Securing the future: the role of the repo market

A speech delivered to the KangaNews Debt Capital Markets Summit in Auckland on 9 September 2026

By Karen Silk, Assistant Governor Money

Reserve Bank of New Zealand
Te Pūtea Matua

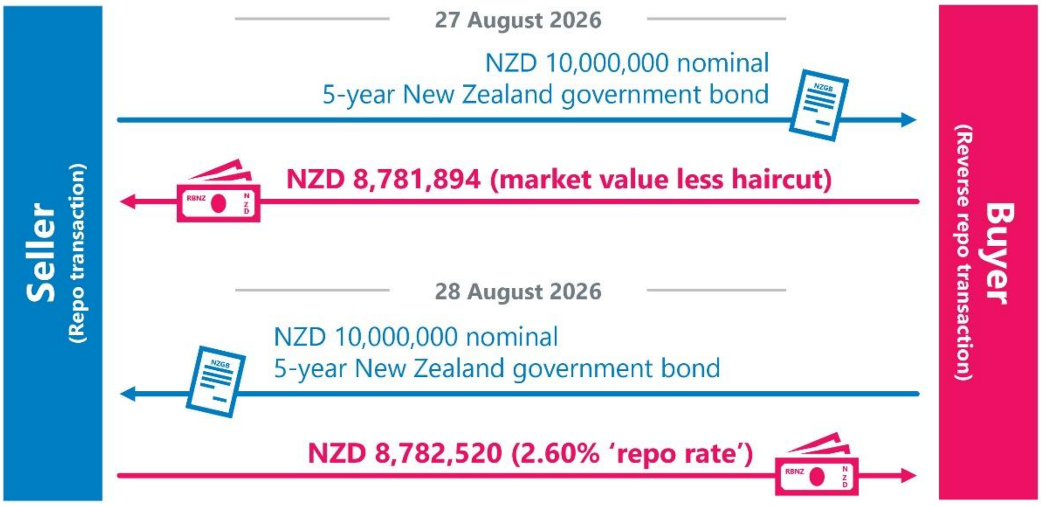
Tēnā koutou, tēnā koutou, tēnā koutou katoa.

Good morning. Thank you to KangaNews for bringing together such a wide range of market participants, and for inviting the Reserve Bank to address you today. I also want to thank my Reserve Bank colleagues, some of whom are here today, for helping prepare my remarks [1].

Today, I will talk about an increasingly important channel of monetary policy implementation – that is the repo market.

As many of you will already know, a repurchase agreement, or "repo", is a short-term secured funding transaction. One party sells securities, usually high-quality securities such as government bonds, and agrees to buy them back at a set date and price. A repo is much like a secured loan: one party receives cash and provides collateral; the other party provides cash and receives collateral. The difference between the sale price and the repurchase price, expressed as an annual rate, is the repo rate.

Figure 1: Illustrative repo market transaction



Different market participants use repo in different ways. Some use it to raise cash and obtain leverage. Some use it to invest cash securely. Some use it to source particular securities. Dealers help move cash and collateral around the system and central banks use repo operations to provide liquidity to the banking system and to implement monetary policy.

Today we have published a Reserve Bank Bulletin article on recent trends in government bond-backed repo, both globally and in New Zealand[2]. There are three main messages incorporated within that bulletin that I would like you to take away from my remarks today.

First, repo markets have grown a lot in recent years. Globally, this growth has been supported by more government bond issuance, as well as changes in regulation, risk appetite and market infrastructure. Short-term lending between banks has increasingly moved from unsecured to

1 Thanks to David Craigie for his assistance in drafting these remarks and Chris Stephens for his work on the Bulletin article from which this speech is largely drawn. My thanks also to those Reserve Bank colleagues who provided valuable feedback and suggestions.

2 The repo market: Global trends and a New Zealand perspective

secured formats. Non-bank financial institutions, or NBFIs, are also playing a bigger role, using repo to obtain funding and securities to take positions in fixed income markets.

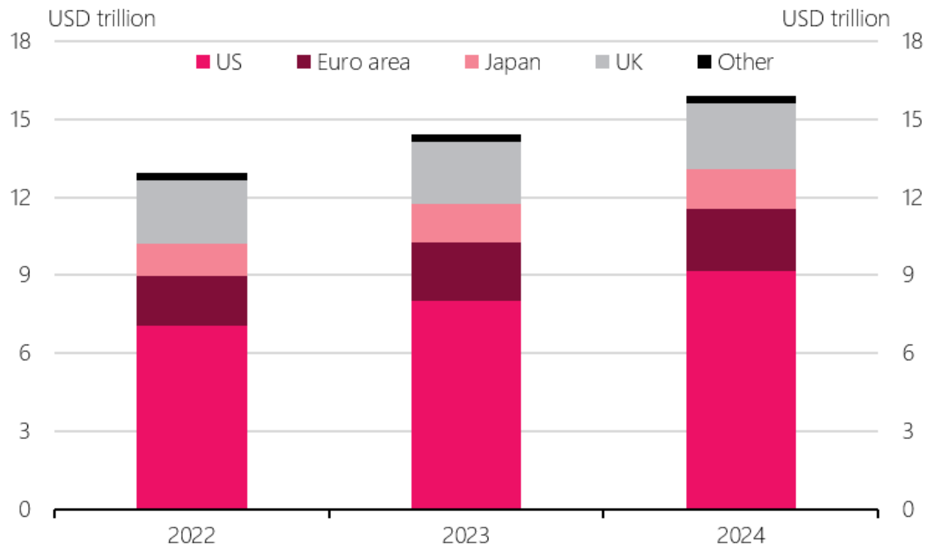
Second, as repo markets become more important, they matter more for monetary policy. As central banks unwind quantitative easing, the banking system still needs liquidity to keep operating smoothly. Repo operations are increasingly used to provide that liquidity. In New Zealand, earlier this year we made changes to our Liquidity Management framework. A weekly repo operation is now a key part of that.

Third, building a deeper and more resilient repo market in New Zealand will need to involve all market participants. The Reserve Bank clearly has a role through its policy settings and operating frameworks. But market participants can also act to improve the depth, liquidity and transparency of the market. This includes making prices more actively and building a wider network of counterparties that have the legal documents in place to trade with one another. The efficient functioning of the repo market should be of interest to all investors not just those who are active in repo themselves, because reliable short-term funding supports wider fixed income market liquidity and the resilience of markets in stressed periods.

Global developments in repo markets

Let me start by summarising some of the key global developments in repo markets. Recent analysis shows just how large repo markets have become. Measuring them accurately is difficult because the data is not always complete or consistent across countries. The Financial Stability Board estimates that global government bond-backed repo markets had about USD $16 trillion outstanding by the end of 2024[3]. Available data suggests repo markets in the United States, the Eurozone and Australia have each at least doubled over the past decade.

Figure 2: Repo Market Size



Source: Financial Stability Board

[3] Financial Stability Board (2026)

Several factors have supported this growth. After the Global Financial Crisis, short-term interbank lending moved more towards secured formats. This was partly because of regulation and partly because of lower risk appetite. Secured funding reduces credit risk compared with unsecured formats, especially when the collateral is high quality.

NBFIs, including hedge funds and asset managers, are also now playing a larger role in government bond markets. Many of their strategies rely on short-term funding, collateral transformation, or access to specific securities. Repo and securities lending markets help make that possible. The amount of government bonds on issue has increased significantly in many countries, especially since the pandemic. This has created more opportunities for relative value strategies.

Monetary policy has also played a role. During quantitative easing, when settlement cash was abundant, repo markets in some countries were used less for cash funding and more for access to specific collateral. As asset purchase programmes unwind and the level of settlement cash falls, repo is becoming more important for moving cash through the system. Several central banks, including the RBNZ, now aim to keep settlement cash at an ample level and use repo operations to provide liquidity to the market when needed. In doing so we can support repo market liquidity and make pricing more stable and transparent. But there is a balance to strike as it is important that central banks provide support to the market without becoming the market.

Repo isn't only important for monetary policy transmission; it also matters for financial stability. As we have seen internationally in recent years, problems in the repo market can spillover to the wider financial system. The Financial Stability Board has identified three main risks in government bond-backed repo markets. Firstly, repo can create a build-up of leverage across the system. Secondly, demand and supply can quickly become unbalanced during periods of stress. Thirdly, activity can be concentrated among a small number of key firms. A recent BIS working paper also highlights the connection between governments, banks and NBFIs, where NBFIs use short-term repo borrowing from banks to fund leveraged government bond trades[4].

Market stress events, such as the September 2019 US dollar repo strains and the March 2020 dash for cash show why policy makers need a clear view of repo markets. We need to understand how participants are connected, where vulnerabilities sit, and how to design effective operating frameworks.

The New Zealand dollar repo market

Let me now turn to the repo market in New Zealand dollars. This market is obviously smaller, and has fewer types of participants, than the larger global markets I have discussed to this point. But it has still grown a lot in recent years. Reliable and complete data on New Zealand dollar repo turnover is difficult to extract, but Reserve Bank estimates using NZClear data suggest monthly turnover in government bond backed repo reached about $200 billion in April 2026[5].

[4] BIS Working Papers No 1369
[5] This figure represents aggregate monthly turnover across all tenors including overnight trades rolled daily

For a partial view of the outstanding balance of repo, we can look to the Reserve Bank's bank balance sheet survey. This shows that registered banks had bought about $21 billion of securities under agreements to resell by the end of April 2026. Put simply, that means New Zealand registered banks had lent about $21 billion of cash into the repo market. That was almost twice the level of a year earlier[6].

Figure 3: Reverse-repo lending outstanding by New Zealand registered banks

Source: RBNZ Bank Balance Sheet Survey (Securities Purchased Under Agreements to Resell)

The size of the New Zealand dollar repo market has generally increased with the amount of collateral available. Turnover fell in the mid-2000s, when government bond issuance was low. It rose again as government debt issuance increased after the Global Financial Crisis and the Canterbury earthquakes. More recently, it has grown much more strongly.

In part this reflects a more recent trend in offshore NBFIs using repo to fund positions in New Zealand government bonds. This is consistent with global trends. However, New Zealand has fewer complex trading opportunities than larger overseas markets because we lack some of the product set. For instance, it is not possible to do a bond-futures basis trade when there is no futures market. Nevertheless, trading the spread between government bond yields and swap rates remains a common strategy. The greater presence of NBFIs brings benefits, such as more demand for underlying collateral and more secondary market liquidity. But it also brings risks, as when widely held leveraged strategies are unwound, markets can quickly become one-sided.

As the market has grown, more participants have come into the market, but our large domestic banks remain central. They use repo to support client activity and for their own cash management. Often, this means lending excess cash to earn a return above the OCR. This can mean liquidity in New Zealand dollar repo often depends on the overall amount of settlement cash in the system and banks' ability and willingness to distribute it.

[6] On the liabilities side of bank balance sheets, the equivalent figure mainly reflects Reserve Bank operations and has declined significantly as the Funding for Lending programme has rolled off. That programme was a form of long-term repo funding for participating banks.

The Reserve Bank's Open Market Operations

This brings me to the RBNZ's role in the market. Earlier this year, we announced changes to our Open Market Operations to help keep settlement cash at an ample level. By "ample" we do not mean a fixed dollar amount as was operated pre-pandemic. On any given day, the ample level of settlement cash depends on market flows, risk appetite, calendar effects and other constraints. In simple terms, the settlement cash level is ample when short-term wholesale interest rates trade close to the OCR[7].

We can reduce the amount of settlement cash needed by lowering banks' precautionary demand for cash and by making it easier for cash to move around the system. Because repo helps distribute cash, a well-functioning repo market can lower the amount of settlement cash needed and reduce the Reserve Bank's footprint in markets.

From April 2026, we moved to weekly full allotment Open Market Operations (OMO). These are offered at the OCR plus 10 basis points, for 7-day and 28-day terms. These operations are a form of repo transaction. Under the previous framework, Reserve Bank staff decided when to run operations and how much liquidity to offer. Under full allotment, the market has more choice and more responsibility. The aim is to make liquidity reliably available at a known price, while still encouraging market participants to move liquidity among themselves[8].

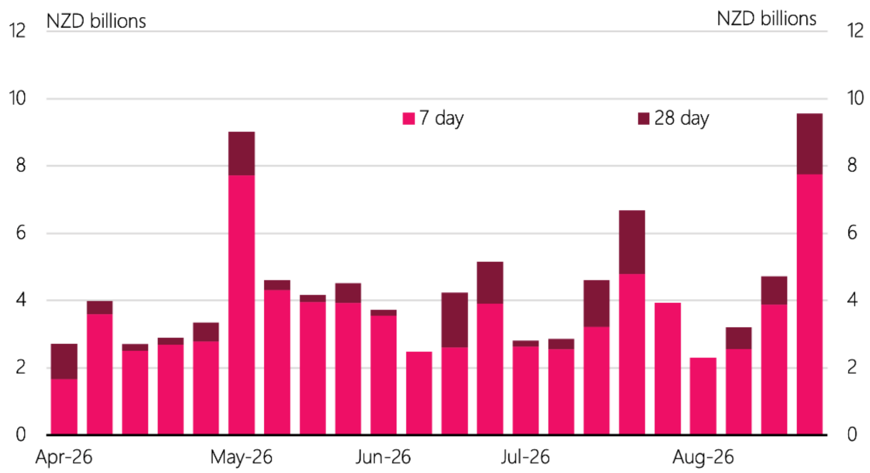
Early signs and feedback have been positive. The weekly full-allotment operation has helped both us, and the market, feel our way towards the ample settlement cash level. It has also helped to strengthen our understanding of the repo market and the demand for liquidity in New Zealand.

Since we introduced full allotment, weekly volumes have averaged about $4.3 billion and have peaked at just over $9.5 billion. Most use has been for the 1-week term. We have seen higher demand in weeks when settlement cash is otherwise expected to fall, such as around large tax days. This shows banks are using the operation as a cash management tool.

[7] Effective monetary policy implementation requires that short-term wholesale interest rates trade close to the policy rate. This can be achieved with scarce, ample, or abundant settlement cash. The difference between those three liquidity environments can be defined by the sensitivity of rates to changes in the settlement cash level and relatedly the frequency of central bank "fine tuning" operations to maintain rate control. An abundant settlement cash level requires little-to-no operations because rate control is achieved by the interest rate "floor" of paying the policy rate on settlement balances. By contrast, in a scarce environment, operations are frequent (perhaps daily) with rates trading between the floor and "ceiling" of the central bank's target range. An ample settlement cash level is somewhere in between, typically requiring some central bank liquidity injections, but not with the frequency and precision of a scarce regime.

[8] Richardson (2026)

Figure 4: RBNZ Reverse Repo Open Market Operations



Source: RBNZ

Pricing in the overnight interbank repo market appears to have been more stable since the new OMO approach began. It often sits within the 10 basis point spread on the OMO. Bank-to-client pricing is more variable and, from what we hear, tends to sit slightly above the OMO rate. Some margin for price makers that can access the OMO is expected. But for the market to be credible, that margin needs to be reasonably stable.

Market participants have told us the new OMO approach has improved how the repo market functions by making available liquidity at a known price every week. But liquidity has still been tight at times between OMO dates and around large system flows, such as government bond settlements. As participants get more used to the framework and make use of the OMO when needed, these episodes should happen less often.

Even so, some constraints will remain. Let me highlight a couple of them.

Limits to growth and a call to action

One constraint is the number of counterparties that can trade with each other. Repo markets rely on a legal agreement called the Global Master Repurchase Agreement, or GMRA. The GMRA sets the rules for the transaction, including rights over collateral, haircuts, margining and what happens if one party defaults. Two parties need to have a GMRA in place before they can trade repo with each other.

Several market participants have told us that setting up GMRAs with new counterparties can take a long time. This limits who can trade with whom, reducing market depth and price competitiveness. For New Zealand's capital markets, this is not ideal. A key part of the financial system should not be held back by lack of relatively simple documentation.

Another constraint is transparency, and with it, competitive and reliable pricing, particularly in the bank-to-client part of the market. In larger markets, transparency is supported by higher trading volumes and more market colour. In some jurisdictions there is mandated data collection and this contributes to benchmark rates and indices. New Zealand's repo market may not yet be large enough to justify that. But it is not too early to think about what a more developed market could look like. In the meantime, market participants should ask whether today's price transparency and market information are good enough for the market we have now, not just the smaller market we used to have. The clear pricing from the Reserve Bank's weekly OMO hopefully supports this.

Before I finish, let me reiterate my main messages and invite you to begin what we hope will be an ongoing conversation about how we can keep developing the repo market.

The effects of the COVID-19 pandemic on the Reserve Bank's balance sheet and New Zealand dollar financial markets have now largely passed. What remains is a larger government bond market, and a different approach to providing liquidity.

Repo is central to that shift. It connects banks, the central bank, issuers, NBFIs and other market participants. For the Reserve Bank, our role is to provide liquidity while not crowding out private markets. For market participants, the task is to build the relationships, legal agreements, and price transparency that we should expect to see in a developed market.

If we get this right, the repo market will support better liquidity management, stronger monetary policy transmission, and a more dynamic and resilient capital market in New Zealand.

Thank you. I am happy to take your questions.

References

Avdjiev, S., Hardy, B., & Jager, M. (2026). The evolving nexus: sovereigns, banks and NBFIs. *BIS Working Papers No 1369*. Retrieved from https://www.bis.org/publ/work1369.htm

Bristow, L., & Tang, M. (2024) The Australian Repo Market: A Short History and Recent Evolution. *RBA Bulletin – July 2024*. Retrieved from https://www.rba.gov.au/publications/bulletin/2024/jul/the-australian-repo-market-a-short-history-and-recent-evolution.html

Cenicola, A., Friedrichs M., Mann R., & Olson L.M (2025). Sizing the U.S. Repo Market. *The OFR Blog*. Retrieved from https://www.financialresearch.gov/the-ofr-blog/2025/12/04/sizing-us-repo-market/

Cook, B. (2012) What is the repo market? Why does it matter? *Reserve Bank of New Zealand Bulletin, Vol. 75, No. 4*. Retrieved from https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/publications/bulletins/2012/2012dec75-4cook.pdf

Craigie, D. (2025) Liquidity Management Review Consultation. Remarks delivered to the KangaNews Debt Capital Markets Summit. Retrieved from https://www.rbnz.govt.nz/-/media/project/sites/rbnz/files/events/2025/speech-notes-for-david-craigie-at-kanganews.pdf

Financial Stability Board. (2026). Vulnerabilities in government bond-backed repo markets. Retrieved from https://www.fsb.org/2026/02/vulnerabilities-in-government-bond-backed-repo-markets/

International Capital Markets Association (2026). European Repo Market Survey. Retrieved from https://www.icmagroup.org/market-practice-and-regulatory-policy/repo-and-collateral-markets/market-data/icma-european-repo-market-survey/

Richardson, A. (2026). The RBNZ's liquidity management framework – some updates following consultation. Presented at the KangaNews-ANZ New Zealand Capital Markets Forum. Retrieved from https://www.rbnz.govt.nz/news-and-events/events/2026/march/2026-new-zealand-capital-market-forum

Saporta, V. (2024). Let's get ready to repo! Speech given at Association for Financial Markets in Europe (AFME). Retrieved from https://www.bankofengland.co.uk/speech/2024/july/victoria-saporta-speech-at-afme-seminar

Silk, K. (2024) Liquidity management: Principles for liquidity provision and the end of an abundant era. Presented to the CBA Global Markets Conference. Retrieved from https://www.rbnz.govt.nz/news-and-events/news/2024/10/liquidity-management

Stephens, C. (2026) The repo market: Global trends and a New Zealand perspective *Reserve Bank of New Zealand Bulletin, Vol. 89, No. 2*. Retrieved from https://www.rbnz.govt.nz/hub/publications/bulletin/2026/the-repo-market-global-trends-and-a-New-Zealand-perspective