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Retail banks remain in strong position post Covid-19 - Reserve Bank

The Reserve Bank says the financial system is strong enough to withstand the impact of the Covid-19 virus but expects a rise in bad debts and stressed household budgets.



In its six monthly [financial stability report](#) it said retail banks were strong going into the crisis with plenty of liquidity and buffers.

Reserve Bank (RBNZ) governor Adrian Orr said the banks were in a position to help businesses and households to get through the financial distress caused by the pandemic.

"These buffers can now be used to support their customers' long-term economic future. Our economic stress test analysis suggest banks can continue to lend and prosper through a broad range of adverse scenarios."

The RBNZ has [cut interest rates](#), pumped money into the financial system [through bond buying](#), [backed loans to small businesses](#), [suspended loan to value ratios](#) (LVRS), and relaxed financial limits on the banks to allow them to support households and businesses.

Orr said the main banks are currently assessing their finances against a range of scenarios involving modest through to significant falls in house prices, a big rise in unemployment, and a quick to protracted economic recovery.

In all but the most severe circumstances, the banks were in a position to cope with the stresses.

"Under these more extreme (and less likely) scenarios, additional capital and other mitigating actions would be required to avoid widespread failure in the banking system," the RBNZ report said.

Orr said banks would have a critical role in supporting customers whose incomes have been hard hit by the virus.

"Maintaining the flow of credit to financially sound customers also contributes to the long-term profitability of the banking sector, by avoiding unnecessary defaults and disorderly corrections in asset markets," he said.



Retail banks have brought in a range of measures such as mortgage deferrals, business loan extensions, and reduced charges, as well as running the government-backed business loans scheme. However, [there have been complaints](#) that the main banks have been reluctant to lend in some instances and have been trying to impose tough conditions on loans.

The RBNZ said a sharp downturn in house prices would exacerbate the effect of the downturn on some households, and it repeated its usual concern about the high level of debt being carried by some dairy farmers.

It also said some smaller financial institutions such as building societies, credit unions, and finance companies had gone into the downturn in a vulnerable position.

The report also renewed its concerns about the insurance sector, with some life insurers with low solvency, and facing investment losses and rising credit insurance claims.

"We are continuing to work with insurers to see them build better resilience and maintain a strong focus on long-term customer outcomes," the RBNZ said.