY]

<Ministerial.Services@treasury.govt.nz>

Cc: Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Daniel Cruden [TSY]

<Daniel.Cruden@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>

Subject: TSY Bag: Treasury Report T2021/295; Replacement remit for the Monetary Policy Committee & Draft Cabinet Paper; Reserve Bank of New Zealand (Replacement of Remit for Monetary Policy Committee) Order 2021

Good afternoon

Kindly note that we are sending electronic copies of two documents and two annexes via SEEMAIL.

Please note that all documents are **highly Sensitive**:

Treasury Report T2021/295_Replacement remit for the Monetary Policy Committee:

- Word Copy of the report
- PDF copy of the report

Draft Cabinet Paper _Reserve Bank of New Zealand (Replacement of Remit for Monetary Policy Committee) Order 2021

- Word copy of Draft Cabinet Paper
- PDF copy of Draft Cabinet Paper
- 2 x PDF Annexes

Please let me know if you require PDF Copy of Draft Cab Paper to be merged with 2xAnnexes.

Kind regards,

**Yulia Gonina | Team Assistant |
Macroeconomic & Fiscal Policy | Te Tai Ōhanga – The Treasury**

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From: Chris Bloor <Chris.Bloor@rbnz.govt.nz>
Sent: Thursday, 18 February 2021 1:10 pm
To: Renee Philip [TSY]; Freya Dean [TSY]; Nick McBride
Cc: Stephen Revill [TSY]; Elle Hughes [TSY]; Neil Kidd [TSY]; Michael Thornley; Greg Low [TSY]
Subject: RE: Heads up - Cabinet paper to be circulated at COP

Hi Renee,

Based on this version of the remit, the MPC has considered whether it is necessary or desirable for a replacement Charter to be issued.

- The MPC has noted that section 2(b)(i) requires minor amendment to account for the change in the structure of the Remit. That is the reference to section 2b, needs to be changed to 2(2).
- The Committee notes that this reporting requirement set out in section 2b of the Charter will apply to the new 2(2)(d) requirement.
- As a result, the Committee do not consider that any further requirements to the Charter are necessary at this point of time.

How would you like to handle the process over the change to the Charter – will you just send a short paper to the Minister? And are you happy for this to be simple no substantive change recommendation?

Cheers,
Chris

Out of scope

From: [Daniel Cruden \[TSY\]](#)
To: [^Parliament: Natalie Labuschagne](#)
Cc: [Renee Philip \[TSY\]](#); [Neil Kidd \[TSY\]](#); [Elle Hughes \[TSY\]](#)
Bcc: ["01 New Zealand Macro economy MC 1 02 RBNZ Institutional Frameworks MC 1 1 1 2"](#)
Subject: Replacement MPC remit: talking points for Cab
Date: Friday, 19 February 2021 12:40:57 pm
Attachments: [image001.png](#)
[Updated MPC remit speaking points for Cabinet, Monday 22 February\(4419167.1\).docx](#)

Hi Natalie,

Here are talking points to support the Minister's item on the Cabinet agenda seeking agreement to a replacement remit for the MPC, as requested. Let me know if you have any questions or need anything else.

Cheers,
Daniel



Daniel Cruden (he/him) | **Senior Analyst | Macroeconomic & Fiscal Policy | Te Tai Ōhanga – The Treasury**

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SENSITIVE**Speaking points for Cabinet, Monday 22 February on Revised MPC Remit**

- You are taking a paper to Cabinet on Monday 22 February entitled 'Reserve Bank of New Zealand (Replacement of Remit for Monetary Policy Committee) Order 2021'. This note provides speaking points to support you in that discussion.


Purpose and background

- This paper seeks authorisation for submission to the Executive Council of the Reserve Bank of New Zealand (Replacement of Remit for Monetary Policy Committee) Order 2021.
- Last week, on Monday 15 February, Cabinet:
 - authorised drafting instructions to the Parliamentary Counsel Office for an Order in Council to replace the remit for the Reserve Bank's Monetary Policy Committee (MPC), and
 - agreed the replacement remit will incorporate government policy objectives relating to sustainable house prices, with the intent of:
 - i. setting the expectation that the MPC comprehensively understands the effects its decisions have on the Government's housing objective, while it is pursuing its economic objectives; and
 - ii. providing transparency and assurance about how the MPC understands these effects.
- At the same time that it authorised drafting instructions, Cabinet also noted my intention to issue a direction to the Reserve Bank under section 68B of the Act, to have regard to a government policy on housing in relation to its financial policy functions. This direction is being issued separately and does not require Executive Council approval.

Replacement Remit

- This paper seeks authorisation of the resulting remit.

- s9(2)(h)



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SENSITIVE

s9(2)(h)

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Communications and Next Steps

- I intend to announce the changes next week, alongside the section 68B direction. The MPC's next Monetary Policy Statement is due to be released on Wednesday 24 February.
- The new remit will take effect from 1 March 2021 and will apply to the following MPC decision. As the remit has no direct impact on the public, I seek a waiver of the 28-day rule. This will ensure the remit is in force if the MPC needs to make a decision earlier than anticipated.

From: Renee Philip [TSY]
Sent: Friday, 19 February 2021 9:22 pm
To: Daniel Cruden [TSY]; ^Parliament: Natalie Labuschagne
Cc: Elle Hughes [TSY]; Neil Kidd [TSY]; Leona Feng [TSY]
Subject: Re: Revised LEG paper re remit/advice on announcement timing

Hi Natalie

Further to the email below, we have checked out the Gazette timing for the remit, as we wanted to make sure the remit wouldn't be made public this way before the Minister's announcement.

PCO have informed us they **have to** Gazette it the very latest 9am on the Thursday after it is signed by the GG at Executive Council. This comes from PCO's obligations under statute.

Assuming it goes through Cabinet/Exec Council on Monday, this means the latest it will be on the Gazette is 9am Thurs 25th.

We are assuming the Minister wants to make the announcement rather than have this happen via the Gazetting (particularly given potential market sensitivity).

Therefore if the announcement is to be after 9am on the 25th, it may be necessary to delay the Cabinet/Executive Council until the following week (and shift the commencement date if needed)

This won't be a problem if the announcement is on the 24th or earlier.

Let me know if you have any questions

Cheers
Renee

s9(2)(g)(ii)

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From: Daniel Cruden [TSY] <Daniel.Cruden@treasury.govt.nz>
Sent: Thursday, February 18, 2021 5:27 PM
To: ^Parliament: Natalie Labuschagne
Cc: Renee Philip [TSY]; Elle Hughes [TSY]; Neil Kidd [TSY]; Leona Feng [TSY]
Subject: Revised LEG paper re remit/advice on announcement timing

Hi Natalie

Sorry for the delay sending this, hope it helps. This email sets out changes to the LEG paper that we just uploaded (relative to the version the MoF saw yesterday). We haven't tracked them in the document. This email also follows up to our discussion at lunchtime about the announcement and commencement timeframes.

I'm assuming you'll lodge the revised Cab paper yourself because it's already in the system – but sing out if you'd like me to arrange that.

Changes in Cab paper since Wed

I have attached the most recent version of the Cabinet paper, which needs to be re-lodged given the change in commencement timeframes. In addition to minor changes that fix things like grammar, paragraph references etc, we've also made a small number of other changes. These are:

- s9(2)(h)
-
-
-
- We've made changes about the announcement/commencement date in the paper following the discussion you and I had earlier – more below.

For completeness I've also attached the OiC which has been updated (PCO will lodge this themselves).

Comms

Commencement of the Order

As we discussed earlier, we've updated the commencement date of the OiC so that it commences from 1 March. We've reflected that in the revised Cabinet paper (another change we've made is the words about the announcement date – the paper now says that MoF intends to announce next week). The updated OiC will come through from PCO separately. The announcement time means:

- MoF will announce the new remit next week (precise date TBC – see below for more information about timing if the office decides to do it on the 24th).
- The OiC will be published on the *Gazette* as soon as possible after it is announced (and no later than the commencement date).
- The Order replacing the remit will take effect from Monday 1 March.

We discussed challenges about deferring any announcement regarding the remit until after it commences, which effectively mean that the Government should announce the new remit no later than 1 March. Although it doesn't leave you a whole heap of wriggle room for an announcement, there is a good reason for keeping the gap short between the Order's issuance, announcement, and commencement. As the LEG paper notes (par 8), it ensures the new remit is effective *well* before the next scheduled monetary policy decision on 14 April (noting that the MPS announcement on the 24th will be done under the existing remit). A short gap between unveiling of the new remit and its commencement is also desirable because there is a risk (albeit an extremely remote one) that the MPC thinks it needs to make an out-of-cycle decision (as it did last March). If that happened after the new remit was announced but before it took effect, there'd be a risk of confusion about which remit was in place.

Advice about announcing on 24 Feb

You asked for advice about the relative merits of making the announcement before or after the RB's MPS announcement, if the MoF were to go with a 24 Feb announcement date for the new remit.

s9(2)(g)(i)

s9(2)(g)(i)

I'd also add, speaking to your question directly, that it will presumably be a bit of a logistical challenge to have MoF's announcement on the 24th and after the MPS. The MPS decision will be announced at 2pm, with the Governor's press conference to follow at 3pm – effectively meaning the media would be tied up until about 4pm or so that day. The office would be better placed, of course, but I'd have thought that could be difficult to make work depending on the nature of the planned announcement.

Happy to discuss.

Daniel



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From: Daniel Cruden [TSY]
Sent: Tuesday, 23 February 2021 12:41 pm
To: ^Parliament: Natalie Labuschagne
Cc: Renee Philip [TSY]; Dasha Leonova [TSY]; Leona Feng [TSY]; Elle Hughes [TSY]; Neil Kidd [TSY]; Freya Dean [TSY]
Subject: Timing of announcement/next steps with gazettal

Hi Natalie

This email responds to your requests about timing of gazettal on Thursday and provides an update as to what you/the Minister need to do in advance of the announcement. It'd be good to discuss a couple of points related to this – when you have a moment this afternoon could you please call me?

Is there any flexibility with the timing of the remit's gazettal on Thursday?

In short: no. Now that the GG has signed the OIC replacing the MPC's remit, PCO has a duty (under the Legislation Act) to publish the new remit as soon as practicable. PCO has always interpreted this to be no later than 9am on the following Thursday. Therefore, PCO is going to gazette the new remit at 9am Thursday regardless. We had had this feedback previously (I'd forgotten it when I was speaking to you, sorry). We tested it again with PCO this morning following your call, but it hasn't resulted in a change of answer (the latest they said publication might likely be is 9.10am, but they did not undertake to publish it then).

We have had confirmation from PCO that the Order will **not** be gazetted earlier than 9am on Thursday.

Given this, it may be worth moving an announcement to either Wednesday morning before the MPS (as advised last week), or as close to 9am on Thursday as possible to minimise (and ideally eliminate) any delay between gazettal and MoF's PR going out.

What do Natalie and/or MoF need to do in advance of an announcement?

On the MPC remit: nothing. The PCO gazettal process will happen automatically (this is because the Order, unlike the indemnities or the 68B direction, is a piece of secondary legislation meaning PCO controls that process.)

On the 68B/DTIs letters: MoF simply needs to sign those letters and have them sent at a time of his choosing (we are assuming that you'd want that to be after 9am Thursday). The gazettal process for the s68B letter will be coordinated by Treasury and PCO, with the aim of getting the direction gazetted as soon as practicable **after** MoF's announcement. (Separately – you'll have seen Leona's email asking for confirmation that the updated letter can be shared with RBNZ).

Cheers
Daniel



Daniel Cruden (he/him) | Senior Analyst | Macroeconomic & Fiscal Policy | Te Tai Ōhanga – The Treasury

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From: Dasha Leonova [TSY] <Dasha.Leonova@treasury.govt.nz>
Sent: Thursday, 4 February 2021 12:50 pm
To: Caralee McLiesh [TSY] <Caralee.McLiesh@treasury.govt.nz>; Bryan Chapple [TSY] <Bryan.Chapple@treasury.govt.nz>; Andrew Rutledge [TSY] <Andrew.Rutledge@treasury.govt.nz>
Cc: Leona Feng [TSY] <Leona.Feng@treasury.govt.nz>; Cam Vannisselroy [TSY] <Cam.Vannisselroy@treasury.govt.nz>; Sam Thornton [TSY] <Sam.Thornton@treasury.govt.nz>; Neil Kidd [TSY] <Neil.Kidd@treasury.govt.nz>; Mario DiMaio [TSY] <Mario.DiMaio@treasury.govt.nz>; Elle Hughes [TSY] <Elle.Hughes@treasury.govt.nz>; Renee Philip [TSY] <renee.philip@treasury.govt.nz>; Bastiaan van der Scheer [TSY] <Bastiaan.vanderScheer@treasury.govt.nz>; James Beard [TSY] <James.Beard@treasury.govt.nz>
Subject: For the meeting with RBNZ

Hi Caralee

[Credit to Mario and Elle for drafting the email]

We met with the Bank to discuss the Governor's comments on the TR. We remain on track to finalise today - pending your feedback. To feed into your discussion we have highlighted the Governor's views and our suggested way forward. We are working hard to reflect the Governors' view and agree on joint approaches with the Bank staff.

Remit

- (i) We now understand that the Governor's preference to cross-reference the s 68B direction in the remit is not only to support consistency with Financial Policy now, but also to support consistency between the remit and *any future potential direction issued under 68B*. We don't support this policy intent, as we'd want to advise on whether the MPC should consider other Government policies. Beside that, as discussed, s9(2)(h) and will soon be moot when s 68B is repealed.
- (ii) We've added a new rec, that the replacement remit expire in line with the current remit's expiration date, on 14 Feb 2024. Renee's mentioned this to Bryan, and the Bank's initial response is comfortable.

Section 68B Government policy direction

- (i) The Governor wants only a single option that reflects their preference (option 1). s9(2)(g)(i) s9(2)(g)(i) We think that there is value in having more specific options that more closely reflect the relevant Government policy, including a preference for policies that dampen investor demand and support FHB/owner occupiers. This could potentially lead the bank to take this more specific policy considerations into account when using their financial policy tools for financial stability objectives.
- (ii) This is a **Government policy** that the Bank must have **regard to**. Difference of views seem to be more around communication and whether or not more specific direction could create unrealistic expectations for them to deliver something that they don't think they can
- (iii) The Bank prefers language in option 2 that drops reference to **...while creating opportunities for first home buyers**. We are exploring options that would respond and are testing these options with the Bank staff and expect there is a workable way forward. The Banks concern is that while their tools are designed to have differential impact for owner occupiers this is not exactly the same as first home buyers (and possibly how active the language of creating opportunities is).
- (iv) **The Bank considers there is no need for option 3, which includes a reference to the specific policies (such as LVR and capital)** They think this communication issue would be better dealt with in a press release rather than the explanatory notes, we already shifted it from the direction itself based on their feedback. We can see the value for the Minister to mention specific policies he is interested in, but again it's more of a communication issue on both sides

Dasha



Mario Di Maio | Te Tai Ōhanga – The Treasury

Tel: s9(2)(k) | mario.dimaio@treasury.govt.nz