

# Hon Grant Robertson

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MP for Wellington Central

Minister of Finance

Minister for Sport and Recreation

Minister Responsible for the Earthquake Commission

Associate Minister for Arts, Culture and Heritage



16 April 2020

Amanda Vickers  


Dear Amanda

Thank you for your email on 27 March 2020 regarding the Large Scale Asset Purchases (LSAP) programme. In particular, I note your suggestion that the Reserve Bank of New Zealand buy bonds directly from the Treasury rather than using the secondary market.

On 23 March the Reserve Bank announced a LSAP programme of purchasing New Zealand Government bonds on the secondary market. This followed the Monetary Policy Committee's decision that further monetary stimulus was needed to meet its inflation and employment objectives in the light of intensifying economic implications of the coronavirus. The programme will purchase up to \$30 billion of New Zealand government bonds, across a range of maturities in the secondary market over the next 12 months.

The LSAP programme is designed to help the Bank meet its economic objectives of keeping inflation low and stable and supporting maximum sustainable employment. The Bank would normally do this by changing the Official Cash Rate (OCR). But the OCR is currently at an historic low of 0.25 percent, therefore it is using LSAP as another tool to lower interest rates.

While central banks have the option to purchase bonds directly from government treasuries, the Reserve Bank is currently making its purchases in the secondary market. Doing so can influence the bond markets to reduce longer term interest rates thereby reducing the cost of borrowing for households and businesses. It will also enable the sellers of assets to use the money they receive from the Reserve Bank to switch into other financial assets, such as new lending. These are effects that could not be achieved through the direct purchase of government bonds from the Treasury.

The Reserve Bank will continue to follow developments and has the option to take further action to support stability in New Zealand's financial system - such as widening the asset classes that could be purchased under LSAP. Purchasing Government bonds directly from Treasury is one such option that could be taken up by the Monetary Policy Committee if it were deemed appropriate and consistent with financial system stability.

Thank you for your interest and taking the time to raise your views.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Grant Robertson'.

Hon Grant Robertson  
**Minister of Finance**