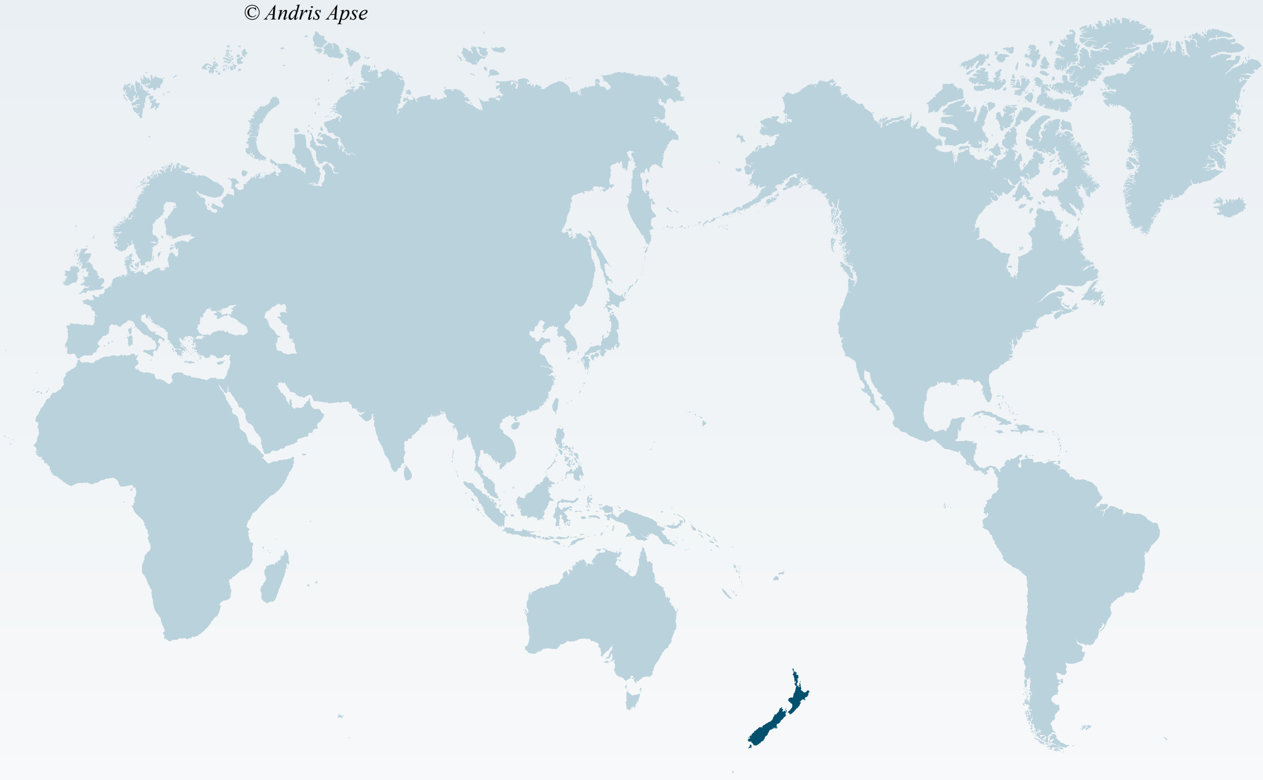
NEW ZEALAND

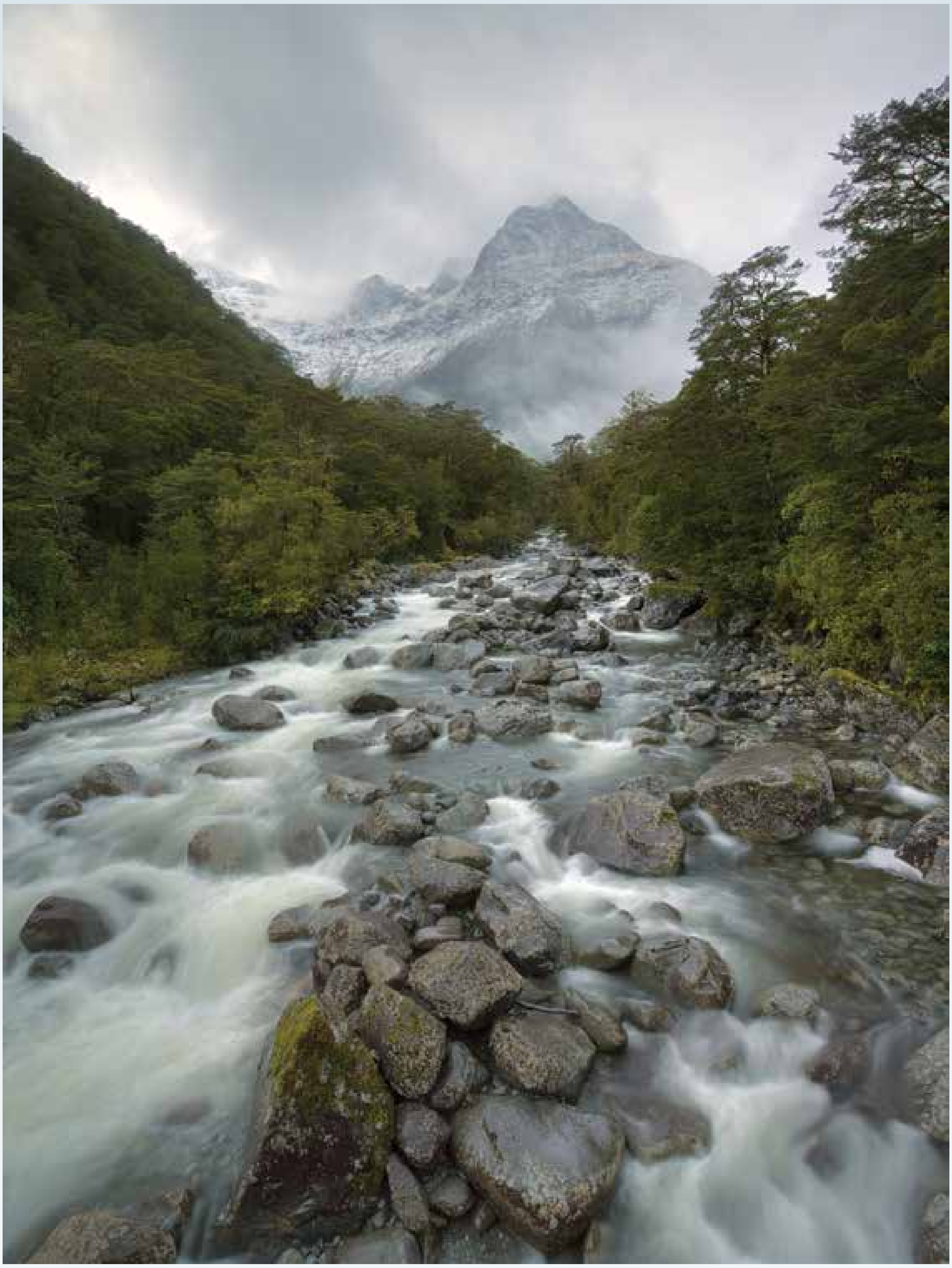
Economic and Financial Overview 2014

Black iron-sand beach, Tongaporutu, Taranaki.



ISSN: 1173-2334 (Print)
ISSN: 1178-749X (Online)

New Zealand Government



Tutoko River, Milford Sound. Fiordland National Park.
© Andris Apse

CONTENTS

Further information

Unless otherwise specified, all monetary units in this Overview are New Zealand dollars. The mid-point rate on 28 February 2014 was NZ$1 = US$0.8376.

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
GISBOURNE
NEW PLYMOUTH
NAPIER
HASTINGS
WHANGANUI
PALMERSTON NORTH
MASTERTON
WELLINGTON
NELSON
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.

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 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 2013 is estimated at 4,470,000. With an estimated population of 1,529,300 people, the Greater Auckland Region is home to around one third of all New Zealanders and is one of the fastest growing regions in the country.

New Zealand has a highly urbanised population with around 72 percent of the resident population living in urban entities with 30,000 or more people. As at June 2010, over half of all New Zealanders (53%) lived in the four main urban areas of Auckland, Hamilton, Wellington and Christchurch.

The population is heavily concentrated in the northern half of the North Island (52%), with the remaining population fairly evenly spread between the southern half of the North Island (24%) and the South Island (24%).

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.

A referendum on the future of MMP was held in conjunction with the 2011 election. A majority of responses favoured the retention of MMP.

Following the general election in November 2011, eight political parties are represented in Parliament. The total number of seats stands at 121, an 'overhang' of one seat, because the Maori 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 Maori 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 77% of residents designating themselves as being of European descent, 15% as New Zealand Māori, 7% as Pacific Islanders, 10% 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 polices to enable the Crown and Māori to settle any Treaty of Waitangi claim relating to events 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 over 30% of New Zealand's GDP. New Zealand's trade interests are well diversified. Australia, China, North America, the European Union and the Association of South-East Asian Nations (ASEAN) take between around 10% and 25% each of New Zealand's goods exports. Other major trading partners include Japan and Korea.

While New Zealand exports a broad range of products, it is reliant on exports of commodity-based products as the main source of export receipts and relies on imports of raw materials and capital equipment for industry.

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

	1996	1999	2002	2005	2008	2011
National Party	44	39	27	48	58	59
Labour Party	37	49	52	50	43	34
Green Party	-	7	9	6	9	14
New Zealand First	17	5	13	7	-	8
Māori Party	-	-	-	4	5	3
ACT New Zealand	8	9	9	2	5	1
United Future	1	1	8	3	1	1
Mana Party	N/A	N/A	N/A	N/A	N/A	1
Other	13	10	2	1	1	-
Total	**120**	**120**	**120**	**121**	**122**	**121**

Source: Electoral Commission

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 co-operation and liberalisation through active membership of such fora as the Asia Pacific Economic Cooperation (APEC) and the East Asian Summit;
- a focus on building regional relationships through various policy initiatives; and
- bilateral and plurilateral trade arrangements, such as:
  - the Closer Economic Relations (CER) agreement with Australia (in force since 1983);
  - bilateral agreements with Singapore, Thailand, China, Malaysia and Hong Kong;
  - the Trans-Pacific Strategic Economic Partnership Agreement (previously known as P4) with Singapore, Chile and Brunei;
  - the ASEAN-Australia-New Zealand Free Trade Agreement;
  - the New-Zealand Gulf Cooperation Council (GCC) Free Trade Agreement;
  - the Chinese Taipei Agreement on Economic Co-operation;
  - current negotiations with Korea, India and the customs union of Russia, Kazakhstan and Belarus;
  - current Trans-Pacific Partnership (TPP) negotiations to include Australia, Canada, Japan, Malaysia, Mexico, Peru, the United States, Vietnam and the original P4 countries; and
  - current negotiations on RCEP (Regional Comprehensive Economic Partnership) which involve the ten members of ASEAN, China, India, Korea, Japan and Australia.

New Zealand remains committed to a reduction of world-wide trade barriers. 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.

New Zealand was active in laying the foundations for the Doha round of WTO negotiations. Agriculture and services are of prime importance to the New Zealand economy and agriculture, in particular, is central to the Doha negotiations. New Zealand is working with other like-minded countries to reduce barriers to trade in goods and services and provide improved market access for New Zealand exporters.

New Zealand, as a member of APEC, is committed to achieving APEC's goals of free trade and investment in the region. Asia-Pacific regional linkages remain at the core of New Zealand's political and economic interests. The countries of 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.

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 Group, the Asian Development Bank (ADB) and the WTO.

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. It has plentiful, clean water; clean air; fertile soil and a temperate climate well-suited to forestry, livestock, and agriculture; long coastlines and significant aquaculture resources; low energy use, waste, and greenhouse gas emissions per unit of economic output; significant mineral and petroleum reserves; and extraordinary biodiversity both on land and in its water bodies. The World Bank estimates that New Zealand ranks eighth out of 120 countries in natural capital per capita; it is outranked only by petroleum-exporting countries.[1]

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 (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 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) came into force in 2008. The scheme is 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. Changes to the ETS in 2009 and 2012 were intended to better balance economic costs and environmental objectives and to ensure that New Zealand undertakes to do its 'fair share' of the global mitigation effort.

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

	2009	2010	2011	2012	2013
	(dollar amounts in millions)				
GDP at Current Prices [1, 2]	185,607	190,429	199,108	207,888	211,637
Annual % Increase (Decrease) in Real GDP [1, 2, 3]	(1.9)	(0.1)	1.8	2.4	2.3
Population[4]	4,305	4,358	4,400	4,429	4,463
Unemployment Rate[5]	6.5	6.3	6.5	7.2	6.2
Change in Consumer Price Index[6]	2.0	4.0	1.8	0.9	1.6
Exchange Rate[7]	0.7285	0.7578	0.7768	0.8236	0.8281
90-Day Bank Bill Rate[8]	2.79	3.18	2.71	2.64	2.69
10-Year Government Loan Stock Rate[7]	5.90	5.47	4.20	3.51	4.71
Terms of Trade Index [2, 9]	1,057	1,246	1,288	1,170	1,356
Current Account Deficit as a % of GDP [2, 10]	(2.7)	(2.4)	(3.3)	(3.7)	(4.1)

Source: Statistics New Zealand, RBNZ

Table 3 – Government Finance[11]

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14[12]
Year ended 30 June	(dollar amounts in millions)					
Total Revenue	79,506	74,725	81,563	83,483	86,655	90,982
Total Expenses	83,399	81,040	99,959	92,723	91,007	93,302
OBEGAL[13]	**(3,893)**	**(6,315)**	**(18,369)**	**(9,240)**	**(4,414)**	**(2,320)**
Gains/(Losses)	(6,612)	1,806	5,036	(5,657)	11,339	3,959
Operating Balance	**(10,505)**	**(4,509)**	**(13,360)**	**(14,897)**	**6,925**	**1,639**
Operating Balance % of GDP	(5.7%)	(2.4%)	(6.7%)	(7.2%)	3.3%	0.7%
Total Assets	217,151	223,355	245,215	240,318	244,416	248,562
Total Liabilities	117,636	128,367	164,328	180,538	174,405	173,667
Minority interests	447	402	308	432	1,940	5,730
Net Worth	**99,068**	**94.586**	**80,579**	**59,348**	**68,071**	**69,165**
Net Direct Domestic Borrowing	8,454	8,016	18,362	8,557	76	-
Net Direct Overseas Borrowing	717	409	787	(1,450)	(1,010)	-

Source: The Treasury

Table 4 – Direct Public Debt

Internal Funded Debt	29,614.5	38,575.5	60,519.9	64,006.2	67,587.3	-
Internal Floating Debt	7,505.0	8,065.0	7,326.0	10,081.0	4,735.0	-
External Debt	4,178.7	2,197.2	214.0	(308.5)	(1,222.5)	-
Total Direct Public Debt	41,298.2	48,837.7	68,059.9	73,078.7	71,099.8	-

Source: The Treasury

1 Year ended 31 March.
2 Data from the annual National Accounts release for year ended 31 March 2013. 2012 and 2013 data provisional. Prior years' data revised.
3 Production based - chain volume series expressed in 1995/96 prices. Data from the September quarter 2013 GDP release.
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 2013.
12 Half-Year Update announced 17 December 2013.
13 Operating Balance Excluding Gains and Losses (OBEGAL). The 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.

Economy

Introduction

New Zealand has a small open economy which operates on free market principles. It has sizable manufacturing and service sectors complementing a highly efficient export-oriented agricultural sector. New Zealand is highly dependent on the primary sector with commodities accounting for around half of total goods exports. Exports of goods and services account for around one third of real expenditure GDP.

New Zealand's high proportion of winter sunshine hours and considerable rainfall provide an ideal resource base for pastoral agriculture, forestry, horticulture and hydro-electicity 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 Party Government elected in November 2008, and re-elected in November 2011, 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

Background

The New Zealand economy entered recession in early 2008, before the effects of the global financial crisis (GFC) set in later in the year. A drought over the 2007/08 summer led to lower production of agricultural products in the first half of 2008. Domestic activity slowed sharply as high fuel and food prices dampened domestic consumption, while high interest rates and falling house prices drove a rapid decline in residential investment.

The outlook for the New Zealand economy deteriorated sharply following the intensification of the GFC in September 2008. Similar to experiences across advanced economies, business and consumer confidence plummeted as uncertainty dominated the global financial and economic environment. In addition, local banks' access to funding in overseas markets was temporarily curtailed at the height of the crisis.

Response to the Global Financial Crisis

The Government and the Reserve Bank of New Zealand (RBNZ) responded to the crisis with a range of measures designed to alleviate its effects. The RBNZ lowered the Official Cash Rate (OCR) from its level of 8.25% over the year to July 2008 to a low of 2.5% at the end of April 2009. The Bank also introduced a range of facilities to ensure that adequate liquidity was available to 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. (The wholesale bank guarantee facility was closed on 30 April 2010 and the retail guarantee scheme was closed on 31 December 2011.)

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

Other measures taken by the new Government in December 2008 were aimed more directly at alleviating the effects of the downturn, including 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 east coast 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 casualties. The earthquakes (including subsequent aftershocks) caused wide-spread damage to buildings and infrastructure, in particular to the CBD and eastern parts of Christchurch, New Zealand's second most populous city.

The New Zealand Treasury estimated the damage from the earthquakes 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).

Growth

New Zealand experienced a relatively shallow recession from March 2008 to June 2009 compared to other nations in the OECD. New Zealand was sixth least affected out of the 34 member nations with negative real GDP growth totalling 3.5%.

Despite the significant amount of disruption caused by the earthquakes (in particular the February 2011 event), the clean-up and demolition operations helped minimise growth impacts. Many businesses were able to relocate out of the badly-damaged CBD and keep trading and primary and manufacturing production in the region was not significantly affected.

Since the March quarter of 2010 New Zealand's annual growth has averaged 2.3%. Annual growth peaked at 3.3% in the December quarter of 2011. However, growth in early 2013 was subdued as a result of a late summer drought that severely impacted agricultural production, with 0.5% and 0.3% growth recorded in the March and June quarters respectively dampening annual growth to 2.2%. The economy grew 1.4% in September quarter, as agricultural production rebounded sharply, accelerating annual growth to 3.5%. Looking forward, GDP growth is expected to be boosted by gathering momentum in the Canterbury rebuild and robust private consumption.

The Canterbury rebuild is expected to be a significant driver of economic growth over the next five to ten years through residential, commercial and infrastructure investment. Outturns since mid-2012 show that construction activity has been gradually picking up in the region, while current indicators point to increasing momentum through 2014. The pace of the rebuild over the medium term is uncertain, and will depend on capacity constraints and the speed at which earthquake insurance claims are settled.

Labour Market

The labour market has begun to strengthen recently in line with a pick-up in the New Zealand economy, after the unemployment rate had remained elevated since the GFC. The unemployment rate was 6.0% in the December 2013 quarter, 1.2% point lower than its peak in September 2012, while annual employment growth accelerated to 3.0%. The labour market is expected to continue to strengthen, consistent with the positive outlook for the New Zealand economy.

External Trade

The prices of the commodities that New Zealand exports were at record high levels in early 2011, after more than recovering the significant falls experienced during the GFC. The high commodity prices were widespread, including dairy products, meat and logs, owing to surging demand from China. The high commodity prices flowed through to a historically high terms of trade, as export prices rose much faster than import prices.

The strong terms of trade provided an offset to the weaker real economy, helping to boost nominal GDP. Through 2011, global conditions deteriorated and the terms of trade eased off their peak, continuing to moderate until September 2012. Since then, commodity prices have rebounded strongly, with strong demand from China and the international situation improving. Commodity prices have been at record highs in recent quarters and remain elevated. High commodity prices are expected to provide a considerable boost to nominal GDP growth in the near term.

Balance of Payments

Renewed demand from abroad and a subdued domestic economy resulted in the current account and the net international investment position improving during the recovery from the GFC. The annual current account deficit narrowed from 7.9% of GDP in the December quarter 2008 to a low of 1.4% in the March quarter of 2010. The narrowing in the current account deficit was helped by a positive balance on the goods account from the start of 2010, with goods exports outpacing goods imports. Net international liabilities fell from 85.9% of GDP in March 2009 to 67.1% in March 2011 as a result of the smaller current account deficits, valuation changes and revisions, and outstanding reinsurance claims related to the Canterbury earthquakes.

After the low of 1.4% in March 2010, the current account deficit widened to 4.1% in the December 2012 quarter, as the goods and investment income balances deteriorated, partly reflecting falling commodity prices and higher profit outflows from the banking sector. The current account deficit narrowed slightly to 3.9% on the back of lower income outflows in the first half of 2013 before widening to 4.1% in the September quarter. The current account deficit is expected to widen further over the medium term owing to increased imports related to the Canterbury rebuild, as well as increasing debt servicing costs and higher profit outflows. New Zealand's net international liabilities increased from 67.1% of GDP in the March quarter 2011 to 69.5% of GDP in the September quarter of 2013 and are expected to gradually rise further.

Exchange Rate

The Trade Weighted Index (TWI), a basket of exchange rates for New Zealand's major trading partners, began retreating from historically high levels in March 2008, as the market assessed monetary policy in New Zealand shifting towards a loosening bias and a weaker outlook for growth. The TWI fell 28% between February 2008 and February 2009, 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, a 27% increase. 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 appreciated again in 2012, rising to 73.0 by April 2012, before declining to around 70.0 in the middle of the year as risks around the euro debt crisis escalated. Recently, prices for New Zealand commodity exports have been at all-time highs and euro zone risks have receded, with the TWI appreciating to 77.5 in December 2013.

Inflation

Annual CPI inflation was comfortably within RBNZ's 1% to 3% target band in the two years following the GFC. Inflation increased significantly in the December quarter 2010 as an increase in the rate of goods and services tax 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%, well above the target range, although the Policy Targets Agreement allows RBNZ to look through administrative price increases. Inflation increased further during 2011, rising to 5.3% on an annual basis in June before falling to 1.8% in the year to December 2011 as the effects of the GST rate rise were no longer in the calculation.

Over 2012 and through to mid-2013, CPI inflation continued to ease, falling to 0.7%, a reflection of the strong New Zealand dollar that suppressed tradables prices. CPI inflation rebounded to 1.6% in the December quarter of 2013 as tradables inflation was less negative and non-tradables inflation lifted.

Outlook

In the December 2013 Half-Year Economic and Fiscal Update, the New Zealand Treasury forecast annual average growth in the economy to be 2.7% in the March 2014 year and 3.6% in the March 2015 year, driven mainly by the Canterbury rebuild and recovery in domestic demand. Recovering world demand, as well as elevated commodity prices should provide assistance to export growth.

The performance of the global economy exceeded expectations in 2010 but then slowed significantly as public stimulus measures faded, natural disasters in Japan and Australia caused disruption, and European sovereign debt issues re-emerged. However, New Zealand's increasing exposure to the faster growing areas of the world, in particular Australia and Asia excluding Japan, resulted in exports holding up better than otherwise would have been expected. New Zealand's trading partner growth was expected to be 3.4% in 2013 before rising to 3.8% in 2014 and 2015.

Monetary Policy

The focus of monetary policy is to maintain price stability. A Policy Targets Agreement 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 Policy Targets Agreement, which was signed in September 2012 on the appointment of a new Governor, requires the Bank to maintain inflation 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".

Following the lowering of the OCR from 8.25% in mid 2008 to 2.5% in April 2009 in response to the international credit crisis, RBNZ began increasing the OCR again as the economy began to recover. The OCR was increased to 3.0% in July 2010, before a cut of 50 basis points back to 2.5% as an "insurance cut" following the February 2011 Canterbury earthquake. Since then, a deteriorating global outlook has meant that interest rates have remained at 2.5%, with increases not expected until the first half of 2014 as the Canterbury rebuild gathers momentum and domestic demand pressures increase, generating inflationary pressures.

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. The latter was implemented on the 1 October 2013 with a requirement for commercial banks to restrict new residential mortgage lending at LVRs of 80% or higher to no more than 10% of the dollar value of new residential mortgage lending.

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. In 2013, the Government enacted the Public Finance (Fiscal Responsibility) Act 2013, which amended one of the principals of fiscal responsibility and added three new principles.

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 i.e., 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 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 2008/09 and subsequent years.

Operating balance: Following a prolonged period of fiscal deficits, New Zealand achieved surpluses in 1993/94 and remained in surplus until 2007/08. In 2012/13, the operating balance before gains and losses was a deficit of $4.4 billion. However, when gains and losses are included, the operating balance was a surplus of $6.9 billion. The December 2013 Half-Year Economic and Fiscal Update forecasts for the operating balance before gains and losses for 2013/14, 2014/15, 2015/16, 2016/17 and 2017/18 are for a deficit of $2.3 billion and surpluses of $0.1 billion, $1.7 billion, $3.1 billion and $5.6 billion respectively.

Core Crown operating expenses as a percentage of GDP remained steady at 33.1% in 2012/13. Expenses are controlled through output budgeting, accrual reporting and decentralised cost management.

Net debt: Net debt increased to 26.3% of GDP in 2012/2013 as a result of the additional borrowing undertaken to offset the Government's operating deficits.

Net worth: After a prolonged period of deficits, net worth attributable to the Crown rose in 2012/2013 to $68.1 billion, reflecting the operating surplus coupled with positive property revaluations.

Fiscal Objectives

The Government's long-term fiscal objectives were set out in the 2013 Fiscal Strategy Report published with the 2013 Budget and re-confirmed in the 2014 Budget Policy Statement in December 2013. The long-term fiscal objectives include objectives for debt, the operating balance, operating expenses and revenue, and net worth.

The long-term debt objective requires net debt to remain consistently below 35% of GDP and to be brought back to no higher than 20% of GDP by 2020. 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.

The current short-term fiscal intention is for the operating balance excluding gains and losses to be returned to surplus as soon as possible and no later than 2014/15, subject to any significant shocks.

Current forecasts are for net core Crown debt to peak at 28.7% of GDP in 2015/16.

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 decreased by a net amount of $2,679 million including swaps between 1 July 2012 and 30 June 2013. This decrease was due to a net decrease in internal debt of $1,765 million and a decrease of $914 million in external debt.

Government gross direct debt amounted to 33.2% of GDP in the year ended June 2013, down from 35.5% the previous year.

National Accounts

In the year to September 2013, the New Zealand economy recorded annual average GDP growth of 2.6%. Growth in the September 2013 quarter was 1.4% following growth of 0.3% in the June quarter and 0.5% in the March quarter.

Table 5 – Gross Domestic Product and Gross National Expenditure[1]

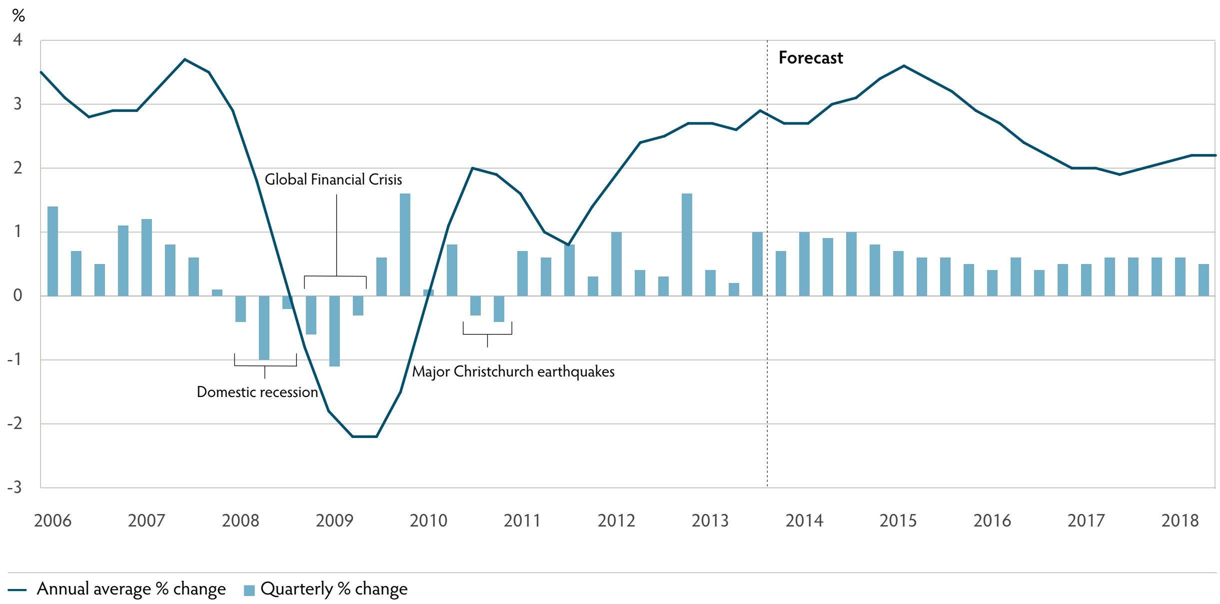
The following table shows Gross Domestic Product and Gross National Expenditure in nominal terms for the last five March years:

Year ended 31 March	2009	2010	2011	2012	2013
	(dollar amounts in millions)				
Compensation of Employees	84,848	85,742	88,523	92,056	95,756
Net Operating Surplus	50,925	53,762	58,579	61,563	60,430
Consumption of Fixed Capital	27,773	28,066	28,169	28,534	29,150
Indirect Taxes	23,100	23,524	24,841	26,460	27,031
Less Subsidies	1,039	665	1,004	1,037	728
Gross Domestic Product	**185,608**	**190,429**	**199,108**	**207,576**	**211,639**
Final Consumption Expenditure					
General Government	37,428	38,340	39,941	41,111	41,237
Private	108,051	111,546	116,347	122,551	126,183
Physical Increase in Stocks	51	(851)	854	1,802	820
Gross Fixed Capital Formation	40,513	36,834	37,275	38,777	41,773
Gross National Expenditure	**186,044**	**185,869**	**194,417**	**204,241**	**210,012**
Exports of Goods and Services	60,760	55,837	61,565	65,054	62,745
Less Imports of Goods and Services	61,196	51,277	56,874	61,407	61,119
Expenditure on Gross Domestic Product	**185,607**	**190,429**	**199,108**	**207,888**	**211,637**

1 Data from the annual National Accounts release for year ended March 2013.

Source: Statistics New Zealand

Figure 1 – Real Gross Domestic Product



Sources: Statistics New Zealand, the Treasury

Table 6 – Gross Domestic Product by Production Group[1]

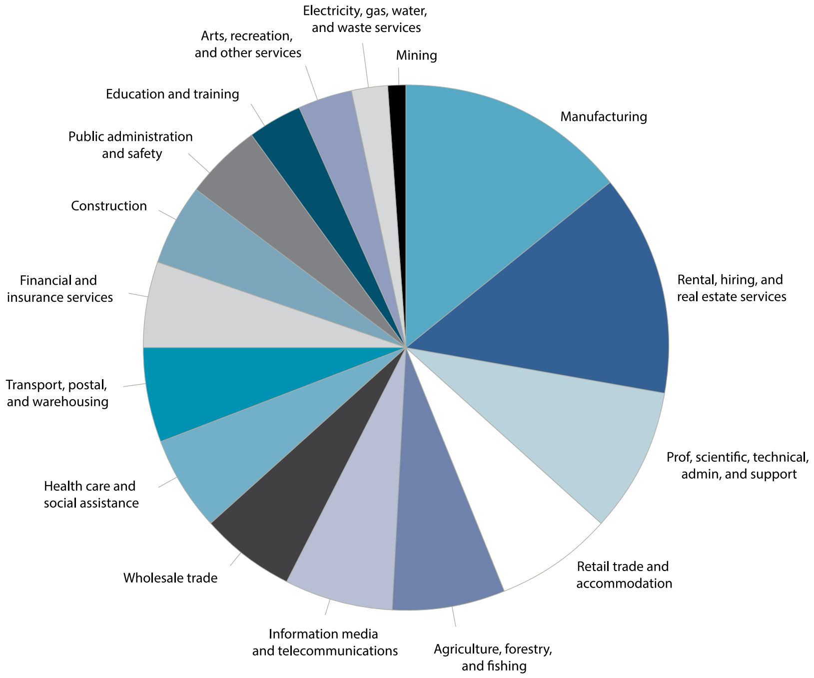
The following table shows GDP by major industries at constant 1995/96 prices.

Year ended 30 September	2009	2010	2011	2012	2013	2013
	(dollar amounts in millions)					% of Total
Manufacturing	17,472	19,130	19,372	19,597	19,953	13.3
Rental, hiring, and real estate services	17,604	17,760	18,084	18,336	18,617	12.4
Prof, scientific, technical, admin, and support	10,865	11,270	12,000	12,584	13,122	8.7
Information media and telecommunications	9,027	9,051	9,719	10,119	10,405	6.9
Retail trade and accommodation	8,973	9,215	9,350	9,754	10,120	6.7
Wholesale trade	7,378	7,470	7,888	8,032	8,189	5.5
Construction	6,659	6,566	6,333	7,046	8,015	5.3
Health care and social assistance	7,483	7,632	7,430	7,489	7,789	5.2
Transport, postal, and warehousing	7,029	7,341	7,525	7,584	7,591	5.1
Agriculture, forestry, and fishing	7,560	7,037	7,093	7,723	7,439	5.0
Financial and insurance services	6,611	6,600	6,683	6,802	6,996	4.7
Public administration and safety	5,967	6,115	6,139	6,104	6,275	4.2
Education and training	4,389	4,396	4,424	4,471	4,496	3.0
Arts, recreation, and other services	4,402	4,491	4,314	4,222	4,354	2.9
Electricity, gas, water, and waste services	3,004	3,218	3,238	3,088	3,028	2.0
Mining	1,338	1,438	1,258	1,225	1,254	0.8
Production GDP	137,677	140,608	142,251	146,183	149,989	100.0
Annual Average % change	**(2.2)**	**1.1**	**1.0**	**2.4**	**2.7**	
Primary industries	9,288	8,829	8,644	9,240	9,005	6.0
Goods-producing industries	27,624	29,329	29,275	30,084	31,458	21.0
Service industries	89,433	91,075	92,936	94,738	97,193	64.8

1 2013 data estimated. Prior years' data revised.

Source: Statistics New Zealand

Figure 2 – Gross Domestic Product by Industry Group



Sources: Statistics New Zealand, the Treasury

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 2.2% per annum.

Annual Consumers Price Index (CPI) inflation increased significantly in the December quarter 2010 as an increase in the rate of goods and services tax 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 4.6% on an annual basis in September before falling to 1.8% in the year to December 2011. This fall was mainly the result of the GST rate rise falling out of the calculation, but falls in food and communication prices also contributed.

Over 2012, CPI inflation continued to ease, with annual inflation falling to 0.9% in the December quarter. This was largely a reflection of the strong NZD that depressed tradables prices. The New Zealand dollar continued to appreciate over the first half of 2013, which further suppressed tradables inflation, with annual CPI inflation dropping to 0.7% in the June 2013 quarter. CPI inflation was 0.1% in the December quarter of 2013, taking annual inflation to 1.6%, as tradables inflation was less negative and non-tradables inflation lifted. Annual inflation is expected to increase towards the mid-point of the band over 2014, in line with strong domestic demand, capacity constraints associated with the Canterbury rebuild and a moderation of the exchange rate.

Growth in the index of salary and ordinary-time wage rates declined rapidly from 3.4% in the year to March 2009 to just 1.5% growth at the start of 2010. Since then it has crept up, reaching 2.0% over late 2011 and early 2012 before easing again to 1.6% in the September 2013 year with a low inflation environment putting less pressure on wage growth.

The following table shows on a quarterly basis the Terms of Trade Index, the Producers Price Index, the Consumers Price Index, and the Labour Cost Index and, in each case, the percentage change over the same quarter of the previous year.

Table 7 – 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
2009	March	1,185	(5.0)	965	4.7	1,075	3.0	997	3.4
	June	1,074	(13.5)	965	(1.2)	1,081	1.9	1,000	2.9
	September	1,057	(14.1)	954	(5.8)	1,095	1.7	1,005	2.1
	December	1,118	(8.2)	958	(3.2)	1,093	2.0	1,009	1.8
2010	March	1,186	0.1	971	0.6	1,097	2.0	1,012	1.5
	June	1,210	12.7	984	2.0	1,099	1.7	1,016	1.6
	September	1,246	17.9	991	3.8	1,111	1.5	1,021	1.6
	December	1,256	12.3	1,000	4.4	1,137	4.0	1,026	1.7
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	(2.8)	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	1,356	15.9	1,074	3.3	1,187	1.4	1,078	1.6
	December	N/A	N/A	N/A	N/A	1,188	1.6	N/A	N/A

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

Labour Markets

New Zealand has a decentralised labour market. Enterprise bargaining predominates in the negotiation of the terms and conditions of employment. 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 its 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. In 2012, the Minimum Wage Act was amended to introduce a 'starting-out' wage. This change came into effect on 1 May 2013.

Employment grew strongly prior to 2009, with annual growth averaging 2.4% over the four years to September 2008. During 2009, the lagged effects of the weakening economy flowed through to lower demand for labour, with employment contracting 2.3% in the year to December 2009.

As the economy slowed, the unemployment rate increased sharply from a record low of 3.5% in December 2007 to 6.9% in December 2009. The unemployment rate fluctuated between 6.2% and 7.2% until 2012, in part owing to a volatile participation rate. Since the September quarter 2012 the unemployment rate has fallen from 7.2% to 6.0% in December 2013, with strengthening employment growth and an increasing participation rate. The positive outlook for the New Zealand economy points to a continued reduction in unemployment in future years.

The Canterbury earthquakes initially had a negative impact on the labour market, with employment falling 8.3% in the region in the year to December 2011. Despite this, employment overall was up 1.6% in the year to September 2011. More recently, labour market statistics for Canterbury have strengthened with employment rising 4.5% since the December quarter 2011. As the Canterbury rebuild gathers pace, employment is expected to pick up more substantially.

Annual growth in labour productivity peaked in March 2008 at 4.3% before contracting by 3.1% in March 2009. Productivity growth rebounded in the year to March 2010 (up 3.9%) as employers absorbed underutilised labour, but remained negative for most of 2010 and 2011. The decline in annual productivity growth coincided with soft GDP growth over this period, which restrained firms' demand for labour. Modest GDP growth and weak employment growth saw labour productivity grow strongly over 2012 with annual growth reaching 4.6% in the year to September 2012. Stronger growth in employment and hours paid, at the same time as slower GDP growth, led to falls in productivity growth of 0.2% in the year to the June quarter 2013.

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 and to addressing skill shortages.

Christchurch from Sumner Head, Southern Alps in background. This photo shows Christchurch prior to the earthquakes in 2010 and 2011.
© Andris Apse

Industrial Structure and Principal Economic Sectors

Primary Industries

The agricultural, horticultural, forestry, mining and fishing industries play a fundamentally important role in New Zealand's economy, particularly in the export sector and in employment. Overall, the primary sector directly accounts for 6.0% of real GDP and contributes over 50% of New Zealand's total export earnings.

Agriculture and Horticulture

Agriculture directly accounts for around 4.5% of GDP, while the processing of food, beverage and tobacco products accounts for a further 4.6%. 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 and horticulture.

After falling during the GFC, commodity prices recovered strongly during 2009 and were boosted through late 2010 and early 2011 as global growth and demand returned. Over the second half of 2011 and the first half of 2012, commodity prices came off their highs as renewed euro area concerns emerged. However, prices have recovered since then, partly as a result of reduced supply, to stand at historically high levels in late 2013.

Rising prices over 2013 have enabled New Zealand's major dairy exporter, Fonterra, to lift the farmgate milk price for the 2014 season by 50 cents to $8.30 per kilogram of milksolids.

Wine and kiwifruit are the principal horticultural products. Other significant export products include apples and pears, fresh and processed vegetables, and seeds.

Table 8 – 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 2013.

	2010	2011	2012	2013	2013
Year ended 31 March	(dollar amounts in millions)				% of Total
Dairy	8,888	10,960	10,567	10,386	47.6
Cattle	1,848	2,129	2,289	2,316	10.6
Sheepmeat	2,165	2,364	2,820	2,263	10.4
Fruit	1,983	1,882	2,071	2,017	9.2
Vegetables	988	1,062	1,065	987	4.5
Sales of live animals	766	848	871	866	4.0
Crops and seeds	799	588	745	751	3.4
Wool	450	563	675	587	2.7
Non-farm income	387	399	408	472	2.2
Other horticulture	259	243	251	239	1.1
Other farming	252	225	232	210	1.0
Agricultural services	221	216	216	220	1.0
Deer	189	200	234	200	0.9
Poultry/eggs	156	153	167	167	0.8
Pigs	179	169	185	174	0.8
Value of livestock change	70	87	200	(30)	(0.1)
Total Gross Revenue	**19,600**	**22,089**	**22,995**	**21,826**	**100.0**

1 All data estimated.

Source: Ministry for Primary Industries

Forestry

Forestry and logging makes up around 1.1% of GDP and is the basis of an important export industry. Almost 70% of wood from the planted production forests is exported in a variety of forms, including logs, wood chips, sawn timber, panel products, pulp and paper, and further manufactured wooden products, including furniture.

For the year ended June 2013, the value of exports of forestry products was $4.4 billion, 9.7% of New Zealand's total merchandise exports. China, Australia and Japan were the largest markets for forestry products. China was the largest market for logs and wood chips, sawn timber and 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. These forests cover an area of 1.8 million hectares and produce over 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 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 planted forest area.

For the year ended June 2012, an estimated 25.2 million cubic metres of wood were harvested from production forests, an increase of 4.9% from a year earlier. 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 rapidly to 35 million cubic metres per annum between 2016 and 2025. Market conditions and logistical constraints (availability of logging crews, transport and wood processing capacity) will dictate how quickly the additional wood can be harvested.

Logs, wood and wood article export values increased 10.4% in the year to June 2013, owing to a rise in the world price of forestry products and high demand from China. New Zealand dollar prices for export logs are expected to remain elevated with strong demand from China and low supply from competitors.

Fishing

New Zealand has an Exclusive Economic Zone (EEZ) of 4.1 million square kilometres supporting a wide variety of inshore fish, some large deep-water fin fish, squid and tuna. New Zealand's unpolluted coastal waters are also well-suited to aquaculture. The main species farmed are Pacific oyster, 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 $1.5 billion in export revenues in the year ended June 2013, a 0.8% increase from the previous year.

The most important export species are green-lipped mussels, hoki, mackerel, squid 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 United States and Japan. Around 83% 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 quota management system designed to protect the future sustainability of the fisheries while facilitating their optimum economic use. The system uses markets, together with scientific assessments of fish stocks, to allocate fishing rights without arbitrarily restricting fishing methods.

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 hydro-electric development. The main minerals mined, in addition to coal, are gold, silver, ironsands, various industrial minerals and gravel for 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 meet a significant proportion of its overall energy requirements.

There is a renewed interest in the development of energy and mineral resources to contribute to economic growth. Since 2012, an annual permitting round has been used exclusively for allocating petroleum exploration permits. The Exclusive Economic Zone and Continental Shelf Act was passed in 2012 and requires all petroleum and mineral operations within the exclusive economic zone and continental shelf to seek consent from the Environmental Protection Authority. Within New Zealand's territorial waters, operators must be permitted through the Resource Management Act.

Natural Gas: Natural gas is currently produced from 17 fields and wells in the Taranaki region of the North Island, with production dominated by the inshore Pohokura oil and gas field, the long-standing offshore Maui field and smaller onshore fields. There are three main uses for gas in New Zealand: electricity generation, petrochemical production and fuel for industrial sectors.

Gross natural gas production was 188 petajoules in the year to June 2013. Natural gas production had 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 Pohokura field in 2006. The offshore Kupe oil and gas field, which was brought into production in 2009, has been a significant contributor.

Oil: New Zealand's crude oil production was 91.3 petajoules in the year to June 2013 (around double that produced in 2006), of which 95.6% was exported. New Zealand exports light crudes, while importing heavier crudes suited to its refining plant at Marsden Point. While New Zealand is still a net importer of oil, oil exports are becoming increasingly important with the value of crude oil exports accounting for 3.4% of total exports in the year to September 2013.

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 total in-ground resources estimated at about 15 billion tonnes, of which 8.6 billion tonnes is judged to be economically recoverable from 42 coalfields. Of this amount, 80% is relatively low-grade lignite, 15% is middle-grade sub-bituminous, and the remaining 5% is bituminous. 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 June 2013 year, total coal production was 4.7 million tonnes, a 7.2 % decrease over June 2012. Coal production is centred on the Waikato (mainly for several major industrial users and the Huntly power station), the West Coast (mainly for export), and Otago/Southland (mainly for local industrial markets).

Manufacturing

New Zealand's manufacturing industries make an important contribution to the national economy. In the year ended September 2013, manufacturing sector output accounted for 13.3% of real GDP. The proportion of the labour force employed in manufacturing was 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 market. 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 $41.7 billion in the year ended September 2013, including more than $27 billion for meat and dairy products. Exports of meat and dairy products amounted to about $16.7 billion in the year ended September 2013.

Output in the manufacturing sector declined throughout most of 2006 and 2007, leaving it vulnerable to further contraction as prospects for the global economy deteriorated rapidly with the onset of the GFC in late 2008. The impact of weaker global demand and uncertainty over future global economic conditions

Table 9 – Operating Income of the Manufacturing Sector by Industry Group

The following table sets out the sales of goods and services in the manufacturing sector for the five years ended 30 September 2013.

	Year ended 30 September					
	2009	2010	2011	2012	2013	2013
Industry Division	(dollar amounts in millions)					% of Total
Food						
Meat and dairy	25,503	23,865	27,639	27,705	27,554	30.1
Other food, beverages and tobacco	13,083	13,158	13,341	13,671	14,194	15.5
Machinery and equipment	8,859	8,671	9,616	9,612	9,349	10.2
Metal product	9,007	8,823	9,319	9,249	8,993	9.8
Chemical, polymer, and rubber product	7,063	6,796	7,344	7,896	8,392	9.2
Petroleum and coal product	6,345	6,448	7,373	7,820	7,710	8.4
Wood and paper product	7,102	7,499	7,423	7,306	7,289	8.0
Non-Metallic mineral product	2,698	2,510	2,464	2,531	2,770	3.0
Textile, leather, clothing and footwear	2,230	2,140	2,073	2,071	2,206	2.4
Furniture and other manufacturing	1,687	1,665	1,621	1,523	1,539	1.7
Printing	1,713	1,725	1,633	1,617	1,491	1.6
Total	**85,289**	**83,300**	**89,846**	**91,000**	**91,487**	**100.0**
Manufacturing index[1]	103	113	114	116	118	

1 Base: June quarter 1996 = 100.

Source: Statistics New Zealand

flowed through to the manufacturing sector, with output shrinking 12.9% on an average annual basis in the year to September 2009.

Manufacturing recovered somewhat over late 2010 and early 2011, despite the Canterbury earthquakes. After a 3.5% contraction in the December 2011 quarter, manufacturing output bounced back in the March quarter of 2012, rising 2.5%. The bounce back was attributed to good farming conditions which provided a boost to food processing. Output continued to grow in 2012 to be up 3.9% in the December year. Negative growth was recorded in the first half of 2013 as a result of an elevated exchange rate affecting international competitiveness and the impact of the drought on dairy processing, but output grew 1.5% in the September quarter as the industry rebounded from the summer drought.

Service Industries

Service industries make up a large proportion of the economy, accounting for around two-thirds of GDP. The sector recorded strong growth between 2000 and 2007, with annual growth averaging 4.1%. As the New Zealand economy entered recession in 2008, services growth slowed, but not to the extent of other sectors. With the services sector expanding at a more rapid rate than other areas of the economy, the sector has increased its share of GDP from 62% in 2004 to 65% in 2013. Export-related activities such as tourism and primary sector services inputs play an important part in trends in this sector.

Infrastructure

In early 2009, the Government established a National Infrastructure Unit within the Treasury to take a national overview of infrastructure priorities by providing cross-government co-ordination, planning and expertise. The Unit develops its policy advice in conjunction with an Advisory Board which is 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.

On 4 July 2011, the Unit released the second 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 is seeking to achieve better use of existing infrastructure, and better allocation of new investment.

Further information is available at www.infrastructure.govt.nz. The next Infrastructure Plan is expected in 2014.

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. In 2010 the government committed $750 million over three years (provided in $250 million tranches, subject to approved business cases) to support a "turnaround plan" for KiwiRail to become a fully commercial rail business over time.

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. In 2011, the Government confirmed funding packages to support the upgrade and maintenance of metropolitan rolling stock and associated network infrastructure.

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 cargos 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, although four are 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 4.4 million there are over 10,000 licensed pilots and more than 4,700 aircraft. Large aircraft are used for international and domestic freight and passenger transport. Light aircraft, including helicopters, are used extensively in agriculture, forestry and tourism.

New Zealand allows up to 100 percent 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, with some main trunk services operated by Jetstar.

New Zealand has around 50 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 (including tourism). 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 40 international airlines, including Air New Zealand, link New Zealand with the rest of the world with both freight and passenger services. Just under half of these are marketing carriers under code-share agreements. 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 international flights, mainly trans-Tasman. The three major international airports are autonomous companies. Auckland International Airport is a publicly listed company and Wellington International Airport is two-thirds owned by a publicly listed company, while Christchurch International Airport is jointly owned by the Christchurch City Council and the Government.

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, which has had the effect of restoring its balance sheet to a sound financial position. The airline has also made profits in each of those financial years and is currently 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 2013, international tourist expenditure amounted to $9.8 billion, an increase of 2.2% on the previous year. The country's scenery, natural environment and a range of outdoor activities make New Zealand a popular tourist destination. Total visitor arrivals amounted to 2,670,000 in the year to September 2013.

Australia is New Zealand's closest market and by far the largest source of overseas visitor arrivals at 1,196,000 (44.8% of the total) in the year ending September 2013, up by 2.0% from a year earlier.

After Australia, the next largest markets are China (236,000 or 8.9% of the total), the United States (191,000 or 7.2% of the total) and the United Kingdom (191,000 or 7.1% of the total).

Visitor arrivals from a number of Asian markets have also grown strongly over the past decade, albeit with periods of temporary weakness in the face of higher oil prices and concerns over the H1N1 virus in 2009.

Tourism arrivals are sensitive to the New Zealand-dollar exchange rate. While the New Zealand dollar is expected to remain elevated over 2014, a gradual depreciation is expected in the coming years.

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 three major players (Chorus, Telecom and Vodafone/Telstra Clear) and a number of smaller providers.

New Zealand has good broadband access availability (over 95% of dwellings) and significant broadband infrastructure competition in particular areas as well as good mobile coverage and competition amongst the three mobile service operators (Telecom, Vodafone and 2degrees).

The Government is investing $1.5 billion through the Ultra-Fast Broadband (UFB) Initiative to accelerate the roll-out of fibre-based broadband to 75 per cent of New Zealanders by 2019. This investment is being more than matched by investment from private sector partners. The Initiative prioritises businesses, schools and health services and certain tranches of residential areas. A related Rural Broadband Initiative is aimed at improving broadband availability outside the UFB area. Chorus and Vodafone are the major RBI providers. The Government has also begun an auction for spectrum in the 700MgHz band, which is expected to be used by New Zealand's mobile operators to extend the coverage of 4G networks, which have recently been launched.

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 resolve disputes over regulated services, to report to the Minister of Communications on the desirability of regulating additional services and to calculate and allocate the telecommunications development levy. Both the Telecommunications Service Obligations and the telecommunications Act are under review.

Postal and courier delivery 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, so the Government made a one-off investment of $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 $360 million at 30 June 2013. The Government neither guarantees the bank nor subsidises its on-going operations. Kiwibank announced an after-tax profit of $97 million for the year ended 30 June 2013 compared with a profit of $79 million for the previous year.

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), the state-owned television broadcaster, is a Crown company. TVNZ provides two national free-to-air television channels broadcast in both analogue and digital, plus two additional digital channels. TVNZ intends to replace analogue transmission completely within the next few years. The state also funds the Māori Television Service, a statutory corporation, to promote Māori language and culture. Private television operators provide a number of other national and regional channels.

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

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.

New Zealand's screen industry continues to gain international prominence following the success of several big budget productions filmed or produced in New Zealand, such as the Lord of the Rings Trilogy, King Kong and Avatar, as well as numerous medium and small budget films produced by New Zealand and offshore companies. Filming on the three-movie Lord of the Rings prequel, The Hobbit, commenced in Wellington in March 2011. The first movie, The Hobbit – An Unexpected Journey, premiered in Wellington in December 2012, with the second, The Hobbit – The Desolation of Smaug, released in December 2013.

The New Zealand screen industry recorded gross revenue of $3.29 billion in the 2011/12 financial year with 2,805 businesses operating across a range of industry sectors including production and post production, television broadcasting, distribution and exhibition.

External Sector

External Trade

External trade is of fundamental importance to New Zealand. Primary sector-based exports and commodities remain important sources of 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

Both export and import values grew strongly in the period prior to the GFC as domestic demand grew rapidly and external demand for commodities was robust. With the onset of the GFC, weak domestic demand, uncertainty surrounding the global economic environment and a sharp depreciation in the New Zealand dollar produced a large drop in imported goods at the beginning of 2009. Domestic demand picked up again in 2010 as the domestic economy recovered from recession.

Exports held up well through the GFC, mainly due to commodity demand from China, which continued to grow strongly. Export values surged to new highs in 2011, with the annual total up 9.6% from the previous year. The merchandise trade balance remained in surplus from April 2010 until March 2012. The trade balance then deteriorated as commodity prices moderated and the exchange rate appreciated. Although commodity prices have again surged, the 2013 late-summer drought, through its impact on export volumes, resulted in a trade deficit in the year ended September 2013.

Trade in Services

Trade in services is dominated by tourist flows. The annual level of services export volumes has been broadly flat since 2003 with the high New Zealand dollar and the recession following the GFC having an adverse impact on vistor arrivals from traditional tourist partners including the USA, Japan, the UK and Germany. Arrivals from Australia have increased, resulting in higher total visitor numbers. However, because Australian visitors stay in New Zealand for relatively short periods of time, this has resulted in lower average expenditure per visitor. With the positive impact from the Rugby World Cup on services exports now having dropped out of the annual comparison, real services exports in the June 2013 quarter rose by 1.7% from the June 2012 quarter.

Table 10 – Balance of External Merchandise Trade[1]

The following table records the total value of exports and imports of goods since 2009.

Year to September	Exports	Imports	Balance of Trade	Exports as % of Imports
	(dollar amounts in millions)			
2009	41,588	43,257	(1,669)	96.1
2010	41,785	40,810	975	102.4
2011	46,798	46,104	694	101.5
2012	46,748	47,640	(891)	98.1
2013	46,019	47,556	(1,536)	96.8

1 Includes re-exports.

Source: Statistics New Zealand

Terms of Trade

The terms of trade were elevated during 2008, as high commodity prices were reflected in export prices, particularly for dairy products. The terms of trade fell significantly during 2009, reflecting the impacts of the GFC on commodity prices and demand. Export prices fell much more than import prices.

As the global recovery commenced, the terms of trade recovered, hitting new highs in the June 2011 quarter. In the September quarter 2012, the terms of trade fell 9.2% from year-earlier levels as weak global demand led to a sharp decline in product prices received by New Zealand exporters.

The terms of trade rebounded strongly in 2013 to be up 15.9% in the year to September 2013. Strong demand from China and subdued global dairy supply saw world commodity price indices reaching all time highs. Commodity prices remained elevated over the last quarter of 2013 and are expected to remain high in the near term supporting the terms of trade.

Table 11 – Terms of Trade Indices

The following table shows the export and import price indices, the overall terms of trade index and annual percentage change in each.

		Export Price Index[1]	Annual % Change	Import Price Index[1]	Annual % Change	Terms of Trade Index[1]	Annual % Change
2009	March	1,168	7.1	985	12.6	1,185	(5.0)
	June	1,029	(9.7)	958	4.4	1,074	(13.5)
	September	973	(21.4)	920	(8.5)	1,057	(14.1)
	December	970	(23.6)	868	(16.6)	1,118	(8.2)
2010	March	1,072	(8.2)	904	(8.2)	1,186	0.1
	June	1,112	8.1	920	(4.0)	1,210	12.7
	September	1,112	14.3	892	(3.0)	1,246	17.9
	December	1,118	15.3	890	2.5	1,256	12.3
2011	March	1,188	10.8	938	3.8	1,266	6.7
	June	1,211	8.9	934	1.5	1,296	7.1
	September	1,162	4.5	903	1.2	1,288	3.4
	December	1,182	5.7	931	4.6	1,269	1.0
2012	March	1,138	(4.2)	918	(2.1)	1,240	(2.1)
	June	1,126	(7.0)	932	(0.2)	1,209	(6.7)
	September	1,055	(9.2)	902	(0.1)	1,170	(9.2)
	December	1,036	(12.4)	896	(3.8)	1,156	(8.9)
2013	March	1,056	(7.2)	877	(4.5)	1,205	(2.8)
	June	1,089	(3.3)	864	(7.3)	1,261	4.3
	September	1,185	12.3	874	(3.1)	1,356	15.9

1 Base: June 2002 = 1,000.

Source: Statistics New Zealand

Figure 3 – Terms of Trade

Sources: Statistics New Zealand, the Treasury

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 36 % of total merchandise export values in the year ended 30 September 2013.

The manufacturing sector has been a major source of export growth and diversification over the past two decades. The Closer Economic Relations agreement with Australia has contributed to a successful expansion by manufacturers into that market. A focus on design, reliability and cost has seen manufacturers make inroads into other markets, particularly Asia and the United States. 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.

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

Table 12 – Composition of Principal Merchandise Exports

	2009	2010	2011	2012	2013	2013
Year ended 30 September	(dollar amounts in millions)					% of Total
Dairy produce	8,747	9,389	11,468	11,827	11,470	24.9
Meat and edible offal	5,322	4,979	5,563	5,130	5,236	11.4
Wood and articles thereof	2,362	2,740	3,247	3,059	3,669	8.0
Mineral fuels	1,894	2,136	2,337	2,307	1,878	4.1
Fruit and nuts	1,607	1,465	1,548	1,611	1,471	3.2
Machinery and mechanical appliances	1,287	1,257	1,342	1,359	1,335	2.9
Fish, crustaceans and molluscs	1,364	1,355	1,441	1,431	1,264	2.7
Aluminium and articles thereof	976	1,136	1,251	1,080	948	2.1
Electrical machinery and equipment	855	879	942	994	929	2.0
Casein and caseinates	1,037	638	721	903	869	1.9
Iron, steel and articles thereof	726	826	878	787	828	1.8
Precious stones, metal and jewellery	893	850	998	925	819	1.8
Wool	550	570	756	749	715	1.6
Forest products - wood pulp	612	667	686	610	606	1.3
Raw hides, skins and leather	397	411	543	566	590	1.3
Forest products - paper and paper products	544	548	590	540	481	1.0
Plastic materials and articles thereof	413	433	463	443	451	1.0
Vegetables	415	412	458	405	405	0.9
All other commodities	9,627	9,299	9,758	10,258	10,440	22.7
Total New Zealand Produce	**39,628**	**39,989**	**44,989**	**44,986**	**44,401**	**96.5**
Re-exports	1,961	1,795	1,809	1,762	1,618	3.5
Total Merchandise Exports FOB	**41,588**	**41,785**	**46,798**	**46,748**	**46,019**	**100.0**

Source: Statistics New Zealand

Dairy cattle, Tararua area.
© Andris Apse

Table 13 – Composition of Principal Merchandise Imports

	2009	2010	2011	2012	2013	2013
Year ended 30 September	(dollar amounts in millions)					% of Total
Mineral fuels	5,986	6,128	7,525	8,142	7,697	17.0
Mechanical machinery and equipment	5,277	4,751	5,343	5,776	5,684	12.6
Vehicle parts and accessories	3,174	3,756	4,024	4,710	5,253	11.6
Electrical machinery and equipment	4,078	3,402	3,816	3,786	3,718	8.2
Plastic materials and articles thereof	1,480	1,477	1,546	1,596	1,689	3.7
Optical, medical and measuring equipment	1,375	1,243	1,332	1,311	1,364	3.0
Pharmaceutical products	1,146	1,097	1,090	1,090	1,098	2.4
Apparel and made-up textiles (not knitted or crocheted)	802	756	836	880	882	2.0
Paper and paperboard	929	949	956	857	854	1.9
Articles of iron and steel	845	646	706	763	753	1.7
Aircraft and parts	1,521	521	1,477	1,130	731	1.6
Knitted or crocheted fabrics and apparel	651	625	682	665	663	1.5
Rubber and articles thereof	498	509	552	582	564	1.2
Other chemical products	493	493	489	488	465	1.0
Toys, games and sport requisites	459	403	442	453	431	1.0
Iron and steel	478	436	452	416	427	0.9
Organic chemicals	361	327	376	411	421	0.9
Books, newspapers and printed matter	403	396	383	363	326	0.7
Ships, boats and floating structures	159	324	154	84	326	0.7
Inorganic chemicals (excluding aluminium oxide)	251	212	212	212	186	0.4
All other products	10,455	10,104	11,322	11,530	11,623	25.7
Total Merchandise Imports VFD	**40,820**	**38,554**	**43,715**	**45,246**	**45,155**	**100.0**
CIF Value	43,257	40,810	46,104	47,640	47,556	

Source: Statistics New Zealand

New Zealand's trading relationships are increasingly based around Pacific Rim countries. New Zealand's three largest export markets – Australia, China and the United States – accounted for 47.1% of merchandise exports and 40.6% of merchandise imports in the year ended 30 September 2013. Japan remains an important trading partner. However, Asia excluding Japan is growing rapidly in importance, increasing its share of merchandise exports to around 38%, up significantly from a decade ago.

Marlborough vineyard. Wine exports are expanding rapidly.
© Andris Apse

Geographic Distribution of External Trade

Tables 14 and 15 show the country composition of New Zealand's exports and imports.

Table 14 – Geographic Distribution of Exports[1]

Year ended 30 September	2009	2010	2011	2012	2013	2013
	(dollar amounts in millions)					% of Total
Australia	9,250	9,887	10,558	10,180	9,301	20.2
China, Peoples Republic of	3,527	4,318	5,795	6,437	8,269	18.0
United States of America	4,462	3,711	3,906	4,147	4,110	8.9
Japan	3,200	3,249	3,333	3,357	2,801	6.1
Korea, Republic of	1,270	1,355	1,634	1,568	1,603	3.5
United Kingdom	1,725	1,522	1,541	1,407	1,402	3.0
Singapore	865	1,071	798	859	999	2.2
Malaysia	782	740	848	914	883	1.9
Indonesia	1,018	916	868	823	858	1.9
Taiwan	736	823	903	844	846	1.8
Hong Kong (SAR)	815	851	770	879	800	1.7
India	681	755	965	830	744	1.6
Germany	805	669	753	735	715	1.6
Philippines	624	697	738	727	693	1.5
Thailand	535	591	728	683	644	1.4
Netherlands	488	474	613	579	606	1.3
Saudi Arabia	550	533	711	665	584	1.3
United Arab Emirates	399	417	496	649	580	1.3
Canada	531	468	577	579	545	1.2
Venezuela	443	380	434	651	265	0.6
Other Countries	8,882	8,358	9,827	9,237	8,771	19.1
Total	**41,588**	**41,785**	**46,798**	**46,748**	**46,019**	**100.0**

1 Free on Board value. Including re-exports.

Source: Statistics New Zealand

Table 15 – Geographic Distribution of Imports[1]

Year ended 30 September	2009	2010	2011	2012	2013	2013
	(dollar amounts in millions)					% of Total
China, People Republic of	6,092	6,073	6,910	7,327	7,861	17.4
Australia	7,317	7,348	7,098	6,888	6,340	14.0
United States of America	4,381	3,723	4,858	4,426	4,132	9.2
Japan	2,969	2,843	2,663	2,928	2,788	6.2
Malaysia	1,128	1,386	1,456	1,503	2,079	4.6
Germany	1,743	1,619	1,816	1,984	2,042	4.5
Korea, Republic of	1,395	1,232	1,401	1,686	1,706	3.8
Thailand	1,046	1,240	1,328	1,320	1,595	3.5
Singapore	1,702	1,396	2,099	2,175	1,584	3.5
United Kingdom	933	895	1,143	1,154	1,166	2.6
France	1,366	575	640	1,060	1,079	2.4
Saudi Arabia	241	243	599	1,060	1,065	2.4
Italy	756	652	782	718	811	1.8
Indonesia	749	518	570	699	800	1.8
Taiwan	678	681	657	747	679	1.5
Brunei Darussalam	519	513	418	1,155	637	1.4
Qatar	1,127	822	805	720	577	1.3
Oman	48	53	365	947	570	1.3
Canada	643	423	575	553	533	1.2
India	321	363	352	399	397	0.9
Other Countries	5,668	5,956	7,180	5,795	6,713	14.9
Total	**40,820**	**38,554**	**43,715**	**45,246**	**45,155**	**100.0**

1 Value for Duty.

Source: Statistics New Zealand

Principal Trading Partners

Australia: Australia is New Zealand's largest trading partner. In the year ended September 2013, two-way merchandise trade amounted to $15.6 billion, with Australia taking 20.2% of New Zealand's exports and supplying 14.0% of imports. Australia is New Zealand's top destination for overseas investment and New Zealand's largest source of foreign investment. As at March 2013, New Zealand had $48 billion invested in Australia, while Australia had $110 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 25 million people. It increases the effective size of New Zealand's domestic market six-fold and provides Australia with access to another market the size of Queensland.

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

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, under which most goods legally sold in one country can be legally sold in the other, and persons who are registered to practise an occupation in one country can register to practise an equivalent occupation in the other country; a free labour market, which allows New Zealand citizens and Australian residents to enter, live and work freely in each other's country; 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 co-ordinate Australian and New Zealand business law takes place within a Memorandum of Understanding. Both sides also co-ordinate banking regulation and supervision through the Trans-Tasman Council on Banking Supervision.

Recently completed or near-completed initiatives include implementation of a CER investment protocol, converging financial reporting standards and implementation of a portability scheme for retirement savings. Other initiatives currently in progress include streamlining trans-Tasman travel, mutual recognition of auditors and financial advisors and measures to harmonise intellectual property regulations.

China: China overtook the United States at the end of 2008 to become New Zealand's second largest trading partner, with bilateral trade amounting to $16.1 billion in the year ended September 2013. A Free Trade Agreement between New Zealand and China commenced on 1 October 2008 as New Zealand became the first developed country to negotiate such an agreement with China. In the year to September 2013, exports to China comprised 18.0% of New Zealand's total exports, with the major categories being milk powder, meat, logs and a wide range of other primary products. China supplied 17.4% of New Zealand's total imports, with the major categories being computers, telecommunications equipment, apparel and toys.

Chinese demand for New Zealand commodity exports, especially dairy products and logs, has risen rapidly in recent times and has been the 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. China's increasing industrialisation and rapidly growing incomes will mean that it requires more of those commodities that New Zealand produces.

United States: The United States is New Zealand's third largest single trading partner with bilateral trade amounting to $8.2 billion in the year ended September 2013. Exports to the United States comprised 8.9% of New Zealand's total exports, and the United States supplied 9.2% 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 United States are beef, casein, timber, lamb, cheese and a growing range of manufactured goods. The development of trade in dairy products has been constrained by long-standing quotas on these items. As China and emerging Asia take on more importance as trading partners, the United States and some other developed economies (excluding Australia), are becoming less important as their share of New Zealand's exports shows a declining trend.

Japan: Japan is New Zealand's fourth largest trading partner, with bilateral trade amounting to $5.6 billion in the year ended September 2013. Japan takes around 6.1% of total merchandise exports. Key exports to Japan include aluminium, wood, dairy products, fish, kiwifruit, meat, vegetables and other fruits.

Japan is also a major supplier of New Zealand's imports, providing 6.2% of total imports in the year to September 2013. Imports from Japan are dominated by motor vehicles, petroleum products and a vast range of technology-intensive appliances.

The Republic of Korea: The Republic of Korea is now New Zealand's fifth largest trading partner, recently overtaking the UK, with bilateral trade of $3.3 billion dollars in the year to September 2013.

European Union: Although trade with the members of the European Union has declined in value terms, taken as a bloc the Union would be New Zealand's third largest trading partner and is an important market for exports such as sheepmeat and wine. Together, the Union members take around 10% of exports (in value terms) and provide around 16.5% of imports. Bilateral goods trade amounts to around $12.4 billion or around 13.3% of total exports and imports. Services, particularly tourism are also an important element of EU/New Zealand trade.

Other Asian Economies: Like China, 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 is experiencing a gradual recovery from the GFC, Asia is providing 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 14.1% of merchandise exports.

Foreign Investment Policy

New Zealand welcomes the positive contribution of foreign investment to the economic and social well-being of New Zealanders. New Zealand's regulations governing foreign investment are liberal by international standards as New Zealand maintains targeted foreign investment restrictions in only a few areas of critical interest.

Overseas investments in New Zealand assets are screened only if they are defined as sensitive within the Overseas Investment Act 2005 (the Act). Three broad classes of asset are currently defined as sensitive within the Act: acquisition of a 25% or greater ownership interest in business assets valued at over $100 million, all fishing quota investments, and investment in sensitive land as defined in Schedule 1 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. Overseas investors wishing to purchase sensitive land must additionally 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 Act and the Overseas Investment Regulations 2005. Investments in fishing quota must be shown to be in the national interest, as defined in the Act.

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

The Overseas Investment Act 2005 is administered by the Overseas Investment Office – a dedicated unit located within Land Information New Zealand. More information on New Zealand's foreign investment screening regime is available on the Overseas Investment Office's website: www.linz.govt.nz/overseas-investment

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 $101.4 billion as at 31 March 2013. Australia and the United States are the largest contributors to total foreign direct investment in New Zealand, with investments worth $63.3 billion and $11.0 billion respectively. The United Kingdom is the next largest investor at $5.7 billion, while Singapore, the Netherlands and Japan follow closely behind at $4.0, $3.2 and $3.1 billion respectively.

By contrast, the stock of direct investment abroad by New Zealand was $22.6 billion as at 31 March 2013, with over half consisting of investments in Australia ($12.4 billion).

Table 16 – Foreign Investment Inflows[1,2]

Year ended 31 March	2009	2010	2011	2012	2013
	(dollar amounts in millions)				
Foreign Direct Investment	4,804	(956)	3,157	3,854	2,651
Foreign Portfolio Investment	(18,417)	13,089	10,878	3,918	12,448

1 Financial account completed according to principles set out by the IMF in 5th edition of the *Balance of Payments Manual.*
2 Prior years' data revised.

Source: Statistics New Zealand

Balance of Payments

The annual current account deficit was 4.1% of GDP in the year ended September 2013.

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 1.4% 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).

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 which stood at -69.5% of GDP in the 2013 September year. After late 2008, the investment income deficit narrowed markedly, driven by lower profits accruing to overseas-owned firms operating 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.

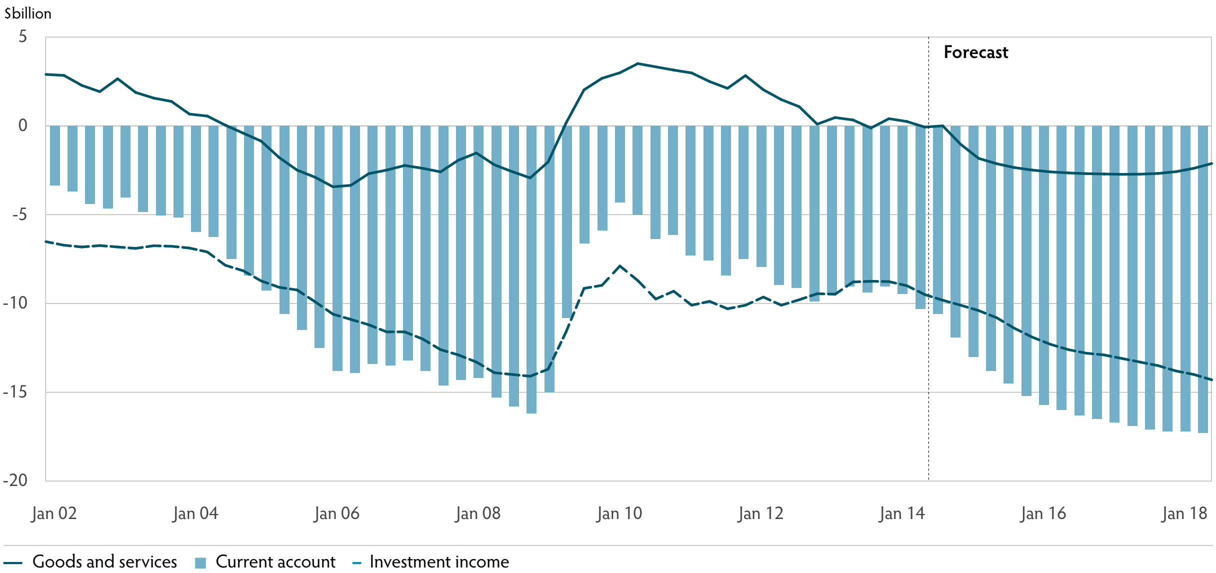
In the 2013 September year, lower profits flowed to overseas-owned firms, reducing the income balance deficit and offsetting deteriorations in the goods and service balances. The goods and services balance has varied due to the effects of drought, commodity price fluctuations (including oil price changes, some large one-off imports and currency movements) as well as New-Zealand's demand for imports and international demand for New Zealand exports.

Table 17 – Balance of Payments

	2009	2010	2011	2012	2013
Year ended 30 September	(dollar amounts in millions)				
Current Account					
Export receipts	42,452	42,331	47,580	47,572	46,616
Import receipts	41,021	39,595	45,085	46,781	46,904
Merchandise balance	1,431	2,736	2,494	792	(288)
Services balance	2,276	2,207	1,245	1,677	1,093
Income balance	(9,151)	(9,753)	(10,280)	(9,787)	(8,984)
Transfers balance	469	87	(238)	(426)	(585)
Current account balance	**(4,974)**	**(4,721)**	**(6,780)**	**(7,744)**	**(8,765)**
Deficit as % of GDP	**(2.7)**	**(2.4)**	**(3.3)**	**(3.7)**	**(4.1)**
Financial Account (net)					
Foreign investment in NZ	(6,443)	12,899	19,176	(1,737)	5,365
less NZ investment abroad	(1,978)	11,540	19,068	(6,968)	4,105
Financial account balance	**(4,465)**	**1,359**	**108**	**5,231**	**1,260**
Capital Account					
Capital account balance	490	4,630	13,629	(561)	(180)

Source: Statistics New Zealand

Figure 4 – Balance of Payments



Sources: Statistics New Zealand, the Treasury

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 there may be no 'market makers' in the New Zealand dollar.

In 2004, after consultation with the Minister of Finance, the RBNZ gained the capacity to intervene in the foreign-exchange market to influence the level of the exchange rate for monetary policy purposes. The Bank has noted that 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.

Table 18 – Foreign Exchange Rates

	USA Mid-rate US$ per NZ$	Japan Mid-rate Yen per NZ$	Trade Weighted Exchange Rate Index[1]
June Year Averages			
2009	0.6374	61.63	60.3
2010	0.6928	62.96	67.1
2011	0.8150	65.63	70.3
2012	0.7801	61.92	70.8
2013	0.7908	76.97	74.00
Monthly Averages			
July 2013	0.7884	78.60	74.79
August 2013	0.7922	77.49	74.75
September 2013	0.8125	80.63	76.22
October 2013	0.8349	81.71	77.23
November 2013	0.8265	82.59	77.20
December 2013	0.8228	85.06	77.50
January 2014	0.8282	86.04	78.40

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 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 2013 (approximately $1,730 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)				
2009	16,996.8	2,822.8	413.1	33.9	20,266.6
2010	19,724.3	2,755.2	370.6	1,822.0	24,672.1
2011	21,795.0	2,475.0	510.0	1,650.0	26,430.0
2012	19,305.0	3,853.0	663.0	1,578.0	25,399.0
2013	19,334.0	1,041.0	713.0	1,570.0	22,658.0

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

Deep Water Basin, Milford Sound. Fiordland National Park.
© Andris Apse

Banking and Business Environment

Supervision of the Financial Sector

The Reserve Bank of New Zealand

The Reserve Bank of New Zealand 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 entered into under the Act.

The Act also covers the Reserve Bank's supervisory and regulatory powers. The Act has been amended a number of times over the past decade, including to facilitate the coordination of home and host banking supervision between New Zealand and Australia, to extend the Reserve Bank's regulatory powers to include non-bank deposit takers and insurance companies and to allow the Reserve Bank to designate payment systems.

Registered Banks

The Reserve Bank, 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 Reserve Bank.

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 major banks are subsidiaries of Australian banks. The Reserve Bank 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 Reserve Bank works with the Australian Prudential Regulation Authority and a Trans-Tasman Banking Council of relevant government agencies meets regularly.

The Reserve Bank utilises a combination of regulatory, self and market disciplines to deliver its objectives. Market discipline has been achieved principally by requiring banks to publish disclosure statements at quarterly intervals. The disclosure statements contain comprehensive 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 may be required to incorporate in New Zealand.

Should a registered bank experience financial distress, the Reserve Bank, 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 Reserve Bank has adopted the Open Bank Resolution (OBR) policy to manage any cases of bank distress or failure. The OBR policy would allow a distressed bank to be kept open for business, providing continuity of core banking services to customers, while placing the cost of a bank failure primarily on the bank's shareholders and creditors rather than on the taxpayer.

As at 31 January 2014, there were 23 registered banks. Seventeen of these were subsidiaries or branches of foreign banks. Total assets as at 30 September 2013 were $409 billion. Most of the registered banks and a few other financial institutions operate in the wholesale banking area, while some registered banks provide mainly retail banking services.

Basel III standards have been developed by international regulators in response to the GFC. The Reserve Bank generally supports the strengthening of international capital standards and New Zealand banks are well positioned to meet Basel III standards. The Reserve Bank'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 Reserve Bank 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 on-going oversight by the joint regulators, unless classified as "pure payment systems", in which case it is regulated by the Reserve Bank only.

The Reserve Bank 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 Reserve Bank 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 Reserve Bank's powers and responsibilities in this area.

Non-bank Financial Institutions

In September 2008, legislation was passed authorising the prudential regulation of non-bank deposit-takers following a review of the regulatory framework for these institutions. The Reserve Bank was designated as the prudential regulator of non-bank deposit-takers, comprising finance companies, building societies and credit unions.

Since 2010, non-bank deposit-takers have had to comply with regulatory requirements relating to capital adequacy, related-party exposures, liquidity and governance. They are also required to obtain and disclose a credit rating from an approved rating agency, unless exempted, and must have a risk management programme setting out procedures for the identification and management of risks. Trustees, as front line supervisors of non-bank deposit-takers, are required to oversee compliance with the prudential rules formulated by the Reserve Bank.

The Reserve Bank has since been granted further regulatory powers in respect of non-bank deposit-takers, including those in relation to licensing, ownership, fit and proper person requirements, and powers of intervention in case of a registered deposit-taker's distress or failure.

In September 2010, the Insurance (Prudential Supervision) Bill was passed making the Reserve Bank the prudential regulator and supervisor of the insurance sector. With the passage and implementation of this legislation, the Reserve Bank is now the single prudential regulatory agency for financial institutions (i.e., banks, non-bank deposit-takers, and insurance companies) in New Zealand.

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 Reserve Bank of New Zealand 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 and the Minister of Finance regarding the Reserve Bank's potential use of macro-prudential instruments as part of its supervisory framework for registered banks. Four possible instruments were identified by the Reserve Bank:

- a countercyclical capital buffer (provision for which comes into effect from the start of 2014);
- 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 Reserve Bank announced a "speed limit" approach to high loan to value ratio (LVR) residential mortgage lending undertaken by registered banks. From 1 October 2013, no more than 10 per cent of banks' new residential mortgage lending can be in the form of loans with an LVR in excess of 80 per cent. The restriction is envisaged as temporary, to be removed when a better balance has returned to the housing market.

The LVR limit is 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 pressures.

Business Law Environment

Company Law

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

Securities Law

The **Securities Act 1978** applies to securities that are advertised or offered to the public. The Act places restrictions on advertisements of offers of securities and requires a prospectus to be prepared before securities can be offered. It also requires an investment statement, which summarises the key features of the offer, to be provided to an investor before they subscribe to the securities. The Act regulates other aspects of the offer and governance relating to securities, such as requiring a trustee to be appointed in respect of debt securities issued to the public.

The Securities Markets Act 1988 regulates the operation of securities markets and trading behaviour on those markets. The Act establishes a system for registration and approval of the rules of markets operated by securities 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 Financial Markets Authority Act 2011 established 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 Securities Act and Securities Markets Act. It also enforces corporate governance legislation, including the Companies Act and Financial Reporting Act, in respect of financial markets participants such as issuers of securities and banks.

The Financial Markets Conduct Act 2013 was passed in September 2013. The Act will replace financial market conduct regulation contained in a number of statutes, including the Securities Act and the Securities Markets Act, allowing for a more coherent regime.

The purpose of the Financial Markets Conduct Act is to provide an enduring financial market conduct regulatory regime that promotes confident and informed participation in New Zealand's financial markets. The regime provided by the Act does this by:

- ensuring that investors are provided with understandable and accurate information to guide their decision making;
- ensuring that governance arrangements in respect of financial products available to the public are robust;
- minimising unnecessary compliance costs for those raising capital; and
- promoting innovation and effective competition.

The Act will begin to come into force during 2014, with all of its provisions in force by December 2014. The Act provides for a transitional period of up to two years for existing products to transition to the new regime.

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 Securities Trustees and Statutory Supervisors Act establishes a licensing regime administered by the FMA for:

- trustees of debt securities issued to the public under the Securities Act;
- trustees of unit trusts registered under the Unit Trusts Act;
- trustees of retail KiwiSaver schemes registered under the KiwiSaver Act;
- statutory supervisors of issues of participatory securities under the Securities Act;
- statutory supervisors of retirement villages registered under the Retirement Villages Act.

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 anti-competitive 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;
  - to clear or authorise trade practices and mergers, the effect of which is to immunise the conduct or merger from legal challenge; and
  - to regulate monopolies that are subject to regulatory control.

Financial Reporting Legislation in New Zealand

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.

The **Financial Reporting Act 1993** applies to "reporting entities", which are defined as issuers of securities under the Securities Act, companies and other entities whose legislation requires them to comply with the Act.

The Act places obligations on such organisations to prepare general purpose financial statements that comply with generally accepted accounting practice (GAAP) within five months of their financial year or balance date. Smaller companies that meet prescribed criteria (except issuers of securities and overseas companies) can comply with less stringent reporting requirements, as the benefits of full financial reporting are unlikely to justify the costs for small, privately held companies.

The Act also requires issuers of securities and overseas companies to have their financial statements audited and to file those financial statements with the Registrar of Companies on a public register. However, small overseas companies are exempt from this obligation. The auditing requirements for other entities are found in other legislation (for example the auditing requirements for New Zealand companies are found in the Companies Act 1993).

A new Financial Reporting Bill was introduced to Parliament in 2012 and will eventually replace the current Act. The aim of the new Bill is to reduce compliance costs and to streamline the financial reporting requirements for entities required to prepare general purpose financial statements.

The Bill is in the early stages of the parliamentary process. There will be no change to companies' financial reporting requirements until the Bill becomes law. For more information on the progress of the Bill, refer to the New Zealand Parliament internet site: www.parliament.nz/en-NZ/PB/Legislation/Bills/BillsDigests/e/b/1/50PLLaw20061-Financial-Reporting-Bill-2012-Bills-Digest-No-2006.htm

It should be noted that the financial reporting requirements for issuers of securities remain largely unchanged under the Bill. There are additional financial reporting obligations for issuers of securities in the Financial Markets Conducts Act 2013. This Act was enacted on 13 September 2013 but the provisions relating to financial reporting have not yet come into force.

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: 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.

Current accounting standards require large for-profit reporting entities to fully comply with the IFRS. A number of amendments to these standards cater for financial reporting requirements of public sector entities and not-for-profit entities (defined as 'public benefit entities')[2]. The set of approved standards are collectively known as "New Zealand equivalents to International Financial Reporting Standards".

Small entities had the option to delay the adoption of the New Zealand equivalents to IFRS. The Government is proposing under the Financial Reporting Bill 2012 that small and medium-sized for-profit companies that are not issuers will no longer have to prepare general purpose financial reports.

The New Zealand Accounting Standards Board has issued a new suite of accounting standards (called Public Sector PBE Accounting Standards) that will apply to the Financial Statements of the Government for the financial year beginning 1 July 2014. At the broad level, the impact of moving from IFRS to PBE Standards is not expected to be significant as there is a strong degree of convergence between the Standards.

Discussion on the new accounting standards framework can be found at: www.xrb.govt.nz/Site/Financial_Reporting_Strategy/Accounting_Standards_Frameworkaspx

2 Public benefit entities are reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders. They include not-for profit organisations and most public sector entities (excluding state owned enterprises and local authority trading enterprises).

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. 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, 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 OCR is the interest rate set by the Reserve Bank to meet the inflation target specified in the Policy Targets Agreement. The OCR, the deposit rate the Reserve Bank pays on settlement account balances, influences the price of borrowing money in New Zealand and provides the Reserve Bank with a means of influencing the level of economic activity and inflation.

The OCR is reviewed eight 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 Reserve Bank 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.

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.

The OCR was cut markedly during the 2008/09 recession, reaching an historical low of 2.5%. As the economy recovered, the OCR was increased in mid-2010 but, following the severe Christchurch earthquake in February 2011, it was cut once again to 2.5% and has remained at this level since then.

Inflation has been very low over the last couple of years - outside the bottom of the target range for several quarters in 2012 and 2013 - but is expected to move back towards the midpoint of the range over the next few years as the economy strengthens. The Reserve Bank has indicated that it expects to begin raising the OCR in 2014.

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 2009.

Table 20 – Interest Rates: Monthly Averages

	Month	Overnight Cash Rate	90-Day Bank Bill Rate	Government Loan Stock Rates 2 Year	5 Year	10 Year	Business Base Lending Rates[1]
2009	March	3.08	3.24	3.53	4.02	4.77	9.90
	June	2.45	2.78	3.78	4.80	5.97	9.88
	September	2.58	2.77	4.01	4.84	5.63	9.91
	December	2.43	2.78	4.21	5.41	6.02	9.88
2010	March	2.35	2.67	3.73	5.09	5.86	9.84
	June	2.49	3.07	3.75	4.85	5.51	9.85
	September	2.91	3.18	4.06	4.55	5.28	10.06
	December	2.88	3.17	4.08	4.79	5.82	10.19
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	2.96	3.45	4.41	10.01
	December	2.34	2.69	2.46	3.39	3.91	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	2.58	3.05	3.72	9.64
	June	2.47	2.64	2.73	3.16	3.83	9.61
	September	2.50	2.65	3.03	4.22	4.70	9.58
	December	2.50	2.73	-	4.27	4.76	9.59

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
2009	March	6.0	4.7	5.3	7.2
	June	0.3	1.1	3.5	4.9
	September	2.7	1.0	2.2	2.6
	December	2.6	1.0	1.7	3.2
2010	March	0.6	0.2	1.1	3.0
	June	1.2	0.3	1.3	3.3
	September	4.7	1.7	0.2	2.2
	December	5.6	3.2	0.5	1.6
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	4.9	3.9
	December	9.5	5.8	5.2	4.3

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 by the Government except pursuant to an appropriation by Parliament. At present, there are two methods of appropriation. The first is permanent appropriation, which covers principally the payment of interest on debt and certain fixed charges of the Government, and which does not require the passage of a specific Appropriation Act by Parliament. The second is by annual appropriation which provides for most of the expenditure of the Government, and which does require the passage of a specific Act or Acts each year.

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.

Public Sector Financial Management

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 two key pieces of legislation, the State Sector Act 1988 and the Public Finance Act 1989, which incorporates the provisions of the previous Fiscal Responsibility Act 1994.

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 contracts 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 what departments consume to what they produce. Hence, budgeting and reporting is on an output basis rather than relying solely on information relating to how outputs are produced. 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).

The Act requires the Crown and all its sub-entities to report on a basis consistent with GAAP. This has significantly improved the comparability and reliability of the financial information reported.

Consistent with the output focus, the Public Finance Act requires additional disclosures such as statements of intent and statements of service performance. The documents go beyond disclosure of financial information and require disclosure of objectives and service and financial management performance. In addition, the Act specifies other Crown disclosures specific to the public sector, such as a statement of unappropriated expenditure and a statement of emergency expenditure or expenses or liabilities.

In addition, the Public Finance Act outlines requirements for ex ante information essential for a robust system of government budgeting. The Public Finance Act specifies a number of specific disclosures required for the Estimates (the Government's Budget documentation). Also as part of ex ante information disclosure requirements, the Act requires departmental forecast reports, Crown Entity statements of intent and statements of corporate intent for SOEs.

From 1991, government departments and Offices of Parliament have been required to prepare financial statements consistent with 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 now published for the period from the beginning of the financial year to the end of each month from September onwards.

From 30 June 2003, the Crown financial statements have been prepared on a fully consolidated basis incorporating line by line the total revenue and expenses of SOEs and Crown Entities.

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 Budget Policy Statement and the Fiscal Strategy Report. These documents focus on different aspects of the Government's fiscal policy. The Budget Policy Statement 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 Fiscal Strategy Report 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;
- 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 on-going provision of government services and transfers.

Part 2 of the Public Finance Act 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;
- to run operating surpluses until prudent debt levels are achieved;
- to maintain prudent debt levels by ensuring that, on average, total operating expenses do not exceed total operating revenues i.e., the Government is to live within its means over time, with some scope for flexibility through the business cycle;
- to achieve and maintain levels of net worth to provide a buffer against adverse events;
- to manage the risks facing the Crown;
- to have regard to efficiency and fairness, including the predictability of tax rates, when formulating tax policy;
- to have regard to the interaction between fiscal and monetary policy when formulating fiscal policy;
- to have regard to the likely impact on present and future generations when formulating fiscal policy; and
- to 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 2013/14 Budget

Tables 22 and 23 summarises 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 2013 Budget

Year ended 30 June	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 (Forecast) Half-Year Update[1]
	(dollar amounts in millions)					
Statement of Financial Performance						
Core Crown tax revenue	54,681	50,744	51,557	55,081	58,651	62,491
Core Crown other revenue	4,801	5,472	5,993	5,484	5,498	6,002
Core Crown revenue	**59,482**	**56,216**	**57,550**	**60,565**	**64,149**	**68,493**
Crown entities, SOE revenue and eliminations	20,024	18,509	24,013	22,918	22,506	22,489
Total Crown revenue	**79,506**	**74,725**	**81,563**	**83,483**	**86,655**	**90,982**
Social security and welfare	19,382	21,185	22,005	22,028	22,741	23,246
Health	12,368	13,128	13,753	14,160	14,498	14,997
Education	11,455	11,724	11,650	11,654	12,504	12,558
Core government services	5,293	2,974	5,563	5,428	4,294	5,067
Other core Crown expenses	15,504	15,002	17,479	15,806	16,269	16,313
Core Crown expenses	**64,002**	**64,013**	**70,450**	**69,076**	**70,306**	**72,181**
Crown entities, SOE expenses and eliminations	19,397	17,027	29,509	23,647	20,701	21,121
Total Crown expenses	**83,399**	**81,040**	**99,959**	**92,723**	**91,007**	**93,302**
OBEGAL	**(3,893)**	**(6,315)**	**(18,396)**	**(9,240)**	**4,414)**	**(2,320)**
Gains/(losses)	(6,612)	1,806	5,036	(5,657)	11,339	3,959
Operating balance	**(10,505)**	**(4,509)**	**(13,360)**	**(14,897)**	**6,925**	**1,639**
Statement of Financial Position						
Property, plant and equipment	110,135	113,330	114,854	108,584	109,833	113,277
Financial assets	93,359	95,971	115,362	116,178	118,779	119,359
Other assets	13,657	14,054	14,999	15,556	15,804	15,926
Total assets	**217,151**	**223,355**	**245,215**	**240,318**	**244,416**	**248,562**
Borrowings	61,953	69,733	90,245	100,534	100,087	104,354
Other liabilities	55,683	58,634	74,083	80,004	74,318	69,313
Total liabilities	**117,636**	**128,367**	**164,328**	**180,538**	**174,405**	**173,667**
Minority interests	447	402	308	432	1,940	5,730
Net worth attributable to the Crown	**99,068**	**94,586**	**80,579**	**59,348**	**68,071**	**69,165**
Debt Indicators						
Net debt	17,119	26,738	40,128	50,671	55,835	59,983
Gross debt	43,356	53,591	72,420	79,635	77,984	81,628

1 Half-Year Update announced 17 December 2013.

Source: The Treasury

Lake McGregor. Mackenzie Country, South Canterbury.
© Andris Apse

Table 23 – Current Fiscal Position and 2013 Budget – continued

Year ended 30 June	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 (Forecast) Half-year Update[1]
GDP	185,476	191,745	200,294	208,394	212,701	227,793
Statement of Financial Performance			as % of GDP			
Core Crown tax revenue	29.5	26.5	25.7	26.4	27.6	27.4
Core Crown other revenue	2.6	2.9	3.0	2.6	2.6	2.6
Core Crown revenue	**32.1**	**29.3**	**28.7**	**29.1**	**30.2**	**30.1**
Crown entities, SOE revenue and eliminations	10.8	9.7	12.0	11.0	10.6	9.9
Total Crown revenue	**42.9**	**39.0**	**40.7**	**40.1**	**40.7**	**39.9**
Social security and welfare	10.4	11.0	11.0	10.6	10.7	10.2
Health	6.7	6.8	6.9	6.8	6.8	6.6
Education	6.2	6.1	5.8	5.6	5.9	5.5
Core government services	2.8	1.6	2.8	2.6	2.0	2.2
Other core Crown expenses	8.3	7.8	8.7	7.6	7.6	7.1
Core Crown expenses	34.4	33.5	35.1	33.2	33.1	31.7
Crown entities, SOE expenses and eliminations	10.4	8.9	14.7	11.4	9.7	9.3
Total Crown expenses	**44.9**	**42.4**	**49.8**	**44.5**	**42.8**	**41.0**
OBEGAL	**(2.1)**	**(3.3)**	**(9.2)**	**(4.4)**	**(2.1)**	**(1.0)**
Gains/(losses)	(3.6)	0.9	2.5	(2.7)	5.3	1.7
Operating balance	**(5.7)**	**(2.4)**	**(6.7)**	**(7.2)**	**3.3**	**0.7**
Statement of Financial Position						
Property, plant and equipment	59.3	59.2	57.2	52.1	51.6	49.7
Financial assets	50.2	50.2	57.5	55.8	55.8	52.4
Other assets	7.3	7.3	7.5	7.5	7.4	7.0
Total assets	**116.8**	**116.7**	**122.2**	**115.4**	**114.9**	**109.1**
Borrowings	33.3	36.4	45.0	48.3	47.1	45.8
Other liabilities	30.0	30.6	36.9	38.4	34.9	30.4
Total liabilities	**63.3**	**67.1**	**81.9**	**86.7**	**82.0**	**76.2**
Minority interests	0.2	0.2	0.2	0.2	0.9	2.5
Net worth attributable to the Crown	**53.3**	**49.4**	**40.2**	**28.5**	**32.0**	**30.4**
Debt Indicators						
Net debt	9.2	14.0	20.0	24.3	26.3	26.3
Gross debt	23.3	28.0	36.1	38.2	36.7	35.8

1 Half-Year Update announced 17 December 2013.

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 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

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.

Table 24 – 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.

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%

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 mineral mining development costs (although the Government is currently reviewing the taxation of mineral mining), 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, foreign dividends received by resident companies are 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 on 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 have been 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%).

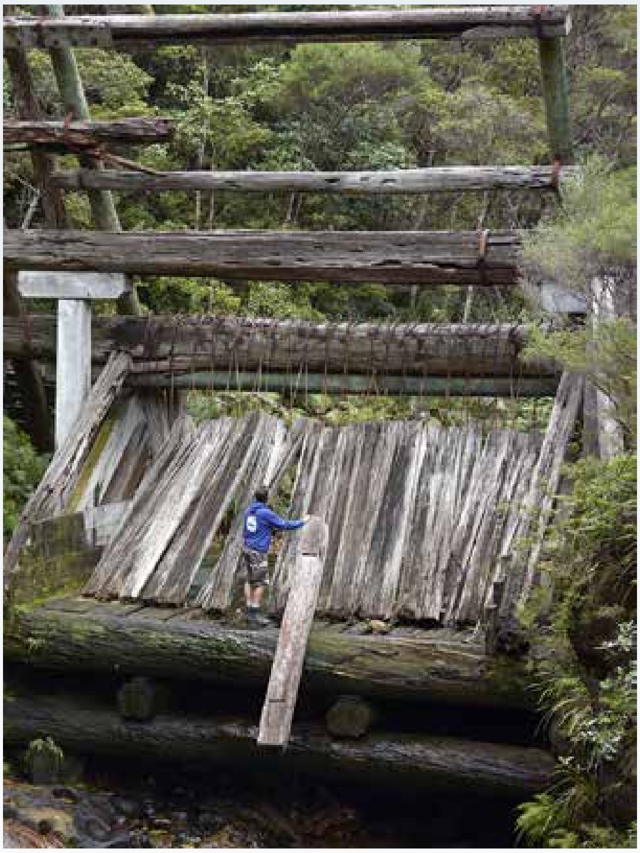
For unimputed dividends paid to non-residents, the rate of withholding tax is 30% unless this is reduced under a double tax agreement. Under most of New Zealand's double tax agreements, the withholding rate for dividends is limited to 15%. Recently, the Government has begun including lower limits in some of its double tax agreements for dividends paid in respect of shareholdings of 10%. For example, in the agreements with Australia and the United States, 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.

Great Barrier Island

Aotea track, Hirakimata. Great Barrier Island lies in the Hauraki Gulf, 90 km from central Auckland.
© Andris Apse

The island is a popular tourist destination known for its walking tracks and rare flora and fauna.
© Andris Apse



Kauri dam, built in the early 1900s to transport kauri logs from steep remote terrain to the coast.
© Andris Apse

Government Enterprises

State-Owned Enterprises and Crown Entities

In May 1986, as part of its overall economic strategy, the Government announced a major programme for reform of government enterprises. The aim of the reforms was to improve the efficiency and accountability of the enterprises and reduce the Government's exposure to business risk. To this end, the Government restructured a large number of its departmental trading activities and established them as businesses operating on a basis as close as possible to private sector companies.

SOEs are required to operate on the basis of principles and procedures contained in the State-Owned Enterprises Act 1986. Under the Act, the Boards of SOEs have complete autonomy on operational matters, such as to how resources are used, pricing and marketing of output. Competitive advantages and disadvantages, including barriers to entry, have been removed, first, so that commercial criteria provide an objective assessment of performance and, secondly, to increase efficiency. Under the Act, SOEs have no responsibility for continuing non-commercial operations and the Government is required to negotiate an explicit contract if it wishes an SOE to carry out such activities.

Boards of directors drawn from the private sector are appointed to manage SOEs. Each Board is required to present to the 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 may determine the levels of the dividends.

The SOEs borrow in their own names and on their own credit, in most 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.

Crown Entity is a collective term for bodies owned by the Crown that are not departments, Offices of Parliament or SOEs. Crown Entitites range from Crown Research Institutes to regulatory bodies, such as the Commerce Commission and the Securities Commission.

Government Share Offer Programme

Since 2011, the Government has been working on a programme of reducing the Crown's shareholding in selected SOEs, while maintaining a controlling interest of at least 51%. Initial Public Offerings (IPOs) of up to 49% of the shares in Mighty River Power Ltd and Meridian Energy Ltd were completed in 2013. These companies are now dual listed on the New Zealand and Australian stock exchanges. A similar IPO of shares in Genesis Energy Ltd is anticipated to take place in 2014, subject to market conditions.

The Crown's shareholding in Air New Zealand Ltd has also been sold down to around 53% through an off-market sell-down. The other company originally included in this programme, Solid Energy Ltd, has encountered financial difficulties and is currently undertaking a restructuring plan in conjunction with its major lenders.

Proceeds from the programme are being allocated to the Future Investment Fund to finance new or improved infrastructure for New Zealand and to reduce the need to borrow from overseas lenders. More details on the programme can be found at: www.governmentsharesoffers.govt.nz

Performance of Government Enterprises

The following tables show the Government's financial interest in SOEs and Crown Entities. 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 2013.

Table 25 – Performance of Government Enterprises

	Balance date	Information reported to
State-Owned Enterprises		
Asure New Zealand Limited	30 September	30 June 2013
Crown Entities		
New Zealand Symphony Orchestra	31 December	30 June 2013
School boards of trustees	31 December	31 December 2013
Tertiary education institutions	31 December	30 June 2013

Table 26 – Performance of Government Enterprises (continued)

	30 June 2013				30 June 2012			
	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	183	161	22	2	164	154	9	5
AsureQuality Limited	160	151	10	8	154	148	7	7
Genesis Energy Limited	2,007	1,993	100	57	2,233	2,163	90	-
Landcorp Farming Limited	195	190	(18)	20	3	181	(9)	28
Meridian Energy Limited	2,714	2,614	295	100	2,577	2,530	75	141
Meteorological Service of New Zealand Limited	42	39	3	1	42	40	1	1
Mighty River Power Limited	1,372	1,345	115	112	1,499	1,309	70	121
New Zealand Post Limited	2,212	2,171	121	14	1,836	1,785	170	12
KiwiRail Holdings Limited	912	971	(45)	-	890	3,173	(1,812)	-
Solid Energy New Zealand Limited	634	972	(334)	-	983	1,063	(40)	30
Transpower New Zealand Limited	917	693	264	363	795	581	85	110
Kordia Group Limited	309	306	4	2	398	386	12	1
Animal Control Products Limited	4	4	-	1	6	5	1	1
Learning Media Limited	19	19	(1)	-	27	28	(1)	-
Quotable Value New Zealand	43	44	1	6	46	44	3	-
AMI Insurance Limited	-	-	-	-	262	422	(25)	-
New Zealand Railways Corporation	-	1	(1)	-	-	-	-	-
Total State-owned enterprises	**11,723**	**11,674**	**536**	**686**	**11,915**	**14,012**	**(1,364)**	**457**
Air New Zealand Limited	4,650	4,404	344	71	4,508	4,286	208	49
Total State-owned enterprises and Air New Zealand Limited	**16,373**	**16,078**	**880**	**757**	**16,423**	**18,298**	**(1,156)**	**506**
Intra-segmental eliminations	(437)	(326)	(266)	-	(392)	(674)	(267)	-
Total per statement of segments	**15,936**	**15,752**	**614**	**757**	**16,031**	**17,624**	**(1,423)**	**506**
Crown Entities								
Accident Compensation Corporation	5,687	4,246	4,929	-	5,649	4,124	(474)	-
Crown Asset Management	**27**	**10**	**77**	**-**	**-**	**1**	**1**	**-**
Crown Fibre Holdings Limited	11	109	(98)	-	3	24	(21)	-
Crown Research Institutes	782	759	21	-	705	675	21	2
District Health Boards (including the Crown Health Funding Agency)	12,725	12,457	267	-	12,161	12,199	(25)	-
Earthquake Commission	160	(16)	175	-	729	1,112	(436)	-
Housing New Zealand Corporation	1,125	974	178	77	1,096	907	120	68
Museum of New Zealand Te Papa	53	59	(6)	-	54	60	(7)	-
New Zealand Fire Service Commission	355	327	29	-	339	317	21	-
New Zealand Lotteries Commission	901	698	202	-	904	712	190	-
New Zealand Transport Agency	2,056	2,003	57	-	1,995	1,955	38	-
Public Trust	78	82	10	-	87	89	8	-
Schools	6,640	6,597	36	-	6,608	6,562	38	-
Southern Response Earthquake Services	61	1	52	-	5	243	(164)	-
Tertiary Education Commission	2,759	2,749	6	6	2,763	2,725	37	36
TEIs	-	-	169	-	-	-	134	-
Television New Zealand	361	342	14	11	382	363	8	14
Other Crown entities	1,692	1,689	24	4	1,705	1,708	18	5
Total Crown entities	**35,473**	**33,086**	**6,142**	**98**	**35,185**	**33,776**	**(493)**	**125**
Intra-segmental eliminations	**(409)**	**(225)**	**(265)**	**-**	**(714)**	**(556)**	**(148)**	**-**
Total per statement of segments	**35,064**	**32,861**	**5,877**	**98**	**34,471**	**33,220**	**(641)**	**125**
Total financial interest in SOEs, Crown entities and Air New Zealand Limited	**51,000**	**48,613**	**6,491**	**855**	**50,502**	**50,844**	**(2,064)**	**631**

Table 27 – Performance of Government Enterprises (continued)

	30 June 2013						30 June 2012
	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	24	114	149	32	81	68	47
AsureQuality Limited	4	27	74	12	36	38	35
Genesis Energy Limited	162	3,192	3,750	1,064	1,801	1,949	1,801
Landcorp Farming Limited	64	1,217	1,685	354	367	1,318	1,332
Meridian Energy Limited	251	6,769	7,725	1,377	3,037	4,688	4,825
Meteorological Service of New Zealand Limited	2	24	40	15	23	17	14
Mighty River Power Limited	201	5,141	5,802	1,394	2,620	3,182	3,017
New Zealand Post Limited	18	186	16,108	14,795	15,165	943	813
KiwiRail Holdings Limited	482	1,412	1,629	224	422	1,207	3,460
Solid Energy New Zealand Limited	55	476	859	412	767	92	423
Transpower New Zealand Limited	687	4,451	5,471	3,652	4,033	1,438	1,536
Kordia Group Limited	20	87	219	60	126	93	91
Animal Control Products Limited	-	3	6	-	1	5	6
Learning Media Limited	-	1	6	-	3	3	5
Quotable Value New Zealand	-	1	25	-	7	18	23
AMI Insurance Limited	-	-	-	-	-	-	-
New Zealand Railways Corporation	-	3,273	3,273	-	-	3,273	-
Total State-owned enterprises	**1,970**	**26,374**	**46,821**	**23,391**	**28,489**	**18,332**	**17,428**
Air New Zealand Limited	311	2,941	5,679	1,641	3,798	1,881	1,584
Total State-owned enterprises and Air New Zealand Limited	**2,281**	**29,315**	**52,500**	**25,032**	**32,287**	**20,213**	**19,012**
Intra-segmental eliminations	-	(812)	(1,289)	(193)	(222)	(1,067)	(410)
Total per statement of segments	**2,281**	**28,503**	**51,211**	**24,839**	**32,065**	**19,146**	**18,602**
Crown Entities							
Accident Compensation Corporation	124	39	28,618	185	30,872	(2,254)	(7,182)
Crown Asset Management	17	-	124	-	7	117	98
Crown Fibre Holdings Limited	71	143	245	-	5	240	157
Crown Research Institutes	52	499	813	3	259	554	526
District Health Boards (including the Crown Health Funding Agency)	682	5,397	7,041	2,268	4,276	2,765	2,335
Earthquake Commission	7	21	5,454	-	6,871	(1,417)	(1,593)
Housing New Zealand Corporation	183	16,370	17,240	1,976	3,913	13,327	11,979
Museum of New Zealand Te Papa	9	1,174	1,201	-	8	1,193	1,193
New Zealand Fire Service Commission	34	568	650	8	93	557	511
New Zealand Lotteries Commission	8	20	154	-	125	29	28
New Zealand Transport Agency	1,074	26,182	26,621	100	506	26,115	25,883
Public Trust	2	8	639	584	600	39	30
Schools	39	1,368	2,670	108	786	1,884	1,824
Southern Response Earthquake Services	1	1	1,756	-	1,751	5	(47)
Tertiary Education Commission	1	3	51	18	29	22	22
TEIs	-	-	8,060	-	-	8,060	7,914
Television New Zealand	4	103	245	1	59	186	183
Other Crown entities	22	184	1,104	29	411	693	777
Total Crown entities	**2,330**	**52,080**	**102,686**	**5,280**	**50,571**	**52,115**	**44,638**
Intra-segmental eliminations	(16)	(257)	(282)	(29)	(59)	65	(416)
Total per statement of segments	**2,314**	**51,823**	**102,404**	**5,251**	**50,512**	**52,180**	**44,222**
Total financial interest in SOEs, Crown entities and Air New Zealand Limited	**4,595**	**80,326**	**153,615**	**30,090**	**82,577**	**71,326**	**62,824**

Source: The Treasury

Kaikoura, Seaward Kaikoura Mountain Range in background. Marlborough Region.
© Andris Apse

Mahitahi River. South Westland.
© Andris Apse

Public Debt[3,4]

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 decreased by a net amount of $2,679 million including swaps between 1 July 2012 and 30 June 2013. This decrease was due to a net decrease in internal debt of $1,765 million and a decrease of $914 million in external debt.

Adelie Penguins. Cape Bird. Ross Island, Antarctica.
© Andris Apse

As of 30 June 2013, 1.1% of the interest-bearing direct debt of the government was repayable in foreign currencies. The quantifiable contingent liabilities of the Government, including the Reserve Bank of New Zealand, SOEs and Crown Entities, amounted to approximately $7,650 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.

3 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 Reserve Bank of New Zealand.

4 All data sources: The NZDMO.

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 ($324.0 million at 30 June 2013) 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 reduce internal funded debt in 2013.

	2009	2010	2011	2012	2013
As at 30 June	(dollar amounts in millions)				
Funded Debt[1]					
Internal[2]	29,614.5	38,575.5	60,519.9	64,006.2	67,587.3
External[3,4]	4,025.7	2,197.2	33.4	(308.5)	(1,222.5)
Floating Debt					
Internal Debt[5]	7,505.0	8,065.0	7,326.0	10,081.0	4,735.0
External Debt[3,6]	153.0	-	180.6	-	-
Total Direct Debt	**41,298.2**	**48,837.7**	**68,059.9**	**73,778.7**	**71,099.8**
Total Public Debt as a % of GDP[7]	**23.1**	**25.8**	**34.1**	**35.5**	**33.2**

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 3:00 P.M. 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.

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 2013 by currency of payment after swap positions are taken into account and shows the estimated interest for the year ending 30 June 2014 including swap positions.

	Amount outstanding at 30 June 2013[1]	Estimated interest for the year to 30 June 2014[2]
	(dollar amounts in millions)	
External Debt		
Repayable in United States Dollars	796.5	8.6
Repayable in Japanese Yen	0.0	0.2
Repayable in Pounds Sterling	9.4	0.7
Repayable in Euro	0.0	7.0
Repayable in Other Currencies	0.0	7.2
Internal Debt	69,969.9	3,543.6
Subtotal	**70,775.8**	**3,567.3**
Swaps	324.0	-
Total Direct Public Debt	**71,099.8**	-

1 Converted at the mid-point of the 3:00 pm spot exchange rates on 30 June 2013 which were: NZD 1 = US$0.7777 = Yen 76.73= Pounds 0.5099 = Aus$ 0.8418 = Euro 0.5963
2 In some cases interest payments are offset by interest receipts.

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 2013, shown in New Zealand dollars based on rates of exchange on that date and with adjustment to reflect the effect of currency swap arrangements.

Details of External Public Debt at 30 June 2013[1]

Maturing in year ended 30 June	2014	2015	2016	2017	2018	2019	2020–2023	2024+	Total
	(dollar amounts in millions)								
United States dollars	347.0	(323.0)	(333.0)	(105.0)	0.0	0.0	0.0	0.0	(414.0)
Japanese Yen	0.0	(111.0)	(39.0)	0.0	0.0	0.0	0.0	0.0	(150.0)
British pounds	(156.0)	10.0	0.0	(123.0)	0.0	0.0	0.0	0.0	(269.0)
Euro	(168.0)	82.0	(335.0)	(84.0)	0.0	0.0	0.0	0.0	(505.0)
Australian dollars	0.0	72.0	0.0	30.0	13.0	0.0	0.0	0.0	115.0
Total External Debt	**23.0**	**(270.0)**	**(707.0)**	**(282.0)**	**13.0**	**0.0**	**0.0**	**0.0**	**(1,223.0)**
Percentage of Total Foreign Debt	**(1.9%)**	**22.1**	**57.8**	**23.1**	**(1.1)**	**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 2013, the total payment of interest on public debt of the Government was $3,154 million. The following table indicates the movements in external interest-bearing public debt since 2004, 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 2004	3,728.9	10.1	191.8	0.5
30 June 2005	2,709.0	7.5	167.6	0.4
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

1 Excludes non-interest-bearing indebtedness to international organisations.
2 External debt is converted at the mid-point of the 3:00 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 2013, including the effect of swap positions.

Loans Maturing in year ending 30 June[1]	External[2]	Internal	Total Debt
	(dollar amounts in millions)		
2014	23.2	787.9	811.1
2015	(269.5)	11,976.7	11,707.2
2016	(707.4)	2,929.7	2,222.3
2017	(282.1)	350.6	68.5
2018	13.3	12,122.6	12,135.9
2019	0.0	11,813.0	11,813.0
2019 to 30 June 2023	0.0	23,579.0	23,579.0
After 30 June 2023	0.0	3,829.3	3,829.3
Treasury Bills	-	4,735.0	4,735.0
Other	0.0	198.5 (3)	198.5
Total	**(1,222.5)**	**72,322.3**	**71,099.8**

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 3:00 pm spot exchange rate on 29 June 2013.
3 Retail stock.

Tables and Supplementary Information

Table I – Internal Debt as of 30 June 2013

Currency (NZD)	Principal Outstanding	Maturity Date	Coupon Rate (% per annum)	Fiscal Year of Issue	Amortisation
Government Bonds	11,606,000,000	15/04/15	6.00	2003	
	2,066,023,300	15/02/16	4.50	1996	
	12,136,000,000	15/12/17	6.00	2005	
	11,813,000,000	15/03/19	5.00	2011	
	2,390,000,000	15/04/20	3.00	2013	
	11,944,000,000	15/05/21	6.00	2009	
	9,245,000,000	15/04/23	5.50	2011	
	3,892,260,000	20/09/25	2.00	2013	
	65,029,283,300				
Treasury Bills	**4,735,000,000**	10/07/13	2.15 – 2.58	2013	
Loans	9,832	01/09/13	Variable	1994	2014
	6,615,794	10/07/13 – 18/06/14	Variable	2006	
	454,700	1/05/16 – 01/03/17	5.50 – 5.75	[1]	
	7,080,327				
Retail Stock[2]	**198,529,077**	1/07/2012 – 30/06/2017	2.00 – 4.00	2011 – 2012	
Total Internal Debt	**69,969,892,704**				

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 day's notice.

Table II – External Debt as of 30 June 2013

Currency	Principal Outstanding	Maturity Date	Coupon Rate (% per annum)	Fiscal Year of Issue	Amortisation
USD	545,768,000	Call	Variable	2013	
	46,107,000	01/04/16	8.75	1987	
	27,543,000	25/09/16	9.13	1987	
	619,418,000				
Japan	4,816,651	25/09/14	11.50	1985	
GBP	**4,816,651**				

Table III – External Debt Issued 1 July 2013 to 31 January 2014

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 2013 ($m)	30 June 2012 ($m)
Quantifiable Contingent Liabilities		
Guarantees and Indemnities	225	430
Uncalled Capital	6,286	6,327
Legal Proceedings and Disputes	707	411
Other Contingent Liabilities	432	584
Total Quantifiable Contingent Liabilities	**7,650**	**7,752**
Total Quantifiable Contingent Assets	**270**	**410**

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.