NEW ZEALAND

Economic and Financial Overview 2012

Akaroa Harbour, Banks Peninsula, Canterbury.
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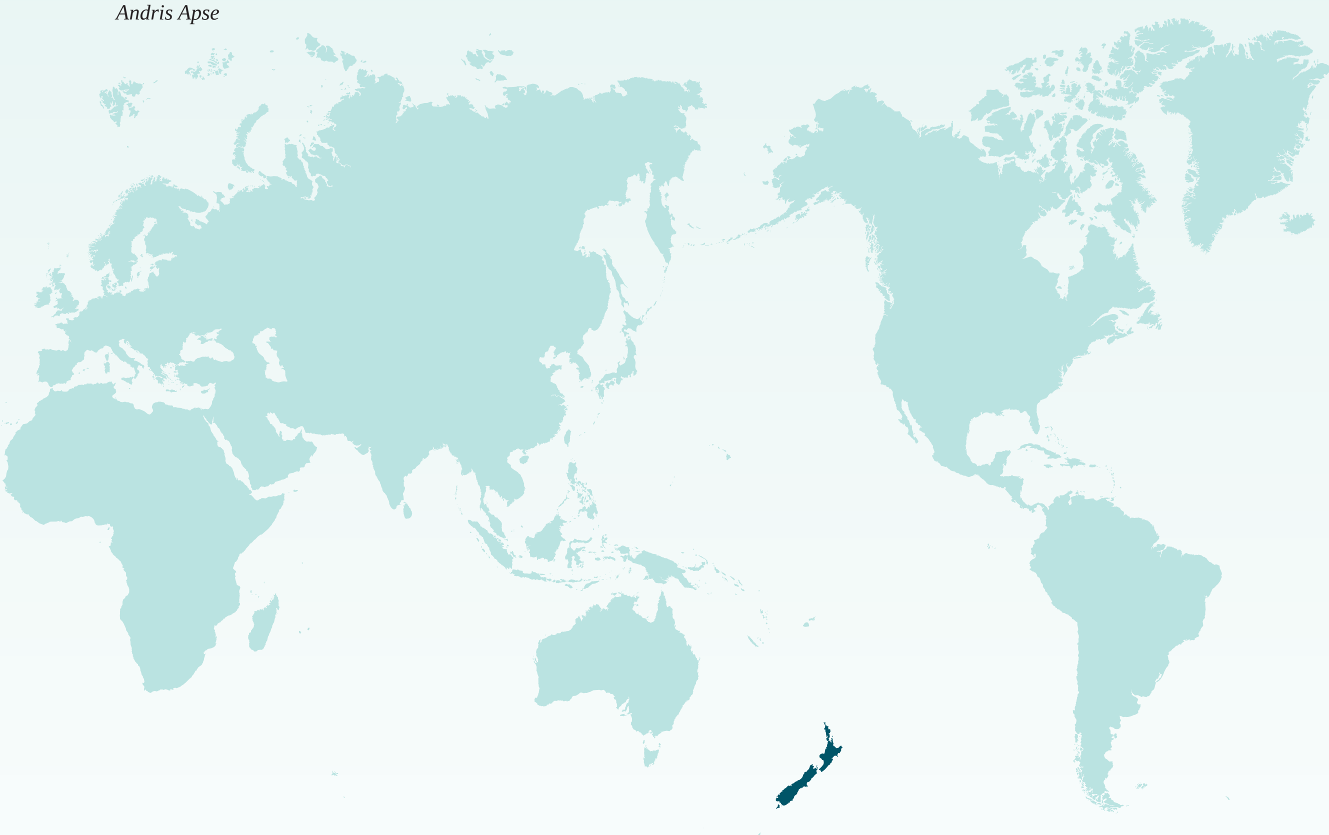

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New Zealand Government

Fox Glacier, Westland. From November to January, the flowers of Southern Rata trees cloak the western slopes of the Southern Alps in crimson.
Andris Apse

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Unless otherwise specified, all monetary units in this Overview are New Zealand dollars. The mid-point rate on 29 January 2012 was NZ$1 = US$0.8007.

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

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

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

In tables, NA = Not Available.

WHANGAREI
AUCKLAND
HAMILTON
TAURANGA
ROTORUA
TAUPO
GISBORNE
NEW PLYMOUTH
NAPIER
HASTINGS
WHANGANUI
PALMERSTON NORTH
MASTERTON
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 3.1 million nautical 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 1.7 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 2011 was estimated at 4,405,300. With an estimated population of 1,486,000 people, the Greater Auckland Region is home to 33 out of every 100 New Zealanders and is one of the fastest growing regions in the country, the others being Tasman and Nelson.

New Zealand has a highly urbanised population with around 72% 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 (1,354,900), Hamilton (203, 400), Wellington (389,700) and Christchurch (390,300).

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. An independent review of how MMP operates will be held during 2012.

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 Māori Party won one more electoral seat than it was entitled to according to its share of the party vote overall. The National Party formed a minority Coalition Government after the election with support agreements with ACT, United Future and the Māori Party. The Honourable John Key, the Leader of the National Party, is Prime Minister and the Honourable Bill English, Deputy Leader of National, is Deputy Prime Minister.

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

Social Framework

New Zealand has a high degree of social and political stability and a modern social welfare system which includes universal entitlement to primary and secondary education and subsidised access to health services for all residents. The population is mainly European with around 80% of residents designating themselves as being of European descent, 14.6% as New Zealand Māori, 6.9% as Pacific Islanders, 9.2% as Asian and 0.9% 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, which are for Māori and the Crown to resolve.

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 GDP. Australia, China, the United States, Japan and the ASEAN group of countries are major trading partners. While New Zealand exports a broad range of products, it remains reliant on exports of commodity-based products as a 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**

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 (signed in 1984);
  - bilateral agreements with Singapore, Thailand, China, Malaysia and Hong Kong;
  - the Trans-Pacific Strategic Economic Partnership Agreement with Singapore, Chile and Brunei, also known as P4;
  - the ASEAN-Australia-New Zealand Free Trade Agreement;
  - recently concluded negotiations with the Gulf Cooperation Council;
  - current negotiations with Korea, India and Russia;
  - current Trans-Pacific Partnership (TPP) negotiations to include the United States, Australia, Peru, Vietnam Malaysia and the original P4 countries; and
  - the PACER (Pacific Agreement on Closer Economic Relations) Plus negotiations, with a focus on economic development within the Pacific.

New Zealand remains committed to a reduction of world-wide trade barriers. Tariffs have been systematically reduced and quantitative controls on imported goods eliminated. Currently around 95% 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 will be 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. They provide 71% of New Zealand's tourist visitors and 74.5% of New Zealand's 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, the Asian Development Bank (ADB) and the WTO.

Environmental Policy

The New Zealand Government has agreed that sustainable development principles should underpin its economic, social and environmental policies at home and abroad. "Sustainable development" integrates concern for social, economic and environmental issues. It involves thinking broadly about objectives and considering the long-term as well as short-term effects of policy decisions.

New Zealand's low population and limited industrial base means that environmental issues are generally less severe than in many industrialised countries. Many of the big environmental issues for New Zealand are also economic and public health issues. More sustainable use of water, managing marine resources, reducing waste and improving energy efficiency are all essential for creating wealth and quality of life as well as for environmental sustainability. However, the decline of the country's unique plants, animals and ecosystems is New Zealand's most pervasive environmental issue. Programmes are in place or under further development in all these areas.

More broadly, the Resource Management Act provides a national framework for balancing environmental protection with economic, social and cultural values. Local government has the major responsibility for planning and environmental approvals at a local level, with central government providing direction on matters of national importance. During 2009, the Act was amended to streamline and simplify processes and reduce costly delays for developers and investors while still maintaining necessary environmental protections. This has resulted in faster consent processing and improved compliance. A new agency, the Environmental Protection Authority, was created to facilitate decision-making on proposals of national significance.

Climate change presents a particular challenge for New Zealand, from both 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.

New Zealand's Emissions Trading Scheme (ETS), introduced in 2008, is the primary domestic policy for incentivising reductions in emissions. The first periodic legislative review of the ETS was completed in June 2011. The Review Panel recommended slowing the pace of implementation to align domestic efforts with international action on climate change. The government is scheduled to respond to these recommendations in 2012.

Table 2 – Statistical Summary Key Statistics

	2007	2008	2009	2010	2011
	(dollar amounts in millions)				
Gross Domestic Product at Current Prices [1, 2]	168,663	181,721	185,220	187,355	198,043
Annual % Increase (Decrease) in Real GDP [1, 2, 3]	0.9%	3.0%	(1.5%)	(0.7%)	1.6%
Population[4]	4,209	4,251	4,292	4,346	4,391
Unemployment Rate[5]	3.7	4.0	6.0	6.9	6.5
Change in Consumer Price Index[6]	1.8	5.1	1.7	1.5	4.6
Exchange Rate[7]	0.7559	0.7607	0.6374	0.6928	0.8150
90-Day Bank Bill Rate[8]	8.32	8.68	2.78	3.07	2.65
10 Year Government Loan Stock Rate[8]	6.72	6.42	5.97	5.51	5.04
Terms of Trade Index [2, 9]	1122	1242	1074	1210	1295
Current Account Deficit as a % of GDP [2, 10]	(8.2%)	(8.4%)	(5.6%)	(2.5%)	(3.7%)

Table 3 – Government Finance[10]

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12[11]
Year ended 30 June	(dollar amounts in millions)					
Total Revenue	74,589	81,479	79,928	74,725	81,563	83,637
Total Expenses	68,729	75,842	83,329	81,040	99,959	94,446
OBEGAL[12]	**5,860**	**5,637**	**(3,893)**	**(6,315)**	**(18,369)**	**(10,809)**
Gains/(Losses)	2,162	(3,253)	(6.612)	1,806	5,036	(1,792)
Operating Balance	**8,022**	**2,384**	**(10,505)**	**(4,509)**	**(13,360)**	**(12,601)**
Operating Balance % of GDP	4.7%	1.3%	(6.8%)	(2.4%)	(6.7%)	(6.0%)
Total Assets	180,347	200,835	217,151	223,355	245,215	245,615
Total Liabilities	83,520	95.321	117,636	128,367	164,328	177,333
Net Worth	**96,827**	**105,514**	**99,515**	**94.988**	**80,887**	**68,282**
Net Direct Domestic Borrowing	(3,917)	1,721	8,454	8,016	18,362	-
Net Direct Overseas Borrowing	312	(1,296)	717	409	787	-

Table 4 – Direct Public Debt

Internal Funded Debt	26,860.4	28,210.4	29,614.5	38,575.5	60,519.9	-
Internal Floating Debt	2,303.4	1,655.0	7,505.0	8,065.0	7,326.0	-
External Debt	2,048.0	2,048.5	4,718.7	2,197.2	214.0	-
Total Direct Public Debt	31,211.4	31,913.9	41,298.2	48,837.7	68,059.9	-

1 Year ended 31 March.
2 2011 data provisional. Prior years' data revised.
3 Production based – chain volume series expressed in 1995/96 prices.
4 June year resident population estimate.
5 June quarter, seasonally adjusted.
6 Annual percentage change, September quarter.
7 US$ per NZ$ monthly average for June.
8 June monthly average.
9 Year ended 30 June. Base: June quarter 2002 – 1,000.
10 This table is prepared in accordance with New Zealand Generally Accepted Accounting Practice (GAAP).
11 Pre-election Economic and Fiscal Update published 25 October 2011.
12 Operating Balance Excluding Gains and Losses. 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. Hydro-electricity provides a relatively cheap source of energy and has allowed the development of energy-based industries such as aluminium refinement. New Zealand is also a popular overseas vistor destination and tourism is an important source of export income.

Over the last quarter of a century, the New Zealand economy has changed from being one of the most regulated in the Organisation for Economic Cooperation and Development (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 perfomance of the economy through six key policy drivers: a growth-enhancing tax system; better public services; support for science, innovation and trade; better regulation, including regulation around natural resources; investment in infrastructure; and improved education and skills.

Recent Economic Performance and Outlook

Background

Between 2000 and 2007, the New Zealand economy expanded by an average of 3.5% each year as private consumption and residential investment grew strongly. Annual inflation averaged 2.6%, inside the Reserve Bank of New Zealand's 1% to 3% target range, while the current account deficit averaged 5.5% of GDP over this period.

The New Zealand economy entered recession in early 2008, before the effects of the global financial crisis set in later in the year. A drought over the 2007/08 summer led to lower production of dairy products in the first half of 2008. Domestic activity slowed sharply over 2008 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 global financial crisis (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 Global Financial Crisis

The government and the Reserve Bank responded to the crisis with a range of measures designed to alleviate its effects. The Reserve Bank lowered the Official Cash Rate (OCR) from its level of 8.25% prior 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 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.

Growth

In total, New Zealand experienced five quarters of negative economic growth between the March quarter 2008 and the March quarter 2009, totalling 3.7% of real GDP. The relative shallowness of the recession compared favourably with other nations in the OECD, with New Zealand seventh least affected out of the 33 member nations.

The economy then grew for five consecutive quarters up to mid-2010, totalling 1.6% of real GDP. The recovery was led by exports, with strong demand from major trading partners, Australia and China. This was helped by historically-high prices for New Zealand's commodity exports, which flowed through to a high terms of trade. The strength in the external sector was led by a boom in demand from China, which boosted dairy and log exports.

The economy grew 1.4% in the year ending December 2011, the fastest pace in over three years. The Rugby World Cup (RWC), exceptional pastoral growth and high export prices provided an effective antidote to the disruptions caused by natural disasters at home and abroad and by soverign debt woes overseas.

The RWC lifted private consumption spending and tourism numbers; however natural disasters in New Zealand and Japan, combined with economic weakness in Europe and the United States, meant tourist spending was lower than it might have been. The result was a moderate increase in total tourist numbers and spending.

Increased activity in the property and business services industry, likely reflecting activity related to both the RWC and the Canterbury earthquakes, accounted for half of the rise in total GDP. Exceptional pastoral growth helped lift dairy export volumes to record levels in the December quarter.

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 181 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 were no casualties. The earthquakes (including subsequent aftershocks) caused wide-spread damage, in particular to the CBD and eastern parts to the city.

The New Zealand Treasury estimates the damage from the earthquakes at around $20 billion (10% of GDP), much of which is covered by private insurance, which is reinsured through overseas insurance companies, and the government-owned Earthquake Commission (EQC). Despite the significant amount of disruption caused by the earthquakes (in particular the February earthquake), the clean-up and demolition operations helped minimise the immediate growth impact. Many businesses were able to relocate out of the badly-damaged CBD and keep trading. Primary and manufacturing production in the region was not significantly affected.

The Canterbury rebuild is expected to be a significant driver of economic growth over the next five to ten years. The timing and speed of the rebuild is uncertain, in part due to ongoing aftershocks, but the New Zealand Treasury expects it to commence around mid-to-late 2012.

Labour Market

The labour market recovery from the downturn following the GFC has been fairly muted, with unemployment still at a relatively high level of 6.3% in the December quarter 2011. This comes after the unemployment rate rose from a low of 3.4% in the December quarter 2007 to peak at 7.0% in the December quarter 2009. The Canterbury earthquakes have had a significant effect on the labour market, with employment 8% lower in the region in the year to September 2011. Excluding Canterbury, employment rose 2.8% over the same period, giving overall growth of 1.1%.

External Trade

The prices of 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 terms of trade rose above their previous March 2008 peak, after falling 15% during the GFC. The strong terms of trade provided an offset to the weaker real economy, helping to boost nominal GDP. Since early 2011 global conditions have deteriorated somewhat; the terms of trade came slightly off its peak in the September quarter, with further moderation expected.

Balance of Payments

External strength 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 fell from 8.9% of GDP in the December quarter 2008 to a low of 2.1% in the March quarter 2010. The narrowing of the current account deficit was helped by a positive balance on the goods account since the start of 2010, with goods exports outpacing goods imports. Net international liabilities fell from 85% of GDP in March 2009 to 69% in March 2011, due to the smaller current account deficits, valuation changes and outstanding reinsurance claims related to the Canterbury earthquakes.

After the low of 2.1% recorded in March 2010, the current account deficit widened to 4.3% in the September 2011 quarter, as the services and investment income balances deteriorated, in part owing to a strong New Zealand dollar constraining exports, as well as an improving domestic situation boosting imports. The current account deficit is expected to widen further over the medium term owing to increased imports for the Canterbury rebuild, as well as increasing debt servicing costs and more profit outflows. New Zealand's net international liabilities increased from 69.0% of GDP in the June 2011 quarter to 72.9% of GDP in the September quarter 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. 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. Recently, continued 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 70 in November as global risk aversion increased.

Inflation

Annual CPI inflation was comfortably within the Reserve Bank's 1% to 3% target band over the six quarters prior to December 2010, with the September quarter 2010 marking the low point of the period at 1.5%. Inflation increased significantly in the December quarter 2010 as an increase in the rate of goods and services tax (GST) from 12.5% to 15% on 1 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. 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.

Outlook

The New Zealand Treasury expects annual average growth in the economy to be 2.3% in the March 2012 year and 3.1% in the March 2013 year, driven mainly by the Canterbury rebuild and recovery in domestic demand. Recovering world demand, as well as still-high commodity prices should also assist export growth, although this is dependent on the global outlook.

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 Europe 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 trading partner growth is expected to moderate in 2012, before picking up again in 2013. While private consumption is expected to pick up, spending is likely to remain subdued as households remain cautious. Investment is expected to grow strongly as the Canterbury earthquake rebuild gets underway. The housing market is expected to remain subdued, with weak house price growth constraining household spending.

Monetary Policy

The focus of monetary policy is on maintaining price stability. A Policy Targets Agreement between the Governor of the Reserve Bank of New Zealand 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 most recent Agreement was signed in December 2008 after the new government took office. There were no substantive changes to the Agreement. For the purpose of the Agreement, the policy target is to keep future CPI inflation outcomes between 1% and 3% on average over the medium term.

Following the lowering of the OCR in response to the international credit crisis, the Reserve Bank 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 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 expected towards the end of 2012 as the Canterbury rebuild gets underway creating some inflationary pressures.

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. This Act has now been repealed but its provisions have largely been incorporated into Part 2 of the Public Finance Act 1989.

Part 2 requires the Crown's financial reporting to be in accordance with New Zealand Generally Accepted Accounting Practice. The primary fiscal indicators are the operating balance, debt and net worth.

Part 2 requires the Government to pursue its policy objectives in accordance with the principles of responsible fiscal management set out in the Act. These include:

- reducing debt to prudent levels to provide a buffer against future adverse events;
- maintaining prudent debt levels by ensuring that, on average, total operating expenses do not exceed total operating revenues ie, the Government is to live within its means over time, with some scope for flexibility through the business cycle;
- achieving and maintaining levels of net worth to provide a buffer against adverse events;
- managing the risks facing the Crown; and
- pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of future tax rates.

Whanganui Inlet, Tasman Region. The Inlet is one of the largest and least modified estuaries in the country, protected by a combination of marine and wildlife reserves and an important habitat for a wide-range of endemic plant and animal species.
Andris Apse

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 2010/11, the operating balance was a deficit of $13.36 billion. The October 2011 Pre-election Economic and Fiscal Update forecasts for the operating balance for 2011/12, 2012/13, 2013/14, 2014/15 and 2015/16 are for deficits of $12.6 billion and $2.4 billion, and surpluses of $1.6 billion $4.0 and $5.7 billion respectively.

Core Crown operating expenses as a percentage of GDP increased to 35.2% in 2010/11, up from 33.8% in 2009/10. Expenses are controlled through output budgeting, accrual reporting and decentralised cost management.

Net debt: Net debt increased to 20.0% of GDP in 2010/2011 as a result of the additional borrowing undertaken to offset the government's operating deficits.

Net worth: After a prolonged period of increases, net worth has been decreasing since 2007/08 and stood at $80.9 billion as at 30 June 2011. The decreases have arisen as a result of the operating deficits, partly offset by asset revaluations.

Fiscal Objectives

The government revised the long-term fiscal objectives in the 2009 Fiscal Strategy Report published with the 2009 Budget. The Fiscal Strategy Report also re-specified the long-term debt objective in "net debt" terms. Net debt is seen as providing a more complete guide to the fiscal constraint because it is determined by the level of gross debt and financial assets. The net debt indicator is less affected by operational issues that have affected the interpretation of gross debt (eg, increases in the amount of settlement cash deposited with the Reserve Bank for monetary policy purposes). Nonetheless, the definition of net debt adopted in the Fiscal Strategy Report differs from that previously reported in that it no longer includes advances (eg, student loans) as a financial asset.

The revised long-term debt objective allows an increase in debt over the short to medium term in response to the economic and financial crisis. However, the government recognises that this increase needs to eventually be reversed, and so the objective requires net debt to remain consistently below 40% of GDP, and brought back to around 30% of GDP no later than the early 2020s. Over the longer term, the government considers that it is prudent, given the nature of economic shocks faced by New Zealand, to have net debt closer to 20% of GDP.

The revised long-term objective for the operating balance aims for a return to an operating surplus sufficient to meet the government's net capital requirements, including contributions to the New Zealand Superannuation Fund, and ensure consistency with the debt objective.

Public Debt

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

Direct public debt increased by a net amount of $19,222 million including swaps between 1 July 2010 and 30 June 2011. This increase was due to a net increase in internal debt of $21,205 million and a decrease of $1,983 million in external debt.

Government gross direct debt amounted to 34.1% of GDP in the year ended June 2011, up from 25.8% the previous year.

National Accounts

In the year to September 2011, the New Zealand economy recorded annual average GDP growth of 1.3%. Growth in the September 2011 quarter was 0.8% following growth of 0.1% in the June quarter and 0.7% in the March quarter.

Table 5 shows Gross Domestic Product and Gross National Expenditure in nominal terms for the last five March years. Table 6 shows Gross Domestic Product by major industries at constant 1995/96 prices.

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

	2007	2008	2009	2010	2011
Year ended 31 March	(dollar amounts in millions)				
Compensation of Employees	74,431	80,684	85,241	85,667	88,417
Net Operating Surplus	49,195	54,932	49,613	49,754	53,138
Consumption of Fixed Capital	23,712	25,645	27,545	28,151	28,071
Indirect Taxes	21,632	22,758	23,235	23,464	25,594
Less Subsidies	596	604	1,033	665	943
Gross Domestic Product	**168,374**	**183,416**	**184,600**	**186,371**	**194,277**
Final Consumption Expenditure					
General Government	31,391	34,223	37,382	38,363	39,411
Private	100,886	106,321	108,726	111,274	115,581
Physical Increase in Stocks	(655)	2,072	478	(1,180)	564
Gross Fixed Capital Formation	39,128	42,415	40,317	35,258	37,347
Gross National Expenditure	**170,751**	**185,032**	**186,903**	**183,714**	**192,903**
Exports of Goods and Services	48,272	51,705	57,556	52,900	58,157
Less Imports of Goods and Services	50,650	53,321	59,858	49,924	55,288
Expenditure on Gross Domestic Product	**168,374**	**183,416**	**184,600**	**186,690**	**195,772**

1 2011 data estimated. Prior years' data revised.

Source: Statistics New Zealand

Figure 1 – Real Gross Domestic Product

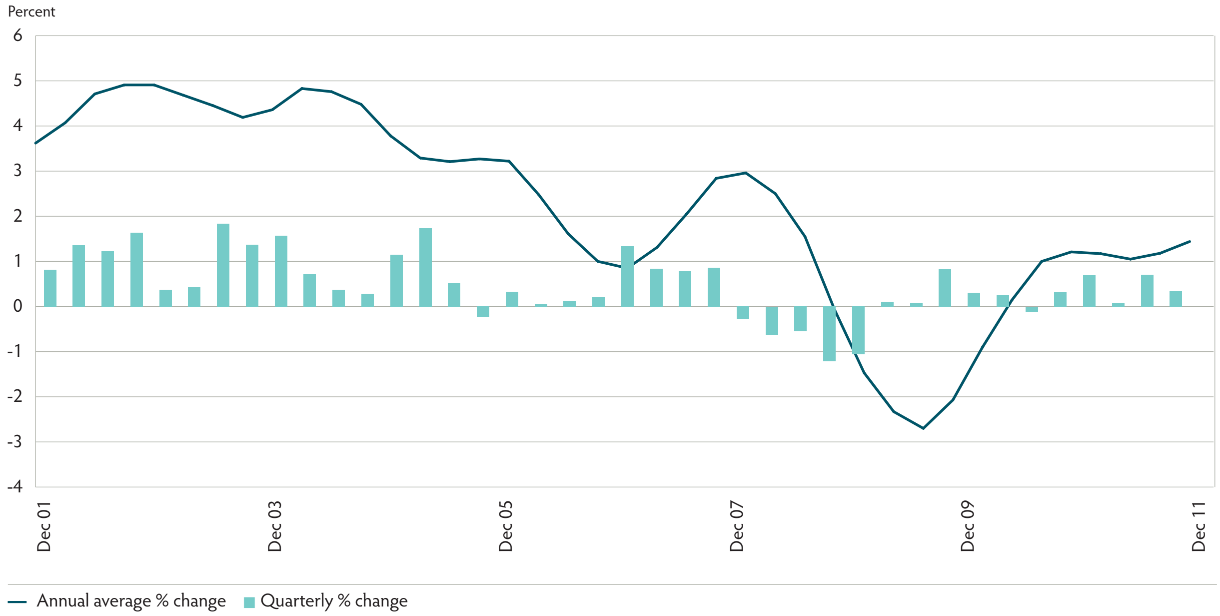


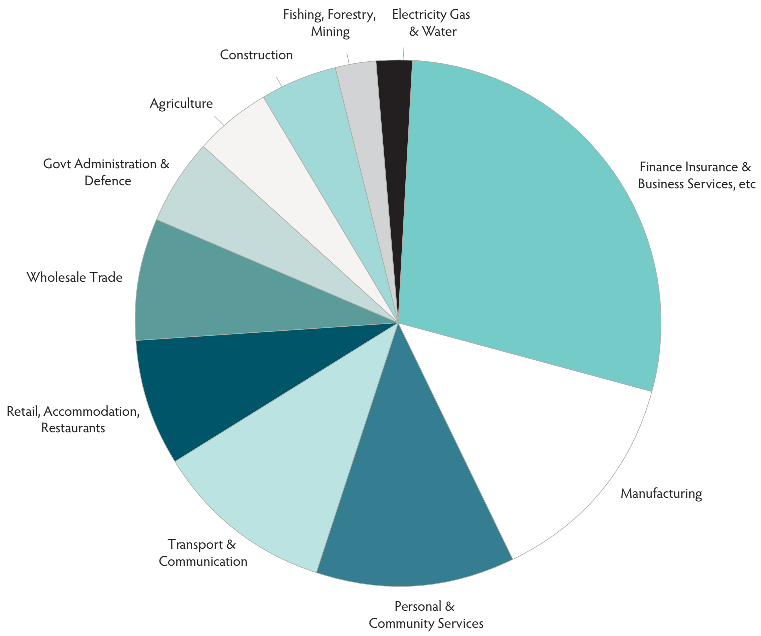
Table 6 – Gross Domestic Product by Production Group[1]

Year ended 30 September	2007	2008	2009	2010	2011	2011
	(dollar amounts in millions)					% of Total
Finance Insurance & Business Services, etc	36,868	37,401	38,287	38,449	39,235	28.8
Personal & Community Services	15,407	15,755	16,360	16,485	16,552	12.2
Manufacturing	18,352	18,489	16,381	16,376	16,429	12.1
Transport & Communication	13,888	14,577	13,976	14,067	14,184	10.4
Retail, Accommodation, Restaurants	10,318	10,296	9,890	10,010	10,082	7.4
Wholesale Trade	10,287	10,489	9,432	9,601	9,947	7.3
Agriculture	6,572	6,443	6,662	6,671	6,939	5.1
Govt Administration & Defence	6,195	6,551	6,773	6,770	6,794	5.0
Construction	6,494	6,373	5,681	5,654	5,443	4.0
Fishing, Forestry, Mining	2,981	3,552	3,242	3,427	3,359	2.5
Electricity Gas & Water	2,584	2,513	2,586	2,656	2,680	2.0
Gross Domestic Product	134,625	136,747	133,056	134,404	136,137	100.0
Annual Average % change	**2.0**	**1.6**	**(2.7)**	**1.0**	**1.3**	

1 2011 data estimated. Prior years' data revised.

Source: Statistics New Zealand

Figure 2 – Gross Domestic Product by Industry Group



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 2.3% per annum.

Inflation rose to 5.1% in the year to September 2008 as a result of high fuel and food prices, before easing back to within the Reserve Bank's 1% to 3% target band during 2009.

Annual CPI inflation remained within the target band over the six quarters prior to December 2010, with the September quarter 2010 marking the low point of the period at 1.5%. Inflation increased significantly in the December quarter 2010 as an increase in the rate of goods and services tax (GST) from 12.5% to 15% on 1 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. 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.

Inflation is expected to increase slightly over 2012, in line with the economic recovery, as well as capacity constraints associated with the Canterbury rebuild.

Annual growth in the index of salary and ordinary-time wage rates reached a record 3.9% in the year to September 2008 before declining rapidly over the following two years to just 1.5% growth at the start of 2010. Since then it has crept up, reaching 2.0% in the year to September 2011.

Table 7 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
2007	March	1117	4.5	859	2.5	1010	2.5	932	3.2
	June	1122	2.3	870	0.8	1020	2.0	938	3.2
	September	1163	8.4	891	1.9	1025	1.8	947	3.1
	December	1197	8.8	903	4.3	1037	3.2	957	3.2
2008	March	1247	11.6	922	7.3	1044	3.4	964	3.4
	June	1242	10.7	977	12.3	1061	4.0	972	3.6
	September	1230	5.8	1013	13.6	1077	5.1	984	3.9
	December	1218	1.8	990	9.7	1072	3.4	991	3.6
2009	March	1185	(5.0)	965	4.7	1075	3.0	997	3.4
	June	1074	(13.5)	965	(1.2)	1081	1.9	1000	2.9
	September	1057	(14.1)	954	(5.8)	1095	1.7	1005	2.1
	December	1118	(8.2)	958	(3.2)	1093	2.0	1009	1.8
2010	March	1186	0.1	971	0.6	1097	2.0	1012	1.5
	June	1210	12.7	984	2.0	1099	1.7	1016	1.6
	September	1246	17.9	991	3.8	1111	1.5	1021	1.6
	December	1256	12.3	1000	4.4	1137	4.0	1026	1.7
2011	March	1266	6.7	1022	5.3	1146	4.5	1030	1.8
	June	1296	7.1	1031	4.8	1157	5.3	1035	1.9
	September	1288	3.4	1037	4.7	1162	4.6	1041	2.0
	December	1270	1.1	642	4.2	1158	1.8	1047	2.1

1 Base: June quarter 2002 = 1,000.
2 All industry inputs. Base: December quarter 1997 = 1,000.
3 Base: June quarter 2006 = 1,000.
4 All industry ordinary time salary and wage. Base: June quarter 2001 = 1,000.

Source: Statistics New Zealand

D'Urville Island, Marlborough Sounds

Sunrise over the smaller Rangitoto, Pauagiangi and Tinui Islands.
Andris Apse

Greville Harbour.
Andris Apse

The Paddock Rocks at sunset.
Andris Apse

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 Prices and Costs 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.

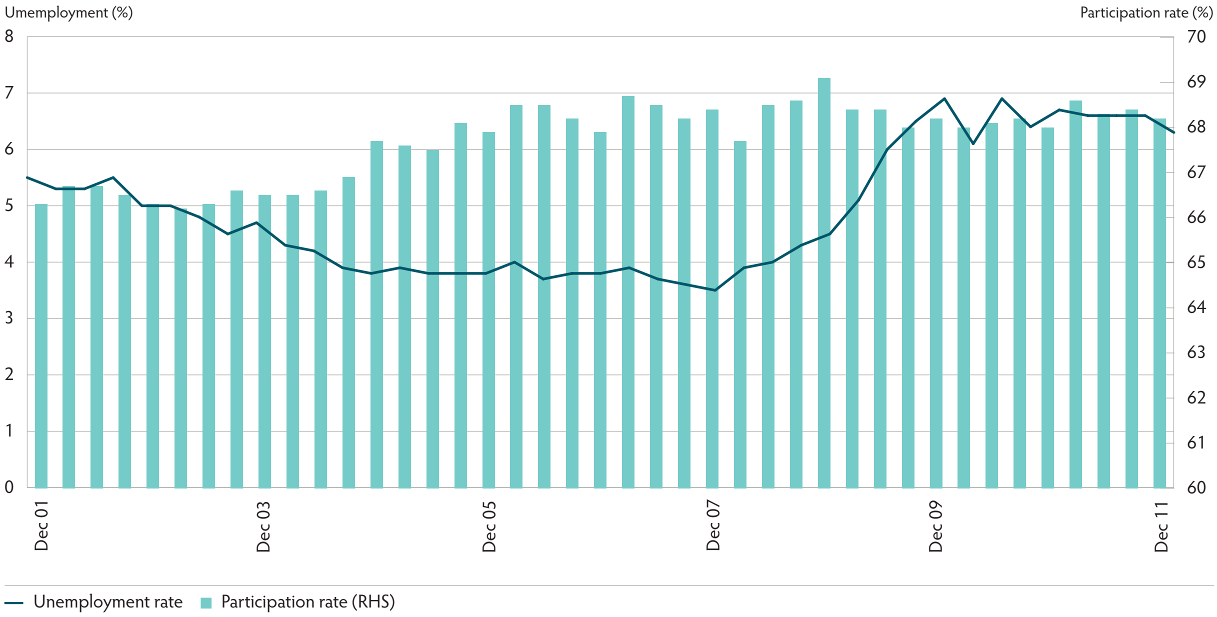
Employment grew strongly prior to 2009, with annual growth averaging 2.4% over the four years to September 2008. During 2009, the lagged effects of the weakening economy flowed through to lower demand for labour, with employment contracting 2.3% in the year to December 2009.

As the economy cooled, the unemployment rate increased sharply from a record low of 3.5% in December 2007 to 7.0% in December 2009. Since then, the unemployment rate has fluctuated between 6.1% and 6.9%, in part due to a volatile participation rate. In the September 2011 quarter, the unemployment rate was at 6.6%. The Canterbury earthquakes have had a negative impact on the labour market, with employment falling 8.0% in the region in the year to September 2011. Despite this, employment overall was up 1.1% in the year to September 2011. As the Canterbury rebuild gets underway, employment is expected to pick up more substantially.

Annual growth in labour productivity peaked in March 2008 at 3.0% before contracting by 1.9% in March 2009. Productivity rebounded in the year to March 2010 (up 2.1%) as employers absorbed underutilised labour. Productivity growth remained positive throughout 2010 as firms' demand for labour began to reflect the pick-up in economic activity, but was negative in the first two quarters of 2011. It is expected to improve in 2012 and 2013, as the economy recovers and Canterbury rebuild gets underway.

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.

Figure 3 – Employment / Unemployment



1 All data estimated.

Source: Statistics New Zealand

The Greenstone River near Greymouth, Westland.
Andris Apse

Dart River, Otago, as seen from Mount Alfred. Mount Ernslaw on the right.
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 accounts for 7.6% of GDP and contributes over 50% of New Zealand's total export earnings.

Agriculture and Horticulture

Agriculture directly accounts for around 5.0% of GDP, while the processing of primary food products accounts for a further 2.8%. Downstream activities, including transportation, rural financing and retailing related to agricultural production, also make important contributions to GDP.

Recent fluctuations in commodity (particularly dairy) prices have highlighted the importance that agriculture plays in the New Zealand economy. Rising demand from developing countries and supply constraints helped push dairy prices to their highest ever level in both world and New Zealand-dollar terms in late 2007. As a result, primary sector incomes were boosted, which, in turn, lifted spending and investment, spilling over to the wider economy. Prices for New Zealand's key export commodities turned down in mid-2008, gathering momentum as the financial crisis intensified and placing pressure on already soft domestic demand. However, commodity prices recovered strongly during 2009 and over the second half of 2010 and first half of 2011 as global growth and demand returned. New Zealand's major dairy exporter, Fonterra, was able to increase forecast payouts to farmers on the expectations of sustained high prices. Over the second half of 2011, commodity prices came off their highs as renewed euro area concerns emerged, leading to demand worries. In late 2011, Fonterra lowered forecast payouts due to the lower world prices and relatively high New Zealand dollar. Nevertheless, commodity prices for New Zealand's key exports remain at near-historical highs.

Horticultural products have become increasingly important, with the principal crops being wine and kiwifruit. Other significant export products include apples and pears, fresh and processed vegetables, and seeds.

Table 8 shows sales of the principal categories of agricultural products for the years indicated and as a percentage of agricultural sales for 2011.

Table 8 – Gross Agricultural Production[1]

Year ended 31 March	2008	2009	2010	2011	2011
	(dollar amounts in millions)				% of Total
Dairy	10,140	6,384	7,904	9,515	39.1
Agricultural services	2,974	3,752	3,864	4,087	16.8
Cattle	1,709	2,049	1,842	2,125	8.7
Sheepmeat	1,667	2,136	2,134	2,044	8.4
Fruit	1,750	2,117	1,942	1,913	7.9
Vegetables	963	918	985	1,063	4.4
Sales of live animals	735	735	806	851	3.5
Crops and seeds	510	698	619	639	2.6
Wool	480	402	448	560	2.3
Non-farm income	325	407	403	448	1.8
Other horticulture	274	246	224	241	1.0
Other farming	253	216	217	229	0.9
Deer	258	280	218	222	0.9
Poultry/eggs	163	178	204	213	0.9
Pigs	160	180	171	154	0.6
Value of livestock change	154	29	70	10	0.0
Total Gross Revenue	**22,515**	**20,729**	**22,052**	**24,315**	**100.0**

Source: Ministry of Agriculture & Forestry

Forestry

Forestry and logging makes up around 1.3% of GDP and is the basis of an important export industry, with almost 70% of wood from the planted production forests eventually being exported in a variety of forms, including logs, wood chips, sawn timber, panel products, pulp and paper, and further manufactured wooden products, including wooden furniture.

For the year ended September 2011, the value of exports of forestry products was $4.6 billion, 10.1% of New Zealand's total merchandise exports. China and Korea were the largest markets for log exports at $1,077 million and $307 million respectively, while India and Japan continue to be important destinations for the export of sawn timber.

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.

New Zealand's total planted forest growing stock at 1 April 2008 was estimated at 446 million cubic metres. For the year ended September 2011, an estimated 26.1 million cubic metres of wood were harvested from production forests, an increase of 11.4% from a year earlier. Of this, 12.8 million cubic metres were exported as logs and the balance was manufactured into a range of products, including 3.8 million cubic metres of sawn timber, 1.9 million cubic metres of wood panels (consisting of fibreboard, veneer, plywood and particleboard) and 1.6 million tonnes of wood pulp (made from harvested logs plus residues from sawmills).

An estimated 26.1 million cubic metres of wood was harvested in the year to September 2011. Forecasts suggest availability could increase to 35 million cubic meters annually in the early 2020s. Market conditions and logistical constraints (availability of logging crews, transport capacity, and wood processing capacity) will dictate how quickly the additional wood is harvested.

Total forestry export revenues increased 13.9% in the year to September 2011, driven by a large 41.9% increase in log export earnings. The main market responsible for the increase was China, with log exports there rising 58.1% in the year to September 2011.

Fishing

New Zealand has an Exclusive Economic Zone (EEZ) of 3.1 million nautical 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 $1.53 billion in export revenues in the year ended September 2011, a 5.75% 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 Hong Kong, Australia, the United States and Japan.

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. More recently there has been a renewed interest in the development of energy and mineral resources to contribute to economic growth, including the issuance of new licences for the exploration of significant offshore oil prospects.

Natural Gas: Natural gas is currently produced from 20 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 and domestic purposes.

Gross natural gas production was 186 petajoules in the year to June 2011. 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 105.5 petajoules in the year to June 2011 (around triple that produced in 2006), of which 95% 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, crude oil exports are becoming increasingly important with the value of petroleum exports accounting for 4.9% of total exports in the year to September 2011.

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

Industry Division	Year ended 30 September 2007	2008	2009	2010	2011	2011
	(dollar amounts in millions)					% of Total
Food						
Meat and Dairy	19,839	24,369	25,377	23,784	27,500	33.6%
Other food, beverages and tobacco	11,181	12,514	12,723	12,767	12,739	15.6%
Petroleum, coal and chemical products	7,819	8,166	7,665	7,295	7,718	9.4%
Metal products	7,922	8,410	7,438	7,289	7,659	9.4%
Wood and paper products	7,640	7,468	6,874	7,278	7,101	8.7%
Machinery and equipment	7,032	7,576	6,934	6,636	7,034	8.6%
Printing, publishing and recorded media	3,803	3,836	3,497	3,523	3,545	4.3%
Transport equipment	2,505	2,902	2,467	2,550	2,540	3.1%
Non metallic mineral products	2,820	2,945	2,639	2,455	2,464	3.0%
Textile and apparel	2,472	2,287	2,040	1,973	1,912	2.3%
Furnitures and other manufacturing	2,105	1,980	1,797	1,768	1,765	2.2%
Total	**75,137**	**82,453**	**79,451**	**77,318**	**81,763**	**100.0%**
Manufacturing index[1]	119	115	115	102	102	

1 Base: June quarter 1996 = 100

Source: Statistics New Zealand

Crude petroleum production has been increasing since the second half of 2006 when the Pohokara 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 this, 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 2010, total coal production was 5.3 million tonnes, a 17% increase over 2009, as international demand returned after the Global Financial Crisis. Over 59% of national production is from two large opencast operations, at Rotowaro and Stockton on the West Coast of the South Island, owned by the State-Owned Enterprise (SOE), Solid Energy.

Electricity: Power from renewable resources (hydro and wind generation) accounted for around 70% of total energy production with thermal and geothermal making up the remainder.

Manufacturing

New Zealand's manufacturing industries make an important contribution to the national economy. In the year ended September 2011, manufacturing sector output accounted for 12.2% of real GDP. The proportion of the labour force employed in manufacturing was around 10.3%. 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 $40.2 billion in the year ended September 2011, including more than $27 billion for meat and dairy products. Exports of meat and dairy products amounted to about $17 billion over the same period.

Manufacturing growth peaked at 8.8% on an annual average basis in June 2003 before trending downward over the following four years as the value of the New Zealand dollar appreciated, reducing external competitiveness and domestic currency revenue. 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 global financial crisis in late 2008. The impact of weaker global demand and uncertainty over future global economic conditions flowed through to the manufacturing sector, with output shrinking 11.3% on an average annual basis in the year to September 2009. Manufacturing recovered somewhat over the end of 2010 and start of 2011 on a quarterly basis, despite the Canterbury earthquakes, rising 2.3% on a quarterly basis in the September 2011 quarter.

Table 9 sets out the sales of goods and services in the manufacturing sector for the five years ended 30 September 2011.

Auckland's playground

The Waitakere Ranges Regional Park to the west of Auckland offers spectacular beaches and wilderness areas within easy reach of the central city.

Taitomo Island and Piha Beach, a popular surf beach,
Andris Apse

Karekare Beach, setting for the 1993 movie "The Piano", winner of three Academy Awards.
Andris Apse

Tree ferns and native forest in the Waitakere Ranges.
Andris Apse

Service Industries

Service industries make up a large proportion of the economy, accounting for over two-thirds of GDP. The sector recorded strong growth between 2000 and 2007, with annual growth averaging 3.8%. 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 66% in 2004 to 71% in 2011. 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 to take a national overview of infrastructure priorities by providing cross-government co-ordination, planning and expertise. The Unit operates out of the Treasury and develops its policy advice for the Minister for Infrastructure 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 component of 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 arms 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 4,400 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% 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 40 formal air services agreements with foreign governments. The government's international air transport policy is to maximise economic benefit to New Zealand, including trade and tourism, consistent with foreign policy and strategic considerations.

Currently, around 30 international airlines, including Air New Zealand, link New Zealand with the rest of the world with both freight and passenger services, some under code-share agreements. International flights operate from a number of international airports, of which Auckland, Wellington and Christchurch are the most significant. Hamilton, Palmerston North, 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.

The Government owns just under 75% of Air New Zealand, having purchased shares in the company in 2001 following a period of external shocks for the airline. Air New Zealand continues to be a publicly listed company on the New Zealand Stock Exchange. 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 financial year since 2001 and is currently engaged in a fleet replacement programme which is expected to be completed by 2015.

The Government has signalled its intention to divest a portion of its shareholding in Air New Zealand but will retain at least 51% of the company.

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 2011, international tourist expenditure amounted to $9.7 billion, an increase of 1.5% 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 2,764,640 in the year to September 2011.

Australia is New Zealand's closest market and by far the largest source of overseas visitor arrivals at 1,122,594 (44.0% of the total) in the year ending September 2011. Australian arrivals were up by 0.1% from a year earlier.

After Australia, the next largest markets are the United Kingdom (230,000 or 9.0% of the total), the United States (185,000 or 7.3% of the total) and China (135,000 or 5.3% 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 and fully respond around 15 months after changes. While the New Zealand dollar is expected to remain elevated during the first half of 2012, a gradual depreciation is expected in the coming years. The Rugby World Cup, held in New Zealand over September and October 2011, temporarily boosted international visitor arrivals, but numbers are expected to return to normal levels in subsequent months.

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 two major providers of fixed line services are Telecom and TelstraClear, with four second-tier providers: Slingshot/CallPlus, Orcon, WorldxChange and Compass. Cellular Services are provided by Telecom New Zealand, Vodafone and 2degrees.

New Zealand has good broadband access availability (over 95% of dwellings) and significant broadband infrastructure competition in particular areas. 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% 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.

The telecommunications sector has been through a period of significant regulatory reform in recent years. This includes a review of the Telecommunications Act in 2005-06, resulting in the opening up of Telecom's exchanges to competitors through the process of local-loop unbundling. This was followed by the operational separation of Telecom into three distinct business divisions as a further measure to increase competition.

Legislation was enacted in 2011 to allow for the complete demerger of Telecom into two separate companies, a network operator and a retailer, with regulatory provisions applying to the dominant network operator, Chorus Ltd. In November 2011, shareholders agreed to separate Telecom from Chorus in order to participate in the Government's UFB initiative. Chorus and Telecom New Zealand are now separately listed companies.

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 net cost of telecommunication service obligations.

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 Kiwi Bank, 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 Reserve Bank requirements. Since then, New Zealand Post has made further capital injections to bring Kiwibank's share capital to $310 million at 30 June 2011. The Government neither guarantees the bank nor subsidises its on-going operations. Kiwibank announced an after-tax profit of $21.6 million for the year ended 30 June 2011 compared with a profit of $45.8 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 (with full digital switch-over expected to occur around 2013-15). 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. Digital and analogue pay TV services are also available.

There are five major daily metropolitan newspapers in the main centres and numerous provincial and community newspapers, all of which are privately owned. In addition, there are two national weekly business papers, three Sunday newspapers, a number of wire services and a growing number of 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. More than 200 feature films have been made in New Zealand since the Commission was established. Around half of these have received Film Commission finance, while the remainder have been financed by local and, increasingly, by major offshore production companies.

New Zealand's screen industry continues to gain international prominence following the success of several big budget productions filmed 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 two-movie Lord of the Rings prequel, The Hobbit, commenced in Wellington in March 2011.

The New Zealand screen industry recorded gross revenue of $3 billion in the year ending March 2011 with $700 million coming from feature films. Revenue from North America rose 30% to just under $400 million due to higher film sales and revenue from contracted production and post-production services.

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

Southland.
Andris Apse

Southland.
Andris Apse

South Canterbury: sheep feeding on a winter supplementary crop. The rolling farmlands of Canterbury, Otago and Southland are ideally suited to lamb production and a major contributor to New Zealand's export earnings.
Andris Apse

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

After a record merchandise trade deficit of $7.3 billion in early 2006, strong growth in the terms of trade helped reduce the deficit to $5.0 billion in the year to September 2008. 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 11% in the June quarter from the previous year. This resulted in an improving merchandise trade balance, reaching a surplus in the 12 months to April 2010 and remaining in surplus throughout the rest of 2011.

Table 10 records the total value of exports and imports of goods since 2007.

Trade in Services

Trade in services is dominated by tourist flows. The annual level of services export volumes has been in decline since 2005, with the high New Zealand dollar having an adverse impact on vistor arrivals from high-spending countries, including the USA, Japan and Europe. Arrivals from Australia have increased, resulting in higher total visitor numbers but lower average expenditure. On an annual basis, real services exports fell 3.3% in the year to September 2011.

The services balance recorded in the Balance of Payments peaked at a surplus of $1,978 million in the year to September 2003. The slowdown in inbound tourism and strong growth in the number of New Zealanders travelling overseas saw the services balance fall to a deficit of $764 million in the year to March 2009 before recovering to a surplus of $374 million in the year to March 2010. The deficit then returned, increasing to $1,094 million in the September 2011 quarter. This was due to both a fall in services exports and increase in services imports with the high New Zealand dollar a major contributing factor.

Table 10 – Balance of External Merchandise Trade[1]

Year to September	Exports	Imports	Balance of Trade	Exports as % of Imports
	(dollar amounts in millions)			
2007	34,591	40,878	(6,287)	84.6%
2008	41,973	47,022	(5,048)	89.3%
2009	41,588	43,258	(1,669)	96.1%
2010	41,788	40,810	978	102.4%
2011	46,790	46,065	724	101.6%

1 Includes re-exports.

Source: Statistics New Zealand

Terms of Trade

The terms of trade reached new highs 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 Global Financial Crisis 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. The terms of trade are expected to ease again, reflecting the renewed fears of a global slowdown and sovereign debt troubles in Europe, but still remain at elevated levels.

Table 11 shows the export and import price indices, the overall terms of trade index and the annual percentage change in each.

Table 11 – Terms of Trade Indices

		Export Price Index[1]	Annual % Change	Import Price Index[1]	Annual % Change	Terms of Trade Index[1]	Annual % Change
2007	March	970	4.8	869	0.3	1117	4.5
	June	958	(5.9)	854	(8.0)	1122	2.3
	September	990	(2.0)	852	(9.5)	1163	8.4
	December	1045	7.4	873	(1.4)	1197	8.8
2008	March	1091	12.5	875	0.7	1247	11.6
	June	1140	19.0	918	7.5	1242	10.7
	September	1238	25.1	1006	18.1	1230	5.8
	December	1269	21.4	1041	19.2	1218	1.8
2009	March	1168	7.1	985	12.6	1185	(5.0)
	June	1029	(9.7)	958	4.4	1074	(13.5)
	September	973	(21.4)	920	(8.5)	1057	(14.1)
	December	970	(23.6)	868	(16.6)	1118	(8.2)
2010	March	1072	(8.2)	904	(8.2)	1186	0.1
	June	1112	8.1	920	(4.0)	1210	12.7
	September	1112	14.3	892	(3.0)	1246	17.9
	December	1118	15.3	890	2.5	1256	12.3
2011	March	1188	10.8	938	3.8	1266	6.7
	June	1211	8.8	934	1.5	1296	7.1
	September	1162	4.5	903	1.1	1288	3.4
	December	1183	5.8	931	4.6	1270	1.1

1 Base: June 2002 = 1,000

Source: Statistics New Zealand

Figure 4 – Terms of Trade

Source: Statistics New Zealand

Upper Jacobs River, South Westland.
Andris Apse

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 36.4 % of total merchandise export values in the year ended 30 September 2011.

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

	2007	2008	2009	2010	2011	2011
Year ended 30 September	(dollar amounts in millions)					% of Total
Dairy produce etc	6,410	9,127	8,747	9,389	11,479	24.5
Meat and edible meat offal	4,424	4,914	5,322	4,979	5,565	11.9
Wood and articles of wood	2,152	2,045	2,362	2,740	3,247	6.9
Mineral fuels	1,012	3,177	1,894	2,136	2,330	5.0
Fruit	1,221	1,456	1,607	1,465	1,548	3.3
Mechanical machinery	1,548	1,552	1,364	1,355	1,442	3.1
Fish, crustaceans and molluscs	1,106	1,145	1,287	1,257	1,342	2.9
Aluminium and articles thereof	1,541	1,445	976	1,136	1,257	2.7
Iron and steel	851	1,023	893	832	946	2.0
Electrical machinery	921	917	855	879	942	2.0
Precious stones, metals & jewellery	304	537	726	826	878	1.9
Wool and other animal fibres	625	613	550	570	757	1.6
Casein and caseinate	756	907	1,037	638	721	1.5
Wood pulp	677	662	612	667	686	1.5
Paper and paper product	499	533	544	547	587	1.3
Raw hides and skins	461	510	397	410	544	1.2
Plastics and articles thereof	430	432	413	433	463	1.0
Vegetables	429	418	415	412	458	1.0
All other items	7,738	8,942	9,627	9,321	9,787	20.9
Total New Zealand Produce	**33,105**	**40,355**	**39,628**	**39,992**	**44,979**	**96.1**
Re-exports	1,486	1,618	1,961	1,795	1,810	3.9
Total Merchandise Exports FOB	**34,591**	**41,973**	**41,588**	**41,788**	**46,790**	**100.0**

Source: Statistics New Zealand

A view of Mount's Cook and Tasman from the West Coast. Okarito Lagoon in the foreground.
Andris Apse

Table 13 – Composition of Principal Merchandise Imports

Year ended 30 September	2007	2008	2009	2010	2011	2011
	(dollar amounts in millions)					% of Total
Mineral fuels	5,271	7,768	5,986	6,128	7,479	17.1
Mechanical machinery	4,997	5,756	5,277	4,751	5,344	12.2
Vehicles	4,640	4,968	3,174	3,756	4,024	9.2
Electrical machinery	3,592	3,743	4,078	3,400	3,812	8.7
Plastic and articles thereof	1,451	1,564	1,480	1,477	1,546	3.5
Aircraft	898	978	1,521	521	1,477	3.4
Optical, photographic, etc	1,107	1,197	1,375	1,243	1,332	3.0
Pharmaceutical products	982	1,060	1,146	1,097	1,090	2.5
Paper and paperboard	893	948	929	949	957	2.2
Apparel and clothing accessories: not knitted	725	769	802	756	836	1.9
Iron or steel articles	764	842	845	645	701	1.6
Knitted and crocheted fabrics and articles thereof	548	586	651	625	682	1.6
Rubber and articles thereof	436	483	498	509	552	1.3
Chemical products n.e.s.	433	456	493	493	489	1.1
Toys, games and sports requisites	397	423	459	403	442	1.0
Iron and steel	667	680	466	423	440	1.0
Printed books, newspapers, etc	409	412	403	396	383	0.9
Organic chemicals	306	365	361	325	370	0.8
Inorganic chemicals	189	243	251	210	198	0.5
Ships and boats	561	588	159	324	154	0.4
All other products	9,152	10,471	10,466	10,123	11,367	26.0
Total Merchandise Imports VFD	38,418	44,300	40,820	38,554	43,675	100.0
CIF Value	40,878	47,022	43,257	40,810	46,065	

Source: Statistics New Zealand

Geographic Distribution of External Trade

New Zealand's trading relationships are becoming increasingly based around Pacific Rim countries. New Zealand's three largest export markets – Australia, China and the United States – accounted for 43.3% of New Zealand's merchandise exports and 43.2% of merchandise imports in the year ended 30 September 2011. Japan remains an important trading partner, both as a destination for exports and a source of imports. However, Asia excluding Japan is growing rapidly in importance, with the region increasing its share of merchandise exports to around 30%, up significantly from a decade ago. 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	2007	2008	2009	2010	2011	2011
	(dollar amounts in millions)					% of Total
Australia	7,367	9,888	9,250	9,887	10,555	22.6
China, Peoples Republic of	1,903	2,238	3,527	4,318	5,798	12.4
United States	4,205	4,108	4,462	3,711	3,905	8.3
Japan	3,383	3,454	3,200	3,249	3,333	7.1
Korea, Republic of	1,300	1,406	1,270	1,355	1,633	3.5
United Kingdom	1,711	1,611	1,725	1,522	1,541	3.3
Taiwan	788	759	736	823	904	1.9
Indonesia	678	1,023	1,018	916	871	1.9
Malaysia	584	915	782	740	849	1.8
Singapore	565	912	865	1,071	798	1.7
Hong Kong	568	660	815	851	770	1.6
Germany	748	889	805	669	753	1.6
Philippines	590	743	624	697	738	1.6
Thailand	520	811	535	591	730	1.6
Canada	519	529	531	468	577	1.2
Italy	459	486	442	408	455	1.0
France	393	474	544	444	445	1.0
Belgium	518	564	508	396	367	0.8
Other Countries	7,792	10,503	9,949	9,672	11,768	25.2
Total	**34,591**	**41,973**	**41,588**	**41,788**	**46,790**	**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	2007	2008	2009	2010	2011	2011
	(dollar amounts in millions)					% of Total
Australia	8,125	8,345	7,317	7,348	7,098	16.3
China, Peoples Republic of	5,104	5,723	6,092	6,073	6,912	15.8
United States	3,822	4,223	4,381	3,723	4,857	11.1
Japan	3,476	3,838	2,969	2,843	2,663	6.1
Singapore	1,809	2,210	1,702	1,396	2,099	4.8
Germany	1,814	1,900	1,743	1,619	1,817	4.2
Malaysia	953	1,811	1,128	1,386	1,445	3.3
Korea, Republic of	1,149	1,149	1,395	1,232	1,401	3.2
Thailand	1,040	1,234	1,046	1,240	1,328	3.0
United Kingdom	1,043	1,008	933	895	1,144	2.6
Italy	847	945	756	652	782	1.8
Taiwan	794	942	678	681	657	1.5
France	633	717	1,366	575	640	1.5
Saudi Arabia	574	490	241	243	599	1.4
Canada	595	603	643	423	575	1.3
Indonesia	681	1,060	749	518	571	1.3
Switzerland	266	327	341	302	358	0.8
Sweden	320	360	248	233	282	0.6
Belgium	281	300	278	272	248	0.6
Hong Kong	187	205	169	132	157	0.4
Other countries	4,905	6,910	6,645	6,768	8,042	18.4
Total	**38,418**	**44,300**	**40,820**	**38,554**	**43,675**	**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 2011, two-way merchandise trade amounted to $17.6 billion, with Australia taking 22.6% of New Zealand's exports and supplying 16.3% of imports. Australia is New Zealand's top destination for overseas investment and New Zealand's largest source of foreign investment. As at March 2011, New Zealand had $51 billion invested in Australia, while Australia had $107 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 $12.7 billion in the year ended September 2011. 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 2011, exports to China comprised 12.4% of New Zealand's total exports, with the major categories being milk powder, logs, wool, malt extract and a wide range of other primary products. China supplied 15.8% 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 in the recent surge in New Zealand's commodity prices and terms of trade. China is expected to become increasingly important for New Zealand in the 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 $8.8 billion in the year ended September 2011. Exports to the United States comprised 8.3% of New Zealand's total exports, and the United States supplied 11.1% 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.

Table 16 – Foreign Investment Inflows[1,2]

Year ended 31 March	2007	2008	2009	2010	2011
	(dollar amounts in millions)				
Foreign Direct Investment	10,512	3,742	4,655	(1,071)	1,979
Foreign Portfolio Investment	4,630	14,459	(18,705)	13,089	10,375

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

Japan: Japan is New Zealand's fourth largest trading partner, with bilateral trade amounting to $6.0 billion in the year ended September 2011, with Japan taking around 7.1% of total merchandise exports. Key exports to Japan include aluminium, wood, dairy products, fish, kiwifruit, meat, vegetables and fruits.

Japan is also a major supplier of New Zealand's imports, providing 6.1% of total imports in the year to September 2011. 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 $3.0 billion dollars in the year to September 2011.

European Union: Trade with the members of the European Union, although still important, is declining. Together, the Union members take around 8% of exports (in value terms) and provide around 12% of imports.

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, and 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 account for around 16% 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 (see Table 16).

The stock of foreign direct investment in New Zealand stood at $93.8 billion as of 31 March 2011. Australia and the United States are the largest contributors to total foreign direct investment in New Zealand, with investments worth $51.8 billion and $11.2 billion respectively. The Netherlands is the next largest investor at $3.1 billion, while the United Kingdom and Japan follow closely behind at $2.4 billion and $2.6 billion respectively.

In contrast, the stock of direct investment abroad by New Zealand was $22.9 billion as at 31 March 2011.

Balance of Payments

The current account deficit stood at 4.3% of GDP for the twelve months to September 2011. 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.

The investment income deficit increased between June 2004 and June 2008, as investment income outflows rose due to an increase in international liabilities, resulting in a widening current account deficit over the period. 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, and lower interest payments flowing to holders of New Zealand debt as the result of lower interest rates both domestically and internationally. In the year to September 2011 the deficit started to widen again.

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. The impact of the stronger currency on export earnings and strong domestic growth on import demand, together with an increase in the investment income deficit due to strong profits of foreign-owned firms, led to the current account deficit reaching 8.7% of nominal GDP in the year ended 30 September 2008.

More recently, however, the combination of narrowing goods and services deficits and, in particular, a shrinking investment income deficit, led to the current account deficit falling to 3.0% of GDP in the year ended September 2009. The deficit increased to 4.3% of GDP in the year ended September 2011 as a rise in the income deficit, driven by an increase in profits to foreign investors in New Zealand firms, more than offset an increase in the goods surplus, as well as a return to a services deficit.

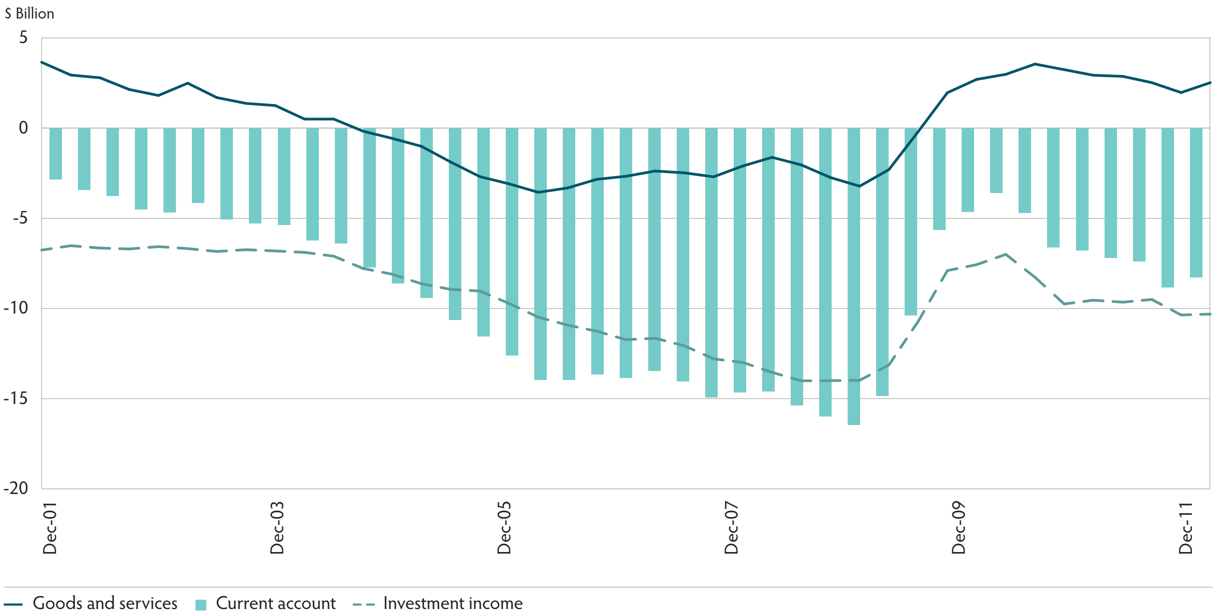
Balance of payments statistics are compiled by the Government following principles set out by the IMF in the 5th edition of the Balance of Payments Manual.

Table 17 – Balance of Payments

Year ended 30 September	2007	2008	2009	2010	2011
			(dollar amounts in millions)		
Current Account					
Export receipts	35,111	42,728	42,441	42,297	47,515
Import receipts	38,328	45,195	40,328	39,057	44,470
Merchandise balance	(3,218)	(2,467)	2,115	3,241	3,045
Services balance	522	(274)	(160)	1	(1,077)
Investment income balance	(12,786)	(13,997)	(7,898)	(9,750)	(10,213)
Transfers balance	645	885	463	25	(329)
Current account balance	**(14,923)**	**(15,972)**	**(5,629)**	**(6,621)**	**(8,675)**
Deficit as % of GDP	**(8.5)**	**(8.7)**	**(3.0)**	**(3.5)**	**(4.3)**
Financial Account (net)					
Foreign investment in NZ	29,173	14,553	(7,124)	12,715	17,925
NZ investment abroad	17,521	(702)	(1,816)	11,948	17,261
Reserves	3,967	1,371	10,454	2,309	(1,766)
Financial account balance	**11,652**	**15,255**	**(5,308)**	**767**	**664**
Capital Account					
Balance of Capital Account	(696)	(654)	481	3,543	9,777

Source: Statistics New Zealand

Figure 5 – Balance of Payments



Source: Statistics New Zealand

Foreign-Exchange Rates and Overseas Reserves

The New Zealand dollar has floated freely since March 1985. There are no exchange controls on foreign-exchange transactions undertaken in New Zealand, either by New Zealand residents or non-residents. Since the float, the Reserve Bank has held foreign reserves 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 Reserve Bank 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.

The Reserve Bank announced further changes to its financing and management of New Zealand's foreign-currency reserves in July 2007. Since the float in 1985, the Bank's foreign-currency assets had been fully matched by foreign-currency liabilities. Under the new arrangements, the Bank holds some portion of its foreign reserves on an un-hedged basis, known as an "open FX" position. This means that part of the foreign reserves portfolio will be funded in New Zealand dollars rather than in foreign currencies.

The Bank's guidelines for operating in the foreign-exchange market have also been modified. Overt intervention intended to affect the exchange rate directly can still occur. In addition, the Bank is able to more gradually accumulate or reduce its foreign-exchange position when the exchange rate is at extreme levels and unjustified by medium-term economic fundamentals. The Bank's more passive FX transactions will not necessarily be expected to directly affect the exchange rate. The Bank's net foreign-exchange position is disclosed publicly with a lag.

New Zealand's official external reserves, as shown in Table 18, include the net overseas assets of the Reserve Bank, 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 2011 (approximately $1,725 million).

Table 18 – Foreign Exchange Rates

Monthly Averages	USA Mid-rate US$ per NZ$	Japan Mid-rate Yen per NZ$	Trade Weighted Exchange Rate Index[1]
June 2007	0.7559	92.66	73.6
June 2008	0.7607	81.32	68.1
June 2009	0.6374	61.63	60.3
June 2010	0.6928	62.96	67.1
June 2011	0.8150	65.63	70.3
July 2011	0.8455	67.17	72.7
August 2011	0.8384	64.67	72.1
September 2011	0.8143	62.59	71.2
October 2011	0.7879	60.39	69.3
November 2011	0.7728	59.95	68.2
December 2011	0.7697	59.92	68.6

1 The Trade-Weighted Exchange Rate Index is the nominal New Zealand-dollar exchange rate weighted 50/50 by New Zealand's trade with its major trading partners and the nominal GDPs (in US dollars) of those countries. On 30 June 1979, the basket equalled 100.

Source: RBNZ

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)				
2007	15,502.8	5,297.6	107.9	40.1	20,948.4
2008	19,936.7	5510.6	142.1	34.8	25,624.1
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

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

Source: RBNZ and the Treasury

Lake Ruataniwha, Mackenzie Country, Central South Island.
Andris Apse

Figure 6 – Trade-weighted Exchange-rate Index

Source: RBNZ

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. It is a statutory body and has most of the powers normally associated with a central bank. 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. Legislation affecting the financial sector is reviewed as necessary to ensure that it fits with modern banking practices. The Reserve Bank of New Zealand Act has been amended a number of times 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. Until October 2008, there were no deposit insurance arrangements operating in New Zealand in respect of registered banks or other financial institutions.

In line with many countries, the New Zealand government moved in October 2008 to provide a partial guarantee of retail deposits in registered bank and non-bank deposit takers and an opt-in guarantee scheme for wholesale debt issues by New Zealand financial institutions. In March 2010, in response to improvements in the global credit markets, the Minister of Finance announced that the government would close the guarantee scheme for wholesale debt issuances by New Zealand financial institutions on 30 April 2010. The retail deposit guarantee scheme was extended to December 2011 on more restrictive terms but no banks, and only a few deposit takers opted into the extended scheme.

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 is working with the Australian Prudential Regulation Authority to improve regulatory co-ordination under this home-host model. The Government has established a Trans-Tasman Council to progress co-ordination initiatives.

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.

In 2011, the Reserve Bank issued a consultation paper on the pre-positioning requirements that banks will be expected to comply with to fully implement an Open Bank Resolution (OBR) policy. The OBR policy would allow a distressed bank to be kept open for business, providing continuity of core banking services to retail customers and businesses, while placing the cost of a bank failure primarily on the bank's shareholders and creditors rather than the taxpayer.

Before April 1987, New Zealand had four authorised banks. Bank registrations rose to a peak of 23 in August 1990. Since then a number of banks have merged with other banks or withdrawn from the market, although this decline in numbers has been partly offset by new registrations. As at 31 December 2011, there were 21 registered banks. Seventeen of these were subsidiaries or branches of foreign banks. As at June 2011, total assets of the banks registered in New Zealand amounted to $384 billion.

Most banks offer banking services on the Internet. 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.

The Basel II capital adequacy framework was implemented in New Zealand in the first quarter of 2008. The four largest locally incorporated banks in New Zealand have been accredited to use internal models for credit and operational risk under Basel II. Together these banks account for over 80% of total New Zealand registered bank assets. Other locally incorporated banks are subject to the more prescriptive standardised approach under Basel II.

More recently the 'Basel III' standards have been developed by international regulators in response to the global financial crisis. 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 will be assessing the impact of these standards before determining how they should apply to New Zealand.

Quantitative liquidity requirements for locally incorporated banks have been in place since 1 April 2010. The Reserve Bank is now assessing the appropriate liquidity policy for banks that operate in New Zealand as branches of overseas incorporated banks.

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 it 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.

Non-bank Financial Institutions

In September 2008, new legislation was passed authorising the prudential regulation of non-bank deposit-takers following a review of the regulatory framework for these institutions. The review revealed weaknesses in the system, such as the absence of minimum entry requirements and inconsistency in prudential standards that could undermine public confidence. The Reserve Bank was designated as the prudential regulator of non-bank deposit takers, comprising finance companies, building societies and credit unions.

Non-bank deposit-takers have had to comply with regulatory requirements relating to capital adequacy, related party exposures, liquidity and governance since 1 December 2010. 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.

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 of this legislation, the Reserve Bank is now the single prudential regulatory agency for financial institutions (ie, banks, non-bank deposit takers, and insurance companies) in New Zealand.

Further legislation, the Non-bank Deposit Takers Bill, was introduced in August 2011. The Bill would grant the Reserve Bank powers 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. The Bill was referred to Parliament's Finance and Expenditure Select Committee for its consideration.

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 establishes the Financial Markets Authority (FMA) as New Zealand's market conduct regulator. The FMA is an independent Crown entity whose main objective is to promote and facilitate the development of fair, efficient and transparent financial markets. The FMA has powers to issue warnings, provide guidance, grant exemptions to some securities law requirements, and investigate potential breaches of the law. The FMA enforces financial markets legislation, including the 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.

In October 2011, the government introduced the Financial Markets Conduct Bill to Parliament. The Bill 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 Bill 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 Bill 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 Bill is expected to be passed into law in 2012 and come into force in 2013. The Bill 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 aquisitions 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; and
- 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;

Sunrise on Okarito Lagoon, Westland.
Andris Apse

- 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 Act 1993

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 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 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).

The Act 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). The set of approved standards are collectively known as "New Zealand equivalents to International Financial Reporting Standards".

Small entities were given the option to delay the adoption of the New Zealand equivalents to IFRS. The government has recently reviewed the financial reporting requirements applying to small and medium companies under the Act and decided that small and medium-sized for-profit companies that are not issuers will no longer have to prepare general purpose financial reports. This decision is expected to become effective from mid-2013.

The XRB has also recently issued specific proposals for the accounting standards framework for for-profit and public benefit entities respectively. These documents outline the proposed tier structure for each sector, together with the proposed accounting standards that will apply to each tier in each sector (a multi-standards approach). The XRB proposes that the issuers of securities and large for-profit reporting entities continue to fully comply with IFRS (ie, no change). The XRB proposals to adopt a multi-standards approach would have the most impact on public benefit entities. The XRB is expected to make final decisions on the reporting framework in 2012 after a consultation period.

Other key aspects of the XRB proposals can be found at: www.xrb.govt.nz.

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 December 2008 after the new government took office. There were no substantive changes to the Agreement. For the purposes of the PTA, the policy target is to keep future CPI inflation outcomes in the range of 1% to 3% on average over the medium term.

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.

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 Official Cash Rate (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. An OCR is a fairly conventional tool by international standards.

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. Unscheduled adjustments to the OCR may occur at times outside these set dates in response to unexpected or sudden developments but, to date, this has occurred only once – following the attacks on the World Trade Centre in New York on 11 September 2001.

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.

From 2004 until mid-2007, monetary policy was in a tightening phase with the Reserve Bank increasing the Official Cash Rate (OCR) by a total of 325 basis points from 5.0% in January 2004 to a peak of 8.25% in July 2007. The policy tightening reflected a prolonged period of strength in the domestic economy which left productive resources stretched and led to a rise in non-tradable inflation. The onset of the global and domestic recession prompted sharp falls in the OCR, reaching 2.5% by April 2009. The OCR was increased in mid-2010 but, following the Canterbury earthquake in February 2011, it was cut back again to 2.5%, where it has remained.

Interest Rates and Money and Credit Aggregates

Tables 20 and 21 show developments in major interest rates and money and credit aggregates since the March quarter of 2007.

Table 20 – Interest Rates: Monthly Averages

	Month	Overnight Cash Rate	90-Day Bank Bill Rate	Government Loan Stock Rates			Business Base Lending Rates[1]
				2 Year	5 Year	10 Year	
2007	March	7.59	7.88	6.79	6.50	5.87	11.31
	June	8.10	8.32	7.33	7.13	6.72	11.82
	September	8.02	8.81	6.93	6.55	6.16	12.11
	December	8.18	8.90	7.47	7.16	6.40	12.15
2008	March	8.10	8.91	6.74	6.68	6.36	12.24
	June	8.21	8.68	6.58	6.45	6.42	12.40
	September	7.52	7.95	5.77	5.77	5.82	12.27
	December	5.05	5.23	4.52	4.58	4.88	11.18
2009	March	3.08	3.24	3.35	4.02	4.77	9.90
	June	2.45	2.78	3.78	4.80	5.97	9.89
	September	2.58	2.77	4.01	4.84	5.63	9.93
	December	2.43	2.78	4.21	5.41	6.02	9.90
2010	March	2.35	2.67	3.73	5.09	5.86	9.86
	June	2.49	3.07	3.75	4.85	5.51	9.87
	September	2.91	3.18	4.06	4.55	5.28	10.07
	December	2.88	3.17	4.08	4.79	5.82	10.20
2011	March	2.50	2.69	2.96	3.46	4.32	10.06
	June	2.46	2.65	3.20	3.99	5.04	10.02
	September	2.39	2.88	2.96	3.45	4.41	10.04
	December	2.34	2.69	2.46	3.39	3.91	10.08

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

Source: RBNZ

Table 21 – Money and Credit Aggregates: Annual % Changes

Quarter		M1[1]	M3	Private Sector Credit	Domestic Credit
2007	March	4.0	13.8	13.2	12.5
	June	(1.2)	11.7	14.2	15.4
	September	0.3	10.5	14.1	13.4
	December	1.3	8.2	13.4	11.7
2008	March	2.4	7.4	12.3	10.5
	June	4.4	8.4	11.2	9.9
	September	1.6	7.4	10.1	10.7
	December	4.8	5.7	8.3	10.1
2009	March	4.7	4.7	5.3	7.2
	June	(0.4)	1.1	3.5	4.9
	September	3.2	1.1	2.2	2.6
	December	2.4	1.0	1.7	3.2
2010	March	0.8	0.3	1.1	3.0
	June	0.9	0.4	1.3	3.3
	September	4.7	1.7	0.2	2.2
	December	5.8	3.3	0.5	1.6
2011	March	8.4	5.6	1.6	1.8
	June	9.8	7.3	1.7	1.3
	September	7.6	5.0	1.1	1.0
	December	7.3	6.0	1.6	2.0

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 Act 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 Generally Accepted Accounting Practice. 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 statement 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 (BPS) and the Fiscal Strategy Report (FSR). These documents focus on different aspects of the government's fiscal policy. The BPS has a shorter-term focus. It sets out the over-arching policy goals that will guide the government's Budget decisions and the government's priorities for the forthcoming Budget. The FSR sets out the government's long-term fiscal strategy and explains how that strategy accords with the principles of responsible fiscal management.
- publish economic and fiscal forecasts (Economic and Fiscal Updates – EFU) twice each financial year: at the time of the Budget and again before the end of the calendar year. The Treasury is also required to publish an EFU prior to a general election. In addition, the Treasury is required to publish, at least every four years, a Statement on the Long-term Fiscal Position, looking out at least 40 years. The first such Statement was presented to Parliament in June 2006 and the second in October 2009.
- present all financial information under Generally Agreed Accounting Practice.
- 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.
- 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 ie, 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; and
- to pursue policies that are consistent with a reasonable degree of predictability about the level and stability of future tax rates.

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.

The volcanic cone of Mount Taranaki, North Island.
Andris Apse

Current Fiscal Position and 2011 Budget

Tables 22 and 23 summarise the Government's fiscal position according to Generally Accepted Accounting Practice (GAAP) in line with the provisions of the Public Finance Act 1989.

Table 22 – Current Fiscal Position and 2011 Budget

Year ended 30 June	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Pre-election Update[1]
	(dollar amounts in millions)					
Statement of Financial Performance						
Core Crown tax revenue	53,477	56,747	54,681	50,744	51,557	55,451
Core Crown other revenue	4,734	5,072	4,801	5,472	5,993	5,714
Core Crown revenue	**58,211**	**61,819**	**59,482**	**56,216**	**57,550**	**61,165**
Crown entities, SOE revenue and eliminations	16,378	19,660	20,446	18,509	24,013	22,472
Total Crown revenue	**74,589**	**81,479**	**79,928**	**74,725**	**81,563**	**83,637**
Social security and welfare	16,768	17,877	19,382	21,185	22,005	22,560
Health	10,355	11,297	12,368	13,128	13,753	14,350
Education	9,269	9,551	11,455	11,724	11,650	12,269
Core government services	4,817	3,371	5,293	2,974	5,563	7,138
Other core Crown expenses	12,795	14,901	15,504	15,002	17,479	18,143
Core Crown expenses	**54,004**	**56,997**	**64,002**	**64,013**	**70,450**	**74,460**
Crown entities, SOE expenses and eliminations	14,725	18,845	19,397	17,027	29,509	19,986
Total Crown expenses	**68,729**	**75,842**	**83,399**	**81,040**	**99,959**	**94,446**
OBEGAL	**5,860**	**5,637**	**(3,893)**	**(6,315)**	**(18,396)**	**(10,809)**
Gains/(losses)	2,162	(3,253)	(6,612)	1,806	5,036	(1,792)
Operating balance	**8,022**	**2,384**	**(10,505)**	**(4,509)**	**(13,360)**	**(12,601)**
Statement of Financial Position						
Property, plant and equipment	95,598	103,329	110,135	113,330	114,854	119,067
Financial assets	73,719	85,063	93,359	95,971	115,362	111,104
Other assets	11,031	12,443	13,657	14,054	14,999	15,444
Total assets	**180,348**	**200,835**	**217,151**	**223,355**	**245,215**	**245,615**
Borrowings	41,898	46,110	61,953	69,733	90,245	101,237
Other liabilities	41,623	49,211	55,683	58,634	74,083	76,096
Total liabilities	**83,521**	**95,321**	**117,636**	**128,367**	**164,328**	**177,333**
Net worth	**96,827**	**105,514**	**99,515**	**94,988**	**80,887**	**68,282**
Debt Indicators						
Net debt	13,380	10,258	17,119	26,738	40,128	53,823
Gross debt	30,647	31,390	43,356	53,591	72,420	79,779

1 Pre-election Economic and Fiscal Update announced 25 October 2011.

Source: the Treasury

Table 23 – Current Fiscal Position and 2011 Budget – continued

Year ended 30 June	2007 Actual	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Pre-election Update[1]
GDP	172,060	183,325	185,449	189,359	200,291	211,773
Statement of Financial Performance			as % of GDP			
Core Crown tax revenue	31.1	31.0	29.5	26.8	25.7	26.2
Core Crown other revenue	2.7	2.7	2.6	2.9	3.0	2.7
Core Crown revenue	33.8	33.7	32.1	29.7	28.7	28.9
Crown entities, SOE revenue and eliminations	9.6	10.7	11.0	9.8	12.0	10.6
Total Crown revenue	**43.4**	**44.4**	**43.1**	**39.5**	**40.7**	**39.5**
Social security and welfare	9.7	9.8	10.5	11.2	11.0	10.7
Health	6.0	6.2	6.7	6.9	6.9	6.8
Education	5.4	5.2	6.2	6.2	5.8	5.8
Core government services	2.8	1.8	2.9	1.6	2.8	3.4
Other core Crown expenses	7.5	8.1	8.2	7.9	8.7	8.6
Core Crown expenses	**31.4**	**31.1**	**34.5**	**33.8**	**35.2**	**35.2**
Crown entities, SOE expenses and eliminations	8.5	10.3	10.5	9.0	14.7	9.4
Total Crown expenses	**39.9**	**41.4**	**45.0**	**42.8**	**49.9**	**44.6**
OBEGAL	**3.4**	**3.1**	**(2.1)**	**(3.3)**	**(9.2)**	**(5.1)**
Gains/(losses)	1.3	(1.8)	(3.6)	0.9	2.5	(0.8)
Operating balance	**4.7**	**1.3**	**(5.7)**	**(2.4)**	**(6.7)**	**(6.0)**
Statement of Financial Position						
Property, plant and equipment	55.6	56.4	59.4	59.9	57.3	56.2
Financial assets	42.8	46.4	50.3	50.7	57.6	52.5
Other assets	6.4	6.8	7.4	7.4	7.5	7.3
Total assets	**104.8**	**109.6**	**117.1**	**118.0**	**122.4**	**116.0**
Borrowings	24.4	25.2	33.4	36.8	45.1	47.8
Other liabilities	24.1	26.8	30.0	31.0	36.9	35.9
Total liabilities	**48.5**	**52.0**	**63.4**	**67.8**	**82.0**	**83.7**
Net worth	**56.3**	**57.6**	**53.7**	**50.2**	**40.4**	**32.2**
Debt Indicators						
Net debt	7.8	5.6	9.2	14.1	20.0	25.4
Gross debt	17.8	17.1	23.4	28.3	36.2	37.7

1 Pre-election Economic and Fiscal Update announced 25 October 2011.

Source: the Treasury

Table 24 – Personal Income Tax

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

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

All income other than most capital gains is taxed. Table 24 sets out the personal tax rates that have applied since 1 October 2010.

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

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

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

Indirect Taxes

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

Company Taxes

As part of the 2010 tax reform package, the company tax rate was lowered from 30% to 28% with effect from 1 April 2011. Imputation credits are attached to dividends when tax is paid at the corporate level. Inter-corporate dividends (other than from wholly-owned subsidiaries) are taxed as income. Depreciation rates for new assets are based on the economic life of the asset. There is immediate deductibility against income of forestry and mineral mining development costs, petroleum exploration expenditure and of most agricultural development costs. The 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 are generally taxed on accrual for all income earned by the company. A Bill has been introduced to extend the active income exemption to these investments from 1 July 2012.

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.

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 no tax reduces the return to the investor. Parliament is considering whether to remove the 2% levy on certain bond issues.

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% from the start of the 2011/12 income year).

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.

Korokoro Falls Te Urewera National Park, Hawkes Bay.
Andris Apse

Poison Bay, Fiordland National Park.
Andris Apse

Government Enterprises

State-Owned Enterprises and Crown Entities

In May 1986, as an integral 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 SOEs 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 have been formed 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.

Partial Sale of Selected SOEs

The Government has signalled its intention to sell down up to 49% of its shareholding in Meridian Energy, Mighty River Power,Genesis Energy and Solid Energy and to reduce its shareholding in Air New Zealand to no more than 51% during its second term in office. Mighty River Power will be the first SOE to be offered for partial sale.

Crown Entities

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.

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 2011.

Table 25 – Performance of Government Enterprises

	Balance date	Information reported to
State-Owned Enterprises		
Asure New Zealand Limited	30 September	30 June 2011
Crown Entities		
School boards of trustees	31 December	31 December 2010
Tertiary education institutions	31 December	30 June 2011

Table 26 – Performance of Government Enterprises (continued)

	30 June 2011				30 June 2010			
	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	152	147	5	6	145	146	(1)	5
AsureQuality Limited	148	141	8	5	136	133	4	5
Electricity Corporation of New Zealand Limited	-	-	-	-	-	-	-	-
Genesis Power Limited	1,777	1,742	53	-	1,875	1,834	69	39
Landcorp Farming Limited	3	189	117	18	7	163	(6)	10
Meridian Energy Limited	2,056	1,805	303	684	2,064	1,787	184	353
Meteorological Service of New Zealand Limited	38	35	3	2	37	34	2	1
Mighty River Power Limited	1,153	1,002	128	95	1,097	1,003	80	286
New Zealand Post Limited	1,824	1,860	(36)	11	1,639	1,662	1	6
New Zealand Railways Corporation	1,016	845	34	-	1,106	914	173	-
Solid Energy New Zealand Limited	833	776	87	20	690	646	68	54
Timberlands West Coast Limited	-	-	-	-	-	-	-	-
Transpower New Zealand Limited	737	568	78	-	735	541	65	-
Kordia Group Limited	294	308	(15)	-	258	257	(1)	-
Animal Control Products Limited	7	6	2	1	6	6	1	1
Learning Media Limited	23	23	1	-	24	22	2	-
Quotable Value New Zealand	46	50	(3)	-	46	47	1	1
AMI Insurance Limited	157	177	(20)	-	-	-	-	-
Total State-owned enterprises	**10,264**	**9,674**	**746**	**842**	**9,865**	**9,195**	**642**	**761**
Air New Zealand Limited	4,374	4,132	31	76	4,083	3,991	96	70
Total State-owned enterprises and Air New Zealand Limited	**14,638**	**13,806**	**777**	**918**	**13,948**	**13,186**	**738**	**831**
Intra-segmental eliminations	(392)	(357)	(450)	-	(369)	(374)	(103)	-
Total per statement of segments	**14,246**	**13,449**	**327**	**918**	**13,579**	**12,812**	**635**	**831**
Crown Entities								
Accident Compensation Corporation	5,643	4,047	3,548	-	5,281	3,931	2,500	-
Crown Research Institutes	684	667	18	1	688	693	(12)	1
District Health Boards (including the Crown Health Funding Agency)	11,717	11,727	(8)	-	11,255	11,359	(91)	-
Earthquake Commission	4,624	11,817	(7,083)	-	434	107	363	-
Housing New Zealand Corporation	1,283	948	275	71	998	1,670	(691)	132
Museum of New Zealand Te Papa	45	59	(12)	-	47	60	(12)	-
New Zealand Fire Service Commission	330	324	2	-	313	303	9	-
New Zealand Transport Agency	1,918	1,965	(46)	-	1,995	1,980	15	-
Public Trust	88	95	1	-	91	96	5	-
Schools	6,334	6,309	20	-	6,190	6,166	19	-
Tertiary Education Commission	2,799	2,792	7	10	2,858	2,842	16	14
TEIs	-	-	168	-	-	-	208	-
Television New Zealand	377	366	-	5	357	385	(26)	1
Other Crown entities	2,997	2,850	136	7	3,081	2,919	173	9
Total Crown entities	**38,839**	**43,966**	**(2,974)**	**94**	**33,588**	**32,511**	**2,476**	**157**
Intra-segmental eliminations	(803)	(638)	(169)	-	(942)	(844)	(103)	-
Total per statement of segments	**38,036**	**43,328**	**(3,143)**	**94**	**32,646**	**31,667**	**2,373**	**157**
Total financial interest in SOEs, Crown entities and Air New Zealand Limited	**52,282**	**56,777**	**(2,816)**	**1,012**	**46,225**	**44,479**	**3,008**	**988**

Table 27 – Performance of Government Enterprises (continued)

	30 June 2011						30 June 2010
	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	11	106	137	32	93	44	45
AsureQuality Limited	5	30	67	7	32	35	32
Electricity Corporation of New Zealand Limited	-	-	1	-	-	1	2
Genesis Power Limited	876	3,090	3,677	1,288	1,965	1,712	1,446
Landcorp Farming Limited	59	1,217	1,661	283	306	1,355	1,237
Meridian Energy Limited	252	7,721	8,452	1,879	3,521	4,931	5,070
Meteorological Service of New Zealand Limited	8	25	37	15	23	14	13
Mighty River Power Limited	174	4,750	5,350	1,383	2,443	2,907	2,680
New Zealand Post Limited	47	348	14,661	13,734	14,014	647	685
New Zealand Railways Corporation	653	13,284	13,570	621	932	12,638	12,393
Solid Energy New Zealand Limited	116	649	1,127	235	608	519	444
Timberlands West Coast Limited	-	-	-	-	-	-	6
Transpower New Zealand Limited	471	3,376	4,198	2,259	2,637	1,561	1,482
Kordia Group Limited	15	109	234	84	153	81	96
Animal Control Products Limited	-	3	8	-	2	6	5
Learning Media Limited	-	1	15	-	9	6	6
Quotable Value New Zealand	-	1	28	1	8	20	22
AMI Insurance Limited	2	36	2,256	-	2,040	216	-
Total State-owned enterprises	**2,689**	**34,746**	**55,479**	**21,821**	**28,786**	**26,693**	**25,664**
Air New Zealand Limited	723	2,540	4,458	1,428	3,431	1,027	1,473
Total State-owned enterprises and Air NewZealand Limited	**3,412**	**37,286**	**59,937**	**23,249**	**32,217**	**27,720**	**27,137**
Intra-segmental eliminations	(822)	(461)	(577)	(150)	(97)	(480)	(257)
Total per statement of segments	**2,590**	**36,825**	**59,360**	**23,099**	**32,120**	**27,240**	**26,880**
Crown Entities							
Accident Compensation Corporation	28	63	21,804	9	28,511	(6,707)	(10,252)
Crown Research Institutes	54	510	737	34	235	502	485
District Health Boards (including the Crown Health Funding Agency)	614	4,645	7,717	3,568	5,584	2,133	2,115
Earthquake Commission	11	22	9,453	-	10,610	(1,157)	5,935
Housing New Zealand Corporation	271	15,018	15,568	1,990	3,957	11,611	11,516
Museum of New Zealand Te Papa	9	1,140	1,168	-	10	1,158	1,122
New Zealand Fire Service Commission	47	546	595	10	98	497	494
New Zealand Transport Agency	1,348	25,146	25,516	110	489	25,027	24,954
Public Trust	4	9	908	874	886	22	20
Schools	51	1,305	2,551	126	810	1,741	1,728
Tertiary Education Commission	-	3	75	20	55	20	24
TEIs	-	-	7,968	-	-	7,968	7,740
Television New Zealand	7	136	264	11	80	184	190
Other Crown entities	24	322	1,429	41	620	809	657
Total Crown entities	**2,468**	**48,865**	**95,753**	**6,793**	**51,945**	**43,808**	**46,728**
Intra-segmental eliminations	(6)	(385)	(2,095)	(1,670)	(1,717)	(378)	(236)
Total per statement of segments	**2,462**	**48,480**	**93,658**	**5,123**	**50,228**	**43,430**	**46,492**
Total financial interest in SOEs, Crown entities and Air New Zealand Limited	**5,052**	**85,305**	**153,018**	**28,222**	**82,348**	**70,670**	**73,372**

Source: the Treasury

Lenticular cloud formed by North West wind conditions over Lake Pukaki. New Zealand's highest peak, Mount Cook, in background.
Andris Apse

Public Debt[1,2]

Debt Management Objectives

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

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

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

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

Direct public debt increased by a net amount of $19,222 million including swaps between 1 July 2010 and 30 June 2011. This increase was due to a net increase in internal debt of $21,205 million and a decrease of $1,983 million in external debt.

As of 30 June 2011, 3.1% 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 $7,141 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.

1 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 generally accepted accounting practice and include the net debt of the Reserve Bank of New Zealand.

2 All data sources: 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 ($413.8 million at 30 June 2011) 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 2011.

As at 30 June	2007	2008	2009	2010	2011
	(dollar amounts in millions)				
Funded Debt[1]					
Internal[2]	26,860.4	28,210.4	29,614.5	38,575.5	60,519.9
External[3,4]	2,048.0	2,048.5	4,025.7	2,197.2	33.4
Floating Debt					
Internal Debt[5]	2,303.4	1,655.0	7,505.0	8,065.0	7,326.0
External Debt[3,6]	-	-	153.0	-	180.6
Total Direct Debt	**31,211.4**	**31,913.9**	**41,298.2**	**48,837.7**	**68,059.9**
Total Public Debt as a % of GDP[7]	**18.9%**	**17.7%**	**23.1%**	**25.8%**	**34.1%**

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 pm spot rate on 30 June for each year.
4 Includes Public Bonds, Private Placements, Syndicated Loans, and Medium Term Notes.
5 Treasury Bills.
6 Includes Sovereign Notes and Euro-Commercial Paper.
7 GDP: Treasury Estimate for June years.

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 2011 by currency of payment after swap positions are taken into account and shows the estimated interest for the year ending 30 June 2012 including swap positions.

	Amount outstanding at 30 June 2011[1]	Estimated interest for the year to 30 June 2012[2]
	(dollar amounts in millions)	
External Debt		
Repayable in United States Dollars	1,806.8	34.1
Repayable in Japanese Yen	299.1	0.2
Repayable in Pounds Sterling	9.3	1.6
Repayable in Euro	0.0	19.7
Repayable in Other Currencies	0.0	24.6
Internal Debt	65,530.9	3,424.1
Subtotal	**67,646.1**	**3,504.3**
Swaps	413.8	-
Total Direct Public Debt	**68,059.9**	**-**

1 Converted at the midpoint of the 3.00 pm spot exchange rates on 30 June 2011 which were: NZD 1 = US$0.8307 = Yen 66.87= Pounds 0.5160 = Aus$ 0.7739 = Euro 0.5734
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 2011, 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 2011[1]

Maturing in year ended 30 June	2012	2013	2014	2015	2016	2017	2018-2021	2022+	Total
	(dollar amounts in millions)								
United States dollars	1,717.0	(53.0)	(333.0)	(489.0)	(353.0)	(98.0)	0.0	0.0	391.0
Japanese Yen	150.0	150.0	0.0	(127.0)	(45.0)	0.0	0.0	0.0	128.0
British pounds	0.0	(4.0)	(154.0)	9.0	0.0	(122.0)	0.0	0.0	(271.0)
Euro	0.0	0.0	(174.0)	183.0	(349.0)	(87.0)	0.0	0.0	(427.0)
Australian dollars	237.0	45.0	0.0	79.0	0.0	32.0	0.0	0.0	393.0
Total External Debt	**2,104.0**	**138.0**	**(661.0)**	**(345.0)**	**(747.0)**	**(275.0)**	**0.0**	**0.0**	**214.0**
% of Total Foreign Debt	**983.0%**	**64.4%**	**(308.7%)**	**(161.2%)**	**(349.2%)**	**(128.3%)**	**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 2011, the total payment of interest on public debt of the Government was $2,582 million. The following table indicates the movements in external interest-bearing public debt since 2002, 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 2002	4,733.5	12.4	311.4	0.7
30 June 2003	4,523.0	11.8	216.6	0.5
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

1 Excludes non-interest-bearing indebtedness to international organisations.
2 External debt is converted at the midpoint 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 2011, including the effect of swap positions.

Loans Maturing in year ending 30 June[1]	External[2]	Internal	Total Debt
	(dollar amounts in millions)		
2012	1,923.6	8,569.6	10,493.2
2013	138.1	10,835.1	10,973.2
2014	(660.9)	791.8	130.9
2015	(345.2)	9,483.1	9,137.9
2016	(747.5)	3,067.6	2,320.1
2017	(274.7)	350.6	75.9
2018 to 30 June 2021	0.0	26,758.0	26,758.0
After 30 June 2021	0.0	404.0	404.0
Treasury Bills	-	7,326.0	7,326.0
Other	180.6	260.1[3]	440.7
Total	**214.0**	**67,845.9**	**68,059.9**

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 30 June 2011.
3 Retail stock.

Tables and Supplementary Information

Table I – Internal Debt as of 30 June 2011

Currency (NZD)	Principal Outstanding	Maturity Date	Coupon Rate (% per annum)	Fiscal Year of Issue	Amortisation
Government Stock	8,766,000,000	15/11/11	6.00	1999	
	10,760,000,000	15/04/13	6.50	2001	
	9,011,000,000	15/04/15	6.00	2003	
	2,160,428,400	15/02/16	4.50	1996	
	9,646,000,000	15/12/17	6.00	2005	
	10,724,000,000	15/05/21	6.00	2009	
	6,388,000,000	15/03/19	5.00	2011	
	404,000,000	15/04/23	5.50	2011	
	57,859,428,400				
Treasury Bills	**7,326,000,000**	06/07/11 – 20/06/12	2.49 – 3.67	2011	
Loans	124,640	01/09/13	Variable	1994	2011–2013
	84,772,206	24/08/11 – 12/02/14	Variable	2006	
	454,700	1/05/16– 01/03/17	5.50 – 5.75	[1]	
	85,351,546				
Retail stock[2]	**260,148,173**	1/07/11 – 27/07/15	2.75 – 4.00	2009 – 2011	
Total Internal Debt	**65,530,928,119**				

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 2011

Currency	Principal Outstanding	Maturity Date	Coupon Rate (% per annum)	Fiscal Year of Issue	Amortisation
USD	1,177,260,000	Call	Variable	2011	
	100,000,000	23/04/12	4.15	2004	
	46,107,000	01/04/16	8.75	1987	
	27,543,000	25/09/16	9.13	1987	
	150,000,000	Euro Commercial Paper		2011	
	1,500,910,000				
Japan	10,000,000,000	11/05/12	2.59	2000	
	10,000,000,000	27/11/12	6.34	1993	
	20,000,000,000				
GBP	4,816,651	25/09/14	11.50	1985	
	4,816,651				

Table III – External Debt Issued 1 July 2011 to 30 November 2011

Nil issuance.

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 2011 ($m)	30 June 2010 ($m)
Quantifiable Contingent Liabilities		
Guarantees and Indemnities	78	106
Uncalled Capital	4,033	2,310
Legal Proceedings and Disputes	331	414
Other Contingent Liabilities	2,699	3,535
Total Quantifiable Contingent Liabilities	**7,141**	**6,365**
Total Quantifiable Contingent Assets	**704**	**572**

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.