STATS INSIGHT

Asset quality: October 2021

30 November 2021

Summary

- The system non-performing loans (NPL) ratio remains low at 0.4% at end Oct-21.
- Housing is currently the best performing sector, with its NPL ratio sitting at 0.2% at end Oct-21.
- Provisions remain elevated compared to pre-covid levels, totalling $2.7b at end Oct-21, compared with $2.2b at end Feb-20.
- The provisions ratio also remains slightly elevated compared to pre-covid levels, sitting at 0.52% at end Oct-21 compared with 0.45% at end Feb-20.
- Provisions have continued to trend downwards in all sectors aside from business, which has seen an $81m (7%) increase across Sep-21 & Oct-21.

System asset quality

Despite the challenges arising from the Covid-19 pandemic, bank asset quality remains high, reflecting how the New Zealand economy has rebounded. The system non-performing loans (NPL) ratio* did see a rise to 0.8% in Jun-20 (Figure 1), however this was well down on the levels reached during the global financial crisis, where it peaked at 2.2% in Mar-11. Between Mar-20 & Jun-20, non-performing loans rose by $690m (23%) to $3.7b, but have since declined to $2.2b at end Oct-21. The NPL ratio has also continued to decline since Jun-20 to sit at 0.4% as at end Oct-21, with the latest covid outbreak yet to have any impact on bank asset quality.

Although the NPL ratio remains low, provisions* remain elevated compared to pre-covid levels. Bank provisions totalled $2.7b at end Oct-21, compared to the pre-covid level of $2.2b at end Feb-20 (Figure 2). The strong growth in lending since Feb-20, particularly in housing, has meant that the provisions ratio remains only marginally higher than pre-covid levels. Total provisions had been declining since Sep-20, but have just started to plateau since the latest outbreak began in Aug-21.

Figure 1: System NPL ratio

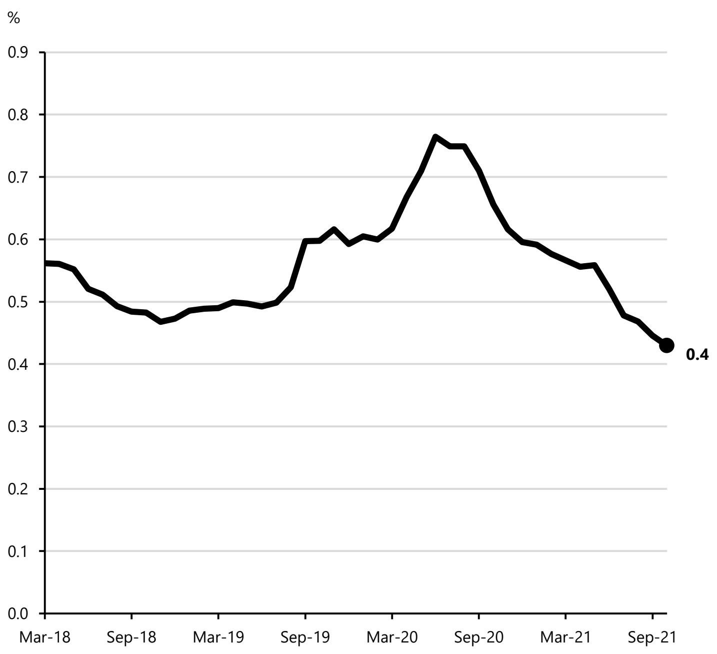
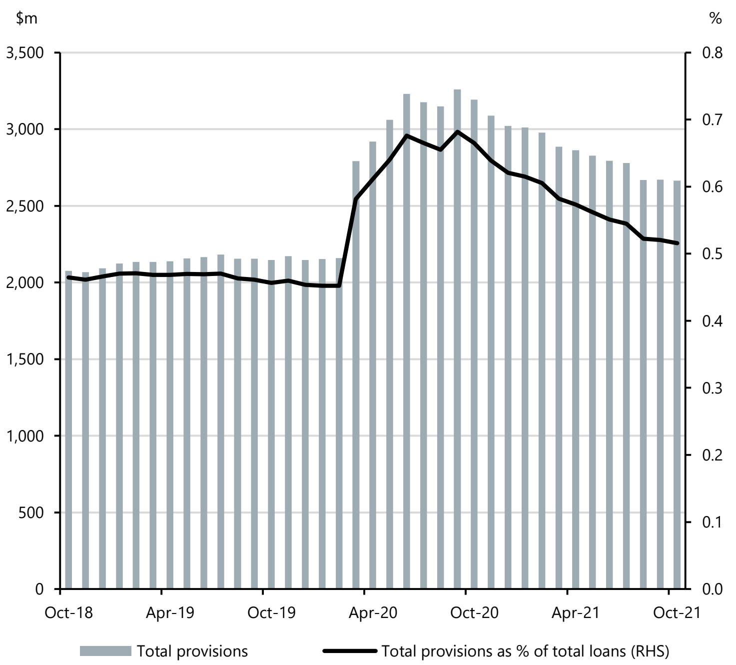


Figure 2: Total provisions & provisions ratio



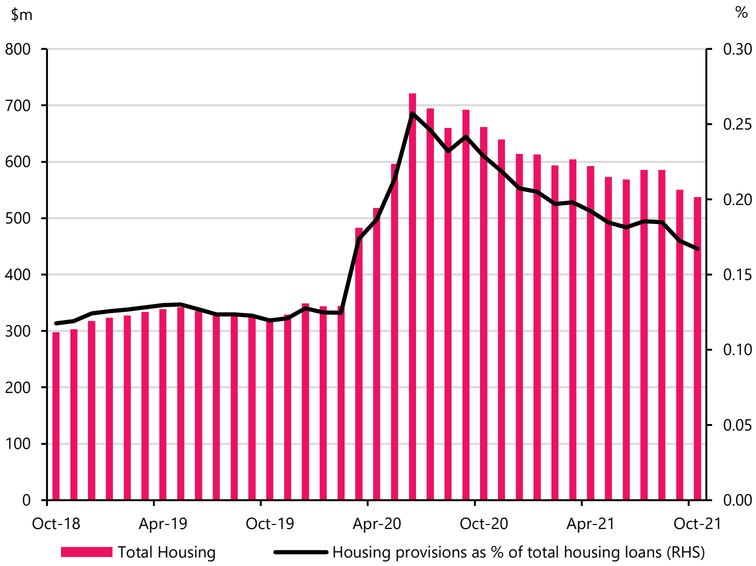
Housing

Housing lending makes up 62% of all bank lending, and is currently the best performing sector, with its NPL ratio down at 0.2% at end Oct-21. This is down from the peak of 0.4% at end Jul-20 (Figure 3). Since Mar-20, housing lending has risen 16%, however NPLs have risen only 3%. Between Mar-20 & Jun-20, non-performing loans rose by $420m (56%) to $1.2b, but have since declined to $772m at end Oct-21.

Housing provisions totalled $537m at end Oct-21, and remain 56% higher than they were pre-covid at end Feb-20 (Figure 4). The provisions ratio at end Oct-21 also remains higher at 0.17%, compared with 0.12% at end Feb-20.

Figure 3: Housing NPL Ratio

Figure 4: Total housing provisions & provisions ratio



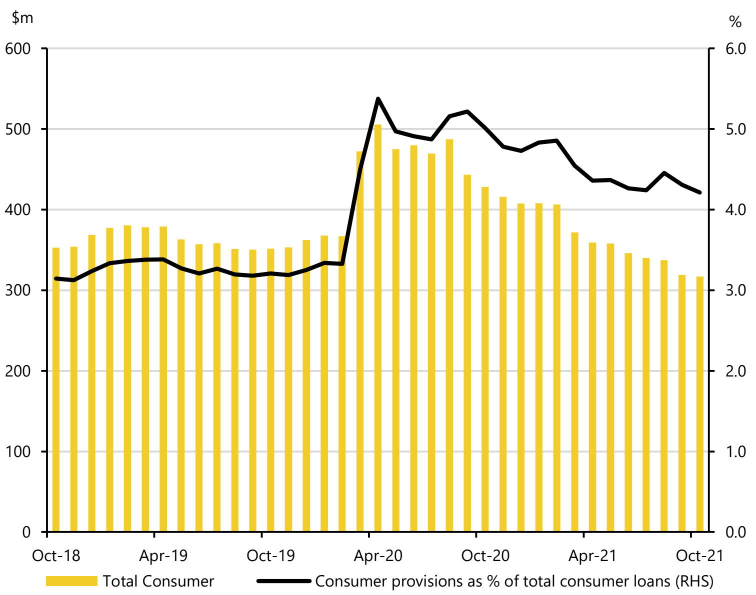
Consumer

Consumer lending makes up 1.5% of all bank lending, which is down from 2.3% of all bank lending in Feb-20. Consumer lending has fallen $3.5b (-32%) over this period. Over the same period, non-performing loans have fallen $49m (-38%). The NPL ratio peaked in May-20 at 1.7%, but is now back down to 1.1% (Figure 5). Between Mar-20 & Jun-20, lending 90+ days past due rose by $30m (27%) to $142m, but have since declined to $77m at end Oct-21.

Consumer is the only sector which currently has a lower level of provisions than pre-covid times, however this is largely due to the significant drop in lending over this period. The provisions ratio at end Oct-21 was higher than pre-covid, up to 4.2% from 3.3% at end Feb-20 (Figure 6).

Figure 5: Consumer NPL Ratio

Figure 6: Total consumer provisions & provisions ratio



Business

Business lending is made up of commercial property and other business lending, which includes lending to a wide range of industries. The NPL ratio for total business lending was 0.6% at end Oct-21, which was down from the peak of 0.9% in Jun-20 and back around its pre-covid level (Figure 7). The business NPL ratio had been trending upwards before covid, with this trend entirely driven by other business lending. The NPL ratio for other business lending peaked at 1.2% in Jun-20.

Business provisions totalled $1.3b at end Oct-21, and remain 45% higher than they were pre-covid at end Feb-20 (Figure 8). Provisions had been trending back down, but have risen a further $81m (7%) across Sep-21 & Oct-21. This recent increase was almost entirely in other business. The total business provisions ratio at end Oct-21 was 1.12%, compared with 0.76% at end Feb-20.

Figure 7: Business NPL Ratios

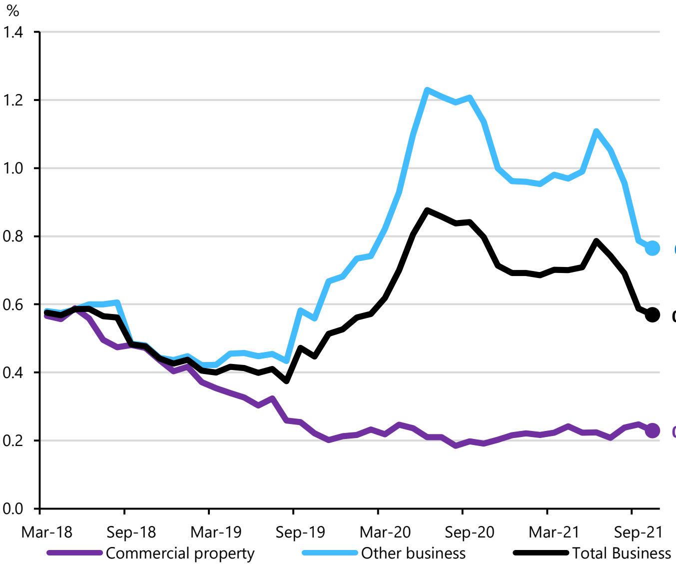
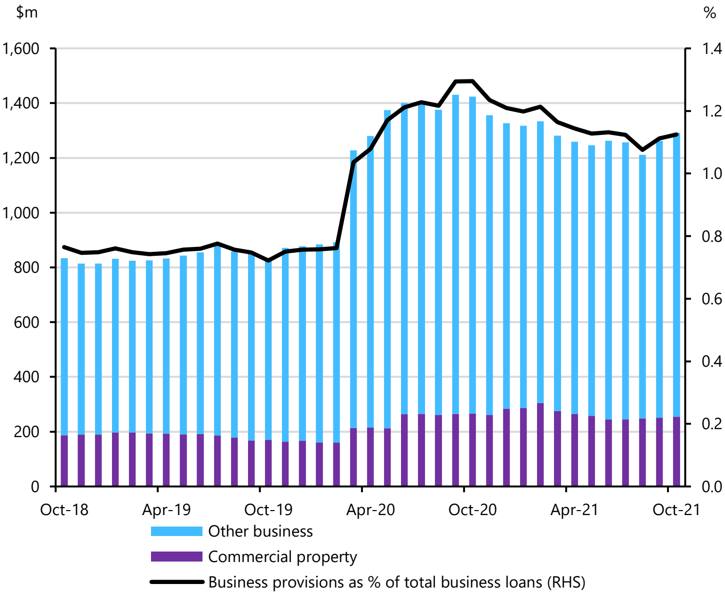


Figure 8: Total business provisions & provisions ratio



Agriculture

Agriculture lending currently makes up 12% of all bank lending, while 61% of all agriculture lending is to the dairy sector. The agriculture sector witnessed the most stress pre-covid, with the NPL ratio reaching a peak of 2.4% in Nov-19, while the dairy NPL ratio peaked at 3.2%. Since Nov-19, these ratios have continued to trend downwards through covid outbreaks to now sit at 1.1% and 1.2% respectively.

Agriculture provisions totalled $472m at end Oct-21. There was a $75m (16%) increase in provisions during Mar-20, however this increase was less than what was seen in other sectors. Provisions have been trending downwards since Sep-20, with the provisions ratio sitting at 0.77% at end Oct-21.

Figure 9: Agriculture NPL Ratios

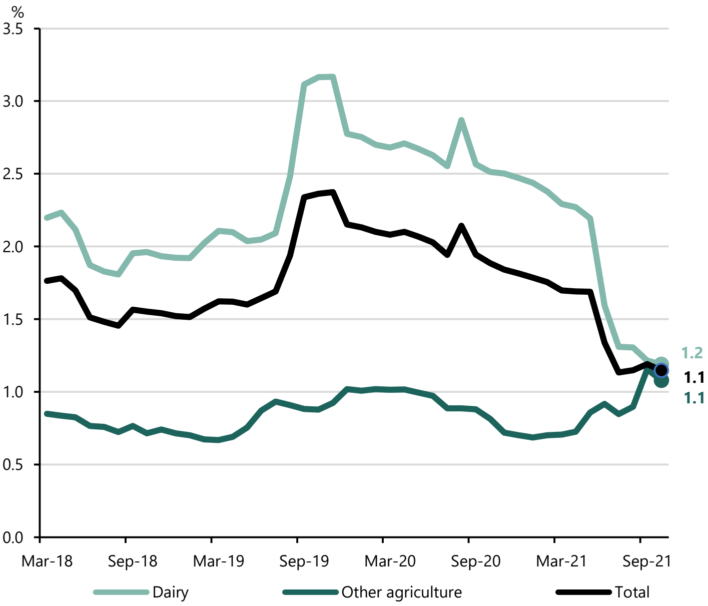
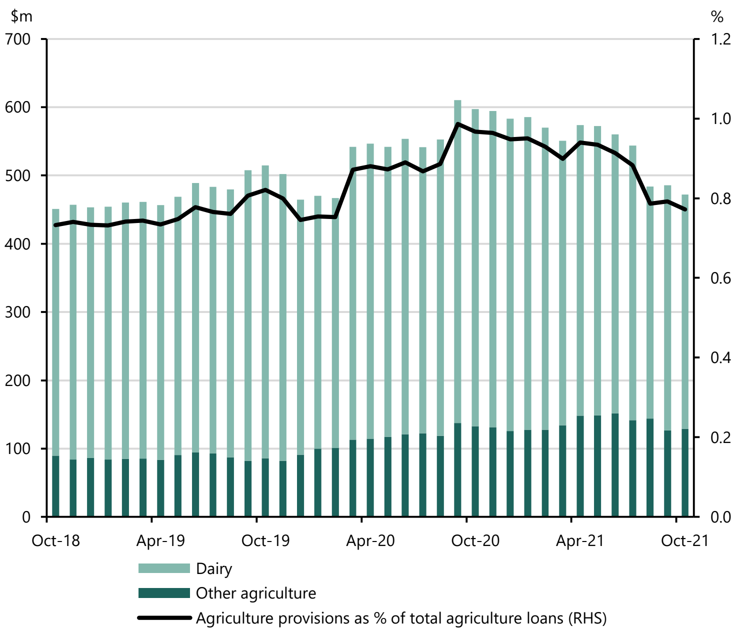


Figure 10: Total agriculture provisions & provisions ratio



*What is a non-performing loan ratio?

If a loan is impaired, or a borrower has not made scheduled repayments on their loan for more than 90 days, then the loan is considered to be 'non-performing'. A non-performing loan (NPL) ratio gives total non-performing loans as a percentage of total loans. A lower NPL ratio generally indicates a bank has a higher quality loan portfolio. Information on asset quality can provide useful insight into a banks willingness to lend to riskier borrowers, or a bank's ability to differentiate between high risk and low risk borrowers.

*What is a provision?

A provision is an allowance for credit impairment loss. Individual provisions are allowances on individual loans and advances where the borrower is having difficulty servicing the loan, or where a loan or advance becomes non-performing. Collective provisions are allocated against groups of loans and advances.

About the Stats Insight

The data is sourced from the Reserve Bank's Bank Balance Sheet Survey. All New Zealand registered banks are included in the survey. Individual bank asset quality data can be seen on the Bank Financial Strength Dashboard.

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