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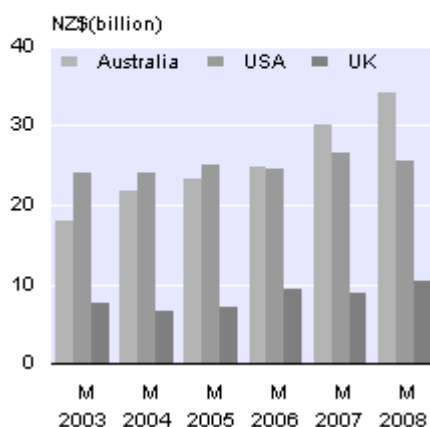
Balance of Payments and International Investment Position: Year ended 31 March 2008 (erratum published 23 January 2009)

Highlights

- At 31 March 2008, Australia was the source of 31.7 percent of foreign investment in New Zealand and the destination of 28.0 percent of New Zealand's investment abroad.
- At 31 March 2008, 92.2 percent of New Zealand's foreign currency external debt was hedged.
- At 31 March 2008, Australia was New Zealand's main source of direct investment, while the USA and the UK were New Zealand's main sources of portfolio investment.
- The finance and insurance industry continues to dominate holdings of New Zealand's international assets and liabilities.

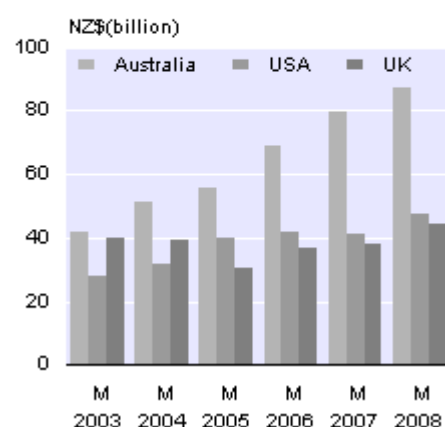
Stock of Total New Zealand Investment Abroad

Three main countries
Year ended March



Stock of Total Foreign Investment in New Zealand

Three main countries
Year ended March



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Commentary

Overview

This release brings together previously released quarterly statistics into year ended March totals. Also included are some additional tables, which have not previously been published.

Included in this release:

- additional information on financial account flows and international investment position (IIP) stocks, disaggregated by country (tables 3 to 10)
- New Zealand's total international assets and liabilities disaggregated by industry (table 11) – this year, these have been created under the Australian and New Zealand Standard Industrial Classification (ANZSIC) 2006 edition methodology (see technical notes for more details)
- New Zealand's imports and exports of services by type (tables 12 and 13)
- hedging of New Zealand's foreign currency denominated overseas debt (tables 14 to 16)
- the ratio of the current account deficit to Gross Domestic Product (GDP) (table 17).

Review: the year ended March 2008

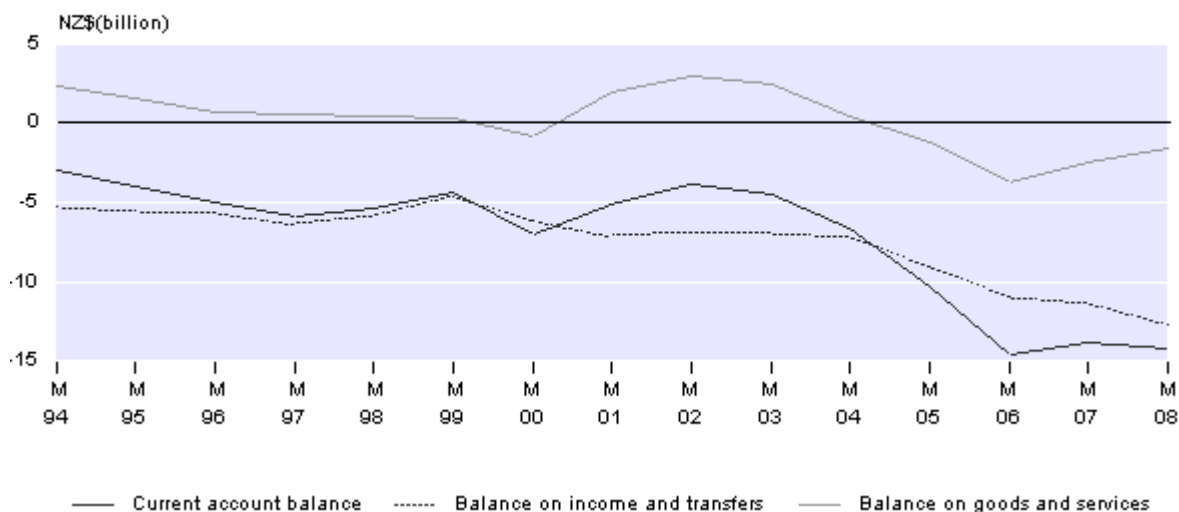
The current account deficit for the year ended March 2008 was \$14.2 billion (8.0 percent of GDP), compared with a year ended March 2007 deficit of \$13.8 billion (8.3 percent of GDP). The \$0.4 billion increase in the deficit was mainly due to an increase in the investment income deficit over the period, which was partly offset by an improvement in the balance on goods.

The investment income deficit rose from \$12.0 billion in the March 2007 year to \$13.4 billion in the March 2008 year. Income earned by foreign investors in New Zealand increased by \$2.3 billion over this period. Foreign investors earned more profits and dividends from their investments in New Zealand companies, and more interest from New Zealand's overseas debt. This was partly offset by a \$0.9 billion increase in New Zealand's income from investment abroad.

The goods deficit fell from \$2.8 billion in the March 2007 year to \$1.7 billion in the March 2008 year. Exports of goods were up \$3.1 billion in the March 2008 year, mainly due to increased prices and volumes of dairy products. The Tui oilfield also began full-time production during this period, increasing exported volumes of petroleum and petroleum products. Imports of goods increased \$2.0 billion over the same period, with the largest contributor being petroleum and petroleum products.

Current Account Annual Component Balances

Year ended March



The current account deficit was financed by a net capital inflow of \$15.1 billion over the March 2008 year. This inflow was made up of \$27.5 billion of foreign investment in New Zealand, partly offset by \$12.4 billion of New Zealand investment abroad.

The \$27.5 billion inflow of foreign investment in the year to March 2008 was \$3.4 billion more than for the year to March 2007. This year, portfolio investment of \$14.5 billion accounted for 52.9 percent of the total inflow of foreign investment into New Zealand, compared with the previous year when direct investment accounted for a similar percentage of the inflow of foreign investment. Portfolio investment inflows for the March 2008 year were mainly in short-term debt securities.

The \$12.4 billion of New Zealand investment abroad in the March 2008 year was comprised mainly of investment in reserve assets by the official sector (Reserve Bank of New Zealand (RBNZ) and the New Zealand Treasury), and direct investment in overseas subsidiaries by the New Zealand corporate sector. In addition, New Zealand fund managers continued to invest in shares of overseas companies.

The net International Investment Position (IIP) showed a net debtor position (an excess of liabilities over assets) of \$153.9 billion at 31 March 2008, a \$10.7 billion (7.5 percent) increase from the net debtor position at 31 March 2007. The increase was driven by \$15.1 billion of net financial account transactions, which was partly offset by a net \$4.4 billion of changes in the valuation of New Zealand's financial assets and liabilities. Valuation changes arise from changes in exchange rates, market prices of assets and liabilities, changes in the market value of financial derivative contracts and other changes such as write-offs.

At 31 March 2008, the level of New Zealand investment abroad increased by \$10.8 billion compared with the March 2007 level. The value of reserve assets held abroad and the value of financial derivatives increased \$4.2 billion and \$3.8 billion, respectively.

Review: the years since March 2003

The current account deficit of \$14.2 billion in the year ended March 2008 is a threefold increase on the \$4.5 billion deficit for the March 2003 year. The investment income deficit has grown steadily over this time from \$7.0 billion to \$13.4 billion and the balance on goods has shifted from a surplus for the year ended March 2003 to a \$1.7 billion deficit. The balance on services has also decreased, from a surplus of \$1.8 billion to a surplus of \$0.2 billion over this period.

The balance on goods was a deficit of \$1.7 billion in the year ended March 2008, a \$2.4 billion turnaround from the March 2003 surplus. However, the goods balance has improved \$2.4 billion from its peak of a \$4.1 billion deficit in the year ended March 2006. This contraction of the deficit was mainly due to rising dairy product exports from the March 2006 year onwards, and to increased exports of petroleum and petroleum products during the March 2008 year.

Imports of services have increased \$2.4 billion between the March 2003 and March 2008 years, while exports increased \$0.8 billion. This caused the balance on services to fall from a surplus of \$1.8 billion to a surplus of \$0.2 billion over this period. The main impact on the fall in the services surplus is growth in the expenditure of New Zealanders travelling abroad, while foreign tourists' expenditure in New Zealand has remained stable. The result has been a \$1.2 billion fall in the surplus on travel services, from \$4.2 billion in the March 2003 year to \$3.0 billion in the March 2008 year.

The investment income deficit has widened each year since the year ended March 2003. The income deficit in the year ended March 2008 is 7.5 percent of GDP compared with 5.4 percent of GDP in the March 2003 year. The widening income deficit was due to earnings of foreign investors from their investments in New Zealand outstripping earnings from New Zealand investment abroad. Foreign investors' earnings rose from \$9.3 billion in the March 2003 year to \$17.1 billion in the March 2008 year. The strongest impact has been from increased interest paid on New Zealand's overseas debt. At 31 March 2008, overseas debt of \$224.3 billion was \$82.3 billion higher than the \$142.0 billion level at 31 March 2003.

New Zealand's net overseas debt (lending to abroad less borrowing from abroad) was \$140.6 billion at 31 March 2008, up \$62.0 billion from March 2003. This rise in net overseas debt was partly offset by an \$8.7 billion fall in the net equity liability position, resulting in a \$53.3 billion (53.0 percent) rise in New Zealand's net IIP liability position at March 2008 compared with March 2003.

Trade in services

New Zealand's trade in services with the rest of the world is a major component of the current account. Services are collected by type, with the main types being transportation services and travel services. Exports of services occur when a New Zealand resident provides a service to a non-resident. Imports of services occur when New Zealand residents purchase services from non-residents.

The balance on services was a surplus of \$189 million for the year ended March 2008, down from a surplus of \$377 million for the March 2007 year. This decrease in the

surplus over this period was due to imports of services increasing by more than exports of services.

Exports of services increased \$106 million between the March 2007 and March 2008 years. The largest contributor to this increase was transportation services, which includes New Zealand resident airline sales of international airfares to non-residents, and expenses incurred by non-resident carriers while in New Zealand. Personal, cultural and recreational services also contributed to the rise in services exports. Partly offsetting this was a fall in travel services, which measures spending by overseas visitors to New Zealand.

The value of imports of services increased \$294 million from the March 2007 year to the March 2008 year. Imports of travel services (which measures New Zealand travellers' expenditure overseas) were up \$278 million over the period, due to greater numbers of New Zealanders travelling abroad. Operational leasing payments were up \$92 million, mainly due to payments on ships and other large capital items.

Investment by country

When interpreting country statistics, please note that the country of investment is the country in which the immediate counterparty resides, rather than the ultimate source or destination of the investment. This is further discussed in the technical notes section of this release.

Australia remains New Zealand's main investment partner, both as a destination for New Zealand investment abroad, and as a source of foreign investment into New Zealand. As a result, APEC and OECD (economic groupings of which Australia is a member) continue to be New Zealand's principal investment partners.

At 31 March 2008, the stock of New Zealand's investment abroad was \$121.9 billion, and the stock of foreign investment in New Zealand was \$275.7 billion. The three main sources of, and destinations for, New Zealand's international investment continue to be Australia, the United States of America (USA), and the United Kingdom (UK). Australia is our main investment partner for direct investment, while the USA and the UK are our main sources of portfolio investment.

At 31 March 2008, Australia accounted for \$11.5 billion (55.3 percent) of New Zealand's direct investment abroad and \$50.8 billion (54.5 percent) of foreign direct investment into New Zealand. The level of Australian direct investment into New Zealand has increased \$29.6 billion between 31 March 2003 and 31 March 2008 while the proportion of total direct investment that this represents has increased from 36.3 percent to 54.5 percent.

The USA and UK are New Zealand's most significant investment partners in respect of portfolio investment (mostly debt securities). As at 31 March 2008, these countries are the source of 46.0 percent of this form of investment in New Zealand. Australia and the UK are the most significant sources of foreign 'other' investment in New Zealand (mostly loans), together accounting for 55.7 percent of this form of investment. A feature of this portfolio and other investment is the New Zealand banking sector continuing to use the US and UK as funding sources.

New Zealand investment abroad occurs mainly in Australia, the USA and the UK, with \$70.0 billion (57.5 percent) of total investment at 31 March 2008 attributed to these three countries, mainly in the form of portfolio investment. Australia, the USA and the UK are where the majority of equity investment by New Zealand fund managers is placed. Other countries featuring as destinations of New Zealand's investment abroad at 31 March 2008 were Germany, the Netherlands, and Japan.

During the year ended March 2008 flows of investment into New Zealand were \$27.5 billion. Of this, the largest contribution came from Australia (\$7.8 billion). The UK (\$6.6 billion) and the USA (\$6.9 billion) were also significant contributors. The main form of the Australian investment into New Zealand was 'other' investment, reflecting an increase in borrowing by the New Zealand banking sector. Flows of New Zealand investment abroad were \$12.4 billion over the same period, with \$1.3 billion of investment flows to the USA, the main destination.

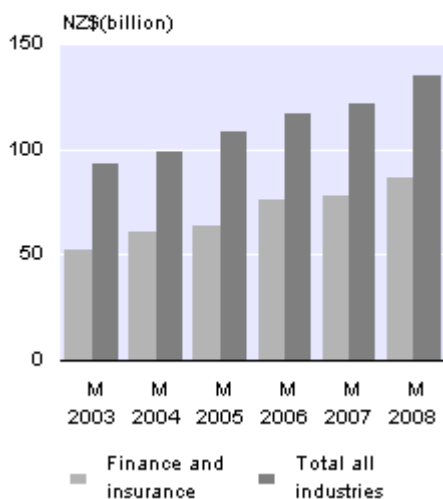
Investment by industry

Table 11 presents the stock of New Zealand's total international assets and liabilities by industry, as at 31 March. The data is presented on a balance sheet basis, as opposed to an international investment position basis. The industry classification now used is the Australian and New Zealand Standard Industrial Classification (ANZSIC) 2006 edition. Surveyed enterprises are assigned to the industry that best represents the overall activity of their group. This activity can change from year to year. For more information about industrial classifications and the presentation of the data, please refer to the technical notes.

New Zealand's international assets and liabilities are predominantly held by the financial and insurance services industry. At 31 March 2008, the industry held \$86.2 billion of New Zealand's international assets and \$173.0 billion of New Zealand's international liabilities. This equated to 64.0 percent of New Zealand's international assets (64.8 percent at March 2007) and 59.9 percent of New Zealand's international liabilities (57.8 percent at March 2007).

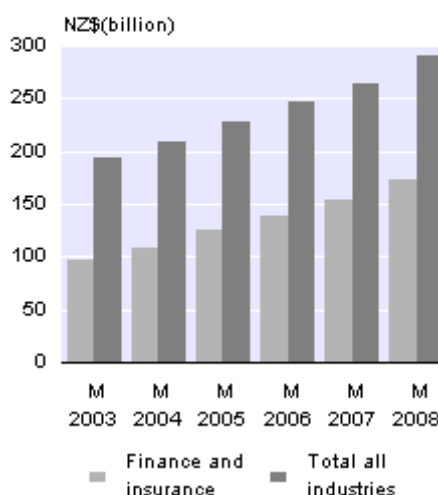
Stock of International Assets by Industry

Year ended March



Stock of International Liabilities by Industry

Year ended March



At 31 March 2008, foreign investment of \$26.0 billion in the New Zealand manufacturing industry made up 9.0 percent of New Zealand's liabilities. The manufacturing industry's overseas assets decreased by \$0.9 billion from year ended March 2007 to \$17.0 billion at 31 March 2008. The manufacturing industry now holds 12.6 percent of New Zealand's assets abroad at 31 March 2008, down from 14.9 percent at 31 March 2007.

The public administration industry's overseas assets were valued at \$10.7 billion at 31 March 2008, little changed from 31 March 2007. International liabilities rose by \$2.4 billion to \$17.5 billion at 31 March 2008 from the level at 31 March 2007. This is due to an increase in the levels of New Zealand government issued debt securities held by foreign investors. At 31 March 2008 the public administration industry held 7.9 percent of New Zealand's international assets and 6.1 percent of New Zealand's international liabilities.

Comparing 31 March 2003 and 31 March 2008, the financial and insurance services industry has accounted for most of the rise in New Zealand's international assets and liabilities. During the period the industry's international assets have increased by \$33.8 billion (64.5 percent) and its liabilities have increased by \$75.8 billion (78.1 percent). The growth in assets chiefly reflects investing abroad by the New Zealand Superannuation Fund, and the Reserve Bank of New Zealand increasing its holdings of reserve assets. Over the same period, the growth in liabilities largely reflects banks obtaining funding from abroad in their role as financial intermediaries.

Hedging

At 31 March 2008, 92.2 percent of New Zealand's total foreign currency denominated external debt was hedged compared with 92.8 percent at 31 March 2007.

New Zealand's total foreign currency denominated external debt rose to \$109.9 billion at March 2008 from \$88.0 billion at March 2007. Of this debt at March 2008, \$101.4 billion (92.2 percent) was hedged, and \$8.6 billion (7.8 percent) was not hedged.

Of the \$101.4 billion hedged debt, 88.0 percent (\$89.2 billion) was hedged by financial derivative contracts and 12.0 percent (\$12.2 billion) was naturally hedged against foreign currency balance sheet assets and expected foreign currency receipts.

Of New Zealand's \$109.9 billion foreign currency external debt at 31 March 2008, US dollar denominated external debt was \$59.1 billion (53.7 percent) and Australian dollar denominated external debt was \$16.3 billion (14.8 percent). At 31 March 2007, the US dollar denominated external debt was \$48.8 billion and the Australian dollar denominated external debt was \$14.3 billion.

For New Zealand's four major borrowing currencies (USD, AUD, JPY and EURO), hedging of the March 2008 debt levels ranged from 83.4 percent (AUD) to 98.3 percent (EURO).

Of the \$59.1 billion in US dollar denominated external debt at March 2008, \$54.9 billion (93.0 percent) was hedged. Of the hedged debt, 88.7 percent was hedged using financial derivatives and 11.3 percent was hedged by use of natural hedges against foreign currency balance sheet assets or expected foreign currency receipts.

Of the \$16.3 billion Australian dollar denominated external debt, \$13.6 billion (83.4 percent) was hedged. Of the hedged debt, 78.9 percent was hedged using financial derivatives and 21.1 percent was hedged by use of natural hedges against foreign currency balance sheet assets or expected foreign currency receipts.

Next release ...

Balance of Payments and International Investment Position: Year ended 31 March 2009
is expected to be released in September 2009.

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Technical Notes

Introduction

The conceptual framework used in New Zealand's Balance of Payments (BoP) and International Investment Position (IIP) statistics is based on the fifth edition of the International Monetary Fund's Balance of Payments Manual (BPM5). Descriptions of the underlying concepts, data sources and methods used in compiling the estimates are presented in the *Balance of Payments Sources and Methods* report, available on the Statistics New Zealand website. A printed copy can be obtained from Statistics NZ by phoning (64) 04 931 4600, faxing (64) 04 932 2026, emailing: publications@stats.govt.nz, or [online](#).

Balance of payments

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

Current account

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

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

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

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

- Balance on goods. This is goods exports (credits) less goods imports (debits).
- Balance on services. This is services exports (credits) less services imports (debits).
- Balance on income. This is income receipts (credits) less income payments (debits).
- Balance on current transfers. This is current transfer inflows (credits) less current transfer outflows (debits).
- Balance on goods and services. This is goods and services exports (credits) less goods and services imports (debits).

- Balance on income and current transfers. This is income and current transfer inflows (credits) less income and current transfer outflows (debits).
- Balance on current account. This is the sum of the balance on goods and services and the balance on income and current transfers.

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 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, 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.

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

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

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

Data confidentiality

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

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

The current BoP data quality projects underway include:

- 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 is a three-stage project. 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 included:

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

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 occurred during the period. Examples of the latter are revaluations, changes in market prices 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

The balance sheet presentation 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 by industry (table 11).

The relationship between the two presentation

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.

Debt securities issued in New Zealand by non-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 in the March 2008 year.

Reserve Bank of New Zealand securities subject to repurchase agreements

Non-resident issued debt securities, denominated in foreign currencies and held by the Reserve Bank of New Zealand (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. We expect the necessary changes to be implemented in the release of June 2009 quarter statistics in September 2009.

Annual Managed Funds Survey

The Annual Managed Funds Survey (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 Annual Managed Funds Survey	
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 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

Country breakdowns

The disaggregations by country made available with this release are for the BoP financial account and IIP components (direct, portfolio and other) with a country disaggregation of total investment. Financial derivatives and reserve assets are not disaggregated by

component by country in this release. The data for these two components is, however, included in the tables of total investment by country: financial derivatives (table 6) and reserve assets (tables 6 and 10). For example, the sum of each component in tables 3 (direct investment), 4 (portfolio investment) and 5 (other investment) do not add to total investment in table 6, the difference being the value of reserves and financial derivatives included in table 6.

The country allocation represents the country in which the immediate non-resident counter-party is resident. This provides the first level source or destination in all cases, but will not necessarily describe the ultimate source or destination of the transaction or investment.

This attribution of country of the non-resident counter-party in the BoP and IIP statistics is consistent with IMF BPM5 standards. For example, if an investor from the United States acquires the majority ownership in a New Zealand company via a regional head office in Australia, then this direct investment would be classified to Australia. Similarly for New Zealand investment overseas, the country classification is the country in which the immediate non-resident investee is located. There are cases where New Zealand companies own subsidiaries overseas, which in turn raise funds in international capital markets and lend to the New Zealand parent companies. The liabilities of the New Zealand direct investor is classified to the country in which the overseas subsidiary is located.

For portfolio assets that are under the management of New Zealand fund managers, a common practice is for the New Zealand fund managers to place these funds under the management of overseas fund managers, who then invest in a worldwide portfolio. These assets are classified to the country of the first-level destination, that is, the country in which the first-level overseas fund manager is resident.

The primary source of financial account and IIP data is the Quarterly International Investment Survey (QIIS), a sample survey. Each March year-end, the AIIS is directed at a selection of the enterprises that are not in the regular quarterly sample (refer to 'Undercoverage estimate for the International Investment Position (IIP)' below). These results are used to update the non-sampled estimate that has been in use since the previous census. Because the AIIS results are not allocated to countries, in tables 3 to 6 of this release the data is reflected at the aggregate levels only; and in table 11 the results form part of the item 'unallocated to industry'.

Economic regions

The countries that are allocated to the European Union (EU), Organisation for Economic Co-operation and Development (OECD), Association of South-East Asian Nations (ASEAN), and the Asia Pacific Economic Co-operation (APEC) economic regions are presented below.

EU* United Kingdom, Ireland, Austria, Belgium, France, Germany, Luxembourg, Netherlands, Denmark, Finland, Sweden, Italy, Portugal, Spain, Greece.

OECD Australia, New Zealand, United Kingdom, Ireland, Austria, Belgium, France, Germany, Luxembourg, Netherlands, Switzerland, Denmark, Finland, Iceland, Norway,

Sweden, Italy, Portugal, Spain, Greece, Czech Republic, Hungary, Poland, Slovakia, Turkey, Japan, Republic of Korea, Canada, United States of America, Mexico.

ASEAN Myanmar, Cambodia, Laos, Thailand, Viet Nam, Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore.

APEC Australia, New Zealand, Papua New Guinea, Russia, Thailand, Viet Nam, Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, People's Republic of China, Hong Kong (Special Administrative Region), Japan, Republic of Korea, Republic of Taiwan, Canada, United States of America, Chile, Peru, Mexico.

*Ten countries that joined the EU on 1 May 2004 [Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia] are included in statistics published at March 2005. Two additional countries [Bulgaria and Romania] joined the EU on 1 January 2007 and these are included in the March 2007 statistics.

Industry classifications

The Australian Bureau of Statistics and Statistics New Zealand jointly developed the Australian and New Zealand Standard Industrial Classification (ANZSIC) for use in the compilation and analysis of industry statistics in Australia and New Zealand, to enhance the comparability of industry statistics between the two countries and the rest of the world.

The industry assigned to New Zealand's overseas assets is the industry classification of the New Zealand firm making the investment abroad. The data does not necessarily represent the overseas industry in which the New Zealand investment is held. Foreign investment into New Zealand is recorded as being held in the industry in which the New Zealand resident recipient firms are classified.

ANZSIC 2006 edition

Table 11 in this publication has been compiled on the ANZSIC 2006 basis.

The 2006 edition of ANZSIC replaces the 1993 edition. It has been developed to reflect changes in the structure and composition of the economy, changing user requirements and to further enhance comparability with international industry statistics.

The implementation of ANZSIC 2006 has resulted in the following changes:

- the addition of two new categories: professional, scientific and technical services; and administrative and support services.
- the movement of some assets and liabilities between the redefined classifications.

More detailed information on the ANZSIC 2006 and 1993 editions can be found [here](#).

An alternative version of table 11 in this publication has been compiled using the ANZSIC 1993 edition. This version of the table is available upon request.

Reclassification of group top enterprises

In the data collection process the survey target is usually the top New Zealand enterprise of the group of enterprises linked by common ownership. Typically the New Zealand group top enterprise will have an ANZSIC of K6240 (financial asset investing). This classification usually does not reflect the main activity of the group as a whole.

To improve analysis, group top enterprises may be reclassified to better reflect the industry in which they operate. These are assigned using the following process:

- all New Zealand resident activity units of the New Zealand group have their ANZSIC codes truncated to four characters
- the activity units are grouped by ANZSIC classification
- the New Zealand group top enterprise is assigned the ANZSIC of the grouping with the highest employee count (EC)
- there are cases where the EC does not reflect the principal industry of the enterprise. In such cases financial information is used to determine a more appropriate ANZSIC.

Hedging

The hedging survey collects information measuring the extent of hedging of New Zealand's overseas debt liabilities denominated in foreign currencies. The results are intended to supplement the IIP statistics by providing indicative information on risk management practice of New Zealand enterprises in respect of their overseas financial liabilities denominated in foreign currencies. The hedging (risk management) measured in the survey is by way of financial derivative contract, balance sheet assets or expected foreign currency revenues.

At 31 March each year, a selection of New Zealand enterprises are surveyed to obtain information covering the extent to which their overseas liabilities denominated in foreign currencies are hedged, and by what means. The first such statistics were collected for 31 March 1998.

Users need to be aware that the methodology used since the 2003 survey differs from that used in the 2002 and previous surveys, and the data series are not directly comparable. Up to and including the 2002 survey, the survey encompassed resident New Zealand enterprises that collectively accounted for about 80 percent of New Zealand's overseas debt liabilities denominated in foreign currencies. In 2003 a new stratified sampling methodology was designed and implemented to account for all foreign currency external liabilities. The objective was to include an estimate of the extent of hedging by the small enterprises previously excluded. The new sampling methodology selects enterprises on the basis of full coverage for the major banks and non-bank enterprises (including official sector) and a stratified sample of the remaining enterprises known to have overseas financial liabilities denominated in foreign currencies. The sample continues to be drawn from the population for the QIIS.

In table 14:

- From March 2003 onwards, the total foreign currency denominated overseas debt represents New Zealand overseas debt denominated in foreign currencies excluding financial derivatives in a net liability position. For comparability

purposes, the 2001 and 2002 figures for total foreign currency denominated overseas debt were revised to exclude financial derivatives in a net liability position.

- The data series from 2003 onwards has been revised and the revisions are being published in the 2008 release. These revisions were primarily made to hedging behaviour and were regarded as necessary given the results obtained from earlier analysis and inquiries made about the data supplied.
- The figure for 'encompassed by the supplement' is the total foreign currency debt of the enterprises included in the hedging sample survey. In the 2008 survey, an 87 percent response rate was achieved.

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 QMFS, which is a joint RBNZ/Statistics NZ collection. For further information about the BoP financial account and IIP data sources refer to chapter 11 of the Balance of Payments Sources and Methods, available on www.stats.govt.nz.

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

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

The amount by which the quarterly sample survey is estimated to undercover the population is derived from the AIIS. The AIIS survey collects data as at 31 March each year from a population of enterprises identified as being relevant to the BoP financial account and the IIP, but not surveyed in the QIIS. AIIS is intended to be a census every three years and sample surveys in the interim years. The results of the AIIS are used to:

- Provide IIP (table 2) positions to supplement the regular quarterly sample survey (QIIS). This estimate is known as the non-sampled estimate (NSE) and is added to the results of each quarter's QIIS results and included in the published accounts. The QIIS and NSE estimates of investment positions make up New Zealand's measured international investment positions.
- Update the sample used in the regular quarterly sample survey (QIIS). To reduce the compliance load faced by the smaller businesses that typically make up the AIIS population, the AIIS questionnaire is an abbreviated form of the QIIS questionnaire.

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

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, year ended 31 March
2. International investment position, at 31 March
3. Stock of direct investment by country, at 31 March
4. Stock of portfolio investment by country, at 31 March
5. Stock of other investment by country, at 31 March
6. Stock of total investment by country, at 31 March
7. Flow of direct investment by country, year ended 31 March
8. Flow of portfolio investment by country, year ended 31 March
9. Flow of other investment by country, year ended 31 March
10. Flow of total investment by country, year ended 31 March
11. International assets and liabilities by industry at 31 March
12. Exports of services, year ended 31 March
13. Imports of services, year ended 31 March
14. Hedging: scope of the supplement, at 31 March
15. Hedging of New Zealand's foreign currency denominated external debt, at 31 March
16. Hedging by currency of denomination, at 31 March
17. Balance of payments ratios, year ended in quarter

Erratum

A correction was made to table 1 of the tables accompanying the *Balance of Payments and International Investment Position: Year ended 31 March 2008* Hot Off The Press information release, published on 25 September 2008. The revised numbers were for the year ended 31 March 2004, and the affected components were 'Balance on income', 'Income from foreign investment in New Zealand', and 'Current account balance'. The correction is set out below:

	Originally published	Revised
Balance on income	-7,328	-7,359
Income from foreign investment in New Zealand	9,734	9,765
Current account balance	-6,688	-6,718