(RBNZ, n.d.)

Glossary

Reserve Bank
of New Zealand
Te Pūtea Matua

Explanations and definitions of non-technical terms used throughout our website.

A

aggregate demand	Gross domestic product as measured by the sum of final expenditure on goods and services produced.
aggregate supply	Gross domestic product as measured by the value of goods and services produced.
allotment	An allotment commonly refers to the allocation of shares during a public share issuance. An allotment in a company gives the owner (of the allotment) an unconditional right to buy the shares at a fixed price.
amortisation	Amortisation is when a business spreads the costs of something out over a period of time. In the case of loans, this means paying back the loan in installments. Amortisation is also used to allocate the costs of intangible assets.
appreciation	An increase in the value of an asset. In foreign exchange terms, it is the relative increase in the value of one currency compared to another.
arbitrage	Arbitrage is the simultaneous purchase and sale of an asset in different markets to exploit differences in their prices.
assignment	Assignment is a formal transfer of rights or property from one party to another. For instance, a bank's customer may assign to the bank the right to receive the benefits from a life insurance policy to give the bank security for a loan.
associate	A person or another company who holds 20% or more of a company's shares. This concept is similar to that of a related party. In the case of a company, if both companies have more or less the same shareholders, they are associates.

B

balance of payments	The balance of payments (BOP) is a measure of how much money a country earns abroad and spends on foreign goods and services. It includes different accounts such as the current account, the capital account and the financial account. The BOP should, in theory, always be balanced, with a deficit in one account being matched by surpluses in the others. If there are imbalances, it can have effects on the country's economy.
balance sheet	A balance sheet is a financial statement that reports a company's assets, liabilities and shareholder equity at a specific time. A business that is expanding its balance sheet is adding to its assets and therefore also its liabilities and possibly equity too. If a company has a hard time accessing funding, its balance sheet is constrained. It is formally known as the Statement of Financial Position.
balloon payment	A balloon payment is a large payment due at the end of a balloon loan, such as a mortgage, a commercial loan or another type of amortised loan.
bank bills	Bank bills are a type of investment made up of registered certificates of deposit and bills of exchange. Bill acceptance is when someone decides to accept a bank bill, or in other words, enter into the investment.
banking prudential requirements	Prudential regulation is a type of financial regulation that requires financial firms to control risks and hold adequate capital as defined by capital requirements, liquidity requirements, by the imposition of concentration risk (or large exposures) limits, and by related reporting and public disclosure requirements and supervisory controls and processes.
basis point	A basis point represents 1/100th of 1% or 0.01%. It is a standard measure for interest rates and other percentages in finance.
benchmark rate	When businesses borrow from banks at a floating rate, the interest rates they pay are sometimes expressed as a benchmark market rate plus a fixed spread.
beneficial owner	Someone who enjoys the benefits of ownership even though the title to some form of property is in another name.
bid-offer spread	This is the difference between the bid price and the offer price.
bills of exchange	A bill of exchange is a written guarantee that someone will pay money in the future. Bills of exchange have largely been replaced by registered certificates of deposit. A cheque is also a type of bill of exchange.

bond	A bond is a fixed income instrument that represents a loan made by an investor to a borrower (typically corporate or governmental). It is similar to a mass produced loan, as an entity can sell bonds to lots of investors. It is often used by investors, companies and even the government to fund their activities.
bond lending facility	A facility that provides access to NZ government bonds and local government funding agency bonds as a lender of last resort to facilitate settlement.
bond market liquidity support	An RBNZ facility offering small scale purchases of nominal New Zealand government bonds to support market functioning.
bond turnover	Bond turnover is the amount of bonds that are traded over a certain period of time.
broad money	Broad money is the most flexible method for measuring an economy's money supply, accounting for cash and other assets easily converted into currency. Put simply, it is an asset that could be converted into money at short notice. Surprisingly, there are many different types of money, and broad money encompasses most of what is traditionally thought of as money.
business cycle	A business cycle is the natural rise and fall of economic activity in an economy over time. It consists of periods of high and low growth.

C

capacity pressure	Capacity pressure is often used in the context of the output gap. It refers to the strain on an economy's resources when actual production exceeds its potential output. If the output gap is positive, the economy is operating above potential, and capacity pressure is high. This can lead to increased demand for labour and materials, resulting in higher costs and potential inflation. If the output gap is negative, the economy is operating below potential, and capacity pressures are low. This can lead to less demand for labour and materials, leading to lower costs and reduced inflationary pressures.
capital	Capital broadly describes anything that gives value or benefit, such as physical assets, intellectual property or the financial assets of a business or an individual. In economics, capital refers to resources that can be used for production. This is sometimes called real capital. In finance, capital consists of equity and other tools that help businesses handle losses. We set minimum capital requirements for banks to ensure they can absorb any losses that arise. Capital that comes from shares is also called 'paid-up' capital.
capital account	The capital account, on a national level, represents the balance of payments for a country. The capital account is one component of the balance of payments. It consists of money inflows and outflows for non-produced, non-financial assets as well as 'capital transfers'.
capital adequacy requirement	Capital adequacy is critical to ensure that banks have enough cushion to absorb a reasonable amount of losses before they become insolvent. Banks and other financial organisations must have a certain amount of capital to make sure there is enough money to support their business. It is called the capital adequacy requirement.
capital formation	Capital formation refers to the creation of economic capital. Economic capital refers to assets that can be used for production. Capital formation is therefore how much the total value of all these resources changes by in an economy.
capital ratio	Capital as a percentage of risk weighted exposures is known as the capital ratio. Use of the capital ratio enables a banking group's capital position to be compared with those of other banking groups.
capital transfers	Capital transfers are money inflows and outflows that are paid without anything being expected in return.
central bank digital currency	A central bank digital currency uses an electronic record or digital token to represent the virtual form of a fiat currency of a particular nation (or region). A CBDC is centralised; it is issued and regulated by the competent monetary authority of the country.
claims	Claims consist of loans and deposits with financial institutions, as well as other financial instruments, that give someone the right to claim money.
closing	The closing figure is the last price that something traded at on a given date. Prices for things, especially financial instruments like exchange rates, fluctuate with time. The term is also used in accounting, referring to the position a business was in at the end of a period of time. Closing is the opposite of opening.

commercial paper	Commercial paper is a form of unsecured debt commonly issued by companies to finance their payrolls, payables, inventories and other short-term liabilities. In other words, it is a company borrowing money for less than a year and promising to pay it back. Asset-backed commercial paper (ABCP) is commercial paper that is backed by an asset. It is sometimes just called paper.
commission	Commission is a service charge paid to a broker or investment adviser for providing advice or handling purchases and sales of securities for a client.
committed credit line	A committed credit line is an amount of money that a financial institution allows an entity to draw on when they need to borrow money, subject to specific conditions. A credit line is committed if the financial institution has agreed not to take away the credit line unless certain circumstances apply. An uncommitted credit line is a line with no such agreement, and is generally a one-time, short term arrangement.
Common Equity Tier 1	Common Equity Tier 1 (CET1) covers the obvious equities a bank holds such as cash, stock, etc. CET1 is the highest quality capital. CET1 is unrestricted and freely available funding. In other words, a bank should have access to it no matter what. CET1 consists of, among others, retained earnings and shares, although these shares must meet requirements to be considered CET1.
connected person	A connected person is any person or entity that can control or significantly influence a bank either directly or indirectly. Examples of connected persons include a controlling shareholder (for example, a parent company) of a bank, or another entity in which the bank's owner has a substantial interest (for example, a sister company).
consideration	Consideration means something that has value, but isn't necessarily legal tender. Consideration could potentially be anything that someone could pay for something with. To enforce a contract in court, both parties need to exchange consideration.
consolidated	In accounting, consolidation usually refers to the practice of combining related figures while eliminating those that are redundant. It is often used to cancel out redundant figures when reporting financial statements for a group of multiple companies.
consumers price index	The consumers price index (CPI) is a general measure of the prices of goods and services purchased by consumers. The index is weighted according to the expenditure patterns of the average household.
contingent liabilities	Contingent liabilities are amounts of money a business holds to deal with a certain loss if they think that loss might occur, similar to how insurers hold unexpired risk reserves. Reserves, contingent liabilities and provisions are similar terms but have different meanings. With contingent liabilities, the business does not know whether an obligation to pay will arise, or how much that obligation would be.
core funding ratio	Core funding ratio (CFR) requires that banks source a set percentage of their funding from retail deposits, long-term wholesale funding or capital. A bank's core funding is funding that is expected to stay in place for at least one year and is therefore stable. The CFR compares a bank's core funding with funding that is used to support a bank's lending, which isn't stable and needs to be supplied on a continuing basis. New Zealand-incorporated banks have to meet certain CFR requirements.
corporate bonds	A corporate bond is debt issued by a corporation in order for it to raise capital. These can be issued by New Zealand corporations, or be corporations outside of New Zealand. In the latter case, these bonds are issued in New Zealand, called Kauri bonds.
corporate open market operation	An inactive RBNZ facility that provided short-term funding against approved Tier 3 collateral.
correspondent banking relationship	A correspondent banking relationship is the provision of banking services by a financial institution (the correspondent) to another financial institution (the respondent).
cost-to-income ratio	The ratio of operating expenses to operating income. This ratio is often used to measure a bank's efficiency because it measures how many dollars a business spends in order to generate a dollar of income.
cross rate	The relationship between two currencies relative to a third currency, typically the US dollar.
crown entities	Crown entities are institutions that have been established by law, in which the government has significant ownership. How much control the government can exert over a Crown entity varies by entity.
crown settlement account	An RBNZ account that the government uses to deposit surplus funds.

cryptoasset	Digital tokens that rely on cryptographic methods and non-traditional payment infrastructure to be transacted and stored.
currency swap	A form of swap where the cash flows are tied into exchange rates of currencies. It may include a foreign exchange swap as part of the deal.
current account	The current account is a component of the balance of payments and consists of imports and exports, and income earned and income paid. It also accounts for resources that have been sent and received without payment being required. These are called 'current transfers'. A current account deficit is sometimes also called a trade deficit.
current account balance	A current account balance is the difference between what a country spends overseas and what it earns from overseas. If a country spends more than what it earns (a deficit), typically it will need to borrow the difference or run down reserves of foreign currency. If it earns more than what it spends (a surplus), it may accumulate reserves or lend to another country. Expressed as the overall net balance between goods and services trade, investment income and transfers (gifts or donations).

D

DCS-protected accounts	Most transaction, savings, notice, and term deposit accounts in Aotearoa New Zealand will be protected by the DCS. Check with your deposit taker if your deposit is protected
de minimis	De minimis describes something that's too small or insignificant to be of importance.
debenture	A debenture is a type of bond or other debt instrument that is unsecured by collateral.
debt securities	Debt securities are any kind of financial instrument that involve debt. In certain situations this definition is more strict. For example, a repo is not always considered a debt security.
debt servicing ratio	A debt servicing ratio measures the proportion of income that is required to service debt.
debt-to-income ratio	A debt-to-income ratio is a cap on mortgage debt (or total debt of a borrower including mortgage debt) as a multiple of income.
Decentralised Autonomous Organisations	A general term for a group that uses blockchain and related technologies to coordinate its activities. For example, by locking agreements/rules into automatically executing computer codes. Source: World Economic Forum (2022a).
decentralised finance	Financial applications run by smart contracts on a blockchain, typically a ‘permission-less’ (public) chain that aims to provide financial services without using centralised entities.
deferred acquisition cost	A deferred acquisition cost reports the cost of acquiring a new customer in a business's financial statements. The cost of acquiring that customer will be deferred.
deposit taker	Banks and non-bank deposit takers, including credit unions, building societies, and finance companies that take retail deposits.
depositor	Anyone who holds their money, or has their money held for them, in a DCS-protected account. This includes transaction, savings, notice, and term deposit accounts.
depreciation	A fall in the value of an asset. In foreign-exchange terms, it is a relative decrease in the value of one currency compared to another.
de-risking	De-risking is a strategy in which banks close correspondent bank accounts rather than invest in the due diligence necessary to operate them responsibly.
derivatives	Derivatives are financial instruments that derive value from some kind of underlying asset, security, index, or some other rate. Derivatives can be listed as assets if they indicate an increase in future economic benefit, or as liabilities if they indicate a decrease in future economic benefit. At its most basic, a financial derivative is a contract between two parties that specifies conditions under which payments are made between two parties. Derivatives are 'derived' from underlying assets such as stocks, contracts, swaps, or even measurable events such as weather.

discounting	A discount refers to a situation when a security is trading for lower than its fundamental or intrinsic value. Discounting is the process of accounting for the time value of money. Unless a financial instrument offers significantly high returns or interest payments, its price (present value) will be less than its nominal value. When this is the case, it is sold at a discount.
disintermediation	Disintermediation is the withdrawal of funds from intermediary financial institutions (banks, savings and loan associations) to invest them directly.
Distributed ledger technology	Distributed ledger refers to an information repository that keeps records of transactions, and that is shared across, and synchronised between, a set of network participants (nodes) using a consensus mechanism. This allows relatively autonomous network participants to maintain a single source of truth.
domestic bond market	Often called the debt market, fixed-income market or credit market, this is the collective name given to all trades and issues of debt securities.
domestic systematically important bank	Domestic systematically important banks (D-SIBs) are banks whose failure would have a significant impact on the economy and the rest of the financial system. Banks are identified by their size, interconnectedness, substitutability and complexity. Substitutability measures the extent to which the services a bank provides can be replaced by another bank in a timely manner in the event of a bank failure.
doubtful debts	Doubtful debts are debts that unlikely to be paid off, but there is still somewhat of a chance.
drawdowns	A drawdown is a peak-to-trough decline during a specific period for an investment, trading account or fund. In economics, if there is a decrease in economic activity, a drawdown measures the size of that decline. When it comes to loans, however, drawdowns are a 'top up' of sorts, where the borrower borrows an extra amount on top of the existing loan.

E

Eligible depositor	An eligible depositor is anyone who holds their money, or has their money held on their behalf, in a DCS-protected account. Refer to Deposit Takers Act 2023 section 191(1) definition of "eligible depositor".
employment rate	The employment rate represents the percentage of people with jobs compared to the total working-age population. It is different to the unemployment rate, which compares the number of jobless people to those in the labour force.
equities	Equity represents the value that would be returned to shareholders if all a company's assets were liquidated and debts paid off. Equity bridges the gap between assets and liabilities. It represents how much of a company's assets is owned by the shareholders of a company. For every asset, there will be liabilities, equity or both to match it. Shares are equity because shares represent a share in the ownership of a company.
equity securities	Equity securities are any kind of financial instrument involving equity. In this context, equity tends to mean shares of a company. The share market is the market in which equity securities are traded.
exchange settlement account system	The exchange settlement account system (ESAS) allows transactions between financial institutions to be settled electronically as the transactions happen.

F

fair market value	Fair market value is the price an asset would sell for on the open market when certain conditions are met. The conditions are: the parties involved are aware of all the facts, are acting in their own interest, are free of any pressure to buy or sell, and have ample time to make the decision. Using a fair value system means that items on a business's balance sheet can change in value with market fluctuations.
fair value	Fair value is a broad measure of an asset's worth and is not the same as market value, which refers to the price of an asset in the marketplace. In investing, fair value refers to an asset's sale price agreed upon by a willing buyer and seller, assuming both parties are knowledgeable and enter the transaction freely. For example, securities have a fair value that's determined by a market where they are traded. In accounting, fair value represents the estimated worth of various assets and liabilities that must be listed on a company's books.

financial account	The financial account is a component of the balance of payments. It consists of money inflows and outflows from buying or selling financial assets and liabilities.
financial inclusion	The World Bank defines financial inclusion as: "When individuals and businesses have access to useful and affordable financial products and services that meet their needs including transactions, payments, savings, credit and insurance delivered in a responsible and sustainable way."
financial instruments	Financial instruments are contracts used to arrange money and debt. A loan arranges a certain amount of money over a certain period of time. A swap swaps around the streams of money that people are due to receive. In both cases, money is arranged in a certain way. Securities are usually synonymous with financial instruments. Financial instruments can be traded.
FinTech	FinTech combines the words 'financial' and 'technology', which refers to technology-enabled financial innovation that is changing the way financial institutions provide and how consumers and businesses use financial services.
fiscal	The term fiscal relates to government finance and taxes.
floating charge	A floating charge is used to provide security for money lent to a company. The charge is over the company's liquid assets (such as stocks and debtors) but it is only triggered by an event such as liquidation.
floating exchange rates	Floating exchange rates are exchange rates between currencies that are allowed to go up and down in line with supply and demand. The countries concerned do not attempt to maintain a particular exchange rate.
floating rate	A floating rate is a rate that 'floats' along with another rate, often the inflation rate or overall interest rate. Certain financial instruments will be indexed to a rate, which, like floating, means the rate will follow the rate it is indexed to.
foreign exchange swap	A foreign exchange (FX) swap is where two parties agree to exchange their currencies now and reverse the exchange at an agreed upon later date. A foreign exchange swap is essentially a spot transaction and a forward transaction in one.
foreign exchange turnover	Foreign exchange turnover is the total value of all transactions made in foreign exchange markets for a given period of time.
foreign reserves	Foreign reserves are assets held on reserve by a central bank in foreign currencies. These reserves are used to back liabilities and influence monetary policy.
forwards and futures	Forwards are an agreement to buy or sell something at least two days in the future for an agreed upon price. Forwards are typically used to lock in a certain price, thereby reducing uncertainty. Futures are the same thing, but are 'over the counter' transactions and tend to be less formal.
Funding for Lending Programme	An RBNZ term funding facility that can lower the cost of borrowing for businesses and households.

G

goodwill	Goodwill is a catch-all term used to describe intangible assets that can't be classed in any other way. It is called goodwill because it usually encompasses the goodwill that people and businesses harbour towards a certain business. This goodwill is of economic value to the business and so it is an asset.
government-set prices	Government-set prices are prices that are determined and enforced by the government, rather than being set by market dynamics. These can be maximum prices or minimum prices. Some prices are set by central government, for example — vehicle registration fees and others by local government, for example — council rates.
gross domestic product	The gross domestic product (GDP) is a way of measuring economic activity in a country in a given period of time, representing an economy's size. GDP is all the consumption, investment, government spending, and net exports (exports less imports) in an economy. Economic growth is often measured by how much GDP changes per year.
gross domestic	The gross domestic product (GDP) deflator is an indirect way of measuring inflation. The deflator can be used as an indicator for the overall level of inflation. It is derived from the ratio of nominal GDP (the value of goods and services at current prices, not adjusted

product deflator	for inflation) to real GDP (the value at constant prices, adjusted for inflation). Essentially, it shows how much prices have changed since a set base year. The GDP deflator is an example of implicit price deflators (IPDs).
gross national product	The gross national product (GNP) is similar to the gross domestic product except that it is calculated for all a country's residents, rather than for the country itself. The difference is therefore that New Zealand's GNP will include New Zealanders living abroad, and exclude non-New Zealanders living in New Zealand.

H

haircut	A haircut is a certain type of loss where a percentage is taken off an asset's value. It is often used in the case of bankruptcy. When a business can't pay back all its debts, it will pay the people it owes money a certain percentage of what they are owed.
headline rate	Headline rate refers to information that is easy to publish but may be oversimplified and, as a result, possibly inaccurate.
hedge	Hedging is a concept often used in finance, where someone tries to insure themselves against possible losses that could occur from an investment.
house price index	The house price index (HPI) is similar to the CPI but measures the price changes of residential housing from some specific start date (which has an HPI of 100).
hypothecation	Hypothecation happens when a person gives a bank authority to sell goods that have been pledged as security for a loan.

I

impaired	Impairment exists when an asset's fair value is less than its carrying value on the balance sheet. For example, an asset depreciates in value the more it is used. A loan could also become impaired if the borrower is unlikely to be able to pay back the loan in full.
impaired assets	Impaired assets are typically loans that are at risk of not being fully repaid to the bank or where interest on the loans may not be fully paid by the borrower.
index	An index is a method to track the performance of a group of assets in a standardised way. In a financial context, indexes often refer to a collection of companies' share prices. These indexes will give an idea of how the financial market is performing.
indexation	Indexation means making adjustments to allow for the effects of inflation.
inflation	Inflation is an increase in the general price level. It is often measured by the consumer price index. We aim to keep inflation between 1% and 3% per year by targeting the 2% midpoint.
inflation indexed bonds	Inflation indexed bonds are government-issued bonds that are indexed to inflation so that principal and interest payments rise and fall with the rate of inflation.
interest	When it comes to shares, a person or company has an interest in a company if they own shares in that company. A controlling interest means owning the majority of the shares, effectively having control of the company. A non-controlling interest means owning shares of the company, but not enough to control it.
interest rate swaps	Interest rate swaps are where interest rates are exchanged. This can involve both floating and fixed interest rates. Bank deposits earning variable interest can be changed to a fixed rate of interest to protect from future falling interest rates.
intermediation	Intermediation involves the 'matching' of lenders with savings to borrowers who need money by an agent or third party, such as a bank.
international investment position	A country's international investment position reflects the current standing of its residents' financial assets and liabilities. It is different from the financial account in that it doesn't measure money inflows and outflows, but instead the total owing and owed.
investment vehicle	Investment vehicles refer to any method by which individuals or businesses can invest and ideally grow their money. Several types of investment vehicle exist, and these usually refer to institutions set up to invest in a certain way. These investment vehicles are usually called investment funds. Some types of trust fund are investment funds. Managed funds are those that have their own management, usually separate from its investors.

K

Kauri bonds A New Zealand dollar denominated security, issued and registered in New Zealand by a foreign entity.

L

labour cost index The labour cost index measures changes in salary and wage rates for the same quality and quantity of labour.

labour force participation rate The labour force participation rate is the percentage of the working-age population that is either employed or actively seeking employment. It measures how many people are engaged in the labour market compared to the total number of people eligible to work.

labour market The labour market refers to the supply of and demand for labour. Important measures are employment, unemployment, participation rates and wages.

Large Scale Asset Purchase programme The Large Scale Asset Purchase Programme aims to lower borrowing costs to households and businesses by injecting money into the economy.

lenders and borrowers Lenders are those who lend out money to borrowers, and borrowers are those who borrow money from lenders.

liabilities A liability is something – usually money – that a person or business owes to someone else. In a business context, a liability means a decrease in future economic benefit. A loan might give a firm money right away, but the firm foregoes a certain amount of economic benefit in the future.

liquidity Liquidity is how easily assets can be turned into something spendable, like money. Liquidity is useful because if a firm has to pay unexpected expenses, it would only be able to do so if it had enough liquidity. A more liquid economy will have firms holding more liquid assets (like cash) relative to illiquid assets (like property).

loan-to-value ratio Loan-to-value (LVR) ratio is the ratio between how much of a property's value is being borrowed in order to buy it. A higher LVR generally means that the loan is more risky. We have imposed temporary LVR restrictions on banks, with some exemptions. New home building, for example, is exempt from these restrictions.

Local Government Funding Agency The Local Government Funding Agency (LGFA) specialises in financing the New Zealand local government sector.

long term In a financial context, long term tends to mean longer than one year.

M

macroprudential policy Macroprudential policy aims to limit the serious and lasting consequences of boom-bust cycles for the financial system, the economy and society. An unsustainable boom in credit and asset prices can result in a bust that creates losses for banks, businesses and households, and hampers the ability of banks to continue lending to the economy.

managed funds Managed funds are investment funds that are run by their own management. This management, for the most part, acts separately from investors who have invested in the fund. The management is responsible for running the fund and deciding how it invests, although this should be in accordance with how and why the fund was set up.

market capitalisation Market capitalisation is the value of a company as measured by the market price of the shares of stock it has issued. If you multiply the number of ordinary shares a company has issued by their market price, you get the market capitalisation value of the company.

market funding Market funding is, in general, funding that a business raises through financial institutions and its related parties. Many financial instruments can be used as market funding. Non-market funding is any funding that doesn't fit the definition of market funding. Where there is ambiguity, the business can sometimes decide where to allocate the funding.

maturity and residual maturity	Maturity and residual maturity is the date on which a loan or other financial instrument matures. This usually involves reversing the initial transaction, like the loan being paid back. Residual maturity refers to the amount of time left before maturity.
maximum sustainable employment	Maximum sustainable employment is the highest use of labour resources that can be sustained over time without creating a sustained acceleration in inflation. When more people are employed, companies may raise wages to attract workers. This increases costs for businesses, which raise prices for goods and services in response, resulting in inflation. When employment is at its maximum sustainable level, there will be low and stable inflation. However, if employment is above the maximum sustainable level for too long, it will eventually cause prices to rise more and more quickly, requiring the MPC to raise interest rates to keep inflation under control.
mid-rate	The mid-rate, when referring to financial instruments, is halfway between the 'buy' and 'sell' price.
minimum capital requirements	If a bank has a capital ratio below the minimum requirement, it is likely to be in financial distress from a prudential perspective, and we would likely seek to place it in a resolution.
mismatch ratio	A mismatch ratio is the calculation of how much a bank cash inflows deviate from its cash outflows. If a bank's cash inflows are the exact same as its cash out, they would not be mismatched, and so the ratio would be zero. Banks must meet certain mismatch ratio requirements every day. These requirements are essential to keeping liquidity strong among banks.
monetary base	The monetary base of an economy includes all of the physical paper and coin currency in circulation, plus bank reserves held by the central bank. Changes in the types of money that make up the monetary base tend to flow on, to a greater extent, to the other money aggregates like broad money and narrow money. This is why it is sometimes called 'high power money'.
monetary conditions index	The monetary conditions index is an indicator of the stance of monetary policy that was based on the trade-weighted exchange rate and the 90-day bank bill rate. Between 1997 and 1999, we used the MCI to signal to the markets a target level of the index that it felt was consistent with price stability.
monetary policy	Monetary policy involves using interest rates to influence aggregate demand, employment and inflation in the economy.
Monetary Policy Committee	Our Monetary Policy Committee is responsible for making monetary policy decisions in New Zealand to maintain price stability.
money market	The money market is the market that banks and other financial institutions use to trade short term financial instruments between each other. The money market is critical for businesses and trade, as it provides access to funding. Most money market instruments could be considered debt securities.
moving average	A moving average is an average that moves along the dataset as time goes by. Instead of taking an average of the data over the whole time period, the moving average may simply be an average of all the data collected over a smaller amount of time.

N

narrow money	Narrow money refers to physical money, such as coins and currency, demand deposits, and other liquid assets, that are easily accessible to central banks. These are called narrow money because money is a means of exchange, and these types of money are the easiest to exchange. Therefore, narrow money fits a 'narrow' definition of money. It is often abbreviated to M1.
natural rate of interest	The long-run return to capital. The level of the natural rate of interest reflects the underlying balance between the amount of savings (from households or overseas investors) and demand for capital (from businesses and the government).
Negotiable Certificate of Deposit	A Negotiable Certificate of Deposit is a type of certificate of deposit that can be traded with other investors. They tend to be big, short term investments with low interest rates.
net interest margin	A net interest margin is the difference between a financial institution's interest income and interest expenses, divided by its interest-bearing assets (like loans to customers) to account for size. As interest is a bank's primary way of earning money, NIM is a useful measure of how effective a bank is at doing so.
neutral interest rate	The nominal neutral interest rate is the level of the Official Cash Rate consistent with inflation being sustainably at target and the economy running at its potential output. When the OCR is above neutral, monetary policy restrains demand and inflation

	pressures. Below neutral, it is stimulatory. The level of neutral interest rates shapes expectations of where the OCR is likely to settle in the long run, in the absence of future shocks.
New Zealand government bonds	New Zealand government bonds are wholesale fixed-term debt securities the Crown issues to and repurchases from registered tender counterparties.
nominal	Nominal means the dollar value of something, unadjusted for things like inflation.
nominal bonds	Nominal bonds make payments of a fixed amount rather than a fixed real (inflation-adjusted) amount.
non-bank deposit-taking institutions	Non-bank deposit-taking institutions takes deposits but are not banks. We supervise and regulate these institutions.
non-bank lending institutions	Non-bank lending institutions (NBLIs) have more than $5 million in assets and primarily lend money, but may also borrow money from the public or other sources.
non-deposit-taking finance companies	Non-deposit-taking finance companies are a type of non-bank lending institution that doesn't take deposits but does engage in lending activities. We do not supervise or regulate these institutions, but the Department of Internal Affairs does.
non-profit institutions serving households	Non-profit institutions serving households aren't for profit, and aim to serve households (not companies. They typically run off donations instead of government funding.
non-tradables	Non-tradables are goods and services that cannot be easily traded or sold internationally. This includes items like haircuts, medical services, or housing, which are typically produced and consumed domestically. As they are not easily exported or imported, their prices are influenced more by domestic supply and demand.

O

official cash rate	The official cash rate (OCR) is the overnight interest rate set by the Reserve Bank. We transact with other banks near this rate, and so it influences the rates that other banks offer to their customers.
open bank resolution	Open bank resolution (OBR) is a long-standing policy aimed at allowing a distressed bank to be kept open for business, while placing the cost of a bank failure primarily on the bank's shareholders and creditors, rather than the taxpayer.
open banking	Open banking refers to a standardised and secure framework for sharing bank customer data with trusted financial service providers, such as technology companies.
open market operations	Open market operations (OMO) refers to a central bank buying or selling short-term treasuries and other securities in the open market in order to influence the money supply, thus influencing short term interest rates.
options	In a finance context, options are agreements that give the right, but not obligation, to buy or sell something at a specified price. An agreement to buy is called a call option, and an agreement to sell is called a put option.
output gap	The output gap is the difference between actual output (GDP) produced in the economy over a given period and its potential output – the amount an economy could produce if all resources were used efficiently. A positive output gap is said to exist if output is greater than potential output, implying inflationary pressure from stretched resources. Potential output is often estimated as the long-term trend in GDP but is difficult to assess precisely.
outright forward	A type of forward that locks in an exchange rate in advance.
over the counter	In a financial context, over the counter (OTC) refers to transactions that are performed directly between one party and another. This generally means transactions that are made outside of an exchange. OTC deals tend to be more risky, as there is no supervision

from an exchange.

overnight indexed swaps	Overnight indexed swaps (OIS) are bilaterally traded or over the counter (OTC), derivative in which one party agrees to pay the other party a fixed interest rate in exchange for receiving the average cash rate recorded over the term of the swap.
overnight interbank cash rate	The overnight interbank cash rate is the interest rate at which commercial banks trade with each other when borrowing or lending overnight.
overnight reverse repo facility	An overnight reverse repo facility provides access to short-term liquidity at a penalty rate against collateral for liquidity management and monetary policy purposes.

P

pari passu	A Latin phrase meaning 'equal footing' to describe where two or more assets, securities, creditors or obligations are managed without preference.
plain vanilla	Plain vanilla is the most basic or standard version of a financial instrument, usually options, bonds, futures and swaps.
policy targets agreement	A policy targets agreement was a document that defined the Reserve Bank inflation target before 1 April 2019. The policy targets agreement has since been replaced by the Monetary Policy Committee Remit which defines the inflation target.
potential output	Potential output is the level of goods and services the economy can sustainably supply without generating excess inflation or disinflation. It depends on the supply of inputs - capital and labour and how productively they are combined to produce output. For example, if there are more people available to work, more capital to use, or better ways of doing things, then potential output increases.
price stability	Price stability refers to when the overall level of prices in an economy remains relatively constant over time. Prices are regarded as being 'stable' when inflation, as measured by the CPI, falls within the band specified in the policy targets agreement (between 1% and 3% currently).
primary and secondary market	The primary market is where newly issued securities are usually traded first. It can be thought of as a wholesale market. Securities are offered to members of the primary market when they first go on offer. Member of the primary market then trade the securities among each other and other investors in the secondary market, which can be thought of as a retail market.
producers price index	The producers price index (PPI) is similar to the CPI but measures the price of inputs and outputs of production. The inputs side of the PPI measures changes in the price of materials and resources that producers use to produce goods and services (except for labour, which can be estimated by the labour cost index). The outputs side measures changes in the prices producers receive for the goods and services they produce.
provision	A provision is the amount set aside for liabilities that are known to exist but cannot be measured accurately. Reserves, contingent liabilities, provisions are similar terms, but have different meanings. With provisions, something has already happened to create a liability, and the business can fairly accurately estimate how much it will have to pay when that liability is due.
prudential capital buffer	A prudential capital buffer is an amount of capital above the minimum capital requirement. A bank that operates with a capital ratio within the prudential capital buffer applying to it would not be in breach of its conditions of registration, but it may have restrictions placed on it and be required to rebuild its capital levels over time.

Q

quantitative easing	Quantitative easing is an alternative form of monetary policy used by central banks to quickly increase the domestic money supply and spur economic activity. This can be done by buying financial assets, such as government bonds, to lower interest rates and encourage borrowing and spending.

R

real	Real means that a value has been adjusted to reflect its real worth today, usually adjusted for inflation.
real GDP	The real GDP is nominal GDP, deflated relative to a base year.

real interest rate	The real interest rate is the nominal interest rate deflated by expected inflation. Sometimes actual inflation is substituted for expected inflation to create historical measures.
realised and unrealised gains and losses	Realised gains and losses occur both on paper and in reality. Unrealised gains and losses have occurred on paper, but haven't gone through in reality yet.
reinsurance	Reinsurance is simply insurance for insurers. Many insurers also act as reinsurers. Outwards reinsurance describes one reinsurer shifting risk to another reinsurer, and inwards reinsurance describes one reinsurer accepting risk from another reinsurer.
repurchase agreement	A repurchase agreement (repo) is a way to borrow money that involves selling a financial instrument and agreeing to buy it back again later. A reverse repo is simply doing the opposite. The underlying instrument is therefore a type of collateral. Repos are often used by investors to fund their activities.
Reserve Bank bills	A debt security issued by the Reserve Bank, similar to bonds and Treasury Bills, used to withdraw liquidity using short-term central bank bills issued against cash. They are sold for less than their face value (principal), and don't pay a coupon (interest).
residential mortgage backed security	A residential mortgage backed security (RMBS) is a debt-based security, similar to a bond, backed by the interest paid on loans for residences.
residential mortgage obligations framework	A residential mortgage obligations (RMO) framework addresses the shortage of high quality liquid assets in the New Zealand market, offers mortgage lenders an additional funding tool, and supports developing deeper private label mortgage bond markets.
retained earnings	Retained earnings are the profits of a business that it doesn't pay out as dividends. The business uses this money to invest in its activities. Retained earnings are equity.
return on assets	A return on assets (ROA) is an indicator of how profitable a business is, because it measures how effectively a business uses its assets to make a profit.
return on equity	A return on equity (ROE) is an indicator of how profitable a business is, because it measures how effectively a business uses its equity to make a profit.
revolving credit	Revolving credit is a type of loan where there are no specific installment payments. It is the opposite of a installment credit, or installment loans, where there are specific installment payments the borrower needs to pay. Revolving credit is considered more risky.
risk-weighted assets	Risk-weighted assets are used to determine the minimum amount of capital held by banks and financial institutions to reduce the risk of insolvency.
risk-weighted exposures	Risk-weighted exposures are a measure of the banking group's exposure to credit risk, market risk and operational risk.
rollover risk	Rollover risk is associated with refinancing debt when a loan or other debt obligation (like a bond) is about to mature and needs to be converted into new debt.
running total	A running total for a specific period of time, often 12 months, will be reported at a certain date. A 12-month running total, reported at this certain date, would add up all the data of the 12 months before this date.

S

seasonally adjusted	A seasonally adjusted series involves estimating and removing seasonal patterns from the original data. This helps to show a clearer picture of trends over time by removing fluctuations that happen at the same time every year, making it easier to compare data across different months or years.
secondary market	Where investors buy and sell securities they already own. It is what most people typically think of as the stock market, though stocks are also sold on the primary market when they are first issued.

securities	The term securities is used for stocks, shares, debentures and so on where there is a right to receive interest or dividends from the investment.
settlement	Settlement refers to transactions between financial institutions being completed. We operate the systems that these payments are settled through, called ESAS and NZClear.
settlement cash	Settlement cash is the cash kept in Reserve Bank ESAS accounts to allow for settlement to occur. Only the Reserve Bank and the government can change the level of settlement cash. The amount of settlement cash can be used to influence interest rates, and ultimately liquidity in the economy.
shadow rate	A shadow rating is an unofficial rating given to a bond or an issuing party by a credit agency, but without any public announcement of the rating. The shadow rating can serve two purposes. First, it may be helpful to a company that is contemplating issuing rated debt in the market but is unsure about how it would be received. Second, it can serve as a rough guide for issues or issuers that have not been formally rated by a credit agency.
shadow short rate	A shadow short rate is a quantitative measure of overall conventional and unconventional monetary policy estimated from the term structure of interest rates.
short term and long term	In a financial context, short term tends to mean less than one year, and long term tends to mean longer than one year. In economics, short term could mean up to five years, and sometimes a medium term is included too.
simple average	A simple average, also known as a pure average, is calculated by adding together all the values in a dataset and dividing the sum by the total number of values. It gives a single value that represents the overall central tendency of the data.
solvency margin	The licensed insurer's actual solvency capital less the minimum solvency capital they are required to hold, meaning their 'excess capital'.
solvency standard	Solvency standards are issued under Section 55 of the Insurance (Prudential Supervision) Act 2010.
special drawing rights	Special drawing rights are similar to a currency, but they really represent a claim on the currency of International Monetary Fund members. In other words, having an SDR means that you can exchange it for its value in another currency. The value of an SDR is based on a basket of currencies determined by the IMF. While SDRs aren't a currency, they serve as a unit of account (value) with the IMF and other organisations.
special purpose vehicle	A special purpose vehicle (SPV) is a subsidiary created by a parent company to isolate financial risk. Its legal status as a separate company makes its obligations secure even if the parent company goes bankrupt.
spot rate	The spot rate is the price quoted for immediate settlement on an interest rate, commodity, a security, or a currency.
stablecoin	A type of cryptoasset that aims to stabilise its value relative to other conventional assets, including central bank money.
stress testing	Stress testing is a computer simulation technique used to test the resilience of institutions and investment portfolios against possible future financial situations.
subordinated	Subordinated means that, in the event of a bankruptcy, the business will only try to pay its subordinated debts after unsubordinated debts. Bonds, loans and other financial instruments can all come in a subordinated form.
swap	An agreement to swap cash flows of a financial instrument. Swaps are often used to hedge investments, transferring the risk of a financial instrument to a speculating investor.

T

tariff	A tariff is a tax that a government puts on goods coming into the country from other countries.
term auction facility	An inactive RBNZ facility that provided term funding collateralised against approved collateral.

term lending facility	An inactive RBNZ facility that provided term funding collateralised against approved collateral to support the Crown's Business Finance Guarantee Scheme.
terms of trade	Terms of trade is the ratio between the price of exported goods and services and the price of imported goods and services.
Tier 1 and Additional Tier 1	Tier 1 consists of Common Equity Tier 1 (CET1), as well as Additional Tier 1 (AT1). AT1 is lower quality capital than CET1. AT1 is therefore less effective at absorbing losses. AT1 consists of tools that are not equity, but are equity-like. For example, a financial instrument that can convert into equity when certain conditions are met.
Tier 2	Tier 2 is lower quality capital than Tier 1. Unlike Tier 1, Tier 2 is not freely available, and access to Tier 2 capital could be restricted. Therefore, it is not as effective at absorbing losses when they arise.
tradables	Tradables are goods and services that can be easily bought and sold across international borders. This includes items like cars, electronics and oil. The prices of tradables are influenced by global supply and demand and exchange rate movements.
tradables inflation	Tradables inflation measures the inflation of goods and services that can be relatively easily sold in different countries.
trade-weighted index	The trade-weighted index (TWI) is a weighted average of the New Zealand dollar relative to the 17 currencies we trade the most with. The TWI provides a broader measure of whether the New Zealand dollar is appreciating or depreciating against the currencies of the main trading partners.
trading securities	Trading securities are financial instruments acquired for selling in the short-term or securities that are part of a portfolio managed for short term profit-taking. Trading securities are held at fair value with gains and losses being recorded in profit or loss in accordance with NZ GAAP.
tranche	In finance, tranches often refer to a portion of a security. In terms of foreign reserves, a tranche refers to the foreign currency assets a country has provided to the IMF as part of its quota.
Treasury bills	Treasury bills are short term debt securities and money market instruments that can be held for durations up to one year. They are virtually risk free, but are only offered to registered parties.

U

unemployment rate	The unemployment rate is the percentage of people who are able to work and actively seeking employment as a share of the labour force. It is calculated by dividing the number of unemployed individuals by the total number of people in the labour force and multiplying by 100.
unexpired risk	Unexpired risk is the risk insurers run when covering their policyholders and refers to risks that occur over the duration of a policy. Risks that could occur after a policy has expired would be expired risks. If insurers believe that the premiums they earn won't be enough to cover unexpired risks, they would hold an unexpired risk reserve/liability. These reserves are similar to contingent liabilities.
unhedged reserves	Unhedged reserves are raised by selling NZD in exchange for foreign currency in the spot foreign exchange market. This transaction results in us owning foreign currency, with the value of these assets fluctuating with increases or decreases in the relative exchange rate at which this foreign currency can be exchanged back to NZD.

W

weighted average	A weighted average is a calculation that takes into account the relative importance or weight of each value in a dataset when determining the average. Instead of treating all values equally, some values contribute more to the final average based on their assigned weights.
working-age population	The working-age population consists of New Zealand residents who are aged 15 and over, are civilians (for example not military), and are not institutionalised. This group includes those who are employed and those who are actively seeking employment. This group does not include students and retirees who are not seeking work.
write-offs	Write-off refers to a loan that the borrower probably won't pay it back where the lender has given up on pursuing the money. More write-offs could be an indicator of worsening economic conditions.

Y

yield The yield is simply how much money a security returns to the investor, relative to how much it cost the investor to obtain that security. Yields can be used in many different contexts, and because of this, yields of different securities shouldn't be directly compared.