Research

Economy Watch

17 September 2025

Out of the worry zone

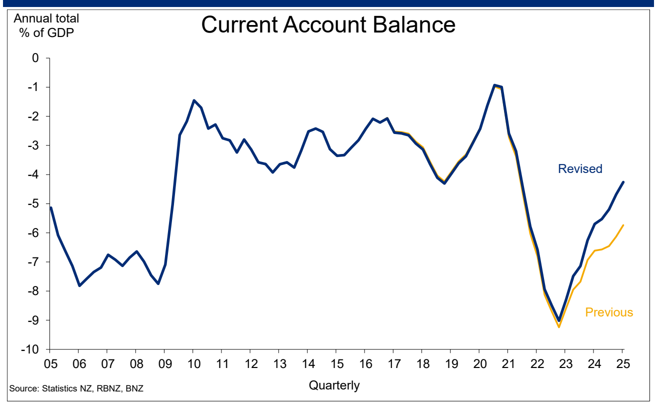
- **Current account deficit revised substantially lower**
- **With underlying improvement to boot**
- **Likely viewed positively by rating agencies**
- **We expect further, albeit slower, deficit narrowing**
- **Revisions raise wariness for GDP tomorrow**

A sharp narrowing in the annual current account deficit came as no surprise today, but the extent of it sure was.

The current account deficit narrowed substantially to 3.7% of GDP in the year to June 2025. This was significantly smaller than the 4.8% of GDP that we and the market expected. The surprise was the extent of the revisions.

We had assumed material revisions, like lower imports on re-estimates of lower valued goods (think purchases from the likes of Temu and Shein), would contribute to a much smaller deficit. But the totality of the revisions was substantially more than had already been indicated by Stats NZ. For example, Q1's annual deficit was revised down to 4.2% of GDP from the initially reported at 5.7%.

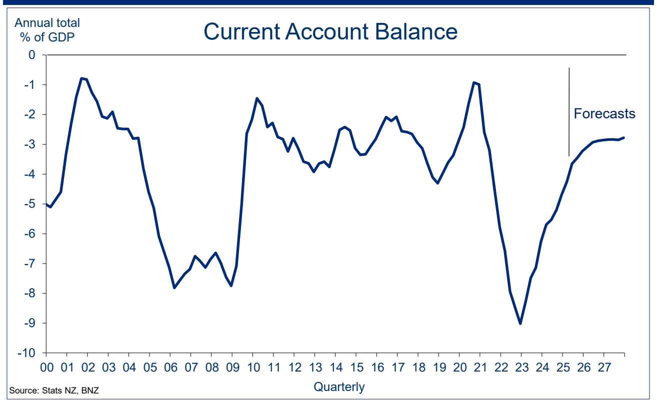
Revisions substantial



Beyond the revisions, a record goods terms of trade, fuelled by higher commodity export prices was also a driver of the shrinking deficit. The extent of annual deficit narrowing between Q1 and Q2 (from Q1's revised 4.2% to Q2's 3.7%) was much more in line with our thinking.

And we saw nothing in today's figures to alter our view that further deficit shrinkage is likely. However, the newly revised level raises the chance that the annual deficit will now dip below 3% of GDP over the coming year. Outside of Covid disruption that would be the smallest deficit since 2017. While we see a smaller deficit ahead, we expect the pace of narrowing to slow as commodity prices peak and the economy improves, dragging in more imports.

Further narrowing expected

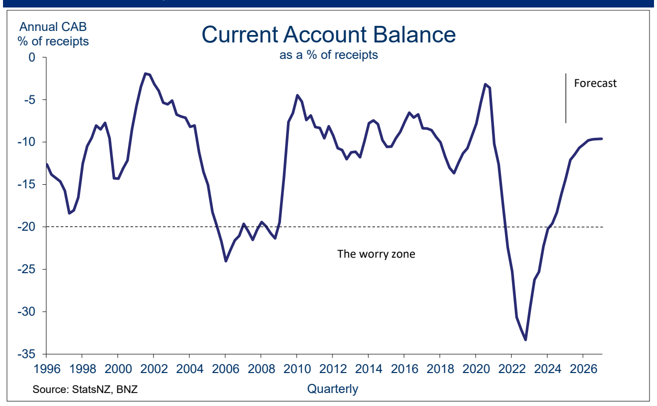


A big or small deficit isn't necessarily a good or bad thing – it depends on what the associated borrowed money is used for and the rate of return that is generated. However, a persistently large deficit can be an indicator of risk.

We think a much smaller deficit will be viewed positively by rating agencies. S&P seemed comfortable with NZ's rating outlook recently albeit contingent on narrowing fiscal and external deficits. A narrower external deficit has been well and truly confirmed today.

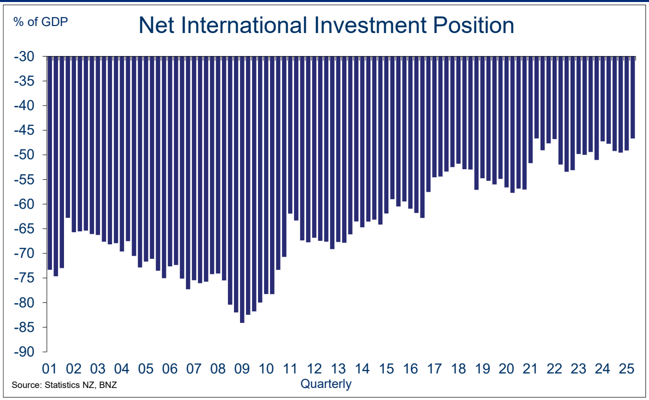
A rating agency metric that has been used in the past is the size of the annual current account deficit relative to total external receipts, with anything bigger than 20% deemed troublesome especially if it were to persist. Q2's 12.1% is well out of the worry zone.

Looks less risky



The net international investment liability position narrowed to 46.8% of GDP in Q2 from 48.9% in Q1, reflecting a smaller current account deficit and a substantial $18.8b revaluation of NZ's offshore assets.

Net liability position narrows



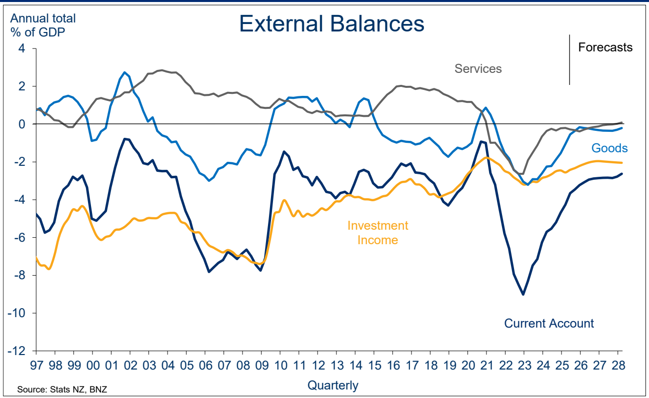
Economic conditions have been very challenging in NZ for some years. If there is a silver lining it is that the activity taking place now looks more sustainable than it did when the external deficit was significantly larger.

Through the considerable noise in today's release, we saw nothing to materially alter our -0.5% q/q pick for tomorrow's Q2 GDP.

However, the massive revisions in today's external accounts must widen the error bounds around what might be printed tomorrow. Not only for the quarterly outcome, but also the level of activity and domestic demand. Activity may be revised upward on account of more exports of services, while private consumption may be revised lower in association with lower goods imports.

For all the liability position and external deficit narrowing we can't help but ponder the fact that NZ still has an external deficit at a time when it is receiving substantial support from elevated primary product export prices. This suggests a structural external deficit remains albeit a moderate one.

Balances

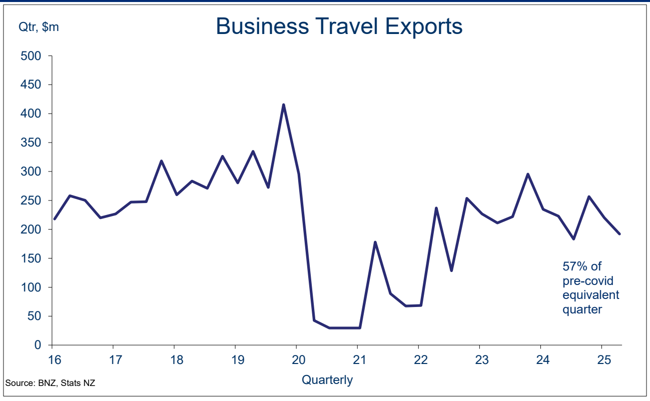


There are also headwinds to consider from domestic energy changes and the paring of some export-focused production in some sectors.

By component, a smaller investment income balance and a much smaller goods trade balance has driven the narrowing in the current account deficit over the past two years. Conversely, the services trade balance has stabilised at a small deficit.

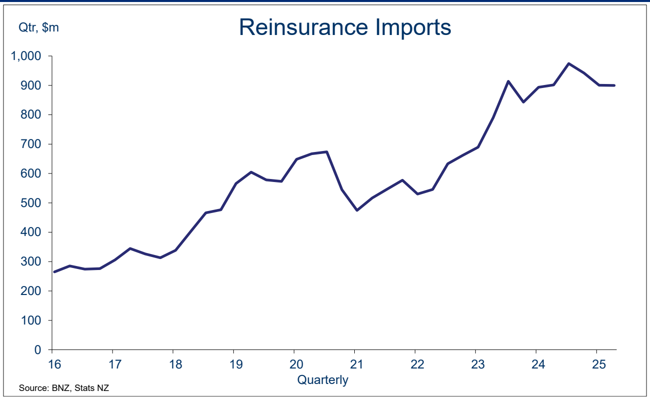
On the export services side, tourism receipts are back to pre-covid levels on a nominal basis but still well behind on an inflation adjusted basis. And some sub-components, like business traveller receipts remain substantially below pre-pandemic levels. This, and fewer visitor numbers overall relative to pre-Covid, remains a hole in the external accounts and the wider economy.

Hole remains



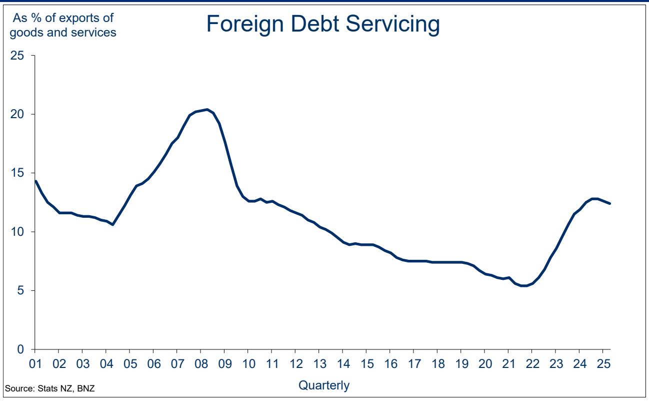
On the imports side, reinsurance costs have lifted substantially post cyclone Gabrielle but have stabilised over the past year or so.

Stabilising



The annual investment income deficit has narrowed on rising income earned from NZ investment abroad and easing debt servicing costs. The latter a reflection of lower interest rates with more of that to filter through the external accounts in due course.

Rate relief slowly filtering through



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