New Zealand House of Representatives
Te Whare Māngai o Aotearoa

Finance and Expenditure Committee
Komiti Whiriwhiri Take Pūtea, Take Whakapaunga Pūtea

54th Parliament
December 2025

Reserve Bank of New Zealand, Financial Stability Report, November 2025

Presented to the House of Representatives
by Cameron Brewer, Chairperson

Contents

Reserve Bank of New Zealand, Financial Stability Report, November 2025

Recommendation

The Finance and Expenditure Committee has examined the Reserve Bank of New Zealand's Financial Stability Report for November 2025 and recommends that the House take note of its report.

Introduction

The Reserve Bank of New Zealand is required to produce a report twice a year that assesses the stability of New Zealand's financial system. The Reserve Bank defines a stable financial system as "one where resilient financial markets, institutions and infrastructures enable a productive and sustainable economy, and ultimately prosperity and well-being for New Zealanders." By resilient, the Reserve Bank means "the ability to anticipate, prepare, absorb, recover and learn from severe but plausible shocks and imbalances."[1]

Our report summarises the main points from the Financial Stability Report (FSR) that was published on 5 November 2025, and the key issues we discussed on 6 November 2025 with the Governor of the Reserve Bank, Christian Hawkesby, and other senior bank officials.

Summary of the Reserve Bank's findings

The Reserve Bank's overall assessment is that "financial stability risks remain higher than in recent years due to global uncertainty and underperformance in parts of the New Zealand economy."[2] The Reserve Bank also made the following points:

- Global economic fragmentation and policy uncertainty present risks to trading partner growth.
- Recovery in global financial markets masks potential vulnerabilities.
- Certain business sectors are more exposed to weak domestic demand than others.
- The agriculture sector has been supported by strong export prices.
- Lower debt-servicing costs are alleviating stress in some areas.
- Protracted soft conditions in the housing market have challenged the construction industry.
- Banks have increased their resilience to a range of shocks.
- Banks remain well funded in an environment of low credit growth.
- Growth in property insurance premiums has moderated, but affordability challenges continue to grow.
- The Reserve Bank is increasing its efforts to monitor cyber risk.

1 Reserve Bank of New Zealand, Financial Stability Report, November 2025, p ii.

2 Reserve Bank of New Zealand, Financial Stability Report, November 2025, pp 2–3.

Labour market and overall economic conditions

The unemployment rate was 5.3 percent in the September 2025 quarter. The Reserve Bank acknowledged that the labour market has deteriorated, saying it had anticipated this following a period of high interest rates. It said unemployment data tends to lag. We heard that other labour market indicators, such as underemployment, also show that the labour market has deteriorated.

The Reserve Bank said the economy is multi-speed, rather than being two-speed as some people have said. It said different sectors and regions of the country are experiencing things differently and the aggregate view of the economy masks this. It expressed confidence that monetary policy works but said it also has long and variable lags.

Fonterra

We discussed Fonterra's sale of its global consumer business and how this could affect dairy farmers. The Reserve Bank said it was a $4.2 billion sale, of which about $3.2 billion will be returned to shareholders. It expects most of this will be used by farmers to pay down debt, which would be positive for financial stability. We heard that there could also be increased investment in new farm equipment and increased activity in the rural land market.

Financial stability committee

In August 2025, we recommended in our banking inquiry report the creation of a prudential policy committee within the Reserve Bank.[3] In October 2025, the board of the Reserve Bank announced it would form a new financial policy committee.[4] It will make key policy decisions relating to financial stability, including setting prudential requirements for financial institutions and making macroprudential policy decisions such as debt-to-income and loan-to-value ratios for lending.

The Reserve Bank said the decision to establish a financial policy committee was partly to formalise what it was already doing. It said the financial policy committee will be different from the monetary policy committee in that it will not be a statutory committee, but it will have delegations from the board.

The Reserve Bank said the use of independent external members will be one of the benefits of establishing a financial policy committee. At the time of our hearing, applications to serve on the committee had just closed and the Reserve Bank was shortlisting candidates. The Reserve Bank's intention is for the committee to start in 2026.

Housing market

The FSR states:

> Low levels of net migration and a soft labour market continue to restrain housing demand. Falling rents and low expectations of capital gains are

3 Finance and Expenditure Committee, Final report (Inquiry into banking competition), August 2025.

4 Reserve Bank of New Zealand, Reserve Bank establishes new Financial Policy Committee, October 2025.

> weighing on investor demand, although the reinstatement of interest deductibility for tax has provided some support.[5]

The Reserve Bank described each of the above factors as being relevant “on the margin”, but said net migration is probably the biggest factor at play.

The Reserve Bank said housing supply has increased at the same time that demand has abated due to lower net migration levels. It has observed regional differences in the housing market, which it said is a healthy sign that the market is responding to different levels of supply and demand in different parts of the country. The Reserve Bank said aggregate house prices have “come down a long way and are much closer to a sustainable level based on economic fundamentals.” That makes it is less concerned from a financial stability point of view about the risk of a further sharp correction in prices.

We asked whether lower emigration and higher immigration would cause a house price boom. The Reserve Bank said an increase in demand for housing may not play out as it has previously because housing supply has become more responsive to demand.

Residential construction sector

The FSR states:

> The residential construction sector continues to face difficult economic conditions, including soft housing demand and high costs for labour, raw materials, and residential land. Some developers are turning to non-bank and offshore lenders for finance, as they often have less stringent presale requirements than banks.[6]

The Reserve Bank said it has heard that banks require roughly 70 percent of a housing development to be pre-sold. A few years ago, lending requirements were higher. We heard that some banks previously required as much as 100 percent of the loan to be covered by pre-sales. The Reserve Bank said loans from non-bank lenders come with higher interest rates because the lenders are taking on more risk.

The FSR said “established developers are in a relatively strong financial position, with high equity positions that reduce their vulnerability to cashflow stress.” We asked what types of housing are built by smaller developers who may be in a weaker financial position. The Reserve Bank said smaller developers typically work on a scale of perhaps five townhouses on a small section. It said the overall issue is that construction costs and interest rates make it very difficult for housing projects to meet pre-sale requirements.

We asked whether anyone tracks construction firm failure based on whether borrowing is from banks or non-bank lenders. The Reserve Bank said it tracks how bank loans are performing for construction lending, saying non-performance of this lending has been relatively stable. It said construction lending tends to be a small part of banks’ balance sheets.

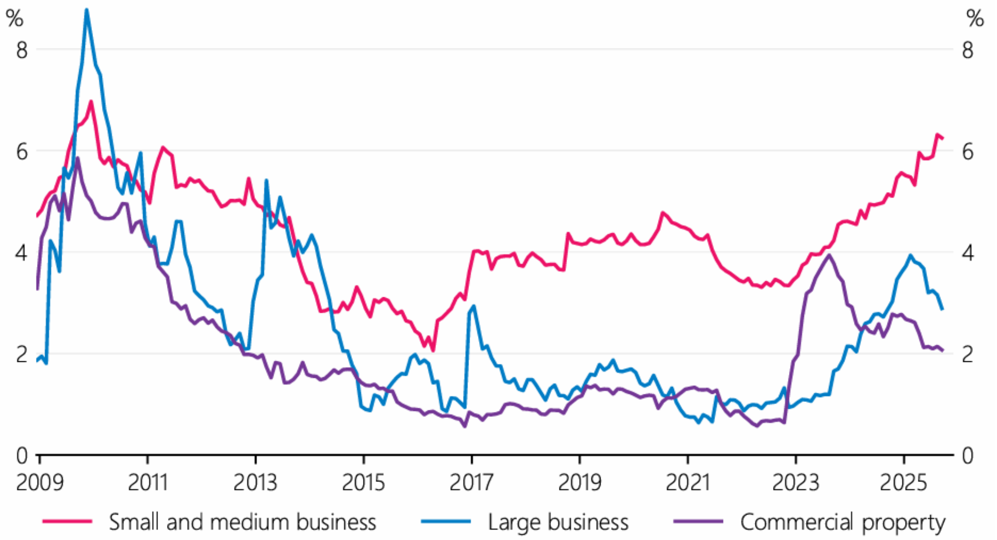
5 Reserve Bank of New Zealand, Financial Stability Report, November 2025, p 11.

6 Reserve Bank of New Zealand, Financial Stability Report, November 2025, p 11.

Potentially stressed lending

The level of lending to small and medium-sized businesses that is potentially stressed has increased in the last two years.

Potentially stressed lending (share of total lending by sector, seasonally adjusted)[7]



The Reserve Bank has observed increased numbers of insolvencies, albeit from a low base. It said there was a lot of monetary and fiscal support during the COVID-19 pandemic, which kept alive businesses that otherwise would have failed in a normal downturn. We heard that a lot of the stress being observed now is catch-up from the period of increasing interest rates. Firms may have survived initially, but liquidations are now increasing.

Cyber risk

We heard that cyber risk is increasingly a focus of the Reserve Bank. The Reserve Bank compared this to 15 or 20 years ago, when the focus was on credit risk, market risk, and trends in interest rates and insolvencies. We heard that those risks are now well understood, whereas cyber risk and operational risk are more challenging, and changing rapidly. The Reserve Bank said it has been consulting on new prudential standards with a greater focus on operational resilience and risk management. It has also updated its standards for financial markets' infrastructure, where cyber risk and operational risk are much more acute.

Fiscal deficit and debt

The May 2025 FSR noted that "a large deficit for a sustained period can expose New Zealand to increased financial stability risks."[8] We asked for the Bank's view on what fiscal policy would look like to be considered a systemic risk. The Reserve Bank said a sustainable debt level is one that the market is willing to fund. The Reserve Bank said it has observed a strong intention domestically to "get the fiscal books in good order." We heard that its concern about government debt was global, with debt levels increasing in a number of

7 Reserve Bank of New Zealand, Financial Stability Report, November 2025, p 21.

8 Reserve Bank of New Zealand, Financial Stability Report, May 2025, p 18.

advanced economies. The Reserve Bank said long-term interest rates are rising, in part because the market wants to be compensated for growing risk related to government debt.

AI stocks and financial markets

The FSR said “the rebound in US equity prices has been driven by the strong performance of large technology and artificial intelligence firms.”[9] We asked whether there is a stock market bubble. The Reserve Bank said there are parallels with the Dotcom bubble, with the rapid rise in equity prices driven by new technologies. It said the difference is that this time the growth is concentrated in a narrower group of tech stocks. The Reserve Bank posed the question of whether valuations of AI stocks will materialise as future earnings. It said it would not put this situation in the same category as the 2008 financial crisis because that involved leveraged debt finance.

The FSR also observes that “the IMF has highlighted the increased participation of non-bank financial institutions, such as hedge funds and private credit firms, in financial markets.” It said this could increase global market volatility during periods of stress. The Reserve Bank said this is a global risk that needs to be watched but said it is less of an issue domestically. If anything, it would be a good thing if there were more sources of funding in New Zealand’s financial markets, we heard.

The Reserve Bank concluded that New Zealand’s financial system is in good shape, is well capitalised, and in a position to cope with more severe scenarios.

[9] Reserve Bank of New Zealand, Financial Stability Report, November 2025, p 6.

Appendix

Committee procedure

We met on 6 November 2025 to hear from the Reserve Bank of New Zealand and consider advice from our independent specialist adviser, Dr Bryce Wilkinson. We met again on 17 December 2025 to finalise this report.

Committee members

Cameron Brewer (Chairperson)
Dan Bidois
Hon Barbara Edmonds
Ryan Hamilton
Nancy Lu
Hon Dr Deborah Russell
Todd Stephenson
Chlöe Swarbrick
Rawiri Waititi
Dr David Wilson
Hon Dr Megan Woods

Greg Fleming, Hon Andrew Hoggard, Stuart Smith, and Lemauga Lydia Sosene attended our hearing.

Related resources

The advice we received is available on the Parliament website, along with the Hansard transcript and recording of our hearing with the Reserve Bank.