

GFC – “THE SEQUEL”

How would New Zealand’s financial system stand up if things really did reach melting Point on the international stage and we headed into Global Financial Crisis Part 2?

The good news is that our banking system is more resilient now than it was in 2008. Banks still rely on offshore funding for around a third of loans, though that proportion has been gradually reducing due to increased appetite to raise funds by way of local retail markets says Rod Templeton CEO of Mortgage Link.

In response to the GFC, banks increasingly started to borrow wholesale money for longer terms to reduce their dependence on short-term “hot” money.

These shifts mean that retail deposits account for a larger share of banks’ funding than they used to, and that wholesale funding is of longer terms. As a result, banks are less vulnerable now to global credit markets freezing than they were back in 2008/09.

“The New Zealand economy itself is also less vulnerable. In 2008, New Zealand was a world leader in recession, with the economy already in recession from the start of the year so less able to withstand the global meltdown. This time we are gaining momentum. We have increasingly become more intertwined with Asia and the relative importance of the US and Europe to our exports is gradually falling”; notes Nick Tuffley, ASB Chief Economist.

Assuming the world avoids GFC Part 2, the main economic issue for New Zealand will be how well Asia holds up. The long-term prospects for Asia are sustained strong growth – and consequently demand for our exports should remain strong.

The US tragi-comedy has ended messily. Although the official debt ceiling has been raised (legally permitting the US Treasury to borrow more money), Standard and Poors downgraded the US long-term debt credit rating to AA+ from AAA. That new rating is the same as New Zealand’s, and two other rating agencies have reaffirmed their AAA ratings. But the move, when markets were already jittery, triggered a sea of red ink on global stock markets.

“We think GFC Part 2 is unlikely, as the problems being grappled with are well known, as are the solutions”, says Tuffley.

But bouts of market concern are likely to remain a feature of life – recent events are about the fifth round since early 2010 (though the most serious one).