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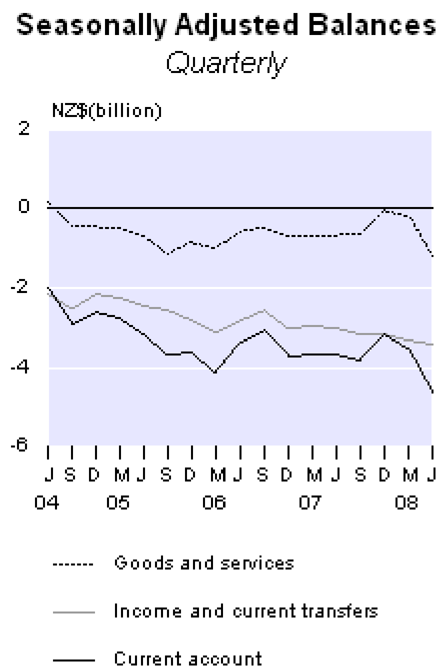
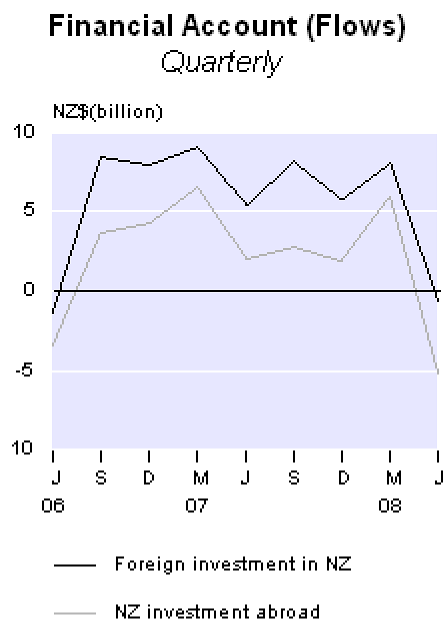
Balance of Payments and International Investment Position: June 2008 quarter

Highlights

- New Zealand's seasonally adjusted current account deficit for the June 2008 quarter was $4,623 million, $1,097 million larger than in the March 2008 quarter.
- The current account deficit for the year ended June 2008 was $14,967 million, compared with $14,211 million for the year ended March 2008.
- There was a net inflow of capital into New Zealand of $4.5 billion in the June 2008 quarter, mainly due to a withdrawal of New Zealand investment from abroad.
- New Zealand's net international liabilities were $159.2 billion at 30 June 2008, an increase of 3.5 percent from 31 March 2008.





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

Commentary

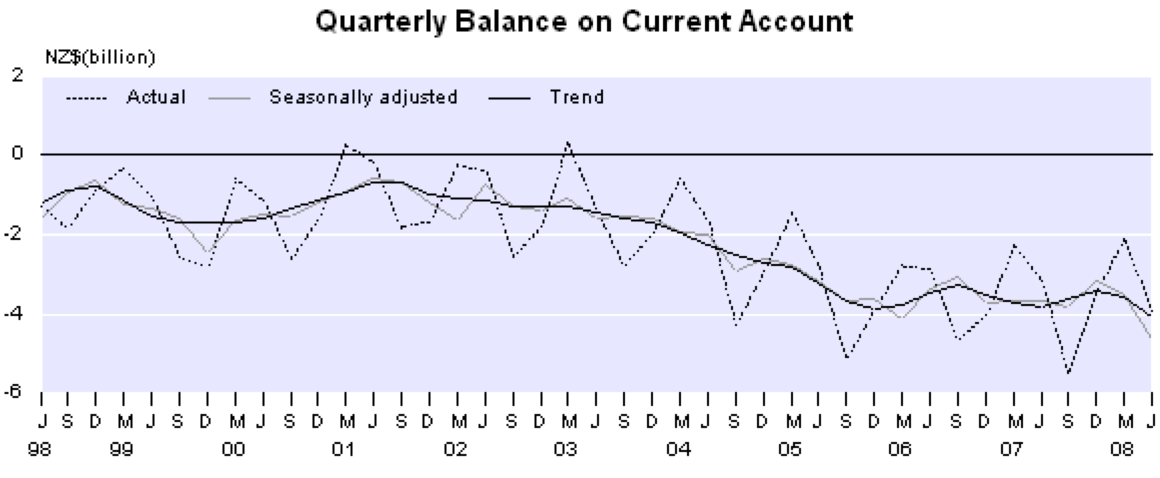
Overview

The seasonally adjusted current account deficit was $4,623 million in the June 2008 quarter, an increase of $1,097 million from the March 2008 quarter. The larger deficit this quarter was driven by increased imports of goods, while income from foreign investment in New Zealand and imports of services also increased.

Seasonally adjusted imports of goods were up $753 million this quarter, with the main contributors being capital goods, and petroleum and petroleum products. Income from foreign investment in New Zealand was up $214 million, driven by increased income earned by foreign direct and portfolio investors on their shareholdings in New Zealand. The increase in imports of services has taken the balance on services to a deficit this quarter.

In actual dollar terms, the current account deficit was $3,911 million this quarter, compared with $3,154 million in the June 2007 quarter. This contributed to a year ended June 2008 quarter deficit of $14,967 million, up from the March 2008 year deficit of $14,211 million, and the June 2007 year deficit of $14,096 million.

The year ended June 2008 current account deficit expressed as a percentage of Gross Domestic Product (GDP) is not available at the time of this release because June 2008 quarter GDP data is not released until 25 September 2008. The current account to GDP ratios table will be released on 25 September with the Balance of Payments and International Investment Position: Year ended 31 March 2008 release. The year ended release presents additional breakdowns of New Zealand's international trade in services, country breakdowns of international investment, and industry breakdowns of international financial assets and liabilities. In addition, the year ended release contains information about hedging of New Zealand's foreign currency overseas debt.



A withdrawal of New Zealand investment from abroad (reducing assets) was the key feature of current account financing in the June 2008 quarter. This is the first time since the June 2006 quarter that the current account deficit has been financed in this way. The $5.2 billion of divestment from abroad was primarily in the form of reduced lending to abroad, and was partly offset by a $0.6 billion withdrawal of foreign investment from New Zealand.

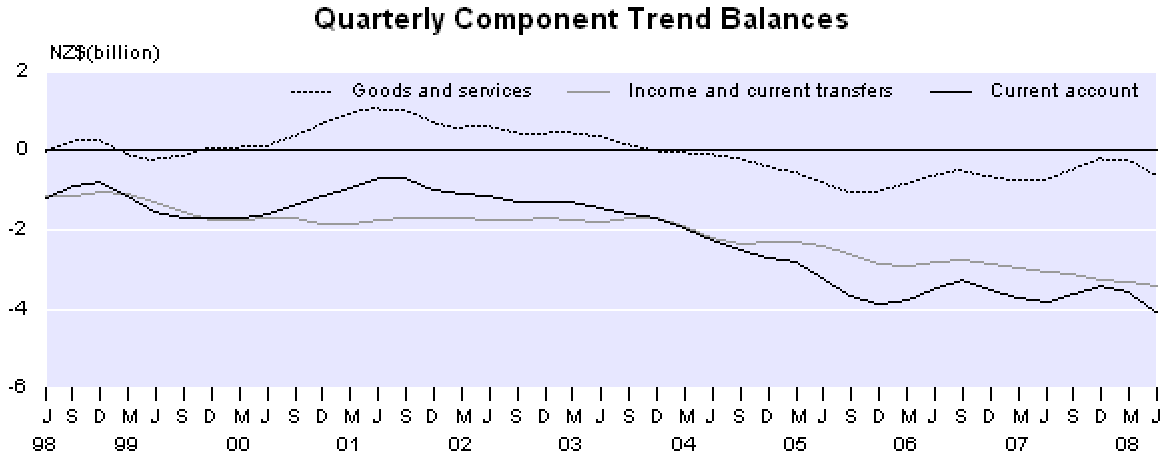
The net International Investment Position (IIP) showed a net debtor position (ie liabilities exceeding assets) of $159.2 billion, an increase of $5.3 billion since 31 March 2008. Transactions accounted for $4.5 billion of the change, with the remaining amount being valuation changes. Valuation changes include market price changes (for example, shares), exchange rate changes and changes in the market prices of financial derivative contracts.

Net overseas debt continues to be the driver of the rising net international debtor position, contributing 93.1 percent compared with 88.6 percent at 30 June 2007. The remainder consists of net international equity liabilities.

Trend

The deficit on the current account trend series has widened to over $4 billion this quarter. The goods and services deficit has fluctuated around the $500 million mark since turning from a surplus to a deficit in the March 2004 quarter. In that time the income and transfers deficit has steadily widened, because income from foreign investment in New Zealand has been growing faster than income from New Zealand investment abroad.

The deficit in the goods and services trend series has increased from $252 million in the March 2008 quarter to $664 million in the June 2008 quarter. This is smaller than the increase in the seasonally adjusted goods and services deficit, which has gone from $203 million to $1,206 million. The trend series removes the impact of irregular events, such as the large-value capital goods imported this quarter that related to the oil industry.



Goods

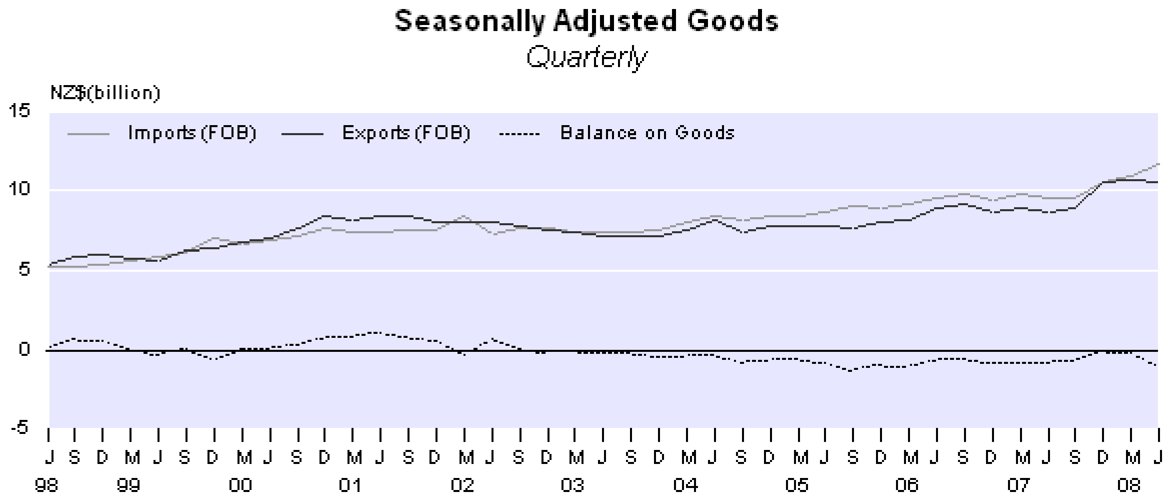
All references are to seasonally adjusted figures unless otherwise stated.

The goods balance was a deficit of $1,066 million in the June 2008 quarter, $867 million more than the March 2008 quarter deficit. The increase in the goods deficit this quarter was due to a decrease in exports of goods and a large increase in imports of goods.

The value of exports of goods was $10,577 million in the June 2008 quarter, a decrease of $115 million from the March 2008 quarter. A significant drop in dairy product export volumes was the main cause of lower export values this quarter. This is the second consecutive quarterly fall in dairy product volumes and is mainly the result of a drought earlier in the year. The price of dairy products also fell slightly (down 0.7 percent), following five consecutive quarterly increases. Partly offsetting the fall in dairy products was a rise in the value of crude oil exports. Increased international prices and a depreciated New Zealand dollar were the main reasons for this increase.

The value of imports of goods increased $753 million in the June 2008 quarter to $11,643 million. The June 2008 quarter is the first quarter imports have exceeded $11 billion. The main contributors to the June 2008 quarter rise were capital goods and petroleum and petroleum products. Within the petroleum and petroleum products category, crude oil showed the largest increase, with a rise in prices slightly offset by a fall in volumes. Prices and volumes of automotive diesel and refined petroleum also increased significantly. Volumes of petroleum and petroleum products are often influenced by large irregular imports.

Imports of capital goods were driven by a rise in volumes this quarter, mostly from large-value capital goods related to the oil industry (see the Overseas Trade Indexes: June 2008 quarter release for further details). The value of consumption goods also increased in the June 2008 quarter, due to higher prices and volumes of household food and beverages.

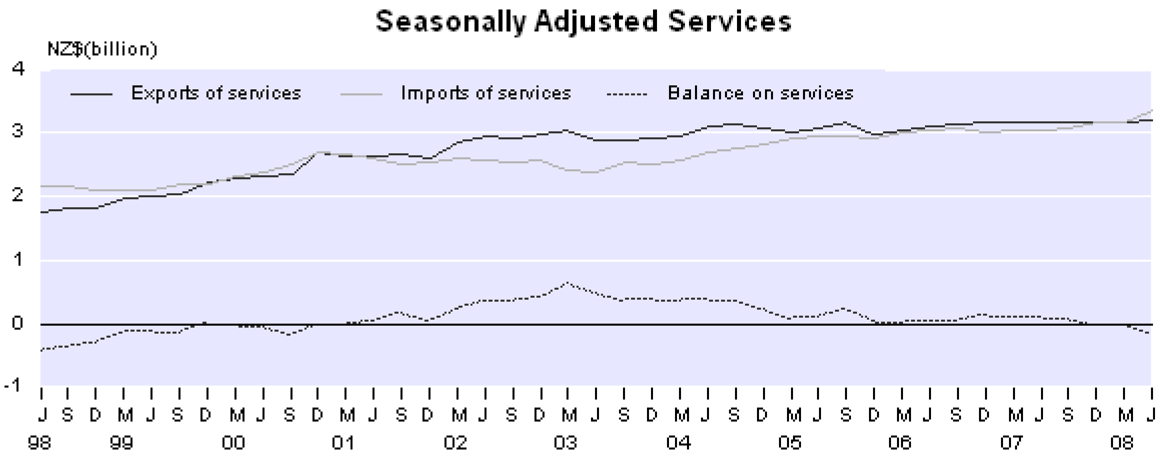


Services

All references are to seasonally adjusted figures unless otherwise stated.

The services balance was a deficit of $140 million in the June 2008 quarter. This deficit is $136 million larger than the revised March 2008 quarter deficit and follows a period of surpluses beginning in the June 2001 quarter.

Exports of services were $3,214 million this quarter, an increase of $33 million from the March 2008 quarter. The increase was mainly due to an increase in exports of travel services, but was partly offset by a decrease in exports of transportation services. Exports of travel, which measures spending of visitors to New Zealand, climbed $76 million this quarter. There was a decrease in the number of visitors to New Zealand this quarter, but this was more than offset by increases in expenditure per person and average length of stay. Revenue from other business services (not seasonally adjusted) increased by $58 million, mainly due to increased earnings from merchanting, accounting and consulting services.



Imports of services were $3,353 million this quarter, an increase of $168 million from the March 2008 quarter. The other business services category, which is not seasonally adjusted, was up $207 million this quarter. This reflects an increase in spending on services related to oil exploration and production, and an increase in management fees paid by New Zealand enterprises to their foreign parent companies. Imports of transportation services were up $44 million, partly reflecting the rising cost of fuel. Imports of travel services were down $26 million – the first fall since the March 2004 quarter. This was due to falling short-term New Zealand resident departures overseas this quarter, which may be linked to the depreciating New Zealand dollar and rising living costs making overseas travel less affordable.

Investment income

The June 2008 quarter investment income deficit of $3,714 million was $232 million larger than the March 2008 deficit. Foreign investors' earnings from their investments in New Zealand were up $214 million, while New Zealand investors' earnings from abroad were down $18 million.

The rise in foreign investors' income from New Zealand this quarter was due to increased earnings by foreign direct and portfolio investors from their New Zealand investments. Foreign direct investors earned $100 million more from their New Zealand subsidiaries. This rise was caused primarily by a $74 million rise in profits earned from these subsidiaries. Of the $1,897 million in profits earned by foreign direct investors this quarter, 90.1 percent ($1,710 million) was distributed as dividends, compared with 122.0 percent (dividends distributed exceeded profits earned) in the March 2008 quarter. Additionally in the June 2008 quarter, more interest was paid to overseas parent companies, reflecting higher levels of borrowing by New Zealand subsidiaries from their overseas parent companies. Foreign portfolio investors earned $104 million more from their New Zealand investments. Dividend payments to these investors were up $117 million, but were partly offset by lower interest due to foreign holders of New Zealand-issued debt securities.

The $18 million fall in income earned from New Zealand's investments abroad this quarter is the second consecutive quarterly fall, and follows a sustained period of increases in earnings from abroad. New Zealand direct investors earned $20 million from their overseas subsidiaries, a fall of $75 million from the March 2008 quarter. There was also less interest earned from portfolio and other lending abroad, resulting from a lower level of loans to abroad by the banking sector and lower returns earned by the official sector. The fall in official sector interest earned was primarily the result of investing in more secure and liquid financial assets abroad. The falls in earnings were partly offset by a $104 million rise in dividends earned from portfolio shareholdings in overseas companies, primarily by New Zealand fund managers.

The year ended June 2008 income deficit of $13,930 million is $1,795 million larger than the year ended June 2007 deficit. Income earned by foreign investors from their New Zealand investments rose $2,348 million to $17,503 million, while income earned from New Zealand's investment abroad rose $553 million to $3,573 million.

The increased returns to foreign investors arose from profits from direct investment in New Zealand companies and dividends from portfolio shareholdings. Combined returns on these equity investments were up $1.0 billion in the June 2008 year, compared with the June 2007 year. Over the same period, interest attributed to foreign investors from their lending to New Zealand was up $1.3 billion.

The rise in income earned from New Zealand's overseas investments in the June 2008 year was mostly due to increased interest, driven mainly by higher levels of reserve assets. There were also increases in profits earned by New Zealand direct investors from their overseas subsidiaries, and in dividends from fund managers' shareholdings in overseas companies.

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 $315 million in the June 2008 quarter, an increase of $168 million from the March 2008 quarter surplus.

Current transfers into New Zealand were $644 million in the June 2008 quarter, up from $486 million in the March 2008 quarter. This increase was mainly due to a rise 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 increase in NRWT this quarter is consistent with the high dividend payments to foreign investors over the past two quarters. There is often a lag between dividends declared and NRWT, as the tax is not due until the month after a dividend is paid.

Current transfers out of New Zealand were $328 million this quarter, a decrease of $11 million. This decrease was due to a fall in government expenditure on subscriptions to international organisations this quarter. Expenditure on official international aid was flat this quarter.

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 $241 million in the June 2008 quarter, $39 million wider than the March 2008 quarter deficit.

Inflows of capital transfers fell $61 million in the June 2008 quarter compared with the March 2008 quarter, mainly due to a fall in the number of migrants coming to New Zealand. Outflows of capital transfers fell $22 million this quarter, with a fall in the number of migrants moving to Australia partly offset by increased emigration to the rest of the world.

Financial account and International Investment Position (IIP)

Financial account (flows)

In the June 2008 quarter, a $4.5 billion net inflow of capital financed New Zealand's current account deficit. This inflow was primarily due to a $5.2 billion withdrawal of New Zealand investment abroad (reducing assets) exceeding a $0.6 billion withdrawal of foreign investment in New Zealand (reducing liabilities). This is in contrast to the March 2008 quarter, when New Zealand's current account deficit was financed by an inflow of foreign investment into New Zealand. The last time the current account deficit was funded primarily by a decrease in New Zealand's assets abroad was the June 2006 quarter.

The net withdrawal of New Zealand investment from abroad featured a $6.9 billion withdrawal of direct and other investment (mainly loans to overseas borrowers). This was partly offset by $1.7 billion of investment abroad in portfolio and reserve assets. The disinvestment from abroad was mainly caused by overseas borrowers reducing their loans from New Zealand banks. In addition, New Zealand banks reduced their deposits abroad and New Zealand direct investors reduced their lending to their overseas subsidiaries.

The transactions decreasing foreign investment in New Zealand consisted of a $2.2 billion withdrawal of other and portfolio investment, partly offset by a $1.5 billion inflow of direct investment. The withdrawal of portfolio and other investment from New Zealand was mostly caused by New Zealand banks reducing their loans from abroad (some of which was related to the reduced lending to abroad noted above) and foreign portfolio investors selling New Zealand company shares. This withdrawal was partly offset by foreign direct investors injecting additional capital into their New Zealand subsidiaries in the form of equity, debt financing and reinvested earnings.

Reconciling the June 2008 quarter financial account and the International Investment Position

The reconciliation table below shows the transaction and non-transaction causes of the shift in the net IIP from the opening and closing net positions for the June 2008 quarter. The term IIP is defined in the technical notes of this publication, along with the associated term net debtor position.

Reconciliation statement – June 2008 quarter					
NZ$(million)					
Net IIP opening at 31 March 2008	Net financial account flows (transactions)	Net exchange rate changes	Net financial derivative valuation changes	Net market price and other valuation changes	Net IIP closing at 30 June 2008
-153,880	-4,546	-463	-259	-46	-159,194

At 30 June 2008, the net debtor position was $159,194 million, an increase of $5,314 million (3.5 percent) from the 31 March 2008 position. The increase was primarily the result of financial account transactions during the quarter. Valuation effects combined with the transactions to increase the net debtor position by a further $768 million. Valuation changes arise from changes in exchange rates, market prices of assets and liabilities (eg shares), changes in the market value of financial derivative contracts, and other changes such as write-offs.

For the June 2008 quarter compared with the March 2008 quarter:

- The New Zealand dollar depreciated against the USD, GBP, AUD and EURO, and appreciated against the JPY.
- The NZSX 50 fell.
- The following overseas share indices fell: All Ordinaries (Australia), S&P 500 (USA), Dow Jones (USA), and FTSE (UK).

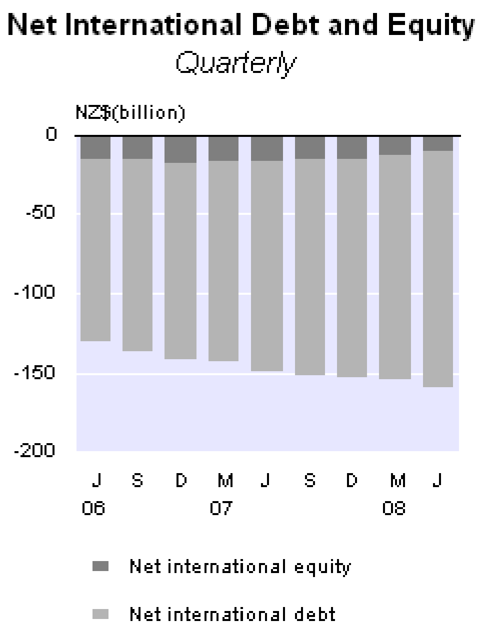
The depreciation of the New Zealand dollar against its main counterpart currencies increased the net debtor position by $463 million. A depreciation of the New Zealand dollar increases the New Zealand dollar value of foreign currency assets and liabilities. At 30 June 2008 New Zealand's foreign currency liabilities exceeded its foreign currency assets. For information on how New Zealand's foreign currency liabilities are hedged, see the Balance of Payments and International Investment Position: Year ended 31 March 2008 release, which will be published on the 25 September 2008.

Market price and other valuation changes are the net result of movements in the market prices of assets and liabilities (eg share prices), the inclusion of an updated non-sampled estimate (NSE), and a review of the international investment survey sample. For further information about the NSE and sample updates, see the technical notes to this release.

International Investment Position

This commentary discusses the presentation of New Zealand's international assets and liabilities as shown in table 10 (see the tables section).

At 30 June 2008, New Zealand's net debtor position of $159.2 billion comprised $129.8 billion of international assets and $289.0 billion of international liabilities. The 30 June 2008 net debtor position was $5.3 billion (3.5 percent) larger than the 31 March 2008 position, and $10.5 billion (7.1 percent) larger than the 30 June 2007 position.



The larger net debtor position at 30 June 2008 when compared with 31 March 2008 was driven primarily by a $6.0 billion fall in New Zealand's lending abroad. In addition, equity assets increased and New Zealand's borrowing from abroad remained relatively stable. As a result, net international debt increased $7.6 billion, while net international equity liabilities decreased $2.3 billion.

The larger net debtor position at 30 June 2008 when compared with 30 June 2007 was driven by a $23.8 billion increase in New Zealand's borrowing from abroad. Net international debt increased $16.5 billion, while net international equity liabilities decreased $6.0 billion. At 30 June 2008 net debt accounted for 93.1 percent of the net international debtor position, compared with 88.6 percent at 30 June 2007.

Assets with a time to maturity of one year or less comprised 58.5 percent of New Zealand's total international assets at 30 June 2008, compared with 57.8 percent at 31 March 2008. Liabilities with a time to maturity of one year or less accounted for 51.8 percent of New Zealand's total international liabilities, compared with 54.6 percent at 31 March 2008.

Next release ...

Balance of Payments and International Investment Position: September 2008 quarter will be released on 22 December 2008.

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Revisions
The tables below present a summary of revisions to the March 2008 quarter BoP and IIP major components, as a result of new or improved data.

Revisions have been made back to the December 2003 quarter for the current account data and back to the June 2000 quarter for the financial account and IIP data. For further details see the supplementary revisions tables and technical notes to this release.

Current and Capital Accounts			
Component	**Previously published March 2008 quarter**	**Revised March 2008 quarter**	**Magnitude of revision**
	$(million)		
Current account credits	15,516	15,461	-55
Current account debits	17,671	17,570	-101
Current account balance	-2,155	-2,109	46
Goods credits	10,406	10,404	-2
Goods debits	10,110	10,110	0
Goods balance	295	294	-1
Services credits	3,837	3,829	-8
Services debits	2,877	2,897	20
Services balance	960	933	-27
Income credits	788	743	-45
Income debits	4,369	4,225	-144
Income balance	-3,580	-3,482	98
Current transfers credits	485	486	1
Current transfers debits	315	339	24
Current transfers balance	170	147	-23
Capital account credits	253	253	0
Capital account debits	457	455	-2
Capital account balance	-204	-202	2

Balance of Payments Financial Account			
Component	**Previously published March 2008 quarter**	**Revised March 2008 quarter**	**Magnitude of revision**
$(million)			
New Zealand investment abroad	5,843	5,853	10
Direct investment	1,222	1,303	81
Portfolio investment	1,272	1,312	40
Other investment	866	755	-111
Reserve assets	2,483	2,483	0
Foreign investment in New Zealand	7,842	8,050	208
Direct investment	2,303	1,963	-340
Portfolio investment	3,927	3,634	-293
Other investment	1,612	2,453	841

Net Errors and Omissions			
Component	**Previously published March 2008 quarter**	**Revised March 2008 quarter**	**Magnitude of revision**
$(million)			
Net errors and omissions	360	114	-246

International Investment Position			
Component	**Previously published March 2008 quarter**	**Revised March 2008 quarter**	**Magnitude of revision**
$(million)			
New Zealand investment abroad	121,603	121,867	264
Direct investment	19,618	20,862	1,244
Portfolio investment	44,779	44,330	-449
Other investment	22,501	21,974	-527
Financial derivatives	10,166	10,162	-4
Reserve assets	24,538	24,538	0
Foreign investment in New Zealand	274,836	275,748	912
Direct investment	93,968	93,292	-676
Portfolio investment	92,319	92,489	170
Other investment	78,697	80,110	1,413
Financial derivatives	9,852	9,856	4

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) 04 931 4600; fax (64) 04 932 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).

Current account

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

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

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

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

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

Conceptual adjustments to exports and imports of goods

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

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

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

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

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

Seasonal adjustment and trend analysis

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

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

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

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

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

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

Reporting on an accrual basis

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

Capital account

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

Financial account

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

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

Note that the income generated/paid from holding 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.
- 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 consulting survey respondents, particularly in respect of large and complex transactions.

Revisions to back series data

The BoP revisions policy is explained in the publication *Balance of Payments Sources and Methods*, chapter 4, Data Dissemination and Related Issues, available on the website at: www.stats.govt.nz. The main features of this policy are repeated here.

The release of statistics for each September, December and March quarter includes revisions to the previous quarter. These quarterly revisions typically arise from the inclusion of data received that is late for the first release, re-statement of data already received and incorporated in published statistics, and corrections to any errors in data processing. The release of each June quarter statistics includes revisions to previous quarters as far back as necessary. The June quarter revisions are termed 'annual revisions'. These revisions typically arise from validation of data previously received against company accounts, conceptual and methodological changes, and reviews of data against more recent information and census benchmarks.

The revisions to the statistics introduced in this June 2008 quarter release extend back to June 2000 quarter. The main reasons for the revisions are:

1. Reconciling data reported in the Quarterly International Investment Survey (QIIS) against published company reports. Company reports are obtained either from the companies concerned, or from the Companies Office. The reconciliation usually possible between a company report and data reported to QIIS is at the level of degree of overseas ownership, profits/loss, value of the company (whether on a listed price, net asset or some other basis), and the levels of financial assets and liabilities. The process of reconciliation identifies those surveyed companies with significant differences or inconsistencies between survey data and company report information. Issues are queried with data suppliers, and resultant changes to survey data made. Revisions to statistics arising from this process cover IIP positions, financial account flows and current account income.

2. Improved information in respect of the classification of some assets and liabilities. This affects classification between instrument types (eg between loans and debt securities, and between equity and debt instruments) and between financial account components eg between direct investment – other capital, and portfolio or other investment. The improved information typically arises from explicit enquiry, as a result of the reconciliation process outlined in point 1 above, or from changed reporting. These revisions do not change the total financial account flows or IIP stock positions, but do change component subtotals.

3. Improved reporting. The main features are corrections to previously reported data, or reporting of data not previously reported. These revisions change total financial account flows, IIP stock positions and current account investment income.

4. Incorporation of results from the Annual International Investment Survey (AIIS). This (i) updates the estimate for those enterprises not included in the quarterly sample survey (the non-sampled estimate – NSE), and (ii) updates the sample of enterprises each quarter in the QIIS. The NSE applies to international investment position (IIP) position data only, and is further explained in the section "Undercoverage estimate for the IIP". In brief, the 2008 AIIS results have been used to revise the NSE for the quarter – end IIP positions from June 2007.

Balance of Payments quality plan

Work is continuing on issues identified in the 2004 *Balance of Payments (BoP) 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 Notes.

International Investment Position

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

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

Presentation of International Investment Position statistics

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

Balance of Payments presentation

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

Balance sheet presentation

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

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

The relationship between the two presentations

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

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

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

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

International debt and external debt statistics

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

Table 10 of the BoP and IIP release presents New Zealand's international balance sheet position, which New Zealand's international debt contributes to. In table 10, gross international debt is termed 'borrowing'. Statistics NZ's measurement of international borrowing differs from their 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 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 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	**30 June 2007**	**31 March 2008**	**30 June 2008**
NZ$(million)			
Total international financial lending IIPQ.S5AA3	70,387	83,662	77,683
less financial derivatives IIPQ.S5AA6F	9,958	10,958	9,514
External lending	60,429	72,704	68,169
Total international liabilities IIPQ.S5AL3	202,100	224,272	225,858
less financial derivatives IIPQ.S5AL6F	10,969	10,470	9,172
External debt	191,131	213,802	216,686
Net external debt	-130,702	-141,098	-148,517
Net international debt IIPQ.S5AA2B	-131,713	-140,609	-148,176
Difference; net external debt *less* net international debt	1,011	-489	-341

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 $2.8 billion as at 30 June 2008 (2.5 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 this release. We now expect the necessary changes to be implemented in the release of June 2009 quarter statistics in September 2009.

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.

Undercoverage estimate for the International Investment Position

The data sources for BoP financial account and IIP statistics comprise a set of surveys. The main survey is the QIIS. Other sources include: the Treasury and RBNZ, surveyed directly each quarter; a quarterly survey of New Zealand resident nominees; and the 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 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 comprise New Zealand's measured international investment positions.

(ii) Update the sample used in the regular quarterly sample survey (QIIS). To reduce the compliance load faced by the smaller businesses that typically comprise the AIIS population, the AIIS questionnaire is an abbreviated form of the QIIS questionnaire.

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

Non-sampled estimate		
Period	**Total New Zealand investment abroad**	**Total foreign investment in New Zealand**
$(billion)		
March 2007	1.6	8.2
June 2007–December 2007	1.7	8.9
March 2008	1.9	9.0
June 2008	1.9	7.8

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 to the sample of fund managers surveyed each quarter has 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** $(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 to this release as an addendum item. The data is as at 31 December only.

The December 2003 and December 2002 data presented above is 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**
	$(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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Timing

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

Tables

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

1. Balance of payments major components, quarter ended
2. International investment position, at end of quarter
3. Balance of payments seasonally adjusted and trend series, quarter ended
4. Current account goods, quarter ended
5. Current account services, quarter ended
6. Current account income, quarter ended
7. 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

Supplementary revisions tables

The following tables show revisions to figures published in the *Balance of Payments and International Investment Position: March 2008 quarter* release. These tables can 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. Revisions to the Current and Capital Account for the June 2008 quarter
2. Revisions to the Financial Account and International Investment Position for the June 2008 quarter