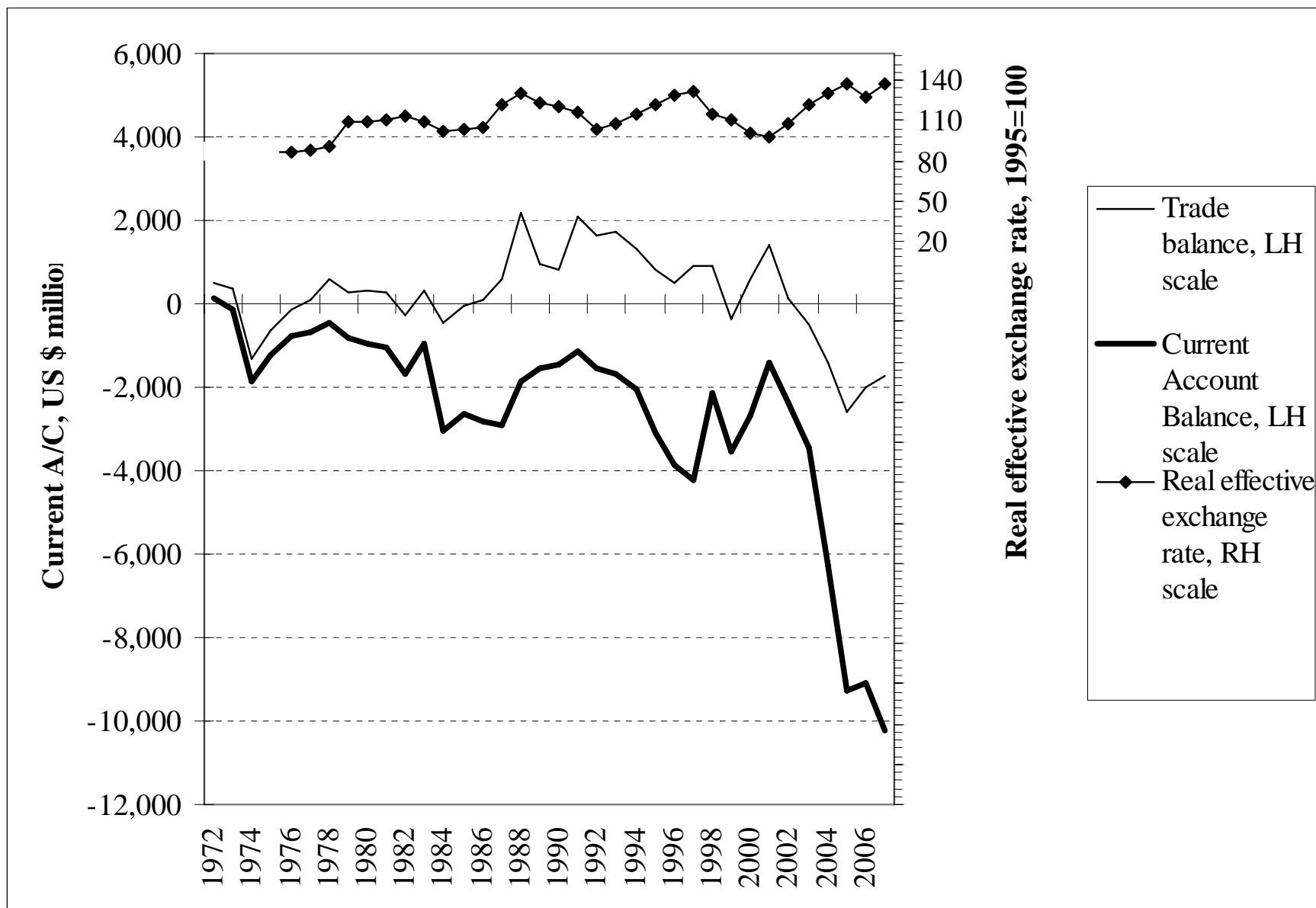


# **The Banks, the Current Account, the Financial Crisis and the Outlook**

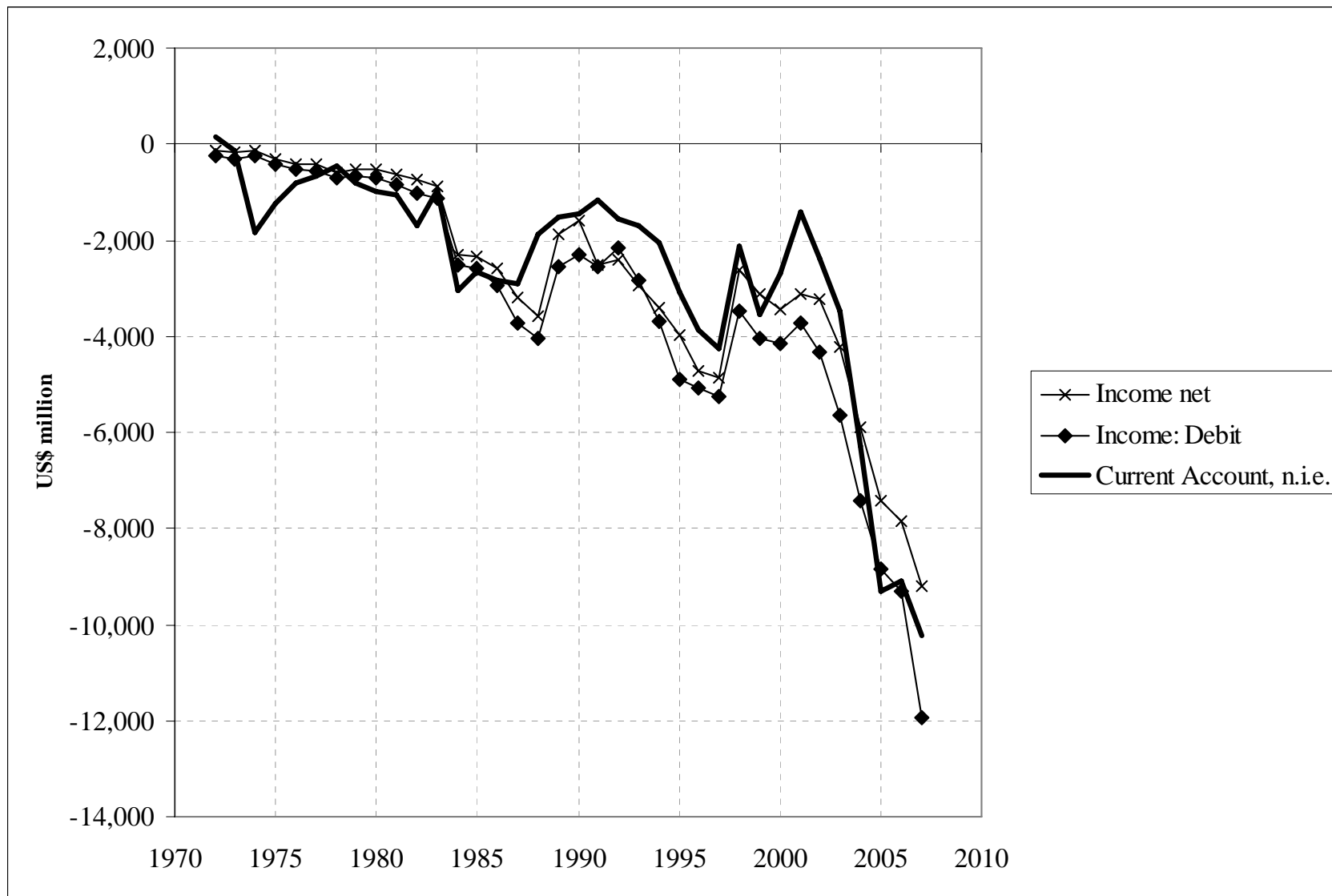
Geoff Bertram  
22 November 2008

**Figure 1: The Current Account, the Trade Balance (Goods and Services), and the Real Exchange Rate, 1972-2007 calendar years**



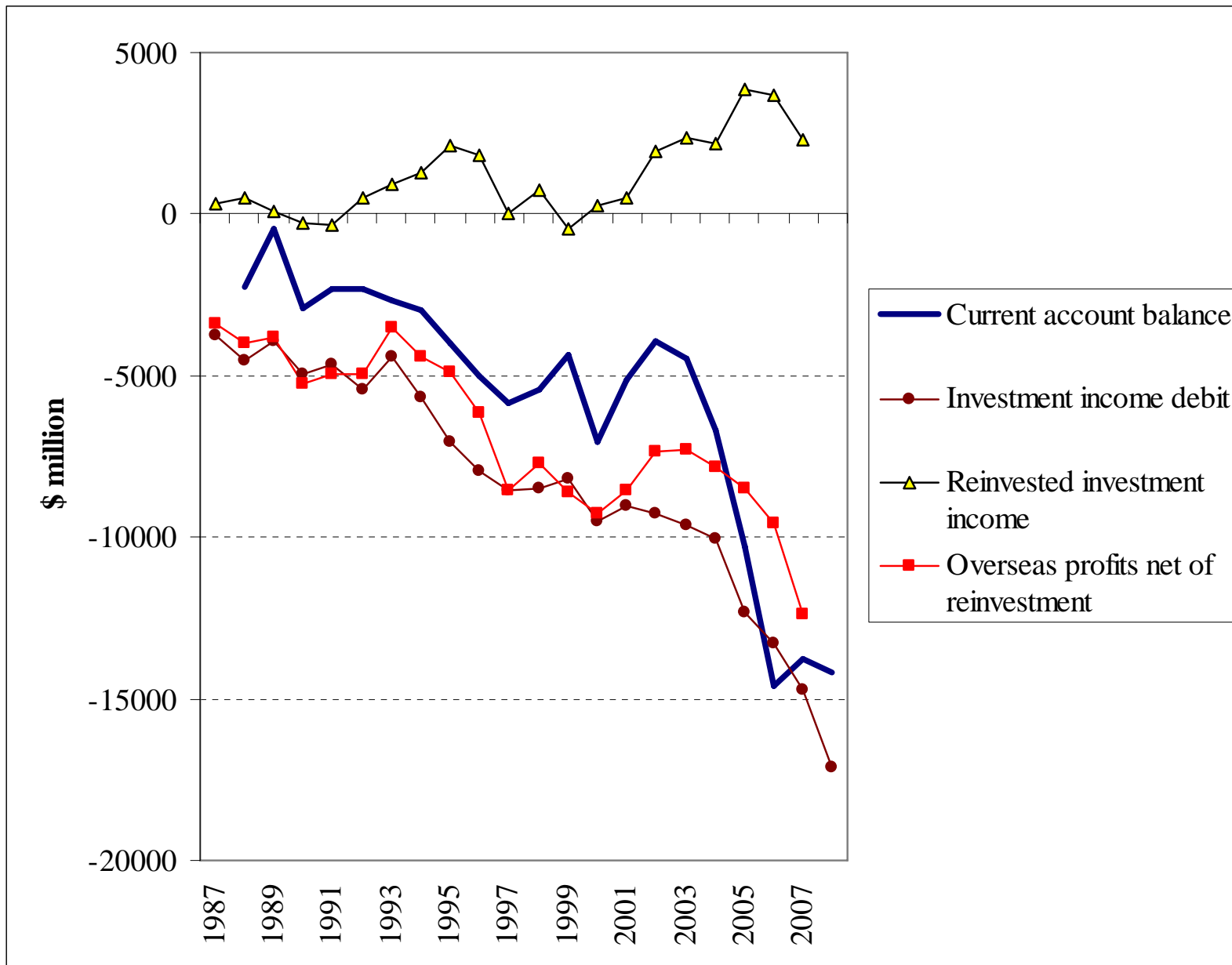
Source: IMF, *International Financial Statistics*.

**Figure 2: The Current Account Deficit and Income Account Debits (gross and net) on the New Zealand Balance of Payments:  
(a) IMF data 1972-2007 calendar years**



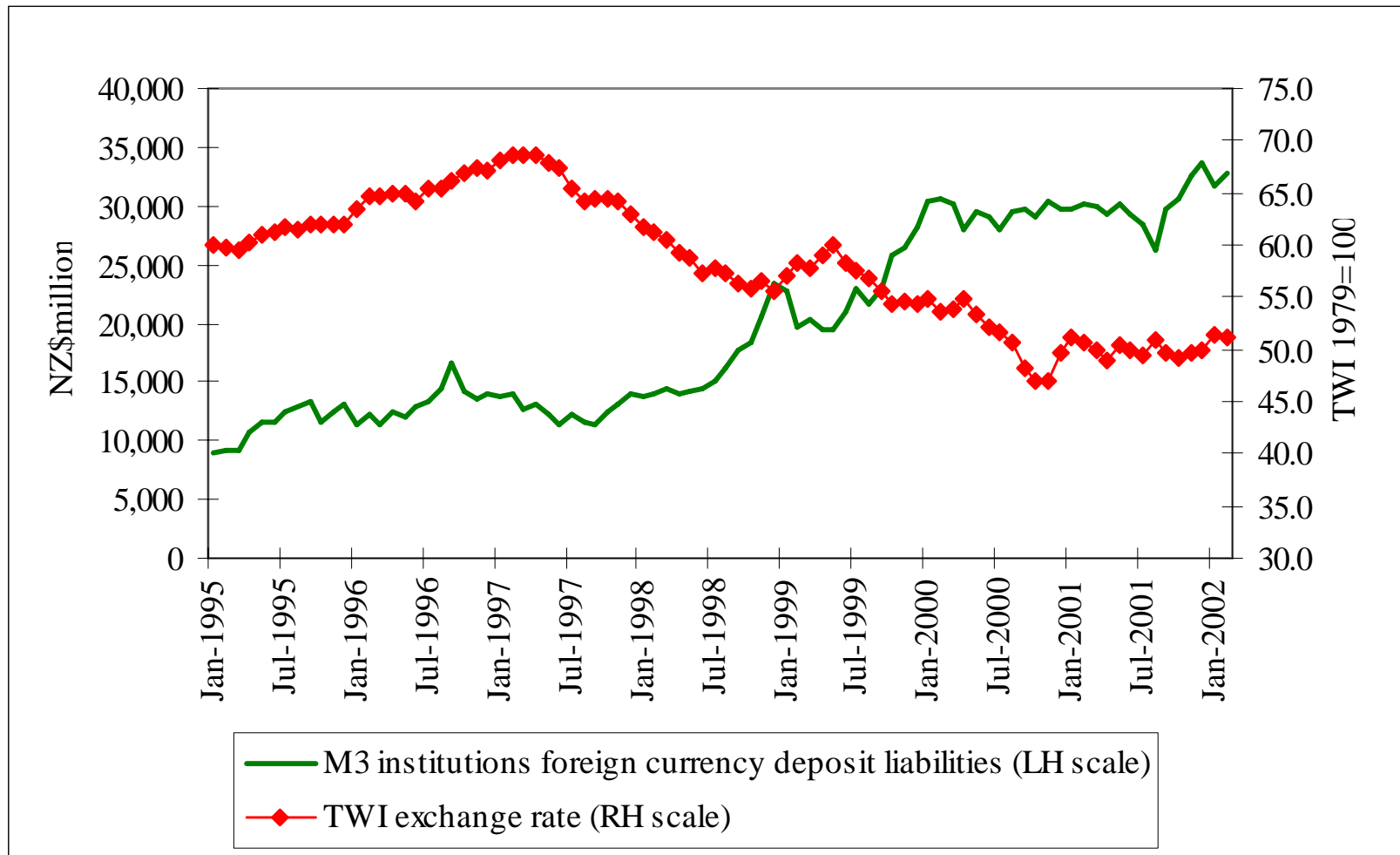
Source: IMF, *International Financial Statistics*.

**(b) Statistics NZ data 1987-2008 March years**



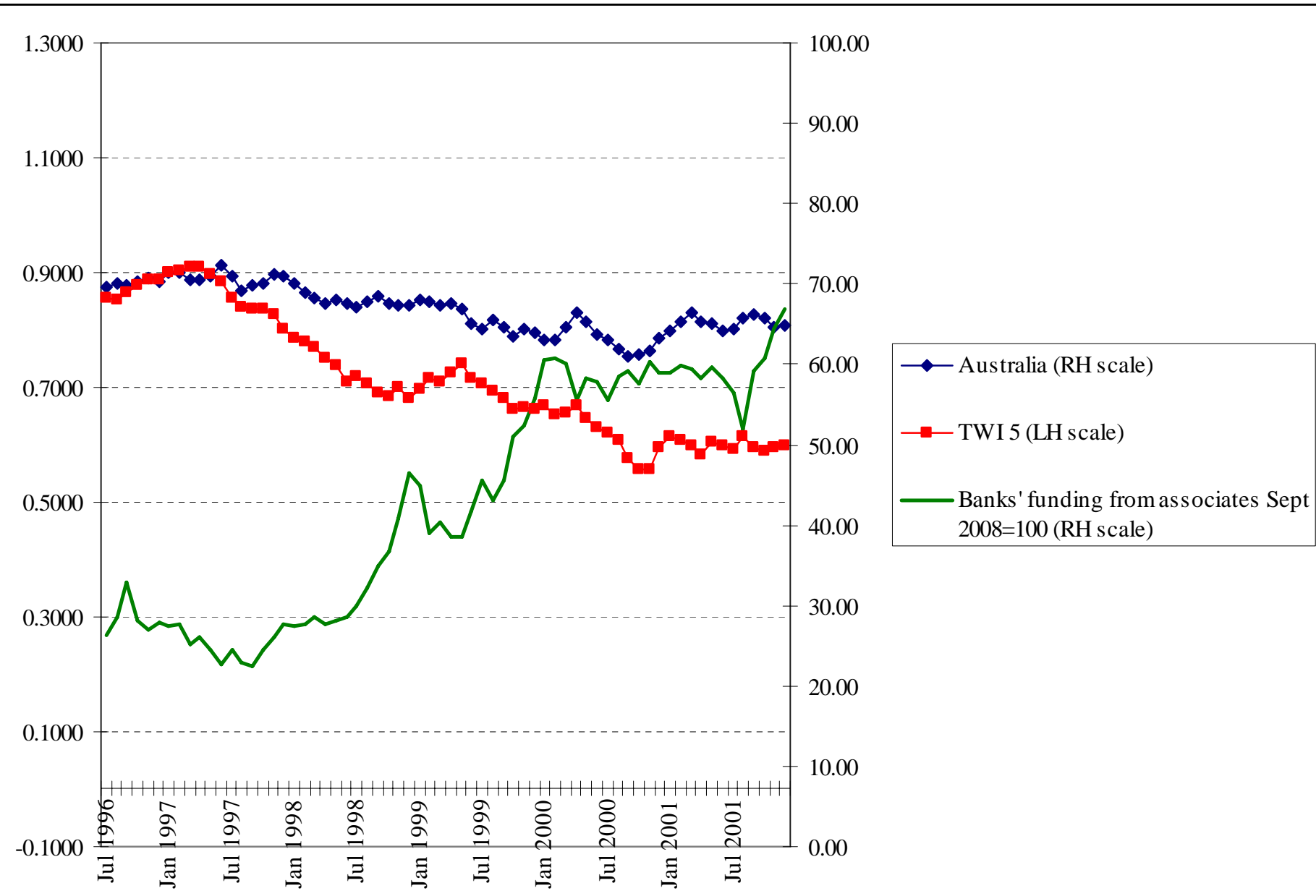
**Figure 3: from Bertram 2002**

**Nominal Exchange Rate and M3 Institutions' Foreign-Currency Liabilities 1985-2002**



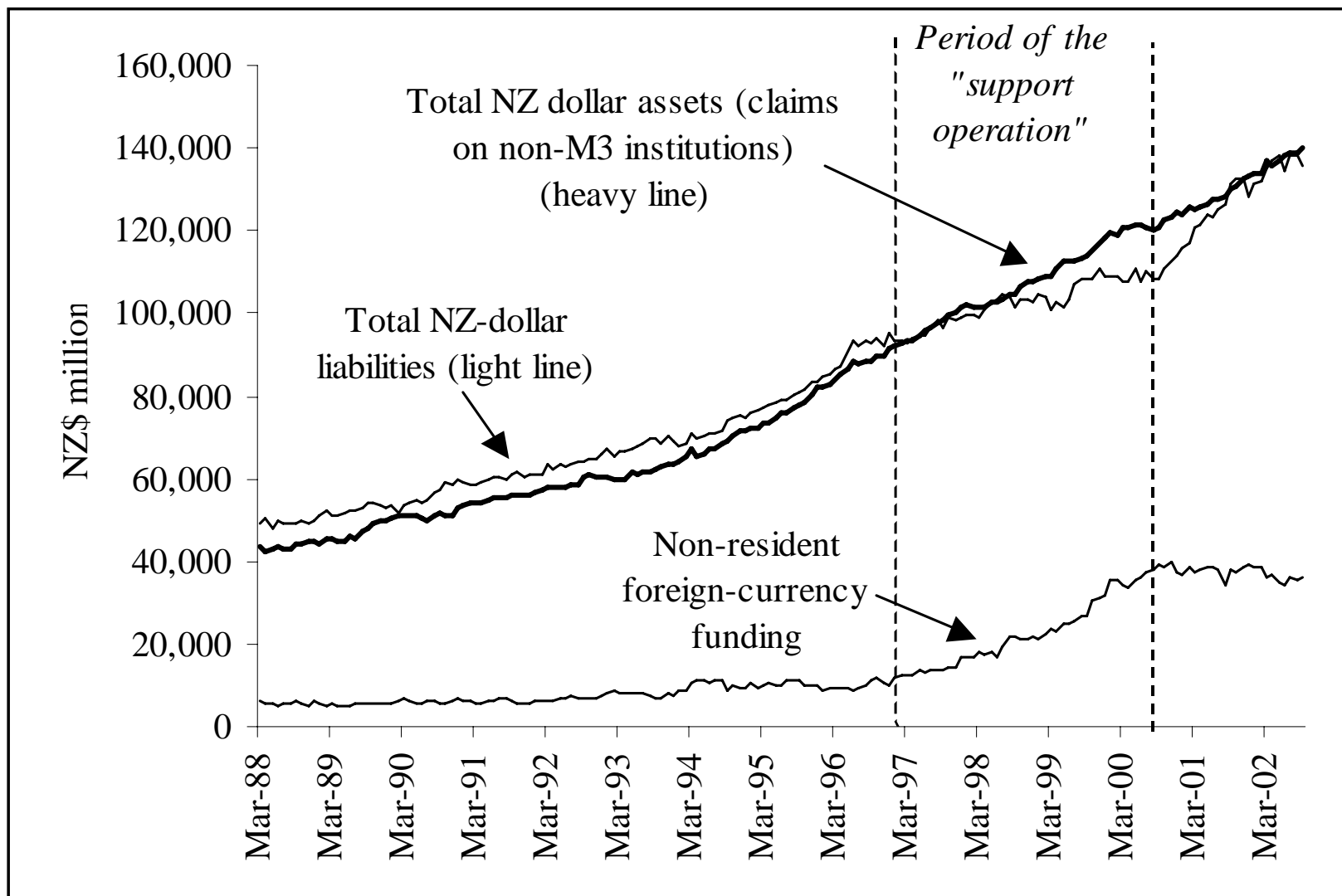
Source: RBNZ Historical Tables B1 and C5

# Figure 4: Offshore Bank Funding and Two Exchange Rates



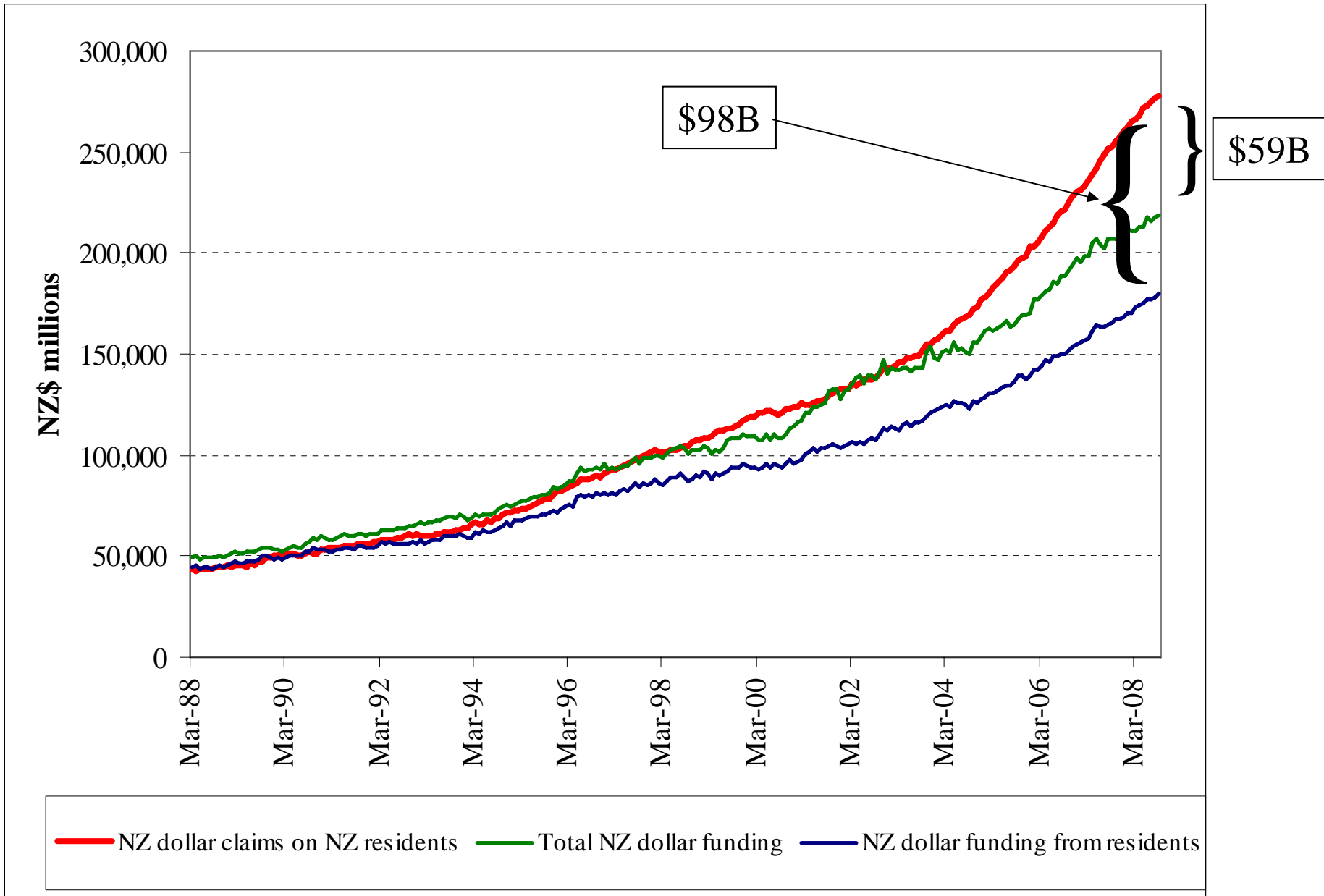
**Figure 5: from Bertram (2002)**

### Funding the Growth of M3 Institutions' NZ dollar Assets



Source: RBNZ Table HC4.

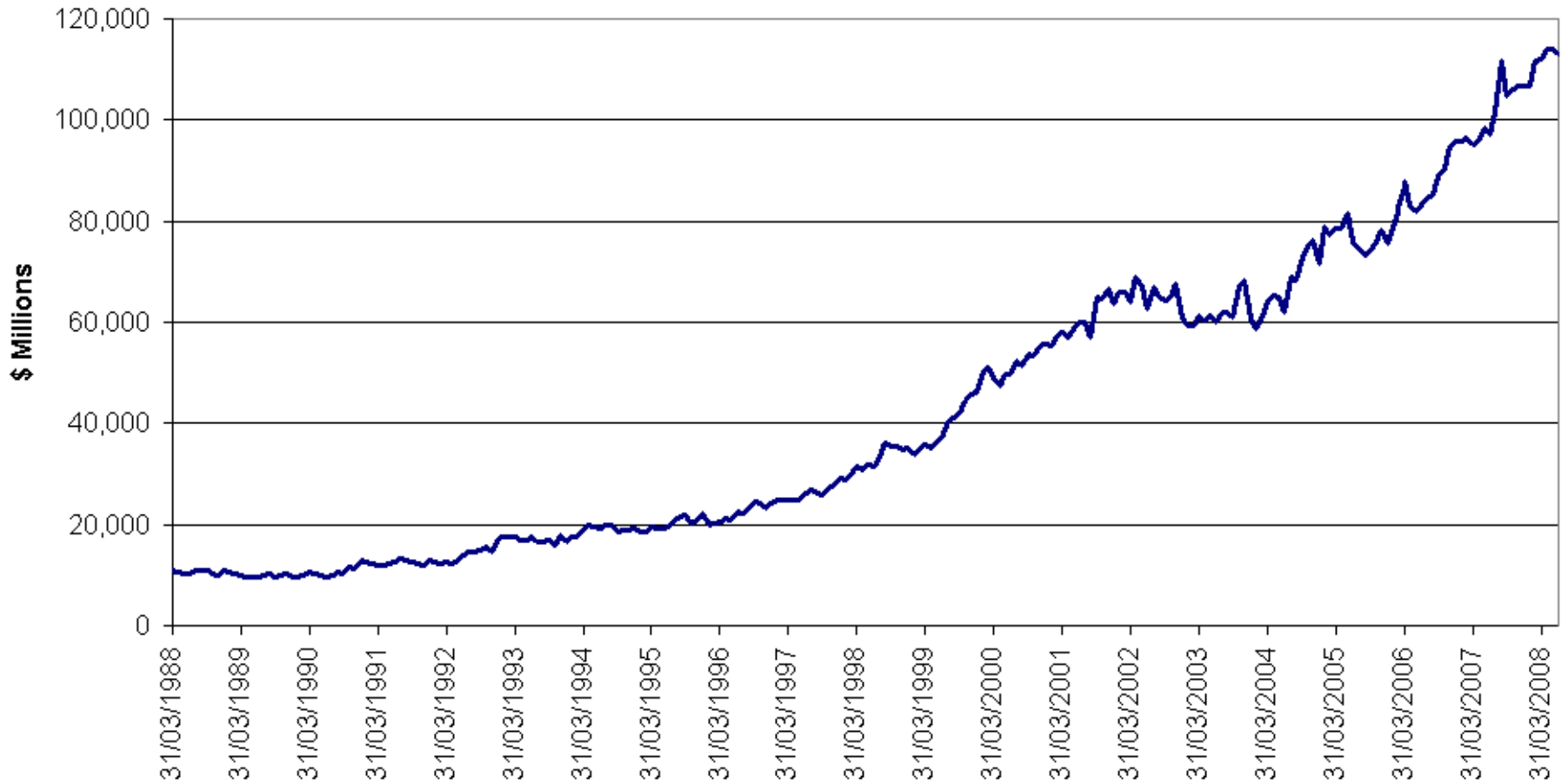
**Figure 6: Funding of NZ Banks March 1988 to September 2008**



Source: RBNZ Table C4.

**Figure 7**

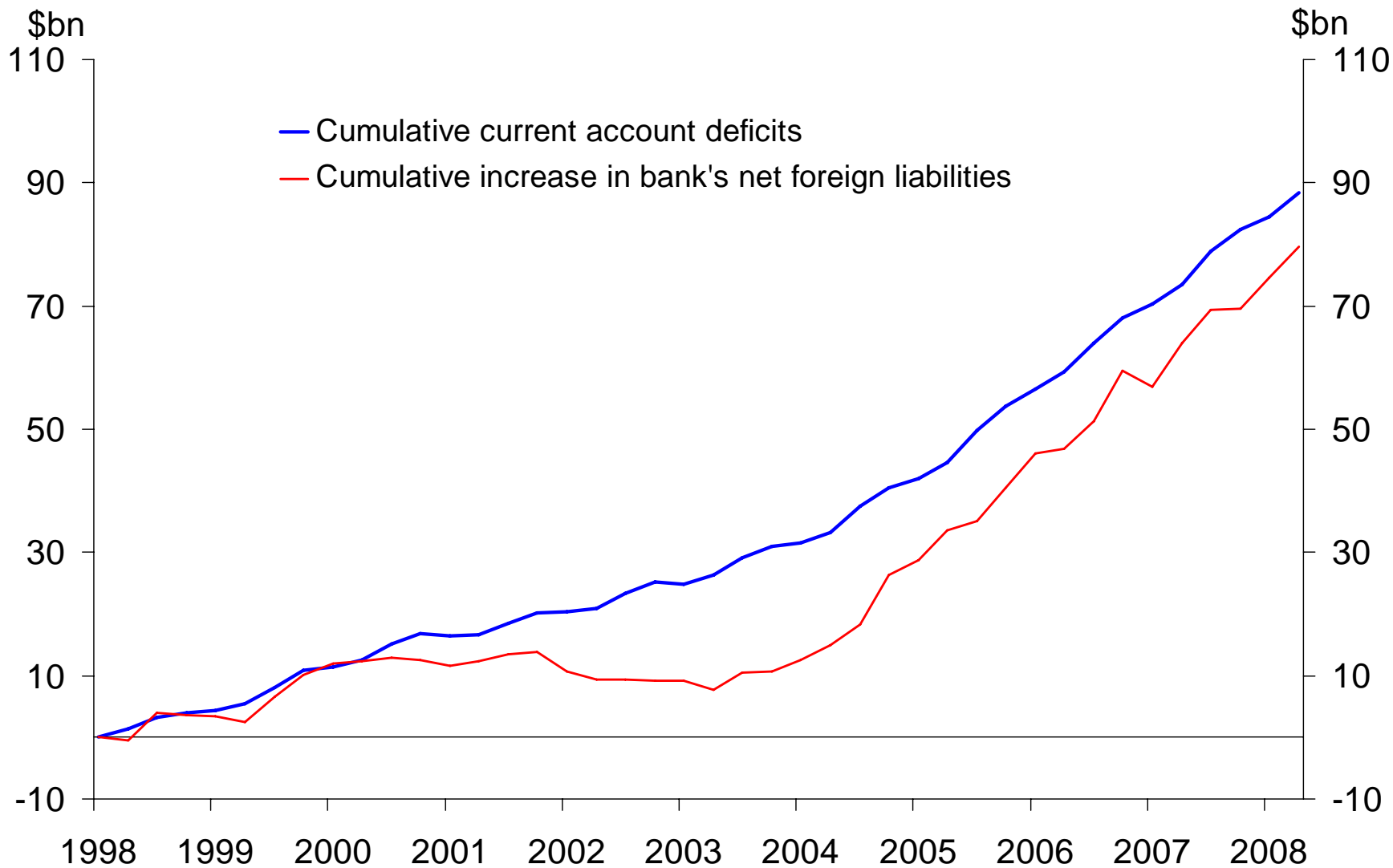
**TOTAL NON-RESIDENT FUNDING OF THE NEW ZEALAND BANKING SYSTEM**



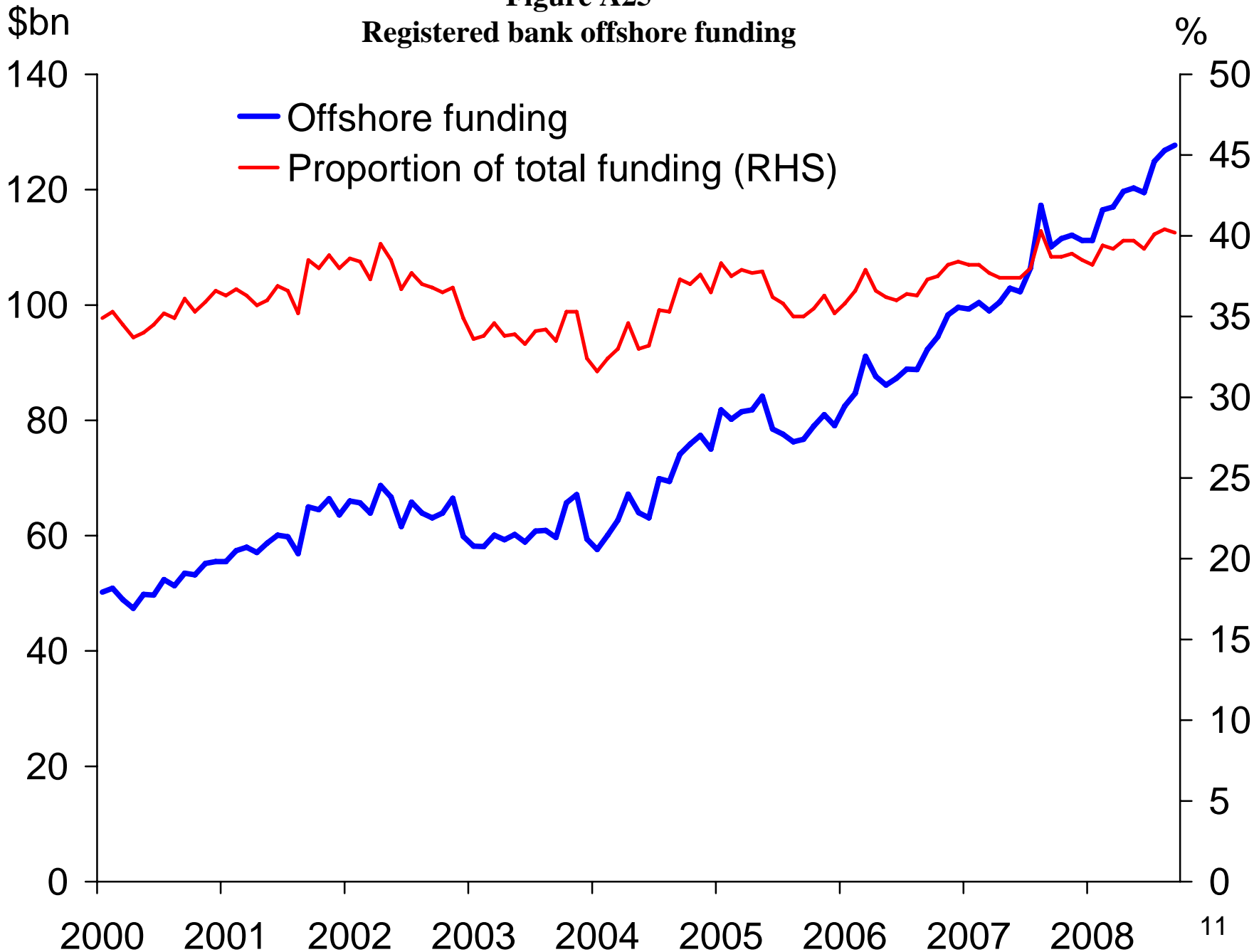
Source: Tripe n.d.

# Figure 8: The Funding of the Current Account Deficit

Source: RBNZ 2008 p.27



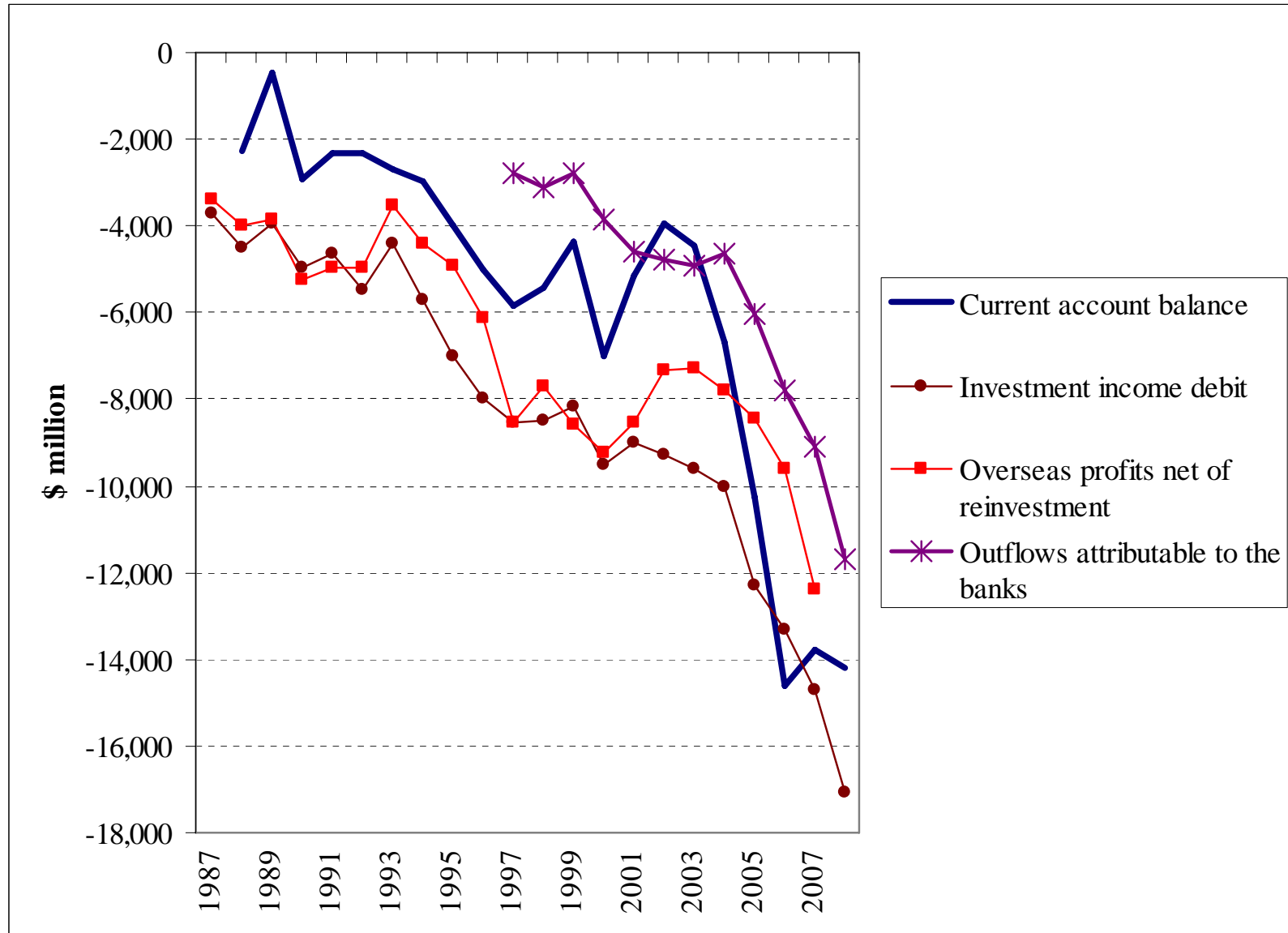
**Figure A25**  
**Registered bank offshore funding**



## Table 1: Consolidated Banks Balance Sheet

		Aug-08	Sep-08		Aug-08	Sep-08
	<b>Liabilities, capital and reserves</b>			<b>Assets</b>		
	<b>NZ dollar funding</b>			<b>NZ dollar claims</b>		
1	NZ resident	177.6	179.6	NZ resident (Non M3)	277.2	277.9
2	Non-resident	40.0	39.0	Non-resident	7.6	9.0
3	Total 1+2	<b>217.6</b>	<b>218.6</b>	Sub-total to here	<b>284.9</b>	<b>286.8</b>
				NZ resident (M3 institutions)	15.0	15.1
				Total	<b>299.9</b>	<b>302.0</b>
	<b>Foreign currency funding</b>			<b>Foreign currency claims</b>		
4	NZ resident	10.2	9.9	NZ resident	4.0	4.2
5	Non-resident (?all wholesale?)	80.1	80.7	Non-resident	11.6	6.6
6	Total 4+5	90.3	90.7	Total	<b>15.6</b>	<b>10.8</b>
7	Capital and reserves	22.6	22.5	Foreign currency fixed assets and	0.1	0.1
8	Other Liabilities	19.6	27.9	Shares in NZ companies	0.4	0.4
				Other Assets	<b>25.4</b>	<b>35.0</b>
				Treasury bills	1.5	1.4
				NZ notes and coin	0.5	0.5
				Claims on the Reserve Bank	6.7	9.3
	<b>Total liabilities</b>	<b>350.1</b>	<b>359.6</b>	<b>Total assets</b>	<b>350.1</b>	<b>359.6</b>
	Memo items:			Memo items:		
9	funding from associates	50.7	50.4	financial claims on associates	7.1	6.6
10	total non-resident funding	120.1	119.7	total non-resident claims	19.2	15.6

**Figure 9: Income Outflows Attributable to the Banks, Relative to Total Investment Income Debits on the Current Account**



**Table 2: Current Account Flows and Bank Outflows of Accruing Profits and Interest**

March years	Current account balance	Investment income debit	Reinvested investment income	Overseas profits net of reinvestment	Outflows attributable to the banks	Banks % of income debit
1987		-3,726	351	-3,375		
1988	-2,253	-4,516	521	-3,995		
1989	-469	-3,935	96	-3,839		
1990	-2,938	-4,962	-301	-5,263		
1991	-2,327	-4,653	-322	-4,975		
1992	-2,315	-5,458	494	-4,964		
1993	-2,679	-4,426	915	-3,511		
1994	-2,990	-5,694	1,309	-4,385		
1995	-3,989	-7,023	2,113	-4,910		
1996	-5,015	-7,959	1,833	-6,126		
1997	-5,829	-8,543	-5	-8,548	-2,787	33
1998	-5,416	-8,494	772	-7,722	-3,112	37
1999	-4,377	-8,173	-431	-8,604	-2,795	34
2000	-7,022	-9,502	249	-9,253	-3,836	40
2001	-5,145	-9,011	482	-8,529	-4,587	51
2002	-3,922	-9,256	1,919	-7,337	-4,788	52
2003	-4,462	-9,622	2,361	-7,261	-4,903	51
2004	-6,688	-10,022	2,207	-7,815	-4,630	46
2005	-10,268	-12,314	3,850	-8,464	-6,017	49
2006	-14,592	-13,302	3,705	-9,597	-7,799	59
2007	-13,785	-14,714	2,312	-12,402	-9,089	62
2008	-14,211	-17,094			-11,711	69

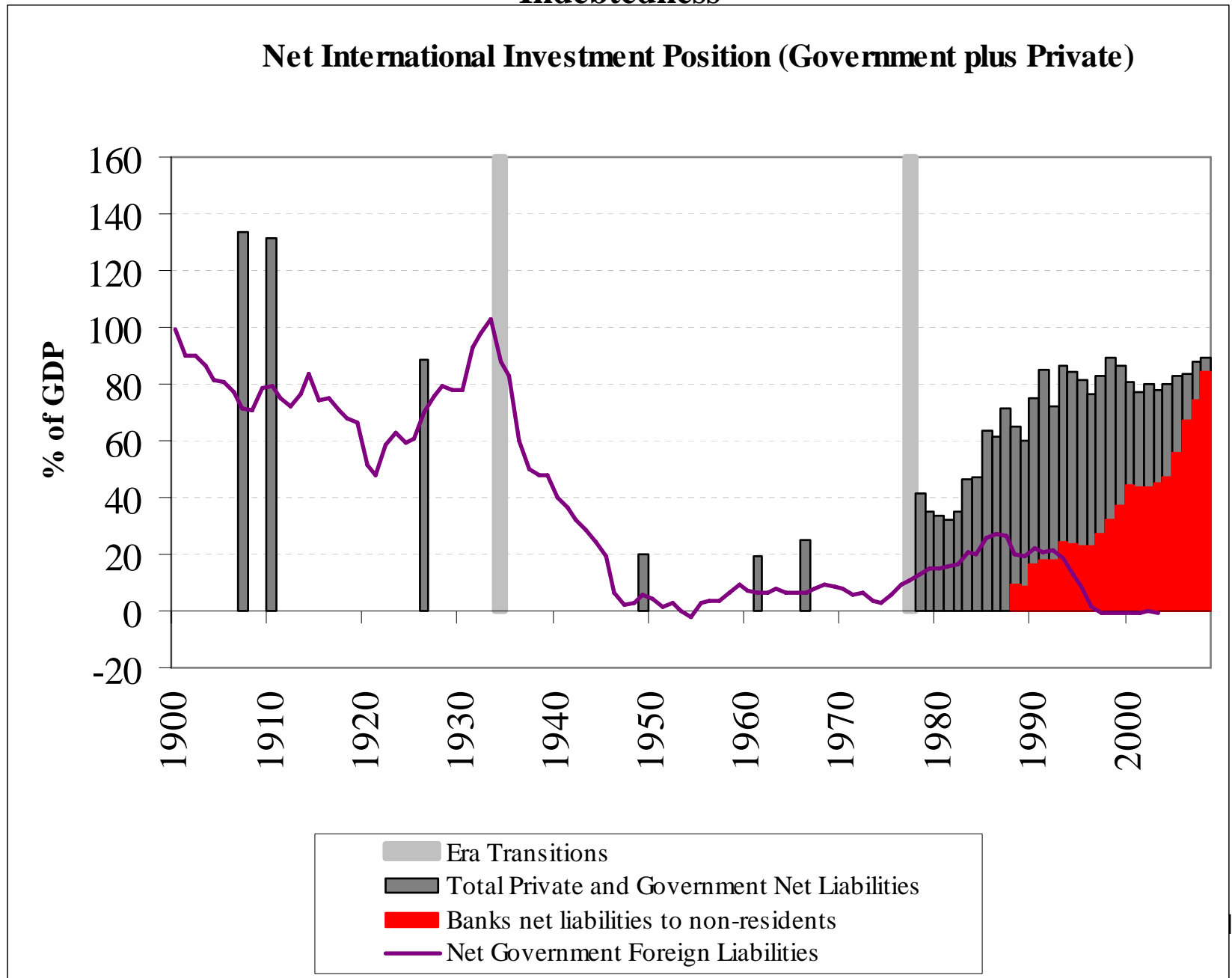
Sources: Current account data from INFOS; banking sector data from David Tripe.

**Table 3: Bank Liabilities to Non-residents Relative to New Zealand's International Gross Liabilities**

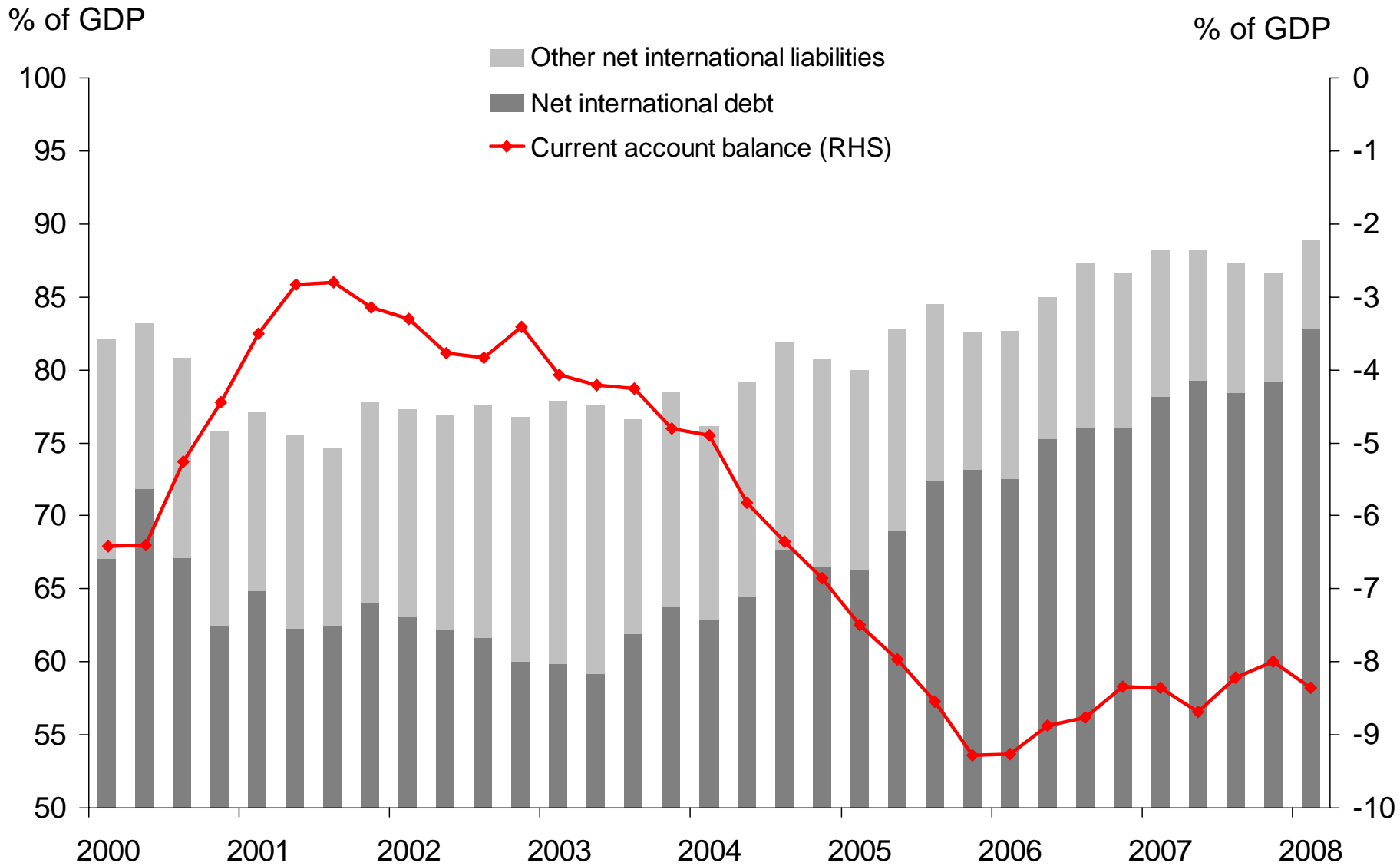
	Direct investments		Portfolio and "other" investments investment		International Investment Position: Total Liabilities	Banks	Banks %
	NZ total	Banks' equity (average over calendar year)	NZ total	Banks' funding from non-residents			
Mar-1992	22.9	3.6	51.9	12.5	74.8	16.0	21.4
Mar-1993	27.8	4.1	55.0	17.7	82.9	21.8	26.3
Mar-1994	34.3	4.4	56.5	19.4	90.8	23.8	26.2
Mar-1995	39.4	4.9	56.6	19.4	96.0	24.3	25.3
Mar-1996	49.2	4.4	56.4	20.6	105.6	25.0	23.6
Mar-1997	53.9	6.3	59.0	24.9	113.0	31.2	27.6
Mar-1998	63.0	6.9	61.1	31.5	124.1	38.5	31.0
Mar-1999	63.1	8.3	64.1	35.8	127.3	44.1	34.7
Mar-2000	63.8	9.5	71.7	48.9	135.5	58.4	43.1
Mar-2001	57.2	10.7	106.9	58.1	164.1	68.8	41.9
Mar-2002	56.0	13.3	117.6	64.0	173.6	77.3	44.5
Mar-2003	58.3	16.9	114.3	61.3	172.6	78.2	45.3
Mar-2004	68.9	18.3	120.8	64.4	189.8	82.7	43.6
Mar-2005	73.7	19.2	134.7	78.8	208.3	98.0	47.1
Mar-2006	78.1	20.1	149.1	87.7	227.2	107.8	47.4
Mar-2007	90.6	21.4	156.3	95.1	246.9	116.5	47.2
Mar-2008	93.3		172.6	112.2	265.9	112.2	42.2
Jun-2008	94.8	22.3	172.4	113	267.2	135.3	50.6

Sources: Bank liabilities from RBNZ Table C4. International Investment Position liabilities from Statistics New Zealand INFOS database

**Figure 10: Bank's Net International Liabilities Compared with Economy's Total Net Indebtedness**



**Figure 11: New Zealand's External Position (percent of GDP)**



**Table 2**  
**International Assets and Liabilities**

	<i>IIPQ</i>		June 2008
<b>New Zealand's international assets<sup>(3)</sup></b>			
Equity assets <sup>(4)</sup>	S5AA1A	R	52,098
Lending	S5AA3	R	77,683
Banks	S5AA8C		21,723
General government	S5AA8B		8,976
Monetary authorities	S5AA8A		20,210
Other sectors	S5AA8D	R	26,774
<b>Total international assets</b>	S5AA1	R	129,780
<b>New Zealand's international liabilities</b>			
Equity liabilities	S5AL1A	R	63,115
Borrowing	S5AL3	R	225,858
Banks	S5AL8C	R	138,881
General government	S5AL8B	R	17,574
Monetary authorities	S5AL8A		273
Other sectors	S5AL8D	R	69,131
<b>Total international liabilities</b>	S5AL1	R	288,974
<b>New Zealand's net international asset position</b>			
<b>Net international equity</b>	S5AA2A	R	-11,018
<b>Net international debt</b>	S5AA2B	R	-148,176
<b>Net international asset position</b>	S5AA2	R	-159,194



Table C1

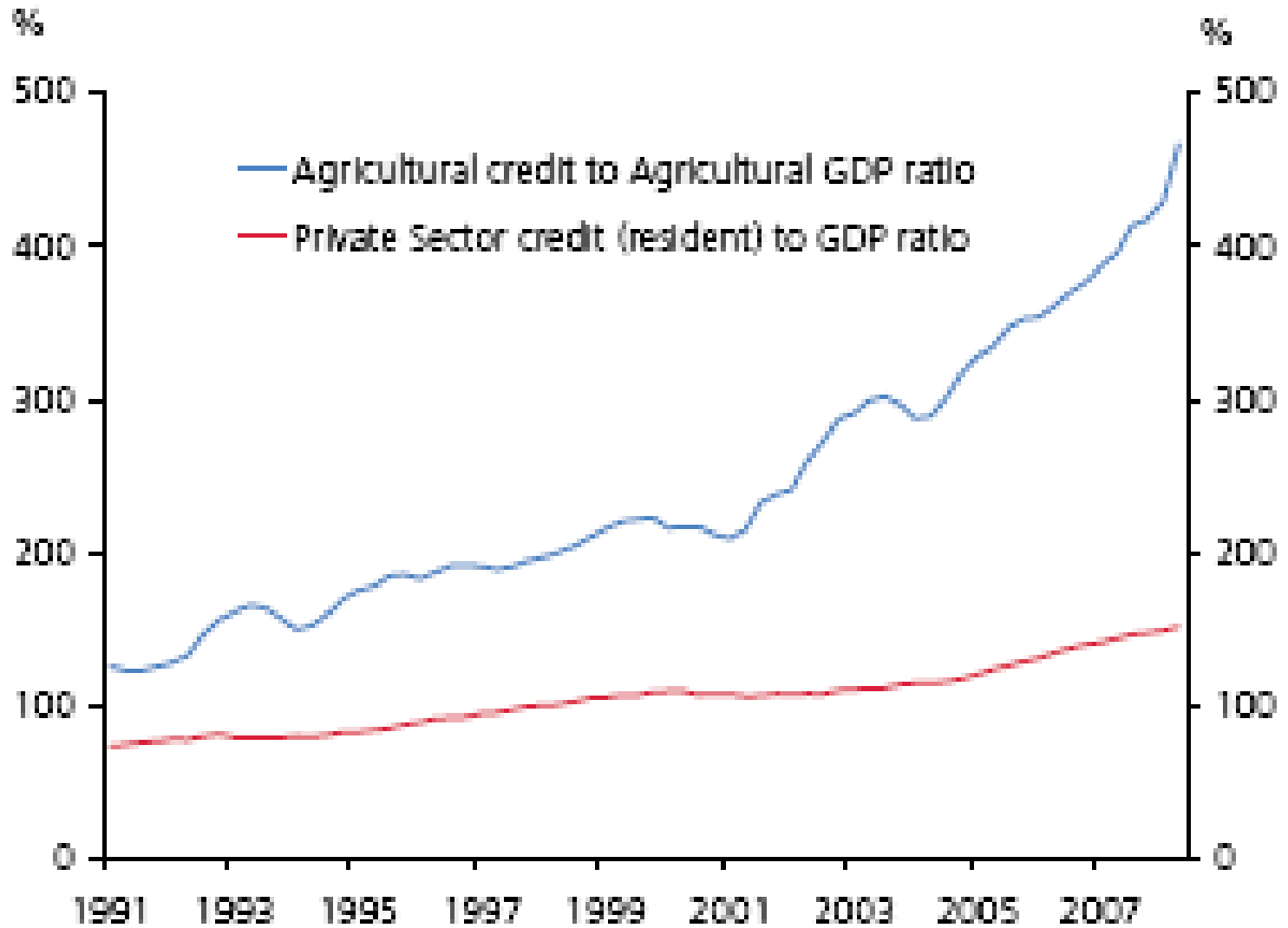
## Indebted households' financial situation in 2007 and changes since 2001

*(medians by income quintile, percentage change since 2001 in parentheses)*

2007	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
Housing debt (\$,000)	27	68	87	111	137
	(-6.9)	(44.7)	(47.5)	(29.1)	(26.9)
Housing asset (\$,000)	201	244	305	316	451
	(85.8)	(85.8)	(119.2)	(91.5)	(108.8)
Debt-to-asset ratio (LVR) (%)	14.7	28.7	33.1	41.3	36.0
	(-53.3)	(-41.2)	(-25.8)	(-24.1)	(-33.0)
Debt service ratio (%)	26.7	21.7	20.4	18.4	16.3
	(-5.3)	(-9.6)	(-6.0)	(-1.1)	(4.5)
Share of total housing debt (%)	1.0	6.1	19.9	30.6	42.4
	(-63.0)	(-23.8)	(18.5)	(1.3)	(0.0)
Share of total indebted households (%)	3.4	10.4	22.9	32.0	31.3
	(-55.3)	(-16.8)	(5.5)	(12.3)	(5.0)

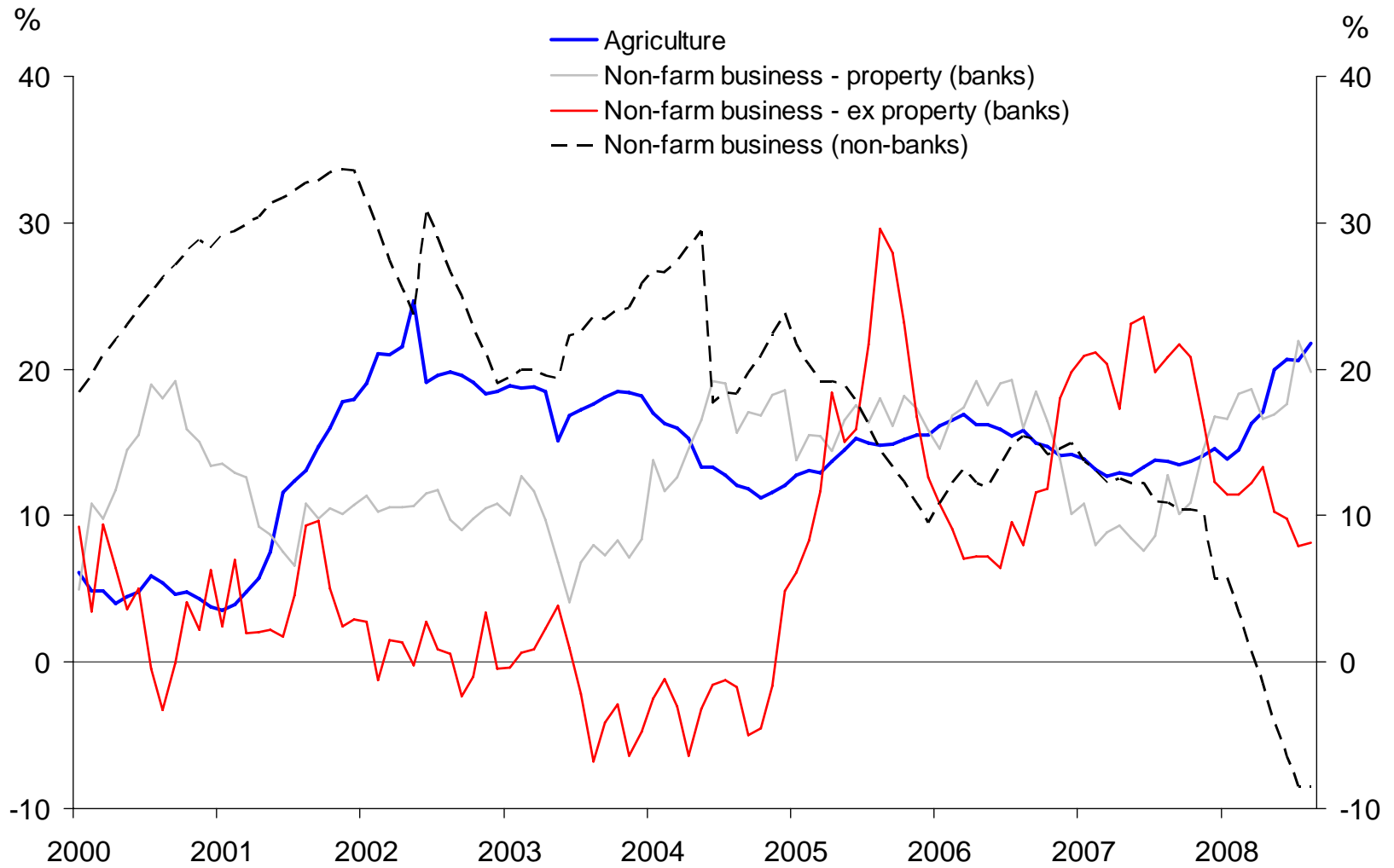
Figure 3.18

## Agricultural debt-to-output

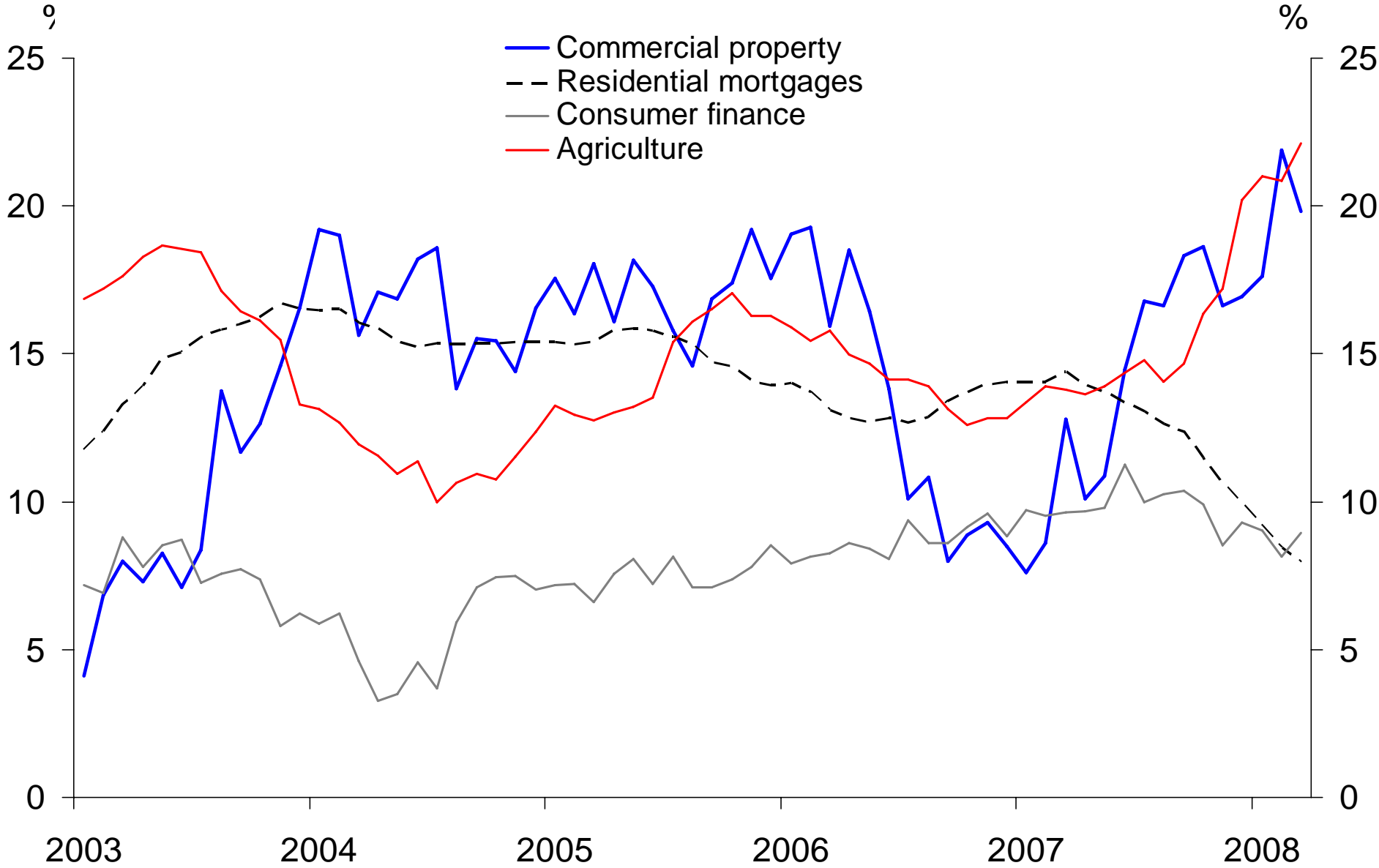


**Figure 3.15**

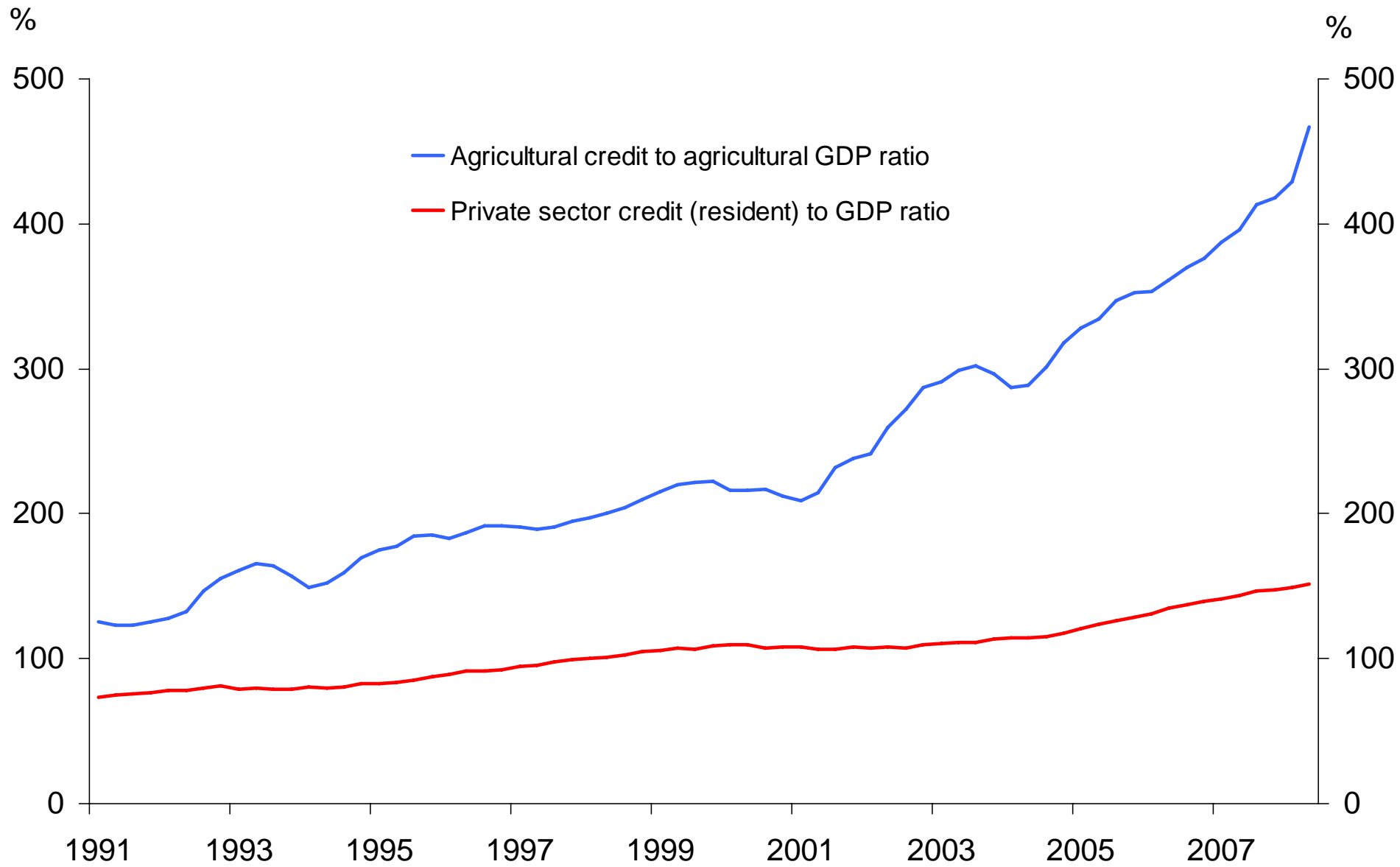
**Domestic financial institutions' lending to the business sector (*annual percent change*)**



**Figure 4.8**  
**Banks' annual lending growth**



**Figure 3.18**  
**Agricultural debt-to-output**



**Figure 2.2**

**Stock of US commercial paper outstanding and weighted average maturity of new issuance (*financial issuers only*)**

