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Government instigates surprise inquiry into Reserve Bank's \$55 billion Covid money-printing binge



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Finance Minister Nicola Willis has announced a surprise inquiry into the actions of the Reserve Bank during the Covid-19 pandemic.

Willis said the purpose of the review is to identify any lessons that could be learned to improve the monetary policy response to future major events.

During the pandemic, the Reserve Bank of New Zealand (RBNZ) cut the Official Cash Rate (OCR) to a record low of 0.25 and, for the first time, printed about \$55 billion worth of digital money that was funnelled into the New Zealand economy.

"These actions helped to preserve jobs and keep businesses afloat," Willis said.

"But the indirect impacts included decades-high inflation, and losses of about \$10.3b on the LSAP [large-scale asset purchase] programme and a significant spike in asset values, with house prices increasing 30% in one year," she said, citing the ultimate cost of the Reserve Bank's money printing to the taxpayer.

The cost to the taxpayer of the LSAP programme alone was roughly half the cost to the Crown of the Christchurch Earthquakes.

"The purpose of the review is to learn from experience. It will focus on decisions by the Monetary Policy Committee [MPC] and analysis provided by the Reserve Bank to support those decisions. This includes MPC decision making and communication, the use of additional monetary policy tools, and the co-ordination of monetary and fiscal policy," Willis said.

The RBNZ has itself denied that the money printing "meaningfully" contributed to excessive inflation.

Monetary policy was included in the remit of the Covid-19 Royal Commission established under Labour, but the Royal Commission did not delve into the subject in detail, and looked at monetary policy in the context of the overall economic response. The only other official review was commissioned by the Reserve Bank itself, although that review had an external peer reviewer.

While the RBNZ's setting of monetary policy is statutorily independent from the Beehive, the bank's Covid response attracted political attention for the way it slightly muddled the waters.

While the money-printing was ultimately the bank's decision, any losses incurred by the scheme were underwritten by the then-Labour Government, which committed to pick up the bill, which turned out to be much higher than anticipated.

The bank's ultra-low interest OCR also made it easier for the Government to run larger deficits and increase borrowing, although this was incidental to the main purpose of these tools, which was to support the economy.

In opposition, Willis criticised the Labour Government for not more explicitly including monetary policy in the Royal Commission's terms of reference. However, the new Government, when it established phase two of the inquiry, did not include a section on monetary policy either.

Willis' surprise announcement comes a day ahead of a significant speech at the New Zealand Economics Forum.

The review will report back in September, just as the election campaign will begin heating up, and when the Government may be forced to explain the lacklustre economic recovery and potential increases to the OCR.

Monetary policy experts Athanasios Orphanides and David Archer have been appointed to conduct the independent review.

Orphanides is the ex-governor of the Central Bank of Cyprus, and Archer is a former Reserve Bank assistant governor and former head of the Central Banking Studies Unit at the Bank for International Settlements.

Labour leader Chris Hipkins said the timing of the inquiry was “cynical”.

“If she really wanted to know whether the Reserve Bank had handled the Covid pandemic accurately then she would have launched this inquiry when she became the Minister of Finance, not right in the middle of a general election campaign,” he said.

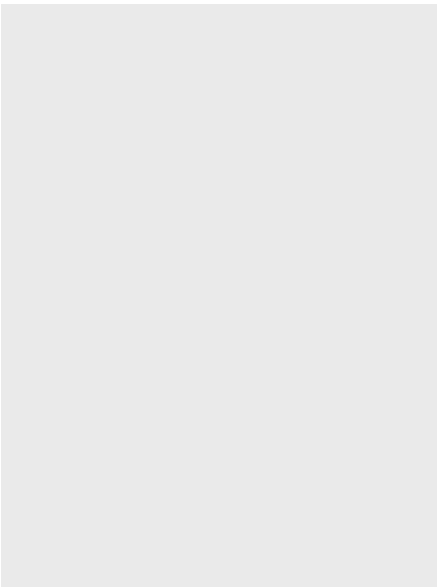
Asked about the inquiry, Green co-leader Chlöe Swarbrick said the timing of the inquiry was “suss”.

“Obviously there were concerns that were raised about unconventional monetary policy at the time.

“This has been at the forefront of politicians minds for an excess of six years now. The fact we also have a Minister of Finance who campaigned against the use of monetary policy as it was throughout Covid to now be announcing this in an election year with it likely to come in a month of two before the election date speaks to some potentially quite dodgy motivations,” she said.

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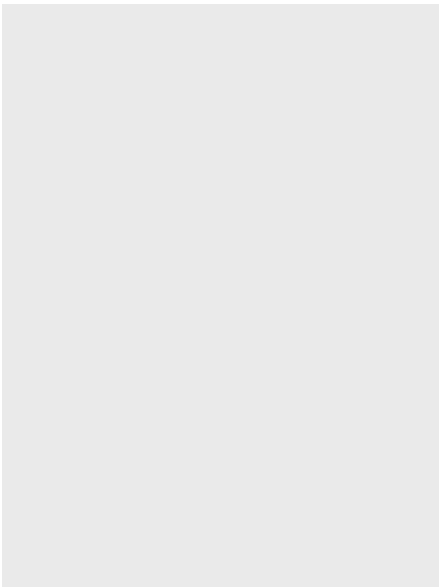
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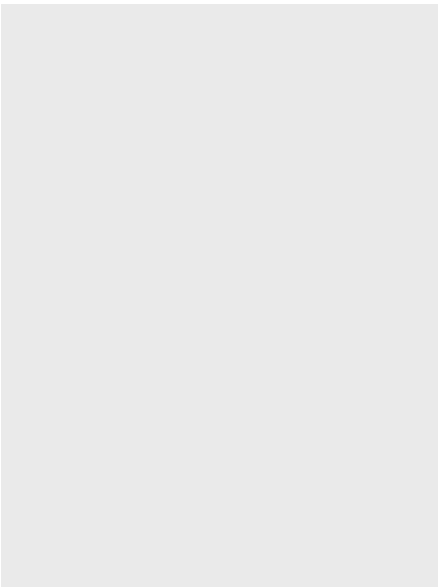
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