



RESERVE
BANK

OF NEW ZEALAND

UNDERSTANDING AND RESPONDING
TO CHANGING FINANCIAL CONDITIONS

HOW WE ARE LEARNING ABOUT THE
GFC

THE RESERVE BANK'S UNDERSTANDING OF THE GLOBAL FINANCIAL CRISIS

A VALUABLE STRUCTURE

The Reserve Bank of New Zealand is one of the few OECD central banks to retain all its functions in one organisation. During the crisis and recovery, this has meant we could carry out monetary policy, financial stability, foreign reserves management, bank regulation, payments and settlements, and currency management all under one roof. It also means we benefit from information from many sources.

FINANCIAL MARKETS

Early signs of recovery from the financial crisis appeared in the financial markets, where we can monitor how easily banks raise funds to meet their obligations (liquidity). During the crisis, when markets dried up, we had to step in and provide short-term loans to banks. More stable conditions have allowed us to withdraw some of these exceptional liquidity facilities.

The Bank's Risk Unit is able to provide up-to-date information about what exposures we should be comfortable with or should exit.

FINANCIAL STABILITY


We draw many of these sources of information into our understanding of financial stability, especially from monetary policy, bank regulation, and financial markets.

BANK REGULATION

Our prudential monitoring of banks tells us bank credit growth is still subdued, with tighter lending standards and households and businesses reducing debt. Non-performing loans have been on the rise, typical after a recession, but they appear close to peaking. Bank funding is more secure from longer-term sources.

NBDT SUPERVISION

Many finance companies have exited. We see more consolidation happening with the expiry of the first Crown Retail Deposit Guarantee Scheme, and introduction of a more stringent regulatory regime.



This is informing our thinking on potential new macro-financial and prudential policy tools, in light of lessons from the Global Financial Crisis.

MONETARY POLICY

Economic data shows the New Zealand economy is recovering slowly from recession, mainly due to manufacturing and primary sectors and a lift in household spending. Businesses' confidence has grown and they are hiring more workers to increase production. A weak construction sector, high unemployment and low wage movements have kept inflation in check.

Our innovative liquidity policy for banks proved its worth during the Greek sovereign debt crisis. We are examining whether our new core funding ratio could be used to stabilise the financial cycle in New Zealand.

PAYMENT AND SETTLEMENT SERVICES

The multi-billion dollar payments and settlements systems overseen by the Reserve Bank include the major financial institutions' cash accounts with us. We saw payments slow during the crisis as banks became nervous of extending credit. It is really important that gridlock is avoided and payments can be settled in a timely way. Conditions have now stabilised.

CURRENCY OPERATIONS

Demand for notes and coins told us of depositor nervousness during the crisis, with a spike in demand of 14 percent, especially for higher-denomination notes at the height of the crisis. In the last year, demand has returned to much lower levels of just 0.4 percent.

WHAT DO WE DO IN A NATURAL DISASTER?

The Reserve Bank's full range of functions also enables it to respond to natural disasters.

ON THE DAY

CURRENCY

- Ensure cash available to ATMs and banks

PAYMENT AND SETTLEMENT SERVICES

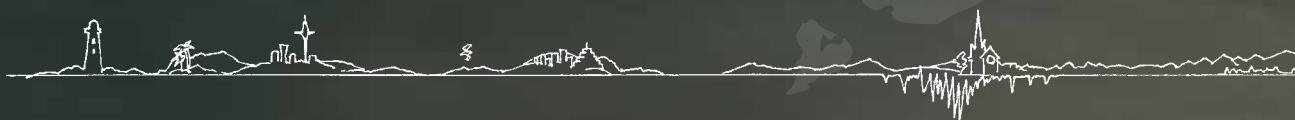
- Ensure the settlement systems are working

FINANCIAL MARKETS

- Ensure accurate information on markets
- Ensure exchange rate is managed if necessary
- Provide domestic liquidity

DURING THE WEEK

DURING THE MONTH



THE ADVANTAGES OF BEING A FULL SERVICE BANK

As the impact of Canterbury's magnitude 7.1 earthquake on 4 September 2010 and several hundred aftershocks unfolded, we were able to assess how the financial system and economy may have been affected and where we could assist – checking availability of cash, settlement systems, emergency bank credit and insurance, monitoring financial market reactions, and ensuring monetary policy settings are appropriate.

BANKS

- Monitor bank emergency credit availability

INSURERS

- Check readiness of banks and insurers

FINANCIAL STABILITY

- Check funding is in place for banks and financial institutions

ECONOMICS

- Forecast effects of the event
- Design monetary policy to cope



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