RESERVE BANK OF NEW ZEALAND
TE PŪTEA MATUA

A Strategic View of Te Pūtea Matua's Balance Sheet

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Introduction

Tēnā koutou katoa.

Thank you to ANZ and KangaNews for the invitation to speak at this year's Capital Markets Forum.

At Te Pūtea Matua, our mission is to promote the prosperity and wellbeing of all New Zealanders. We achieve this by maintaining price stability and maximum sustainable employment, having a sound and efficient financial and payments system, and issuing the nation's banknotes and coins. A central bank's role is important at all times, but even more so in times of crisis – and that's exactly what we have experienced globally as we have navigated the COVID-19 pandemic.

Te Pūtea Matua has had unprecedented involvement in New Zealand's capital markets over the past year. The size and composition of our balance sheet has changed significantly as we responded flexibly and with urgency in pursuit of our monetary policy and financial stability objectives. We introduced a range of liquidity facilities to ensure the banking system had access to cash at low interest rates. We broadened our market intelligence programme to inform our policy actions. And through our Large Scale Asset Purchase (LSAP) programme we now own close to 40 percent of New Zealand Government bonds outstanding.

My role as the Head of Financial Markets is to oversee the day-to-day management of the Reserve Bank's balance sheet and the implementation of operational tools to ensure that:

- our monetary policy objectives are achieved;
- there is sufficient liquidity in the banking system to facilitate day-to-day payments and settlements; and
- we have a safe and liquid portfolio of foreign currency assets to use if conditions in the New Zealand dollar market become dysfunctional.

As well as fulfilling our operational duties and managing the associated risks, my department is also involved in policy design and advice for the Monetary Policy Committee (MPC) and the Bank's Assets and Liabilities Committee.

Today I am going to talk first about how our balance sheet has evolved since COVID-19. My colleague Christian Hawkesby spoke at this Forum last year in great detail about how the composition of our balance sheet had changed following the pandemic, so today I will keep my remarks relatively high level.[2] From there, I'd like to spend some time looking ahead to what will be some of the key strategic drivers of our balance sheet into the future. At this point I want to make it clear that my remarks today should not be interpreted as any signal about the current or future stance of monetary policy. I am not a member of the MPC, and details about the economic outlook and stance of policy can be found in the May 2021 *Monetary Policy Statement* which was released last week.

There are three key messages that I would like to leave you with today about our activities in financial markets and our role as a central bank:

- First, changes to our balance sheet operations throughout the year – including the removal of some liquidity facilities and a slower pace of asset purchases – reflect a notable improvement in market conditions.

[2] Hawkesby (2020): COVID-19 and the Reserve Bank's Balance Sheet.

- Second, our balance sheet will remain large for a long time, and the low global interest rate environment means it is likely we will need to use balance sheet tools again in the future.
- And finally, innovation and the evolution of our balance sheet will continue to support our monetary policy and financial stability objectives, including climate change.

Our decisions over the past year, at present, and into the future are guided by our risk appetite framework. Our goal is not to maximise the return on our balance sheet, or to eliminate all risk. Instead, it is to achieve our ultimate policy objectives, without *undue* risk – including financial risk, but also legal, operational, and reputational risks. In some cases, increased risk, or a change in risk profile is necessary in order to acheive our policy objectives.

Te Pūtea Matua's balance sheet: the past and present

For most of Te Pūtea Matua's history, the balance sheet size required to meet our policy objectives averaged around 10 percent of GDP (figure 1).[3] An exception to this was during the mid-to-late 2000s when our balance sheet more than doubled in nominal terms following changes to our monetary policy implementation regime, an increase in foreign reserves and also policy actions during the Global Financial Crisis (GFC). Just prior to COVID-19, our balance sheet size was around $30 billion. Approximately one-third of our liabilities were currency in circulation to meet the physical demand for cash in New Zealand; around one-third were deposits from settlement banks (or 'settlement accounts')[4] to facilitate the smooth functioning of the money market and interbank payments; and about one-sixth were deposits from the New Zealand Government to manage their short-term cash flows (known as the 'Crown Settlement Account' or CSA).[5]

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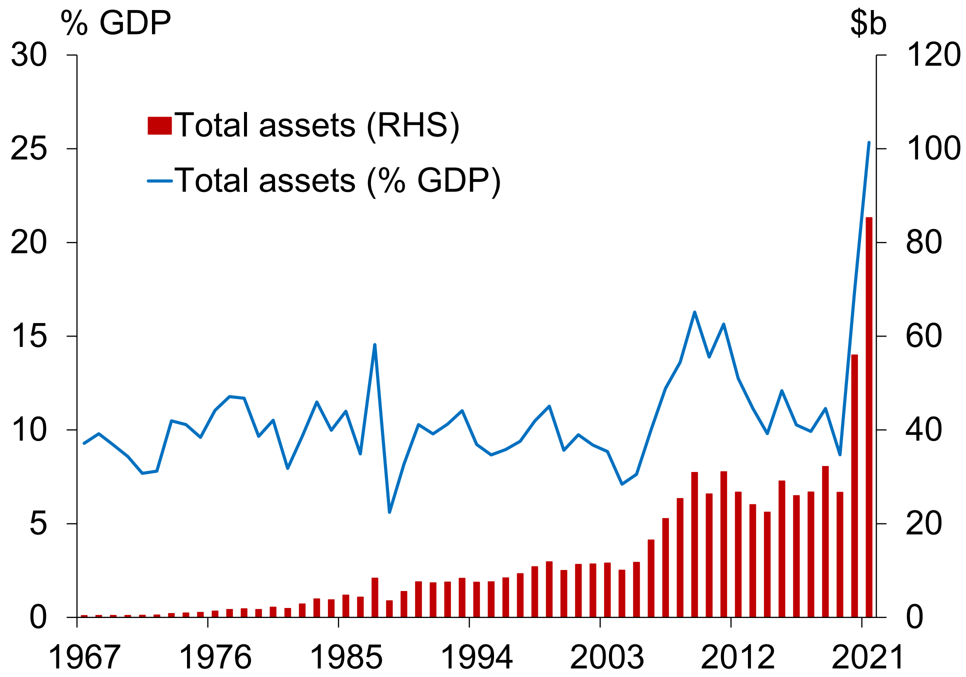
[3] Prior to the introduction of inflation targeting in 1990, the Bank had a range of objectives for monetary policy, including general price stability but also various other economic goals. Other tasks in earlier periods included operating foreign exchange controls.

[4] Settlement accounts are current accounts held by banks and other approved financial institutions in the Reserve Bank's Exchange Settlement Accounts System (ESAS). These accounts are used to settle inter-bank payments. The Settlement Cash Level refers to the sum of the settlement cash balances held in ESAS.

[5] More details on the Reserve Bank's balance sheet can be found here: https://www.rbnz.govt.nz/markets-and-payments/our-balance-sheet-at-work

Figure 1: Size of RBNZ Balance Sheet



Source: Stats NZ, Reserve Bank of New Zealand

These liabilities funded our activities in financial markets to meet our policy objectives. Just under one-half of our assets were related to our domestic market operations to manage liquidity and implement monetary policy (NZ Government bonds and FX swaps). Our remaining assets were largely foreign currency assets for the purpose of intervening in the foreign exchange market in response to market dysfunction or if the level of the currency was unjustified relative to economic fundamentals.

As at April 2021, our balance sheet size was $85 billion (25 percent of GDP) and growing (table 1). This rapid change has been predominantly driven by the implementation of new balance sheet tools for monetary policy purposes, most notably the LSAP programme (figure 2). Since the introduction of the LSAP programme in March last year, we have purchased over $50 billion of NZ Government bonds (including both nominal and index-linked) and Local Government Funding Agency (LGFA) bonds for the purpose of lowering interest rates in the economy and supporting market functioning. The Funding for Lending Programme (FLP) was another new monetary policy tool, introduced in November 2020 to lower interest rates and support the provision of credit to households and businesses.[6] As at April, almost $3 billion has been drawn down from the FLP by eligible banks, with a total of $28 billion available until December 2022.

[6] Reserve Bank of New Zealand (2020): Monetary Policy Statement November 2020.

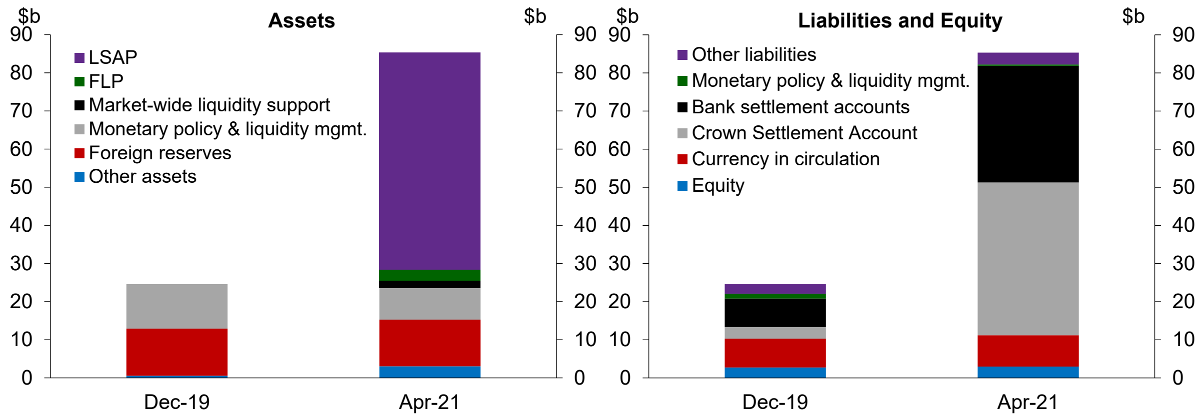
Table 1: RBNZ Balance Sheet composition and purpose (April 2021)

Assets	$bn	Liabilities and equity	$bn
Bonds purchased under LSAP *(providing monetary stimulus)*	57.0	Monetary policy and liquidity management *(implementing monetary policy; supporting sound market functioning)*	0.3
Claims on financial institutions via FLP *(providing monetary stimulus)*	2.9	Bank settlement accounts *(inter-bank payment settlement; funding assets)*	30.6
Market-wide liquidity support *(supporting sound market functioning)*	1.9	Crown settlement account *(account for surplus Government funds)*	40.1
Monetary policy & liquidity management *(implementing monetary policy; supporting sound market functioning)*	8.3	Currency in circulation *(bank notes and coins to meet the needs of the public)*	8.2
Foreign reserves *(provides capacity to intervene in the foreign exchange market)*	12.2	Other liabilities	3.1
Other assets	3.0	Equity	3.0
Total	85.3	Total	85.3

Source: Reserve Bank of New Zealand

On the liabilities side of our balance sheet, our operations have resulted in an increase in cash in banks' settlement accounts from around $8 billion to $30 billion. Banks' settlement accounts increase as a result of LSAPs and the FLP since when we purchase bonds from a bank or lend them cash in exchange for an asset, we credit that bank's settlement account.[7] The Government's CSA balance has also expanded from around $3 billion to around $40 billion. This is due to the Government issuing new debt faster than it has spent the proceeds. Alongside the May 2021 Budget, New Zealand Debt Management noted that forecast Crown financial asset balances remain high relative to history, to help manage funding and liquidity risk.[8]

Figure 2: RBNZ Assets and Liabilities



Source: Reserve Bank of New Zealand

In addition to the LSAP programme, we took a number of actions in the early days of COVID-19 to provide market liquidity and to ensure banks had access to cash to support their customers. As the extent of the pandemic was becoming clear, risk aversion rose sharply

[7] For more information on how the LSAP works, see [Large-Scale asset purchases - Reserve Bank of New Zealand (rbnz.govt.nz)] and Box A in the Financial Stability Report, November 2020.

[8] The Treasury (2021): 2021/22 New Zealand Government Bond Programme set at NZ$30 Billion.

which led to increased demand for cash. We met this demand by injecting an unprecedented volume of NZ dollar liquidity via the FX swap market, undertaking small-scale purchases of New Zealand Government and LGFA bonds when there was an absence of buyers, and introducing longer-term liquidity facilities including the Term Auction Facility and Corporate Open Market Operation.

The combination of these facilities and operations restored confidence and stability in New Zealand's financial markets, which was an essential pre-condition for monetary stimulus. Lower interest rates can only transmit to the real economy if there is stability in key financial markets, including the government bond market. Reflecting the improvement in market conditions, we reduced the pace of our weekly LSAP purchases and in March this year we decided to withdraw the Term Auction Facility and Corporate Open Market Operation. There was no longer a need for these facilities in light of improved global funding conditions and the continued availability of the FLP until 2022. The removal of these temporary liquidity facilities should be acknowledged as a sign of collective success of the actions taken by global central banks as well as the resilience of commercial banks' liquidity and funding positions prior to COVID-19.

Te Pūtea Matua's balance sheet: the future

Looking forward, innovation and evolution in the balance sheet will continue to support the objectives of the Bank. There are three key areas that I would like to outline today that will shape the future of Te Pūtea Matua's balance sheet and our operations: monetary policy implementation, financial stability, and sustainable finance.[9]

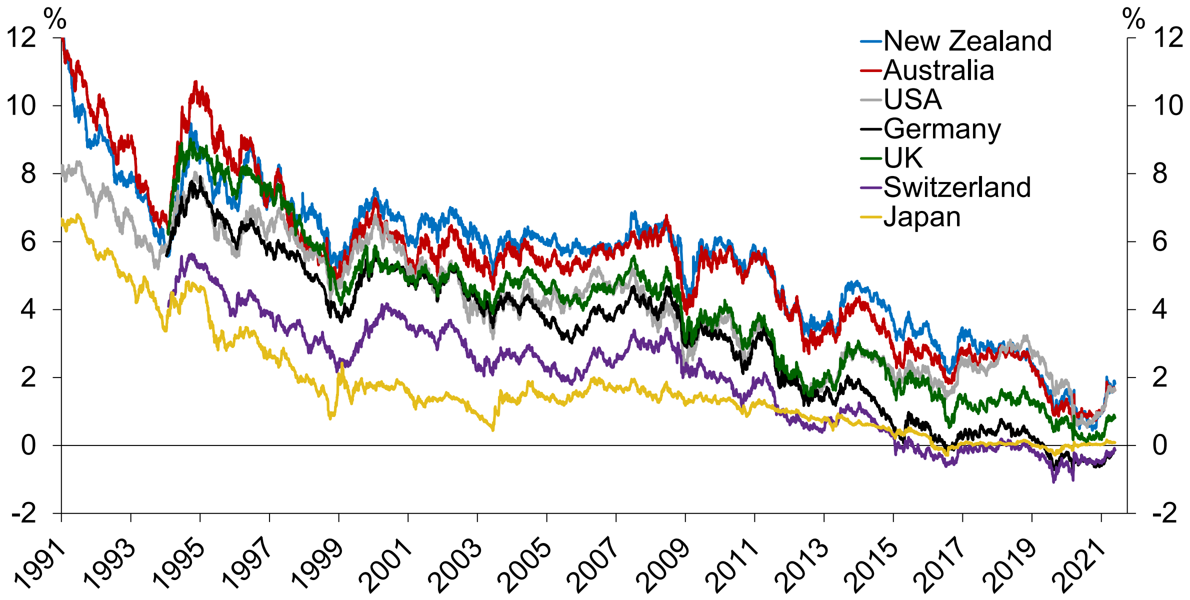
Monetary policy implementation

From a monetary policy implementation perspective, balance sheet tools are expected to be a part of the 'conventional tool set' in the future to achieve our objectives of low, stable inflation and maximum sustainable employment.

Both short- and long-term global interest rates have been on a downward trend in recent decades (figure 3). This decline mostly reflects changes in real economic factors such as demographics, productivity growth, and savings preferences.

[9] I should note that this is not an exhaustive assessment of factors that will drive changes to our balance sheet into the future. Other factors include demand for currency in circulation and the future demand for fiat currency. For more information on the Reserve Bank's work on the future of cash, see [The Future of Cash – Te Moni Anamata - Reserve Bank of New Zealand (rbnz.govt.nz)]

Figure 3: 10-year sovereign bond yields



Source: Haver Analytics

Lower global interest rates have resulted in relatively less space for central banks to reduce policy rates if needed, and there is a limit to how negative rates can go before causing adverse side effects. This means that other tools that utilise the balance sheet have become an important part of the 'package' of monetary policy instruments that global central banks have turned to, and the Reserve Bank of New Zealand was one of few central banks in advanced economies that had not needed to deploy such tools prior to 2020.

While we have seen the roll-out of such tools differ among central banks since the COVID-19 crisis, by the end of 2020, many central banks converged on a similar combination of tools. For example, asset purchase programmes (such as the LSAP), term lending programmes (such as the FLP), low or negative policy rates, and 'floor systems' for monetary policy implementation (where all settlement cash is remunerated at the policy rate) are now common features across the global central banking community. The use of these additional tools will likely remain mainstream for as long as global central bank policy rates remain at, or near, record lows. This is dependent on the pace of the global economic recovery, but also on the longer-term structural trends mentioned earlier.

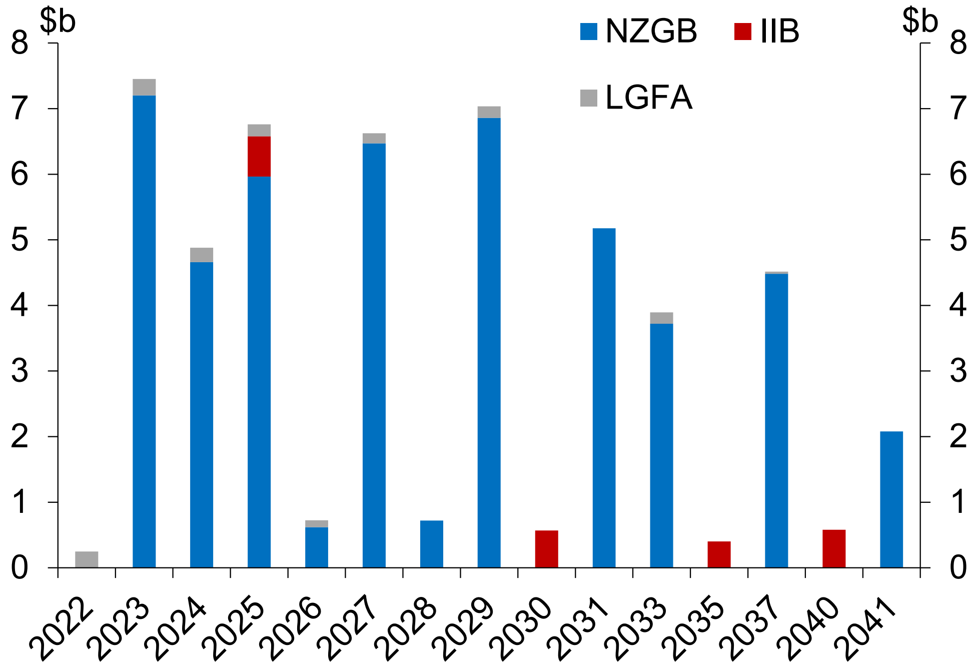
All monetary policy tools have a common aim, but the transmission channels can differ. Balance sheet tools can work through different market channels as opposed to just reducing the risk-free short-term policy rate. For example: by reducing credit spreads and term premia (via LSAP);[10] indirectly reducing the cost of other bank funding sources such as term deposits (via FLP); or clearing dealer inventories to improve market-making and supporting the market conditions necessary for monetary stimulus to transmit (via LSAP). As we understand more about these different channels of transmission, it will allow us to better calibrate an 'optimal package' of monetary policy tools in response to future shocks.

[10] Credit spreads are the difference between yields on a security with credit risk (e.g. a corporate bond) and the yield on a safe asset of equivalent maturity (e.g. a New Zealand Government Bond). A term premium represents the excess yield that an investor needs to commit to holding a longer-term bond, rather than a series of shorter-term bonds.

Based on our actions taken over the past year alone, our balance sheet will remain large for a long time. Primarily, our LSAP programme has resulted in long-term assets on our balance sheet. Some of our LSAP assets have a maturity of up to 20 years in the future (figure 4). Held to maturity, it would take decades for these assets to mature and roll-off the balance sheet, irrespective of any reinvestment policy decisions

In many cases overseas, central bank balance sheets have remained large for a prolonged period. There have been some limited instances where the size of balance sheets have started to reduce when policymakers had sufficient confidence their policy objectives could be achieved with less support, like in the case of the Federal Reserve in 2018 and 2019.

Figure 4: LSAP maturity schedule



Source: Reserve Bank of New Zealand

Note: NZGB are nominal New Zealand Government Bonds, IIBs are Inflation-indexed New Zealand Government bonds, and LGFAs are Local Government Funding Agency bonds. The holdings are as at 24 May 2021.

In the long run, the LSAP programme may be unwound and the size of the balance sheet may be lower than it is today. However, any decision to reduce the size of the balance sheet by not reinvesting maturing assets will depend on the level of monetary policy stimulus required in the future and will be decided by the MPC, guided by staff advice. As we have emphasised in the past, the MPC has operational independence to change LSAP settings (as with all monetary policy settings) at any time in order to achieve its inflation and employment remit objectives. While the LSAP programme lowers the government's financing costs, it is a monetary policy tool, not a tool for financing government expenditure (in contrast to so-called direct monetary financing).

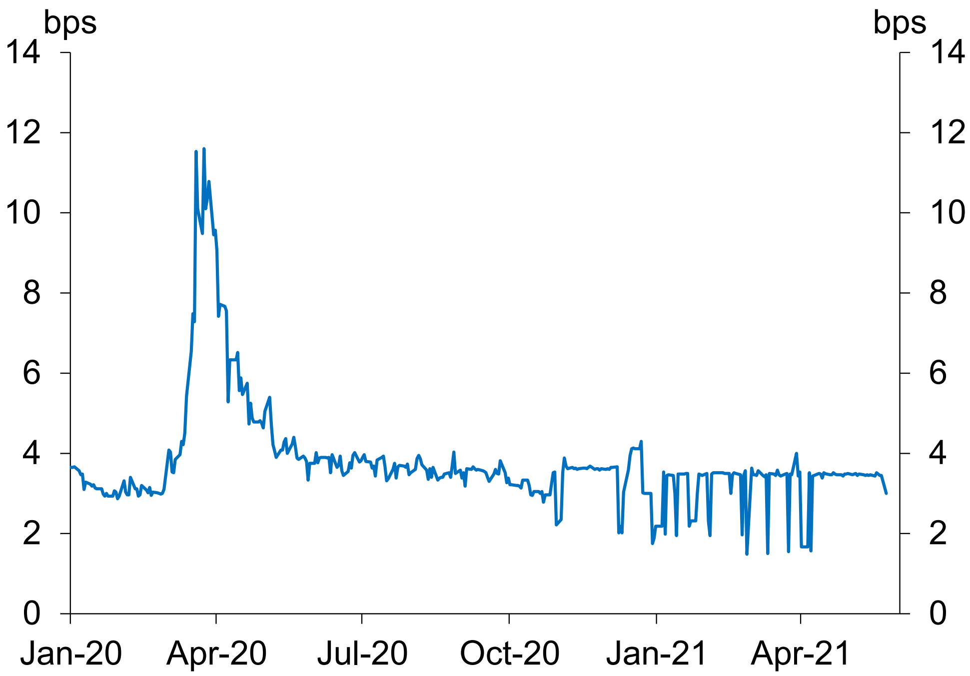
Financial stability

While our balance sheet has changed to reflect its role in achieving our objectives through monetary policy implementation, its role in financial stability is also evolving.

In addition to liquidity provision for monetary policy purposes, central banks have traditionally had an important role as a 'lender of last resort' to commercial banks in the event they need liquidity to meet their short-run obligations. Lending provided by central banks is collateralised (secured against an asset) and typically at a penalty rate, to incentivise banks to manage their liquidity carefully and rely on market sources of funding first. Central banks have held this role because of their financial stability mandates – if a commercial bank was solvent but couldn't pay some of their depositors at a particular point in time, this may result in a 'bank run' (more depositors trying to withdraw their funds) and result in broader financial instability.

While this lender of last resort function has historically been focused on backstopping the 'funding liquidity' of individual institutions, it has become common over time for central banks to also respond to severe market dysfunction or 'transactional illiquidity'. For example, last year we introduced a Bond Market Liquidity Support scheme to purchase small amounts of NZ Government and LGFA bonds at short notice when there were no other buyers in the market. The subsequent LSAP programme also alleviated market-wide liquidity concerns, freeing up capacity on dealers' balance sheets to return market liquidity to more normal levels (figure 5).

Figure 5: Average bid-ask spread on NZ Government Bonds



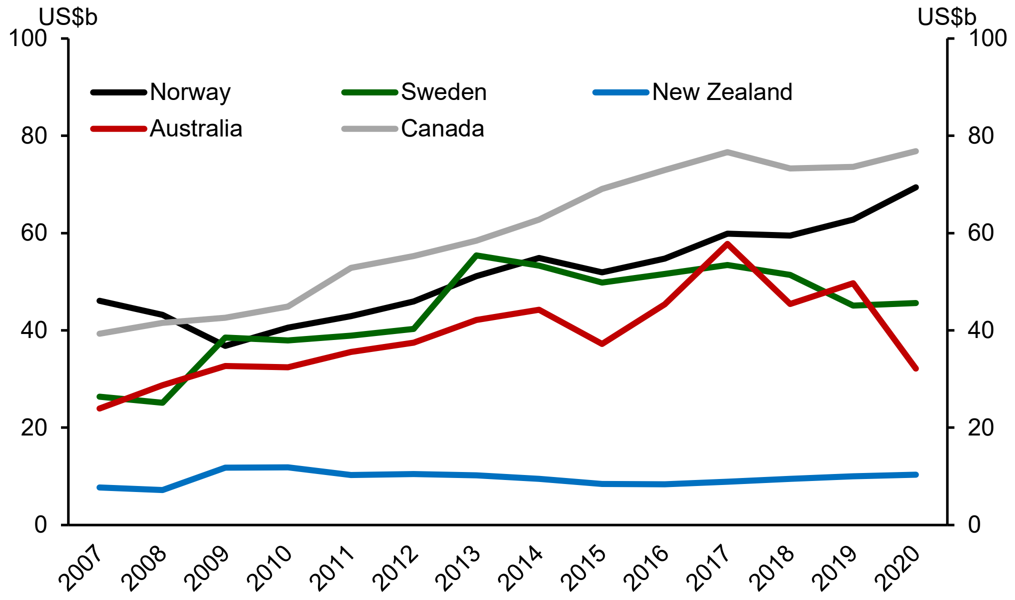
Source: Bloomberg, Reserve Bank of New Zealand

Note: Bid-ask spread measures the difference in yield at which dealers are willing to buy and sell a bond. Average spread is calculated using nominal bonds on issue at the start of 2020, excluding the 2025 bond.

As our nation's capital markets develop further, our role as a central bank will need to adapt to ensure we can continue to meet our financial stability mandate and this may require further innovation in our balance sheet operations.

Another market that is at the core of our financial stability mandate is the foreign exchange market. As mentioned earlier, we hold and manage a large portfolio of foreign currency assets in the event that we need to intervene in the foreign exchange market to address market dysfunction or if the level of the currency was unjustified relative to economic fundamentals.[11] Changes are being made to the Reserve Bank Act that requires the Reserve Bank and the Minister of Finance to agree on a framework for the Reserve Bank's management and use of foreign reserves. In light of this, we are in the process of undertaking a comprehensive review of our foreign reserves management framework which will include governance arrangements, the objectives of holding foreign reserves, funding arrangements, and reserves adequacy. The level and adequacy of reserves will be an important consideration in this review. Our foreign reserve holdings have been broadly unchanged since 2008. This differs from many other central banks that have increased the stock of their reserves since the GFC. A change in our foreign reserves would necessarily result in a change in the size of our balance sheet, and the composition of assets may change as we consider a broader set of objectives in our strategic asset allocation (discussed further in the next section).

Figure 6: Foreign currency reserves



Source: International Monetary Fund, Bank for International Settlements
Note: New Zealand's foreign reserves have been adjusted to exclude foreign currency liquidity held as a result of liquidity management operations

An important characteristic of our foreign reserves portfolio is that we fund approximately 70 percent of our foreign currency assets using cross-currency basis swaps. Historically these derivatives have been LIBOR-based products, and like other financial market participants, we are working towards a world without LIBOR. Regulators globally have determined that LIBOR cannot be relied on beyond 2021 and markets need to transition to more robust and reliable market-determined interest rate benchmarks. We are currently working on our own operational readiness to transact in new risk-free benchmark interest rates, as well as managing the risks associated with our legacy trades, including adhering to the International Swaps and Derivatives Association's (ISDA's) 2020 Fallbacks Protocol.

[11] While a significant share of our assets, our level of foreign reserves is much lower than in jurisdictions with a fixed or managed exchange rate regime.

An orderly transition away from LIBOR is important not only for our own balance sheet, but also for the smooth functioning of financial markets and the stability of the financial system. In that regard, we also have a strong interest in:

- from a financial stability perspective, the preparedness of our regulated entities; and
- the work being led by the New Zealand Financial Markets Association (NZFMA) to strengthen New Zealand's interest rate benchmarks.

Similar to Australia, New Zealand currently operates dual benchmarks, with the new risk-free benchmark (OCR Compound Index) standing alongside the current Bank Bill Benchmark Rate (BKBM). We are supportive of the NZFMA's work to strengthen the benchmark regime through governance changes, the addition of a risk-free rate alternative, and the introduction of a new interbank convention.

To further support New Zealand financial markets, we have been working closely with ISDA, the NZFMA, and colleagues in regional central banks to facilitate the introduction of an additional fallback protocol that covers BKBM, along with other benchmark interest rates that were not part of the initial 2020 Protocol. We expect this to be available later in 2021.

Incorporating sustainability objectives into our balance sheet operations

When looking at the future of our balance sheet, it should come as no surprise that climate change and sustainable finance is at the forefront of our minds. This is something that many institutions around the world are thinking seriously about, and are challenging themselves to make the necessary changes to contribute to a sustainable future for everyone. We are no different.

As a central bank and the kaitiaki (guardians) of the financial system, we need to lead by example. Our climate change strategy has three components: incorporating climate change into our core functions including the supervision of financial institutions; managing our direct impact on the climate; and leading through experience and collaboration. One way we can give effect to these strategic goals is through the use of our own balance sheet.[12]

We understand sustainability is critical for our long-term future and we are mindful that any changes to our balance sheet need to be aligned with our ability to effectively and efficiently execute our existing policy objectives. We are considering how we can incorporate sustainability objectives into our balance sheet operations, but I can outline some of the opportunities that we will be exploring over the year ahead and learning from our global central banking peers.

- *Domestic monetary policy and liquidity management operations.* Earlier this year, the Network for Greening the Financial System (NGFS) published a report with a range of options for central banks to consider in terms of adapting their monetary policy operational frameworks to reflect climate-related risks.[13] At the very least, the NGFS states that central banks: 'should carefully assess, and where appropriate adopt, additional risk management measures to protect their balance sheets against the financial risks brought about by climate change' ('protective measures'). There is also opportunity for central banks to take a step further to ensure their balance sheet operations actively support the transition to a low carbon economy and to ensure smooth monetary policy transmission over the long term ('proactive measures'). At Te

[12] Reserve Bank of New Zealand: Our climate change strategy.

[13] Network for Greening the Financial System (2021): Adapting central bank operations to a hotter world: Reviewing some options.

Pūtea Matua, we will be considering what adjustments we can make to our liquidity operations – including eligible collateral and pricing – to mitigate our own financial risks and to contribute to the development of the sustainable finance market over time.

- *Foreign reserves management.* For a long time, central banks have focused on their core objectives of liquidity and safety when determining the strategic asset allocation of their foreign reserves portfolios. Going forward, like many of our peers, we see an opportunity to incorporate sustainable and responsible investment practices into our investment framework. We have already incorporated an element of 'impact investing' into our reserves portfolio, by investing US$100 million in the Bank for International Settlements' US dollar Green Bond Fund in 2019. But we intend to take a more holistic view in our upcoming review of our strategic asset allocation by considering the expanding universe of investment opportunities that will allow us to optimally combine our liquidity, safety and sustainability objectives (figure 7). We acknowledge that this investment universe will widen as liquidity in the sustainable finance market develops globally, and we have a role to play in supporting this market development. A 'best in class' strategy would involve assessing the climate impact at all stages of decision-making in the investment process (figure 7; RHS). To this end, high quality data will be critical.

Figure 7. Stylised objectives hierarchy for foreign reserves management

Overall, we aim to help facilitate a smooth transition to a low-carbon, climate-resilient economy. Globally, we will continue to work with the NGFS and the Sustainable Insurance Forum to share and learn from our peers. Domestically, we will continue to work with the Council of Financial Regulators and the Sustainable Finance Forum – with our Assistant Governor Simone Robbers on the Leadership Group – to support the transition to a climate-resilient, sustainable economy. To measure success, it's critical that all financial institutions can measure their starting point and progress, and in that regard we are pleased to see the Financial Sector Climate-related Disclosures Bill having been introduced to Parliament in April. This will require around 200 organisations to report on their climate-related financial risk, and implements the Government's promise to introduce the world's first mandatory climate risk reporting regime. Last year we started reporting our own carbon footprint in our Annual Report and we will improve these calculations as we work with suppliers and external experts to improve the data underpinning it. We are also developing an emission reduction plan and assessing the emissions from our sovereign bond portfolio.

Implications and risks

Reflecting on where we have come from and where we are heading, it's important to spend time thinking about lessons learned as well some of the potential implications and risks that will need to be carefully considered and managed in the future.

A broader suite of monetary policy tools adds complexity to operations and transmission channels

As we expanded our monetary policy tool set last year, it was critical to understand the complexities and connections between different policy tools and existing operational frameworks, and to be agile in the face of changing circumstances. For example, the significant increase in liquidity in the banking system from the LSAP programme and other operations meant that we had to change our approach to liquidity management to ensure short-term interest rates traded close to the OCR.[14] Also, as we increased our ownership of the NZ Government bond market through the LSAP programme, there was an increase in demand from market participants to borrow bonds through our Bond Lending Facility to meet settlement obligations. We adjusted the pricing on this facility to lower its effective cost, and increased our operations to support market functioning.

Acknowledging that more tools adds complexity, we tried to keep instrument design and operations as simple as possible. To this end, our guiding principles for considering monetary policy tools (effectiveness, efficiency, financial system soundness, operational readiness, and public balance sheet risk) helped the MPC make a case to deploy its tools at various stages over the past year. These principles will likely remain the backbone of the MPC's decision-making framework for some time to come.

The deployment of new tools can face significant communication challenges

It is generally more difficult to communicate the impact of balance sheet tools than the OCR, as the current and future policy stance of these new tools cannot be accurately expressed using a single measure. There is also greater uncertainty around the impact of balance sheet tools. This can lead to reputational risk and reduce policy effectiveness (e.g. the 'expectations channel' is weakened if policy actions and tools are not well understood).

In addition to our regular *Monetary Policy Statements*, we have published a number of speeches, information boxes and website explainers to increase awareness of our broader range of policy tools. Simple and clear communication will become even more important if we move to recalibrate some of these tools in the future, or potentially introduce other tools such as a negative OCR.

A larger and more complex balance sheet creates risks that need to be well understood and managed

In the past, the financial risks associated with traditional central bank functions such as monetary policy implementation and lender of last resort have been relatively low, given the collateralised nature of lending at typically a short duration. As we have expanded our operational tool set to include outright purchases of assets, longer-term lending and 'market maker of last resort', we are exposed to increased risks that need to be well understood and

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[14] Hawkesby (2020): COVID-19 and the Reserve Bank's Balance Sheet. See also: https://www.rbnz.govt.nz/news/2020/03/the-reserve-bank-is-committed-to-ensuring-smooth-market-functioning

managed.[15] As noted in the introduction, our priority is to not minimise risk, but rather maximise our ability to meet our policy objectives without *undue* risk – whether that be legal, financial, operational or reputational risk. As our balance sheet evolves into the future, our risk appetite framework will remain a key anchor.

Broad engagement with our stakeholders is critical to achieve our objectives

We significantly expanded our market intelligence programme in 2020 to ensure we had a diverse range of views to inform our understanding of market developments and to ultimately design effective policy responses.

Our engagement with external stakeholders will only become more important over time as our financial markets develop and adapt to the challenges and opportunities of the future. We are in the process of reviewing our market intelligence programme to ensure it is future-focused and we have the diversity of relationships to support our objectives. For example, we will need to listen and learn from private sector participants who are on the frontier of sustainable finance, to ensure we are doing everything within our mandate to support an orderly transition to a low carbon economy. And as acknowledged by Christian Hawkesby in his recent speech, The Future is Māori, we want to develop our relationships with iwi and Māori authorities to learn and incorporate their long-term, intergenerational and sustainable approach to decision making.[16]

Conclusion

We have lived through an unprecedented health and economic crisis over the past year. As a central bank, we have used our balance sheet flexibly to deliver a significant amount of stimulus to the New Zealand economy to support growth, inflation and financial stability.

Our balance sheet has expanded rapidly alongside the innovation required to meet our policy objectives. We expect our balance sheet to remain large for some time to come. We have observed significant improvements in domestic and global financial market conditions over the year, and we have been pleased to remove some of our temporary liquidity facilities as a result. That said, we continue to monitor market conditions closely and stand prepared to respond in the future if needed.

As we emerge from the COVID-19 crisis, the innovation and evolution of our balance sheet will continue as we support our broad set of monetary policy and financial stability objectives, including the urgent challenges and risks posed by climate change. Our risk appetite framework will continue to guide our decisions about how we use our balance sheet.

We look forward to continuing to engage with you and other financial market participants as we design a balance sheet that best serves the needs of all New Zealanders into the future.

Nō reira,

Tēnā koutou, tēnā koutou, tēnā koutou katoa.

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[15] A separate point worth noting is that although the Reserve Bank's balance sheet has increased substantially, this partly reflects a shift within the overall Crown balance sheet. The overall effect on the consolidated Crown balance sheet of the LSAP programme has been to reduce private sector holdings of longer-term government bonds, in exchange for increased holdings of overnight settlement cash at the Reserve Bank.

[16] Hawkesby (2021): The Future is Māori.

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