

Covid-era monetary policy independent review

Material provided to David Archer (& presumably Orphanides)

Michael Reddell

17 February 2026

Introduction

I was maintaining an economics blog almost daily through much of the Covid period (the biggest gap was when I got Covid and recovered only slowly in 2022) so there is a huge amount of material on monetary policy and macroeconomic developments written in real-time (www.croakingcassandra.com). I was not, however, doing macroeconomic forecasts. That doesn't mean I was not at times offering thoughts on the macroeconomic prospects or inflation risks etc, but often enough I was writing with reference to the Reserve Bank's own published forecasts (which were not only the most readily and consistently available/updated but over much of the period were not much out of line with the centre of gravity of other local forecasters' views¹).

There is also a fair amount of retrospective material, and engagement with and reaction to (in particular) Reserve Bank defences of its stewardship throughout this period. In the retrospective material I have tried to distinguish carefully between what was known, knowable, or was the best available consensus or centre-of-gravity views at the time, and what (perhaps) should have been known or reasonably foreseeable.

The Terms of Reference for this review were given to you. They are drawn quite narrowly, presumably deliberately so. It is, however, unfortunate that they do not include either the Remit (given controversy over the (possible) implications of the 2019 change, and the addition in 2021 of requirements regarding house prices), monitoring of the MPC's performance by the Minister, The Treasury, or Parliament's Finance and Expenditure Committee, or even the monitoring by the Reserve Bank's Board. It has always been understood that the post-1989 New Zealand monetary policy framework was designed to be a balanced one, involving both operational autonomy for the Bank (initially Governor, latterly MPC) and effective accountability². In the face of the worst outbreak of inflation in the inflation targeting era, and the large LSAP financial losses, it is to say the least regrettable that the performance of the entire system is not within scope. Nonetheless, that was not your call.

More-formal or published material

Most of my writing covering monetary policy during this period is in the form of (sometimes lengthy) blog posts. I wrote the blog posts partly to straighten out my own thinking, and partly to put arguments and evidence out for the consideration of a mid-market audience (ie not exclusively or even primarily academics, professional economists or central bankers, although many of them read it). I was also blogging with high frequency, as contribution to ongoing debate, dialogue, and

¹ This suggestion ("not much out of line") was something I attempted to illustrate in this post [Reviewing Covid monetary policy – Part 2 | croaking cassandra](#)

² This is much more explicitly so in the New Zealand legislation than in the arrangements governing monetary policy in most other operationally independent central banks.

attempts at understanding, and my approach was typically to publish as soon as I'd written (I did not revise and rewrite).

However, I also wrote a number of somewhat more formal pieces about monetary policy and related issues during the period.

- A [short piece for The Spinoff](#) on options for responding to the economic effects of coronavirus, including a possible temporary reduction in GST, March 2020
- [Rebuilding New Zealand's Shattered Economy in a Post-Covid World](#), Policy Brief for the SSANSE series on a post-Covid future, April/May 2020
- My [opening remarks](#) for an appearance at Parliament's Epidemic Response Committee, 13 May 2020 (and Parliament's [Facebook recording](#) of that morning's hearings).
- Notes for a talk to the Victoria University student branch of the Institute for International Affairs [Notes for VUW IIA talk 19 May 2020](#)
- [Appearing to be active, but accomplishing little: New Zealand monetary policy in 2020](#), Notes for a guest lecture to Victoria University's Master of Applied Finance class, 12 December 2020. A post on this lecture is here [Monetary policy in 2020 | croaking cassandra](#)
- [Should have done better: monetary policy in Covid times](#), Address to Institute of Directors, Wellington, 5 August 2021.

In my talk this morning I'll review a number of strands of their performance over the last 18 months:

- How well prepared were they?
- How well did they respond?
- What impact have their various monetary policy interventions had?
- Why have the economy and house prices developed as they did? and
- Where to from here?

But right upfront I want to stress that extreme uncertainty dogs everyone trying to make sense of the macroeconomic situation. That shouldn't be a surprise: we've simply never had something quite like Covid (despite all the pandemics in centuries past). Even untangling the last year - things we now know about - remains challenging.

- [What's gone wrong at the Reserve Bank?](#), Stuff op-ed published 19 February 2022

And a couple of pieces dealing, *inter alia*, with Covid monetary policy experiences more generally, but with a particularly emphasis on accountability.

- Review of Steven Hamilton & Richard Holden, *Australia's Pandemic Exceptionalism: How We Crushed the Curve but Lost the Race*, UNSW Press, Sydney, 2024, 240pp

<https://www.tandfonline.com/eprint/79KTDDQPDMRGKFBWJI7N/full?target=10.1080/00779954.2025.2462326#d1e81>

- Review for *Central Banking* magazine of [Joanna Niedźwiedzińska, Inflation Targeting and Central Banks: Institutional Set-Ups and Monetary Policy Effectiveness](#), Routledge, London and New York, 2022, 382 pages (link is to the review)

BLOG POSTS (and 2026 commentary)

I am going to try to structure the material and links that follow in a way that renders them somewhat manageable and tractable. That said, individual posts (and material from others that I link to) often covers a variety of aspects of the subject.

1. General monetary policy, macro outlook, and inflation

Here I refer you first to two review posts I wrote on successive days in August 2022

[Reviewing Covid monetary policy – Part 1 | croaking cassandra](#) (focused on preparedness issues and the immediate Reserve Bank response in the first 2-3 months)

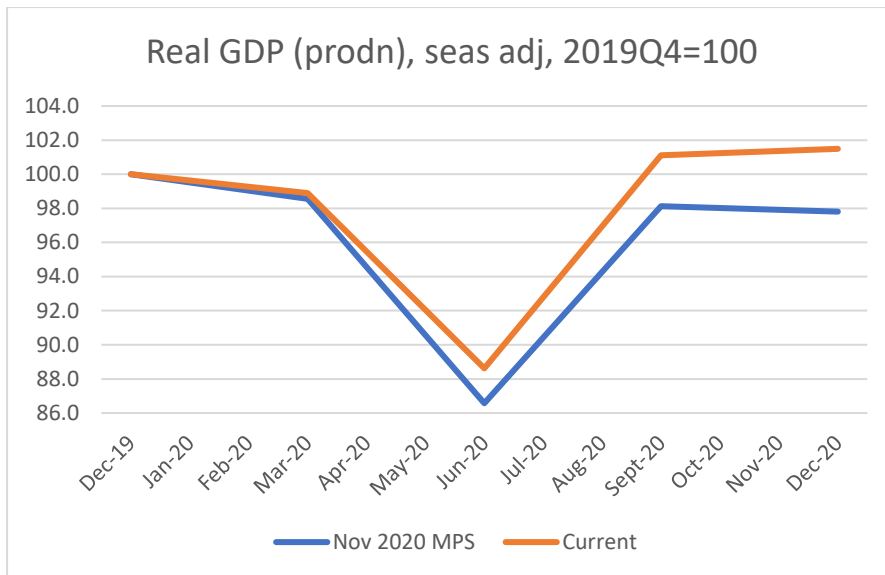
[Reviewing Covid monetary policy – Part 2 | croaking cassandra](#) (focused on the following year)

As I note, I was strongly of the view myself that monetary policy needed to be loosened as Covid burst open us. The initial effects on New Zealand (from Covid in China) were clearly net adverse demand shocks and I was among a group suggesting that the OCR should have been cut (precautionarily) in the February *Monetary Policy Statement*. Even once the domestic situation became a lot more serious there appeared to be strong reason to believe that the net effects would be disinflationary, even allowing for initial fiscal stimulus and the supply constraints. Personally, I put a lot of emphasis on likely investment uncertainty effects and on the likely impact on the (very cyclical) housing market (prices and activity) of job losses, uncertainty, and credit constraints (the housing market contraction in 2008/09 had been substantial even with 500 basis points of OCR cuts and a somewhat expansionary fiscal policy. Few if any economists were critical of the initial easing, suggesting that they as a group shared the (implicit) Reserve Bank view that the net effects would be contractionary. (Note that the big OCR cut was done the day before the first big fiscal announcement, but the Secretary to the Treasury was a non-voting MPC member.)

This was also the stance taken by most – but not all – other advanced country central banks.

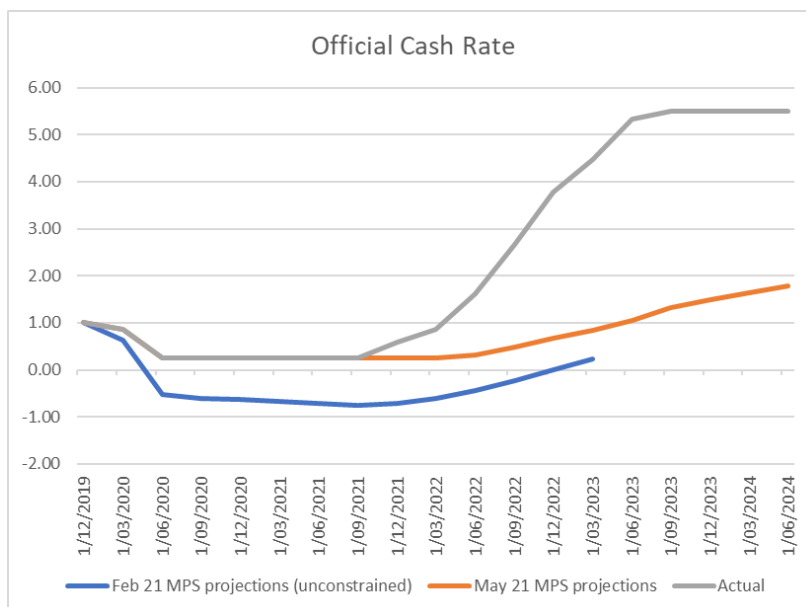
With hindsight, it was the wrong approach to have taken. With hindsight it would have been preferable for monetary policy to have been **tightened** in March/April 2020. But at the point things were almost inherently unknowable. Despite people grubbing round in, eg, the 1918 experiences, there simply were no useful precedents for much of what was going on in combination (lockdowns, border closures, unknown status of any possible future vaccine, fiscal responses etc, all in the context of binding or near-binding effective lower bounds on nominal interest rates).

What is much harder to understand is how the Bank remained so pessimistic for so long or failed to read the extent of the recovery in economic activity. Here are GDP numbers for 2020 from the November 2020 MPS shown against the latest vintage estimates



The Bank thought that in the Sept (and Dec) quarters real GDP would still be materially below pre-Covid levels, actually falling back slightly in December. In fact, real GDP was materially above pre-Covid levels already, and rising. (This translated into wildly wrong published output gap estimates.) In those projections, future inflation tracked along the bottom of the target range, despite the inclusion of monetary and fiscal stimulus.

Three months later the Bank still thought that material monetary stimulus would be required for another two years.



But sobering as these charts are in some respects, I illustrate in the posts that the Bank's forecasts were not out of line with those of other domestic forecasters, and that none of the participants in the NZIER Shadow Board exercise appeared to have a materially different view on the macro and inflation outlook³.

³ As I note, Arthur Grimes called for the Bank to raise the OCR to rein in house price inflation, but in a context where he was happy for them to undershoot the CPI inflation target the MPC was required to pursue (in other words, a different goal).

As we moved further into 2021 views among market participants and commentators shifted. For example, after the May 2021 MPS I noted that I was now in the position of being less dovish than the Bank for the first time in years.

[Monetary policy | croaking cassandra](#)

But I am not pretending for myself, and do not know of any others, who even by then were running such a different view that, had it been adopted by policymakers, would have materially averted the extent of the core inflation blowout. In its review the Bank has noted, and subsequently argued, that they probably should have tightened a quarter or more earlier but doing so would not have made much difference. That is correct, but what it illustrates **with hindsight** is that monetary policy should not have been eased at all in 2020 (or should have been very quickly reversed, after the initial fog of war cleared), and should probably have been tightened somewhat relative to pre-Covid levels by Q3. Note however (see published RB projections) that by August 2021 the MPC already thought it was dealing with a positive output gap, and had had to revise up their estimates substantially already⁴, and yet remained very slow even to get the OCR back to (what they then thought was) about neutral, let alone above it.

Under this heading, I also refer you to a couple of posts I wrote in August 2023

[Excess demand | croaking cassandra](#)

[What did the RB have to deal with? | croaking cassandra](#)

These posts (primarily) represented an attempt to put the New Zealand experience in some cross-country comparative context, using 16 OECD countries or currency areas (ie euro-area as a unit). The first focused on domestic demand (sometimes excess demand). Over the period (mostly 2019 to 2022) New Zealand had one of the larger changes in the current account balance (% of GDP), one of the largest drops in the national savings rate, and the largest change in GNE as a per cent of GDP. Domestic demand is, of course, influenced/managed by monetary policy, notionally after taking all other pressures into account.

The second post focused on the external shocks the MPC had to deal with. It illustrates that, unlike Australia, New Zealand experienced no terms of trade (& income) boom through the Covid period (our ToT actually fell), and that we had the largest fall in services exports as a share of GDP of any of the OECD countries looked at (for services imports we were middle of the pack). I argued that

- more than other advanced countries, we should have been predisposed to being able to have kept inflation in check a bit more easily, having had both a fall in the terms of trade (very much unlike Australia and Canada) and a sustained fall in exports of services that as a share of GDP is materially larger than any other advanced economy has seen. To be clear, those are bad things, making us poorer, but all else equal they were disinflationary forces,

I have not checked whether data revisions since 2023 have materially altered any of these stories.

Finally, in this area, I draw your attention to a claim often made and repeated by the former Governor that, whatever mistakes the MPC might have made at the margins they had nonetheless been among the first countries to tighten monetary policy coming out of Covid. It was always a

⁴ Although still to levels far below their current estimates of the output gap in mid 2021.

somewhat meaningless claim, since it isn't a cross-country contest (each country has its own inflation target, and monetary independence) and in any case each central bank faces a different set of shocks and sources of pressures. But it also wasn't true.

The claim, together with one (out of scope for you) that they'd also later been first to ease, was repeated to the Finance and Expenditure Committee just a couple of weeks before the Governor resigned last year. The post below addressed the factual claim(s), and since it ended up as a bit of dispute with the chair of the committee the post includes a table done by the Parliamentary Library showing that among OECD central banks, the RBNZ was pretty much middle of the pack (even if, as I previously had, one excludes Turkey and Denmark on the one hand, and Switzerland and Japan (not having cut in 2020) on the other.

[Not much parliamentary scrutiny | croaking cassandra](#)

It is true that the RBNZ moved ahead of the Anglo central banks⁵, but.....that is a curiously Anglo-centric perspective.

2. Preparedness

The scope of your review covers only the period from when the MPC was established, 1 April 2019. The Reserve Bank had been doing some thinking about dealing with lower bound issues prior to that (see, notably, this Bulletin article [Aspects of implementing unconventional monetary policy in New Zealand - Reserve Bank of New Zealand - Te Pūtea Matua](#)). Some years prior to that, when the risks were to the fore at the height of the euro crisis the then outgoing Governor had accepted the recommendations of a cross-departmental working group (I chaired) that steps should be taken to ensure that we and the banks had no system constraints standing in the way of using a negative OCR if future shocks required such stimulus.

It isn't apparent (but you will have access to the papers) that the MPC did anything much in its first eight months or so on these preparedness issues, even as the OCR was cut - in near full employment - to a record New Zealand low of 1 per cent. This proved to be a major gap.

In August 2019 the Governor gave an in-depth interview to Bernard Hickey of Newsroom(full transcript here [Why Orr prefers negative interest rates to QE](#)) in which he stated his preference of using negative interest rates (as far as feasible before conversion to cash started taking place) in preference to QE. By then, a fair few countries had been using negative rates and while the success wasn't uncontested the Governor's view was certainly one I was comfortable with. The MPC seems to have been sceptical about QE right up to March 2020 (in the last days before the LSAP was launched the then Chief Economist was quoted fairly sceptically in the Herald). Unfortunately, the Bank had done nothing to ensure that (bank) systems/documentation could cope and when they started investigating in early 2020 the discovered that it would be unworkable for at least some banks⁶.

A couple of my relevant posts are here

[Negative interest rates | croaking cassandra](#) and more specifically

⁵ And seems to have been the framing that some overseas market commentators used to talk up the RBNZ record.

⁶ Note that the MPC was also slow to recognise the Covid shock, putting out a statement in late February 2020 indicating that they expected an economic rebound as the year progressed.

[On the trail of negative interest rates | croaking cassandra](#)

It seems quite likely that had the Bank sorted out these system issues previously (and it was never made clear how serious or widespread they actually were, noting that even a negative OCR would be unlikely to have involved negative term deposit let alone loan rates), the Bank would not have lurched into large scale LSAP operations (including scaling up the initial magnitude) and may also not have gone down the route of the FLP (which was announced while they still believed a negative OCR was not technically possible, but was not implemented until the technical obstacles had actually been cleared away⁷. One of the appeals of a negative OCR relative to sustained QE is that the former involves no material financial risk for taxpayers (and note that the Bank consistently articulated a view that the transmission mechanism was operating normally through this period).

This speech from the Governor in early March 2020 is relevant. [Navigating at Low Altitude: Monetary Policy with Very Low Interest Rates - Reserve Bank of New Zealand - Te Pūtea Matua](#)

On the topic of the Funding for Lending programme, here are links to a couple of my posts

[Funding for lending and other myths | croaking cassandra](#)

[Funding for lending | croaking cassandra](#)

I wasn't particularly unsympathetic to the scheme - even if it did involve some modest subsidy to banks - and there was little additional credit or market risk taken on. It simply was not necessary or warranted by the time it was opened, and was then left open for far too long (on spurious grounds that the MPC was somehow "committed". It was a crisis intervention, inaugurated when the Bank still thought the OCR might have to go negative and might reach a "true" ELB. That did not justify keeping it open, putting out new money, even as the OCR was rising. It did not, in principle, contribute to the inflation problem because, all else equal, OCR adjustments will have offset any easing effects of the FLP.

There is probably a greater degree of culpability around the naming of the facility, which contributed to the mythology that somehow availability of settlement cash was a constraint on banks' ability and willingness to lend.

The markets journalist Jenny Ruth was probably the most consistent and forthright critic of the FLP

[Reserve Bank's cheap funding ends with \\$19.02b drawn down | BusinessDesk](#) (probably paywalled)

3. LVR restrictions and house prices

In April 2020, the Bank lifted the LVR restrictions that had previously been in place (and eased a couple of other prudential restrictions). This became enormously controversial when the house prices "exploded". I dealt with the issue in this post [Reviewing Covid monetary policy – Part 1 | croaking cassandra](#) which I've linked to already. My position was to totally support the Bank's approach (and not just because I had never supported LVR restrictions). Not only did house prices initially appear likely to (and did) fall, but credit conditions tightened in 2020. Against that backdrop, eased or removed LVR restrictions were a natural and appropriate response.

One can, of course, argue that the Bank was too relaxed later about house prices taking off (one of the largest Covid increases anywhere), and to play up (what seemed to them) a positive, in the form

⁷ Note that by late 2020 a negative OCR was sufficiently plausible that respondents to the Bank's Survey of Expectations recorded a (mean) expectation that the OCR would go negative during 2021.

of wealth effects on demand. However, their approach was consistent with much conventional wisdom around inflation targeting in the previous couple of decades, and putting much weight on house prices had not, to put in mildly, gone well in for example Australia and Sweden (and, of course, in New Zealand in the previous decade core inflation had deeply undershot target midpoint even as house price inflation ran hot.)

The change to the Remit, to require the MPC to show that it had taken account of effects on house prices was less than ideal, but probably had substantive impact. It is outside the scope of your review, but it is perhaps worth noting that this intervention by ministers could be seen, in some respects, as a signal of concern about the approach the MPC was taking (which proved to be mistaken). In reality, it was probably mostly about scratching political itches.

In respect of the Remit, this post responds (and links) to a column by Arthur Grimes, partly about the 2019 change, partly in the context of house prices.

[Did it make a difference? | croaking cassandra](#)

And this on house prices and the Bank

[Rising house prices do not make New Zealanders better off | croaking cassandra](#)

[Housing, house prices, and the like | croaking cassandra](#)

4. LSAP

A lot of ground re the LSAP will have been covered in earlier links. My bottom line remains that a) the Bank would probably not have gone so heavily into QE had they sorted out the operational feasibility of negative OCRs, and b) partly because of the rushed use of the tool there was no robust financial risk analysis, done either internally or presented to the Treasury or the Minister⁸. The initial LSAP interventions did no harm, and possibly a little good (although most likely Fed intervention would have resolved spillovers effects here from US liquidity stresses), and could have been closed out quickly at a profit. Contrary to the Bank's repeated claims - down to and including late last year - I do not find it persuasive that the LSAP had a large macro effect here, and believe that any such effects it did have a) proved to be unhelpful (since the economy grossly overheated) and b) would have been obtainable, without the financial risk/losses through use of a negative OCR (even as late as the end of 2020 and into 2021 when LSAP purchases were continuing. LSAP did nothing to facilitate government spending, and the biggest Covid-specific fiscal interventions was announced/implemented before LSAP. Finally, RB claims of big fiscal savings seem to rest on counting only the period when the economy overheated, not the subsequent negative output gap period required to get inflation back in check.

(I also differ from those who run quantity transmission mechanism views - "money printing", system "awash with liquidity" - who see the bond purchases as a material direct cause of the high inflation. With fully remunerated reserves, there is no credible quantity channel (and lending remained pretty subdued).

My own thinking evolved. I was always sceptical of any macro impact (and had been on non-crisis QE in the US etc) but had not given enough attention to the financial risks.

⁸ The indemnity itself is out of scope, but I regard it as fairly irrelevant. Not only was the Minister not in a position to defy advice from both RB and Treasury, but the experience of other countries suggests the volume of LSAP might not have been much different without an indemnity (eg where the RBA ended up).

Relevant links include:

[LSAP scepticism | croaking cassandra](#) (from May 2020)

[Understanding LSAP losses | croaking cassandra](#)

[But we haven't had a three year negative output gap | croaking cassandra](#)

[RB still defending a series of costly mistakes | croaking cassandra](#) (from October 2025 responding to the Bank's current take on the LSAP experience)

Dozens more will be at this category label on my blog [LSAP | croaking cassandra](#)

5. Fiscal

Although both fiscal and monetary coordination and the Bank's response to fiscal developments are within the scope of your review, my view is that there is little to see here over the period you are looking at. New Zealand's fiscal policy is very transparent, the Secretary to the Treasury was a non-voting member of the MPC throughout, and the Bank's model incorporates fiscal projections in a pretty conventional way. There have been some policy assignment debates, mostly sparked by Treasury and their contractors, but these mostly involve category errors or have been rather discredited by the evident unwillingness of politicians to rein in deficits after the Covid period. I have put a lot of weight on the idea that in crises fiscal interventions (sometimes very large) will be needed, whether or not there is then excess capacity in the economy (eg the wage subsidy was "the price" of compelling people to stay home and many of them not to work; post-earthquake interventions were part of the EQC-type framework and would have been needed post 2011 even if the economy was overheating. Monetary policy plays a macro balancing and stabilisation role, leaving governments free to do the interventions they need (or choose) to do, without (in principle) putting price stability in jeopardy. The MPC's mistakes over the Covid period had nothing specifically to do with fiscal policy or information; they were, as noted earlier, reflective of major forecasting errors (wrong model for the time/shock).

Some posts

[Fiscal policy in the wake of Covid | croaking cassandra](#) (a Treasury/RB hosted conference/workshop)

[Fiscal and monetary policy | croaking cassandra](#) (on Bruce White's 2024 paper on fiscal/monetary coordination)

[A Sahm-type rule for NZ? I think not. | croaking cassandra](#) (Treasury hosted Sahm to do some work for them)

[Treasury wanting to use fiscal policy more | croaking cassandra](#) (commenting on Treasury's proposed Long-Term Insights briefing)

[Perhaps unsurprisingly, there was nothing there | croaking cassandra](#) (mostly relates to 2023 and 2024 although somewhat relevant to the extent it reflects poorly on RB communications etc through the period under Orr).

6. Communications

Several aspects I think worth noting here, many of which will have been touched on in earlier links:

- In March 2020, actually before even the first lockdown, the MPC pre-committed to not change the OCR, up or down, for a year. This commitment has never been convincingly

defended by the MPC, and nor did they choose to walk away when circumstances changed on them very dramatically (either way - by late 2020 their forecasts still suggested more stimulus was needed but eg they would not even take the OCR to zero). The background uncertainty was extreme, and even if the intention was good (quite probably so) they failed to reckon with the scale of the uncertainty.

- There was very little serious engagement by MPC members with wider audiences during the (hugely uncertain) Covid period. No speeches or interviews from any of the externals, and few and lightweight speeches from the internals (other than Orr's usual post MPS interviews). Orr did not attend the Tsy/RB workshop in 2021 (link above), the Bank made no serious policy content engagement with it, and there was never a time when they indicated any interest in engaging broadly with the uncertainty, drawing on outside perspectives. Their own ex-post review was done entirely internally, and (for example) never subject to a workshop or conference where competing views or comments might have been expressed or considered. (At the extreme, post your period, Orr had his two most vocal critics barred from the 35th anniversary of inflation targeting conference early last year.)
- In a similar vein there were repeated efforts to mislead Parliament (in particular) and journalists through this period.
[Making stuff up and misleading Parliament | croaking cassandra](#)
[Misleading Parliament | croaking cassandra](#)
[At it again | croaking cassandra](#)

7. Reappointments

Ministerial decisions to reappoint (or not) the Governor and other MPC members are outside the scope of your review. Nonetheless, this was my post when Orr was reappointed
[Reappointing Orr | croaking cassandra](#)

In that post I argue against the inflation record/mistake being good grounds for not reappointing. I have changed my mind on this latterly (not specific to Orr) and believe now that any MPC member (not on the record explicitly dissenting from previous choices) should not be reappointed after mistakes or bad outcomes of the sort of recent years.

Links to writing by other people through the period

As requested, I've attempted to find a selection of writings of others on monetary policy through this period. Some will already have been mentioned earlier, or be embedded in my own posts (since I was sometimes responding to the views of others).

[Transcript: Oliver Hartwich and John McDermott discuss winding back the overhang of monetary stimulus | The New Zealand Initiative](#) from July 2022

[Robert MacCulloch: The case against the Reserve Bank and the Finance Minister - NZ Herald](#) April 2022

[Media release: Foresight economics correctly predicted New Zealand's loss of price stability | The New Zealand Initiative](#) July 2022

[Lessons from monetary policy mistakes during Covid | The New Zealand Initiative](#) Feb 2023

[How central bank mistakes after 2019 led to inflation | The New Zealand Initiative](#)
(Wilkinson/Wheeler, and my post on it [A voice from the past | croaking cassandra](#))

[Research Note: Doing whatever it takes with someone else's money | The New Zealand Initiative](#) Aug
2020 (and my post on it [Interest rates | croaking cassandra](#))

[John McDermott on why quantitative easing has proven to be 'very dangerous' | interest.co.nz](#)
(2022)

[What causes inflation, and should we really worry about it so much? | Stuff](#) (John McDermott Dec
2021)

NZ Initiative piece, Deficit spending in a crisis: why there is no such thing as a free lunch. Dr Bryce
Wilkinson, April 2020 [648](#)