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New Zealand—2021 Article IV Consultation

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Staff: Finger, APD; Cihak, SPR

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CEDA OGADA
Secretary

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¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Transparency Policy and Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' successful response to the COVID-19 pandemic. Comprehensive public health measures and economic policies have cushioned the impact on the vulnerable, sustained financial stability, and helped set the stage for a rapid economic recovery. Directors noted, however, that the recovery remains uneven and risks are still elevated. It will, therefore, be necessary for macroeconomic policies to remain accommodative, while accelerating structural reforms to limit scarring, boost productivity, and foster green, inclusive growth.

Directors emphasized the importance of avoiding a premature removal of fiscal and monetary policy support. They welcomed the authorities' intention to stand ready to deploy additional measures in case downside risks materialize. Directors noted that the pace of policy normalization needs to be calibrated to economic and financial developments. As the recovery strengthens, shifting from job retention to active labor market policies will help mitigate economic scarring and make the recovery more inclusive. Medium-term fiscal targets can be reviewed and updated once the uncertainty subsides.

Directors welcomed the authorities' comprehensive approach to tackling housing imbalances amid a rapid increase in house prices. They agreed that recently announced measures would help limit near-term house price increases and strengthen housing supply. Directors recommended, as a durable solution, freeing up land supply, improving planning and zoning, and fostering infrastructure investments to enable fast-track housing developments.

Directors highlighted the need to continue monitoring the financial system's resilience. While the banking system remains well capitalized and liquid, Directors encouraged the authorities to stand ready to deploy additional macroprudential measures when deemed necessary to mitigate financial risks, particularly those related to elevated house prices and banks' concentrated exposure to the real estate sector. They noted that the ongoing review of the central bank act provides an opportunity to further strengthen the governance and operational autonomy of the Reserve Bank and to equip it with the tools needed to respond flexibly to financial stability risks. Directors stressed the importance of maintaining the focus of monetary policy on its inflation and employment objectives.

Directors encouraged continued efforts to foster durable, inclusive, and green growth. They recommended reforming product markets, expanding research and development spending, and streamlining the approval process for foreign direct investment. Directors called on the authorities to prioritize infrastructure investment, with a focus on reducing infrastructure gaps and supporting a green recovery. They looked forward to the finalization of the authorities' emissions reduction plan.

It is expected that the next Article IV consultation with New Zealand will be held on the standard 12-month cycle.

EXECUTIVE BOARD ATTENDANCE²

T. Zhang, Acting Chair

Executive Directors

L. Levonian (CO)

A. Buisse (FF)

S. Bhalla (IN)

H. Hosseini (MD)

A. Mozhin (RU)

M. Mouminah (SA)

A. Mahasandana (ST)

S. Riach (UK)

Alternate Executive Directors

W. Nakunyada (AE)

R. N'Sonde (AF)

L. Herrera (AG)

C. White (AP)

B. Saraiva (BR)

X. Bai (CC), Temporary

J. Romero (CE)

H. Azal (EC)

K. Merk (GR)

M. Massourakis (IT)

K. Chikada (JA)

A. Alhosani (MI)

V. Rashkovan (NE)

J. Sigurgeirsson (NO)

A. Muradov (SZ), Temporary

S. Senich (US), Temporary

O. Vongthieres, Acting Secretary

J. Morco, Summing Up Officer

D. Jiang, Board Operations Officer

M. Eddy, Verbatim Reporting Officer

Also Present

Asia and Pacific Department: H. Finger, Y. Kido, E. Loukoianova, J. Ostry, N. Raman, Y. Wong, L. Zhang. Legal Department: A. Yiadom. Monetary and Capital Markets Department: U. Das. Strategy, Policy, and Review Department: M. Cihak. Executive

² For countries in each constituency, please see the Constituency Codes in the annex.

Directors: A. Andrianarivelo (AF), C. Huh (AP), I. Mannathoko (AE), M. Mahmoud (MI), P. Moreno (CE), E. Shortino (US), P. Trabinski (SZ), R. von Kleist (GR). Alternate Executive Directors: B. Alhomaly (SA), M. El Qorchi (MD), S. Geadah (MI), A. Grant (AP), Y. Indraratna (IN), C. Just (EC), F. Mochtar (ST), F. O'Brolchain (CO), O. Odonye (AE), L. Palei (RU), P. Rozan (FF), F. Sylla (AF). Senior Advisors to Executive Directors: W. Abdelati (MI), H. Andrianometiana (AF), M. Choueiri (MI), M. Ismail (AE), B. Jappah (AE), T. Nguema-Affane (AF), C. Sassanpour (MD), M. Scholer (NE), A. Tolstikov (RU), B. Yoo (AP), M. Zhunusbekova (SZ). Advisors to Executive Directors: F. Al-Kohlany (MI), P. Al-Riffai (MI), C. Becker (AP), B. Boostani (MD), E. Boukpepsi (AF), I. Bustillo (AG), Campbell (UK), S. Chea (ST), R. Edwards (CO), D. Fadhel (MI), T. Iona (AP), H. Koh (GR), A. Korinthios (IT), K. Kuretani (JA), M. Merhi (MI), D. Milutinovic (NE), R. Moral Betere (CE), B. Piasecki (SZ), M. Pucnik (EC), F. Rawah (SA), L. Siliva (AP), N. Vaikla (NO), J. Yoo (AP), D. Coelho (BR), D. de Waziers (FF).

DISCUSSION RECORD³

The Acting Chair (Mr. Zhang):

As we know, the subject of this session is the 2021 Article IV Consultation for New Zealand. Like many other advanced economies in the Asia-Pacific region, New Zealand, of course, has weathered the COVID-19 crisis relatively well. In particular, a strong public health policy response helped to quickly suppress the virus, and large-scale macroeconomic support has helped mitigate the economic fallout from the pandemic and lockdown.

Together, all of these policies have enabled a quick economic recovery from a severe initial shock in early 2020. Indeed, there are many interesting policy issues in New Zealand, including the macroeconomic policy stance going forward and the country's policy reactions to the surging house prices. And other important themes include structural reforms to help further limit medium-term scarring from the COVID-19 crisis and support sustained and inclusive growth. These are very important policy issues to be discussed, so with that I look forward to a productive discussion this morning.

The staff representative from the Asia and Pacific Department (Mr. Finger):

Before turning to Directors' questions, I would like to update the Board on two developments. Yesterday's labor market data release saw unemployment further decline from 4.9 percent in the December quarter to 4.7 percent in the March quarter, with the gap between male and female unemployment further narrowing.

However, at the same time, the under-utilization rate, which includes also under-employed people, rose from 11.8 to 12.2 percent, and in our view that confirms that indeed there still is considerable slack in the labor market.

Separately, yesterday the Reserve Bank released its latest financial stability report. The report confirms that the financial sector has remained resilient with strong capital and also liquidity buffers, but risks have continued to build obviously in the housing sector. The Reserve Bank indicated that it is prepared to further tighten macroprudential policies if that is needed. It also announced that it will increase banks' minimum core funding ratios back to the pre-pandemic levels from January 2022 onwards. I think that is a welcome

³ Edited for clarity.

sign because liquidity is ample in the system and there is no longer a need for reduction in this measure.

Turning now to questions raised in the gray statements, in addition to the written answers we provided yesterday, I will focus here today on monetary and macroprudential policies. Starting with monetary policy, there were questions about a potential negative interest rate policy. As we noted in the report, we think that under our baseline scenario, further monetary stimulus is not needed but that negative interest rates can be an option in case downside risks materialize. I would say that emerging international evidence suggests that mildly to moderately negative interest rates tend to be helpful in supporting output and inflation, but, of course, transmission can be somewhat less strong than when rates are cut within positive territory.

A specific New Zealand-related consideration is that a further expansion of the large-scale asset purchase program would be constrained by the limited amounts of suitable bonds available in the secondary market for purchase, and so we would indeed see that mildly to moderately negative policy rates would be a potentially interesting option for New Zealand in such a downside scenario. If that were implemented, the Reserve Bank should closely monitor the health of the financial sector, of course, as interest margins may compress under negative policy rates, and that could potentially induce risk-taking among banks, But banks do remain well-capitalized, as I said at the beginning, so perhaps that mitigates that risk to some extent.

Stepping out a bit, Fund staff just noted in a recent Board briefing, I think last week, on unconventional monetary policy, that in practice the side effects of negative rates so far have remained quite contained in those economies that have implemented this policy.

Now, another important potential area to look at under such a scenario would be house prices, of course. Negative policy rates would indeed be expected to transmit to lower mortgage interest rates, and this could increase demand for housing and lead to higher house prices, all else equal. I want to add, though, that the particular circumstances that might lead the Reserve Bank to adopt a negative policy rate, such as a deteriorated outlook for inflation and employment, might well mitigate these kinds of pressures.

Regarding questions on the new remit to the Monetary Policy Committee, I would emphasize that the Reserve Bank is required to assess the effect of monetary policy on the government's housing objectives, but that the objectives of monetary policy itself have remained unchanged, and that is still

to maintain price stability and support maximum sustainable employment. As such, the new remit is not expected to constrain future monetary policy decisions.

We agree with Directors that monetary policy should continue to squarely aim at its core objectives of inflation and employment and that financial stability issues, including housing and others, are best addressed through macroprudential policy. We also think that it is important to avoid even the perception of loading too many and potentially conflicting objectives onto monetary policy. We discussed this point during the mission with both the Finance Minister and the Reserve Bank Governor, and both clearly agreed with this view.

Now, regarding a question on whether the Reserve Bank's funding to lending program should have exempted mortgage lending, we did indeed discuss this with the Reserve Bank, and the Reserve Bank noted that this policy was designed in the midst of the COVID-19 crisis when it would not have been opportune to attempt finetuning the policy or make it more complex in its administration. We tend to agree with that assessment.

Turning now to questions on macroprudential policy, we do feel that following the tightening of loan-to-value ratio limits in the recent government housing package, it would now be prudent to see how these measures play out before imposing additional ones. And that is consistent with the view of the new financial stability report that I talked about at the beginning.

I would like to emphasize that the Reserve Bank's toolkit is currently constrained. For instance, the Reserve Bank currently cannot impose debt-to-income ratio limits, and engagement between the Reserve Bank and the Minister of Finance is underway. The Reserve Bank is preparing a response to the Minister, who asked for more information and analysis. The response is expected later this month, and we are looking forward to following that development closely.

We do think that it is important for the macroprudential authority to have the full toolkit at its disposal, and we understand that under the forthcoming Deposit Takers Act, the Reserve Bank would indeed have additional freedom to choose among possible instruments.

Now, before closing, let me take the opportunity to thank the New Zealand authorities for their high level of engagement and close policy dialogue. For me it has been a real privilege to work with counterparts that are

so engaged and so knowledgeable and competent. I would also like to thank Mr. White particularly for his ongoing very close involvement and his excellent collaboration and support.

Ms. Riach:

We commend the authorities for their success in controlling the pandemic. New Zealand's response to the pandemic has been exemplary in terms of its health response and brought infection rates quickly under control.

New Zealand has shown that an effective containment strategy, together with a proactive economic policy response, can successfully contain the worse impacts of the pandemic and protect lives and livelihoods. Whilst economic activity was hit hard initially with tourism, hospitality, and other contact-intensive activities severely impacted, the economy has recovered more quickly than expected, and the outlook implies a milder recession compared with other advanced economies. We can all learn something from this.

Looking ahead, we agree with Mr. Merk and Mr. Tarazona that an effective vaccination rollout remains key for recovery. There are risks to a slow domestic vaccination rollout, and we think this could have been brought out more clearly in the report. Like others, we would encourage the authorities to speed out the rollout of the vaccination campaign as much as possible, as this will help the recovery, particularly in those sectors hardest hit by the pandemic.

We appreciate the commentary in the report on scarring and the role of labor market policies to facilitate the reallocation of workers from severely affected sectors. We fully agree that there is scope for expanding labor market policies in New Zealand to help address existing inequalities, and we would be interested to see if any substantive steps are taken in this area.

The issue of scarring will continue to be an important theme in surveillance over the coming months, following on from the helpful chapter in the World Economic Outlook (WEO) in April. Different country examples and experience are helpful as our authorities continue to refine policy as new data becomes available. At the right moment, we would welcome a stock-take from staff on how different policy responses and different preexisting systemic structures led to different outcomes.

Finally, we strongly welcome the authorities' commitment to strengthen the greening of the financial sector through the introduction of monetary climate-related disclosures. We also welcome the recent Climate Change Commission Draft Advice and look forward to the final Emissions Reduction Plan that will show how New Zealand will meet its 2050 emission reduction commitments. We look forward to more coverage of these issues in future reports.

Mr. Saraiva:

We issued a joint gray statement with Mr. Romero so I will just highlight three points.

First, let me join Ms. Riach and commend the New Zealand authorities for their comprehensive and robust response to the pandemic. Both cases and deaths were kept at exceptionally low levels due to timely testing, contact tracing, and effective containment measures. Yet, as was just highlighted, the pace of vaccination rollout remains key for successfully containing the pandemic and for sustaining the recovery.

Second, New Zealand entered the pandemic with substantial fiscal space and some conventional monetary space, and the response taken by the authorities was very forceful and served the country well. We encourage the authorities to stand ready to provide additional targeted fiscal support depending on the evolution of the pandemic.

Going forward, we also encourage the authorities to develop active labor market policies to facilitate reallocation and to promote investments in infrastructure. In addition, we fully agree with staff that monetary policy should remain focused on inflation and employment. We heard what Mr. Finger has just said this morning. It is very comforting to know that the Governor of the Central Bank is very much aligned with this view, and we also took comfort from the authorities' clarification that the reported impact on housing affordability is only part of the communication responsibilities of the central bank.

Of course, the Reserve Bank of New Zealand (RBNZ) should avoid giving any impression of conflicting objectives, which could at the end of the day hinder the effectiveness of its communication. I think it is an important point because of the high standing of New Zealand's Central Bank within the central banking community, and because of that, we trust that the New Zealand Central Bank will cope with those challenges in a very effective way.

We understand that policy objectives, such as promoting housing for the vulnerable or controlling for impacts on financial stability, should be addressed by structural reforms and fiscal policy or macroprudential policies in that case.

My final point relates exactly to this deteriorating access to affordable housing, which has underscored some downside risks related to financial vulnerabilities, private labor mobility, and potential negative impacts on inequality. We therefore welcome the authorities' proposals to address imbalances in the housing market and support staff's recommendations in this regard.

We also note on the structural side that New Zealand's productivity performance could be improved by deepening integration in global value chains, improving educational outcomes for students from vulnerable socioeconomic backgrounds, and streamlining the foreign direct investment (FDI) screening process.

The Acting Chair (Mr. Zhang):

I agree with all these points Mr. Saraiva raised, particularly on the emphasis of the importance of the central bank communications.

Mr. Nakunyada:

We issued a statement in which we commend the authorities for implementing decisive response measures that kept the pandemic firmly under control and set the foundation for a quick recovery. We would like to emphasize the following two points.

First, considering the uneven and uncertain recovery, we caution against premature withdrawal of support measures. We also encourage the authorities to expedite the vaccination campaign to counter the negative effects of border closure on education and tourism exports and support an economic recovery.

Further policy efforts are required to promote private sector development in diversified growth sources. Going forward, we view a medium-term fiscal package is essential to support investments in public and social infrastructure as well as green investment.

Second, we emphasize the need to maintain an accommodative monetary policy to support economic recovery in the context of well-contained inflation pressures. At the same time, central bank independence should be maintained by avoiding overloading monetary policy with multiple and conflicting objectives. That said, we are reassured that the co-objectives of monetary policy remain unchanged.

We also stress the need to closely monitor the overall consequences of negative real interest rates on already rising housing prices given the potential offsetting effects on inflation and employment.

Mr. Sigurgeirsson:

We issued a gray statement; I therefore will be brief.

Like others, we commend the authorities for their exemplary response to the pandemic and broadly concur with staff's views on the outlook and risks. Substantial fiscal space built up before the crisis enabled the authorities to implement large-scale fiscal responses and probably will support the recovery. And there may be lessons in this for smaller economies.

We also thank staff for the update on the information available after the document circulation and welcome the planned deposit insurance coverage limit. We particularly welcome steps towards mandating climate-related disclosure for financial entities, which will set an important example for other countries.

Finally, on the trade front, we note that New Zealand is among the signatories of the Regional Comprehensive Economic Partnership (RCEP) and it also concluded a revamp of its FDI with China. While we read from staff's answers to questions that the RCEP in itself will not expect to change New Zealand's investment regime, we would be interested to hear staff's views on its longer-term effect on trade patterns, if any.

Mr. Romero:

I want to start highlighting New Zealand's swift and comprehensive response to the pandemic that was instrumental to protect human life. The facts are impressive and a reason to recognize the New Zealand government and authorities' good execution of policies. This is reflected in the exceptionally low number of cases and fatalities, only 26 deaths, and great

results in keeping the contagious curve flat even after a very quick reactivation of the economy.

We agree with Ms. Riach that all of these experiences have to be documented, and we have all many things to learn from the experience of New Zealand. Additionally, the authorities made good use of very important fiscal space, which, by the way, is to be used in exceptional situations, as this one, to finance social and infrastructure measures for a value of 19.3 percent of GDP. This resulted in the GDP in 2020 declining less than was expected. From the information we received, it declined only 2.9 percent. Inflation remained very low and unemployment went down, so I think that the economic numbers are a real fact of what is happening in New Zealand. We hope this tendency continues in the same good track through future years. We issued a joint gray statement with Mr. Saraiva. I want to make the following three very short comments for emphasis.

As this has been said, housing is one of the main structural challenges for New Zealand. As described in staff's report, housing prices rose 24 percent last year due to the low interest rate and removal of restrictions, which resulted in supply and demand imbalances.

We concur that a permanent solution to the housing affordability requires a long-term plan, which includes development in new areas of land and very important infrastructure investments.

In this line, we wish success with the project of the new urban development authority and with the outcome of the new policies to incentivize investors in these types of housing assets. Those incentives are tax driven, which is totally feasible and advisable, and higher support to first-home buyers, and to increase the overall housing, especially to low-income owners and first-home purchasers.

Second, it is very important to keep in mind that extraordinary government support and subsidies will disappear after COVID-19 and the transition to normality shall be well planned, especially in most affected sectors.

We understand that the authorities stand ready to deploy additional fiscal support if necessary. Another very relevant challenge is to create an environment for FDI, growth based in productivity, and not only immigration, as has been the case in past years, and to facilitate reallocation of workers from the most-affected sectors, such as tourism and hospitality, as it has been

said. To achieve that, it is very important to invest in training, education, and also coordination with the productive and growing sectors of the economy. They have to be involved to try to attract these workers to activities that are stable in the time.

Third and lastly, I want to underline the importance of the prudential policy framework, taking the recommendation of increasing the deposit insurance coverage limit to NZ\$ 100,000 per depositor per institution. And with this coverage, we think that that is a very important achievement, as it is going to cover 93 percent of the depository people, altogether with the empowerment to the Reserve Bank of New Zealand to undertake on-site inspections for deposit takers and insurers and to implement additional macroprudential policies.

Mr. Azal:

We issued a gray statement; therefore, I will be very brief. We commend the authorities for their successful response to the COVID pandemic, which we believe sets a good example. Border closure combined with lockdowns and large fiscal packages were very instrumental. They relatively contained the pandemic.

The authorities alerted a larger decline in output, kept collaborating with other council, and led formations to a strong economic recovery. We believe that New Zealand's low public debt levels allowed the authorities to make substantial use of countercyclical policy. However, public debt may increase to its pre-COVID-19 level. We are reassured that New Zealand's debt remains sustainable under the baseline and alternative scenarios.

We encourage the authorities to continue labor and product market reforms, which in turn help boost productivity growth, digital, and green transformation, and R&D spending on these sectors are key to ensure sustainable and inclusive growth over the medium-term.

We welcome the authorities' efforts to address the demand/supply side consensus in the housing market and issue macroprudential tools to curb demand for risky housing loans and measures on the supply side, such as enhancing infrastructure investments, which are certainly stepping in the right direction. However, we believe it may take considerable time before the housing market will stabilize and the prices become generally affordable in real terms.

In this context, to manage financial stability risks, we note that the implementation of additional macroprudential tools is conditioned on the Reserve Bank Bill to be introduced and on the transmission mechanism.

Mr. Bai:

We would like to join Ms. Riach and other Directors to commend the authorities for their effective response to the COVID shocks. Since we issued a gray statement, I would like to focus on two points in my oral intervention.

First, I appreciate the authorities' efforts to deepen trade and economic cooperation with major trade partners. With modernized rules and procedures, these newly established arrangements are extremely important for the region to boost recovery and growth potential and mitigate longer-term scarring from COVID.

Second, we are encouraged to note that New Zealand has introduced very concrete initiatives and schemes on climate change mitigation and adaption. This is a very good regional example, and we think the IMF staff can share experiences of New Zealand with Pacific Island countries in the future.

Mr. Massourakis:

We have issued a gray statement, and I will be brief.

We all agree that New Zealand weathered the COVID-19 pandemic well, not just in terms of adopting public health measures but also in terms of the overall policy response. But, today, I want to commend the authorities also for their strong commitment since the beginning of the COVID-19 pandemic to keep supply chains open and to remove any trade restrictive measures on essential goods and medical supplies.

In this context, the launch of the trade recovery strategy, which aims to help New Zealand recover from the impact of COVID-19, and seizing new opportunities for exports and investment is a welcome step. We would appreciate staff's comments on this strategy.

Finally, let me say that a successful vaccination strategy is key to achieve a faster economic recovery, so we encourage the authorities to move ahead with their vaccine campaign as quickly as possible. We would appreciate an update from staff on the vaccination rollout.

Mr. Hosseini:

We have issued a rather comprehensive gray statement; I will limit myself to a few brief comments for emphasis.

New Zealand is clearly one of the early success stories in the fight against the pandemic for which the authorities need to be commended. Early closure of borders and internal lockdowns proved very effective in containing the virus. With the pandemic still spreading out of control in some regions of the world, keeping the borders closed until the threat is removed would be prudent policy. Domestic vaccine rollout, however, also has to pick up substantially in preparation for a safe reopening.

The early reopening of the economy and the large-scale fiscal and liquidity support significantly limited the impact of the pandemic on jobs and incomes. The wage subsidies and job retention schemes were partially successful in limiting unemployment and minimizing long-term labor scars, but still, as in most other countries, vulnerable groups, youth, women, low-skill labor, and in the case of New Zealand, some ethnic groups have suffered disproportionately. As labor market policies move from wage subsidies to active labor market policies to create or expand job opportunities for vulnerable groups, targeted and tailored-made policies are needed to address the specific needs of each group.

The significant imbalance in the housing market potentially carries sizable macrofinancial risk. We welcome the authorities' comprehensive approach to address both the demand and supply side factors. Mutually reinforcing macroprudential measures are most effective on the demand side and increasing land availability on the supply side from affordability and other liquidity issues are best addressed through fiscal, tax, and structural measures.

Mr. N'Sonde:

We would like to commend again the New Zealand authorities for their successful handling of the pandemic to contain infections and preserve livelihoods and for the effective accommodative macroeconomic policy stance to support the economy. We welcome their readiness to do more to sustain the recovery as needed. We issued a gray statement, but we would like to stress a couple of points.

First, we praise the authorities' efforts to support the disadvantaged groups and those that are most affected by the pandemic, which often intersect. We particularly appreciate the current and planned unemployment benefit measures, active labor policies, and actions in the education area to help reduce inequality and child poverty. We look forward to updates on these policies in future Article IV reports.

Second, we welcome the financial system's preparedness to operate under negative interest rates. We are reassured with the autonomy of the central bank in pursuing its own inflation and maximum sustainable employment objectives, including financial stability.

We praise the government's commitment to addressing the housing pressures and attending concerns on housing supply and affordability.

Finally, like other Directors, we commend the decisive actions taken to strengthen the country's response to climate change, including the addition of a Climate Change Commission and more recently the adoption of climate reporting requirements for the financial sector.

The fact that New Zealand is probably the first to legally impose such a requirement is noteworthy. This climate commitment and notably the strategy under preparation to curb carbon emissions will certainly place New Zealand among the leaders in this area.

Mr. Merk:

I have issued a gray statement; I will focus on two points in my intervention today.

First, we commend the authorities for their success in controlling the spread of the virus, which sets an important example for other countries across the world. As other Directors, we emphasize that it is key now to speed up the rollout of the vaccination campaign.

Second, the surge in house prices in combination with the increases in the share of high debt-to-income loans and high loan-to-value ratios are a cause of concern, and we appreciate staff for elaborating on financial stability this morning.

In that context, we welcome the active use of macroprudential policy tools and encourage continued close monitoring and readiness to employ such tools further if required.

Ms. Indraratna:

We commend the authorities for the swift action taken to control the health pandemic.

The unprecedented policy support provided to limit the adverse social and economic effects of the pandemic has enabled New Zealand to make a rapid recovery. However, we note that the recovery is uneven and downside risks remain. Therefore, we stress the need to avoid a premature removal of policy support. At the same time, we would like to urge the authorities to speed up the vaccination drive with a view to reopening borders to enable a recovery in the tourism and education sectors. We have issued a detailed gray statement, but we would like to emphasize two points.

First, strengthening financial sector resilience is a priority. Given high household debt levels, the rapid increase in housing loans can lead to financial system vulnerabilities, with serious effects on household and bank balance sheets. We urge the authorities to stay focused on addressing these risks in the financial system through macroprudential measures while managing housing market imbalances through a comprehensive approach.

Secondly, we see the need for structural reforms to sustain New Zealand's growth momentum in the medium-term. The requirement to fine tune labor market policies is a case in point. This is particularly important as the crisis has disproportionately affected young workers, female workers, in particular, ethnic groups and low-skilled workers despite the large-scale subsidy scheme put in place.

Given the availability of fiscal space, we echo staff's view that the authorities need to pursue active labor market policies to facilitate structural labor reallocation.

The staff representative from the Asia and Pacific Department (Mr. Finger):

Let me start with the question of vaccination rollout. This has been slow in New Zealand, as we have said in the written answers. New Zealand has a plan to provide a vaccine to everybody who wants one by the end of the calendar year, so that is encouraging, and vaccine supplies are increasing now.

But more broadly, I can say that it follows the same pattern as countries that have done better in suppressing the virus and have now a relatively slow vaccine rollout, not because they do not value vaccine rollouts, but just because vaccination rollouts have been so much more pressing in other economies where the COVID incidence has been so much higher. In relative terms now, countries like New Zealand are coming in a little bit slower, but they are still on it. They are still very interested in vaccinating everybody, and they are also importantly beginning to help Pacific Island countries affected as well.

There was a question on active labor market policies: I want to note that New Zealand is working on active labor market policies. Importantly, they have put in place hiring subsidies, which we think is a great tool in this kind of environment because they can target specific groups that are more affected. They have also expanded access to training and made that free, and they are also reforming the training system. It is going in a very good and right direction.

We are just noting that spending on active labor market policies started from a very low base in New Zealand, in part because unemployment has been so low. But even considering this, it has been a low spending item in New Zealand, and they can do more, so we discussed with the relevant ministries what more can be done. They are focusing on it to some extent, but they are also noting that it is important to focus on the quality of the spending to make sure it is not wasteful, which, of course, is a very good point as well.

There were some additional questions on trade and the RCEP. Broadly speaking, in terms of the impact of RCEP, New Zealand has had bilateral agreements with all RCEP members already before RCEP was signed, and so it is more a consolidation of existing agreements than a real addition for New Zealand. But having said that, there are still real benefits, partly because it harmonizes the rules of origin, so it will make trade much easier for our countries in RCEP, and also it harmonizes rules on non-tariff barriers, which will be quite helpful in some cases.

Studies that we have seen show that there could be moderate increases to trade and the level of GDP in the medium term. One study from the New Zealand authorities shows a 0.7 percentage point increase in the level of GDP over the medium-term. That is give or take broadly in line with our estimates that our colleagues in the Asia-Pacific Department are putting out together with the Research Department.

There was another question on New Zealand's trade recovery strategy, and I would highlight two points. One is the need to support exporters that were heavily affected during COVID lockdowns and the drop off of international demand. That is still very much a part of the support strategy by the New Zealand authorities, including through the wage subsidies and many other measures. There are contingency plans in place should there be a resurgence. Any company, including exporters, where the revenue drops below a certain percentage, will get additional payments.

Secondly, though, importantly, there is a need, and the New Zealand authorities have recognized that early on, to keep supply chains intact and keep markets open, and they have been working quite intensively, including through their Asia-Pacific Economic Cooperation (APEC) leadership this year.

On the trade agreement side, of course, RCEP and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTTP) will be quite helpful in that regard, and they are also updating the China Free Trade Agreement (FTA). They are working separately on FTAs with the UK and the European Union; all these things should be helpful.

*The staff representative from the Strategy, Policy, and Review Department
(Mr. Cihak):*

Nothing to add to Mr. Finger's comprehensive response other than we took note of many Executive Directors' comments on New Zealand becoming the first country or taking steps to become the first country to mandate climate-related disclosures for financial entities, so that is one topic.

Mr. White:

I would like to start by thanking my fellow Directors for all their advice and comments in their gray statements and today at the meeting. I will convey their views to my authorities.

I am going to touch briefly just on a few issues, mostly guided by the focus of Directors' comments, and I would like to start with New Zealand's elimination strategy per COVID-19, and I think every country has faced a slightly different and unique set of circumstances in respect of COVID, and every country has had to respond to those circumstances.

For New Zealand, it was clear very early in the pandemic that an uncontrolled spread of the virus in New Zealand would completely overwhelm the health system, and that was an unacceptable outcome for the authorities. And initially the authorities looked at measures that would suppress, flatten the curve, in other words, the spread of the virus. But as they looked at these measures, it became clear that New Zealand's circumstances perhaps opened up an alternative strategy, which was an elimination strategy. A part of that is about geography and the relative isolation of New Zealand.

Another part of that was about the virus arriving a little bit later, so the authorities have had a chance to observe what happened elsewhere. I think the elimination strategy could be described as a least regret strategy. It was clear that significant actions would need to be taken to suppress the virus, so what might be needed for elimination was not necessarily a lot more. Given the authorities' desire to aim at elimination and if it fell short, then it still would have done a good job in terms of suppression.

I think clear communication and transparency from the authorities was instrumental in making this happen, and a high level of social trust was a strong foundation from which to work. I just think it is important to acknowledge a certain set of circumstances that enabled a certain response. As many of Directors have noted, there are now other challenges looking ahead in terms of opening up from such a low base of COVID. I will very definitely pass the views about the need to accelerate vaccine rollout on to the authorities.

On the fiscal side, I just want to say I really appreciate the Board's support for the government's extensive fiscal response and the support for the decision to step back from a quantitative debt target in the short-term and instead to signal a clear trajectory for deficit reduction and for debt reduction in the medium term.

I think the key factor here in the authorities' mind is one of balance and the criticality of balancing the immediate needs of vulnerable New Zealanders of those groups that have been hit particularly hard by the pandemic, the need to protect a hard-won and emerging recovery, and a view that a premature fiscal tightening could jeopardize those outcomes.

So there is a very clear intention to move to fiscal tightening, and indeed the authorities will consider a quantitative target in the future when uncertainty has abated because it is, of course, important to bring debt back

down to levels that would enable a similar response to a similar shock in the future.

On the monetary policy, I think Mr. Finger made a really critical point, which is that there is no ambiguity that the monetary policy objectives remain unchanged, that they are inflation and employment, and that the requirement to assess the effect of monetary policy decisions on housing objectives is purely a requirement to assess, not a requirement to act. I would reinforce Mr. Finger's comments that both the Governor and the Finance Minister have indicated their clear support for that decision.

Turning to housing, this is a complex problem, and it has been many years in the making. And it is a multilayered problem. At its heart it is a supply issue, and it starts with land supply and a planning system that has not provided for the right kind of coordination. And it has put too much weight on the ability to object in consenting processes.

On top of this, there is an infrastructure supply issue, that is the supply of the water and routing infrastructure that is necessary to make land ready for housing development. Here, there are complex incentive issues relating to local council financing.

And then on top of that infrastructure supply issue, there are some cost issues really in the construction sector as a smaller economy in New Zealand sometimes struggles to get real competition in some of its markets and building supplies are more expensive in New Zealand than elsewhere in the world, and the structure of the construction industry is very fragmented. Lots of small businesses are building the bespoke houses.

I think this problem definition is now very well understood by the authorities. They have a reform program that tackles each of those layers of issues. In a more recent decision to repeal and completely replace the Resource Management Act, the authorities have bitten down on the absolute heart of the problem in terms of land supply, but that is a very complex piece of legislation, and it is going to take time and a consultative process to get it right. I very much concur with my colleagues who highlight the importance of this set of issues but also that it may take some time to get the supply side right.

In the meantime, demand-side measures are, of course, very important, particularly when money is as cheap as it is at the moment. Of course, there is an intersection with prices and financial stability. I just want to note that the

Reserve Bank has very much welcomed the direction that the government has given it to have regard to house price sustainability in its financial supervision role. And as Mr. Finger has outlined, today it is standing ready, doing the analytical work, engaging with the Finance Minister so it can stand ready to deploy additional macroprudential tools should they judge that to be necessary.

Finally, I would just like to touch on climate change. The government has put a real focus and put a lot of work into what I would describe as setting the institutional architecture for long-term success. It has done that through legislation, while creating new institutions, so it has the 2050 greenhouse gas emission targets in legislation, but it has also supported that with a requirement to set carbon budgets of five yearly intervals. This will require the government to map out a clear set of steppingstones from where we are today to where we want to get to, which is going to really shine a light on the pace of progress against those targets. I think it will lean against any temptation there might be to delay action.

To support this approach, it has established a new independent body, the Climate Commission, which will make recommendations on what those carbon budgets should be and what measures should be taken to meet those budgets. And draft recommendations were released earlier this year. The government is obliged to respond to those recommendations in a clear and transparent way.

This is an architecture that is going to ensure consistent progress and is going to help the country achieve its climate goals through the political cycle and in the face of any variation in political views about the pace of change. And it has been supported by other measures, substantial reform to the emissions trading scheme to cap emissions for the first time and to auction units. That will drive up the carbon price, and, of course, the recent legislation introduced on financial sector disclosures.

There is just one more thing for me to do, which is to thank staff for the really very high-quality work, the excellent reports, the excellent engagement that they have had with staff. I think it is no main feat to really dig into and understand an economy that is under stress and perhaps behaving in unexpected ways from halfway around the world, and I particularly like to commend Mr. Finger, who has taken over as a new Mission Chief at a time when he is unable to visit New Zealand, which I think further adds to the challenge. Thanks to the mission team, and I very much hope in the next year we will be able to welcome the team in person.

The Acting Chair (Mr. Zhang) noted that New Zealand is an Article VIII member, and no decision is proposed.

The Acting Chair (Mr. Zhang) adjourned the discussion.

ANNEX

- Staff's Statement
- Gray Statements
- Staff Responses to Executive Directors' Technical Questions
- Constituency Codes

BUFF/21/6

April 29, 2021

**Statement by the Staff Representative on New Zealand
Executive Board Meeting
May 5, 2021**

1. This statement contains information that has become available since the staff report (SM/21/56) was circulated to the Executive Board on April 21, 2021. This information does not alter the thrust of the staff appraisal.
2. **The Cabinet has agreed on measures to update the prudential policy framework and raise the coverage limit of the prospective deposit insurance scheme.** As part of the Phase 2 Review of the Reserve Bank of New Zealand (RBNZ) Act (see Annex VI of the staff report on earlier in-principle decisions), the Cabinet has adopted decisions on policy measures for the forthcoming Deposit Takers Act, including a new prudential framework, a crisis resolution regime, and a deposit insurance scheme. The planned deposit insurance coverage limit will be raised to NZ\$100,000 per depositor per eligible institution, from NZ\$50,000 in the original proposal. This is expected to fully protect 93 percent of depositors and is in line with staff's recommendation to raise the limit. Other measures include empowering the RBNZ to undertake on-site inspections of deposit-takers and insurers, widening the enforcement toolkit, and removing the requirement for ministerial consent to issue directions. Further, the new Act will grant the RBNZ the operational independence to implement macroprudential policies, including instrument choice, within types of lending prescribed by the Minister of Finance.
3. **New Zealand is taking action to become the first country to mandate climate-related disclosure for financial entities.** The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Bill has been introduced to Parliament, which would make climate-related disclosure mandatory for around 200 entities. The aim is to ensure that businesses routinely consider the effects of climate change in their business decisions and demonstrate responsibility and foresight in their consideration of climate issues. Reporting standards are expected to be prepared in line with the Task Force on Climate-Related Financial Disclosures (TCFD) framework.
4. **The RBNZ published guidance on cyber resilience.** The new guidance aims to promote the cyber resilience of the financial sector and will apply to all entities that the RBNZ regulates. It provides high-level principle-based recommendations and serves as an overarching framework for the governance and management of cyber risk, which entities can tailor to their own specific needs and technologies.

5. Consumer price inflation rose to 1.5 percent y/y in 2021Q1. The consumer price index rose 0.8 percent q/q, bringing the year-on-year inflation rate to 1.5 percent, from 1.4 percent in 2020Q4. The small pickup was driven by commodity prices and rising rents. The inflation outturn is broadly in line with RBNZ and staff projections. Notwithstanding some volatility in the near term, overall inflationary pressure has remained contained.

BUFF/ED/21/50

April 30, 2021

**Statement by Mr. White on New Zealand
Executive Board Meeting 21/43
May 5, 2021**

On behalf of our New Zealand authorities, we welcome the resumption of bilateral surveillance and the 2021 Article IV reports. We thank the mission team for a frank and engaging consultation and for its well-considered advice, with which we broadly agree.

Context and COVID-19 health response

New Zealand entered the COVID-19 crisis in a strong position. Economic growth had averaged around 3.5 percent over recent years supported by strong population growth. Disciplined fiscal policy had reduced net core Crown debt to less than 20 percent of GDP. Unemployment was a little over 4 percent and inflation stable at just below the targeted 2 percent. With the official cash rate at 1 percent, some conventional monetary policy space remained, and the financial system was in good health. As in other economies, macroeconomic policy was adapting to a regime of lower neutral interest rates and low inflation.

The authorities reacted swiftly and decisively to COVID-19. In the face of early infections, the government implemented a strict seven-week nationwide lockdown beginning in March 2020. This effectively eliminated COVID-19 in the community, a position that has been protected by closed borders, save for returning residents and some essential workers who are subject to managed isolation protocols on arrival.

Subsequent small outbreaks in the community arising from transmission at the border have been quickly eliminated. Given a similar successful strategy in Australia, in late April 2021 the border was reopened for incoming travellers from Australia. A nationwide vaccination program is underway and expected to be completed this calendar year.

Building on this platform, the authorities' policy agenda has three overarching goals – to keep New Zealand safe, to accelerate the recovery, and to lay the foundation for the future with a particular focus on tackling climate change, housing supply and affordability and child poverty.

Economic performance and outlook

The government's elimination strategy has served New Zealand well, protecting both lives and livelihoods. It allowed the economy to reopen quickly after the initial lockdown. While the early restrictions led to a large contraction in the June 2020 quarter (-12.2 percent), the sharpest on record, this was less severe than expected and was followed in September by a record quarterly rebound (14 percent). December fell back slightly (-1 percent) reflecting volatility that may continue into 2021 given uncertainties, but growth is expected to pick up steadily into 2022 and beyond.

The authorities supported workers and businesses through the early restrictions with significant investment in policies to preserve jobs and employment relationships, particularly a NZ\$ 14.6b (4.6 percent GDP) wage subsidy scheme and a range of financial support measures for businesses, communities and individuals. This was assisted by the banking system extending temporary principal and interest deferrals for mortgage holders and SMEs. The sizable fiscal impact and rapid removal of health restrictions preserved employment and underpinned the v-shaped economic recovery. Unemployment in December 2020 was 4.9 percent, down from 5.3 percent in September and well below estimates of nearly 10 percent at the start of the pandemic. While it is expected to rise again in 2021, the peak is likely to be lower than the 6.7 percent that followed the GFC.

The impact of the pandemic has been uneven across and within sectors, and across cohorts. Service sectors were hit hard, particularly tourism: during the winter season, when net tourism flows normally subtract from activity, the impact of increased domestic spending by New Zealanders was positive, though demand patterns were different; however, the summer season, when international tourism normally peaks, has been heavily affected by the absence of international visitors. Employment outcomes have been worse for women, youth and Pacific people. Conversely, the construction sector has expanded rapidly in the face of increased residential and public sector activity, demonstrating a flexible labour market, though capacity constraints are emerging.

Private consumption rebounded strongly in the second half of 2020 as a result of accumulated savings, substantial public transfers, and confidence effects linked to the elimination strategy and sharply rising house prices. Business confidence came back more slowly but has improved considerably this year, though investment intentions remain subdued as business take a wait-and-see approach. The current account deficit narrowed from 3.3 percent to 0.8 percent of GDP from December 2019 to December 2020 as imports have fallen more than exports and the terms of trade have been strong, supported by high dairy prices.

The outlook remains highly uncertain and is reliant on the progression of the pandemic and global vaccination programs, and the timing of full reopening of the border.

Fiscal policy

The government supported the economy through unprecedented fiscal stimulus in 2020, allocating NZ\$ 63b (19.3 percent of GDP) for COVID-19 response, recovery and rebuild initiatives over and above increases in automatic stabilisers. Measures focused on protecting jobs and incomes, supporting the unemployed, increasing training opportunities and supporting New Zealanders' physical and mental health.

Fiscal support peaked in 2020 but the fiscal position remains stimulatory in 2021. Around NZ\$ 10b of COVID-19 funding remains unallocated and is available should downside risks emerge. Temporary escalations of restrictions to address small outbreaks have triggered wage subsidies targeted at the hardest hit firms and the newly approved Resurgence Support Payment scheme which provides one-off cash payments to support businesses. As the focus moves from response to recovery and rebuild, a major focus is on infrastructure investment in health, school property, roads, rail and public transport, freshwater supply and public housing. With NZ\$ 69b committed and planned from 2017 to 2024, and a further allowance of NZ\$ 7.8b to be allocated over the next four Budgets, this represents a step change in investment levels that will start to address a long-running infrastructure deficit.

Despite the strong starting point and better than expected performance to date, it is appropriate that the fiscal position remains supportive of the economic recovery. Fiscal support is expected to be withdrawn gradually with deficits on a declining path through to the middle of the decade. After peaking at slightly over 52 percent of GDP in 2023, net core Crown debt is forecast to start falling and will be around 47 percent of GDP by 2025.

These trajectories are prudent and sustainable and retain considerable space to respond to future shocks. The 2021 Budget later in May will see a return to the use of specified operating and capital allowances. Given the degree of global uncertainty, the government has chosen not to set a net debt target at this stage to avoid the risk of a fixed target driving policy choices that undermine the recovery. A strong direction of travel is established by the government's decision, set out in the 2021 Budget Policy Statement, to prioritise deficit reduction in the short term and debt reduction from the mid-2020s, and the government will be able to consider more specific targets once uncertainty abates.

Monetary policy

The Reserve Bank moved quickly to respond to the COVID-19 crisis. In March 2020 it cut the official cash rate by 75 bps to 0.25 percent and followed this with the introduction of quantitative easing for the first time in New Zealand through its Large Scale Asset Purchase

program for government and Local Government Funding Agency bonds, now sized at a maximum of NZ\$ 100b. In December 2020, the Bank further increased its stimulus through a Funding for Lending program to reduce banks' funding costs and in February 2021 announced that all operational work had been completed to enable a negative official cash rate, which will be deployed if needed.

Inflation has remained below the 2 percent mid-point of the inflation target since the start of the crisis and employment is below its maximum sustainable level. With ongoing slack in the economy as a whole and the outlook remaining highly uncertain, the Monetary Policy Committee assesses that continued stimulatory settings are required for an extended period.

Financial policy

The financial sector remains sound. Banks are well capitalized and liquid, non-performing loans are low and stress tests indicate robustness even to severe shocks. Business lending growth has been sluggish, but there are limited signs of firm distress, though insolvencies are expected to increase as government support is withdrawn. Housing lending has accelerated, fuelled by accommodative monetary policy, a shortage of supply and the removal of loan to value ratio restrictions (LVRs) in 2020. While early in the crisis most commentators expected house prices to fall, they have in fact increased 24 percent in the year to March 2021 and the proportion of new lending to investors has increased. LVRs were reintroduced in March 2021 and will be tightened in May 2021. The Reserve Bank is considering deploying other macro-prudential tools to further protect against the risk to the financial sector and household balance sheets of a correction in prices.

The 2017 Financial Sector Assessment Program (FSAP) continues to guide financial sector reforms. The Reserve Bank deferred implementation of its increase in bank capital requirements by two years in the face of the pandemic. Funding has been increased to support a more intensive supervisory regime. Phase two of the review of the Reserve Bank Act has now concluded its major policy decisions and implementation is split across two new statutes.

The Reserve Bank of New Zealand Bill is expected to pass this year. It introduces a financial policy remit and modernises the Bank's governance and accountability arrangements to provide appropriate democratic oversight and align with New Zealand governance norms while reflecting the unique characteristics of a central bank and preserving operational independence. A Deposit Takers Bill will be introduced later this year. It will create a single regulatory regime for all bank and non-bank deposit takers as well as introducing deposit insurance protection up to NZ\$ 100,000 per depositor per institution, and reforming the crisis resolution framework.

Structural policy

The government agenda is focused on ensuring productive, inclusive and sustainable economic growth.

While sharply rising house prices have been fuelled by accommodative monetary policy that has increased demand, the underlying problem is one of supply: New Zealand's house prices were less unaffordable than international comparators before the pandemic. The government's approach is to tackle both sides of the issue at the same time. A recent package of measures designed to increase supply and remove incentives for speculators included NZ\$ 3.8b in funding for infrastructure to accelerate supply, broader eligibility and larger contributions to support first home buyers, an extension from five to ten years of the period during which properties are subject to capital gains tax (family homes are exempted) and the removal of mortgage interest deductibility for landlords. This is accompanied by a longer-term agenda which includes the replacement of the Resource Management Act to strengthen the planning system and streamline consenting processes. The public housing agency Kainga Ora will invest NZ\$ 9.8 b across the next four years to deliver a total of 18,000 public and transitional homes.

The labour market has proved significantly more resilient than initially expected, supported by the wage subsidy scheme. While the immediate response to the pandemic focused on preserving employment relationships through the very sharp contraction, the focus has moved to measures to ensure a rapid recovery of labour markets as the lasting impact on jobs and business has started to emerge. This has included incentives for employers to take on and retain apprentices, more funding for vocational learning and expansion of the flexi-wage scheme to reach more categories of workers including beyond the benefit population. NZ\$ 1.3b was also allocated to a range of jobs for nature initiatives that will create 11,000 jobs and green the recovery in areas such as freshwater, biosecurity and enhancing biodiversity.

Reforms to the overseas investment screening regime are designed to support investment in productive assets. The reforms introduce a new national interest test, consistent with the design used in many economies and applying in narrow circumstances. For the great majority of foreign investment, the new regime will be substantially more business friendly by simplifying tests to increase certainty, reducing scope of approvals, and improving operational efficiency and reducing turnaround times.

In January 2021 the newly formed Climate Change Commission released its initial, draft advice on meeting New Zealand's 2050 emissions reduction commitments. The report concludes that reducing emissions will create new job, business and export opportunities and can be achieved at low cost. Action is needed across all sectors of the economy, with a particular focus on transport, agriculture and energy, and will require a full suite of tools including carbon pricing, regulation and investment. The Commission has proposed

emissions budgets for the first three five-year periods. Following a period of consultation, the recommendations will be finalised by 31 May 2021 and the government will respond before the end of the year with an emissions reduction plan to achieve the emissions budgets.

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GRAY/21/1119

May 2, 2021

**Statement by Mr. Herrera and Ms. Bustillo on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for the very informative report and Mr. White for the insights provided in the Buff statement. We broadly agree with staff's appraisal and would like to limit ourselves to the following points.

We commend the authorities for the successful management of the COVID-19 health crisis. Along with highly effective containment measures, unprecedented fiscal and monetary support was instrumental to cushioning the economic impact of the shock and triggering a faster-than-expected recovery. However, despite the improved outlook, the economy has not fully recovered and significant downside risks remain related to the domestic and global evolution of the pandemic, as well as the housing cycle. *We would appreciate if staff could comment on the authorities' plans for lifting border restrictions.*

Given elevated uncertainty and output remaining below potential, we agree with staff that policy support should not be withdrawn prematurely. That said, we concur with the authorities that no additional stimulus is needed at the current juncture and take positive note of their determination to deploy additional fiscal support if the recovery falters. To this end, the unallocated portion of the COVID-19 Response and Recovery Fund provides the authorities with flexibility to react quickly should risks materialize. Despite the unprecedented policy response, New Zealand's fiscal position remains very strong and public debt remains sustainable. We agree with staff that, as the recovery strengthens and uncertainty declines, medium-term fiscal targets could be reviewed and updated.

On monetary policy, we support the staff's assessment that it should remain accommodative. The Reserve Bank of New Zealand (RBNZ) monetary impulse has effectively supported demand and financial markets. We take note that the RBNZ is prepared to adjust policy to the macroeconomic outlook and to meet inflation and employment objectives. From what we have learned in Annex V, an important review of the Reserve Bank's financial stability role and broader governance arrangements is underway. We agree with staff that this review is an opportunity to further strengthen RBNZ's governance framework and independence. *Regarding the new requirement that the monetary policy committee outlines the impact of its policy decisions on the government's housing objective, we would appreciate staff's comments on its implications for future monetary policy decisions, if any. We would also appreciate staff's comments on the adequacy of the macroprudential toolkit of RBNZ to deal with the financial stability risks related to surging house prices.*

We agree with staff's view that a comprehensive approach is required to address housing imbalances, while the role of monetary policy is limited. We commend the authorities for the newly announced balanced package containing both urgent and long-term measures that seek to moderate near-term price pressures and increase housing supply. Improvements in housing affordability will especially benefit low-income households and first-time homebuyers and support efforts to secure a more inclusive and resilient recovery. At the same time, we agree with staff that monetary policy and macroprudential policies should remain strictly focused on existing macroeconomic and financial stability objectives and avoid overburdening these policies with potentially conflicting objectives, including housing affordability. We share the view that there are more efficient tools to address legitimate distributional concerns about housing affordability, including structural and fiscal policies.

A multifaceted reform effort to boost medium-term growth. We take positive note of recent advanced measures, including R&D tax credits, improving public R&D spending, active labor market policies, and simplification of the foreign direct investment approval process. Measures to address the constraints companies face in expanding exports will help accelerate productivity growth.

We commend the authorities for the ongoing work to meeting New Zealand's 2050 emissions reduction commitments and for their leadership towards making climate-related disclosure mandatory for financial entities. Bringing climate risks and resilience into financial and business decision making will be key to the reduction in carbon emissions.

With these comments, we wish the authorities continued success in their future endeavors.

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GRAY/21/1120

May 2, 2021

**Statement by Ms. Levonian, Mr. O'Brolchain, and Ms. Edwards on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for the concise report and Mr. White for the helpful Buff statement.

We broadly concur with staff's assessment and main recommendations that near-term policies should focus on minimizing the social and economic impact of the COVID-19 pandemic. We note that the measures implemented by the authorities to contain the spread have been largely successful, resulting in relatively low levels of infections and deaths.

The impact of measures taken to mitigate the economic effect of the pandemic has also been positive with real GDP estimated to have declined by 2.9 percent in 2020 (a better performance than originally projected) and growth of 4 percent projected for 2021. The outlook could be affected by several downside risks including an extended pandemic, slow roll out of vaccines, and delays in fully reopening of the country's borders. In particular, with relatively high exposure to international tourism, services exports will lag until borders reopen. Given these uncertainties, we support staff's recommendation that the accommodative policy stance should be maintained in so far as wage and inflation pressures remain subdued.

We take positive note that debt is assessed to be sustainable even under stress scenarios and that New Zealand was able to respond to the crisis because adequate buffers had been established. Building buffers to respond to future shocks is vital. In that regard, we encourage the authorities to review the medium-term fiscal framework and to refocus on the objective of growth-friendly fiscal consolidation that protects public investment and social spending once the pandemic abates.

We underscore the importance of continued vigilance of the financial sector. We take positive note that progress has been made with the implementation of the recommendations from the 2017 FSAP. In addition, reforms aimed at modernizing the Reserve Bank of New Zealand (RBNZ) supervisory, governance and accountability structure and enhancing the prudential regulatory regime between banks and non-banks are on the way. Within the context of the pandemic, we also note staff's assessment that the financial system remains resilient and banks remain well-capitalized and liquid. Further, banks' non-performing loan

ratio has remained low. We support the actions of the RBNZ to maintain liquidity in the financial system and reduce banks' funding costs given business insolvency are set to increase once support is withdrawn.

As such, measures to safeguard affected sectors against potential undue risks, and support a smooth transition are crucial. We also note the continued need monitor surging house prices and the possible implications on household balance sheet and on financial stability.

We note that the pandemic has had an uneven impact on New Zealand's labor market, and we are particularly concerned that youth, female workers, and some ethnic groups have been disproportionately affected. The scarring effect on these groups can be significant if

unemployment rates remain high for an extended period. We urge the authorities to ensure labor market policies continue to target vulnerable groups. Continuing to provide income support and unemployment benefits, training programs, retraining of workers and expansion of hiring subsidies will all have a positive impact on the lives and livelihoods of those workers who have been displaced by the pandemic. We are of the firm view, that greater gender equity and the inclusion of the youth in the labor market are prerequisites to achieving inclusive and sustainable growth.

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GRAY/21/1121

May 3, 2021

**Statement by Mr. Nakunyada and Mr. Ismail on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for the informative set of reports and Mr. White for his insightful Buff statement. We broadly agree with the staff's appraisal and provide the following comments for emphasis.

We commend the authorities' swift and sizable policy response to the pandemic, which brought COVID-19 infection rates firmly under control and mitigated its impact on vulnerable households and businesses. Notwithstanding the effective management of the health crisis, the pandemic dampened economic growth early in 2020, but activity picked up faster than anticipated in the second half of the year. Going forward, economic recovery is expected to continue, although the outlook remains clouded by risks from the potential resurgence of the pandemic, progress on vaccinations, depressed tourism activity, and concerns over subdued commodity prices. Against this background, we urge the authorities to sustain accommodative fiscal and monetary policies, as well as accelerating structural reforms to limit scarring and foster a durable, inclusive, and green recovery.

Fiscal policy should continue to support the recovery, stimulate private demand, and address pandemic related distributional effects. To this effect, we commend the authorities for maintaining an accommodative fiscal policy to limit scarring and support viable businesses, given the still uneven and uncertain recovery. At the same time, we see merit in the authorities' plan to gradually withdraw fiscal support once the recovery is firmly established. Looking ahead, we stress the need to carefully rebalance fiscal support towards viable firms and active labor market policies (ALMP). In this context, we welcome the recent adoption of ALMPs as an important step to facilitate labor allocation and alleviate the disproportionate effects of the pandemic on affected workers in contact intensive sectors. At the same time, given the sustainability of public debt and existing fiscal space, we urge the authorities to stand ready to provide additional fiscal support, should downside risks to recovery, materialize.

The accommodative monetary policy stance remains appropriate to support the recovery in the context of well contained inflation and wage pressures. Nevertheless, the Reserve Bank of New Zealand (RBNZ) should stand ready to timely unwind accommodative

monetary measures to address central bank balance sheet and associated risks, should the recovery proceed at a stronger pace than initially envisaged. In the same vein, we note the update to the remit of the monetary policy committee (MPC) but caution against pursuance of multiple and potentially conflicting objectives, that could undermine central bank independence and delivery of its core mandate.

While the financial system remains resilient, we stress the need for greater focus on mitigating macro-financial vulnerabilities. In this regard, policy efforts should be directed towards mitigating risks from the potential deterioration in asset quality, the unwinding of relief measures, as well as banks' concentrated exposure to mortgage lending and rising household debt. We, therefore, welcome the recent re-imposition of LVR restrictions, which will help address heightened risks to financial stability posed by rising housing prices. Concurrently, appropriate fiscal and structural policies should be deployed to address MPPs distributional effects and housing markets imbalances. *Could staff elaborate on the other macro-prudential tools being considered by the Reserve Bank of New Zealand to further protect against the rising risks to the financial sector and household balance sheets, of a correction in prices?*

A comprehensive approach to addressing demand and supply side constraints, would be needed to correct New Zealand's housing imbalances. We, therefore, urge the authorities to accelerate efforts aimed to free-up land supply, enhance infrastructure investment, and scale up the stock of social housing to support accelerated housing development. At the same time, strengthening measures to curb investors' demand would be critical to alleviate near-term price pressures and address affordability concerns. That said, we welcome the housing package recently announced by the authorities and underscore the need for close monitoring of its implementation and a comprehensive assessment of the expected market impact.

Finally, structural reforms should be stepped up to promote sustainable, broad-based, and greener growth, once the pandemic abates. To this end, we see merit in promoting research and development, supporting innovative private investment, and reforming state-owned enterprises to enhance productivity growth. Further efforts are required to upgrade infrastructure, with more focus on green investment, including by supporting local councils' infrastructure funding and accelerating the reform of the Resource Management Act (RMA). We also underscore the importance of supporting displaced workers and promoting training and vocational programs to foster employability and facilitate reallocation of workers from the affected sectors. That said, considering the draft advice by the recently formed Climate Change Commission to meet emission reduction commitments, we look forward to the implementation of its recommendations.

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GRAY/21/1122

May 3, 2021

**Statement by Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Nguema-Affane on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for the set of interesting papers and Mr. White for his insightful Buff statement.

We commend the New Zealand's authorities for their successful handling of the COVID-19 pandemic in the country and the macroeconomic policies to support activity.

The swift response to the health crisis has helped block the spread of the virus while the unprecedented support measures were effective in limiting economic contraction, promoting employment and keeping the financial system afloat. We welcome the rapid rebound of economic activity although the remaining travel restrictions to maintain a COVID-free environment are delaying full resumption of migration flows and recovery in many contact-intensive and export-oriented services, including tourism and international education.

As some uncertainty around the pandemic worldwide remains and downside risks are tilted to the downside, the macroeconomic policy stance should be attentive of external developments and rising domestic vulnerabilities. We note that the economic outlook is brighter, supported by strong domestic demand. In addition, the ongoing vaccination program bodes well for a larger reopening of borders and fast recovery of external demand. However, negative risks emerge from increasing housing prices, households' long-term debt and potential spillovers from adverse developments of the pandemic elsewhere. Against this backdrop, we share the view that the accommodative policy mix remains appropriate going forward—until the economic recovery further firms up or inflation drifts up above target—while the macroprudential toolkit should be expanded to contain financial risks.

Fiscal support policies should continue. We appreciate the authorities' intention to use the remaining resources in the COVID-19 Response and Recovery Fund if needed. We commend them for the identification of contingency measures in case of COVID-19

resurgence. Given the low level and sustainability of public debt, the suspension of the debt target to support the economy was appropriate as this would give the authorities more space to address additional COVID-related challenges. We agree that fiscal support should focus more on the most affected segments of the population and give due consideration to labor market inequalities that pre-exist the pandemic, including through more active labor market policies following the expiration of the wage subsidy. The authorities' efforts to reduce inequality through higher minimum wage, permanent increase in unemployment benefits and higher tax rate for top earners in this exceptional environment are particularly noteworthy. *Could staff elaborate on public support for, and corporate reaction to these measures?*

Given the low inflation outlook, the current monetary policy stance should be maintained while pursuing reforms to strengthen New Zealand's financial stability framework. We take note of the central bank's preparedness to enter negative policy rate territory if needed. The future introduction of a new Deposit Takers Act, as part of the review of the central bank act, that will strengthen the regulatory, supervisory and bank resolution frameworks and introduce a new deposit insurance scheme, is a positive development. Likewise, the issuance of guidelines for cyber resilience and the introduction of a climate-reporting amendment to financial sector-related legislations at the Parliament are laudable steps towards increasing the resilience of the financial sector. *Could staff indicate when those legislations are expected to be finalized and adopted?*

Addressing financial regulatory gaps and housing sector imbalances is critical to reduce macro-financial risks. The needed monetary policy accommodation has further fueled housing prices amid limited housing supply, and concerns about housing affordability for first-home buyers are fully justified. We agree that the envisaged tightening of loan-to-value ratios and adoption of real estate-specific macroprudential measures will be essential to contain financial stability risks stemming from skyrocketing housing prices and high household indebtedness. Those measures should be complemented with strong actions to address imbalances in the housing market. The authorities' recent efforts including the reform of the Resource Management Act and the newly announced housing package, to deter speculation and promote affordable housing development go in the right direction and should be intensified.

We encourage the authorities to pursue their efforts to improve the business climate, ameliorate productivity and increase growth potential. We particularly welcome the ongoing review of the Overseas Investment Act (OIA) to help attract more FDI by further simplifying the approval process and improving connectivity hindered by geographical remoteness. Scaling up investment in green infrastructure and promoting R&D including through R&D tax credits introduced lately should help further increase productivity. We also take note of the ongoing reform of vocational education which together with recent active labor market policies could help reduce inequality in the population and foster inclusive growth. We appreciate the Selected Issues paper which provides specific policy implications

for New Zealand on this front. *Finally, we note from the Buff statement that addressing child poverty is one top priority of the authorities' reform agenda. As there is no reference to this issue in the staff report, we would appreciate staff's comments on actions envisaged in this regard.*

With these remarks, we wish the authorities of New Zealand success in their recovery efforts.

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GRAY/21/1123

May 3, 2021

**Statement by Mr. Massourakis and Ms. Korinthios on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for the informative report and Mr. White for the helpful Buff statement. Although New Zealand was hit hard by the pandemic, we are pleased to note that it has successfully contained the coronavirus outbreak. As the recovery is still uneven and the uncertainty around the near-term outlook remains high, the authorities should remain ready to deploy additional monetary and fiscal stimulus in case downside risks materialize. We broadly share the thrust of staff appraisal and would like to offer the following comments for emphasis:

- **We commend New Zealand's success in fighting the pandemic and welcome the efforts to counter the macroeconomic and financial impacts of the crisis.** However, the surge in house prices is cause of concern and can add to potential financial stability risks. Housing affordability constraints were an issue already before the pandemic. *Therefore, we welcome that a comprehensive and longer-term policy approach to address housing market pressures is underway, as underscored in the Buff statement, and would appreciate an update on this strategy.*

- **A strong policy focus on addressing pre-existing structural issues is paramount.** In fact, addressing weak productivity growth is long overdue and more urgent than ever to minimize scarring effects of the pandemic. Scaling up innovative and green investment and R&D spending, reducing entry barriers and simplifying procedures could be important steps in the right direction and help build a more resilient economy. We welcome the launch of a fund to accelerate the replacement of public sector coal boilers and to foster a clean post-COVID-19 recovery, in line with New Zealand's commitment to reach carbon neutrality by 2050. We commend the authorities for the passing of the Zero Carbon Act in 2019, which made New Zealand one of few countries to have a zero-emissions goal enshrined in law. We also welcome the preliminary report of the Climate Change Commission on meeting the

2050 emissions reduction commitments and look forward to seeing the final recommendations.

- **The effects of the pandemic on the labor market have been particularly severe on youth, female and low-skilled workers. Moreover, Maori and Pacific people have been more affected than other ethnic groups.** We thank staff for an insightful selected issues paper and strongly support the policy options suggested to address these issues. We also share staff's view that there is room to increase spending to address inequality and labor market issues. Preserving human capital accumulation, addressing large disparities in education achievement, and closing the gender gap remain key to build a really inclusive post-pandemic economy.

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GRAY/21/1124

May 3, 2021

**Statement by Ms. Mahasandana and Mr. Chea on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for the comprehensive set of reports and Mr. White, for the informative Buff statement.

We commend the New Zealand authorities for their successful efforts in mitigating the impact of the Covid-19 pandemic. The authorities' prompt and decisive containment measures and macroeconomic policy responses since the onset of the pandemic has helped cushion the adverse impact of the crisis. While economic recovery has been faster than anticipated, the prospect of recovery remains uneven with risks tilted to the downside due to the ongoing uncertainty about the evolution of the pandemic. In this context, we concur with staff that it is important for the authorities to avoid a premature withdrawal of policy support. Moreover, continued efforts to make progress in the ongoing structural reforms while maintaining macroeconomic stability will also be vital to mitigate risks and support a sustainable and inclusive recovery. We broadly concur with staff's appraisal and would like to limit our comments to the following for emphasis.

New Zealand's fiscal position is strong and should remain accommodative to minimize the economic and social impact of the pandemic. We take positive note of the authorities' large- scale fiscal support to protect the most vulnerable and affected sectors during the period of lockdown. We also welcome the authorities plan to increase spending towards infrastructure investment, which is crucial to accommodate the country's growing population and to address infrastructure shortages. Given New Zealand's substantial fiscal space and debt is assessed to be sustainable, we agree with staff that the authorities should avoid a premature withdrawal of fiscal support and stand ready to deploy additional stimulus in the event of any future pandemic-related shocks. Moving forward, we trust the authorities will continue to pursue sustain fiscal policy support to buttress a stronger and more inclusive economic recovery.

The current monetary policy stance remains appropriate and should continue to contribute to stabilizing inflation expectations. We welcome the Reserve Bank of New Zealand's (RBNZ) timely response to the pandemic as well as its intention to undertake additional monetary easing if downside risks materialize. We also share staff's view that monetary policy should be strictly focused on existing inflation and employment objectives.

While the financial sector is noted to remain sound and banks are well capitalized and liquid, continued efforts are needed to strengthen financial stability. Despite the low level of NPLs, New Zealand's household debt vulnerabilities remain high and the financial system stability risks are expected to rise due to the relaxation of government relief measures. To address housing-related macro-financial risks and ensure financial system resilience, the authorities should remain vigilant of potential rising banking sector vulnerabilities and exercise effective macroprudential measures. We therefore welcome the authorities' re-introduction of loan to value (LTV) ratio restrictions as stated in the Buff. *Could staff further elaborate on the macroprudential policy adopted by the RBNZ to mitigate Financial Stability risks?* That said, we take positive note of the RBNZ's recently published guidance on cyber security and welcome the approval of the Phase 2 Review of the Reserve Bank Act to help modernize the central bank's governance and operational autonomy.

We welcome the comprehensive approach taken by the authorities to address the demand-supply imbalances in the housing markets by providing additional support for first home buyers, reducing the attractiveness for investors of the existing housing stock and plan to boost public housing supply.

Advancing on structural reforms is crucial to facilitate higher and more inclusive growth. We take positive note of the authorities' ongoing efforts to mandate climate-related disclosure for financial entities to improve the quality of government R&D spending towards low-emissions infrastructure and technology. To boost productivity and inclusiveness, it is imperative that the authorities should continue to foster regional development and support displaced workers and disadvantaged groups.

With these remarks, we wish the New Zealand authorities' success in their policy endeavor

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GRAY/21/1125

May 3, 2021

**Statement by Mr. Chikada and Mr. Kuretani on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for the informative papers and Mr. White for his helpful buff statement. We welcome that New Zealand has weathered the COVID-19 pandemic shock well, by implementing decisive health, fiscal and monetary responses. However, the recovery has been uneven and uncertainty remains exceptionally high, including the fall in international tourism and the fast rise in housing prices. We encourage the authorities to continue being vigilant against the risks and to progress structural reforms to ensure productive, inclusive, and sustainable economic growth. As we broadly concur with the thrust of the staff appraisal, we will limit our comments to the following points:

Fiscal and Monetary Policies

We welcome that the unprecedented fiscal stimulus and accommodative monetary policy have supported the economy and financial system, and agree these supports should not be withdrawn prematurely under the current circumstances. We concur with staff that the pace of fiscal normalization needs to be carefully calibrated, given the necessity to support employment and minimize bankruptcies of distressed but viable firms. To facilitate labor reallocation, further expansion of active labor market policies should be considered and help workers disproportionately affected by the pandemic. We also concur that monetary policy needs to remain accommodative for an extended period as assessed by the Monetary Policy Committee. *On possible options for further monetary easing, we note that the banking system is operationally ready for negative interest rates, and welcome staff's views about possible pros and cons of the negative interest policy for New Zealand.*

Financial Sector

We are concerned that the rapid increase in riskier housing loans could be rising financial vulnerabilities. While the loan-to-value ratio (LVR) restriction was re-imposed from March 2021, housing-related risks including increased high-LVR loans should be

addressed to mitigate financial stability risks. In this regard, we concur with staff that macroprudential tools should be readily available to address housing-related macro financial risks, and welcome the ongoing Phase 2 Review of the RBNZ Act to further strengthen governance and operational autonomy.

Structural Policy

Housing sector imbalances also need to be addressed as structural issues. We concur with staff that the demand and supply imbalances in the housing market need a comprehensive approach. In this regard, we welcome the newly announced housing package to boost housing supply and increase affordability while curbing investors' demand. We note that weak productivity performance requires a multifaceted approach, such as increased R&D spending and human capital investment as well as simplification of the FDI approval process. We also concur with staff that the recovery offers opportunities for orienting investment towards low-emissions infrastructure and technology.

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GRAY/21/1126

May 3, 2021

**Statement by Mr. Sigurgeirsson and Mr. Vaikla on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for the comprehensive set of papers and Mr. White for his helpful Buff statement. New Zealand has successfully managed the COVID-19 pandemic by implementing effective measures to contain the health crises. While the economy witnessed a sharp contraction in 2020, it is recovering strongly through improving domestic demand. We encourage the authorities to maintain monetary and fiscal support until the recovery is broad-based and implement relevant structural and macroprudential measures to contain the housing boom and address growing inequality. **We broadly agree with staff's appraisal and offer the following points for emphasis.**

Economic growth is subject to several downside as well as upside risks. We take positive note that despite ongoing travel restrictions the economy is expected to grow 4 percent in 2021. A delay in opening borders and a resurgence of the pandemic remain key risks. Meanwhile, some upside risks stemming from faster-than-expected vaccine rollout, rising commodity prices, and continued accommodative economic policies, could give a significant boost to economic growth once the global health crisis has been contained.

We encourage the authorities to stand ready to lift the accommodative economic measures once the recovery has become more broad-based. We commend the authorities for their unprecedented fiscal and economic support during the crises, which limited scarring and provided needed liquidity to the financial system. We share staff's view that accommodative measures need to be in place until private sector demand has strengthened and employment has picked up. At the current juncture, we find it appropriate to refrain from additional stimulus and allow the COVID-19 related fiscal support to expire. We encourage the authorities to remain vigilant and stand ready to provide additional fiscal measures should the recovery falter. Monetary policy should remain accommodative while earlier-than-planned tapering of bond purchases could be considered if upside risks materialize.

Broadening the available macroprudential toolkit and housing reforms is needed to contain surging house prices. While the financial sector remains sound, we share staff's view that rapidly rising house prices pose a key risk for the financial system. We welcome

the recent reintroduction of LVR restrictions and further planned tightening in May. We encourage the authorities to consider additional macroprudential tools, such as DTI ratio limits, caps on interest-only loans, and higher bank capital risk weights on mortgage lending, to safeguard financial stability. Implementing housing reforms will be necessary to address housing market imbalances and we welcome the authorities' comprehensive policy approach in this regard.

Structural policies should be geared towards boosting productivity, enhancing green growth, and addressing inequality. We welcome the strengthening of R&D tax credits, and ongoing efforts to improve the quality of government R&D spending and steps taken to simplify the FDI approval process. We echo staff's call that decisive policy actions could help to close the gap that exists between projected emissions and a trajectory consistent with meeting New Zealand's 2050 net zero carbon target and international targets under the Paris agreement. Finally, we note that the New Zealand has relatively low spending on ALMPs compared to its peers. We therefore encourage the authorities to increase targeted labor market policies to support workers disproportionately affected by the pandemic and to decrease inequality. Policies to support displaced workers and facilitate sectoral labor reallocation are welcome measures to address rising youth unemployment.

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GRAY/21/1127

May 3, 2021

**Joint Statement by Mr. Romero Tarazona, Mr. Saraiva, Ms. Rivera Molina, and Mr. Coelho on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for the reports and Mr. White for his helpful statement. New Zealand's response to the pandemic has been comprehensive and robust, with exceptionally low number of cases and deaths. Beyond the timely testing, contact-tracing and containment measures, an effective vaccination rollout remains key for recovery. Until immunization is attained, the authorities should remain ready to deploy fiscal and monetary support if the economic recovery falters. The pandemic also highlighted structural challenges that deserve attention, like addressing access to affordable housing and improving productivity growth.

While the economic recovery is still subject to the evolution of the pandemic, the authorities should stand ready to provide additional targeted policy support. New Zealand entered the pandemic with a solid macroeconomic framework and substantial fiscal space. The policy response to the pandemic has been broadly appropriate and helped sustain the recovery. We agree that the authorities should stand ready to deploy additional fiscal support should downside risks materialize, but changes in the policy focus may be necessary. While the primary target of the current package has been the retention of existing jobs through the Wage Subsidy Scheme, we see merit in promoting active labor market policies to facilitate relocation, including training and hiring subsidies. We welcome, in this regard, the recommendations in the report and in the SIP. Swift implementation of the infrastructure investment component, with a focus in housing and green infrastructure, could also underpin the recovery and improve wellbeing. Once the recovery is well entrenched, we support the recommendations to promote a durable handoff from public to private demand.

As inflation remains subdued and inflation expectations well anchored, monetary policy should remain accommodative to support the recovery. The Reserve Bank of New

Zealand has successfully stepped up measures aimed at boosting credit supply, lowering lending costs, and providing liquidity support through its large-scale asset purchase program. Unwinding monetary stimulus should be contingent to inflation and employment outcomes converging sustainably to RBNZ objectives. When the recovery gains solid footing, clear communication of monetary normalization will be key. In addition, we fully agree that monetary policy should remain focused on inflation and employment, avoiding conflicting objectives, such as promoting housing affordability. That said, we take note of the information that in the new MPC remit the RBNZ is only required to report on the effects of its policies on sustainable house prices, without redefining its objectives.

The pandemic has also underscored structural challenges. Deteriorating access to affordable housing has resulted in high-rent payments for low-income households. High housing prices could also increase financial vulnerabilities, hinder labor mobility, and inhibit the reduction of inequality. We welcome, therefore, the authorities' proposals to address imbalances in the housing sector and support staff's recommendations in this regard. Also, New Zealand's productive performance has been relatively lagging when compared to some OECD peers. Innovation support could be promoted by deepening integration in global value chains, improving educational outcomes for students from vulnerable socio-economic backgrounds, coordinating immigration and education policies in tandem with business skills needs, and streamlining the FDI screening process.

With these remarks we wish the authorities success in their future endeavors.

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GRAY/21/1128

May 3, 2021

**Statement by Mr. Merk and Ms. Koh on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for its informative set of reports and Mr. White for the insightful Buff. We agree with the thrust of the appraisal. Based on a very successful containment strategy and the benefits of its geography, New Zealand has effectively controlled the spread of Covid-19 since the second quarter of 2020. Real GDP declined by only 2.9 % in 2020 and is expected to rebound by 4 % this year, implying a mild recession compared to other advanced economies. With strong restrictions to international travel being an important part of the control strategy, tourism, hospitality, and other contact-intensive services were hit particularly hard. Risks for scarring are high in those sectors and the uneven impact may exacerbate the relatively high level of inequality. While monetary and fiscal policy have reacted forcefully to the pandemic, strong increases in house prices raise concerns about financial stability and potential spill-overs from some expansionary monetary policy measures. In the following, we would like to offer our comments on the report and have some questions in the context of the abovementioned issues in particular.

We commend the authorities for their success in controlling the spread of the virus, which sets an important example for other countries across the world. The case of New Zealand shows that a strict containment strategy can help to limit the economic impact of the virus. Now it is important to speed up the roll out of the vaccine campaign. In our view, a lagging behind in vaccinations would constitute a risk for the recovery since those countries might have to re-impose restrictions in case of renewed outbreaks while other countries may achieve herd immunity through vaccinations at an earlier stage, potentially making their growth paths more resilient. *Additional staff comments on the general risks of slow rollouts of vaccination campaigns would be welcome.*

New Zealand's low public debt levels allows the country to actively promote strong and inclusive growth in the coming years. With about 32 % of GDP, public debt was at the very low end across advanced economies before the pandemic, which allowed the government to make substantial use of countercyclical fiscal policy. Most importantly, New Zealand's generous wage subsidy program limited the increase in unemployment rates. During the recovery, it will be

instrumental to phase out those schemes gradually and support efficiency and productivity growth through reallocation of labor input to the most productive sectors. In this context, we note staff's advice to explore the potential of effective active labor market policies more forcefully. For instance, using part of the fiscal space for training and hiring subsidies could contribute to limit scarring in the most affected groups, increase efficiency and promote productivity growth over the medium term. Once private demand has sufficiently recovered, fiscal policy should again focus on reducing primary deficits to create fiscal space for the next recession.

We encourage the authorities to implement the necessary policies to boost potential output.

These may include privatization or reforms to make state-owned enterprises more efficient as well as product market deregulation to reduce barriers for firm entry (selected issues E, para. 16). With net migration being a key driver of potential growth in the past, it remains unclear to what extent this experience can be extrapolated after the pandemic. Under those circumstances, the economy would benefit even more from opening up further to the rest of the world, in particular with respect to FDI inflows. *In this context, how does staff rate the relevance and risks from undesired technology transfer and the potential loss of control over strategically important sectors in New Zealand as barriers towards pursuing a more open approach towards FDI and reducing restrictions on FDI inflows? To what extent does the RCEP agreement address this issue?*

The surge in house prices in combination with the increases in the share of high debt-to-income loans and high loan-to-value ratios are a cause of concern for financial stability. Until now, high valuations have supported households' net worth and debt servicing ratios remain low inter alia due to low interest rates. Moreover, the government might be able to deal with some of the consequences of supply shortages through deregulation and increased public investment. However, households, real estate investors and banks have become more vulnerable towards increases in interest rates and a house price correction. Therefore, we welcome the active use of macro-prudential policy tools and encourage the RBNZ to continue its close monitoring and readiness to employ its tools more aggressively if required.

While we agree with staff that financial stability risks should be addressed primarily through macro-prudential tools, monetary policy could try to limit its impact on the areas of concern as well. While the tradeoff is particularly challenging for conventional interest rate policy, unconventional tools grant the central bank a somewhat higher level of flexibility. In this context, we note that the RBNZ implements a Funding for Lending Program (FLP) in order to keep credit flowing to the corporate and household sectors. Other central banks – for example the Eurosystem in its TLTRO program¹ – have excluded loans to households for house purchases from its list of eligible loans, which the RBNZ to our knowledge does not.² In our view, the RBNZ may consider similar financial stability provisions more carefully especially in the context of future monetary policy

¹ [Targeted longer-term refinancing operations \(TLTROs\) \(europa.eu\)](https://www.europa.eu)

² [Funding for Lending Programme \(FLP\) Term Sheet - December 2020 \(rbnz.govt.nz\)](https://www.rbnz.govt.nz)

measures such as negative interest rates, which may further enhance the impact of FLPs. *(i) We kindly ask staff to share its views on additional measures to improve the monetary policy/financial stability tradeoff. (ii) Has staff discussed this issue with the RBNZ's officials?*

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GRAY/21/1129

May 3, 2021

**Statement by Mr. Hosseini and Mr. Sassanpour on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for the high-quality papers and Mr. White for his insightful Buff statement.

We commend the New Zealand authorities for their notable success in effectively eliminating the COVID-19 virus at an early stage through aggressive containment policies. An early reopening of the economy, supported by a strong, timely and broad-based economic and financial rescue package protected incomes and employment and facilitated a V-shape recovery. The recovery, however, has been uneven and is not yet complete. The near-term economic prospects are highly dependent on the global dynamics of the pandemic—that is still evolving—and the speed of vaccine rollout in key partner countries to allow border reopening. *We would welcome staff elaboration on the domestic availability of vaccines and the progress in vaccine rollout.* In view of the high uncertainty surrounding the outlook and the incomplete recovery, we agree with staff that adequate policy stimulus should remain in place until the recovery is on a firm footing and scarring effects are minimal.

The unprecedented discretionary fiscal response provided a critical lifeline for households and businesses during the crisis. We agree with staff that fiscal normalization would need to be carefully timed and well calibrated to ensure full recovery and to limit long term scarring. We welcome the authorities' contingency plans to deploy the unallocated COVID-19 funds, and put in place a resurgence package, to protect incomes and jobs and to avoid business bankruptcies should the recovery falter and new lockdowns become unavoidable. The authorities' intention to shift the focus of public spending to address the infrastructure gaps as the recovery takes hold is well placed and would help lift potential growth. *We would welcome staff elaboration on the revenue-expenditure mix during the fiscal normalization phase. More specifically, to what extent the fiscal adjustment will likely come from rewinding of stimulus measures and to what extent from new measures?* Not setting a net debt target at this stage seems reasonable to ensure policy flexibility, especially given the sustainability of debt trajectory under stress scenarios. Fiscal policy would also need to address, through

targeted measures, the distributional issues that had existed before, but were aggravated, by the pandemic.

Wage subsidies and other labor retention schemes were largely effective in limiting the rise in unemployment. Yet, as in many other countries, women, youth and low-skilled workers suffered disproportionately. *We would welcome staff comments on the nature of unemployment and its links to poverty among the ethnic groups.* We welcome the authorities' intention to scale up active labor market policies to limit scarring through targeted programs and to enhance employment opportunities for the youth (job training in line with the evolving demands of the economy), women (childcare programs and employment incentives), and disadvantaged ethnic groups (education programs and training support). The permanent increase in unemployment benefits—financed by an increase in top marginal personal tax rate—is welcome as it increases progressivity and strengthens automatic stabilizers. Growing labor supply through migration policy has been a key factor in New Zealand's economic success story.

We support the authorities' position (also shared by staff) to maintain the accommodative monetary policy stance and liquidity support for a considerable period, at least as long as inflation expectations are well anchored around the target rate. The option of a negative nominal policy rate provides room in case additional monetary accommodation is needed. *Would staff please elaborate on operational preparations for NIRP?* We welcome the RBNZ's confirmation of its continued focus on existing inflation and sustainable employment objectives, limiting the updated MPC remit only to assessments of the impact of RBNZ decisions on the government's affordable housing objectives, that could be more appropriately addressed by fiscal and structural policies.

The serious imbalance in the housing market, the unabated rapid rise in house prices, and declining affordability for first-home buyers are causes for concern. *Could staff provide information on different classes of residential housing to ascertain the impact of house price increases on different income groups?* As indicated by Mr. White in his Buff, both supply and demand factors are at play and a comprehensive policy approach to address the housing imbalance from both sides is under way. Dampening the demand for existing housing and easing price pressures in the near term is best addressed through proportional and targeted macroprudential measures—including further tightening of LVR restrictions for investors—and tax policy, bearing in mind that supply measures take much longer to have an impact. For that purpose, the macroprudential toolkit would need to be expanded to deal effectively with the housing market's growing macrofinancial risks. *Is there likely to be additional demand pressure on house prices once net migration normalizes when the border reopens?* Increasing the stock of social housing is also important to ease income inequality.

Weak productivity is a key constraint to medium term growth. New Zealand has fallen behind in innovative investment and has one of the most restrictive FDI regimes among

peers. With that in mind, we welcome the ongoing reforms to streamline the FDI approval process and to make the FDI regime more business friendly. *The staff report refers to efforts to improve the performance of SOEs and enhance their productivity (¶46); we would welcome staff elaboration.*

We wish the New Zealand authorities every success.

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GRAY/21/1130

May 3, 2021

**Statement by Mr. Bhalla and Ms. Indraratna on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

1. We thank staff for the well-focused set of reports and Mr. White for the useful buff statement. We broadly concur with the staff appraisal and recommendations and provide remarks for emphasis.
2. **New Zealand has responded to the COVID-19 pandemic with a strong policy package that has enabled a rapid economic recovery.** Containment measures associated with the pandemic triggered an economic downturn during the first half of 2020. The authorities implemented a comprehensive policy package to mitigate the adverse impact of the COVID-19 shock. The policy response has cushioned the economic impact of the pandemic triggering a faster than expected near term recovery. Activity rebounded strongly in the second half of 2020, although the year 2020 recorded a contraction. Economic growth in 2021 is envisaged at 4 percent aided by domestic demand. However, pandemic travel restrictions resulting in muted migration flows, weak capital accumulation and slowing productivity growth are expected to dampen growth in the medium term. The recovery has also been uneven with some sectors and workers disproportionately affected.
3. **We welcome the swift action taken to control the health epidemic and the authorities' unprecedented policy support to limit the adverse social and economic effects of the pandemic.** We commend the authorities for successfully managing the COVID-19 health crisis with an exceptionally low fatality rate. We welcome the decisive fiscal and monetary policy measures taken to protect lives and livelihoods. The size and scope of the policy support has been unprecedented. We note positively the large - scale fiscal measures aimed at supporting economic activity and employment including wage subsidies, infrastructure investment and tax measures to support businesses and investment. While we encourage time targeted fiscal policy measures such as the wage subsidy scheme, we note positively the contingency resurgence package that will be activated in the event of renewed

COVID lockdown measures. We welcome RBNZ's accommodative monetary policy stance and additional liquidity provision to support businesses and households.

4. **Strengthening the resilience of the financial sector is a priority.** We note that the financial system remains resilient, and banks continue to be well capitalized and liquid with adequate buffers and low NPLs. However, we observe that the rapid increase in housing loans can lead to a build-up of financial vulnerabilities with severe effects on households and bank balance sheets in the event of a downturn. While we note that these vulnerabilities are being addressed with tightening macroprudential measures, we agree with staff that the available macroprudential toolkit should be broadened to enable the RBNZ to address emerging vulnerabilities in the future. In addition to macroprudential measures, we support the comprehensive approach taken by the authorities to address affordability of housing, including measures to increase the housing supply. We welcome the postponement of bank's capital requirements to July 2022 as this will mitigate risks of premature tightening of lending conditions while maintaining the commitment to enhance capital requirements over the medium term. We take positive note of ongoing reforms to the RBNZ Act, including the modernization of the supervisory, governance and accountability framework, the crisis resolution framework and harmonization of the prudential regulatory regime between banks and non-banks deposit takers.
5. **Structural reforms should support the reallocation of labour to boost medium term growth.** While the large - scale wage subsidy scheme has mitigated the adverse impact of the pandemic on the labour market, we note that the crisis has disproportionately affected young workers, female workers, particular ethnic groups and low skilled workers. An uneven labour market adjustment can lead to scarring worsening the inequality that persists in the country. We agree with staff that the authorities should implement active labour market policies such as targeted hiring subsidies, training and job search assistance schemes to support displaced workers and facilitate sectoral labour reallocation.
6. With these remarks, we wish the authorities success in their future endeavours.

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GRAY/21/1131

May 3, 2021

**Statement by Mr. Rashkovan and Mr. Milutinovic on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

*We thank staff for their insightful report and the relevant set of Selected Issues Papers. We thank Mr. White for his helpful Buff statement. We praise the authorities' successful containment of the COVID-19 crisis and swift policy response that mitigated the economic consequences of the pandemic. **We agree with staff that an uncertain and uneven recovery calls for continued policy support, which should also be used to promote robust and inclusive medium-term growth.***

We share staff's advice to maintain an accommodative fiscal support until the economy has fully and evenly recovered. The authorities' large-scale fiscal package cushioned the effect of public health measures on the economy and supported the swift recovery. However, output is still below potential, and the recovery is uneven, leaving vulnerable sectors lagging behind.

We agree with staff that monetary policy should remain accommodative and data dependent, but we believe that the policy mix should also consider its side effects, especially on surging house prices. A substantial increase in house prices could lead to potential financial stability risks and should be addressed by macroprudential tools, while raised affordability concerns should be mitigated through fiscal and structural policies. The reinstatement of loan-to-value restrictions with further tightening for the investors by the RBNZ and addressing supply-demand imbalances by the Government's recent housing package are steps in the right direction. Affordability issues also require a balanced policy approach between supply-side measures to increase long-term housing supply and demand-side measures to mitigate the short-term price increase effects for first-home owners and tenants. *How does staff evaluate the adequacy of demand-side measures and reforms which should support ownership and rental housing for low-to-moderate-income households?*

Policy support in the recovery phase could also enhance productivity and increase medium-term growth. The pandemic has negatively affected potential output by slowing down productivity growth and weakening capital accumulation, which should be addressed by structural reforms. An increase in R&D spending, fostering digitalization, and expanding active labor market policies could raise productivity. As regards capital accumulation, meeting a large infrastructure gap, especially in rail and electricity, through expanding public investment could lift productivity, speed up the recovery in the short term and foster the green transition. On

the latter, we congratulate the authorities on their plans to introduce mandatory climate-related disclosure for financial entities.

We commend active labor market policies to mitigate growing inequality. Substantial wage subsidies successfully limited the effects of the crisis on the labor market. However, the uneven impact of the pandemic intensified already elevated inequality, especially among workers from contact-intensive sectors that disproportionately employ young, women and low-skilled workers. Thus, we support current active labor market policies and encourage further improvement of their size and coverage.

We welcome progress on strengthening the operational autonomy and governance of the RBNZ. The new RBNZ bill would allow for a complete macroprudential policy toolkit to respond to financial stability risks. It is also notable that the bill incorporates a significant part of the latest FSAP recommendations. Yet, we emphasize the need to address cybersecurity threats considering the recent cyberattacks on the RBNZ and NZ stock exchange and welcome the published guidance on cyber resilience.

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GRAY/21/1132

May 3, 2021

**Statement by Mr. Azal and Mr. Pucnik on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for their comprehensive set of reports, including the interesting Selected Issues Paper on the uneven impact of the pandemic on New Zealand's labor market, and Mr. White for his helpful Buff statement. New Zealand encountered the COVID-19 pandemic with sizeable fiscal buffers, moderate public debt levels and relatively strong growth. This sound economic basis enabled the authorities to implement a robust macro-policy response, which has protected businesses, kept unemployment relatively low and paved the way to a strong economic recovery. However, New Zealand's long-standing structural issues, including weak productivity growth and housing sector imbalances, were amplified as a result of the pandemic. **We broadly concur with staff's appraisal and would like to add the following points.**

The sizeable fiscal support measures enabled a stronger-than-expected economic recovery. Strong public finances provided ample fiscal flexibility to respond to the sudden rise in expenditures to support the economy during the crisis. Debt levels stayed moderate compared to peers and are expected to gradually decline in the coming years due to the authorities' continued commitment to prudent fiscal management. A gradual reopening of the global economy will boost the external sector, which is essential for New Zealand's small, open commodities-based economy.

Lifting the performance of the most productive enterprises is essential for improving New Zealand's weak productivity, which to a large extent can be explained by the small size of the domestic market with limited competition and weak foreign capital investments due to its geographical location. We therefore see merit in enhancing domestic and foreign investments and R&D spending in the most productive enterprises, which should set the benchmarks for other enterprises as regards technology, business methods, quality and efficiency.

Transformation to a green and digital economy is key to achieving sustainable and inclusive growth. We fully support the envisaged green and digital recovery measures in the authorities' policy packages designed to promote sustainable growth. A shift to a green and

digital economy will create opportunities for income, jobs and growth, and accelerate New Zealand's environmental goals. Transformation is also an opportunity to provide appropriate support to communities adversely affected by the pandemic by providing re-training and re-skilling as well as measures to enhance mobility between industries, which will potentially curb growing inequality and enhance the resilience of the economy against future shocks.

Can staff elaborate on why the authorities see limited scope in the near term for scaling up green investments?

Mitigating housing sector imbalances requires a comprehensive set of macroprudential tools to curb demand and structural policies to boost housing supply. Monetary measures, such as record-low mortgage rates and the temporary removal of loan-to-value ratio (LVR) restrictions, contributed to fueling a further surge in house prices. In this regard, we welcome the Reserve Bank of New Zealand's (RBNZ) reinstatement of LVR restrictions in March and their further tightening in May 2021. Furthermore, the targeted use of sectoral macroprudential tools will curb demand for riskier housing loans and as such mitigate the build-up of systemic risks. In addition, structural policies to boost housing supply are needed. In this regard, we welcome the newly established urban development authority to facilitate urban development. *Given elevated systemic risks in the housing market, can staff elaborate if LVR restrictions reinforced in 2021 will be in fact higher compared to pre-pandemic levels?*

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GRAY/21/1133

May 3, 2021

**Statement by Mr. Trabinski and Mr. Muradov on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for the comprehensive set of reports and Mr. White for the helpful Buff statement. New Zealand has weathered the shock of the pandemic exceptionally well thanks to the effective containment and sound macroeconomic policies. Although the economy has recovered faster than expected, some downside risks to growth weigh on the outlook, including the local and global pandemic trajectory, vaccine rollout, and tourist sector reopening. We broadly agree with staff's assessment, which is generally consistent with the authorities' view, and offer the following comments for emphasis.

Substantial fiscal space and policy support measures shielded New Zealand's economy against the crisis. Wage subsidies, tax measures and infrastructure investments have all been effective in preventing a larger deterioration in economic activity and the labor market. We agree with staff and the authorities that fiscal policy should remain appropriately accommodative and flexible to ensure a successful transition from public to private demand and to limit scarring. We commend the authorities for standing ready to deploy additional fiscal support measures if downside risks materialize. We also take positive note of the sustainable debt trajectory and support the temporary suspension of debt targets that could provide additional fiscal flexibility if needed.

We commend the authorities for their monetary policy easing and liquidity provision to the financial sector, and agree that the monetary policy stance remains appropriate. Policy rate cuts and the asset purchase program have ensured additional liquidity to the banking sector. Muted inflation and wage pressures provide more monetary policy space to the authorities in a highly uncertain environment. Under these circumstances, a premature tightening of monetary policy should be avoided given the remaining slack in the economy. We agree with staff that inflation and unemployment should remain the key objectives of monetary policy to avoid conflicting priorities.

Accumulating risks in the financial sector should be carefully monitored. We note that rising house prices and an increase in riskier housing loans amplify potential financial stability risks. While we take note of the recent re-imposition of LVR restrictions, the authorities could consider additional macroprudential tools to address housing-related risk, including debt-to-income ratio limits. We also note that the corporate sector is vulnerable to liquidity shocks, as a substantial amount of debt is extended to firms with an interest coverage ratio below one. *We would welcome staff's opinion on whether prudential measures would be warranted to limit this vulnerability. In addition, could staff comment on the effectiveness of New Zealand's insolvency framework?*

More comprehensive structural reforms would foster durable and inclusive growth. We support the authorities' commitment to tackle structural imbalances in the housing sector. While the newly announced housing package aims to address the existing imbalances in the sector, we agree with staff that a more complete approach to addressing housing affordability would help in dealing with existing vulnerabilities. The long-standing issue of low productivity growth should be tackled by scaling up innovative investment and encouraging R&D spending, increasing competition, reducing entry barriers, and upgrading infrastructure. We also concur with staff that the effectiveness of labor market policies can be further strengthened by broadening the coverage of training programs.

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GRAY/21/1134

May 3, 2021

**Statement by Mr. Mohieldin, Mr. Alhosani, and Mr. Al-Kohlany on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank the staff for the report and selected issues papers, and Mr. White for his informative Buff statement. We recognize New Zealand's exceptionally well managed response to the pandemic. New Zealand is one of a few advanced economies to recover to pre-pandemic levels in 2021, thanks to its swift and successful containment of Covid-19 which allowed early resumption of activity. However, the recovery has been uneven with sectors related to tourism, migrant labor, and education export recovering at a slower pace due to ongoing travel restrictions. We agree that fiscal and monetary policy mix have been appropriate and should remain supportive of the economic recovery. Going forward, steadfast structural reforms are needed to set the stage for sustained and inclusive growth. We concur with staff's assessment and offer the following for emphasis.

On fiscal policy, the fiscal response package of about 20 percent of GDP over 2020-2025 is instrumental in cushioning impact of the pandemic and supporting the recovery. New Zealand enjoys substantial remaining fiscal space which can be deployed if downside risks materialize. We agree with staff that ensuring a successful transition from public to private led recovery should be a priority, and for fiscal policy to remain sufficiently accommodative and for fiscal support to be increasingly targeted as recovery gains traction. Although gross debt is projected to peak at 56 percent of GDP in 2023, we take note that public debt remains sustainable and is projected to decline to 51 percent of GDP in 2026 reflecting economic growth and fiscal consolidation over the medium term. *We welcome staff elaboration on the fiscal measures planned to revive the highly impacted services sectors such as tourism?*

Financial sector vulnerabilities stemming from the sharp rise of housing prices need close monitoring and timely action. Addressing the housing market pressures requires both demand and supply-side measures. To this end, we welcome the planned comprehensive policy

approach, include fast tracking housing development, easing developers' access to finance, undertaking rental housing reforms to support low-income households, and improving the market response to supplying affordable housing. Reducing housing demand particularly from investors will also help moderate price pressures. We appreciate the discussion in Box 3 of housing affordability with high house prices and rents especially affecting low-income households and first-time homebuyers. *Could staff discuss the distributional consequences of tighter macroprudential policies given the longstanding housing affordability issues? What are staff's recommendations in this regard?*

Structural reforms should aim at ensuring a more durable, inclusive, and sustainable recovery and to address New Zealand's low productivity growth. We welcome the authorities' commitment to continued labor and product-market reforms. In particular, we see merit in reducing entry barriers, strengthening competitive forces, and enhancing the effectiveness of vocational training programs. Infrastructure spending should aim to reduce the existing infrastructure gap, and investment should be oriented towards low-emissions infrastructure and technology. We appreciate the analysis in the Selected Issues Paper (SIP) on the uneven impact of the pandemic on labor groups; young workers, female workers, and low-skilled workers have borne the brunt of job losses. *Could staff indicate the authorities' views on the recommendations set in SIP to mitigate labor market scarring?*

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GRAY/21/1135

May 3, 2021

**Statement by Ms. Senich on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for the comprehensive reports and Mr. White for his helpful Buff statement. We commend New Zealand's authorities for the swift and determined policy response which has limited the impact of COVID-19 on both the health of its people and its economy. Recognizing that the virus will continue to hinder tourism and education exports until the border closure has ended, we urge the authorities to move ahead with their vaccine campaign as quickly as possible. **We agree with staff's analysis and offer comments on a few areas for emphasis.**

We agree with staff that New Zealand's accommodative fiscal policy has been appropriate, and we echo staff's guidance not to withdraw support prematurely given uncertainty in both the domestic and global recovery. We commend the authorities for standing ready to address downside risks through the establishment of countercyclical policies and contingency measures like resurgence support payments and wage subsidy schemes. We also appreciate staff's report on the uneven impact of the pandemic on New Zealand's labor market. The authorities' permanent increase in unemployment benefits serves strengthen automatic stabilizers, which target the groups disproportionately affected by the pandemic.

While New Zealand's loose monetary policy has provided necessary support to the economy, it has led in part to significantly increased housing costs. **We share staff's concerns that the new mandate to assess the effects of monetary policy on housing prices risks overloading monetary policy with potentially conflicting objectives.** Ultimately, the government should rely on fiscal policy and structural reforms to increase the supply of housing and improve housing affordability, and we welcome the steps Mr. White highlighted in his Buff statement in this regard. As needed, and as noted by staff, the Reserve Bank of New Zealand (RBNZ) should employ macroprudential measures that are not residency based such as loan-to-value ratio restrictions, debt-to-income ratio limits, and limits on interest-only loans to support the government's housing policy.

We welcome Phase 2 review of the RBNZ Act and take note that the Cabinet has agreed to raise the coverage limit of the prospective deposit insurance scheme. Establishing the scheme will improve retail banking sector soundness, while new financial stability objectives and the establishment of a Board of Governors at the RBNZ will make the bank more effective and accountable.

We welcome the authorities' introduction of climate initiatives like the emissions budget, emissions reduction plan, and the national adaptation plan to support the nation's emissions reduction targets. We noted that the staff report and selected issues papers only lightly touched on the initiatives and would have appreciated a more robust discussion focused on potential macroeconomic and financial sector policies that could help achieve these targets, similar to what has been done in other countries' surveillance, such as Canada and Korea. *Could staff provide their views on potential policy instruments to reinforce these efforts? Can staff also provide an update on progress on the requirement to achieve public sector carbon neutrality by 2025?* We look forward to updates on the Financial Amendment Bill and plans for climate related disclosures for firms.

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GRAY/21/1136

May 3, 2021

**Statement by Mr. Bai on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for the comprehensive reports and Mr. White for the insightful Buff statement. Thanks to the authorities' successful management of COVID-19, the number of cases has stayed low in New Zealand. Although the pandemic and containment measures have initially impacted the economic growth, the economy has been recovering faster than expected. Going forward, an accommodative monetary policy, supportive fiscal policy, resilient financial system, and targeted structural reforms will help to support an inclusive recovery, limit scarring from the pandemic, and lift productivity as well as the growth potential. We broadly agree with staff's appraisal and would like to limit ourselves to the following points.

On the fiscal front, we commend the authorities' prompt fiscal response to the COVID-19 shock, including the wage subsidies, short-term leave support for workers, infrastructure investment, and tax measures to support businesses and investment. Given that New Zealand's public debt has remained low compared to its advanced economy peers, the authorities have adequate flexibility to respond to potential negative shocks and address downside risks. When the recovery is firmly underway, medium-term fiscal targets should be duly reviewed and updated.

On the monetary and financial fronts, we welcome the authorities' plan to maintain its current stimulatory monetary settings for a considerable time and be prepared to provide additional stimulus if needed. We also concur with the authorities' focus on mitigating macrofinancial vulnerabilities. In addition to macroprudential measures, mitigating housing demand, especially from investors, is important and effective to moderate house price pressures and related financial vulnerabilities. *If the RBNZ decides to implement negative policy rates (which are among the authorities' options) to respond to negative shocks and downside risks, what is staff's view on its potential impact to house prices?*

On the external front, we welcome the authorities' efforts to strengthen and deepen trade and economic cooperation with major trade partners. With modernized rules and procedures, these arrangements are extremely important for New Zealand to fully make good use of the comparative advantages as well as boost regional recovery and growth potential.

On the structural front, we agree that innovative R&D investment, infrastructure spending, streamlined FDI approval process, and well-tailored labor market policies are key to improving productivity and lifting medium-term growth. We also encourage continued efforts in promoting investing in renewable energy and mitigating climate change related risks.

With these remarks, we wish the authorities all the best in these challenging times.

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GRAY/21/1137

May 3, 2021

**Statement by Mr. Buissé, Mr. Rozan, and Ms. de Waziers on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for the informative report and Mr. White for his helpful Buff statement. We broadly share the staff's assessment of the current economic and financial situation, as well as recommendations formulated to address New Zealand's challenges. We wish to offer the following comments for emphasis.

We commend the authorities for the successful management of the Covid-19 pandemic and their decisive policy response to cushion the economic impact of the crisis which underpinned a fast recovery trajectory. We concur with staff that the recovery remains still uneven and uncertain and that premature withdrawal of support measures should be avoided. We welcome the introduction of contingency measures to manage resurgence risks. We agree that, thanks to substantial fiscal space, fiscal policy, along with active labor market policies, will be key to limit scarring and address inequalities within the labor market that have been exacerbated by the uneven impact of the pandemic.

We agree with staff on the need to maintain financial resilience in a context of increased housing-related risks. We welcome the recent update of the prudential policy framework in line with staff's recommendation to strengthen financial sector resilience and RBNZ operational independence. Like staff, we welcome the authorities' efforts to tackle housing sector imbalances and affordability from both the demand and supply sides. In addition, macroprudential tools should be readily available to address housing-related macrofinancial risks.

Going forward, we concur with staff on the need for structural policies to foster durable and inclusive growth and lift medium-term potential output. We support staff's recommendations to reform product market regulations and step up public investment to

address persistent infrastructure gap, especially in transport and energy sectors, attract more foreign direct investment, and scale up productivity and innovation.

We concur with staff that the recovery is an opportunity to transition to a low-emission economy. We strongly welcome the authorities' commitment to strengthen the greening of the financial sector by the introduction of mandatory climate-related disclosures. In addition, we welcome the recent Climate Change Commission draft advice and look forward the finalization of the emissions reduction plan to build a trajectory consistent with New Zealand's 2050 net zero carbon target and international targets under the Paris agreement. We encourage the authorities to seize this opportunity to scale up green public and private investment in low-emissions infrastructure and technology.

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GRAY/21/1138

May 3, 2021

**Statement by Mr. Mozhin and Mr. Tolstikov on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for a set of informative papers and Mr. White for his helpful Buff statement.

New Zealand has weathered the pandemic well, as the authorities have effectively implemented containment measures and provided comprehensive policy support. A large fiscal stimulus package was complemented by resolute monetary and credit easing, including principal and interest deferrals. Although, in 2020, the economy contracted by 2.9 percent, growth is projected to reach 4 percent in 2021. Thus, in contrast to many other advanced economies, New Zealand might return to its pre-crisis GDP level already this year. At the same time, outlook remains highly uncertain, and resurgence of the pandemic remains the key risk. Overall, we share staff's view that withdrawal of policy support should depend on pandemic outcomes and further economic developments.

Fiscal buffers accumulated prior to the pandemic allowed the authorities to support the economy through a massive fiscal stimulus. Despite a substantial increase, the public debt appears to be sustainable under stress test, while there remains substantial slack in the economy. We agree that, going forward, fiscal consolidation should proceed gradually to support demand and the authorities' structural agenda. A well-designed medium-term fiscal package should focus on investments in public and social infrastructure, as well as green investment.

The monetary authorities' response to the COVID-19 crisis was timely and efficient. Substantial reduction in official cash rate and the introduction of quantitative easing helped stabilize the banking system and provide liquidity to the economy. Inflation remains below the mid-point target, while employment is still relatively weak. In such an environment monetary policy should remain accommodative for a longer period. We note that the

authorities have completed all operational work to enable the use of a negative policy rate, which gives them additional flexibility in case of unpredictable developments.

The financial sector remains strong, but risks related to housing lending are growing. It is encouraging that, despite the pandemic, the financial sector remains sound, banks are well-capitalized and liquid. Against the backdrop of accommodative monetary policy and decline in activity, business lending remained sluggish, but housing lending has accelerated substantially. Taking into account a high level of household indebtedness, rise in house prices and mortgage lending is a source of risk for the financial system. Therefore, the reintroduction of LVRs was appropriate, and the authorities should consider other macroprudential tools to respond, if pressures on the housing market do not abate. We also agree that additional steps are needed to increase housing supply.

On the structural side, we welcome the authorities' emphasis on increasing productivity and ensuring equitable, sustainable, and green economic growth. Supporting expansion of the R&D spending through tax credits and streamlining the overseas investment screening regime will create conditions for higher productivity growth. The government should upgrade infrastructure and increase green investment. Active labor market policies, aimed at supporting workers displaced by the pandemic and disadvantaged groups, will increase flexibility of labor market, and reallocate labor towards priority areas. We welcome the efforts to close the gap that exists between projected emissions and a trajectory consistent with meeting New Zealand's 2050 net zero carbon target and international targets under the Paris Agreement.

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GRAY/21/1139

May 4, 2021

**Statement by Mr. Mouminah, Mr. Alhomaly, and Mr. Rawah on New Zealand
(Preliminary)
Executive Board Meeting 21/43
May 5, 2021**

We thank staff for the well-focused reports and Mr. White for his helpful Buff statement. Thanks to the authorities' commendable policy response and successful management of the COVID-19 pandemic, economic activity has recovered faster than initially anticipated while infection rates stayed low after being brought under control swiftly. We positively note that the decisive and unprecedentedly sizable policy actions have helped avoid a significant decline in employment and economic activity and that they have been appropriately focused on supporting recovery while protecting most affected. Nonetheless, significant risks to the outlook remain and recovery is uneven highlighting the need to maintain supportive position until economic recovery is well underway. We are in broad agreement with staff's analysis and policy recommendations and would like to make the following comments.

1. **We welcome the authorities' readiness to deploy further fiscal and monetary stimulus should needs arise.** In this connection, we take positive note that the announced contingency measures for a possible resurgence of the pandemic in addition to the unallocated portion of the COVID-19 Response and Recovery Fund could be tapped into to mitigate the economic impact of COVID-related shocks. Also, we support the authorities' decision to suspend debt target temporarily to allow for more room for responding to the pandemic more flexibly. In addition, we agree that monetary policy stance should remain data dependent, as rightly noted by the staff.

2. **We positively note that the financial sector remains resilient with well-capitalized and liquid banks, however, risks related to the housing sector is mounting.** In this context, we welcome the reinstatement of LVR restrictions and agree with staff that macroprudential tools should be used, where warranted, to address financial stability risks. At the same time, we appreciate the authorities focus on addressing existing imbalances in the housing market, which is important to boost housing supply and support affordability.

3. **Finally, the authorities should step up the implementation of their reform agenda towards durable and more inclusive growth.** Priorities include reinforcing productivity performance, addressing remaining infrastructure gaps, focusing active labor market policies towards supporting displaced workers, and further strengthening competition, including through reducing barriers of entry. Also, we welcome the ongoing reform of the Overseas Investment Act with a view to attracting more high quality FDI.

With these remarks, we wish the authorities further success.

New Zealand

Staff's Responses to Technical Questions Posed by Executive Directors in Advance of

EBM/21/43, May 5, 2021

Staff's responses to technical and factual questions are below. Broader policy questions in the areas of monetary and macroprudential policies will be addressed in staff's oral intervention at the Board meeting.

Macroeconomic Outlook, Scarring, and Risks

1. *We would appreciate if staff could comment on the authorities' plans for lifting border restrictions.*

- The authorities intend to pursue a gradual reopening strategy, with restrictions expected to be largely dropped only toward the end of 2021, depending on the speed of the vaccination program. On April 19, 2021, a travel bubble with Australia started, though there was a partial rollback to travelers from Western Australia from April 23 due to (limited) community transmission in that region. Flights from the region have since resumed. Visitors from the Cook Islands can also enter New Zealand without quarantining, and a reciprocal arrangement for outbound travelers from New Zealand will take effect on May 17.
- While no specific plans to expand the travel bubbles, or create new ones, have been shared with staff, there could be scope to explore their use with other destinations where infections are suppressed. In particular, similar arrangements with selected Pacific Island nations with no cases could be contemplated to facilitate the arrival of temporary seasonal workers in the agriculture and construction sectors, while also supporting these nations' important tourism sectors.

2. *Additional staff comments on the general risks of slow rollouts of vaccination campaigns would be welcome.*

We would welcome staff elaboration on the domestic availability of vaccines and the progress in vaccine rollout.

- Vaccinations started on February 19, 2021, and, to date, around 233,000 doses have been delivered and more than 60,000 people (1.2 percent of the population) have been fully vaccinated. New Zealand has prioritized frontline border workers (including those working in quarantine facilities) and those in the healthcare sector and will move to vaccinating members of the general public as vaccine supply increases. New Zealand targets to inoculate all people over the age of 16 who choose to be vaccinated by the end of this calendar year. In addition, New Zealand has taken responsibility for securing vaccine supplies for the Cook Islands and pledged to support countries in the region.

- Due to the success in suppressing infections domestically, there is less of a public health imperative than in many other countries to rely on vaccines as a key plank of the recovery plan. Nevertheless, the authorities recognize that widespread vaccinations in New Zealand are essential and will lower risks sufficiently to begin reopening borders and allow the tourism and education sectors to recover. Rapid vaccination rollouts among key trading partners would also complement domestic efforts.
- A slower-than-expected domestic rollout would inhibit the domestic recovery as borders would likely remain closed for longer than anticipated. Difficulties in rollouts in partner countries could also have spillover effects on New Zealand's economy, which is highly open to external trade.

Productivity, Structural Reforms, Inequality, and Green Economy

3. **We welcome the authorities' introduction of climate initiatives like the emissions budget, emissions reduction plan, and the national adaption plan to support the nation's emissions reduction targets. [...] *Could staff provide their views on potential policy instruments to reinforce these efforts? Can staff also provide an update on progress on the requirement to achieve public sector carbon neutrality by 2025?***
 - An effective climate mitigation policy will need to rely primarily on higher carbon emissions prices. New Zealand has an emissions trading scheme (ETS) with a non-zero and rising carbon price in place, though the price will need to rise substantially more, combined with improvements in areas such as transport, waste management, agriculture, and forestry, to ensure consistency with New Zealand's Paris climate pledge. Agricultural emissions, accounting for around half of New Zealand's greenhouse gas emissions, are currently excluded from the ETS and will need to be addressed more forcefully for an effective climate mitigation policy.
 - Regarding the public sector, the December 2020 Carbon Neutral Government Program will require public sector agencies to measure and publicly report on their emissions, and to offset any remaining emissions they are unable to cut by 2025. The program is backed by a NZ\$200 million State Sector Decarbonization Fund.
4. ***Can staff elaborate on why the authorities see limited scope in the near term for scaling up green investments?***
 - The authorities have prioritized timely implementation of infrastructure projects to reinvigorate the economy. They noted that their envisaged green investment projects tend to be still at earlier stages and will be implemented once planning is complete.
5. ***The staff report refers to efforts to improve the performance of SOEs and enhance their productivity (¶46); we would welcome staff elaboration.***

- Public ownership in network sectors in New Zealand has been relatively high compared to peer advanced economies. Some data point to persistent weak productivity performance of a number of state sector entities, and state ownership tends to be associated with higher employment and weaker profitability. Where public ownership is inefficient, reducing public ownership or strengthening measures to improve productivity, including reallocation of resources and careful performance monitoring, are needed.
- 6. We note from the Buff statement that addressing child poverty is one top priority of the authorities' reform agenda. As there is no reference to this issue in the staff report, we would appreciate staff's comments on actions envisaged in this regard.**
- As of June 2020, the relative child poverty rate in New Zealand stood at 13.8 percent, somewhat higher than the OECD average, with higher poverty rates for Māori and Pacific children.
 - Staff supports the authorities' agenda to reduce child poverty, anchored in their target to halve the rate of child poverty in New Zealand in ten years. Staff considers that policies discussed in the Staff Report, including labor market policies focused on vulnerable and displaced workers, housing measures to alleviate affordability concerns, the recent permanent increase in unemployment benefits, and education policies to address large disparities in education achievement are central to addressing child poverty. In addition, the government committed to expanding the Free and Healthy School Lunch program, funding additional mobile dental clinics, expanding the Healthy Homes Initiative to help prevent childhood hospitalizations, and finding targeted solutions for Māori and Pacific children in need.
- 7. We would welcome staff comments on the nature of unemployment and its links to poverty among the ethnic groups.**
- Although New Zealand has cushioned the pandemic's impact on the labor market with the large-scale wage subsidy scheme, there has been a significant disparity in labor market conditions among worker groups, with higher unemployment rates for youth, female and some ethnic groups. The uneven patterns among ethnic groups are particularly closely linked to poverty in New Zealand, as poverty rates are notably higher for Māori and Pacific people, suggesting that labor market policies to support vulnerable people are essential to address poverty-related issues.
- 8. Could staff indicate the authorities' views on the recommendations set in SIP to mitigate labor market scarring?**
- The authorities broadly agreed with staff's assessment of the labor market and policy recommendations to address emerging labor market issues. They agreed that the wage subsidy scheme has played an important role in cushioning the initial impact of the pandemic on the labor market. They also agreed with staff's recommendation to shift from job retention to active labor market policies. The active labor market

policies announced after the pandemic, including free access to training and the expansion of Flexi-wage subsidies (hiring subsidies), are an important step to support workers affected by the pandemic.

Fiscal Policy

9. **The authorities' efforts to reduce inequality through higher minimum wage, permanent increase in unemployment benefits and higher tax rate for top earners in this exceptional environment are particularly noteworthy. *Could staff elaborate on public support for, and corporate reaction to these measures?***
 - The top income tax hike and higher minimum wage were a part of the ruling Labour Party's 2020 general election manifesto and as such enjoyed the support of voters in last year's election (the permanent increase in unemployment benefits from a relatively low base had been implemented already before the election). While the opposition opposed both measures, in an April 2021 opinion [poll](#), 62.5 percent of respondents said that New Zealand was 'heading in the right direction' compared to 26.5 percent who thought New Zealand was 'heading in the wrong direction'.

10. ***We would welcome staff elaboration on the revenue-expenditure mix during the fiscal normalization phase. More specifically, to what extent the fiscal adjustment will likely come from rewinding of stimulus measures and to what extent from new measures?***
 - Planned fiscal adjustment is driven largely by expenditure, with the expiration of the large-scale wage subsidy scheme, while some other expenditure measures, including infrastructure spending, and revenue-side business tax measures including accelerated depreciation and loss carry schemes will continue to support the recovery.
 - New Zealand stands ready to deploy additional stimulus if needed, with a NZ\$10.3 billion unallocated portion of the COVID-19 Response and Recovery Fund and announced contingency measures to manage a potential resurgence of the pandemic. The 2021 Budget, to be announced on May 20, 2021, will update plans for next four fiscal years.

11. ***We welcome staff elaboration on the fiscal measures planned to revive the highly impacted services sectors such as tourism.***
 - The authorities have deployed targeted measures to support affected firms based on loss of revenue, including the wage subsidy scheme. They have also deployed liquidity support measures, including the Small Businesses Cashflow Scheme (government loans to small businesses) and the Business Finance Guarantee Scheme (government guarantee scheme for SMEs).
 - While they have also implemented a Tourism Recovery Package, which provides support for the maintenance of tourism-related infrastructure, and entered into a

convertible debt agreement with Air New Zealand, they generally consider that the implementation of sector-level targeted measures is difficult due to possible exclusion and leakage. The authorities aim to support affected workers by labor market policies and affected regions through targeted, higher infrastructure spending.

Monetary Policy

12. *Would staff please elaborate on operational preparations for a negative interest rate policy (NIRP)?*

- Starting in late 2019, the RBNZ's work included ensuring that the Reserve Bank's systems can operate with negative interest rates (except for products for retail customers) and understanding the banking system's business concerns and operational preparedness for negative interest rates. Engagement with commercial banks since early 2020 included issues such as IT system readiness, required changes to loan documentation, tax and accounting considerations, and market conventions for settling negative interest rate transactions.
- In its February 2021 monetary policy decision, the Monetary Policy Committee noted that this work was completed and that the banking system was now operationally ready for negative interest rates.

Questions to be addressed in staff's oral intervention:

13. ***If the RBNZ decides to implement negative policy rates (which are among the authorities' options) to respond to negative shocks and downside risks, what is staff's view on its potential impact to house prices?***
14. ***Regarding the new requirement that the monetary policy committee outlines the impact of its policy decisions on the government's housing objective, we would appreciate staff's comments on its implications for future monetary policy decisions, if any.***
15. ***On possible options for further monetary easing, we note that the banking system is operationally ready for negative interest rates, and welcome staff's views about possible pros and cons of the negative interest policy for New Zealand.***
16. ***In our view, the RBNZ may consider similar financial stability provisions more carefully especially in the context of future monetary policy measures such as negative interest rates, which may further enhance the impact of FLPs. (i) We kindly ask staff to share its views on additional measures to improve the monetary policy/financial stability tradeoff. (ii) Has staff discussed this issue with the RBNZ's officials?***

Financial Sector and Housing Market

17. ***Could staff further elaborate on the macroprudential policy adopted by the RBNZ to mitigate Financial Stability risks?***

Given elevated systemic risks in the housing market, can staff elaborate if LVR restrictions reinforced in 2021 will be in fact higher compared to pre-pandemic levels?

- The Reserve Bank has four instruments in its macroprudential toolkit: loan-to-value ratio (LVR) restrictions, the counter-cyclical capital buffer, sectoral capital requirements, and the core funding ratio (CFR). At the onset of COVID-19 crisis, the minimum CFR was reduced from 75 percent to 50 percent to ease potential liquidity pressures. LVR restrictions, first implemented in 2013, were announced to be suspended for one year. As noted in the report, LVR restrictions were reinstated at pre-pandemic levels from March 2021, and will be further tightened effective from May 2021, to rein in financial stability risks from high-LVR mortgage lending. Current LVR limits mandate a maximum of 20 percent of new lending to owner-occupiers at LVRs above 80 percent, and 5 percent of new lending to investors at LVRs above 70 percent (to be further reduced to 60 percent from May 2021).

18. ***We welcome that a comprehensive and longer-term policy approach to address housing market pressures is underway, as underscored in the Buff statement, and would appreciate an update on this strategy.***

- Following the March 2021 housing policy package described in paragraph 39 of the staff report, Finance Minister Robertson indicated on April 28 that additional measures supporting housing affordability may be forthcoming in the upcoming 2021 budget.

19. ***Could staff provide information on different classes of residential housing to ascertain the impact of house price increases on different income groups?***

- While house prices data on different segments of the residential housing market are not readily available, estimates based on median house prices (released by the Real Estate Institute of New Zealand) and median household income (consisting of one full time male median income and one-half of one female median income), the national (Auckland) house price-to-income ratio increased to 8.6 (11.2) in March 2021 from 6.8 (9.2) in December 2019.

20. ***Is there likely to be additional demand pressure on house prices once net migration normalizes when the border reopens?***

- Additional pressures on house prices and rents are possible after the border re-opens and net migration normalizes. Therefore, a strong government response to facilitate a swift increase in supply will be important. That said, the anticipated

increase in interest rates over the medium term, after migration patterns normalize, could dampen house price pressures somewhat at that time.

21. *How does staff evaluate the adequacy of demand-side measures and reforms which should support ownership and rental housing for low-to-moderate-income households?*

- The reinstatement of the loan-to-value ratio restriction is already showing a significant impact in curbing low-equity investor flows. The new housing package introduced by the government in late March is likely to slow house price growth in the coming months and improve affordability. Particularly the removal of the tax deductibility of mortgage interest for investors could have a sizable impact on investor demand for existing homes. The recently announced measures to raise the income and house price caps of the government's First Home Grant Scheme will also help promote housing ownership for lower-income households.

22. *We also note that the corporate sector is vulnerable to liquidity shocks, as a substantial amount of debt is extended to firms with an interest coverage ratio below one. We would welcome staff's opinion on whether prudential measures would be warranted to limit this vulnerability. In addition, could staff comment on the effectiveness of New Zealand's insolvency framework?*

- Business lending has been weak during the post-pandemic recovery, and in staff's view, a tightening of prudential standards is not currently warranted. The government has provided fiscal support and allowed loan payment deferrals to help firms deal with the immediate impact of the pandemic shock. Reflecting policy support and delayed administrative processes, the business bankruptcy rate is now at historical low, though is expected to pick up over time.
- New Zealand's insolvency framework is generally strong. That said, there is room for further improvement: compared to the best-performing advanced economies, it takes longer to resolve an insolvency case and the cost of proceedings, such as attorney's fees and receiver's remuneration, tends to be higher.

23. *Could staff discuss the distributional consequences of tighter macroprudential policies given the longstanding housing affordability issues? What are staff's recommendations in this regard?*

- Staff recommends that macroprudential policies first and foremost address financial stability concerns. Distributional consequences, for example, regarding the attainability of mortgages for potential first-home buyers in the context of potentially tighter LVR restrictions or the introduction of debt-to-income limits, would be best addressed through government policy, such as increased support for first-time home buyers and supporting the delivery of housing for low-to-moderate income households.

24. The future introduction of a new Deposit Takers Act [...] is a positive development. Likewise, the issuance of guidelines for cyber resilience and the introduction of a climate-reporting amendment to financial sector-related legislations at the Parliament are laudable steps towards increasing the resilience of the financial sector. *Could staff indicate when those legislations are expected to be finalized and adopted?*

- Amendments to the Financial Markets Conduct Act, which would require mandatory climate-related disclosures for some entities, were presented to the Parliament last month. Once passed, disclosures will be required for financial years commencing in 2022, meaning that the first disclosures will be made in 2023.
- The Deposit Takers Act is currently being drafted, with public consultation on an exposure draft expected later this year. The Bill is expected to be introduced to the Parliament in late 2021, with passage envisaged for early 2023. After the Act is enacted, the new prudential framework will be implemented over several years, with the Deposit Insurance Scheme targeted for introduction already in 2023.
- The Guidance on Cyber Resilience was finalized, and became effective, in April 2021.

Questions to be addressed in staff's oral intervention:

- 25. *We would also appreciate staff's comments on the adequacy of the macroprudential toolkit of RBNZ to deal with the financial stability risks related to surging house prices.***
- 26. *Could staff elaborate on the other macro-prudential tools being considered by the Reserve Bank of New Zealand to further protect against the rising risks to the financial sector and household balance sheets, of a correction in prices?***

External Sector

27. *How does staff rate the relevance and risks from undesired technology transfer and the potential loss of control over strategically important sectors in New Zealand as barriers towards pursuing a more open approach towards FDI and reducing restrictions on FDI inflows? To what extent does the RCEP agreement address this issue?*

- New Zealand's approach to reforming its FDI regime continues to be guided by strategic considerations, including the need to ensure the security and sustainability of its natural resources such as water. The national interest test in the Urgent Measures Bill, introduced as an emergency measure during the pandemic to fast track amendments to the Overseas Investment Act (OIA), is intended to provide the necessary protections in this regard.

- That said, the authorities see significant scope to streamline the FDI approval process while ensuring that these long-term priorities are preserved. The review of the OIA addresses this by removing burdensome review requirements where investment raises limited risk. In addition, the Urgent Measures Bill already specified measures to streamline processes.
- The Regional Comprehensive Economic Partnership (RCEP) is not expected to significantly alter New Zealand's investment regime: it largely overlaps with commitments under past agreements.

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, and Spain

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE

Andorra, Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

United Kingdom

OEDUS

United States