INTERNATIONAL MONETARY FUND EXECUTIVE BOARD
DECISION TAKEN AT THE CONCLUSION OF THE FUND'S
CONSULTATION WITH NEW ZEALAND ON 12 JUNE 1968

1. This decision is taken by the Executive Directors in concluding the 1967 consultation with New Zealand pursuant to Article XIV, Section 4 of the Articles of Agreement.

2. Reflecting depressed conditions in the wool market, total export receipts in the year ended February 1968 were 6 per cent lower in domestic currency terms than in the previous 12 months. The growth in domestic expenditure at current prices slowed down substantially and pressures on the labor market eased with the number of registered unemployed recording a sharp rise. Weekly wage rates for adult males rose by 2 per cent in 1967 and consumer prices increased between the last quarters of 1966 and 1967 by nearly 7 per cent, of which about half was due to various fiscal measures. With the slower growth of domestic expenditure, import payments in domestic currency terms fell sharply and the net payment on current invisibles leveled out. The current account deficit was reduced to $NZ 45 million (approximately US$65 million) in the 12 months to February 1968, compared with a deficit of $NZ 100 million (US$140 million) in the corresponding period a year earlier. The New Zealand Government has continued its long-term foreign borrowing program and there has been some net inflow of private capital from abroad. In recent months, the balance of payments has moved into over-all surplus. At the end of February 1968, net overseas assets of the banking system plus Treasury-held foreign securities amounted to $NZ 273 million (the equivalent of US$306 million) compared with $NZ 149 million (US$207 million) a year earlier. A considerable part of this rise was associated with a net increase in short and medium term foreign obligations, including use of the Fund's resources.

3. In their efforts to improve the balance of payments position, the New Zealand authorities devalued the New Zealand dollar by 19.45 per cent in November 1967 and pursued restrictive financial policies. Government expenditure is estimated to have risen only slightly in the year ended March 1968, and the deficit before borrowing was reduced. Reserve Bank credit to the Government was lower in March 1968 than a year earlier but there was an increase in Reserve Bank credit to marketing authorities. Trading bank advances and discounts declined by 4 per cent, in the year ended March 1968. The Fund welcomes the New Zealand authorities' intention in the period ahead to continue tight fiscal and monetary policies which, coupled with devaluation, will assist in shifting resources.
4. A further liberalization of restrictions on imports will become effective from July 1, 1968 and the Fund hopes that New Zealand will further liberalize exchange controls. The Fund believes that the maintenance of the present degree of financial restraint will permit the speedy removal of the remaining restrictions maintained for balance of payments reasons. Such an approach would be beneficial to New Zealand's longer-run efforts to secure an adequate rate of domestic growth in the context of a viable balance of payments.