NEW ZEALAND

Economic and Financial Overview 2016

Hot air balloon over the patchwork of Canterbury Plains with Mount Hutt in the background.
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New Zealand Government

Bald Hill, Mavora Lakes, Southland.
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Further information

Unless otherwise specified, all monetary units in this Overview are New Zealand dollars. The mid-point rate on 29 January 2016 was NZ$1 = US$0.6482.

The fiscal year of the Government of New Zealand ends on 30 June.

Spelling and punctuation conform to usage in New Zealand and have not been adjusted to conform to usage in the United States or any particular external market.

Where figures in tables have been rounded, totals listed may not equal the sum of the figures.

In tables, NA = Not Available.


WHANGAREI
AUCKLAND
HAMILTON
TAURANGA
ROTORUA
TAUPO
GISBORNE
NEW PLYMOUTH
NAPIER
HASTINGS
WHANGANUI
PALMERSTON NORTH
MASTERTON
NELSON
WELLINGTON
BLENHEIM
GREYMOUTH
CHRISTCHURCH
TIMARU
QUEENSTOWN
OAMARU
DUNEDIN
INVERCARGILL
NEW ZEALAND

New Zealand: An Overview

Area and Population

New Zealand is a parliamentary democracy situated in the South Pacific Ocean, 6,500 kilometres (4,000 miles) south-southwest of Hawaii and 1,900 kilometres (1,200 miles) to the east of Australia. With a land area of 268,000 square kilometres (103,000 square miles), it is similar in size to Japan or Britain. It is comprised of two main adjacent islands, the North Island and South Island, and a number of small outlying islands. Because these islands are widely dispersed, New Zealand has a relatively large exclusive maritime economic zone of 4.1 million square kilometres (1.6 million square miles).

Over half of New Zealand's total land area is pasture and arable land and more than a quarter is under forest cover, including 1.8 million hectares (4.4 million acres) of planted production forest. It is predominantly mountainous and hilly, with 13% of the total area consisting of alpine terrain, including many peaks exceeding 3,000 metres (9,800 feet). Lakes and rivers cover 1% of the land. Most of the rivers are swift and seldom navigable, but many are valuable sources of hydro-electric power. The climate is temperate and relatively mild.

New Zealand's resident population at 30 June 2015 is estimated at 4,596,700. With an estimated population of 1,570,500 people, the Greater Auckland Region is home to 34 out of every 100 New Zealanders and is one of the fastest growing regions in the country.

New Zealand has a highly urbanised population with around 73% of the resident population living in urban entities with 30,000 or more people. As at June 2015, over half of all New Zealanders (53%) lived in the four main urban areas of Auckland (1,454,300), Hamilton (224,000), Wellington (398,300) and Christchurch (381,800).

The population is heavily concentrated in the northern half of the North Island (55%), with the remaining population fairly evenly spread between the southern half of the North Island (22%) and the South Island (23%). The least populated regions, given their size in terms of land area, are the West Coast (0.7%) and the southern half of the South Island (6.8%).

Form of Government

New Zealand is a sovereign state with a democratic parliamentary government based on the Westminster system. Its constitutional history dates back to the signing of the Treaty of Waitangi in 1840, when the indigenous Māori people ceded sovereignty over New Zealand to the British Queen. The New Zealand Constitution Act 1852 provided for the establishment of a Parliament with an elected House of Representatives. Universal suffrage was introduced in 1893. Like Canada and Australia, New Zealand has the British monarch as titular Head of State. The Queen is represented in New Zealand by the Governor-General, appointed by her on the advice of the New Zealand Government.

As in the United Kingdom, constitutional practice in New Zealand is an accumulation of convention, precedent and tradition, and there is no single document that can be termed the New Zealand constitution. The Constitution Act 1986, however, updated, clarified and brought together in one piece of legislation the most important constitutional provisions that had been enacted in various statues. It provides for a legislative body, an executive and administrative structure and specific protection for the judiciary.

Legislative power is vested in Parliament, a unicameral body designated the House of Representatives. It currently has 121 members, who are elected for three-year terms through general elections at which all residents over 18 years of age are entitled to vote. Authority for raising revenue by taxation and for expenditure of public money must be granted by Parliament. Parliament also controls the Government by its power to pass a resolution of no confidence or to reject a government proposal made a matter of confidence, in which event the Government would be expected to resign.

The executive Government of New Zealand is carried out by the Executive Council. This is a formal body made up of the Cabinet and the Governor-General, who acts on the Cabinet's advice. The Cabinet itself consists of the Prime Minister and his/her Ministers, who must be chosen from among elected Members of Parliament. Each Minister supervises and is responsible for particular areas of government administration. Collectively, the Cabinet is responsible for all decisions of the Government.

As a result of a referendum held in conjunction with the 1993 election, New Zealand changed from a "First Past the Post" (FPP) system of electing Members of Parliament to a "Mixed Member Proportional" (MMP) system of proportional representation. MMP is similar to the German Federal system of election to the Lower House. Under MMP, the total number of seats each party has in Parliament is proportional to that party's share of the total list vote. Around half of all Members of Parliament are elected directly as electorate representatives as under the FPP system. The remaining members are chosen by the parties from party lists. This change was put in place for the 1996 election.

Following the general election in September 2014, seven political parties are represented in Parliament. The total number of seats stands at 121, an 'overhang' of one seat, because the Māori Party won one more electoral seat than it was entitled to according to its share of the party vote overall. The National Party formed a minority Coalition Government after the election with support agreements with ACT, United Future and the Māori Party. The Honourable John Key, the Leader of the National Party, is Prime Minister and the Honourable Bill English, Deputy Leader of National, is Deputy Prime Minister.

The judicial system in New Zealand is based on the British model. By convention and the Constitution Act 1986, the judiciary is independent from the executive.

Social Framework

New Zealand has a high degree of social and political stability and a modern social welfare system which includes universal entitlement to primary and secondary education and subsidised access to health services for all residents.

The population is mainly European with around 75% of residents designating themselves as being of European descent, 16% as New Zealand Māori, 8% as Pacific Islanders, 12% as Asian and 1% as other. (Note: Census respondents are able to give multiple responses to ethnicity questions, hence the number of responses is greater than the total population.) There is a high incidence of intermarriage among these groups. The majority of Europeans are of British descent, while the New Zealand Māori are of the same ethnic origin as the indigenous populations of Tahiti, Hawaii and several other Pacific Islands. In recent years there has been an increasing level of immigration from Asian countries.

The Treaty of Waitangi

The Treaty of Waitangi is regarded as a founding document of New Zealand. First signed at Waitangi on 6 February 1840, the Treaty is an agreement between Māori and the British Crown and affirms for Māori their status as the indigenous people of New Zealand.

The Treaty comprises three articles. The first grants to the Queen of England the right to "govern" New Zealand while the second article guarantees Māori possession of their lands, forests, fisheries and other resources. The third and final article gives Māori all the citizenship rights of British subjects. There are outstanding claims by Māori that the Crown has breached the Treaty, particularly the guarantees under the second article. Since 1992, the Government has developed processes and policies to enable the Crown and Māori to settle any Treaty of Waitangi claim relating to events that occurred before September 1992.

Foreign Relations and External Trade

New Zealand foreign policy seeks to influence the international environment to promote New Zealand's interests and values, and to contribute to a stable, peaceful and prosperous world. In seeking to make its voice heard abroad, New Zealand aims to advance and protect both its security and prosperity interests.

Trade is essential to New Zealand's economic prosperity. Exports of goods and services make up around 30% of gross domestic product (GDP) and New Zealand's trade interests are well diversified. Australia, China, North America, the European Union and the Association of South-East Asian Nations each take between around 9% and 19% of New Zealand's goods and services exports. Other major trading partners include Japan and the Republic of Korea.

Asia-Pacific regional linkages remain at the core of New Zealand's political and economic interests. The countries of Asia-Pacific Economic Cooperation (APEC) take more than 70% of New Zealand's exports, provide 71% of tourism arrivals and account for around 75% of New Zealand's foreign direct investment. However, New Zealand's trade policy still has strong links into Europe, and successive governments have also pursued opportunities in emerging regions, such as in the Middle East and Latin America.

While New Zealand exports a broad range of products, it remains reliant on exports of commodity-based products as a main source

Table 1 – Distribution of Seats in Parliament Among Principal Parties Over the Last Six General Elections

	1999	2002	2005	2008	2011	2014
National Party	39	27	48	58	59	60
Labour Party	49	52	50	43	34	32
Green Party	7	9	6	9	14	14
New Zealand First	5	13	7	-	8	11
Māori Party	-	-	4	5	3	2
ACT New Zealand	9	9	2	5	1	1
United Future	1	8	3	1	1	1
Other	10	2	1	1	-	-
Total	**120**	**120**	**121**	**122**	**121**	**121**

Source: Electoral Commission

of export receipts and relies on imports of raw materials and capital equipment for industry.

New Zealand is committed to a multi-track trade policy which includes the following measures:

- multilateral trade liberalisation through the World Trade Organisation (WTO)
- regional cooperation and liberalisation through active membership of such fora as the APEC and the East Asian Summit, and
- bilateral and plurilateral trade arrangements, such as:
  - the Closer Economic Relations (CER) Agreement with Australia (in force since 1983)
  - the Trans-Pacific Partnership (TPP) Agreement, a free trade agreement concluded in 2015 aiming to liberalise trade and investment between 12 Pacific-rim countries: New Zealand, Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, Peru, Singapore, the United States and Vietnam
  - free trade agreements with Singapore, Thailand, Malaysia, Hong Kong and Republic of Korea and the economic cooperation agreement with Chinese Taipei
  - the ASEAN-Australia-New Zealand Free Trade Agreement, and
  - ongoing processes and negotiations with several parties on future Free Trade Agreements, including: the Gulf Cooperation Council (GCC); India; with ASEAN, China, India, Republic of Korea, Japan and Australia in the context of the Regional Comprehensive Economic Partnership (RCEP); and most recently the agreement with the European Union to seek negotiating mandates.

At home and abroad, New Zealand remains committed to a reduction of trade barriers. Domestically, tariffs have been systematically reduced and quantitative controls on imported goods eliminated. Around 90% of goods come into New Zealand tariff free, including all goods from Least Developed Countries. Internationally, New Zealand was active in laying the foundations for the Doha round of WTO negotiations and has been an active participant.

Regionally, New Zealand, as a member of APEC, is committed to achieving APEC's goals of free trade and investment in the region. To this end it is contributing to ongoing discussions around a Free Trade Agreement of the Asia Pacific (FTAAP).

Membership in International Economic Organisations

New Zealand is a long-standing member of the Organisation for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF), the World Bank, the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB) and the WTO.

In late 2014, New Zealand was elected to a non-permanent seat at the United Nations Security Council for a two-year term. The New Zealand Representative took up the seat in January 2015. A major objective of New Zealand's tenure will be to ensure that the perspective of small states is reflected in the workings of the Council.

Environmental Policy

The New Zealand Government recognises the importance of the country's environment and natural resources to its social and economic development.

New Zealand is wealthy in natural resources. There is plentiful fresh water resources; clean air; fertile soil and a climate well-suited to people, trees, livestock and agriculture; long coastlines and significant aquaculture resources; low energy use, waste and carbon dioxide emissions per unit of economic output; significant mineral and petroleum reserves; and extraordinary biodiversity on land and in the rivers, lakes and surrounding ocean. The World Bank estimates that New Zealand ranks eighth out of 120 countries in natural capital per capita, outranked only by petroleum-exporting countries.

Given the importance of the primary sector to the economy, better management of freshwater and other renewable resources, the continued protection of biodiversity and marine resources, reducing waste and improving energy efficiency are all essential for creating wealth and providing higher living standards for New Zealanders. Programmes are in place or under further development in all these areas.

The Resource Management Act 1991 (RMA) provides a national framework for balancing environmental protection with economic, social and cultural values. Local government has the major responsibility for delivering resource management planning and consenting, with central government providing guidance on how to apply the RMA and direction on matters of national importance. Amendments to the RMA in 2009 streamlined and simplified processes and created a new agency, the Environmental Protection Authority, to facilitate decision-making on proposals of national significance. Further proposed amendments are intended to strengthen planning outcomes, reduce uncertainty, reduce costs and delays and enhance Māori participation in resource management processes.

Climate change presents a particular challenge for New Zealand, both from an international and domestic policy perspective. New Zealand is a small country with a unique emissions profile driven by the predominance of land-use industries. Despite New Zealand's relatively small contribution to global emissions, the Government is nonetheless committed to participating constructively in the international climate change dialogue.

An Emissions Trading Scheme (ETS) is in place, designed to assist New Zealand in meeting international climate change commitments at least cost and to reduce New Zealand's net emissions below business-as-usual levels by placing obligations on emitters to surrender units in relation to their emissions. The ETS came into force in 2008 and has been periodically reviewed and adjusted since then. The ETS is being reviewed again in 2016 to ensure the scheme helps New Zealand meets its international emission reduction targets at least cost.

1 World Bank. "The Changing Wealth of Nations: Measuring Sustainable Development in the New Millenium". (2011). Retrieved from http://data.worldbank.org/data-catalog/wealth-of-nations

Selected Economic and Financial Data

Table 2 – Statistical Data

	2011	2012	2013	2014	2015
	(dollar amounts in millions)				
GDP at Current Prices[1, 2]	203,433	213,241	217,995	231,071	239,465
Annual % Increase (Decrease) in Real GDP [1, 2, 3]	1.4	2.2	2.2	2.5	3.2
Population[4]	4,386	4,411	4,447	4,513	4,600
Unemployment Rate[5]	6.4	6.8	6.1	5.8	5.3
Change in Consumer Price Index[6]	1.8	0.9	1.6	0.8	0.1
Exchange Rate[7]	0.7768	0.8236	0.8281	0.7822	0.6658
90-Day Bank Bill Rate[8]	2.71	2.64	2.69	3.67	2.84
10-Year Government Loan Stock Rate[8]	4.20	3.51	4.71	3.95	3.46
Terms of Trade Index[9]	1288	1170	1355	1351	1305
Current Account Deficit as a % of GDP [2, 10]	(3.2)	(3.6)	(3.7)	(2.5)	(3.3)

Source: Statistics New Zealand

Table 3 – Government Finance[11]

Year ended 30 June	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16[12]
	(dollar amounts in millions)					
Total Revenue	81,212	83,346	86,311	89,199	95,013	96,805
Total Expenses	99,608	92,586	90,663	91,842	94,272	96,722
OBEGAL[13]	**(18,396)**	**(9,240)**	**(4,414)**	**(2,802)**	**414**	**(401)**
Gains/(Losses)	5,036	(5,657)	11,339	5,741	5,357	699
Operating Balance	**(13,360)**	**(14,897)**	**6,925**	**2,939**	**5,771**	**298**
Operating Balance % of GDP	(6.6)	(7.0)	3.2	1.3	2.4	0.1
Total Assets	245,215	240,318	244,416	256,824	278,703	282,731
Total Liabilities	164,328	180,538	174,405	176,127	186,467	189,993
Minority Interests	308	432	1,940	5,211	5,782	5,876
Net Worth	**80,579**	**59,348**	**68,071**	**75,486**	**86,454**	**86,862**
Net Direct Domestic Borrowing	18,362	8,557	76	4,764	3,418	-
Net Direct Overseas Borrowing	787	(1,450)	(1,010)	278	(514)	-

Source: The Treasury

Table 4 – Direct Public Debt

Internal Funded Debt	60,519.9	64,006.2	67,587.3	73,121.6	69,828.8	-
Internal Floating Debt	7,326.0	10,081.0	4,735.0	3,800.0	7,100.0	-
External Debt	33.4	(308.5)	(1,222.5)	(342.7)	934.7	-
Total Direct Public Debt	68,059.9	73,778.7	71,099.8	76,578.9	78,303.6	-

Source: The Treasury

1 Year ended 31 March.
2 2015 data provisional. Prior years' data revised.
3 Production based – chain volume series expressed in 2009/10 prices.
4 September year resident population estimate.
5 September quarter, seasonally adjusted.
6 Annual percentage change, December quarter.
7 US$ per NZ$ December quarter average.
8 December quarterly average.
9 Year ended 30 September. Base: June quarter 2002 = 1,000.
10 Year ended 30 September.
11 Financial Statements of the Government of New Zealand for the Year Ended 30 June 2015.
12 Half Year Update announced 15 December 2015.
13 Operating Balance Excluding Gains and Losses (OBEGAL). OBEGAL is the operating balance excluding gains and losses on assets and liabilities of institutions such as the Accident Compensation Corporation, Earthquake Commission and the Government Superannuation Fund.

Economic and Fiscal Forecasts

Economic growth slowed in the first half of 2015 and was lower than anticipated in the 2015 *Budget Update*. Economic growth is expected to remain muted in the near term in response to weak global and domestic demand and lower terms of trade. El Niño weather conditions, coupled with existing price signals, are likely to depress agricultural production and exports in early 2016. The degree of spare capacity in the economy is expected to increase further as growth slows, resulting in higher unemployment and lower non-tradables inflationary pressures. Real GDP growth is forecast to ease to 2.1% in the year to March 2016.

Growth is expected to pick up in the second half of 2016 and remain above trend for most of the latter part of the forecast. Exports are expected to recover in response to the recovery in the terms of trade, the weaker dollar and as the agricultural sector recovers from El Niño, with further support from strong travel service exports. Stimulatory monetary policy conditions are expected to support domestic consumption and investment. Increases in the Government's operating and capital allowances increase public consumption and non-market investment respectively. Unemployment falls as spare capacity in the economy declines.

Nominal GDP growth is expected to slow in the near term in response to slower real GDP growth and the lower terms of trade. Strong nominal GDP growth in later years, as real GDP growth picks up and the terms of trade increase, does not return nominal GDP to previously forecast levels. For the fiscal years 2014/15 to 2018/19, nominal GDP is forecast to be a cumulative $17 billion lower compared to the 2015 *Budget Update*.

Key factors influencing the economic outlook include judgements around trading partner growth, the future path of commodity prices, the impact of El Niño, the extent and duration of the current migration cycle and the relationship between inflation and spare capacity.

The Crown's fiscal position has improved over the past few years with an operating balance excluding gains and losses (OBEGAL) surplus being recorded in the 2014/15 fiscal year for the first time since 2007/08 (up from a deficit of $18.4 billion in 2010/11) and compared to a forecast deficit at the 2015 *Budget Update*. However, the more moderate outlook for the economy means OBEGAL is now expected to be broadly in balance over the next few years with a small deficit forecast for 2015/16 and modest surpluses from 2016/17. Net core Crown debt is expected to peak at 27.7% of GDP in 2016/17, before dropping to 24.0% of GDP by 2019/20 reflecting increasing cash flows.

Wild flowers by Lake Tekapo with the Church of the Good Shepherd in the distance, Mackenzie Country, Canterbury.
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Table 5 – Summary of Economic Forecasts[1]

March Years	2015	2016	2017	2018	2019	2020
Annual Average % Change	Actual	Forecast	Forecast	Forecast	Forecast	Forecast
Private consumption	3.1	2.7	2.3	2.3	2.5	2.1
Public consumption	2.8	2.7	1.0	1.9	1.9	0.9
Total Consumption	**3.0**	**2.7**	**2.0**	**2.3**	**2.3**	**1.8**
Residential investment	12.3	5.9	6.7	4.9	2.8	1.4
Non-market investment	2.1	10.7	8.0	3.0	(9.5)	(0.8)
Market investment	4.6	3.5	3.4	4.2	6.3	3.3
Total Investment	**6.5**	**3.6**	**4.6**	**4.4**	**4.4**	**2.6**
Stock change[2]	0.1	(0.3)	(0.1)	0.2	0.2	0.3
Gross National Expenditure	**3.8**	**2.8**	**2.6**	**2.9**	**3.0**	**2.4**
Exports	4.2	2.9	0.1	4.3	4.2	2.8
Imports	7.5	4.1	0.7	2.2	4.2	3.2
Expenditure on GDP	3.0	2.1	2.4	3.6	3.0	2.2
GDP (production measure)	**3.2**	**2.1**	**2.4**	**3.6**	**3.0**	**2.2**
Real GDP per capita	1.6	0.2	0.7	2.5	2.1	1.3
Nominal GDP (expenditure basis)	3.6	2.7	3.0	6.0	5.6	4.1
GDP deflator	0.6	0.5	0.5	2.3	2.5	1.9
Output gap (% deviation, March year average)[3]	(0.4)	(0.8)	(1.0)	0.0	0.5	0.3
Employment	3.4	1.4	1.3	1.9	2.4	1.6
Unemployment rate[4]	5.8	6.5	6.1	5.3	4.7	4.5
Participation rate[5]	69.5	68.7	68.5	68.6	69.0	69.0
Nominal wages[6]	2.1	2.6	1.8	2.2	2.8	3.3
CPI inflation[7]	0.3	1.4	2.1	1.9	2.1	2.2
Terms of trade[8]	(0.8)	(3.7)	(2.2)	2.5	2.6	(0.3)
House prices[9]	8.9	16.0	5.4	2.3	2.0	2.0
Current account balance – $billion	(8.3)	(11.8)	(15.0)	(12.1)	(10.9)	(12.5)
Current account balance – % of GDP	(3.5)	(4.8)	(6.0)	(4.5)	(3.9)	(4.3)
TWI[10]	77.9	68.5	66.4	68.0	69.3	69.2
90-day bank bill rate[10]	3.6	2.6	2.6	3.4	4.2	4.5
10-year bond rate[10]	3.3	3.3	3.5	4.2	4.6	4.8

1 Forecasts finalised 20 November 2015.
2 Contribution to GDP growth.
3 Estimated as the percentage difference between actual real GDP and potential real GDP.
4 Percent of the labour force, March quarter, seasonally adjusted.
5 Percent of the working-age population, March quarter, seasonally adjusted.
6 Quarterly Employment Survey, average ordinary-time hourly earnings, annual percentage change.
7 Annual percentage change.
8 System of National Accounts (SNA) and merchandise basis, annual average percentage change.
9 Quotable Value New Zealand (QVNZ) House Price Index, annual percentage change.
10 Average for the March quarter. 2015 actual.

Source: The Treasury

Economic Overview

Introduction

New Zealand has a small open economy which operates on free market principles. It has a sizeable manufacturing and a large services sector complementing a highly efficient export-oriented agricultural sector. Primary commodities account for more than half of total goods exports while exports of goods and services represent around one-third of real expenditure GDP.

New Zealand's high proportion of winter sunshine hours and considerable rainfall provide an ideal base for pastoral agriculture, forestry, horticulture and hydro-electricity generation. New Zealand is also a popular overseas visitor destination and tourism is an important source of export income.

Over the past three decades, the New Zealand economy has changed from being one of the most regulated in the OECD to one of the least regulated. The minority National-led Government first elected in November 2008, and re-elected for a third term in September 2014, aims to lift the long-term performance of the economy through five key policy drivers: building a stronger economy; investment in world-class infrastructure; better public services; rebuilding Christchurch; and by building a safer New Zealand.

Recent Economic Performance and Outlook

The New Zealand economy has steadily recovered from the global financial crisis (GFC) despite further disruptions such as the Canterbury earthquakes and occasional periods of drought.

Response to GFC

The New Zealand economy experienced a recession in 2008 and 2009 owing primarily to the intensification of the GFC in 2008. Similar to the experience in many advanced economies, business and consumer confidence plummeted as the cost of credit increased and house prices fell modestly. Local banks' access to funding in overseas markets was temporarily curtailed as uncertainty dominated the global financial and economic environment. Real GDP contracted 2.8% overall between March 2008 and June 2009.

The Reserve Bank of New Zealand (RBNZ) responded to the crisis by lowering the Official Cash Rate (OCR) from 8.25% in June 2008 to a low of 2.5% at the end of April 2009 and introducing facilities to ensure adequate liquidity for the banking sector.

The Government introduced retail and wholesale bank guarantees aimed at restoring confidence in the banking sector and providing banks with improved access to wholesale funding. (Both schemes have since been discontinued.)

The Labour-led Government proceeded with income tax cuts in October 2008 and the National-led Government, which came to power in November 2008, introduced further tax reductions effective from 1 April 2009.

Other short-term measures taken by the Government in late 2008 included infrastructure projects and a temporary relief package to assist small and medium-sized businesses.

Canterbury Earthquakes

On 22 February 2011, the Canterbury region on the eastern side of the South Island experienced a devastating 6.3-magnitude earthquake. A total of 185 people were killed; the second deadliest natural disaster in New Zealand history. This followed a 7.1-magnitude earthquake on 4 September 2010, in which there had been no direct casualties. The earthquakes (including subsequent aftershocks) caused wide-spread damage to buildings and infrastructure, in particular to the Central Business District (CBD) and eastern parts of Christchurch, New Zealand's second most populous city.

The New Zealand Treasury estimated the total cost of the rebuild at around $40 billion (about 20% of annual nominal GDP), much of which is covered by private insurance (reinsured through overseas insurance companies) and the government-owned Earthquake Commission (EQC).

Economic Recovery and Outlook

The New Zealand economy has made a solid recovery since the 2008/09 recession, which was shallow compared to other advanced economies. Annual growth has averaged 2.1% since the March quarter of 2010 despite a period of softer growth in 2012, and was strong by historical standards in 2014. Growth in the June and September quarters of 2015 was 0.3% and 0.9% respectively, bringing annual average growth to 2.9% in the year ended September. Growth over the past year has been driven by the construction, services and agricultural sectors.

Despite the significant disruption caused by the earthquakes, the impact on economic activity was less than expected. Many businesses were able to relocate out of the badly-damaged CBD

and continue trading, and primary and manufacturing production in the region was not significantly affected.

The Canterbury rebuild is expected to be a positive driver of growth over the next several years through commercial and infrastructure investment. It appears that the residential rebuild has already peaked and so it will not further contribute to growth in activity, but will remain at a high level. Earthquake-related residential construction is expected to have peaked around the end of 2015 but the level of overall residential investment in the economy is expected to continue to expand, supported by housing construction in Auckland.

The global economy rebounded from the GFC in 2010 but then slowed significantly as public stimulus measures faded in China, the earthquake in Japan caused disruption in 2011 and European sovereign debt issues emerged. However, New Zealand's increasing exposure to the faster growing areas of the world, in particular Australia and emerging Asia including China, resulted in exports holding up better than otherwise expected. New Zealand's trading partner growth was 3.7% in 2014 and *Half Year Update* forecasts are for this to fall slightly to 3.5% in 2015.

Monetary Policy

The focus of monetary policy is to maintain price stability. A Policy Targets Agreement (PTA) between the Governor of the RBNZ and the Minister of Finance sets out the specific targets for maintaining price stability, while seeking to avoid unnecessary instability in output, interest rates and the exchange rate. The current PTA requires the RBNZ to maintain inflation in the range of 1% to 3% on average over the medium term, but with an additional requirement to "focus on keeping future average inflation near the 2% target midpoint".

The OCR was lowered from 8.25% in mid-2008 to 2.5% in April 2009 in response to the GFC but, as the economy began to recover, the RBNZ started to raise rates again. The OCR was increased to 3.0% in July 2010, before a 50 basis points reduction to 2.5% was made following the February 2011 Canterbury earthquake. A deteriorating global outlook meant that interest rates remained at 2.5% until March 2014 when the Bank began to tighten monetary policy. The OCR was increased by a cumulative 100 basis points to reach 3.5% in July 2014, as rising momentum in the Canterbury rebuild and domestic demand pressures were expected to lead to increasing inflationary pressures. However, the RBNZ has since lowered the OCR to 2.5% reflecting the low domestic and global inflation environment, with further rate cuts dependant on emerging data.

Macro-Prudential Policy

The RBNZ is also responsible for promoting the maintenance of a sound and efficient financial system. In May 2013, a Memorandum of Understanding was signed between the Minister of Finance and the Governor of the RBNZ defining macro-prudential policy and its operating guidelines. The objective of the Memorandum is to increase the resilience of the domestic financial system and counter instability arising from credit, asset price or liquidity shocks. Macro-prudential instruments include adjustments to the core funding ratio, countercyclical capital buffers, adjustments to sectoral capital requirements and quantitative restrictions on the share of high loan-to-value ratio (LVR) loans in the residential property sector.

Fiscal Policy

Prudent Fiscal Management

In 1994, the Government enacted the Fiscal Responsibility Act. The Act was intended to assist in achieving consistent good-quality fiscal management over time. Good-quality fiscal management should enable the Government to make a major contribution to the economic health of the country and be better positioned to provide a range of services on a sustained basis. The provisions of the Fiscal Responsibility Act have since largely been incorporated into Part 2 of the Public Finance Act 1989.

Part 2 requires the Government to pursue its policy objectives in accordance with the principles of responsible fiscal management. The principles of responsible fiscal management are:

- reducing debt to prudent levels to provide a buffer against future adverse events
- maintaining prudent debt levels by ensuring that, on average, total operating expenses do not exceed total operating revenues (ie, the Government is to live within its means over time, with some scope for flexibility through the business cycle)
- achieving and maintaining levels of net worth to provide a buffer against adverse events
- managing the risks facing the Crown
- when formulating tax policy, have regard to efficiency and fairness, including the predictability of tax rates
- when formulating fiscal policy, have regard to the interaction between fiscal policy and monetary policy
- when formulating fiscal policy, have regard to its likely impact on present and future generations, and
- ensuring the Crown's resources are managed effectively and efficiently.

Key Fiscal Indicators

An extended period of growth had led to a strong fiscal position for the Government in the 2007/08 year. However, the recession that began in the first quarter of 2008 resulted in a decrease in revenues and expenditure increases which weakened the fiscal position in subsequent years. However, in 2014/15 the Government reached surplus for the first time since the GFC.

Operating balance: In 2014/15, OBEGAL was a surplus of $0.4 billion (0.2% of GDP). When gains and losses are included, the operating balance was a surplus of $5.8 billion (2.4% of GDP). The December 2015 *Half Year Update* forecasts for OBEGAL for 2015/16, 2016/17, 2017/18, 2018/19 and 2019/20 are for a deficit of $0.4 billion (0.2% of GDP) and surpluses of $0.4 billion

(0.1%), $1.0 billion (0.4%), $3.5 billion (1.2%) and $4.9 billion (1.7%) respectively.

Core Crown operating expenses as a percentage of GDP fell to 30.1% in 2014/15 from 30.4% in 2013/14. Expenses are controlled through output budgeting, accrual reporting and decentralised cost management.

Net debt: Net debt was broadly steady at 25.2% of GDP in 2014/15 as nominal growth offset additional borrowing undertaken by the Government to cover its cash deficit.

Net worth: After a prolonged period of deficits, net worth attributable to the Crown rose in 2014/15 to $86.5 billion, reflecting the operating surplus coupled with positive property revaluations.

Fiscal Objectives

The Government's long-term fiscal objectives were set out in the *Fiscal Strategy Report* (FSR) published with the 2015 Budget and re-confirmed in the 2016 *Budget Policy Statement* (BPS) in December 2015. The long-term fiscal objectives include objectives for debt, the operating balance, operating expenses and revenue, and net worth.

The long-term debt objective states that net debt will be brought back to no higher than 20% of GDP by 2020 and remain between 10% and 20% thereafter. Consistent with this, the objective for the operating balance is to return to an operating surplus sufficient to meet the Government's net capital requirement, including contributions to the Government Superannuation Fund, and ensure consistency with the debt objective.

Public Debt

Prior to March 1985, successive governments had borrowed under a fixed exchange-rate regime to finance the balance of payments deficit. Since the adoption of a freely floating exchange-rate regime, governments have undertaken new external borrowing only to rebuild the nation's external reserves and to meet refinancing needs.

Direct public debt increased by a net amount of $1,725 million including swaps between 1 July 2014 and 30 June 2015. This increase was owing to a net increase in internal debt of $7 million and an increase of $1,718 million in external debt.

Government gross direct debt amounted to 33.2% of GDP in the year ended June 2015, unchanged from 33.2 % the previous year.

National Accounts

In the year to September 2015, the New Zealand economy recorded annual average growth in real production GDP of 2.9%. Growth in the September 2015 quarter was 0.9% following growth of 0.3% in the June quarter and 0.2% in the March quarter.

Table 6 – Gross Domestic Product and Gross National Expenditure[1]

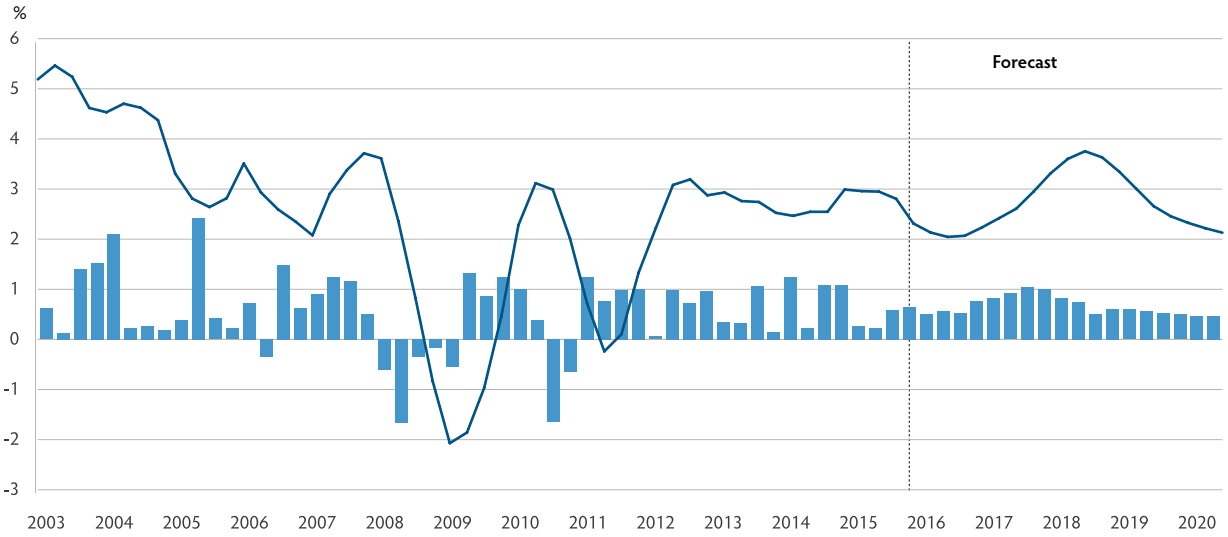
The following table shows Gross Domestic Product and Gross National Expenditure in nominal terms for the five years to March 2015.

	2011	2012	2013	2014	2015
Year ended 31 March	(dollar amounts in millions)				
Compensation of employees	88,831	92,305	94,901	98,887	104,425
Net operating surplus	59,829	63,255	63,703	71,862	71,958
Consumption of fixed capital	29,977	30,280	31,034	31,945	33,467
Indirect taxes	25,949	28,476	29,308	30,689	32,184
Less subsidies	1,152	1,075	951	910	847
Gross Domestic Product	**203,434**	**213,241**	**217,995**	**232,473**	**241,187**
Final consumption expenditure					
General government	39,767	41,406	41,877	43,535	44,977
Private	118,143	124,940	128,792	133,673	138,157
Physical increase in stocks	862	1,268	803	1,679	537
Gross fixed capital formation	39,992	42,326	45,010	48,508	54,090
Gross National Expenditure	**198,765**	**209,941**	**216,482**	**227,396**	**237,761**
Exports of goods and services	61,559	64,749	62,765	66,998	67,482
Less imports of goods and services	56,891	61,448	61,252	63,323	65,778
Expenditure on Gross Domestic Product	**203,433**	**213,241**	**217,995**	**231,071**	**239,465**

1 2014 and 2015 data provisional. Prior years' data revised.

Source: Statistics New Zealand

Figure 1 – Real Gross Domestic Product



— Annual average % change ■ Quarterly % change

Sources: Statistics New Zealand, the Treasury

Table 7 – Gross Domestic Product by Production Group[1]

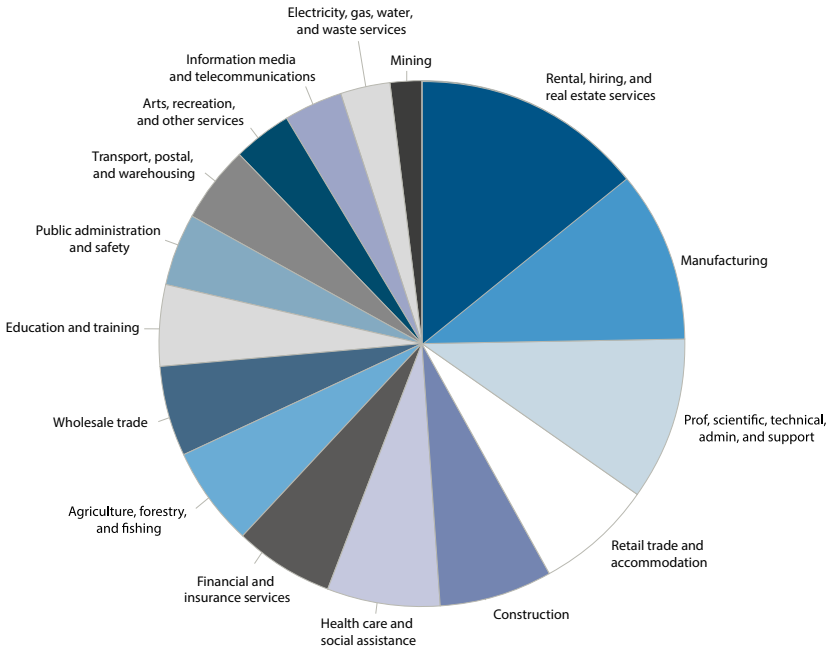
The following table shows GDP by major industries at constant 1995/96 prices.

Year ended 30 September	2011	2012	2013	2014	2015	2015
	(dollar amounts in millions)					% of Total
Rental, hiring and real estate services	26,436	27,434	27,945	28,425	29,238	13.2
Manufacturing	21,415	21,142	21,845	22,170	22,547	10.1
Professional, scientific, technical, administration and support	19,403	19,726	20,278	20,976	21,668	9.7
Retail trade and accommodation	12,457	13,000	13,480	14,023	14,969	6.7
Agriculture, forestry and fishing	10,681	11,998	12,153	12,883	13,727	6.2
Health care and social assistance	11,918	12,302	12,679	13,267	13,575	6.1
Construction	10,207	10,862	11,491	12,714	13,316	6.0
Financial and insurance services	11,496	11,779	12,281	12,722	13,082	5.9
Wholesale trade	10,705	10,905	11,115	11,490	11,461	5.2
Public administration and safety	8,890	8,851	9,017	9,240	9,497	4.3
Education and training	9,203	9,225	9,249	9,299	9,378	4.2
Transport, postal and warehousing	8,761	8,826	8,800	8,931	9,068	4.1
Information media and telecommunications	6,384	6,551	6,761	6,780	7,039	3.2
Arts, recreation and other services	6,486	6,564	6,748	6,837	6,933	3.1
Electricity, gas, water and waste services	6,205	6,160	6,281	6,405	6,496	2.9
Mining	3,524	3,324	3,470	3,800	3,737	1.7
Production GDP	198,567	204,002	209,219	215,895	222,246	100.0
Annual Average % change	**1.1**	**2.8**	**2.3**	**3.0**	**3.3**	
Primary industries	14,215	15,507	15,756	16,827	17,589	7.9
Goods-producing industries	37,817	38,153	39,591	41,208	42,258	19.0
Service industries	132,138	135,158	138,297	141,913	145,813	65.6

1 2015 data estimated. Prior years' data revised.

Source: Statistics New Zealand

Figure 2 – Gross Domestic Product by Industry Group



Sources: Statistics New Zealand, the Treasury

Labour Markets

New Zealand has a decentralised labour market. The Employment Relations Act 2000 provides the statutory framework that supports the building of productive employment relationships. The legislation protects the integrity of individual choice in terms of freedom of association and union membership and the choice of collective and individual employment agreements. It also promotes collective bargaining, requires the parties to employment relationships (unions, individual employees and employers) to deal with each other in good faith and promotes mediation to assist in the early resolution of workplace disputes.

In 2010, the Government made several amendments to the Act in order to increase choice and flexibility, ensure the balance of fairness between employers and employees is appropriate for both parties, improve the operation and efficiency of the legislation and reduce compliance costs.

A set of minimum employment standards also underpins employment relationships and protects the more disadvantaged in the workforce. Relevant legislation includes the Minimum Wage Act, the Equal Pay Act, the Holidays Act and the Parental Leave and Employment Protection Act.

New Zealand's relatively high rate of job turnover and of firm creation and destruction suggests that there are few regulatory and institutional impediments to employment, investment and innovation. Government policy is directed to building up skill levels in the workforce, addressing skill shortages and incentivising welfare beneficiaries to seek employment.

Employment contracted significantly in 2009 as weakness in the economy led to lower demand for labour. As a result, the unemployment rate increased sharply from a record low of 3.4% in December 2007 to around 7.0% at the start of 2010. The unemployment rate fluctuated between 6.2% and 7.2% until 2012, in part owing to a volatile participation rate. The unemployment rate fell to 5.6% in the September quarter 2014 as the economy picked up. Employment also grew strongly, up 3.2% over the previous year in the September quarter. This occurred despite increasing labour force participation, which remains elevated. Employment growth weakened in mid-2015 as economic growth slowed, falling to 1.5% in the year to September quarter 2015, and the unemployment rate increased to 6.0%.

The Canterbury earthquakes initially had a negative impact on the labour market, with employment falling 4.7% in the region in the year to September 2011. The Canterbury labour market strengthened considerably over 2013 and 2014, with total employment up by 4.8% and 6.0% respectively and the unemployment rate declined to 3.2% in 2014 from a peak of 5.5% in 2012.

Labour productivity contracted 2.2% in the year to March 2009 but then rebounded by 5.4% in the year to March 2010 as employers absorbed underutilised labour. Productivity contracted again for a large part of 2011 reflecting soft GDP growth, which restrained firms' demand for labour. Weak employment and a pick-up in GDP saw labour productivity grow strongly over 2012, with annual growth reaching a post-recession peak of 4.1% in December 2012. However, growth stalled again in 2013, as employment strengthened, and eased by 1.2% in the year to June 2014, but increased by 0.4% in the year to June 2015.

Prices and Costs

Consumer price inflation declined over the early 1990s as monetary policy directed at maintaining price stability (introduced in 1989) took effect. Since September 1991, inflation has averaged 2.1% per annum, around the mid-point of the RBNZ's current 1% to 3% target band.

Annual Consumers Price Index (CPI) inflation increased significantly in the December quarter 2010 as an increase in the rate of goods and services tax (GST) from 12.5% to 15% in October 2010 was passed on to consumers. The CPI rose 2.3% in the quarter, taking annual inflation to 4.0%, above the RBNZ's target range, although the Policy Targets Agreement allows the RBNZ to look through administrative price increases. Inflation increased further during 2011, rising to 5.3% on an annual basis in June 2011 before falling to 1.8% in the year to December. This fall was mainly the result of the GST rate rise falling out of the calculation.

Annual CPI inflation continued to ease over 2012 and the first half of 2013, falling to 0.7% in the December quarter owing to the strong New Zealand dollar, which depressed tradables prices. Annual inflation gradually picked up in the second half of 2013, reaching 1.6% in the December quarter as tradables inflation was less negative and non-tradables inflation rose. Annual inflation remained relatively steady in the first half of 2014, at 1.5% in the March quarter and 1.6% in June, before falling to 1.0% in the September quarter and 0.8% in the December quarter owing to a high exchange rate, soft wage growth and low global inflation. It fell further in 2015 to 0.3% in the March quarter, chiefly as a result of lower petrol prices. Inflation picked up marginally in the June quarter to 0.4%, was unchanged at 0.4% in the September quarter and recorded a 0.5% fall in the December 2015 quarter.

In the near term, inflation is expected to rise to the RBNZ's target mid-point, as recent falls in petrol prices drop out of the annual calculation, the recent exchange rate depreciation boosts tradables inflation, domestic demand remains robust and capacity constraints associated with the Canterbury rebuild and residential construction in Auckland continue. Since the *Budget Update*, the exchange rate has depreciated, which is expected to boost tradables inflation, and other indicators suggest there is more spare capacity in the economy than previously estimated, which is expected to result in lower near-term non-tradables inflation. Annual consumer price inflation is forecast to remain below 1.0% until the end of 2015 before rising to 1.9% in mid-2016 and remaining around 2% thereafter. Tradables inflation is expected to pick up sharply from early 2016 as the low New Zealand dollar flows through into higher prices, while non-tradables inflation rises from September 2017 as spare capacity in the economy reduces.

Growth in the index of salary and ordinary-time wage rates declined sharply during the GFC to just 1.5% at the start of 2010 compared with around 3.5% before the crisis. Since then it has crept up, reaching 2.0% in late 2011 and early 2012 before easing again over the remainder of 2012 and 2013 as low inflation placed less pressure on wage growth and labour supply has expanded rapidly. Wage growth stabilised at a low level of 1.6% in the September quarter of 2015 but is expected to pick up over the next couple of years, partly as inflation gradually returns to trend.

Table 8 – Price and Cost Indices

Year	Month	Terms of Trade Index[1]	Annual % Change	Producers Price Index[2]	Annual % Change	Consumers Price Index[3]	Annual % Change	Labour Cost Index[4]	Annual % Change
2011	March	1,266	6.7	1,022	5.3	1,146	4.5	1,030	1.8
	June	1,296	7.1	1,031	4.8	1,157	5.3	1,035	1.9
	September	1,288	3.4	1,037	4.7	1,162	4.6	1,041	2.0
	December	1,269	1.0	1,042	4.2	1,158	1.8	1,047	2.0
2012	March	1,240	(2.1)	1,045	2.3	1,164	1.6	1,051	2.0
	June	1,209	(6.7)	1,051	1.9	1,168	1.0	1,056	2.0
	September	1,170	(9.2)	1,040	0.3	1,171	0.8	1,061	1.9
	December	1,156	(8.9)	1,037	(0.5)	1,169	0.9	1,066	1.8
2013	March	1,205	(2.8)	1,045	0.0	1,174	0.9	1,070	1.8
	June	1,261	4.3	1,051	0.0	1,176	0.7	1,074	1.7
	September	1,355	15.8	1,074	3.3	1,187	1.4	1,078	1.6
	December	1,389	20.2	1,066	2.8	1,188	1.6	1,083	1.6
2014	March	1,414	17.3	1,077	3.1	1,192	1.5	1,086	1.5
	June	1,415	12.2	1,066	1.4	1,195	1.6	1,091	1.6
	September	1,351	(0.3)	1,050	(2.2)	1,199	1.0	1,096	1.7
	December	1,319	(5.0)	1,046	(1.9)	1,197	0.8	1,101	1.7
2015	March	1,335	(5.6)	1,034	(4.0)	1,195	0.3	1,104	1.7
	June	1,355	(4.2)	1,031	(3.3)	1,200	0.4	1,109	1.6
	September	1,305	(3.4)	1,048	(0.2)	1,204	0.4	1,113	1.6
	December	N/A	N/A	N/A	N/A	1,198	0.1	1,118	1.5

1 Base: June quarter 2002 = 1,000.
2 All industry inputs. Base: December quarter 2010 = 1,000.
3 Base: June quarter 2006 = 1,000.
4 All industry ordinary-time salary and wage. Base: June quarter 2009 = 1,000.

Source: Statistics New Zealand

Industrial Structure and Principal Economic Sectors

Primary Industries

The agricultural, horticultural, forestry, mining and fishing industries play a fundamental role in New Zealand's economy, particularly in the export sector. Overall, the primary sector directly accounts for around 6% of real GDP and contributes just over half of New Zealand's total export earnings.

Agriculture and Horticulture

Agriculture directly accounts for around 4% of GDP, while the processing of food, beverage and tobacco products accounts for a further 4%. Downstream activities, including transportation, rural financing and retailing related to agricultural production, also make important contributions to GDP. Dairy farming is the predominant agricultural activity, followed by beef and sheep farming and horticulture.

Prices for New Zealand's key agricultural commodities recovered strongly following large declines during the GFC and continued to increase over 2010 and the first half of 2011. World prices came off their highs in the second half of 2011 as renewed euro area concerns emerged and continued to fall in the first half of 2012. Prices increased strongly again in 2013, with historically high levels for dairy products owing to robust demand from China and tighter global milk supply. However, dairy and forestry prices declined following the March 2014 quarter, with dairy prices down about 50% at the start of 2015 compared to their peak in February 2014. Dairy prices continued to decline through the middle of 2015, but began to recover in the final quarter of the year. Meat prices rose to a record high in September 2014 but declined by nearly 20% in the following year.

Rising dairy prices over 2013 enabled New Zealand's major dairy exporter, Fonterra, to lift the final farm gate milk price for the 2013/14 season to $8.40 per kilogram of milk solids, from $5.84 in the 2012/13 season. However, Fonterra lowered its farm gate milk price for the 2014/15 season to $4.40 per kilogram of milk solids in mid-2015 lowered again to $4.15 at the end of January.

Lamb and mutton exports also benefited from strong demand from China in the 2013/14 season and similarly declined in the 2014/15 season, partly as a result of slower demand from China as well as increased competition from Australian sheepmeat

Table 9 – Gross Agricultural Production[1]

The following table shows sales of the principal categories of agricultural products for the years indicated and as a percentage of agricultural sales for the year to March 2015.

	2011	2012	2013	2014	2015	2015
Year ended 31 March	(dollar amounts in millions)					% of Total
Dairy	10,960	10567	10,386	14,823	10,341	45.0
Cattle	2,129	2,289	2,316	2,166	2,852	12.4
Sheepmeat	2,364	2,820	2,263	2,340	2,369	10.3
Wool	563	675	587	573	680	3.0
Deer	200	234	200	187	173	0.8
Poultry/eggs	169	185	172	186	185	0.8
Pigs	153	165	167	184	193	0.8
Other farming	225	221	216	214	250	1.1
Sales of live animals	848	871	866	760	885	3.9
Value of livestock change	87	199	(153)	(77)	(90)	(0.4)
Fruit	1,882	1,979	1,998	2,371	2,568	11.2
Vegetables	1,062	1,065	987	1,053	988	4.3
Other horticulture	243	251	325	363	341	1.5
Crops and seeds	588	745	751	758	699	3.0
Agricultural services	216	216	220	216	187	0.8
Non-farm income	399	425	421	407	352	1.5
Total Gross Revenue	**22,088**	**22,907**	**21,723**	**26,523**	**22,973**	**100.0**

1 All data estimated.

Source: Ministry for Primary Industries

(where slaughter rates were high in response to drought). The New Zealand farm gate price for lamb and mutton has remained fairly stable at around $5.00/kg to 6.00/kg over 2014 and 2015, with the depreciation of the New Zealand dollar in 2015 helping to offset lower international prices. Export volumes for the coming season are expected to fall following a reduction in the sheep flock and poor weather in the lambing season.

Beef exports performed well over 2014/15, largely as a result of strong demand from the US where domestic production is at historically low levels. Export volumes lifted by 8% over the 2014/15 season in response to the strong farm gate prices, which lifted from around $3.50/kg to 4.00/kg in prior seasons to $4.75/kg in 2014/15. More recently, prices have eased and volumes slowed as New Zealand approaches its quota limit for exports to the US. Volumes are expected to pick up again in early 2016 as the quota resets, although volumes for the 2015/16 season as a whole are expected to fall owing to the reduction in the beef herd.

Wine and kiwifruit are the principal horticultural products. Other significant horticultural exports include apples and pears, fresh and processed vegetables, and seeds. Fruit exports were worth NZ$2 billion in the year to June 2015, up 20% from the previous June year, and wine exports were worth NZ$1.4 billion, up 7% from the previous year.

Forestry

Forestry and logging makes up around 1.0% of GDP and is the basis of an important export industry with around 70% of wood from the planted production forests eventually being exported in a variety of forms, including logs, wood chips, sawn timber, panel products, pulp and paper and further manufactured wooden products, including wooden furniture.

For the year ended June 2015, the value of exports of forestry products was $4.8 billion (free on board), 10.0% of New Zealand's total merchandise exports. China, Australia, South Korea and Japan were the largest markets for forestry products. China was the largest market for logs and poles, sawn timber and wood pulp. Japan was the largest market for panels, and Australia the largest market for paper and paperboard.

New Zealand's climate and soils are well-suited to the growth of planted production forests. Planted production forests cover an area of around 1.8 million hectares (approximately 7% of New Zealand's land area) and produce 99% of the country's wood. Radiata pine, which makes up 90% of the plantation estate, matures in 25 to 30 years, more than twice as fast as in its natural habitat of California. This species has had considerable research investment since it was introduced last century and has demonstrated its versatility for a wide range of uses. The second most important species is Douglas fir, which makes up 6% of the total planted forest area.

For the year ended June 2015, an estimated 29.6 million cubic metres of wood were harvested from New Zealand production forests representing a 34% increase over the past five years and the largest production volume on record.

Logs, wood and wood article export values decreased 11.3% in the year to June 2015, owing to declines in the price of forestry products and the volume of forestry exports, as the downturn in the Chinese housing market and a high level of inventories in China weighed on demand. Nevertheless, the price of forestry products remained at an historically high level after peaking in April 2014, and global forestry prices and demand are expected to pick up in 2016 on the back of further economic stimulus measures in China. Meanwhile, relatively low supply from other forestry exporters is also expected to support global prices in 2016. Low shipping costs are providing a partial offset for New Zealand exporter margins.

A relatively stable harvest of 26 to 28 million cubic metres a year is forecast for the period to 2016. Wood availability is then forecast to increase to 35 million cubic metres by 2023. Market conditions and logistical constraints (availability of logging crews, transport capacity and wood processing capacity) will dictate how quickly the additional wood availability is actually harvested. The capacity in logging and wood processing is expected to expand at a solid pace over the coming year.

Fishing

New Zealand has an Exclusive Economic Zone (EEZ) of four million square kilometres supporting a wide variety of inshore fish, and some large deep-water fin fish, squid and tuna. New Zealand's coastal waters are also well-suited to aquaculture. The main species farmed are Pacific oysters, green-lipped mussels and quinnat salmon.

Fishing is a major New Zealand industry and an important merchandise export earner. Fish and other seafood accounted for an estimated $1.4 billion in export revenues in the year ended June 2015, an increase of 6.2% from the previous year.

The most important export species are green-lipped mussels, salmon, hoki, squid, mackerel and tuna. Smaller volume but high-value exports are rock lobster, abalone and orange roughy. The main export markets are China, Hong Kong, Australia, the US and Japan. Around 80% of export volumes are from wild capture with the remainder from aquaculture. Ninety percent of New Zealand's commercial seafood production is exported.

The conservation and management of the fisheries is based on a proportional quota management system designed to protect the future sustainability of the fisheries while facilitating their optimum economic use. The system uses market forces, together with scientific assessments of fish stocks, to allocate fishing rights without arbitrarily restricting fishing methods. With fishing quotas fully allocated, forecast future growth in wild capture seafood exports is modest. Stronger growth is expected in aquaculture exports as salmon farm capacity expands.

Energy and Minerals

New Zealand has significant natural energy resources, with good reserves of coal, natural gas and oil/condensate, extensive geothermal fields and a geography and climate which have supported substantial hydroelectric and wind power development. The main minerals mined, in addition to coal, are gold, silver, quartz, iron sands, various other industrial minerals and gravel for road construction.

Programmes for the exploitation of New Zealand's energy resources were accelerated after the first oil shock in 1973. Oil and gas exploration was increased and energy conservation programmes were developed and promoted. As a result, New Zealand is able to supply a significant proportion of its oil and gas requirements from domestic sources.

There is a renewed interest in the development of energy and mineral resources to contribute to economic growth. The Exclusive Economic Zone and Continental Shelf Act passed in 2012 requires all petroleum and mineral operations within the EEZ and continental shelf to seek consent from the Environmental Protection Authority. Within New Zealand's territorial waters, operators are required to be permitted through the RMA.

Natural gas: Natural gas is currently produced from 19 fields and wells in the Taranaki region of the North Island, with production dominated by the onshore Pohokura oil and gas field, the large offshore Maui field and smaller onshore fields. There are three main groups of users of gas in New Zealand: electricity generation; petrochemical production; and fuel for industrial purposes.

Gross natural gas production was 228.0 petajoules in the year to June 2015 up from 217.7 petajoules in the previous year. Natural gas production declined sharply after the Maui field peaked in 2001, before stabilising through to early 2007. Production has since increased with the continued development of new smaller and more diverse fields and the introduction of the onshore Pohokura oil and gas field in 2006. The offshore Kupe oil and gas field, which commenced production in December 2009, has become a significant producer.

Oil: New Zealand's crude oil production was 94.1 petajoules in the year to June 2015 (around double the amount produced in 2006) of which 96.8% was exported. New Zealand exports light crudes, while importing heavier crudes suited to its refining plant at Marsden Point in Whangarei. While New Zealand is still a net importer of oil, crude oil exports remain important with the value of crude oil exports accounting for 1.7% of total goods export values in the year to September 2015.

Crude petroleum production has been increasing since the second half of 2006 when the Pohokura field commenced production. The Tui Area Oil Fields, located in the offshore Taranaki basin, commenced commercial production in the middle of 2007 and produced 32.5% of New Zealand's oil in the 2009 year. New Zealand's production of crude oil was further boosted in late 2008 as Maari, a new field also located off the Taranaki coast, started production. The Maari field reached full production in June 2009, around the same time that production from the Tui fields began to decline.

Coal: Coal is New Zealand's most abundant energy resource with the total in-ground resource estimated at more than 15 billion tonnes. Of this, 8.6 billion tonnes are judged to be economically recoverable from 42 coalfields. Of this amount, 80% is relatively low-grade lignite, located mainly in Southland, 15% is sub-bituminous, located mainly in the Waikato region south of Auckland and 5% is bituminous, located mainly on the West Coast of the South Island. Lignite is used mainly for industrial fuel and sub-bituminous coal for industrial fuel, steel manufacture, electricity generation and domestic heating. Bituminous coal, which is typically very low ash, low sulphur coking coal, is mainly exported for metallurgical applications.

In the year to June 2015, total coal production was 3.8 million tonnes, a 13% decrease over the previous year. Coal production is centred in the Waikato region (mainly for several major industrial users and the nearby Huntly power station), the West Coast of the South Island (mainly for export) and Otago/Southland (mainly for local industrial markets).

Electricity: The New Zealand electricity market is structured around the following key participants:

- Generators – generate electricity at power stations throughout the country and sell that electricity to the wholesale spot market.
- The National Grid – Transpower, a State-Owned Enterprise (SOE), is the owner and operator of the national grid which comprises the towers, wires and cables that transport electricity from power stations to distribution networks and to large industrial users. Transpower is also the System Operator responsible for scheduling electricity generation to meet consumer demand and for the maintenance of system voltage and frequency.
- Distribution Network Owners – own the distribution networks that carry electricity from the national grid to residential, commercial and some industrial users. There are currently 29 businesses that operate distribution networks. The prices that distribution businesses can charge are regulated by the Commerce Commission. Distribution costs (also called lines charges), which comprise fixed and variable components, are charged to retailers, who then incorporate the charges into their retail pricing.
- Retailers – buy electricity from the wholesale spot market and on-sell it to end consumers, at market prices determined by each electricity retailer.
- Consumers – nearly two million, ranging from households to large industrial users, may choose supply from any retailer operating in their area.
- Regulators – the Electricity Authority oversees the electricity market.

Most New Zealand electricity generation and retailing is undertaken by five large, vertically integrated generator/retailers: Mighty River Power; Contact Energy; Genesis Energy; Meridian Energy; and Trustpower.

Collectively, these companies account for over 90% of both electricity generation and customer market share. All are listed companies with their shares quoted on the NZX Main Board. Mighty River Power, Genesis Energy and Meridian Energy are currently majority Crown-owned companies while Contact Energy and Trustpower are privately owned.

New Zealand's total installed generation capacity is approximately 10,000 MW. More than half of generation in 2014 was from hydro stations. Almost 80% was from renewable sources – including geothermal, wind, biomass and solar as well as hydro. New Zealand does not directly subsidise renewable generation. Other fuel types in New Zealand's generation mix include coal, oil/diesel and natural gas.

Residential households accounted for approximately a third of total electricity consumption by volume. Most residential demand is for water heating, space heating and refrigeration. The commercial and industrial sectors make up the balance of consumption. New Zealand Aluminium Smelters (NZAS) is the largest single user of electricity in the country, accounting for approximately 15% of national electricity demand in 2015.

Wholesale spot electricity prices are set each half hour through an auction pricing mechanism whereby generators submit offers to sell electricity, and retailers and large consumers submit bids to buy electricity. The lowest cost combination of generation offers which satisfy demand are accepted. The spot price for the half hour is normally determined by the highest price within the accepted combination of offers.

Manufacturing

New Zealand's manufacturing industries make an important contribution to the national economy. In the year ended September 2015, manufacturing sector output accounted for around 10% of real GDP. The proportion of the labour force employed in manufacturing is around 11%. Primary sector processing (food and forestry) makes up a significant proportion of the sector.

The food manufacturing industry produces high-quality products for both the domestic and export markets. This industry enjoys the advantages of a natural environment that is highly conducive to pastoral agriculture, an absence of major agricultural diseases, the potential for year-round production and an international reputation for excellence. The industry had sales of over $43.8 billion in the year ended September 2015, including $28.8 billion for meat and dairy products.

Output in the manufacturing sector contracted sharply during the GFC, owing to weakening demand both domestically and globally. Manufacturing output recovered somewhat over late 2010 and early 2011, despite the Canterbury earthquakes, and continued to grow solidly in 2012. Negative growth was recorded in the first half of 2013 as a result of the elevated exchange rate affecting international competitiveness and the impact of the late summer drought. Output grew strongly in the second half of 2013 as a recovery in agricultural production led to a rebound in food processing.

Manufacturing GDP was broadly flat over the first half of 2014, as dry conditions resurfaced in the North Island and a rise in the exchange rate put competitive pressure on exports, but output recovered later in the year as agricultural production recovered. Manufacturing GDP has declined slightly over 2015.

Table 10 – Operating Income of the Manufacturing Sector by Industry Group

The following table sets forth the sales of goods and services in the manufacturing sector for the five years ended 30 September 2015. It also shows the manufacturing index for the same period.

	Year ended 30 September					
	2011	2012	2013	2014	2015	2015
Industry Division	(dollar amounts in millions)					% of Total
Food						
Meat and dairy	27,456	27,521	27,372	32,725	28,813	29.3
Other food, beverages and tobacco	13,786	14,123	14,710	14,866	15,043	15.3
Machinery and equipment	9,953	9,949	9,677	10,148	10,578	10.7
Metal product	9,235	9,165	8,912	9,146	9,516	9.7
Chemical, polymer and rubber product	7,436	7,995	8,497	8,945	8,946	9.1
Petroleum and coal product	9,060	9,609	9,475	9,547	8,436	8.6
Wood and paper product	7,860	7,736	7,718	7,964	8,167	8.3
Non-metallic mineral product	2,424	2,489	2,724	3,116	3,301	3.4
Textile, leather, clothing and footwear	2,227	2,224	2,370	2,297	2,298	2.3
Furniture and other manufacturing	1,699	1,596	1,613	1,731	1,758	1.8
Printing	1,697	1,680	1,550	1,670	1,572	1.6
Total	**92,833**	**94,088**	**94,617**	**102,155**	**98,426**	**100.0**
Manufacturing Index[1]	108	106	110	112	113	

1 Base: June quarter 1996 = 100.

Source: Statistics New Zealand

Service Industries

New Zealand's service industries, which collectively account for around two-thirds of GDP, are relatively broad-based across a wide range of activities. The largest contributions to overall services activity are from retail and wholesale trade (18% of services GDP), rental and real-estate services (18%) and professional and administrative services (15%). Other significant services activities include education, health, information technology and financial services, as well as postal services, transportation and warehousing.

As the New Zealand economy entered recession in 2008, services growth slowed, but not to the extent of other sectors. With the sector expanding at a more rapid rate than other areas of the economy over the past decade, its share of GDP has increased from 62% in 2004 to 66% in 2015. Export-related activities such as tourism and primary sector services inputs play an important part in trends in this sector.

Services constituted around 72% of total employment in the economy in the year to September 2015. Growth in services employment has been reasonably broad across most industries over the past decade; the services sectors that experienced the strongest employment growth in 2015 were retail trade, accommodation and food services.

Infrastructure

In 2009, the Government established a National Infrastructure Unit within the Treasury to take a national overview of infrastructure priorities by providing cross-government coordination, planning and expertise. The Unit develops its policy advice in conjunction with an Advisory Board made up of a mix of private and public sector expertise.

The Unit is also responsible for promulgating robust and reliable cross-government frameworks for infrastructure project appraisal and capital asset management and for monitoring the implementation and use of these frameworks. As part of this work, the Unit has released Private Public Partnership (PPP) guidelines for use by government agencies and provides ongoing support for agencies and departments involved in PPPs.

In August 2015 the Unit released the third National Infrastructure Plan, which seeks to provide a common direction for the planning, funding, building and use of all economic and social infrastructure. It covers the transport, telecommunications, energy, water and social infrastructure sectors. The purpose of the Plan is to improve investment certainty for businesses by increasing confidence in current and future infrastructure provision. Through the Plan, the Government aims to achieve better use of existing infrastructure and better allocation of new investment.

Further information is available at http://www.infrastructure.govt.nz

Transport

Transport is a major enabling component for economic activity in New Zealand. The country's transport system owes its characteristics, not only to New Zealand's dependence on external trade and remoteness from many of its trading partners, but also to its rugged terrain and scattered population and the division of the country into two main islands spanning 2,011 kilometres in length. As a result, the establishment of a comprehensive network of roads (around 93,000 kilometres) and railways (4,000 kilometres) linked to ports and airports has involved capital costs that are high in relation to the size of the population. However, the efficiency of the country's internal transport system has played a critical role in New Zealand's economic growth.

Much of this transport infrastructure was originally developed and operated by government-owned monopolies. Today, the transport sector is largely deregulated and legislative barriers to competition have been removed. Many previously government-owned operations are now privately owned.

Roading: The allocation of funding and the management of state highway works are managed by a Crown entity, the New Zealand Transport Agency. Construction and maintenance work is contracted to private sector companies.

Land transport infrastructure and its maintenance are funded primarily from distance-based charges for diesel vehicles, excise duties on petrol and motor vehicle registration charges. More recently, the Government has appropriated additional funding to accelerate the construction of new roads and the provision of public transport.

Tolling schemes for new highways are permitted where this is deemed an appropriate funding arrangement. The capital for these schemes can come from either the public funding body, or from private providers in partnership with the Government.

Railways: New Zealand's railway system connects all major population centres and includes rail ferries between the North and South Islands. The system was maintained and operated under government ownership until 1993, when it was privatised. The Government has since purchased back both the network infrastructure and rail services. The national rail system operates as KiwiRail and is predominantly used for transporting freight.

KiwiRail contracts with its customers on commercial terms but also receives funding from the Government, which funds a portion of the costs of maintaining and renewing the national rail network.

While the Government, through KiwiRail, owns most rail infrastructure and rolling stock, Auckland and Wellington regional authorities also own some rolling stock, which is used by contracted providers of metropolitan rail services. Over the past eight years, significant investment has been made in both metropolitan networks to upgrade, extend and electrify services.

Shipping: Ninety-nine percent of New Zealand's total international trade by volume is carried by sea, with around 30 global and regional shipping lines calling at New Zealand ports. Coastal shipping services, operated by both local and international shipping companies, provide intra- and inter-island links and play a key role in the distribution of bulk cargoes such as petroleum products and cement.

Port companies established under the Port Companies Act 1988 operate 13 of New Zealand's 14 commercial ports. These companies operate at arm's length from their predominantly local authority owners, with a few partly privatised and listed on the New Zealand Stock Exchange.

New Zealand's shipping policy reflects the philosophy that the country's interests are best served by being a ship-using rather than a ship-operating nation. The policy seeks to ensure for New Zealand exporters and shippers unrestricted access to the carrier of their choice and to the benefits of fair competition among carriers.

The Maritime Transport Act 1994 regulates ship safety, maritime liability and marine environmental protection.

Civil aviation: New Zealand is one of the most aviation-oriented nations in the world. In a population of just over 4.5 million there are over 10,000 licensed pilots and more than 4,700 aircraft. Light aircraft, including helicopters, are used extensively in agriculture, forestry and tourism.

New Zealand allows up to 100% foreign ownership of domestic airlines and there is no domestic air services licensing. Air New Zealand is the major domestic operator on main trunk and regional routes. Jetstar provides competition on main trunk routes and a small number of regional routes.

New Zealand has around 70 formal air services agreements with foreign governments. The Government's international air transport policy released in 2012 is to seek opportunities for New Zealand-based and foreign airlines to provide their customers with improved connectivity to the rest of the world and to facilitate increased trade in goods and services. This is done by pursuing a policy of putting in place reciprocal "open skies" agreements, except where this would not be in the best interests of the country as a whole.

Currently, around 19 international airlines, including Air New Zealand, link New Zealand with the rest of the world through their freight and passenger services.

International flights operate from a number of international airports, of which Auckland, Wellington and Christchurch are the most significant. Queenstown and Dunedin are secondary airports used for some trans-Tasman flights. The three major international airports (Auckland, Wellington and Christchurch) are owned by public companies.

Air New Zealand is a publicly listed company on the New Zealand Stock Exchange. In 2001, the Government purchased shares in the company following a period of difficult business and financial events for the airline. In 2013, the Government divested around 20% of its shares to retain 53% ownership. Since 2001, Air New Zealand has restructured its operations and has restored its balance sheet to a sound financial position. The airline has also made profits in each financial year and is engaged in a fleet replacement programme which is expected to be completed by 2016.

Tourism

Tourism is one of the largest single sources of foreign-exchange revenue and a major growth industry in New Zealand. In the year to March 2015, international tourist expenditure in New Zealand amounted to $11.6 billion, an increase of 17.1% on the previous year. The country's beautiful scenery, natural environment and a range of outdoor activities make New Zealand a popular tourist destination.

Total visitor arrivals for the year ended October 2015 totalled 3,059,449, an increase of 8.6% over the previous year.

Australia is New Zealand's closest market and the largest source of visitor arrivals at just over 1,207,040 (39.5% of the total) in the year ended October 2015. Australian arrivals were up by 5.5% from a year earlier. The next largest markets are China (306,880 or 10.0% of the total) and the US (193,616; 7.0%). Visitor arrivals from a number of Asian markets have also grown strongly over the past decade.

Tourism arrivals are sensitive to the New Zealand dollar exchange rate. The New Zealand dollar has depreciated in trade-weighted terms over 2015, and a further gradual depreciation against the US dollar is likely.

Communications

New Zealand was the first country to open its entire telecommunications market to competitive entry in 1989. Telecom New Zealand was privatised in August 1990, and today all major competitors are privately owned. The telecommunications market is made up of the three major service providers (Chorus, Spark/Telecom and Vodafone/Telstra Clear) and a number of smaller providers.

There is good mobile coverage in New Zealand with competitive service offerings from the three mobile network operators (Spark, Vodafone and 2degrees).

New Zealand has good availability of fixed broadband access (over 95% of dwellings). The first phase of the Ultra-Fast Broadband (UFB) Initiative will make fibre-based broadband connection available to 75% of New Zealanders by 2019. Funding of this initiative by the Government is complemented by investment from private sector partners. Plans are under development to extend the initiative for making fibre connection available to at least a further 5% of the population.

The companion Rural Broadband Initiative (RBI) is aimed at improving broadband availability outside of UFB areas. The initiative involves upgrading network infrastructure to improve both the service performance of copper line broadband and the availability of fixed wireless broadband in areas where acceptable copper line broadband is not available. The Government has allocated licences to mobile operators to use spectrum in the 700MgHz band to extend the coverage of 4G networks.

A Telecommunications Commissioner within the Commerce Commission administers regulated telecommunication services,

which include network interconnection, telephone number portability and wholesale telecommunication services. The Commissioner's key functions are to make determinations for regulated services, to report to the Minister of Communications on the desirability of regulating services and to allocate the telecommunications development levy across telecommunications service providers. The Government is currently reviewing the telecommunications regulatory regime.

Postal services are provided by New Zealand Post Limited, a commercially-run SOE, and a range of private providers. New Zealand Post used its retail network to expand into retail banking in 2002, setting up Kiwibank, with a further expansion into business banking in 2005. New Zealand Post did not have the resources to fund the establishment of the bank itself, so the Government made a one-off investment of up to $78.2 million in New Zealand Post to fund the establishment expenses and capital expenditure involved, and to ensure there was sufficient capital to meet RBNZ requirements. Since then, New Zealand Post has made further capital injections to bring Kiwibank's share capital to $400 million at 30 June 2015. The Government neither guarantees the bank nor subsidises its ongoing operations. Kiwibank announced an after-tax profit of $127 million for the year ended 30 June 2015. This compares with a profit of $100 million for the previous 12 months.

Two major national radio networks, as well as a network that relays parliamentary proceedings, are provided by Radio New Zealand Limited, a Crown entity operating under a non-commercial charter. There are numerous private radio stations.

Television New Zealand Limited (TVNZ) is the Crown-owned national television broadcaster. The Television New Zealand Act 2013, as amended in 2011, specifies the functions of TVNZ to be "a successful television and media company providing a range of content and services on a choice of delivery platforms and maintain its commercial performance". TVNZ provides two commercial free-to-air digital television channels, plus four additional digital channels. The state also funds the Māori Television Service, a statutory corporation, for the purpose of promoting Māori language and culture. Private television operators provide a number of other national and regional channels. Pay TV services are available from satellite and, in some areas, cable delivery platforms.

There are five major daily metropolitan newspapers in the main centres and numerous provincial and community newspapers, all of which are privately owned. In addition, there is a national weekly business paper, three Sunday newspapers, a number of wire services and a growing number of internet news services (including offerings from the major newspaper groups) and blog sites.

Information Technology

The information technology (IT) industry is a fast-growing sector of the New Zealand economy attracting large volumes of investment, for both established and start-up businesses. The sector generates strong export growth and invests heavily in research and development (R&D), with around a third of the firms in the industry undertaking R&D in 2012, four times the New Zealand average. Within the industry, IT services and software development are the fastest growing subsectors, while the share of IT manufacturing remains relatively small.

IT services businesses, which include many multinational firms, are primarily focused on the domestic market. These firms provide IT infrastructure and consultancy to large organisations and government departments, enabling efficiency gain and boosting productivity in other industries, and contribute to the digitisation of the economy.

IT software product firms are focused on developing new, often tailor-made applications for particular clients and industries, and generally invest heavily in research and development. Certain product developments (eg, in accountancy software) are expected to lead to radical changes in some industries over time, and a decline in others. The more successful IT product firms have the potential to become large multinational businesses, with Australia and North America being the primary markets driving IT exports growth. IT exporters reported access to finance and distance as the main barriers, although there are fewer concerns about exchange rate risks compared to other New Zealand exporters.

Screen Industry

The New Zealand Film Commission was established in 1978 to finance distinctly New Zealand films, with the aim of reaching significant New Zealand audiences and producing high returns on investment in both financial and cultural terms. More than 300 feature films and hundreds of short films have been made in New Zealand since the Commission was established. Around half of these have received Film Commission finance, while the remainder have been financed by local and, increasingly, by major offshore production companies.

New Zealand's screen industry continues to gain international prominence following the success of several big budget productions filmed in New Zealand such as the Lord of the Rings and The Hobbit Trilogies, King Kong and Avatar, as well as numerous medium and small budget films produced by New Zealand and offshore companies. Wellington is the centre for film production and post-production based around Sir Peter Jackson's Wingnut Films studios and Sir Richard Taylor's Weta Workshops, both with a world-wide reputation for excellence and innovation. Auckland remains the centre for television productions.

The New Zealand screen industry recorded gross revenue of $3.16 billion in the 2013/14 financial year, making the value of this industry comparable to the forestry and horticulture sectors.

The screen production industry is characterised by a large number of small freelancers and contractors working both independently and in coordination with larger production and broadcasting companies.

Looking across Port Fitzroy to Little Barrier Island from Great Barrier Island, Auckland.
© Andris Apse

Te Titoki Point, Little Barrier Island, Auckland.
© Andris Apse

External Sector

External Trade

External trade is of fundamental importance to New Zealand. Primary sector-based exports and commodities are important sources of the country's export receipts, while exports of services and manufactured products also provide a significant contribution. This, together with a reliance on imports of raw materials and capital equipment for industry, makes New Zealand strongly trade-oriented.

Merchandise Trade

Following a period of strong growth in both export and import values, imports fell with the onset of the GFC owing to weak domestic demand, uncertainty surrounding the global economic environment and a sharp depreciation in the New Zealand dollar. Domestic demand and import values picked up again in 2010 as the domestic economy recovered from the recession.

Exports held up well through the GFC, mainly owing to commodity demand from China, which continued to grow strongly. Export values surged to new highs in 2011 and the merchandise trade balance remained in surplus from April 2010 until March 2012. The trade balance then deteriorated over 2012 as commodity prices moderated and the exchange rate appreciated.

Commodity prices surged again in the first half of 2013 owing to robust demand from China, although the late-summer drought, through its impact on export volumes, led the trade balance to weaken. The trade surplus rebounded in late 2013 and early 2014 as agricultural production recovered and commodity prices rose to record highs. Dairy prices then began to decline as a result of rising global milk production and high inventories in China. Prices rallied briefly in the first quarter of 2015 on fears that drought might curb New Zealand milk production. When it became evident that milk production was not significantly affected and that global demand remained weak, prices began falling sharply again, reaching fresh lows in August before recovering somewhat.

The level of nominal goods exports remains lower than the peaks in 2014, contributing to the widening annual trade deficit. Nominal goods exports are expected to begin rising again from 2016 as export prices pick up and supported by a weaker dollar. However, the volume of goods exports is expected to decline over early 2016 as agricultural production falls in response to low farm gate prices (for milk), smaller dairy, beef and sheep herds and flocks, and dry conditions from El Niño. Volumes are expected to pick up from the second half of 2016 as climate conditions return to normal (assuming no permanent impacts from El Niño on livestock numbers).

Trade in Services

The largest component of services exports is tourism. The annual level of services export volumes remained broadly flat between 2002 and 2014, with the high New Zealand dollar and the recession in many advanced economies during the GFC having an adverse impact on visitor arrivals from traditional tourism sources, including the US, Japan, the UK and Germany. However, since the end of 2014 volumes have picked up strongly in response to a

Table 11 – Balance of External Merchandise Trade[1]

The following table records the total value of exports and imports of goods since 2011.

Year to September	Exports	Imports	Balance of Trade	Exports as % of Imports
	(dollar amounts in millions)			
2011	47,702	46,896	806	101.7
2012	46,064	47,219	(1,155)	97.6
2013	48,044	48,360	(317)	99.3
2014	50,075	51,258	(1,183)	97.7
2015	48,980	52,530	(3,549)	93.2

1 Includes re-exports.

Source: Statistics New Zealand

rapid increase in visitor arrivals, which exceeded 3 million for the first time in the year to July.

China has been the main driver of the increase in visitor arrivals and is now the second largest source of visitors after Australia. Structural change in the Chinese outbound market, including a shift from group to individual travel, has contributed to a rise in both visitor numbers and average expenditure per visit. The rapid expansion in Chinese outbound tourism, together with steady growth in New Zealand's traditional markets such as Australia and the US are expected to underpin growth in tourism for some time to come.

Other services exports include transport, telecommunications, education and financial and business services. Real services exports in the year to June 2015 grew by 10.6% compared to the previous year.

Meanwhile, growth in the volume and value of services imports is expected to be modest over the next year, with the imports of business services and expenditure overseas by New Zealanders dampened by a weak New Zealand dollar and slower growth in the domestic economy.

Terms of Trade

The terms of trade fell significantly during 2009, from an elevated level in 2008, reflecting the impacts of the GFC on commodity prices and external demand, which led to a larger fall in export prices compared to import prices.

As the global recovery commenced, the terms of trade recovered, hitting new highs in the June 2011 quarter. The terms of trade began to decline in the second half of 2011 and continued to fall over 2012, to be down 11% in the December quarter 2012 compared to its high in mid-2011. The fall in the terms of trade was owing to weak global demand facing New Zealand exporters, which led to export prices falling faster than import prices.

The terms of trade rebounded strongly in 2013 to be up 20% in the year. Strong demand from China and subdued global dairy supply saw world commodity price indices reaching all time highs. The terms of trade continued to rise in 2014, albeit at a slower pace, to be up 12.5% in the year to June, as continued large falls in import prices more than offset comparatively small declines in commodity export prices. The terms of trade have fallen since 2014, largely reflecting dairy price falls, but remain at high levels relative to history.

Composition of Merchandise Exports and Imports

The agricultural sector is highly efficient and has steadily increased the value-added component in agricultural exports. Meat and dairy products are the most important agricultural exports – together they accounted for around 38% of total merchandise export values in the year ended 30 September 2015.

The manufacturing sector has been a major source of export growth and diversification over the past few decades. The CER agreement with Australia has contributed to a successful expansion by manufacturers into the Australian market. A focus on design, reliability and cost is also seeing manufacturers make inroads into other markets, particularly Asia and the US. Despite New Zealand's geographical position, it now exports a range of manufactured goods, including plastic goods, carpets and textiles, wines and high-tech computer equipment to countries throughout the world.

High exposure to competition from emerging Asia in the past decade has led New Zealand manufacturers to increasingly diversify into knowledge-intensive, specialised products, where New Zealand's reputation for quality and safety gives it an edge compared to overseas competitors.

Figure 3 – Terms of Trade

Sources: Statistics New Zealand, the Treasury

Tables 12 and 13 show the dollar amounts and percentage distribution of New Zealand's major exports and imports.

Table 12 – Composition of Principal Merchandise Exports

Year ended 30 November	2011	2012	2013	2014	2015	2015
	(dollar amounts in millions)					% of Total
Dairy produce	11,900	11,423	13,403	14,509	11,523	23.5
Meat and edible offal	5,528	5,165	5,276	5,929	6,825	13.9
Wood and articles thereof	3,194	3,161	3,857	3,662	3,514	7.2
Fruit and nuts	1,588	1,561	1,479	1,769	2,302	4.7
Fish, crustaceans and molluscs	1,343	1,361	1,313	1,362	1,435	2.9
Machinery and mechanical appliances	1,478	1,403	1,245	1,314	1,366	2.8
Casein and caseinates	775	877	947	1,079	1,161	2.4
Aluminium and articles thereof	1,238	1,037	969	1,000	1,031	2.1
Mineral fuels	2,519	2,187	1,724	1,558	891	1.8
Electrical machinery and equipment	969	961	913	773	869	1.8
Wool	795	717	705	752	814	1.7
Forest products – wood pulp	677	588	620	671	735	1.5
Precious stones, metal and jewellery	884	789	802	669	731	1.5
Iron, steel and articles thereof	992	899	855	721	637	1.3
Raw hides, skins and leather	557	565	596	549	513	1.0
Plastic materials and articles thereof	458	441	449	458	466	1.0
Forest products – paper and paper products	592	515	474	431	464	0.9
Vegetables	460	402	406	392	406	0.8
All other commodities	9,958	10,303	10,306	10,657	11,126	22.7
Total New Zealand Produce	**45,905**	**44,356**	**46,340**	**48,256**	**46,808**	**95.6**
Re-exports	1,796	1,708	1,703	1,818	2,173	4.4
Total Merchandise Exports Free on Board	**47,702**	**46,064**	**48,044**	**50,075**	**48,980**	**100.0**

Source: Statistics New Zealand

Table 13 – Composition of Principal Merchandise Imports

Year ended 30 November	2011	2012	2013	2014	2015	2015
	(dollar amounts in millions)					% of Total
Mechanical machinery and equipment	5,414	5,795	5,806	6,133	6,717	13.5
Vehicle parts and accessories	4,065	4,867	5,455	6,323	6,571	13.2
Mineral fuels	7,812	8,091	7,884	7,417	4,888	9.8
Electrical machinery and equipment	3,879	3,735	3,687	3,717	4,249	8.5
Plastic materials and articles thereof	1,548	1,629	1,695	1,834	1,955	3.9
Aircraft and parts	1,595	712	842	1,913	1,936	3.9
Optical, medical and measuring equipment	1,316	1,332	1,389	1,416	1,569	3.1
Pharmaceutical products	1,087	1,104	1,074	1,099	1,213	2.4
Apparel and made-up textiles	844	873	897	936	1,057	2.1
Articles of iron and steel	724	763	783	844	913	1.8
Paper and paperboard	962	834	846	819	881	1.8
Knitted or crocheted fabrics and apparel	675	662	675	684	799	1.6
Rubber and articles thereof	574	574	563	568	589	1.2
Other chemical products	494	477	500	486	532	1.1
Toys, games and sport requisites	450	447	438	449	531	1.1
Iron and steel	462	428	427	448	439	0.9
Organic chemicals	381	434	418	362	403	0.8
Books, newspapers and printed matter	372	358	320	305	281	0.6
Ships, boats and floating structures	91	105	322	357	211	0.4
Inorganic chemicals (excluding aluminium oxide)	217	219	206	192	192	0.4
All other products	11,565	11,409	11,690	12,429	13,972	28.0
Total Merchandise Imports Value for Duty (VFD)	**44,529**	**44,848**	**45,916**	**48,731**	**49,899**	**100.0**
Cost, Insurance and Freight (CIF) Value	46,896	47,219	48,360	51,258	52,530	

Source: Statistics New Zealand

Geographic Distribution of External Trade

New Zealand's trading relationships are becoming increasingly based around Pacific Rim countries. New Zealand's three largest export markets (China, Australia and the US) accounted for 46% of New Zealand's merchandise exports and 43% of its merchandise imports in the year ended 30 September 2015.

Trading partner growth is expected to have eased slightly in 2015 from 3.7% to 3.5%, and to pick up modestly over the next couple of years, as the US economic recovery becomes entrenched and growth picks up in the emerging Asian economies excluding China. However, growth in China is expected to continue to decline, and growth in Japan and the euro area is expected to remain weak, weighing on the external demand for New Zealand exporters.

Table 14 – Geographic Distribution of Exports[1]

Year ended 30 September	2011	2012	2013	2014	2015	2015
	(dollar amounts in millions)					% of Total
China, Peoples Republic of	5,887	6,859	9,965	9,986	8,613	17.6
Australia	10,848	9,908	9,125	8,773	8,346	17.0
United States of America	3,997	4,231	4,071	4,704	5,756	11.8
Japan	3,441	3,211	2,829	2,938	2,957	6.0
United Kingdom	1,545	1,395	1,397	1,548	1,670	3.4
Korea, Republic of	1,675	1,555	1,633	1,763	1,565	3.2
Taiwan	899	828	883	1,011	1,114	2.3
Singapore	813	845	1,021	1,010	1,080	2.2
Malaysia	875	888	911	986	943	1.9
United Arab Emirates	557	611	656	916	833	1.7
Indonesia	856	838	886	931	811	1.7
Netherlands	625	570	606	848	809	1.7
Thailand	732	626	703	790	775	1.6
Hong Kong (SAR)	798	869	770	736	752	1.5
Germany	775	739	737	661	681	1.4
Canada	597	565	527	581	670	1.4
Philippines	757	678	754	750	643	1.3
India	938	786	669	618	639	1.3
Saudi Arabia	691	687	546	754	611	1.2
Venezuela	486	459	406	116	310	0.6
Other Countries	9,911	8,914	8,950	9,652	9,402	19.2
Total	**47,702**	**46,064**	**48,044**	**50,075**	**48,980**	**100.0**

1 Free on Board value. Including re-exports.

Table 15 – Geographic Distribution of Imports[1]

Year ended 30 September	2011	2012	2013	2014	2015	2015
	(dollar amounts in millions)					% of Total
China, Peoples Republic of	7,049	7,325	7,860	8,302	9,889	19.8
Australia	7,039	6,872	6,136	5,962	5,960	11.9
United States of America	4,772	4,133	4,253	5,676	5,897	11.8
Japan	2,709	2,835	2,846	3,140	3,148	6.3
Germany	1,890	1,992	2,113	2,343	2,336	4.7
Thailand	1,264	1,431	1,582	1,681	2,083	4.2
Korea, Republic of	1,382	1,731	1,871	2,189	1,834	3.7
Singapore	2,089	2,039	1,939	1,989	1,737	3.5
Malaysia	1,406	1,752	1,943	2,241	1,639	3.3
France	911	880	1,185	1,130	1,345	2.7
United Kingdom	1,203	1,193	1,159	1,260	1,281	2.6
Italy	790	741	831	877	935	1.9
Indonesia	667	606	805	786	835	1.7
Taiwan	660	749	747	736	754	1.5
Canada	588	541	533	485	631	1.3
Qatar	1,004	503	581	530	620	1.2
India	359	397	400	483	576	1.2
Brunei Darussalam	449	1,178	585	447	509	1.0
Saudi Arabia	870	978	890	763	468	0.9
Oman	219	1,139	378	27	3	0.0
Other Countries	7,210	5,833	7,279	7,684	7,421	14.9
Total	**44,529**	**44,848**	**45,916**	**48,731**	**49,899**	**100.0**

1 Value for Duty.

Source: Statistics New Zealand

Principal Trading Partners

China: China overtook Australia in 2013 to become New Zealand's largest trading partner, with bilateral trade amounting to $17.9 billion in the year ended September 2015. A Free Trade Agreement between New Zealand and China commenced on 1 October 2008 when New Zealand became the first developed country to negotiate such an agreement with China. In the year to September 2015, exports to China comprised 17.6% of New Zealand's total exports, with the major categories being milk powder, logs, meat, wool and a wide range of other primary products. China supplied 19.8% of New Zealand's total imports, with the major categories being computers, telecommunications equipment, furniture and apparel.

Chinese demand for New Zealand commodity exports, especially dairy products and logs, has risen rapidly in recent years and has been a major factor supporting New Zealand's commodity prices and terms of trade. China is expected to become increasingly important for New Zealand in coming years. Despite an expected slowdown in China's rate of growth, the country's increasing industrialisation, urbanisation, rapidly growing incomes and increased dependence on consumption will mean that it requires more of the agricultural commodities that New Zealand produces.

Australia: Australia is New Zealand's second largest trading partner after China and held the number one position prior to 2013. In the year ended September 2015, two-way trade amounted to $14.4 billion, with Australia taking 17.0% of New Zealand's exports and supplying 11.9% of imports. Australia is New Zealand's top destination for overseas investment and New Zealand's largest source of foreign investment. As at March 2015, New Zealand had $55 billion invested in Australia, while Australia had $111 billion invested in New Zealand.

Trade with Australia has flourished under CER. CER is a series of agreements and arrangements governing bilateral trade and economic relations, built on the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) which took effect on 1 January 1983. Full free trade in goods was achieved on 1 July 1990, five years ahead of schedule. CER was extended to cover trade in almost all services from 1 January 1989. CER creates a market of more than 28 million people. It increases the effective size of New Zealand's domestic market more than five-fold and provides Australia with access to another market almost the size of Queensland.

The original ANZCERTA has been extended and added to as the relationship has developed. Other key aspects of CER now include mutual recognition of goods and occupations, a free labour market and joint agencies in certain regulatory areas.

Building on CER, successive New Zealand and Australian governments have committed to the long-term goal of establishing a seamless trans-Tasman business environment – the Single Economic Market (SEM). The SEM builds on the freer trans-Tasman trading environment created by CER by addressing "behind the border" barriers to flows of goods, services, capital and people through a broad range of initiatives. Ongoing work to coordinate Australian and New Zealand business law takes place within a Memorandum of Understanding. Both sides also coordinate banking regulation and supervision through the Trans-Tasman Council on Banking Supervision.

New Zealand's main exports to Australia include light crude oil, gold, wine, food preparations, cheese and timber, as well as a wide range of manufactured items, while New Zealand's main imports from Australia include aluminium oxide, motor vehicles, wheat, medicines and heavier crude oil, as well as a wide range of manufactured and consumer items.

United States: The US is New Zealand's third largest single trading partner with bilateral merchandise trade amounting to $11.7 billion in the year ended September 2015. Exports to the US comprised 11.8% of New Zealand's total exports, and the US also supplied 11.8% of New Zealand's total imports, the major categories being aircraft and parts, medical and veterinary instruments, motor vehicles and computers. New Zealand's major exports to the US are beef, dairy products (whey and casein), wine, lamb and a range of manufactured goods. The development of trade in dairy products has been constrained by long-standing quotas on these items.

Japan: Japan is New Zealand's fourth largest trading partner, with bilateral merchandise trade amounting to $6.1 billion in the year ended September 2015. Japan takes around 6.0% of total exports and accounts for a similar share of imports. Key exports to Japan include aluminium, dairy products, fruit and vegetables, forestry products, beef, lamb and seafood.

Japan is also a major supplier of New Zealand's imports, providing 6.3% of total imports in the year to September 2015. Imports from Japan are dominated by motor vehicles, trucks and mechanical equipment, petroleum products and a range of technology-intensive equipment and appliances.

The Republic of Korea: The Republic of Korea is New Zealand's fifth largest trading partner, with bilateral merchandise trade of $3.4 billion in the year to September 2015. New Zealand and the Republic of Korea completed negotiations for a free trade agreement covering both goods and services in November 2014. Major export products include beef and logs, while major imports include refined oil and motor vehicles.

European Union: Although trade with the members of the European Union (EU) has declined in value terms, taken as a bloc the Union would be New Zealand's fourth largest trading partner and is an important market for exports such as sheepmeat, fruit, wine and wool. Together, EU members take around 10% of goods exports (in value terms) and provide around 18% of imports (mainly motor vehicles, aircraft, medicines and a range of manufactured equipment). Bilateral goods trade amounted to $14.3 billion or 14.1% of total merchandise exports and imports. Services, particularly tourism, are also an important element of EU/New Zealand trade.

Other Asian economies: Other Asian economies are taking on more importance as New Zealand's trading partners. This is providing benefits to New Zealand as the area is one of the

fastest growing in the world. While most of the developed world experienced a gradual recovery from the GFC, Asia provided significant demand for New Zealand's exports, especially commodities. Trade with the economies of Taiwan, Hong Kong, Malaysia, Indonesia, Singapore, Thailand, India and the Philippines is growing in importance. All are in the top 20 largest export markets for New Zealand and together account for around 12% of total exports.

Foreign Investment Policy

New Zealand has an open and welcoming attitude towards foreign investment and recognises the positive contribution that it can make to the economic and social wellbeing of New Zealanders. New Zealand's regulations governing foreign investment are liberal by international standards and New Zealand maintains specific foreign investment restrictions in only a few areas of critical interest.

Overseas investments in New Zealand assets are only screened if they are defined as sensitive within the Overseas Investment Act 2005. Three broad classes of asset are currently defined as sensitive within the Act: acquisition of a 25% or more ownership interest in business assets valued at over $100 million; all fishing quota investments; and investment in sensitive land as defined in Schedule One of the Act. Examples of sensitive land include rural land over five hectares or land bordering or containing foreshore, seabed, river or the bed of a lake. Most urban land is not screened unless defined as sensitive for other reasons. A full list of sensitive assets is defined in the Act.

In order to invest in significant business assets, investors must pass an investor test that considers character, business acumen and level of financial commitment. In addition, overseas investors wishing to purchase sensitive land must either intend to reside permanently in New Zealand or demonstrate that the investment will benefit New Zealand. The criteria for assessing this benefit are set out in the Overseas Investment Act and Regulations 2005. Investments in fishing quota must be shown to be in the national interest, as defined in the Act.

The Overseas Investment Act is administered by the Overseas Investment Office (OIO), a dedicated unit located within Land Information New Zealand. More information on New Zealand's foreign investment screening regime is available on http://www.linz.govt.nz/overseas-investment

There are no restrictions on the movement of funds in or out of New Zealand, or on repatriation of profits. No additional performance measures are imposed on foreign-owned enterprises.

Foreign Investment Inflows

Foreign investment flows vary from year to year as they reflect changes in a small number of relatively large individual investments.

The stock of foreign direct investment in New Zealand stood at $100.6 billion as of 30 June 2015. Australia and the US are the largest contributors to total foreign direct investment in New Zealand, with investments worth $52.2 billion and $8.2 billion respectively. The United Kingdom is the third largest investor with a total of $5.0 billion, while Singapore, Japan and the Netherlands follow closely behind at $5.8 billion, $4.8 billion and $3.5 billion respectively.

In contrast, the stock of direct investment abroad by New Zealand was $24.4 billion as at 30 June 2015, with over half consisting of investments in Australia ($12.4 billion).

Balance of Payments

The current account deficit stood at 3.5% of GDP for the 12 months to June 2015. A key feature of New Zealand's current account deficit is the large deficit on investment income, reflecting New Zealand's net foreign liability position.

Following the GFC, the combination of a rapid turnaround in the goods balance and a shrinking investment income deficit, led to the current account deficit to fall to 1.5% of GDP in the year ended March 2010. In 2011 and 2012 the deficit widened again, owing to a widening in the annual income deficit and a narrower goods and services surplus (driven by falling commodity prices and an appreciating exchange rate). The current account deficit remained relatively steady in 2013, as the effect of rising commodity export prices was offset by lower growth in export volumes owing to the late-summer drought. The deficit increased to 3.3% in the year to September 2015, reflecting the decline in export prices and slowdown in trading partner growth. The current account deficit is expected to widen again to around 6% in 2016, owing to lower commodity export prices and lower agricultural exports, before narrowing again as prices recover.

A key feature of New Zealand's current account deficit is the large deficit on the primary income balance, reflecting New Zealand's net international investment position which stood at -61.9% of GDP in the year to September 2015. The investment income deficit narrowed markedly, driven by lower profits accruing to overseas-owned firms in New Zealand as a result of weak domestic trading conditions. Another factor was lower interest payments flowing to holders of New Zealand debt as the result of lower interest rates both domestically and internationally.

Table 16 – Foreign Investment Inflows[1,2]

Year ended 31 March	2011	2012	2013	2014	2015
	(dollar amounts in millions)				
Foreign Direct Investment	1,328	1,485	4,024	466	4,002
Foreign Portfolio Investment	10,578	3,918	12,448	2,139	13,254

1 Financial account completed according to principles set out by the IMF in 6th edition of the *Balance of Payments Manual.*
2 Prior years' data revised.

Source: Statistics New Zealand

The goods and services balance has varied historically owing to the effects of drought, commodity price fluctuations (including oil price changes, some large one-off imports and currency movements) as well as New Zealand's demand for imports and international demand for New Zealand exports. The goods and services balance has generally remained in surplus after the GFC, partly as lower growth in domestic demand affected imports.

Balance of payments statistics are compiled by the Government following principles set out by the IMF in the 6th edition of the *Balance of Payments Manual.*

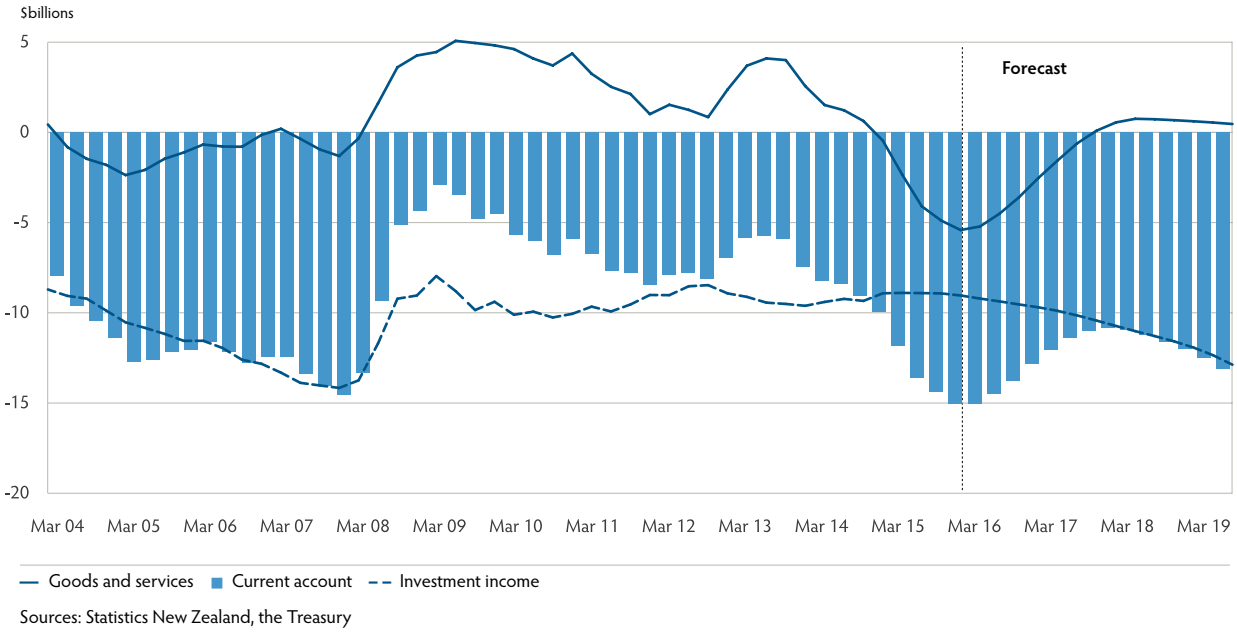
Table 17 – Balance of Payments

Year ended 30 September	2011	2012	2013	2014	2015
	(dollar amounts in millions)				
Current Account					
Export receipts	47,257	47,296	46,363	51,518	49,248
Import receipts	44,767	46,562	46,727	48,459	51,151
Merchandise balance	2,490	736	(363)	3,058	(1,902)
Services balance	1,215	1,355	1,020	971	3,307
Income balance	(10,259)	(9,538)	(8,467)	(9,508)	(9,309)
Transfers balance	(211)	(364)	(478)	(433)	(197)
Current account balance	**(6,765)**	**(7,811)**	**(8,288)**	**(5,913)**	**(8,103)**
Deficit as % of GDP	**(3.2)**	**(3.6)**	**(3.7)**	**(2.5)**	**(3.3)**
Net International Investment Position[1]	**(143,467)**	**(147,430)**	**(148,344)**	**(151,399)**	**(150,962)**
NIIP as % of GDP[1]	**68.7**	**(68.2)**	**(66.9)**	**(63.8)**	**(61.9)**
Financial Account (net)					
Foreign investment in NZ	16,149	(5,073)	109	11,574	1,042
less NZ investment abroad	18,176	(12,226)	(964)	9,853	2,512
Financial account balance	**(2,027)**	**7,153**	**1,073**	**1,721**	**(1,470)**
Capital Account					
Capital account balance	14,229	25	12	12	383

1 End of period

Source: Statistics New Zealand

Figure 4 – Balance of Payments



Sources: Statistics New Zealand, the Treasury

Foreign-exchange Rates and Overseas Reserves

Foreign-exchange Rates

The New Zealand dollar has floated freely since March 1985. There are no exchange controls on foreign-exchange transactions undertaken in New Zealand. Foreign reserves are held primarily for the purpose of intervention in a crisis situation when, for example, there is significant dislocation and there may be no "market makers" in the New Zealand dollar.

The RBNZ has a limited capacity to intervene in the foreign-exchange market to influence the level of the exchange rate for monetary policy purposes. Such intervention may occur when the exchange rate is exceptional and unjustified on the basis of economic fundamentals and when doing so is consistent with the Policy Targets Agreement.

The Bank does not generally comment publicly on such intervention. However, the Bank's net foreign-exchange position is disclosed publicly with a lag, at the end of the following month.

The Trade Weighted Index (TWI), which is a basket of exchange rates for New Zealand's major trading partners, fell 28% between February 2008 and February 2009 on the back of monetary policy easing by the RBNZ, cushioning the economy from the global downturn.

As the outlook for global growth became more optimistic, the US dollar weakened and demand for commodities improved. As a result, the TWI appreciated rapidly from early 2009, rising from 52.3 in February to 66.5 in October, an increase of 27%. High commodity prices, as well as a relatively strong economy, resulted in further increases in the TWI to 72.1 in August 2011, before retreating to around 68.0 in December as global risk aversion increased and commodity prices eased.

The TWI received a further boost between late 2012 and mid-2014, driven by a surge in commodity export prices, large depreciation in the Japanese yen, softness in the Australian economy and monetary tightening by the RBNZ in March 2014. The TWI was at a post-float high of 81.9 in July 2014, which represents a 45% increase from its seven-year low of 56.6 in early 2009.

The TWI began to fall in the second half of 2014, but remained at a historically high level at the start of 2015. However, it has since depreciated further to be around 16% lower than its July 2014 peak. This fall was driven by large declines in dairy export prices and accommodative monetary policy.

The TWI is expected to remain broadly steady over the next couple of years. The New Zealand dollar is expected to appreciate further against the Japanese yen and the euro, as weak growth in Japan and the euro area leads to the potential for further monetary policy easing. At the same time, the New Zealand dollar is expected to fall further against the US dollar, as the US recovery becomes entrenched and monetary policy is tightened, and also against the Chinese yuan, which is partially pegged to the US dollar.

Table 18 – Foreign-exchange Rates

	US Mid-rate US$ per NZ$	Japan Mid-rate Yen per NZ$	Trade Weighted Exchange Rate Index[1]
June Year Averages			
2011	0.7576	62.92	69.61
2012	0.8050	63.33	72.57
2013	0.8221	72.14	74.97
2014	0.8309	84.00	78.93
2015	0.7774	88.86	77.92
Monthly Averages			
July 2015	0.6990	86.50	72.97
August 2015	0.6652	82.00	70.41
September 2015	0.6549	80.73	70.32
October 2015	0.6334	76.12	68.77
November 2015	0.6670	80.05	71.80

1 The Trade Weighted Exchange Rate Index is calculated on the basis of representative market rates for a basket of currencies representing New Zealand's major trading partners. On 30 June 1979, the basket equalled 100.

Source: RBNZ

Figure 5 – Trade Weighted Exchange Rate Index

Sources: RBNZ, the Treasury

Overseas Reserves

New Zealand's official external reserves, as shown in the following table, include the net overseas assets of the RBNZ, overseas domiciled securities held by the Government and the reserve position at the IMF. New Zealand's quota at the IMF was SDR 895 million as of 30 June 2015 (approximately $1,834 million).

Table 19 – Overseas Reserves

Last Balance Day in June	Reserve Bank Overseas Reserves[1]	Treasury Overseas Reserves	Reserve Position at IMF[2]	Special Drawing Rights	Total Official Reserves
	(dollar amounts in millions)				
2011	21,795	2,475	510	1,650	26,430
2012	19,305	3,853	663	1,578	25,399
2013	19,334	1,041	713	1,570	22,658
2014	16,940	2,000	703	1,433	21,076
2015	22,772	1,464	573	1,669	26,478

1 Comprises foreign-exchange reserves and overseas investments of the RBNZ.
2 Equal to New Zealand's quota, less its New Zealand currency subscriptions and any reserve tranche drawings.

Sources: RBNZ, the Treasury

Tussock on the Rock and Pillar Range, Maiototo, Otago region.
© Andris Apse

The sheltered Matai Bay on Karikari Peninsula, Northland.
© Andris Apse

Sand dunes on Ninety Mile Beach, Northland.
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Banking and Business Environment

Supervision of the Financial Sector

The Reserve Bank of New Zealand

The RBNZ was established in 1934 as New Zealand's central bank by Act of Parliament. The Reserve Bank of New Zealand Act 1989 provides the Bank with autonomy to implement monetary policy within the framework of the Act and the Policy Targets Agreement (between the Governor and the Minister of Finance) entered into under the Act.

The Act also covers the RBNZ's supervisory and regulatory powers over banks, and provides limited powers in respect of payments systems. In addition, under two separate pieces of legislation, the RBNZ is the prudential supervisor of insurance companies and non-bank deposit-taking institutions.

Registered Banks

The RBNZ, in addition to its role in determining and carrying out monetary policy, is the supervisory authority for New Zealand's registered banks. Entities wishing to use "bank" in their name or title must be authorised under the Reserve Bank Act as a "registered bank" and are subject to prudential supervision by the RBNZ.

The objective of prudential supervision is to promote and maintain the overall soundness and efficiency of the financial system and to avoid significant damage to the financial system that could result from the failure of a registered bank. There is no system of deposit insurance (although temporary guarantee arrangements were put in place in 2008 during the GFC).

New Zealand's four largest banks are subsidiaries of Australian banks. The RBNZ recognises the principles underlying the Basle Concordat that the home country should supervise on a consolidated basis and the host country is responsible for the supervision of the operations in the host country. The RBNZ works with the Australian Prudential Regulation Authority and a Trans-Tasman Banking Council of relevant government agencies meets regularly.

The RBNZ utilises a combination of regulatory, self and market disciplines to deliver its objectives. Regulation contributes to market discipline principally by requiring banks to publish disclosure statements at quarterly intervals. The disclosure statements contain extensive information on a bank's financial position and risk profile, director attestations as to the adequacy and proper application of a bank's risk management system and also include the disclosure of a bank's credit rating.

To instil regulatory discipline, registered banks are required to comply with conditions of registration such as minimum capital requirements, limits on lending to connected parties and minimum liquidity ratios. In certain circumstances, a bank wishing to operate in New Zealand may be required to incorporate in New Zealand.

Should a registered bank experience financial distress, the RBNZ, with the approval of the Minister of Finance, has wide-ranging powers to intervene for the purpose of avoiding significant damage to the financial system. These powers include giving the bank directions, removing directors and implementing statutory management.

The RBNZ has adopted the Open Bank Resolution (OBR) policy as one option available to the Minister of Finance to manage any cases of bank distress or failure. The OBR policy involves pre-positioning banks in a way that would allow a distressed bank to be kept open for business, providing continuity of core banking services to retail customers and businesses and enabling the cost of orderly resolution to fall primarily on the bank's shareholders and creditors rather than the taxpayer.

As at November 2015, there were 25 registered banks in New Zealand, most of which were subsidiaries or branches of foreign banks. Total assets as at 30 September 2015 were $477 billion. The loan portfolios of the registered banks are dominated by residential mortgages and business lending. A substantial portion of the business lending is in the form of farm mortgages.

Basel III standards have been developed by international regulators in response to the GFC. The RBNZ generally supports the strengthening of international capital standards and New Zealand banks are well positioned to meet Basel III standards as applied to New Zealand circumstances. The RBNZ's Basel III-related changes to its capital adequacy requirements took effect in 2013. Quantitative liquidity requirements for locally incorporated banks have been in place since 1 April 2010.

Payment and Settlement Systems

The major payment and settlement systems are fully electronic and the high value systems settle on a real-time gross basis. Legislation provides for the designation of settlement systems

on the recommendation of the RBNZ and the Financial Markets Authority (joint regulators). The designation of a settlement system not only provides legal protection to the settlements effected through that system, but also makes the system subject to ongoing oversight by the joint regulators, unless classified as "pure payment systems", in which case it is regulated by the RBNZ only.

The RBNZ conducts its designation-related work for the purpose of promoting the maintenance of a sound and efficient financial system and avoiding significant damage to the financial system that could result from the failure of a participant in a settlement system. The RBNZ also has a broader role of payment system oversight (this role is not restricted to designated systems) and conducts this work for the purpose of promoting the maintenance of a sound and efficient financial system. Consultations are underway on proposals to extend the RBNZ's powers and responsibilities in this area.

Non-bank Financial Institutions

In 2008, new legislation was passed authorising the prudential regulation of non-bank deposit-takers following a review of the regulatory framework for these institutions. The RBNZ was designated as the prudential regulator of non-bank deposit-takers, comprising finance companies, building societies and credit unions. Trustees, as frontline supervisors of non-bank deposit-takers, are required to oversee compliance with the prudential rules formulated by the RBNZ. Further legislation providing the RBNZ with inter alia the task of licensing non-bank deposit takers was passed in 2013.

In September 2010, the Insurance (Prudential Supervision) Act was passed making the RBNZ the prudential regulator and supervisor of the insurance sector. With the passage and implementation of this legislation, the RBNZ is now the single prudential regulatory agency for financial institutions (ie, banks, non-bank deposit-takers and insurance companies) in New Zealand. The new licensing regime for insurance companies came fully into effect in 2013.

Macroprudential Policy

In the wake of the GFC, many central banks and regulatory agencies have focused considerable efforts on supplementing their established prudential supervisory policies with additional tools that could help to lean against the build-up of system-wide imbalances, and build resilience in the event of future financial crises.

The RBNZ has been active in this area, building on its existing statutory powers and the system-wide focus that has long shaped its prudential supervision.

In May 2013, a Memorandum of Understanding was signed between the Governor of the Reserve Bank of New Zealand and the Minister of Finance regarding the RBNZ's potential use of macro-prudential instruments as part of its supervisory framework for registered banks. Four possible instruments were identified by the RBNZ:

- a countercyclical capital buffer
- changes in sectoral risk weights in response to sectoral credit imbalances
- adjustments to the minimum core funding requirement, and
- loan to value limits for residential mortgages.

In August 2013, in response to rising house prices and some resurgence in the rate of housing credit growth the RBNZ announced a "speed limit" approach to high LVR residential mortgage lending undertaken by registered banks. From 1 October 2013, no more than 10% of banks' new residential mortgage lending can be in the form of loans with LVRs in excess of 80%. The restriction is envisaged as temporary, to be removed when a better balance has returned to the housing market.

Amendments to the LVR policy, which took effect on 1 November 2015, require mortgages on Auckland investment properties to have LVRs of 70% or less. The aim of the policy is to strengthen the resilience of banks against an Auckland housing downturn, and to moderate the cyclical role of the large residential investor segment of the market. While the speed limit on owner-occupied properties in Auckland remains at 10%, the speed limit on high LVR mortgages outside Auckland has been relaxed from 10% to 15%, reflecting the lower rates of house price inflation in most other parts of the country.

Loan to value limits are intended to limit the potential build-up of financial stability risks, by dampening the rate of house price inflation and the rate of growth of housing credit. A limit of this sort will tend to ease pressure on monetary policy, but is not seen as a substitute for interest rate increases in dealing with a build-up of generalised inflation pressure.

Business Law Environment

Company Law

The Companies Act 1993 provides the framework for the formation, governance and winding up of companies.

Securities Law

The **Financial Markets Conduct Act 2013** (FMC Act) regulates the offering and trading of investments and the provision of certain financial services. The Act requires firms offering financial products (equity securities, debt securities, managed investment schemes and derivatives) to retail investors to prepare a product disclosure statement that summarises the key features of the offer. This must be provided to retail investors before they acquire the financial product, with further information available on an online register of offers (http://www.business.govt.nz/disclose). The Act regulates other aspects of the offer and governance relating to financial products, such as requiring a trustee to be appointed in respect of regulated debt securities. It also provides general prohibitions on misleading and deceptive conduct in financial markets.

The FMC Act regulates the operation of securities and derivatives exchanges and trading behaviour on those exchanges. The Act establishes a system for licensing of market operators and approval of the rules of exchanges and provides for oversight of exchanges

by the Financial Markets Authority. It contains prohibitions on insider trading and requires exchanges to have specific rules for continuous disclosure of price-sensitive information. It also requires disclosure of substantial security holdings and directors' and officers' shareholdings.

The FMC Act provides a licensing regime for a number of financial services, including funds managers, discretionary investment management services and derivatives issuers. Providers who offer these services to retail investors are licensed and supervised by the Financial Markets Authority.

The FMC Act replaced the previous New Zealand securities law – the Securities Act 1978 and the Securities Markets Act 1988.

The **Financial Markets Authority Act 2011** establishes the Financial Markets Authority (FMA) as New Zealand's market conduct regulator. The FMA is an independent Crown entity whose main objective is to promote and facilitate the development of fair, efficient and transparent financial markets. The FMA has powers to issue warnings, provide guidance, grant exemptions to some securities law requirements and investigate potential breaches of the law. The FMA enforces financial markets legislation, including the FMC Act. It also enforces corporate governance legislation, including the Companies Act 1993 and Financial Reporting Act 1993, in respect of financial markets participants such as issuers of financial products and banks.

The **Takeovers Act 1993** applies to takeovers of listed companies and those with 50 or more shareholders. The Takeovers Code, established under the Act, regulates acquisitions of control of more than 20% of the securities and further acquisitions by a person who controls 20% of the securities in those companies. The Code seeks to ensure that all shareholders are treated fairly and, on the basis of proper disclosure, are able to make an informed decision as to whether to accept or reject an offer made under the Code.

The **Financial Advisers Act 2008** regulates financial advisers, controlling who may provide financial advice and what information they must disclose to their clients. This Act also makes financial advisers accountable for the advice that they provide through a code of conduct and a disciplinary committee and provides the FMA with the ability to apply to the Court for various orders and seek civil penalties and remedies for a breach of the Act.

The **Financial Service Providers (Registration and Dispute Resolution) Act 2008** establishes a registration process for all financial service providers. The Act also establishes a requirement for financial service providers who provide services to retail clients to be members of a consumer dispute resolution scheme, which is aimed at facilitating the orderly resolution of disputes in the financial sector.

The **Financial Markets Supervisors Act 2011** establishes a licensing regime administered by the FMA for:

- trustees of debt securities issued to the public under the FMC Act
- supervisors of managed investment schemes under the FMC Act, and
- statutory supervisors of retirement villages registered under the Retirement Villages Act 2003.

The Act requires trustees and statutory supervisors (other than retirement villages, who report to the Registrar of Retirement Villages) to report in certain circumstances about matters that they are supervising.

Competition Law

The purpose of the **Commerce Act 1986** is to promote competition in markets for the long-term benefit of consumers within New Zealand. The Act:

- prohibits anticompetitive behaviour, both unilateral and collusive (Part 2)
- prohibits mergers that would substantially lessen competition (Part 3)
- empowers the Minister of Commerce to impose regulatory control on monopolies (Part 4) – (electricity lines, gas pipeline businesses and the three main airport companies are regulated under Part 4), and
- constitutes the Commerce Commission as an independent Crown entity and empowers it to:
  - investigate possible contraventions of the competition provisions of the Act and take enforcement action in the High Court
  - clear or authorise trade practices and mergers, the effect of which is to immunise the conduct or merger from legal challenge, and
  - regulate monopolies that are subject to regulatory control.

Financial Reporting Legislation

Issuers of securities and large for-profit reporting entities in New Zealand fully comply with International Financial Reporting Standards (IFRS). The arrangements to achieve this and to cater for entities pursuing public benefit rather than profit and small and medium-sized entities are described below.

In December 2013 the Financial Reporting Act 2013 (FRA 2013) was passed replacing the Financial Reporting Act 1993. The new Act updated the statutory reporting obligations of entities in New Zealand. At the same time the Financial Reporting (Amendments to Other Enactments) Act 2013 also made amendments to a number of enactments (eg, Companies Act 1993) in relation to the financial reporting obligations of a range of entities.

The FRA 2013 places obligations on certain organisations (issuers as defined under the Financial Markets Conduct Act 2013, large entities, public entities and entities that "opt-in") to prepare general purpose financial statements that comply with generally accepted accounting practice within five months (or in the case of issuers, four months) from their balance date. Smaller companies

that meet prescribed criteria no longer have a statutory obligation to prepare general purpose financial statements.

The FRA 2013 also defines key concepts; for example, generally accepted accounting practice, financial statements and group financial statements.

The External Reporting Board and New Zealand Accounting Standards

The Financial Reporting Act 1993 establishes the External Reporting Board (XRB), an independent Crown entity, which is responsible for the development and issuing of accounting and auditing and assurance standards in New Zealand. The XRB is also responsible for setting the overall Financial Reporting Strategy Framework. More details of the XRB's responsibilities can be found at the following site: http://www.xrb.govt.nz/Site/about_us/XRB_Board/default.aspx

The XRB has two standard-setting boards: the New Zealand Accounting Standards Board (NZASB) and the New Zealand Auditing and Assurance Standards Board (NZAuASB). The NZASB has delegated authority from the XRB Board to develop or adopt and issue accounting standards for general purpose financial reporting in New Zealand. In doing so, the NZASB must operate within the financial reporting strategy established by the XRB Board.

In April 2012, the XRB issued a new Accounting Standards Framework. The new Framework is based on a multi-sector, multi-tiers reporting approach and is being rolled out progressively during the 2012–2015 period. More information about the new Accounting Standards Frameworks can be found on the Accounting Standards Framework page.

The new Accounting Standards Framework consists of different suites of standards for for-profit entities and public benefit entities (including registered charities), and for tiers within those sectors.

Issuers of securities and large for-profit entities will continue to apply New Zealand International Financial Reporting Standards (NZ IFRS).

The new suite of accounting standards applicable to the Public Sector (called Public Sector PBE Accounting Standards) has applied to the Financial Statements of the Government for the financial year beginning 1 July 2014. At the broad level, the impact of moving from NZ IFRS as applied by PBEs to PBE Standards (based mainly on International Public Sector Accounting Standards) is not significant as there is a strong degree of convergence between the Standards.

Musterers with horses and dogs control a mob of sheep at Mount Nicholas Station with the steamship *Earnslaw* in the background. Lake Wakatipu, Otago region.
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Monetary Policy

Objectives

The Reserve Bank of New Zealand Act 1989 stipulates that the Bank is to formulate and implement monetary policy directed to the economic objective of achieving and maintaining stability in the general level of prices. The Act requires that there be a Policy Targets Agreement (PTA) between the Minister of Finance and the Governor of the Reserve Bank of New Zealand. The most recent PTA was signed in September 2012 at the time of the appointment of a new Governor. For the purposes of the PTA, the policy target remains to keep future CPI inflation outcomes in the range of 1% to 3% on average over the medium term, but with the additional requirement to "focus on keeping future average inflation near the 2% target midpoint".

Section 3 of the PTA notes that there is a range of events that will cause the actual rate of CPI inflation to vary about the medium-term trend. When such events occur, the Bank is tasked with responding in a manner consistent with meeting its medium-term target.

The PTA requires the Bank, in pursuing the price stability target, to seek to avoid unnecessary instability in output, interest rates and the exchange rate and to implement policy in a sustainable, consistent and transparent manner. A 2012 amendment incorporates in the PTA the existing statutory requirement to implement monetary policy in a way that "has regard to the efficiency and soundness of the financial system", recognising the importance of financial system issues during the GFC.

The Reserve Bank Act provides the Bank with autonomy to carry out monetary policy in pursuit of the price stability objective. However, the Act contains certain provisions that enable the Government to override the price stability objective and the PTA for a limited period, provided this is done in accordance with a set of procedures that would make the override publicly transparent. These provisions have never been used.

Implementation

The Official Cash Rate (OCR) is the interest rate set by the RBNZ to meet the inflation target specified in the PTA. The OCR, the deposit rate the RBNZ pays on settlement account balances, influences the price of borrowing money in New Zealand and provides the RBNZ with a means of influencing the level of economic activity and inflation.

The OCR is reviewed seven times a year by the Bank. The Bank's *Monetary Policy Statements* are issued at the same time as the OCR on four of these occasions.

The RBNZ sets no limit on the amount of cash it will borrow or lend at rates related to the OCR. The Bank stands ready to lend cash overnight at 50 basis points above the OCR when secured over acceptable collateral in its overnight reverse repurchase facility. Overnight balances in exchange settlement accounts are remunerated at the OCR up to pre-determined levels (tiers) for individual account holders. Balances held in excess of these tiers are remunerated at the OCR less 100 basis points.

The Bank publishes an assessment of economic conditions at quarterly intervals in its *Monetary Policy Statements*. The *Statements* contain projections that incorporate a forward path for interest rates that is consistent with achieving the inflation target. These projections are highly conditional, being based on a range of technical assumptions, but they serve to provide an indication of the Bank's current thinking on the policy outlook.

After a prolonged period of very low policy interest rates, the RBNZ raised the OCR from 2.50% to 3.50% during 2014. While domestic economic conditions have been relatively robust over the intervening period, inflation has remained low owing to falling import prices, strong growth in the economy's supply potential and weaker global economic growth. From June 2015 the OCR has been lowered in four steps back to 2.50%.

Interest Rates and Money and Credit Aggregates

The following tables show developments in major interest rates and money and credit aggregates since the March quarter of 2011.

Table 20 – Interest Rates: Monthly Averages

	Month	Overnight Cash Rate	90-Day Bank Bill Rate	Government Loan Stock Rates			Business Base Lending Rates[1]
				2 Year	5 Year	10 Year	
2011	March	2.50	2.69	3.46	4.32	5.58	10.03
	June	2.46	2.65	3.20	3.99	5.04	10.00
	September	2.39	2.88	2.95	3.44	4.40	10.01
	December	2.34	2.69	2.46	3.39	3.90	10.05
2012	March	2.43	2.74	3.11	3.71	4.17	10.05
	June	2.43	2.61	2.37	2.83	3.40	10.10
	September	2.49	2.64	2.55	2.94	3.57	10.06
	December	2.51	2.65	2.54	2.91	3.55	9.60
2013	March	2.47	2.64	2.57	3.05	3.72	9.64
	June	2.47	2.64	2.73	3.17	3.85	9.61
	September	2.50	2.65	3.03	4.22	4.69	9.58
	December	2.50	2.73	3.19	4.26	4.75	9.59
2014	March	2.65	3.05	3.26	4.12	4.58	9.70
	June	3.13	3.52	3.50	4.08	4.42	10.16
	September	3.46	3.71	3.56	4.01	4.19	10.44
	December	3.40	3.67	3.56	3.67	3.77	10.37
2015	March	3.42	3.63	3.15	3.21	3.30	10.40
	June	3.25	3.33	2.97	3.18	3.76	10.19
	September	2.76	2.85	2.48	2.69	3.29	9.78
	December	2.55	2.79	2.61	2.96	3.56	9.54

1 Weighted aggregate rate: New overdraft loans for small-to-medium sized non-farm enterprises.

Source: RBNZ

Table 21 – Money and Credit Aggregates: Annual % Changes

Quarter		M1[1]	M3	Private Sector Credit	Domestic Credit
2011	March	9.1	5.9	1.9	2.1
	June	10.0	7.3	1.7	1.3
	September	9.1	5.4	1.2	1.0
	December	8.0	6.5	1.7	2.2
2012	March	4.4	5.1	1.9	2.8
	June	7.3	5.9	2.4	4.3
	September	5.2	6.6	3.2	5.0
	December	7.0	6.0	3.6	3.6
2013	March	9.7	7.0	4.2	4.1
	June	8.0	6.2	4.4	3.6
	September	9.4	7.3	4.8	3.9
	December	9.5	5.8	5.1	4.2
2014	March	7.6	5.0	4.3	4.8
	June	8.3	5.4	4.4	5.4
	September	5.9	5.3	4.9	5.2
	December	6.2	6.3	4.5	5.2
2015	March	7.1	8.3	6.2	5.4
	June	6.9	9.5	7.4	5.9
	September	11.9	8.5	7.8	6.9
	December	8.9	8.1	8.4	7.4

1 M1 figures include currency in the hands of the public and cheque account balances only.

Source: RBNZ

Public Finance and Fiscal Policy

Public Finance

Public Sector Financial System

No public money may be spent, or expenses or capital expenditure incurred, by the Government except pursuant to an appropriation by Parliament. The primary method of appropriation is annual appropriation which provides for most of the expenditure or the Government, and which requires the passage of one or more Appropriation Acts by Parliament each year. This is supplemented by permanent appropriation, which covers principally the payment of interest on debt and certain fixed charges of the Government, and which is provided by permanent legislative authority.

All borrowing by the Government is undertaken under the Public Finance Act 1989, which provides that the Minister of Finance may, from time to time, if it appears necessary or expedient in the public interest to do so, raise a loan from any person, organisation or government, either within or outside New Zealand, on such terms and conditions as the Minister deems appropriate.

In 1994, the fiscal deficit in New Zealand was eliminated after 10 years of difficult political decision-making and management reform. Reform of the public sector financial management system was an integral component of this. New Zealand's public sector financial management system is now underpinned by four key pieces of legislation: the State Sector Act 1988; the Public Finance Act 1989, which since 2004 has included the provisions of the previous Fiscal Responsibility Act 1994; the Crown Entities Act 2004; and the SOEs Act 1986.

State Sector Act 1988. This Act defines the responsibilities of chief executives of departments and their accountability to Ministers. The main objectives of the Act are to improve productivity, to ensure that managers have greater freedom and flexibility to manage effectively and at the same time to ensure that managers are fully accountable to the Government for their performance. This has led to the formulation of performance expectations between Ministers and chief executives. These contracts specify expectations of performance and provide a basis for assessment, which may result in a combination of rewards or sanctions.

Public Finance Act 1989. The Public Finance Act 1989 provides the legislative basis for improving the quality and transparency of financial management and information. This is an essential component of the accountability arrangements established under the State Sector Act.

The driving principle behind the Public Finance Act is a move of focus from the inputs departments consume to what they produce. Hence, budgeting and reporting is on an output basis rather than relying solely on information relating to inputs. Departments were made responsible for outputs (the goods and services they produce) while Ministers were made responsible for selecting the output mix to achieve government outcomes (desired goals). An amendment in 2013 provides greater financial flexibility by enabling outcome-based appropriations where all of the component categories contribute to a single overarching purpose.

The Act requires the Crown and all its sub-entities to report on a basis consistent with NZ GAAP. This has significantly improved the comparability and reliability of the financial information reported. In addition, the Act specifies other Crown disclosures specific to the public sector, such as a statement of unappropriated expenses and capital expenditure and a statement of emergency expenses and capital expenditure.

Consistent with the output focus, the Public Finance Act outlines requirements for ex ante information essential for a robust system of government budgeting. The Act specifies a number of specific disclosures required for the Estimates (the Government's Budget documentation), including for each appropriation what is intended to be achieved and how performance will be assessed, with reporting on what has been achieved with each appropriation required at the end of each financial year. The Act also requires departments to publish strategic intentions at least once every three years and to report on progress against them in their annual reports.

The Public Finance Act also specifies the reporting requirements for mixed ownership model companies, PFA Schedule 4 organisations and PFA Schedule 4A companies.

Crown Entities Act 2004. The Crown Entities Act establishes the governance and accountability regime for Crown entities which are bodies owned by the Crown that are not departments, SOEs, mixed ownership model companies, PFA Schedule 4 organisations or PFA Schedule 4A companies. Among the accountability requirements are statements of intent (at least once every three years), annual statements of performance expectations, and annual reports and financial statements.

State-Owned Enterprises Act 1986. The SOEs Act establishes the objectives, governance and accountability requirements for commercial businesses owned by the Crown. The accountability

requirements include annual statements of corporate intent, annual reports and financial statements, and half-yearly reports.

From 1991, government departments and Offices of Parliament have been required to prepare financial statements consistent with NZ GAAP. The first set of financial statements for the combined Crown (the Government of New Zealand) was produced for the six months ended 31 December 1991. The first annual set was produced for the financial year ended 30 June 1992. From 1 July 1992, the statements also included the Crown's interest in SOEs and Crown entities. Monthly Crown Financial Statements are published for the period from the beginning of the financial year to the end of each month from September onwards.

Fiscal Responsibility Provisions

The Fiscal Responsibility Act 1994 promoted consistent, good-quality fiscal management. This Act has now been repealed but its provisions have largely been incorporated into Part 2 of the Public Finance Act 1989.

Part 2 of the Public Finance Act 1989 now provides the legislative framework for the conduct of fiscal policy in New Zealand. The Act encourages better decision-making by the Government, strengthens accountability and ensures more informed public debate about fiscal policy.

Part 2 works by requiring governments to:

- follow a legislated set of principles of responsible fiscal management, and publicly assess their fiscal policies against these principles. Governments may temporarily depart from the principles but must do so publicly, explain why they have departed and reveal how and when they intend to conform to the principles
- publish two fiscal responsibility documents: the BPS and the FSR. These documents focus on different aspects of the Government's fiscal policy. The BPS has a shorter-term focus. It sets out the over-arching policy goals that will guide the Government's Budget decisions and the Government's priorities for the forthcoming Budget. The FSR sets out the Government's long-term fiscal strategy and explains how that strategy accords with the principles of responsible fiscal management
- publish economic and fiscal forecasts (Economic and Fiscal Updates – EFU) twice each financial year: at the time of the Budget and again before the end of the calendar year. The Treasury is also required to publish an EFU prior to a general election. In addition, the Treasury is required to publish, at least every four years, a Statement on the Long-term Fiscal Position, looking out at least 40 years. The first such Statement was presented to Parliament in June 2006, the second in October 2009 and the third in July 2013
- present all financial information under GAAP
- provide an investment statement to the House of Representatives prepared by the Treasury at least once every four years describing the state and value of the Crown's significant assets and liabilities
- require the Treasury to prepare forecasts based on its best professional judgement about the impact of policy, rather than relying on the judgement of the Government. It also requires the Minister to communicate all of the Government's policy decisions to the Treasury so that the forecasts are comprehensive, and
- refer all reports required under the Act to a parliamentary select committee.

These requirements mean that the government of the day has to be transparent about both its intentions, and the short and long-term impact of its spending and taxation decisions. Such transparency should lead governments to give more weight to the longer-term consequences of their decisions and should, therefore, lead to more sustainable fiscal policy. This increases predictability about, and stability in, fiscal policy settings, which helps promote economic growth and provides a degree of certainty about the ongoing provision of government services and transfers.

Part 2 of the Public Finance Act 1989 establishes a set of principles for use as a benchmark against which the fiscal policies of the Government can be judged by Parliament and its Finance and Expenditure Committee.

These principles are to:

- reduce debt to prudent levels to provide a buffer against future adverse events
- run operating surpluses until prudent debt levels are achieved
- maintain prudent debt levels by ensuring that, on average, total operating expenses do not exceed total operating revenues (ie, the Government is to live within its means over time, with some scope for flexibility through the business cycle)
- achieve and maintain levels of net worth to provide a buffer against adverse events
- manage prudently the risks facing the Crown
- have regard to efficiency and fairness, including the predictability of tax rates, when formulating revenue strategy
- have regard to the interaction between fiscal and monetary policy when formulating fiscal strategy
- have regard to the likely impact on present and future generations when formulating fiscal strategy, and
- ensure the Crown's resources are managed effectively and efficiently.

The presumption is that governments should follow these principles. Governments are allowed to depart temporarily from these principles if they wish. The legislation requires, however, that a government specify its reasons for departure from the principles, how it expects to return to the principles and when. This recognises the difficulty of attempting to anticipate all future events and, therefore, the need for some short-term policy flexibility, but also requires that departures are transparent and should only be temporary.

Current Fiscal Position and 2015 Budget

The following tables summarise the Government's fiscal position according to GAAP in line with the provisions of the Public Finance Act 1989.

Table 22 – Current Fiscal Position and 2015 Budget

Year ended 30 June	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Forecast[1]
	(dollar amounts in millions)					
Statement of Financial Performance						
Core Crown tax revenue	51,557	55,081	58,651	61,563	66,636	68,414
Core Crown other revenue	5,642	5,347	5,154	5,530	5,577	5,924
Core Crown revenue	**57,199**	**60,428**	**63,805**	**67,093**	**72,213**	**74,338**
Crown entities, SOE revenue and eliminations	24,013	22,918	22,506	22,106	22,800	22,467
Total Crown revenue	**81,212**	**83,346**	**86,311**	**89,199**	**95,013**	**96,805**
Social security and welfare	21,724	21,956	22,459	23,026	23,523	24,325
Health	13,753	14,160	14,498	14,898	15,058	15,601
Education	11,650	11,654	12,504	12,300	12,879	13,222
Core government services	5,563	5,428	4,294	4,502	4,134	4,976
Other core Crown expenses	17,409	15,741	16,207	16,448	16,769	16,787
Core Crown expenses	**70,099**	**68,939**	**69,962**	**71,174**	**72,363**	**74,911**
Crown entities, SOE expenses and eliminations	29,509	23,647	20,701	20,668	21,909	21,811
Total Crown expenses	**99,608**	**92,586**	**90,663**	**91,842**	**94,272**	**96,722**
Minority interests share of OBEGAL	-	-	(62)	(159)	(327)	(484)
OBEGAL	**(18,396)**	**(9,240)**	**(4,414)**	**(2,802)**	**414**	**(401)**
Gains/(losses)	5,036	(5,657)	11,339	5,741	5,357	699
Operating balance	**(13,360)**	**(14,897)**	**6,925**	**2,939**	**5,771**	**298**
Statement of Financial Position						
Property, plant and equipment	114,854	108,584	109,833	116,306	124,558	128,472
Financial assets	115,362	116,178	118,779	123,918	135,787	135,762
Other assets	14,999	15,556	15,804	16,600	18,358	18,497
Total assets	**245,215**	**240,318**	**244,416**	**256,824**	**278,703**	**282,731**
Borrowings	90,245	100,534	100,087	103,419	112,580	116,976
Other liabilities	74,083	80,004	74,318	72,708	73,887	73,017
Total liabilities	**164,328**	**180,538**	**174,405**	**176,127**	**186,467**	**189,993**
Minority interests	308	432	1,940	5,211	5,782	5,876
Net worth attributable to the Crown	**80,579**	**59,348**	**68,071**	**75,486**	**86,454**	**86,862**
Debt Indicators						
Net debt	40,128	50,671	55,835	59,931	60,631	65,890
Gross debt	72,420	79,635	77,984	81,956	86,125	87,123

1 *Half Year Update* announced 15 December 2015.

Source: The Treasury

Waterfall at Marokopa River, Waikato region.
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Table 22 – Current Fiscal Position and 2015 Budget – continued

Year ended 30 June	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Forecast[1]
GDP	203,757	212,326	216,602	233,964	240,591	244,923
Statement of Financial Performance			as % of GDP			
Core Crown tax revenue	25.3	25.9	27.1	26.3	27.7	27.9
Core Crown other revenue	2.8	2.5	2.4	2.4	2.3	2.4
Core Crown revenue	**28.1**	**28.5**	**29.5**	**28.7**	**30.0**	**30.4**
Crown entities, SOE revenue and eliminations	11.8	10.8	10.4	9.4	9.5	9.2
Total Crown revenue	**39.9**	**39.3**	**39.8**	**38.1**	**39.5**	**39.5**
Social security and welfare	10.7	10.3	10.4	9.8	9.8	9.9
Health	6.7	6.7	6.7	6.4	6.3	6.4
Education	5.7	5.5	5.8	5.3	5.4	5.4
Core government services	2.7	2.6	2.0	1.9	1.7	2.0
Other core Crown expenses	8.5	7.4	7.5	7.0	7.0	6.9
Core Crown expenses	34.4	32.5	32.3	30.4	30.1	30.6
Crown entities, SOE expenses and eliminations	14.5	11.1	9.6	8.8	9.1	8.9
Total Crown expenses	**48.9**	**43.6**	**41.9**	**39.3**	**39.2**	**39.5**
Minority interests share of OBEGAL	0.0	0.0	0.0	(0.1)	(0.1)	(0.2)
OBEGAL	**(9.0)**	**(4.4)**	**(2.0)**	**(1.2)**	**0.2**	**(0.2)**
Gains/(losses)	2.5	(2.7)	5.2	2.5	2.2	0.3
Operating balance	**(6.6)**	**(7.0)**	**3.2**	**1.3**	**2.4**	**0.1**
Statement of Financial Position						
Property, plant and equipment	56.4	51.1	50.7	49.7	51.8	52.5
Financial assets	56.6	54.7	54.8	53.0	56.4	55.4
Other assets	7.4	7.3	7.3	7.1	7.6	7.6
Total assets	**120.3**	**113.2**	**112.8**	**109.8**	**115.8**	**115.4**
Borrowings	44.3	47.3	46.2	44.2	46.8	47.8
Other liabilities	36.4	37.7	34.3	31.1	30.7	29.8
Total liabilities	**80.6**	**85.0**	**80.5**	**75.3**	**77.5**	**77.6**
Minority interests	0.2	0.2	0.9	2.2	2.4	2.4
Net worth attributable to the Crown	**39.5**	**28.0**	**31.4**	**32.3**	**35.9**	**35.5**
Debt Indicators						
Net debt	19.7	23.9	25.8	25.6	25.2	26.9
Gross debt	35.5	37.5	36.0	35.0	35.8	35.6

1 *Half Year Update* announced 15 December 2015.

Source: The Treasury

Taxation

The main taxes are the personal and corporate income taxes and Goods and Services Tax (GST), a value-added tax. Both are applied at reasonably low rates to broad bases. The introduction of GST in 1986 marked a significant shift in the mix of taxation from direct to indirect tax.

Personal income tax rate reductions in 2008, 2009 and 2010 reduced tax on individuals' capital and labour income. The 2010 changes were accompanied by reductions in the company, superannuation scheme and maximum Portfolio Investment Entity (PIE a widely-held retail savings vehicle) rate to 28%. The changes were funded by increasing GST, better aligning tax and economic depreciation rates and tightening the thin capitalisation rules faced by foreign investors.

Personal Income Tax

All income other than most capital gains is taxed. The following table sets out the personal tax rates that have applied since 1 October 2010.

Table 23 – Personal Income Tax

Individual Annual Income	Tax rate from 1 October 2010
$0 – $14,000	10.5%
$14,001 – $48,000	17.5%
$48,001 – $70,000	30%
$70,001+	33%

Withholding taxes apply to wages and salaries and to interest income and dividends. Fringe benefits are taxed separately.

Tax credits based on combined family income are available to families with children. A tax credit is also available to some independent earners who do not otherwise receive government support.

The tax treatment of pension funds and other savings is "TTE": contributions are made from Tax-paid income, fund earnings are Taxed and withdrawals are Exempt.

Indirect Taxes

GST was raised from 12.5% to 15% on 1 October 2010, in conjunction with the income tax cuts described above. Financial services and housing rentals are exempt but otherwise New Zealand's GST is very broad-based. Additional indirect taxes are applied to alcohol and tobacco products, petroleum fuels and gaming.

Company Taxes

As part of the 2010 tax reform package, the company tax rate was lowered from 30% to 28% with effect from 1 April 2011. Imputation credits are attached to dividends when tax is paid at the corporate level. Inter-corporate dividends (other than from wholly-owned subsidiaries) are taxed as income. Depreciation rates for new assets are based on the economic life of the asset. There is immediate deductibility against income of forestry and petroleum exploration expenditure and of most agricultural development costs. The 2010 reforms also included reducing the depreciation rate for most buildings to 0% from 1 April 2011.

International Taxation

The foreign-source income of New Zealand residents is subject to tax, with some exceptions. In particular, most foreign-sourced investment income earned by new migrants (generally, migrants in their first four years of residence as long as they had not been New Zealand residents for at least the prior 10 years before their first year of new residence) is exempt.

In common with other OECD countries, New Zealand has rules attributing certain income earned through foreign entities to its residents and taxing it accordingly. Residents holding a 10% or greater interest in a controlled foreign company, other than an Australian company, are taxed on accrual of passive income earned by the company. For all income years beginning on or after 1 July 2009, any active income earned through such a company is exempt. These rules are similar to those operating in other OECD countries.

Residents holding a 10% or greater interest in a foreign company not controlled from New Zealand are entitled to active income exemption from 1 July 2011.

Investments in the shares of foreign companies (except for some Australian listed companies) of less than 10% are taxed under the Fair Dividend Rate method. The investor is attributed income equal to 5% of the investment's opening value. Dividend income is exempt. Where an individual can show the unrealised gain on their investments is less than 5%, the investor is taxed on this lower amount. This last treatment is available only to investors who are natural persons and to some trusts. Investors that are companies or managed funds are taxed on a deemed return of 5% regardless of the actual return from the investment.

The tax treatment of the New Zealand income of non-residents encourages inward capital flows where this is feasible. Interest payments to non-residents are subject either to non-resident withholding tax (in most cases at a 10% rate where a double tax agreement applies and 15% otherwise) or to a 2% levy. In the case of New Zealand government debt, the issuer absorbs the levy and the return to the investor is not reduced by taxation. No tax or levy applies to interest paid to non-residents on certain publicly-listed debt.

Dividends paid to non-residents may also be subject to withholding taxes. Companies paying fully imputed dividends to non-resident investors with shareholdings of 10% or more do not have to apply any withholding tax. Companies paying fully imputed dividends to non-residents with shareholdings of less than 10% have to withhold tax at the rate of 15% but can claim a credit against their company tax, which they must then pass on to the investor. The net effect is that the maximum combined level of company tax and withholding tax on profits distributed to non-residents will in most cases be the same as the company tax rate (28%).

For unimputed dividends paid to non-residents, the rate of withholding tax is 30% unless this is reduced under a double tax agreement. Under most of New Zealand's double tax agreements, the withholding rate for dividends is limited to 15%. Recently, the Government has begun including lower limits in some of its double tax agreements for dividends paid in respect of shareholdings of 10%. For example, in the agreements with Australia and the US, the rate of withholding tax on dividends is now limited to zero for shareholdings in excess of 80% and 5% for shareholdings of 10% or more. Lower limits are expected to be incorporated into other double tax agreements over time.

The Government has implemented transfer pricing and thin capitalisation regimes. It has recently abolished relief for New Zealand tax on offshore income derived by New Zealand companies on behalf of non-residents as these rules had led to tax avoidance.

Weka in Doubtful Sound, Fiordland National Park.
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Nikau palms at sunset, Mokihinui, Buller, West Coast.
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Heaphy Coast, Buller, West Coast.
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Government Enterprises

State-Owned Enterprises and Crown Entities

Most of the Government's trading activities are carried out by SOEs which are required to operate within the frameworks in the SOE Act 1986 and the Companies Act 1993. Under the SOE Act, the boards of SOEs have complete autonomy on operational matters, such as how resources are used, pricing, and marketing of output. SOEs operate in competitive environments on the same basis as private sector companies. SOEs do not have responsibility for carrying out non-commercial activities. The Government must negotiate a contract with the SOE if it wishes the SOE to carry out non-commercial activities.

Each year, SOE boards are required to present to their shareholding Ministers a statement of corporate intent and an outline of business objectives, defining the nature and scope of activities and performance targets. These are closely monitored and SOEs are expected to achieve performance targets and pay dividends on a basis comparable to their private sector competitors. The shareholding Ministers have the power to determine the levels of the dividends paid by the SOEs but have not needed to do so since the SOE Act came into effect in 1986.

The SOEs borrow in their own names and on their own credit, in almost all cases without a guarantee or other form of credit support from the Government. All SOEs have been informed that government policy requires that they disclaim in loan documentation the existence of such guarantees or credit supports.

Solid Energy New Zealand Limited (Solid Energy)

One of the SOEs, Solid Energy, has encountered financial difficulties in the past few years. It is currently subject to a Deed of Company Arrangement. A Deed of Company Arrangement is a binding arrangement between the company and its creditors governing how the company's affairs will be dealt with if the business is to continue in some form.

Crown Entities

Crown entities are organisations owned by the Crown that are not departments, Offices of Parliament or SOEs. Crown entities range from Crown research institutes to regulatory bodies, such as the Commerce Commission and the Financial Markets Authority.

Performance of Government Enterprises

The following tables show the Government's financial interest in SOEs and Crown entities.

In 2013 and 2014 the Crown undertook initial public offerings of the shares in some SOEs (Mighty River Power Limited, Meridian Energy Limited and Genesis Energy Limited) and reduced its shareholding in these companies to around 51%. These companies are now dual listed on the New Zealand and Australian stock exchanges. The Crown also reduced its shareholding in Air New Zealand Limited to around 51% through an off-market sell-down.

In addition to the core Crown's direct investment in the mixed ownership companies, two Crown entities, the Accident Compensation Corporation (ACC) and the New Zealand Superannuation Fund (NZSF), have invested in the companies as part of their normal investment activities. These investments have the effect of increasing the majority interest of the Crown.

Table 24 – Mixed Ownership Companies

Company	% Interest of Core Crown Investment	% Interest of Crown Investment Including ACC and NZSF
Air New Zealand	51.95	54.07
Genesis Energy	51.23	53.86
Meridian Energy	52.72	56.83
Mighty River Power	52.01	55.06

Balance Dates

Except for those entities listed below, all SOEs and significant Crown entities have a balance date of 30 June, and the information reported in these tables is for the period ended 30 June 2015.

Table 25 – Performance of Government Enterprises

	Balance Date	Information Reported to
State-Owned Enterprises		
AsureQuality Limited	30 June	30 June 2015
Crown Entities		
New Zealand Symphony Orchestra	31 December	30 June 2015
School boards of trustees	31 December	31 December 2015
Tertiary education institutions	31 December	30 June 2015

Table 26 – Performance of Government Enterprises

	30 June 2015				30 June 2014			
	Revenue (excl gains)	Expenses (excl losses)	Operating Balance	Distributions to Crown	Revenue (excl gains)	Expenses (excl losses)	Operating Balance	Distributions to Crown
	(dollar amounts in millions)							
State-Owned Enterprises								
Airways Corporation of New Zealand Limited	186	172	15	4	181	169	12	3
AsureQuality Limited	189	179	11	10	173	162	13	10
Landcorp Farming Limited	224	219	(20)	7	246	232	55	5
New Zealand Post Group	2,241	2,149	144	5	2,176	2,073	107	14
KiwiRail Holdings Limited	769	871	(96)	-	836	1,005	(174)	-
Transpower New Zealand Limited	1,046	785	115	166	1,004	799	216	197
Kordia Group Limited	249	239	9	-	303	312	(9)	4
New Zealand Railways Corporation	-	1	3	-	-	1	(1)	-
Other State-owned enterprises	507	678	(171)	3	561	741	(176)	11
Total State-owned enterprises	**5,411**	**5,293**	**10**	**195**	**5,480**	**5,494**	**43**	**244**
Air New Zealand Limited	4,981	4,608	834	246	4,695	4,444	152	105
Genesis Energy Limited	2,067	1,982	142	146	1,961	1,948	50	121
Meridian Energy Limited	2,912	2,614	247	385	2,517	2,311	230	261
Mighty River Power Limited	1,240	1,202	49	260	1,258	1,085	213	173
Less minority interests	-	-	(384)	(476)	-	-	(194)	(166)
Total mixed ownership companies	**11,200**	**10,406**	**888**	**561**	**10,431**	**9,788**	**451**	**494**
Intra-segmental eliminations	(436)	(490)	(209)	-	(423)	(374)	(66)	-
Total SOE segment	**16,175**	**15,209**	**689**	**756**	**15,488**	**14,908**	**428**	**738**
Crown Entities								
Accident Compensation Corporation	5,444	5,364	1,611	-	5,679	4,649	2,145	-
Crown Asset Management	**7**	**2**	**11**	**34**	**9**	**4**	**21**	**67**
Crown Fibre Holdings Limited	29	132	(103)	-	16	171	(154)	-
Crown Research Institutes	660	638	19	4	647	633	22	2
Callaghan Innovation	232	230	2	-	179	176	1	-
District Health Boards	13,065	13,097	(32)	-	12,793	12,796	(4)	-
Earthquake Commission	349	(308)	658	-	222	(67)	289	-
Housing New Zealand Corporation	1,209	995	108	108	1,146	1,000	182	90
Museum of New Zealand Te Papa	59	65	(5)	-	53	61	(8)	-
New Zealand Fire Service Commission	366	374	(3)	-	361	349	5	-
New Zealand Lotteries Commission	848	650	199	-	943	715	226	-
New Zealand Transport Agency	2,289	2,265	(43)	-	2,163	1,974	189	-
Public Trust	68	70	(2)	-	69	68	5	-
Schools	6,968	6,887	75	-	6,759	6,714	40	-
Southern Response Earthquake Services	52	360	(329)	-	(3)	111	(116)	-
Tertiary Education Commission	2,851	2,831	20	16	2,819	2,816	2	-
TEIs	-	-	685	-	-	-	242	-
Television New Zealand	344	322	26	-	353	336	15	-
Other Crown entities	2,105	2,116	27	1	1,911	1,867	18	4
Total Crown entities	**36,945**	**36,090**	**2,924**	**163**	**36,119**	**34,373**	**3,120**	**163**
Intra-segmental eliminations	**(651)**	**(459)**	**(138)**	**-**	**(714)**	**(452)**	**(204)**	**-**
Total Crown entities segment	**36,294**	**35,631**	**2,786**	**163**	**35,405**	**33,921**	**2,916**	**163**

Source: The Treasury

Table 27 – Performance of Government Enterprises

	30 June 2015						30 June 2014
	Purchase of PPE	Total PPE	Total Assets	Borrowings	Total Liabilities	Equity	Equity
	(dollar amounts in millions)						
State-Owned Enterprises							
Airways Corporation of New Zealand Limited	21	125	174	38	87	87	77
AsureQuality Limited	4	28	84	15	43	41	40
Landcorp Farming Limited	62	1,351	1,775	330	363	1,412	1,428
New Zealand Post Group	34	150	19,170	17,683	18,003	1,167	1,045
KiwiRail Holdings Limited	276	1,449	1,729	235	435	1,294	1,182
Transpower New Zealand Limited	329	4,454	5,454	3,826	4,351	1,103	1,456
Kordia Group Limited	11	73	165	14	74	91	80
New Zealand Railways Corporation	-	3,363	3,381	-	-	3,381	3,272
Other State-owned enterprises	13	136	626	354	680	(54)	51
Total State-owned enterprises	**750**	**11,129**	**32,558**	**22,495**	**24,036**	**8,522**	**8,631**
Air New Zealand Limited	1,063	4,303	7,280	2,363	4,805	2,475	1,853
Genesis Energy Limited	40	2,940	3,477	1,010	1,686	1,791	1,880
Meridian Energy Limited	130	6,928	7,456	1,263	2,876	4,580	4,634
Mighty River Power Limited	103	5,419	6,060	1,433	2,720	3,340	3,219
Total mixed ownership companies	**1,336**	**19,590**	**24,273**	**6,069**	**12,087**	**12,186**	**11,586**
Intra-segmental eliminations	(1)	133	(422)	(127)	(114)	(308)	(1,165)
Total SOE segment	**2,085**	**30,852**	**56,409**	**28,437**	**36,009**	**20,400**	**19,052**
Crown Entities							
Accident Compensation Corporation	10	31	35,854	264	34,351	1,503	(109)
Crown Asset Management	-	-	23	-	-	23	44
Crown Fibre Holdings Limited	98	384	572	32	82	490	324
Crown Research Institutes	47	452	729	1	175	554	528
Callaghan Innovation	8	32	140	-	86	54	44
District Health Boards	361	5,691	7,155	2,399	4,547	2,608	2,507
Earthquake Commission	3	17	2,537	-	2,961	(424)	(1,081)
Housing New Zealand Corporation	331	20,918	21,773	1,983	4,153	17,620	15,562
Museum of New Zealand Te Papa	17	1,261	1,293	-	11	1,282	1,244
New Zealand Fire Service Commission	58	647	784	4	97	687	674
New Zealand Lotteries Commission	10	20	91	2	68	23	22
New Zealand Transport Agency	1,650	30,358	31,050	264	716	30,334	28,678
Public Trust	1	4	576	522	536	40	43
Schools	210	1,469	3,045	122	940	2,105	1,928
Southern Response Earthquake Services	-	1	1,107	-	1,214	(107)	(111)
Tertiary Education Commission	1	2	69	26	41	28	24
TEIs	-	-	9,657	-	-	9,657	8,508
Television New Zealand	41	110	288	2	64	224	198
Other Crown entities	37	219	1,842	525	938	904	843
Total Crown entities	**2,883**	**61,616**	**118,585**	**6,146**	**50,980**	**67,605**	**59,870**
Intra-segmental eliminations	(1)	(200)	(841)	(506)	(574)	(267)	(323)
Total Crown entities segment	**2,882**	**61,416**	**117,744**	**5,640**	**50,406**	**67,338**	**59,547**

Source: The Treasury

Public Debt[2,3]

Debt Management Objectives

During 1988, as part of the reform of the Government's financial management, the New Zealand Debt Management Office (NZDMO) was formed to improve the management of risk associated with the Government's fixed income portfolio, which comprises liabilities in both the New Zealand and overseas markets and some liquidity assets. The categories of risk managed are interest rate, currency, liquidity, credit and operational risk.

In 1988, NZDMO introduced reforms of the public sector's cash management involving centralisation of surplus cash funds for investment and cash management purposes, and decentralisation to departments of the responsibility for payments and other banking operations.

The separation of the Government's financial management from monetary policy enables NZDMO to focus on defining a low-risk net liability portfolio for the Government and implementing it in a cost-effective manner.

Prior to March 1985, successive governments had borrowed under a fixed exchange-rate regime to finance the balance of payments deficit. Since the adoption of a freely floating exchange-rate regime, the Government has borrowed externally only to rebuild the nation's external reserves and to meet refinancing needs.

Direct public debt increased by a net amount of $1,725 million including swaps between 1 July 2014 and 30 June 2015. This increase was owing to a net increase in internal debt of $7 million and an increase of $1,718 million in external debt.

As of 30 June 2015, 0.8% of the interest-bearing direct debt of the Government was repayable in foreign currencies. The quantifiable contingent liabilities of the Government, including the RBNZ, SOEs and Crown entities, amounted to approximately $8,273 million.

Under existing legislation, amounts payable in respect of principal and interest upon New Zealand securities are a charge upon the public revenues of New Zealand, payable under permanent appropriation. All of the indebtedness of New Zealand is otherwise unsecured.

Debt Record

New Zealand has always paid when due the full amount of principal, interest and amortisation requirements upon its external and internal debt, including guaranteed debt.

Summary of Direct Public Debt

Funded and Floating Debt

The following table sets forth the direct funded and floating debt of the Government on the dates indicated. For the purposes of all debt tables herein, "funded debt" means indebtedness with an original maturity of one year or more and "floating debt" means indebtedness with an original maturity of less than one year. Funded debt, and therefore total direct debt, includes swap transactions.

Total direct debt includes a net swap payable ($144.3 million at 30 June 2015) with offsetting impacts on internal and external funded debt. Swap transactions, which are included in almost all the following public debt tables, increase external funded debt and decrease internal funded debt in 2015.

	2011	2012	2013	2014	2015
As at 30 June	(dollar amounts in millions)				
Funded Debt[1]					
Internal[2]	60,519.9	64,006.2	67,587.3	73,121.6	69,828.8
External[3,4]	33.4	(308.5)	(1,222.5)	(342.7)	934.7
Floating Debt					
Internal Debt[5]	7,326.0	10,081.0	4,735.0	3,800.0	7,100.0
External Debt[3,6]	180.6	-	-	-	440.1
Total Direct Debt	**68,059.9**	**73,778.7**	**71,099.8**	**76,578.9**	**78,303.6**
Total Public Debt as a % of GDP[7]	**34.1**	**35.5**	**33.2**	**33.2**	**32.7**

1 Includes the effect of swap transactions. Excludes indebtedness to international financial organisations arising from membership.
2 Includes Government Wholesale Bonds, Kiwi Bonds, Index Linked Bonds.
3 External debt is converted at the mid-point of the 2:00 pm spot rate on 30 June for each year.
4 Includes Public Bonds, Private Placements, Syndicated Loans and Medium Term Notes.
5 Treasury Bills.
6 Includes Sovereign Notes and Euro-Commercial Paper.
7 GDP: Treasury Estimate for June years.

2 The debt figures in this section are presented in nominal dollars and relate solely to the direct public debt. In this respect, they may differ from the gross sovereign-issued debt figures as disclosed in the Crown Financial Statements of New Zealand. The latter are presented in accordance with GAAP and include the net debt of the RBNZ.
3 All data sources: NZDMO.

Direct Public Debt by Currency of Payment

As part of its debt management activities, the Government enters into currency swap agreements, which have the effect of converting the principal obligations on New Zealand's external debt into a different currency.

The following table shows the direct public debt of New Zealand at 30 June 2015 by currency of payment after swap positions are taken into account and shows the estimated interest for the year ending 30 June 2016 including swap positions.

	Amount Outstanding at 30 June 2015[1]	Estimated Interest for the Year to 30 June 2016[2]
	(dollar amounts in millions)	
External Debt		
Repayable in US dollars	640.2	6.0
Repayable in Japanese yen	0.0	0.0
Repayable in pounds sterling	0.0	0.4
Repayable in euro	0.0	0.1
Repayable in other currencies	0.0	7.8
Internal Debt	77,519.1	3,533.7
Subtotal	**78,159.3**	**3,548.0**
Swaps	144.3	-
Total Direct Public Debt	**78,303.6**	-

1 Converted at the mid-point of the 2:00 pm spot exchange rates on 30 June 2015 which were: NZ $1 = US $0.68165 = Yen 83.495 = Pounds 0.4334 = Aus$0.8879 = Euro 0.6088.
2 In some cases interest payments are offset by interest receipts.

Details of External Public Debt at 30 June 2015[1]

The following table sets forth by currency the estimated payments of principal, including mandatory amortisation provisions, to be made on the external direct public debt of New Zealand as at 30 June 2015, shown in New Zealand dollars based on rates of exchange on that date and with adjustment to reflect the effect of currency swap arrangements.

Maturing in year ended 30 June	2016	2017	2018	2019	2020	2021	2022–25	2026	Total
	(dollar amounts in millions)								
US dollars	1,325.0	215.0	0.0	0.0	0.0	0.0	0.0	0.0	1,540.0
Japanese yen	(36.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(36.0)
British pounds	0.0	145.0	0.0	0.0	0.0	0.0	0.0	0.0	145.0
Euro	(329.0)	(82.0)	0.0	0.0	0.0	0.0	0.0	0.0	(411.0)
Australian dollars	0.0	0.0	137.0	0.0	0.0	0.0	0.0	0.0	137.0
Total External Debt	**960.0**	**278.0**	**137.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**1,375.0**
Percentage of Total Foreign Debt	**69.8**	**20.2**	**10.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**100.0**

1 Includes Sovereign Note Programme (notes not exceeding 270 days to maturity) and Euro-Commercial Paper Programme (notes not exceeding 365 days to maturity).

Movements in External Public Debt

For the year ended 30 June 2015, the total payment of interest on public debt of the Government was $3,736 million. The following table indicates the movements in external interest-bearing public debt since 2006, excluding swap positions.

	External Debt[1]		Interest Charges	
	Amount[2]	As % of Total Public Debt	Amount	As % of Exports[3]
	(dollar amounts in millions)			
30 June 2006	1,866.2	5.3	122.4	0.3
30 June 2007	1,638.2	5.2	88.8	0.2
30 June 2008	657.4	2.1	69.0	0.1
30 June 2009	1,756.1	4.3	48.1	0.07
30 June 2010	1,678.6	3.4	40.0	0.08
30 June 2011	2,115.2	3.1	38.6	0.06
30 June 2012	1,330.1	1.8	31.3	0.08
30 June 2013	805.9	1.1	19.5	0.03
30 June 2014	980.6	1.3	9.5	0.01
30 June 2015	640.2	0.8	10.7	0.02

1 Excludes non-interest-bearing indebtedness to international organisations.
2 External debt is converted at the mid-point of the 2:00 pm spot exchange rate on 30 June in each case.
3 Based on exports of goods and services for each year.

Maturity Profile of Direct Public Debt

The following table sets forth the maturity dates of New Zealand public debt outstanding as at 30 June 2015, including the effect of swap positions.

Loans Maturing in year ending 30 June[1]	External[2]	Internal	Total Debt
	(dollar amounts in millions)		
2016	520.4	1,671.3	2,191.7
2017	277.8	(219.4)	58.4
2018	136.5	11,838.2	11,974.7
2019	0.0	11,813.0	11,813.0
2020	0.0	5,940.0	5,940.0
2021	0.0	11,864.0	11,864.0
2021 to 30 June 2025	0.0	9,245.0	9,245.0
After 30 June 2025	0.0	17,489.7	17,489.7
Treasury Bills	-	7,100.0	7,100.0
Other	440.1	187.0[3]	627.1
Total	**1,374.8**	**76,928.8**	**78,303.6**

1 With respect to many of the loans, the Government has the option to redeem the securities at an earlier date.
2 Converted at the mid-point of the 2:00 pm spot exchange rate on 30 June 2015.
3 Retail stock.

Tables and Supplementary Information

Table I – Internal Debt as of 30 June 2015

Currency (NZD)	Principal Outstanding	Maturity Date	Coupon Rate (% per annum)	Fiscal Year of Issue	Amortisation
Government Bonds	1,910,920,400	15/02/16	4.50	1996	
	11,969,000,000	15/12/17	6.00	2005	
	11,813,000,000	15/03/19	5.00	2011	
	5,940,000,000	15/04/20	3.00	2013	
	11,864,000,000	15/05/21	6.00	2009	
	9,245,000,000	15/04/23	5.50	2011	
	5,674,350,000	20/09/25	2.00	2013	
	5,000,000,000	15/04/27	4.50	2015	
	4,600,800,000	20/09/30	3.00	2014	
	2,214,520,000	20/09/35	2.50	2015	
	70,231,590,400				
Treasury Bills	**7,100,000,000**	8/07/15–22/06/16	2.98–3.74	2015	
Loans	**454,700**	1/05/16–01/03/17	5.50–5.75	[1]	
Retail Stock[2]	**187,045,875**	1/07/15–21/07/19	2.25–4.00	2011–15	
Total Internal Debt	**77,519,090,975**				

1 Debt of the Ministry of Transport for which the Government assumed responsibility on 1 July 1997, subsequent to its fiscal issue date.
2 Kiwi Bonds repayable at holder's option upon seven business days' notice.

Table II – External Debt as of 30 June 2015

Currency	Principal Outstanding	Maturity Date	Coupon Rate (% per annum)	Fiscal Year of Issue	Amortisation
USD	122,750,271	Call	Variable	2015	
	6,107,000	01/04/16	8.75	1987	
	7,543,000	25/09/16	9.13	1987	
USD Total	**300,000,000**				
GBP Total	**436,400,271**	25/09/14	11.50	1985	

Table III – External Debt Issued 1 July 2015 to 31 January 2016 – Nil.

Contingent Liabilities and Contingent Assets

Pursuant to Section 27(f) of the Public Finance Act 1989, a Statement of Contingent Liabilities must be provided, including guarantees given under Section 59 of the Act.

Statement of Contingent Liabilities and Contingent Assets

	30 June 2015 ($m)	30 June 2014 ($m)
Quantifiable Contingent Liabilities		
Guarantees and Indemnities	310	222
Uncalled Capital	7,337	5,662
Legal Proceedings and Disputes	247	604
Other Contingent Liabilities	379	357
Total Quantifiable Contingent Liabilities	**8,273**	**6,845**
Total Quantifiable Contingent Assets	**238**	**149**

In addition to the contingent liabilities listed above, there are a number of contingent liabilities which cannot be quantified. These are primarily in the form of institutional guarantees and indemnities to Crown entities.