New Zealand Bank Market Update

August 2020

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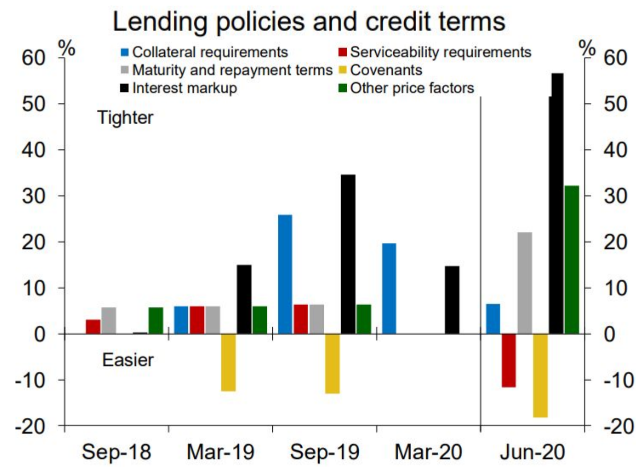
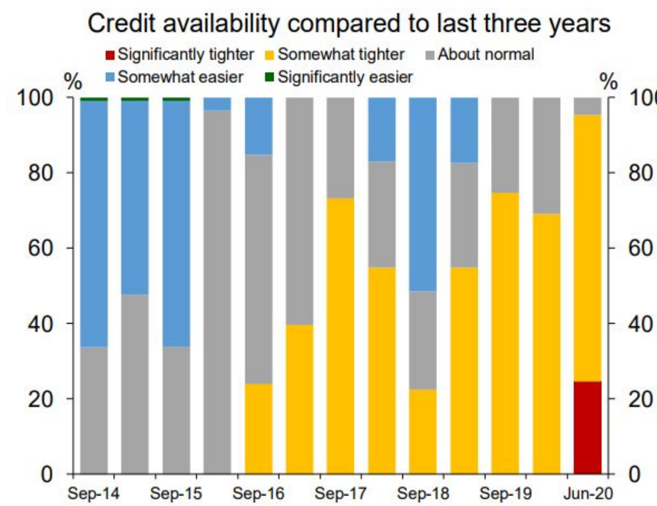
NZ Bank Market

Domestic bank credit availability tightens - changes to lending policies and credit terms

- The Reserve Bank of New Zealand (RBNZ) has worked alongside the Government and the banking industry to ensure credit markets remain open through the COVID-19 environment. To enable this, the RBNZ has delayed increasing capital requirements, relaxed rules on how much banks' funding needs to come from long-term sources, and temporarily removed restrictions on low deposit loans. While this has granted banks a reprieve from tighter capital requirements, NZ banks have adjusted their lending with significantly tighter credit available to the market, as illustrated in the charts presented.
- Initial results from stress tests conducted by the RBNZ suggest NZ banks will be able to absorb losses associated with a broad range of adverse scenarios. However, there are limits to this resilience, and banks' capital positions could come under stress if the downturn in economic activity is more severe or prolonged than expected.
- As a small open economy that borrows from abroad, NZ remains vulnerable to disruptions in international trade and global financial markets. Offshore credit markets are a key source of funding for NZ banks, representing close to a quarter of their total funding. Global uncertainty will continue to drive volatility in financial markets.
- Domestically, banks have supported business customers facing temporary revenue declines by offering loan restructuring options, switches to interest-only terms, waiving or amendment of financial covenants and extensions to existing facilities.
- Banks have reported high demand for corporate standby liquidity facilities over the first half of 2020 and expect this to continue over the coming six months. Requests for covenant relief were noted by several banks to be approved only if the customers had a strong pre-COVID balance sheet and with banks requiring more frequent reporting.
- The RBNZ reports that banks' focus remains on supporting existing customers, with new clients carefully scrutinised. While there has been no broad change in lending restrictions internally, banks are taking a sector specific approach with greater focus on those with a larger exposure to discretionary spending (i.e. retail and tourism). Those sectors that do not have strong long-term outlooks may struggle to access sufficient credit and are at risk of failing from liquidity pressures.
- In the recent RBNZ Credit Conditions Survey, banks reported a tightening in the pricing of credit over the previous six months to reflect increased risk, with several banks commenting that they expect pricing to increase over the next six months due to deterioration in companies' performance.
- Bancorp has seen a widening of spreads compared to pre-COVID pricing of facilities, in the order of 0.35%-1.00%, with 'new to bank' opportunities having effectively ceased as bank focus remains on supporting and providing liquidity to existing customers. Given the banks' own views of the economic outlook, we expect them to continue to exercise caution and carefully scrutinize any extension or new opportunity.





Source: RBNZ Credit Conditions Survey (June 2020)

Source: RBNZ Credit Conditions Survey (June 2020), RBNZ Financial Stability Report (May 2020)
Charts from the RBNZ Credit Conditions Survey aggregate and average responses across NZ banks (market weighted in the corporate lending sector)

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