

# New Zealand and the Financial Crisis of 2008

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# The crisis in New Zealand

- Finance company failures
- A housing price bubble (was monetary policy too loose?)
- Broader economic recession, occurring world-wide, rather than just in one country (as in the past)

# Special factors that apply in New Zealand

- Foreign ownership of banks
- Large balance of payments deficit on current account
- Banks heavily dependent on non-resident funding
- Household asset portfolios with concentration on housing

# Foreign ownership of banks

As at 31 December 2008, New Zealand banking system was

- 96.1% foreign-owned
- 89.7% owned by the big 4 Australian banks

# Potential consequences of foreign ownership of banks

- Possibility that host country interests will be overridden by home country interests – limited evidence for this internationally
- But banks have substantial investments in goodwill in New Zealand business which would be forfeit if they were to cut and run for New Zealand market
- New Zealand banks enjoy parent bank credit ratings

# Regulatory challenges around foreign ownership

Home country and host country supervision

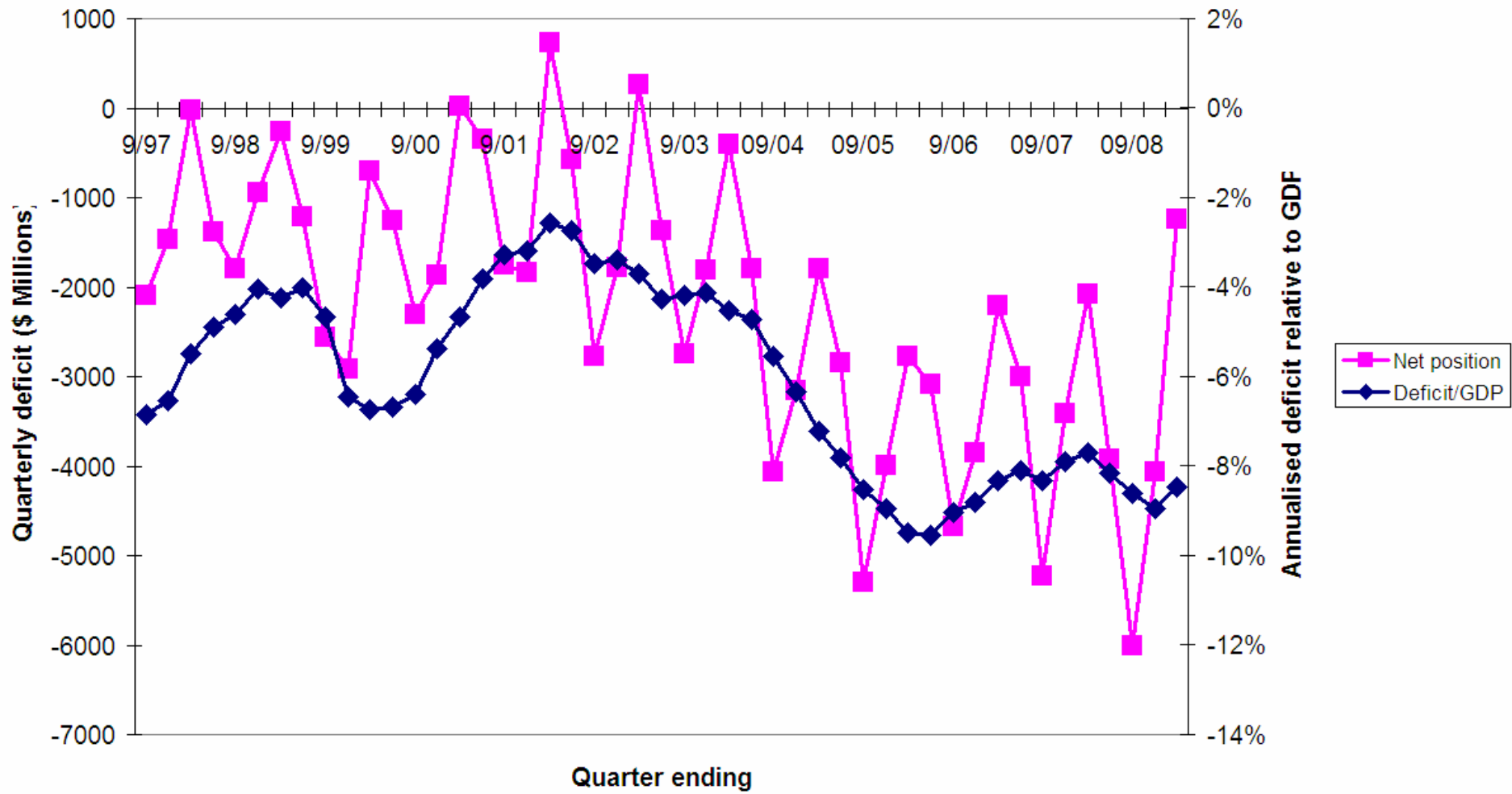
Is the business undertaken through a branch or a subsidiary?

Can banks be de-capitalised anyway?

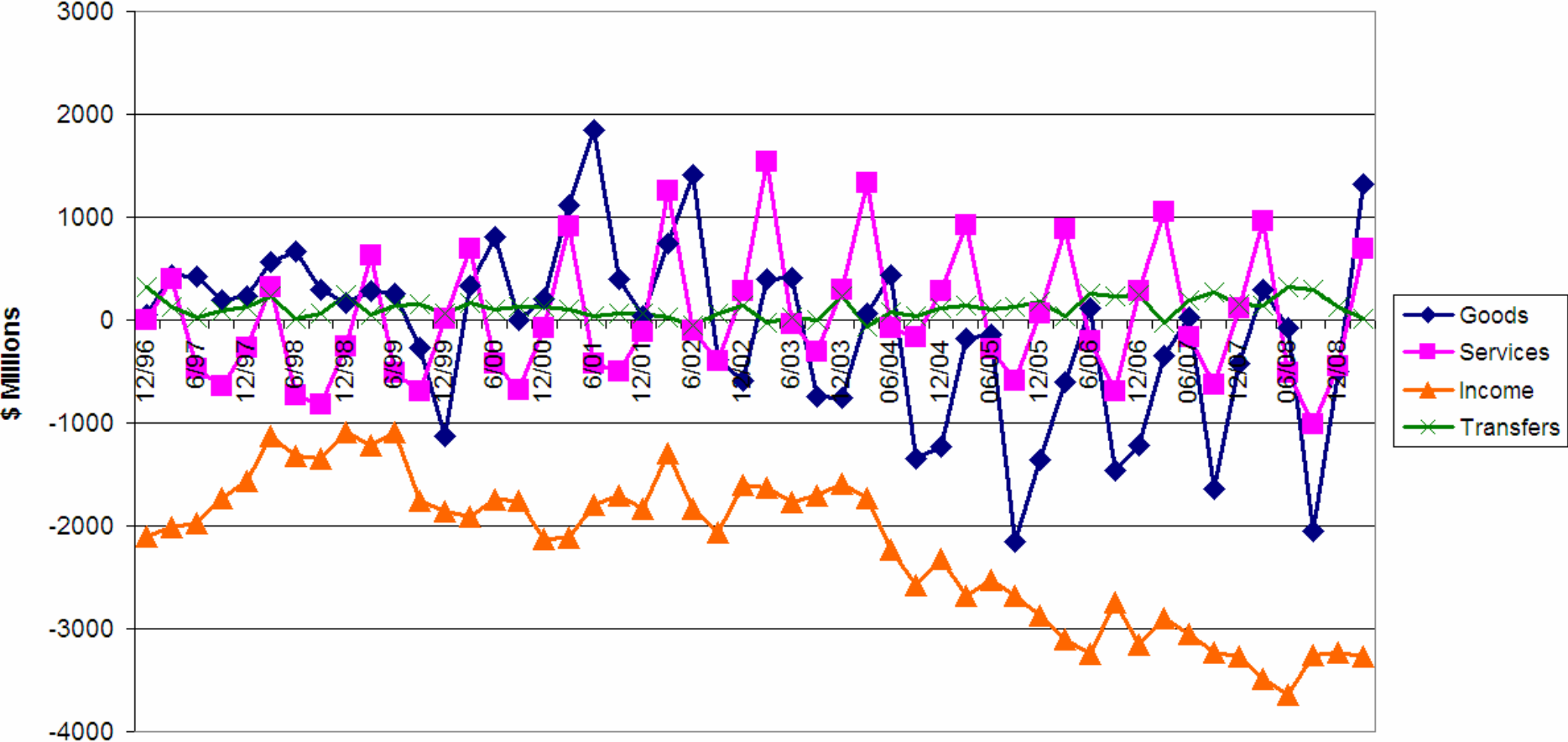
# Balance of payments current account

- Does the current account deficit matter?
- Do we have a short term disequilibrium or a chronic deficit?
- How is the deficit funded? What are the implications of long-run capital account surpluses?

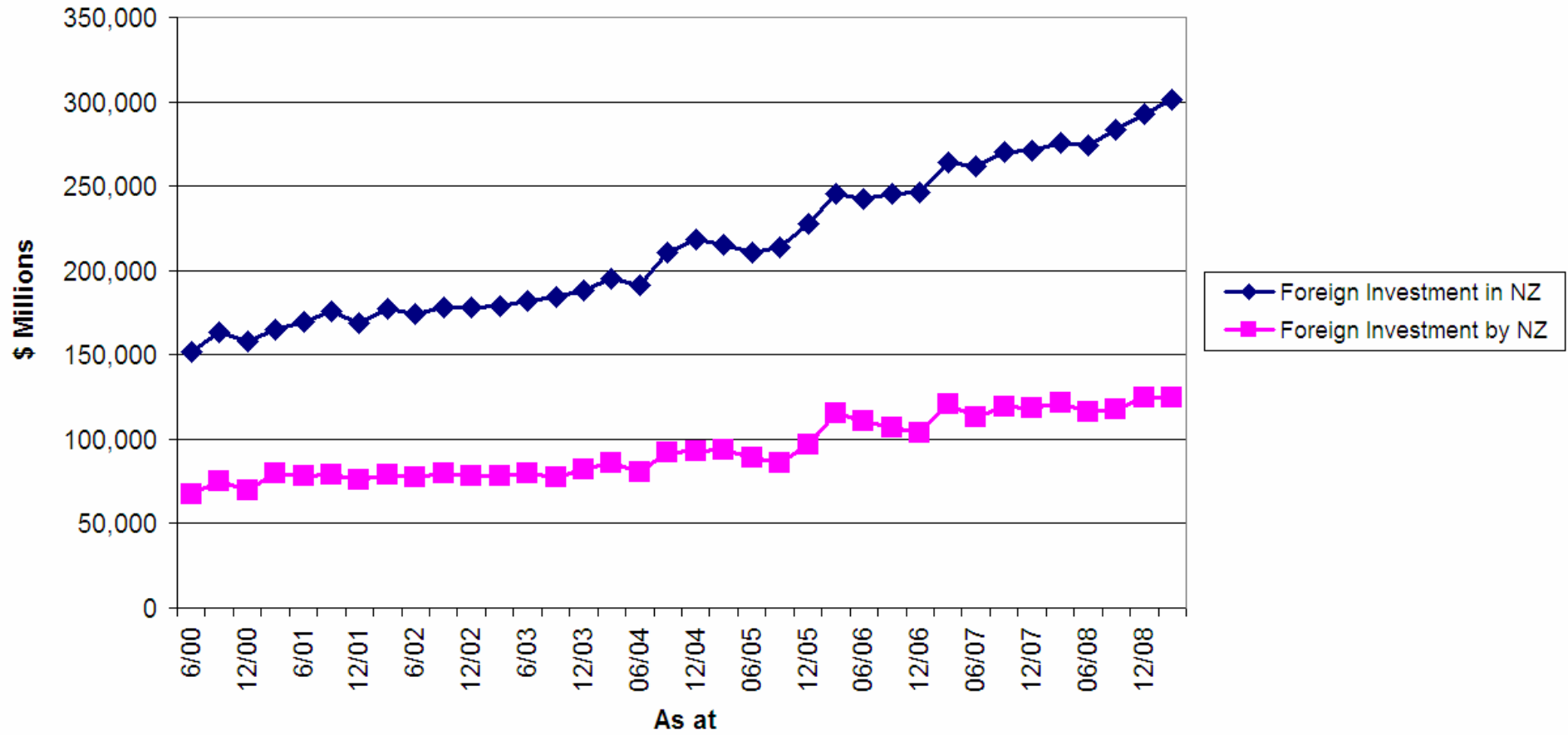
**Figure 1 - BALANCE OF PAYMENTS CURRENT ACCOUNT**



**Figure 2 - NEW ZEALAND BALANCE OF PAYMENTS CURRENT ACCOUNT - INDIVIDUAL COMPONENTS**



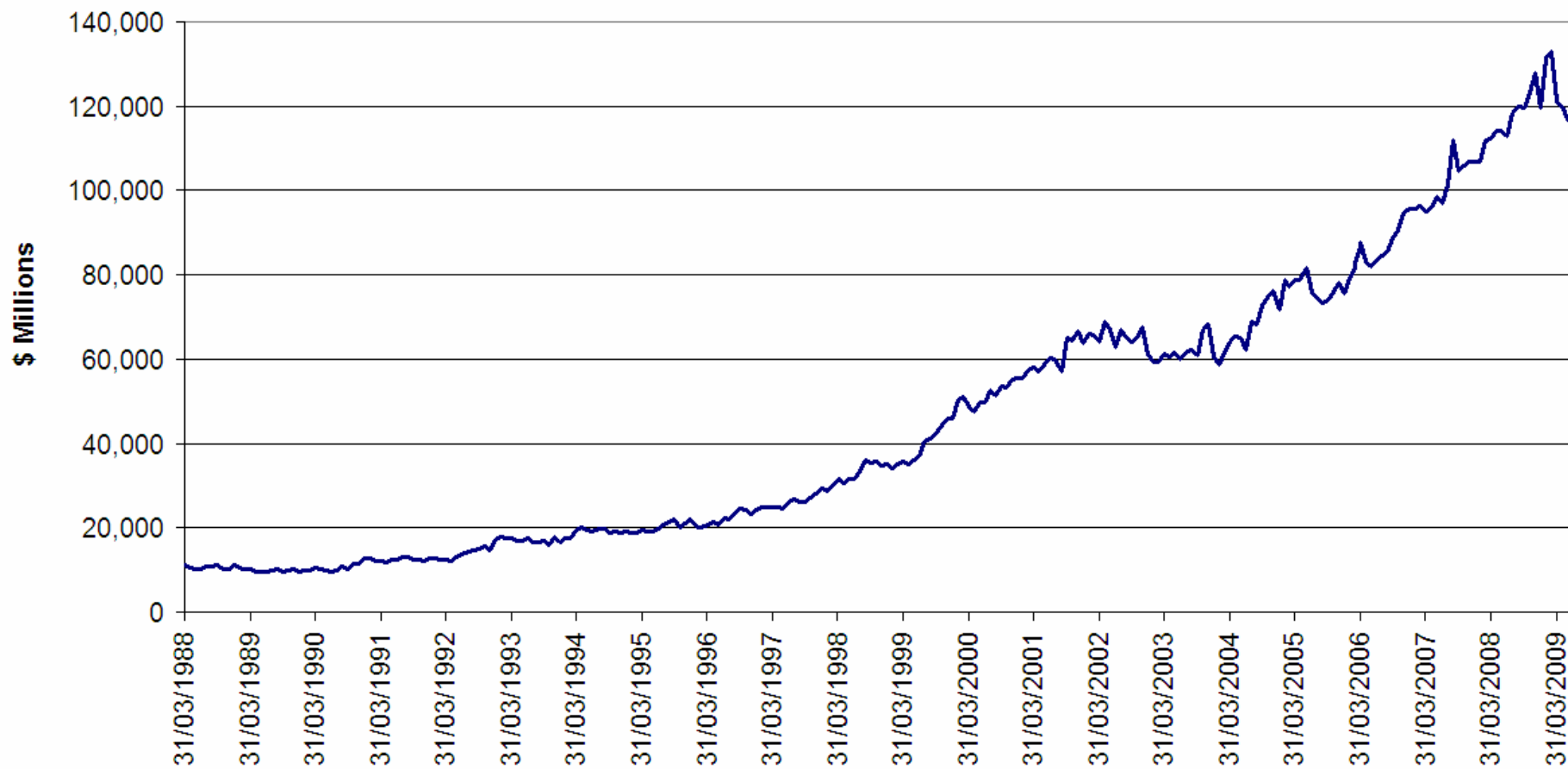
## STOCK OF FOREIGN INVESTMENT INTO AND OUT OF NEW ZEALAND



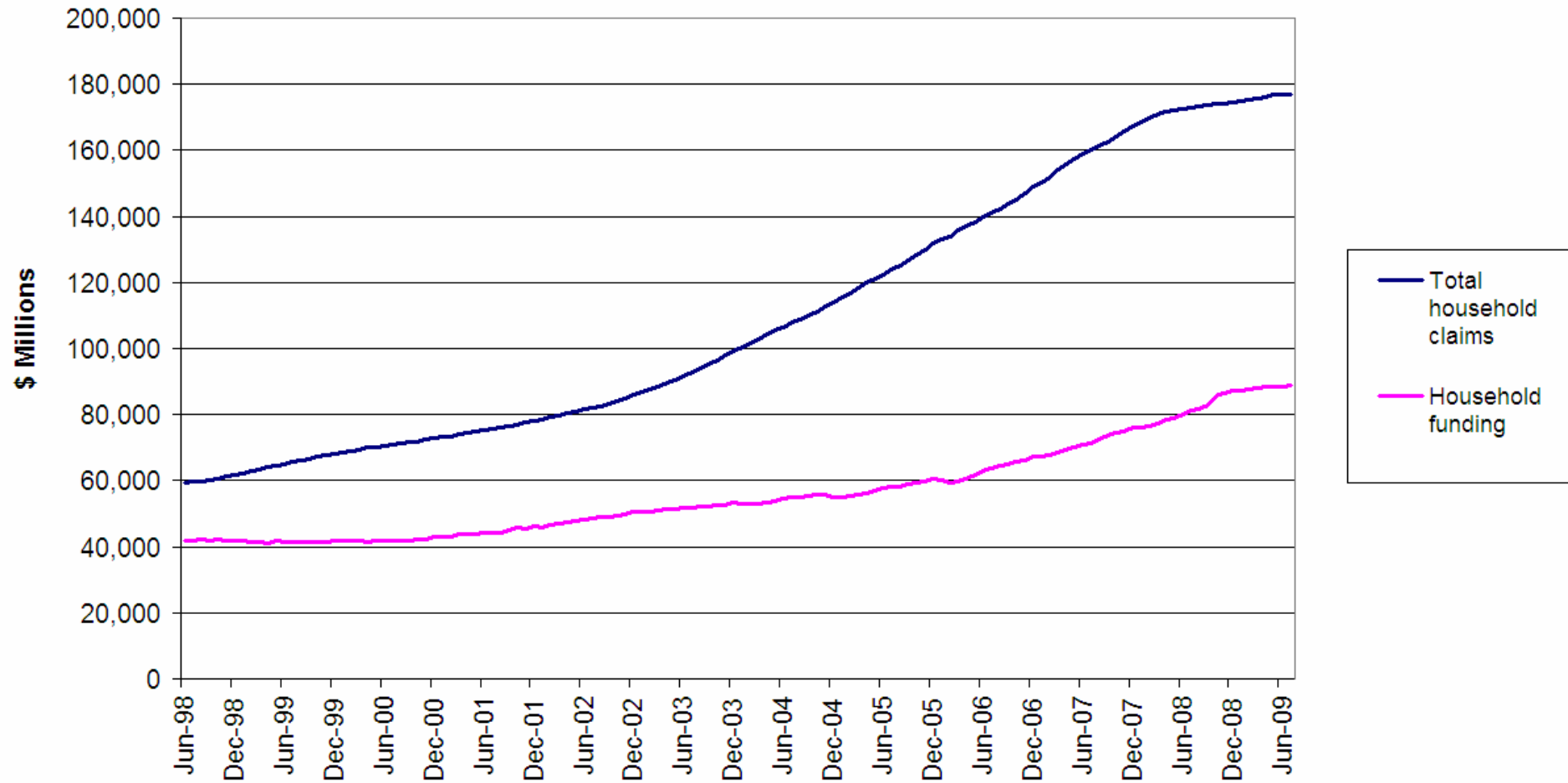
# Bank funding

- Major proportion of capital inflows absorbed into banking system
- Non-residents major providers of funding for New Zealand banks, in both New Zealand dollars and foreign currencies, although the New Zealand dollar is the functional currency
- New Zealand dependent on stable and optimistic views by foreign investors

## TOTAL NON-RESIDENT FUNDING OF THE NEW ZEALAND BANKING SYSTEM



## BANK CLAIMS ON & FUNDING FROM HOUSEHOLDS - NEW ZEALAND



# The financial structure of the New Zealand economy

- Bank-dominated financial system
- Households emphasise housing almost to exclusion of other asset classes
- Is this reflected in dearth of funds for business investment, and in thinness of New Zealand's capital markets?

Figure 6 - NEW ZEALAND HOUSEHOLD ASSETS (Including equities)

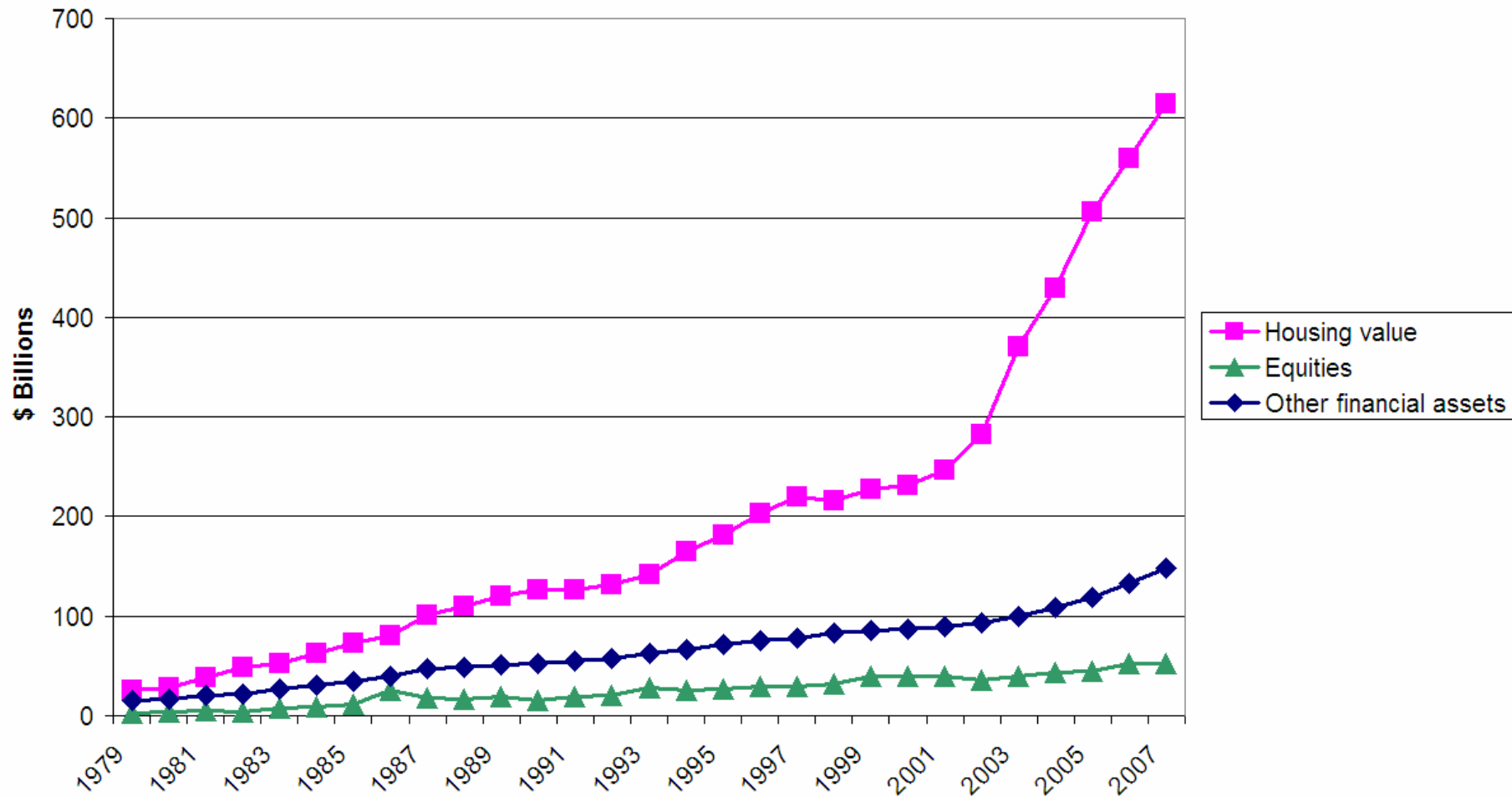
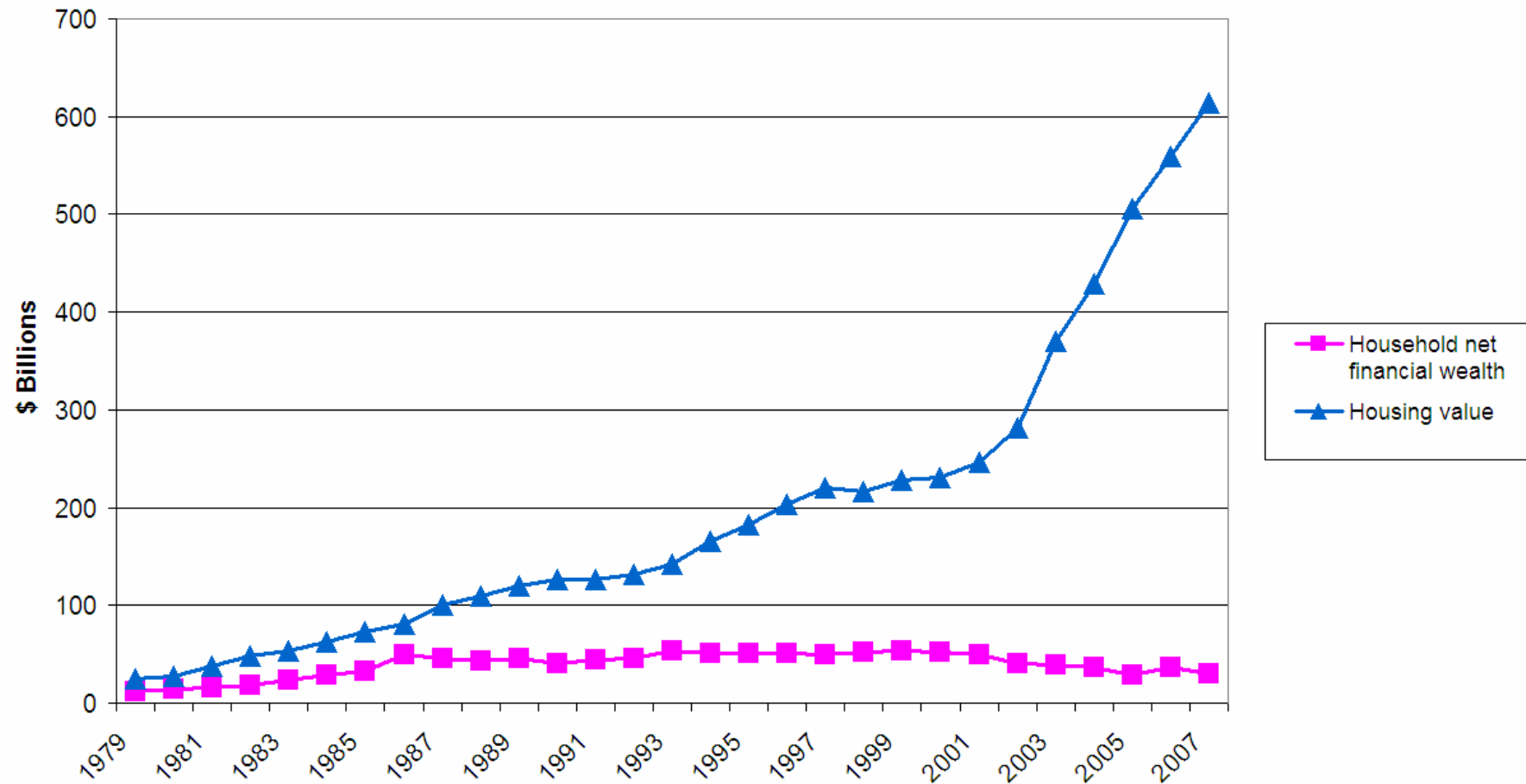


Figure 7 - NEW ZEALAND HOUSEHOLDS' ASSETS



# Summary thoughts

- Can we have a recovery of housing prices without engendering a blow-out in the balance of payments current account?
- How can New Zealand keep on funding the balance of payments current account?
- Can we get out of recession without a major realignment of the exchange rate?
- Do we have a savings deficit?