

## Slower but comfortable growth



### General Information

<b>GDP</b>	USD188.4bn (World ranking 54, World Bank 2014)
<b>Population</b>	4.5mn (World ranking 123, World Bank 2014)
<b>Form of state</b>	Parliamentary Democracy (Commonwealth)
<b>Head of government</b>	John KEY (National party)
<b>Next elections</b>	2017, legislative



### Strengths

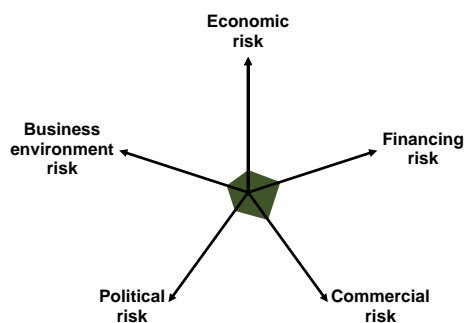
- Strong economic growth
- Sound public finances
- Proximity to Asian markets
- Favourable demographics
- Opportunities in tourism industry

### 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	20% 1	17% China
Australia	18% 2	12% Australia
United States	9% 3	12% United States
Japan	6% 4	7% Japan
Korea, Republic of	4% 5	5% Germany

By product (% of total)

Exports	Rank	Imports
Dairy products and birds' eggs	29% 1	15% Petroleum, petroleum products and
Meat and meat preparations	12% 2	13% Road vehicles
Cork and wood	6% 3	5% Other transport equipment
Vegetables and fruits	5% 4	4% Miscellaneous manufactured articles,
Chemical materials and products	3% 5	4% Other industrial machinery and parts

Source: UNCTAD

## Economic Overview

### Slower but comfortable growth

New Zealand's GDP growth is set to remain in a comfortable range in 2016 (+2.5%/+3%). Low inflation, favourable credit conditions and positive employment conditions (rising wages and solid job creation) will continue to support a rise in private consumption. Investment growth is projected to slow further reflecting the fading of the rebuild effort made after 2011 to 2013 earthquakes and low external demand prospects. Against this backdrop, fiscal policy will likely be supportive for growth in the form of higher public investment, monetary policy will stay accommodative. Exports will remain the main drag on growth due to modest growth in demand especially from China and low dairy prices.

### Policy buffers are strong

Public debt is low by international standards, far below 60% of GDP. The budget balance is under control with a fiscal surplus in 2015 and a small deficit expected in 2016. The latter will reflect the expansionary stance adopted by the government to support the economy. On the monetary front, the stance is clearly accommodative. The central bank has cut its policy rates significantly since June 2015 due to low inflation and fragile economic outlook. With inflation expected to remain slightly below target (inflation target range is 1%-3%) over the year, this dovish stance will likely be maintained and the easing cycle will probably be extended further over 2016-17. Meanwhile, macro-prudential measures (less favorable tax regime, further requirements for investors) have been introduced to reduce incentives to invest in housing, contain household debt and reduce banking system's exposure to housing. Going forward, this will help to improve monetary policy transmission to the real economy and translate into higher non-housing investment.

### Weak external position is a source of vulnerability

Vulnerabilities stem from the external front. The trade outlook is subdued with: (i) modest demand growth in high-income markets and lower demand growth in China; (ii) low dairy prices. Lower NZD has helped to alleviate the impact on the economy, reducing the impact on farmer's revenues and supporting other forms of exports such as travel and education services. After stabilizing in 2015, the current account deficit is set to increase slightly to -3.5% in 2016 before improving to -3.2% in 2017. External debt is large. This is mainly due to the banking system which is reliant on foreign funding. The public external debt is low around 21% GDP.

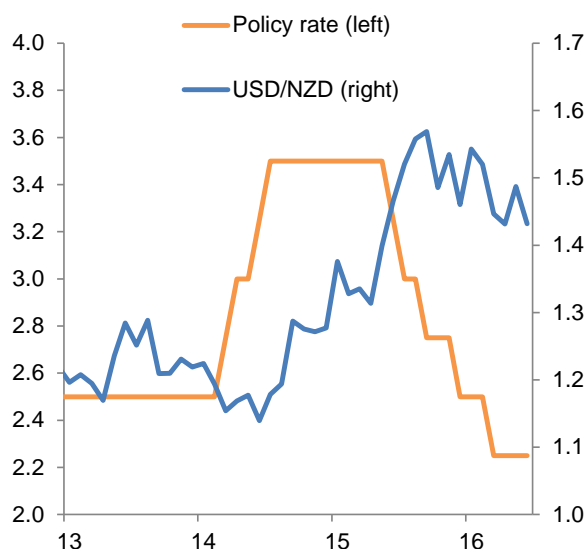
### Key economic forecasts

	2014	2015f	2016f	2017f
GDP growth (% change)*	3.0	3.0	2.6	2.6
Inflation (% , year average)	1.2	0.3	0.6	1.6
Fiscal balance (% of GDP)**	-0.1	0.3	-0.1	0.1
Public debt (% of GDP)**	30.8	30.4	29.9	29.0
Current account (% of GDP)	-3.1	-3.1	-3.5	-3.2
External debt (% of GDP)	96.0	110.6	109.2	108.2

\*Expenditures approach; \*\* includes: Central Government

Sources: IMF, Euler Hermes

Figure 1 – Currency



Sources: national sources, Euler Hermes

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