

Briefing for the Incoming Minister on the Reserve Bank of New Zealand – December 2016

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Overview of the Reserve Bank of New Zealand

The Reserve Bank manages monetary policy to maintain price stability, promotes the maintenance of a sound and efficient financial system, and supplies New Zealand banknotes and coins.

Role and accountability

- To achieve these outcomes, the Bank's functions cover: monetary policy formulation; financial market operations; macro-financial stability; prudential supervision; settlement services; and currency operations. These functions, the outcomes that the Bank targets, and the measures used to evaluate performance are described in the Bank's *Statement of Intent* and *Annual Report*.
- Appendix 3 details the significant powers and responsibilities of the Minister of Finance, the Reserve Bank, and the Reserve Bank Board, under the Reserve Bank Act 1989, the Anti-Money Laundering and Countering Financing of Terrorism Act 2009, the Insurance (Prudential Supervision) Act 2010, and the Non-Bank Deposit Takers Act 2013.
- Section 9 of the RBNZ Act requires that the Minister shall fix, in agreement with the Governor, policy targets for monetary policy. This is required whenever a Governor is re/appointed. Also, the Minister and Governor may "from time to time" review or alter the PTA. Any alterations must be recorded, tabled at the Board, and gazetted.
- The Reserve Bank keeps the Minister and the Treasury informed on the economic outlook, policy developments and other significant matters affecting the Bank. We provide regular briefings on the economy ahead of each *Monetary Policy Statement*. We meet regularly with the Minister and Treasury, providing information and seeking the Minister's input, on proposed regulatory policy developments. Under the *Memorandum of Understanding on Macro-Prudential Policy (MOU)* the Bank is required to keep the Minister and Treasury informed about its thinking on macro-prudential policy developments, and to consult the Minister prior to any decision to deploy macro-prudential policy instruments. We provide copies of our on-the-record speeches to your office 1-2 days prior to delivery and inform you confidentially (by telephone) of our OCR decision and accompanying statement an hour before it is released.

Funding

- The Bank has a Five-year Funding Agreement with Government. The current Funding Agreement covers the five-year period ending 30 June 2020, and provides funding of \$69.5 million for 2016/17.

Environment and Major policy initiatives

Monetary policy

- Appendix 1 provides a copy of a speech delivered on 8 December, covering the Bank's most recent view of the New Zealand economy and implications for monetary policy.
- In many respects, the economy is performing well. The economic expansion is in its eighth year. Our November 2016 *Monetary Policy Statement* forecasts show annual real GDP growth of around 3¾ percent over the next 18 months, with inflation approaching the mid-point of the target band, the unemployment rate continuing to decline, and the current account deficit remaining within manageable levels. The low point for CPI inflation has probably passed. Supported by the improvement in global commodity prices in recent months, we expect the December quarter 2016 CPI data to confirm that annual CPI inflation is moving back within the 1 to 3 percent target band.
- House price inflation in Auckland has softened in recent months but it is uncertain whether this will be sustained. House price to income ratios in the region remain among the highest in the world and prices are continuing to rise rapidly in the rest of the country. There is a significant risk of further upward pressure on house prices so long as the imbalance between housing demand and supply remains.
- In the absence of major unanticipated shocks, prospects look good for continued strong growth over the next 18 months, driven by construction spending, continued migration, tourist flows, and accommodative monetary policy. Supply disruptions associated with the Kaikoura earthquake are unlikely to have a major impact on overall economic growth, while some increase in freight costs and construction cost inflation is likely.
- The greatest threat to the expansion lies in possible international political and economic developments and their implications for the global trading environment. The main domestic risk – and one that could be triggered by developments offshore – is a significant correction in the housing market. Numerous measures indicate that New Zealand house prices are significantly inflated relative to usual valuation indicators.
- The Bank lowered the Official Cash Rate to an historic low of 1.75 percent in November and indicated that monetary policy will continue to be accommodative. As has been the case in several other countries, monetary policy has been made more challenging in New Zealand by low global inflation and zero or negative policy rates in several major economies. This has put downward pressure on our interest rate structure and contributed to asset price inflation and upward pressure on the New Zealand dollar. This trend may finally be turning.
- At this stage, global and domestic developments do not cause us to change our view on the direction of monetary policy as outlined in the November *MPS*. We expect monetary policy to continue to be accommodative, and that the projected policy settings will help generate sufficient growth to have inflation settle near the middle of the target range. The next Official Cash Rate decision is scheduled for the 9 February 2017 *Monetary Policy Statement*.

Prudential supervision and regulation

Background

The Bank provides the Minister with regular six-monthly reviews of its planned regulatory policy work programme. These reports provide information on ongoing work priorities, with a view to identifying any areas for further discussion, or where a 'chew' session would be helpful.

Major Policy Initiatives

The table below lists the major policy initiatives where work has started or will start in the next six months, and their relative priority for the Bank. This list does not include business-as-usual supervisory activities, model approvals, minor, technical or low priority initiatives, or our engagement with other government agencies.

Project	Sector	Development Stage	Minister previously informed?	Priority to RBNZ
1 Outsourcing	Banks	Advanced	Yes	High
2 IMF FSAP	All	Advanced	Yes	High
3 Capital Review	Banks	In progress	Yes	Medium
4 Stress Testing	Banks	Advanced	Yes	Medium
5 Debt-to-income	Banks	In progress	Yes	Medium
6 FMI Oversight Framework	FMI	In progress	Yes	Medium
7 Dashboard	Banks	In progress	Yes	Medium
8 Bank crisis management	Banks	Advanced	Yes	Medium
9 IPSA review	Insurers	In progress	Yes	Medium

Appendix 2 provides some background on each of the projects listed in the table above.

Next Steps and Follow-up

Please let us know if you would like additional information about any of the issues raised in this report. We would be happy to discuss the report with you.

Other key Reserve Bank initiatives

- The Bank operates payment and settlement systems that require significant investment and substantial upgrades over the next few years. Following a strategic review, the Bank decided that it must continue to own and operate a Real-Time Gross Settlement System (RTGS), as it is central to the financial system and the Bank's statutory functions. The Bank investigated divesting NZ Clear, its Central Securities Depository (CSD) system, but opted to retain the business after a divestment process unearthed no compelling commercial bids. The Bank is currently working with SIA Perago to develop replacement solutions for the RTGS and CSD systems, in consultation with the banking and securities trading industry users of the systems.
- The Bank has initiated a Building Occupancy Programme to enable the Bank to raise revenue and help live within its Funding Agreement. The programme encompasses the leasing of three floors currently occupied by the Bank and two floors that will be vacated by a tenant in 2019. The programme is on schedule.
- The Bank is reviewing its currency operating model and supporting infrastructure to ensure that the currency needs of New Zealanders will be met in the future. The review is considering a number of options for the custody and distribution of currency. The Bank will consult and collaborate with key stakeholders during 2016-17 to ensure that the review's recommendations are understood, supported and developed to viable implementation plans.

Bank communications

- In 2016, the Bank has delivered 121 presentations around New Zealand, of which 15 have been on-the-record speeches. It introduced a regular comprehensive stakeholder engagement survey to measure stakeholders' familiarity with and trust in the Bank.

Governance matters

- Dr Rod Carr will step down from the Bank's Board of Directors when his term ends in July 2017. A recruitment process has begun. It is important that this position be filled to ensure that the Board has sufficient skilled members to review the Bank's performance in carrying out monetary policy and other functions.
- Governor Graeme Wheeler's term expires on 25 September 2017.

Governance

Board of Directors

Board Member	Appointed	Term-end date	Region
Non-executive			
<i>Chair:</i> Prof Neil Quigley	1 February 2010	31 January 2020	Hamilton
<i>Deputy Chair:</i> Kerrin Vautier CMG	9 February 2010	8 February 2020	Auckland
Dr Rod Carr	16 July 2012	15 July 2017	Canterbury
Bridget Coates	1 October 2013	30 September 2018	Auckland
Jonathan Ross	12 August 2013	11 August 2018	Auckland
Keith Taylor	1 July 2009	30 June 2019	Wellington
Tania Simpson	16 July 2014	15 July 2019	Hamilton
Executive			
Graeme Wheeler	Governor	25 September 2017	

The Board meets nine times a year, mostly in Wellington.

The Reserve Bank Act provides:

- Considerable day-to-day operational autonomy to the Bank;
- An important role for the Minister of Finance in some key decisions; and
- An accountability structure involving the Board, the Minister, and Parliament.

Please see Appendix 3 for a full description of where significant powers under the Reserve Bank of New Zealand Act, Anti-Money Laundering and Countering Financing of Terrorism Act, Insurance (Prudential Supervision) Act and the Non-Bank Deposit Takers Act lie.

Section 53 of the RBNZ Act specifies the Board's duties, among other things, as being to:

- (a) keep under constant review the performance of the Bank in carrying out—
 - (i) its primary function [monetary policy]; and
 - (ii) its functions relating to promoting the maintenance of a sound and efficient financial system; and
 - (iii) its other functions under this Act or any other enactment;
- (b) keep under constant review the performance of the Governor in discharging the responsibilities of that office;
- (c) keep under constant review the performance of the Governor in ensuring that the Bank achieves the policy targets agreed to with the Minister;
- (d) determine whether policy statements made pursuant to section 15 [*Monetary Policy Statements*] are consistent with the Bank's primary function and the policy targets agreed to with the Minister;
- (e) keep under constant review the use of the Bank's resources.

Section 53 also specifies that the Board may provide advice to the Governor on any matter relating to the performance of the Bank's functions and the exercise of its powers.

The Board's Audit Committee reviews the Bank's financial statements and internal and external audit activity. Each year, the Board writes an assessment of the Bank's and the Governor's performance, which is provided as advice to the Minister of Finance and made public later in the Bank's *Annual Report*. A quarterly update is provided by the Board, reflecting the Minister's interests as expressed in a Letter of Expectations to the Board.

Organisational structure

The Bank's functions are generally conducted within departments, although a number of functions are managed across different departments, either by committees or through cross-department project management. The main committees are:

- **Governing Committee**

The Governing Committee is responsible for all major economic and financial policy decisions taken by the Reserve Bank. The committee comprises the Governor, Deputy Governors and Assistant Governor, and is chaired by the Governor.

Membership

- Graeme Wheeler – Governor
- Grant Spencer – Deputy Governor and Head of Financial Stability
- Geoff Bascand – Deputy Governor and Head of Operations
- Dr John McDermott – Assistant Governor and Head of Economics

- **Senior Management Group**

The Senior Management Group provides leadership to the organisation and oversees the operational policy and direction of the organisation, and ensures there is co-ordination between the policy and support departments.

Membership

Governing Committee plus

- Toby Fiennes – Head of Prudential Supervision
- Stephen Gordon – Head of Currency, Property and Security
- Mike Hannah – Head of Communications, Board Secretary
- Bernard Hodgetts – Head of Macro-Financial Stability
- Patrick Hoerler – Head of Risk Assessment & Assurance
- Lindsay Jenkin – Head of Human Resources
- Mark Perry – Head of Financial Markets
- Klarissa Plimmer – Chief Information Officer
- Mike Wolyncewicz – Chief Financial Officer, Financial Services

- **Monetary Policy Committee**

The Monetary Policy Committee assesses economic conditions and issues relating to the formulation and implementation of monetary policy. It advises the Governors on setting the OCR and currency intervention. It oversees delivery of the Bank's *Monetary Policy Statement*.

- **Macro-financial Committee**

The Macro-financial Committee monitors and communicates risks to financial system stability. It recommends on the macro-prudential policy framework and instruments and the deployment of those instruments. It analyses the efficiency of the financial system. It oversees delivery of the Bank's *Financial Stability Report*.

- **Financial System Oversight Committee**

The Financial System Oversight Committee oversees developments in, and gives recommendations on strategic initiatives for, prudential regulation and supervision of the financial system.

- **Assets and Liabilities Committee**

The Assets and Liabilities Committee oversees the management and development of the Bank's balance sheet, including foreign reserves, capital, funding, interest rate, currency and liquidity management policies and the systems and processes used to manage those positions and policies.

- **Communications Committee**

The Communications Committee agrees on the Bank's Communications Strategy, monitors its progress, identifies key stakeholders, agrees key messages, and confirms major engagements. It agrees content and timing for public communications, other than the *MPS* and *FSR*, which are determined in other committees.

Please see the latest *Statement of Intent* for further details of governance and organisational structure.

APPENDIX 1



Some thoughts on New Zealand's Economic Expansion

A speech delivered to Development West Coast in Greymouth

On 8 December 2016

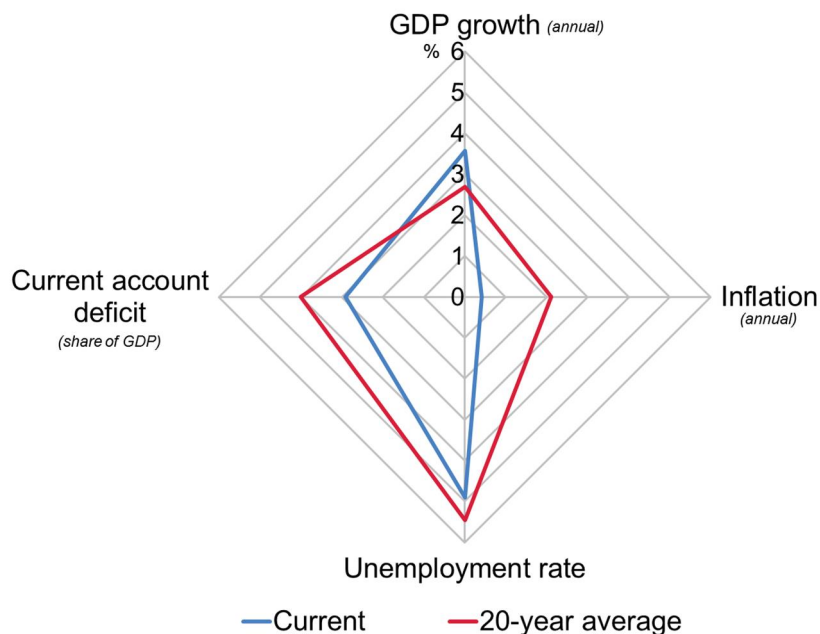
By Graeme Wheeler, Governor

1. Introduction

Thank you for inviting me to meet with you again. It's always a pleasure to be here and exchange views on how the economy is performing.

In many respects the economy is performing well. Relative to the trends over the past two decades, we are experiencing stronger economic growth, lower inflation, and a lower unemployment rate - even with record levels of labour force participation. And the Achilles heel of many New Zealand expansions – a large current account deficit – has not eventuated (figure 1).

Figure 1: Summary Macro-economic Indicators relative to trend



Source: Statistics New Zealand

Economists are well known for their two-handed assessments, and it won't surprise you if I mention that not everything is as positive. The overall expansion, now entering its eighth year, is weaker than other post-WWII expansions. GDP growth on a per capita basis has been slow and labour productivity growth has been disappointing. House price inflation is much higher than desirable and poses concerns for financial stability, and the exchange rate is higher than the economic fundamentals would suggest is appropriate.

New Zealand is not alone in encountering these challenges. Most of the advanced economies and several emerging market economies are experiencing weaker than normal

expansions and slow labour productivity growth. Several are experiencing high house price inflation. In a world of weak trade growth and rising protectionism, many would prefer to have a more competitive exchange rate.

I will return to some of these issues in discussing:

- some of the characteristics of the current expansion,
- the prospects for continued expansion and the key economic risks we face, and
- the role that monetary policy can play going forward.

2. Characteristics of New Zealand's Current Economic Expansion

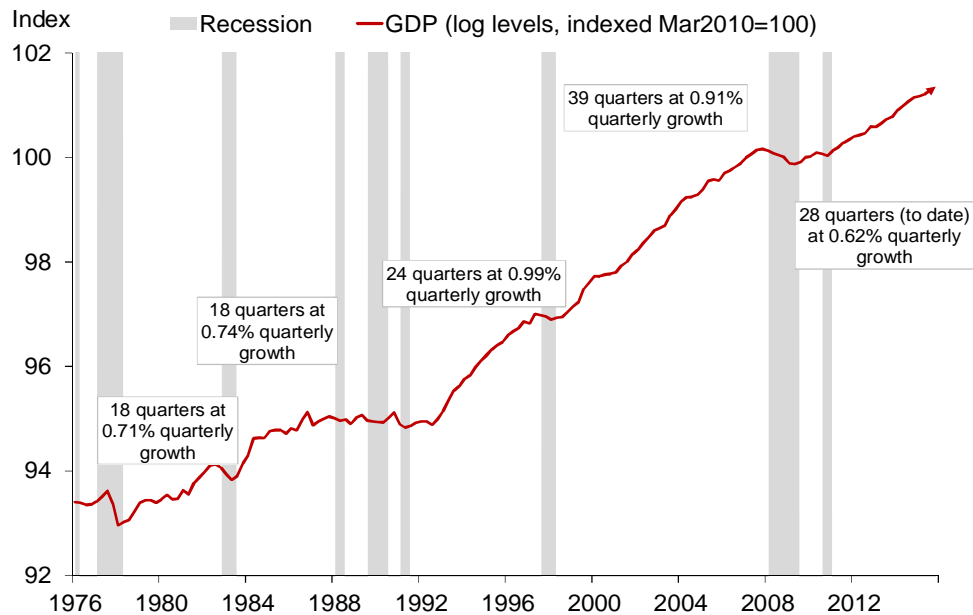
i) The expansion has taken place in a difficult global economic climate

Global economic growth in 2015 and 2016 is around 3 percent – the weakest since 2009 and below its long-term average of 3¾ percent, despite unprecedented global monetary stimulus and a major decline in oil prices. Global trade, normally a catalyst for the global economy, remains weak. Merchandise trade growth over the past five years has been the slowest since the early 1980s, and protectionist measures in G20 countries and elsewhere are on the rise. Economies are grappling with the spillovers from unconventional monetary policies and heightened political uncertainty has also been making households and businesses more cautious.

ii) The current expansion is longer, but also weaker than previous expansions

At 28 quarters, the current economic expansion is the second longest in the past 40 years. Annual real GDP growth has averaged 2½ percent during the expansion, making it the weakest expansion during that time. Over the past year however, annualised GDP growth has accelerated to a little over 3½ percent (figure 2).

Figure 2: Real GDP growth over New Zealand business cycles



Source: Statistics New Zealand, RBNZ. Recessions are defined as two or more consecutive quarters of negative quarterly growth.

iii) The drivers of the expansion have changed

Initially the expansion was driven by improving terms of trade (which improved steadily from September 2009 and reached a 40-year high in June 2014), growing trade with China under the Free Trade Agreement, and the stimulus from the 575 basis point decline in the official cash rate (OCR) between mid-2008 and mid-2009.

Increased construction investment, initially linked to Canterbury earthquake reconstruction, and the strong surge in migration and tourism have offset the effects of the 8 percent fall in the terms of trade since mid-2014 and contractionary fiscal policy since 2012. Monetary policy continues to be accommodative with the OCR remaining well below the estimated neutral interest rate, which is currently just below 4 percent.

These factors continue to be the main drivers of the expansion, although Canterbury reconstruction is no longer a contributing factor.

iv) Record migration, record tourism, and historically high labour force participation

In annual terms, net immigration has been the strongest since 1860. Net permanent and long-term migration of 172,000 working age people has increased the labour supply by 5 percent since 2012. Annual potential GDP growth has more than doubled to around 2.9 percent from its 2010 trough of 1.2 percent, primarily because of this labour force expansion.

Private consumption is being boosted by the strong growth in migration, record tourist inflows and the 11¼ percent increase in employment over the past 3 years. At 70.1 percent, the labour force participation rate is at an all-time high and the second highest among the advanced economies after Iceland.

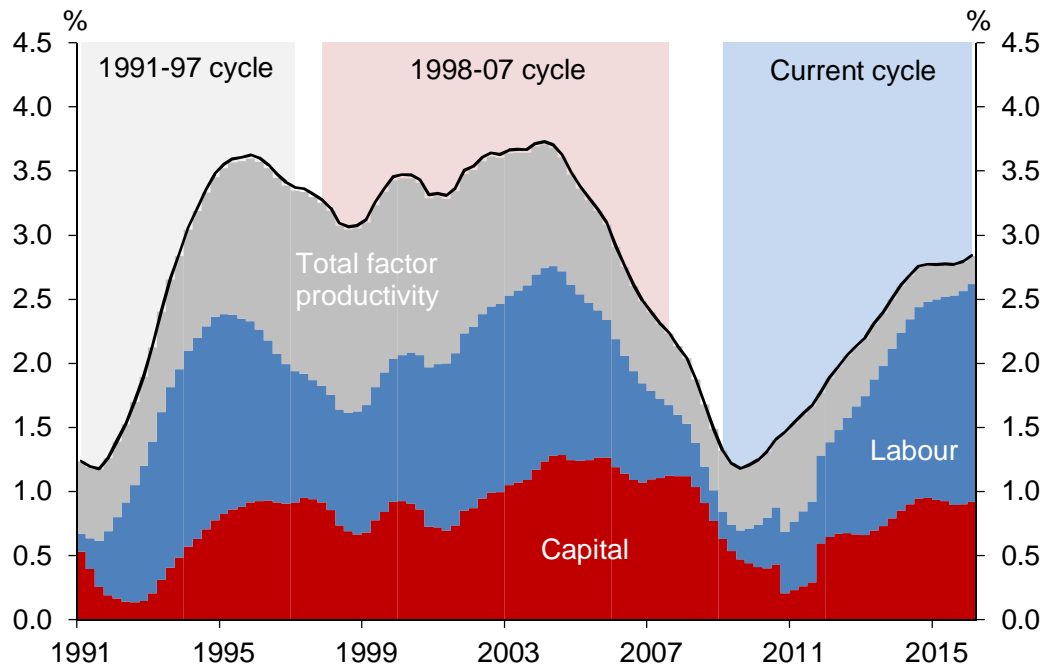
v) Labour productivity growth has been particularly weak

New Zealand's trend rate of labour productivity growth is in the bottom third of OECD countries. There are many reasons for this including: distance from markets; size of the domestic market; small size of most New Zealand firms; limited participation in global value chains; and lower volumes of capital per worker. But, as with most of the advanced economies, labour productivity growth has been below its historical trend in the current expansion.

In the advanced economies, the decline in labour productivity growth is due to a slowdown in the growth of investment per hour worked (reduced capital deepening) and lower total factor productivity growth (TFP).¹ In New Zealand, the slowdown in labour productivity growth is mainly due to the reduced contribution from TFP – the average contribution of TFP to potential output growth in the current cycle has been less than half that of the previous two cycles (figure 3 – TFP is a measure of how efficiently and intensively other factors of production are being utilised).

¹ Furman, J (2015) 'Productivity Growth in the Advanced Economies: The Past, the Present, and Lessons for the Future'. Remarks delivered to the Peterson Institute of International Economies, July 9, 2015.

Figure 3: Contribution to annual potential GDP growth in recent business cycles



Source: RBNZ estimates

vi) The economic impact of high migration has been different from earlier cycles

Migration inflows affect aggregate demand and supply in the economy. In earlier cycles the short-term demand impacts (in terms of spending and inflationary pressures) tended to dominate the effect of increased labour supply in raising potential output in the economy. Earlier periods of sizeable migration inflows, such as 2001–3, were quite quickly reflected in capacity and price pressures, and a strong pick-up in house price inflation.

House price inflation has been accentuated by the strong migration inflows in the current cycle, but the impact on consumer price inflation has been weaker than anticipated. This more muted impact on spending is likely due to the higher proportion of younger cohorts in the migrant flows, and the fact that many migrants are returning from a weaker labour market in Australia and may be more cautious in their spending.^{2 3}

² Vehbi, T (2016) 'The macroeconomic impact of the age composition of migration', RBNZ analytical note, AN2016/03.

vii) The impact of wealth effects on private consumption has been weaker in the current cycle

Growth in real consumption per capita has averaged 1.6 percent pa in the current economic cycle – about ½ percentage point below the post-1993 average growth rate of 2.1 percent, despite the rapid increase in housing wealth. Although there are recent indications that per capita consumption is increasing, the lower propensity to consume out of household wealth and the increase in household saving have contributed to weaker than expected inflation. This more cautious consumer behaviour may reflect a reassessment of the ‘permanency’ of capital gains from household assets, and greater caution about the level and durability of future income growth.⁴

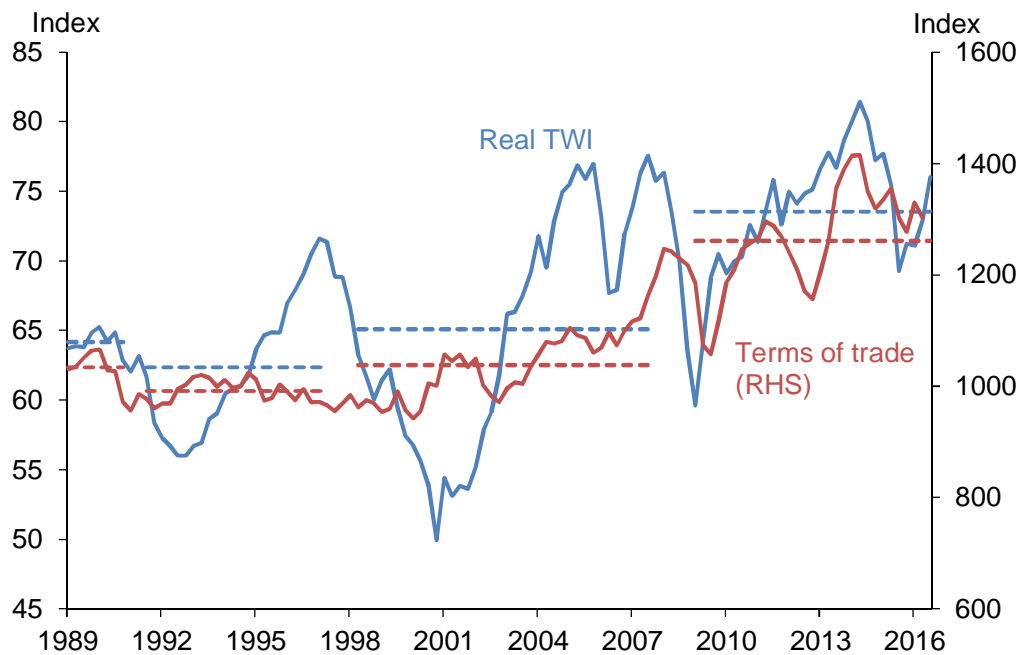
viii) New Zealand’s terms of trade and the real exchange rate have been higher in this cycle

Global commodity prices were on a downward trend from early 2012 and fell sharply after mid-2014. They began to pick up early this year. New Zealand’s terms of trade began falling in the second half of 2014, but the real effective exchange rate has generally remained high reflecting New Zealand’s higher economic growth and interest rates and the positive investment climate here compared to many other advanced economies. Figure 4 shows the average real effective exchange rate and average terms of trade during the past three domestic expansions.

³ Armstrong, J and McDonald, C (2016) ‘Why the drivers of migration matter for the labour market’. RBNZ analytical note AN2016/02.

⁴ Bascand, G (2016) ‘Changing Dynamics in Household Behaviour: What do they mean for Inflationary Pressures?’ Sir Leslie Melville Lecture: A speech delivered to Australian National University in Canberra, Australia, 22 November, 2016

Figure 4: New Zealand's Terms of Trade and Real Exchange Rate

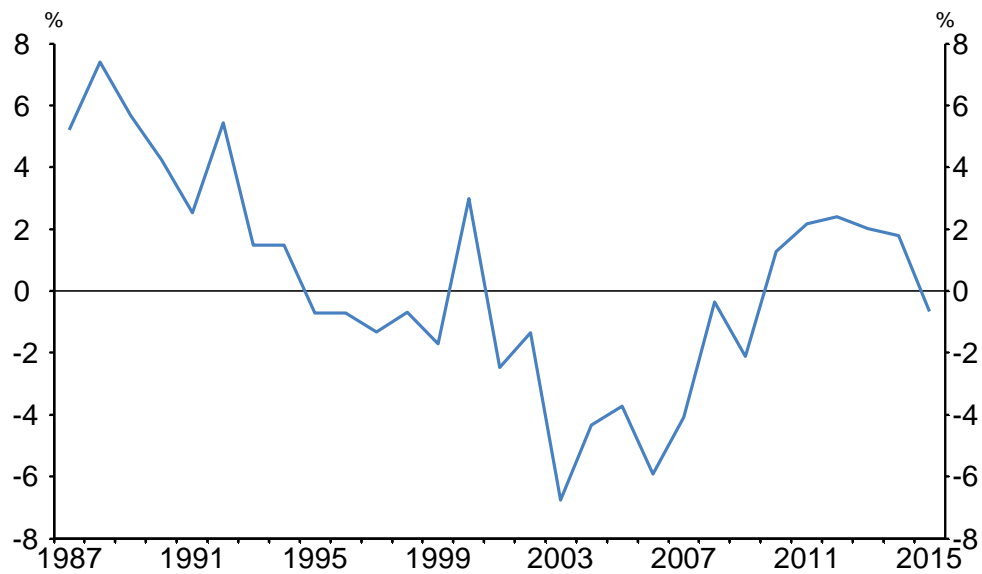


Source: Statistics New Zealand, RBNZ estimates. The real effective exchange rate is a measure of competitiveness that adjusts the nominal effective exchange rate by correcting for differences in relative inflation rates (or relative unit labour costs) between New Zealand and its major trading partners.

ix) The recovery in household savings is reflected in an improved current account position and lower external debt ratios

New Zealand's household net savings rate improved by 8 percentage points in the period 2008 to 2013 (from minus 6 percent to positive 2 percent of household disposable income (figure 5)). Over this period, New Zealand's overall savings rate (ie including savings by the business and public sectors) increased by around 5 percentage points, and this has been an important factor behind the improvement in New Zealand's ongoing current account deficit and the decline in net external liabilities as a share of GDP (this ratio has declined from 84 percent of GDP in 2009 to around 63 percent of GDP currently).

Figure 5: Household net saving rate (percent of disposable income)



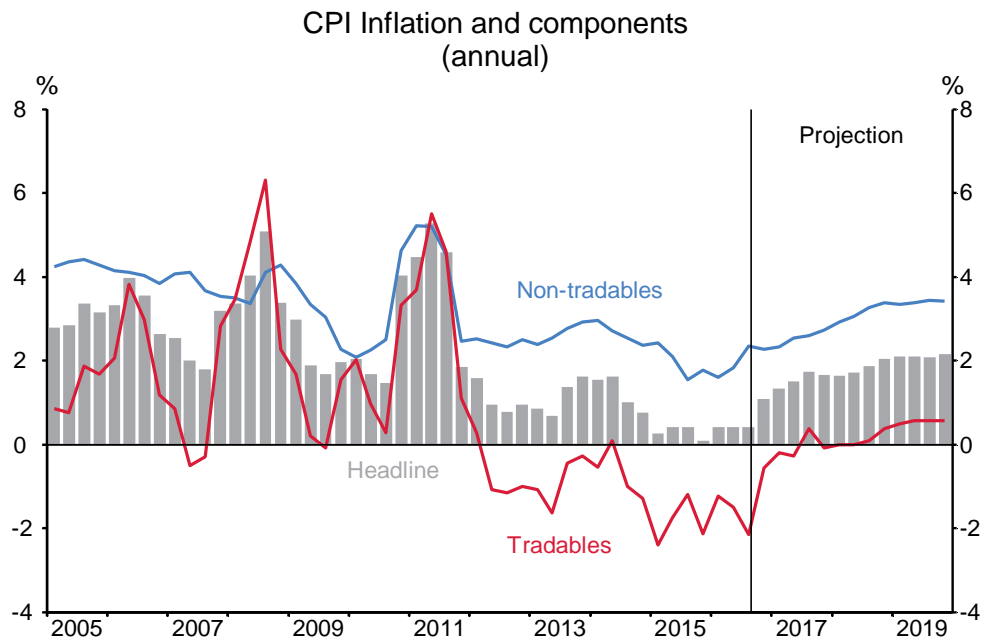
Source: Statistics New Zealand

x) The period of negative tradables inflation has been very long

Over the past five years, annual CPI inflation has averaged 1.1 percent. During this period, inflation in the tradables sector (those industries exposed to international competition) has been negative – averaging minus 0.8 percent annually, compared to positive 1.2 percent in the prior two decades. This means that pricing outcomes in the tradables sector have been a drag on inflation, lowering annual CPI inflation, on average, by around 0.4 percent (figure 6).

While relative prices continuously adjust to market forces, New Zealand is unlikely to have experienced such a prolonged period of falling tradables inflation since the Great Depression. Declining tradables prices reflect the combined impact of the global over-supply of manufactured and capital goods, falling technology costs, weak commodity prices, and the appreciation in the New Zealand dollar exchange rate.

Figure 6: Traded goods inflation has been negative for five years



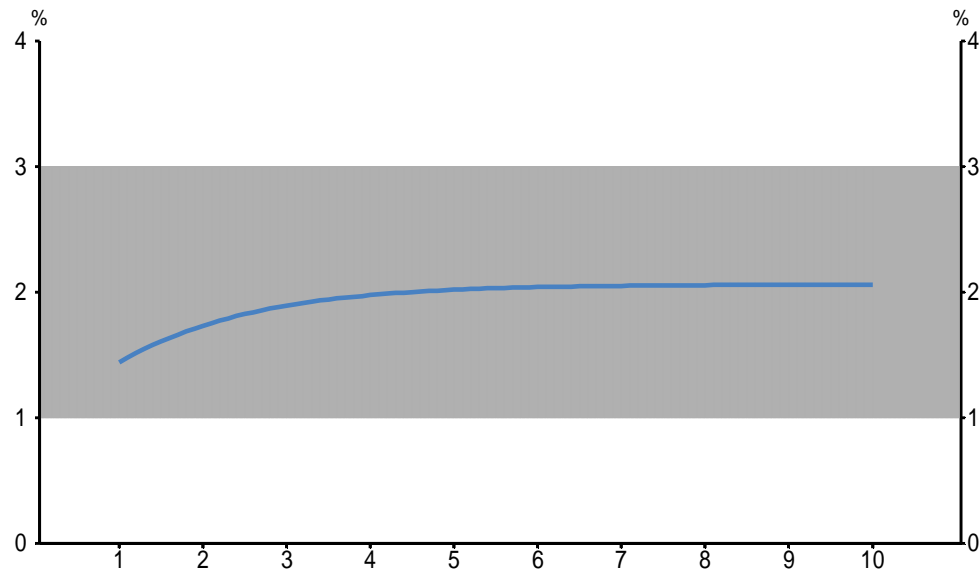
Source: Statistics New Zealand, RBNZ

xi) Long-run inflation expectations have remained anchored at 2 percent

A positive feature of the current expansion is how longer-term inflation expectations have remained well-anchored at the mid-point of the Reserve Bank's target range (figure 7). This is despite low headline inflation that has pulled down short-term inflation expectations, and some evidence that inflation expectations respond to past inflation outcomes more than before the GFC (ie, they have become more adaptive and less forward-looking).⁵

⁵ Karagediki, O and McDermott J (2016) Inflation expectations and low inflation in New Zealand', RBNZ discussion paper, DP 2016/09.

Figure 7: Inflation Expectations Curve (annual, by number of years)⁶



Source: RBNZ

3. Prospects for Continued Economic Expansion

In the absence of major unanticipated shocks, prospects look good for continued strong growth over the next 18 months, driven by construction spending, continued migration, tourist flows, and accommodative monetary policy. Our November 2016 MPS forecasts show annual real GDP growth of around 3¾ percent over the next 18 months, with inflation approaching the mid-point of the target band, the unemployment rate continuing to decline, and the current account deficit remaining within manageable levels.

Historically, expansions in small open advanced economies come to an end due to one or more factors:

- global economic growth weakens or slows in major trading partners and affects the terms of trade and export growth;
- a major domestic policy correction is needed to address a deteriorating fiscal or current account deficit;

⁶ Lewis, M (2016) 'Inflation Expectations Curve: a tool for monitoring inflation expectations', RBNZ analytical note, AN2016/01.

- long-term interest rates rise significantly in response to offshore movements triggered by higher inflation expectations and/or increased risk premia in major economies. Alternatively, domestic short-term rates may need to rise sharply to moderate inflation pressures associated with growing supply and demand imbalances.

The main risks to the current expansion lie with future developments in the global economy, and a deterioration in the imbalances in the domestic housing market.

i) Global risks

On the downside, the main risks are:

- the Euro-area economy remains subdued or deteriorates, with consumer and business confidence affected by developments relating to Brexit, migration and anti-globalisation sentiment;
- the incoming US Administration follows through on pre-election rhetoric relating to trade barriers, and abandons or renegotiates existing trade agreements;
- economic growth in China slows following a period of financial disruption linked to the very rapid build-up in corporate (mainly SOE) debt over the past 7 years, and a rising level of bad debts in the formal and shadow banking sectors.

The main upside risk is that the US economy in 2017 grows more rapidly than the 2 - 2¼ percent growth currently projected by the IMF, OECD and BIS, due to substantial personal and corporate tax cuts and a large increase in infrastructure spending (with no major moves to raise trade barriers).

ii) Risks in the domestic housing market

Numerous measures indicate that New Zealand house prices are significantly inflated relative to usual valuation indicators.

IMF data show that New Zealand had the third highest real increase in house prices among 64 countries in the year to June 2016.⁷ New Zealand also had the greatest deterioration in the median house price to median income ratio of 31 advanced countries in the period 2010 to mid-2016.⁸ OECD data indicates that, relative to their long-term averages, New Zealand has the highest house-price-to-rent ratio, and the second highest house-price-to-income ratio among the OECD economies.⁹

Several cross-country studies have assessed the economic implications of housing market downturns. This research tends to show that almost half of the housing booms end in a bust, with downturns lasting around four to six years¹⁰. In addition, soft landings in the residential investment cycle are rare, with most collapses leading to protracted falls in private consumption and investment, especially construction investment.¹¹

Even though it is too early to be sure, there are some indications that house price inflation in Auckland and other regions may be moderating. This may be a result of the increase in loan-to-value restrictions, higher funding costs being experienced by banks, and tighter credit criteria being applied by banks in connection with financing apartment development and house purchases by offshore residents.

4. Monetary Policy Considerations

We enter 2017 with considerable political and economic uncertainties. These include: the policies of the incoming US Administration – particularly in regard to fiscal policy and trade policy; the UK Government's strategy in triggering Article 50 and how the European Community will respond; the build-up of corporate debt and rising bad debts in the Chinese banking system; the nature of the future political and economic relationships between the US, China, Japan and Russia; and the possible outcome of important upcoming elections in Western Europe. Central banks monitor

⁷ IMF, November 2016 'Global Housing Watch'.

⁸ IMF, November 2016 'Global Housing Watch'.

⁹ OECD, 2016 'Focus on House Prices', and Global Economic Outlook, June 2016.

¹⁰ Bordo, M and Jeanne, O (2002) 'Monetary Policy and Asset Prices : Does Benign Neglect make Sense', IMF working paper WP/02/223, IMF World Economic Outlook 2003.

¹¹ Reinhart, C and Rogoff, K (2008) 'This Time is Different – Eight Centuries of Financial Folly' (Princeton University Press). IMF World Economic Outlook 2003.

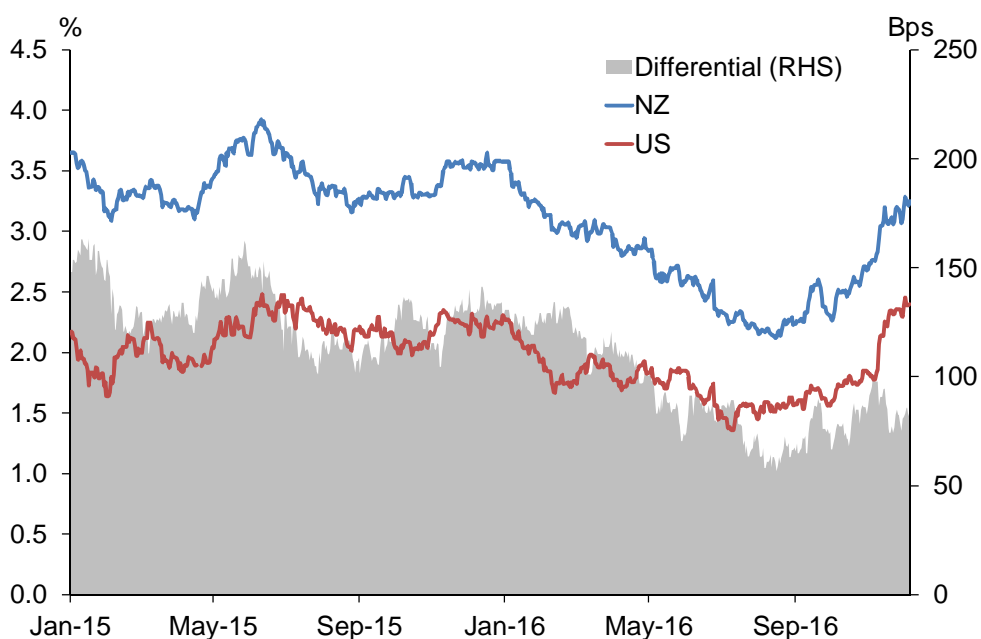
these developments carefully, and their impact on business and consumer sentiment and asset prices.

New Zealand's economy has been growing faster than potential output for five years, and the Bank's forecasts suggest that we now have a small positive output gap. Long-term inflation expectations remain well-anchored at around 2 percent and short-term inflation expectations have been rising slowly. The low point for CPI inflation has probably passed and, supported by the improvement in global commodity prices in recent months, we expect the December quarter 2016 CPI data to confirm that annual CPI inflation is moving back within the 1 to 3 percent target band.

The central interest rate projections contained in the November *Monetary Policy Statement (MPS)* indicated that the OCR is likely to remain at its current level for some time. These projections are highly conditional and based on a range of key assumptions that relate to: trading partner GDP growth and inflation; developments in oil and dairy prices; exchange rate adjustment; migration and house price inflation; and judgements as to how the latter two factors might affect spending and CPI inflation. Different outcomes from those assumed in the *MPS* could imply a different policy path. In the *MPS* we assessed the overall balance of risks to be on the downside.

Since the US election there have been important global and domestic developments. Ten-year bond yields in the US have risen by 50 basis points and the US real effective exchange rate has appreciated by almost 5 percent and reached a 14-year high as financial markets assess the implications of a possible large fiscal stimulus for economic growth, inflation and the level of outstanding US government debt. Ten-year government bond yields have increased by 40 basis points in New Zealand (figure 8).

Figure 8: 10 Year Government bond yields



Source: Bloomberg, RBNZ

The factors behind the rise in US rates have increased market expectations that the Federal Reserve will raise policy rates at its meeting on 13-14 December 2016, and tighten more rapidly in 2017.

Prospects of stronger growth in the US and the resulting spillovers through trade, commodity prices and relative exchange rate movements should be positive for New Zealand and a welcome development from a monetary policy perspective. However, while the 5 percent appreciation in the US dollar in recent weeks is helpful for New Zealand exporters, the TWI currently lies above its level in June 2015, despite the terms of trade being 6 percent lower and seven reductions in the OCR.

As has been the case in several other countries, monetary policy has been made more challenging in New Zealand by low global inflation and zero or negative policy rates in several major economies. This has put downward pressure on our interest rate structure and contributed to asset price inflation and upward pressure on the New Zealand dollar. This trend may finally be turning.

Another major change is the 7.8 strength Kaikoura earthquake. Early indicators are that reconstruction work, including by government, could be in the order of \$3 – \$8 billion, or around 1-3 percent of GDP. This is much smaller than the \$40 billion associated with Canterbury reconstruction, and would occur at a time when the

domestic economy is at or near full capacity. The supply disruptions are unlikely to have a major impact on overall economic growth. Some increase in construction cost inflation is likely as this is already running at 7.9 percent in Auckland and 6.3 percent nationally due to capacity bottlenecks within the sector. Increases in freight costs are also expected.

At this stage these developments do not cause us to change our view on the direction of monetary policy as outlined in the November *MPS*. We expect monetary policy to continue to be accommodative, and that the projected policy settings will help generate sufficient growth to have inflation settle near the middle of the target range.

5. Conclusion

Expansions in small open advanced economies often come to an end because of developments in the global economy that are transmitted through the terms of trade, long-term interest rates and the exchange rate.

At this stage, the prospects for a continuation of New Zealand's economic expansion with above-trend growth, strong employment and rising inflationary pressures look promising. The main domestic risk (and one that could be triggered by developments offshore) is a significant correction in the housing market. At this stage, however, the greatest threat to the expansion lies in possible international political and economic developments and their implications for the global trading environment.

APPENDIX 2 REGULATORY POLICY PROGRAMME

Project 1: Outsourcing
Stage: Advanced

Problem definition

The Reserve Bank's outsourcing policy aims to ensure that a bank has the legal and practical ability to control and execute outsourced functions, such that it can continue to provide basic banking services (e.g. liquidity, payment and transaction services) if one of its service providers fails or becomes dysfunctional, or if the bank itself or an overseas parent of the bank fails. This is important to ensure that the impact of the failure of a bank, or a service provider, on the wider financial system and economy is minimised and to preserve options, such as Open Bank Resolution (OBR), for the resolution of large bank failures.

The Reserve Bank has reviewed the outsourcing policy and undertaken two rounds of consultation. There are two main reasons why the outsourcing policy has been revisited. First, in 2014 the Reserve Bank undertook a stocktake of the operation of the outsourcing policy and found that the policy was not being consistently applied by banks. Second, the Reserve Bank would like to update the outcomes of the outsourcing policy in a failure situation to better support OBR.

The review of the policy led to substantial lobbying by some banks. We have had numerous meetings with banks at a senior and working level, and a 'chew' session with the former Minister of Finance. Earlier briefings are contained in report numbers 5040, 5085 and 5128.

Efficiency and innovation impacts

The Bank has revised its consultation policy proposals with a view to reducing compliance cost concerns raised by banks, while still meeting its policy objectives. The focus is very much on ensuring that New Zealand capability exists to keep a bank operating in the event of a crisis, at least for the provision of basic banking services. Our proposed revised policy should give banks plenty of scope to adopt innovative outsourcing solutions to harness efficiency and quality benefits associated with outsourcing. Non-bank submitters, including internationally active IT service providers, were generally very supportive of the policy proposals, noting that they were in line with other regulators' requirements.

Progress of work

We plan to release soon our final policy decisions, the summary of submissions, and our regulatory impact statement. In January 2017, we intend to release an exposure draft (which will provide the precise details of the policy) for consultation.

Project 2: IMF's 2016 Financial Sector Assessment Programme (FSAP)
Stage: Advanced

Problem definition

The IMF has recently completed the second of two 'missions' as part of its review of the quality of financial sector regulation and supervision in New Zealand, conducted under the auspices of their FSAP. The IMF will publish their findings and recommendations in 2017 (likely April/May). Most of the Reserve Bank's financial system-related functions have been assessed. This assessment included: two graded benchmarking exercises against the international standards for the banking and insurance sectors; an evaluation of current proposals to improve the oversight of financial market infrastructures (FMIs); an assessment of the Reserve Bank's macro-prudential policy framework; and a review of the crisis management and resolution framework. A stress-testing exercise assessing the resilience of the banking system was also undertaken.

The other area of focus of the FSAP has been a review of the Financial Markets Authority's (FMA) role as New Zealand's market conduct regulator.

Policy options

New Zealand authorities have received all the draft findings and recommendations from both FSAP missions. A briefing note from the inter-agency FSAP Steering Group (comprising the FMA, MBIE, RBNZ and the Treasury) was sent to the previous Minister of Finance and other relevant Ministers on 30 September summarising the results of the August mission. Separately, the previous Minister of Finance has been apprised of the implications of the FSAP findings for the FMI and crisis governance work streams.

A briefing note for you and other relevant Ministers is currently being prepared summarising the outcomes of the overall assessment from the two missions.

Withheld. OIA section 6(b)(ii) and 9(2)(ba)(i)

The inter-agency Steering Group will submit a Cabinet paper to Ministers in late February/March outlining their high-level response to the IMF's findings and recommendations. In addition, the Reserve Bank will be reporting to you directly on how any decisions to respond to the various recommendations will influence policy and supervisory development over the short to medium term. The Reserve Bank and other members of the inter-agency Steering Group will work with your Office to help prepare a formal statement in response to the publication of the FSAP report(s). Separately, the Reserve Bank will be responding publicly through speeches and/or *Bulletin* articles.

Project 3: Capital review
Stage: In progress

Problem definition

We are reviewing whether banks hold an adequate level of capital, and whether individual banks hold capital that is a true reflection of the risks they are exposed to.

The Reserve Bank sets and measures minimum capital requirements for banks, mainly according to the global Basel standards.

The current capital requirements have not changed significantly for some years. In the interim, there have been changes in international and domestic circumstances, and in views about the appropriate level of capital.

The international context for a review includes the Financial System Inquiry (FSI) in Australia and numerous proposals by the Basel Committee for Banking Supervision (BCBS) to change the capital adequacy framework.

Policy options

Policy options are yet to be determined. Options could include adopting proposed changes to the Basel standards, although consideration is likely to be given to a broader range of options. Capital requirements are measured relative to risk-weighted assets. We will consider the definition of capital (what counts as capital and what does not), how to calibrate risk-weighted assets, and the overall capital requirement.

Efficiency and innovation impacts

Higher aggregate capital requirements reduce the likelihood of banking crises and promote efficiency. At the same time, there is some evidence that very high capital requirements would increase the costs of borrowing and potentially reduce investment and economic growth.

Project 4: Stress testing
Stage: Advanced

Problem definition

Banks are required to consider how their institution would handle severe macroeconomic downturns ('stress-testing') as part of determining that they are adequately capitalised. The Reserve Bank emphasises bank-run tests (other regulators obtain very detailed data from banks and place more emphasis on the results they calculate themselves).

The Reserve Bank investigated the methodologies major banks used to undertake stress-testing in late 2014, and found scope for improvement. An important example is that some banks based their stress tests on short datasets that did not include a period of significant stress, and did not appear to communicate the uncertainties associated with this when reporting results.

Objectives

The key objective is to raise confidence in the banking system by promoting good practices and increasing the stress-testing capability of the New Zealand banks, and helping to ensure good capital management within the banks.

The initial focus is on the major banks, but we aim to work more with the smaller banks when resources permit.

Policy options and progress

The Reserve Bank has published a stress-testing guide after consulting the major banks. We will now monitor progress and continue to ask the major banks to run stress tests based on scenarios we design at least annually. Focused tests of key portfolios (like the recent dairy lending test) have also provided valuable information and have promoted best-practice model development.

Recently, the Bank has worked with the IMF FSAP team to conduct stress tests of the New Zealand banking system. The results of the stress tests indicate that solvency and liquidity of the banking system can withstand adverse and severe shocks, although the banks would need to significantly cut back their lending. The major banks also conducted a 'reverse' stress test, where they identified adverse scenarios that would lead to a breach of minimum capital requirements. These exercises will be published as part of the New Zealand FSAP in 2017, and we will keep working with the banks on further testing and process improvements in 2017.

Efficiency and innovation impacts

A sound and resilient financial system is a necessary precondition for efficiency. Stress-testing also has resource costs. The Reserve Bank aims to mitigate these by working where possible in conjunction with APRA (since APRA requires stress-testing of New Zealand assets when the parents are tested, and by encouraging banks to use analytical tools for stress-testing that also give them useful business and risk management intelligence, rather than treating it as a 'compliance activity'.

Project 5: Debt-to-income
Stage: In progress

Problem definition

New Zealand mortgage borrowers are able to borrow amounts that are substantial multiples of income. Debt-to-income (DTI) ratios as high as 8 have been observed for owner-occupiers. Investors can borrow at even higher DTI ratios, which is logical as they tend to have higher incomes and their tax is reduced through interest cost deductions. These origination policies of the banks are aggressive by international comparison – in the UK speed limits on high DTI loans have been established for lending above 4.5 times income with Ireland at 3.5. The Bank believes that high DTIs in New Zealand increase the risk of a severe boom-bust cycle in house prices, which would have negative consequences for homeowners if they are unable to service their mortgage in a bust and cannot readily find a buyer.

Options and proposal

The Reserve Bank has Loan-to-Value ratio limits in place, but believes that, if further policy tightening is needed, DTI restrictions are likely to be a more efficient way to target the remaining risk. A DTI 'speed limit' like the UK's or Ireland's could be imposed if the housing market remains severely imbalanced. The Bank suggests making this one of the available tools in the MOU on Macro-Prudential Policy. This would involve the Minister of Finance and Governor signing a revised MOU. The Bank would then consult Treasury and the Minister if it considered housing market conditions made imposing DTIs limits appropriate. The Bank would like to discuss this issue further with you.

Alternative policy responses could include raising bank capital requirements (but this would not eliminate the consequences of a downturn for homeowners or the macroeconomy) or writing a more prescriptive set of 'guidelines' on mortgage origination practice (as has been done by the Australian regulator in APRA's APG 223). In the Bank's view, guidelines are unlikely to be effective in the absence of more intensive supervision and monitoring.

Efficiency and innovation impacts

The Reserve Bank considers that banks do not internalise the risks facing mortgage borrowers in a severe downturn. If many borrowers are forced to sell, the housing market becomes dysfunctional: house prices fall further, many households sharply reduce consumption, and it becomes difficult to sell by choice (e.g. to move cities for a new job). Banks take losses but these are only a portion of the wider economic consequences. By limiting the 'cyclicality' of lending practices, a DTI can lead to a more efficient mortgage market. DTIs have been imposed in several other countries in response to rapid credit growth and house price appreciation in the current very low interest rate environment.

Project 6: FMI oversight framework
Stage: In progress

Problem definition

Financial Market Infrastructures (FMIs) can be subject to a number of market failures:

- **Negative externalities:** The scale of transactions handled by FMIs and their inherent interconnectedness with the financial system make the potential knock-on effects of failure large and far reaching¹². As an FMI does not bear all of the costs of its own failure, it may have insufficient incentive to appropriately manage the risks.
- **Co-ordination issues:** FMIs will focus on their own costs and benefits, potentially producing sub-optimal outcomes from a broader public interest perspective. For example, free-riding on co-ordination initiatives may result in under-investment in common technology or shared resources.
- **Anti-competitive practices:** FMIs will often have quasi-monopolistic characteristics, potentially giving rise to club behaviour such as restricting system access.

The impact of market failure will be greatest for systemically important FMIs (SIFMIs), whose service disruption or failure could threaten the functioning of the financial system.

Options and Proposal

Following three rounds of consultation over 2013-16, a final proposal for an enhanced FMI oversight regime was published in December 2015 (augmented by a specific crisis management framework in early 2016). The proposed framework would promote financial stability by giving the Reserve Bank and FMA (the 'joint regulators') powers to:

- gather information from any regulated FMI;
- set prudential requirements for SIFMIs, and use a range of graduated investigation and enforcement powers to incentivise compliance;
- exercise certain crisis management powers on SIFMIs – including powers of direction, or recommending an FMI be placed into statutory management – to ensure continuity of critical services during stress or failure.

No Cabinet decisions have yet been sought on these matters; this is expected in early 2017, followed by an exposure draft in mid-2017.

Efficiency and innovation impacts

The proposals are designed to ensure that regulatory interventions are proportionate (by being focused on SIFMIs), and compliance costs minimised (through the use of principles-based requirements that allow individual FMIs to design the most efficient means of compliance) so as to avoid adverse impacts on efficiency and innovation. The proposals may also promote financial system efficiency by giving the joint regulators stronger powers to encourage wider access arrangements and support co-ordination initiatives in shared infrastructure or technology.

¹² New Zealand's retail payment system, SBI, handles about \$4 billion of transactions per day, while the interbank payment system, ESAS, handles about \$25 billion of transactions per day.

Project 7: Dashboard approach to quarterly disclosure
Stage: In progress

Problem definition

Late in 2015 the Reserve Bank completed its regulatory stocktake of the prudential requirements for banks and non-bank deposit takers. The aim of the stocktake was to improve the efficiency, clarity and consistency of the prudential requirements for banks and NBDTs. As part of the stocktake, the Bank looked closely at the disclosure requirements for banks. Effective disclosure is critical to market discipline, which is a key pillar in the Reserve Bank's approach to prudential regulation.

The Bank found that, while public disclosures made by banks under the prudential regime largely achieve their objective, some of these disclosures could be made in a more timely, accessible and comparable manner, which in turn would enhance market discipline. The Bank believes that a new 'Dashboard' approach to quarterly disclosure will provide these benefits, and possibly at a lower cost to banks.

Policy options and progress

- The Dashboard is one high-level option for changing the existing disclosure regime. While there are a number of different options around the specific design and content, the proposed Dashboard is envisioned to provide a side-by-side comparison of locally-incorporated banks according to key metrics (such as credit ratings) hosted on the Reserve Bank's website and updated quarterly with a reduced time lag.
- An alternative high-level option for changing the existing disclosure regime would be to scale back the content of off-quarter disclosure statements to summary capital and asset quality disclosure, along the lines of that specified for off-quarters in Pillar 3 of the Basel framework. This alternative approach is not the Reserve Bank's preferred option as we believe the Dashboard will better promote market discipline.

The Bank undertook a public consultation that closed on 15 December 2016. We expect to make a decision on whether to adopt the Dashboard in Q1 2017. The timing of possible implementation will need to align with the redevelopment of our registered bank monthly balance sheet data collection (the Standard Statistical Return), which is expected to be completed early in 2017.

Efficiency and innovation impacts

The proposed Dashboard is likely to have positive efficiency and innovation impacts, especially from the perspective of the consumer. In particular, it could encourage greater analysis of disclosures made by banks, and encourage new ways of carrying out this analysis and presenting it to depositors and the broader market. Compliance costs would be kept to a minimum as the Reserve Bank proposes to draw largely on information that banks already prepare or will have to report to us privately.

Project 8: Bank crisis management [redacted]
(a) [redacted] Withheld. OIA section 9(2)(f)(iv)
(b) [redacted]

Stage: In progress

Problem definition

The current regulatory and supervisory framework is based around a non-zero but low probability failure event. However, bank failures, particularly systemic failures, can significantly affect not just the stability of the financial system, but also the real economy and the fiscal position. It is therefore important that there is a robust framework in place to manage any failures that occur. The Open Bank Resolution (OBR) policy is an important element of that framework and seeks to ensure that the overall costs of failure are managed, and that those costs fall to the shareholders and creditors of the failed institution in the first instance rather than taxpayers.

[redacted]

[redacted]
[redacted]
[redacted] Withheld. OIA section 9(2)(f)(iv)
[redacted]
[redacted]

[redacted] Withheld. OIA sections 6(b)(ii) and 9(2)(ba)(i) and 9(2)(f)(iv)
[redacted]

[redacted] Withheld. OIA section 9(2)(f)(iv)
[redacted]

[redacted] Withheld. OIA sections 6(b)(ii) and 9(2)(ba)(i) and 9(2)(f)(iv)
[redacted]
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[redacted] Withheld. OIA section 9(2)(f)(iv)
[redacted]
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Project 9: IPSA review
Stage: In progress

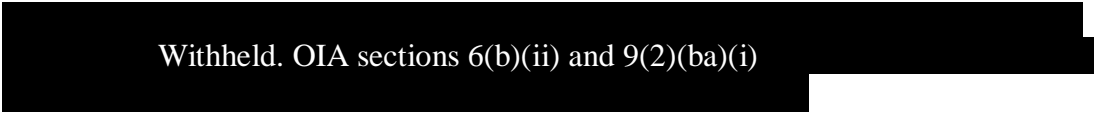
Problem definition

The Insurance (Prudential Supervision) Act (IPSA) was passed in 2010 with the legislative purpose to:

- promote the maintenance of a sound and efficient insurance sector; and
- promote public confidence in the insurance sector.

The Reserve Bank has initiated a comprehensive review of IPSA. The Terms of Reference were released in April 2016 following consideration by Cabinet [EGI-16-MIN-0018; CAB-16-MIN-0072].

The Reserve Bank considers that the current legislative purposes of IPSA remain appropriate. However:

- there are a number of areas where the legislative framework could be reviewed with a view to enhancing cost-effective regulation and supervision, and minimising compliance costs, while maintaining a sound and competitive insurance sector;
-  Withheld. OIA sections 6(b)(ii) and 9(2)(ba)(i)
- industry participants have raised areas of potential concern with the current legislative framework or its application; and
- the Reserve Bank has previously advised Cabinet that it would undertake a comprehensive review of IPSA once operational experience had been gained with the Act.

Options and proposal

The focus of the work to date has been on problem identification. An *Issues Paper*, setting out the areas identified to date and seeking stakeholder comment, is being prepared for release in the first quarter of 2017. This will be followed by extensive stakeholder engagement as identified issues are assessed and policy proposals developed over 2017/2018.

Efficiency and innovation

The review will consider ways in which the legislative framework may be amended to reduce unnecessary compliance and administrative costs and avoid inappropriate barriers to innovation, whilst maintaining an appropriate balance with the policy objectives of a sound and efficient insurance sector and public confidence in the insurance sector.

SIGNIFICANT POWERS AND FUNCTIONS UNDER THE RESERVE BANK OF NEW ZEALAND ACT 1989

SECTION	POWERS	GOVERNOR	BOARD	MINISTER	CABINET (ORDER IN COUNCIL)	OTHER PROCEDURES
5	Powers of Natural Person	✓				
9	Determine Policy Targets	Agree		Agree		Gazette and tabled in House
12	Change Monetary Policy Objective			Decide	Required	Gazette and tabled in House
16	Dealing in Foreign Exchange	✓				
17	Direct Foreign Exchange Intervention			Decide		
18/20	Fix Foreign Exchange Rates	May refuse		Decide	Required	
22	Suspend Foreign Exchange Trading	✓		To be advised		
24	Level of Foreign Reserves			Determine		
25	Issue Currency	✓				
26	Call in Currency	✓		Consent		
32	Settlement Account Services	✓				
34	Government Banking	Agree		Agree		
35	Registry Services	✓				
39	General Powers	✓				
40	Appointment of Governor		Recommend	Appoint		
43/45	Appointment/Removal of Deputy Governor	Recommend	Appoint/Remove			
49	Removal of Governor		May Recommend	Decide	Required	
63	Fees & Expenses of Directors		May Recommend	Decide		
73	Register Banks	✓				Gazette
74	Conditions of Registration	✓				
77	Deregister Banks	Recommend		Decide		Gazette
81	Public Disclosure Statements	Recommend		Decide	Required	
99	Bank may appoint Investigator	✓				

SIGNIFICANT POWERS AND FUNCTIONS UNDER THE RESERVE BANK OF NEW ZEALAND ACT 1989

SECTION	POWERS	GOVERNOR	BOARD	MINISTER	CABINET (ORDER IN COUNCIL)	OTHER PROCEDURES
113	Give Directions to Banks	✓		Consent		
116	Approve sale of registered bank's business to third party, bypassing need for regulatory consent	✓		Consent		
117	Statutory Management	Recommend		Decide	Required	
119	Advisory Committee	Recommend		Decide		Gazette
123	Vest assets and liabilities of branch bank in newly incorporated company.	Recommend		Decide	Required	
132	Statutory manager may transfer bank in statutory management's assets to a newly incorporated company.	Receive consultation		Consent		
144	Terminate Statutory Management	Recommend		Decide	Required	
149	Advance to Statutory Management			Consent		
156ZA	Bank may decide application for designation by payments system.	Recommend		Decide	Required	Co-Regulator with FMA
156ZC	Bank may disallow proposed amendment to rules of a designated settlement system.	✓				Co-Regulator with FMA
156ZH	Bank may independently begin review of settlement system.	✓				
159/160	Determine funding for the Bank.	Agree		Agree		Parliament ratifies
162	Surplus Income (Dividend).	Recommend	Advise	Decide		
167	Require performance audit.			Decide		Tabled in House

SIGNIFICANT POWERS AND FUNCTIONS UNDER THE ANTI-MONEY LAUNDERING AND COUNTERING FINANCE OF TERRORISM ACT 2009

SECTION	POWERS	GOVERNOR	BOARD	MINISTER	CABINET (ORDER IN COUNCIL)	OTHER PROCEDURES
131/132	<p>Monitor and assess the level of risk of money laundering and the financing of terrorism across all of the reporting entities that it supervises:</p> <p>Monitor the reporting entities that it supervises for compliance with this Act and regulations, and for this purpose to develop and implement a supervisory programme:</p> <p>Provide guidance to the reporting entities it supervises in order to assist those entities to comply with this Act and regulations:</p> <p>Investigate the reporting entities it supervises and enforce compliance with this Act and regulations:</p> <p>Co-operate through the AML/CFT Co-ordination Committee (or any other mechanism that may be appropriate) with domestic and international counterparts to ensure the consistent, effective and efficient implementation of this Act.</p> <p>The Bank has powers as necessary to carry out the above functions.</p>	✓				

SIGNIFICANT POWERS AND FUNCTIONS UNDER THE INSURANCE (PRUDENTIAL SUPERVISION) ACT 2010

SECTION	POWERS	GOVERNOR	BOARD	MINISTER	CABINET (ORDER IN COUNCIL)	OTHER PROCEDURES
19	Bank may grant a licence.	✓				
21(2)	Conditions of licence.	✓				
30	Cancel a licence.	✓				
36	Issue fit and proper standards.	✓				Gazetted and tabled in House
38	Bank may remove directors or relevant officers from appointment.	✓				
49	Approve or refuse any amalgamation or portfolio transfer.	✓				
55	Issue solvency standards.	✓				Gazetted and tabled in House
108	Bank may bring High Court action to recover losses for policyholders.	✓				
121	Require insurer to supply information.	✓				
130	Bank may appoint investigator.	✓				
143	Bank may give directions to insurer or associated person.	✓				
151	Apply to High Court for liquidation.	✓				
152	Apply to High Court to reduce value of contracts of insurance.	✓				
153	Apply to High Court for voluntary administration.	✓				
154	Approve appointment of voluntary liquidator.	✓				
155-168	Participate in the liquidation of an insurer.	✓				
170	Statutory Management.	Recommend		Decide	Required	
183	Sales of insurer business by statutory manager require approval.	Receive Consultation		Consent		

SIGNIFICANT POWERS AND FUNCTIONS UNDER THE INSURANCE (PRUDENTIAL SUPERVISION) ACT 2010

SECTION	POWERS	GOVERNOR	BOARD	MINISTER	CABINET (ORDER IN COUNCIL)	OTHER PROCEDURES
185	Vest assets and liabilities of branch insurer into newly formed company.	Recommend		Decide	Required	
191	Values of contracts of insurance may be reduced.	Recommend		Decide	Required	
197	Termination of Statutory Management.	Recommend		Decide	Required	
237/238	Recommend making of regulations, including the jurisdictions being prescribed for exemptions available under certain provisions.	Recommend		Decide	Required	

SIGNIFICANT POWERS AND FUNCTIONS UNDER THE NON-BANK DEPOSIT TAKERS ACT 2013

SECTION	POWERS	GOVERNOR	BOARD	MINISTER	CABINET (ORDER IN COUNCIL)	OTHERS
14	Bank may grant a licence.	✓				
18	Conditions of licence.	✓				
21	Cancel a licence.	✓				
43	Consent to change of ownership.	✓				
44	Require trustee to attest to licensed NBDT's compliance.	✓				
47	Require information from licenced NBDT.	✓				
48	Require information from associated person.	✓				
49	Require reports for investigatory purposes.	✓				
50	Require trustee to provide information about licensed NBDTs.	✓				
51	Production and search powers when offence suspected.	✓				
56	Bank may direct licensed NBDTs or associated persons.	✓				
57	Bank may direct trustees.	✓				
60	Bank may appoint or remove directors of licensed NBDTs.	✓				
70	Bank may exempt NBDTs from requirements under the Act or regulations.	✓				
73	Recommend regulations for capital, liquidity, related party and credit ratings.	Recommend		Decide	Required	