Committee on Balance-of-Payments Restrictions

1963 CONSULTATIONS 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 20 September 1963

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 12 months to March 1963 domestic expenditure probably expanded at a slower rate than in the previous year. The severe pressure on resources which existed in 1960/61 eased somewhat and consumer prices rose only slightly. Trading bank credit continued to be firmly restrained in 1962, and advances at the end of that year were 5 per cent lower than a year earlier. Budgetary policy in the 12 months to March 1963 was moderately expansionary. There was a deficit of around £NZ 61 million, of which some £NZ 53 million was financed by net domestic borrowing from the nonbank public.

3. Current monetary policy is designed to permit an increase of about 3 per cent in bank advances during 1963. The budget estimates for the current fiscal year ending March 1964 provide for a smaller deficit than that experienced last year. However, there does not appear to be any appreciable volume of unused resources within the economy, and domestic expenditure and output have expanded at a more rapid rate in recent months. The Fund therefore attaches importance to the realization of present plans to finance the budget deficit from noninflationary sources. This will be essential if the expansion resulting from official policies is to be held within limits consistent with the resolve of the New Zealand authorities to break away from the periodic overexpansion and dampening of the economy which has characterized the past.

4. The intensification of quantitative restrictions in 1961, together with the easing in the pressure of domestic expenditure, led to a fall of 15 per cent in private import payments in 1962. Export receipts, aided by higher prices for important export commodities and a large increase in the volume of meat sales, rose by 4.5 per cent. There was a current account surplus of £NZ 3 million in 1962 compared with a deficit of £NZ 52.5 million in 1961. These and other transactions, including net official capital inflow of £NZ 4 million, resulted in an increase of £NZ 12.5 million, to £NZ 61.6 million, in net overseas assets of the banking system in the 12 months to December 1962. At July 3, 1963 these assets totaled £NZ 92.9 million.
5. The Fund welcomes the elimination by New Zealand of the remaining currency area discrimination in import licensing and current invisible payments. The New Zealand authorities have stated that restrictions must be maintained if undue borrowing abroad or pressure on the reserves is to be avoided. While recognizing the need for restrictions on imports and current payments under existing circumstances, the Fund feels that continued maintenance of such restrictions is likely to have adverse effects on industrial efficiency and economic growth. The Fund urges New Zealand to pursue policies which will enable it to maintain balance of payments equilibrium while progressively dismantling such restrictions.

6. In concluding the 1963 consultations, the Fund has no other comments to make on the transitional arrangements maintained by New Zealand.