INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION
TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION
WITH NEW ZEALAND ON 31 MAY 1972

1. This decision is taken by the Executive Board in concluding the 1971 consultation with New Zealand pursuant to Article XIV, Section 4 of the Articles of Agreement.

2. Since mid-1970, the economy has been characterized by a declining rate of growth and reduced pressures in the labor market, and at the same time by a continued high rate of increases in wages and prices. In late 1971, financial policies were relaxed somewhat in order to give a moderate stimulus to domestic demand. The staff believes that these recent measures were appropriate in the context of the cyclical situation.

3. Despite the lower pressure of demand, the increase in wages and salaries was only moderately smaller in 1971/72 than the increase of 22 per cent recorded in 1970/71. Under the combined influence of higher labor costs and sharply rising import prices, the domestic price level rose by 12 per cent in the year ending March 1972. The staff welcomes the more direct and forceful action now taken by the Government to moderate the rise in costs and prices and hopes that the policies introduced in March 1972 will be firmly applied.

4. New Zealand continues to have difficulty in obtaining access to markets abroad for some major farm products. However, prices for most primary products have risen in 1971, and despite rising import prices the long-term deterioration in the terms of trade was arrested. In the year ended January 1972, export receipts rose by 10 per cent and import payments by 8 per cent with the current account showing a surplus of $NZ 48 million. Official reserves are now at a comfortable level; in the 12 months to January 1972, they rose by $NZ 173 million to a total of $NZ 511 million, equivalent to some six months of merchandise imports.

5. The Fund welcomes the action taken by New Zealand in June 1971 to liberalize restrictions on payments and transfers for current international transactions. A substantial range of imports remains subject to quantitative restrictions for which in its relations with GATT the New Zealand Government claims balance of payments reasons. In June 1971, the Government decided that tariffs would replace import licensing as the main measure of protection. Accordingly, a major review is being undertaken, designed to accomplish such replacement within five years. The Fund hopes that the review of the protective system will be accelerated and believes that the present balance of payments and reserves position are strong enough to permit a substantially faster rate of progress in liberalization of quantitative restrictions.