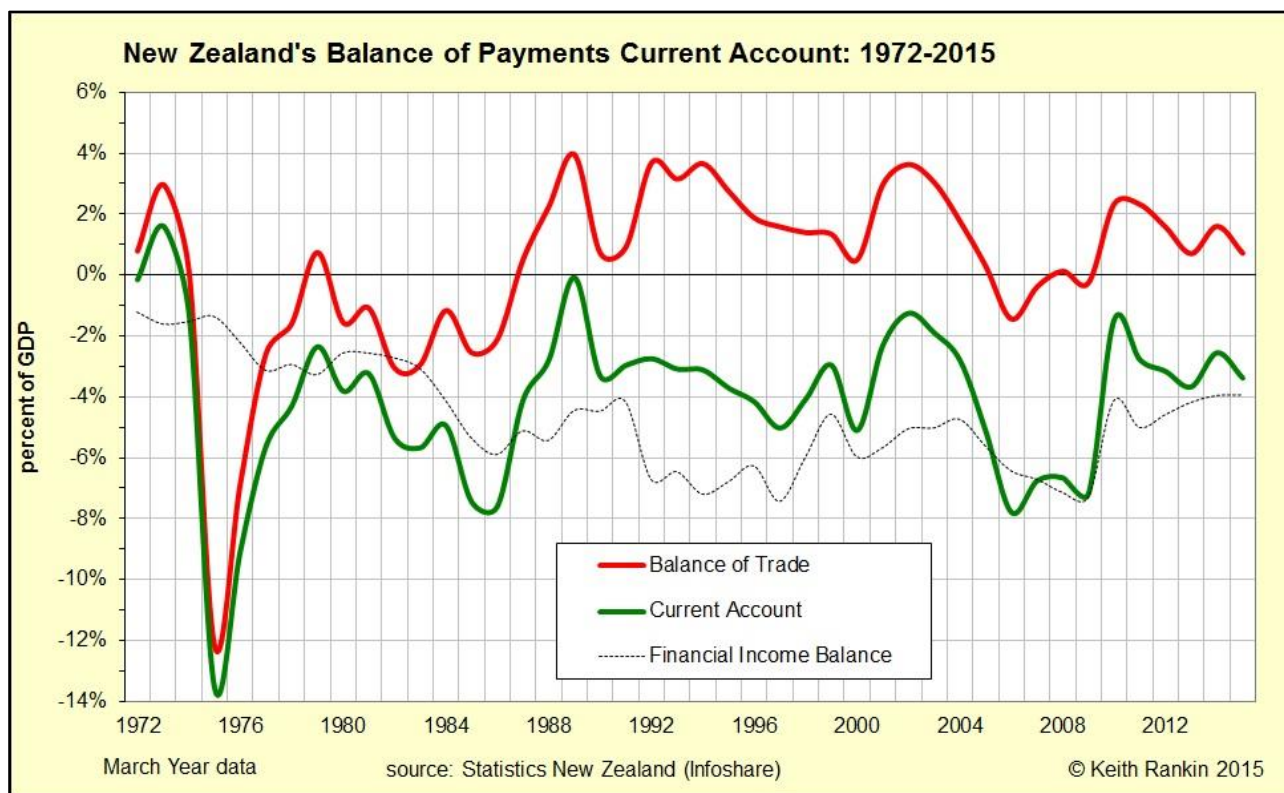


Chart for this Week: New Zealand Balance of Payments 1972-2015

Keith Rankin, 28 October 2015



[Balance of Trade and Balance of Payments](#)

This week's chart shows New Zealand's trade and current account balances from 1972 to 2015. (Strictly, because the annual data is for years-ending March, the period covered is April 1971 to March 2015.)

The current account is a measure of international current receipts of New Zealand Inc. (households, government and businesses) minus current payments. Current receipts are exports of goods and services, financial income (mainly interest and profits earned by New Zealand residents), and transfers (essentially gifts).

(Note that NZ Inc. here means New Zealand as a whole as an economic entity. It is not a term infused with either pro-business or anti-business sentiment.)

While the biggest component of the current account balance is the balance of trade on goods and services, the biggest component of imbalance – by far – is the large and persistent deficit on financial income. The New Zealand current account has been in deficit – payments exceeding receipts – every year since the 1974 oil shocks. This deficit has been financed by what is loosely called 'foreign investment'.

(Deficits are negative balances on the chart, and surpluses are positive balances.)

With the balance of trade averaging about zero over the whole period, New Zealand's export receipts have been sufficient to pay for New Zealand's imports. What has not happened, however, is net payments of interest and other financial income. Rather the 'foreign sector', which is New Zealand's creditor, has consistently lent to New Zealand its interest payment obligations. Incoming 'foreign investment' approximately matches those interest payments and profits that flow out of New Zealand. New Zealand has not missed out on any enjoyment of imported goods and services on account of its financial obligations.

This implicit arrangement works to the satisfaction of both parties (NZ Inc. and its 'foreign sector' creditor). New Zealand maintains its high living standards by avoiding the usual debtor fate of having to produce

more goods and services than it enjoys. And the foreign sector, which generally chooses to spend less than it earns, has an attractive outlet in New Zealand for some of its savings.

New Zealanders' propensity to incur private debt – and to borrow to pay the interest – is a stabilising factor in the world economy. However, it's only a small stabilising factor, given that New Zealand is only the 55th largest national economy in the world.

New Zealand has played this role because of the willingness of its banks – through monetary policy – to offer higher risk-adjusted interest rates to foreign savers than they could gain from most other savings' outlets. The irony is that the post-1980s bias towards tight monetary policy in New Zealand is actually the main reason why money flows so easily into New Zealand, enabling an exchange rate that is generally overvalued, and enabling New Zealand to import substantially more than it would otherwise be able to do.

In the absence of these accommodating monetary policies – policies that accommodate high foreign propensities to save – the chart from 1972 would show current account balances averaging around zero, and with large balance of trade surpluses. New Zealand's general standard of living – measured by average expenditure per person – would have been significantly lower had New Zealand monetary policy not played this unintended accommodating role. The offsetting cost to NZ Inc is the risk of a chronic-debtors' fate.
