Embargoed until 5:45pm – 29 March 2007

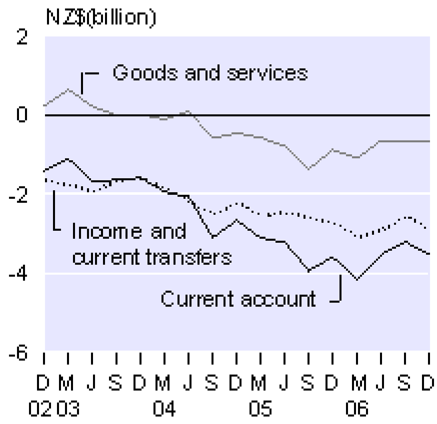
Balance of Payments and International Investment Position – December 2006 quarter

Revised 29 March 2007 – See attached Erratum

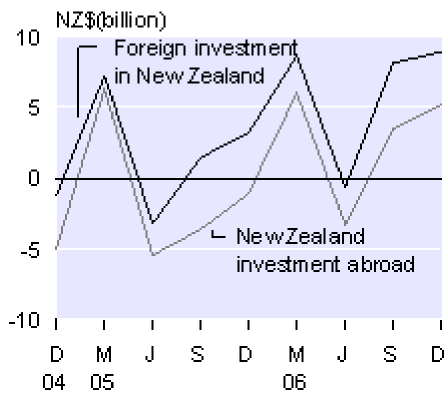
Highlights

- **The seasonally adjusted current account deficit was $3,537 million in the December 2006 quarter, an increase of $329 million** from the September 2006 quarter.
- **The larger deficit this quarter was mostly due to higher earnings by foreign investors on their New Zealand investments** than in the September 2006 quarter.
- **The current account deficit for the year ended December 2006 was $14.4 billion (9.0 percent of GDP),** compared with $13.9 billion (9.0 percent of GDP) for the year ended December 2005.
- **There was a net inflow of capital into New Zealand of $3.8 billion** in the December 2006 quarter.
- **New Zealand's net international liabilities were $143.2 billion at 31 December 2006,** up $11.8 billion from 31 December 2005.

Seasonally Adjusted Balances



Financial Account (Flows)



Dallas Welch
Acting Government Statistician

29 March 2007
Cat 52.900 Set 06/07 – 148

There is a companion Media Release published – *Balance of Payments and International Investment Position: December 2006 quarter*.

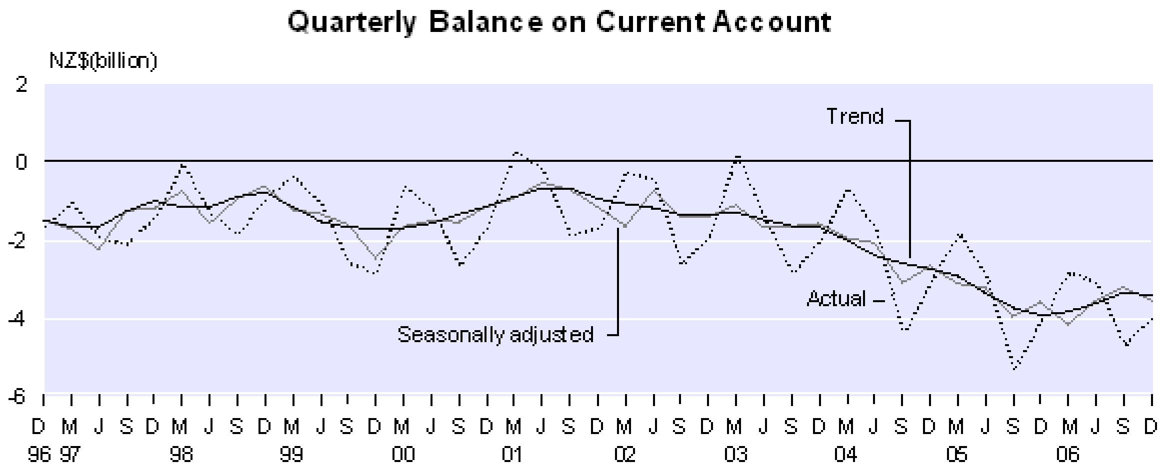
Commentary

Overview

The seasonally adjusted current account deficit was $3,537 million in the December 2006 quarter, up from the September quarter 2006 deficit of $3,208 million. This $329 million widening of the deficit was mainly due to an increase in income earned by foreign investors in New Zealand. Unlike goods and services, the income series are not seasonally adjusted because they do not show a consistent seasonal pattern.

Income earned by foreign investors in New Zealand increased by $385 million in the December 2006 quarter. This was mainly due to an increase in profits reported by foreign-owned New Zealand companies, particularly in the banking sector, in addition to an increase in portfolio income from dividends and interest payments. The goods deficit increased $82 million this quarter, due to the value of exports decreasing $346 million, which was more than the $264 million decrease in the value of imports. These factors were partly offset by a $123 million increase in the services surplus, which was due to exports of services increasing this quarter across most categories, other than travel services.

In actual dollar terms, the current account deficit this quarter was $3,929 million. This is smaller than the September quarter deficit of $4,667 million, but the actual series is not adjusted for seasonal variations such as the number of visitors to New Zealand from overseas. The deficit for the year ended December 2006 was $14.4 billion (9.0 percent of GDP), which compares with deficits of $14.5 billion (9.2 percent of GDP) in the year ended September 2006 and $13.9 billion (9.0 percent of GDP) in the year ended December 2005. The deficit on investment income has increased by $1.3 billion from the December 2005 year.



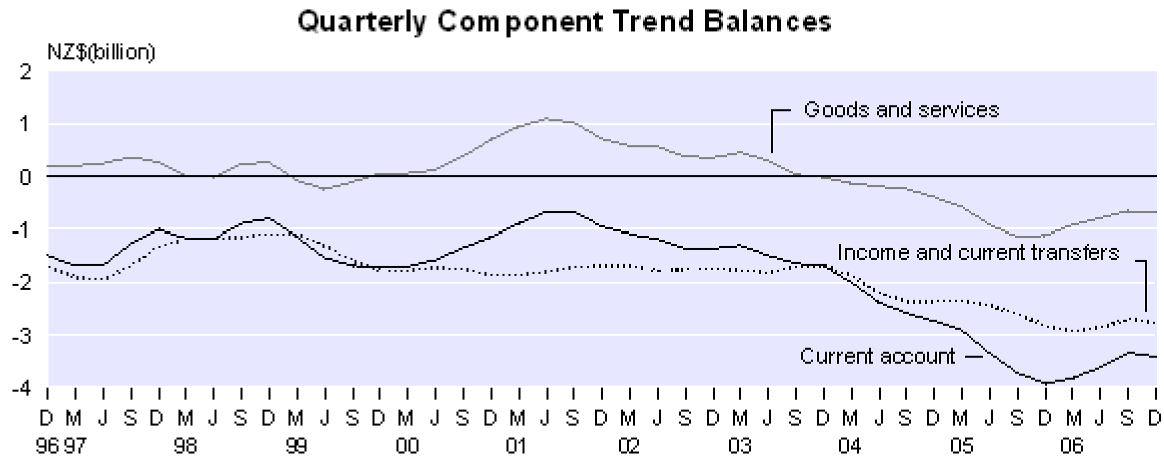
In the December 2006 quarter, New Zealand's current account deficit was funded by a financial account net inflow of $3.8 billion. This was comprised of $8.9 billion of foreign investment in New Zealand, which was partly offset by $5.1 billion of New Zealand investment abroad. Increased investment in foreign currency reserve assets held abroad by the New Zealand Treasury and Reserve Bank of New Zealand (RBNZ) is again the most significant feature of New Zealand investment abroad. Foreign direct investment and increased loans and deposits from abroad were the main contributors to the inflow of foreign investment into New Zealand.

The net international investment position (IIP) showed a net debtor position (ie liabilities exceeding assets) of $143.2 billion at 31 December 2006. This is $5.8 billion larger than the net debtor position of $137.4 billion at 30 September 2006. The increase in the net debtor position arose from the $3.8 billion net transactions measured in the financial account, plus the $2.0 billion net effect of valuation changes. These valuation effects consisted of exchange rates, market prices (mostly changes in prices of New Zealand and overseas company shares) and the value of financial derivative contracts.

Current and capital accounts

Trend

The latest estimate of the current account balance trend shows a return to a widening of the deficit, following three consecutive quarters of improvement. This was caused by the income and transfers deficit widening. The goods and services trend balance is now flattening, after improving in each of the previous four quarters.



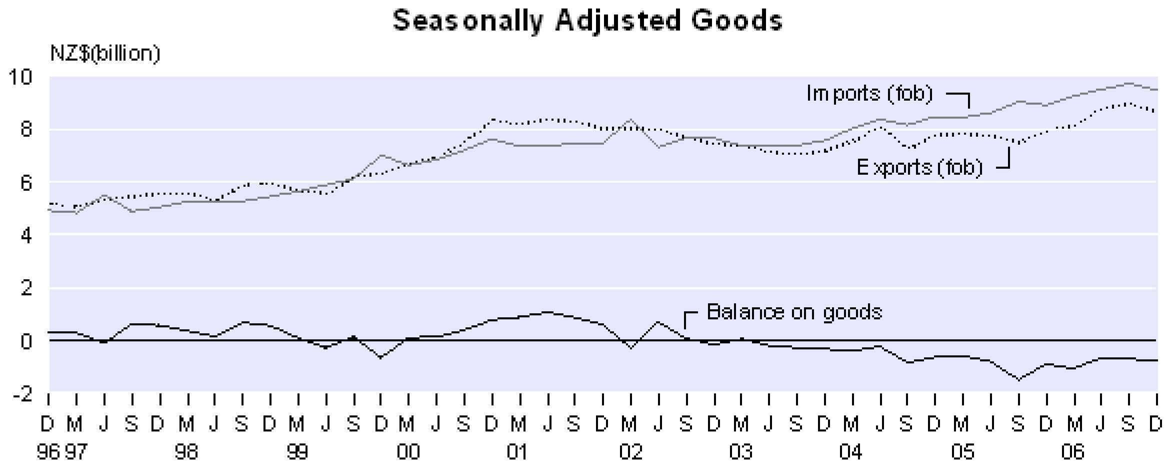
Goods

All references are to seasonally adjusted figures unless otherwise stated.

The goods balance was a deficit of $792 million in the December 2006 quarter, $82 million wider than the September 2006 quarter deficit. This increase in the goods deficit was due to exports of goods decreasing by more than imports of goods.

The value of exports of goods was $8,663 million in the December 2006 quarter, a fall of $346 million compared with the September 2006 quarter. Both merchandise export prices and volumes recorded decreases this quarter. The largest falls in export volumes were dairy products and non-food manufactures. Dairy products were also the main goods category contributing to the fall in export prices. According to the RBNZ, the New Zealand dollar appreciated 5.5 percent against the Trade Weighted Index (TWI) in the December 2006 quarter compared with the September 2006 quarter. For exports priced in foreign currency, an appreciation of the New Zealand dollar means that exporters receive less in New Zealand dollars for the same amount of goods. However, the appreciation of the dollar also makes imports relatively cheaper.

The value of goods imported to New Zealand decreased $264 million between the September 2006 and December 2006 quarters, to $9,455 million. Merchandise import prices fell 6.0 percent this quarter – the largest fall since the March 2001 quarter. The price of petroleum and petroleum products fell 20.8 percent this quarter, following six consecutive quarters of price rises. The fall in import prices was partly offset by a rise in volumes, with textiles, clothing and footwear; and electrical machinery and apparatus the categories of goods contributing most to the rise.



Services

All references are to seasonally adjusted figures unless otherwise stated.

The December 2006 quarter balance on services was a surplus of $134 million, up $123 million from the September 2006 quarter surplus. The increase in services was due to an $82 million increase in exports, in addition to a $41 million decrease in imports.

Total exports of services for the December 2006 quarter were $3,104 million, compared with $3,022 million in the September 2006 quarter. Contributing to this $82 million increase were communication services, and personal, cultural and recreational services (which are not seasonally adjusted), along with transportation services. Exports of transportation services include airfares sold abroad by New Zealand-resident carriers, and non-resident transportation operators' expenses in New Zealand. Offsetting these increases was a $38 million decrease in travel services, which measures expenditure by overseas visitors while travelling in New Zealand. The average length of time these visitors stayed in New Zealand fell this quarter, although expenditure per person per day increased.

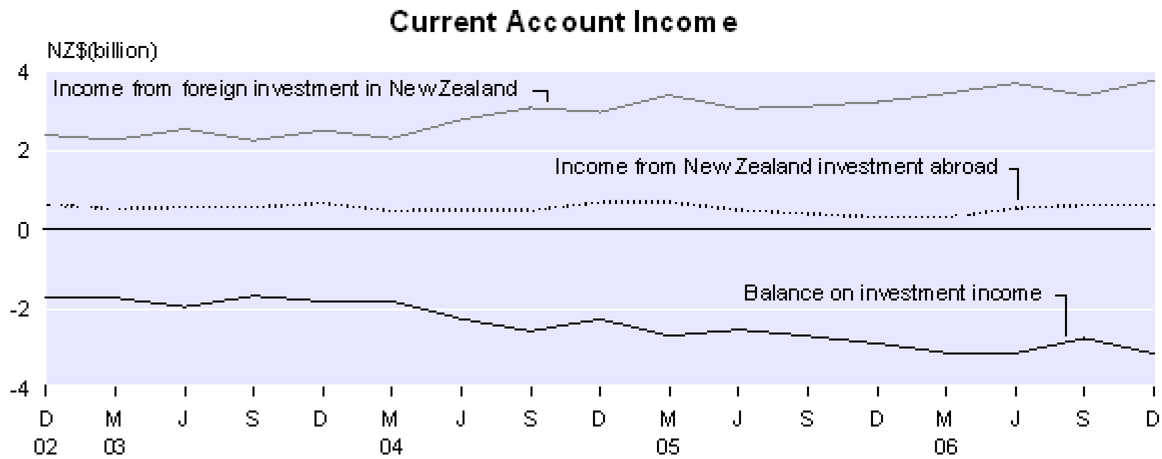
Total imports of services decreased $41 million in the December 2006 quarter. Most of this decrease is attributable to the non-seasonally adjusted series, especially other business services imports (including merchanting and operational leasing), royalties and licence fees, and insurance. These decreases were partly offset by construction services, which increased $31 million this quarter, and imports of transportation and travel sevices, which both increased by small amounts.

Investment income

The investment income deficit was $3,125 million in the December 2006 quarter, $381 million higher than the September quarter deficit. The higher deficit was primarily due to a $385 million increase in income earned by foreign investors in New Zealand, with little change in the income earned from New Zealand's investments abroad.

Income from New Zealand investment abroad was $653 million in the December 2006 quarter, compared with $648 million in the September 2006 quarter. An increase in interest earned from the official sector's overseas reserves was the key feature of a $34 million rise in income earned from New Zealand portfolio investment abroad. This rise was offset by lower earnings from New Zealand's direct investments abroad, and lower interest earned from lending abroad.

Income from foreign investment in New Zealand was $3,777 million in the December 2006 quarter, compared with $3,392 million in the September 2006 quarter. The main drivers of the increase in earnings from foreign investment in New Zealand were a $294 million increase in direct investment income and a $119 million increase in portfolio investment income. The $294 million rise in income earned by foreign direct investors, mainly in the banking sector, reflects a return to similar levels to those recorded in previous quarters. Higher dividends paid to overseas portfolio investors by New Zealand companies contributed to the rise in portfolio income earned by overseas investors, combined with higher interest paid on New Zealand issued debt securities held by foreign investors.



The year-ended deficit in investment income continues to widen, driven by increased income payable to foreign investors. Income payable to foreign investors from their investments in New Zealand was $14.3 billion in the year to December 2006, $1.5 billion (11.8 percent) higher than in the December 2005 year. Significant features of this growth were rising interest paid on overseas debt, mainly on debt securities and loans from abroad. In contrast, profits earned by foreign direct investors from their New Zealand investments over the December 2005 and 2006 years were stable at around $6.6 billion per year, and dividends paid by New Zealand companies to foreign portfolio shareholders were also relatively stable at just over $1 billion per year. New Zealand's earnings from its investments abroad grew $168 million in the December 2006 year compared with the 2005 year. This was driven mainly by increased interest earned from the official sector's foreign currency reserve assets abroad, and also earnings by fund managers from their investments abroad.

Current transfers
Current transfers are offsetting entries to transactions where goods and services are supplied or received without there being an exchange of equal value in return, such as donations. The balance on current transfers was a surplus of $260 million for the December 2006 quarter, up $27 million from the September 2006 quarter surplus. Current transfers into New Zealand fell $13 million between the September and December 2006 quarters. This was due to a decrease in non-resident withholding tax (NRWT) received from foreign investors, which is payable on income earned from their investments in New Zealand. Current transfers out of New Zealand fell $41 million over the same period, mainly due to a decrease in government expenditure on official international aid.

Capital account
The capital account measures the value of assets transferred into, and out of, New Zealand by migrants, as well as the purchase and sale of intangible assets. The capital account balance was a deficit of $106 million in the December 2006 quarter, a $35 million widening from the September 2006 quarter deficit. There was a decrease in capital transfers into New Zealand in the latest quarter, due to a fall in investment funds transferred to New Zealand by migrants. Capital transfers out of New Zealand were up $25 million in the December 2006 quarter compared with the September 2006 quarter.

Financial account and International Investment Position

Financial account (flows)
The current account deficit for the December 2006 quarter was financed by a net capital inflow of $3.8 billion. This was the result of $8.9 billion of foreign investment into New Zealand during the quarter, which was partly offset by $5.1 billion of New Zealand investment overseas.

Investment of $2.5 billion in official sector reserve assets accounted for nearly half of New Zealand’s investment transactions abroad in the December 2006 quarter. New Zealand's reserve assets consist of liquid foreign currency financial assets invested abroad, which are owned and controlled by the official sector (New Zealand Treasury and RBNZ). New Zealand direct investment abroad in the December 2006 quarter featured corporate sector merger and acquisition activity. New Zealand portfolio investment abroad featured fund managers continuing to invest abroad, mainly in shares of overseas companies.

In the December 2006 quarter, $4.6 billion of foreign direct investment into New Zealand accounted for 51.8 percent of the inflows of foreign investment into New Zealand. Key features of the direct investment in New Zealand were investment in the forestry sector and capital injections in the banking sector. Refinancing activity linked to merger and acquisition activity from earlier periods, in the corporate sector, also featured. Foreign portfolio investment in New Zealand saw net issues abroad of debt securities by the banking sector, which more than offset reduced foreign holdings of New Zealand government bonds. Short-term deposits with New Zealand banks by foreign investors were the key feature of the $2.4 billion net inflow of foreign other investment into New Zealand.

In the year ended 31 December 2006, foreign investment into New Zealand of $25.0 billion was almost totally accounted for by direct and other investment. Flows of foreign direct investment into New Zealand ($12.4 billion) were driven by $7.7 billion of net borrowing by New Zealand companies from their overseas direct investors. Flows of foreign other investment into New Zealand ($13.6 billion) were driven by loans and deposits which were raised abroad by the banking sector.

In the year ended 31 December 2006, investment transactions in reserve assets accounted for $6.5 billion (57.4 percent) of the $11.4 billion total New Zealand investment abroad. Other features of New Zealand's investment abroad were: merger and acquisition activity by the corporate sector; fund managers investing overseas, and banks increasing their deposit assets abroad.

International Investment Position

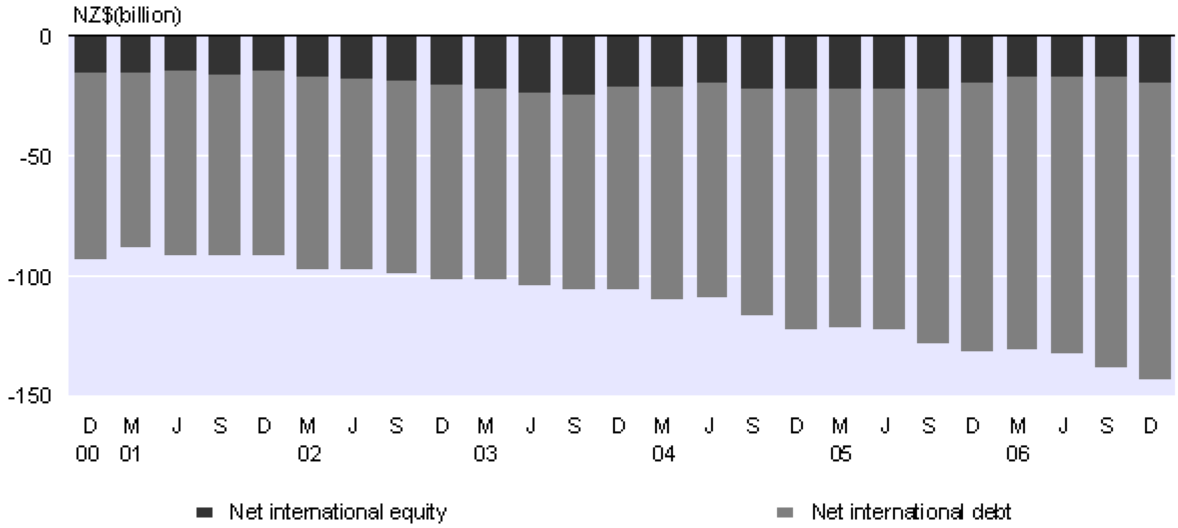
The International Investment Position (IIP) measures the stock (or level) of New Zealand's financial assets and liabilities with the rest of the world at a particular point in time. It comprises New Zealand's net international debt (lending to non-residents less borrowing from non-residents) and net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

At 31 December 2006, New Zealand had a net debtor position of $143.2 billion, consisting of $103.9 billion of international assets and $247.1 billion of international liabilities. The net debtor position was $5.8 billion (4.2 percent) larger than the September 2006 position of $137.4 billion. The net capital inflow this quarter, as measured in the financial account, accounted for $3.8 billion of the increase, while changes in the value of assets and liabilities accounted for the remaining $2.0 billion. For a summary of the movements in the exchange rate and share price indexes and their effects on the IIP for the December 2006 quarter, see the IIP section of the technical notes in this release.

The level of New Zealand investment abroad (assets) increased $4.3 billion, totalling $103.9 billion at 31 December 2006. Financial account transactions, which increased assets by $5.1 billion, were partly offset by downward valuation effects of $0.8 billion. Valuation effects were mainly the result of the New Zealand dollar's appreciation, which was partly offset by the effects of rising overseas share prices and an increase in the value of financial derivative contract assets.

The level of foreign investment in New Zealand (liabilities) increased $10.1 billion this quarter, to $247.1 billion at 31 December 2006. Financial account transactions, which increased liabilities by $8.9 billion, were supported by upward valuation effects of $1.2 billion. Valuation effects were the result of rising New Zealand share prices and an increase in the value of financial liability derivative contracts, which were partly offset by the New Zealand dollar's appreciation.

Net International Debt and Equity



Comparing 30 September 2006 and 31 December 2006, New Zealand's net international equity liability position has increased $2.8 billion, while the net international debt position increased $3.0 billion. The $11.8 billion rise in the net debtor position since December 2005 was caused almost entirely by increasing net international debt.

The New Zealand banking sector, as a financial intermediary, continues to hold an increasing proportion of New Zealand's net international debt. At 31 December 2006, the banking sector accounted for 75.4 percent of net international debt compared with 64.8 percent at 31 December 2005. At 31 December 2006, the corporate sector held 29.8 percent of New Zealand's net international debt, while the official sector (general government and RBNZ) was in a net international lending (asset) position of $6.4 billion.

For technical information contact:
Matthew Haigh
Wellington 04 931 4600
Email: info@stats.govt.nz

Revisions

Revisions have been made to BoP and IIP statistics for the September 2006 quarter due to new or improved data. The tables below present summaries of the revisions to the September 2006 quarter current, capital and financial accounts, and the September 2006 IIP.

In particular, revisions have been made to foreign direct investment and other investment in New Zealand, mostly due to a change in the categorisation of an investment. New Zealand's income from investment abroad has also been revised, due to updated data from respondents.

Current and Capital Accounts

Component	**Previously published September 2006 quarter** $(million)	**Revised September 2006 quarter** $(million)	**Magnitude of revision** $(million)
Current account credits	12,624	12,557	-67
Current account debits	17,204	17,225	21
Current account balance	-4,580	-4,667	-87
Goods credits	8,771	8,769	-2
Goods debits	10,199	10,234	35
Goods balance	-1,428	-1,465	-37
Services credits	2,580	2,590	10
Services debits	3,307	3,281	-26
Services balance	-727	-691	36
Income credits	722	648	-74
Income debits	3,380	3,392	12
Income balance	-2,658	-2,744	-86
Current transfers credits	551	551	0
Current transfers debits	318	318	0
Current transfers balance	233	233	0
Capital account credits	243	245	2
Capital account debits	317	317	0
Capital account balance	-73	-71	2

Balance of Payments Financial Account

Component	**Previously published September 2006 quarter** $(million)	**Revised September 2006 quarter** $(million)	**Magnitude of revision** $(million)
New Zealand investment abroad	3,342	3,481	39
Direct investment	619	411	-208
Portfolio investment	1,100	1,129	29
Other investment	-867	-649	218
Reserve assets	2,590	2,590	0
Foreign investment in New Zealand	7,837	8,127	290
Direct investment	3,649	5,002	1,353
Portfolio investment	1,540	1,495	-45
Other investment	2,648	1,630	-1,018

Net Errors and Omissions

Component	**Previously published September 2006 quarter** $(million)	**Revised September 2006 quarter** $(million)	**Magnitude of revision** $(million)
Net errors and omissions	258	93	-165

International Investment Position

Component	**Previously published September 2006 quarter** $(million)	**Revised September 2006 quarter** $(million)	**Magnitude of revision** $(million)
New Zealand investment abroad	99,211	99,535	324
Direct investment	17,338	17,428	90
Portfolio investment	41,320	41,340	20
Other investment	16,880	17,094	214
Financial Derivatives	5,517	5,517	0
Reserve assets	18,156	18,156	0
Foreign investment in New Zealand	236,318	236,950	632
Direct investment	82,695	84,334	1,639
Portfolio investment	77,069	77,077	8
Other investment	71,153	70,139	-1,014
Financial derivatives	5,401	5,401	0

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* report, available on the Statistics New Zealand website. A printed copy can be obtained from Statistics NZ by phoning (64) 04 931 4600, faxing (64) 04 932 2026, emailing: publications@stats.govt.nz, or online at www.stats.govt.nz.

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).

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. This is goods exports (credits) less goods imports (debits).
- Balance on services. This is services exports (credits) less services imports (debits).
- Balance on income. This is income receipts (credits) less income payments (debits).
- Balance on current transfers. This is current transfer inflows (credits) less current transfer outflows (debits).
- Balance on goods and services. This is goods and services exports (credits) less goods and services imports (debits).
- Balance on income and current transfers. This is income and current transfer inflows (credits) less income and current transfer outflows (debits).
- Balance on current account. This is 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 which recorded it 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 (ie when the change of ownership occurs).

Capital account

This account comprises 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. The capital account is presented in the tables as the net balance amount. This is due to the amounts of the breakdowns being small.

Financial account

This 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 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.
- Equity shareholding in overseas companies directly held by New Zealand individuals was estimated at $4.5 billion at 31 December 2005. Neither financial account transactions nor current account income are estimated for this item.

It is also possible that 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, reported 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.

Balance of Payments quality plan

Work is continuing on issues identified in the 2004 BoP Quality Plan document. The plan was developed in response to potential weaknesses in BoP data sources, methods and processes. A number of BoP data quality improvement projects were undertaken and late last year the outcomes from these projects were incorporated into the quarterly BoP and IIP statistics.

The current BoP data quality projects underway include:

- a census of the Annual International Investment Survey (AIIS)
- update to the methodology for the individual holdings of assets abroad.

Annual International Investment Survey

The initial phase of this project has been completed. This phase was the operation of the 2006 AIIS as a census of those relevant enterprises not surveyed each quarter. The results have been used to update the quarterly non-sampled estimates published in subsequent releases, and to update the sample of enterprises for the QIIS, with initial effect in the June 2006 survey period, and a further effect for the September 2006 survey period. For information about how AIIS results feed into the IIP statement, refer below to "Undercoverage estimate for the International Investment Position". The next phase of the project will involve reviewing the population methodology currently in use for the international investment surveys, and developing a longer-term population strategy for these surveys.

Individual holdings of assets abroad

The tasks completed to date included:

- discussing the project outcomes with other government and non-government organisations that have an interest in this project
- identifying the various paths chosen by individuals in New Zealand to invest abroad and the mechanisms currently in place to collect data on these investments
- identifying a number of options for collecting data where no current collection mechanisms exists.

The project stage now underway involves the investigation and development of data collection options.

International Investment Position

An IIP statement measures the stock (or level) of an economy's international financial assets and liabilities at a particular point in time. 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 occurred during the period. Examples of the latter are revaluations, changes in market prices and other changes such as write-offs.

Exchange rate and share index movements: December 2006 quarter

Comparing exchange rates at 31 December 2006 and 30 September 2006, the New Zealand dollar appreciated against all its major counterparty currencies (United States dollar, Australian dollar, Japanese yen). An appreciating New Zealand dollar reduces the New Zealand dollar value of foreign currency assets and liabilities within the IIP. All the major overseas share market indexes (Allords, NASDAQ, S&P 500, FTSE 100) as well as the New Zealand NZX 50 increased over the December 2006 quarter. Rising sharemarket indexes increase the value of foreign investors' New Zealand shares as well as New Zealand investors' overseas shareholdings.

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.

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 (ie published under section 37(4)(a) of the Statistics Act 1975). Where affected respondents have not provided their consent, data remains confidential. Confidential data is indicated by a 'C' in the tables.

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.

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 QIIS. Other sources include: The Treasury and RBNZ, surveyed directly each quarter; a quarterly survey of New Zealand resident nominees; and the 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,* available on 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 AIIS. The AIIS survey 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. AIIS is intended to be a census survey every three years and sample surveys in the interim years. The results of the AIIS are used to:

(i) provide IIP (Table 2) and international asset and liability (Tables 10 to 13) 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). To reduce the compliance load faced by the smaller businesses which typically comprise the AIIS population, the AIIS questionnaire is an abbreviated form of the QIIS questionnaire.

Note that in respect of NSE investment positions, the associated current account investment income flows, and financial account transactions, are neither collected nor estimated.

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. For each period's investment positions, the NSE has been allocated across the various profiles using that period's QIIS data collected from non-bank enterprises. 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 of:

Period	**Assets held abroad** $(million)
December 2005	3,225(P)
December 2004	1,036
December 2003	897
December 2002	2,187
December 2001	2,365

Symbol: P provisional

The AMFS does not capture any financial account transaction flow or current account investment income data. This data 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 to this release as an addendum item. The data is as at the end December only.

The December 2003 and December 2002 data presented above are not comparable, as the large fund managers reporting in the 2002 AMFS were added to the QMFS from the beginning of the March 2003 quarter. In the December 2003 period, the largest of the annually surveyed fund managers were incorporated into the QMFS and from that point the data relating to those enterprises was included in the IIP series.

A 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 Barbara Anderson 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 (ie 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.

The estimation methodology relies heavily on the Australian Bureau of Statistics (ABS) estimates of New Zealand investment in Australia, and Statistics NZ data measuring New Zealand investment in Australia. The estimate for 31 December 2004 has been revised and is presented below, along with an estimate as at 31 December 2005.

Period	Latest estimate $(billion)	Previously published $(billion)	Of which Australia $(billion)
December 2005	4.5	..	3.6
December 2004	5.2	4.9	4

Symbol: .. data unavailable

The methodology for assets held in Australia uses a combination of survey data collected by Statistics NZ and the ABS. Direct holdings is calculated as the difference between the value of portfolio equity liabilities by New Zealand (as reported by the ABS) and portfolio equity assets held in Australia (reported by Statistics NZ). The availability of this survey data for Australia provides confidence in the robustness of this component of the estimate. However, users should note that from the September 2003 quarter, data reported in the Statistics NZ series treated investment in unit trusts more consistently on the basis of the country in which the unit trust is registered. This led to some reclassification of data from other countries to Australia. The effect of this is to increase the reported level (official series) of investment in Australia, and the Australian estimate relative to the rest of the world. The impact of this on the direct holdings estimates decreased the difference between the ABS and Statistics NZ estimates for New Zealand investment in Australia, and also decreased the estimates of direct holdings in the rest of the world. This affects the estimate at 31 December 2003, and the actual value of the impact has not been established.

Estimates for direct holdings continued to trend downwards for 31 December 2004 and 2005, despite an increase in the value of portfolio equity holdings by New Zealand reported by the ABS. This is because Statistics NZ's measure of assets held abroad in Australia increased by a larger proportion than portfolio equity liabilities reported by the ABS. As a result, both total direct holdings and the level attributable to Australia decreased. Also, the NZD/AUD exchange rate appreciated by 14.6 percent over the period 31 December 2001 to 31 December 2005, reinforcing a lower New Zealand dollar value of direct holdings reported.

The methodology for valuing assets held in countries other than Australia uses a combination of the following: survey data; information obtained by direct enquiry to several major overseas companies or their share registries; assumptions about the ratio of investment through managed funds to individuals' directly held overseas equities holdings; and the investment decisions of New Zealand individuals. These estimates build on earlier work done by the RBNZ (Thorp and Ung, *Reserve Bank of New Zealand: Bulletin* Vol 63, No 2, 2000). The estimate for the rest of the world is considered to be of significantly lesser quality than that for Australia.

At present, a project is underway to improve estimates of the level of individuals' directly held overseas equities. Progress on this will be advised as appropriate. For more information, refer to the Balance of Payments quality plan section in these technical notes.

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.

Level shift in measurement of non-residents' holdings of New Zealand wholesale debt securities

The RBNZ provides Statistics NZ with results from their Survey of Non-residents' Holdings of New Zealand Wholesale Debt Securities. The data provided contributes to the IIP statistics, and the financial account of the BoP.

The RBNZ reviewed the methodology for this survey in 2005. This resulted in estimates of offshore holdings of New Zealand-issued debt securities being restated at a lower level as at 30 September 2005. The main impact was on the estimates of foreign investor holdings of New Zealand government debt securities.

The impact of the new survey methodology was a downward level shift of approximately $1.5 billion in the stocks of the IIP (ie a lower level of liabilities in government and private sector securities), affecting the comparison of the September and December 2005 positions. Note that the measurement of quarterly transactions and positions from the December 2005 quarter onwards is compiled on the basis of the new source of data.

In the BoP and IIP accounts, the level shift is treated as a type of valuation change; therefore it is not accounted for as a financial account transaction. Examples of other non-transaction changes include revaluations of assets and liabilities, changes in the value of assets and liabilities due to market price and foreign exchange changes, and other changes such as write-offs.

Further information about this change is contained in the RBNZ document, "Special Note: Non-residents' holdings survey". See RBNZ website at:
www.rbnz.govt.nz/statistics/govfin/da/specialnote.html

More information

For more information, follow the links from the Technical notes of this release on the Statistics New Zealand website.

Quarterly Balance of Payments
International Trade in Services Survey
International Transportation
International Visitors Survey
International Insurance
New Zealand Travellers Expenditure Model
Quarterly International Investment
Government Services
Government Transfers
Migrants Transfers
Transfers
Quarterly Nominees
Managed Funds

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Next release ...

Balance of Payments and International Investment Position: March 2007 quarter will be released on 28 June 2007.

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Erratum

A correction was made on 29 March 2007 to the commentary included in the *Balance of Payments and International Investment Position: December 2006 quarter* Hot Off The Press information release, published on 29 March. The correction does not affect the interpretation of the results. The correction is set out below:

Investment income commentary (originally published):
"In contrast, profits earned by foreign direct investors from their New Zealand investments over the December 2005 and 2006 years were stable at around $7.3 billion per year, and dividends paid by New Zealand companies to foreign portfolio shareholders were also relatively stable at just over $1 billion per year".

Investment income commentary (revised):
"In contrast, profits earned by foreign direct investors from their New Zealand investments over the December 2005 and 2006 years were stable at around $6.6 billion per year, and dividends paid by New Zealand companies to foreign portfolio shareholders were also relatively stable at just over $1 billion per year".

Tables

The following tables can be downloaded from the Statistics New Zealand website in Excel 97 format. If you do not have access to Excel 97 or higher, you may use the Excel file viewer to view, print and export the contents of the file.

List of tables