# BEST'S COUNTRY RISK REPORT

# New Zealand

## CRT-2

August 22, 2018

**Region:** Oceania

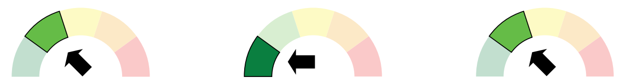
Country Risk Criteria Procedures

Guide to Best's Country Risk Tiers

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political and Financial System Risk.
- New Zealand is a CRT-2 country with low levels of economic and financial system risk and a very low level of political risk. In 2017, New Zealand experienced solid growth of 3%, driven by infrastructure investment and rebuilding following the 2016 earthquake, a pick up in exports, positive net migration, and tourism. Growth is expected to remain between 2% and 3% over the medium term. Inflation is forecast to stabilize at 2%, remaining within the central bank's targeted range of 1% to 3%.
- The map depicts the two countries in Oceania (Australia and New Zealand) A.M. Best evaluates for country risk, as well as Indonesia and Papua New Guinea. Australia is categorized as CRT-1 and New Zealand as CRT-2.

| | | |
|---|---|---|
| **Vital Statistics 2017** | | |
| Nominal GDP | USD bn | 201.49 |
| Population | mil | 4.8 |
| GDP Per Capita | USD | 41,593 |
| Real GDP Growth | % | 3.0 |
| Inflation Rate | % | 1.9 |
| **United Nations Estimates** | | |
| Literacy Rate | % | n.a. |
| Urbanization | % | 86.4 |
| Dependency Ratio | % | 52.9 |
| Life Expectancy | Years | 81.3 |
| Median Age | Years | 37.9 |
| **Insurance Statistics** | | |
| Insurance Regulator | Reserve Bank of New Zealand | |
| Premiums Written (Life) | USD mil | 1,749 |
| Premiums Written (Non-Life) | USD mil | 8,437 |
| Premiums Growth (2016 - 2017) | % | 3.4 |
| **Regional Comparison** | | |
| | Country Risk Tier | |
| New Zealand | CRT-2 | |
| Australia | CRT-1 | |
| Indonesia | CRT-4 | |
| Japan | CRT-2 | |
| Malaysia | CRT-3 | |
| Singapore | CRT-1 | |

Source: IMF, UN, Swiss Re, Axco and A.M. Best



Economic Risk | Political Risk | Financial System Risk

**Country Risk Tier 1** (CRT-1) Very Low Level of Country Risk

**Country Risk Tier 2** (CRT-2) Low Level of Country Risk

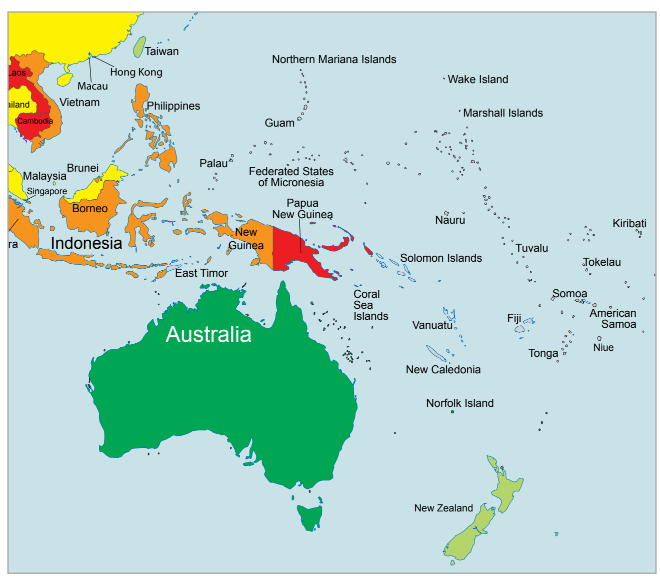
**Country Risk Tier 3** (CRT-3) Moderate Level of Country Risk

**Country Risk Tier 4** (CRT-4) High Level of Country Risk

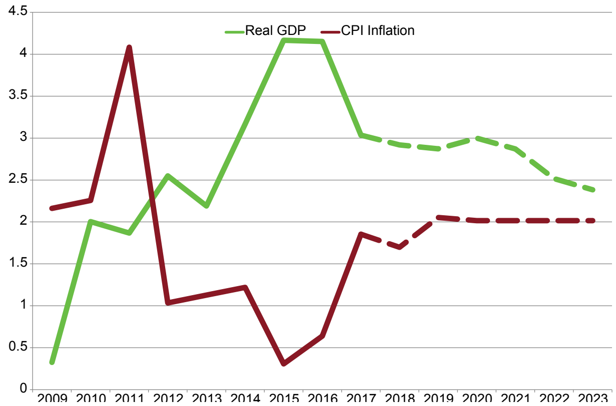
**Country Risk Tier 5** (CRT-5) Very High Level of Country Risk

## Regional Summary: Oceania

- Australia and New Zealand, the two largest nations in the South Pacific Ocean, account for the vast majority of the region's economic activity. Both have strong political and cultural ties with the United Kingdom, enjoy high living standards, and benefit from educated workforce.
- The region's unemployment has declined, which has helped bolster domestic demand and spending slightly, but wage growth remains sluggish.
- Challenges include the potential for natural disasters, dependence on commodity sectors that increase its exposure to external, global conditions and price shocks, housing affordability, and low levels of foreign direct investment outside the mining sector.
- The region has significant amounts of mineral resources, sound infrastructure, transparent tax and legal systems, and stable governments. It is also geographically positioned to capitalize on its export potential with Southeast Asia. Both Australia and New Zealand are participating in the Trans-Pacific Partnership agreement.



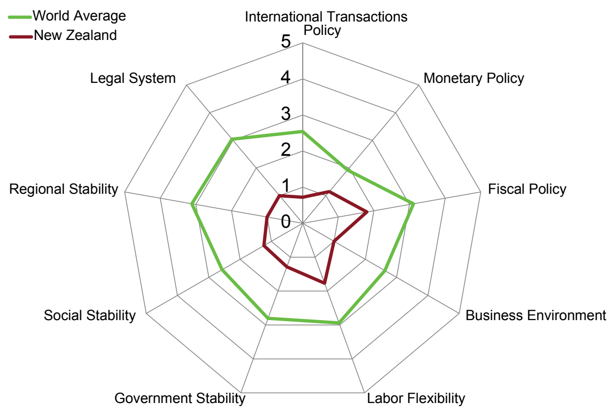
## Economic Growth (%)




Source: IMF World Economic Outlook and A.M. Best

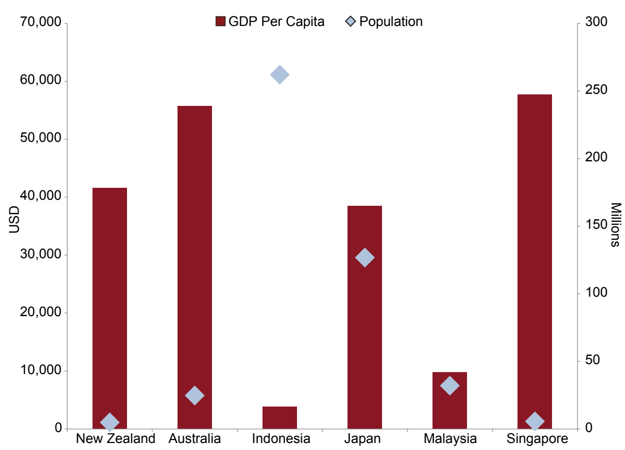
## Political Risk Summary

Score 1 (best) to 5 (worst)




Source: A.M. Best

## GDP Per Capita and Population




Source: IMF and A.M. Best

# Economic Risk: Low

- New Zealand's economy depends largely on services (70% of GDP) and industry (26%) for growth.
- Short-term growth is expected to moderate, as earthquake reconstruction efforts wane and strong growth in the housing market moderates. Consumption is expected to remain strong, driven by positive migration, residential and business investment, and the continuation of accommodative monetary policy.
- The government currently plans to increase investment in infrastructure, education, and healthcare, which will support long-term growth.
- The unemployment rate has continued to fall in 2018, hitting 4.5%, while labor market participation remains high at 71%.

# Political Risk: Very Low

- The Labour Party came to power in September 2017 with a focus on improving social welfare through targeted tax hikes and increased benefits to the low-income population. Governance is strong, as evidenced by stable democratic institutions and practices.
- The 2018 government budget will increase spending on infrastructure, healthcare, and education. Even with the increase, the country is expected to continue to run a fiscal surplus of 2%.
- In the World Bank's 2018 Ease of Doing Business Index, New Zealand ranked as the best country in the world in which to do business, making it an ideal destination for foreign direct investment.
- New Zealand is currently one of the least regulated countries in the world, but this could change under the Labour government. Current government policies aim to minimize governmental interference in the markets, favoring low taxes and free trade agreements, and limiting business regulation.

# Financial System Risk: Low

- In 2010, the regulatory responsibilities of the Reserve Bank of New Zealand were expanded to cover the insurance industry.
- The Reserve Bank of New Zealand is independent and benefits from a flexible exchange rate and a deep and sophisticated financial system.
- In 2016, the banking sector tightened lending standards in response to the housing boom. As a result, the housing market has cooled, and credit growth to households has slowed. Although household debt-to-income ratios remain high, at 168%, the IMF believes the banking sector would be able to absorb any significant market dislocations.
- Monetary policy has been stable and accommodative since 2016, following the most recent earthquake. Inflation is expected to remain moderate, even with fiscal policy becoming slightly more expansive in 2018.