Balance of Payments and International Investment Position: September 2011 quarter

Embargoed until 10:45am – 21 December 2011

Key facts

- New Zealand had a seasonally adjusted current account deficit of $2.7 billion in the September 2011 quarter, up $0.7 billion from the June 2011 quarter deficit.
- For the year ended September 2011 the current account deficit was 4.3 percent of GDP (3.5 percent for the year ended September 2010).
- The net inflow of investment into New Zealand was $7.1 billion in the September 2011 quarter.
- Net international liabilities were $148.2 billion (72.9 percent of GDP) at 30 September 2011, $9.9 billion more than at 30 June 2011.

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21 December 2011
ISSN 1178-0215

Commentary

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- Revised reinsurance claims and settlements this quarter
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- Current transfers deficit falls
- Capital account returns to deficit
- Net $7.1 billion inflow in the financial account
- Net international liability position increases

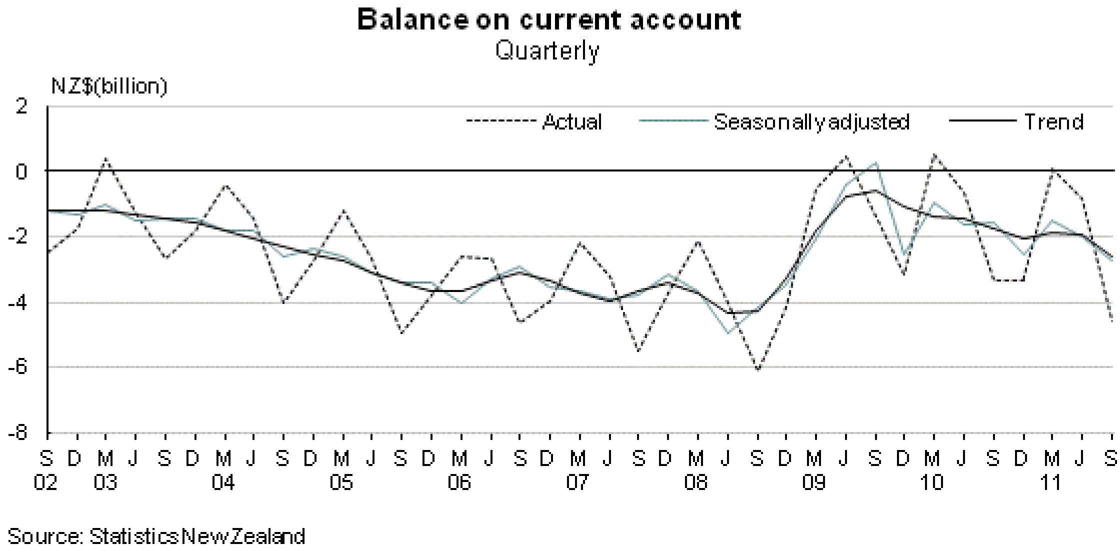
Overview of the September 2011 quarter

Current account deficit increases

New Zealand's seasonally adjusted current account balance for the September 2011 quarter was a deficit of $2.7 billion. This is $0.7 billion larger than the June 2011 quarter deficit.

Key movements in the September 2011 quarter were:

- the goods surplus fell $513 million
- the income deficit rose $380 million
- the services deficit fell $112 million
- the current transfers deficit fell $72 million.



Exports of goods down, while banks' earnings increase

The lower surplus on trade in goods this quarter was mainly caused by lower prices for meat, dairy products, and logs. Imports of goods also decreased, mainly due to the lower value of petroleum and petroleum product imports.

The higher income deficit was mainly due to increased profits for the overseas-owned banking sector.

The lower services deficit was mainly due to increased travel service exports. The number of overseas visitors to New Zealand increased over the quarter, due to the Rugby World Cup.

Banks increase borrowing, overseas sharemarkets fall

The financial account recorded a net investment inflow of $7.1 billion in the September 2011 quarter. The banking sector increased borrowing from overseas this quarter, after reducing borrowing in the previous three quarters. Foreign investors continued to buy government-issued debt securities.

At 30 September 2011, New Zealand's net international liabilities were $148.2 billion (72.9 percent of GDP), compared with $138.4 billion (69.0 percent of GDP) at 30 June 2011. This increase in the net liability position is mainly due to more borrowing by the banking sector. In addition, falling overseas sharemarkets decreased the market value of New Zealand's equity investments abroad by $4.1 billion.

Falling services balance drives increase in year-ended current account deficit

The current account balance for the September 2011 year was a deficit of $8.7 billion (4.3 percent of GDP), compared with the $6.6 billion (3.5 percent of GDP) deficit for the September 2010 year.

The increase in the deficit was due to falling balances across all components, featuring:

- a $1,080 million turnaround in the services balance, from a surplus to a deficit
- the income deficit increasing by $426 million
- a $353 million turnaround in the transfers balance, from a surplus to a deficit
- the goods surplus decreasing by $196 million.

Revised reinsurance claims and settlements this quarter

Revised reinsurance claim estimates

Statistics New Zealand has received updated information on the amount of total reinsurance claims from non-residents for the September 2011 quarter. See the table below for details.

Revised reinsurance claim estimates				
Quarter	Previously published reinsurance claims	Revised reinsurance claims	Size of revision	Total outstanding claims at end of period
	$NZ(million)			
Sep 2010	3,297	3,866	569	3,866
Dec 2010	0	0	0	3,866
Mar 2011	8,541	9,321	780	13,129
Jun 2011	680	862	182	13,404
Sep 2011	0	0	0	12,669

These claim estimates will continue to be revised as the insurance industry provides us with updated information.

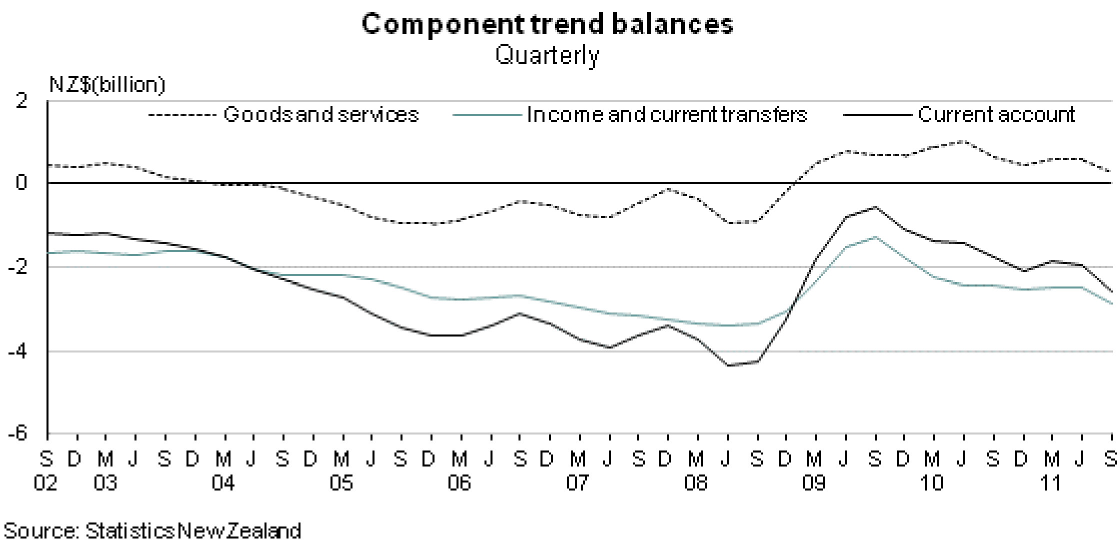
Further reinsurance claims settled this quarter

Overseas insurance companies settled $735 million of reinsurance claims relating to the 2010/11 Canterbury earthquakes during the September 2011 quarter. This brings the total amount settled for all three major quakes to $1,380 million.

As claims are settled they are recorded as trade credits in the financial account, as a flow reducing New Zealand's overseas assets. Outstanding reinsurance claims (total claims less total settlements) remain in New Zealand's international investment position statistics as an asset.

Current account deficit trend continues to widen

The current account deficit trend increased to $2.6 billion in the September 2011 quarter, from $1.9 billion last quarter. This continues a widening trend that began in the December 2009 quarter.



Lower exports drive goods surplus downwards

All quarterly references are to seasonally adjusted numbers unless otherwise stated.

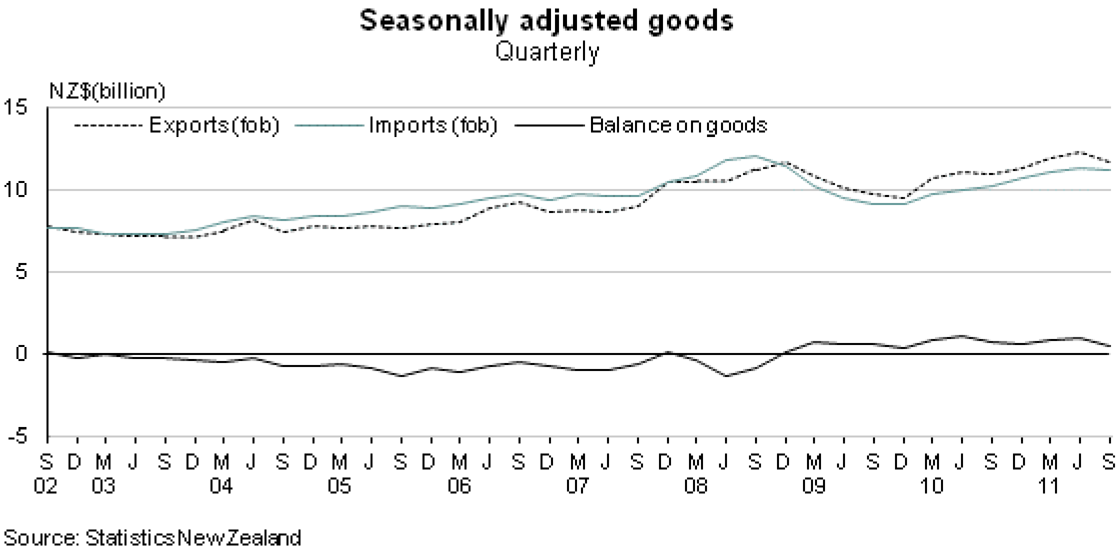
The goods balance was a surplus of $481 million in the September 2011 quarter, $513 million lower than the June 2011 quarter surplus. Exports of goods decreased $615 million in the latest quarter; imports also decreased – down $100 million.

The merchandise terms of trade fell 0.7 percent in the September 2011 quarter, but still remain at a very high level. The fall was due to export prices falling by more than import prices.

Meat products, dairy products, and pinus radiata logs were behind the decrease in goods exports, mainly due to falling prices. The fall in exports is a turnaround from three consecutive quarters of rises.

Lower volumes of petroleum products imported

Petroleum and petroleum products were behind the decrease in imports of goods in the September 2011 quarter, mainly due to a fall in volumes. Prices were also down slightly. Food and beverage imports increased during the quarter.



Year-end goods balance down for the first time since December 2008

For the year ended September 2011, the goods balance was a surplus of $3.0 billion, down $0.2 billion from the September 2010 year surplus.

A $5.4 billion rise in the value of goods imports in the September 2011 year was due to higher prices for petroleum and petroleum products and increased volumes of transport equipment.

A $5.2 billion rise in the value of goods exports was mainly due to higher prices of dairy products.

Small decrease in services deficit as the Rugby World Cup kicks off

In the September 2011 quarter, the seasonally adjusted balance on services was a deficit of $290 million, compared with a $402 million deficit in the June 2011 quarter. The lower deficit was due to increases in exports of travel and transportation services.

Rugby World Cup attracts visitors to New Zealand

Exports of services were up $182 million for the latest quarter. This was mainly due to an increase in visitor numbers to New Zealand, which contributed to:

- spending by overseas visitors while staying in New Zealand rising $62 million (3.7 percent)
- increasing overseas ticket sales of New Zealand-resident airlines.

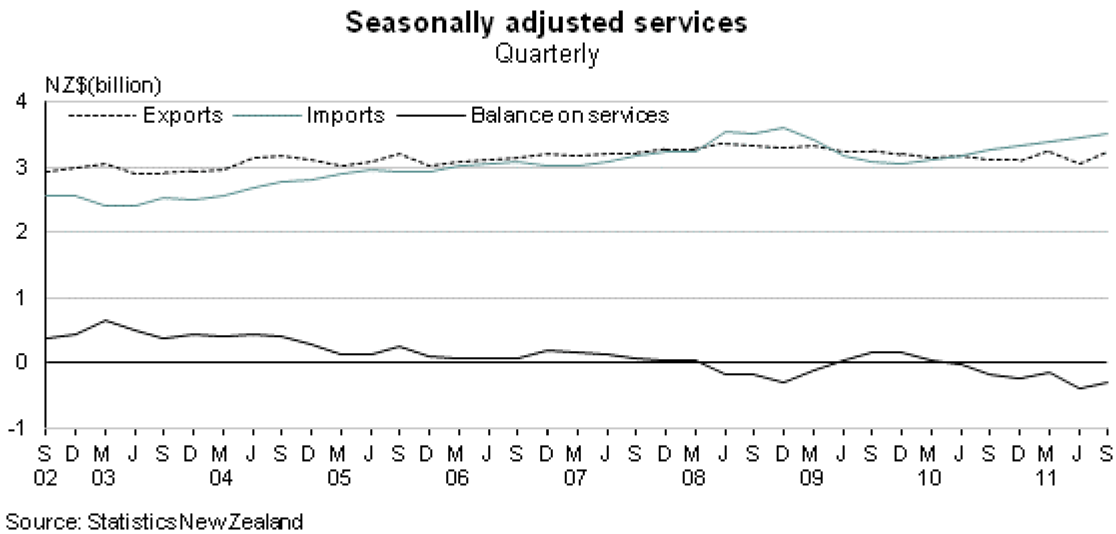
The Rugby World Cup 2011 began in the September 2011 quarter and drew 80,000 visitors to New Zealand in that quarter, according to international travel and migration statistics. Overseas visitors' expenditure is recorded in the quarter that they leave New Zealand. This may be a different quarter to when they arrive in New Zealand.

For information about the tournament, please see Treatment of the 2011 Rugby World Cup in New Zealand's balance of payments and national accounts.

Tournament hosting costs cause rise in imports

Imports of services rose $71 million in the September 2011 quarter, driven by a $75 million increase in royalties and license fees paid (not seasonally adjusted). This includes tournament hosting and broadcast fees related to the Rugby World Cup.

Spending by New Zealand visitors abroad fell by $14 million in the latest quarter. This is the first significant fall in imports of travel services since the June 2009 quarter – it was due to fewer New Zealanders leaving the country on holiday during the September 2011 quarter.



Year-end trade in services now a deficit

The balance on services in the September 2011 year was a deficit of $1,078 million, a turnaround from the September 2010 year's surplus. This change was driven by a smaller travel surplus and increased imports of business services.

Banks profits drive rise in income deficit

The income deficit was $2,825 million in the September 2011 quarter, $380 million larger than the June 2011 quarter deficit. Foreign investors earned $4,220 million from their New Zealand investments, and income earned from New Zealand investment abroad increased to $1,395 million.

Foreign investors' equity income up as banks' earnings increase

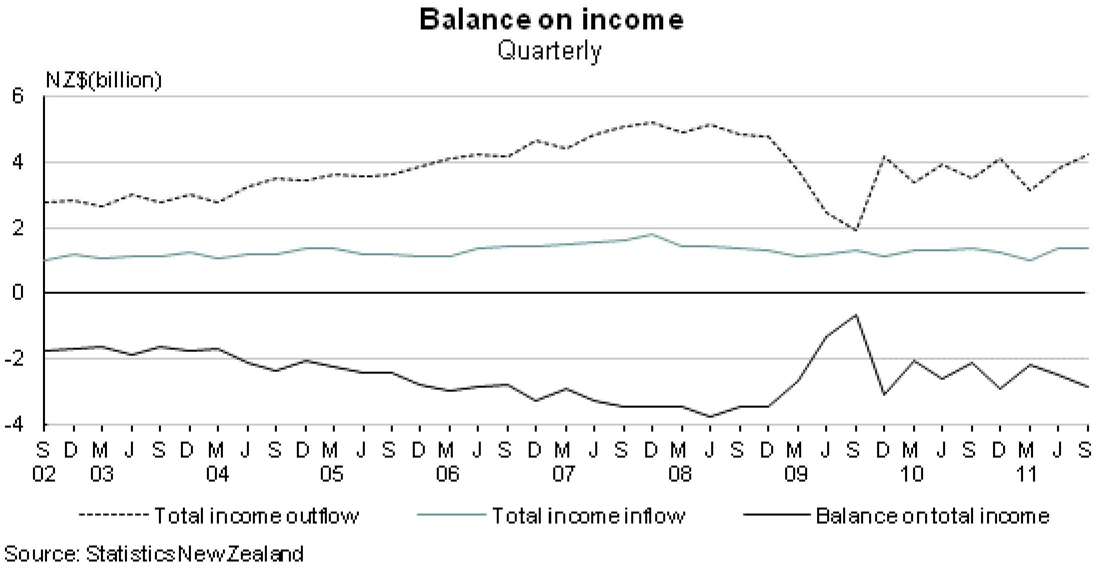
There was a $441 million increase in foreign investors' earnings from New Zealand this quarter, mainly due to overseas-owned banks making higher profits. In addition, overseas portfolio shareholders received higher dividend payments from New Zealand companies.

New Zealand fund managers earn more from overseas

New Zealand's earnings from overseas investments increased $56 million in the latest quarter. This was mainly due to higher interest and dividends earned by New Zealand fund managers from their portfolio investments. Total portfolio investment increased $90 million as:

- interest earned from owning overseas-issued debt securities rose $52 million
- dividends received from shares in overseas companies rose $38 million.

This was partly offset by a fall in profits earned by New Zealand-owned companies overseas, and less interest being earned from lending abroad.



Larger year-ended income deficit

The year ended September 2011 income deficit was $10.3 billion, $0.4 billion larger than the year ended September 2010 deficit.

Earnings by foreign investors from New Zealand, and by New Zealand investors from abroad, both featured rises in dividends and interest income. However, lower company profits caused direct investment income to fall on both sides of the account.

Current transfers deficit falls

In the September 2011 quarter the balance on current transfers was a deficit of $73 million, a $72 million smaller deficit than in the June 2011 quarter.

Non-resident withholding tax received up, while foreign aid payments fall

Current transfers into New Zealand rose $16 million, mainly due to a rise in general government current transfers – non-resident withholding tax received was up $15 million.

Current transfers out of New Zealand fell $56 million, driven by:

- a fall in general government current transfers, as foreign aid decreased
- a fall in non-life insurance transfers – down $8 million, but remaining at a high level following increases in reinsurance premiums paid after the Canterbury earthquakes.

Year-ended current transfers now in deficit

In the September 2011 year, the balance on current transfers was a deficit of $329 million, compared with a surplus of $24 million in the September 2010 year.

Current transfers into New Zealand were down $217 million during the year, primarily driven by a drop in non-resident withholding tax received.

Current transfers out of New Zealand were up $136 million during the same period. The increase was affected by:

- non-life insurance transfers
- other sector other transfers.

Capital account returns to deficit

In the September 2011 quarter, the capital account balance was a deficit of $133 million, following a surplus of $698 million in the June 2011 quarter. The June quarter featured large reinsurance claims arising from the Canterbury earthquakes.

Excluding the reinsurance flows from the June 2011 quarter, the capital account balance was a $164 million deficit for that quarter.

For information about the classification of reinsurance claims, please read Revised treatment of the Canterbury earthquakes' insurance claims in New Zealand's international and national accounts.

More New Zealand citizens returning home after living abroad

Inflows of capital transfers to New Zealand featured an increase in migrant transfers in the September 2011 quarter. This was due to a seasonal increase in migrant arrival numbers, up 37.2 percent this quarter, driven by New Zealand citizens returning home after living abroad.

Fewer people moving to Australia

Outflows of capital transfers from New Zealand were $404 million, down $14 million from the June 2011 quarter. There was a fall in the overall number of departing migrants in the latest quarter, mainly driven by fewer people moving to Australia. Although migrant departures fell, they remain at a high level.

Net $7.1 billion inflow in the financial account

The net inflow of investment to New Zealand in the September 2011 quarter resulted from a $7.7 billion inflow of foreign investment into New Zealand and a $0.6 billion outflow of New Zealand investment overseas.

Foreign investment into New Zealand reflects borrowing from overseas

The inflow of foreign investment into New Zealand was primarily in the form of portfolio and other investment. By sector, the main features were:

- a net $5.3 billion of New Zealand banking sector funding from abroad, mainly debt securities and loans
- a net $2.8 billion of government-issued debt securities were purchased by foreign investors.

Foreign direct investment in New Zealand in the latest quarter was a net $0.4 billion. Inflows resulting from merger and acquisition activity and outflows from capital repatriations left retained earnings as the primary contribution.

New Zealand invests abroad in overseas shares

The major contributions to the outflow of New Zealand investment abroad were:

- $2.2 billion of New Zealand portfolio investment abroad – the main feature was New Zealand fund managers investing in overseas company shares
- $0.6 billion of New Zealand direct investment abroad – the main contributions were New Zealand-parent companies lending to, and retaining profits in, their overseas subsidiaries.

These transactions increasing investment abroad were party offset by transactions reducing New Zealand investment abroad:

- $1.7 billion withdrawal of other investment abroad – the main features were $0.7 billion of settlements for outstanding Canterbury earthquake reinsurance claims, and New Zealand banks reducing their loans to overseas
- the official sector (New Zealand Treasury and Reserve Bank) divested $0.4 billion of reserve assets from abroad.

Net international liability position increases

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

At 30 September 2011, New Zealand's net international liabilities were $148.2 billion. This is 72.9 percent of GDP and compares with net liabilities of 69.0 percent of GDP at 30 June 2011.

Reinsurance claims affect net liability position

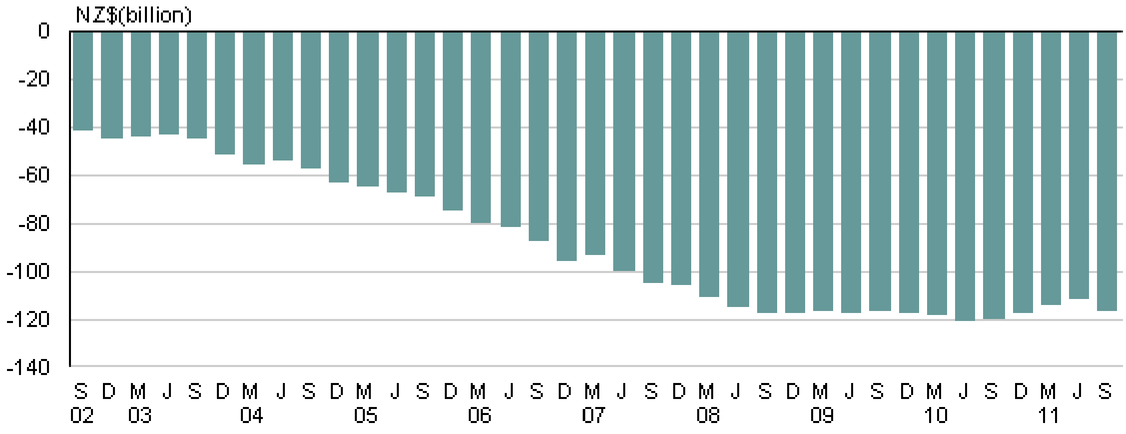
Total outstanding claims on overseas reinsurers for the Canterbury earthquakes were estimated at $12.7 billion at 30 September 2011. If these accounts receivable assets are excluded, New Zealand's net international liability position at 30 September 2011 would be $160.9 billion (79.1 percent of GDP), and $151.8 billion (75.7 percent of GDP) at 30 June 2011.

Net international debt up as banks borrow more

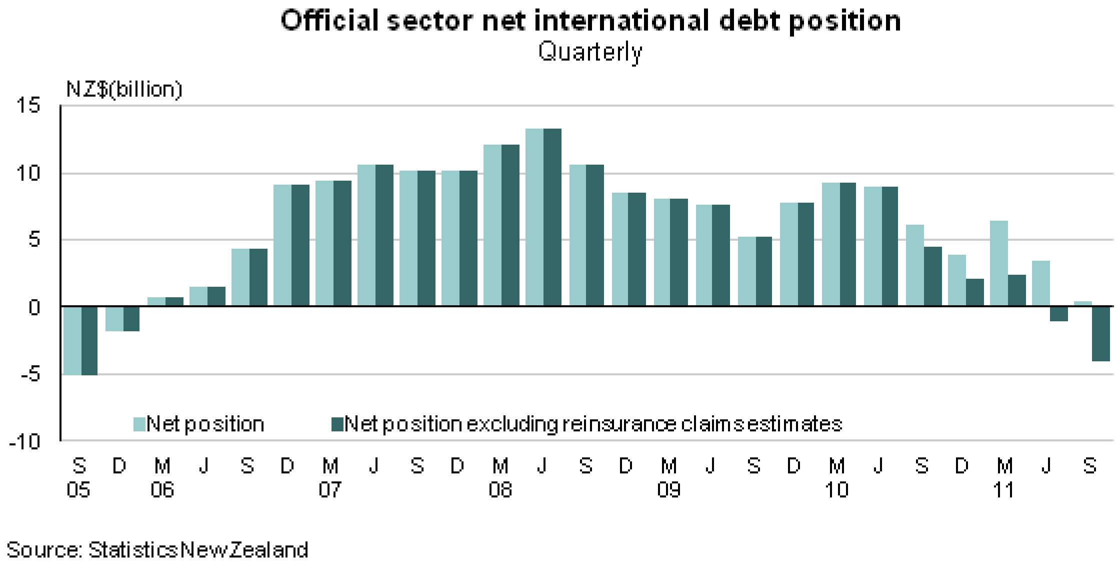
The rise in the net liability position from 30 June 2011 to 30 September 2011 was due mainly to net international debt, which was up $8.6 billion. International debt featured:

- bank sector net debt rising $5.1 billion from 30 June 2011, after falling steadily since the June 2010 quarter
- official sector net lending falling $2.9 billion, to $0.4 billion. The net debt position would be $4.1 billion if we exclude the impact of Canterbury earthquake reinsurance claims in this sector.

Banking sector net international debt position
Quarterly



Source: Statistics New Zealand



Falling overseas sharemarkets drive equity asset values down

The net equity position at 30 September 2011 changed $1.3 billion, from a net asset position to a net liability position. The shift resulted from falls in the value of overseas company shares held by New Zealand investors, which more than offset additional investment in overseas company shares.

External debt increases

New Zealand's net external debt, which excludes the value of financial derivatives, was $149.3 billion (73.4 percent of GDP) at 30 September 2011. This is up $10.6 billion from 30 June 2011 and $0.5 billion from 30 September 2010. The differences between international and external debt are explained in the definitions section of this release.

Reconciling the September 2011 quarter financial account and the international investment position

The $9.9 billion rise in the net international investment position liability position arose from net financial account transactions of $7.1 billion and net valuation changes of $2.8 billion. The main features of these valuation changes from 30 June to 30 September 2011 were:

- **market price changes** increased net liabilities by $4.4 billion – sharemarket indexes in the countries where New Zealand's equity investments are primarily held fell significantly
- **exchange rate changes** increased net liabilities by $1.0 billion – following a general depreciation of the New Zealand dollar
- **financial derivative valuation changes** decreased net liabilities by $3.1 billion – the value of asset positions was up $9.0 billion, while the value of liability positions was up $5.9 billion.

For more detailed data see the Excel tables in the 'Downloads' box.

Definitions

About the Balance of Payments and International Investment Position

Balance of payments (BoP): New Zealand's BoP statements are records of the value of New Zealand's transactions with the rest of the world in goods, services, income, and transfers. They also record changes in New Zealand's financial claims on (assets), and liabilities to, the rest of the world.

International investment position (IIP): New Zealand's IIP statement provides a snapshot of the country's international financial assets and liabilities. It 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.

This includes 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:

- BoP financial account transactions
- other (non-transactional) changes that occurred during the period (eg revaluations, changes in market prices, and other changes such as write-offs).

Definitions of terms

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 (eg migrants transfers).

Current account: records the value of New Zealand's transactions with the rest of the world in goods, services, income, and transfers.

The **credit** side of this account shows the export of goods and services, 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, income paid and, under current transfers, the offsetting entries to resources supplied to foreign residents without payment required.

The current account **balance** is the sum of all current account credits less all current account debits. When the sum of debits is greater than the sum of credits we have a current account deficit.

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 an asset/liability is recorded in the investment income component of the BOP current account.

Net errors and omissions (residual): an item to ensure the BoP statement balances. It is equal and opposite to the sum of all current account, capital account, and financial account credit flows less the sum of all debit flows.

Balances: are usually in surplus or deficit and are calculated as credits (exports) minus debits (imports) – zero balances are unusual. For example, the balance on goods is goods exports (credits) less goods imports (debits).

Goods: physical, produced items over which ownership rights can be established and whose ownership can be passed from one person to another through transactions.

Services: products other than tangible goods. Services result from production activity that changes the conditions of the consuming units, or makes the exchange of products or financial assets possible.

Examples of services are:

- a lawyer providing advice to an overseas client
- a client paying a company to perform some market research
- a passenger flying on an overseas airline
- a company paying to have a ship repaired abroad
- a New Zealand branch receiving management services from its head office overseas.

Exports of travel services: covers all expenditure on both goods and services by overseas visitors to New Zealand. This includes holidaymakers, business travellers, and international students. Excludes international airfares.

Imports of travel services: covers all expenditure on both goods and services by New Zealand-resident travellers while overseas. Excludes international airfares.

Income: earnings from providing capital (eg profits received from directly owning a company, dividends received from owning shares, interest received from lending money) or wages/salaries earned from providing labour (‘compensation of employees’).

Current transfers: offsetting entries to transactions where goods and services are supplied or received without there being an exchange of equal value in return (eg taxes or donations).

Capital transfers: involve the transfer of ownership of fixed assets or the transfer of funds linked to them, without any counterpart transaction (eg funds brought into the country by migrants).

Non-produced, non-financial assets: consist of natural resources; contracts, leases, and licenses; marketing assets and goodwill (eg the sale of a brand name).

Assets: a financial claim held by an entity on another entity (eg a New Zealand bank lending money to an overseas company would hold an asset equal to the value of the loan).

Liabilities: a financial claim owing to an entity by another entity (eg a New Zealand company borrowing from overseas would have a liability to overseas equal to the value of the loan).

Stocks: the value, at a set point in time, of a country's financial assets or liabilities.

Flows: transactions that result in an increase or decrease in financial assets or liabilities (eg a New Zealand company purchases 50 percent of an overseas company – the transaction is recorded as a flow in the financial account, and the value of New Zealand's stock of financial assets increases accordingly).

Direct investment: a situation where a single investor owns 10 percent or more of voting shares in a company (eg New Zealand-based subsidiaries of overseas companies represent direct investment from overseas).

Portfolio investment: investment of less than 10 percent of voting shares in a company by a single investor (eg a New Zealand fund manager buying 1 percent of shares in an overseas company).

Other investment: mainly loans between unrelated parties (eg a New Zealand subsidiary borrowing from an overseas bank).

Securities: financing or investment instruments bought and sold in financial markets, such as bonds, notes, options, and shares.

Financial derivatives: a security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates, and market indexes.

Net international debt: New Zealand's overseas lending less its overseas borrowing. Lending and borrowing include debt instruments only, and exclude equity (shares). Financial derivative asset and liability positions are included in lending and borrowing. See also 'external debt'.

Net external debt: New Zealand's net international debt excluding financial derivative asset and liability positions. The difference between international debt and external debt is explained in the General Information section. See also 'international debt'.

Related links

Upcoming releases

The *Balance of Payments and International Investment Position: December 2011 quarter* will be released on 21 March 2012.

The Release calendar lists all our upcoming information releases by date of release.

Past releases

See Balance of Payments and International Investment Position – information releases for links to past releases.

Related information

International trade in services – further information about New Zealand's trade in services with the rest of the world.

National accounts – statistics about national accounts on economic aggregates such as gross domestic product, capital formation, and government and private consumption.

Overseas merchandise trade – provides statistical information on the importing and exporting of merchandise goods between New Zealand and other countries.

International investment by country – includes data on investment flows between New Zealand and all other countries, the stock of New Zealand's investment abroad, and stocks of investment in New Zealand held by all other countries, at 31 March 2011.

Insurance impact of the Canterbury earthquakes on New Zealand's international accounts – discusses the impact of the September 2010 and February 2011 Canterbury earthquakes on the balance of payments and international investment position statistics.

Improvements to New Zealand's international investment position statistics – provides users of international investment position (IIP) statistics with information about improvements to previously identified gaps in the IIP statistics.

Coverage improvements to international investment position statistics – clarifies which investment incomes and associated stocks of assets and liabilities are currently measured in New Zealand's BoP and IIP statistics, and which are excluded.

Treatment of the 2011 Rugby World Cup in New Zealand's balance of payments and national accounts – explains the treatment of economic activity associated with the 2011 Rugby World Cup in New Zealand's balance of payments and national accounts statistics.

Data quality

Period specific information
This section contains information about data that has changed since the last release.

- Earthquake-related figures have been revised
- Unusual data-item summary

General information
This section contains information about data that does not change between releases

- Data sources
- Surveys and guides
- Sources and methods
- Conceptual adjustments to exports and imports of goods
- Seasonal adjustment and trend analysis
- Reporting on an accrual basis
- Undercoverage estimate for the international investment position
- Net errors and omissions (residual)
- International debt and external debt statistics
- RBNZ securities subject to repurchase agreements
- Other investment income breakdown
- International trade in carbon emissions units
- Presenting the balance of payments and international investment statistics
- Confidentiality and accessing the data

Period-specific information

Earthquake-related figures revised

New Zealand issuers have provided updated estimates of their Canterbury reinsurance claims on non-resident reinsurers to Statistics New Zealand. The updated data comprises claims on non-resident reinsurers, which affects capital account inflows, investment abroad transactions, and IIP assets. The updated data was used to revise the statistics back to the September 2010 quarter. The updated figures are included in the table below.

Unusual data-item summary

This table summarises key one-off events impacting on BoP and IIP statistics in recent quarters.

Quarter	Unusual data-item description	Value NZ$(million)	Impact on current account balance (CAB) and the capital account	Impact on net IIP position
June 2011	Canterbury earthquake reinsurance claims	862 R	Capital transfers inflow	Assets – accounts receivable increases; net IIP position reduces
Mar 2011	Canterbury earthquake	9,321 R	Capital transfers inflow	Assets – accounts receivable increases;

	reinsurance claims			net IIP position reduces
Sep 2010	Canterbury earthquake reinsurance claims	3,866 R	Capital transfers inflow	Assets – accounts receivable increases; net IIP position reduces
Dec 2009	Partial reversal of the tax settlement by major banks	-379	Investment income – increases after tax profits; increases the CAB	No direct impact
Sep 2009	Tax settlement – tax to pay by major banks	1,366	Investment income – decreases after tax profits; decreases the CAB	No direct impact
Jun 2009	Tax settlement – tax to pay by major banks	661	Investment income – decreases after tax profits; decreases the CAB	No direct impact

For further information about the treatment of these events see Impacts of the Canterbury earthquakes on New Zealand's international accounts about the Christchurch earthquakes, or the Hot Off the Press overviews of June 2009, September 2009, and December 2009 quarter releases about the tax settlements.

Note that the numbers in this table have been revised and updated since the paper and the 2009 Hot Off the Presses were published.

General information

Data sources

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

- Statistics NZ surveys of New Zealand-resident enterprises
- surveys conducted by other entities
- administrative data
- financial market information.

Statistics NZ surveys of New Zealand-resident enterprises that operate with the approval of the Minister of Statistics. Their completion is therefore compulsory, as set out in the Statistics Act 1975. These surveys are directed at New Zealand-resident enterprises identified as being relevant to BoP and IIP statistics. The main surveys that provide data for BoP and IIP are:

- Quarterly International Investment Survey (QIIS) – a sample survey that is the primary source of financial account and IIP data
- International Trade in Services and Royalties Survey (ITSS) – a quarterly sample survey that is the primary source for commercial services data
- transportation surveys – full-coverage surveys that measure transactions relating to transportation services such as passenger airfares and port expenses
- insurance surveys – full-coverage surveys that measure premiums and claims from direct overseas insurance, reinsurance, and insurance brokers for both life and non-life insurance.

Surveys conducted by other entities – Statistics NZ purchases some data from other organisations that operate a relevant survey. Statistics NZ has input into the design of these surveys. For example:

- 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)
- the Quarterly Managed Funds Survey (QMFS) – a joint Reserve Bank of New Zealand (RBNZ) and Statistics NZ operation that 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 that are 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 public information sites.

Surveys and guides

For more information about the data sources, follow these links on the Statistics NZ 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

Sources and methods

The conceptual framework used in New Zealand's BoP and IIP statistics is based on the fifth edition of the International Monetary Fund's (IMF) *Balance of Payments Manual* (BPM5). For descriptions of the underlying concepts, data sources, and methods used in compiling the estimates, see the Balance of Payments Sources and Methods: 2004 report, available from the Statistics NZ website (www.stats.govt.nz). For a printed copy, phone (64) 04 931 4600 or email: subscriptions@stats.govt.nz.

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. 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.

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).

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.

In the current account, we produce seasonally adjusted and trend series for both goods and services series (including travel and transportation services separately). Income and transfers series only have a trend calculated for them as they do not have a seasonal pattern.

The seasonally adjusted current account is the sum of adjusted goods and services, and the actual income and transfers series. Seasonally adjusted balances are calculated as being the sum of adjusted exports minus adjusted imports. 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 may 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 revised, as they are also calculated using centred moving average technology. These revisions are generally smaller than those made to the trend series.

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 revised 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 (when the service occurs), as opposed to a payments basis (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.

Undercoverage estimate for the international investment position

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.

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 every three years and a sample survey in the interim years. The results of the AIIS are used to do two things.

- Provide IIP (table 2) 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 make up New Zealand's measured international investment positions.
- Update the sample used in the regular quarterly sample survey (QIIS). To reduce the compliance load faced by the smaller businesses that typically make up the AIIS population, the AIIS questionnaire is an abbreviated form of the QIIS questionnaire.

Note that the AIIS does not collect information on financial account transactions, nor are these transactions estimated.

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, 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:

- the sum of all current, capital, and financial account credits (inflows), less the sum of all the debits (outflows)
- 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 indicate 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 one or both sides 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.
- Transactions relating to managed funds that are not surveyed each quarter. Note that financial account transactions are not estimated for this item.
- Data about transactions arising from settling and trading in financial derivative contracts are not requested from survey respondents.
- Financial transactions of business units that are not surveyed quarterly, or identified annually via the Inland Revenue-reported income tax data included in BoP. The business units mostly include estates and trusts, partnerships, small-sized companies, and individuals. All types of investment flows of these businesses are excluded, except shares held by these entities in Australian-listed companies. An estimate of the investment flows of these entities in Australian-listed companies is now included in the BoP financial account.

In any quarter there may also be financial account transactions that 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 RBNZ and IIP banking-sector data
- monitoring investment activity approved by the Overseas Investment Office
- reconciling changes in the 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 BoP and IIP
- annually reviewing the survey populations, with additions being 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 for large and complex transactions.

International debt and external debt statistics

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 2010	30 June 2011	30 September 2011
	NZ$(million)		
Total international financial lending IIPQ.S5AA3	102,974 R	114,467 R	123,871
less financial derivatives IIPQ.S5AA6F	18,238	18,541	27,026
External lending	84,736 R	95,926 R	96,845
Total international liabilities IIPQ.S5AL3	254,058	253,923 R	271,883
less financial derivatives IIPQ.S5AL6F	20,589	19,371 R	25,764
External debt	233,469	234,552 R	246,119
Net external debt	-148,733 R	-138,626 R	-149,274
Net international debt IIPQ.S5AA2B	-151,084 R	-139,455 R	-148,012
Difference: net external debt *less* net international debt	2,351	829 R	-1,262

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 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, by quarter						
	Jun 2010	Sep 2010	Dec 2010	Mar 2011	Jun 2011	Sep 2011
	NZ$(million)					
Income from New Zealand other investment abroad	677	683	689	688	701 R	687
Interest data from surveys	62	68	74	73	86 R	72
Inland revenue income data	615	615	615	615	615	615
Income from foreign investment in New Zealand	984	1,034	1,055	1,033	1,004 R	1,015
Interest data from surveys	597	646	667	644	615 R	626
Inland revenue income data	387	388	388	389	389	389

Symbol: R revised

International trade in carbon emission 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 BoP. For example, the sale of emission units by a resident to a non-resident is recorded as a capital account receipt.

Presenting the balance of payments and international investment statistics

Presentation of international investment position statistics

There are two ways to present 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 method used.

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.

The balance sheet presentation approach uses a balance sheet format to present New Zealand's international assets and liabilities. Using the balance sheet format enables presentation of assets and liabilities by broad sector (table 11).

For example: a New Zealand company lends $100 to an overseas subsidiary, and borrows $60 from a different overseas subsidiary.

- Under the BOP presentation this would be recorded as $40 of New Zealand direct investment abroad
- Using the balance sheet presentation this would be recorded as $100 in New Zealand's international assets and $60 in New Zealand's international liabilities.

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 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.

Confidentiality and accessing the data

Where data within a table in this release discloses information about an individual respondent, or would allow close estimation of such information, we publish data 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.

Liability

While all care and diligence has been used in processing, analysing, and extracting data and information in this publication, Statistics NZ gives no warranty it is error-free and will not be liable for any loss or damage suffered by the use directly, or indirectly, of the information in this publication.

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.

Revisions

The tables below present a summary of revisions to the June 2011 quarter. Revisions reflect new or improved information becoming available.

Current and capital accounts

Current and capital accounts June 2011 quarter revisions			
Component	**Previously published June 2011 quarter**	**Revised June 2011 quarter**	**Magnitude of revision**
	NZ$(million)		
Current account balance	-921	-844	77
Current account credits	17,696	17,759	63
Current account debits	18,617	18,603	-14
Balance on goods	2,407	2,379	-28
Exports (fob)	13,358	13,366	8
Imports (fob)	10,952	10,987	35
Balance on services	-630	-633	-3
Exports of services	2,751	2,749	-2
Imports of services	3,381	3,383	2
Balance on income	-2,533	-2,445	88
Income inflow	1,282	1,339	57
Income outflow	3,815	3,784	-31
Balance on current transfers	-165	-145	20
Inflow of current transfers	305	305	0
Outflow of current transfers	469	450	-19
Balance on capital account	518	698	180
Capital account inflow	935	1,117	182
Capital account outflow	417	418	1

Financial account

Financial account June 2011 quarter revisions			
Component	**Previously published June 2011 quarter**	**Revised June 2011 quarter**	**Magnitude of revision**
	NZ$(million)		
New Zealand investment abroad	2,715	2,353	-362
Direct investment	172	301	129
Portfolio investment	2,142	1,572	-570
Other investment	-2,829	-2,750	79
Reserve assets	3,231	3,231	0
Foreign investment in New Zealand	4,761	3,625	-1,136
Direct investment	2,026	1,634	-392
Portfolio investment	2,868	2,899	31
Other investment	-133	-907	-774

Net errors and omissions

Net errors and omissions June 2011 quarter revisions			
Component	**Previously published June 2011 quarter**	**Revised June 2011 quarter**	**Magnitude of revision**
	NZ$(million)		
Net errors and omissions	-1,643	-1,126	517

International investment position

International investment position June 2011 quarter revisions			
Component	**Previously published June 2011 quarter**	**Revised June 2011 quarter**	**Magnitude of revision**
	NZ$(million)		
New Zealand investment abroad	162,577	163,550	973
Direct investment	22,162	22,201	39
Portfolio investment	63,217	62,735	-482
Other investment	33,596	35,012	1,416
Financial derivatives	17,173	17,173	0
Reserve assets	26,430	26,430	0
Foreign investment in New Zealand	302,737	301,904	-833
Direct investment	95,421	95,121	-300
Portfolio investment	102,882	102,540	-342
Other investment	85,520	85,324	-196
Financial derivatives	18,914	18,920	6

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Tables

The following tables are included with this release. They are available in Excel format from the 'Downloads' box of *Balance of Payments and International Investment Position: September 2011 quarter* on the Statistics NZ website.

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
16. International investment position (IIP) net reconciliation statement, actual
17. International investment position (IIP) gross reconciliation statement for the September 2011 quarter, actual

Access more data on Infoshare

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