Decide with Confidence

D&B Country RiskLine Report

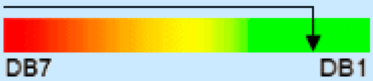
NEW ZEALAND

Region : Asia Pacific

Edition : January 2014

D&B Country Risk Indicator

DB2a



This "DB" Rating Indicates:

Low risk

Low degree of uncertainty associated with expected returns. However, country-wide factors may result in higher volatility of returns at a future date.

Trend

Improving

The country's overall risk profile is improving as a result of favourable political/commercial, economic and/or external developments

The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	4.5m
Surface area (sq km):	270,534
Capital:	Wellington
Timezone:	GMT +12:00
Official languages:	English; Maori
Head of government:	Prime Minister John KEY
GDP (USD):	175.7bn
GDP per capita (USD):	38,983
Life expectancy (years):	81
CO2 emissions (ktn):	32.1

Country Overview:

New Zealand is situated in the South Pacific, and its closest neighbour is Australia. New Zealand is a member of the Commonwealth and the OECD.

The country has undergone considerable liberalisation over the past 20 years. Although it is geographically isolated and has only a small population, income levels are high and it is ranked second in the world in terms of the ease of doing business. While New Zealand's economy has diversified in recent years, agricultural commodities still play an important role in its export profile with a near-guaranteed demand from countries with increasing meat and dairy consumption, China not least. A number of economic imbalances exist, such as the large current account deficit (driven largely by remitted earnings from foreign-owned companies). However, the economy is free from the extreme fiscal debt burdens of northern hemisphere OECD countries, while the political system, even if it typically delivers coalition governments, these are generally able to govern effectively.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	OA

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	SD

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:	30 days

Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	0-2 months

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays:	0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Trade & Commercial Environment

The number of business invoices paid in timely fashion has risen to a 12-month high as the finances of New Zealand companies continue to benefit from a steady improvement in the local economy and healthy consumer confidence. Analysis of company invoice payments in Q3 shows that 61% were made within 30 days, an increase from 60% a year earlier. As for late invoice payments, the majority were made only 1-30 days past standard terms. According to D&B trade data analysis, the increase in prompt payments has seen the average length of time taken for businesses to pay each other fall for a second consecutive quarter, to 41 days. The agriculture sector was again the fastest-paying, taking 36 days to pay invoices, on the back of strong trade with Asia and surging dairy prices.

Export Credit Agencies

US Eximbank	Full cover available
Atradius	Full cover available
ECGD	Full cover available
Euler Hermes UK	Full ST cover available

Economic Indicators

	2011	2012	2013	2014f	2015f
Real GDP growth, %	1.2	2.9	3.0	2.8	3.8
Inflation, annual ave, %	4.0	1.0	1.4	2.0	2.0
Govt balance, % GDP	-9.2	-5.9	-3.8	-0.3	2.0
Unemployment, %	6.5	6.9	6.3	6.0	5.7
C/A balance, % GDP	-2.9	-4.1	-5.3	-3.2	-2.2

Economic Indicators: Government balance data are for OBEGAL (the operating balance excluding gains and losses) and fiscal years (July-June).

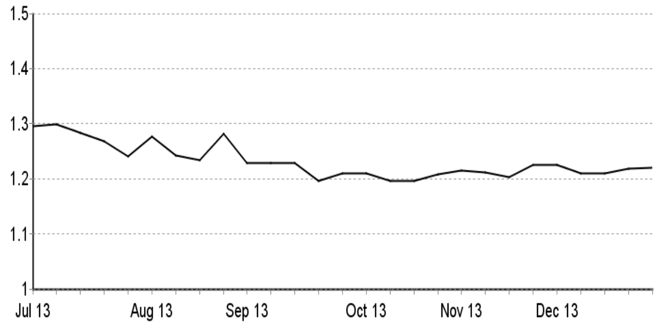
Currency Information

Exchange Rates (London, 23 Dec 13)	
EUR	1.6658
GBP	1.993
JPY*	1.1706
USD	1.218

*(x 100)

Local Currency

(New Zealand dollar [NZD]: USD)



Local Currency

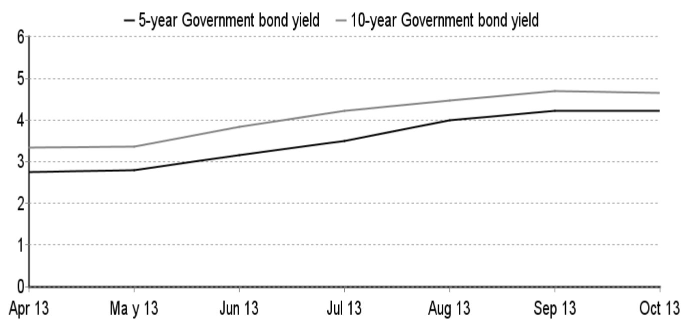
(New Zealand dollar [NZD]: USD)

	Jul 13	Aug 13	Sep 13	Oct 13	Nov 13	Dec 13
Week 1	1.295	1.277	1.229	1.210	1.215	1.225
Week 2	1.300	1.243	1.229	1.197	1.212	1.210
Week 3	1.283	1.233	1.229	1.197	1.202	1.210
Week 4	1.268	1.282	1.196	1.207	1.226	1.218
Week 5	1.240		1.210			1.220

Long-Term Interest Rates

Long-Term Interest Rates

(%, per annum)



Data Table

Apr 13	Ma y 13	Jun 13	Jul 13	Aug 13	Sep 13	Oct 13
2.75	2.8	3.16	3.49	4.0	4.22	4.22
3.33	3.37	3.83	4.23	4.47	4.7	4.65

Risk Factor

D&B has upgraded New Zealand's country risk indicator to DB2a amid further signs that the economic outlook is strengthening. Real GDP should grow by close to 3% for a third consecutive year in 2014, putting output almost 10% higher than in 2011 by the end of 2012-14. The country's growth is being led by post-earthquake reconstruction in South Island and by house-building generally in North Island (where the Auckland metropolis has housing shortages); and by dairy output's Q3 rebound from the drought of early 2013, and by its excellent pricing abroad. The agriculture sector's Q3 value added rose by 17%; that of agriculture, forestry and fishing 14% quarter on quarter, in seasonally adjusted terms (5% in year-on-year, y/y, terms). Construction value added fell 1% from Q2, but was up 14% y/y. Manufacturing and services failed to expand at anything approaching this pace; if they had done so, the small New Zealand economy would be suffering well out-of-target CPI inflation. There is no great risk yet of a sectorally-skewed boom, as in Australia, from over-dependence on dairies and construction. The demand-side indicators for Q3's GDP suggest that the economy is benefiting broadly.

One structural advantage of New Zealand is that its primary export industries are more labour-intensive than Australia's minerals sector: close to 6% of the New Zealand workforce is in agriculture, forestry or fisheries, against just 2% of total for the Australian minerals sector's share of the workforce. Farm work is harder to automate than capital-intense mining excavation and offshore projects, so the benefits accrue to a wider set of economic actors and thence to households. The 40-year record terms of trade (average export over import prices) that New Zealand is currently enjoying as a result of global milk prices should continue for a good few quarters, in the meantime, helping to salve the disruptive effects of the 2013 drought and high debt levels in some dairies. However, the trade deficit will slide further (in nominal terms, imports of goods and services rose 6% y/y in Q3) as investment in the construction and non-construction sectors accelerates. It is nevertheless good for shippers and New Zealand's market potential in 2014-15.

The New Zealand dollar's strength will delay any correction of the trade deficit into the mid-2010s, and we have revised our current account forecasts to reflect a deeper deficit from 2014 onwards. Currency strength is manageable at present. It has kept inflationary pressure well-controlled (1.4% y/y in Q3) at at time when reconstruction-linked inflows of imports are close to peaking. Given New Zealand's foreign debt is close to 70% GDP, it should keep debt servicing costs down. In the next few quarters, the New Zealand dollar should in any case be supported by reinsurance payments, which will help to keep external debt ratios manageable in 2014-15.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:

Normal period of credit associated with transactions with companies in the stated country.

Local Delays:

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

F/X Bank Delays:

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

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