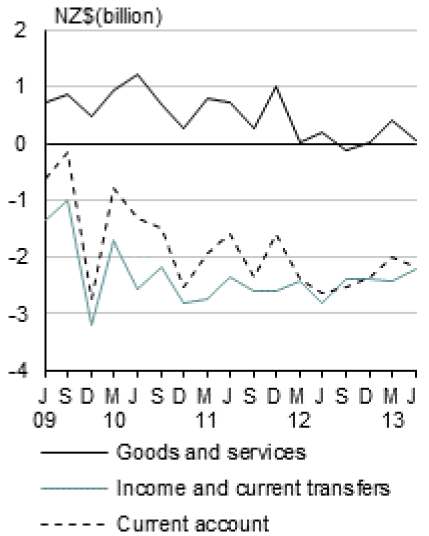
Balance of Payments and International Investment Position: June 2013 quarter

Embargoed until 10:45am – 18 September 2013

Key facts

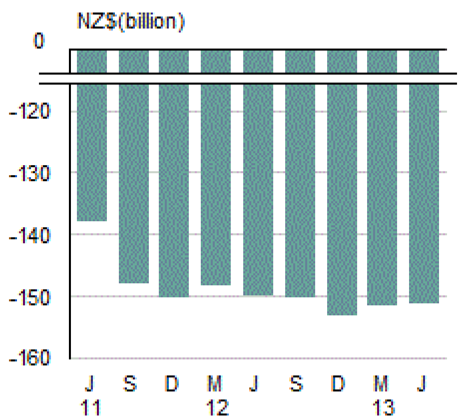
- New Zealand's seasonally adjusted current account balance was a deficit of $2.2 billion in the June 2013 quarter, $0.1 billion larger than in the March 2013 quarter.
- The larger quarterly deficit was due mainly to a fall in dairy product and meat exports following the drought earlier in 2013.
- For the year ended June 2013, the current account deficit was $9.1 billion (4.3 percent of GDP); it was 4.5 percent of GDP for the year ended March 2013.
- New Zealand's net international liability position was $151.3 billion (71.1 percent of GDP) at 30 June 2013, little changed from a revised 31 March 2013 position.

Seasonally adjusted balances
Quarterly



Source: Statistics New Zealand

Net international investment position
Quarterly



Source: Statistics New Zealand

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Commentary

- Overview of June 2013 quarter
- Over half the overseas reinsurance claims from Canterbury's earthquakes are settled
- Dairy product exports decline due to drought
- Balance on services relatively flat
- Income deficit improves
- Foreign-aid payments increase outflows of current transfers
- Net international liabilities remain flat

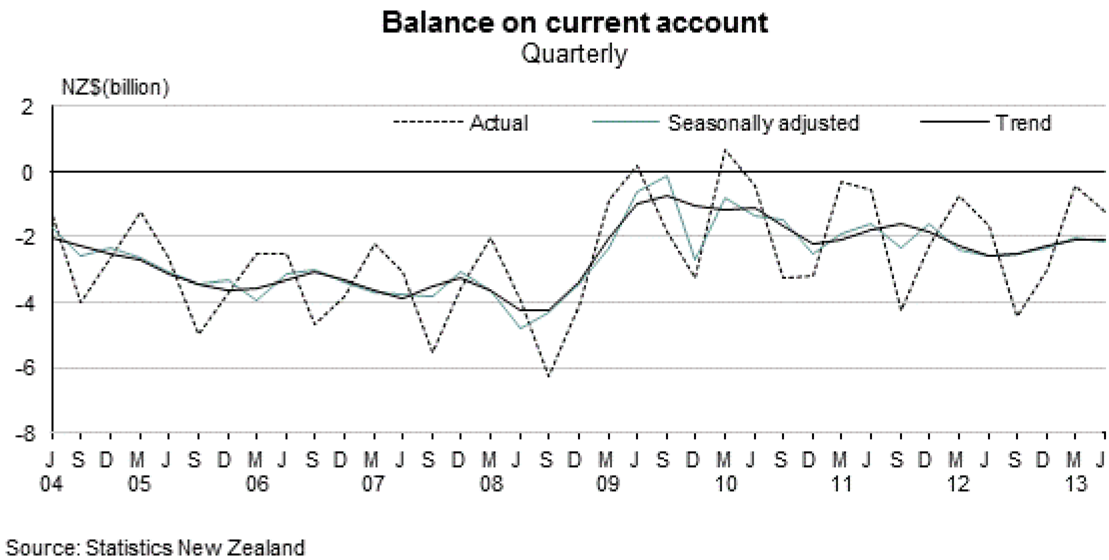
Overview of June 2013 quarter

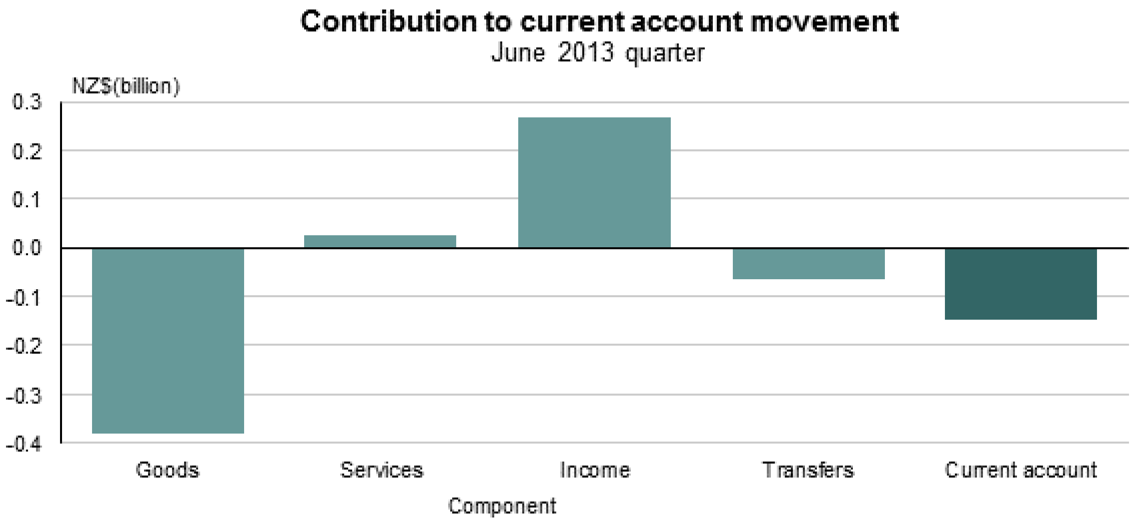
New Zealand's **seasonally adjusted current account balance** was a deficit of $2,157 million in the June 2013 quarter, $148 million larger than the revised March 2013 quarter deficit.

Statistics New Zealand has made a number of revisions to the Balance of Payments and International Investment Position data series this quarter.

See revisions of this release for more detail.

Also, see Revisions to New Zealand's macro-economic accounts to December 2013 for further detail. This includes information about revisions to exports of travel services and imports of goods, due to be published in our September 2013 quarter release.





Source: Statistics New Zealand

Lower goods exports drive a larger current account deficit

The **balance on goods** surplus fell $379 million from the March 2013 quarter to the June 2013 quarter. Exports of goods fell as quantities of both dairy products and meat decreased following the drought earlier in 2013. A fall in profits earned by foreign-owned companies in New Zealand partly offset the effect of falling goods exports on the overall current account balance.

Year-end current account balance is a smaller deficit

The **annual current account deficit** was $9.1 billion (4.3 percent of GDP) for the year ended June 2013, down from a revised deficit of $9.5 billion (4.5 percent of GDP) for the year ended March 2013. Foreign-owned companies in New Zealand made lower profits in the latest year, and paid less interest on loans received from their overseas parents.

Net outflow of investment in the financial account

New Zealand's **financial account** showed a net investment outflow of $0.2 billion in the June 2013 quarter. There were investment withdrawals on both sides of the account this quarter. The New Zealand Government settled maturing bonds by liquidating some of its overseas reserve assets.

A net outflow of foreign investment is conceptually inconsistent with a current account deficit, which requires a net inflow of investment from overseas to fund it. The net outflow of investment means that we are missing transactions that increased New Zealand's overseas liabilities.

See data quality for further information on the possible sources of undercoverage in the balance of payments.

International liability position flat

New Zealand's net liability position was $151.3 billion (71.1 percent of GDP) at 30 June 2013, relatively unchanged from a revised position of $151.6 billion at 31 March 2013. An increase in the value of financial derivative assets was mostly offset by market price and other valuation changes during the period.

This release includes historical revisions to the international investment position, net international equity, net international debt, and external debt.

See revisions for more information.

Over half the overseas reinsurance claims from Canterbury's earthquakes are settled

Total international reinsurance claims from all Canterbury earthquakes are now estimated at $18.7 billion. At 30 June 2013, a total of $10.5 billion of these claims had been settled with overseas reinsurers, leaving $8.1 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	4,823	0	4,823
Dec 2010	0	0	4,823
Mar 2011	12,809	59	17,574
Jun 2011	983	483	18,074
Sep 2011	0	849	17,225
Dec 2011	49	1,149	16,125
Mar 2012	0	1,327	14,797
Jun 2012	0	1,357	13,440
Sep 2012	0	1,362	12,078
Dec 2012	0	1,563	10,514
Mar 2013	0	1,010	9,504
Jun 2013	0	1,373	8,131
Total	**18,665**	**10,533**	**8,131**

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

Dairy product exports decline due to drought

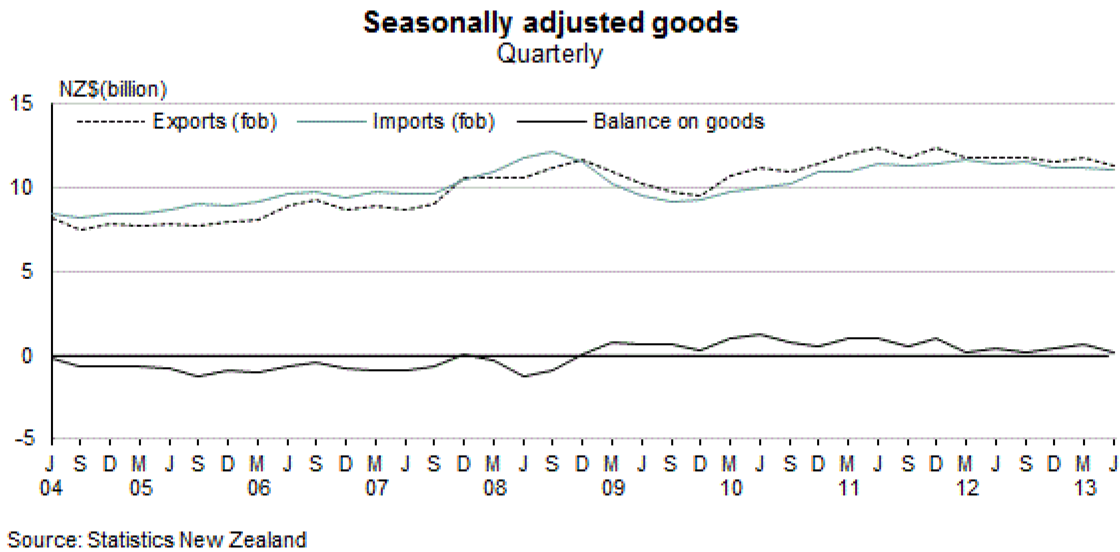
All quarterly references are to seasonally adjusted numbers unless otherwise stated.

The **balance on goods** was a surplus of $204 million in the June 2013 quarter, down $379 million from the March 2013 quarter surplus. Exports of goods decreased by more than imports of goods this quarter.

Exports of goods fell $498 million this quarter. The drought affected the quantity of dairy products exported, with volumes down 18.1 percent compared with the March 2013 quarter. Meat exports also fell, driven by lower volumes.

Imports of goods fell $119 million in the latest quarter. This contrasts with imports as measured in overseas merchandise trade statistics, which showed an increase. Balance of payments goods figures include adjustments made to merchandise trade data – to take change of ownership into account and to include goods that do not cross New Zealand's customs frontier.

See data quality for further information on adjustments made to merchandise trade.



Balance on services relatively flat

Only travel, transportation and total services are separately seasonally adjusted, other service categories are not.

The **balance on services** was a deficit of $155 million this quarter, $27 million smaller than in the previous quarter. Both exports and imports of services increased in the June 2013 quarter.

A $119 million increase in **exports of services** featured higher earnings from providing financial services to overseas clients, and an increase in revenue earned from merchanting services (buying and selling goods without the goods entering New Zealand). These increases were partly offset by decreased spending by overseas visitors to New Zealand.

Imports of services increased $92 million for the June 2013 quarter, as expenditure on technical services related to oil extraction rose. Companies also paid more management fees to their overseas parents.

Income deficit improves

The **income deficit** was $2,001 million in the June 2013 quarter, down $269 million from the March 2013 quarter. Income from foreign investment in New Zealand fell as subsidiaries of foreign-owned companies recorded lower profits in the latest quarter. Income from New Zealand investment abroad increased as portfolio investors made more returns on their investments.

Foreign-owned companies earn less then a year ago

The income deficit for the year ended June 2013 was $8,790 million, down $1,308 million from the previous June year. This was driven by lower profits made by foreign-owned companies in both the corporate and banking sectors during the June 2013 year.

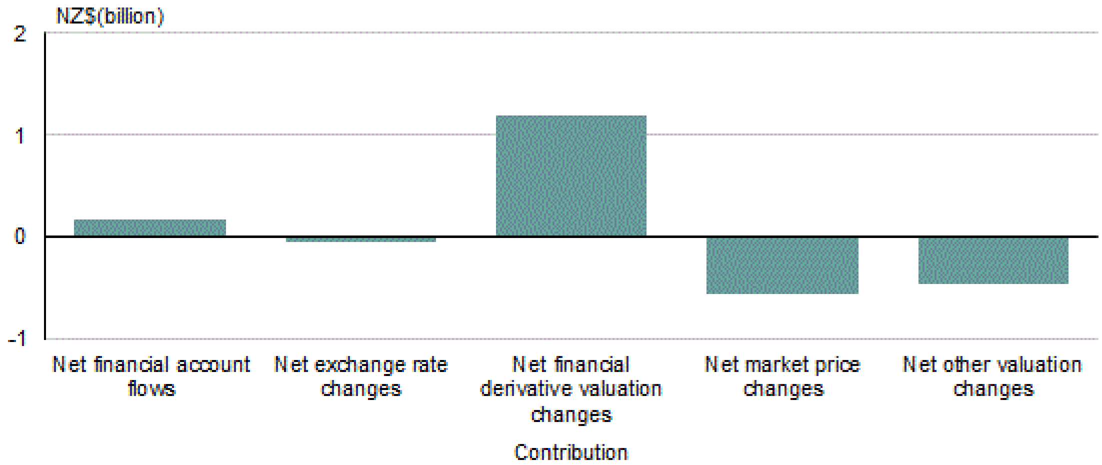
Foreign-aid payments increase outflows of current transfers

The **balance on current transfers** was a deficit of $205 million in the June 2013 quarter, $65 million larger than in the previous quarter. Outflows of current transfers increased by more than inflows, as the New Zealand Government made more foreign-aid payments to overseas than in the previous quarter. Aid payments are usually higher in June quarters. The rise in foreign aid was partly offset by a rise in non-resident withholding tax received.

Net international liabilities remain flat

New Zealand's **net international liabilities** at 30 June 2013 were $151.3 billion (71.1 percent of GDP), down $0.3 billion from the revised 31 March 2013 figure of $151.6 billion. Assets in the form of financial derivatives increased in value. This was partly offset by increases in the New Zealand sharemarket that increased overseas liabilities.

Contribution to the change in net international investment position
June 2013 quarter

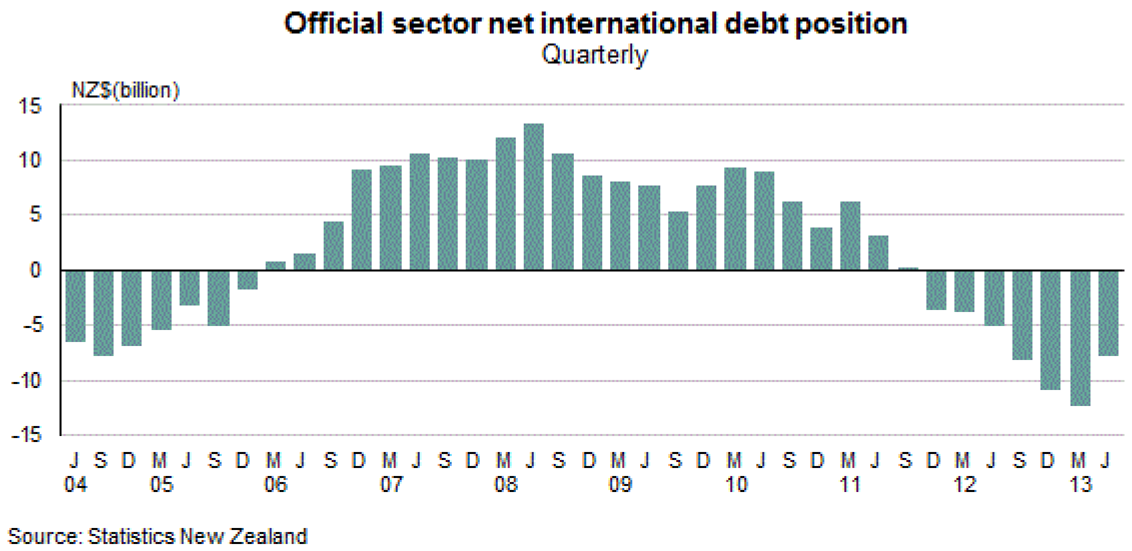


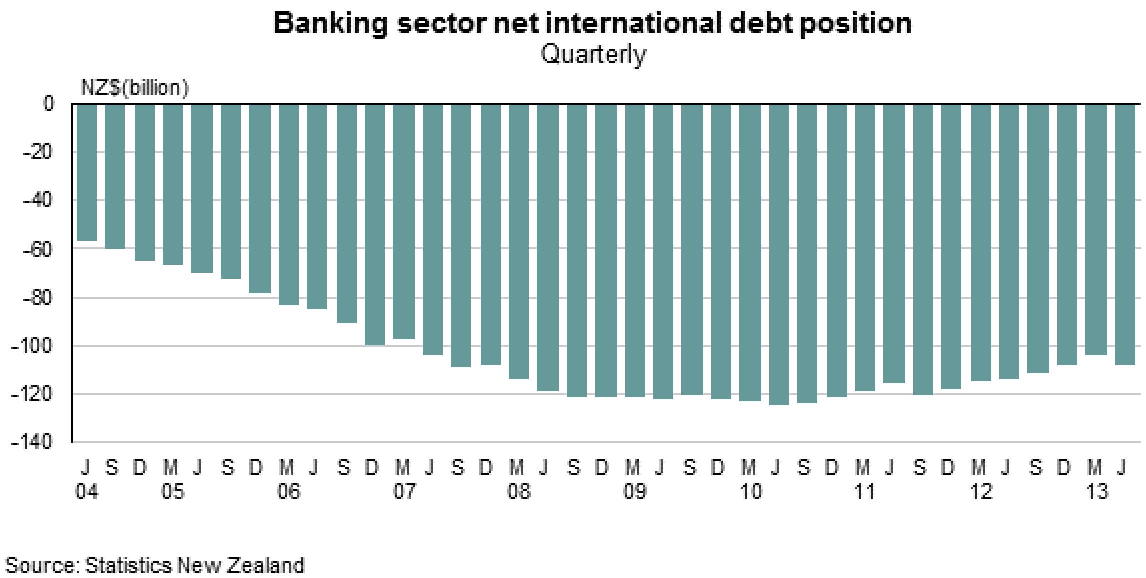
Source: Statistics New Zealand

Net government debt falls while banking sector debt rises

The official sector net debt position was $7.8 billion at 30 June 2013, a $4.5 billion decrease compared with 31 March 2013. Most of this decrease was due to the Treasury settling maturing bonds this quarter. This is the first quarter since March 2011 where the official sector net debt position has improved.

Net borrowing by the banking sector was $108.3 billion (50.9 percent of GDP) at 30 June 2013, up $4.4 billion from the revised 31 March 2013 figure. This was caused by the banking sector increasing its deposits from overseas this quarter. This increase in the banking sector net debt position contrasts with the decrease in the previous six periods.





Outstanding reinsurance claims in the international liability position

Outstanding claims on overseas reinsurers related to the Canterbury earthquakes were estimated to be $8.1 billion at 30 June 2013. Excluding these claims, New Zealand's net international liability position would be $159.4 billion (74.9 percent of GDP), rather than $151.3 billion.

External debt increases

New Zealand's net external debt, which excludes the value of financial derivatives, was $148.1 billion (69.6 percent of GDP) at 30 June 2013. This compares with a revised figure of $147.2 billion (69.8 percent of GDP) at 31 March 2013.

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: Year ended March 2013* will be released on 26 September 2013.

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

Revisions to New Zealand's macroeconomic accounts to December 2013 (published 2013) – informs users of New Zealand's macroeconomic statistics about data changes we plan to include in the international and national accounts for 2013.

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.

See Balance of payments page for more information.

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**.**

- Reference period
- Revisions

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
- 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

Reference period

Information for this release was collected for April to June 2013.

Revisions

The June quarter is typically when historical revisions are introduced into the balance of payments (BoP) and international investment position (IIP).

See revisions for details of the revisions introduced in the June 2013 quarter.

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 Business, Innovation, and Employment (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).

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.

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

- Profits from overseas investment in New Zealand
- Revisions to Inland Revenue data in other investment income
- Revisions from identifying preference shares
- Incorporating new international investment census data
- Australian portfolio investments held by New Zealand
- Earthquake-related figures revised

Profits from overseas investment in New Zealand

This release includes revisions to current account income after we reviewed our treatment of the economic profit of overseas investors. This methodology review was noted in Revisions to New Zealand's macroeconomic accounts to December 2013.

The revisions only apply to profits from overseas investment in New Zealand (income debits). While we also had profits from New Zealand investment overseas (income credits) in scope for this review, difficulties in obtaining relevant source data meant similar revisions were not possible. In addition, we expected the magnitude of any similar revision to the credit series would have been very small.

From the June 2000 quarter onwards, we have revised income on equity debits, specifically the reinvested earnings of foreign direct investors in New Zealand. The measurement of dividends paid to foreign investors does not change.

Revisions to Inland Revenue data in other investment income

Each June quarter, Statistics NZ updates overseas investment income estimates derived from Inland Revenue data, to reflect the latest income tax returns. Revisions from the latest updates have had a positive net effect on the current account deficit with the rest of the world.

The main factor contributing to the revised undercoverage estimate for investment income credits (and debits) was updated income returns by companies, estates and trusts, partnerships, and individuals. Note: it is common for taxpayers to re-file a return and update their information.

The investment income data series have been revised from the June 2011 quarter onwards. Note: there is approximately an 18-month lag in finalising the Inland Revenue income data for each year, therefore it is necessary to rate-up partially reported data for the latest and future periods.

The Inland Revenue data is an undercoverage estimate for the overseas income of those units not included in quarterly balance of of payments surveys, such as individuals, trusts, and small companies. We cannot distinguish between different types of income for this estimate, such as whether it is investment income or income from the provision of labour, so we include all Inland Revenue data as 'other investment income'.

The table below breaks down other investment income, as reported in table 6 of this release. The breakdown includes income from survey data and from Inland Revenue's income data.

Other investment income breakdown, by quarter						
	Mar 2012	**Jun 2012**	**Sep 2012**	**Dec 2012**	**Mar 2013**	**Jun 2013**
	NZ$(million)					
Income from NZ's other investments abroad (credits)	841R	870R	890R	891R	895R	899
Interest data from surveys	46R	37R	57	58R	62R	66
Inland Revenue income data	795R	833R	833R	833R	833R	833
Income from foreign investment in NZ (debits)	1,028R	995R	989R	955R	917R	902
Interest data from surveys	645R	605R	599R	565R	527R	512
Inland Revenue income data	383R	390R	390R	390R	390R	390
Note: Data may not sum to stated totals due to rounding. Symbol: R revised						

Revisions to Inland Revenue data in other investment income						
	Credits			**Debits**		
Quarter	Previously published	Revised	Difference	Previously published	Revised	Difference
	NZ$ (million)					
Jun 2011	641	795	154	330	383	53
Sep 2011	641	795	154	330	383	53
Dec 2011	641	795	154	330	383	53
Mar 2012	641	795	154	330	383	53
Jun 2012	641	833	192	330	390	60
Sept 2012	641	833	192	330	390	60
Dec 2012	641	833	192	330	390	60
Mar 2013	641	833	192	330	390	60

Revisions from identifying preference shares

We made revisions to components of the international investment position and to current account income, as a result of a quality review that identified and reclassified data collected on preference shares.

According to the *Balance of Payments Manual Version 5* (BPM5), Statistics NZ differentiates between the different forms of investment in an enterprise. A differentiation is made between equity and debt instruments and is essentially driven by two criteria: 1, control over the operations of the business, and 2, the right to the residual profits and values of the business. If an investment gives the investor control over the operations of the business and the right to the residual profits and value of the business, this investment is recognised as **equity**. If an investment does not grant the investor any control or influence over the operations of the business or a right to the residual profits and value of the business, this investment is recognised as **debt**.

In this quality review, we identified a significant portion of preference shares that were being allocated to equity instead of being recorded as debt instruments. In reallocating this data, the net equity position was revised up while the net international debt position worsens. This change occurs from the December 2003 quarter onwards.

We also identified some preference shares that were not previously collected. In adding these, net international liabilities were revised at various points in the time series.

Components within current account income were also revised as a result of this review. The reallocation of preference shares meant that income previously recorded as income on equity should be reallocated to income on debt.

Incorporating new international investment census data

The international investment position (IIP) was updated and revised in the June 2013 quarter as new data was incorporated from the latest Annual International Investment Survey (AIIS). The AIIS collects data at 31 March each year from a population of enterprises identified as being relevant to the IIP but are not surveyed quarterly. The data from this survey produces a non-sampled estimate (NSE), which is added into quarterly results and included in the published accounts.

The March 2013 year AIIS was run as a census (of around 3,500 enterprises) for the first time since the March 2009 year. In the intervening years, the AIIS was run as a sample survey (around 1,000 enterprises).

The table below shows the new NSE value across the most-recent quarters.

Non-sampled estimate		
	New Zealand investment abroad	**Foreign investment in New Zealand**
	NZ$(billion)	
Mar 2012	3.2	13.9
Jun 2012	2.9	14.0
Sep 2012	2.9	14.7
Dec 2012	2.9	15.4
Mar 2013	2.9	16.1
Jun 2013	2.9	16.5

Australian portfolio investments held by New Zealand

In the IIP, Statistics NZ includes an estimate for New Zealand's portfolio investment in Australian companies by non-surveyed entities, such as individuals. This was included for the first time in the June 2011 quarter release to reduce the undercoverage of New Zealand's international assets.

See section 5 of Improvements to New Zealand's international investment position statistics for further information on the estimates and methodology.

The estimates are derived by comparing our data on investment with Australia to the Australian Bureau of Statistics (ABS) data on investment with New Zealand. In the past, these estimates were updated annually and held constant until the following June quarter release.

When using this model to calculate an estimate for December 2012, we decided this approach was no longer appropriate for deriving an undercoverage estimate. One limitation of the model is that neither the ABS nor Statistics NZ allocates all portfolio equity investment to a specific country. If a significant proportion of this unallocated country data is between New Zealand and Australia, the accuracy of the model is reduced.

Until a further review can be done, we have updated and carried forward the previous estimate for the year ended December 2011. However, we have adjusted (and will continue to adjust) this estimate on a quarterly basis using updated ABS data, and applying market-price and exchange-rate movements.

Undercoverage estimate for portfolio equity assets in Australia	
	NZ$(000)
At 31 December 2011	1,897
At 31 March 2012	1,973
At 30 June 2012	1,854
At 30 September 2012	1,949
At 31 December 2012	2,074
At 31 March 2013	2,187
At 30 June 2013	1,991

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. We used the updated data 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	4,838	4,823	-15
Dec 2010	0	0	0
Mar 2011	12,719	12,809	90
Jun 2011	1,018	983	-35
Sep 2011	0	0	0
Dec 2011	53	49	-4
Mar 2012	0	0	0
Jun 2012	0	0	0
Sep 2012	0	0	0
Dec 2012	0	0	0

The tables below present a summary of revisions to the March 2013 quarter. Revisions reflect new or improved information becoming available.

Current and capital accounts

Current and capital accounts Mar 2013 quarter revisions			
Component	**Previously published Mar 2013 quarter**	**Revised Mar 2013 quarter**	**Magnitude of revision**
	NZ$(million)		
Current account balance	-663	-416	247
Current account credits	17,637	17,799	162
Current account debits	18,300	18,215	-85
Balance on goods	1,152	1,150	-2
Exports (fob)	11,779	11,772	-7
Imports (fob)	10,627	10,622	-5
Balance on services	886	844	-42
Exports of services	4,256	4,240	-16
Imports of services	3,370	3,396	26
Balance on income	-2,566	-2,270	296
Income inflow	1,302	1,485	183
Income outflow	3,868	3,755	-113
Balance on current transfers	-135	-140	-5
Inflow of current transfers	300	302	2
Outflow of current transfers	435	442	7
Balance on capital account	-70	-71	-1
Capital account inflow	382	382	0
Capital account outflow	451	452	1

Financial account

Financial account Mar 2013 quarter revisions			
Component	**Previously published Mar 2013 quarter**	**Revised Mar 2013 quarter**	**Magnitude of revision**
	NZ$(million)		
New Zealand investment abroad	5,256	4,829	-427
Direct investment	141	120	-21
Portfolio investment	2,771	2,794	23
Other investment	-580	-1,010	-430
Reserve assets	2,925	2,925	0
Foreign investment in New Zealand	3,666	3,850	184
Direct investment	887	1,005	118
Portfolio investment	3,837	3,891	54
Other investment	-1,058	-1,046	12

Net errors and omissions

Net errors and omissions Mar 2013 revisions			
Component	**Previously published Mar 2013 quarter**	**Revised Mar 2013 quarter**	**Magnitude of revision**
	NZ$(million)		
Net errors and omissions	2,323	1,465	-858

International investment position

International investment position Mar 2013 quarter revisions			
Component	**Previously published Mar 2013 quarter**	**Revised Mar 2013 quarter**	**Magnitude of revision**
	NZ$(million)		
NZ investment abroad	164,326	163,942	-384
Direct investment	23,053	22,565	-488
Portfolio investment	72,688	72,537	-151
Other investment	29,106	29,352	246
Financial derivatives	15,651	15,660	9
Reserve assets	23,828	23,828	0
Foreign investment in NZ	310,999	315,503	4,504
Direct investment	99,650	101,385	1,735
Portfolio investment	116,329	118,121	1,792
Other investment	78,260	79,188	928
Financial derivatives	16,760	16,810	50

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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.

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