Consultation on macro-prudential policy

Confidential to NZBA members

Forum presentation for
NZBA members
Reserve Bank of New Zealand
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Outline

- Macro-prudential policy objectives
- Proposed instruments
- Implementation framework and issues
- Consultation – next steps
- Questions and your feedback

Objectives

- Macro-prudential policy aims to promote financial stability by:

  - *building additional resilience in the financial system during periods of rapid credit growth and rising leverage or abundant liquidity; and*

  - *dampening excessive growth in credit and asset prices.*

Proposed instruments – the initial toolkit

Instrument	Description
Adjustments to Core Funding Ratio	Adjustments to required ratio of core funds (retail deposits and long-term wholesale funding) relative to loans and advances
Counter-cyclical capital buffer (under Basel III)	Require the banks to build up an extra capital buffer during the credit upswing to draw on during the downswing
Adjustments to sectoral capital requirements	Require banks to hold extra capital against sectors showing excessive credit growth
Restrictions on high-LVR housing lending	A cap or quantitative restrictions on the loan-to-value ratios for residential mortgage borrowers

2 ways of implementing sectoral capital requirements

- Target excessive lending to a particular sector that may pose systemic risks (e.g. housing, agriculture)
    1. Apply as a capital add-on (a targeted version of the CCB)
    2. Apply as an overlay to risk weights

- Notice period: up to 3 months

2 ways of implementing housing LVRs

- Target excessive lending growth fuelled by high-LVR loans:
  - Outright limits on high-LVR lending for residential mortgage borrowers
  - Restrictions on the share of high-LVR loan approvals e.g. no more than 10% of lending with an LVR above 90 per cent
- Notice period: up to 2 weeks

Implementation points

- Temporary use, in exceptional financial conditions

- Needs to be early enough to build buffers/lean against cycle

- Could be a single tool or mix of tools

- Not a monetary policy tool
  - But likely to support the Official Cash Rate

- Implementation risks and costs:
  - disintermediation, efficiency and avoidance

Consultation – next steps

- Consultation on macro-prudential policy closes - 10 April
- Initial findings published in FSR – 8 May
- Memorandum of Understanding signed with Minister of Finance – date tbc
- New high-LVR lending data collection
- Further consultation on detailed tool design

End

- Questions and Feedback

Implementation framework (option 2 – talk to fishbone)