

Embargoed until 10:45am – 22 December 2010

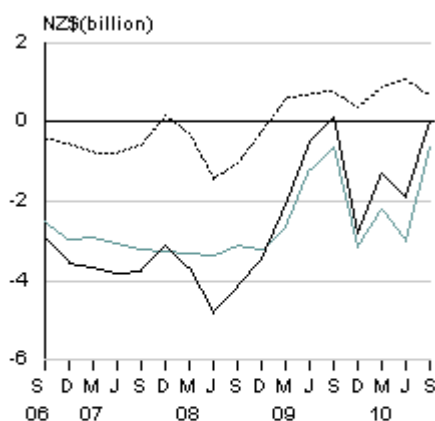
Balance of Payments and International Investment Position: September 2010 quarter

Highlights

- New Zealand had a seasonally adjusted current account surplus of \$35 million in the September 2010 quarter, a turnaround of \$1,957 million from the June 2010 quarter deficit.
- For the year ended September 2010 the current account deficit was 3.1 percent of GDP, compared with 3.2 percent for the year ended September 2009.
- Excluding estimated earthquake-related reinsurance inflows of \$1,700 million, the underlying current account deficit was \$1,665 million in the September 2010 quarter.
- Net international liabilities were \$162.5 billion (85.2 percent of GDP) at 30 September 2010, \$0.6 billion less than at 30 June 2010.

Seasonally adjusted balances

Quarterly

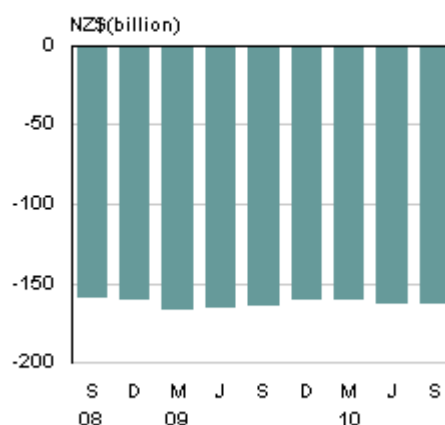


----- Goods and services
— Income and current transfers
— Current account

Source: Statistics New Zealand

Net international investment position

Quarterly



Source: Statistics New Zealand

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Commentary

Overview

Quarterly

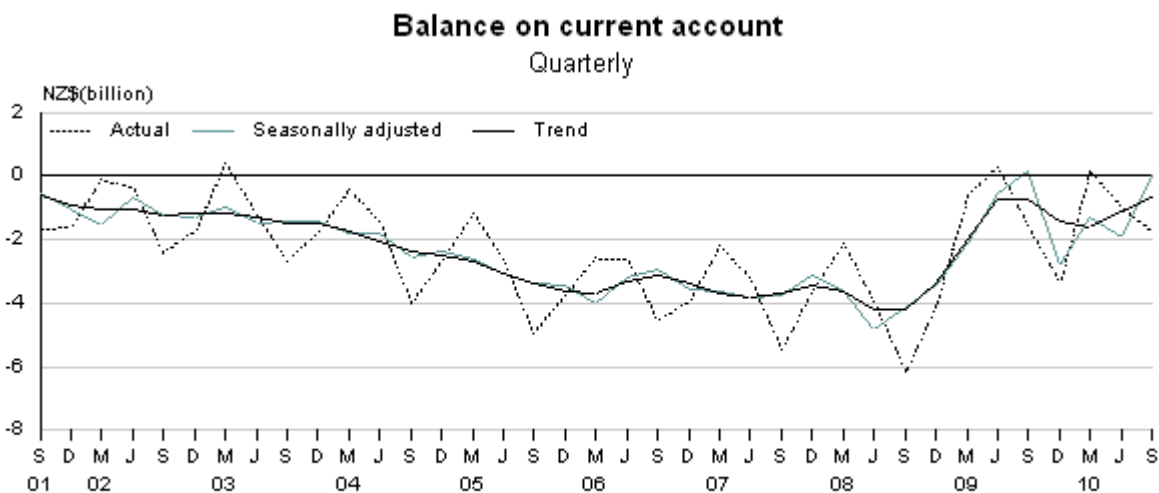
The seasonally adjusted current account balance was a surplus of \$35 million in the September 2010 quarter, a \$1,957 million turnaround from the \$1,922 million deficit of the June 2010 quarter. This is the first surplus since the September 2009 quarter. The \$35 million current account surplus in the latest quarter was due to:

- the transfers balance rising \$1,774 million, from a deficit to a surplus, due to reinsurance claims arising from the Canterbury earthquakes
- the income deficit falling \$591 million.

These changes were partly offset by a \$341 million fall in the balance on goods surplus, and a \$67 million rise in the balance on services deficit. Note that the goods and services balances are seasonally adjusted, whereas the income and transfers balances are not.

Excluding the reinsurance claims on non-residents arising from the Canterbury earthquakes, estimated at \$1,700 million, the current account balance would have been a deficit of \$1,665 million.

The **transfers balance** moved from a deficit of \$121 million in the June 2010 quarter to a surplus of \$1,653 million in the September 2010 quarter. This was due to the estimated inflow of \$1,700 million, which represents the minimum total claims expected from non-resident reinsurers from the Canterbury earthquakes. This estimate is likely to be revised upwards as more information becomes available. Please refer to the information paper [Insurance impact of the Canterbury earthquakes on New Zealand's international accounts](#) for further details.



Source: Statistics New Zealand

The fall in the **investment income** deficit was mainly due to lower income earned by foreign investors on their New Zealand investments. Also, income from New Zealand investment abroad increased for the third consecutive quarter.

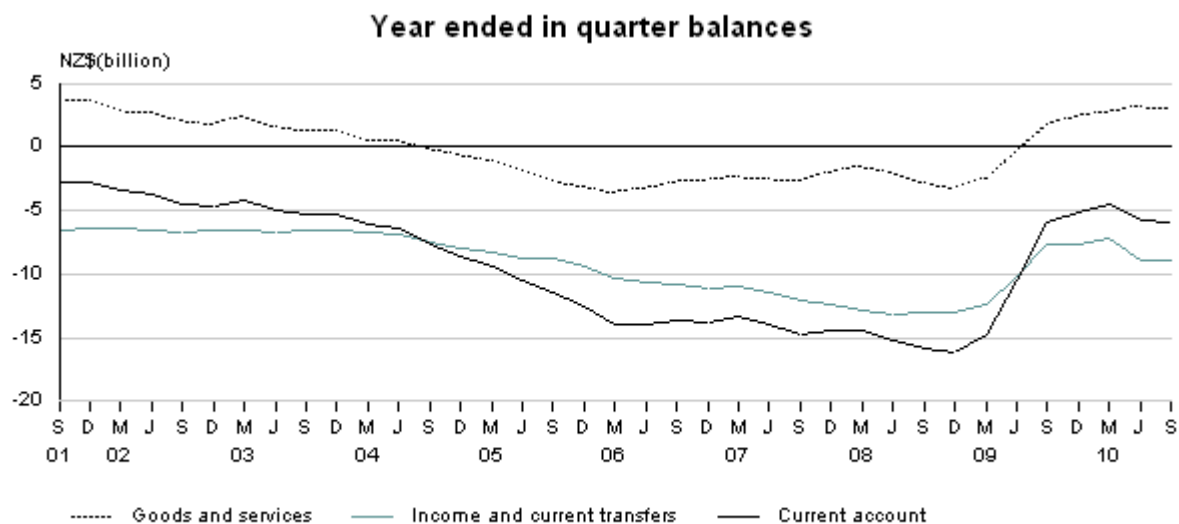
The **seasonally adjusted balance on goods** was a \$835 million surplus in the September 2010 quarter, down from the June 2010 quarter surplus of \$1,176 million. This decrease was due to lower exports of goods, mainly due to lower volumes of meat exports.

In the September 2010 quarter the **financial account** recorded a \$728 million net inflow of financial capital. A \$3.3 billion inflow of foreign investment in New Zealand was mainly due to foreign investors buying New Zealand government debt securities. This was partly offset by a \$2.6 billion outflow of New Zealand investment overseas, which included \$1.7 billion of accounts receivable due to the Canterbury earthquakes.

New Zealand's **net debtor position** (liabilities exceeding assets) was \$162.5 billion (85.2 percent of GDP) at 30 September 2010, compared with \$163.1 billion (86.3 percent of GDP) at 30 June 2010. While the net financial account inflows increasing liabilities were \$728 million, this was more than compensated for by valuation changes that reduced net liabilities by \$1,312 million.

Annual

Unadjusted, there was a current account deficit of \$1,770 million in the September 2010 quarter. This contributed to the **year ended September 2010 current account deficit** of \$5.9 billion (3.1 percent of GDP). This is unchanged from a deficit of \$5.9 billion (3.2 percent of GDP) for the year ended September 2009.



Source: Statistics New Zealand

There were offsetting effects that kept the annual current account deficit relatively stable:

- The goods surplus increased by \$1.2 billion due to imports of goods falling by more than exports of goods.
- The income deficit increased by \$2.5 billion as foreign investors earned more income from their New Zealand investments.
- The transfers surplus increased by \$1.2 billion.

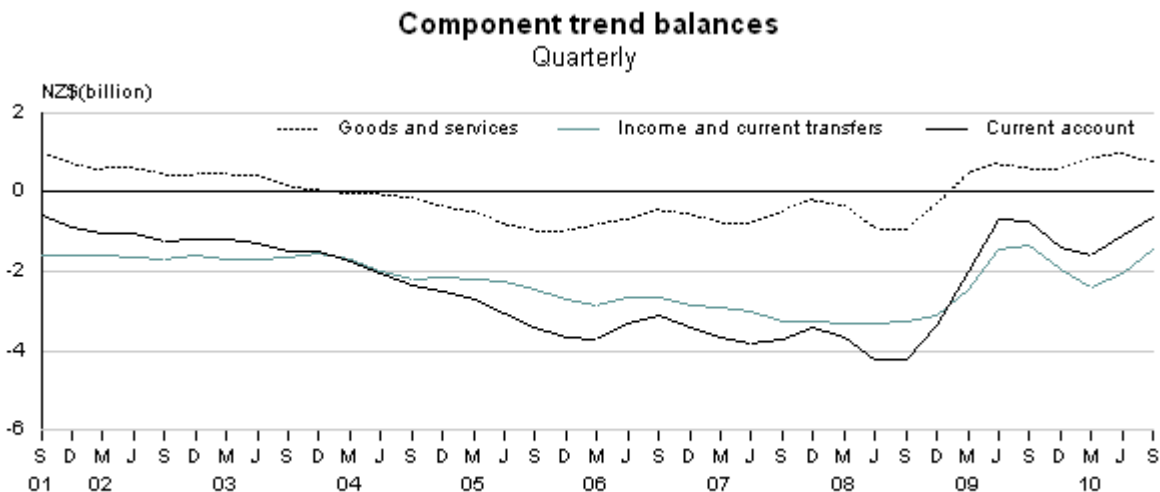
Two unusual events impacted on these figures:

- The banking sector's income tax settlements in the June to December 2009 quarters.
- The reinsurance claims from the Canterbury earthquakes in the September 2010 quarter.

Excluding these unusual events, the current account deficit would have been \$7.3 billion (3.8 percent of GDP) for the year ended September 2010, and \$8.0 billion (4.3 percent) for the year ended September 2009. This represents an underlying decrease in the deficit of \$722 million.

Trend

The **current account balance trend series** was a deficit of \$655 million in the September 2010 quarter. This is the lowest trend deficit since September 2001. When interpreting the trend series please note the income and current transfers and the current account series have been affected by large outliers in recent quarters.



Further detail

Goods

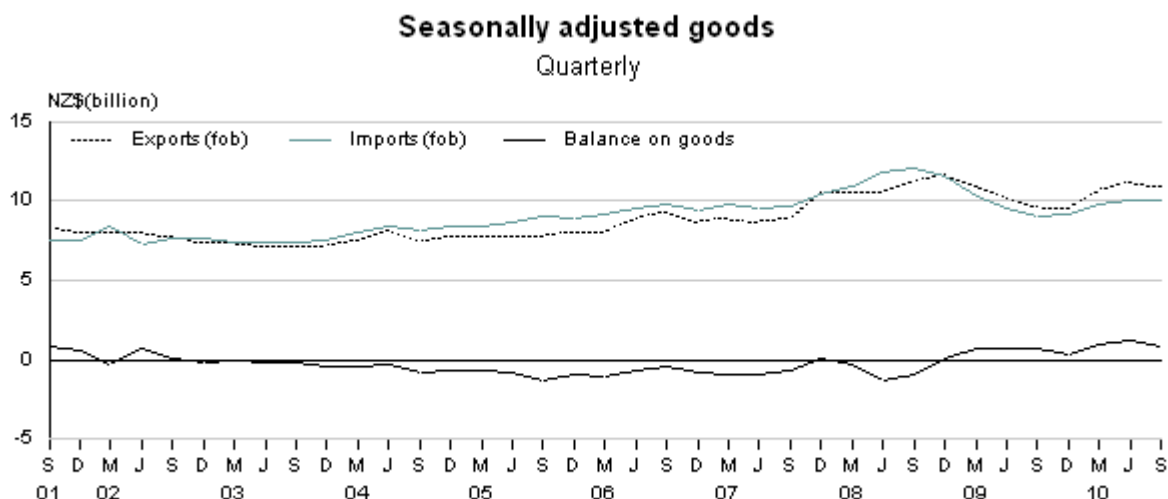
Quarterly goods

All references are to seasonally adjusted numbers unless otherwise stated.

The **goods balance** was a surplus of \$835 million in the September 2010 quarter, a \$341 million decrease from the June 2010 quarter. This is now the eighth consecutive seasonally adjusted goods balance surplus. Exports of goods declined \$331 million, while imports of goods remained stable this quarter. Overseas trade export prices were flat, while export volumes fell 2.9 percent (please refer to [Overseas Trade Indexes \(Volumes\): September 2010 quarter](#)).

A decline in exports of meat products, driven by lower volumes, was the main contributor to the fall in total exports of goods. Meat exports are at their lowest level since the September 2002 quarter. Lower values of crude oil and forestry products also contributed to the overall decline in exports. However, exported values of dairy products rose during the latest quarter due to higher prices, which partly offset the declines.

Import volumes increased in the September 2010 quarter, while import prices fell, driven mainly by lower prices of petroleum and petroleum products. This is the fifth consecutive quarterly increase in import volumes, following four quarters of decline from the September 2008 quarter.



Source: Statistics New Zealand

Annual goods

The **goods balance** was a surplus of \$3.3 billion for the year ended September 2010, a \$1.2 billion increase from the September 2009 surplus. Imports of goods (down \$1.3 billion) fell by more than exports of goods (down \$0.1 billion) over the same period.

Services

Quarterly services

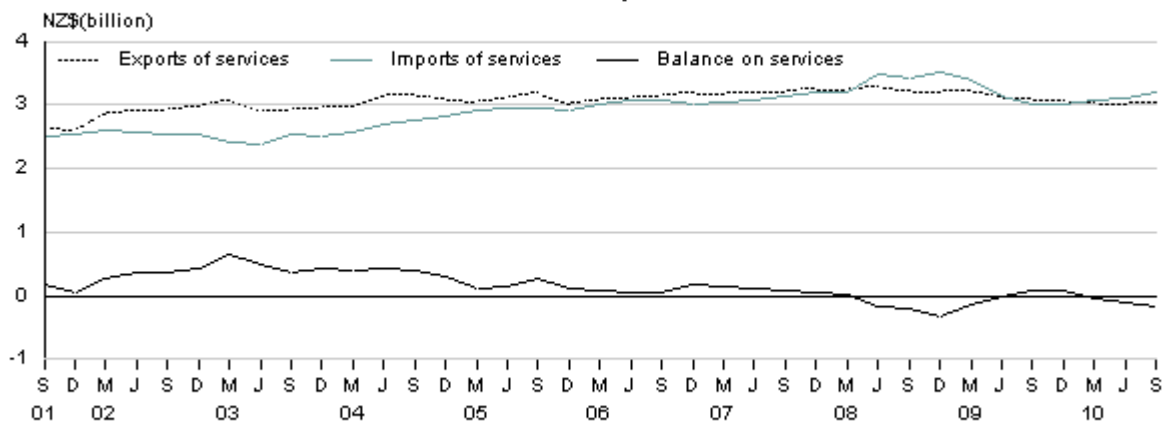
All references are to seasonally adjusted numbers unless otherwise stated.

The balance on services was a deficit of \$159 million in the September 2010 quarter, up \$67 million from the June 2010 quarter deficit. The higher deficit in the latest quarter was due to an increase in imports of services.

Imports of services increased by \$86 million to \$3,188 million in the September 2010 quarter. This increase was influenced by rises for both transportation and travel services imports. Transportation services imports rose by \$11 million, due to higher volumes of imported goods and higher prices for international freight. Travel services imports, which measure spending of New Zealand residents while holidaying overseas, increased by \$7 million. Of the commercial services series, which are not seasonally adjusted, imports of computer and information services recorded the largest increase (up \$28 million).

Exports of services remained flat in the September 2010 quarter, at \$3,029 million. Travel services exports fell to their lowest level since the March 2002 quarter, as expenditure by foreign visitors in New Zealand fell \$58 million (3.4 percent) in the September 2010 quarter. The number of international visitors was up, but this was more than offset by significantly lower expenditure per person. Offsetting the fall in travel was a rise in transportation services exports during the quarter. These include passenger fares, freight payments, and other transportation services such as port dues and administration costs paid by non-residents.

Seasonally adjusted services Quarterly



Source: Statistics New Zealand

Annual services

The **year ended September 2010 services balance** was a deficit of \$225 million, compared with a \$351 million deficit in the September 2009 year.

The narrower deficit was mainly driven by lower imports of transportation services, which fell 5.6 percent in the September 2010 year. Imports of other services, such as construction, computer and information services, and other business services, were also down during the period.

Income

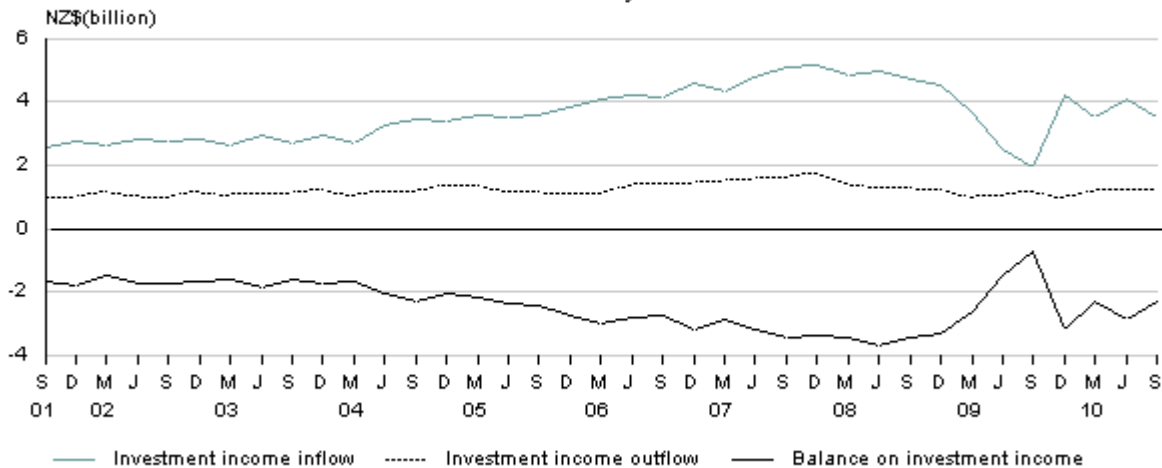
Quarterly income

The **income deficit** for the September 2010 quarter was \$2,294 million, a \$591 million decrease from the June 2010 quarter. The fall in the deficit was primarily driven by a \$581 million decrease in the investment income deficit, while outflows of compensation of employees fell \$10 million.

The **investment income deficit** for the September 2010 quarter was \$2,268 million. The decrease in the deficit arose from a \$548 million fall in foreign investors' earnings on their investments in New Zealand and a \$33 million rise in income earned from New Zealand investments abroad.

Balance on investment income

Quarterly



Source: Statistics New Zealand

Investment income earned from New Zealand investment abroad rose for the third consecutive quarter, increasing to \$1,270 million during the September 2010 quarter.

The growth in income earned from New Zealand's overseas investments was mainly driven by a \$48 million rise in earnings from overseas subsidiaries of New Zealand direct investors. This was partly offset by a \$25 million fall in dividends and interest earned from New Zealand's portfolio investments abroad.

In the September 2010 quarter, other investment income in the form of interest earned from loans and deposits abroad was \$71 million, an increase of \$10 million from the June 2010 quarter. Income earned by New Zealand investors from loans and deposits placed abroad is included in the other investment income series, along with Inland Revenue overseas income data.

Foreign investors' earnings from their investments in New Zealand were \$3,538 million in the September 2010 quarter, a \$548 million decrease from the June 2010 quarter.

The decrease was driven by a combined \$607 million fall in income earned by foreign direct and portfolio investors on equity investments in New Zealand companies. Profits earned by foreign direct investors fell by \$551 million during the September quarter while dividends paid to foreign portfolio investors fell by \$56 million.

Other investment income earned by non-residents comprises interest on loans and deposits and Inland Revenue income data. During the September 2010 quarter interest earned was \$638 million, an increase of \$41 million from June 2010. Inland Revenue income data was unchanged from the June 2010 quarter.

Annual income

The **year ended September 2010 income deficit** was \$10,726 million, an increase of \$2,474 million from the September 2009 deficit of \$8,252 million. Both of these year-ended balances were affected by unusually large bank-sector tax transactions. These transactions reduced the income deficit by \$2,027 million in the September 2009 year, and increased the deficit by \$379 million in the 2010 year. Removing these effects, the income deficit was just \$68 million larger in the September 2010 year than in the year ended September 2009.

Current transfers

The **balance on current transfers** was a surplus of \$1,653 million for the September 2010 quarter, a turnaround of \$1,774 million from the June 2010 quarter deficit. The surplus was due to an estimated \$1,700 million inflow of reinsurance claims arising from the Canterbury earthquakes. This amount is represented in the current account as a negative debit (see table 7).

Current transfers out of New Zealand was a negative \$1,318 million, down \$1,613 million from the June 2010 quarter. Insurance and reinsurance claims on non-residents are treated as current transfers in the BoP accounts, with total claims to be recorded in the quarter in which the insured event occurs. In respect of the Canterbury earthquakes, an estimate of \$1,700 million has been recorded, but this is likely to be revised upwards as more information becomes available. For further information, please see the paper [Insurance impact of the Canterbury earthquakes on New Zealand's international accounts](#).

Current transfers out of New Zealand also featured increases in foreign aid payments and fees for subscriptions to international organisations paid by the New Zealand Government during the quarter.

Current transfers into New Zealand were \$335 million in the September 2010 quarter, up \$162 million from the June 2010 quarter. This rise was due to an increase in government current transfers, driven by an increase in non-resident withholding tax (NRWT) received. This NRWT is payable by foreigners on income from their investments in New Zealand; for example, interest and royalties.

Capital account

The capital account measures the value of assets transferred by migrants into, and out of, New Zealand. In the September 2010 quarter, the balance on the capital account was a deficit of \$70 million, \$79 million smaller than the deficit recorded in the June 2010 quarter.

Inflows of capital transfers were \$282 million, up \$44 million from the June 2010 quarter. This was mainly due to a 41.0 percent increase in migrant arrivals. Migrant arrivals from Australia remained flat, but arrivals rose from other countries. Investment transfers fell slightly in the latest quarter.

Capital transfers out of New Zealand were \$352 million in the September 2010 quarter, down \$34 million from the June 2010 quarter. This was mainly due to a 5.8 percent decrease in migrant departures. Falling house prices in New Zealand also decreased the amount of funds available for departing migrants to transfer out of New Zealand.

Changes in migrant arrivals and departures are seasonal. Generally, increased arrivals and decreased departures can be observed in September quarters, driving capital account movements.

Financial account and international investment position (IIP)

Financial account (flows)

In the September 2010 quarter, measured financial account transactions showed a net investment inflow of 0.7 billion into New Zealand. There was a \$3.3 billion inflow of foreign investment into New Zealand and a \$2.6 billion outflow of New Zealand investment overseas.

The \$3.3 billion inflow of **foreign investment into New Zealand** featured:

- \$2.8 billion of foreign portfolio investment, attributed mainly to foreign investors purchasing a net \$3.1 billion of New Zealand Government debt securities in the quarter.
- \$1.1 billion of foreign other investment in New Zealand, mainly due to overseas investors increasing deposits and other financial instruments with the New Zealand banking and official sectors.

These inflows of foreign portfolio and other investments were partly offset by foreign direct investors divesting a net \$0.6 billion from New Zealand. Overseas direct investors reduced their net lending to their New Zealand subsidiaries by \$1.8 billion. This was partly offset by \$1.2 billion of equity capital injections and reinvested earnings in New Zealand.

Key features of the \$2.6 billion of **New Zealand investment abroad** were:

- \$3.5 billion of other investment, which includes an estimated \$1.7 billion of accounts receivable relating to the Canterbury earthquakes reinsurance claims. Other key features were New Zealand banks lending overseas, and fund managers increasing lending and deposits abroad.
- \$1.0 billion of direct investment abroad, principally New Zealand companies increasing net lending to their overseas subsidiaries.

These outflows of New Zealand other and direct investments abroad were partly offset by a \$1.1 billion divestment of portfolio investment abroad, mainly due to New Zealand banks and fund managers divesting a net \$1.3 billion of foreign-issued debt securities. Investment in overseas company shares of a net \$0.2 billion featured purchases by fund managers, which were nearly offset by sales to meet liquidity needs arising from the Canterbury earthquakes.

The official sector divested \$0.9 billion of overseas reserve assets during the September 2010 quarter. This was the first divestment by the official sector since the December 2008 quarter.

Reconciling the September 2010 quarter financial account and the international investment position

The reconciliation table below shows both the transaction and non-transaction causes of the shift in the net IIP from the position at 30 June 2010 to the position at 30 September 2010 (table 2). The IIP is defined in the technical notes of this publication along with the associated term 'net debtor position'.

Reconciliation statement – September 2010 quarter					
Net IIP at 30 June 2010	Net financial account flows (transactions)	Net exchange rate changes	Net financial derivative valuation changes	Net market price and other valuation changes	Net IIP at 30 September 2010
NZ\$(million)					
-163,132	-728	748	-2,046	2,610	-162,548

At 30 September 2010, New Zealand's net international debtor position decreased by \$584 million (0.4 percent) from the 30 June 2010 net debtor position. Changes in the valuation of financial assets and liabilities decreased New Zealand's net international liabilities by \$1,312 million in the September 2010 quarter, partly offset by net financial account inflows, which increased the net debtor position by \$728 million.

- **Market price changes.** Market values in the overseas share markets in which New Zealand funds are principally invested were between 4 and 13 percent higher at 30 September 2010 compared with 30 June 2010, largely a reversal of the falls experienced in the June 2010 quarter.
- **Changes in the value of financial derivative contracts** increased the net international debtor position by \$2,046 million in the latest quarter. The asset position increased by \$1,678 million and the liability position increased by \$3,723 million at 30 September 2010 compared with 30 June 2010.
- **Exchange rate changes** decreased the net international debtor position by \$748 million in the September 2010 quarter. Of the main currencies in which New Zealand's foreign assets and liabilities are primarily held, the New Zealand dollar depreciated against the Euro and Australian dollar, but appreciated against other major currencies.

International investment position

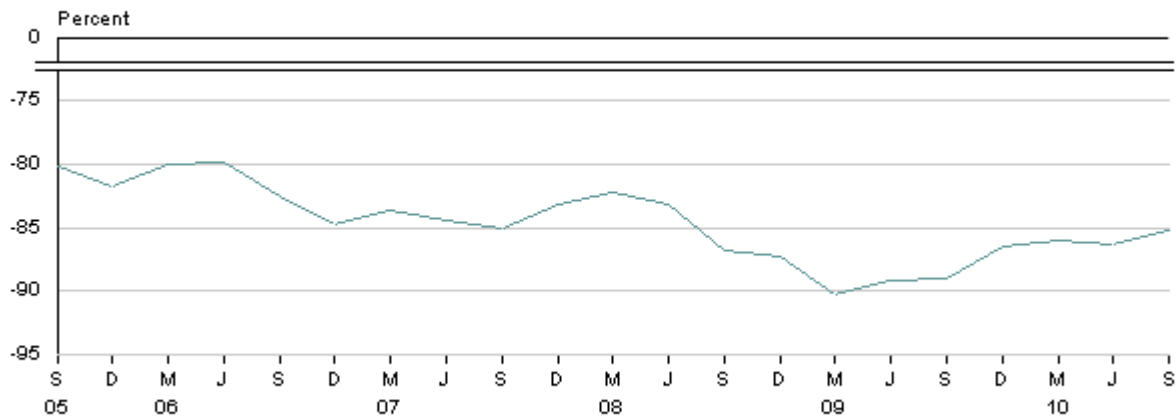
This commentary discusses the presentation of New Zealand's international assets and liabilities as shown in tables 11-14.

At 30 September 2010, New Zealand's **net international debtor position** was \$162.5 billion (85.2 percent of GDP) and featured \$153.0 billion of international assets and \$315.5 billion of international liabilities. The 30 September 2010 net debtor position was \$0.6 billion smaller than the 30 June 2010 position of \$163.1 billion (86.3 percent of GDP).

The net IIP liability to GDP ratio peaked at 90.3 percent at 31 March 2009, but has generally been decreasing since then.

Net international investment position to gross domestic product ratio

Quarterly



Source: Statistics New Zealand

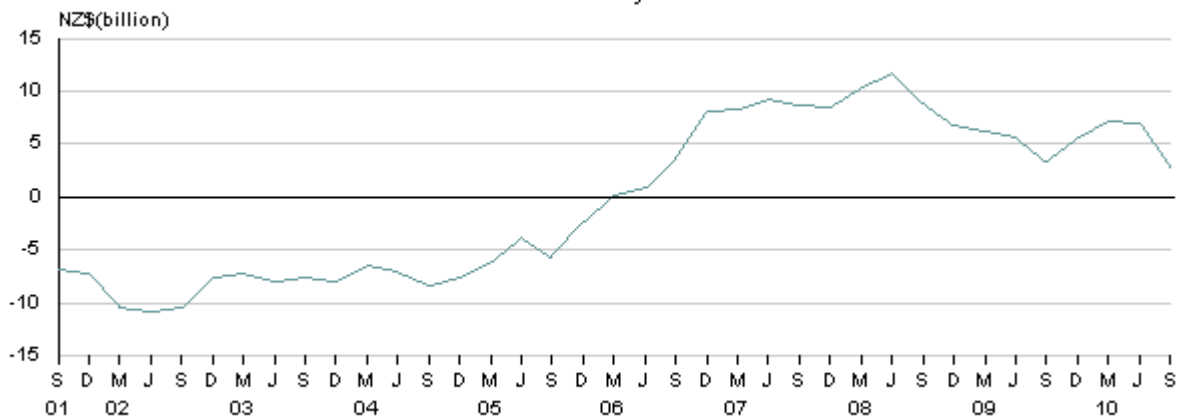
The decrease in the net international debtor position between 30 June 2010 and 30 September 2010 was driven by a \$0.8 billion decrease in net international equity liabilities, partly offset by a \$0.2 billion increase in net international debt liabilities. The fall in the net international equity liabilities was mainly driven by increases in the value of overseas shares held by New Zealand fund managers.

By sector, the main movements in net international debt liabilities from 30 June 2010 to 30 September 2010 were:

- The official sector's (Reserve Bank and general government) net lending (asset) position fell by \$4.2 billion to \$2.7 billion. The official sector's net international debt position changed from a net borrowing position to a net lending position at 31 March 2006. The net lending position reached a peak of \$11.6 billion at 30 June 2008.
- The other sector's (mainly non-bank corporates) net overseas debt fell by \$3.5 billion.
- The banking sector's net overseas debt fell by \$0.4 billion, driven by a \$2.7 billion increase in lending, partly offset by a \$2.2 billion increase in borrowing.

Official sector net international debt position

Quarterly

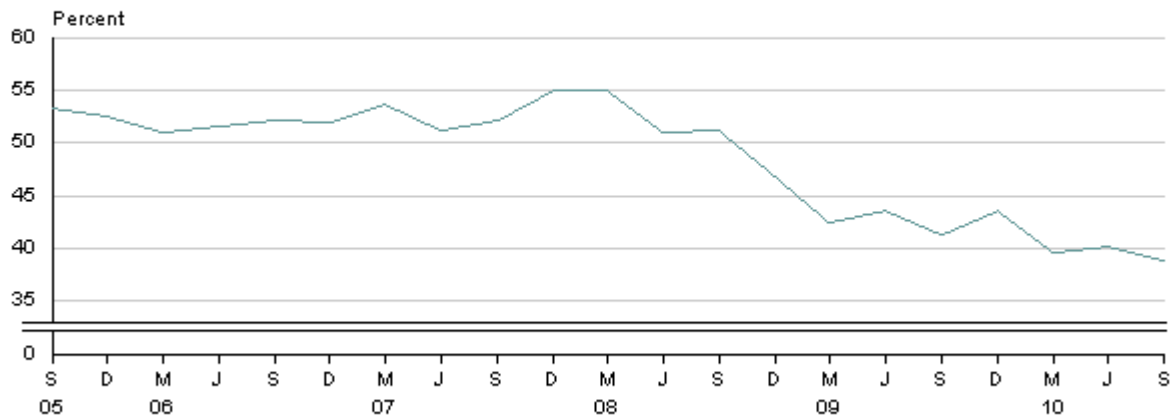


Source: Statistics New Zealand

Overseas debt with a time to maturity of one year or less was 38.9 percent of the total at 30 September 2010, down from 40.3 percent at 30 June 2010, and 41.4 percent at 30 September 2009. In general, overseas debt with a time to maturity of one year or less, as a proportion of total overseas debt, has been falling since 31 March 2008. The September 2010 fall in the proportion of debt maturing in less than one year was driven by funding arrangements in the banking sector, as discussed in the June 2010 quarter release.

Residual maturity of overseas debt

Ratio of one-year-and-less to total
Quarterly



Source: Statistics New Zealand

Next release ...

Balance of Payments and International Investment Position: December 2010 quarter will be released on 23 March 2011.

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Revisions

The tables below present a summary of revisions to the June 2010 quarter BoP and IIP major components, as a result of new or improved data.

Current and capital accounts			
Component	Previously published June 2010 quarter	Revised June 2010 quarter	Magnitude of revision
NZ\$(million)			
Current account balance	-880	-987	-107
Current account credits	16,214	16,164	-50
Current account debits	17,094	17,151	57
Balance on goods	2,353	2,364	11
Exports (fob)	12,044	12,047	3
Imports (fob)	9,691	9,683	-8
Balance on services	-318	-345	-27
Exports of services	2,734	2,706	-28
Imports of services	3,053	3,051	-2
Balance on income	-2,795	-2,885	-90
Income inflow	1,262	1,237	-25
Income outflow	4,057	4,122	65
Balance on current transfers	-120	-121	-1
Inflow of current transfers	173	173	--
Outflow of current transfers	293	295	2
Balance on capital account	-149	-149	0
Capital account inflow	238	238	0
Capital account outflow	386	386	0
Symbol: -- amount too small to be expressed			

Balance of payments financial account			
Component	Previously published June 2010 quarter	Revised June 2010 quarter	Magnitude of revision
NZ\$ (million)			
New Zealand investment abroad	3,537	3,326	-211
Direct investment	591	-38	-629
Portfolio investment	1,507	1,858	351
Other investment	622	690	68
Reserve assets	816	816	0
Foreign investment in New Zealand	4,826	5,083	257
Direct investment	-135	113	248
Portfolio investment	2,312	2,383	71
Other investment	2,649	2,586	-63

Net errors and omissions			
Component	Previously published June 2010 quarter	Revised June 2010 quarter	Magnitude of revision
NZ\$(million)			
Net errors and omissions	-261	-621	-360

International investment position			
Component	Previously published June 2010 quarter	Revised June 2010 quarter	Magnitude of revision
NZ\$(million)			
New Zealand investment abroad	129,163	130,063	900
Direct investment	21,550	21,848	298
Portfolio investment	49,651	50,119	468
Other investment	17,794	17,922	128
Financial derivatives	15,496	15,502	6
Reserve assets	24,672	24,672	0
Foreign investment in New Zealand	292,857	293,194	337
Direct investment	91,905	91,760	-145
Portfolio investment	94,949	95,486	537
Other investment	89,597	89,534	-63
Financial derivatives	16,406	16,415	9

Technical notes

Introduction

The conceptual framework used in New Zealand's Balance of Payments (BoP) and International Investment Position (IIP) statistics is based on the fifth edition of the International Monetary Fund's *Balance of Payments Manual* (BPM5). Descriptions of the underlying concepts, data sources, and methods used in compiling the estimates are presented in the [Balance of Payments Sources and Methods: 2004](#) report. A printed copy can be obtained from Statistics New Zealand: phone (64) 4 931 4600; fax (64) 4 932 2026; email publications@stats.govt.nz; or download the [PDF](#) online.

Balance of payments

New Zealand's BoP statement is a record of the value of New Zealand's transactions in goods, services, income, and transfers with the rest of the world, and the changes in New Zealand's financial claims on (assets) and liabilities to the rest of the world. New Zealand's BoP statement comprises the current and capital accounts (which record the value of New Zealand's transactions in goods, services, income, and transfers with non-residents) and the financial account (which records financial transactions involving New Zealand's transactions with non-residents).

Series available online

To access more data from the BoP and IIP time series, go to Infoshare at www.stats.govt.nz/infoshare, click on Browse, then choose:

Subject category: Economic indicators, then choose: Balance of Payments

The time series can be downloaded in Excel or comma delimited format.

More information about Infoshare can be found on our website at www.stats.govt.nz/about-infoshare.

Current account

The credit side of this account shows the export of goods and services, investment income earned and, under current transfers, the offsetting entries to resources received by residents without payment required.

The debit side shows the import of goods and services, investment income paid and, under current transfers, the offsetting entries to resources supplied to foreign residents without payment required.

To aid analysis, flows of goods, services, income, and current transfers are categorised into major types of transactions. In addition, certain balances are calculated. A 'balance' is the credits less debits for a particular item or group of items. A negative number represents a deficit, while a positive number represents a surplus.

Balances are usually in surplus or deficit; zero balances are unusual. The balances are:

- Balance on goods – goods exports (credits) less goods imports (debits).

- Balance on services – services exports (credits) less services imports (debits).
- Balance on income – income receipts (credits) less income payments (debits).
- Balance on current transfers – current transfer inflows (credits) less current transfer outflows (debits).
- Balance on goods and services – goods and services exports (credits) less goods and services imports (debits).
- Balance on income and current transfers – income and current transfer inflows (credits) less income and current transfer outflows (debits).
- Balance on current account – the sum of the balance on goods and services and the balance on income and current transfers.

Conceptual adjustments to exports and imports of goods

Conceptual adjustments are made to the overseas merchandise trade statistics (sourced from the New Zealand Customs Service) to comply with the BoP convention of recording goods in the current account. In BoP, exports and imports of goods are recorded when ownership of the goods passes from a resident to a non-resident, or vice versa. A change of ownership is said to have occurred when "the two parties (exporter and importer) record the transaction in their books or accounts." For merchandise trade statistics, goods are recorded as exports or imports when they cross a customs frontier.

The following adjustments are made to overseas merchandise trade data to meet BoP recording conventions:

- goods that cross the customs frontier without a change in ownership are removed from imports and exports data – an example of this is large capital items imported or exported on an operational lease
- goods that are sold on consignment are removed from trade data, as no change of ownership has occurred
- freight and insurance charges are removed from the value of imports of goods, and reclassified as services
- adding/subtracting changes in oil stocks abroad.

Exports or imports that do not change ownership are excluded from the overseas merchandise trade statistics to determine the goods component in BoP. This adjustment is reflected under the heading 'BoP conceptual adjustments' in table 4 of this release. An example of such an adjustment is when a large capital item is imported to New Zealand on an operational lease. In such a case, the ownership of the large capital item has not changed, so the value of it needs to be removed from merchandise trade imports data where it was recorded as an import when it crossed the customs frontier.

Goods on consignment are goods that are intended for sale but not actually sold at the time that they cross the border of the exporting country. To meet BoP recording convention, the value of goods exported on consignment is removed from the overseas merchandise trade exports in the quarter they leave the country, then added back into exports in the quarter in which the goods are actually sold (that is, when the change of ownership occurs).

Seasonal adjustment and trend analysis

Quarterly current account statistics are subject to large, short-term movements, both irregular and seasonal, which make the interpretation of trends in the original series difficult.

Seasonally adjusted and trend series help to reveal the underlying behaviour of a series. While seasonally adjusted series have had the seasonal component removed, trend series have had both the seasonal and the irregular components removed. An example of an irregular event is the purchase of a frigate in the December 1999 quarter. Trend estimates reveal the underlying direction of movement in a series and are likely to indicate turning points more accurately than are seasonally adjusted estimates.

The adjusted balance on the current account is the sum of the adjusted goods, services, income, and current transfers balances. The smoothed, seasonally adjusted, current account balance (the trend) is formed in the same way.

The seasonally adjusted series are produced using the X-12-ARIMA seasonal adjustment package. The trend estimates are based on a five-term Henderson moving average of the seasonally adjusted series, with an adjustment for outlying values.

Towards the end of the series, trend estimates are subject to change, owing to the use of new data points in the estimation process as they become available. The main reason behind this is that the trend is calculated as a 'centred moving average' of the seasonally adjusted series. Seasonally adjusted values are also subject to some revision, as they are also calculated using centred moving average technology. Generally, these revisions are not as great as for the trend.

Revisions can be particularly large if an observation is treated as an outlier in one period, but is found to be part of the underlying movement as further observations are added to the series. All trend estimates are subject to revisions each quarter, but normally only the previous two or three estimates are likely to be substantially altered.

Reporting on an accrual basis

BoP asks survey respondents to provide data on an accrual basis (that is, when the service occurs), as opposed to a payments basis (that is, when the payment is actually received/made). However, when it is not possible to separate payments out on an accrual basis, BoP can sometimes receive data relating to multiple periods in one lump sum. Where possible, BoP reallocates the payment to the period in which the service was performed, but irregular movements can still occur in some service categories.

Capital account

The capital account has two components: capital transfers and the acquisition or disposal of non-produced, non-financial assets. Capital transfers involve the transfer of ownership of fixed assets or the transfer of funds linked to them, without any counterpart transaction. Migrants' transfers are an example of a capital transfer.

Financial account

The financial account records financial transactions involving New Zealand claims on (assets) and liabilities to non-residents. The financial account is classified into assets and liabilities, which are broken down by type of investment (direct, portfolio, other investment, and reserve assets) and instrument of investment.

Financial account inflows reflect either increases in New Zealand liabilities or decreases in international financial assets. Correspondingly, outflows reflect either increases in New Zealand's international financial assets, or decreases in its international financial liabilities.

Note that the income generated/paid from holding the asset/liability is recorded in the BoP current account component as international investment income.

Net errors and omissions (residual)

BoP statements are compiled using the double-entry bookkeeping system to ensure that the accounts balance in the accounting sense. For example, exports of goods are recorded as credits while payments in exchange for the goods are recorded as debits, denoting either increases in financial assets or decreases in financial liabilities. When goods are supplied as aid to foreign countries with no payment in return, then the goods are included as exports (credits) and an offsetting entry for the value of the goods is made under current transfers (debits).

In practice, the BoP statement does not always balance. In compiling the BoP statement a variety of data sources are used; therefore, some transactions may not be captured and there is a possibility of reporting or compilation errors. To balance the accounts, a balancing item called the 'net errors and omissions' or 'residual' is used. The residual is always entered on the credit side of the account.

The residual can be calculated by one of two means: (1) the sum of all current, capital, and financial account credits (inflows), less the sum of all the debits (outflows); or (2) the current account balance, plus the net flow of the capital and financial accounts. A positive entry means that the sum of the debits is greater than the sum of the credits.

Persistent large residuals in one direction (negative or positive) may be taken as an indication of serious and systemic errors. However, a small figure does not necessarily mean that only small errors and omissions have occurred, since large positive and negative errors may be offsetting. Offsetting errors may either be related or unrelated, resulting from a measurement problem affecting both sides or only one side of a transaction. Timing differences in data reported by the different sources used to estimate the credit and debit sides of a transaction may result in positive and negative errors and omissions offsetting each other in successive periods.

The following areas of known financial account undercoverage may contribute to the residual:

- The primary data sources for the financial account and IIP are sample surveys. While a new estimate is made for the non-sampled IIP stock positions each year, no estimate is made for financial account transactions, nor for the associated current account investment income flows.
- Transactions related to managed funds that are not surveyed each quarter. Note that neither the financial account transactions nor current account income are estimated for this item.
- Data about transactions arising from settling and trading in financial derivative contracts are not requested from survey respondents.
- Equity shareholding in overseas companies directly held by New Zealand individuals was estimated at \$4.1 billion at 31 December 2009. Neither financial account transactions nor current account income are estimated for this item.

In any quarter, there may be financial account transactions that, for a number of reasons, are not included in the accounts. Reasons for such undercoverage may include: transactions undertaken by entities that are not in the BoP survey frame; transactions not reported by existing survey respondents; and errors in data reporting and compilation.

The data quality is safeguarded by undertaking regular assurance checks including:

- comparing Reserve Bank of New Zealand (RBNZ) and IIP banking sector data

- monitoring investment activity approved by the Overseas Investment Office
- reconciling changes in stock position of inwards and outwards investment against financial account transactions, reporting changes due to exchange rate movements, changes in the valuation of assets and liabilities, and other changes such as reclassification between components
- monitoring media reports of business activities relevant to the BoP and IIP
- annually reviewing the survey populations, with additions made at any time during the year where warranted
- editing and validating data received from survey respondents – this process often involves consulting survey respondents, particularly in respect of large and complex transactions.

Data confidentiality

Where data within a table in this release discloses information about an individual respondent, or would allow close estimation of such information, data has been published only after obtaining the consent of those respondents (that is, published under section 37(4)(a) of the Statistics Act 1975). Where affected respondents have not provided their consent, data remains confidential.

Data sources

The source data and information for BoP and IIP statistics that are collected and processed each quarter include:

- Surveys of New Zealand resident enterprises conducted by Statistics NZ. These surveys operate with the approval of the Minister of Statistics and their completion is therefore a compulsory requirement as set out in the Statistics Act 1975. These surveys are directed at New Zealand-resident enterprises that have been identified as being relevant to BoP and IIP statistics.
- Surveys conducted by other entities. Some of the data used is purchased by Statistics NZ from other organisations that operate an appropriate survey. Statistics NZ has input into the design of these surveys. One example is the International Visitors Survey operated by a marketing company for the Ministry of Tourism (which supplies quarterly data used in the measure of exports of travel services in the current account). Another example is the Quarterly Managed Funds Survey (QMFS). This is a joint RBNZ and Statistics NZ operation, which supplies data for the current account component of income (credit), and the financial account and IIP components of portfolio investment, financial derivatives, and other investment (assets).
- Administrative data, for example non-resident withholding tax data from Inland Revenue and New Zealand Customs Service records of imports and exports, published by Statistics NZ each month as overseas merchandise trade statistics.
- Financial market information, including interest and exchange rates and share prices. Much of this information is taken from publicly available information sites.

International investment position

The international investment position (IIP) measures the stock (or level) of New Zealand's financial assets and liabilities with the rest of the world at a particular point in time. It comprises New Zealand's net international debt (lending to non-residents less borrowing from non-residents) and net international equity investment (investment in shares abroad less foreign investment in New Zealand company shares). A net international debtor position means that international liabilities exceed international assets.

The BoP and IIP statistics are closely related, with the former measuring transaction flows and the latter measuring stock positions. The difference in the level of international financial assets and liabilities between two points in time is due to: (1) the BoP financial account transactions; and (2) the other (non-transactional) changes that occur during the period. Examples of the latter are revaluations, changes in market prices, changes in exchange rates, and other changes such as write-offs.

Exchange rate and share index movements: September 2010 quarter

A comparison of the exchange rates at 30 September 2010 and 30 June 2010 showed that the New Zealand dollar appreciated against the United States dollar, the United Kingdom pound, and the Japanese yen, but depreciated against the Australian dollar and the euro. An appreciation of the New Zealand dollar decreases the New Zealand dollar value of foreign currency assets and liabilities within the IIP. A depreciation of the New Zealand dollar has the opposite effect. All major sharemarket indexes increased over the period from 30 June 2010 to 30 September 2010. The value of New Zealand investors' overseas shareholdings increased with these increasing share indexes, while foreign investors' New Zealand shares also increased in value due to the NZX50 increasing in the quarter.

Presentation of international investment position statistics

There are two ways of presenting IIP statistics: the BoP presentation and the balance sheet presentation. While total assets and liabilities differ in each presentation, the net IIP result is identical, regardless of the presentation method used.

Balance of payments presentation

The BoP presentation of New Zealand's IIP classifies investment by the relationship between the investor and the investment enterprise. This approach presents New Zealand's investment abroad (assets) by direct investment, portfolio investment, other investment, financial derivatives, and reserve assets. Foreign investment in New Zealand (liabilities) is classified in the same way, except for reserve assets, which are not applicable. The BoP approach is the one recommended by the International Monetary Fund.

Balance sheet presentation

This approach uses a balance sheet format to present New Zealand's international assets and liabilities. The use of the balance sheet format enables presentation of assets and liabilities disaggregated into:

- gross and net equity positions, overseas debt (borrowing), lending abroad, and net overseas debt (table 10)
- borrowing and lending disaggregated by broad sector (table 10), by instrument type (table 11), by currency in which the obligations are repayable (table 12), and by residual maturity (table 13).

The relationship between the two presentations

Although there are differences in the classification of some transactions between the balance sheet and the BoP presentation, it is still possible to reconcile some items. The equity positions in the BoP presentation for New Zealand investment abroad sum to the equity figure under international assets in the balance sheet presentation. Similarly, the equity positions in the BoP

presentation for foreign investment in New Zealand sum to the equity figure under international liabilities in the balance sheet presentation. Reserve assets are treated the same way in both presentations.

Lending and borrowing in the balance sheet and BoP presentations are treated differently and will not reconcile. All lending in the balance sheet presentation is treated as an asset and all borrowing treated as a liability. In the BoP presentation for New Zealand investment abroad, net lending by New Zealand enterprises is reported, and for foreign investment in New Zealand, net borrowing by New Zealand subsidiaries is reported.

In the BoP presentation, net lending refers to the total lending by New Zealand parent enterprises to their overseas subsidiaries, less any borrowing by New Zealand parent enterprises from their overseas subsidiaries. Net borrowing refers to the total borrowing by New Zealand subsidiaries from their overseas parent enterprise, less any lending by New Zealand subsidiaries to their overseas parent.

As the BoP presentation treats some borrowing as negative lending and some lending as negative borrowing, the values of lending and borrowing reported in the BoP presentation will not reconcile with those in the balance sheet presentation. For example, prepaid inter-company accounts with overseas parent enterprises are viewed as lending using the balance sheet presentation, but as negative borrowing using the BoP presentation.

International debt and external debt statistics

As described above, net international debt comprises lending to non-residents less borrowing from non-residents. Debt is an actual current contractual obligation that requires payment of principal and/or interest by the debtor at some point(s) in the future. Conversely, equity ownership represents a claim over the residual value of an enterprise.

Table 11 of the BoP and IIP release presents New Zealand's international balance sheet position, a contributing part of which is New Zealand's international debt. In table 11, gross international debt is termed 'borrowing'. Statistics NZ's measurement of international borrowing differs from the IMF's measure of external debt as set out in the *External Debt Guide* (2003). The difference lies in the treatment of financial derivative liability positions. The *External Debt Guide* excludes these positions; whereas in table 11, measures of international lending, borrowing, and net international debt include these positions.

The IMF's *External Debt Guide* excludes financial derivative asset and liability positions because no principal is required to be repaid and interest is not accrued. An overdue obligation to settle a financial derivative contract is treated in both the IMF's guide and the table 11 series, like any arrears, as a debt liability because payment is required.

New Zealand's external debt, lending, and net external debt can be derived from the data presented in table 12. This table presents New Zealand's international financial assets and liabilities disaggregated by instrument type, where financial assets and liabilities equate to international lending and borrowing, respectively, in table 11. Deriving external debt and external lending is done using table 12 data by deducting from each of total international assets (IIPQ.S5AA3) and liabilities (IIPQ.S5AL3) the value of financial derivative asset (IIPQ.S5AA6F) and liability (IIPQ.S5AL6F) positions, respectively; and using the adjusted totals of international financial assets (external lending) and liabilities (external debt) to calculate net external debt.

The table below derives the net external debt position from table 12 data and compares it with the net international debt position of table 11.

Calculating New Zealand's net external debt			
	30 September 2009	30 June 2010	30 September 2010
	NZ\$(million)		
Total international financial lending IIPQ.S5AA3	86,831	91,437	96,571
less financial derivatives IIPQ.S5AA6F	18,775	16,086	18,056
External lending	68,056	75,351	78,515
Total international liabilities IIPQ.S5AL3	244,360	247,169	252,529
less financial derivatives IIPQ.S5AL6F	24,095	16,966	20,594
External debt	220,265	230,203	231,935
Net external debt	-152,209	-154,852	-153,420
Net international debt IIPQ.S5AA2B	-157,528	-155,732	-155,957
Difference: net external debt less net international debt	5,319	880	2,537

Debt securities issued in New Zealand by overseas resident issuers (Kauri bonds)

Kauri bonds are debt securities issued in New Zealand, in New Zealand dollars, by non-resident issuers. According to BoP compilation principles, if a New Zealand-resident investor holds such bonds, then the resident holder has a claim over the non-resident issuer. These holdings contribute to New Zealand investment abroad (international assets). When Kauri bonds are held by non-residents, then they are neither assets nor liabilities of New Zealand; they are a claim by the non-resident holder over the non-resident issuer. The Australian Bureau of Statistics has adopted the same practice in respect of the Australian equivalent of Kauri bonds; Kangaroo bonds are debt securities issued in Australia by non-residents.

When reporting to surveys that collect data for the international accounts, some respondents have treated their investments in Kauri bonds as investment in New Zealand, leading to under-measurement of international assets and associated income in the statistics. This misreporting arises because these bonds are issued in New Zealand and denominated in New Zealand dollars, and are therefore often interpreted by respondents as not relevant to the international accounts surveys.

After consultation, a number of respondents to international investment surveys now report their holdings of Kauri bonds as investment abroad in their surveys, along with the associated income. This data is incorporated into the statistics from the December 2007 quarter. In addition, an estimate of Kauri bonds acquired by the New Zealand household sector in the December 2007 quarter has been included in the BoP financial account transactions and the IIP as investment abroad. The estimate of resident households' investment in Kauri bonds is held constant from quarter to quarter, and the sectoral classification is to 'other sectors' (table 10). Income earned from the investment is estimated using published rates of return, and is included in: income from New Zealand investment abroad, portfolio investment income, income on debt, bonds and notes (table 6). The estimates are subject to change in the expectation that further work leads to improved data.

Holdings of Kauri bonds by New Zealand residents included in the statistics as investment abroad are estimated to understate residents' total holdings by approximately \$0.9 billion as at 30 September 2010 (0.9 percent of total New Zealand investment abroad, table 2). This conclusion is drawn from comparing estimates of Kauri bond assets included in the international investment position statistics with information about Kauri bonds obtained primarily from RBNZ published data, and from other published sources. Further work aimed at improving data about the issuing and holding of Kauri bonds is under way. This includes work being done in conjunction with the RBNZ.

RBNZ securities subject to repurchase agreements

Non-resident issued debt securities, denominated in foreign currencies and held by the RBNZ, contribute to New Zealand's official sector reserve assets. When such a security is subject to a repurchase (repo) agreement, it remains in the IIP as an asset, but not as a reserve asset. The appropriate IIP classification is: New Zealand investment abroad: portfolio investment; debt securities (as opposed to investment abroad; reserve assets). The cash received for the 'repoed' security is recorded as a liability in the IIP as: foreign investment in New Zealand: other investment; loans. This is the collateralised loan approach to recording repoed securities. However, in the IIP, the repoed security is misclassified to New Zealand investment abroad; other investment; other instruments (instead of to portfolio investment); debt securities. Statistics NZ plans to improve the classification of the repoed securities within the financial account at a future point in time.

Other investment income breakdown

The table below shows a breakdown of the other investment income as reported in table 6 of this release. The breakdown includes income from survey data and from Inland Revenue's reported income data.

Other investment income breakdown, quarters						
	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10	Sep 10
	NZ\$(million)					
Income from New Zealand other investment abroad	626	615	577	583	615	625
Interest data from surveys	99	88	50	56	61	71
Inland Revenue income data	527	527	527	527	554	554
Income from foreign investment in New Zealand	1,134	1,037	1,028	1,000	1,135	1,176
Interest data from surveys	652	555	546	520	597	638
Inland Revenue income data	482	482	482	482	538	538

Undercoverage estimate for the international investment position

The data sources for BoP financial account and IIP statistics comprise a set of surveys. The main survey is the Quarterly International Investment Survey (QIIS). Other sources include the Treasury and RBNZ (surveyed directly each quarter), a quarterly survey of New Zealand-resident nominees, and the Quarterly Managed Funds Survey (QMFS), which is a joint RBNZ/Statistics NZ collection. For further information about the BoP financial account and IIP data sources refer to chapter 11 of the *Balance of Payments Sources and Methods: 2004*, available at: www.stats.govt.nz.

The QIIS, Quarterly Nominees, and QMFS are all sample surveys. Estimates for non-surveyed enterprises (undercoverage estimates) are determined each year for the QIIS and incorporated into the published accounts. No estimate is made for survey undercoverage in respect of the Quarterly Nominees Survey (which supplies data on foreign portfolio equity investment in New Zealand via resident nominees). Information available from the equities market indicates that the level of survey undercoverage is negligible. The QMFS is a sample of principal New Zealand fund managers. No estimate for QMFS undercoverage is currently included in the published tables. However, smaller fund managers are surveyed annually, and estimates of their funds under management are presented in the footnotes to the tables covering international assets and liabilities.

The QIIS is a quarterly sample of approximately 500 enterprises. The sample is intended to capture approximately 95 percent of the stock levels of the main IIP components. The amount by which the quarterly sample survey is estimated to undercover the population is derived from the Annual International Investment Survey (AIIS). The AIIS collects data as at 31 March each year from a population of enterprises identified as being relevant to the BoP financial account and the

IIP, but not surveyed in the QIIS. The AIIIS is intended to be a census every three years and a sample survey in the interim years. The results of the AIIIS are used to:

(i) Provide IIP (table 2) and international asset and liability (tables 11 to 14) positions to supplement the regular quarterly sample survey (QIIS). This estimate is known as the non-sampled estimate (NSE) and is added to the results of each quarter's QIIS results and included in the published accounts. The QIIS and NSE estimates of investment positions comprise New Zealand's measured international investment positions.

(ii) Update the sample used in the regular quarterly sample survey (QIIS) and to reduce the compliance load faced by the smaller businesses that typically make up the AIIIS population. The AIIIS questionnaire is an abbreviated form of the QIIS questionnaire.

Note that in respect of NSE investment positions the financial account transactions are neither collected nor estimated.

Non-sampled estimate		
Period	New Zealand investment abroad	Foreign investment in New Zealand
	NZ\$(billion)	
March 2009	2.7	13.2
June 2009–December 2009	2.7	11.5
March 2010	3.6	14.1
June 2010–December 2010	3.3	13.1

Currency and maturity breakdowns of the non-sampled estimate

To improve the usefulness of the assets and liabilities data, Statistics NZ has allocated the NSE across the different currency and residual maturity profiles. The allocation is reset each year in the release of June quarter statistics. The allocation uses QIIS data collected from non-bank enterprises applied to the results of the annual survey. The assumption is that the behaviour of the NSE data is similar to that of the non-bank enterprises surveyed in the QIIS. The resulting apportionment of NSE estimates is then added to the QIIS residual maturity and currency totals.

Annual Managed Funds Survey

The Annual Managed Funds Survey (AMFS) is conducted jointly by the RBNZ and Statistics NZ and has collected data as at 31 December since 2001. The AMFS measures the stock of investment held (both in New Zealand and abroad) by fund managers who are not in the QMFS.

The results from the sample surveys showed assets held abroad as follows:

Results from the AMFS	
Period	Assets held abroad NZ\$(million)
December 2009	3,827
December 2008	3,355 R
December 2007	4,075 R
December 2006	5,159
December 2005	4,190
December 2004	3,472
December 2003	3,185
December 2002	4,235
December 2001	3,404

Symbol: R revised

From 2009 the AMFS has been expanded to collect data on financial account transaction flow and current account investment income data. These new data have not been included in BoP statistics as further work is required to assess their quality.

The stock of assets held abroad by the smaller fund managers is not included in the IIP series of New Zealand investment abroad. The data from the AMFS for portfolio investment abroad is shown in the IIP tables of this release as an addendum item. The data is as at 31 December only.

In addition to providing an estimate of investments held abroad by smaller New Zealand fund managers and organisations, the survey data are used to adjust the sample population for the QMFS. After each AMFS cycle, a review of the QMFS sample population is undertaken and where appropriate, larger AMFS respondents are added to the quarterly sample.

An overall review of the survey's results and an investigation into the feasibility of adjusting the data (to take account of market price and exchange rate movements) are planned, before the data series is formally migrated into the New Zealand IIP statistics. For further information on the AMFS, contact Ranjith Nanayakkara on 04 931 4600 or email: bop.surveys@stats.govt.nz.

Equity shareholding in overseas companies directly held by New Zealand individuals

Many New Zealand individuals invest directly abroad and hold these overseas assets in their own custody or in the custody of an overseas entity. Only data relating to overseas financial assets of New Zealand enterprises, and those held by New Zealand individuals and organisations where the investments are undertaken by New Zealand fund managers, are reported in the BoP and IIP statistics. To cover the gap (that is, between assets invested and held directly), Statistics NZ has made estimates of the level of individuals' directly-held overseas equities. The estimates are presented as an addendum item in the IIP (table 2). This is because the estimation methodology relies on several key assumptions that cannot, at this stage, be fully tested by reference to available data. Changes to these assumptions can significantly alter the size of the estimate.

Equity shareholding in overseas companies directly held by New Zealand individuals			
Period	Latest estimate	Previously published	Amount held in Australia
	NZ\$(billion)		
December 2009	4.1	..	3.7
December 2008	2.8 R	2.6 R	2.4 R
December 2007	10.1	10.1 R	8.6 R
December 2006	6.8 R	7.0 R	5.6
December 2005	5.9	6.4	4.6
December 2004	5.4	5.2	4.3
Symbols: .. figure not available R revised			

International trade in carbon emissions units

The classification and treatment of emission units is still under discussion in international accounting and statistical forums. In compiling BoP and IIP statistics, Statistics NZ regards emission units as intangible non-produced assets. Therefore, international trade in these units is recorded in the capital account of the BoP. For example, the sale of emission units by a resident to a non-resident is recorded as a capital account receipt.

More information

For more information, click on the following links from 'Technical notes' of this release on the Statistics NZ website.

[Quarterly Balance of Payments](#)
[International Trade in Services Survey](#)
[International Transportation Survey](#)
[International Visitors Survey](#)
[International Insurance Survey](#)
[New Zealand Travellers Expenditure Model](#)
[Quarterly International Investment Survey](#)
[Government Current Transactions](#)
[Government Transfers](#)
[Migrants Transfers – Cash](#)
[Personal Transfers](#)
[Quarterly Nominees Survey](#)
[Managed Funds Survey](#)

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Timing

Timed statistical releases are delivered using postal and electronic services provided by third parties. Delivery of these releases may be delayed by circumstances outside the control of Statistics NZ. Statistics NZ accepts no responsibility for any such delays.

Tables

The following tables are printed with this Hot Off The Press and can also be downloaded from the Statistics New Zealand website in Excel format. If you do not have access to Excel, you may use the [Excel file viewer](#) to view, print, and export the contents of the file.

1. Balance of payments major components, quarter ended
2. International investment position, at end of quarter
3. Balance of payments seasonally adjusted and trend series, quarter ended
4. Current account goods, quarter ended
5. Current account services, quarter ended
6. Current account income, quarter ended
7. Current transfers, quarter ended
8. Balance of payments major balances, actual
9. Balance of payments major balances, year ended in quarter
10. Balance of payments financial account, quarter ended
11. International assets and liabilities, at end of quarter
12. International financial assets and liabilities by instrument, at end of quarter
13. International financial assets and liabilities by currency, at end of quarter
14. International financial assets and liabilities by residual maturity, at end of quarter
15. Balance of payments ratios, year ended in quarter