Committee on Balance-of-Payments Restrictions

1965 CONSULTATIONS WITH NEW ZEALAND

International Monetary Fund Executive Board Decision
Taken at the Conclusion of the Fund's Consultation with New Zealand on 19 May 1965

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. Domestic expenditure, which increased by 9 per cent in money terms in the year ended March 1964, has continued to rise substantially; a rise in fixed capital formation has been a prominent feature of the expansion. Demand has been stimulated by the increase in farm incomes following a rise in the prices of many of New Zealand's main export commodities in 1963 and the early part of 1964. Pressure on the labor market intensified in the past year and the number of vacancies greatly exceeded the declining number of registered unemployed. Wage rates rose by about 6 per cent in 1964 and consumer prices increased by 4 1/2 per cent between the last quarters of 1963 and 1964.

3. In their efforts to keep inflationary pressures in check, the New Zealand authorities have imposed firm restraint on bank credit; advances and discounts of the trading banks were about 3 per cent higher in December 1964 than a year earlier. Government expenditure rose by about 9 per cent in the year ended March 1965, and revenue increased by 12 per cent, much more than had been expected; the deficit before borrowing declined to £NZ 44 million in 1964/65 from £NZ 54 million in 1963/64. In order to curb excess liquidity, the Government borrowed more in 1964/65 than was needed to finance this deficit. The Fund believes that domestic financial policies, including fiscal policy, should take account of the need to avoid undue pressure on resources and to secure stability of costs and prices.

4. Export receipts rose from £NZ 356 million in 1963 to £NZ 393 million in 1964 as a result of an increase of over 8 per cent in export prices, combined with some increase in the volume of sales abroad. However, as a consequence of the rapid expansion in domestic activity, import payments also rose sharply; since the middle of 1963 payments for private imports have been running at an annual rate...
close to £NZ 300 million. The current account was in approximate balance in 1964. At the end of March 1965 the net foreign exchange reserves of the banking system totaled £NZ 80 million against £NZ 83 million a year earlier.

5. The Fund welcomes the steps taken to liberalize restrictions, including the recent relaxation of restrictions on imports for 1965/66. The remaining restrictions, however, still cover a large part of trade and payments. The New Zealand authorities have stated that restrictions are maintained on balance of payments grounds. The Fund recognizes that the balance of payments and reserve positions prevent the immediate removal of restrictions but believes that continued reliance on them has adverse effects on the allocation of resources and on industrial efficiency. The Fund believes that New Zealand should follow policies designed to strengthen the balance of payments position and thus provide the basis for a progressive reduction in restrictions.

6. In concluding the 1964 consultation, the Fund has no other comments to make on the transitional arrangements maintained by New Zealand.