

Research Economy Watch

18 March 2026

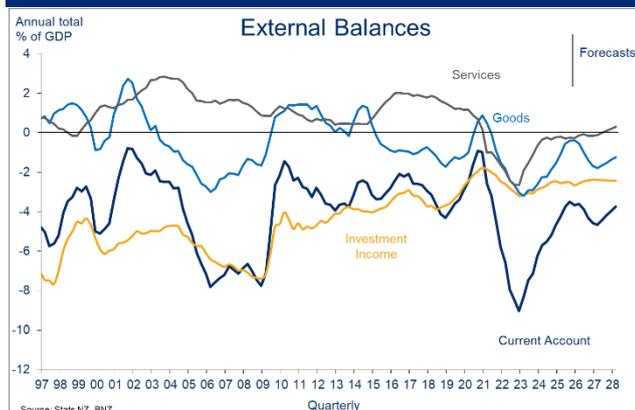
Deficit begins to widen again

- **Annual current account deficit now 3.7% of GDP**
- **Terms of trade hit likely to bring further widening**
- **As petroleum and related prices lift**
- **Net international liability position declining**
- **Q4 GDP pick stays at +0.3% q/q**

Today's Balance of Payments data was always going to take a backseat relative to the conflict in the Middle East. The current account deficit widened to 3.7% of GDP in the year to December 2025, slightly larger than the 3.5% deficit recorded in the year to September. It draws to an end the material narrowing trend in the current account deficit over the past three years.

The bigger story is where the external accounts will go to from here. We expect the terms of trade to come under downwards pressure that is likely to dent NZ's annual current account balance. The turnaround in the terms of trade will largely be due to surging import prices on the back of oil price hikes and higher prices for related products like fertiliser. This will see the annual goods balance begin to widen again. The impact will be tempered if domestic demand cools import volumes. It is difficult to be confident in any specific numbers at present, but we believe the terms of trade will be materially weaker than the Reserve Bank forecast in its February MPS.

Past the low in the cycle



The terms of trade and broader economic picture would be much worse were it not for the recent resurgence in dairy prices and general strength in meat prices. The GDT Price Index edged up 0.1% overnight, following a strong run higher this year to date. Dairy price strength is supportive

of export values. There may well be some precautionary buying occurring as concerns around logistics, fuel surcharges, and freight availability elevate.

Back to today's data, it is important to note that a current account deficit is not necessarily a bad thing. It depends what the funds are being spent on and the rate of return being achieved. That said, a nudge higher in the annual deficit may raise an eyebrow or two at the rating agencies even if the deficit is much smaller than its 9.0% peak in late 2022. The change of trajectory will be noted. Our current forecasts see the annual current account deficit pushing well above 4% of GDP in 2026. International rating agencies may take some comfort that NZ's net international liability position continued to decline to 44.3% of GDP in December 2025.

Net liabilities trending smaller



The 3.7% annual current account deficit was wider than our (and market) expectation of 3.4%. Goods and services trade data were in line with our thinking, with the surprise stemming from the investment income balance. In particular, profits accruing to foreign direct investors in NZ lifted by more than we had pencilled in. If this is indicative of stronger profits across the economy in general, it would offer a hint of upside risk to our 0.3% q/q pick for Q4 GDP.

While tomorrow's GDP data is relatively dated, it does set the starting point for the economy pre-conflict. We are also monitoring timely activity indicators to assess the impact of higher oil prices. This includes today's Westpac McDermott Miller Consumer Confidence Index which eased from 96.5 to 94.7.

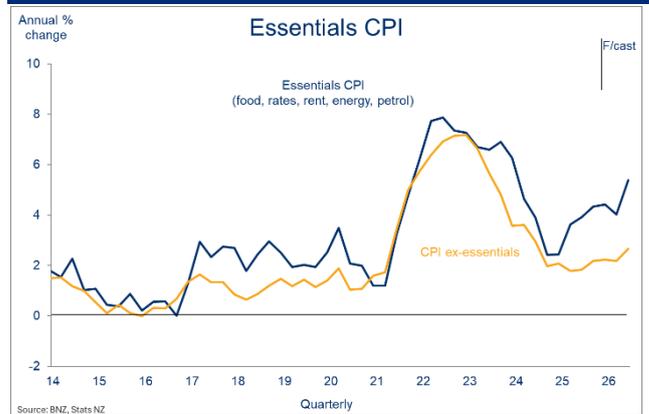
Jump higher



The survey captures the early stages of the conflict, but before the full extent of rising higher fuel prices was realised. We know that rising inflation cuts spending power, and when that inflation is centred on essential items it hurts even more. Confidence had been trending higher but is now likely to weaken as fuel prices rise. We

will be watching the ANZ survey next Friday for another guide on consumer confidence as the implications of the conflict in the Middle East become clearer.

Ouch



matt_brunt@bnz.co.nz

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Matt Brunt
Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

Mike Jones
BNZ Chief Economist

Main Offices

Wellington
Level 2, BNZ Place
1 Whitmore St
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

Analyst Disclaimer: The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

New Zealand: The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

USA: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.