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Infrastructure New Zealand is the peak industry body for the infrastructure sector and promotes best practice in national infrastructure development through research, advocacy and public and private sector collaboration. Infrastructure New Zealand members come from diverse sectors across New Zealand and include infrastructure service providers, investors and operators.

This submission represents the views of Infrastructure New Zealand as a collective whole and may not necessarily represent the views of individual member organisations.

Infrastructure New Zealand feedback on the review of the capital adequacy framework for registered banks

Summary

Infrastructure New Zealand supports the Reserve Bank's efforts to ensure the stability of the New Zealand economy.

However, we are concerned that the proposed changes to the capital adequacy framework for registered banks may impose costs on investment capital.

Our concern is that a reduction in infrastructure investment may not be sufficiently offset by the potential benefits of the proposed changes.

Consequently, we support the recommendation from BusinessNZ and others that the Reserve Bank conduct a comprehensive cost-benefit analysis of the proposed changes prior to taking any action.

We support the submission made to the Reserve Bank on this topic by BusinessNZ.

Increasing capital requirements may reduce investment capital and hamper infrastructure investment

If the proposed changes go ahead, banks will need to raise more capital to meet the requirements. We are concerned that this will change the quantity and cost of lending to customers.

To raise capital banks may choose to lend less or raise interest rates on loans. Less lending and higher interest rates would both pull capital out of the market that would otherwise have been invested in the economy, including, most notably, infrastructure development.

This is a critical period of infrastructure investment in New Zealand.

The Government has committed over $42 billion in infrastructure investment over the next four years in an effort to rebuild New Zealand's depleted capital stock.

This is a major increase to existing expenditure and delivery is already proving challenging.

We are concerned that increasing capital requirements over the next five years will remove investment capital from the New Zealand market at the precise moment when New Zealand needs it most.

In addition to reducing lending, or making it less affordable, banks may also adjust their lending to customers who are more profitable or less risky. This may shift lending away from developers, sub-contractors and other productive companies and towards safer and more profitable sectors such as home mortgage lending.

It is unclear how banks will respond to changes in capital requirements, but we have observed uncertainty among infrastructure lenders as to what the net impacts will be on lending in the infrastructure sector.

In light of this, we strongly recommend that the Reserve Bank undertakes a comprehensive cost-benefit analysis of the proposed changes.

The impacts of infrastructure investment are long-term, widespread, and affect all aspects of life

In considering the costs and benefits of these changes, it is important to understand the full impacts that infrastructure has on the New Zealand economy and society in general.

Infrastructure is an enabler of economic growth, productivity, innovation, growth and wider environmental and social outcomes.

Infrastructure supports economic activity, saving costs for businesses, enabling New Zealand to better compete internationally. Lower costs reduce barriers to entry for New Zealand markets, driving greater entrepreneurship and innovation.

Infrastructure is essential in the delivery of more accessible and cost-effective housing, facilitating economic and social mobility and greater social equity.

Increasing capital requirements may have a long-term and widespread multiplier effect

Given the critical role that infrastructure plays in lifting living standards in New Zealand, we are concerned that the Reserve Bank's proposed changes to capital adequacy framework will have knock-on effects throughout the New Zealand economy.

The infrastructure sector relies on an adequate supply of investment capital to facilitate development.

This includes both businesses involved in the construction and operation of infrastructure as well as private and public sector asset owners considering the use of debt to finance new projects.

Available funding is unlikely to fully meet the Government's infrastructure objectives. Access to private finance provides a means to accelerate the provision of public infrastructure. However, we are concerned that changes to the capital adequacy framework may significantly affect infrastructure investment even as the country is attempting to correct decades of underfunding.

As infrastructure underpins and supports so much of the country's long-term economic growth and prosperity, as well as improved environmental and social outcomes, a capital shortfall at this time could have considerable consequences for New Zealand's long-term competitiveness, social equity, and quality of life.

We ask that the Reserve Bank undertakes a comprehensive cost-benefit analysis to fully understand the consequences of this proposal not only on lending costs, but on infrastructure investment and all the impacts infrastructure has on New Zealand's economy and society.

We thank the Reserve Bank for the opportunity to provide feedback on this important proposal.