



# Reserve Bank of New Zealand

## *Implementing Monetary Policy in New Zealand*



Sandeep Parekh  
Dealer/Analyst, Domestic Market Operations



# Just a note.....

*.....this presentation is not financial advice*



# Outline

- Monetary Policy in New Zealand
- The Team
- Settlement Cash Balance
- Open Market Operations
- FX swaps
- Standing Facilities
- Issues
- Questions?



# Monetary Policy in New Zealand

- The RBNZ reviews the Official Cash Rate (OCR) every 6 weeks
  - Each quarter the OCR review is accompanied by a Monetary Policy Statement
- Economic and market situation both locally and offshore discussed across the Bank
- Governor's committee determine appropriate OCR. However, Governor is the *sole decision maker*



# The Domestic Markets Team

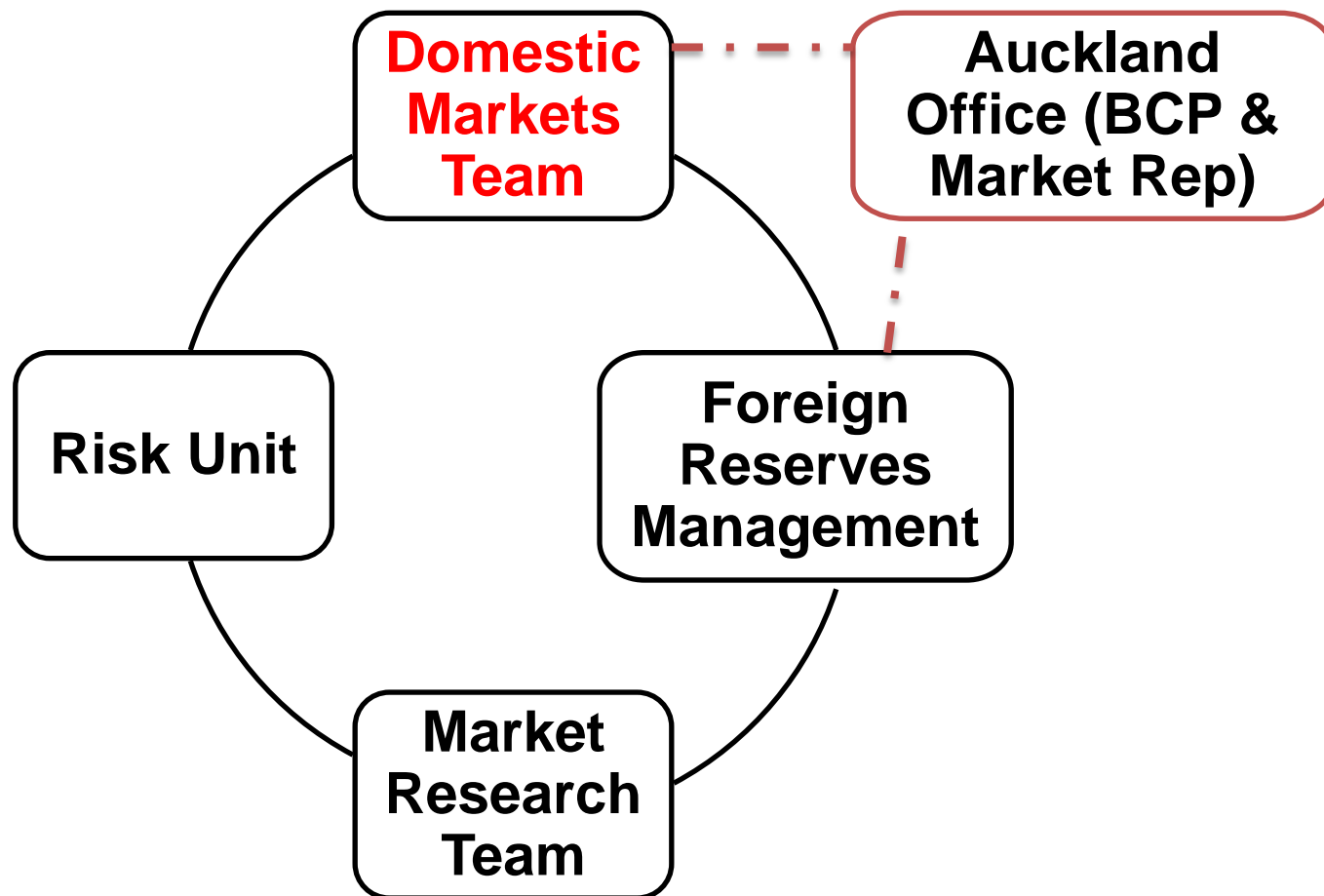
- Tasked with implementing monetary policy
- A small, but highly effective team of five

## *Our Vision*

***Influence*** short term interest rates to achieve the RBNZ's monetary policy goals while promoting a sound, efficient and innovative banking system that provides confidence in New Zealand's Financial Markets.



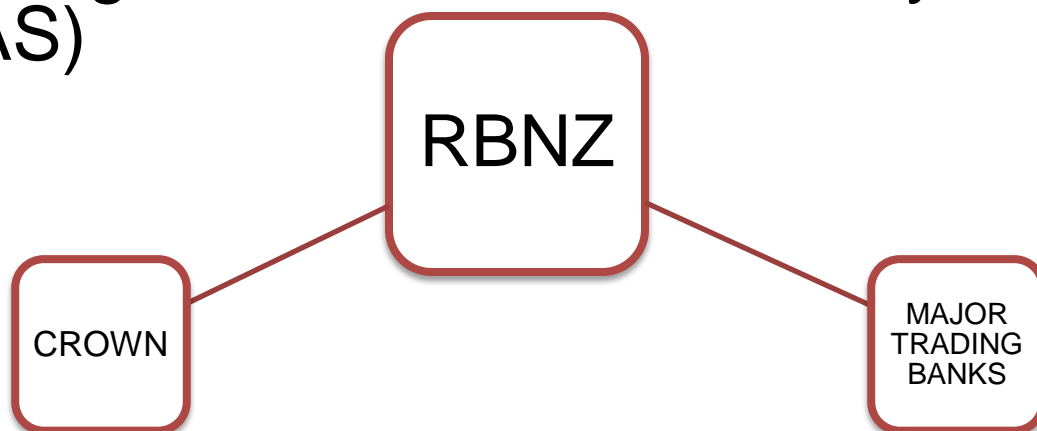
# Financial Markets Department





# Settlement Cash Balance

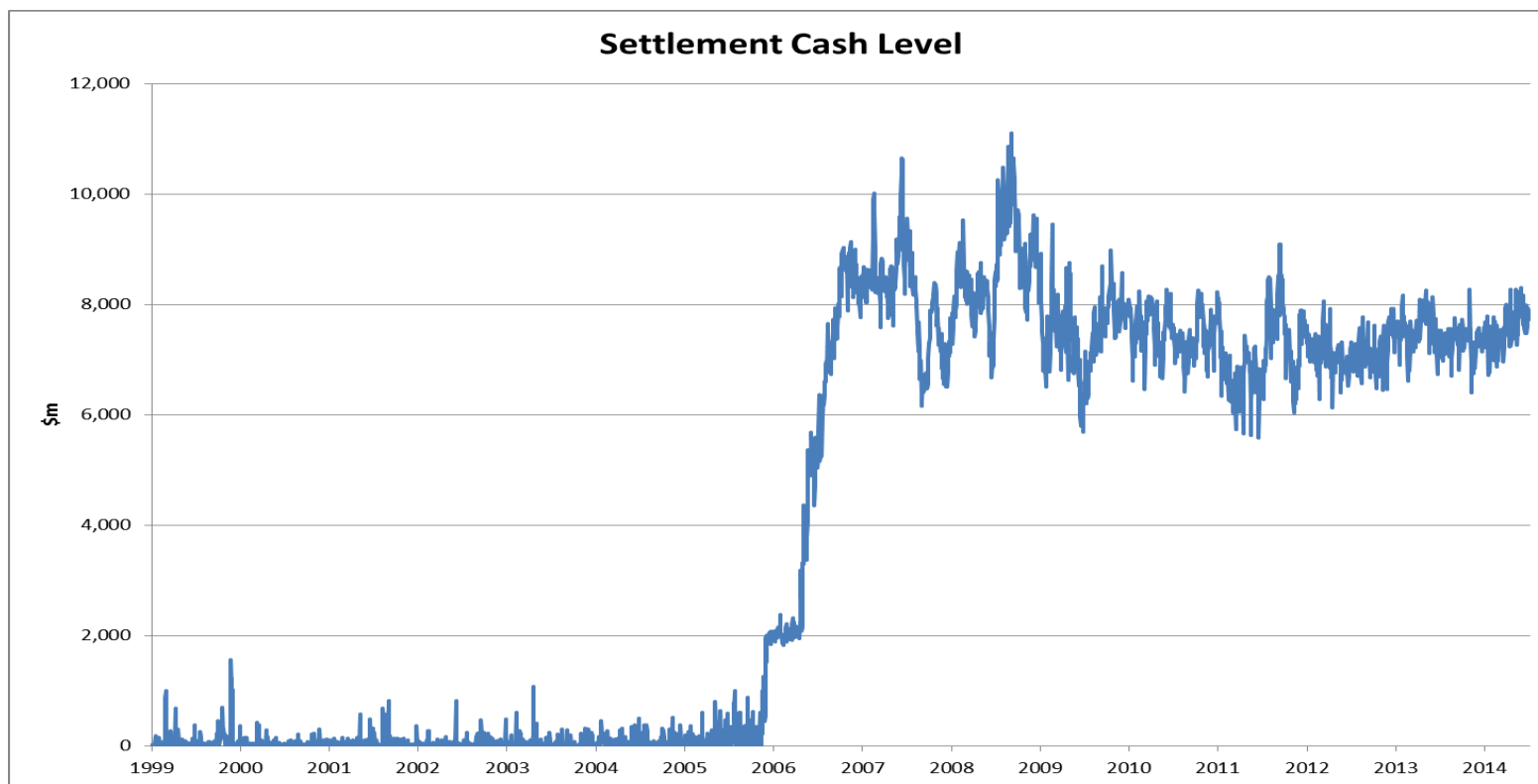
- Cumulative amount of cash sitting in the Exchange Settlement Account System (ESAS)



- Issuing tiers to ESAS account holders
  - Ensures adequate distribution of cash
  - Penalties imposed for breaching tiers
  - ESAS account cannot be overdrawn



# Settlement Cash Balance: Cashing Up the Banking System



- In NZ, a banking day starts at 09:00 and ends at 08:30 the following day





# Open Market Operations (OMO)

- The Domestic Markets Team conducts operations to withdraw (REPO) or inject (REVERSE REPO) cash into the banking system
- The OMO can also be used to offset any transactions conducted in the FX swap market
- The team is also tasked with repurchasing maturing NZ Government Bonds on behalf of the NZ Debt Management Office



# Reserve Bank Bills (RB Bills)

- Regular Monday and Wednesday tender
- Participation in RB Bill tenders was slow to start but now improving
- Moving towards using RB Bills in the OMO – to aid the absorption of excess liquidity in the system



# FX Swaps

- Used to sterilise cash balances when the Crown expects large cash inflows/outflows
- Allows Domestic Markets team to remain engaged with counterparties (local and offshore) – market intelligence
- Maintaining liquidity in the FX swap market



# How active are we?

Instrument	Average outstanding for July 2015 (\$USD)	Average outstanding for Aug 2015 (\$USD)	Average level outstanding for 2015 YTD (\$USD)	Average level outstanding for 2014 year (\$USD)
Repo	\$450 million	\$380 million	\$260 million	\$315 million
Reverse Repo	\$0	\$30 million	\$30 million	\$160 million
RB Bills	\$1,240 million	\$2,000 million	\$730 million	\$195 million
FX Swaps	\$6,300 million	\$5,900 million	\$5,545 million	\$5,538 million



# Standing Facilities

- Overnight Reverse Repo Facility (ORRF)
  - Participants borrow cash from the RBNZ
  - 50 bps over OCR
- Bond Lending Facility (BLF).
  - Participants borrow bonds from the RBNZ
  - 150 bps under OCR

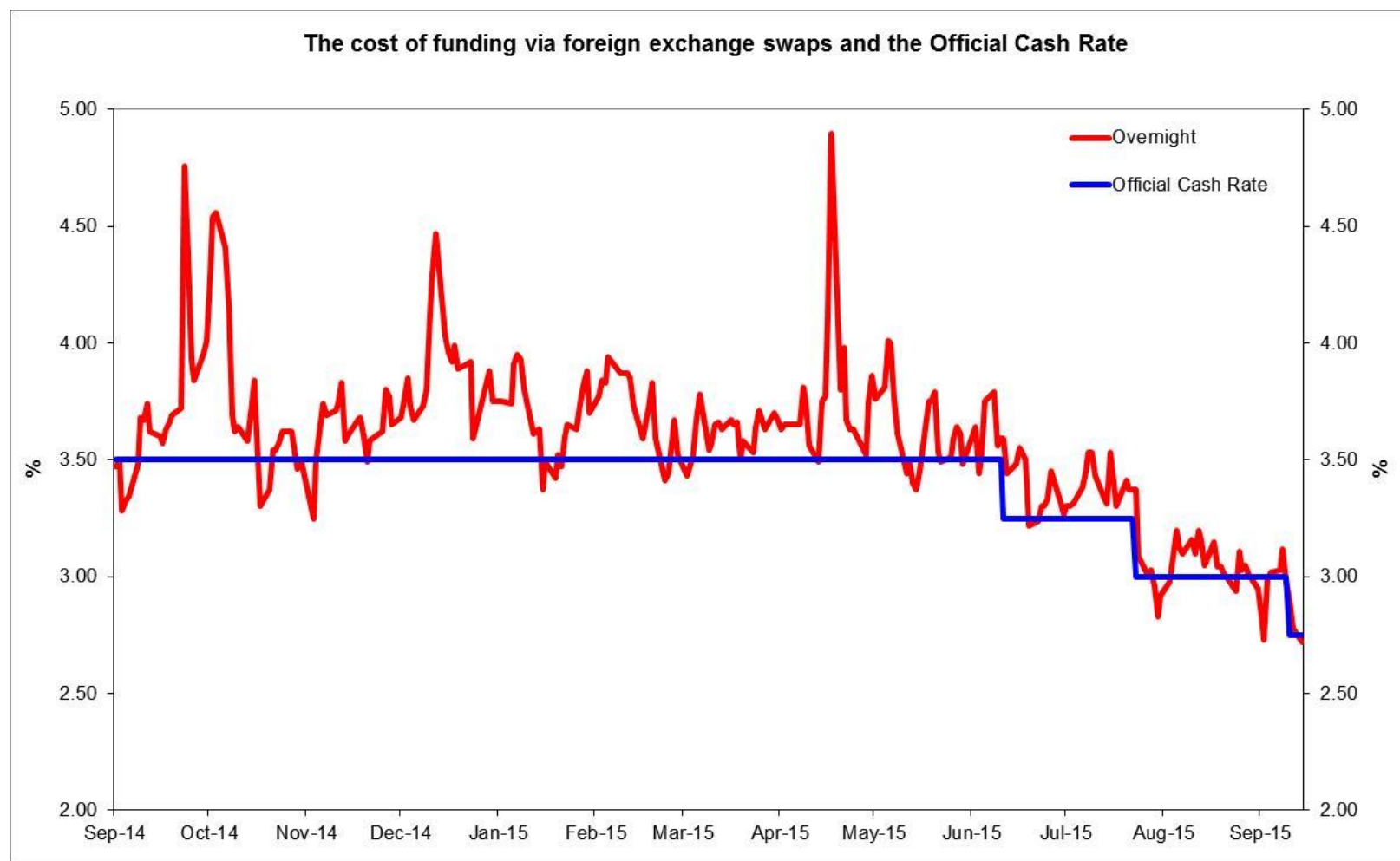


# Issues we face

- Liquidity
  - Historically thin in domestic instruments but now affecting FX swaps
- Leading to greater volatility
  - Difficulty keeping short term rates close to policy rate
- RBNZ response
  - Allow smaller deviation from policy rate
  - Participating more in markets (FX swap & Repo/RB bill)
  - Short-term response



# Costs of funding & the OCR





# Questions?

