Full details contained in the FSR on our website – www.rbnz.govt.nz

This presentation is not financial advice.
The Financial Stability Report... reports on the soundness and efficiency of New Zealand's financial system.
A sound system but vulnerabilities remain

1. Sound financial system
2. Household sector indebtedness remains a key vulnerability but risk is reducing
3. Dairy debt high and sector faces a number of challenges
4. Global financial vulnerability has increased
5. Prudential initiatives
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The financial system is dominated by banks.

New Zealand’s financial system compared with OECD peers
**(percentile, indicators relative to GDP)**

Small banks and NBLIs have increased market share.

The banking system is sound...

Bank Tier 1 capital ratios
(% of risk-weighted assets)

Source: Registered banks’ disclosure statements, RBNZ *Capital Adequacy Survey.*
...and banks have strengthened their funding profiles.

Annual growth in lending and funding
($ change from 12 months before)

Source: RBNZ Liquidity Survey.
Lending growth has moderated...

Source: RBNZ Bank Balance Sheet Survey.
...and lower costs have supported profitability.

Bank cost-to-income ratios
(by bank size, September years)

Source: RBNZ Income Statement Survey.
The insurance sector’s capital strength has declined.

Insurance sector solvency ratios (average by sector)

Source: RBNZ Insurer Solvency Return.
The culture and conduct of financial institutions is under review.

- FMA and the Reserve Bank have undertaken a joint review of banking culture and conduct.
- Review identified significant weaknesses in governance and management of risks.
- But no widespread misconduct or culture issues.
- A separate review of life insurers is underway.
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Household debt remains high and concentrated...

Household debt-to-income ratio

Source: Stats NZ, RBNZ Household Assets and Liabilities Survey, RBNZ estimates.
...but bank lending standards have improved...

Maximum loan amount by borrower type
(ratio to borrower gross income)

Source: Private reporting
...increasing the resilience of recent borrowers.

Risk characteristics of new borrowers
(% of annual mortgage lending)

Source: RBNZ LVR New Commitments Survey, RBNZ DTI New Commitments Survey, private reporting
Housing market risks have fallen slightly.

Annual house price and housing lending growth

Source: RBNZ Bank Balance Sheet Survey, Real Estate Institute of New Zealand.
LVR restrictions will be eased from 1 January 2019
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Dairy debt remains high but prices have supported profitability...

Agriculture sector debt-to-income ratio

Source: RBNZ Bank Balance Sheet Survey, RBNZ Annual Agricultural Survey, Dairy Companies Association of New Zealand, Dairy NZ, private reporting, RBNZ estimates
...helping to reduce financial stress in the sector.

Banks are diversifying their agriculture lending.

The sector is facing a range of challenges.

- The Mycoplasma bovis disease.
- Environmental expectations.
- Tighter restrictions on foreign investment in dairy farms.
- Possible El Niño weather pattern.
- Climate change risks.
  - The Reserve Bank will be undertaking work in this space as part of a broader climate change strategy
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Financial system is exposed to global risks through funding and trade links.

Offshore bank funding (% of total funding, September years)

New Zealand’s export trading partners

Source: RBNZ Liquidity Survey, Stats NZ.
Monetary policy is tightening in some countries...

Expectations for monetary policy

Sources: Bloomberg and ANZ.
...and protectionist trade policies could harm global growth.

Impact of trade tensions on long term real GDP
(% deviation from long term output with no tariffs)

Sources: IMF.
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Current prudential initiatives

- Financial Market Infrastructures Bill
- Bank capital requirements review
- New standard for mortgage bonds as collateral
- EU benchmark regulation and BKBM
- OTC derivatives margin requirements
- Bank financial strength dashboard
Phase 2 review of the Reserve Bank Act

- Focuses on financial policy provisions of the Act
- First consultation paper released earlier this month, covering:
  - Separation of prudential responsibilities
  - The Reserve Bank’s statutory objectives
  - The Reserve Bank’s governance arrangements
  - The regulatory perimeter
  - Arguments for and against depositor protection
- Further consultation will cover remaining issues including macro-prudential policy and crisis management
Questions?
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