1962 CONSULTATION UNDER ARTICLE XII:4(b) WITH NEW ZEALAND

International Monetary Fund Executive Board Decision
Taken at the Conclusion of the Fund's Consultation with New Zealand on 25 July 1962

1. The Government of New Zealand has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. In the year ended March 31, 1961 domestic expenditure rose more rapidly than production; an acute shortage of labor developed and a sharp rise in imports led to a deterioration in the balance of payments. The Government took measures designed to correct the situation gradually without dislocating the economy. Firm restraint was imposed on bank credit to the private sector mainly through the variation of reserve ratios for the trading banks and an increase in the discount rate of the Reserve Bank. Minimum deposits for hire purchase transactions were raised and repayment periods reduced. An effort was made to restrain the growth of government expenditure and in the budget for 1961/62 the increase was kept to 4.3 per cent, about half the rate in the two previous years. However, the Public Account for the year ended March 31, 1962 showed an internal deficit of about £NZ 16.9 million.

3. In 1961/62 trading bank advances fell and the money supply was about the same at the end of the year as at the beginning. The growth of domestic expenditure was checked, but total demand still exceeds available supplies. The consumer price index for the March quarter of 1962 was 2.9 per cent higher than 12 months earlier. The Fund emphasizes the importance of continued efforts to apply domestic financial policies which are designed to strengthen the balance of payments and to prevent too rapid a growth of domestic expenditure, including in present circumstances a policy aimed at reducing the internal deficit in the budget. Such policies would help to provide a basis for sustained economic growth.

4. Largely as a result of falling export prices, export receipts declined slightly in both 1960 and 1961. Imports rose in 1960 and in the first half of 1961 under the impact of the rising domestic expenditure and, with a steady rise in the net invisible deficit, the net overseas assets of the banking system fell from £NZ 118.7 million in June 1960 to £NZ 62.0 million a year later. Imports have been falling since the middle of last year and in the first quarter of 1962 payments for private imports were nearly 50 per cent below the level of a year earlier. Net overseas assets of the banking system rose from £NZ 51.7 million at the end of 1961 to £NZ 73.4 million at the end of June 1962.
5. In addition to the domestic measures taken, the Government intensified restrictions on imports in 1961; the licensing schedule for the year ended June 30, 1963 provides for private imports of £NZ 240 million to £NZ 250 million, compared with actual payments of £NZ 272 million in 1961. The Fund considers that, in the circumstances presently prevailing, the general level of external restrictions maintained by New Zealand is not more than is required to prevent a serious decline in foreign exchange reserves. These restrictions are, however, intensive and complex, and some residual discrimination remains. The Fund believes that efforts to eliminate the payments deficit and to achieve a satisfactory level of reserves should be made in ways which will permit progress toward a relaxation of restrictions. The Fund welcomes the steps taken to eliminate discrimination against imports from Japan and believes that New Zealand should give priority to the removal of the remaining discrimination affecting current transactions.

6. In concluding the 1962 consultations, the Fund has no other comments to make on the transitional arrangements maintained by New Zealand.