Highlights of the Sovereign Rating on New Zealand

Updated Rating
Long-term Local Currency: AAA_i
Long-term Foreign Currency: AA_i +
Outlook： Stable
Previous Rating
Long-term Local Currency: AAA_i
Long-term Foreign Currency: AAA_i
Outlook： Stable

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Rating Opinions

United Ratings has decided to downgrade New Zealand's long-term foreign currency rating from AAA_i to AA_i+ and to maintain its long-term local currency rating at AAA_i, with Stable outlook.

New Zealand is under heavy foreign debt burden, a range of external indicators show a tendency of deterioration, and the government's foreign debt servicing abilities have declined. However, the ruling alliance, spearheaded by the National Party, has a solid reign and is expected to win the 2017 general election, which will mean continuity in a series of current government policies. Reconstruction efforts after the disaster are nearing an end and the economy will maintain steady growth in the near term. Constrained by the risks in the property market, the relatively looser monetary policy tends to get more prudent. Fiscal surplus will likely to continue and government debt enters a downward trajectory. As such, the government's ability to serve local currency-denominated debt will remain at the highest rating level.

Reasons for Maintaining Ratings

- The ruling alliance led by the National Party maintains majority seats in Congress and is likely to win the general election in 2017, indicating continuity in present government policies..
- Inflation will remain at a lower level and the economy will maintain stable growth in the near term.
- Fiscal surplus will continue and government debt level edges downwards.
- Monetary policy tends to be on the loose end and real estate risks warrant further attention in the market.
- New Zealand is under a heavy burden of foreign debt, external indicators tend to deteriorate, and government ability in foreign debt servicing declines.

Outlook

In the near term, the general election in New Zealand is unlikely to impact government stability, current policies in place will get to continue, and economic growth will also remain stable. Given the tremendous risks in the real estate market, the relatively loose monetary policy will likely show a tendency towards prudence. Fiscal surplus will continue and government liabilities will edge downwards slightly. Foreign debt burden remains on the heavier end. External/internal indicators show signs of deterioration but overall debt-servicing abilities remain robust. As such, United Ratings has decided to maintain the outlook on New Zealand's local and foreign currency ratings for the coming 1-2 years.

Key Indicators of the Sovereign Rating on New Zealand

	2011	2012	2013	2014	2015	2016f
Nominal GDP （billion USD）	167.2	175.6	186.0	197.9	172.3	172.0
GDP per capita （USD）	38,094.5	39,787.8	41,812.5	43,917.0	37,491.8	36,950.0
Real GDP growth （%）	1.8	2.8	1.7	3.0	3.4	2.5
Inflation rate (%)	4.0	1.1	1.1	1.2	0.3	0.6
Total lending/GDP (%)	153.1	146.0	142.2	148.6	156.6	157.4
Domestic credit growth (%)	12.5	10.1	13.2	7.0	8.7	5.4
M2 growth (%)	15.2	12.5	15.6	10.3	14.2	8.0
Budget balance of governments/GDP (%)	-8.7	-4.3	-1.9	-1.1	0.3	0.2
Primary balance of governments/GDP (%)	-7.7	-3.1	-1.1	-0.2	1.2	1.0
Public debt/GDP (%)	34.3	36.8	34.4	34.4	34.3	34.2
Current-account balance/GDP (%)	-2.9	-3.9	-3.1	-3.1	-3.3	-3.5
Total foreign debt/GDP (%)	55.7	51.7	46.5	45.2	48.4	47.3
Total external debt/Current-account credit (%)	146.5	148.6	144.1	139.9	153.8	156.7
Short-term foreign debt/Total foreign debt (%)	44.9	43.1	43.1	43.1	43.3	44.6
International reserves/Total foreign debt (%)	18.3	19.4	18.9	17.7	17.6	18.2
Gross external financing requirement/GDP (%)	0.1	0.2	0.1	0.1	0.2	0.1

Source: Sovereign Rating Database of United Ratings.
Note: The fiscal data are of a fiscal year ending up by June 30th, "f" stands for forecasts.