

# *Financial Stability Report* May 2020

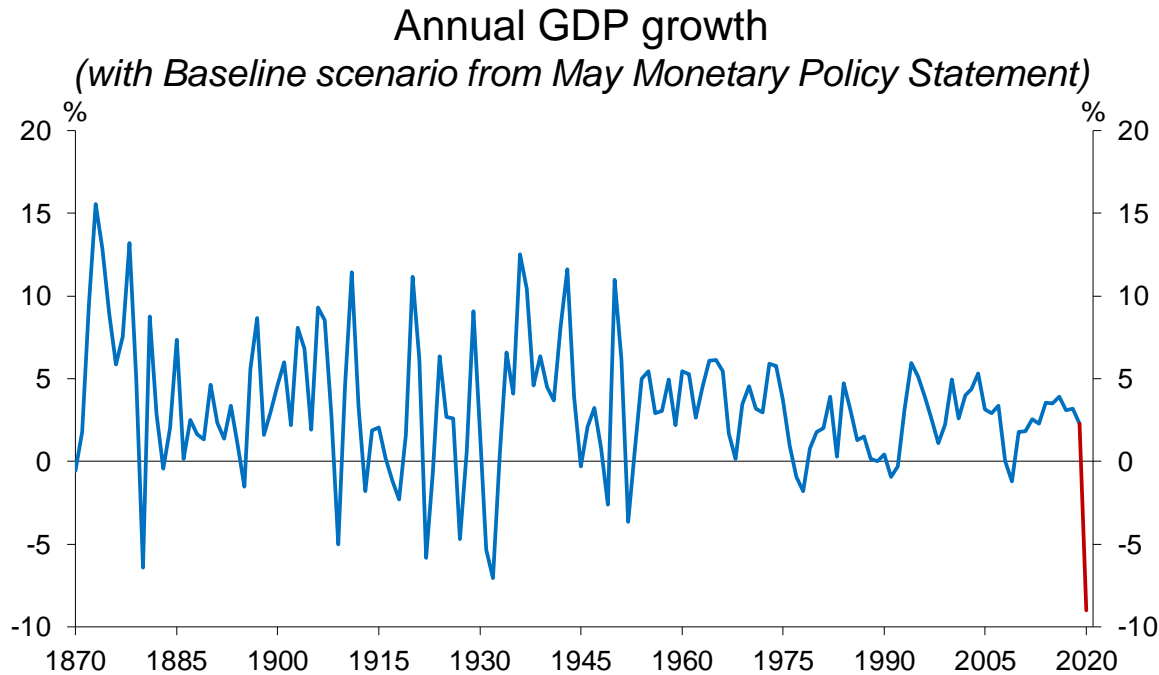


**Full details contained in the FSR on our website – [www.rbnz.govt.nz](http://www.rbnz.govt.nz)**

**This presentation is not financial advice.**



# COVID-19 has led to unprecedented economic disruption

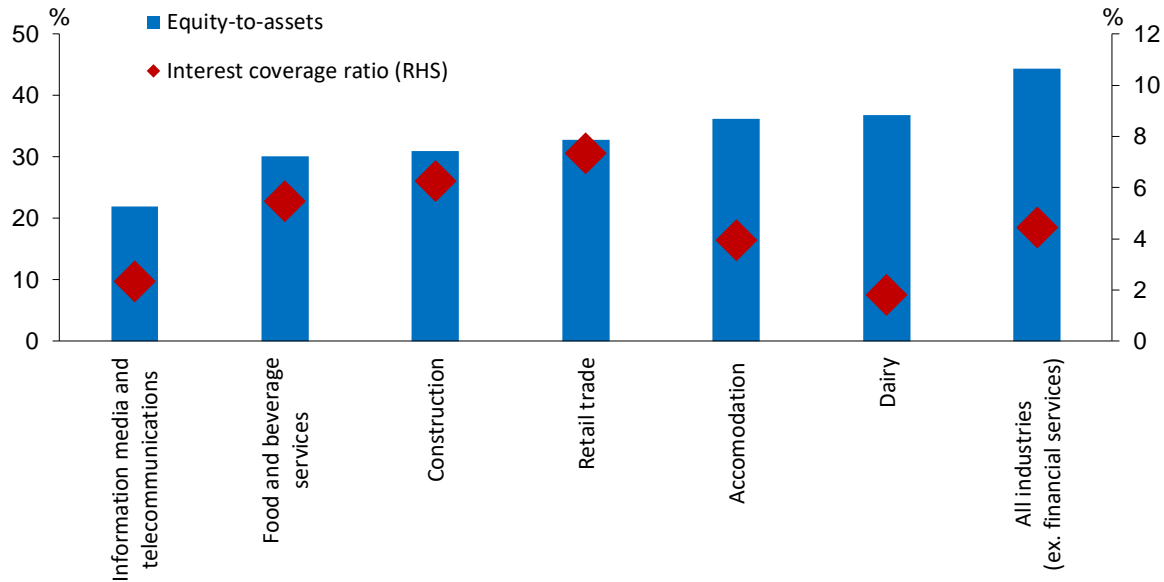


Source: Stats NZ, RBNZ estimate.

# Some businesses will come under stress



Firm balance sheet and debt servicing vulnerability





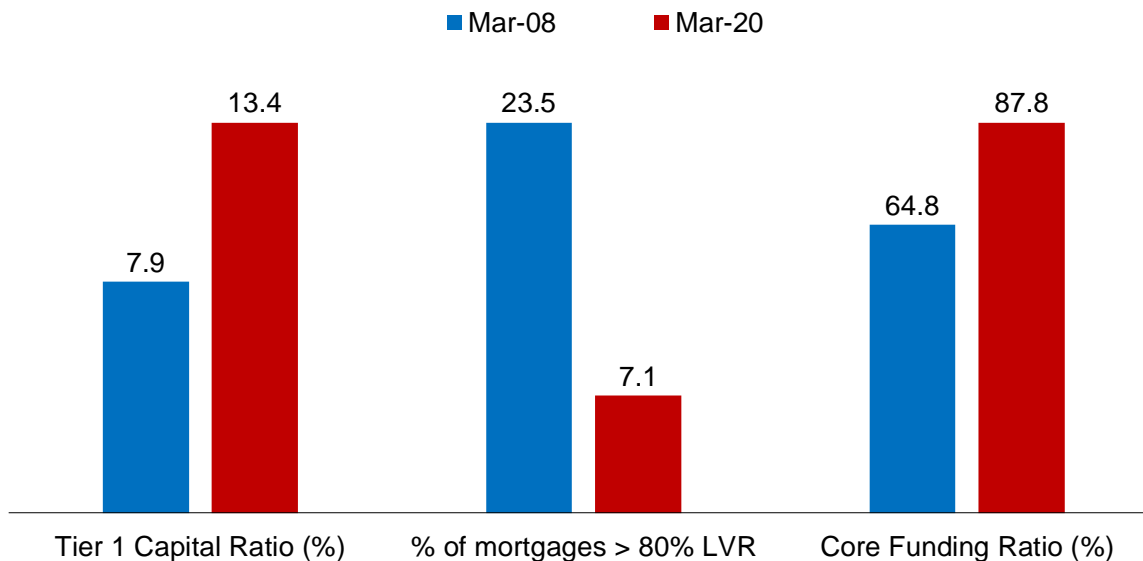
# Fiscal and monetary policy has cushioned near-term impact

- Wage subsidies and other fiscal packages have provided income support.
- The OCR has been cut to a record low.
- The Reserve Bank has commenced large scale asset purchases to reduce interest rates.
- The Reserve Bank has supported bank liquidity by introducing concessionary funding facilities.

# Banks are in a strong position to support the recovery



Measures of banking system soundness





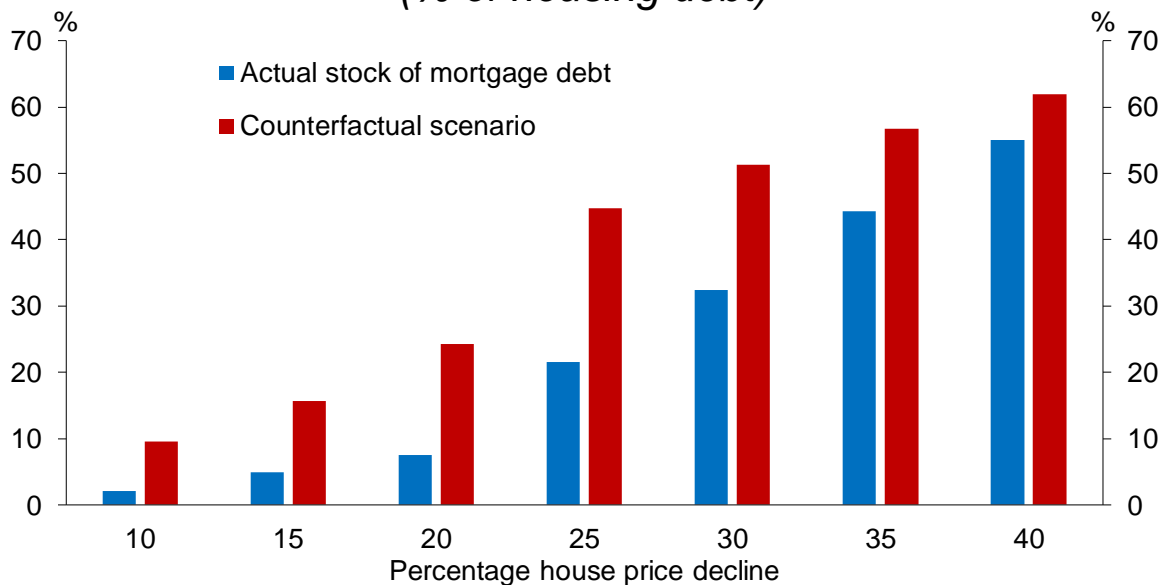
# The Reserve Bank has adjusted policies to enable banks to keep on lending

- Enabled mortgage deferrals for households and small businesses facing a loss of income.
- Delayed the implementation of planned increases to capital requirements by at least 12 months and imposing dividend restrictions to ensure banks use current capital buffers to support lending.
- Eased core funding ratio requirements for banks.
- Supported the Business Finance Guarantee Scheme through establishing a Term Lending Facility.

# LVR restrictions have put households in a stronger position to weather the storm



Housing debt at risk of negative equity, given declining house prices  
(% of housing debt)





# Stress tests suggest banks are resilient to all but the most severe scenarios

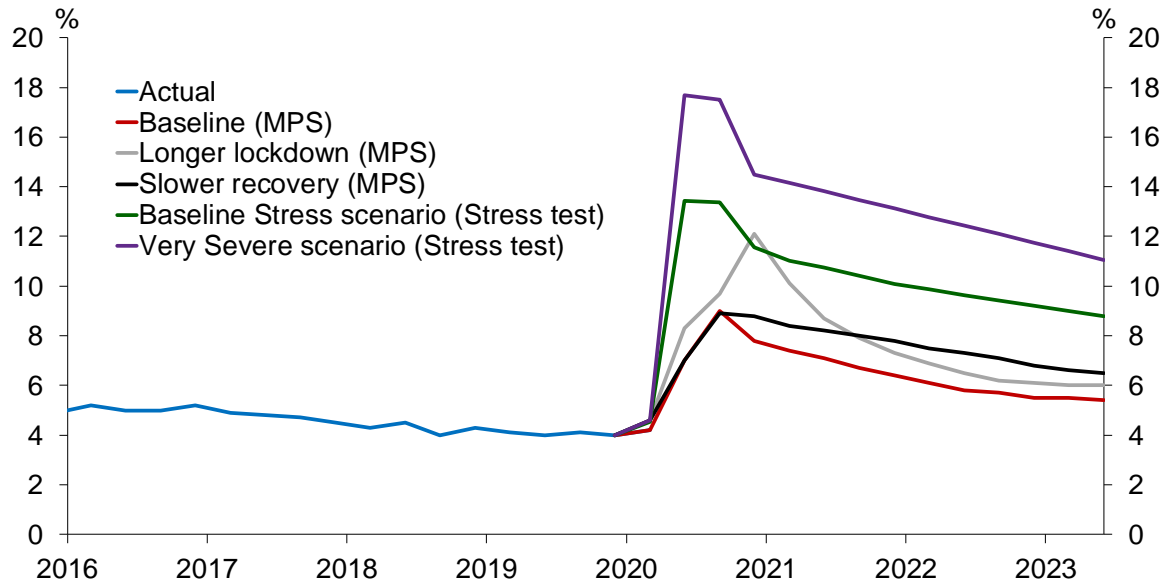
- Two scenarios developed to test banking system resilience to rising credit losses
- Both scenarios are significantly more adverse than those published in the *Monetary Policy Statement*.





# Stress tests suggest banks are resilient to all but the most severe scenarios

Unemployment rate under MPS and RBNZ stress test scenarios



Source: Stats NZ, RBNZ estimates.



# Stress tests suggest banks are resilient to all but the most severe scenarios

- Reserve Bank modelling suggests banks can withstand a broad range of adverse scenarios while retaining sufficient capital to keep lending.
- Under our baseline stress scenario (that is worse than any of the MPS economic scenarios) banks are projected to fall into the capital conservation buffer – requiring plans to restore capital over time.
- Banks are not invincible: there are even more severe and less likely scenarios where banks fall below their regulatory minimum capital requirements.



# Vulnerabilities exist in some parts of the financial system

- Some NBDTs have low profitability and are operating with low financial buffers. Increased resilience may come from further consolidation in the sector, cost reductions or additional capital.
- Some life insurers have been operating with low solvency buffers. The Reserve Bank has applied licence conditions to these insurers requiring them to strengthen their capital buffers.
- Some providers of credit insurance are vulnerable to a significant increase in unemployment.



# Banks can support the economic recovery by continuing to lend to sound borrowers

- Maintaining the flow of credit will contribute to the long-term stability of the banking system by reducing borrower defaults and preventing large falls in asset values.
- Maintaining credit will also play a strong role in supporting the upcoming economic recovery.

# Questions?





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