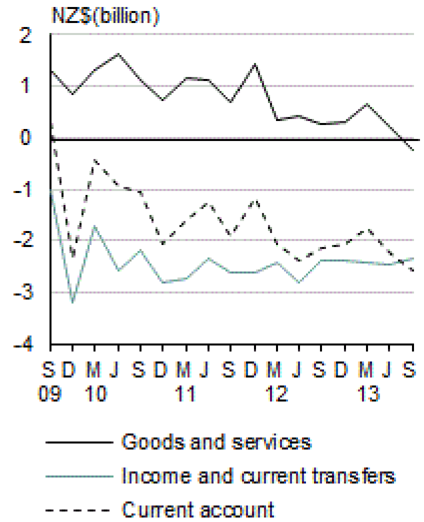
Balance of Payments and International Investment Position: September 2013 quarter

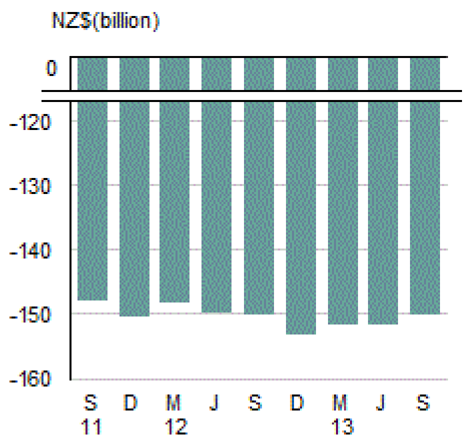
Embargoed until 10:45am – 18 December 2013

Key facts

- New Zealand's seasonally adjusted current account balance was a $2.6 billion deficit in the September 2013 quarter, the largest since the December 2008 quarter.
- The larger quarterly deficit was mainly due to an increase in the imports of goods in the September 2013 quarter.
- For the year ended September 2013, the current account deficit was $8.8 billion (4.1 percent of GDP); it was 3.9 percent of GDP for the year ended June 2013.
- New Zealand's net international liability position was $150.1 billion (69.5 percent of GDP) at 30 September 2013, $1.5 billion less than the 30 June 2013 position.



Source: Statistics New Zealand



Source: Statistics New Zealand

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Commentary

- Overview of September 2013 quarter
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- Transport equipment boosts imports
- Imports of services up, while exports are flat
- Income deficit remains flat
- Migrant numbers boost capital account surplus
- Divestments in assets and liabilities result in small financial account outflow
- Market price changes drive net international liabilities down

Notes for this release

Statistics New Zealand has revised the current account figures to include:

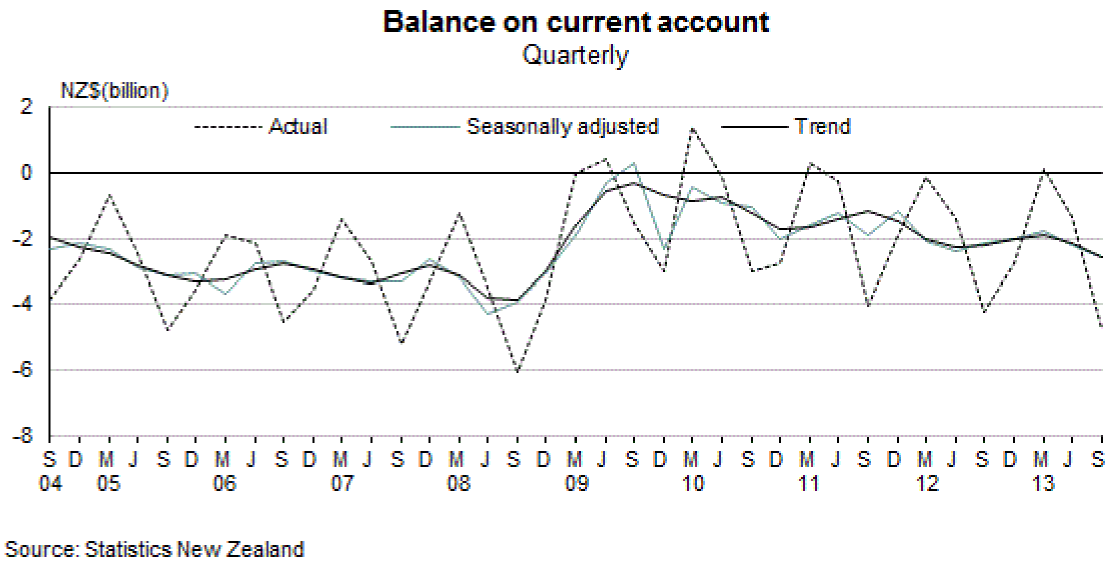
- results from the improved International Visitors Survey (IVS) methodology (back to the June 1982 quarter)
- improved estimates for spending by international students in New Zealand (back to the June 2003 quarter)
- an estimate for imports of goods below the $1,000 NZ Customs threshold (back to the June 2000 quarter).

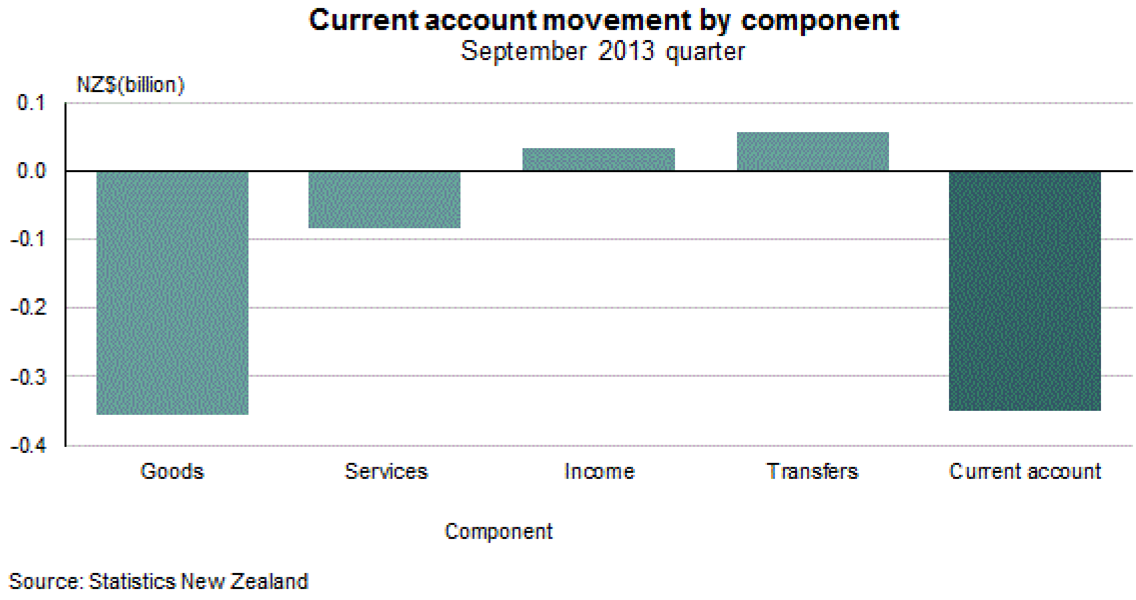
Overall, these revisions result in smaller current account deficits than previously published.

See Revisions for a summary of these changes.

Overview of September 2013 quarter

New Zealand's **seasonally adjusted current account balance** was a deficit of $2,578 million for the September 2013 quarter, $349 million larger than the June 2013 quarter deficit. This is the largest seasonally adjusted current account deficit since the December 2008 quarter.





New Zealand imports more goods and services from overseas

The seasonally adjusted **balance on goods and services** was a deficit of $227 million in the September 2013 quarter, a $439 million turnaround from the June quarter's surplus. This is the first goods and services deficit since the September 2008 quarter. Imports of goods and services increased by more than exports in the latest quarter.

Rising imports of goods also drive larger year-end current account deficit

The **annual current account deficit** was $8.8 billion (4.1 percent of GDP) for the year ended September 2013. This compares with a deficit of $8.2 billion (3.9 percent of GDP) for the year ended June 2013. Imports of goods increased by more than exports over this time, driven by purchases of transport equipment and mechanical machinery.

Divestment of both assets and liabilities

New Zealand's **financial account** showed a net investment outflow of $0.5 billion in the September 2013 quarter. Non-residents withdrew investments from New Zealand this quarter, while New Zealand investors also withdrew their investments from overseas. A net investment outflow is conceptually inconsistent with a current account deficit, which requires funding from overseas. This quarter there is a net errors and omissions of $5.3 billion. While it is unlikely there is a single cause for this large net errors and omissions, two factors are likely to have made an impact this quarter:

- the banking sector obtaining more funding from domestic sources rather than overseas
- non-measurement of transactions in financial derivatives.

See Net errors and omissions in the September 2013 quarter for more information.

Net international liabilities down

New Zealand's **net international liability** position was $150.1 billion (69.5 percent of GDP) at 30 September 2013, compared with $151.6 billion (71.2 percent of GDP) at 30 June 2013. Changes in the value of New Zealand's overseas assets and liabilities drove the fall in the net position, rather than transactions through the financial account.

Almost two-thirds of all overseas reinsurance claims from Canterbury earthquakes settled

Total international reinsurance claims from all Canterbury earthquakes remain estimated at $18.7 billion. At 30 September 2013, a total of $12.0 billion of these claims had been settled with overseas reinsurers, leaving $6.8 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	4,907	0	4,907
Dec 2010	0	0	4,907
Mar 2011	12,808	59	17,656
Jun 2011	982	483	18,155
Sep 2011	0	849	17,306
Dec 2011	21	1,149	16,177
Mar 2012	0	1,327	14,850
Jun 2012	0	1,357	13,493
Sep 2012	0	1,362	12,130
Dec 2012	0	1,563	10,567
Mar 2013	0	1,010	9,557
Jun 2013	0	1,373	8,184
Sep 2013	0	1,431	6,752
Total	**18,717**	**11,965**	**6,752**

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

Transport equipment boosts imports

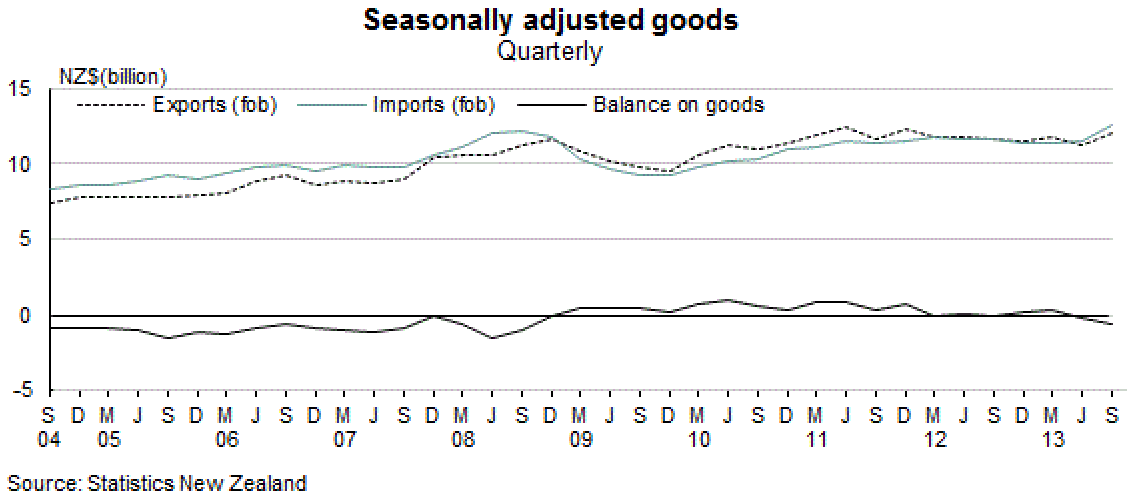
All quarterly references are to seasonally adjusted numbers unless otherwise stated.

The **balance on goods** was a deficit of $524 million in the September 2013 quarter, $357 million larger than the revised June 2013 quarter deficit. Imports of goods increased by more than exports of goods in the latest quarter.

Just over half of a $1,060 million increase in **imports of goods** was due to transport equipment and mechanical machinery. New Zealand imported some military helicopters this quarter, as well as more vehicle parts and accessories.

Exports of goods rose $702 million in the September 2013 quarter. The rise was mainly due to higher prices received for New Zealand's dairy product exports. Forestry exports also increased this quarter, again mainly due to higher prices.

See Overseas Merchandise Trade: September 2013 for further detail.



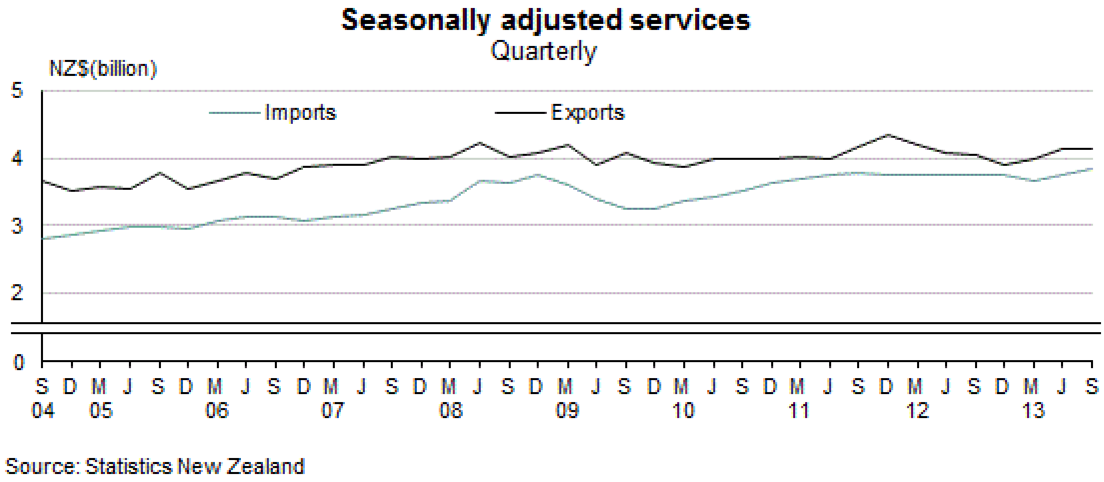
Imports of services up, while exports are flat

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

The **balance on services** was a surplus of $297 million in the September 2013 quarter, down from a $380 million surplus in the June 2013 quarter. Imports of services increased, while exports of services were almost unchanged.

Imports of services increased $81 million compared with the June quarter. More New Zealanders travelled overseas in the September 2013 quarter, driving an increase in total expenditure abroad by these travellers. Commissions paid to agents that help New Zealand exporters sell their goods and services in overseas markets also increased.

Although overall **exports of services** were flat this quarter, expenditure by overseas visitors to New Zealand was up $101 million from the June quarter. This increase was mainly driven by visitors from Australia and the United States – these travellers spent more time in New Zealand in the September 2013 quarter. They also spent more on average while they were here. Falls in exports of commercial services, particularly those related to film production, offset this increase in spending by overseas visitors.



Income deficit remains flat

The **income deficit** was $2,202 million in the September 2013 quarter, down just $34 million compared with the June quarter's deficit. New Zealand's total income from investment abroad was $1,722 million, while income from foreign investment in New Zealand was $3,905 million.

Profits of New Zealand subsidiaries overseas and foreign-owned New Zealand companies both increase

Income on New Zealand's direct investments was $261 million, more than double that for the June 2013 quarter. A large portion of New Zealand's direct investment profits was reinvested back into the New Zealand-owned overseas subsidiaries.

Profits for foreign direct investors increased by $177 million to a total of $1,906 million. This was the highest level since the December 2009 quarter. However, foreign investors paid out more of their profits as dividends rather than reinvesting them back into New Zealand. The increase of foreign profits was driven by corporates.

Dividends received from New Zealand's portfolio investment reaches record high

Income on New Zealand's portfolio equity investments was $338 million – the highest income recorded since the series began in the June 1996 quarter. The increase in income on equity was driven by fund managers increasing their stock of equity securities and also receiving a higher return on their investments.

Migrant numbers boost capital account surplus

The **capital account balance** was a surplus of $23 million in the September 2013 quarter, a $109 million turnaround from the June 2013 quarter's deficit and the first capital account surplus since the June 2011 quarter.

Inflows of capital transfers to New Zealand rose $75 million in the September 2013 quarter, as migrant arrivals from both Australia and the rest of the world rose. Migrants also transferred more investment funds into New Zealand in the latest quarter. Outflows of capital transfers fell $34 million as fewer people emigrated to Australia this quarter.

Divestments in assets and liabilities result in small financial account outflow

Financial account transactions showed a net investment outflow of $507 million in the September 2013 quarter. The small net investment outflow was driven by withdrawals on both sides of the financial account.

A $1,322 million withdrawal of New Zealand investment abroad was driven by:

- The official sector decreasing its foreign-exchange reserves by $2,464 million. This quarter, the Reserve Bank of New Zealand (RBNZ) decreased its assets on deposits and money market instruments, which is reflected in the financial account as a decrease of foreign-exchange reserves.
- Trade credits decreasing by $1,435 million, as settlements on the Canterbury earthquakes continue to decrease the total outstanding re-insurance claims.

The withdrawals of New Zealand investments abroad were partly offset by $2,440 million of portfolio investments, a result of fund managers increasing their portfolio equity securities.

A $1,829 million withdrawal of foreign investment in New Zealand was mainly driven by decreases of other investment. This includes:

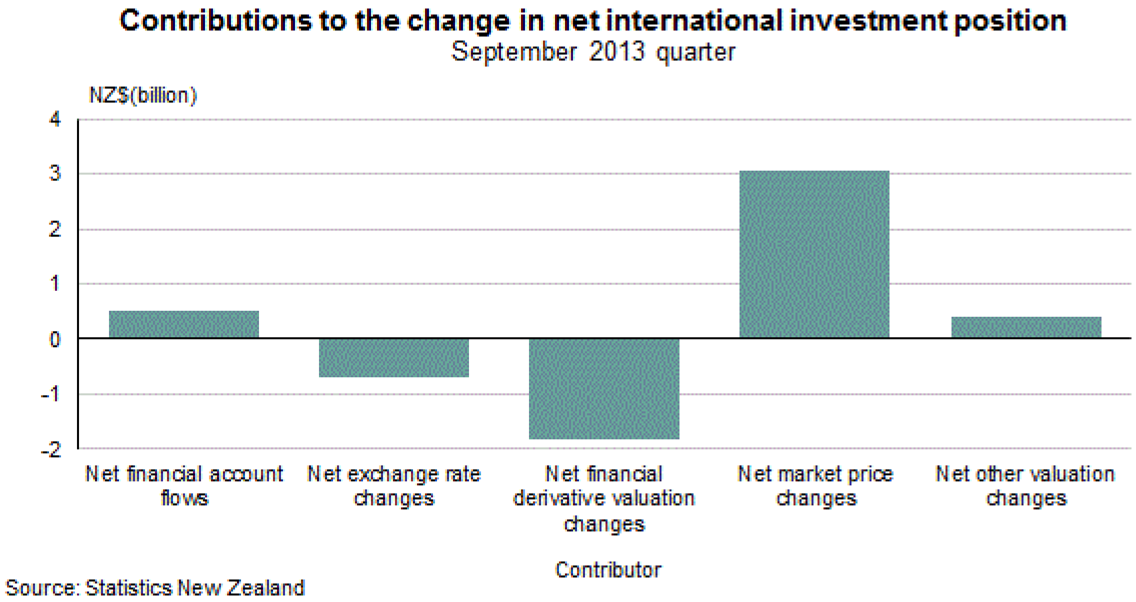
- a $2,762 million outflow on deposits as banks decreased their liabilities with non-related parties
- a $978 million outflow on loans, which was driven by the banking sector decreasing both their long- and short-term funding from overseas.

The withdrawals of foreign investments in New Zealand were partly offset by $1,760 million of portfolio investment in New Zealand. More than half this investment was foreign investors buying shares in New Zealand companies.

Market price changes drive net international liabilities down

This commentary refers to tables 11 to 19 in the 'Downloads' box.

New Zealand’s **net international liabilities** at 30 September 2013 were $150.1 billion (69.5 percent of GDP), down $1.5 billion from 30 June 2013. Favourable market price changes had the largest effect on the net international liability position, surpassing the small net outflow of the financial account. Market price changes decreased international liability values and increased international asset values – for a net $3.1 billion effect.



A large contributor to the decrease of New Zealand's international liabilities in the September 2013 quarter was a significant fall in the market price of New Zealand Government bonds held by non-residents. This was due to increased global interest rates in the September 2013 quarter, which pulled the price of these bonds down.

Market price changes had a positive effect on New Zealand's international assets in the September 2013 quarter. Primarily they increased the value of New Zealand's portfolio equity investments abroad.

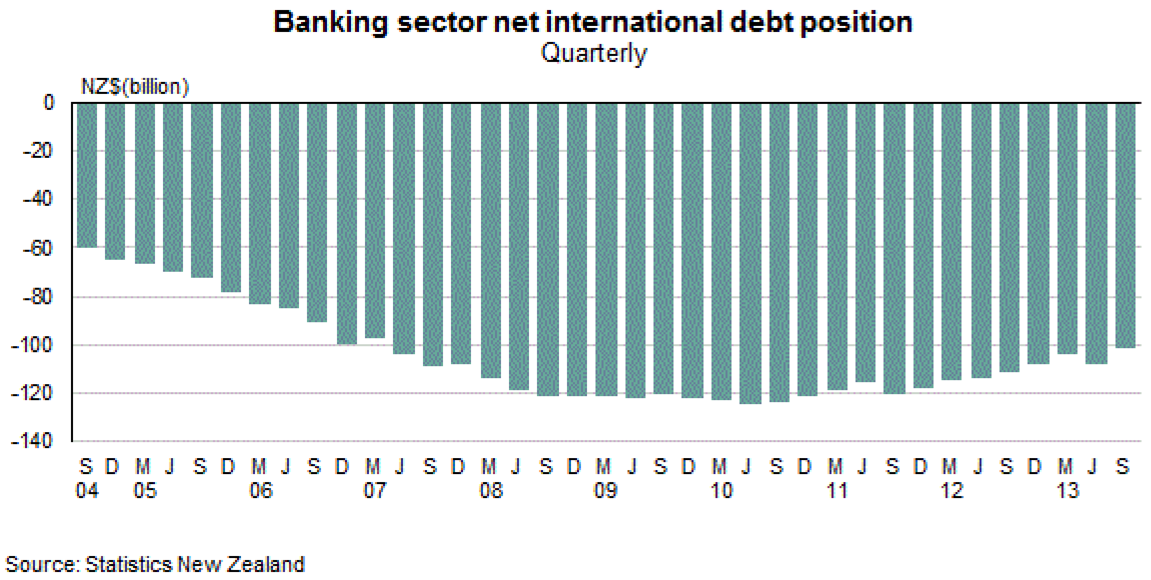
Net international debt position decreases

Net international debt was $145.6 billion at 30 September 2013, down $2.6 billion from $148.2 billion at 30 June 2013. The decrease was the result of a $9.7 billion fall in borrowing, partly offset by a $7.1 billion fall in lending.

The international borrowing decline was predominantly from a $9.2 billion decrease in bank-sector borrowing. Exchange-rate revaluations on bank foreign-currency liabilities was responsible for $2.8 billion of the decline.

The international lending decrease in the September 2013 quarter was driven by the RBNZ and the bank sector. RBNZ international lending fell $3.5 billion, nearly one-third being from exchange-rate revaluations. Bank-sector lending decreased $2.8 billion, including a fall in the value of financial derivatives.

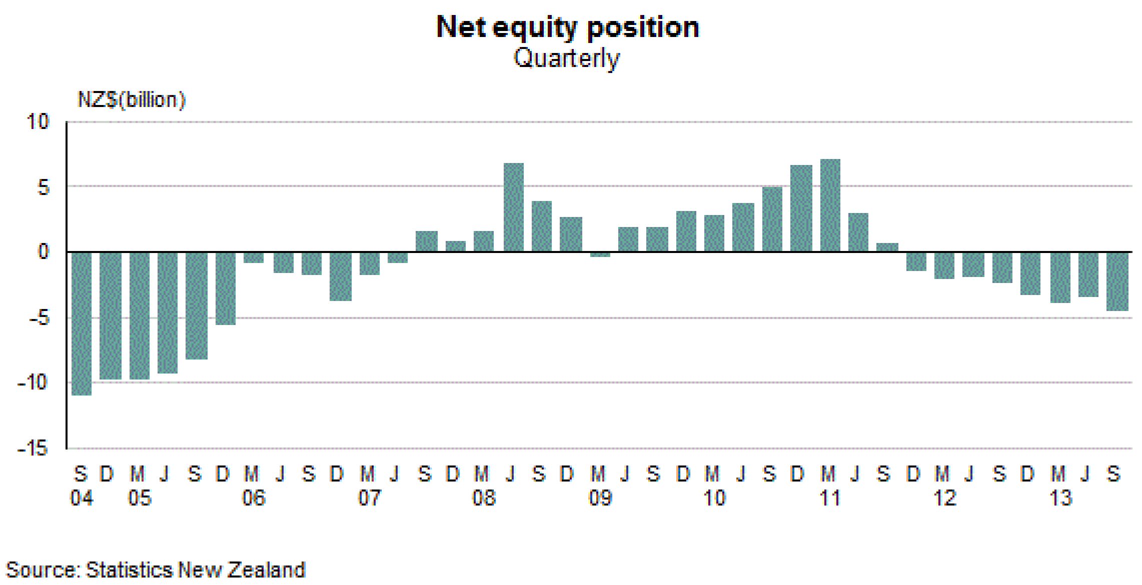
Bank-sector net international debt, at $101.6 billion, was at its lowest level since the March 2007 quarter.



Net international equity position lowest in nearly eight years

The net international equity position at 30 September 2013 was -$4.5 billion, the lowest position since the December 2005 quarter.

While New Zealand's equity assets increased in the September 2013 quarter, there was a larger increase in foreign-owned equity liabilities. The increase in equity assets was driven by fund managers reallocating investments abroad and rising sharemarkets overseas. The increase in equity liabilities was driven by international purchases of New Zealand-corporate equity.



Outstanding reinsurance claims continue to fall

Outstanding claims on overseas reinsurers for the Canterbury earthquakes were estimated to be $6.8 billion at 30 September 2013. Excluding these claims, New Zealand's net international liability position would be $156.9 billion (72.6 percent of GDP).

External debt

New Zealand's net external debt, which excludes the value of financial derivatives, was $144.4 billion (66.8 percent of GDP) at 30 September 2013, $3.9 billion less than the $148.3 billion debt at 30 June 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: December 2013 quarter* will be released on 19 March 2014.

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 have included 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. Includes 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
- Net errors and omissions in the September 2013 quarter

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 July to September 2013.

Revisions

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

Net errors and omissions in the September 2013 quarter

This quarter's balance of payments (BoP) statement recorded net errors and omissions of $5.3 billion. The net errors and omissions is a balancing item that reconciles the current account, capital account, and financial account.

During the September 2013 quarter, the financial account recorded a net investment outflow of $0.5 billion. There were larger withdrawals of investment by foreign investors in New Zealand (liabilities) than for New Zealand investments abroad (assets). Conceptually, a current account deficit requires a net inflow of investment to fund it (eg borrowing from overseas or withdrawing overseas assets).

Consistency and validation checks on reported data

We compile BoP statistics using data from a variety of sources. These include surveys targeted to companies, administrative data sources, and data derived from using data models. These input data go through various validation and consistency checks against other related internal and external datasets.

For banking-sector data, a key consistency check is to compare banking-sector data reported in Statistics NZ surveys against data reported in the RBNZ's Standard Statistical Return (SSR). While there are differences between the two sources (eg reporting level, classification of some items), comparisons of data showed that our quarterly survey data and SSR data is consistent at the level of overall balances, and the degree of movement of the balances between the June and September 2013 quarters. This gives us confidence in the quality of the balance-sheet data reported in the quarterly survey by banks.

Possible explanations for the large net errors and omissions this quarter

It is unlikely there is a single cause for the large reported net errors and omissions this quarter.

In the New Zealand economy, the banking sector makes a sizeable contribution to both financial account flows and international investment position statistics. Therefore, accurately reporting quarterly movements in the banking-sector data is important.

Recent trends in the banking-sector data reveal that banks are now obtaining more of their funding from domestic sources rather than overseas. This has been associated with the Core Funding Ratio policy implemented by the RBNZ from 2010. A result has been a downward trend in the banking-sector's level of funding from offshore. This trend is evident in our statistics. However, the June and September 2013 quarters showed significant fluctuation in the reported level of banking-sector funding from abroad. This fluctuation may be a contributing cause to the large September quarter net errors and omissions.

The non-measurement of transactions in financial derivatives is a gap in New Zealand's BoP statistics. During periods in which there are currency appreciations or depreciations and market price changes, there is likely to be turnover in derivative contracts and significant transactions in collateral accounts (where contract parties are obliged to deposit collateral in response to changes in the market value of derivative contracts). Our current data collection has significant undercoverage of these types of transactions, and we consider this undercoverage to be a contributor to the net errors and omissions.

Please see Net errors and omissions (residual) for more information on how the net errors and omissions figure is calculated and what other factors can influence this.

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 the New Zealand-resident enterprises that operate with the approval of the Minister of Statistics. Enterprises must complete these surveys, as set out in the Statistics Act 1975. We direct these surveys 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 – we purchase some data from other organisations that operate a relevant survey; we have 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 we publish each month as overseas merchandise trade statistics.

Financial market information – including interest and exchange rates and share prices. We take much of this information from public information sites.

Surveys and guides

For more information about the data sources, see:

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, we 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) for a discussion of known areas of undercoverage.

Conceptual adjustments to exports and imports of goods

We make conceptual adjustments 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, we record exports and imports of goods 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. We make the following adjustments 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, we remove the value of goods exported on consignment from the overseas merchandise trade exports in the quarter they leave the country, then add them 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 BoP 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, we add the service fee (FISIM) 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, we deduct the service fee (FISIM) from other investment income received (credits).

We now record these FISIM transactions with non-residents in the current account 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. We calculate the seasonally adjusted balances 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 we calculate the trend 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. We revise all trend estimates 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, we sometimes receive data relating to multiple periods in one lump sum. Where possible,we reallocate 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 that we exclude 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 the debtor to pay principal and/or interest 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 IIP 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. We determine estimates for non-surveyed enterprises (undercoverage estimates) each year for the QIIS and incorporate them 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 we identify as relevant to the BoP financial account and the IIP, but which are 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 IIP.
- Update the sample used in 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 do we estimate these transactions.

Net errors and omissions (residual)

BoP statements are compiled using the double-entry bookkeeping system to ensure 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 we use a variety of data sources; 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.

We can calculate the residual 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 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 we make a new estimate for the non-sampled IIP stock positions each year, we don't make an estimate for financial account transactions.
- Transactions relating to managed funds that are not surveyed each quarter. Note that we don't estimate financial account transactions for this item.
- We don't request data about transactions arising from settling and trading in financial derivative contracts 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 we don't include in the accounts. Reasons for such undercoverage 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.

We safeguard the data quality 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). We record cash received for the 'repoed' security as a liability in the IIP as: foreign investment in New Zealand: other investment; loans. This is the collateralised loan approach to recording repoed securities. However, in the IIP, the repoed security is misclassified to New Zealand investment abroad; other investment; other instruments (instead of to portfolio investment); debt securities. We plan 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 BoP.

We follow this treatment and include international trade in carbon emission units in the 'Acquisition and disposal of non-produced, non-financial assets' series in the capital account. For example, we record the sale of emission units by a New Zealand resident to a non-resident as a capital account inflow (credit). Our 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.

Liability

While all care and diligence has been used in processing, analysing, and extracting data and information in this publication, we give no warranty it is error-free and will not be liable for any loss or damage suffered by the use directly, or indirectly, of the information in this publication.

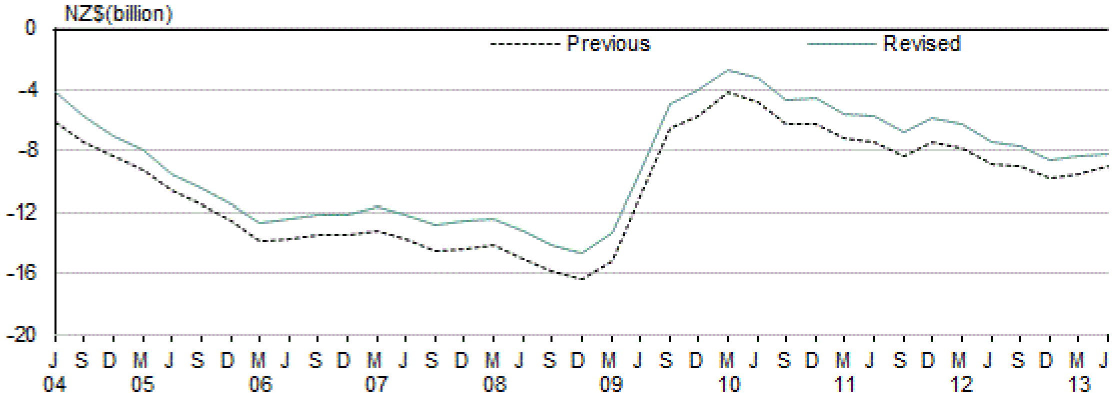
Timing

Our information releases are delivered electronically by third parties. Delivery may be delayed by circumstances outside our control. Statistics NZ does not accept responsibility for any such delay.

Revisions

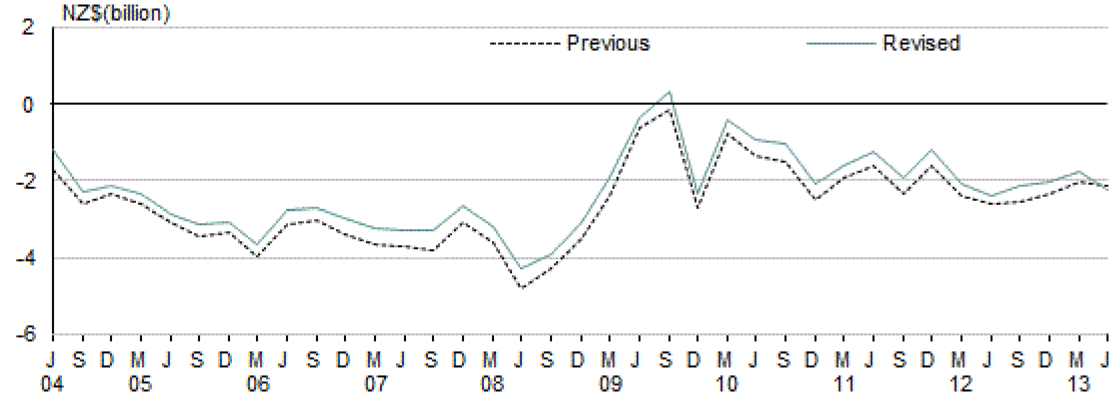
- Revisions from improved International Visitors Survey (IVS) methodology
- Revisions from improved estimates for spending by international students in New Zealand
- Revisions from new estimate of goods below $1000 NZ Customs threshold
- Earthquake-related figures revised
- Revisions for Balance of Payments and International Investment Position: June 2013 quarter

Revisions to current account balance
Year ended in quarter



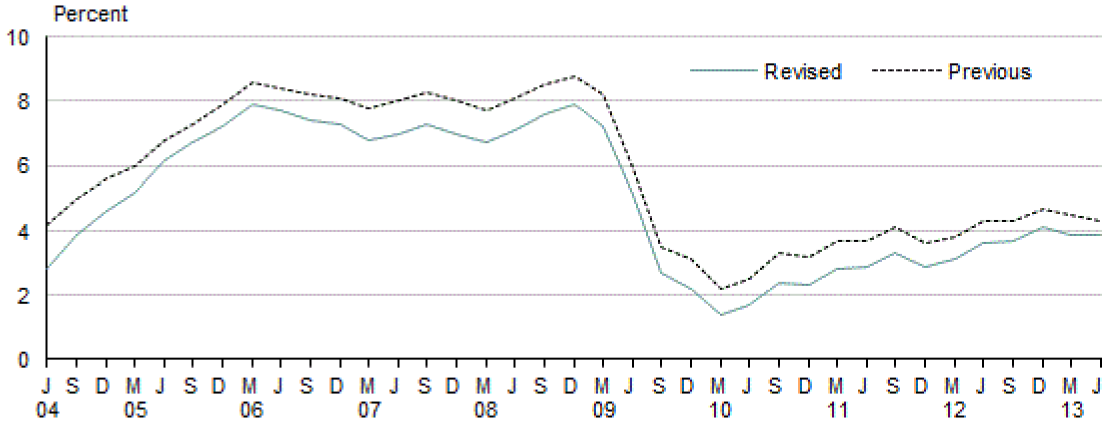
Source: Statistics New Zealand

Revisions to seasonally adjusted current account balance
Quarterly



Source: Statistics New Zealand

Ratio of current account deficit to GDP
Year ended in quarter



Source: Statistics New Zealand

Revisions to quarterly current account balance			
	Balance on current account		
Quarter ended	**Previously published**	**Revised**	**Magnitude of revision**
	NZ$(million)		
Sep 2010	-3,287	-3,006	281
Dec 2010	-3,189	-2,786	403
Mar 2011	-349	295	644
Jun 2011	-583	-264	319
Sep 2011	-4,258	-4,025	233
Dec 2011	-2,259	-1,912	347
Mar 2012	-733	-134	599
Jun 2012	-1,665	-1,445	220
Sep 2012	-4,425	-4,253	172
Dec 2012	-3,006	-2,758	248
Mar 2013	-416	107	523
Jun 2013	-1,252	-1,339	-87

Revisions to year ended current account balance						
	Balance on current account			Current account balance to GDP		
Year ended in quarter	Previously published	Revised	Magnitude of revision	Previously published	Revised	Magnitude of revision
	NZ$(million)			Percent		
Sep 2010	-6,319	-4,722	1,597	-3.3	-2.4	0.9
Dec 2010	-6,230	-4,525	1,705	-3.2	-2.3	0.9
Mar 2011	-7.252	-5,601	1,651	-3.7	-2.8	0.9
Jun 2011	-7,408	-5,762	1,646	-3.7	-2.9	0.8
Sep 2011	-8,379	-6,781	1,598	-4.1	-3.3	0.8
Dec 2011	-7,449	-5,906	1,543	-3.6	-2.9	0.7
Mar 2012	-7,833	-6,335	1,498	-3.8	-3.1	0.7
Jun 2012	-8,916	-7,516	1,400	-4.3	-3.6	0.7
Sep 2012	-9,083	-7,744	1,339	-4.3	-3.7	0.6
Dec 2012	-9,829	-8,590	1,239	-4.7	-4.1	0.6
Mar 2013	-9,512	-8,349	1,163	-4.5	-3.9	0.6
Jun 2013	-9,099	-8,244	855	-4.3	-3.9	0.4

Revisions from improved International Visitors Survey (IVS) methodology

The IVS has changed from a face-to-face interview conducted at airport departure gates, to an online survey emailed to visitors once they return home. Research suggests that expenditure is often under-reported in face-to-face surveys.

Changes were made to both the questionnaire and the survey coverage. We now ask respondents to estimate their total expenditure by cash, credit card, and debit card, rather than by compiling a total estimate based on spending on different items like food, accommodation, and activities.

The survey also now includes expenditure by travellers using business and first class lounges, and those departing from Queenstown airport (alongside Auckland, Wellington, and Christchurch).

The Ministry of Business, Innovation and Employment (MBIE) conducted a dual run of the face-to-face and online methodologies for the IVS from January 2013 to July 2013. We've used results from this dual survey and revised data back to the June 1982 quarter.

See MBIE's IVS commentary for more information on the effect of changes to the IVS.

Revisions from improved estimates for spending by international students in New Zealand

Education New Zealand commissioned a study into the economic impact of export education during 2012/13. This study followed a similar study in 2008, the results of which we did not fully implement at the time.

We have used the benchmarks produced as part of the 2008 and 2012/13 studies to revise our exports of education-related travel series back to 2004. This incorporates the improved estimates of international students' living costs.

See the Economic impact of international education 2012/13 for more information.

Revisions from new estimate of goods below $1,000 NZ Customs threshold

We include a time series for low-value imports of goods purchased directly by households in this release, from 2000 to 2013. Household imports of goods have increased in recent years as a result of spending patterns changing towards online purchasing, including direct purchases from overseas businesses.

Spending on imports of goods valued at less than $1,000 has been an area of known undercoverage in BoP and national accounts data. Limited information is available from NZ Customs administrative data on the value of these imports, and there is a high level of misreporting.

Earthquake-related figures revised

New Zealand insurers have provided updated estimates of their Canterbury reinsurance claims on non-resident reinsurers. The updated data affects capital account inflows, investment abroad transactions, and IIP assets. We used the updated data to revise statistics back to the September 2010 quarter. These 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	4,823	4,907	84
Dec 2010	0	0	0
Mar 2011	12,809	12,808	-1
Jun 2011	983	982	-1
Sep 2011	0	0	0
Dec 2011	49	21	-28

Revisions for Balance of Payments and International Investment Position: June 2013 quarter

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

Current and capital accounts

Current and capital accounts June 2013 quarter revisions			
Component	**Previously published Jun 2013 quarter**	**Revised Jun 2013 quarter**	**Magnitude of revision**
	NZ$(million)		
Current account balance	-1,252	-1,339	-87
Current account credits	17,243	17,679	436
Current account debits	18,495	19,019	524
Balance on goods	1,446	1,109	-337
Exports (fob)	12,152	12,150	-2
Imports (fob)	10,706	11,041	335
Balance on services	-492	-7	485
Exports of services	3,188	3,653	465
Imports of services	3,680	3,660	-20
Balance on income	-2,001	-2,236	-235
Income inflow	1,560	1,534	-26
Income outflow	3,561	3,770	209
Balance on current transfers	-205	-205	0
Inflow of current transfers	342	342	0
Outflow of current transfers	547	547	0
Balance on capital account	-125	-86	39
Capital account inflow	290	329	39
Capital account outflow	415	415	0

Financial account

Financial account June 2013 quarter revisions			
Component	**Previously published Jun 2013 quarter**	**Revised Jun 2013 quarter**	**Magnitude of revision**
	NZ$(million)		
New Zealand investment abroad	-604	-914	-310
Direct investment	320	-57	-377
Portfolio investment	1,254	1,299	45
Other investment	-85	-63	22
Reserve assets	-2,093	-2,093	0
Foreign investment in New Zealand	-773	-870	-97
Direct investment	-560	-626	-66
Portfolio investment	-4,834	-4,625	209
Other investment	4,621	4,381	-240

Net errors and omissions

Net errors and omissions June 2013 revisions			
Component	**Previously published Jun 2013 quarter**	**Revised Jun 2013 quarter**	**Magnitude of revision**
	NZ$(million)		
Net errors and omissions	1,547	1,382	-165

International investment position

International investment position June 2013 quarter revisions			
Component	**Previously published Jun 2013 quarter**	**Revised Jun 2013 quarter**	**Magnitude of revision**
	NZ$(million)		
NZ investment abroad	167,309	166,738	-571
Direct investment	22,698	22,316	-382
Portfolio investment	75,081	75,066	-15
Other investment	29,445	29,249	-196
Financial derivatives	17,425	17,447	22
Reserve assets	22,660	22,660	0
Foreign investment in NZ	318,574	318,328	-246
Direct investment	100,774	100,640	-134
Portfolio investment	116,034	116,210	176
Other investment	84,381	84,067	-314
Financial derivatives	17,384	17,412	28

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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, at end of quarter
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, actual, quarterly

Revisions tables

A supplementary set of tables outlining revisions made back to the June 2000 quarter is available from the 'Downloads' box.

Access more data on Infoshare

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Subject category: **Economic indicators**
Group: **Balance of Payments**