# Economic Note

Q2 Balance of Payments

18 September 2019

## Incremental improvement

- The annual current account deficit narrowed in line with market expectations to 3.4% of GDP.
- Similarly, the Q2 deficit of $1,106m was effectively bang on forecast.
- We expect the annual deficit to continue narrowing gradually over the next couple of years.

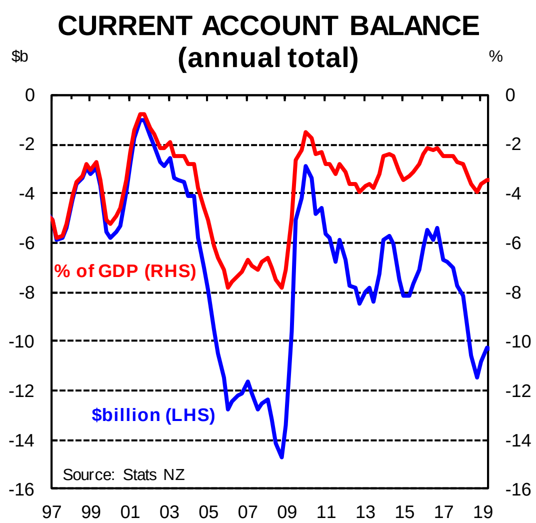
### Summary

**The Q2 annual current account deficit narrowed to 3.4% of GDP, from 3.6% back in Q1**. The annual deficit was in line with market expectations. Importantly, the current account deficit has now narrowed for two consecutive quarters. This further confirms that calendar 2018 was the peak in the deficit for now, encompassing a period when imports rose at a rapid pace.

Looking over 2019 and 2020, **we expect the current account deficit to gradually narrow towards 3.0% of GDP**. Further recovery in the goods balance will drive a narrowing in the deficit. Meanwhile, with NZ being a net borrower, falling global interest rates will also work in the same way to reduce the overall deficit.

### Comments

**The Q2 current account deficit narrowed in line with expectations**. Moreover, the Q2 result re-confirmed that NZ's deficit is relatively stable and, if anything, a narrowing trend has established itself over 2019.




Notably, **the goods deficit narrowed over the quarter in seasonally-adjusted terms**, with the Q2 deficit $285m smaller compared to Q1. On the services side, the Q2 balance dipped a touch (down $41m) over the quarter, but still remained healthy at a seasonally-adjusted surplus of $1,005m.

Meanwhile, **the investment income deficit was narrower than forecast**. The past year has seen NZ's earnings from investment abroad outgrow foreigners' returns from investing in NZ.

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**We should give the external accounts a tick for continuing to move in a direction that is making NZ more financially resilient bit-by-bit**. We are still running current account deficits (spending more than what we earn as a nation). But those deficits are now smaller at 2.9% of GDP on average since 2010, down from 4.1% on average in the 20 years before that. That average 2.9% of GDP annual shortfall is now being more noticeably outpaced by average nominal GDP growth of 4.8% a year over the same period.


As a result, **our net foreign liabilities have fallen from a peak of 84% of GDP in early 2009 to 53%-58% in recent years**. Stronger tourism and foreign investment earnings, along with lower interest rates on external debt have helped shift the needle relative to before the Financial Crisis. More recently, a lift in NZ's agricultural export earnings have begun to flow through as well.


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