

Moody's Investors Service says NZ's economy and government finances are improving, but challenges remain

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Credit ratings agency Moody's Investors Service has given the New Zealand economy and government finances a big tick in its annual credit analysis on the country.

The report is an annual update to investors and is not a rating action. Moody's rates New Zealand Aaa with a "stable" outlook. [Here](#) is a description of all of NZ's sovereign ratings.

Moody's said the economy here and government finances were on an improving trend in the aftermath of "a prolonged, albeit mild, recession and a series of earthquakes that had serious effects on both".

However, it also said New Zealand's creditworthiness "does face various challenges".

And it said that looking ahead, New Zealand's Aaa government bond rating could move downward if economic growth is lower than now forecast in the coming few years and, as a result, government debt ratios do not improve as expected.

In terms of challenges to the country's creditworthiness, these included a continuing reliance on foreign savings to finance relatively large current account deficits, which have been evident for the past four decades, according to the report.

As a result, New Zealand's major vulnerability - despite the absence of any problems in accessing the global capital markets - was its dependence on foreign capital inflows, "and its negative net international investment position is the largest of any Aaa-rated country".

"However, Moody's notes that a large portion of these liabilities belong to the subsidiaries of Australian banks and, given the strength of the parents, these are unlikely to represent a significant risk to the sovereign."

Moody's said economic growth was accelerating, partly due to earthquake reconstruction, with real GDP expected to increase by 3% in 2014, while the government budget is forecast to be in a balanced position in the 2014-15 fiscal year and in surplus thereafter."

Such a scenario meant that the ratio of government debt to GDP would peak below the median for Aaa-rated sovereigns and stabilize thereafter, "and Moody's further notes that the government aims for a significantly lower debt level by the end of the decade".

Finance Minister Bill English said the comments from Moody's confirmed that the Government's "responsible economic and fiscal programme" was on the right track.

He said New Zealand was one of only 10 countries with the top Aaa rating and a stable outlook by Moody's. It was also rated AA by Standard and Poor's.

"The Government's economic programme is supporting this growth and the improvement in the fiscal position and it's encouraging that this has again been recognised by Moody's," English said..

"As Moody's notes in its credit analysis today, economic growth is accelerating, the Government's books are expected to be in surplus next year and the ratio of government debt to GDP will peak below the median for Aaa-rated countries.

"Overall, Moody's rates New Zealand's economic strength as high, despite it being the second smallest country rated Aaa – behind Luxembourg.

"Despite this, and its dependence on agricultural exports, Moody's also notes that New Zealand has displayed resilience over the past few years in recovering from its domestic recession of 2008, the global financial crisis and the Canterbury earthquakes.

"And, as Moody's says, New Zealand remains highly competitive, being ranked 18 out of 148 countries in the most recent World Economic Forum's global competitiveness index and third in the World Bank's ease of doing business report."

English noted that Moody's had reiterated that New Zealand faced challenges, including its continued reliance on foreign savings and overseas borrowing.

"The longstanding current account deficit has improved in recent years, as has New Zealand's net international liabilities position," English said.

"But we need to continue with policies to further improve these indicators by building a more competitive export sector so New Zealand can earn its way in the world."

Moody's said with the four key factors behind the rating, New Zealand's Economic Strength was assessed as High; Institutional Strength as Very High; Fiscal Strength as Very High; and Susceptibility to Event Risk as Low.

On the prospects for the budget, the report, quoting IMF figures, said the government posted deficits of 5% of GDP in 2010 and 2011 as a consequence of the economic effects of the global financial crisis and the Canterbury earthquakes.

These deficits came after several years of fiscal surpluses, which reflected the prudent fiscal stance of New Zealand governments, and this commitment to countercyclical policy was likely to allow the government to achieve its target of balancing the budget over the next few years.

Banking sector risk was assessed as Low and New Zealand's banking system is one the highest rated by Moody's with an average Baseline Credit Assessment of a3 and average long-term issuer ratings of Aa3. The New Zealand banking system reported total assets of \$406 billion (US\$333 billion), equivalent to 194% of GDP, as of December 31, 2012.

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