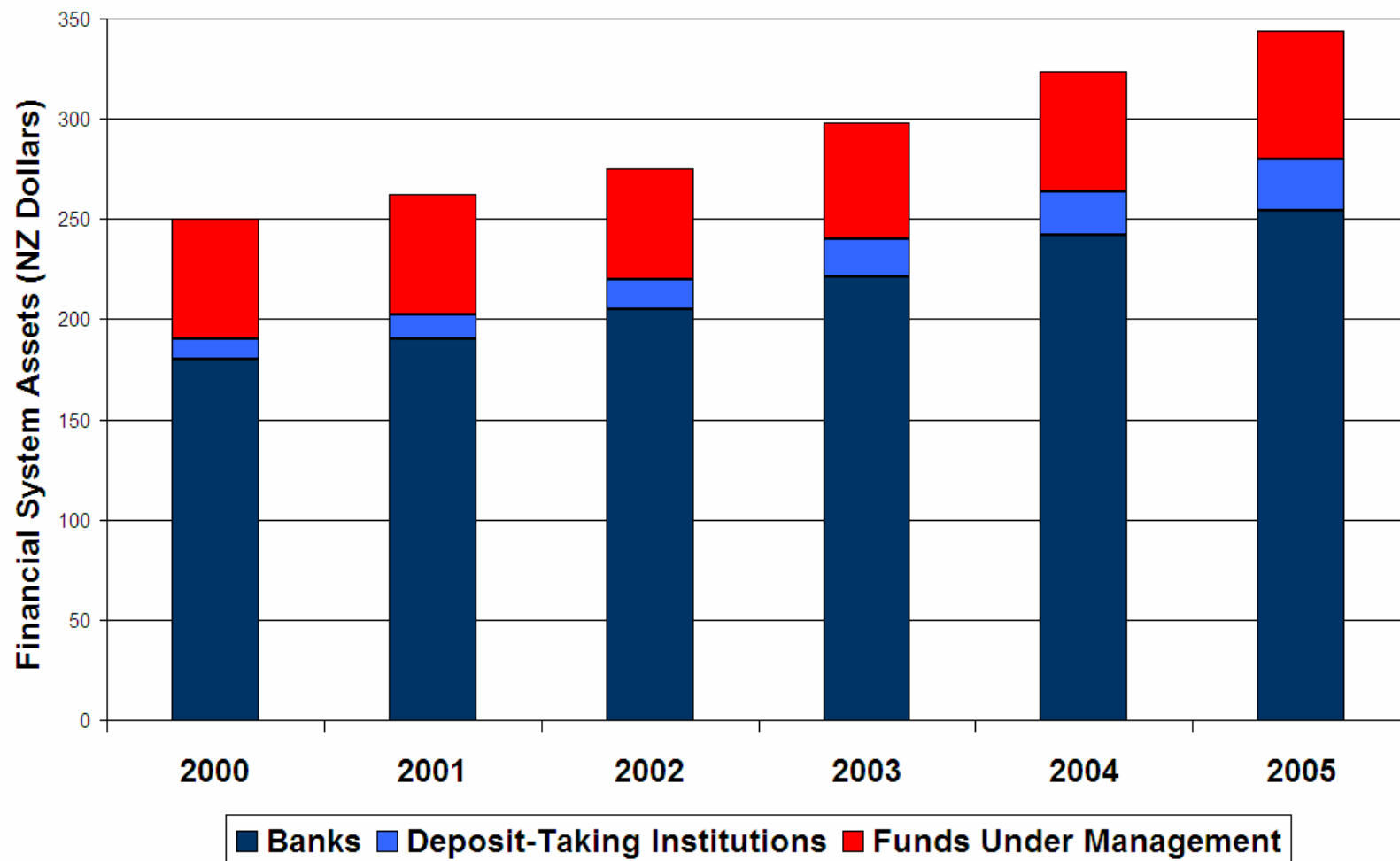




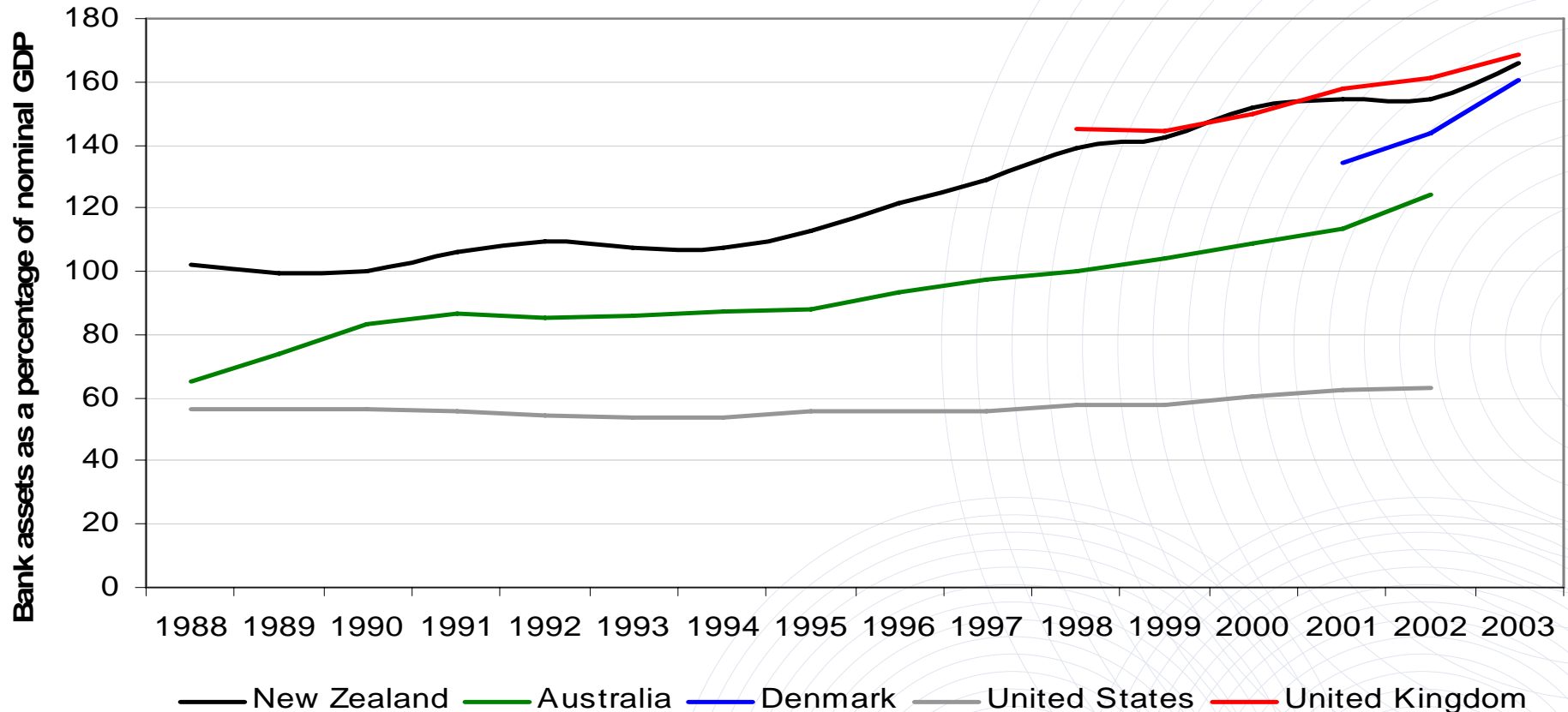
# Financial Sector Reform in New Zealand

Dr Brian McCulloch – New Zealand Treasury

# Banks dominate the New Zealand financial system.

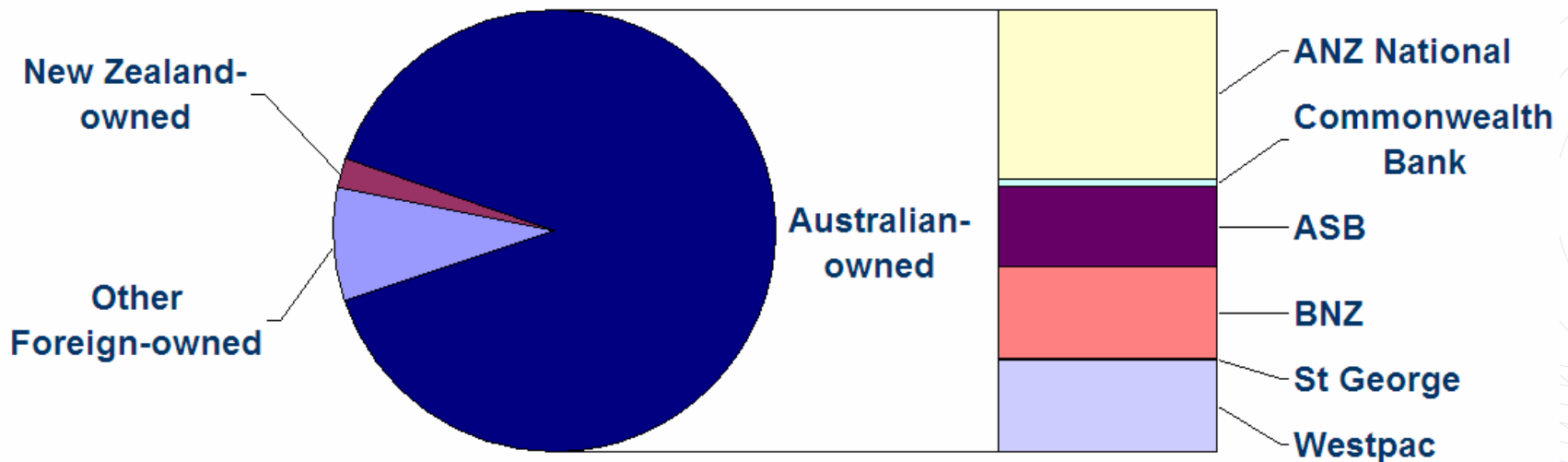


# Bank assets have grown significantly in the last two decades.



# Australian-owned banks hold most of the New Zealand banking market share.

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# Regulators

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- **Securities Commission**
  - Enforcement, monitoring and market oversight
  - Law reform
  - Exemptions and authorisations
  - International cooperation
  - Public understanding
- **Reserve Bank of New Zealand**
  - Bank licensing and supervision
- **Government Actuary**
  - Regulation of superannuation schemes

# Reform Experience

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## Pre-1984

- Highly regulated markets, including financial sector.
- Conflicting monetary policy objectives with reliance on regulatory control.
- Low economic growth, serious and persistent current account deficits, unemployment, high and variable inflation.

## Key Financial Reforms

- Interest rate controls abolished
- NZ Dollar floated
- Lifted restrictions on balance-sheet structures
- Relaxed financial sector entry restrictions
- Removed limits on foreign ownership of NZ companies
- Privatisation of state-owned financial institutions
- Removed foreign currency borrowing restrictions
- Monetary policy independent focus on inflation

# Reform Experience [2]

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## Subsequent reforms

- Securities regulation and takeovers laws
- Financial reporting laws (including IFRS)
- Insolvency law
- Trans-Tasman coordination of financial sector regulation

## Ongoing priorities

- Financial products and providers
- Auditing
- Financial intermediaries
- Anti- money laundering
- Supervision of NBFIs
- Further Australian regulatory harmonisation

# Assessments of New Zealand Capital Markets

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- *Financial Stability Report* (six-monthly, May/November)
  - Reserve Bank of New Zealand
  - Assesses the soundness and efficiency of the New Zealand financial system
- *Financial System Stability Assessment* (2004)
  - International Monetary Fund
  - Have been undertaken in 76 countries since 1999, including 10 APEC economies
- *Regulation of Financial Systems and Economic Growth* (2006)
  - OECD
  - Examines relation between financial system regulation and economic growth in a sample of 25 countries, including New Zealand

- Work-based savings scheme
- Voluntary participation (opt out)
- Defined contribution
- Private sector providers
- Payroll deductions through Inland Revenue
- Government up-front contribution and fee subsidy
- Locked-in until eligible for NZS (age 65)
  - Access for first-home ownership
- To be implemented in 2007
  - 25% of workforce assumed to be enrolled by 2012