1. This decision is taken by the Executive Directors in concluding the 1966 consultation with New Zealand, pursuant to Article XIV, Section 4 of the Articles of Agreement.

2. Domestic expenditure continued to grow at an excessive rate in the year ended March 1967, though the increase was somewhat smaller than in the previous year. Private investment has leveled off but private consumption has grown faster than GNP; government expenditure was 9 per cent higher than in 1965/66 and the public account shows a substantial deficit.

3. The deficit on the current account of the balance of payments was £NZ 43 million in 1966; since the end of last year it has been running at a much higher rate because of a weakening in the demand for wool as a result of which the Wool Commission has been taking off the market a substantial part of the current clip. The Government has raised several long-term loans abroad but has also found it necessary to borrow a considerable amount of shorter-term money to finance the external deficit. Total reserves amounted to £NZ 76 million at the end of 1966, compared with £NZ 97 million at the end of 1964.

4. The Government stated in February 1967 that immediate action was necessary to protect the balance of payments and announced a series of fiscal measures, which have now been supplemented by a further series of fiscal and monetary measures announced on May 4, 1967. In addition, the policy of credit restraint will continue to be applied with firmness. The Fund believes that the rectification of the balance of payments should now be accorded the highest priority. It welcomes the Government's decision to limit the growth of government expenditure in 1967/68 and the further fiscal and monetary action announced in early May to bring domestic expenditure into better balance with available resources. The Fund believes that in the implementation of monetary policy greater consideration should be given to the use of a more active and flexible interest rate policy.

5. Exchange controls on current payments have been tightened. About a third of imports are free from control and the Fund welcomes the Government's decision to maintain this degree of liberalization in 1967/68. The Fund recognizes that the present balance of payments and reserve position does not permit an immediate relaxation of external restrictions but stresses the need for the Government to adapt its financial policies so as to provide a sound basis for further liberalization.