



Institute of Finance Professionals New Zealand Inc.

Productivity growth underpins Wellbeing initiatives

Why is productivity important?

In a week's time the Government will publish its first Wellbeing Budget, aimed at tackling long-term challenges. Why is improving productivity important to delivering on this?

We are already amongst the hardest working people in the OECD in terms of hours worked, so improving productivity is key to achieving higher incomes. Regrettably, as noted a few years ago by the Savings Working Group, low levels of business investment mean that a lot of hours are worked for modest reward.

New Zealand was once one of the wealthiest countries in the world but has slipped to around 21st in the OECD. This matters according to the NZ Productivity Commission since “as a result, we collectively have fewer options for improving wellbeing than if New Zealand had performed better.”

“Wellbeing can be increased by things like quality healthcare and education; excellent roads and other infrastructure; safer communities; stronger support for people who need it; and improved environmental standards.”

How should we evaluate recent policy developments in the financial and capital markets when viewed through the productivity lens?

Green bonds

One of the Wellbeing budget's priorities is to assist productive businesses transition to a low-emissions economy.

After significant and positive engagement last year, the FMA has indicated that it is open to exemptions enabling Green Bonds to be issued under the FMCA simplified offering formats, such as Same Class offers.

We expect consultation on a class exemption shortly, but in the meantime specific exemptions will be considered. This should unlock the potential for our capital markets to help respond to carbon transition and the climate challenge.

Bank regulatory capital review

Prudential policies are aimed at promoting a sound and efficient financial system and avoiding the significant damage to the financial system that would result from failure of a registered bank.

Submissions have just closed on the Reserve Bank's proposal to almost double the amount of capital required by banks. The benefits and costs of this proposal are significant, given their potential effects on overall cost of capital, the attractiveness of lending to particular sectors, deposit rates, and financial system structure.

Prudential policies also have an insufficiently acknowledged part to play in influencing investment, capital accumulation and productivity. New Zealand's notable shortcomings in this regard make these a vital focus for broader public policy.

A key premise of the Reserve Bank in its capital review is that New Zealand's high levels of household and farm debt, and the fact that we are a small open economy, require an overlay of conservatism in our prudential settings. This is the 'risk aversion framework' underlying the new capital requirements, and has translated into a proposed capital level that would be among the highest in the world.

The same factors underlying the recommended risk aversion, however, make us heavily reliant on debt funding and thus particularly sensitive to the cost of debt capital – particularly when combined with our muted equity investment potential resulting from inadequate domestic savings, and the constraints on foreign direct investment owing to the Overseas Investment regime.

This has significant implications both for soundness and efficiency. A key point of the INFINZ submission was that the range of prudential mechanisms available to the RBNZ are much broader than just "higher equity capital" – by considering optimal settings *across the suite of prudential tools*, we can achieve greater stability without the same potential negative consequences for growth.

Phase 2 review of prudential policy

Which leads to the Phase 2 review. A key question addressed in the first consultation document was whether the checks and balances applying to formulation of prudential policy in New Zealand have kept pace with the increasing economic significance of those policies.

The Reserve Bank's current regulatory capital proposal is one of the most significant prudential policies in the 30 years the RBNZ Act has been in place. We are not suggesting that the capital review be put on hold until the new accountability arrangements are in place, but there is nothing to stop some additional rigour and scrutiny from being applied to the current process.

For example, macro-prudential policies such as the LVR regime – which arguably have narrower economic impact – are subject to an MOU with the Minister of Finance, setting out a process of oversight and engagement similar to that applying under the RBNZ Act to monetary policy.

It would be open to officials to apply a similar oversight framework to the capital review process. This would give the capital proposal a level of examination that is warranted by its economic significance. It would also help the government to tackle in a more joined-up way the hard issues arising from our investment deficit and related imbalances.

Productivity is a key lens to review policy

From INFINZ's perspective, the unifying theme is the role that each of these policy developments have to play in influencing the increased investment and productivity that will underpin the wellbeing of all New Zealanders.

Jim McElwain

Executive Director

Institute of Finance Professionals NZ Inc.

Get set for 2019 INFINZ Awards

Excellence in 14 categories of financial services will be recognised tonight at the annual INFINZ Awards dinner, being attended by 740 guests in the Cordis Hotel. Two Fellows and one Distinguished Fellow will also be inducted.

INFINZ is grateful to all the sponsors of the INFINZ Awards and acknowledges the New Zealand Herald as Media Sponsor and the *Herald's* The Business as sponsor of the Institutional Banking Innovation Award.

Extended coverage of the Awards will be provided in The Business on Friday 31 May.

2019 INFINZ Conference

The annual INFINZ one-day conference will be held in Auckland at the SKYCITY Auckland Convention Centre on Tuesday 22 October.

This year the theme is “**Create: Maximising value through purpose**”.

The event brings together world-class speakers, including:

- **Carl R. Tannenbaum**, Executive Vice-President and Chief Economist of Northern Trust, a US\$1 trillion fund manager, and former Head of Risk at the Federal Reserve, interviewed by ANZ's Chief Economist, **Sharon Zollner**;
- **Michael McQueen**, Futurist and recently named as Australian keynote speaker of the year; and
- **Professor Ian O Williamson**, Pro Vice-Chancellor and Dean of Commerce at Victoria Business School, who is a globally recognised expert in the area of human resource management.

Join more than 450 leaders from the corporate and financial sectors at the conference.

WHAT IS INFINZ?

INFINZ is an individual membership organisation for all professionals operating in New Zealand's financial and capital markets eco-system.

INFINZ's mission is to help create a more prosperous New Zealand by improving the capability and effectiveness of the New Zealand financial and capital markets eco-system and our members within them.

We have 1700 members from; corporates, fund managers, banks, professional services firms, regulators, academics and students and all those infrastructure organisations that support the financial and capital markets.

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