Christian Hawkesby: Opening statement to Finance and Expenditure Committee

Opening statement by Mr Christian Hawkesby, Deputy Governor and General Manager of Financial Stability of the Reserve Bank of New Zealand, to the Finance and Expenditure Committee (FEC), Wellington, 9 February 2024.

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Kia ora koutou katoa
Ahi ahi marie koutou
E nga rangatira
Karanga mai, mihi mai, whakatau mai
Tna koutou katoa

I'm Christian Hawkesby, Deputy Governor and General Manager of Financial Stability. The Governor and I are joined today by Director of Prudential Policy Kate le Quesne and Manager System Monitoring and Analysis Chris McDonald.

Also present with us are some of the very capable team that contributed to the November Financial Stability Report (FSR), which provides our latest assessment of the resilience of the financial system, and our strategy and priorities in the face of that assessment.

As we said when we released the FSR in November, our assessment is New Zealand's financial system remains strong as it adjusts to a higher interest rate environment. New Zealand's financial sector is strong and well placed to handle both the current adjustment to higher interest rates and other more severe economic scenarios.

We remain in a global high interest, high inflation environment:

- while central banks globally have slowed the pace of tightening, the impact of previous interest rate increases is yet to be fully felt
- a weakening in global demand, particularly in China, has contributed to lower key commodity prices for New Zealand, and
- we are monitoring developments in the Middle East closely.

Domestically, New Zealand households continue to face higher debt servicing costs. Although most borrowers have been able to manage the increases by using their savings buffers and reducing their spending in other areas, we know that some people are struggling and there has been an increase in borrowers who are falling behind on mortgage payments.

Businesses are continuing to service their debt. Although the dairy and commercial property sectors are facing challenges, partly due to higher debt servicing costs.

I'll briefly provide a few updates on developments since we published the FSR in November. In January we launched a consultation on activating debt to income (DTI) restrictions and loosening loan-to-value ratios (LVR) for residential lending. DTI restrictions set limits on the amount of debt borrowers can take on relative to their income, and we see them as a complementary tool to LVRs that will enable us to more efficiently target financial stability risks.

We've continued the mahi around implementing the new Deposit Takers Act, which will transform our approach to the regulation of banks and other deposit takers, while helping to ensure the safety and soundness of deposit takers. The Act introduces a new Depositor Compensation Scheme (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. A substantial work programme is underway to implement the new prudential framework for deposit takers. Parts of the current Banking (Prudential Supervision) Act 1989 relating to the regulation and supervision of registered banks and the Non-bank Deposit Takers Act 2013 will remain in force until the remaining parts of the DTA have been fully implemented.

We've also continued our collaboration and engagement with industry around improving Mori access to Capital. We are working collaboratively with retail banks to help them understand the flexibility of the regulator regime, and it's been heartening to see some banks delivering innovative ways to support Mori to build homes on their whenua/land.

We look forward to our continued engagement with Finance and Expenditure Committee and we welcome your questions.