



# Reserve Bank Financial System Roundup

29 August 2013

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## FINANCIAL MARKET DEVELOPMENTS

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not relevant to request

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not relevant to request

**FINANCIAL SYSTEM AND POLICY\***

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measures the change in the stock whereas the policy is directed towards the gross flows of mortgage lending. As no other bank data on LVR lending will be available in the short term, the data from disclosure statements are likely to continue to be reported.

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**LVR policy announced**

Last week the Reserve Bank announced deployment of the first macro-prudential intervention. From 1 October bank lending on high LVR residential mortgages (over 80 percent) will be restricted to no more than 10 percent of total new monthly lending on a 3 month rolling basis. The policy is designed to help slow the rate of housing-related credit growth and house price inflation, thereby reducing the risk of a substantial downward correction in house prices that would damage the financial sector and the broader economy. In responses to the policy, Kiwibank has announced it will favour first home buyers over property investors when allocating its 10 percent speed limit, while ASB has stated it will favour existing customers.

Some commentators have used the stock of LVR lending reported in disclosure statements for considering how different banks will be affected by the LVR restrictions. We caution this can give a misleading impression of how banks will fare under the LVR policy: it

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

Macro-prudential policy	<p>The Reserve Bank has announced the introduction of “speed limits” on high-LVR residential mortgage lending, with effect from 1 October 2013. We are currently working to address questions raised by banks following the release of the revised conditions of registration and Banking Supervision Handbook chapter.</p> <p>We have started to receive more granular residential mortgage lending data from banks.</p>
Covered bonds	<p>The Reserve Bank of New Zealand (Covered Bonds) Amendment Bill is awaiting the Committee of the whole House Stage. A Supplementary Order Paper has been tabled.</p>
Insurance	<p>The Insurance (Prudential Supervision) Amendment Bill had its third reading on 27 August 2013 and is currently awaiting Royal Assent. The Bill needs to be in force by 6 September 2013.</p> <p>Full licensing of insurers is on track to be completed by early September 2013 with a heightened focus on resolving issues with insurers who may not qualify for a licence.</p>
Non-bank deposit takers (NBDTs)	<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 will be providing you with a copy of the final report on the NBDT review at the beginning of September (this report will need to be tabled in the House). Areas where we are considering potential changes include the definition of NBDT and the appropriate supervisory arrangements for NBDTs (including the role of trustees).</p>
<p>[REDACTED]</p> <p>[REDACTED]</p>	<p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p><b>Redacted: information out of scope, not relevant to request</b></p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>
Review of bank capital adequacy requirements for housing loans	<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. We expect to consult on this part of stage two in the coming weeks.</p>

## Market Indicators

EXCHANGE RATES	Current	% change	% change	% change
		2 weeks ago	month ago	year ago
NZDUSD	0.7823	-3.1%	-2.6%	-2.3%
NZDEUR	0.5864	-3.1%	-3.2%	-8.2%
NZDAUD	0.8738	-1.1%	0.1%	13.0%
NZ TWI	73.91	-2.7%	-2.7%	2.4%

INTEREST RATES	Current	%	bps change	bps change	bps change
		2 weeks ago	month ago	year ago	
OCR	2.50	0	0	0	
NZ 90 day bank bill	2.67	2	1	1	
NZ 10 yr govt bond	4.56	-4	34	94	
US 10 yr govt bond	2.77	0	16	111	
Germany 10 yr govt bond	1.88	-1	21	50	
France 10 yr govt bond	2.46	4	18	32	
Italy 10 yr govt bond	4.41	16	-4	-136	
Spain 10 yr govt bond	4.54	9	-15	-193	

CDS SPREADS	Current	bps	bps change	bps change	bps change
		2 weeks ago	month ago	year ago	
NZ Govt	49	0	0	-29	
AU Banks	108	0	-1	-34	
EU Banks	149	9	0	244	

COMMODITIES	Current	% change	% change	% change
		2 weeks ago	month ago	year ago
WTI Oil	109.6	2.1%	4.8%	14.8%
Gold	1,416.7	4.0%	6.6%	-14.6%
CRB	295.7	1.1%	4.3%	-3.7%

SHAREMARKETS	Current	% change	% change	% change
		2 weeks ago	month ago	year ago
S&P 500	1,635	-1.6%	-3.0%	15.9%
Euro Stoxx 600	297.9	-2.4%	-0.4%	11.6%
ASX 200	5,087	-1.3%	0.8%	16.8%
NZX 50	4,532	0.0%	-1.0%	24.9%
VIX Volatility	16.5	11.9%	23.2%	-3.3%

Note: 'Current' prices measured on Thursday 29 August 2013.

