



Hon. Grant Robertson
Minister of Finance
By Email: g.robertson@ministers.govt.nz

Friday 30th September 2022

Dear Grant,

Thank you for your letter of September 19th in which you ask for advice on the reappointment of Adrian Orr as Reserve Bank Governor. As I've stated publicly, I believe Adrian Orr should be dismissed. He should not be reinstated as Reserve Bank Governor. Some reasons are below under the titles poor leadership, poor focus, and poor outcomes.

Poor leadership

Over several years I have heard worrying reports about Adrian Orr's interpersonal style. These came to a head last December when Adrian Orr denied at Select Committee¹ then, later the same day, conceded by media release that 10 out of 26 senior staff left the Bank over a six month period.² Both the high level of turnover and the attempt to deflect from it are unbecoming of a central bank Governor.

These events were sadly ironic after the Bank under Mr Orr's leadership carried out an extensive and expensive review into New Zealand banks' conduct and culture in a joint venture with the Financial Markets Authority. The report made no substantial findings, certainly it found nothing like the findings of a similar Australian exercise that appeared to inspire the Bank and FMA's effort. Despite this wasteful misadventure, the resulting report was presented with a patronising lecture to the effect that banks should be careful lest they face problems in the future.

¹ <https://www.interest.co.nz/public-policy/113782/reserve-bank-confirms-10-its-26-most-senior-staff-are-leaving-says-three>

² <https://www.rbnz.govt.nz/hub/publications/information-release/2021/ir-2021-05>

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Poor focus

The Governor at his best can be described as colourful, but might be more accurately described as indulgent and unfocused. His analogies where the financial system is a forest and his organisation happens to be Tane Mahuta, the god of the forest, are an excellent example of this.

The Governor's speech to the Central Banking Global Summer Meetings this year is another example of poor focus.³ At a time of great uncertainty as inflation returned after a thirty year absence, the Governor gave a speech entitled *Why we embraced te ao Māori*. The speech gives a potted history of New Zealand then goes on to canvas issues such as why Māori business ownership rates are low. These are things the Bank has no ability to influence and would detract from price and financial system stability if they could. One thing that does disproportionately affect Māori, but the speech does not mention, is the Bank's failure to contain inflation.

Poor Outcomes

Much more worrying than the Governor's poor leadership and focus are the outcomes he has achieved. New Zealand now faces the highest Consumer Price Index inflation in 32 years. As I write, it appears the Governor's current tightening cycle has not faced down inflation expectations. Major banks are now anticipating the OCR will have to be raised higher than the Bank had previously signalled. All the while, this inflation is doing enormous damage with New Zealanders identifying the 'Cost of Living' as their main concern.

A secondary effect of loose monetary policy is asset price inflation. This is particularly noticeable in house prices driven by low interest rates. Even with the borders closed the median house price jumped 50 per cent or \$308,000 from March 2020 to November 2021. The effect of such an increase on younger New Zealanders in particular is demoralising, as their future gets further away, at least if it includes home ownership.

The Bank, under the Governor's leadership, has massively miscalculated the required monetary policy response to COVID-19 and New Zealanders are literally paying a high price for it. You might be tempted to respond by excusing the Governor by pointing out that we have faced disruptive times and that other Countries face similar difficulties.

The difficulty with that response is the low standards you are setting. You would be saying that it is ok to have a Governor with questionable leadership skills, a diffuse focus, and terrible outcomes, because that's just the way it is. I urge you to aim higher, and seek a new appointment to restore

³ <https://www.bis.org/review/r220614b.htm> n.b. This speech no longer appears on the RBNZ website.

the bank to a focused and competent organisation focused on price stability so New Zealanders can plan their lives without a thief in their pocket.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'D Seymour', with a stylized flourish at the end.

David Seymour
MP for Epsom, ACT Leader