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Reserve Bank Financial System Roundup

1 August 2013

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FINANCIAL MARKET DEVELOPMENTS

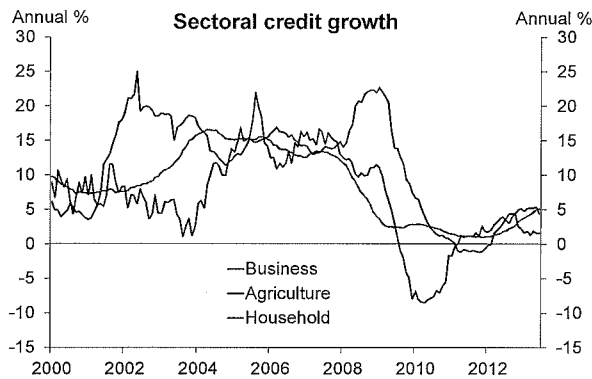
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FINANCIAL SYSTEM AND POLICY

Households increase borrowing

We continue to monitor the housing market closely as signs of overheating increase, and debt-to-income levels rise. Bank lending to the private sector increased 5 percent in the year to June 2013. The household sector is the largest contributor to this growth, with annual growth in the stock of outstanding household credit of 5.1 percent. The escalating house price inflation could result in additional borrowing and an increase in financial stability risk as house prices and house sales continue to rise. The growth in agricultural credit dipped to 4.4 percent, as expected due to the lagged effect from the slowdown in farm sales and farm prices.

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not relevant to request



Innovation in the mortgage market

Westpac has released an "innovative" lending product that allows home buyers to purchase a home without a deposit of their own (or a very small deposit). The product enables new borrowers to access equity in a family member's home to be used as equity in another home. This lowers the risk on the loan as more collateral and property is connected with the loan. With the potential for LVR restrictions in the near future this product appears to be an attempt to circumvent any potential policy changes.

Banks funding non-bank lenders

The global financial crisis disrupted the ability of lower tier lenders to secure funding. As financial conditions continue to improve to fill the void, banks have increasingly become part of the funding sources for second and third tier lenders. For example, Westpac has agreed to provide a \$30 million line of funding to vehicle lender Geneva Finance. Increased funding will help ensure non-bank finance is available for niche purposes, although investors should understand the risks involved.

Key regulatory/legislative initiatives (significant recent changes in blue)

<p>Macro-prudential policy</p>	<p>The Reserve Bank is considering submissions to the consultation on the framework for restrictions on high-LVR residential mortgage lending, and a response to submissions and revised Banking Supervision Handbook chapter will be published in mid-August. We will shortly begin receiving more granular data from banks under our new residential mortgage lending reporting templates.</p>
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<p>Non-bank deposit takers (NBDTs)</p>	<p>The NBDT Bill is awaiting the Committee of the whole House stage. A Supplementary Order Paper has been prepared in relation to the Bill, and is with your Office. We have reviewed the submissions in response to our consultation on the NBDT review. We expect to finalise our views on potential changes to the NBDT regime arising out of the review in August. Areas where we are currently considering potential changes include the definition of NBDT and the appropriate supervisory arrangements for NBDTs (including the role of trustees).</p>
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<p>Review of bank capital adequacy requirements for housing loans</p>	<p>The Bank is working on a staged review of bank capital adequacy requirements for housing loans. As a result of stage one, the capital requirements for internal models banks will increase to reflect the additional systemic risk in high loan to value lending. Stage two of the review will initially focus on definitional issues, some of which need to be addressed in order to enhance the effectiveness of the Bank's new macroprudential LVR policy. The Bank expects to consult on this part of stage two in the coming weeks.</p>

Market Indicators

EXCHANGE RATES		% change	% change	% change
	Current	2 weeks ago	month ago	year ago
NZDUSD	0.7990	1.1%	2.2%	-1.1%
NZDEUR	0.6024	0.0%	0.6%	-8.8%
NZDAUD	0.8812	2.3%	4.1%	14.2%
NZ TWI	75.52	0.9%	2.4%	3.4%

INTEREST RATES		%	bps change	bps change	bps change
	Current	2 weeks ago	month ago	year ago	
OCR	2.50	0	0	0	
NZ 90 day bank bill	2.66	1	0	1	
NZ 10 yr govt bond	4.21	7	4	72	
US 10 yr govt bond	2.61	8	13	109	
Germany 10 yr govt bond	1.67	15	-5	30	
France 10 yr govt bond	2.27	9	-6	17	
Italy 10 yr govt bond	4.40	-1	-1	-153	
Spain 10 yr govt bond	4.66	0	6	-207	

CDS SPREADS		bps	bps change	bps change	bps change
	Current	2 weeks ago	month ago	year ago	
NZ Govt	49	0	-7	-33	
AU Banks	109	5	-3	-37	
EU Banks	143	-8	-21	247	

COMMODITIES		% change	% change	% change
	Current	2 weeks ago	month ago	year ago
WTI Oil	103.1	-4.6%	5.2%	15.9%
Gold	1,324.0	3.1%	5.4%	-17.4%
CRB	281.7	-3.0%	1.4%	-5.9%

SHAREMARKETS		% change	% change	% change
	Current	2 weeks ago	month ago	year ago
S&P 500	1,686	-0.2%	4.4%	22.6%
Euro Stoxx 600	299.4	-0.1%	3.9%	14.0%
ASX 200	5,047	1.1%	7.2%	18.4%
NZX 50	4,551	-0.3%	3.0%	28.9%
VIX Volatility	13.4	-2.8%	-18.2%	-29.4%

Note: 'Current' prices measured on Thursday 1 August 2013.

