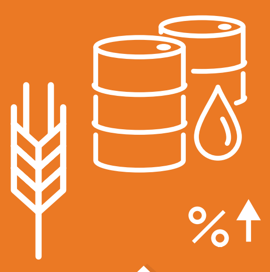
Reserve Bank of New Zealand
Te Pūtea Matua

05/2022

Financial Stability Report **SNAPSHOTS**

New Zealand's financial system remains robust in the context of significant global economic challenges.

The combination of a global pandemic and war is unprecedented in recent times. Lockdowns, border restrictions, supply chain disruptions, and economic sanctions have posed challenges around the world. Global inflation has increased to its highest level in decades, leading to a removal of the monetary stimulus used to support the COVID-19 response. In the face of this environment, New Zealand banks and insurers are in a strong position to support their customers and provide the financial services we all rely on.



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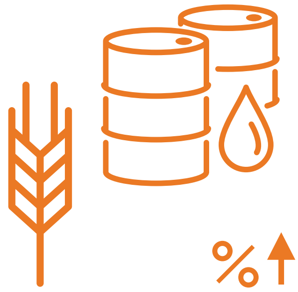

- Russia’s invasion of Ukraine has increased the global price of energy and many other commodities. Uncertainty about the conflict has also caused volatility in financial markets. Many countries, including New Zealand, have imposed wide-ranging economic and financial sanctions on Russia.
- Higher prices for imported commodities and elevated uncertainty are having a negative impact on New Zealand households and businesses. Higher prices for New Zealand export commodities benefit some exporters, but weaker economic activity in other countries lowers demand for New Zealand exports.

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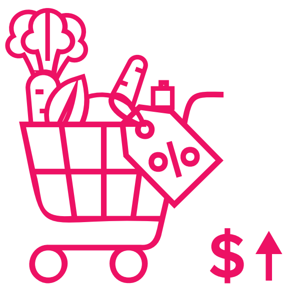

- Consumer price inflation has risen in many countries. New Zealand inflation is at its highest level in several decades. The strong demand for goods since the start of the pandemic has put pressure on supply chains, production capacity and labour markets. Recently, disruption from COVID-19 has been made worse by Russia’s invasion of Ukraine. Higher inflation has raised the cost of living for New Zealand households.
- As a result, central banks have started to remove monetary policy stimulus put in place during the pandemic to support low inflation in the future. Further tightening is expected, which has pushed interest rates higher. Rising interest rates increase debt servicing costs for borrowers.

House prices are declining but remain above sustainable levels.

- House prices in New Zealand have fallen 4 percent since their peak in November last year. Rising interest rates, tighter loan-to-value ratio requirements and changes to responsible lending rules have all put downward pressure on prices.
- Despite the recent falls, current house prices are still estimated to be above sustainable levels from a financial stability perspective. A significant decline in house prices remains a possibility, which would create challenges for some recent buyers.

The financial system remains sound and institutions are resilient.

- Despite increasing near-term risks, New Zealand's financial institutions are in a strong position to keep supporting their customers and the economy. Banks' capital positions have increased as profitability has held up and dividend payments have been restricted. Banks are also well positioned with large buffers of liquid assets to be able to meet customer withdrawals.
- Insurers and financial market infrastructures have also been resilient in responding to the impact of COVID-19 on the New Zealand economy.