

## BALANCE OF PAYMENTS – 2016Q4

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## CONTRIBUTORS

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## DATA SUMMARY

	Latest	Prev
Current account (\$m, actual)	-2,335	-5,029
Current account (\$m, sa)	-1,599	-2,019
Goods & Services (\$m, sa)	+375	+332
Primary & Second. Income (\$m)	-1,975	-2,219
Annual CAB (\$m)	-7,112	-7,480
as % of GDP	-2.7%	-3.0%
Net IIP (% GDP)	-59.9%	-64.9%

## A STRONG STARTING POINT

## BOTTOM LINE

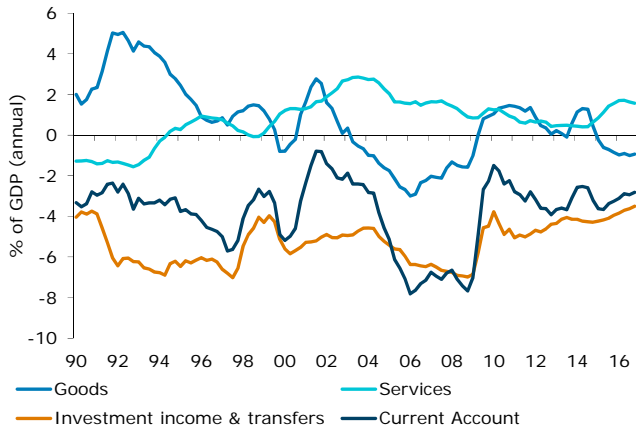
- The current account deficit narrowed as expected in Q4, leading to the smallest annual deficit (2.7% of GDP) since September 2014. Looking forward, we do see the risks skewed towards modestly larger deficits on the back of higher global interest rates and a slow closure of the domestic credit-deposit growth gap, but this is not cause for alarm. The starting point for both the current account deficit and other external balance sheet metrics is good (by New Zealand standards at least).

## KEY POINTS

- The unadjusted current account deficit narrowed to \$2.3bn in Q4 (from \$5.0bn), broadly in line with consensus expectations. In annual terms, the deficit narrowed to 2.7% of GDP, which is the smallest deficit since September 2014 and well below its historical average of 3.7%.
- In seasonally adjusted terms, the current account deficit also narrowed (by slightly more than we expected), printing at \$1.6bn (down \$0.4bn from Q3). That was driven by a further increase in the services surplus to an all-time high of \$1.2bn on increased international tourist spending, offset by a mildly larger goods deficit. The income deficit also narrowed by around \$0.4bn to \$2.0bn as income from New Zealand's offshore investments increased in the quarter.
- It many ways it is unusual that we are experiencing not only a small current account deficit right now (relative to history), but a narrowing one. At this point in the economic cycle, typically the opposite would be the case. It is testament to the fact that while we have had a housing boom, but we have not necessarily seen a consumption equivalent.
- But looking forward, we do see the risks skewed towards modestly larger deficits. This reflects the impact that rising global interest rates will have on the costs of servicing the country's stock of external debt, and also the fact that the gap between domestic deposit and credit growth is narrowing only slowly (forcing a lift in offshore borrowing).
- You can see some elements of this theme playing out already, but it is certainly not broad-based. Net external debt of deposit-taking institutions rose a touch in the quarter to just over \$105bn. However, that was offset by reduced external borrowing from the central government and 'other' sectors, meaning that the county's total net external debt position actually fell to \$143.5bn or 55.0% of GDP – the lowest since 2003.
- It was a similar story with the net international liability position, which fell nearly \$10bn to \$156.5bn or 59.9% of GDP – the lowest since records began (1989). In saying that, the improvement was almost entirely due to market price changes and a surprising outflow in the financial account (which conceptually is at odds with running a current account deficit). It meant the 'net errors and omissions' component was \$4.9bn in the quarter – larger than the current account deficit itself! As such, we'd treat the financial account (and hence the net IIP numbers) with a little caution.
- Nevertheless, even if we do see some deterioration in our external imbalances from here, the starting point is good (by New Zealand standards at least) and that needs to be borne in mind when assessing things like NZD valuation.

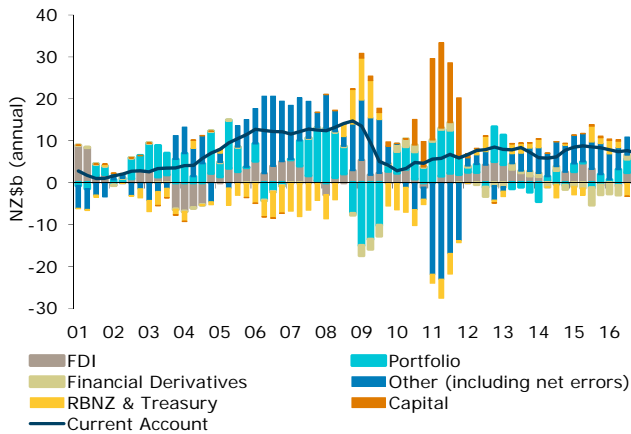
# 2016Q4 BALANCE OF PAYMENTS

**FIGURE 1. ANNUAL CURRENT ACCOUNT BALANCE**



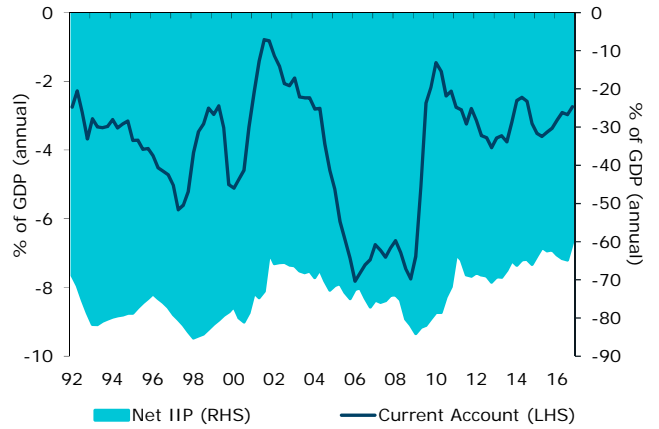
Source: ANZ, Statistics NZ

**FIGURE 2. FUNDING THE CURRENT ACCOUNT**



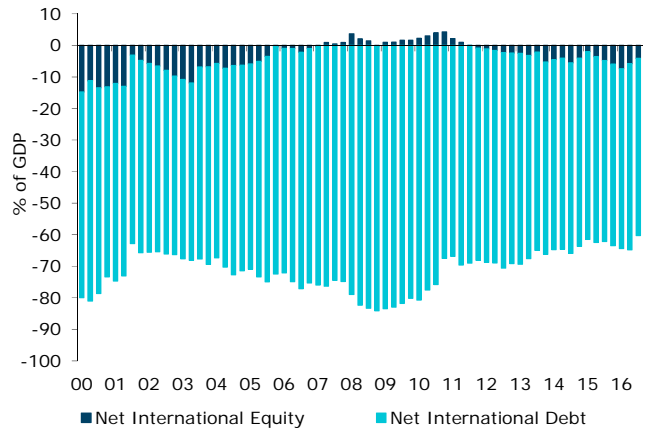
Source: ANZ, Statistics NZ

**FIGURE 3. NET INTERNATIONAL INVESTMENT POSITION**



Source: ANZ, Statistics NZ

**FIGURE 4. NET IIP COMPOSITION**



Source: ANZ, Statistics NZ

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