Reserve Bank of New Zealand
Te Pūtea Matua

Briefing for the Incoming Minister

He Whakamārama mō te Minita Whakauru

27 November 2023 | Whiringa ā-rangi 2023

Contents

Executive summary
Whakarāpopototanga Tāpae

The Reserve Bank of New Zealand – Te Pūtea Matua acts to promote the prosperity and well-being of New Zealanders as kaitiaki (guardians) of our financial system. We do this by pursuing our price stability, financial stability and central bank objectives and functions.

The Reserve Bank is a 'full service' central bank, meaning we have a wide mandate that spans monetary policy, financial stability, cash operations, and financial markets infrastructure. When compared to other jurisdictions, it is clear that the Reserve Bank fulfils a wider mandate than many of our international comparators or counterparts. Please refer to Appendix 1 for a comparison of central bank functions and responsibilities.

The Reserve Bank is operating in a complex and challenging economic environment, with significant inflationary pressures domestically and internationally, together with labour shortages, and ongoing geopolitical and climate disruption.

There are risks of further inflationary shocks, global economic slowdown, and volatility in financial markets. These risks can put upward pressure on near-term inflation and mean higher for longer interest rates globally, higher unemployment and strains on debt servicing and asset prices.

New Zealand's financial system is well placed to handle both the current adjustment to higher interest rates and more severe economic scenarios. Banks and non-bank deposit takers (NBDTs) face significant regulatory change over the coming years as we work to create a single deposit takers regime under the Deposit Takers Act 2023 (DTA). In addition, some NBDTs are facing ongoing challenges, raising questions about the sustainability of some current business models.

While insurers' solvency positions remain robust, some are facing profitability challenges, particularly general insurers where recent weather events have resulted in increasing reinsurance and operational costs. This combined with more granular use of risk-based pricing may result in increased costs and reduced access to insurance for some customers, and a rise in underinsurance.

The Reserve Bank is sufficiently capitalised and prepared for many of these eventualities, including the necessary coordination between monetary and prudential functions. However, extreme circumstances could still have repercussions for the Crown balance sheet. Processes are in place to engage with the Minister of Finance on a 'no surprises' basis.

A great deal of work is required to understand the implications of the recent domestic and global disruption, and associated policy responses, for macro-economic stability in New Zealand. Monetary and fiscal policy coordination is critical for our small, open economy. It is vital that the Reserve Bank and the Treasury – Te Tai Ōhanga continue to work closely together to support the country's recovery following the COVID-19 pandemic.

We look forward to engaging with the Minister of Finance on our key issues and 'in flight' projects, as described below.

Monetary policy

Reducing consumer price inflation back to within our 1 to 3 percent target range is a key priority. Our central projection is for lower inflation over the medium-term, with modest rises in unemployment and stressed loans.

Monetary Policy Committee Remit

The current approach of flexible inflation targeting with a medium-term focus remains the most appropriate framework for New Zealand. The dual mandate has not made a material difference to policy decisions. With or without a dual mandate the impacts of labour market developments will remain relevant to monetary policy formulation. However, our recent Monetary Policy Committee (MPC) Remit review did conclude that giving the inflation objective a higher priority than the employment objective would be beneficial in improving the credibility of the inflation target.

Review and Assessment of the Formulation and Implementation of Monetary Policy

In November 2022, the Reserve Bank published its Review and Assessment of the Formulation and Implementation of Monetary Policy (RAFIMP)[1]. This report covers the period 2017 to 2022. The RAFIMP was compiled by Reserve Bank staff, with input and review from external reviewers and MPC members and was overseen by the Board. Key findings included that our formulation and implementation of monetary policy was consistent with the objectives set out in the MPC Remit. There were nine areas identified for improvement (see below). These lessons and areas of focus have fed into an extensive work programme that informs our policy design, our capability building and our research agenda.

LSAP programme and IMF review

The International Monetary Fund (IMF) assessed the fiscal implications of the Reserve Bank's Large Scale Asset Purchase programme (LSAP) aimed at mitigating adverse macroeconomic effects of COVID-19. The IMF's conclusion was that the LSAP had a positive fiscal outcome due to increased tax revenues and lower debt servicing costs, which more than off-set the effect of lower central bank profits, even when taking into account the earlier than expected monetary policy normalisation[2].

Financial stability

Our Financial Stability Report for November 2023[3] highlighted the risks and pressures on New Zealand's financial system, businesses and households from the current inflationary and high interest rate environment.

Resilient economic activity and employment have meant the financial strains from higher interest rates have been limited so far both in New Zealand and in other advanced economies. However, the full impact of previous tightening in monetary policy is still to be seen. There are pockets of vulnerabilities amongst the most-indebted households and business sectors (e.g. dairy and commercial property in New Zealand), and we expect a moderate rise in defaults over the next year. A more severe deterioration in economic conditions remains a possibility.

1 See rbnz.govt.nz/monetary-policy/about-monetary-policy/rafimp
2 See Annex IX of the IMF 2023 Article IV Consultation, IMF Country Report No. 23/309 (July 2023)
3 See https://www.rbnz.govt.nz/financial-stability/financial-stability-report

Overall, our view is that New Zealand's financial system is resilient, and banks have made good progress towards the higher capital requirements coming in by 2028. As such, the system is well placed to handle potential external shocks and a downturn in the economy, as shown by our recent stress tests. The report also highlights challenges facing some small deposit takers, as well as recent supervisory and policy developments.

Regulatory and supervisory approach

We are devoting significant resource to the profound ongoing shift in our approach to regulating and supervising our regulated population – 27 registered banks, 16 licensed non-bank deposit takers, 87 licensed insurers, 5 designated financial market infrastructures and 68 reporting entities supervised under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT Act).

- Implementation of the DTA, including the development of Standards, is a multi-year project that will create a single, coherent regulatory regime for all deposit takers (both banks and non-bank deposit takers), with new inspection and enforcement powers, and a framework for managing and resolving a deposit taker in distress.
- We have been working towards having the key elements of the Depositor Compensation Scheme (DCS) in place by late 2024. The decision as to when to commence the scheme is a decision for the Government, as the scheme is commenced through regulation. Depositors will be eligible for compensation of up to $100,000 per depositor, per institution. This will strengthen New Zealand financial system's safety net and bring New Zealand better into line with international practices. Implementation of the DCS will mean that we will become kaitiaki of individual financial information for the first time and we will need to ensure that our systems support and protect this information appropriately.
- In conjunction with the Financial Markets Authority (FMA), work is progressing to re-designate five financial market infrastructures (FMIs) by 1 March 2024, when the Financial Market Infrastructures Act 2021 (FMI Act) comes fully into force and the old regime is repealed.
- Our reviews of the Insurance (Prudential Supervision) Act 2010 (IPSA) and the insurance solvency standards issued under IPSA, are ongoing.

We will provide a separate briefing on the DTA, and future decisions you will be required to make to operationalise the DTA and DCS and can provide briefings on other issues as required.

Future of Money

Our Future of Money programme is a strategic priority, focused on bolstering the resilience of New Zealand's cash system in the context of a 'less cash, not cashless' future. The programme is developing advice on how we can continue to meet our legislated objective and functions as a central bank in the face of changes in the use and availability of money.

- Project Waitoa (restricted) address the risks associated with our vaulting and processing infrastructure. It is a high-risk project, subject to the Treasury's Better Business Case Process. The capital expenditure will be requested in the 2024/25 fiscal year.
- We are moving into the development phase of our work on a central bank digital currency (CBDC) and continue to monitor stablecoins and crypto assets, and the issues these may raise for the financial system and monetary sovereignty.

Five-year funding agreement

Our funding is based on a five-year funding agreement between the Governor and the Minister of Finance, which states how much of the Reserve Bank's income it may use to meet its operating expenses in each financial year in carrying out its functions and exercising its powers. The Reserve Bank and the Treasury are in the early stages of planning for the next five-year funding agreement, to be entered into in 2025. This will encompass both operating and (for the first time) capital expenditure. Our capital structure, balance sheet, crown indemnities and dividend policy are potentially relevant considerations for this discussion. From time to time the five-year funding agreement may be amended with the agreement of the Minister of Finance. The Reserve Bank does not receive a direct funding contribution for operating expenditure through the Parliamentary appropriation process.

Our June 2020 funding agreement with the Government provides funding from 1 July 2020 to 30 June 2025. In light of our new legislative requirements and required investment, a related funding variation request was made to the Minister of Finance for the last two years of the five-year funding agreement, with the Cabinet agreeing to a variation in August 2023. This confirmed the Reserve Bank's funding or the project expenditure, which is outside the five-year funding agreement (e.g. DTA and DCS), improvements to our digital and cyber resilience, and our data and analytics strategy.

Notably, this also includes work in relation to the Reserve Bank's premises at 2 The Terrace, which is in urgent need of refurbishment to ensure the safety and well-being of staff due to encapsulated asbestos. This is being dealt with in two stages. The first stage is to progress the delivery of a new vaulting and cash processing solution (Project Waitoa – restricted classification). The second stage will commence in the 2024-25 fiscal year (with capital expenditure to be agreed for that year) and impact the next funding agreement. This significant programme of work will need to be rolled over into the new funding agreement in 2025. Data and analytics and digital capability and technology.

There is a critical need to continue to invest in our:

- Information, data and analytics, to address key risks around privacy and enable data-driven decision making. This supports critical business-as-usual work in the Economics Department (e.g. delivering high quality research for the MPC), the Financial Stability Group (e.g. data driven analysis for policy and supervisory decisions), as well as key projects (DTA, DCS, CBDC) and our leadership of the Council of Financial Regulators (CoFR), enabling us to make better decisions faster and deliver on our mandate efficiently; and
- Cyber security to address key vulnerabilities and operational, legal and reputational risk, as well as in our digital capability and technology to build the necessary tools and systems to improve operational efficiency, build resilience and reduce risk – including reducing our reliance on manual processes and improving our tools for compliance, reporting, collaboration, analysis, and portfolio performance and optimisation.

Tahi – Key strategic issues
Ngā take rautaki matua

Monetary policy

Reducing consumer price inflation back to within our target range is a key priority. The MPC has lifted the Official Cash Rate (OCR) from 0.25 percent to 5.5 percent over the last two years to constrain spending and reduce inflation pressure. This is working as anticipated and the OCR will need to stay at restrictive levels for the foreseeable future to ensure annual consumer price inflation returns to the 1 to 3 percent target range, while supporting maximum sustainable employment.

The economy is facing significant structural change post-COVID-19, and this is creating challenges for monetary policy. Changes in global trade patterns and demographics, the impacts of climate change and shifting work patterns are all changing the nature of shocks hitting the economy and key relationships in the economy. Improving our understanding of the impact of these structural shifts will be crucial to achieve good monetary policy outcomes. Greater investment in economic data to bring New Zealand in line with advances in international best practice will also be critical to support good decision making.

In our legislation, monetary policy is focused on achieving price stability and supporting maximum sustainable employment. High or variable prices come with avoidable costs to the economy. At the same time, a focus on supporting maximum sustainable employment ensures the broader economy is on as stable a footing as possible in the pursuit of price stability, and that our framework is appropriately flexible when we are faced with unexpected economic developments. Internationally, this 'flexible inflation-targeting' approach is seen as the best way to maximise well-being with monetary policy.

The MPC formulates monetary policy by setting the OCR as well as making decisions on additional monetary policy tools, such as forward guidance and asset purchases. The MPC reviews the settings of our monetary policy tools seven times a year – four times at the release of the Monetary Policy Statements, and three times at the Monetary Policy Reviews.

MPC Remit

The MPC's Remit sets out the operational objectives for monetary policy and must be reviewed at least every five years. Our recent review of the MPC's Remit found that the current approach of flexible inflation targeting with a medium-term focus remains the most appropriate framework for New Zealand. This approach allows the Reserve Bank to maintain price stability over the medium term without causing excessive volatility in the economy by trying to offset short-lived changes to inflation. This is the most common framework among advanced economies, and it has become well-established and understood by the public. No changes were recommended to the 1 to 3 percent inflation target or the medium-term horizon for achieving it.

The dual mandate has not made a material difference to policy decisions. With or without a dual mandate, the impacts of labour market developments will remain relevant to monetary policy formulation. However, our recent MPC Remit review did conclude that giving the inflation objective a higher priority than the employment objective would be beneficial in improving the credibility of the inflation target. One benefit of the dual mandate has been improvements in the frameworks for considering and communicating the impacts of labour market developments on monetary policy. This remains important, regardless of whether the MPC has a formal employment target.

RAFIMP

Our RAFIMP, report was published in November 2022 and covered the period 2017 to 2022.

The RAFIMP was peer reviewed by two international experts, and their feedback was published alongside the report. The review found that the dramatic easing in monetary policy was largely warranted during the pandemic, and worst-case economic scenarios were avoided. It also found that additional monetary policy tools such as bond purchase programmes provided further monetary stimulus and were effective at restoring functionality to the financial system. However, with the benefit of hindsight monetary policy should have been tightened earlier in 2021.

The RAFIMP provided nine recommendations to improve policy and modelling frameworks to support future policy decisions:

- Develop broader insight into the impacts of supply shocks on inflation
- Develop new sources of data for economic monitoring
- Develop better measures of 'neutral' interest rates
- Understand the future role of fiscal policy instruments in managing economic shocks
- Refine the measure of 'maximum sustainable employment'
- Use LSAPS to mitigate financial market dysfunction
- Be cautious in providing forward guidance in uncertain times
- Maintain the OCR as the preferred tool for setting monetary policy
- Maintain operational readiness for AMP tools.

These lessons and areas of focus have fed into an extensive work programme that informs our policy design, our capability building and our research agenda.

Financial stability

New Zealand's financial system remains strong as it adjusts to a higher interest rate environment. Globally core inflation is declining only slowly from elevated levels and central banks are expected to keep monetary policy tighter for longer. While the global economy's adjustment to higher interest rates has been relatively benign so far, the full impact is still to be seen and there are several tail risk scenarios. The failure of several mid-sized US banks earlier in the year has had limited ongoing impact. Key global risks in the near term include the possibility that central banks need to tighten monetary policy further, unanticipated impacts from previous tightening, the current slowdown in the Chinese property market spills over to global economic growth, and escalation of conflict in the middle east.

New Zealand households and businesses continue to face higher debt servicing costs, which are squeezing financial buffers. The share of mortgages in arrears is increasing from low levels. This increase has been limited to date reflecting a combination of a still-strong labour market, high nominal income growth, and the buffers that lenders built into their assessment of the servicing capacity of borrowers during the period of low interest rates. Pockets of stress are likely to grow in the medium term as highly-indebted households continue to be tested by higher debt servicing burdens. A key risk to financial stability would be a significant deterioration in the labour market, which would see arrears rise markedly and have greater economic and social impacts.

The New Zealand housing market has stabilised following a decline in prices and activity since late 2021. Recent months have seen house prices rise modestly across most regions supported by strong net immigration. The current level of house prices remains within the range of sustainable levels suggested by the indicators we monitor. The share of new lending with high loan-to-value ratios (LVR) has picked up modestly following a policy easing in June, while allowing for high interest rates in debt servicing assessments continues to suppress buyers' borrowing capacity. The outlook for the housing market is uncertain and we are continuing to closely monitor housing-related risks.

A weak milk payout is likely to see many dairy farmers making a loss in the current season, with highly indebted farmers particularly at risk. The payout farmers need to break-even has also risen, given higher debt servicing costs and on-farm input cost inflation. Owing to an improvement in financial resilience over recent seasons, a single season of low payouts is not likely to lead to widespread financial distress across the industry, but a prolonged downturn in dairy prices could see a material pickup in loan losses for banks. In the near term, farms also face increased risk of drought conditions in some areas due to the impacts of El Niño.

New Zealand's banking system remains well placed to handle potential external shocks and a downturn in the economy, as shown by recent stress tests. Banks' liquidity positions are strong and capital ratios are well progressed towards meeting the higher requirements being phased in by 2028. Asset quality is currently high, but banks are preparing for a likely deterioration over the medium term. The resilience of non-bank deposit takers varies, and deteriorating asset quality or other adverse events could compound existing issues with underlying profitability for some entities.

Insurers solvency positions remain robust across the three main sectors, despite profits being under pressure from higher interest rates and severe weather events. Increasing reinsurance costs are putting upward pressure on insurance premium rates for general insurers.

Regulatory and supervisory approach

As highlighted above in the Executive Summary, we are devoting significant resource to the profound ongoing shift in our approach to regulating and supervising regulated entities.

In 2017 the IMF's Financial System Stability Assessment for New Zealand[4] made a number of recommendations aimed at improving our financial sector and the regulatory framework. The

[4] See https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/regulation-and-supervision/fsap/new-zealand-fsap-2016-fssa.pdf

implementation of the DTA and the DCS are complex multi-year work programmes that will bring New Zealand better into line with international practice and have far reaching consequences for how both financial institutions and the Reserve Bank operate. It will require investment both by industry and by the Reserve Bank in terms of data, governance, compliance and operational capability.

We expect this investment will take place in a rapidly evolving digital and regulatory environment (e.g., open banking), with a potentially broader set of regulated entities, and a broader set of risks. We have refreshed our risk assessment framework to guide the allocation of supervisory resources – it will facilitate a proportionate, rigorous and structured assessment of risk using data and supervisory judgement. Work continues on building out our enforcement, resolution and specialist supervision functions.

Financial Policy Remit

The first Financial Policy Remit (FPR) was issued by the Minister of Finance on 1 July 2022. [5] The FPR provides a mechanism for the Government to communicate its broader policy objectives to the Reserve Bank in terms of our role in achieving our financial stability objective and our functions as prudential regulator and supervisor.

Our Board must have regard to the FPR when issuing or reviewing standards and when setting our prudential strategic intentions in our SOI, as required by the RBNZ Act 2021. Appendix 2 provides examples of activities that protect or promote financial stability that relate to matters specified in the FPR.

Foreign reserves and financial resources

Foreign reserves

The Reserve Bank holds and manages foreign reserves in order to be able to intervene in the New Zealand dollar foreign exchange market for financial stability or monetary policy reasons. Foreign reserves are safe and liquid assets held in currencies, such as United States dollars, Euros, and Australian dollars.

The Reserve Bank rarely uses its foreign reserves, as New Zealand is committed to maintaining a free-floating exchange rate. However, it is it is important for the Reserve Bank to hold foreign reserves so that it is prepared to support the foreign exchange market during periods of extreme stress or address exceptionally low or high levels in the exchange rate that cannot be justified by economic fundamentals.

Foreign Reserves Management and Coordination Framework

The Foreign Reserves Management and Coordination Framework (FRCF) is an agreement between our Board and the Minister of Finance. The RBNZ Act 2021 introduced the requirement for a FRCF, to replace the memorandum of understanding that had existed between the Reserve Bank and the Minister.

5 rbnz.govt.nz/about-us/responsibility-and-accountability/our-financial-policy-remit

The FRCF sets out the expectations around the management and use of foreign reserves in New Zealand and the respective roles of the Reserve Bank and Minister of Finance. It also sets the level of foreign reserves the Reserve Bank should hold to meet its objectives related to monetary policy and financial stability and maintains the right of the Minister to direct the use of the foreign reserves in certain circumstances.

The level of foreign reserves had been largely unchanged since 2007. Given the growth in the economy and foreign exchange market since 2007, an increase in the level of foreign reserves was approved in the FRCF in 2022.The transition to the higher level of reserves has begun and will take a number of years to complete.

Holding and using foreign reserves exposes the Reserve Bank to financial risks. The Reserve Bank's capital was increased by NZ$500 million and a Crown indemnity was granted to support the implementation of the new Framework and increase in foreign reserves.

The increase in capital reduces the likelihood that the Reserve Bank would have to operate with low or negative equity in the event of a loss resulting from a large exchange rate movement. The indemnity covers specific foreign exchange losses arising as a result of a foreign currency intervention.

The Reserve Bank and the Treasury are required to review the FRCF at intervals of not more than five years.

Further details can be found here:

- Foreign reserves: Foreign reserves - Reserve Bank of New Zealand - Te Pūtea Matua (rbnz.govt.nz)
- FRCF: foreign-reserves-management-and-coordination-framework.pdf (rbnz.govt.nz)
- Indemnity: deed-of-indemnity-relating-to-foreign-exchange-interventions.pdf (rbnz.govt.nz)

Financial resources

The Reserve Bank's financial resources support our ability to implement monetary policy decisions and achieve our economic and financial stability objectives. The Reserve Bank seeks to have financial resources to manage financial risks and reduce the likelihood of reliance on negative equity. Financial resources may take the form of capital or indemnities.

After the RBNZ Act 2021 came into force, the Reserve Bank undertook a review to ensure that its financial resources are fit for purpose and sufficient to mitigate the financial risks it faces. This review was set out in the Reserve Bank's 2022-2026 Statement of Intent.

Following the Review, the Reserve Bank's financial resources were increased by a:

- $1.3 billion capital injection; and
- standing indemnity to cover up to $5 billion of losses on bond purchases to support financial stability and market functioning.

This is in addition to the standing indemnity and $500 million capital injection received to support a higher level of foreign reserves agreed in the Foreign Reserves Management and Coordination

Framework (FRCF) in January 2023. The total $1.8 billion in additional capital brings the Reserve Bank's Target Capital Level to a recommended minimum TCL of $4.2 billion.

The Reserve Bank's financial resources also include an indemnity that was put in place in 2020 to manage potential gains and losses under the Reserve Bank's LSAP programme. With the creation of the new standing indemnity, the existing LSAP indemnity has been terminated for new bond purchases. However, that indemnity will continue to cover past and future losses on the bonds that were purchased under the LSAP programme.

With the new capital and indemnity, the Reserve Bank's financial resources are sufficient to mitigate the risk of the most significant financial risks for the Reserve Bank balance sheet and a range of policy actions, as modelled under severe but plausible scenarios. This includes both current risks and considering how the balance sheet may need to evolve over a five-year period to continue to meet the Reserve Bank's policy objectives. These financial resources support the Board's ability to ensure the Bank operates in a financially responsible manner and prudently manages its assets and liabilities in accordance with Section 47 of the RBNZ Act 2021.

The Reserve Bank may need to utilise certain Additional Monetary Policy tools that come with financial risk above that covered by our existing financial resources (such as an LSAP programme larger than that covered by the indemnity). In such situations, the Reserve Bank may choose to seek further financial resources from the Minister of Finance. A process for requesting an indemnity is outlined in the Memorandum Of Understanding on AMP tools. This MOU was signed in March 2020, and is to be reviewed at least every five years.

Future of Money and Project Waitoa

Cash use and availability is rapidly declining as more convenient alternatives become available and as banks reduce their physical footprints. New Zealand is at the vanguard of countries globally with low levels of cash use and our cash system is under significant pressure. New players are also seeking to enter the money and payments system – Big Techs, crypto-assets and other new entrants.

These trends pose significant risks to the roles of central bank money – to provide trust and confidence in the wider financial system, underpin monetary sovereignty and support inclusion – but also opportunities to improve competition, innovation and inclusion. Recent natural disasters have also underpinned the importance of having fit for purpose cash infrastructure.

Our Future of Money programme is developing advice on how we continue to meet our core central bank objective in response to the trends mentioned above, and a 'less cash, not cashless' future. Delivery of a new vaulting and cash processing solution is key to executing this strategy.

Since 2013 the Reserve Bank has highlighted in public accountability documents the need to manage the risks associated with our near-end-of-life vaulting and processing infrastructure (Project Waitoa – restricted classification). Our work on The Future of Money and associated preparatory work on required cash system infrastructure gives us confidence that despite a decline in cash used for transactional purposes, the case for a new vault remains.

See https://www.rbnz.govt.nz/have-your-say/2021/future-of-money-stewardship-te-moni-anamata-kaitiakitanga

Cash system redesign

We are progressing Cash System Redesign work, focused on improving resilience, sustainability and efficiency in the cash system, and within our own operations.

Cyclone Gabrielle laid bare the importance of cash in a natural disaster and the fragility of cash system infrastructure in the face of such an event. The physical movement of cash into and out of the areas by road was impractical or impossible, resulting in added pressure on the local cash system and its users (including retailers). The Reserve Bank collaborated with cash industry participants and other government agencies, including the National Emergency Management Agency (NEMA), New Zealand Police and the New Zealand Defence Force to facilitate the movement of cash into and out of the affected regions.

In the absence of a policy response, the cash system will face acute resilience issues, the contribution cash makes to financial and social inclusion will continue to decline, and the ability of cash to perform its role as a trusted value anchor for private money and the wider financial system will be under threat.

Our current focus is preparing to run Cash Trials, which will test alternative cash circulation models for communities. We are also researching the potential to mandate cash acceptance, and building our ability to monitor, measure and respond to changes in the cash system that threaten our legislated central bank function to ensure that bank notes and coins meet the needs of the public. See rbnz.govt.nz/money-and-cash/future-of-money/cash-system-redesign

We run a regular Cash Industry Forum, with representatives of major banks, cash-in-transit firms, ATM and cash technology firms and merchants to stay connected with industry on this work. We have also kept in regular contact with the New Zealand Bankers Association as it enhances and expands its regional banking hubs pilot to learn lessons about how communities respond to new models of service delivery.

Central Bank Digital Currency

We are moving into the development phase of our work on a CBDC. A digital New Zealand dollar would exist alongside cash but could help manage risks associated with declining cash use and support innovation, competition and efficiency in our economy.

To date we have consulted the public on the case for a CBDC, completed initial policy work to understand the key issues, explored high level design options and developed an initial understanding of user needs through our research, and stakeholder engagement. We have a standing stakeholder engagement forum to support this work.

In 2024 we intend to consult stakeholders and the public on key design considerations for a digital New Zealand dollar. We will also develop an Indicative Business Case, which will identify a preferred design option and use cases, include cost benefit analysis, and seek a decision on how to move forward with further work on this.

See rbnz.govt.nz/money-and-cash/future-of-money/cbdc/what-is-a-cbdc

Private innovation

We are ramping up our monitoring of stablecoins and cryptoassets following public input to help confirm the issues these new forms of private money might raise for the financial system and monetary sovereignty.

Public submissions to our issues paper 'The Future of Money — Private Innovation: Te Moni Anamata — Te Auahatanga' reinforced our view that there are significant risks and opportunities, but also significant uncertainties about how the sector will develop and where the optimal balance will lie. See rbnz.govt.nz/money-and-cash/future-of-money/private-innovation

ESAS access review

The Reserve Bank operates the Exchange Settlement Account System (ESAS). ESAS is used by major financial institutions to settle payments between each other. All New Zealand dollar transactions ultimately settle in ESAS. ESAS supports our ability to implement monetary policy.

We are reviewing access to ESAS. The review is designed to ensure that the access policy and criteria are appropriate for promoting the development of a payments system which:

- is efficient, open and flexible;
- has a high level of integrity;
- is robust in the face of financial crises.

A more open access policy may support competition, innovation and inclusion in our financial system.

See Exchange Settlement Account System - Reserve Bank of New Zealand - Te Pūtea Matua (rbnz.govt.nz)

Funding and dividend

Funding

The Reserve Bank does not receive appropriations through the central government budgetary process to cover its operating expenses. Instead, funding is based on a funding agreement, a five-yearly agreement between the Reserve Bank and the Minister, which specifies how much of the Reserve Bank's income can be used to meet its operating costs. This income comes from the net return on the Reserve Bank's investments, which arises as the Reserve Bank uses its balance sheet to achieve its policy objectives.

Under the current Funding Agreement:

- the amount to be applied in meeting operating expenses for the year commencing 1 July 2023 is $163,513,000;
- the amount to be applied in meeting operating expenses for the year commencing 1 July 2024 is $149,440,000; and
- the Reserve Bank may apply its underspend on currency issue expenses to other operational expenditure.

The current Funding Agreement was carried over from the Reserve Bank of New Zealand Act 1989, and therefore does not cover capital expenditure. Capital expenditure on Project Waitoa will need to be agreed for the 2024-25 fiscal year.

2025 funding agreement

The Reserve Bank and The Treasury are in the early stages of planning for the next five-year funding agreement, to be entered into in 2025. This will encompass both operating expenditure and (for the first time) capital expenditure. Our dividend policy and balance sheet are potentially relevant considerations for this discussion.

As described above, we have a significant programme of work underway that will need to be rolled over into the new agreement. This work includes legislated change (DTA and DCS), investment in our information, data and analytics strategy, and improvements to our digital and cyber resilience. The capital expenditure required for significant infrastructure projects – the refurbishment of 2 The Terrace and Project Waitoa – will need to be included in the next funding agreement.

Dividend

The amount of the dividend to be paid to the Crown is determined by the Minister of Finance on the recommendation of the Reserve Bank.

At the end of each financial year, the Reserve Bank is required to make a dividend recommendation to the Minister of Finance. In making its dividend recommendation, the Reserve Bank must apply the dividend principles set out in the Statement of Financial Risk Management.

The dividend principles are:

The Bank should maintain sufficient equity for the financial risks associated with performing its functions. Equity in excess of that required to cover those risks will be distributed to the Crown.

In general, unrealised gains should be retained by the Bank until they are realised in New Zealand dollars. However, the Bank may recommend the distribution of unrealised gains where the Bank believes that the probability of the gain being realised is high.

The Reserve Bank targets a minimum level of capital that is sufficient to cover a prudent range of potential financial risks in meeting its policy objectives. The Minister of Finance reviews the Reserve Bank's assessment of target capital when considering the Reserve Bank's annual dividend principles and recommendation. The Minister may direct the Reserve Bank in relation to the minimum level of capital it must hold and its financial risk management.

This year, the Reserve Bank recommended that no dividend would be paid due to the target level of capital being greater than capital levels as at 30 June 2023.

Rua – How we operate
He Pēwhea ā Mātou Mahi

The Reserve Bank is a 'full service' central bank, which means we have a wide set of objectives and functions that span monetary policy, financial stability, and central banking. The analytical, policy and supervisory teams that are focused on delivering against our three core objectives are supported by a range of groups including: Digital Solutions and Security; Finance and Commercial Operations; Information, Data and Analytics; Risk Compliance and Legal Services; Strategy, Governance and Sustainability; and Transformation, Innovation, People and Culture.

The Reserve Bank is undergoing a modernising process that is transforming how we work and how we interact with our key stakeholders. We continue to invest in our people and infrastructure.

The Board and staff have undertaken a significant amount of work to embed the new governance framework and processes. Since its formation in July 2022, the Board has confirmed or established three Board sub-committees: the Audit Committee, the Financial Stability Oversight Committee (FSOC) and the People, Culture and Change Committee (PC&CC), to enable greater oversight for decision-making purposes.

The past year has also involved working with the Treasury, for the first time in the Treasury's formal capacity as our monitor under the RBNZ Act 2021. We have significantly re-aligned and strengthened our planning and reporting processes to enable us to be more accountable and meet public expectations.

Governance and accountability

The RBNZ Act 2021 has strengthened our governance and decision-making processes. While we remain operationally independent, we now have greater accountability and transparency, with decision-making and reporting requirements similar to those of independent Crown entities.

The main changes introduced under the RBNZ Act 2021 include:

- establishment of a new Board responsible for all decision making except decisions made by the MPC;
- establishing new decision-making, statutory delegations and management authorities;
- requiring us to have regard to an FPR, issued by the Minister of Finance, when acting in relation to our prudential strategic intentions;
- aligning more closely with wider state-sector practice in terms of reporting and monitoring requirements; and
- formalising the Treasury as our monitor and reporting to it on our performance.

The RBNZ Act 2021 also replaced our previous objective relating to a sound and efficient financial system with an overarching financial stability objective of 'protecting and promoting the stability of New Zealand's financial system'.

The Board commissioned an independent review of its performance to obtain feedback on how it had performed in its first year. The review found that the breadth of experience and diversity of perspectives of the board members was a strength of the new board, and that the new board members acknowledge a need to continue to increase their domain knowledge of the wide range of activities carried out by the Reserve Bank. Overall, the independent review found the board to be well functioning with highly collegial relationships, including with the senior Reserve Bank executives, and strong confidence in its ability to fulfil its duties and responsibilities under the new foundational legislation.

Board of Directors

The Board is the governing body of the Reserve Bank with the authority to exercise the powers and perform the functions of the Reserve Bank, except for functions conferred on the MPC.

The Board has overall responsibility for our strategic direction, functions and operations, and is ultimately accountable for the delivery of our outcomes.

Members of our Board are appointed by the Governor General on the recommendation of the Minister of Finance. The Treasury assists the Minister of Finance in the recruitment of new Board members.

- MPC: A public appointment process began in June 2023 to find new MPC members to replace the external members leaving in 2024: Peter Harris (March 2024) and Caroline Saunders (June 2024). The Board is due to provide a recommendation to the Minister of Finance on these vacancies.

The Board

The RBNZ Act 2021 allows the Board to have between five and nine members. The Board currently has eight members.

Table 1: Reserve Bank Board members

Board member	Term ends
Neil Quigley, Chair	30 June 2024
Rodger Finlay, Deputy Chair	30 June 2027
Jeremy Banks	30 June 2027
Adrian Orr, Governor	March 2028
Susan Paterson	30 June 2027
Byron Pepper	30 June 2025
Professor Rawinia Higgins	30 June 2025

Board member	Term ends
Hinerangi Raumati-Tu'ua	30 June 2025

The Board's responsibilities include:

- ensuring the Reserve Bank acts in a manner consistent with its objectives, functions, current Statement of Intent (SoI) and current Statement of Performance Expectations (SPE);
- nominating the Governor and recommending the appointment of MPC members;
- regularly reviewing the performance of the MPC and the MPC members;
- approving our key accountability documents;
- having regard to the FPR when acting in relation to prudential strategic intentions and issuing and reviewing standards in relation to our financial stability objective;
- ensuring the Reserve Bank performs its functions efficiently and effectively and in collaboration with other public entities, in a manner consistent with the spirit of service to the public; and
- ensuring we operate in a financially responsible manner.

Te Tiriti O Waitangi

The Reserve Bank respects the constitutional significance of Te Tiriti O Waitangi. This flows from our public function, as well as the constitutional and legal significance of Te Tiriti O Waitangi in New Zealand. With Board support, the Reserve Bank has developed a Te Tiriti O Waitangi statement, signifying our commitment to identifying opportunities to give effect to Te Tiriti through our work. [6]

Strategic issues

The Board continues to have regard to our Letter of Expectations and to our FPR, as required by the RBNZ Act 2021 when setting our strategic prudential intentions in the SOI and issuing standards.[7]

Our Executive Leadership Team

The Governor is the link between our Board and Executive Leadership Team (ELT). The Governor is appointed by the Governor-General on the recommendation of the Minister of Finance. The Governor is a member of our Board and serves as the Reserve Bank's Chief Executive. The Governor also serves as Chair of the MPC.

Our ELT reports to the Governor. The ELT is jointly responsible for the delivery of the Reserve Bank's objectives and priorities, and for all strategic, financial, legal, operational and reputational matters. ELT's core focus is on how we operate as a whole across people, systems and processes, policy, and relationship management. The ELT works with the wider team of Directors who lead the teams responsible for delivering on our work, and support our people to achieve our vision of 'great team, best central bank'.

6 See rbnz.govt.nz/about-us/how-we-work/te-tiriti-o-waitangi
7 See rbnz.govt.nz/about-us/responsibility-and-accountability/our-financial-policy-remit

Our executive leadership team can be found here: rbnz.govt.nz/about-us/our-people/our-executive-leadership-team

Monetary Policy Committee

The MPC formulates monetary policy by setting the Official Cash Rate as well as making decisions on additional monetary policy tools such as forward guidance and asset purchases. The MPC has operational independence and makes its decisions independently of the Board.

The MPC reviews the settings of our monetary policy tools seven times a year – four times at the release of the Monetary Policy Statement, and three times at the Monetary Policy Review.

The MPC is chaired by the Governor and is made up of Reserve Bank staff (internal members) and independent external members.

The RBNZ Act 2021 allows the MPC to have between 5 and 7 members made up of internal and external members, and the Governor as chair.

Table 2: MPC members

MPC members	Term ends
Adrian Orr, Governor and Chair	March 2028
Paul Conway (internal)	2027
Christian Hawkesby (internal)	2027
Karen Silk (internal)	2027
Bob Buckle (external)	April 2025
Peter Harris (external)	March 2024
Caroline Saunders (external)	June 2024

Monetary policy framework

There are four key components to New Zealand's monetary policy framework:

- the Monetary Policy Remit;
- the Charter;
- the code of conduct;
- the monetary policy strategy.

Monetary Policy Remit

The Minister of Finance sets the operational objectives for monetary policy through the Monetary Policy Remit. The Remit defines the operational objectives for the formulation of monetary policy and guides the MPC's decision making on monetary policy and OCR adjustments every six weeks.

Charter and code of conduct

The MPC is bound by a Charter and code of conduct. The Charter provides directions on decision-making procedures, transparency and accountability. The MPC makes decisions and communicates them in line with the Charter. The code of conduct sets out minimum standards of ethical and professional conduct that MPC members must follow.

Accountability and reporting

Statement of Intent

Our Statement of Intent 2022-2026 (SoI) sets out our strategic objectives and how we intend to achieve them over the next four years. This includes how we will manage organisational health and capability and assess our performance.

rbnz.govt.nz/hub/publications/corporate-publications/statements-of-intent/statement-of-intent-2022

Statement of Performance Expectations

The RBNZ Act 2021 requires us to publish an annual Statement of Performance Expectation (SPE), consistent with the reporting regime for independent Crown entities. The SPE 2023-24 sets out the outputs and outcomes we aim to achieve in the current financial year, and how our performance against those measures is assessed and reported on.

Our Annual Report for 2022-23 contained our first ever Statement of Performance, reporting on how we performed against the measures in the SPE for 2022-23.

rbnz.govt.nz/hub/publications/corporate-publications/statement-of-performance-expectations/statement-of-performance-expectations-2022-to-2023

Statement of Financial Risk Management

Under the RBNZ Act 2021 we are required to publish a Statement of Financial Risk Management (SFRM), which outlines financial risk management information previously included in our SoI. The SFRM is required to be kept up to date on an ongoing basis and is published on our website and in our Annual Report. The SFRM is used to:

- report on how the Board is ensuring we operate in a financially responsible manner;
- report on our management of financial risks;
- ensure accountability for the management of those risks; and
- set out the principles we use to determine the Annual Dividend.

rbnz.govt.nz/about-us/responsibility-and-accountability/our-statement-of-financial-risk-management-2022

Statement of Prudential Policy

We published our first Statement of Prudential Policy in 2022, which provides for transparency in how we act, or propose to act, when performing our functions as a prudential regulator and supervisor, including by:

- carrying out prudential supervision;
- imposing prudential standards or other requirements;
- monitoring compliance with, and enforcing, the legislation as well as investigating potential non-compliance; and
- taking appropriate action in respect of persons who have contravened or are likely to contravene prudential legislation, or are otherwise in financial or other difficulties.

The Statement of Prudential Policy promotes public awareness and understanding of how we operate under prudential legislation.

Role of the Minister of Finance

The Minister of Finance oversees and manages the Crown's interests in, and relationship with, the Reserve Bank. This includes overseeing and managing how we use our functions and powers regarding:

- monetary policy;
- financial stability;
- capital and financial risk management;
- foreign reserves;
- prudential and regulatory functions; and
- other functions under the RBNZ Act 2021.

We meet regularly with the Minister of Finance and the Treasury to discuss a range of issues, including developments in monetary policy, prudential policy and other matters affecting financial stability.

Monitor

The Treasury was appointed as the Reserve Bank's monitor under the RBNZ Act 2021. The role of the monitor is to assist the Minister in carrying out the Minister's role under the RBNZ Act 2021 and performing or exercising any other specified powers or functions. A notice of monitoring expectations was sent to the Secretary of the Treasury by the Minister of Finance on 19 July 2022.

Letter of Expectations

Each year the Minister of Finance issues a Letter of Expectations to the Board to communicate the Government's overarching priorities and expectations of the Reserve Bank over the coming year. The Board responds with a Strategic Issues Letter confirming key issues we expect to address.

For 2022/23, the Minister's Letter of Expectations highlighted the following areas of particular interest:

- the coordination of monetary, financial and fiscal policy;
- implementation of the RBNZ Act 2021;
- progressing the Deposit Takers Bill;
- reviewing the experience of additional monetary policy tools;
- having regard to the FPR;
- the continued strengthening of cyber resilience for the Reserve Bank and the financial system; and
- the Reserve Bank's relationships across government.

The Letter of Expectations and Strategic Issues Letter are published on the Reserve Bank website. See rbnz.govt.nz/hub/publications/corporate-publications/letters-of-expectation/letter-of-expectations-2023

Council of Financial Regulators

We are a co-chair, together with the FMA, of CoFR, responsible for joint stewardship of a healthy and efficient financial system that benefits all New Zealanders.

CoFR comprises the Reserve Bank of New Zealand, the FMA, the Treasury, the Ministry of Business, Innovation and Employment, and the Commerce Commission.

We are working collaboratively with our CoFR partners to ensure we face challenges in the financial sector head on and are transparent and accountable for our activities as regulators.

CoFR publishes a regulatory initiatives calendar, which provides stakeholders with a broad quarterly overview of all the regulatory initiatives by CoFR members. See CoFR's Regulatory Initiatives Calendar (RIC) | Kaunihera Kaiwhakarite Ahumoni - Council of Financial Regulators

Each CoFR member has agreed to consult the RIC when undertaking planning activities so that each agency makes plans informed by the plans of other CoFR agencies. A number of the current initiatives are multi-year commitments that had their origins in expectations set by international standard setting bodies.

Current focus areas

At the most recent CoFR meeting of Heads (5 October 2023), CoFR members discussed the following key focus areas:

- The current regulatory approach to protecting New Zealanders from financial scams;
- The regulatory approach to the credit unions and building societies sector and the critical role this part of the deposit taking sector plays in providing choice, diversity and competition;
- The co-ordinated regulatory approach to improving financial inclusion – namely ensuring individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way – and the roles and responsibilities of each CoFR agency in this regard;
- Ensuring CoFR has clear and measurable success factors to ensure it is fulfilling its role as regulatory steward across the financial system.

Priority themes

CoFR has identified the following priority themes, to cooperate and coordinate on in pursuit of shared goals:

- Climate-related risks;
- Cyber resilience;
- Digital and innovation;
- Inclusion; and
- Regulatory effectiveness.

CoFR has also issued joint statements on crypto assets (September 2022) and the New Zealand payments landscape (July 2023):

- https://www.cofr.govt.nz/news-and-publications/cryptoassets-statement.html
- https://www.cofr.govt.nz/news-and-publications/financial-regulators-set-vision-for-new-zealand-payments-landscape.html

Engagement

CoFR has a number of sub-committees and stakeholder engagement groups, including:

- The Banking Forum, which helps coordinate work related to the regulation banks, and includes CoFR members as well as the Ministry of Justice, the Inland Revenue Department and the New Zealand Banking Association.
- The Insurance Forum, which aims to contribute to the efficiency and coordination of insurance sector regulation by providing a space to discuss risks, issues and on-going and up-coming regulatory matters relating to licensed insurers, and includes the Financial Services Council (FSC), the Insurance Council of New Zealand (ICNZ) and the Financial Services Federation (FSF);

- The Monitoring and Coordination Forum as between the Reserve Bank, the FMA and the Commerce Commission, to promote and enable effective information sharing on regulated entities, to assist and enable increased coordination and prioritisation of licensing, monitoring, and enforcement activity, and to achieve increased regulatory efficiency for regulated entities through improved sharing of information and monitoring perspectives/insights.

Toru – Our legislation
Tō Mātou Ture

The Reserve Bank of New Zealand Act 2021

Our foundational legislation is the RBNZ Act 2021 which sets out our purpose, objectives and functions as the central bank of Aotearoa. the RBNZ Act 2021 came into force on 1 July 2022 and re-established the Reserve Bank. It introduced many features of the Crown Entities Act 2004 to our governance and accountability.

The RBNZ Act 2021 strengthened our governance and requires different decision-making processes. While we remain operationally independent, we now have greater accountability and transparency, with decision-making and reporting requirements similar to those of independent Crown entities.

The RBNZ Act 2021 replaced our previous objective relating to a sound and efficient financial system with an overarching financial stability objective of 'protecting and promoting the stability of New Zealand's financial system'.

The main changes introduced under the RBNZ Act 2021 include:

- Establishment of a new board responsible for all decision making except decisions made by the MPC;
- establishing new decision-making, statutory delegations and management authorities;
- requiring us to have regard to an FPR, issued by the Minister of Finance, when acting in relation to our financial stability objective, the objectives or purposes of our prudential legislation, and our actions as a prudential regulator and supervisor;
- aligning more closely with wider state-sector practice in terms of reporting and monitoring requirements; and
- formalising the Treasury as our monitor and reporting to it on our performance.

The RBNZ Act 2021 also required us to introduce a Foreign Reserves Management and Coordination Framework (see below) by the end of 2022, to bring greater transparency on our management and use of foreign reserves.

Prudential legislation

The Reserve Bank exercises functions and powers under, and is responsible for administering the prudential legislation:

- Banking (Prudential Supervision) Act 1989, which provides for the prudential regulation and supervision banks (until superseded by the DTA);
- Non-bank Deposit Takers Act 2013 (NBDT Act), which provides prudential regulatory and licensing authority for non-bank deposit takers (until superseded by the DTA);

- Insurance (Prudential Supervision) Act 2010 (IPSA), which provides for the prudential supervision of the insurance sector;
- FMI Act, which provides for the prudential regulation and supervision (together with the FMA) of FMIs (e.g. payment and settlement systems); and
- DTA, which provides for the Reserve Bank's role as prudential regulator and supervisor of deposit takers and establishes the Depositor Compensation Scheme (DCS), that has a target go live date of late 2024.

The Reserve Bank also exercises functions and powers as supervisor for banks NBDTs and life insurers under the AML/CFT Act.

Deposit Takers Act 2023

The Deposit Takers Bill was introduced to Parliament on 22 September 2022, and the Deposit Takers Act received Royal Assent on 6 July 2023.

The DTA modernises our regulatory framework to help ensure the safety and soundness of deposit takers. This is in line with our mandate to promote the prosperity and wellbeing of New Zealanders.

The DTA:

- Provides a single, coherent regulatory regime to enable robust regulation of all deposit takers.
- Provides for new inspection powers and the framework for managing and resolving a deposit taker in financial distress.
- Introduces a new DCS so depositors can have confidence that their deposits, in the event of a deposit taker failure, are eligible for compensation up to $100,000 per depositor, per institution.

There is a substantial work programme to implement the new prudential framework for deposit takers. It will take some years for the Reserve Bank to develop and consult on the secondary legislation that will implement the regulatory requirements for the new regime and complete a licensing process for deposit takers to operate under the regime. The parts of the current Banking (Prudential Supervision) Act 1989 relating to the regulation and supervision of registered banks and the NBDT Act will remain in force until the remaining parts of the DTA have been fully implemented. We anticipate the regime being fully phased in by 2028, with a legislative backstop of 2029.

Depositor Compensation Scheme

The DCS will be funded by an industry levy set through regulation. We have been working towards having the key elements of the DCS in place by 2024. The decision as to when to commence the scheme is a decision of the Government, as the scheme is commenced through regulation. The Reserve Bank will prioritise the operational implementation of the scheme, the development of, and consultation on, regulatory requirements related to the calculation of industry levies and the classification of eligible deposits ahead of the DCS's commencement (which occurs via regulation). Once the DCS has been established, supporting regulatory requirements will be established to further improve the efficiency and timeliness of compensation to eligible depositors.

The Minister of Finance will publish the DCS's funding strategy and investment parameters. To support this, the Treasury will develop and consult on the DCS's funding strategy and investment parameters, on behalf of the Minister of Finance, ahead of the commencement date.

Insurance (Prudential Supervision) Act 2010

The Reserve Bank is responsible for the prudential regulation of New Zealand's insurance sector. We are undertaking major reviews of IPSA and, separately, the insurance solvency standards issued under IPSA.

We published an 'omnibus' consultation paper for the IPSA review in September 2023, which brings together concrete proposals on policy questions already consulted on (through five previous public consultations) and a small number of remaining policy issues.

We published the Interim Solvency Standard 2023 on 3 October 2022. The standard came into force on 1 January 2023 and applies to individual insurers from the start of their first annual reporting period commencing in 2023. We are currently consulting on an Amendment to the Interim Solvency Standard that addresses a small number of technical issues we have become aware of.

We have also started work on the second stage of the Solvency Standard review which looks at the calibration of capital requirements and the mechanisms through which capital requirements are set.

Financial Market Infrastructures Act 2021

The FMI Act establishes a comprehensive regulatory regime for FMIs – multilateral systems (such as payment systems and central counterparties) that enable electronic payments and financial market transactions – that replaces a simpler regime in the Banking (Prudential Supervision) Act 1989.

Under the FMI Act, the Reserve Bank and the FMA, are joint regulators, except for pure payment systems, where the Reserve Bank is the sole regulator.

The FMI Act provides a full suite of regulatory, supervisory, and enforcement powers for FMIs that are designated (either because they apply for designation status or are determined to be systemically important by the regulator(s)). For systemically important FMIs, the regime also includes crisis management powers.

The regulators issued a set of legally binding standards for FMIs in late July 2023. The standards are based on international practice and bring New Zealand better in line with peer jurisdictions.

Work is progressing to re-designate five FMIs that are currently designated under the Banking (Prudential Supervision) Act 1989. This work needs to be completed by 1 March 2024 when the FMI Act comes fully into force and the old regime is repealed.

Whā – Upcoming key publications and consultations
Ngā Whakaputanga me ngā Toronga Whakaaro kei mua i te Aroaro

On 1 November we published our Financial Stability Report (FSR) and will be publishing our Monetary Policy Statement (MPS) on 29 November. We expect both publications to receive considerable media attention. Senior staff usually appear before the Finance and Expenditure Committee to discuss insights from each publication.

The FSR is a six-monthly report which assesses and reports on the soundness and efficiency of the New Zealand financial system.

The MPC makes seven monetary policy decisions each year and publishes each decision on the Reserve Bank website with a summary record of the MPC meeting. On a quarterly basis, the announced decision is accompanied by a Monetary Policy Statement.

Table 3 below lists our key upcoming publications, including consultation papers, and speaking engagements. We share draft keynote speeches and significant media releases with the Minister ahead of publication or engagements.

Table 3: Upcoming key publications and consultations

Date	Publication / speaking engagement
November 2023	
29	Monetary Policy Statement
December 2023	
12	Review of the Insurance Prudential Supervision Act 2010 (IPSA) omnibus consultation closes
13	'Leader of Leaders' programme- Karen Silk (speaking at a professional development programme)
14	Public statement from CoFR on Q4 meeting Publication of quarterly CoFR Regulatory Initiatives Calendar
14	Response to submissions on cyber guidance consultation
TBC	Cash trials announcement
TBC	Key decisions on the liquidity policy review

Date	Publication / speaking engagement
TBC	Second consultation paper on DCS levy
TBC	ESAS access review consultation on revised access policy
January 2024	
30	Paul Conway, Chief Economist and MPC member – speech on macro-data: Structural changes in the global economy.
TBC	Consultation on DCS Regulations
TBC	Consultation on the calibration of debt-to-Income ratio, and any changes to loan-to-value ratio settings
TBC	Discussion paper on risk weights and climate change considerations
TBC	DCS public education campaign strategy
February 2024	
28	Monetary Policy Statement
TBC	Capital adequacy framework bulletin
TBC	Monitoring capital review implementation bulletin
TBC	Response to submissions on the DCS levy consultation
TBC	Publication of 2nd Amendment to Interim Solvency Standard (in Q1 2024)
TBC	Consultation on Insurance solvency review – solvency capital (in Q1 2024)
TBC	Engagement on DTA: Depositor Compensation Scheme (SCV go-live product by late 2024; SCV standards by 2026 and full compliance by 2027/2028) (in Q1 2024)
TBC	Issue of updated Interim Solvency Standard
TBC	Public statement from CoFR on its approach to financial inclusion
March 2024	
1	FMI Act – Commencement Order
TBC	Consultation on achieving CoFR's vision for the payments landscape in New Zealand
TBC	Publication of climate change scenario stress test (5 largest banks) (in Q1 or Q2 2024)
TBC	Public statement from CoFR Q1 meeting

Date	Publication / speaking engagement
	Publication of quarterly CoFR Regulatory Initiatives Calendar
TBC	Deposit Takers' News – Issue #3
TBC	Summary of feedback from Managing climate related risks consultation
TBC	2nd Amendment to Interim Solvency Standard in force (in Q1 2024)
April 2024	
10	Monetary Policy Review
TBC	Consultation on CBDC design and next steps
May 2024	
1	Financial Stability report
22	Monetary Policy Statement

Appendix 1
Tāpiritanga 1

Table A: Central bank functions and responsibilities

Country	Monetary policy	Liquidity management	FX intervention	Lender of last resort	Prudential policy	Banking and insurance supervision
New Zealand	Full	Full	Full	Full	Full	Full
Australia	Full	Full	Full	Full	Shared or partial	None or minor
Japan	Full	Full	Shared or partial	Full	Shared or partial	Shared or partial
South Korea	Full	Full	Shared or partial	Full	Shared or partial	None or minor
Norway	Full	Full	Full	Full	Shared or partial	None or minor
United Kingdom	Full	Full	Shared or partial	Shared or partial	Shared or partial	Shared or partial
Eurozone	Full	Full	Full	Full	Shared or partial	Shared or partial
United States	Full	Full	Shared or partial	Full	Shared or partial	Shared or partial

Central bank functions and responsibilities key:

Full

Shared or partial

None or minor

Appendix 2
Tāpiritanga 2

Table B below provides an overview of the Board's recent decisions where the FPR was a mandatory consideration. As set out in section 49 of the RBNZ Act 2021, the Board is required to consider the FPR in situations relating to prudential strategic intentions and when issuing and reviewing standards.

Table B: Recent Reserve Bank Board decisions where FPR was a mandatory consideration

Prudential strategic intentions (Includes setting, making significant policy decisions, monitoring and reporting on prudential strategic intentions)	**Issuing and reviewing standards** (Currently refers to banks' Conditions of Registration, will refer to Deposit Takers Standards in the future)
• Setting the prudential strategic intentions in our Statement of Intent 2022-2026 and outlining our intentions in the 'Working with our stakeholders' and 'Our strategic approach' chapters. These chapters outline our intentions related to: ◦ developing macroprudential tools ◦ our climate change strategy ◦ our approach to financial inclusion ◦ our activities to strengthen our cyber resilience.	• Issuing the Insurance Solvency Standard in October 2022. • Issuing the Standards made under the Financial Markets Act 2021 in July 2023. • Making the significant policy decision to approve the Debt-to-Income Restriction Framework as a macroprudential tool in March 2023.

Table C below provides a non-exhaustive list of activities to protect and promote financial stability that have a link to one or more matters listed in the FPR.

The 'financial system stewardship' category refers to the Reserve Bank's responsibility to administer legislation that is fit for purpose, its statutory role as co-Chair of the CoFR, its statutory functions to monitor the financial system and to co-operate with other agencies, and its collaborative efforts with other public entities (a duty of the Board under s46).

Table C: Reserve Bank activities to protect and promote financial stability linked to FPR

	Microprudential tools	Macroprudential tools	Stress testing	Financial system stewardship	Supervisory tools	Across-Reserve Bank activities
Imposing regulatory and supervisory costs that are proportionate to the expected risks and benefits to the financial system and society	Tiered prudential capital buffers Use of thresholds (e.g., BS17 OBR) and exemptions (e.g., NBDT credit rating exemptions)	Tiered LVR measurement and reporting cycles Differentiated investor and owner-occupier LVR restrictions	Tailored stress testing regime (e.g., entity size and scale, testing frequency)	CoFR membership for co-ordinated regulatory responses. 'Regulatory Effectiveness' CoFR Priority Theme	Tiered and tailored approach (e.g., engagement plan, info requests, STAR review cycles) Thematic reviews	Part of the general approach to regulation and supervision
Encouraging new investment and financial innovation that raise the productive potential of the economy	A new mutual capital instrument			'Digital and Innovation' CoFR priority theme (e.g., Fintech) Māori Access to Capital (A2K)	Supervisory conversations (e.g., incorporation of A2K)	Future of cash – Te Moni Anamata Monetary Policy

	Microprudential tools	Macroprudential tools	Stress testing	Financial system stewardship	Supervisory tools	Across-Reserve Bank activities
Encouraging the allocation of financial resources in a way that maximises the sustainable long-term growth of the New Zealand economy				Collaboration on disclosure requirements (e.g., new climate disclosure)		
Housing: supporting sustainable house prices		LVR restrictions (and possible use of DTI restrictions)				Monetary Policy
Climate change: building resilience and facilitating adaptation	ICAAP requirements (other material risk) Guidance on managing climate-related risk (draft)		Climate component in bank and insurer solvency tests, sensitivity analyses. Full climate change scenario stress test (2023)	'Climate' CoFR priority theme Network membership (e.g., CoFR's Climate Working Group, Network for Greening the Financial System)	STAR assessments Supervisory conversations (BAU and climate-specific) Survey on climate risk management	Climate Change Working Group

	Microprudential tools	Macroprudential tools	Stress testing	Financial system stewardship	Supervisory tools	Across-Reserve Bank activities
Financial inclusion: improving financial inclusion and maintaining financial sector diversity	New avenues to raise capital (e.g., mutual capital instrument) Change to risk weight for Kāinga Whenua loan product			'Inclusion' CoFR priority theme Development of the DTA Māori Access to Capital (A2K)	Supervisory conversations (e.g., incorporation of A2K and financial inclusion)	*Our Approach to Financial Inclusion* Financial Inclusion Working Group Future of Cash – Te Moni Anamata Māori Access to Capital
Cyber resilience: improving New Zealand's cyber resilience	FMI standards (cyber resilience standard) Guidance on cyber resilience		Incorporation of cyber events into stress tests (2022)	'Cyber Resilience' CoFR priority theme Cyber Data Collection Requirements	Supervisory conversations (e.g., information requests on incidents)	