

**Submission**

**By**

**THE  
NEW ZEALAND  
INITIATIVE**

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**To the Reserve Bank of New Zealand**

on the

**2025 Review of Key Capital Settings**

2 October 2025

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## 1. INTRODUCTION AND RECOMMENDATIONS

- 1.1 This submission to the Reserve Bank of New Zealand (**RBNZ**) on its 2025 Review of Bank Capital Requirements (the **Review**) and accompanying consultation paper (the **Consultation paper**)<sup>1</sup> is made by The New Zealand Initiative, an independent think tank supported primarily by major New Zealand businesses. In combination, our members employ more than 150,000 people across the economy.
- 1.2 The Initiative undertakes research that contributes to the development of sound public policy and the creation of a competitive, open and dynamic economy and a free, prosperous, fair and cohesive society.
- 1.3 The Initiative's members span the breadth of the New Zealand economy, including banks and companies that use banking services. However, the views expressed in this submission are the views of the authors, not those of our members.
- 1.4 This submission focuses primarily on the four major New Zealand banks (ANZ, ASB, BNZ, Westpac) – classified as “Domestic Systemically Important Banks” (or **D-SIBs**) because these banks are systemically important, hold the majority of banking assets, and are the primary users of the Internal Ratings-Based (**IRB**) models most affected by the RBNZ's conservative capital overlays.
- 1.5 In summary, we submit:
- (a) **Efficiency should be the overriding test:** Financial stability – or “prudential regulatory” – settings exist to make New Zealanders better off, not as ends in themselves. They must pass an efficiency test: benefits to the community must exceed the costs. Without this discipline, regulations become “gold-plating” that harms the very people they aim to protect through higher borrowing costs and constrained credit. The large banks themselves are, in our view, relatively impervious to whatever prudential regulatory settings are imposed. They will adapt and continue to operate profitably. Our concern is not the impact of prudential regulatory settings on the banks themselves, but rather the flow-through effects on New Zealand borrowers, businesses, and the broader economy. Higher-than-necessary capital requirements translate directly into higher borrowing costs for households and businesses, reduced credit availability for productive investment, and slower economic growth. The ultimate question is therefore not whether banks can cope with conservative regulatory settings, but whether such settings serve New Zealanders' economic interests.
  - (b) **The RBNZ's 2019 bank capital decision lacked adequate justification:** As we explained in our 2024 submission to the Finance and Expenditure Select Committee inquiry on Banking Competition (our **FEC Submission**),<sup>2</sup> we have doubts about

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<sup>1</sup> Reserve Bank of New Zealand, 2025 [Review of key capital settings Consultation Paper](#) (Wellington: Reserve Bank of New Zealand, 25 August 2025)

<sup>2</sup> The New Zealand Initiative, *Submission to Finance and Expenditure Select Committee on Inquiry into Banking Competition* (Wellington: The New Zealand Initiative, 2024).

whether the RBNZ's December 2019 bank capital decision (the **2019 Decision**)<sup>3</sup> can be justified on efficiency grounds. The RBNZ acknowledged the decision would raise lending rates ~30 basis points and reduce GDP by up to 0.32% annually.

Independent analysts suggested the GDP impact could be closer to 1%. More broadly, analysts suggest that New Zealand's cumulative prudential regulatory burden may be costing the economy up to 2% of GDP, equivalent to approximately \$10 billion annually.<sup>4</sup> The RBNZ provided a cost-benefit analysis to support its case. However, as we explained in our FEC submission, the RBNZ's assumed values for important parameters are not robustly estimated.<sup>5</sup> We do not believe that the RBNZ is in a position to be confident enough for regulatory policy purposes that the long-term benefits to financial stability of its 2019 Decision outweigh these substantial economic costs.

- (c) **New Zealand's prudential regulatory settings depart materially from international norms:** Oliver Wyman, the international consulting firm commissioned by the RBNZ for this review, shows under current settings that our major banks currently hold capital buffers of around 21% Common Equity Tier 1 capital (**CET1**) compared with 13-19% for many peer countries, and 18.3% for Australia.<sup>6</sup> When the RBNZ's 2019 Decision is fully implemented in 2028, Oliver Wyman estimates this 21% requirement will reach 25%. The differences between the RBNZ's settings and international peers reflect regulatory framework variations rather than different portfolio mixes. Requiring each loan by a New Zealand bank to be backed by more capital than in peer countries means higher funding costs for banks, which translates directly into higher interest rates for New Zealand borrowers and less credit availability.
- (d) **The proposals in the Consultation paper show progress but stop short of a genuine reset:** The Consultation paper puts forward two proposals to adjust bank capital requirements compared with the 2019 Decision: Option 1 and Option 2. Yet both options maintain New Zealand as an international outlier through the persistence of conservative calculation methodologies. The most significant of these is the 85% output floor discussed in section 4, compared with a lower 72.5% international standard. However, given the fundamental flaws in the RBNZ's analytical framework identified throughout this submission, these modelling results cannot be relied upon to determine optimal settings.

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<sup>3</sup> Reserve Bank of New Zealand, [Capital Review Decision 2019](#) (Reserve Bank of New Zealand: Wellington 2019).

<sup>4</sup> Andrew Body and Simon Jensen, Supplementary Submission to the Finance and Expenditure Select Committee Inquiry into Banking Competition – Appendices, 10 February 2025, Appendix 7 and see Patrick Smellie, ["Officials MIA on banking competition, critics tell inquiry,"](#) BusinessDesk, 20 February 2025.

<sup>5</sup> The New Zealand Initiative, [Submission to Finance and Expenditure Select Committee on Inquiry into Banking Competition](#) op. cit. 8.

<sup>6</sup> Oliver Wyman, [Comparing New Zealand Bank Capital Ratios To International Peers](#) (Sydney: Oliver Wyman, 2025) 10.

- (e) **Any departure from international norms requires rigorous justification:** If the RBNZ's own analysis shows such substantial benefits from partial alignment, the burden of proof is on explaining why complete international alignment should not be pursued. The consultation fails to provide this justification, instead relying on the same flawed analytical framework from the 2019 Decision. A rigorous, independently peer-reviewed cost-benefit analysis should include an assessment of full international alignment, not just the limited options presented. Any such analysis will necessarily be imperfect given the knowledge limitations inherent in complex regulatory decision-making, but this makes transparency and independent scrutiny even more essential.
- (f) **Implementation of the December 2019 decision should be paused pending proper reassessment:** The timing of this Review is unfortunate. The RBNZ released the Consultation paper just days after the Finance and Expenditure Committee published its report recommending an independent review of the December 2019 decision. Rather than rushing ahead with a consultation that uses the same over-simplified analytical framework, implementation of the remaining 2019 increases should be paused pending a comprehensive, independent reassessment of the prudential regulatory settings.

1.6 We expand on these points in the sections that follow.

## 2. EFFICIENCY SHOULD BE THE OVERRIDING TEST

- 2.1 The fundamental test for any prudential regulation should be efficiency: does it make New Zealanders better off? Regulations that impose costs exceeding their benefits harm the very people they purport to protect. This principle should guide the RBNZ's approach to capital requirements, ensuring that any departure from international norms delivers clear, demonstrable benefits that justify the economic costs imposed on New Zealand businesses and households.
- 2.2 This efficiency test is particularly important in banking regulation because the regulated entities – the banks themselves – are generally well-positioned to adapt to regulatory requirements by adjusting their business models and pricing. The economic costs of over-regulation are therefore borne not by the banks, but by their customers and the broader economy through higher borrowing costs, reduced credit availability, and constrained economic growth. Effective prudential regulation must therefore focus on optimising outcomes for the economy as a whole, rather than simply imposing conservative requirements that banks will inevitably pass through to borrowers.
- 2.3 In this context, we were pleased to see Minister of Finance Nicola Willis reinforce the efficiency principle through her December 2024 Financial Policy Remit to the RBNZ (FPR).<sup>7</sup> The Minister's FPR directs the Bank to "have regard to the desirability of maintaining competition in the market for financial services" and "encourage the efficient provision of financial services." This guidance reflects the Government's

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<sup>7</sup> Minister of Finance, [Financial Policy Remit](#) (Wellington: New Zealand Government, December 2024).

recognition that financial regulation must balance stability objectives with economic efficiency and competition.

- 2.4 The Finance and Expenditure Committee’s 2025 inquiry into banking competition heard extensive evidence that high capital requirements may be undermining efficiency and competition, leading the Committee to recommend that the Government should reinstate “market efficiency as a key objective” of the RBNZ’s financial stability function.<sup>8</sup> The Committee also called for this Review to evaluate the overall risk tolerance underpinning the RBNZ’s 2019 Decisions.
- 2.5 The efficiency test becomes particularly important when New Zealand’s settings depart materially from international norms. As Oliver Wyman’s analysis demonstrates, New Zealand banks are required to hold more capital than many international peers. This departure is significant even compared with Australia, which itself has higher capital requirements than most countries. Such departures from established international practice require exceptional justification through rigorous cost-benefit analysis. If anything, New Zealand’s additional regulatory layers – including stringent outsourcing requirements, enhanced crisis management frameworks, and conservative collateral policies – should *reduce* rather than increase the need for capital requirements materially above international norms.
- 2.6 Without the efficiency discipline, prudential regulation risks becoming “gold-plating” – the tendency for regulators to impose excessive requirements that provide marginal safety benefits at disproportionate economic cost. The RBNZ’s 2019 decision to target a “one-in-200-year” crisis frequency, compared to the more typical international standard of one-in-100-year events, exemplified this risk.<sup>9</sup>
- 2.7 Even under the current statutory framework, the RBNZ should treat efficiency as a central consideration in this Review. This is both consistent with the Minister’s Financial Policy Remit direction and sound regulatory practice.

### **3. THE 2019 DECISION AND ITS FLAWED PROCESS**

- 3.1 The RBNZ’s December 2019 Decision was a dramatic departure from previous settings and international practice. It involved the near-doubling of bank capital requirements for the largest banks, raising “total capital” requirements from 10.5% to 18% of risk-weighted assets by 2028. The 18% of total capital comprised 13.5% Common Equity Tier 1 (i.e., CET1), plus 2.5% Additional Tier 1 capital (totalling 16% Tier 1), plus 2% Tier 2 capital (totalling 18% total capital). The four big banks are currently partway through this transition, and are currently required to hold 14.5% total capital as of 1 July 2025, with the full 18% total capital requirement not scheduled to take effect until 2028.<sup>10</sup>

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<sup>8</sup> Finance and Expenditure Committee, [\*Inquiry into Banking Competition\*](#) (Wellington: New Zealand House of Representatives, August 2025) 4.

<sup>9</sup> Reserve Bank of New Zealand, *Capital Review Decision 2019* op. cit.

<sup>10</sup> Oliver Wyman, *Comparing New Zealand Bank Capital Ratios To International Peers* op. cit. Exhibit 6, 22.

- 3.2 The RBNZ's stated goal was to reduce the risk of bank failure to a novel one-in-200-year event, compared to the more typical one-in-100-year standard used internationally. This represented an extreme level of conservatism in prudential regulation.
- 3.3 The RBNZ acknowledged from the outset that this decision would come with substantial economic costs. The Bank's early estimates showed the decision would raise lending rates by approximately 30 basis points and reduce GDP by up to 0.32% annually.<sup>11</sup> Independent analysts suggested the net cost to GDP could be closer to 0.4% per year for each percentage increase in bank capital, equivalent to more than \$1.8 billion per annum.<sup>12</sup> However, the 2019 Decision was itself part of a broader pattern of increasingly conservative prudential regulation. Analysis using the internationally recognised GTAP economic model suggests that New Zealand's cumulative regulatory burden may be costing the economy up to 2.1% of GDP, equivalent to close to \$10 billion in foregone economic activity annually.<sup>13</sup>
- 3.4 In 2021, following the 2019 Decision, S&P Global described the RBNZ's capital requirements as "some of the toughest bank capital standards worldwide," warning they could force New Zealand banks to cut riskier loans, such as those to smaller businesses.<sup>14</sup> This risk is now becoming a reality, with potential long-term implications for economic growth and innovation.
- 3.5 However, the 2019 decision-making process was fundamentally flawed. As we documented in our 2024 submission to the Finance and Expenditure Committee,<sup>15</sup> the RBNZ conducted its cost-benefit analysis only after announcing its decision. This reversed the proper sequence of evidence-based policy making, where analysis should inform decisions, not justify them post-hoc.
- 3.6 The cost-benefit analysis itself was inadequate. As we explained in our FEC submission, the analysis should have compared against multiple scenarios, not just the status quo versus the proposed change. It should also have explained why other options were not identified and evaluated. Why was only one alternative to the status quo assessed? Particularly noteworthy was the critical submission in 2019 by former RBNZ risk assessment expert Ian Harrison of Tailrisk Economics, who identified serious technical flaws in the analysis.<sup>16</sup> Five years on, we now have actual data on the decision's effects, yet we have not been able to locate a comprehensive reassessment of whether the

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<sup>11</sup> Reserve Bank of New Zealand, [\*Capital Review Background Paper: An outline of the analysis supporting the risk appetite\*](#) (Reserve Bank of New Zealand: Wellington, April 2019) 36.

<sup>12</sup> Graham Scott, Glenn Boyle, Martien Lubberink, and Kieran Murray (for the New Zealand Bankers' Association), [\*How much capital is enough—a review of Reserve Bank of New Zealand capital policy\*](#) (Sapere Research Group: Wellington, 2019).

<sup>13</sup> Andrew Body and Simon Jensen, Supplementary Submission to the Finance and Expenditure Select Committee Inquiry into Banking Competition – Appendices, 10 February 2025, Appendix 7.

<sup>14</sup> Ranina Sanglap and Zia Khan, "[World's toughest capital requirements in New Zealand may squeeze credit](#)," S&P Global Market Intelligence, 8 August 2021.

<sup>15</sup> The New Zealand Initiative, Submission to Finance and Expenditure Select Committee on Inquiry into Banking Competition op. cit.

<sup>16</sup> Ian Harrison, [\*The 30-billion-dollar whim: A review of the Reserve Bank consultation paper: "How much capital is enough"\*](#) (Tailrisk Economics: Wellington, 2019).

projected benefits have materialised or whether the costs have proven higher than anticipated. This pattern of analytical shortcuts and failure to reassess undermines confidence that the 2019 Decision was based on sound evidence.

- 3.7 While other jurisdictions have implemented Basel III reforms, New Zealand's extreme conservatism makes it a comparative outlier. This isolation should prompt serious reflection about whether we have over-engineered our financial safety net at significant cost to economic prosperity.

#### **4. INTERNATIONAL COMPARISONS SUGGEST EXCESSIVE CONSERVATISM**

- 4.1 Oliver Wyman, the international consulting firm commissioned by the RBNZ for this Review, provides compelling evidence that New Zealand's capital settings depart materially from international norms. Their analysis shows that New Zealand's conservative regulatory framework requires an adjustment of approximately 780 basis points to make our banks' capital ratios internationally comparable.<sup>17</sup> This adjustment is necessary because New Zealand uses more conservative methods to calculate how much capital banks must hold (discussed below).
- 4.2 After this adjustment, New Zealand banks currently hold around 21.0% core capital (i.e., CET1) compared with 13-19% for most peer countries, with only Norway marginally higher at 21.4%. The peer countries examined include Australia (18.3%), Canada (13.7%), United Kingdom (14.3%), Ireland (15.2%), Sweden (19.4%), Hong Kong (19.7%), Belgium (14.3%), Singapore (14.8%), and Israel (12.8%).<sup>18</sup> Oliver Wyman estimates that when the 18% capital ratio required by the 2019 Decision is fully implemented by 2028, the 21% figure for the New Zealand banks will have increased to 25%, adjusted for international comparison.<sup>19</sup> The differences between the RBNZ's requirements and international peers reflect regulatory framework variations rather than different portfolio mixes. New Zealand's requirements are systematically higher across all lending categories.
- 4.3 The direct consequence of New Zealand banks of these high capital ratios is that every loan made by a New Zealand bank must be backed by more capital than in most peer countries, including Australia. This means higher funding costs for banks in New Zealand, translating into higher interest rates for New Zealand borrowers, lower returns for depositors and reduced credit availability. This extra conservatism imposes real costs on households, businesses, and the broader economy.
- 4.4 The RBNZ's conservatism stems in part from how banks are required to calculate the riskiness of bank loans. The four major banks (ANZ, ASB, BNZ, Westpac) – the D-SIBs – are allowed to use their own "Internal Ratings-Based" or IRB approach to calculate their capital ratios. This approach was designed to be more risk-sensitive than fixed regulatory risk weights, allowing banks to use their own historical loan performance data to calculate how much capital they need to hold.

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<sup>17</sup> Oliver Wyman, Comparing New Zealand Bank Capital Ratios To International Peers op. cit. 6-7, 10, 23 and 44.

<sup>18</sup> Ibid. 31.

<sup>19</sup> Ibid. 23, Exhibit 10.

- 4.5 However, the RBNZ requires additional conservative overlays to these IRB calculations. In particular, it requires that the final risk-weighted assets (the measure of how much capital must be held against loans) must be the higher of two calculations: the bank's own IRB model results increased by 20%. (known as a "scalar"), or 85% of what the result would be under the standardised approach. This is called an "output floor" because it sets a minimum level below which the IRB calculations cannot fall – hence creating a "floor" on the "output" of the IRB's risk calculations.
- 4.6 New Zealand's approach is materially more conservative than international practice. Australia, our most natural comparator given integrated banking systems and similar risk profiles, applies a 10% scalar to IRB results and uses a 72.5% output floor compared to New Zealand's 20% scalar and 85% floor. European countries, Canada, Singapore and Hong Kong follow international Basel standards using a 72.5% floor with no additional scalar.<sup>20</sup> According to Oliver Wyman, the largest single contributor to our departure from international norms – approximately 270 basis points – comes from the RBNZ's treatment of these IRB calculations.
- 4.7 Other conservative features compound New Zealand's departure from norms, with impacts that vary significantly across lending categories. The consultation paper's own analysis demonstrates this differential impact – the proposed reforms could reduce agricultural lending rates by approximately 20 basis points while reducing residential mortgage rates by only 5 basis points.<sup>21</sup> This four-fold difference suggests that New Zealand's has been systematically biased against productive lending. If the RBNZ can safely reduce agricultural lending rates by 20 basis points while only reducing mortgage rates by 5 basis points, this suggests the original settings were unnecessarily punitive to agricultural lending. More concerning, the consultation's selective focus on agricultural adjustments, while leaving other business lending unchanged, suggests that a systematic bias against non-agricultural business lending may persist.

## **5. THE REVIEW SHOWS PROGRESS BUT STOPS SHORT OF A GENUINE RESET**

- 5.1 The RBNZ's consultation is presented as meaningful progress from the extreme conservatism of the 2019 Decision's 'one-in-200-year' approach. The proposed options respond to external concerns that capital settings may be unreasonably conservative and offer pathways toward greater international alignment. However, while these proposals move in the right direction, they fall short of the fundamental recalibration needed to eliminate New Zealand's position as an international outlier.
- 5.2 As noted above, New Zealand banks are currently partway through a transition from 10.5% to 18% total capital by 2028, holding total capital of approximately 16.5% today,<sup>22</sup>

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<sup>20</sup> Ibid. 23, Exhibit 8.

<sup>21</sup> Reserve Bank of New Zealand, 2025 [Review of key capital settings Consultation Paper](#) op. cit. Table 1, 7.

<sup>22</sup> This 16.5% includes what Oliver Wyman call a "management buffer" above the current 14.5% regulatory requirement. Oliver Wyman, Comparing New Zealand Bank Capital Ratios to International Peers, op. cit. Exhibit 10.



representing 21% CET1 capital on an internationally comparable basis (rising to 25% CET1 by 2028).

5.3 The consultation presents two options for the major banks, both of which maintain New Zealand's position as an international outlier.

- **Option 1** proposes eliminating Additional Tier 1 capital entirely, requiring instead 14% CET1 and 17% total capital (compared with 18% total capital in the 2019 Decision). While this appears to reduce total requirements by 1 percentage point, it actually increases the highest-quality CET1 capital from 13.5% to 14%.
- **Option 2** proposes 12% CET1 plus 6% Loss-Absorbing Capacity (LAC), a form of debt that can be 'bailed in' to recapitalise a failing bank, bringing combined unadjusted total capital requirements to 21%. This increases overall requirements compared with the 18% target in the 2019 Decision.

The key insight is that these changes do not address the fundamental issue: New Zealand's conservative calculation methods mean that what appears as 17% or 21% domestically translates to much higher effective capital levels when compared internationally.

5.4 The RBNZ's updated cost-benefit analysis reveals the economic implications of these choices. Option 1 would impose an additional net cost to GDP of 0.04-0.13% annually over and above the impact of the 2019 Decision. Option 2, similarly calculated, suggests substantial net GDP benefits of 0.14-0.26% annually compared to the 2019 Decision's status quo – potentially reversing much of the original estimated GDP costs of the 2019 Decision of 0.32% annually. However, significant methodological concerns remain about the reliability of these calculations, given the same flawed analytical framework used in the 2019 Decision. Despite these analytical limitations, the results do nothing to dispel concerns that the RBNZ's capital requirements may continue to impose unnecessary costs on the economy.

5.5 Most critically, there is a missing option – imposing capital requirements more in line with those used internationally, including in Australia. The 85% output floor for IRB models remains unchanged (compared to Australia's 72.5% and the international Basel standard of 72.5%), as does the 1.2 scalar applied to IRB calculations (compared to Australia's 1.1 and no scalar internationally). These technical features alone account for approximately 270 basis points of New Zealand's 780 basis point departure from international norms, meaning that even under the proposed options, New Zealand banks will continue to face materially higher effective capital requirements than their Australian and international peers.

5.6 The persistence of these conservative calculation methodologies raises serious efficiency concerns and risks that New Zealand businesses and households face higher credit costs than necessary.

5.7 The consultation does propose some sectoral adjustments, including easing risk weights for agricultural lending to better reflect actual risk profiles. However, it remains silent on

similar adjustments for non-rural business lending. This selective approach favours agricultural lending while leaving other productive business investment constrained by conservative capital treatment, reinforcing rather than addressing the systematic bias in New Zealand's capital framework.

- 5.8 The Review should explain why settings aligned with Australia's 72.5% output floor and lower scalar were not considered. Would complete alignment with international best practice be both economically beneficial and prudentially sound?
- 5.9 The stakes for New Zealand's economic prosperity are substantial. Higher-than-necessary capital requirements constrain credit to productive sectors, reduce business investment, and limit infrastructure development. The current proposals, while including a possible improvement, perpetuate New Zealand's position as an international outlier without adequate justification.

## **6. ANY DEPARTURE FROM INTERNATIONAL NORMS REQUIRES RIGOROUS JUSTIFICATION**

- 6.1 If New Zealand is to maintain capital requirements materially higher than peer countries, the burden of proof must be on the RBNZ to demonstrate with credible, transparent evidence that the benefits justify the costs.
- 6.2 The RBNZ's consultation includes an updated cost-benefit analysis that acknowledges significant limitations, admitting it relies on "highly stylised" models that provide only "a helpful piece of the puzzle."<sup>23</sup>
- 6.3 The updated cost-benefit analysis remains indicative rather than authoritative, for the reasons set out here, and by us and former RBNZ risk assessment expert Ian Harrison and others during the original consultation process.
- 6.4 It is completely unsatisfactory that five years after the 2019 decision, no comprehensive reassessment has evaluated whether projected benefits materialised, or costs exceeded estimates. This is particularly concerning given the RBNZ's own 2025 analysis in the Consultation paper now suggests the original decision imposed net economic costs that can be partially remedied through the current proposals.
- 6.5 A more in-depth and less stylised cost-benefit analysis is needed to justify maintaining capital requirements materially above international norms.
- 6.6 Higher-than-necessary capital requirements constrain productive economic activity by reducing credit availability and increasing borrowing costs. Without credible evidence of New Zealand's unique circumstances requiring conservative treatment, settings should align with international best practice.
- 6.7 Transparency is essential for democratic accountability. The Minister of Finance's Financial Policy Remit specifically directs regard to efficiency and competition. Parliament's Finance and Expenditure Committee has recommended reinstating efficiency as a statutory objective. In this context, maintaining settings materially above

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<sup>23</sup> Reserve Bank of New Zealand, 2025 [Review of key capital settings Consultation Paper](#) op. cit. 63.

international norms without rigorous justification represents a failure of both analytical rigour and democratic responsiveness.

## **7. IMPLEMENTATION OF THE 2019 DECISION AND THIS REVIEW SHOULD BE PAUSED PENDING PROPER REASSESSMENT**

- 7.1 The RBNZ should pause implementation of the remaining increases required by its December 2019 Decision while a comprehensive, independent reassessment is undertaken. The current consultation process, while a step in the right direction, does not address the fundamental analytical flaws that undermined the original decision.
- 7.2 The timing of this Review highlights a concerning disregard for democratic oversight. The Finance and Expenditure Committee published its report on 20 August 2025, recommending an independent review of the RBNZ's December 2019 decision to increase bank capital requirements. Just five days later, the RBNZ commenced this Review, releasing the extensive Consultation paper, proceeding with the same analytical framework the Committee had questioned.
- 7.3 Parliament's Finance and Expenditure Committee heard extensive evidence about the economic costs of the 2019 Decision and concluded that high capital requirements may be undermining efficiency and competition. The Committee recommended that the Government should reinstate "market efficiency as a key objective" in RBNZ's relevant legislation. These recommendations deserve serious consideration, not to be overtaken by a rushed RBNZ-led consultation process.
- 7.4 A pause would allow for the independent review recommended by Parliament, provide time for proper analysis of the economic impacts that have emerged since 2019, and ensure any future decisions are based on rigorous, cost-benefit analysis rather than the flawed methodology that underpinned the original decision.
- 7.5 The stakes are too high for New Zealand's economic prosperity to proceed without this reassessment. With the RBNZ's own analysis showing Option 2 could deliver GDP benefits of 0.14-0.26% annually, a pause of both the 2019 Decision and this Review could prevent unnecessary economic costs while ensuring future decisions are properly justified.

### **The New Zealand Initiative**

2 October 2025