

Sustained momentum

General Information



GDP	USD185bn (World ranking 51, World Bank 2016)
Population	4.7mn (World ranking 121, World Bank 2016)
Form of state	Parliamentary Democracy (Commonwealth)
Head of government	Jacinda Ardern
Next elections	2020, general elections



Strengths

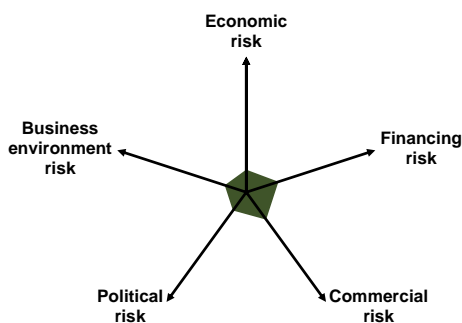
- Strong economic growth
- Sound public finances
- Proximity to Asian markets
- Favorable demographics
- The tourism industry

Weaknesses

- Shortage of skilled workers
- Dependence on agricultural exports
- High level of household debt
- Large external debt
- Vulnerability to natural disasters

Country Rating

AA1



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
China	19% 1	20% China
Australia	17% 2	13% Australia
United States	11% 3	11% United States
Japan	6% 4	7% Japan
Korea, Republic of	3% 5	5% Germany

By product (% of total)

Exports	Rank	Imports
Dairy products and birds' eggs	23% 1	14% Road vehicles
Meat and meat preparations	13% 2	9% Petroleum, petroleum products and related materials
Cork and wood	7% 3	5% Miscellaneous manufactured articles
Vegetables and fruits	7% 4	5% Other industrial machinery and parts
Miscellaneous edible products and preparations	4% 5	4% Electrical machinery, apparatus and appliances

Source: UNCTAD

Economic Overview

Still comfortable

Economic growth is projected to slow but remain at a comfortable range in 2018 (+2.5%/+3%). Tighter financing conditions, weak productivity growth and capacity constraints would act as a drag. Resilience will stem from a better external environment with improving commodity prices and a gradual improvement of external demand. Domestic demand should remain firm. Reasons include the robust labour market and higher household income which sustain a rise in private consumption. At the same time, fiscal policy should become more expansionary.

On the domestic side, risks include high household debt (167.5% of disposable income) combined with an adjustment in property prices hamper demand. External challenges include tighter credit conditions could slow investment inflows, weaker demand from China, and downward pressures on dairy prices as competition intensifies.

Supportive fiscal policy, tightened monetary stance

The fiscal position is strong and management is prudent. Public debt is low by international standards, far below 60% of GDP. Government balance is under control with fiscal balance in surplus since 2015. We foresee policymakers to turn more expansionary in the medium-term to allow for increased social and infrastructure expenditures.

Credit conditions are expected to tighten. First moves include tighter regulation to reduce financial risks. These comprise macro-prudential measures (less favourable tax regime, further requirements for investors) to reduce incentives to invest in housing, contain household debt and reduce the banking system's exposure to housing. Second, a gradual rise in policy rate is expected as the economy is broadly at capacity and inflation is within the 1% to 3% target.

Large external debt is a source of vulnerability

The economy is vulnerable to external shocks with a chronic current account deficit and a large external debt. The trade outlook has improved somewhat with a recovery of commodity prices and higher global demand. Lower NZD has also helped improve price competitiveness and support a rise of exports. Yet the impact is somewhat offset by a solid expansion of imports in line with the firm growth of domestic demand. Consequently, the current account deficit remains significant, close to -3% GDP. External debt is also large at 100% GDP.

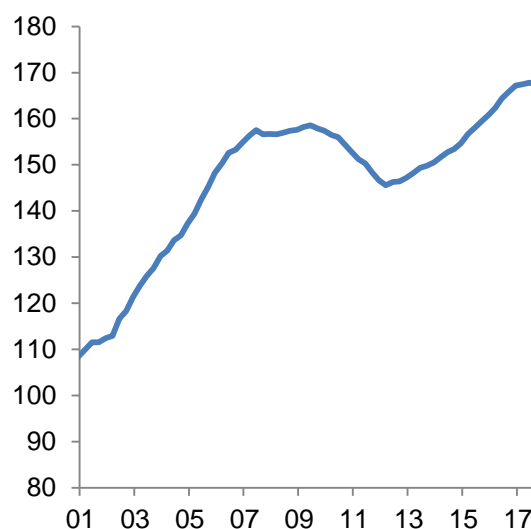
Key economic forecasts

	2016	2017e	2018f	2019f
GDP growth (% change)*	3.5	2.7	2.6	2.5
Inflation (% , year average)	0.6	1.8	2.2	2.4
Fiscal balance (% of GDP)**	0.9	0.3	0.2	0.0
Public debt (% of GDP)**	29.2	27.5	24.7	23.1
Current account (% of GDP)	-2.5	-2.9	-2.8	-2.9
External debt (% of GDP)	100.1	100.0	101.0	101.5

*Expenditures approach; ** includes: Central Government

Sources: IMF, Euler Hermes

Figure 1 – Household debt (% nominal disposable income)



Sources: national sources, Euler Hermes

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