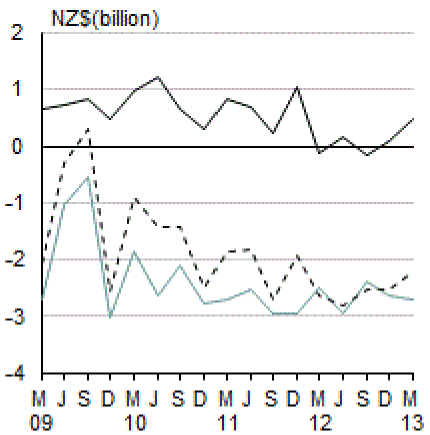
# Balance of Payments and International Investment Position: March 2013 quarter

Embargoed until 10:45am – 19 June 2013

## Key facts

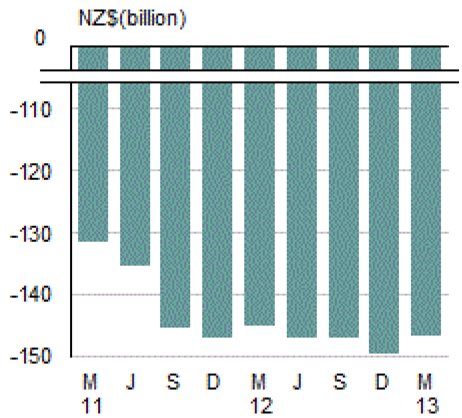
- New Zealand's seasonally adjusted current account deficit ($2.2 billion) in the March 2013 quarter was down $0.3 billion from the December 2012 quarter deficit.
- The smaller quarterly deficit was due to a $404 million increase in the surplus for the balance on goods and services.
- For the year ended March 2013, the current account deficit was 4.8 percent of GDP, compared with 5.0 percent for the year ended December 2012.
- Net international liabilities were $146.7 billion (69.3 percent of GDP) at 31 March 2013, $2.9 billion less than at 31 December 2012.

**Seasonally adjusted balances**
Quarterly




Source: Statistics New Zealand

**Net international investment position**
Quarterly




Source: Statistics New Zealand

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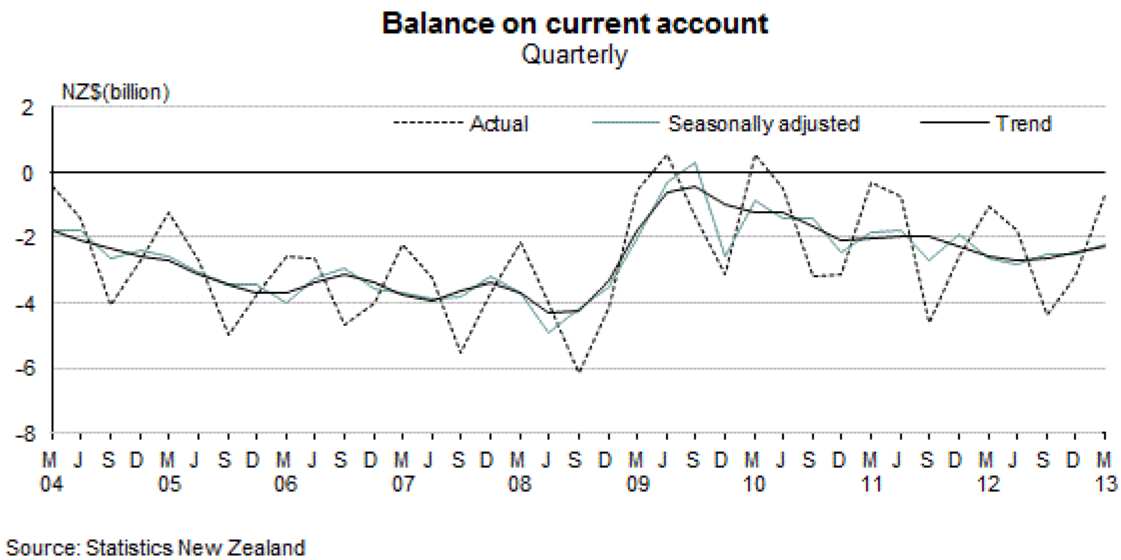
## Commentary

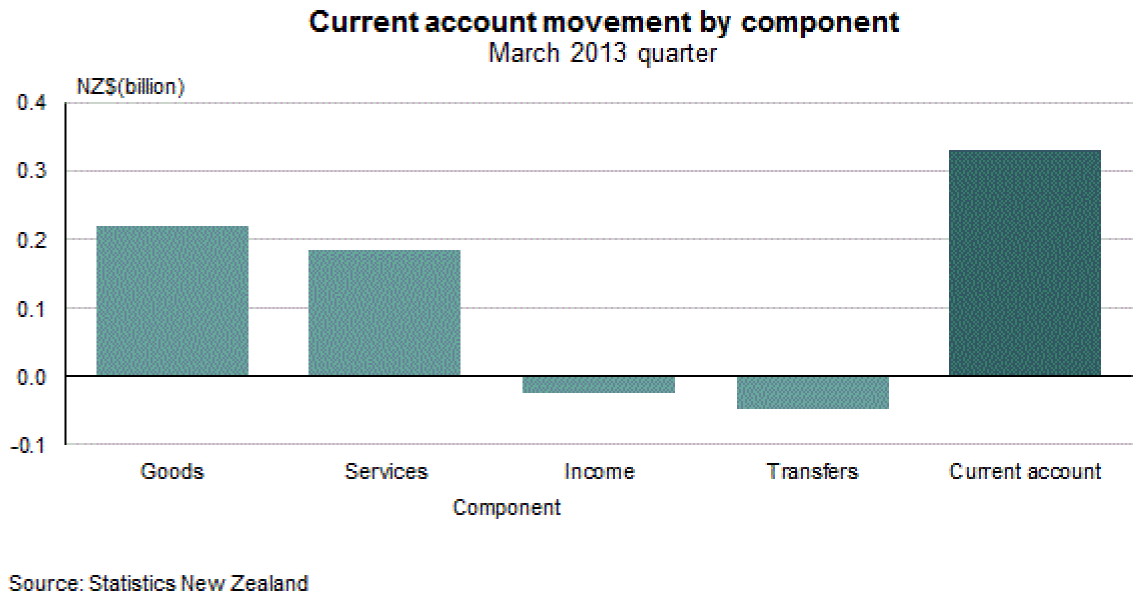
- Overview of March 2013 quarter
- Almost half of all overseas reinsurance claims from Canterbury earthquakes settled
- Goods surplus increases as exports rise
- Exports of services up as overseas visitors spend more
- Balance on income remains flat
- Decreasing inflows of current transfers increase deficit
- Capital account deficit increases
- Financial account shows New Zealand companies purchasing debt securities
- Net international liabilities decrease

## Overview of March 2013 quarter

New Zealand's **seasonally adjusted current account balance** was a deficit of $2,209 million in the March 2013 quarter, compared with a $2,539 million deficit in the December 2012 quarter.




The smaller deficit in the latest quarter was due to an increase in the surplus for the balance on goods and services. The balance on income and transfers remained relatively flat this quarter.

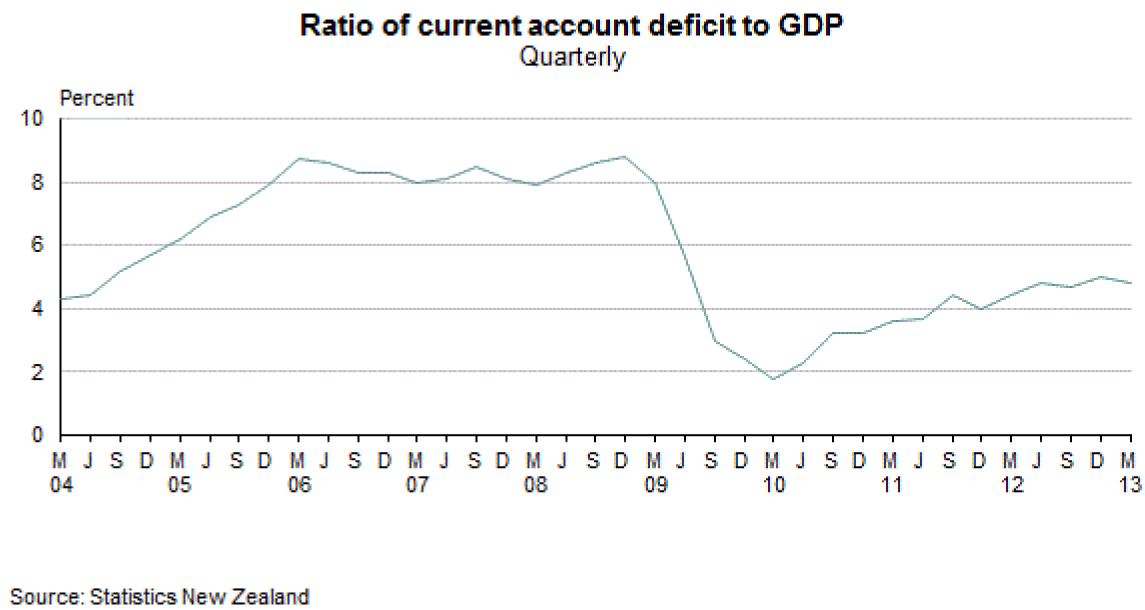



## Exports of goods and services increase

The **balance on goods and services** surplus grew $404 million from the December 2012 quarter to the March 2013 quarter. Exports of goods (mainly dairy products) and services (mainly spending by overseas visitors to New Zealand) both increased.

## Falling goods imports behind lower year-end current account balance to GDP ratio

The **current account deficit** was $10.1 billion (4.8 percent of GDP) for the year ended March 2013, compared with a deficit of $10.5 billion (5.0 percent of GDP) for the year ended December 2012. Imports of goods fell $0.4 billion over this time, mainly due to lower volumes of petroleum and petroleum products.



### New Zealand companies purchase debt securities

New Zealand invested $5.3 billion overseas during the March 2013 quarter. This overseas investment was led by banks and fund managers purchasing overseas debt securities.

New Zealand's **financial account** showed a net investment outflow of $1.6 billion in the March 2013 quarter. Proceeds from the sales of New Zealand Government bonds to overseas investors were mostly used by the Reserve Bank to increase their holdings of foreign currency reserve assets this quarter.

Conceptually, a net outflow of investment is inconsistent with a (non-seasonally adjusted) current account deficit. As a result, the balance of payments shows a residual of $2.3 billion for the March 2013 quarter. This suggests that we are either underestimating investment inflows, or overestimating investment outflows this quarter.

We are confident that we have included all measurable flows in our figures, and that areas of undercoverage relating to the residual are mostly in the financial account, rather than the current account. See the data quality section of this release for more detail on this quarter's residual.

### International liability position narrows as overseas sharemarkets improve

New Zealand's **net international liability position** fell to $146.7 billion (69.3 percent of GDP) at 31 March 2013, from $149.6 billion (71.4 percent of GDP) at 31 December 2012. Rising overseas share prices increased the value of New Zealand's overseas assets during this time.

## Almost half of all overseas reinsurance claims from Canterbury earthquakes settled

Total international reinsurance claims from all Canterbury earthquakes are now estimated at $18.6 billion, an upwards revision of $0.7 billion from previously published estimates. At 31 March 2013, a total of $9.2 billion of these claims had been settled with overseas reinsurers, leaving $9.5 billion of claims outstanding. See the table below for details:

| **Updated reinsurance claim estimates** | | | |
|---|---|---|---|
| **Quarter** | **Reinsurance claims** | **Settlements** | **Total outstanding claims at end of period** |
| | NZ$(million) | | |
| Sep 2010 | 4,838 | 0 | 4,838 |
| Dec 2010 | 0 | 0 | 4,838 |
| Mar 2011 | 12,719 | 59 | 17,499 |
| Jun 2011 | 1,018 | 483 | 18,034 |
| Sep 2011 | 0 | 849 | 17,185 |
| Dec 2011 | 53 | 1,149 | 16,089 |
| Mar 2012 | 0 | 1,327 | 14,761 |
| Jun 2012 | 0 | 1,357 | 13,404 |
| Sep 2012 | 0 | 1,362 | 12,042 |
| Dec 2012 | 0 | 1,563 | 10,478 |
| Mar 2013 | 0 | 1,010 | 9,468 |

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

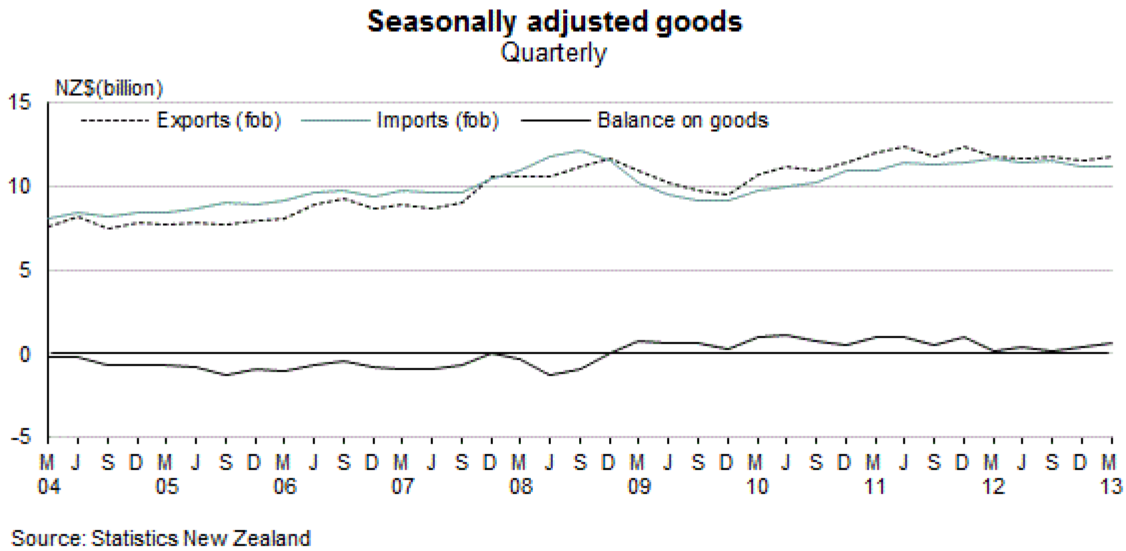
## Goods surplus increases as exports rise

All references are to seasonally adjusted figures unless otherwise stated.

The **balance on goods** was a surplus of $615 million in the March 2013 quarter, $220 million more than the December 2012 quarter surplus. Exports of goods increased, while imports of goods were flat as a rise in volumes was offset by falling prices.

The rise in exports of goods was mainly due to increased volumes of dairy product exports this quarter. Dairy product prices also rose, after falling for the previous six quarters. See Overseas Merchandise Trade: March 2013 for further detail.

Exports of non-fuel crude materials, which includes forestry products, and dairy by-products like casein, also increased this quarter.




### Falling imports cause larger goods surplus than a year ago

In actual dollar terms, the goods balance was a surplus of $1.2 billion in the March 2013 quarter, up $0.4 billion from the March 2012 quarter. The increase in the surplus over this time was mainly due to a $0.4 billion fall in imports of goods. Petroleum and petroleum product imports were lower than a year ago.

## Exports of services up as overseas visitors spend more

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

The **balance on services** was a deficit of $124 million in the March 2013 quarter, $183 million less than in the previous quarter. Exports of services rose, while imports of services fell.

Exports of services increased $116 million from the previous quarter, mainly due to increased spending by overseas visitors to New Zealand. Visitor numbers had a small increase in the

March 2013 quarter; these visitors also spent more on average. New Zealand companies earned more revenue from providing transportation services this quarter.

Imports of services decreased $68 million, as expenditure fell across a range of commercial services (which are not seasonally adjusted). Less spending on computer and information services, and lower royalty payments, were the most significant contributors to the overall fall in service imports.

### Overseas visitors spend more than a year ago

In actual dollar terms, the **balance on services** was a surplus of $886 million in the March 2013 quarter, $182 million more than the March 2012 quarter surplus. The larger surplus than a year ago is mainly due to increased exports of services.

Overseas visitors to New Zealand spent $120 million more in the latest quarter than for the same quarter a year ago. Visitor numbers remained relatively flat over this time, but average spending by these visitors rose.

Imports of services fell $79 million compared with a year ago, mainly due to lower payments for transportation services.

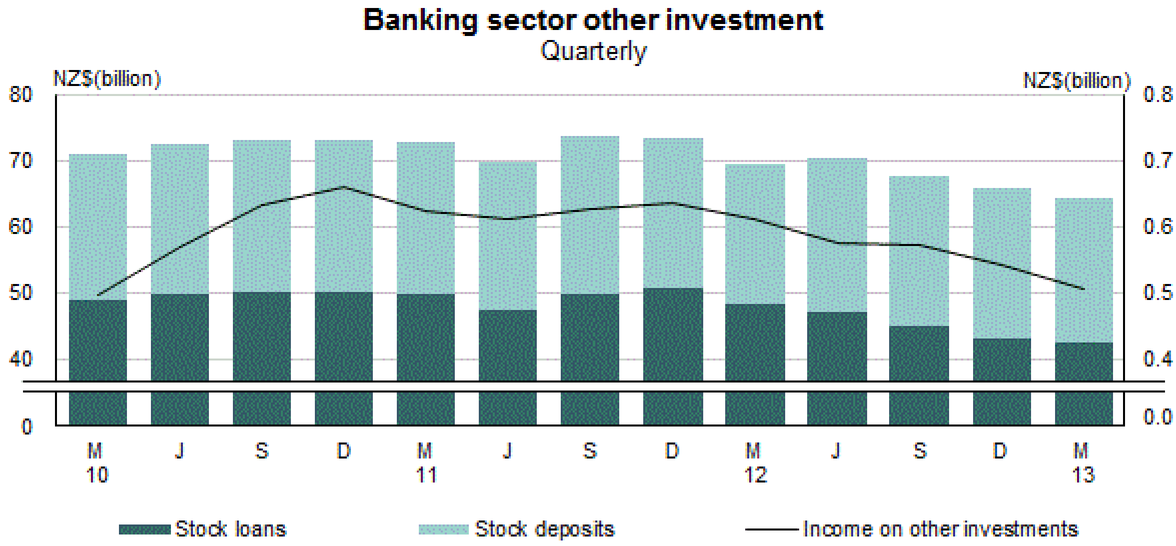
## Balance on income remains flat

The **income deficit** was $2,566 million in the March 2013 quarter, an increase of $25 million from the previous quarter's deficit. A fall in dividend income earned by foreign portfolio investors (which typically occurs in March quarters) was partly offset by lower profits earned by New Zealand-owned subsidiaries abroad.

### Interest payments on New Zealand's overseas debt fall

Income from other foreign investment in New Zealand, which is mostly interest payments on New Zealand's overseas debt, fell to the lowest level since the June 2004 quarter. This is consistent with lower levels of debt, and low interest rates in recent years.

The banking sector has been reducing their debt over the past few quarters, mostly in the form of short-term loans and deposits.




Source: Statistics New Zealand

## Decreasing inflows of current transfers increase deficit

The **balance on current transfers** was a deficit of $135 million in the March 2013 quarter, $49 million larger than the previous quarter's deficit. Inflows of current transfers decreased, while outflows of current transfers increased. The New Zealand Government received less non-resident withholding tax in the latest quarter.

## Capital account deficit increases

The **capital account balance** was a deficit of $70 million for the March 2013 quarter, compared with a $55 million deficit in the previous quarter. An increase in outflows of capital transfers more than offset an increase in inflows.

## Financial account shows New Zealand companies purchasing debt securities

New Zealand's **financial account** recorded a net investment outflow of $1,590 million in the March 2013 quarter. The net outflow this quarter was mainly driven by banks and fund managers purchasing overseas debt securities.

### Issued government bonds used to increase reserve assets

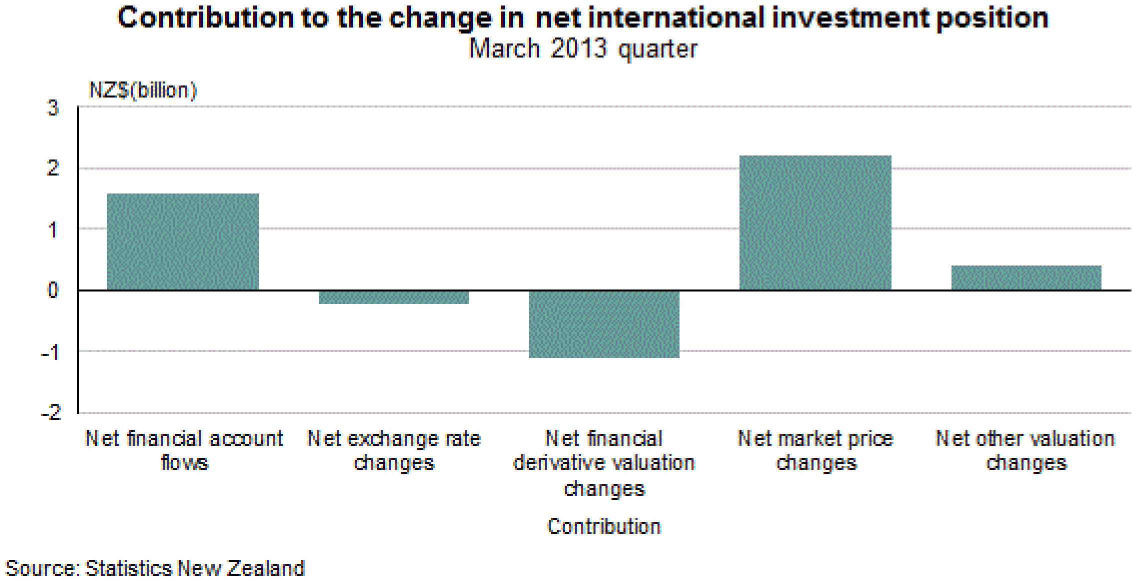
Overseas investors continued to buy New Zealand Government bonds. This quarter, most of the money received from these purchases was used to increase New Zealand's stock of foreign exchange reserve assets. This means the official sector had little effect on net investment flows this quarter.

## Net international liabilities decrease

New Zealand's **net international liabilities** at 31 March 2013 were $146.7 billion (69.3 percent of GDP), down $2.9 billion from 31 December 2012. The main reasons behind this fall were an increase in the value of New Zealand's portfolio investment, and smaller loan and deposit liabilities to overseas.

### New Zealand increases portfolio investment abroad

The value of New Zealand's overseas portfolio investment increased this quarter. Rising overseas share prices increased the value of shares held abroad, while New Zealand banks and fund managers purchased debt securities.

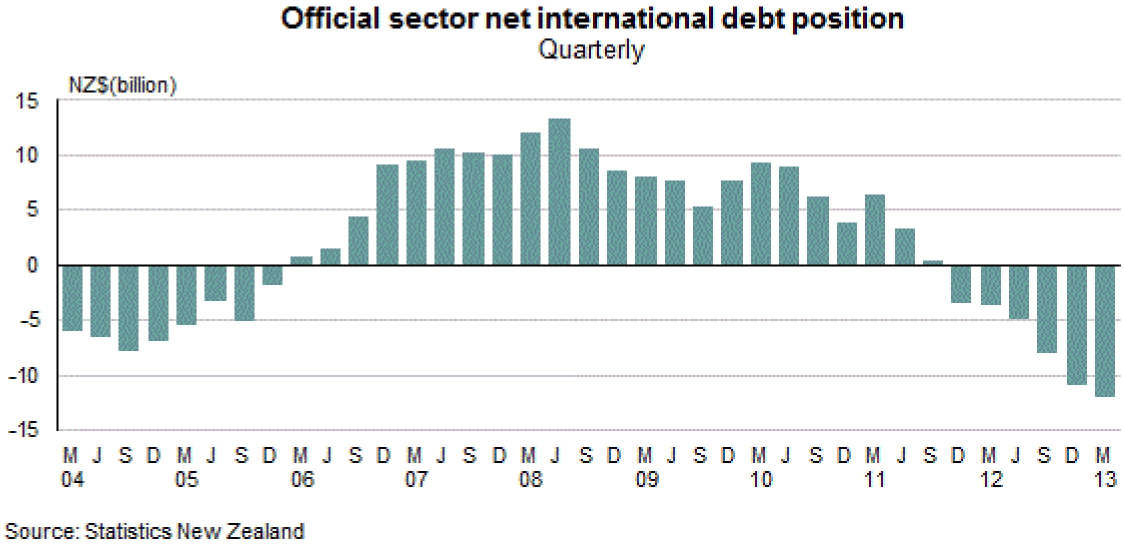


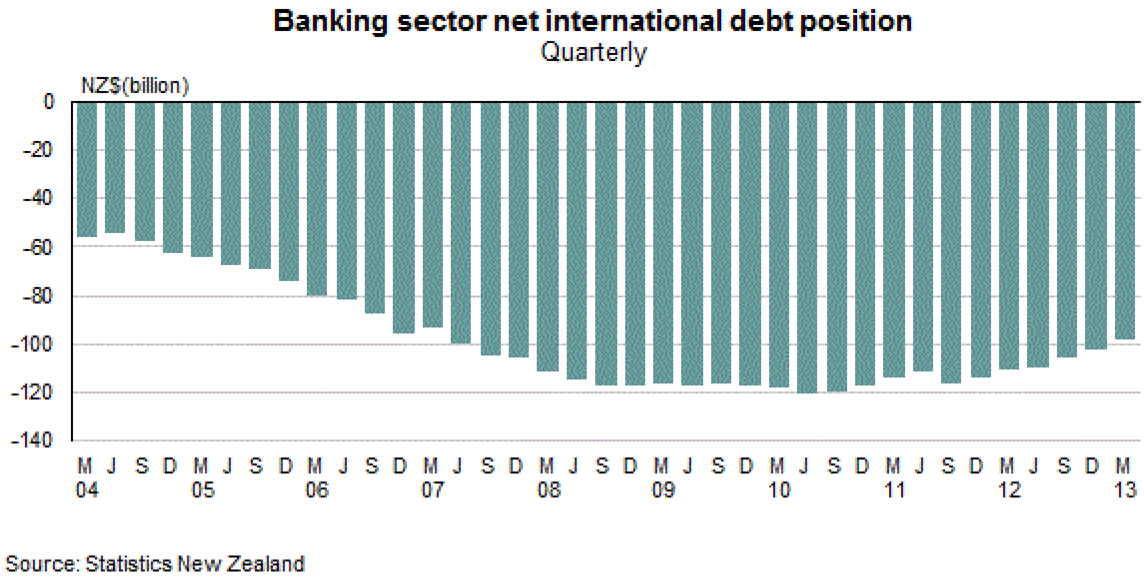

### Outstanding reinsurance claims in the international liability position

Outstanding claims on overseas reinsurers relating to the Canterbury earthquakes were estimated to be $9.5 billion at 31 March 2013. Excluding these claims, New Zealand's net international liability position would be $156.1 billion (73.8 percent of GDP).

### Banking debt continues to fall while net official sector debt continues to rise

New Zealand's net international debt fell $2.5 billion to $139.1 billion at 31 March 2013, mainly due to reduced borrowing by the banking sector. Net borrowing by the banking sector fell $4.2 billion this quarter, which was partly offset by a $1.1 billion rise in net borrowing by the official sector.




## External debt decreases

New Zealand's net external debt was 65.6 percent of GDP at 31 March 2013, compared with 68.0 percent of GDP at 31 December 2012. This is the smallest ratio of external debt to GDP since 30 September 2005.

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

# Definitions

## About the balance of payments and international investment position

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

**International investment position (IIP):** New Zealand's IIP statement provides a snapshot of the country's international financial assets and liabilities. It measures the stock (or level) of New Zealand's financial assets and liabilities with the rest of the world at a particular point in time.

The IIP includes New Zealand's net international debt (lending to non-residents less borrowing from non-residents) and net international equity investment (investment in shares abroad less foreign investment in New Zealand company shares). A net international debtor position means that international liabilities exceed international assets.

The BoP and IIP statistics are closely related, with the former measuring transaction flows and the latter measuring stock positions. The difference in the level of international financial assets and liabilities between two points in time is due to:

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

## More definitions

**Capital account:** has two components – capital transfers and the acquisition or disposal of non-produced, non-financial assets. Capital transfers involve the transfer of ownership of fixed assets, or the transfer of funds linked to them, without any counterpart transaction (eg migrants transfers).

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

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

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

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

**Financial account:** records financial transactions involving New Zealand claims on assets, and liabilities to, non-residents.

The financial account is classified into assets and liabilities, which are broken down by type of investment (direct, portfolio, other investment, and reserve assets) and instrument of investment.

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

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

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

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

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

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

Examples of services are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Related:** a relationship classification introduced for the external lending and debt series and applied solely to the bank sector, due to their role as financial intermediaries. Captures funding and claims between a bank and its direct investment partners (the bank's parent and its own subsidiaries) where the purpose of funding and claims is financial intermediation – borrowing to lend.

**Unrelated:** a relationship classification introduced for the external lending and debt series. Captures all positions in all debt instrument types that are not the subject of a direct or related (bank sector only) investment relationship.

**Official sector:** the sector comprising general government and the monetary authorities.

# Related links

## Upcoming releases

The *Balance of Payments and International Investment Position: June 2013 quarter* will be released on 18 September 2013.

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

Subscribe to information releases, including this one, by completing the online subscription form.

## Past releases

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

## Related information papers

New Zealand's direct investment with Australia: How the global financial crisis affected profits and reinvestment – looks at what happens to profits of Australian-owned companies in New Zealand, and New Zealand-owned companies in Australia, with analysis of how the global financial crisis of 2008–09 may have affected company decisions around reinvestment.

Introducing expanded external lending and debt statistics – extra information about the first release of a new series about New Zealand's international lending and debt.

Improving New Zealand's macroeconomic statistics: changes up to December 2012 – informs users of New Zealand's macroeconomic statistics about data changes that were included in the international and national accounts in 2012.

Revised treatment of the Canterbury earthquakes' impact on overseas investment income – discusses the impact of Statistics NZ's decision to improve consistency in the macroeconomic accounts by further revising its treatment of insurance and reinsurance claims that resulted from the Canterbury earthquakes occurring from September 2010.

## Related information

Global New Zealand – annual international trade, investment, and travel profiles produced in conjunction with the Ministry of Foreign Affairs and Trade.

Investment by country – data on investment flows between New Zealand and all other countries, the stock of New Zealand's investment abroad, and stocks of investment in New Zealand held by all other countries, at 31 March 2012.

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

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

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

See Balance of payments for links to additional information papers.

# Data quality

**Period-specific information**
This section contains information about data updates since the last release.

- Net errors and omissions in the March 2013 quarter
- Movement in seasonally adjusted goods imports in the December 2012 quarter
- Earthquake-related figures revised

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

- Data sources
- Surveys and guides
- Sources and methods
- Conceptual adjustments to exports and imports of goods
- E-commerce undercoverage investigation
- Non-life insurance premiums in the balance of payments
- FISIM adjustments applied to current account
- Seasonal adjustment and trend analysis
- Reporting on an accrual basis
- Expanded external lending and debt statistics
- Undercoverage estimate for the international investment position
- Net errors and omissions (residual)
- RBNZ securities subject to repurchase agreements
- International trade in carbon emissions units
- Confidentiality and accessing the data

## Period-specific information

### Net errors and omissions in the March 2013 quarter

In the March 2013 quarter we recorded a net errors and omissions (residual) figure of $2.3 billion. This positive figure means that the sum of measured debits is greater than the sum of measured credits. A residual in the balance of payments can arise from measurement errors, calculation errors, and/or undercoverage of transactions.

We are confident the source of the March 2013 net errors and omission figure is general undercoverage rather than errors in our calculations, measurement problems, or incorrect survey methodologies. One particular area of undercoverage in our statistics is that we do not measure transactions in financial derivatives. Stocks of financial derivative assets fell $2.3 billion this quarter, while financial derivative liabilities fell $1.2 billion. These changes in the stocks can be due to either (unmeasured) transactions, or valuation changes relating to price and exchange rate movements.

See the note on Net errors and omissions below in the general information section for details on why the balance of payments statistics include a net errors and omissions figure as a balancing item, and the possible areas of undercoverage we identified within the balance of payments statistics produced.

### Movement in seasonally adjusted goods imports in the December 2012 quarter

Seasonally adjusted imports of goods fell $394 million from the September 2012 quarter to the December 2012 quarter. However, most of this fall cannot be linked to imports at a commodity level in Overseas Merchandise Trade: December 2012 figures, since total imports of goods are adjusted for seasonal effects independent of its commodities (direct seasonal adjustment). This differs from indirect seasonal adjustment, where the total series is the sum of seasonally adjusted and unadjusted sub-series.

The main reason behind the fall in seasonally adjusted imports of goods in the December 2012 quarter was past movements in imports of transport equipment. Transport equipment is a volatile series with no seasonal pattern, and is a significant contributor to total imports of goods.

Transport equipment increased $508 million from the September 2010 quarter to the December 2010 quarter, and increased $448 million from the September 2011 quarter to the December 2011 quarter. However, transport equipment imports only increased $67 million in the December 2012 quarter, leading to a large fall for total seasonally adjusted imports of goods.

### Earthquake-related figures revised

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

| Updated Canterbury reinsurance claims on non-resident reinsurers | | | |
|---|---|---|---|
| Quarter | Previously published reinsurance claims | Revised reinsurance claims | Size of revision |
| | NZ$(million) | | |
| Sep 2010 | 4,747 | 4,838 | 91 |
| Dec 2010 | 0 | 0 | 0 |
| Mar 2011 | 12,122 | 12,719 | 597 |
| Jun 2011 | 995 | 1,018 | 23 |
| Sep 2011 | 0 | 0 | 0 |
| Dec 2011 | 32 | 53 | 21 |
| Mar 2012 | 0 | 0 | 0 |
| Jun 2012 | 0 | 0 | 0 |
| Sep 2012 | 0 | 0 | 0 |
| Dec 2012 | 0 | 0 | 0 |

## General information

### Data sources

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

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

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

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

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

- the International Visitors Survey – operated by a marketing company for the Ministry of Tourism (which supplies quarterly data used in the measure of exports of travel services in the current account)
- the Quarterly Managed Funds Survey (QMFS) – a joint Reserve Bank of New Zealand (RBNZ) and Statistics NZ operation that supplies data for the current account component of income (credit), and the financial account and IIP components of portfolio investment, financial derivatives, and other investment (assets).

**Administrative data** – for example, non-resident withholding tax data from Inland Revenue, and New Zealand Customs Service records of imports and exports that are published by Statistics NZ each month as overseas merchandise trade statistics.

**Financial market information** – including interest and exchange rates and share prices. Much of this information is taken from public information sites.

## Surveys and guides

For more information about the data sources, see:

Quarterly Balance of Payments
International Trade in Services and Royalties Survey
International Transportation Survey
International Visitors Survey
International Insurance Survey
New Zealand Travellers Expenditure Model
Quarterly International Investment Survey
Government Current Transactions
Government Transfers
Migrants Transfers – cash
Personal Transfers
Quarterly Nominees Survey
Managed Funds Survey

## Sources and methods

The conceptual framework used in New Zealand's BoP and IIP statistics is based on the fifth edition of the International Monetary Fund's (IMF) *Balance of Payments Manual* (BPM5). For descriptions of the underlying concepts, data sources, and methods used in compiling the estimates, see the Balance of Payments Sources and Methods: 2004.

The IMF published the sixth edition of the *Balance of Payments and International Investment Position Manual* (BPM6) in 2009. In July 2012, Statistics NZ began a programme of work to implement new international standards, including BPM6, into New Zealand's macroeconomic accounts. The first *Balance of Payments and International Investment Position* information release aligning with BPM6 is planned for 2014.

The work programme for implementing new international standards includes changes to our questionnaires and other data collection vehicles. Ongoing work to address known areas of undercoverage, such as transactions in financial derivatives, will be incorporated into this project.

Please see net errors and omissions (residual) section below for a discussion of known areas of undercoverage.

## Conceptual adjustments to exports and imports of goods

Conceptual adjustments are made to the overseas merchandise trade statistics (sourced from the New Zealand Customs Service) to comply with the BoP convention of recording goods in the current account. In BoP, exports and imports of goods are recorded when ownership of the goods passes from a resident to a non-resident, or vice versa. For merchandise trade statistics, goods are recorded as exports or imports when they cross a customs frontier. The following adjustments are made to overseas merchandise trade data to meet BoP recording conventions:

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

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

## E-commerce undercoverage investigation

New Zealand households are increasingly using the Internet as a tool for household commerce. When a purchase is made from an overseas website, it should be captured in the BoP current account as an import of goods or a service. We are constantly reviewing our methodology in an effort to accurately measure the economy, and we have identified the increased household imports from international Internet purchases as an area of undercoverage.

When goods valued at over $1,000 are imported, they are included in overseas merchandise trade and balance of payments statistics, whether purchased over the Internet or not. Goods valued under $1,000 are not included, but estimates from New Zealand Customs (NZCS) show that, annually, $150 million of goods are imported with a declared value between $400 and $999. This figure has remained flat over time, so does not show an increase relating to e-commerce in recent years. This flatness suggests that the majority of online purchases are valued under $400. However, goods under $400 are not required to be declared to NZCS, since no duty is payable on these purchases.

Statistics NZ is currently investigating options to estimate imports of goods under $400 and imports of services, such as sales and payments to non-residents for Internet downloads.

## Non-life insurance premiums in the balance of payments

Non-life insurance premiums paid are made up of service and risk elements. This represents the fact that when a premium is paid it doesn't necessarily result in a future claim, although the insurance company still provides a service. A payment made without receiving any goods or services in return is called a transfer (eg tax payments or benefits). Therefore, the service part of a premium is recorded as insurance services, while the risk part is recorded as current transfers.

We use the average domestic service charge ratio (ADSCR) to determine the proportions of non-life reinsurance premiums allocated to services and transfers. The ADSCR is the five-year average of non-life insurance claims paid divided by total premiums.

## FISIM adjustments applied to current account

**Financial intermediation services indirectly measured** (FISIM) is a type of financial service fee that is charged by banks and similar financial institutions; the service fee is indirect because the value is not explicit within an interest transaction.

We have introduced FISIM values into the balance of payments statistics, from the June 2000 quarter onwards. The September 2012 quarter release was the first to include FISIM adjustments – by amending the non-explicit service fee from within the other investment income series (table 6: BOPQ.S5AC1B203 and BOPQ.S5AD1B203) and transferring the service fee to the financial services imports and exports series (table 5: BOPQ.S5AC1A206 and BOPQ.S5AD1A206). There is no net effect on the current account balance because the changes to export and import services are offset by changes in interest flows.

Only banks can export FISIM. However, all sectors can import FISIM if they hold loan and deposits with an overseas bank.

For example, when a New Zealand resident deposits money in an overseas bank, the amount of actual interest received is less than that earned because the overseas bank deducts their service fee charge (FISIM import). For BoP to calculate the desired 'pure interest' earned, the service fee (FISIM) is added to other investment income received (credits).

In contrast, when a New Zealand bank lends to a non-resident, the interest charged on the loan by the New Zealand bank includes a service fee charge (FISIM exports). For BoP to calculate the desired 'pure interest' charge, the service fee (FISIM) is deducted from other investment income received (credits).

These FISIM transactions with non-residents are now recorded in the current account by BoP as either an export or import of financial services.

See Financial intermediation services indirectly measured in the national accounts, for a comprehensive description of FISIM.

In general, exports of FISIM are slightly higher than imports, which leads to either a reduced balance on service deficit or an increased surplus. The revisions to the balance on services (and balance on income) over time were within the range of $14.5 million to $48.5 million per quarter.

## Seasonal adjustment and trend analysis

Quarterly current account statistics are subject to large, short-term movements, both irregular and seasonal, which makes interpreting 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 the seasonal component removed, trend series have both the seasonal and the irregular components removed. An example of an irregular event is the purchase of a frigate in the December 1999 quarter. Trend estimates reveal the underlying direction of movement in a series and are likely to indicate turning points more accurately than are seasonally adjusted estimates.

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

The seasonally adjusted current account is the sum of adjusted goods and services, and the actual income and transfers series. Seasonally adjusted balances are calculated as being the sum of adjusted exports minus adjusted imports. The seasonally adjusted series are produced using the X-12-ARIMA seasonal adjustment package. The trend estimates are based on a five-term Henderson moving average of the seasonally adjusted series, with an adjustment for outlying values.

Towards the end of the series, trend estimates may change, when new data points are available to the estimation process. The main reason is that the trend is calculated as a 'centred moving average' of the seasonally adjusted series. Seasonally adjusted values are also revised, as they are also calculated using centred moving average technology. These revisions are generally smaller than those made to the trend series.

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

## Reporting on an accrual basis

BoP asks survey respondents to provide data on an accrual basis (when the service occurs), as opposed to a payments basis (when the payment is actually received/made). However, when it is not possible to separate out payments on an accrual basis, BoP sometimes receives 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.

## Expanded external lending and debt statistics

The September 2012 quarter release was the first to include two new tables on New Zealand's external lending and debt (ELD). (See table 15: External lending and debt all sectors, and table 16: External lending and debt by sector and relationship.) The new series complements the existing international investment position (IIP) and international financial assets and liabilities measures of New Zealand's international balance sheet position. The primary difference from the other measures is the exclusion of financial derivatives. The new tables also include additional relationship classifications and sector breakdowns to facilitate additional analysis.

Net international/external 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. The new ELD series complies with the IMF's External Debt Guide (2003), which excludes financial derivatives because no principal is required to be repaid and interest is not accrued.

Introducing expanded external lending and debt statistics provides more information on the ELD series and its connection with the international investment position and the international financial assets and liabilities series.

## Undercoverage estimate for the international investment position

The QIIS, Quarterly Nominees, and QMFS are all sample surveys. Estimates for non-surveyed enterprises (undercoverage estimates) are determined each year for the QIIS and incorporated into the published accounts. No estimate is made for survey undercoverage for the Quarterly Nominees Survey (which supplies data on foreign portfolio equity investment in New Zealand via resident nominees). Information available from the equities market indicates that the level of survey undercoverage is negligible. The QMFS is a sample of principal New Zealand fund managers.

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

The amount by which the quarterly sample survey is estimated to undercover the population is derived from the Annual International Investment Survey (AIIS). The AIIS survey collects data at 31 March each year from a population of enterprises identified as relevant to the BoP financial account and the IIP, but not surveyed in the QIIS. AIIS is intended to be a census every three years and a sample survey in between. The results of the AIIS are used to do two things.

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

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

## Net errors and omissions (residual)

BoP statements are compiled using the double-entry bookkeeping system to ensure that the accounts balance in the accounting sense. For example, we record exports of goods 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, we use a balancing item called the 'net errors and omissions' or 'residual'. The residual is always entered on the credit side of the account.

The residual can be calculated by one of two means:

- the sum of all current, capital, and financial account credits (inflows), less the sum of all the debits (outflows)
- the current account balance, plus the net flow of the capital and financial accounts.

A positive entry means that the sum of the debits is greater than the sum of the credits.

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

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

- The primary data sources for the financial account and IIP are sample surveys. While a new estimate is made for the non-sampled IIP stock positions each year, no estimate is made for financial account transactions.
- Transactions relating to managed funds that are not surveyed each quarter. Note that financial account transactions are not estimated for this item.
- Data about transactions arising from settling and trading in financial derivative contracts are not requested from survey respondents.
- Financial transactions of business units that are not surveyed quarterly, or identified annually via the Inland Revenue-reported income tax data included in BoP. The business units mostly include estates and trusts, partnerships, small-sized companies, and individuals. All types of investment flows of these businesses are excluded, except shares held by these entities in Australian-listed companies. We include an estimate of the investment flows of these entities in Australian-listed companies in the BoP financial account.

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

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

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

## 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 (not investment abroad; reserve assets). The cash received for the 'repoed' security is recorded as a liability in the IIP as: foreign investment in New Zealand: other investment; loans. This is the collateralised loan approach to recording repoed securities. However, in the IIP, the repoed security is misclassified to New Zealand investment abroad; other investment; other instruments (instead of to portfolio investment); debt securities. Statistics NZ plans to improve the classification of the repoed securities within the financial account at a future time.

## International trade in carbon emission units

The classification of carbon emission units is outlined in chapter 13.14 of the *Balance of Payments Manual* (6th edition), which classifies tradable emission permits as economic assets. BPM6 states the resale of carbon emission units by a resident to a non-resident enterprise should be recorded in the capital account of the balance of payments.

Statistics NZ follows this treatment and includes international trade in carbon emission units in the 'Acquisition and disposal of non-produced, non-financial assets' series in the capital account. For example, the sale of emission units by a New Zealand resident to a non-resident is recorded as a capital account inflow (credit). Statistics NZ's quarterly international trade in services and royalties survey measures the international sale and purchase of carbon emission units included in our statistics.

## Confidentiality and accessing the data

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

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## Revisions

The tables below present a summary of revisions to the December 2012 quarter. Revisions reflect new or improved information becoming available.

### Current and capital accounts

| Current and capital accounts Dec 2012 quarter revisions | | | |
|---|---|---|---|
| **Component** | **Previously published Dec 2012 quarter** | **Revised Dec 2012 quarter** | **Magnitude of revision** |
| | NZ$(million) | | |
| **Current account balance** | -3,255 | -3,232 | 23 |
| Current account credits | 16,741 | 16,789 | 48 |
| Current account debits | 19,997 | 20,022 | 25 |
| | | | |
| **Balance on goods** | -285 | -246 | 39 |
| Exports (fob) | 11,551 | 11,588 | 37 |
| Imports (fob) | 11,835 | 11,834 | -1 |
| | | | |
| **Balance on services** | -379 | -359 | 20 |
| Exports of services | 3,415 | 3,436 | 21 |
| Imports of services | 3,795 | 3,795 | -- |
| | | | |
| **Balance on income** | -2,508 | -2,541 | -33 |
| Income inflow | 1,439 | 1,429 | -10 |
| Income outflow | 3,947 | 3,970 | 23 |
| | | | |
| **Balance on current transfers** | -84 | -86 | -2 |
| Inflow of current transfers | 336 | 336 | -- |
| Outflow of current transfers | 420 | 423 | 3 |
| | | | |
| **Balance on capital account** | -55 | -55 | 0 |
| Capital account inflow | 366 | 366 | 0 |
| Capital account outflow | 422 | 422 | 0 |
| Symbol: -- amount too small to be expressed | | | |

## Financial account

| Financial account Dec 2012 quarter revisions | | | |
|---|---|---|---|
| **Component** | **Previously published Dec 2012 quarter** | **Revised Dec 2012 quarter** | **Magnitude of revision** |
| | NZ$(million) | | |
| **New Zealand investment abroad** | 1,240 | 922 | -318 |
| Direct investment | -20 | -42 | -22 |
| Portfolio investment | 2,818 | 2,833 | 15 |
| Other investment | -1,011 | -1,322 | -311 |
| Reserve assets | -547 | -547 | 0 |
| **Foreign investment in New Zealand** | 3,912 | 3,743 | -169 |
| Direct investment | 577 | 353 | -224 |
| Portfolio investment | 5272 | 5275 | 3 |
| Other investment | -1,936 | -1,885 | 51 |

## Net errors and omissions

| Net errors and omissions Dec 2012 quarter revisions | | | |
|---|---|---|---|
| **Component** | **Previously published Dec 2012 quarter** | **Revised Dec 2012 quarter** | **Magnitude of revision** |
| | NZ$(million) | | |
| Net errors and omissions | 639 | 467 | -172 |

## International investment position

| International investment position Dec 2012 quarter revisions | | | |
|---|---|---|---|
| **Component** | **Previously published Dec 2012 quarter** | **Revised Dec 2012 quarter** | **Magnitude of revision** |
| | NZ$(million) | | |
| **NZ investment abroad** | 160,927 | 161,259 | 332 |
| Direct investment | 23,225 | 23,186 | -39 |
| Portfolio investment | 68,919 | 68,921 | 2 |
| Other investment | 29,383 | 29,751 | 368 |
| Financial derivatives | 17,966 | 17,966 | 0 |
| Reserve assets | 21,435 | 21,435 | 0 |
| **Foreign investment in NZ** | 310,917 | 310,816 | -101 |
| Direct investment | 99,268 | 99,184 | -84 |
| Portfolio investment | 113,568 | 113,499 | -69 |
| Other investment | 80,094 | 80,145 | 51 |
| Financial derivatives | 17,987 | 17,987 | 0 |

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## Tables

The following tables are available in Excel format from the 'Downloads' box. If you have problems viewing the files, see opening files and PDFs.

1. Balance of payments major components, quarter ended
2. International investment position, at end of quarter
3. Balance of payments seasonally adjusted and trend series, quarter ended
4. Current account goods, quarter ended
5. Current account services, quarter ended
6. Current account income, quarter ended
7. Current transfers, quarter ended
8. Balance of payments major balances, actual, quarter ended
9. Balance of payments major balances, year ended in quarter
10. Balance of payments financial account, quarter ended
11. International financial assets and liabilities, at end of quarter
12. International lending and borrowing by instrument, at end of quarter
13. International lending and borrowing by currency, at end of quarter
14. International lending and borrowing by residual maturity, at end of quarter
15. External lending and debt all sectors, at end of quarter
16. External lending and debt by sector and relationship, quarter ended
17. Balance of payments ratios, year ended in quarter
18. International investment position (IIP) net reconciliation statement, actual, quarterly
19. International investment position (IIP) gross reconciliation statement for March 2013 quarter, actual, quarterly

## Access more data on Infoshare

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