



Financial Stability Report

Summary slide deck

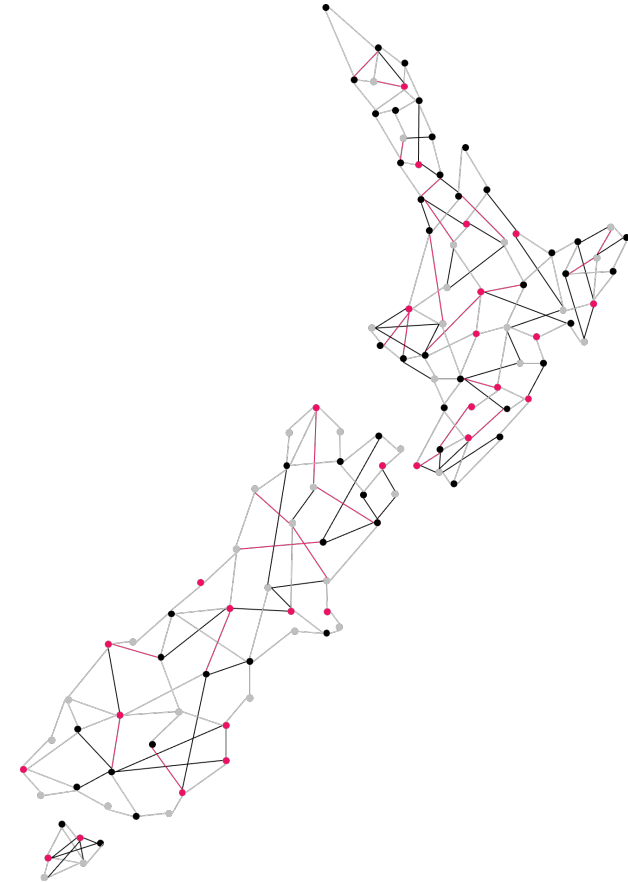
May 2025



Disclaimer

This presentation is not financial advice.

Full details contained in the Financial Stability Report
on our website – www.rbnz.govt.nz





Overview

1. Financial Stability Risks

- Financial stability risks have increased over the past six months, but the financial system is well placed to manage these.
- The US imposed sweeping tariffs on goods imports from New Zealand and our major trading partners. Recent trade tensions are a key risk to global financial stability, which may spillover to New Zealand.
- Domestically, unemployment is rising and economic conditions are challenging for businesses. Household borrowers have been resilient to high debt-servicing costs.
- Declining interest rates and lower debt servicing costs will gradually reduce financial stability risks.

Overview



2. Banks and Insurance Sector Resilience

- Banks remain in a strong financial position to manage losses and disruptions in wholesale funding markets.
- Insurers are resilient to both seismic and cyber stress scenarios.
- Upward pressure on general insurance premiums has moderated, whereas growth in health insurance premiums has increased.
- Banks and insurance companies are exploring the use of artificial intelligence (AI) in their operations. This presents both opportunities and risks for financial stability.

3. Policy Updates

- The Depositor Compensation Scheme will come into effect on 1 July 2025.
- We intend to complete a review of the appropriateness of our capital requirements by the end of the year.
- We are pursuing a variety of policy initiatives that are likely to support competition.



Key economic developments

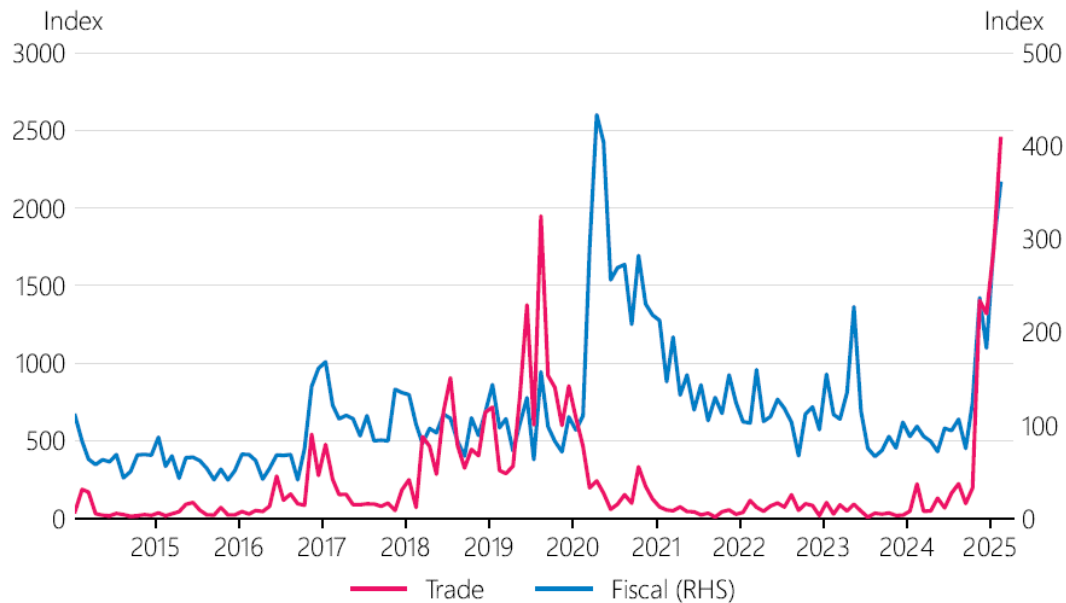
The US imposed sweeping tariffs on New Zealand and our trading partners; Trade tensions lowered the global growth outlook and contributed to market volatility



Figure 1.1

US trade policy and fiscal policy uncertainty indices

(index = 100 in October 1985)

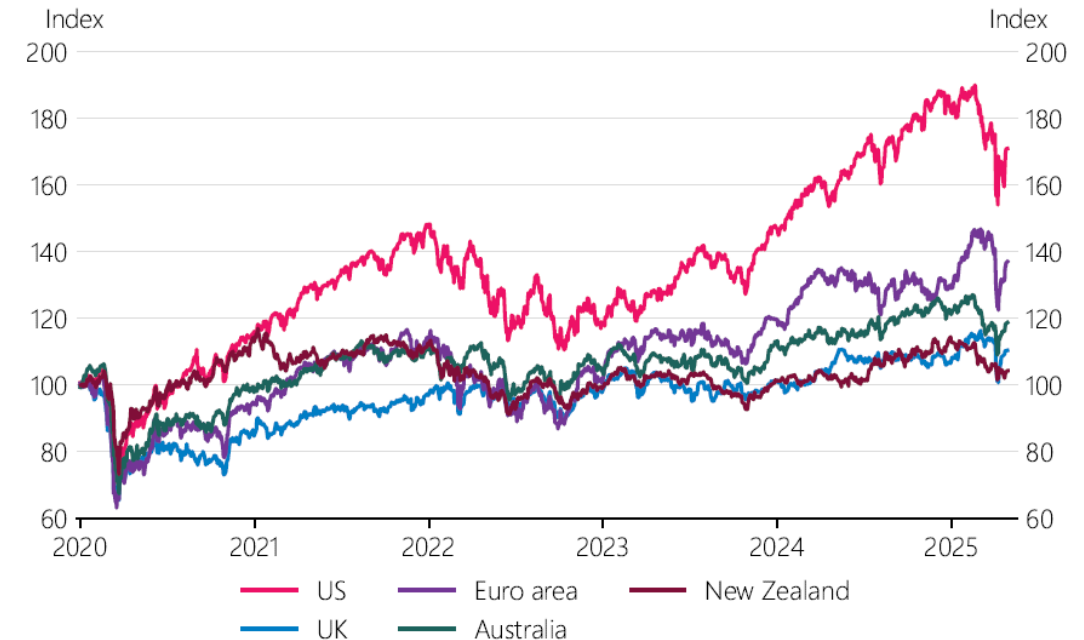


Source: Haver Analytics.

Figure 1.2

Global equity prices

(index = 100 on 31 January 2020)



Source: Bloomberg, RBNZ calculations.

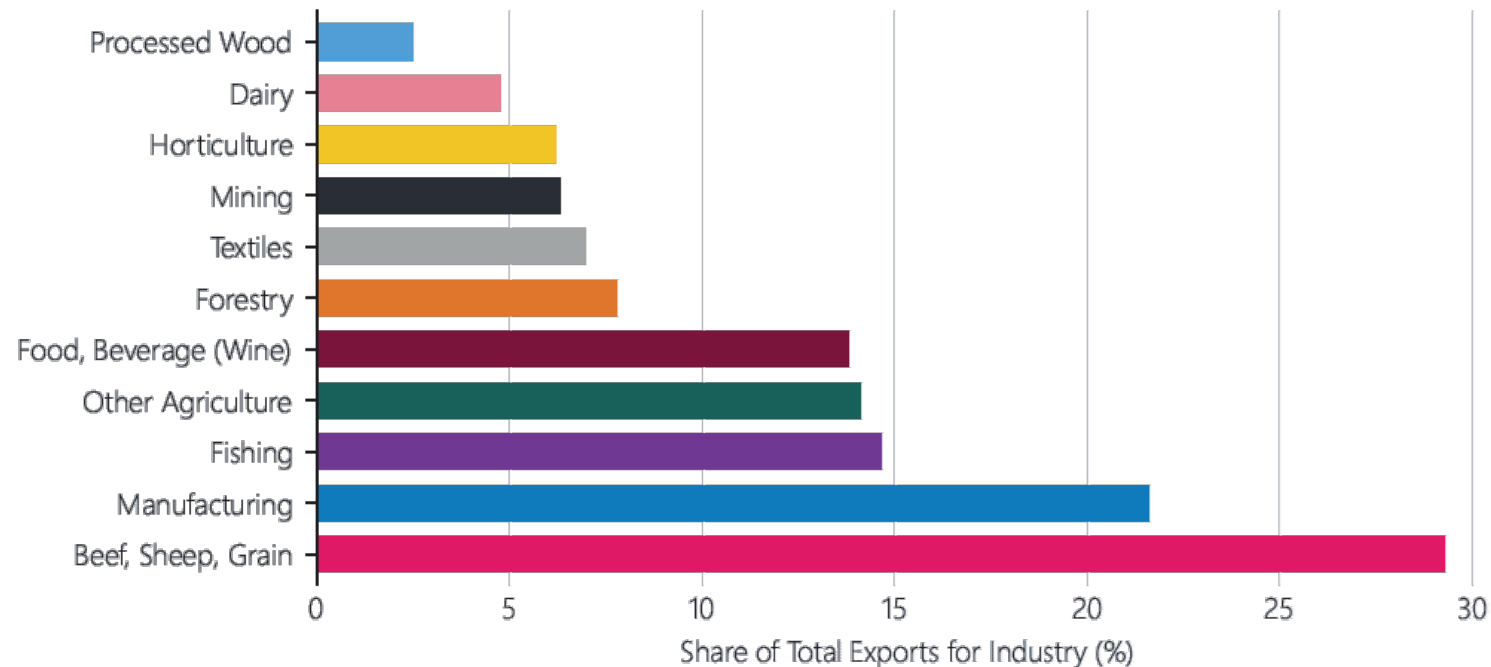
Tariffs will have the largest impact on sectors heavily exposed to the US and where products are difficult to divert. However, some agricultural sectors are benefitting from higher commodity prices and lower debt servicing costs.



Figure B.2

New Zealand export sectors exposed to US tariffs

(share of exports to the US by sector)

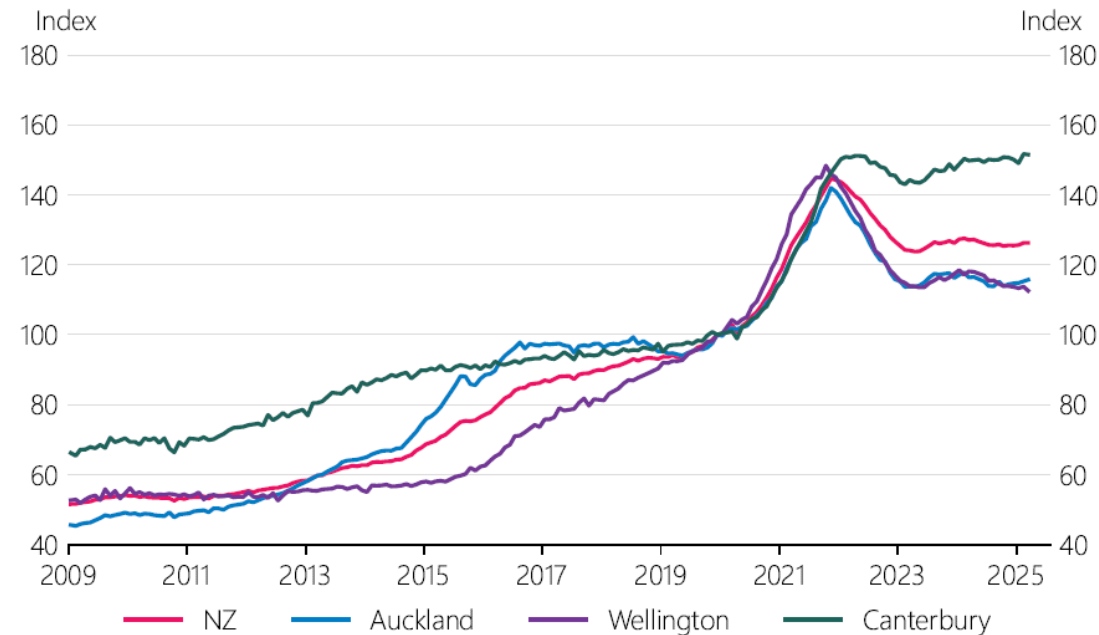


Source: UN Comtrade.

The housing market remains soft but demand could increase due to lower interest rates



Figure 1.3
Regional house price indices
(index = 100 in December 2019)



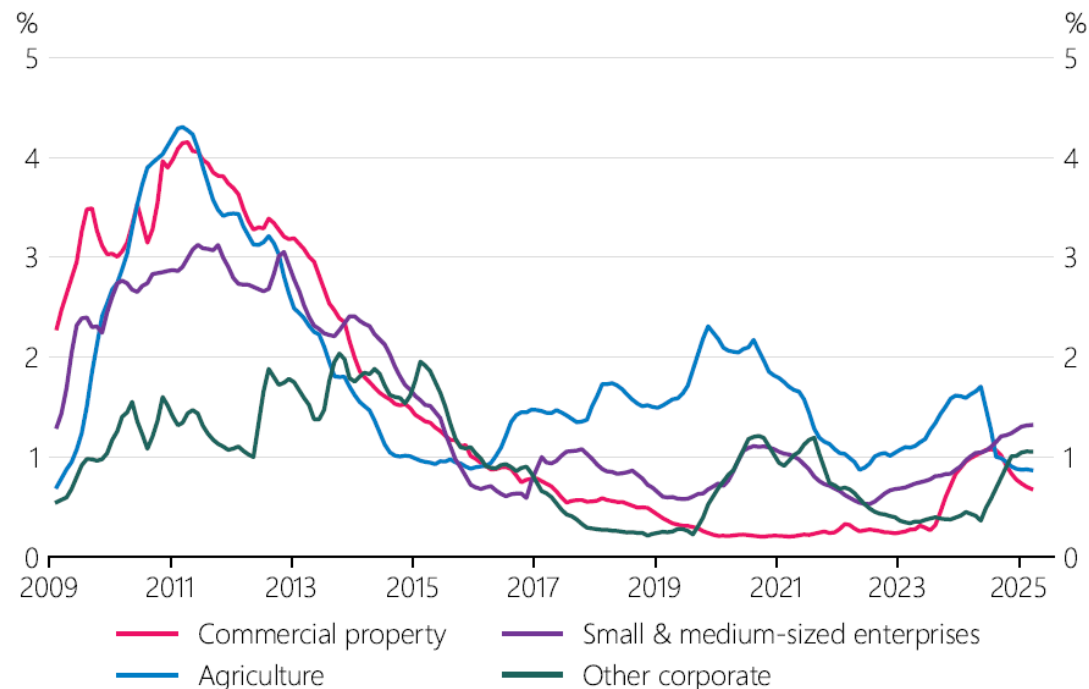
Source: REINZ, RBNZ estimates.

Financial stress has varied across business sectors. Non performing loans have declined for commercial property, in part due to lower interest rates, but have increased in sectors exposed to weak economic activity.



Figure 1.7

Business non-performing loan ratios



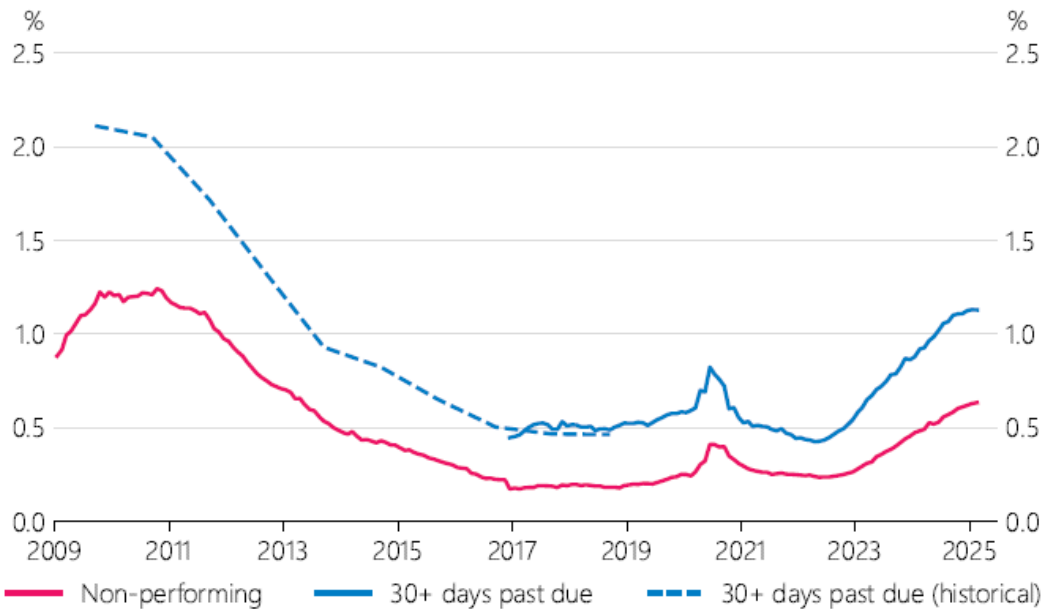
Source: RBNZ *Bank Balance Sheet survey*.

Non-performing loans have increased, but borrowers have been mostly resilient to high debt-servicing costs. Banks project decreases in the next two years.



Figure 1.5

Non-performing and past due mortgage lending

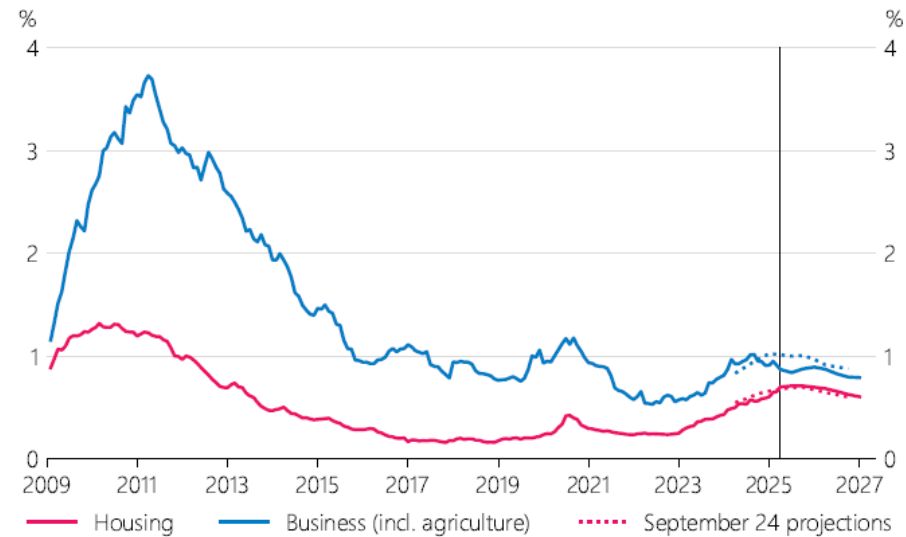


Source: RBNZ *Bank Balance Sheet survey*, private reporting, registered banks' Disclosure Statements.

Note: Non-performing loans are defined as those 90 or more days in arrears or impaired.

Figure 1.6

Banks' projections for non-performing loans by sector (share of lending by value in each sector)



Source: RBNZ estimates.

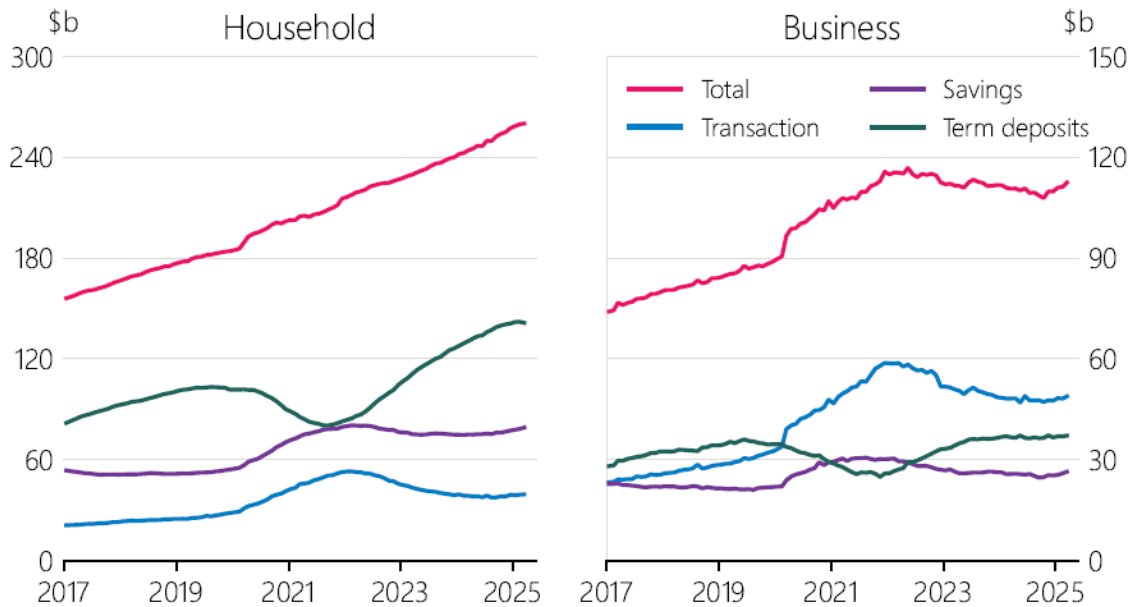
Note: The non-performing loan ratios are for the five largest banks (ANZ, ASB, BNZ, Kiwibank and Westpac). However, the ratio for businesses prior to 2016 is for the banking sector as a whole. The projections are weighted averages (based on lending amounts) of the five largest banks' projections for their own lending. These are based on the economic outlook from our February 2025 *Monetary Policy Statement*.

Funding conditions remain supportive for banks. Banks have increased their financial buffers to manage losses.



Figure 1.9

Business and household deposits

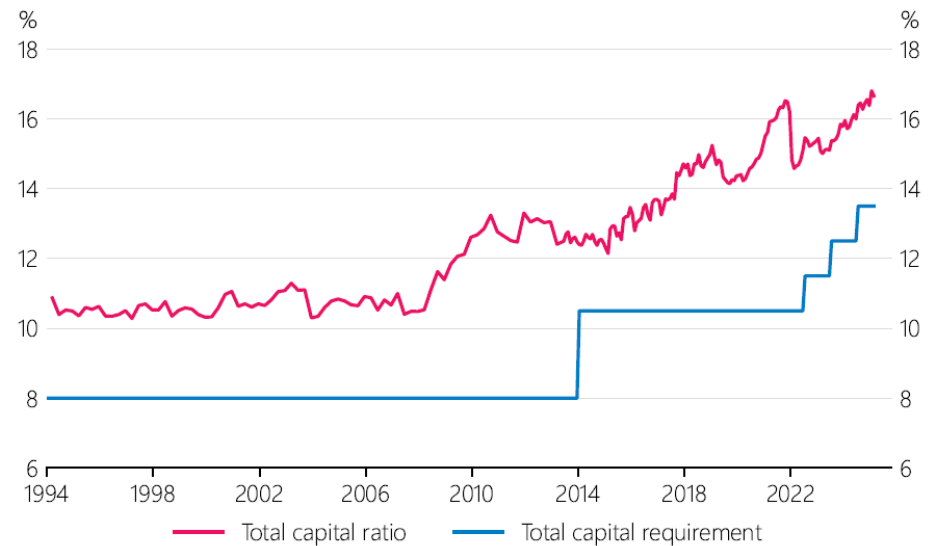


Source: RBNZ *Bank Balance Sheet survey*.

Figure 1.8

Total capital ratio for the banking sector

(share of risk-weighted assets)



Source: RBNZ *Capital Adequacy survey*.

Note: Total capital requirement is shown for domestic-systemically important banks, and includes the capital conservation buffer. Total capital ratio is the weighted average across the banking sector.

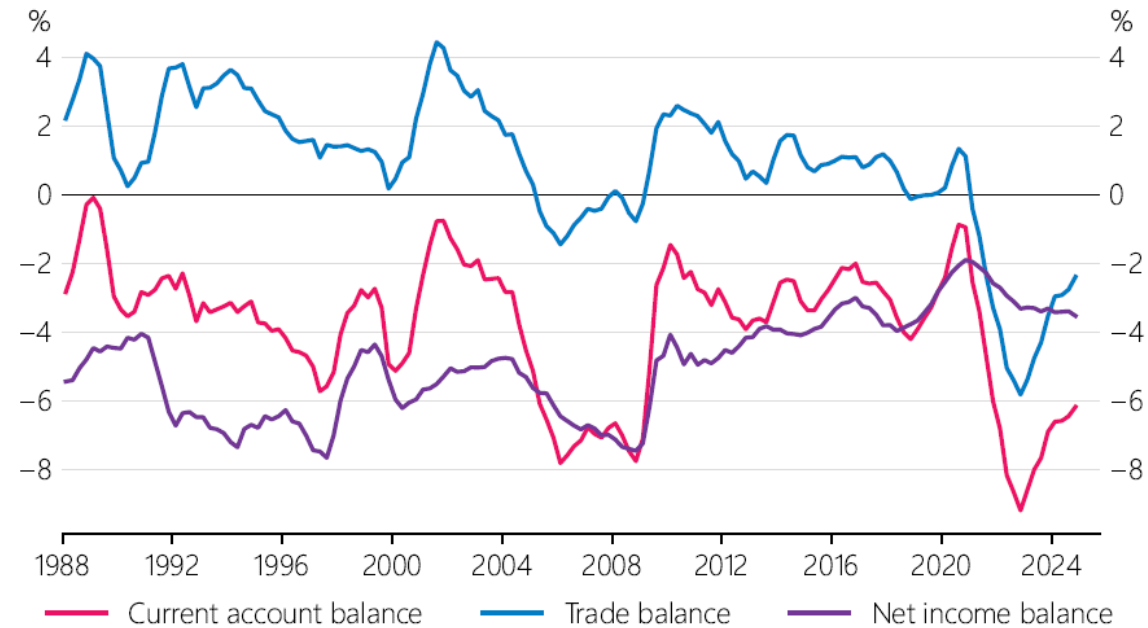


Risks from New Zealand's reliance on external debt funding

Persistent current account deficits mean NZ is a net borrower from overseas. However, since the GFC net foreign liabilities have declined.

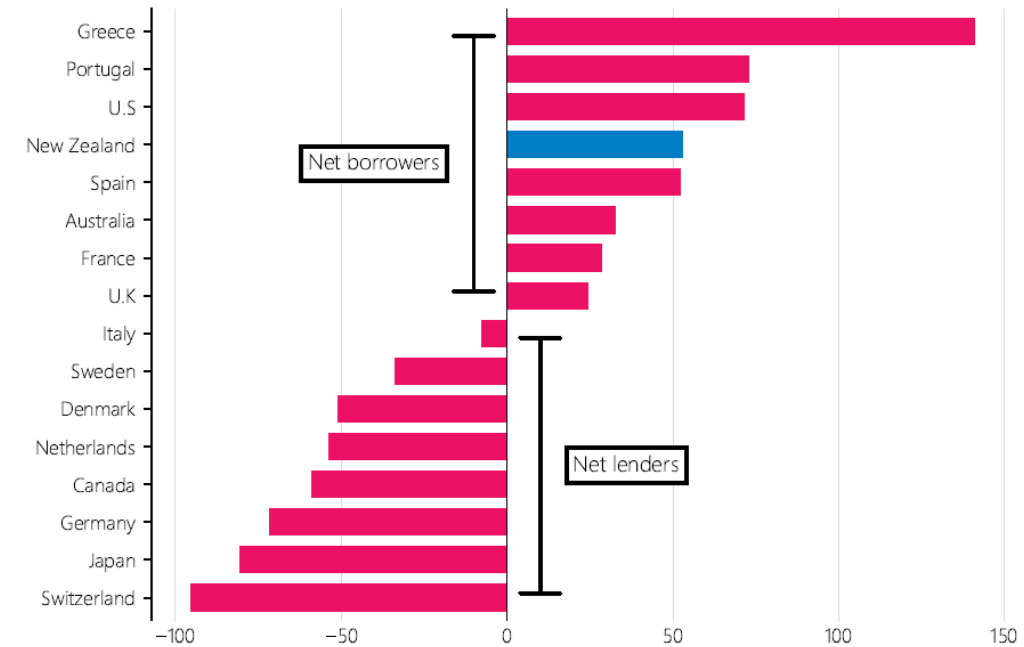


Figure 2.1
Current account balance
(share of GDP)



Source: Stats NZ.

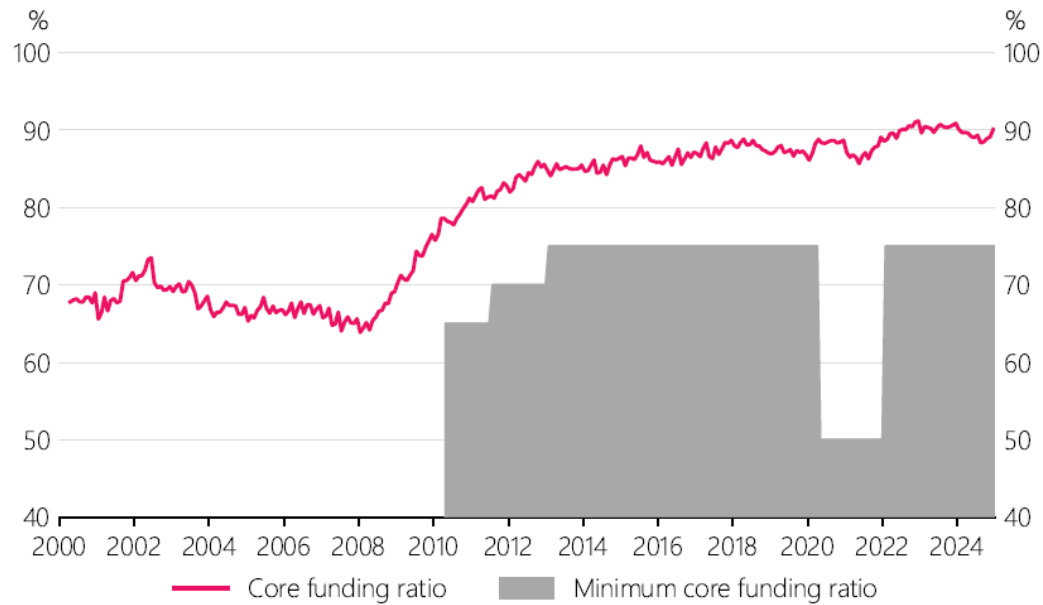
Figure 2.2
Net foreign liabilities of OECD countries
(Share of nominal GDP)



Banks are prepared for funding market disruption, with high core funding ratios and a decreasing reliance on short-term offshore bank funding.

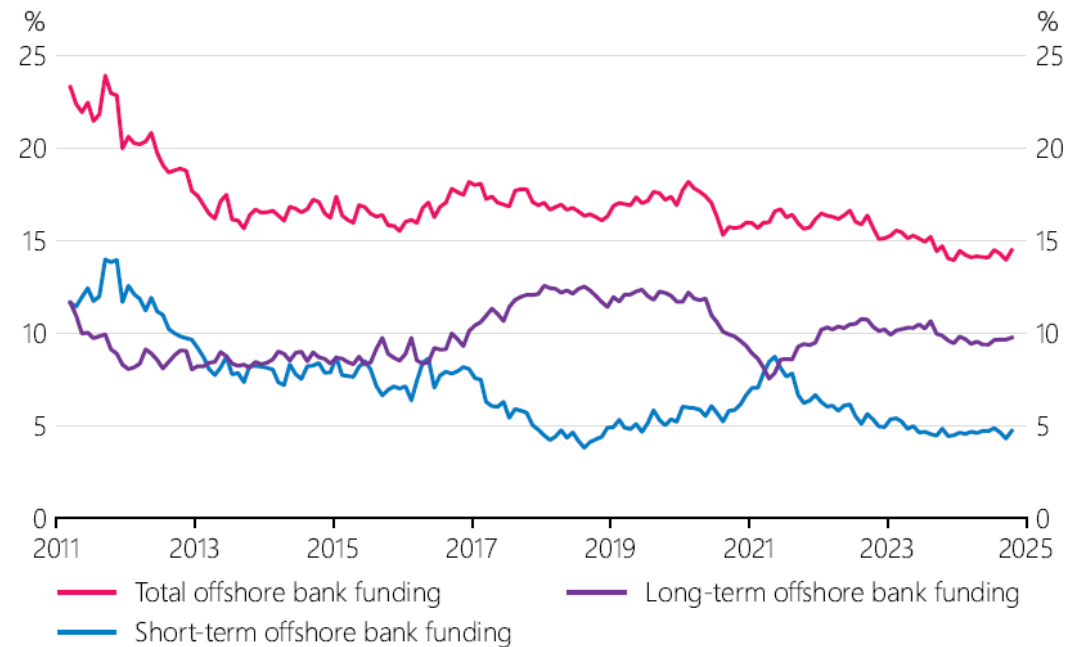


Figure 2.5
Core funding ratio⁸

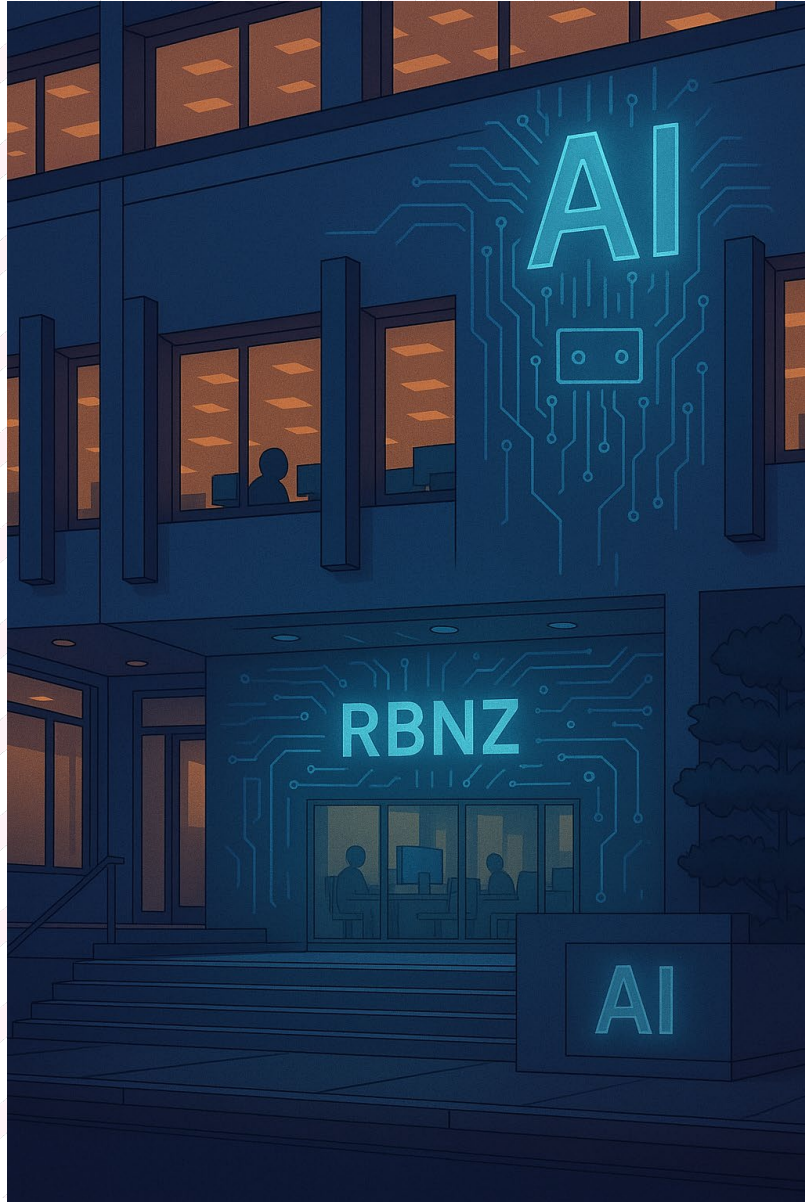


Source: RBNZ *Liquidity survey*, RBNZ estimates.

Figure 2.6
Bank offshore funding by maturity
(Share of total funding)



Source: RBNZ *Liquidity survey*.

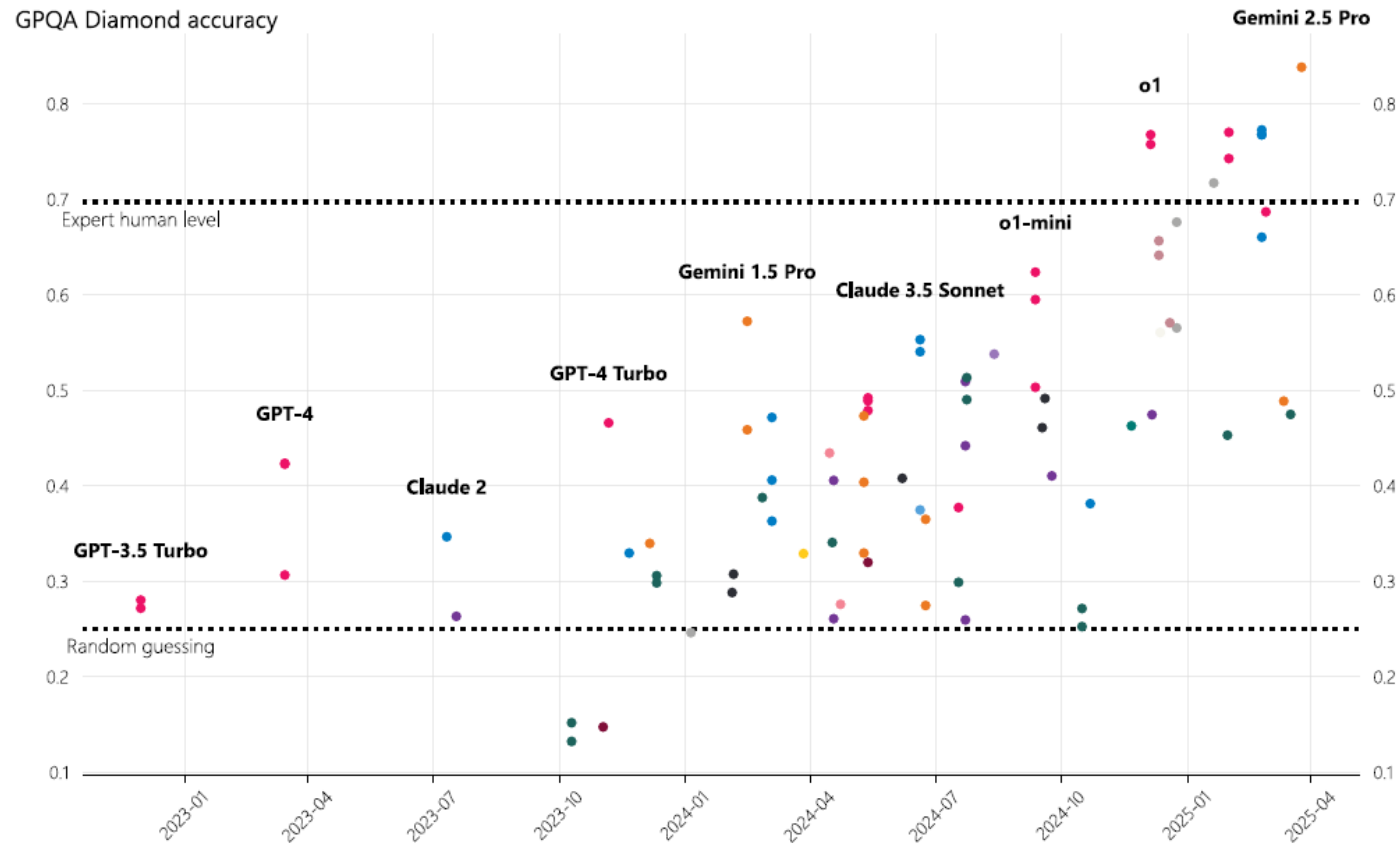


Artificial Intelligence (AI) and Financial Stability

AI usage is increasing throughout the financial services sector in New Zealand. AI models are becoming increasingly sophisticated and resource intensive.



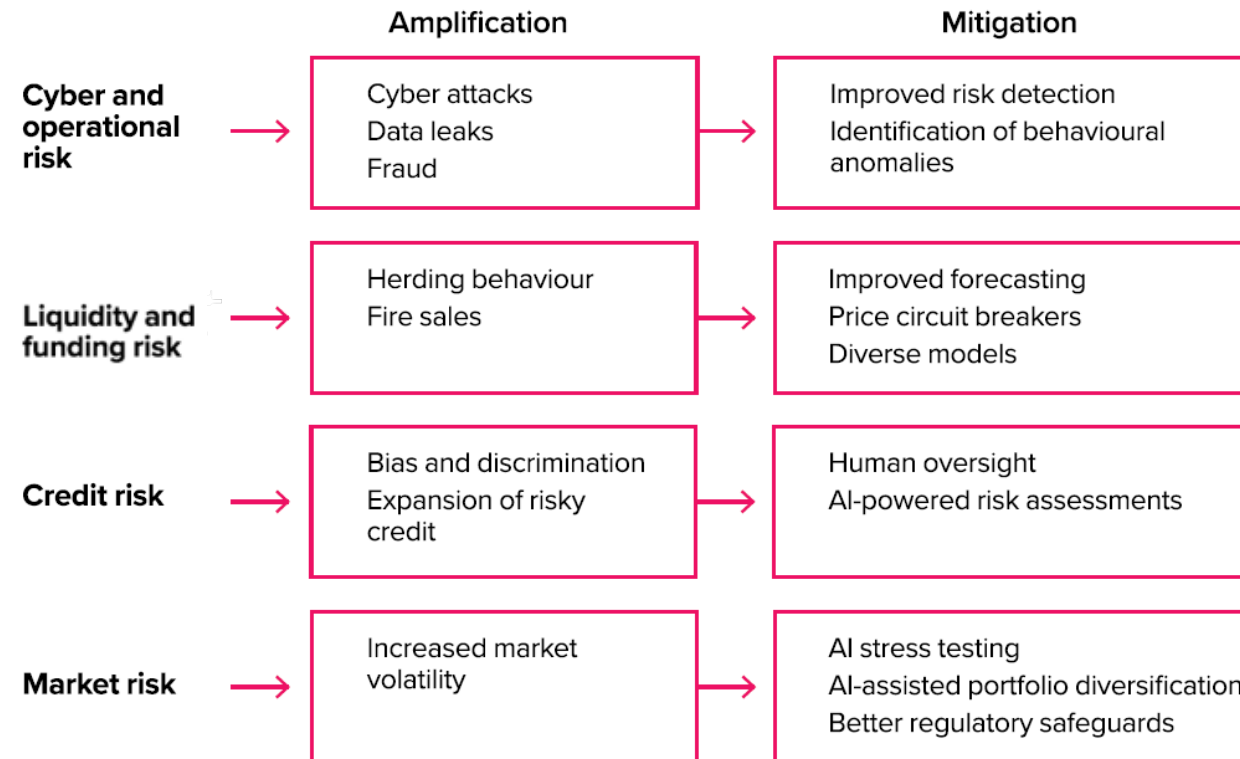
Figure 2.9
GenAI model performance since 2022





AI could amplify existing systemic risks, but mitigations may help to reduce this effect

Figure 2.11
Financial stability amplifiers and mitigations





General Insurance Industry Stress Test Results

In the seismic scenario (1 in 1200-year loss event), all policyholder claims could be met. Policy changes post 2010/11 Christchurch earthquake have added to resilience of the system.

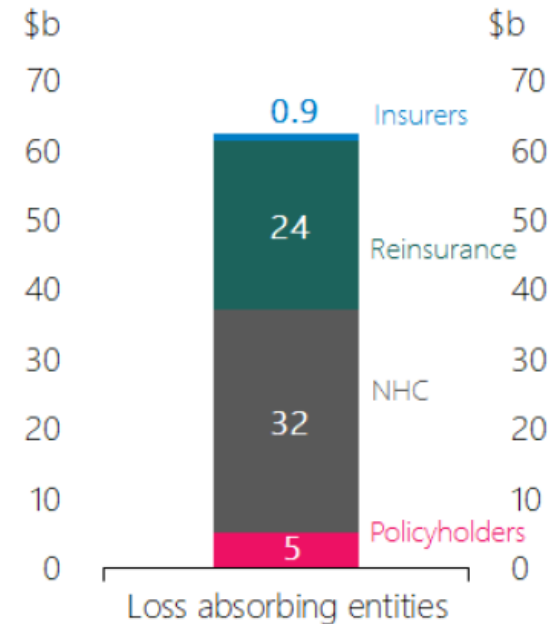


Table 1: Aggregate ground-up losses (\$ billion)

	Total
Ground-up losses	62.4
Policyholders cost	5.3
Claims on NHC	32
Claims on Insurers	25.1
Ceded to Reinsurers	24.2
Retained claims by insurers	0.9

Note: 'Aftershocks' include the M7.7 earthquake and the increased seismicity over 12 months after the major aftershock.

Figure 1: Distribution of \$62bn loss



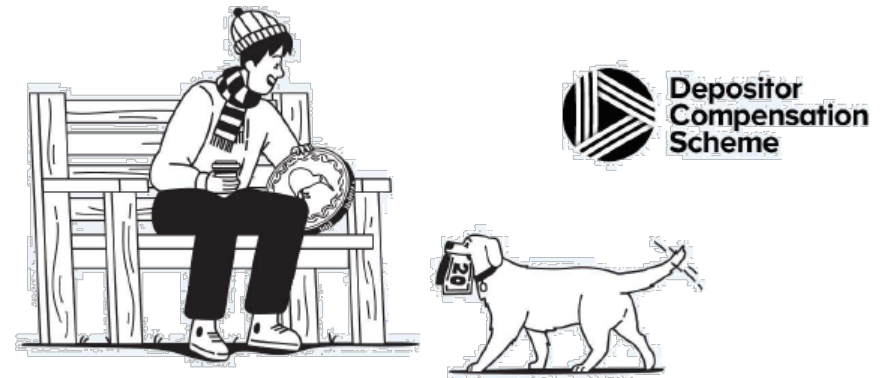


Regulatory developments



Depositor Compensation Scheme (DCS) to come into effect 1 July 2025

- DCS covers each eligible depositor up to \$100,000 per deposit taker in the event of a failure, when money is held in DCS-protected accounts.
- Established based in part on recommendations from the International Monetary Fund.
- The DCS will improve depositor confidence by guaranteeing protected deposits. If depositors know they will be reimbursed in the case of failure, the risk of a run on deposit takers is lowered.

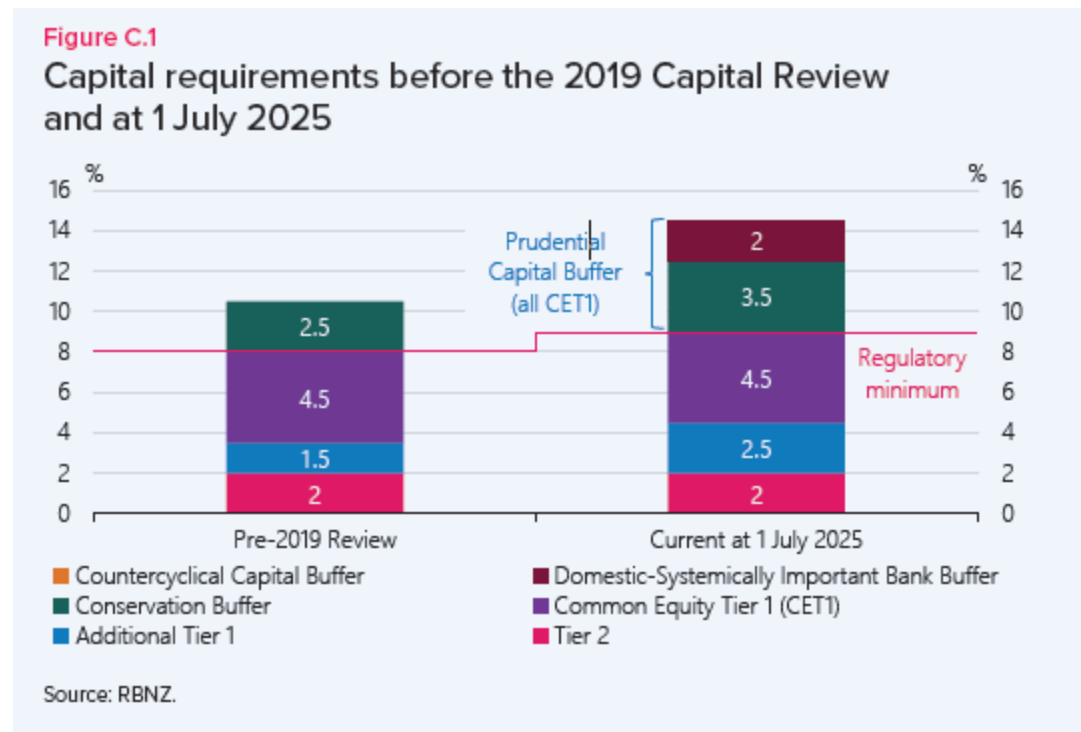




We are undertaking a review of key capital settings to ensure they are right for NZ

- From 2017 to 2019, we undertook a review of New Zealand banks' capital requirements (2019 Capital Review).
- The capital review resulted in higher capital requirements for banks with a transition period to 2028. Banks are around halfway through implementing the new requirements.
- The impacts of the new requirements so far on banks' cost of capital and lending are tracking broadly in line with initial estimates from the 2019 capital review.
- The environment has changed since the capital settings were decided in 2019. Now is an appropriate time to reassess key capital settings. We will review whether prudential capital requirements for deposit takers are set to an appropriate level.
- We intend to complete the review by the end of the year and we will consult publicly on key proposals.
- The review will also include key developments since the 2019 review and an assessment of how our capital settings compare internationally.

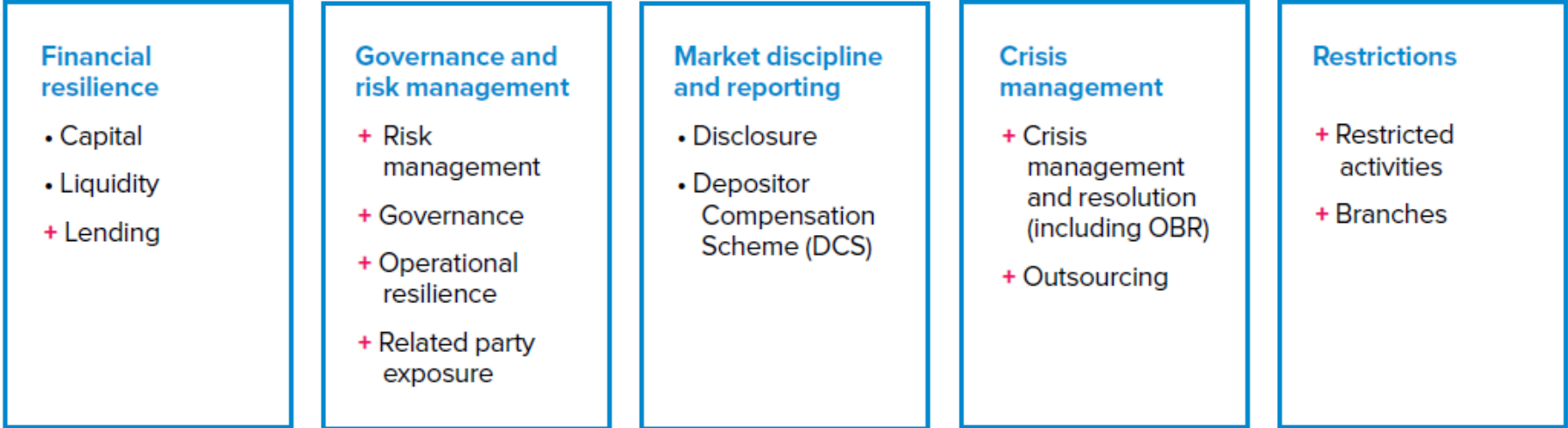
Capital requirements review before the 2019 Capital Review and at 1 July 2025



The outcome of the consultation on the core standards of the Deposit Takers Act (DTA) was published in May 2025.



Figure 3.1:
Proposed deposit taker standards



• Core Standards + Non-core Standards