

IN CONFIDENCE



Date: 11 February 2013

To: Minister of Finance

MACRO-PRUDENTIAL POLICY: NEXT STEPS

1. The Reserve Bank is currently preparing a consultation paper on macro-prudential policy for New Zealand. This sets out the proposed objectives, instruments and decision-making framework of macro-prudential policy, along with some considerations relating to costs and efficiency. The proposed instrument set includes:
 - a. The countercyclical capital buffer.
 - b. Adjustments to the minimum core funding ratio.
 - c. Alterations to sectoral capital requirements.
 - d. Restrictions on high loan-to-value ratio loans.
2. We expect to be able to make this paper available for consideration by you later in February.
3. We are aiming to publish the consultation paper in mid-March, with a four week period for submissions running through to mid-April.
4. We would expect to have a paper with a synopsis of the final policy position available for your consideration by late April or early May. The timing will depend on the volume and complexity of submissions.
5. On agreement of the final policy position, we would expect to be in a position to sign a Memorandum of Understanding (MoU) jointly with you. The MoU will formalise the objectives and institutional framework for macro-prudential policy. We provided a draft MoU for your consideration in December last year and would look to revise this as necessary to reflect the final policy framework and any feedback you might have.
6. While we had hoped to complete the consultation process prior to the 8 May release of our next *Financial Stability Report (FSR)*, we are unlikely to be able to publish the formal policy response within this timeframe. However, we would expect to publish an outline of the key components of the final framework in the FSR.
7. Alongside the formal consultation, the Bank remains happy to provide background briefings to interested parties, including members of Parliament, if this would be useful.