

The Treasury

Reserve Bank Act Review Phase 2 Review Update Proactive Release

March 2020

This document has been proactively released by the Treasury on the Treasury website at

<https://treasury.govt.nz/publications/information-release/reserve-bank-act-review-phase-2-review-update-proactive-release>

Information Withheld

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act).

Where this is the case, the relevant sections of the Act that would apply have been identified.

Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to sections of the Act under which information has been withheld:

- [26] 9(2)(ba)(i) - to protect information which is subject to an obligation of confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely to prejudice the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied
- [33] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [34] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [39] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage

Where information has been withheld, a numbered reference to the applicable section of the Act has been made, as listed above. For example, a [39] appearing where information has been withheld in a release document refers to section 9(2)(k).

Copyright and Licensing

Cabinet material and advice to Ministers from the Treasury and other public service departments are © **Crown copyright** but are licensed for re-use under **Creative Commons Attribution 4.0 International (CC BY 4.0)** [<https://creativecommons.org/licenses/by/4.0/>].

For material created by other parties, copyright is held by them and they must be consulted on the licensing terms that they apply to their material.

Accessibility

The Treasury can provide an alternate HTML version of this material if requested. Please cite this document's title or PDF file name when you email a request to information@treasury.govt.nz.

Reference: T2019/3188

MC-1-7-3-1-14

Date: 9 October 2019

To: Minister of Finance
(Hon Grant Robertson)

Deadline: None

Aide Memoire: Reserve Bank Review Panel meeting with Minister Twyford, 30 September

You requested the Review Team's thoughts following the workshop hosted by Minister Twyford to discuss Shamubeel Eaqub's paper on 'Housing and Banking Regulation', commissioned by the Ministry of Housing and Urban Development. The Workshop was attended by the Independent Expert panel along with representatives from the review team, and the Reserve Bank.

Mr Eaqub made some remarks based on his paper, explaining how increasingly abundant mortgage credit has been an enabler for rising house prices over the last 30 years. More broadly, low interest rates have tended to push up asset prices, while at the same time real investment and economic activity have not grown as quickly. This raises the question of whether more prescriptive regulation could reduce housing credit, and potentially lead to credit going to more productive sectors.

There was a productive discussion of these issues. The review recommends retaining operational independence for the Reserve Bank, including powers to regulate lending standards (e.g. LVRs). The Panel Chair noted that it was important that the Government be able to express additional policy objectives for the Reserve Bank to take into account in prudential regulation, provided these did not compromise the overarching objective of financial stability. For example, a Government interest in boosting home ownership rates might be expressed in a remit or letter of expectations.

Discussion turned to how far prudential policy (including macro-prudential policy) could go in influencing credit allocation. The Reserve Bank expressed a view that different prudential settings (within a reasonable range) would not have led to radically different housing credit outcomes over the last twenty years. For example, even if housing risk weights (already quite high compared to international peers) were increased sharply, the relatively safe nature of mortgage lending would mean banks would still be keen to undertake mortgage lending (and non-bank lenders might also get more involved). Banks might charge a higher interest rate (maybe .25% higher) but this would not greatly alter demand for mortgages. Similarly, LVRs reduced housing credit growth at

the margin, but in the context of the increase in house prices over the last 30 years the effect was small.

The Review Team concurs with the Reserve Bank's view that caution needs to be exercised around what macro-prudential policy can achieve. These instruments can play a useful role in prudential policy but their limitations need to be recognised.

That said, the specific design of prudential policies can impact on home ownership rates (or similar housing objectives), including by complementing other Government initiatives. For example, LVR policy since 2014 has been more onerous for investors than owner occupiers. LVR exemptions for new home construction and Welcome Home Loans also help to assist other Government policies. One reason to ensure Reserve Bank consultation with other agencies, especially on macro-prudential policy, would be to identify opportunities like this for complementary policy design – and something like a remit could provide a stronger mandate for this.

The panel was keen to hear more from stakeholders on this issue and it was noted that some questions on the role of macro-prudential policy in the area of housing could potentially be included in the Review Team's next consultation.

David Hargreaves, Principal Advisor, Reserve Bank Act Review, [39]

Bernard Hodgetts, Director, Reserve Bank Act Review, [39]