Research

Economy Watch

18 June 2025

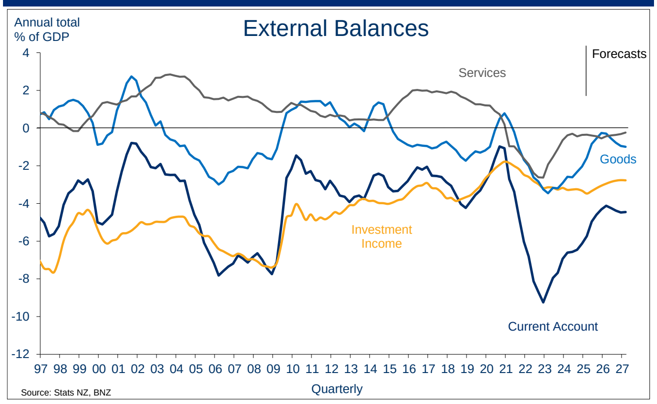
Current Account Rapidly Improving

- **Annual current account deficit narrows to 5.7% of GDP**
- **Supported by strong exports and commodity prices**
- **May provide some comfort to rating agencies**
- **Q1 GDP forecast unchanged at 0.7% q/q**

The external accounts continue to improve, with the current account deficit narrowing to 5.7% of GDP in the year to March 2025. This is well below its peak of 9.2% in December 2022, largely due to high commodity prices, strong primary production and the recovery in international tourism. We expect the deficit to continue narrowing towards 4% over the next year.

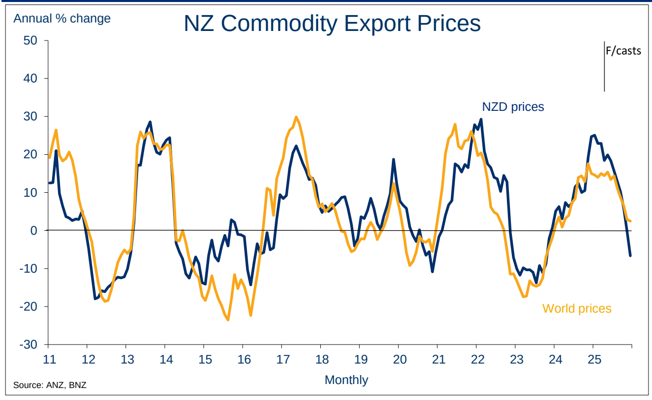
Despite the fact the deficit is falling rapidly, the rating agencies still have some concerns around how much of it is structural. It is important to note that a deficit itself is not necessarily a bad thing. It depends how the funds are being used and whether they are achieving a sufficient return over time. But a large and persistent deficit can increase vulnerability and risk. It's the possibility of large deficit persistence that will maintain the attention of the rating agencies, with S&P recently noting that New Zealand's fiscal and current account deficits could weigh on its credit rating.

Further narrowing expected



The goods deficit narrowed to 1.6% of GDP in the year to March 2025 (from 2% in the previous quarter). This reflects favourable effects from both prices and volumes. Very strong commodity prices have underpinned export prices. Annual inflation for commodity prices is likely past its peak, but prices are expected to remain elevated. Combined with solid primary sector export volumes, the merchandise annual trade deficit continues to shrink rapidly.

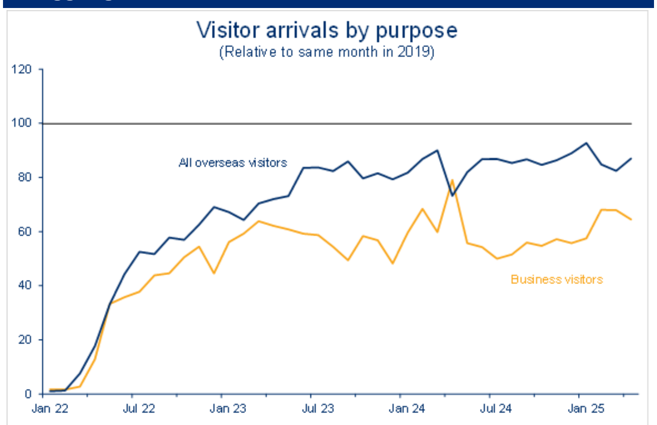
Past the peak?



On the import side, volumes have been constrained by weak domestic demand. Indications of ongoing subdued demand was reaffirmed this morning with persistent weakness in the Westpac McDermott Miller consumer confidence survey.

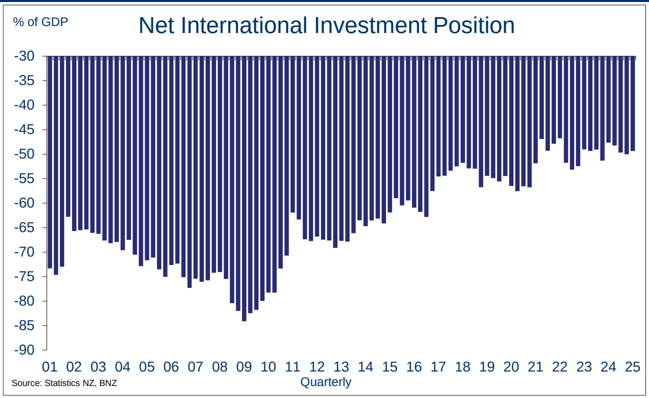
The annual services deficit narrowed slightly to 0.3% in the year to March 2025 (from 0.4%). Although the deficit has largely closed, it's a long way from its usual surplus pre-Covid. In particular, there remains a significant hole regarding international tourism. Visitor spending has aided the external accounts to date but appears to have recently stalled. It has nudged back above pre-Covid levels but is still well below in inflation-adjusted terms. Short-term visitor arrivals are stuck around 85% of pre-Covid levels, with business visitors in particular very weak.

Struggling for traction



The reduction in the current account deficit would have been greater had it not been for stickiness in the investment income balance. This component widened slightly to 3.5% of GDP in the year to March 2025 (from 3.3%). It reflects NZ's large external debt position and the cost of funding it. Despite this, the country's total net international investment position eased slightly to 49.3% of GDP, as the increase in assets outpaced the increase in liabilities. This should provide some solace to rating agencies.

Steady overall



Following today's release, we stick with our +0.7% q/q pick for tomorrow's GDP outturn. However, today's figures maintain the risk that the expenditure measure of GDP could come in lower than the headline production outturn.

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