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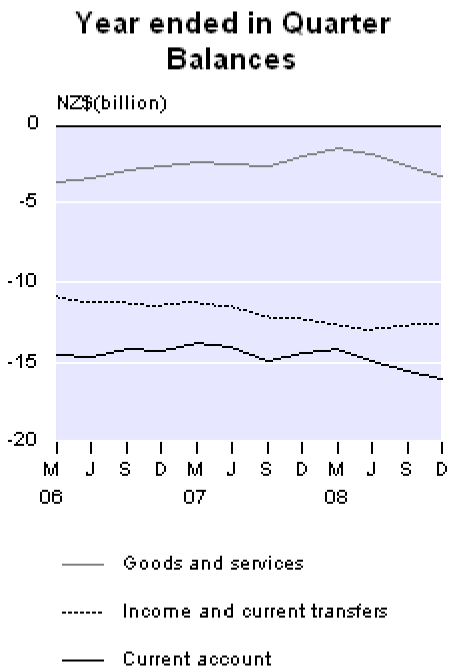
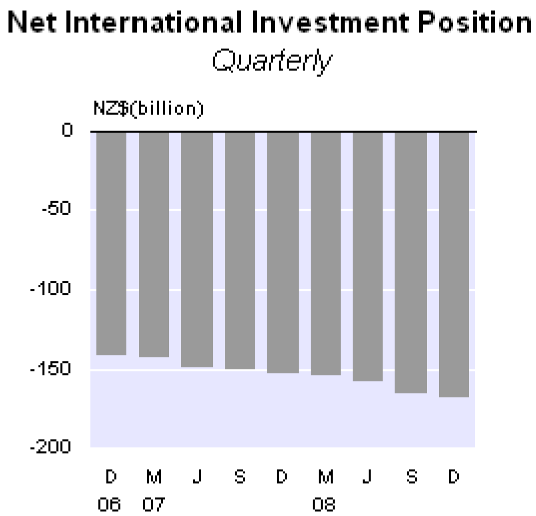
Balance of Payments and International Investment Position: December 2008 quarter

Highlights

- For the year ended December 2008, the current account deficit was 8.9 percent of GDP. This compares with a deficit of 8.6 percent of GDP for the year ended September 2008.
- The seasonally adjusted current account deficit was $3,772 million in the December 2008 quarter, compared with a September 2008 quarter deficit of $4,008 million.
- At 31 December 2008, net overseas liabilities of $167.7 billion were $15.1 billion (9.9 percent) larger than at 31 December 2007.
- Net international debt increased 14.0 percent from 31 December 2007, while net equity liabilities fell 26.1 percent.





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See also *Balance of Payments and International Investment Position: December 2008 quarter* – Media release.

Commentary

Overview

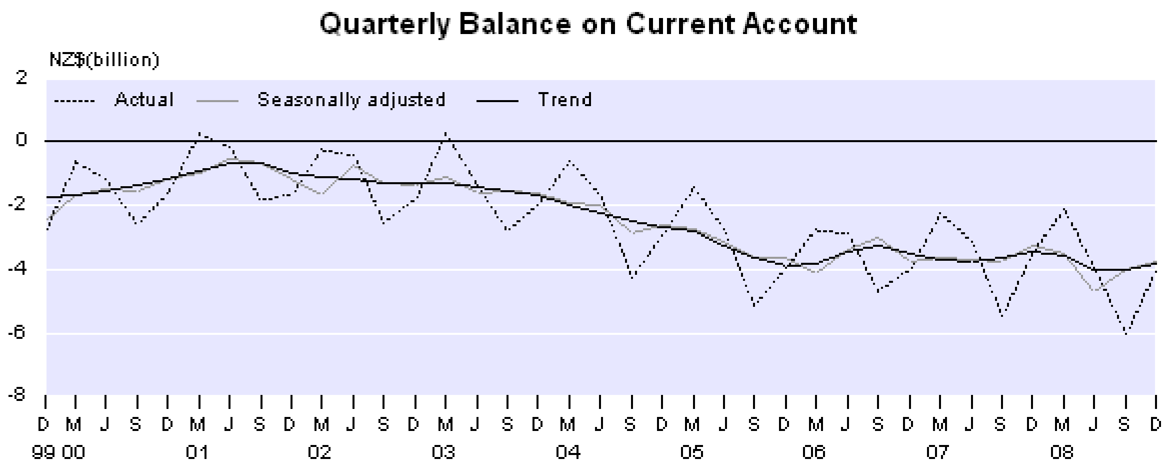
The seasonally adjusted current account deficit was $3,772 million in the December 2008 quarter, $236 million smaller than the September 2008 quarter deficit of $4,008 million. The narrowing of the deficit in the latest quarter was mostly due to an increase in exports of goods, partly offset by an increase in imports of services.

The seasonally adjusted balance on goods was a deficit of $177 million in the December 2008 quarter. Exports of goods increased $507 million this quarter, while imports of goods decreased $121 million.

The investment income deficit, which is not seasonally adjusted, was $3,199 million in the December 2008 quarter, $58 million smaller than in the September 2008 quarter. The decrease in the deficit was driven by a fall in income earned by foreign direct investors from their shareholdings in New Zealand companies. This was partly offset by a fall in income from New Zealand's portfolio investment abroad.

For the year ended December 2008, the current account deficit was $16,073 million (8.9 percent of GDP), compared with $15,528 million (8.6 percent of GDP) for the year ended September 2008, and $14,372 million (8.2 percent of GDP) for the year ended December 2007. The increase in the current account deficit from the year ended December 2007 was mostly due to the balance on services, which has gone from a surplus of $288 million to a deficit of $1,014 million. Over the same period, the investment income deficit increased by $746 million, while the goods deficit remained relatively stable.

The $1,302 million change in the balance on services between the year ended December 2007 and the year ended December 2008 was caused by a $1,170 million increase in imports of services. This was mainly due to a rise in imports of transportation services. There was also a fall in exports of travel services. The $746 million increase in the investment income deficit was driven by a fall in earnings from New Zealand's investments abroad.



The December 2008 quarter financial account recorded a net outflow of financial capital of $2.5 billion. This measured net outflow of capital is inconsistent with the $4.0 billion current account deficit, which requires financing by a net inflow of capital. The result of the inconsistency is a net errors and omissions (residual) of $6.7 billion, meaning that the December 2008 quarter financial account does not explain the financing of the current account deficit. Therefore, the December 2008 quarter financial account must be viewed with caution. The residual and its causes are discussed in more detail in the financial account commentary below, and in the technical notes of this release.

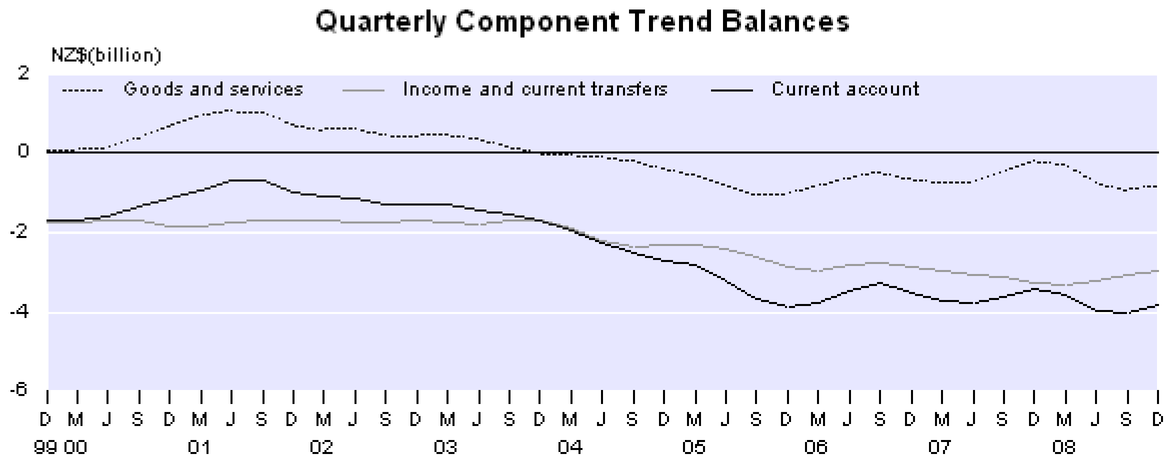
The 31 December 2008 net debtor position (that is, liabilities exceeding assets) was $167.7 billion. This is $2.5 billion (1.5 percent) larger than the 30 September 2008 position, and $15.1 billion (9.9 percent) larger than the 31 December 2007 position. Measured financial account transactions reduced net international liabilities by $2.5 billion in the December 2008 quarter, but exchange rate, market price, and other valuation changes between 30 September and 31 December 2008 offset this by $5.0 billion.

Growth in net international debt continues to drive the increase in New Zealand's net international debtor position. At 31 December 2008, net international debt of $156.3 billion was 14.0 percent higher than at 31 December 2007. Over the same period, the net equity liability position fell 26.1 percent, to $11.4 billion.

Trend

The current account balance trend shows a smaller deficit compared with the September 2008 quarter. This is due to smaller deficits for both the income and transfers trend and the goods and services trend. Income from foreign investment in New Zealand has been showing a decreasing trend since the December 2007 quarter, and this is the main reason behind the smaller income and transfers deficit. The increasing goods exports trend was behind the declining goods and services deficit in the latest quarter.

Since the September 2005 quarter, the current account balance trend has remained a deficit within a range of between $3.3 billion and $4.0 billion. During this time, the movements in the current account balance trend were mostly caused by movements in the goods and services balance trend. From the March 2008 quarter, the income and current transfers deficit trend has been reducing.



Goods

All references are to seasonally adjusted figures unless otherwise stated.

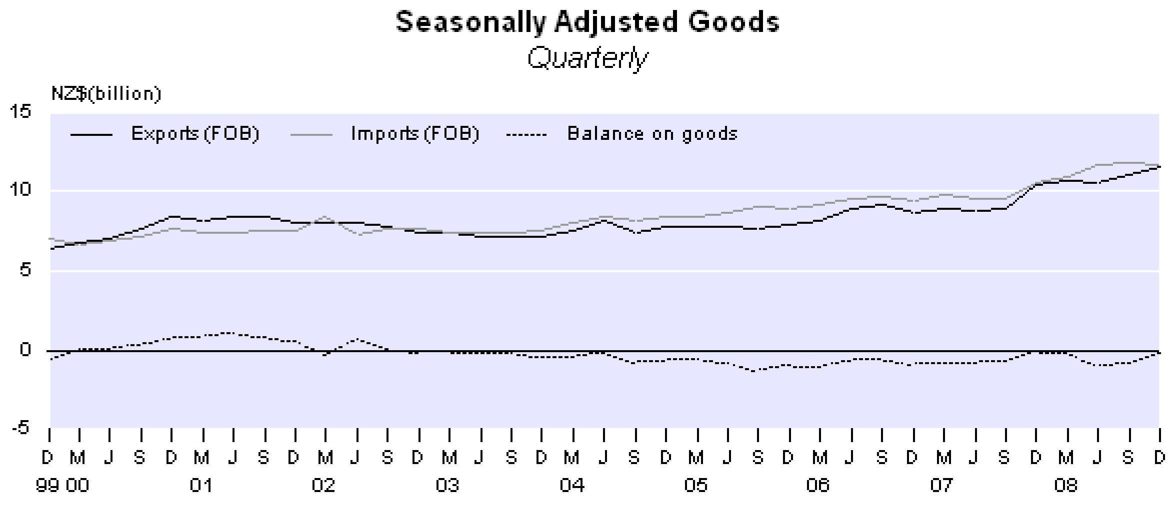
The goods balance was a deficit of $177 million in the December 2008 quarter, $628 million smaller than the September 2008 quarter deficit. Exports of goods increased $507 million in the latest quarter, while imports of goods decreased $121 million.

According to the Reserve Bank, the New Zealand dollar fell 11.8 percent against the Trade Weighted Index (TWI) during the December 2008 quarter. When expressed in New Zealand dollar terms, this depreciation increased prices for both imports and exports of goods.

The increase in export values for the December 2008 quarter was mainly due to a rise in the value of dairy products. Prices for dairy products increased 5.8 percent and volumes also increased. An increase in the value of forestry products was the other main driver behind rising export values, due to an 11.2 percent increase in prices. Partly offsetting the general increase in export prices were prices for petroleum and petroleum products exports, which fell 31.6 percent in the December 2008 quarter – the largest quarterly fall since the June 1986 quarter. Total merchandise export volumes fell 1.8 percent during the December 2008 quarter.

A fall in volumes of imported goods in the latest quarter more than offset a 3.4 percent increase in import prices. The main driver of the increase was lower volumes of passenger motor cars. Partly offsetting the general increase in prices for goods imports was a 22.4 percent fall in the price of petroleum and petroleum products – the first fall since the March 2007 quarter.

Balance of Payments (BoP) conceptual adjustments removed $1,365 million from the value of overseas trade imports for the December 2008 quarter, compared with $870 million for the September 2008 quarter. This meant that while overseas trade imports data increased (in actual dollar terms), the value of imports, as measured by BoP, decreased this quarter. Conceptual adjustments are made to exports and imports, and include such items as changes in oil stocks held abroad by New Zealand residents, and goods that cross New Zealand's customs frontier without a change in ownership occurring. Refer to the technical notes of this release for further information.



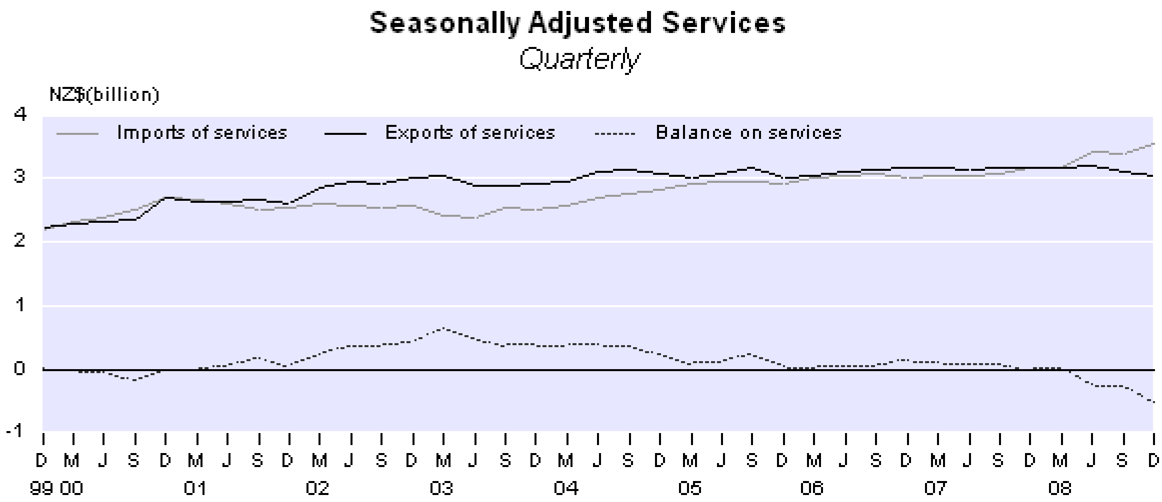
The actual goods balance for the year ended December 2008 was a deficit of $2,360 million. This is $21 million smaller than the deficit for the year ended December 2007. Exports of goods increased $6.8 billion, with higher values of dairy exports (prices of which increased 35.7 percent over the year to December 2008) and increased exports of petroleum and petroleum products driving this rise. Imports of goods were also up $6.8 billion, mainly due to higher prices for petroleum and petroleum products during the December 2008 year.

Services

All references are to seasonally adjusted figures unless otherwise stated.

The services balance was a deficit of $511 million in the December 2008 quarter, an increase of $243 million from the September 2008 quarter deficit. This increase was driven by a rise in imports of $163 million in the December 2008 quarter, while the services exports decreased by $80 million. This is the third consecutive quarter in which the balance on services has declined.

The fall of $80 million in services exports was caused by a decrease in travel services exports, due to falls in the number of overseas visitors coming to New Zealand and the total number of days spent in New Zealand. There was an increase in average expenditure per person from the September 2008 quarter. However, spending per person in the latest quarter remained significantly lower compared with the December 2007 quarter.



The increase in imports of services was mainly due to a $60 million increase in transportation services imports. This reflects rising sea freight prices in the December 2008 quarter (as recorded in the *Overseas Trade Indexes (Prices): December 2008 quarter (provisional)*), which was partly caused by the depreciating New Zealand dollar. Travel services imports increased by $11 million due to a higher number of New Zealanders travelling to Australia.

Of the other services categories, which are not seasonally adjusted, communication and other business services exports increased by $17 million and $39 million, respectively. The increase in other business services was caused by increases in management fees and legal services. Imports of other business services were up $49 million, driven by increases in trade commissions and management fees. Exports and imports of personal, cultural and recreational services increased due to sales of films and costs incurred in film production.

The year ended December 2008 balance on services was a deficit of $1,014 million, compared with a surplus of $288 million for the year ended December 2007. This decline was driven by increasing imports of services, particularly transportation services and services relating to oil production and exploration. In addition, exports of travel services have decreased, reflecting lower visitor arrivals to New Zealand.

Investment income

The December 2008 quarter investment income deficit of $3,199 million is $58 million smaller than the September 2008 quarter deficit. Foreign direct investors' earnings from their shareholdings in New Zealand were $267 million lower in the December 2008 quarter than in the September 2008 quarter. This was offset by a $176 million fall in New Zealand investors' income from portfolio investment abroad.

Investment income from abroad has fallen by $102 million to $668 million for the December 2008 quarter, after being relatively stable for the previous three quarters. The fall in income on New Zealand's portfolio investments abroad was driven by lower dividends on managed funds and interest earned on official sector reserve assets. This fall was partly offset by a rise in investment income from overseas subsidiaries of New Zealand direct investors.

Foreign investors' earnings from their investments in New Zealand were $3,867 million in the December 2008 quarter, down $160 million from the September 2008 quarter. The key feature was a fall in income earned by foreign direct investors from their equity investments in New Zealand companies. This was partly offset by a rise of $183 million to $374 million in dividends paid to foreign investors holding portfolio equity securities. The December quarters regularly see the highest dividend payments on foreign investment in portfolio equity securities.

December 2008 quarter profits earned by foreign direct investors from their shareholdings in New Zealand companies were $1,375 million. Profits earned by foreign direct investors in the banking sector rose by $234 million for the December 2008 quarter, while profits earned by foreign direct investors in the 'other' sector fell by $501 million. Dividends to foreign direct investors were $498 million for the December 2008 quarter, $1,023 million smaller than for the September 2008 quarter and significantly lower than dividends in previous quarters back to March 2007. Reinvested earnings were $877 million for the December 2008 quarter, a rise of $756 million from the September 2008 quarter. Foreign direct investors' have chosen to reduce their dividends and reinvest a greater proportion of their income in their enterprises this quarter.

The year ended investment income deficit has decreased for a second consecutive quarter. In the year ended December 2008, the $13.6 billion deficit is $89 million smaller than the deficit in the year ended September 2008. However, the year ended December 2008 deficit is $746 million higher than the deficit in the year ended December 2007. The fall in the deficit from the year ended September 2008 was driven by reduced income from foreign direct investors' shareholdings in New Zealand companies and portfolio investment in New Zealand. This was partly offset by a fall in New Zealand investors' income from direct investment in overseas subsidiaries and portfolio investment abroad.

The growth in the deficit from the December 2007 year was driven by an $825 million fall in earnings from New Zealand investment abroad. This was mainly due to reduced earnings from direct investment abroad.

Income from foreign investment in New Zealand for the year ended December 2008 was relatively unchanged from the year ended December 2007. This was due to a fall in the earnings of foreign direct investors being almost offset by a rise in income from portfolio and other investment in New Zealand. The proportion of profits distributed as dividends rather than being reinvested in New Zealand was 90.5 percent in the year ended December 2008, compared with 71.7 percent in the year ended December 2007.

Current transfers

Current transfers are offsetting entries to transactions where goods or services are supplied or received without there being an exchange of equal value in return, such as taxes or donations. The balance on current transfers was a surplus of $123 million in the December 2008 quarter, a decrease of $175 million from the September 2008 quarter.

Current transfers into New Zealand were $514 million in the December 2008 quarter, down from $724 million in the September 2008 quarter. The decrease was mainly due to a fall in non-resident withholding tax (NRWT) received from foreign investors, which is payable on withholding income (such as dividends and interest) earned from their investments in New Zealand. The decrease in NRWT received this quarter is consistent with a fall in dividend payments to foreign investors.

Current transfers out of New Zealand were $391 million in the December 2008 quarter, a decrease of $35 million from the September 2008 quarter. This decrease was due to a fall in all expenditure, including government expenditure on subscriptions and official international aid.

For the year ended December 2008, the balance on current transfers was a surplus of $883 million, an increase of $326 million from the year ended December 2007. Current transfers into New Zealand were $2,368 million, up $442 million, mainly due to tax received on the large dividend payments to foreign investors recorded throughout 2008.

Capital account

The capital account measures the value of assets transferred by migrants into, and out of, New Zealand, as well as the purchase and sale of intangible assets. The capital account balance was a deficit of $167 million in the December 2008 quarter, a $30 million narrowing from the September 2008 quarter deficit of $197 million.

Inflows of capital transfers rose $43 million in the December 2008 quarter compared with the September 2008 quarter, mainly due to an increase in funds brought by migrant families into New Zealand. Outflows of capital transfers rose $13 million this quarter, caused by a rise in funds taken by migrants to Australia.

Financial account and international investment position

Financial account (flows)

In the December 2008 quarter, measured financial account transactions showed a $7.1 billion divestment of New Zealand assets from abroad, and a $9.6 billion divestment of foreign investment from New Zealand. This resulted in a net $2.5 billion outflow of financial capital, reducing net liabilities.

The main feature of the withdrawal of New Zealand investment from abroad was divestment by the official sector ((Reserve Bank of New Zealand (RBNZ) and the New Zealand Treasury)) of $4.9 billion of reserve assets. This was mostly due to the unwinding of short-term reserve asset positions. In addition to this, banks and fund managers reduced their holdings of overseas issued debt securities and fund managers sold shares in overseas companies.

The withdrawal of foreign investment from New Zealand in the December 2008 quarter was driven by banking sector transactions reducing overseas debt security liabilities. These transactions were in part linked to the RBNZ's reduction in reserve assets. In the past months, the RBNZ introduced changes to its liquidity management arrangements, such as the introduction of the Term Auction Facility (TAF). Using this facility banks can enter into security repurchase agreements with the RBNZ using approved securities (eg Residential Mortgage Backed Securities). Data published on the RBNZ website (table D3, Term Auction Facility) shows that in the December 2008 quarter, $4.5 billion was transacted in the TAF facility.

The withdrawal of foreign investment from New Zealand also featured foreign direct investors reducing their net lending to their New Zealand subsidiaries. Partly offsetting this was an inflow of foreign other investment into New Zealand, mainly loans raised by the banking sector from overseas lenders.

Balance of payments net errors and omissions (residual)

Current account deficits require a financing inflow of capital. This financing inflow can be a combination of reducing assets held abroad, increasing liabilities to abroad, and inflows through the capital account. The December 2008 quarter financial account net outflow of $2.5 billion is therefore inconsistent with the current account deficit and is the reason for the $6.7 billion residual.

The cause of the residual lies in the financial account – not the current account or capital account. As a result of this, the financial account for the December 2008 quarter must be viewed with caution.

There are known areas of under-coverage in the financial account of New Zealand's BoP and IIP statistics that contribute to a residual. These unmeasured areas are discussed further in the technical notes of this release. One such area is transactions from settling derivative contracts falling due in the quarter. This may be of particular significance in the December 2008 quarter, as there was significant volatility in asset and liability values, and exchange rates.

Further contributions to the residual can be the under- or over-estimation of transactions in the financial account. IIP balance sheet positions arise from transactions and valuation changes. Volatility in market prices and exchange rates can lead to greater difficulty in separating the impacts of valuation effects from transactions.

For further information of what net errors and omissions are, and how they occur, please refer to the technical notes of this release.

Reconciling the December 2008 quarter financial account and the international investment position (IIP)

The reconciliation table below shows both the transaction and non-transaction causes of the shift in the net IIP from the position at 30 September 2008 to the position at 31 December 2008. The term IIP is defined in the technical notes of this publication along with the associated term net debtor position.

Reconciliation statement – December 2008 quarter					
NZ$(million)					
Net IIP at 30 September 2008	Net financial account flows (transactions)	Net exchange rate changes	Net financial derivative valuation changes	Net market price and other valuation changes	Net IIP at 31 December 2008
-165,233	2,532	-2,592	-1,000	-1,409	-167,702

At 31 December 2008, the net debtor position was $167,702 million, an increase of $2,469 million (1.5 percent) from 30 September 2008. Net transactions decreased liabilities by $2,532 million, while net valuation changes added $5,001 million. Valuation changes arise from changes in exchange rates, market prices of assets and liabilities (eg shares), market values of financial derivative contracts, and other changes such as write-offs.

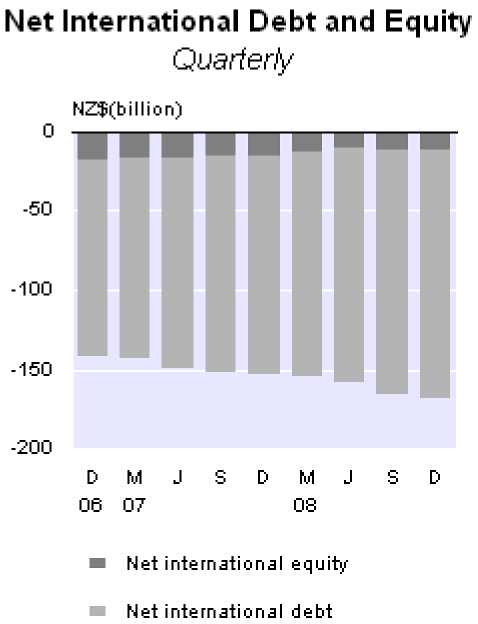
The main causes of the valuation effects in the December 2008 quarter were:

- Global share-price falls. The main sharemarkets in which New Zealand funds are invested fell between 10 percent and 24 percent.
- Large currency movements. Most notably the New Zealand dollar depreciated against the United States dollar and the Japanese yen.
- Changes in financial derivative contract values related to both changes in currency and market prices.

International investment position

This commentary discusses the presentation of New Zealand's international assets and liabilities as shown in tables 10 to 13 of this release.

At 31 December 2008, New Zealand's net debtor position of $167.7 billion (92.9 percent of GDP) was comprised of $139.6 billion of international assets and $307.3 billion of international liabilities. The 31 December 2008 net debtor position was $2.5 billion (1.5 percent) larger than the 30 September 2008 position (92.0 percent of GDP), and $15.1 billion (9.9 percent) larger than the 31 December 2007 position (87.1 percent of GDP).



Growth in international debt continues to drive the increase in New Zealand's net international debtor position. Net international debt at 31 December 2008 was $156.3 billion, up $2.6 billion from 30 September 2008, and up $19.2 billion from 31 December 2007. Net international equity at 31 December 2008 was $11.4 billion.

The biggest movement for both assets and liabilities in the December 2008 quarter was in financial derivatives, which are primarily held by the banking sector. Financial derivative assets were $25,850 million at 31 December 2008, an increase of $11,493 million (80.1 percent) from 30 September 2008. Financial derivative liabilities were $24,907 million at 31 December 2008, an increase of $12,875 million (107.0 percent) from 30 September 2008.

Next release ...

Balance of Payments and International Investment Position: March 2009 quarter will be released on 25 June 2009.

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Revisions

The tables below present a summary of revisions to the September 2008 quarter BoP and IIP major components, as a result of new or improved data. The revision to reserve assets is due to adjusted data from Treasury.

Current and Capital Accounts			
Component	**Previously published September 2008 quarter**	**Revised September 2008 quarter**	**Magnitude of revision**
NZ$(million)			
Current account balance	-5,994	-6,013	-19
Current account credits	14,605	14,595	-10
Current account debits	20,599	20,608	9
Balance on goods	-2,049	-2,046	3
Exports (FOB)	10,466	10,455	-11
Imports (FOB)	12,515	12,501	-14
Balance on services	-982	-1,007	-25
Exports of services	2,658	2,646	-12
Imports of services	3,640	3,654	14
Balance on income	-3,248	-3,257	-9
Income from investment abroad	770	770	0
Income from foreign investment	4,018	4,027	9
Balance on current transfers	286	298	12
Inflow of current transfers	712	724	12
Outflow of current transfers	426	426	0
Balance on capital account	-200	-197	3
Capital account inflow	196	199	3
Capital account outflow	396	396	0

Balance of Payments Financial Account			
Component	**Previously published September 2008 quarter**	**Revised September 2008 quarter**	**Magnitude of revision**
NZ$(million)			
New Zealand investment abroad	-4,651	-4,190	461
Direct investment	123	506	383
Portfolio investment	-161	-65	96
Other investment	867	1,367	500
Reserve assets	-5,480	-5,999	-519
Foreign investment in New Zealand	753	701	-52
Direct investment	2,274	2,157	-117
Portfolio investment	-1,747	-1,747	0
Other investment	226	290	64

Net Errors and Omissions			
Component	**Previously published September 2008 quarter**	**Revised September 2008 quarter**	**Magnitude of revision**
NZ$(million)			
Net errors and omissions	790	1,319	529

International Investment Position			
Component	**Previously published September 2008 quarter**	**Revised September 2008 quarter**	**Magnitude of revision**
NZ$(million)			
New Zealand investment abroad	117,473	118,057	584
Direct investment	20,832	21,234	402
Portfolio investment	44,417	44,606	189
Other investment	16,526	17,047	521
Financial derivatives	13,754	13,754	0
Reserve assets	21,945	21,416	-529
Foreign investment in New Zealand	283,324	283,290	-34
Direct investment	95,776	95,634	-142
Portfolio investment	95,577	95,607	30
Other investment	80,799	80,869	70
Financial derivatives	11,171	11,180	9

Technical notes

Introduction

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

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).

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To access BoP and IIP time series, click on **Browse,** then choose:

Subject category: Economic indicators, then choose: Balance of Payments
The time series can be downloaded in Excel or comma delimited format.

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

Current account

The credit side of the current 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 being 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 being required.

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

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

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

Conceptual adjustments to exports and imports of goods

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

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

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

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

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

Seasonal adjustment and trend analysis

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

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

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

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

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

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

Reporting on an accrual basis

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

Capital account

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

Financial account

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

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

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

Net errors and omissions (residual)

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

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

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

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

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

- The primary data sources for the financial account and IIP are sample surveys. While a new estimate is made for the non-sampled IIP stock positions each year, no estimate is made for financial account transactions, nor for the associated current account investment income flows.
- Transactions related to managed funds that are not surveyed each quarter. Note that neither the financial account transactions nor current account income are estimated for this item.
- Data about transactions arising from settling and trading in financial derivative contracts are not requested from survey respondents.
- Equity shareholding in overseas companies directly held by New Zealand individuals was estimated at $10.6 billion at 31 December 2007. Neither financial account transactions nor current account income are estimated for this item.

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

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

Data confidentiality

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

Data sources

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

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

Balance of Payments Quality Plan

Work is continuing on issues identified in the 2004 *Balance of Payments Quality Plan* document. The plan was developed in response to potential weaknesses in BoP data sources, methods and processes.

The current BoP data quality projects underway include:

- coverage and collection of BoP data as a result of offshoring activities of New Zealand companies
- update to the methodology for the individual holdings of assets abroad.

Offshoring activity

Statistics NZ has started a project to investigate the coverage and collection of BoP data on the offshoring activities of New Zealand companies. This project has three stages. The initial stage is almost complete. It involves producing an information paper on the knowledge gained on the offshoring activity to date. The second stage involves investigating data coverage and collection issues and making recommendations for improvements. The final stage will involve implementing the recommendations identified in stage two.

Individual holdings of assets abroad

The tasks completed to date include:

- discussing the project outcomes with other government and non-government organisations that have an interest in it
- 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 exist.

This project is progressing more slowly than expected as staff have been concentrating on the production of quarterly statistics. Issues identified in this project link with work that Statistics NZ and the RBNZ are doing to improve the coverage and quality of data about securities issued by non-residents and held by residents. A related topic is debt securities issued in New Zealand by overseas residents (Kauri bonds), and is discussed later in these technical notes.

International investment position

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

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

Exchange rate and share index movements: December 2008 quarter

A comparison of the exchange rates at 31 December 2008 and 30 September 2008 showed that the New Zealand dollar depreciated against most of the currencies our international financial assets and liabilities are held in. A depreciation of the New Zealand dollar increases the New Zealand dollar value of foreign currency assets and liabilities within the IIP, whereas an appreciation of the New Zealand dollar has the opposite effect. The exchange rate impacts varied this quarter depending on the timing of transactions. For example, while the Australian dollar to New Zealand dollar was 0.8441 at the start of the quarter and 0.8356 at the end of the quarter, the RBNZ daily rates tables show that it reached a minimum of 0.8200 on 04 December 2008 and a maximum of 0.9115 on 16 October 2008.

All major sharemarket indexes decreased over the period from 30 September to 31 December 2008. The value of foreign investors' New Zealand shares, as well as New Zealand investors' overseas shareholdings, decreased with these falling share indexes.

Presentation of international investment position statistics

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

Balance sheet presentation

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

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

The relationship between the two presentations

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

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

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

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

International debt and external debt statistics

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

Table 10 of the BoP and IIP release presents New Zealand's international balance sheet position, to which New Zealand's international debt contributes. In table 10, 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 their *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 10, 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 10 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 11. 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 10. Deriving external debt and external lending is done using table 11 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 by 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 11 data and compares it with the net international debt position of table 10.

Calculating New Zealand's net external debt			
Period	31 December 2007	30 September 2008	31 December 2008
	NZ($)million		
Total international financial lending IIPQ.S5AA3	78,481	81,460	91,720
less financial derivatives IIPQ.S5AA6F	10,004	14,357	25,850
External lending	68,477	67,103	65,870
Total international borrowing IIPQ.S5AL3	215,597	235,102	248,015
less financial derivatives IIPQ.S5AL6F	9,763	12,032	24,907
External debt	205,834	223,070	223,108
Net external debt	-137,357	-155,967	-157,238
Net international debt IIPQ.S5AA2B	-137,116	-153,642	-156,296
Difference; net external debt less net international debt	-241	-2,325	-942

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

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

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

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

Holdings of Kauri bonds by New Zealand residents included in the statistics as investment abroad are estimated to understate residents' total holdings by approximately $2.0 billion as at 31 December 2008 (1.6 percent of total New Zealand investment abroad, table 2). This conclusion is drawn from comparing estimates of Kauri bond assets included in the international investment position statistics with information about Kauri bonds obtained primarily from RBNZ published data, and from other published sources. Further work aimed at improving data about the issuance and holding of Kauri bonds is underway. This includes work being done in conjunction with the RBNZ.

RBNZ securities subject to repurchase agreements

Non-resident issued debt securities, denominated in foreign currencies and held by the RBNZ, contribute to New Zealand's official sector reserve assets. When such a security is subject to a repurchase (repo) agreement, it remains in the IIP as an asset, but not as a reserve asset. The appropriate IIP classification is: New Zealand investment abroad; portfolio investment; debt securities (as opposed to investment abroad; reserve assets). The cash received for the 'repoed' security is recorded as a liability in the IIP as: foreign investment in New Zealand: other investment; loans. This is the collateralised loan approach to recording repoed securities. However, in the IIP, the repoed security is misclassified to New Zealand investment abroad; other investment; other instruments (instead of to portfolio investment); debt securities. The work to correctly classify the securities involved was expected to be implemented with the release of June 2008 quarter statistics in September 2008. However, it has not been possible to complete the work in time for the September 2008 release. We now expect the necessary changes to be implemented in the release of June 2009 quarter statistics in September 2009.

Undercoverage estimate for the international investment position

The data sources for BoP financial account and IIP statistics are 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 Quarterly Managed Funds Survey (QMFS), which is a joint RBNZ/Statistics NZ collection. For further information about the BoP financial account and IIP data sources, refer to chapter 11 of the *Balance of Payments Sources and Methods*, available at: www.stats.govt.nz.

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

The QIIS is a quarterly sample of approximately 500 enterprises. The sample is intended to capture approximately 95 percent of the stock levels of the main IIP components.

The amount by which the quarterly sample survey is estimated to undercover the population is derived from the Annual International Investment Survey (AIIS). The AIIS 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. The AIIS is intended to be a census survey every three years and a sample survey 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 are 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 that typically constitute 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.

Review of sample of fund managers, and level shift in investment abroad

The sample of fund managers surveyed each quarter has been reviewed. The changes made have resulted in a level shift up in the measured level of funds under management abroad. This level shift is approximately $1.4 billion, effective in the December 2007 quarter. The Annual Managed Funds Survey (AMFS) data estimate of funds invested abroad through smaller fund managers, previously updated at 31 December 2006, has now been updated for 31 December 2007. The 2007 results were included in the release of March 2008 quarter BoP and IIP statistics in June 2008. This data is presented as footnotes to tables 2, 10, 11, 12 and 13 of this release.

Annual Managed Funds Survey

The AMFS is conducted jointly by the RBNZ and Statistics NZ and has collected data 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:

Results from the AMFS	
Period	**Assets held abroad** NZ$(million)
December 2007	3,657
December 2006	4,315 (R)
December 2005	3,225
December 2004	1,036
December 2003	897
December 2002	2,187
December 2001	2,365

Symbol:
R revised

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 of this release as an addendum item. The data is as at 31 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 Salendra Kumar on 04 931 4600 or email: bop.surveys@stats.govt.nz.

Equity shareholding in overseas companies directly held by New Zealand individuals

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

Equity shareholding in overseas companies directly held by New Zealand individuals			
Period	**Latest estimate**	**Previously published**	**Amount held in Australia**
NZ$(billion)			
December 2007	10.6	..	8.8
December 2006	7.8	..	6.2
December 2005	6.4	4.5	5.1
December 2004	5.2	5.2	4.0

Symbol:
.. data unavailable

International trade in carbon emissions units

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

More information

For more information, follow the links from the Technical notes of this release 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

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Tables

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

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