

RBNZ Financial Stability Report

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Glass half full

Bottom line

There's plenty to be worried about at the moment, and financial stability concerns have been a core part of the RBNZ's policy response to COVID-19. In the [Financial Stability Report](#) out today, the RBNZ highlighted the resilience of the New Zealand banking system and its role in supporting the economy. But risks abound, and job losses and loan losses are unfortunately inevitable.

Key points

Today's Financial Stability Report contained no surprises.

- The RBNZ emphasised that the financial system is resilient, although clearly domestic and global risks are numerous given the economic slump underway.
- Some firms will face difficulty, leading to some business failures, rising unemployment and loan losses. Commercial property losses are an important source of risk, particularly in badly affected sectors.
- The vulnerability of retail and hospitality firms was highlighted. These firms are being significantly impacted by the crisis, and have low cash buffers (though they represent small shares of lending). Forestry and some other pockets of the primary sector are also vulnerable, given the trade disruptions that have happened and possible export price falls.
- But the biggest risks relate to the general economic downturn, which the RBNZ estimate to be the largest in at least 160 years. Weak demand will weigh on firm profits generally. Rising unemployment and income losses will make conditions difficult for households. And the housing market is vulnerable to correction.
- Our forecasts are more pessimistic than the RBNZ's baseline forecasts as outlined in the May Monetary Policy Statement. We expect house prices will fall 10-15%, and that unemployment will rise to 11% before moderating.
- Fortunately, New Zealand banks can withstand scenarios in which unemployment and loan losses are significantly worse than that.
- In an extreme scenario where unemployment reached 18% and house prices halved, banks capital ratios would fall below regulatory minima. But that's a long way from anyone's expectations.
- Although the outlook is uncertain, banks' capital and liquidity buffers are in a good position, and riskier loans are a low share of overall portfolios.
- The RBNZ emphasised that policy initiatives undertaken to date will help cushion the economic blow, and make it easier for banks to lend to facilitate the recovery. See the FSR Appendix for a policy response timeline.

Check out the 11am press conference for further insights.



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