IMF Country Report No. 24/122

NEW ZEALAND

May 2024

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with New Zealand, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on March 20, 2024, with the officials of New Zealand on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 23, 2024.
- An **Informational Annex** prepared by the IMF staff.

The document listed below will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2024 Article IV Consultation with New Zealand

FOR IMMEDIATE RELEASE

Washington, DC – **May 14, 2024:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with New Zealand on May 8, 2024 and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

New Zealand's economic activity has slowed following monetary policy tightening and a decline in investment. After the Reserve Bank of New Zealand's (RBNZ) cumulative rate hikes of 525 bps between October 2021 and May 2023, GDP growth momentum fell substantially in 2023 and the slowdown is broad-based. Following border reopening, record net migration in 2023 helped address supply-side bottlenecks and labor shortages. Inflation has declined significantly from its 7.3 percent y/y peak in 2022Q2 to 4 percent y/y in 2024Q1 but is still well above the RBNZ target and higher than in peer economies. Inflation expectations remain anchored. Budget 2023's large operating and capital allowances in responses to rising costs and one-off outlays related to the North Island weather events put off consolidation in FY23/24. The current account deficit narrowed in 2023 but remains above its long-run average. Housing prices have stabilized following a 13 percent decline from 2022Q1 to 2023Q2, and financial stability risks remain contained.

Growth is expected to remain slow at 1 percent y/y in 2024 before picking up in 2025, as the lagged impact of monetary policy tightening suppresses domestic demand. Improving external conditions should help narrow the trade deficit, especially through tourism. Headline inflation is projected to fall below 3 percent y/y in 2024Q3 as global disinflation supports lower tradable inflation and slowing domestic demand reduces non-tradable inflation. The unemployment rate is expected to increase and level around 5½ percent as the output gap turns negative.

Risks to the outlook for growth and inflation are broadly balanced. Given considerable uncertainty, the risk of policy miscalibration remains. If domestic labor market pressures persist or if shocks fuel imported inflation, a premature loosening of monetary policy could de-anchor inflation expectations given the extended period of high prices. Conversely, a larger-than-anticipated impact of monetary tightening could cause a protracted downturn and drive inflation to undershoot the RBNZ target. High interest rates combined with low growth could create stress in financial markets, especially in mortgage lending. Upside risks to growth include stronger migration boosting labor supply and helping lower wage pressures, and a faster-than-expected decline in inflation, both of which can allow earlier monetary easing. New

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Zealand's global integration creates vulnerabilities to risks from geo-economic fragmentation. New Zealand is also vulnerable to natural disasters and climate shocks.

Executive Board Assessment

In concluding the 2024 Article IV consultation with New Zealand, Executive Directors endorsed the staff's appraisal, as follows:

New Zealand's policy-induced slowdown continues. In the near term, real GDP growth is expected remain below its long-term trend, as the lagged impact of monetary policy tightening suppresses domestic demand, although improving external conditions should provide some support to growth and narrow the trade deficit, especially through tourism. Headline inflation is projected to return below 3 percent in the second half of 2024, which would allow for some monetary easing, leading to a recovery of growth in 2025. Risks to the outlook are broadly balanced. The external position in 2023 remained weaker than implied by medium-term fundamentals and desirable policies.

Budget 2024 should deliver a tight fiscal stance in the near term and provide a comprehensive consolidation strategy for the medium term. To avoid any upside pressure to inflation, it is important to calibrate the funding, timing, and the parameters of tax relief measures to be fiscally neutral in 2024. While New Zealand's government debt is sustainable, substantial adjustment is needed over the medium term to halt the rapid increase of debt and preserve the fiscal space needed to respond to future shocks. To this end, the fiscal strategy should commit the government to containing operating expenses and using any upside surprises to revenues to reduce debt. Spending reforms should be based on a comprehensive cost-benefit analysis of government programs and address long-term aging-related fiscal pressures while preserving outlays on high-value infrastructure and support to the most vulnerable.

Monetary policy is appropriately tight and should remain restrictive to ensure a timely return of inflation to target. The OCR remains significantly above the RBNZ's neutral rate suite of indicators. While the economy is showing signs of slowing more rapidly than previously thought and unemployment is rising, continued vigilance is needed. The increase of financial resources in 2023 (through additional capital and an indemnity) and increased FX reserves support the RBNZ's capacity to safeguard stability. Exchange rate flexibility is important for supporting external adjustment.

Financial stability risks appear contained. Non-performing loans have ticked up but remain low and the banking system remains well-capitalized, liquid, and profitable. Yet, continued monitoring is needed, as a protracted downturn that raises unemployment could affect household incomes. Current proposals to revise the macroprudential settings are appropriate, and the introduction of the debt-to-income (DTI) restriction is in line with earlier IMF staff advice. Similarly, the Deposit Takers Act is a welcome step to harmonize regulation for bank and non-bank deposit takers and to introduce deposit insurance.

Structural reforms are needed to boost the housing supply, revive productivity growth, lower emissions, and address challenges from climate change. The ongoing housing affordability challenges cannot be solved without a significant increase in residential construction. Policy recommendations include reforming land use restrictions, addressing local infrastructure funding needs, and using land value and capital gains taxes to incentivize more efficient land use. To address slow productivity growth, public investment in R&D, new infrastructure, and maintenance of the existing public capital stock are critical. Immigration, together with efforts to improve education outcomes and skills matching, could address skills shortages and boost productivity. To prepare the economy for the impact of climate change, efforts are needed to invest in adaptation infrastructure, limit residential zoning in high-risk areas, address data gaps, and rebuild fiscal buffers. Additional reforms, including pricing agricultural emissions, are needed to achieve domestic and international emissions targets.

Table 1: Main Economic Indicators, 2020-2029

(Annual percent change, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Projections					
NATIONAL ACCOUNTS										
Real GDP (production)	-1.4	5.6	2.4	0.6	1.0	2.0	2.4	2.4	2.4	2.4
Domestic demand	-1.7	10.1	3.4	-1.5	-0.4	1.5	2.0	2.1	2.2	2.1
Private consumption	-1.7	7.7	3.2	0.3	-1.6	2.0	2.1	2.3	2.4	2.3
Public consumption	6.7	7.8	4.9	-1.1	-1.1	0.0	0.6	0.4	0.4	0.4
Investment	-7.8	18.1	2.0	-5.1	0.3	1.5	3.0	3.0	3.0	2.9
Public	4.0	7.9	-6.4	4.9	2.5	1.3	2.3	2.5	2.8	2.8
Private	-7.4	13.5	6.3	-2.6	-4.1	1.5	3.2	3.1	3.1	2.9
Private business	-9.3	15.7	9.6	-1.9	-4.5	1.4	3.4	3.4	3.4	3.1
Dwelling	-3.1	9.0	-0.9	-4.2	-3.0	1.9	2.8	2.4	2.4	2.4
Inventories (contribution to growth, percent)	-0.8	1.4	-0.4	-1.1	0.7	0.0	0.0	0.0	0.0	0.0
Net exports (contribution to growth, percent)	1.5	-4.8	-1.5	2.2	1.5	0.3	0.3	0.1	0.1	0.1
Real gross domestic income	-0.7	5.1	1.3	0.0	1.4	2.1	2.5	2.5	2.5	2.5
Investment (percent of GDP)	22.1	25.0	26.0	24.4	24.3	24.2	24.4	24.4	24.4	24.5
Public	5.5	5.7	5.4	5.7	5.7	5.7	5.7	5.6	5.6	5.6
Private	16.6	19.4	20.6	18.7	18.6	18.6	18.7	18.7	18.8	18.9
Savings (gross, percent of GDP)	21.1	19.2	17.2	17.5	18.3	18.9	19.6	20.0	20.3	20.8
Public	-4.3	-3.2	-3.5	-3.5	-3.5	-2.6	-1.7	-1.1	-0.4	-0.1
Private	25.5	22.4	20.7	21.0	21.8	21.4	21.3	21.0	20.7	20.9
Potential output	1.6	1.5	1.9	2.1	2.3	2.3	2.2	2.2	2.2	2.2
Output gap (percent of potential)	-2.3	1.7	2.1	0.6	-0.5	-0.9	-0.7	-0.5	-0.2	0.0
LABOR MARKET										
Employment	1.3	2.2	1.7	3.1	1.1	1.1	1.6	1.7	1.7	1.6
Unemployment (percent of labor force, ann. average)	4.6	3.8	3.3	3.7	5.0	5.4	5.2	5.0	4.7	4.5
Wages (nominal percent change)	3.8	3.8	6.5	7.0	4.8	3.9	3.7	3.2	3.0	3.0
PRICES										
Terms of trade index (goods and services, % change)	1.2	-1.0	-3.1	-3.4	0.6	0.1	0.2	0.1	0.2	0.1
Consumer prices (avg, % change)	1.7	3.9	7.2	5.7	3.1	2.5	2.4	2.1	2.0	2.0
GDP deflator (avg, % change)	2.2	3.0	5.5	5.7	3.0	2.7	2.5	2.0	1.9	2.2
MACRO-FINANCIAL										
Official cash rate (policy rate, percent, avg)	0.4	0.3	2.2	5.2	5.4	5.1	4.2	3.3	3.0	2.8
Credit to the private sector (percent change)	3.9	6.1	4.3	0.1	2.2	4.2	4.0	4.2	4.2	4.3
Interest payments (percent of disposable income)	6.5	5.3	6.3	7.8	7.4	7.7	6.4	5.9	5.6	5.3
Household savings (percent of disposable income)	3.6	3.6	3.2	2.7	2.5	2.4	2.3	2.9	3.6	4.3
Household debt (percent of disposable income)	172	173	172	165	162	160	158	156	155	153
GENERAL GOVERNMENT (percent of GDP) 1/										
Revenue	36.2	37.7	39.4	37.8	37.5	37.9	38.5	38.8	39.0	39.2
Expenditure	42.4	40.1	43.4	40.9	41.5	41.0	40.5	40.2	39.7	39.3
Net lending/borrowing	-6.2	-2.4	-4.0	-3.1	-4.0	-3.1	-2.0	-1.5	-0.7	-0.1
Operating balance	-4.4	-0.2	-1.8	-1.1	-2.3	-1.1	-0.1	0.4	1.1	1.8
Cyclically adjusted primary balance 2/	-4.4	-2.7	-3.7	-3.1	-2.8	-1.3	0.0	0.9	1.5	2.2
Gross debt	38.5	46.0	48.8	46.0	46.0	48.7	48.7	49.0	48.6	46.5
Net debt	9.7	10.6	17.1	19.0	22.1	24.4	25.2	25.6	25.2	24.2
Net worth	85.4	94.7	102.0	95.8	91.0	87.3	85.3	82.7	80.9	79.9
BALANCE OF PAYMENTS										
Current account (percent of GDP)	-1.0	-5.8	-8.8	-6.9	-6.0	-5.4	-4.8	-4.4	-4.1	-3.7
Export volume	-13.5	-2.5	0.2	9.6	6.4	5.2	5.1	4.8	4.9	4.9
Import volume	-15.6	14.4	4.7	-0.2	0.1	3.1	3.5	3.6	4.0	3.8
Net international investment position (percent of GDP)	-55.8	-46.7	-51.2	-51.7	-55.8	-58.6	-60.7	-62.5	-64.0	-64.9
Gross official reserves (bn US$)	13.0	16.4	13.7	14.8	…	…	…	…	…	…
MEMORANDUM ITEMS										
Nominal GDP (bn NZ$)	323	353	381	405	422	441	463	483	504	527
Percent change	1.2	9.1	8.0	6.4	4.1	4.6	4.9	4.4	4.4	4.6
Nominal GDP per capita (US$)	41,325	48,843	47,266	47,519	48,513	49,626	51,030	52,375	54,032	55,717
Real gross national disposable income per capita (NZ$)	52,637	54,667	54,959	53,737	53,458	54,057	54,860	55,606	56,357	57,100
Percent change	-1.8	3.9	0.5	-2.2	-0.5	1.1	1.5	1.4	1.4	1.3
Population (million)	5.1	5.1	5.1	5.2	5.3	5.4	5.4	5.5	5.6	5.6
US$/NZ$ (average level)	0.650	0.708	0.636	0.614	…	…	…	…	…	…
Nominal effective exchange rate	104.5	109.9	106.5	105.0	…	…	…	…	…	…
Real effective exchange rate	100.9	107.6	105.5	105.5	…	…	…	…	…	…

Sources: Authorities' data and IMF staff estimates and projections.

1/ Fiscal year.

2/ In percent of potential GDP.

INTERNATIONAL MONETARY FUND

NEW ZEALAND

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

April 22, 2024

KEY ISSUES

Context. The New Zealand economy slowed considerably in 2023, following a period of strong growth, and some previous significant imbalances are finally correcting. Tight monetary policy has put inflation on a meaningful downward path but remains high. Some of the overvaluation in housing prices has also reversed. The external balance is slowly improving, though the current account deficit is still large. An ambitious agenda of broad-based reforms is underway by the new coalition government.

Outlook and Risks. The economic slowdown is expected to persist in the first half of 2024, before an anticipated easing of monetary policy conditions will begin to support a gradual resumption of demand. Inflation is likely to continue declining and fall below 3 percent by 2024Q3. High net migration will help alleviate labor market tightness. The risks to the outlook are largely balanced.

Policy recommendations. With high quality policymaking, New Zealand has the capacity to address ongoing challenges and support strong, long-term growth.

- **Fiscal policy** should prioritize consolidation by turning more restrictive and help support disinflation. Budget 2024 should incorporate a credible medium-term consolidation path guided by the government's new fiscal strategy to adopt a rational expenditure policy and restore fiscal surplus. Now is an opportune moment to reform the tax system and promote long-term sustainable growth.
- **Monetary policy** is appropriately tight, given the persistent signs of domestic inflation. The RBNZ should remain flexible and data dependent.
- **The financial system** is robust and well-regulated, and the implementation of new measures will help preserve stability. The enlarged macroprudential toolkit and forthcoming debt-to-income restrictions can help keep future risks in check.
- **Structural policies** remain a first order priority to address low and persistent productivity growth, significant education gaps, skills shortages and housing supply constraints. Vulnerabilities to climate change and natural disasters underscore the need for adaptation planning, while significant reforms are needed to meet ambitious climate mitigation goals.

Approved By
Sanjaya Panth (APD) and Kenneth Kang (SPR)

Discussions took place held in Wellington, Auckland, and Christchurch during March 6–20, 2024. The mission team was Evan Papageorgiou (Head), Klaus Hellwig, Mike Xin Li, and John Spray (all APD). Oscar Parkyn (OED) joined the discussions. Abdullah Alnasser and Nour Tawk (both APD) performed analysis and contributed to the report. Nadine Dubost (APD) assisted in the preparation of this report.

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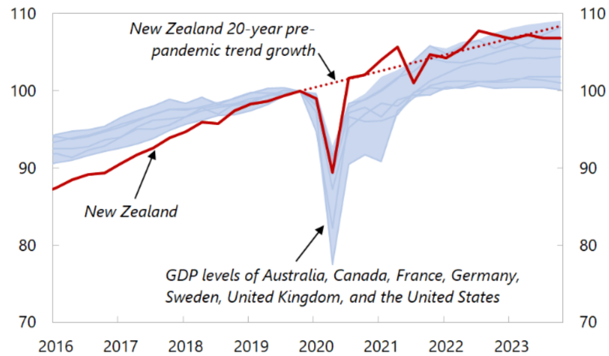
ANNEXES

GOING FOR REFORMS IN A GROWTH SLOWDOWN

A. Context

New Zealand's Strong Pandemic Recovery Has Stalled
(Real GDP levels, seasonally adjusted; 2019Q4 = 100)



Sources: IMF WEO; and IMF staff calculations.

1. **New Zealand recovered strongly from the pandemic, but the longstanding structural issues call for more action even as growth has slowed.** New Zealand made an impressive, rapid recovery from the economic and social shocks of the pandemic.[1] Strong growth was accompanied by high and persistent inflation, currently exceeding levels seen in other advanced economies. The authorities have taken appropriate action in line with staff's previous advice (Annex I). Tight policies have created softness in economic activity with two technical recessions (i.e., two consecutive quarters of negative growth) in 5 quarters and will likely lead the return of inflation to target after a prolonged overshooting. Importantly, however, longer-term challenges persist and need careful consideration. A structural fiscal deficit has arisen from spending programs and entitlements. The strong return of migration to New Zealand is supporting economic growth, but infrastructure and housing have not kept up.

2. **The new coalition government is looking to enact broad-based measures and reforms, and set a new policy direction in Budget 2024.** Following the 2023 election, the center-right coalition of National, ACT, and New Zealand First parties has identified economic policy priorities to cut taxes, reduce government expenditure while stepping up infrastructure spending on transport, repeal/replace several pieces of housing, building, and planning legislation to improve competition, stop an earlier review of the Emissions Trading Scheme (ETS), delay the pricing of agricultural emissions, and restore the Reserve Bank's single mandate, among others.

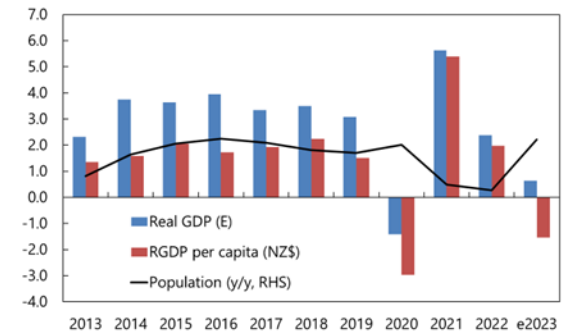
B. Recent Developments

3. **Economic activity has slowed following monetary policy tightening.** The Reserve Bank of New Zealand (RBNZ) hiked rates by 525 bps cumulatively between October 2021 and May 2023 and has kept the Official Cash Rate (OCR) at 5½ percent. GDP growth momentum fell substantially in 2023, rising only 0.6 percent y/y, with contraction in private investment (-2.6 percent) and government consumption (-1.1 percent), and slow growth in household consumption (0.3 percent) suggesting the slowdown is broad-based and likely reflects the lagged impact of policy tightening. The economic slowdown was masked by record net migration of 126,000 persons in 2023, following the 2022 border reopening. Indeed, GDP per capita declined in 2023 despite migration helping

[1] For more on New Zealand's handling of the pandemic see the 2022 New Zealand IMF Staff Report, and for the immediate economic challenges of the post-pandemic period see the 2023 Staff Report.

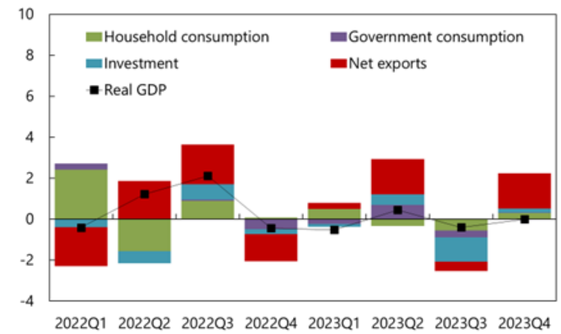
address supply-side bottlenecks and labor market pressures. High frequency indicators suggest that growth has likely remained slow in the first quarter of 2024.

GDP and Population Growth
(y/y percentage change)



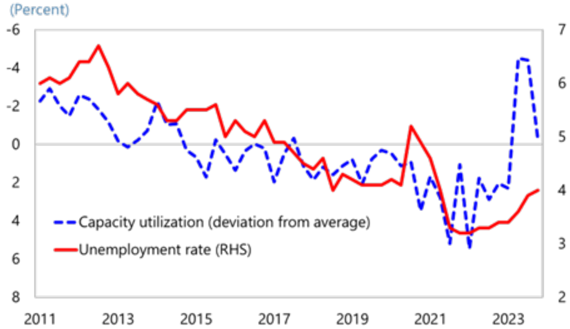
Sources: Statistics New Zealand and IMF Staff Calculations.

Composition of Quarterly Real GDP Growth
(Percentage point contribution to growth)



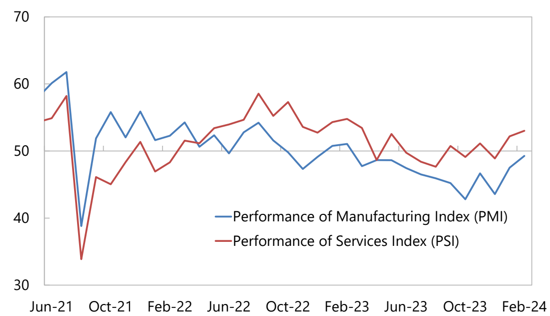
Sources: Statistics New Zealand and IMF Staff Calculations.

Indicators of Resource Pressure
(Percent)



Sources: Statistics New Zealand; and IMF staff calculations.

PMI and PSI Performance Post Pandemic
(Index)



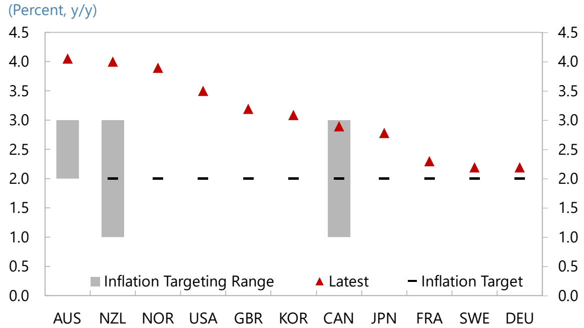
Source: Business New Zealand.

4. Despite tight monetary policy, inflation remains high. CPI inflation has declined meaningfully from its 7.3 percent y/y peak in 2022Q2 to 4.0 percent y/y in 2024Q1, but it is still well above the RBNZ's 1–3 percent target, and is higher than most peer comparator countries. The slower progress in reducing inflation compared to other economies is due to delayed passthrough from pandemic era shocks, tight labor markets, persistent wage pressure, weather-related domestic food shortages, and the effects of migration on rental and housing costs.[2] More recently, global disinflation, and a slight loosening in the labor market helped reduce headline inflation, but trimmed (proxy for core) and non-tradable inflation are more persistent amid an overall tight labor market and robust average hourly earnings (growing at 6.9 percent y/y in 2023Q4). Importantly however, inflation expectations continue to remain anchored, and there is no indication of a wage-price spiral.

5. New Zealand is a small open economy subject to spillovers, particularly through trade. The goods trade deficit narrowed in 2023, albeit marginally, as merchandise imports contracted under tight monetary policy, offsetting weak global demand's drag on exports including through the economic slowdown in China (New Zealand's largest trading partner). The current account deficit narrowed to 6.9 percent of GDP in 2023Q4, still well above its long-run average. New

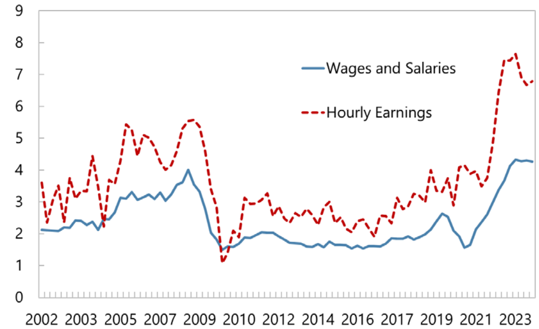
[2] See Selected Issues Paper: Inflation in New Zealand: Drivers and Dynamics included in this consultation.

Headline Inflation in Selected Advanced Economies
(Percent, y/y)



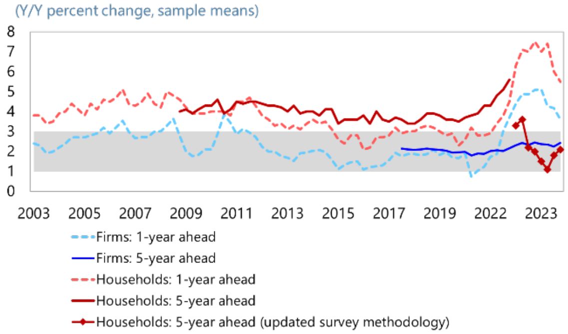
Sources: Haver Analytics and IMF staff calculations.
Note: As of April 17, 2024, 2023Q4 for AUS, 2024Q1 NZL.Target ranges shown where available. For SWE CPIF is shown as this is the targeted index.

Wage Growth
(Percent, y/y)



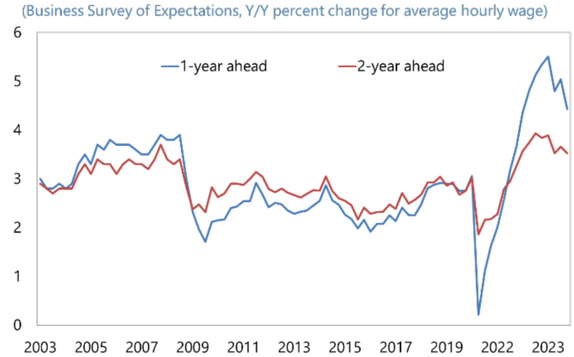
Source: Statistics New Zealand.

Near-Term Inflation Expectations Have Risen, But Medium-Term Expectations Remain Anchored
(Y/Y percent change, sample means)



Source: Reserve Bank of New Zealand.

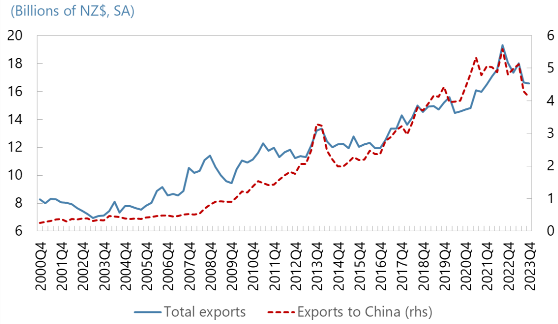
Wage Growth Expectations
(Business Survey of Expectations, Y/Y percent change for average hourly wage)



Source: Reserve Bank of New Zealand.

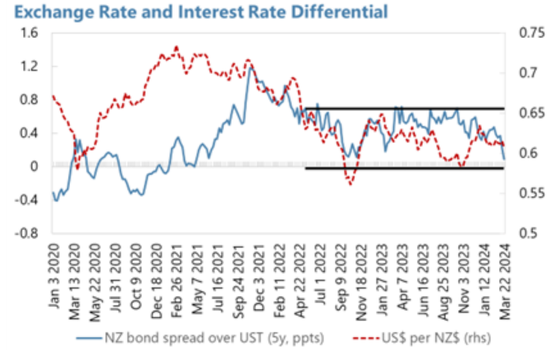
Zealand's external position in 2023 was weaker than implied by medium-term fundamentals and desirable policies, unchanged from last year's assessment (Annex II). Early signs of improving terms of trade (as dairy prices recover and oil prices retreat) in recent months have also contributed to external adjustment, with tourism continuing its recovery toward pre-pandemic levels. The strong correlation between milk and oil prices provides a natural hedge and helps attenuate commodity prices' pressure on the exchange rate (Annex IV). On the other hand, the primary income deficit has increased due to higher interest rates on New Zealand's negative net international investment position (Annex III). The floating exchange rate has fluctuated in a narrow range since the advanced economy synchronized rate hike cycle started in early 2022.

Exports of Goods
(Billions of NZ$, SA)



Source: Statistics New Zealand.

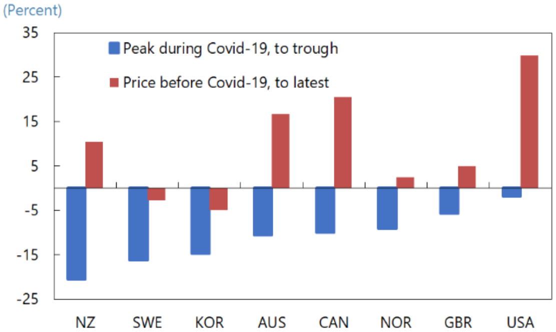
Exchange Rate and Interest Rate Differential



Source: Haver Analytics.

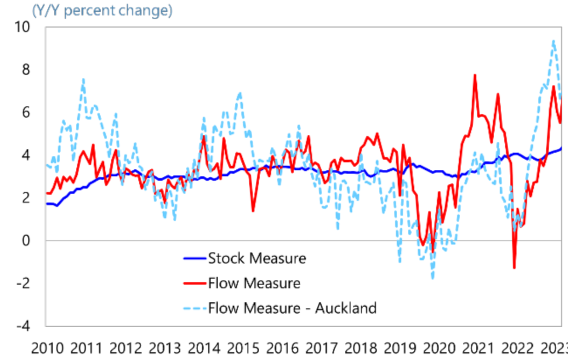
6. Housing prices are stabilizing following a significant correction. Following a 44 percent increase from 2020Q1 to 2021Q4, and the partial unwind by 13 percent through 2023Q2, housing prices have now stabilized earlier than staff expected on the back of strong population growth from net migration, and upcoming policy changes like restoring interest deductibility for residential property and the rollback of the bright-line test from 10 years to 2 years. Meanwhile, rents were up 5 percent y/y in February 2024 and 16 percent higher than in January 2020.

Real House Prices: New Zealand and Selected AEs
(Percent)



Sources: OECD, Corelogic, and IMF staff estimates.
Notes: Peak refers to the highest price level reached during Covid-19. Price before Covid-19 refers to house prices in 2019Q3.

Rental Price
(Y/Y percent change)

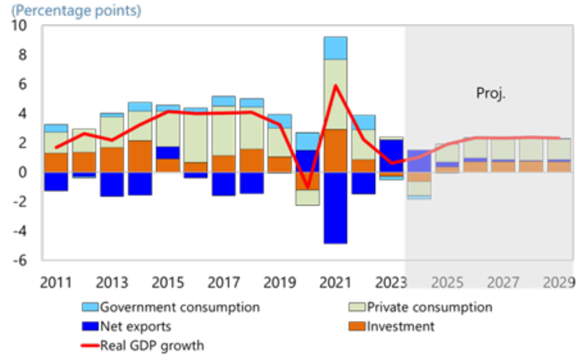


Source: Haver Analytics and IMF Staff Calculations.

C. Outlook: A Gradual Return to Growth

7. Growth in 2024 is expected to remain slow before picking up in 2025, driven by consumption.

Contribution to Growth
(Percentage points)



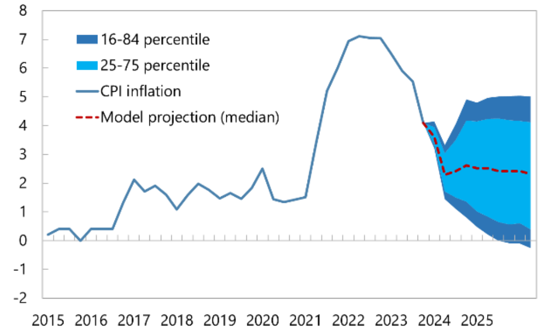
Source: Statistics New Zealand.

- *Growth and inflation*. Real GDP is expected to expand by 1 percent in 2024 as the lagged impact of monetary policy tightening suppresses demand, resulting in a modest decline in household consumption and investment, and a negative output gap. By contrast, improving external conditions should support short-term growth and a narrower trade balance, especially through further recovery in tourism. Staff expect a gradual easing of monetary policy starting toward the end of 2024 which should begin to support a gradual recovery in consumption and investment, returning growth to 2 percent. Migration likely has a role to play too. Although the current migration wave has likely already peaked, IMF staff research on a panel of OECD countries shows that large migration waves can cause long-term gains to productivity, output, and capital growth while also raising inflation in the short-term.[3] However, in countries with tight labor

[3] See Selected Issues Paper: Inflation in New Zealand: Drivers and Dynamics included in this consultation.

markets, like in New Zealand, this inflationary effect is no longer statistically significant and quickly reverses. Inflation is expected to fall below the upper bound of the RBNZ target range in 2024Q3. International disinflation (notably from China) should help continue to bring down inflation in the tradables sector, while the lagged impact of monetary policy is expected to create a negative output gap helping to bring down domestic inflation. A continuation of high net migration should help alleviate labor market tightness accompanied by a small increase in the unemployment rate, peaking at 5.4 percent in 2025.

Outlook for Inflation Remains Highly Uncertain
(CPI, model-based forecast, y/y change, percent)



Sources: Statistics New Zealand and IMF staff estimates.

- *External*. With the slowdown in domestic economy and normalization of global demand, the current account deficit is projected to gradually return to its historical average of around 4 percent of GDP over the medium-term.

- *Macrofinancial and housing*. Private sector credit growth is expected to grow by 4 percent in 2024 reflecting a recent uptick in the mortgage lending sector and investor loans, and more buoyant housing prices. Correspondingly, household debt is expected to fall less rapidly from its 2021 peak. Under a baseline assumption of steady disinflation, staff expect that the OCR has peaked at 5½ percent and will remain there until 2024Q3 before a gradual cycle of policy rate cuts in subsequent years.

D. A Balanced Set of Risks and Opportunities

8. Risks to the outlook for growth and inflation are largely balanced. Annex VI outlines a full set of potential risks, and three deserve particular attention:

- Domestic and international monetary policy miscalibration poses risks to growth and inflation. Should domestic labor market pressures remain persistent or global shocks lead to higher imported inflation, a premature loosening of monetary policy could pose a risk of inflation expectations becoming de-anchored. Conversely, the lagged impact of tight monetary policy could result in a larger-than-anticipated decline in domestic demand, potentially causing the RBNZ to undershoot its inflation target and trigger a protracted downturn. High interest rates combined with low growth could also create stress in financial markets, especially in mortgage lending. An upside risk to the growth forecast exists from migration stimulating supply-led growth and helping to address inflation. This could allow for an earlier easing of monetary policy generating a faster recovery in demand.

- New Zealand’s integrated position in global trade and financial networks makes it vulnerable to risks from deepening fragmentation. If global tensions escalate further, exports of commodities and some services are likely to decline causing lower growth and putting pressure on the exchange rate through a larger current account deficit. New Zealand relies heavily on imported inputs into many sectors, and disruptions to global supply chains could result in higher inflation.[4] Slower growth in New Zealand's trading partners, especially China, could contribute to persistently elevated current account deficits and weak external position, which pose macro and financial stability risks. On the other hand, an early resolution of global tension would present upside risks to growth and global disinflation could help further lower domestic prices.

- New Zealand remains highly vulnerable to natural disasters and climate shocks. In a downside scenario, a shock of similar magnitude to the 2023 Cyclone Gabrielle could lead to lower growth due to capital destruction and production disruptions. Inflation would rise as insurance premiums increase, and there may be elevated risks in the financial sector, particularly for homeowners. In order to mitigate risks of this kind, the authorities can invest in adaptation infrastructure (e.g., flood defenses) and incentivize property-level mitigation measures (e.g., residential zoning). Stress-testing of major shocks can help build confidence in the health of the financial system. Should the risk materialize, both monetary and targeted fiscal responses will help to address the associated impact on aggregate supply and demand. The strength of the intervention would be governed by the expected inflation dynamics and fiscal space.

Authorities' Views

9. The authorities largely agreed with staff's assessment of the outlook. They remain confident that monetary and fiscal policy are working together to bring inflation back to target. There is, however, a risk that non-tradables inflation remains elevated, which could necessitate interest rates remaining higher for longer to further suppress demand. They stressed that inflation expectations were moving in the right direction and that constraints on the public sector wage bill and a below-inflation increase in the minimum wage would help suppress wage growth. Following a sustained period of low productivity growth, the authorities have lowered medium-term productivity assumptions. Authorities stressed that there is uncertainty on the macroeconomic consequences of migration for growth, productivity, and inflation, and the effects are being carefully monitored. Natural disasters, a rapid slowdown in China, and further disruptions to global shipping networks remain prevalent concerns. The authorities agree with staff's external sector assessment and expect the external position to gradually strengthen over the medium term.

POLICIES FOR MACROECONOMIC STABILITY AND GROWTH

Macroeconomic imbalances and inflation are declining, but until prices are sustainably on a path to low inflation, the fiscal-monetary policy mix needs to remain restrictive. Budget 2024 needs to adopt a tight fiscal stance and a credible medium-term consolidation plan to restore the surplus and deliver on the fiscal sustainability program, via expenditure rationalization and careful use of revenue policies. Monetary and macroprudential policies are appropriate and should remain agile to respond to economic conditions. Bold structural policies are needed to address long-standing

[4] See Selected Issues Paper: Inflation in New Zealand: Drivers and Dynamics.

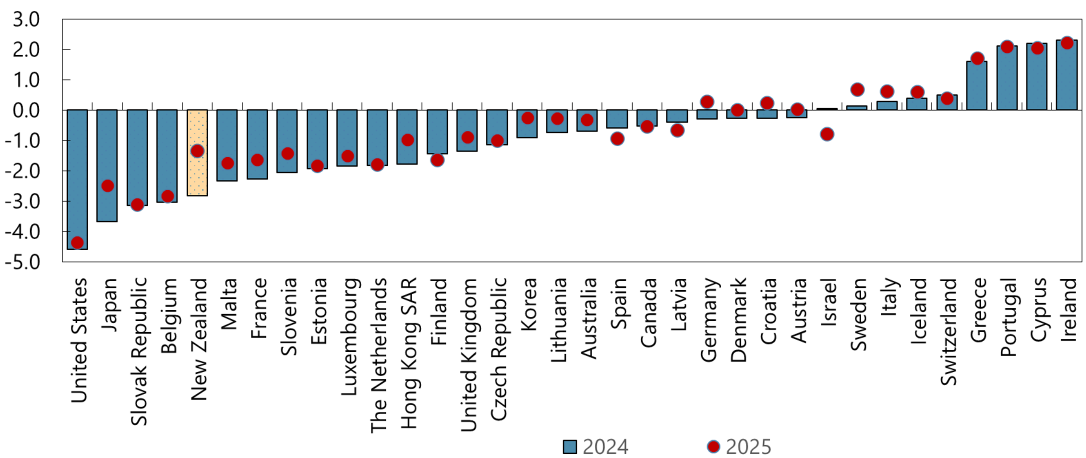
issues and help the economy grow at a high and sustainable pace for all, including housing reforms, productivity enhancing improvements, labor policies, and urgent climate change adaptation and mitigation action.

A. Fiscal Policy Should Support Disinflation and Promote Long-Term Inclusive Growth

10. Fiscal consolidation was put off in FY23/24 by policy decisions, indexation, and one-off spending related to Cyclone Gabrielle. The Treasury's Half Year Economic and Fiscal Update 2023 points to a larger than expected positive fiscal impulse in the current fiscal year[5] despite a positive output gap. While labor market tightness supported wage growth and personal income tax (PIT) revenue, the government's primary expenditure is projected to have increased markedly by NZ$5.6 billion in Budget 2023's spending package, NZ$3.5 billion increase in benefit payments mainly due to indexation to wage growth, and NZ$1.7 billion in North Island weather events related outlays. This, along with recent structural weakness in revenue due to slower productivity growth, puts New Zealand's cyclically adjusted primary deficit at 2.8 percent of GDP among the largest in advanced economies, lagging its peers in post-pandemic fiscal consolidation.

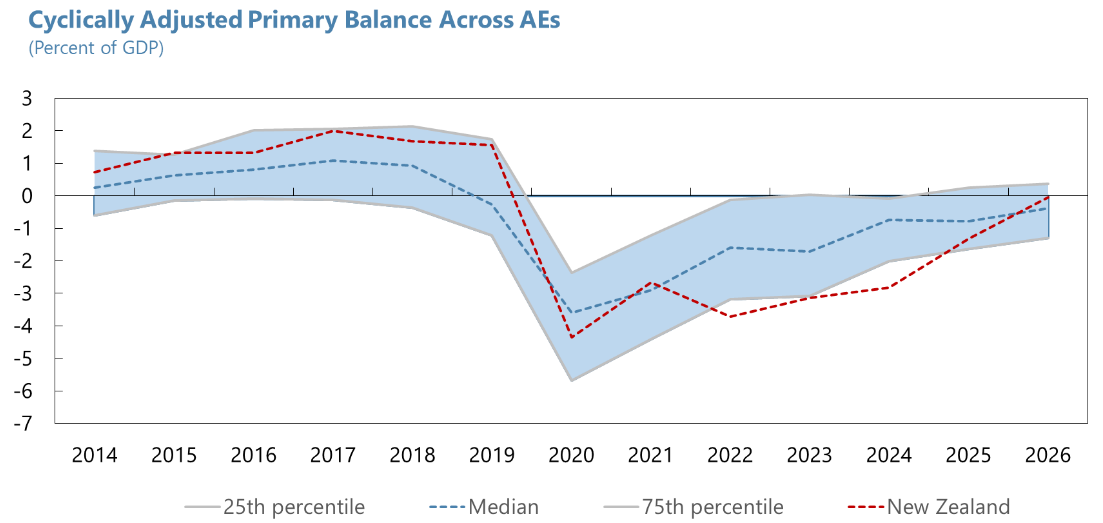
Cyclically Adjusted Primary Balance Across AEs

(Percent of GDP)



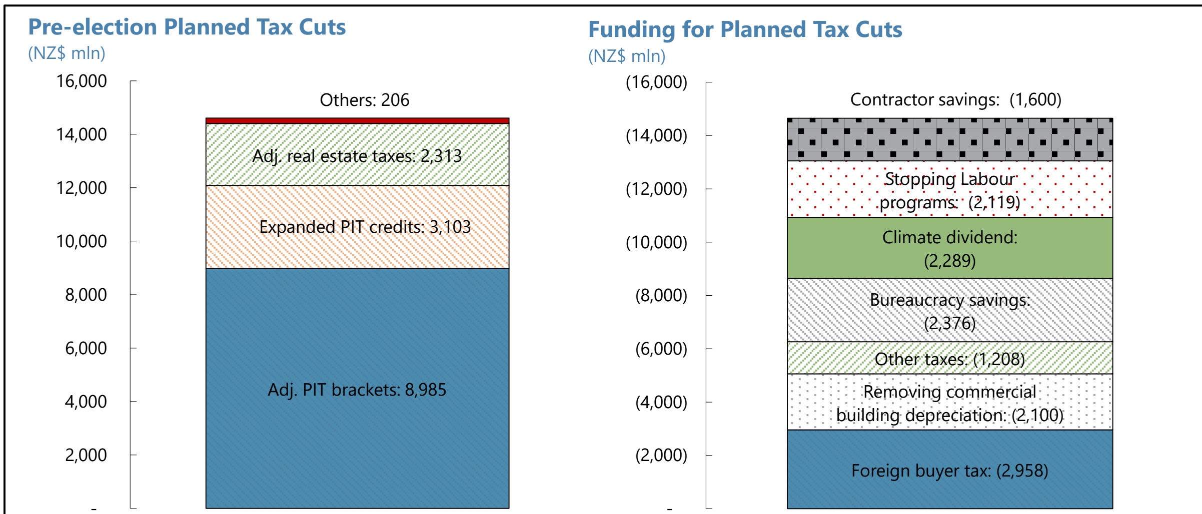
Sources: October 2023 Fiscal Monitor, and IMF staff projections.

[5] FY23/24 is the fiscal year starting July 1, 2023 and ending June 30, 2024.



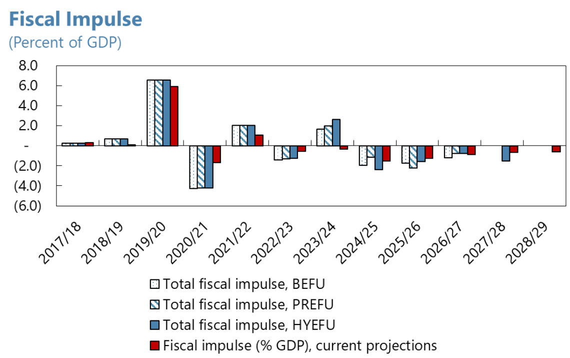
Sources: October 2023 Fiscal Monitor, and IMF staff projections.

11. Tighter fiscal policy starting FY24/25 is needed to support disinflation. While Budget 2024 is still being formulated, the new government's fiscal plan will likely include significant PIT relief to households through tax bracket threshold adjustments and expanded tax credits. The authorities intend to fund these tax cuts with a commensurate reduction in the government spending (including through efficiency gains and halting of infrastructure projects initiated by the previous administration) and new revenue initiatives (such as the removal of commercial building depreciation and the closing of a tax loophole for online gambling operators). The planned tax relief is targeted predominantly at low and middle-income earners and families with children, which have a higher propensity to spend. It is therefore important to calibrate the funding, timing, and parameters of this tax relief to be fiscally neutral to avoid any upside pressure to inflation. In staff's view, a negative fiscal impulse to the order of 1.5 percent of GDP would seem appropriately aligned with RBNZ's disinflation objectives.

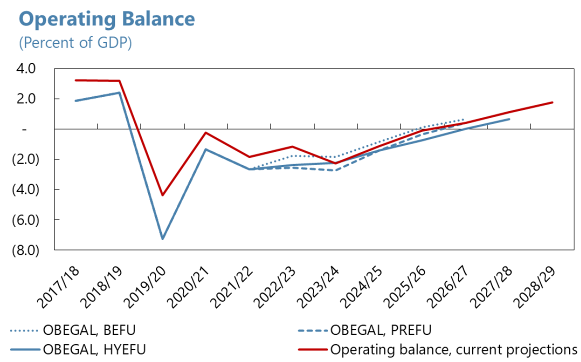


Sources: New Zealand National Party (pre-election) Fiscal Plan; and IMF staff calculations.

12. The authorities' Budget 2024 fiscal strategy should also signal a strong commitment for consolidation by addressing structural fiscal challenges. New Zealand's government debt remains sustainable at 46 and 19 percent of GDP on gross and net terms, respectively, at end-2023 (Annex V). However, it increased more rapidly than in many advanced economies in recent years and will continue its upward trajectory absent decisive consolidation, as the interest-growth differential becomes less favorable. The authorities' fiscal objectives as highlighted in the March 2024 Budget Policy Statements focus on: (i) restricting operating allowances in line with bringing operating balance back into surplus; (ii) reducing core Crown expenditure to 30 percent of GDP; and (iii) putting net core Crown debt on a downward trajectory toward 20-40 percent of GDP.[6] In staff's view, in light of the recent structural revenue weakness due to slower productivity growth, restoring an operating surplus in the 4-year forecast period of Budget 2024 should remain the objective.[7] This should be underpinned by efficacious caps on operating allowances throughout the forecast period, to avoid further delays in the consolidation path. Such strategy can strengthen policy credibility and preserve the policy space to support long-term investment and respond to shocks. Fiscal consolidation will also help narrow the gap between the government's savings and investment and thereby support the external adjustment, as high inflation and interest rates may hold back real exchange rate adjustment (Annex III).



Sources: New Zealand Treasury and IMF staff projections.



Sources: New Zealand Treasury and IMF staff projections.

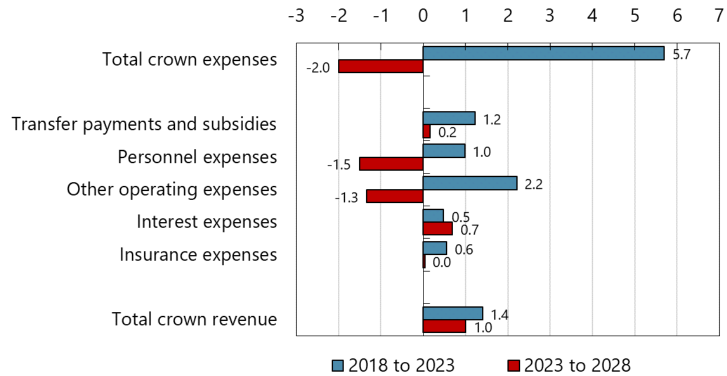
13. Expenditure policy should drive consolidation and focus on using fiscal space more efficiently to address New Zealand's long-term fiscal challenges. Government spending increased sharply over the past five years, most notably in the areas of personnel, interest, insurance, and transfers and social benefits that cover most pandemic and cost-of-living relief spending (Annex VIII). These will be the priority areas to target for expenditure rationalization, with outlays on high-value infrastructure and support to the most vulnerable protected. While the cyclical component of this fiscal expansion is expected to gradually unwind, a more proactive expenditure policy is needed to address the structural shifts and create/preserve fiscal space for long-term fiscal challenges. Aging demographics increase spending pressures on healthcare and retirement benefits, which call

[6] This net debt concept differs from the GFS general government (GG) net debt concept used by the IMF. The main difference is that net core Crown debt excludes assets held by New Zealand Superannuation, which is a GG entity.

[7] The operating balance here refers to the New Zealand Treasury's GAAP concept of operating balance before gains and losses (OBEGAL), which differs somewhat from the GFS concept of operating balance calculated by IMF staff.

for efficiency gains on health services and superannuation reforms to address increasing New Zealand Superannuation costs. Spending is needed to address housing and productivity challenges (see below). A rigorous cost and benefit analysis of government spending programs would help ensure highest efficiency and value-added and support strategic fiscal goals.

Change in Government Expenses (HYEFU 2023)
(Percent of GDP)

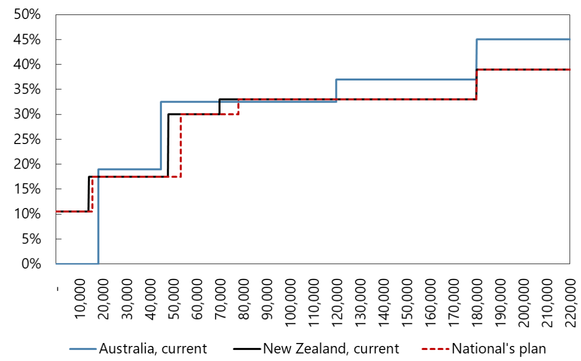


Source: New Zealand Treasury.

14. The new government's tax plan presents an opportune moment to reform New Zealand's tax system to promote long-term inclusive growth. While "bracket creep" has contributed to higher tax revenue by increasing the average tax rate on salary and wages, it has eroded households' disposable income, which are also squeezed by the higher costs of living and borrowing at present.[8] The envisaged adjustment to the PIT thresholds (which have remained unchanged since 2010) seeks to partially offset this fiscal drag and make the PIT system marginally more progressive (text charts). It presents an opportunity to more comprehensively reform the tax system to improve efficiency, equity, and sustainability of revenues while achieving economic goals. New Zealand already has one of the most efficient goods and services tax (GST) systems globally. On the other hand, its relatively flat PIT rate scale and lack of a comprehensive capital gains tax have contributed to worsening wealth inequality and an intergenerational equity issue with the government's PIT efforts focusing on labor income (main source of income for the younger generation) to finance increasing age-related spending on the older generation. Broadening the tax base to more comprehensively capture capital gains would make income taxes more progressive and generate more revenue to address New Zealand's long-term fiscal challenges. Moreover, a well-designed land value tax could promote efficient land use and help fund needed infrastructure investment. A comprehensive tax policy reform that broadens the scope for mobilizing revenue through more progressive and comprehensive direct taxes can also help create fiscal space for potential allowance for corporate equity and/or additional R&D tax incentive to promote investment and productivity growth, considering New Zealand's relatively high corporate income tax rate.

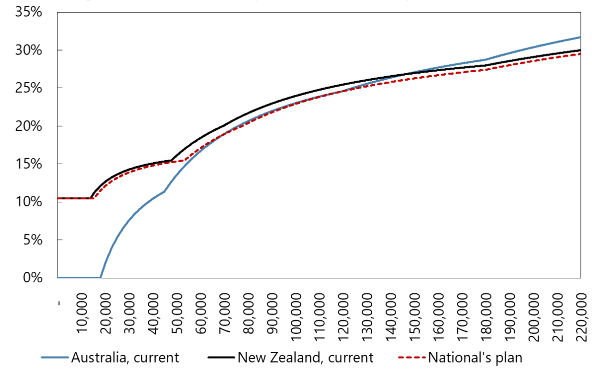
[8] New Zealand's PIT revenue intake as share of GDP is among the highest across OECD countries (excluding social security contributions), due to its broad revenue base despite a low average tax wedge.

PIT Marginal Tax Rate
(Percent of gross annual income in respetive national currency)



Sources: New Zealand Treasury; Australia Treasury; and IMF staff calculations.

PIT Average Tax Rate
(Percent of gross annual income in respective national currency)



Sources: New Zealand Treasury; Australia Treasury; and IMF staff calculations.

Authorities' Views

15. **The authorities agree with staff's call for tight fiscal stance and medium-term consolidation.** They intend to fund the planned personal income tax relief with reprioritizations, reductions in expenditure and new revenue measures so that it does not add to debt. This package is not expected to be inflationary under current economic circumstances characterized by higher household debt service burdens. The authorities agree with staff's assessment that New Zealand's public debt is sustainable and recognize the need to eliminate structural fiscal deficits in the budget forecast period. A specific timeframe for returning to surplus will be set out in the May Budget. To reach surplus, the focus is on capping government expenditure growth through more constraining operating allowances helping bring core Crown expenditure towards 30 percent of GDP across the medium-term. The Government has recently introduced reforms to revert benefit indexation from wage to inflation and better targeted employment supports through closer monitoring. The authorities do not plan major tax reforms and are instead pursuing regulatory reforms to promote investment and productivity growth.

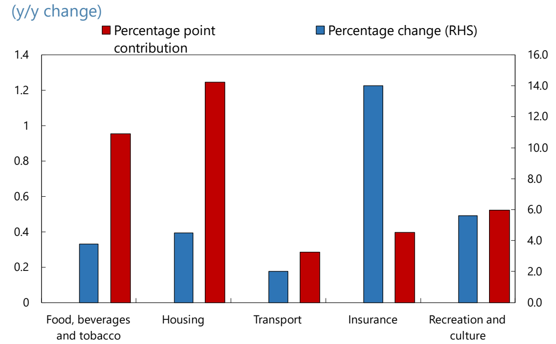
B. Monetary Policy Should Remain Agile

16. **Monetary policy is appropriately tight and it is likely to remain restrictive to ensure a timely return of inflation to target.** The OCR has remained at 5½ percent since May 2023, significantly above the RBNZ's suite of indicators for the neutral rate. This hawkish stance is in response to significant domestic inflationary pressures demonstrated by the persistence of non-tradable inflation, a positive output gap, low unemployment, and high wage growth. Although the monetary policy committee (MPC) has not ruled out further rate rises, market expectations are that rates are likely to fall during 2024. However, the data remains conflicting. On the one hand, the economy is slowing more rapidly than previously thought and unemployment is starting to rise. On the other hand, non-tradables inflation remains persistently high at 5.8 percent y/y, indicating ongoing inflationary pressures domestically. For instance, in 2024Q1 housing, transport, insurance, and recreation inflation alone contributed more than half of the rise in prices, and average hourly earnings grew by 6.9 percent y/y. While some of the drivers may be transitory—insurance premiums typically rise following major natural disasters—other factors suggest longer lasting inflationary

pressures. For instance, supply constraints and high net migration is likely causing the recent uptick in house prices and rising rental costs (but should help lower wage pressure). Additionally, trimmed inflation, which excludes volatile components, has fallen at a slower rate than headline CPI, suggesting disinflation is not yet broad based.

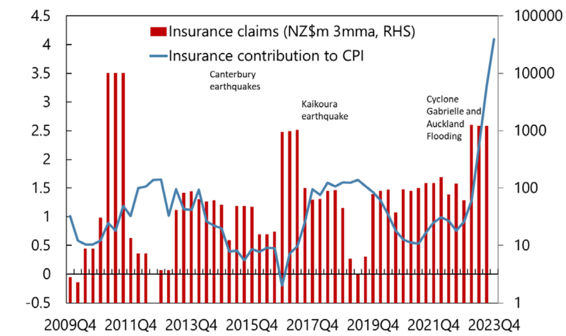
17. Monetary policy should be flexible and data dependent given the uncertain landscape. IMF staff project that policy cuts may be warranted in 2024 in the baseline scenario of declining domestic demand, softening global inflation, and rising unemployment. However, if inflation

CPI Contribution in Selected Groups in 2024Q1
(y/y change)



Sources: New Zealand Authorities and IMF Staff Calculations

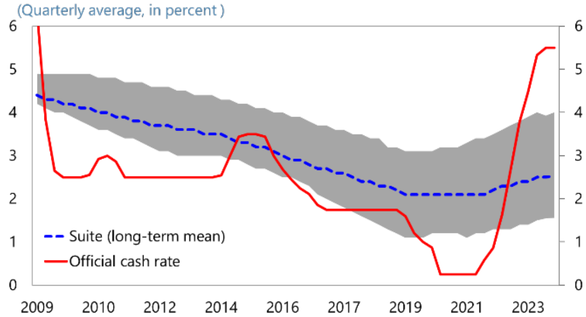
Insurance Premium Contribution to CPI
(Index point contribution from same quarter of previous year, RHS axis log scale)



Sources:Insurance Council of New Zealand; New Zealand Authorities; and IMF Staff Calculations.

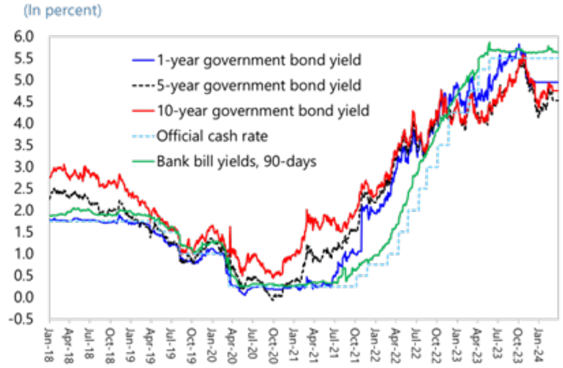
surprises on the upside especially due to continued price and wage stickiness or demand effects from high net migration, the current tight stance should be prolonged into 2025 in line with the current RBNZ unconstrained OCR path. Given that monetary policy transmission for New Zealand has a six to nine quarter lag,[9] policymakers should remain nimble to bring inflation to target while avoiding a protracted downturn.

OCR and Neutral OCR Indicator Suite 1/
(Quarterly average, in percent)



Source: Reserve Bank of New Zealand.
1/ Shaded area indicates the range between the maximum and minimum values from a suite of neutral OCR indicators.

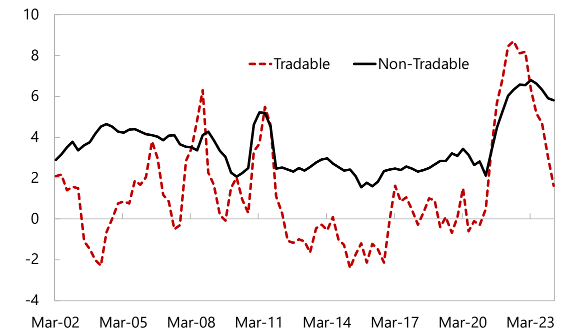
Interest Rates
(In percent)



Sources: Reserve Bank of New Zealand

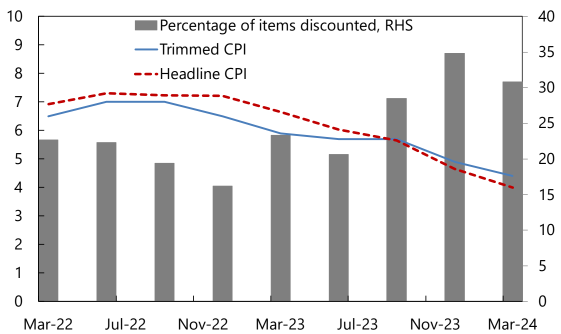
[9] See RBNZ Monetary Policy Statement Chapter 4 November 2023.

Tradable and Non-Tradable Inflation
(Percent, y/y)



Source: Statistics New Zealand.

Outliers and Broad Base of Inflation
(Percentage change, y/y)



Sources: New Zealand Authorities and IMF Staff Calculations
Notes: trimmed at 5 percent level

18. **The recent change to the RBNZ's mandate is expected to have limited impact on policy, and the additional resources safeguard stability.** In December 2023 the government reverted the RBNZ Remit to a single mandate of maintaining price stability, but it is not expected to affect monetary policy in the short term as the price stability objective was already stipulated in the previous RBNZ Act.[10] The Charter was also revised to require a Monetary Policy Statement to include a timeframe over which inflation is expected to return to target midpoint and the reasons for the timeframe. The periodic reviews of the Remit and Charter should continue to evaluate the suitability of the MPC objectives and to advise the government. In 2023 the Reserve Bank received NZ$1.8 billion in capital to buffer external shocks and a standing indemnity for up to NZ$5 billion to cover losses from bond purchases.[11] Foreign currency reserves have risen significantly and the RBNZ's intervention capacity has increased to NZ$19 billion.[12] While the additional financing is welcome, and it will help provide stability, the exchange rate remains the primary shock absorber and its flexibility is important for external adjustment.

19. **While New Zealand's monetary policy framework continues to serve its intended purpose effectively, some areas may require further consideration.** Firstly, there is a need to better understand the material interactions between monetary and fiscal policies and their respective roles in addressing economic shocks. Lessons from peer advanced economies suggest that clear and transparent coordination can help to assist in reaching optimal outcomes while preserving the operational independence of the central bank. Evaluating existing arrangements against the IMF's Central Bank Transparency Code may be helpful (Annex X). Secondly, New Zealand still does not produce a monthly version of CPI inflation, which poses challenges in formulating

[10] In its review of the Remit and Charter last year the Reserve Bank clarified the primacy of the inflation objective (over employment), and the Review and Assessment of the Formulation and Implementation of Monetary Policy concluded that the MPC's inflation and employment objectives were not in conflict during the pandemic. See also Annex VII of the 2023 New Zealand Article IV Staff Report.

[11] The capital injection included NZ$500 million to support the accumulation of reserves under the Foreign Reserves Management and Coordination Framework agreed with the government.

[12] The RBNZ's intervention capacity concept measures its reserve assets less FX liabilities falling due in the next 12 months. Its utilization is restricted to periods of exceptional exchange rate volatility unjustified by economic fundamentals.

timely monetary policy decisions due to the associated data gaps. However, positive progress has been made with the introduction of the Selected Price Index (SPI), which includes 44 percent of the CPI basket.

Authorities' Views

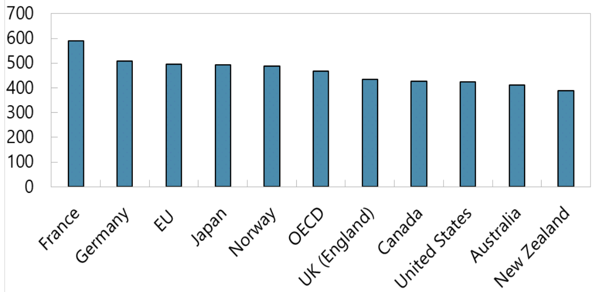
20. **The authorities stressed that monetary policy remains restrictive to bring inflation to target.** The RBNZ noted that monetary policy is successfully cooling the economy and that inflation is declining broadly in line with forecasts. They stressed the risk to inflation expectations when inflation is above target for an extended period and anticipate policy to remain tight for a while longer. The RBNZ noted that the amendments to the MPC Remit help to reiterate the focus on achieving the inflation goal. The RBNZ and Treasury continue to evaluate the interactions between monetary and fiscal policy and perform further research. Stats NZ has no immediate plans to expand the Selected Price Index into a full monthly CPI given the new limited price series is already providing a significant increase in information, and a full CPI series would require increased resources.

C. Housing Sector and Financial Sector

21. **Policies to boost the housing supply are urgently needed.** New Zealand has a relatively small housing stock, since construction has not kept up with population growth. As a result, affordability issues are particularly severe, notwithstanding the price correction in 2021-23. Earlier efforts in New Zealand have shown that changes in zoning laws can be effective in boosting the housing supply. Additional reforms of land use restrictions are essential for further construction. Moreover, investment in transport and water infrastructure is needed to support urban development. This requires local councils to address funding and capacity constraints. A land value tax and comprehensive capital gains tax would encourage more efficient land use.[13] New Zealand also has relatively high construction costs, including due to a higher cost of construction materials, limited scale economies, and the need for earthquake resilient buildings.

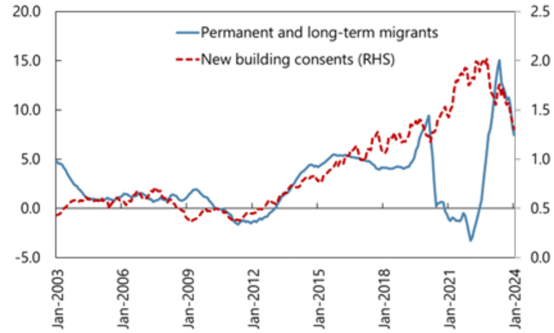
[13] The residency-based foreign ownership restrictions under the legislated Overseas Investment Amendment Act, in effect since October 2018, were deemed a capital flow management measure (CFM) under the Institutional View (IV) on capital flows. Under the Overseas Investment Amendment Act, all residential land was reclassified as sensitive land and foreign ownership requires approval, except for Australians, Singaporeans, and resident visa holders. The use of the CFM was not assessed to be appropriate under the IV because purchases by nonresidents did not seem to be of a scale to be considered the equivalent of a capital inflow surge.

Dwellings per 1000 Inhabitants
(Number of dwellings per thousand, 2020 or latest available)



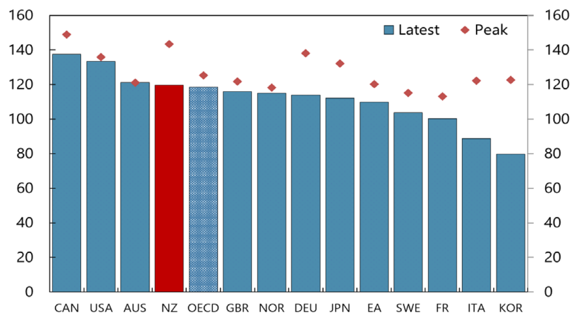
Source: OECD.

Housing Supply and Population Growth
(Thousands, 4-month moving average)



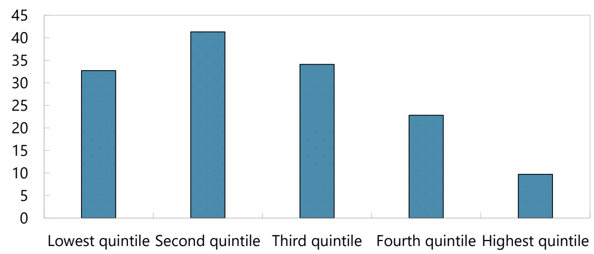
Sources: Statistics New Zealand, IMF staff calculations,

House Price-to-Income Ratio
(Index, 2015=100)



Sources: OECD.

Percentage of Households under Housing Stress[1]
(By Income Quintile)



Source: Statistics New Zealand.
1/ Households with housing costs greater than 30 percent of disposable income.

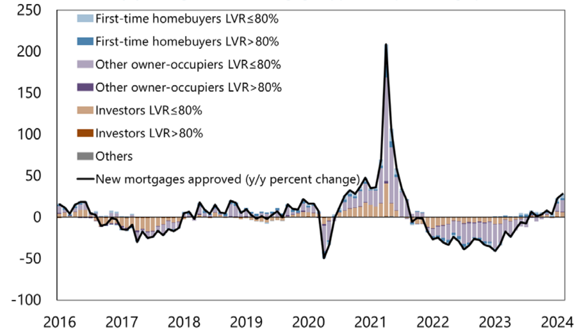
22. Financial stability risks appear contained. As lending conditions tightened, credit growth further slowed in 2023, though household debt remains high, at 165 percent of disposable income in 2023Q2. Higher mortgage payments place a strain on indebted households, and loan arrears have increased to 0.4 percent of total loans but remain very low overall.[14] Lower meat and dairy prices, coupled with higher debt servicing costs, have increased the agriculture sector's vulnerability. Hybrid work arrangements have lowered demand for office space and are challenging parts of the commercial real estate sector. As a result, bank non-performing loans have ticked up, particularly for agriculture and businesses, but the banking system remains well-capitalized, liquid, and highly profitable as banks benefit from higher net interest margins (Table 5, Figure 7). Continued monitoring is needed, as a protracted downturn that raises unemployment could hamper household incomes.

23. The macroprudential policy stance is appropriate. Currently, commitments for new mortgage loans turned positive in 2023H2, driven by new mortgages for investors and first-time homebuyers, and consistent with the recovery in housing prices. The RBNZ proposed to activate debt-to-income (DTI) restrictions and ease loan-to-value ratio (LVR) settings somewhat for owner-

[14] See also the November 2023 RBNZ Financial Stability Report.

occupiers and investors in January 2024.[15] While not currently binding (see Figure 6), if activated, the introduction of the DTI restriction would seek to protect against high-risk lending through the credit cycle, while giving banks some limited room to lend to higher-DTI borrowers. Staff assess the current configuration of macroprudential policies as appropriate given the ongoing decline of leverage and risky lending and given tepid signs of housing price increases and mortgage rates declines. The planned 12-month review of macroprudential settings is warranted. Location-based DTIs could be considered at a later time to account for regional differences. The Commerce Commission's ongoing assessment of competition in the banking sector, to be concluded in August 2024, is a welcome initiative, given the high degree of concentration in the sector.

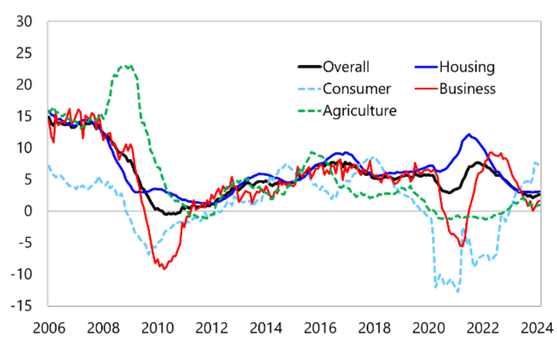
New Mortgages Approved by Borrower Type and LVR [1/]
(Contribution to y/y change in total mortgage approvals, percentage points)



1/ LVR: Loan-to-value ratio.

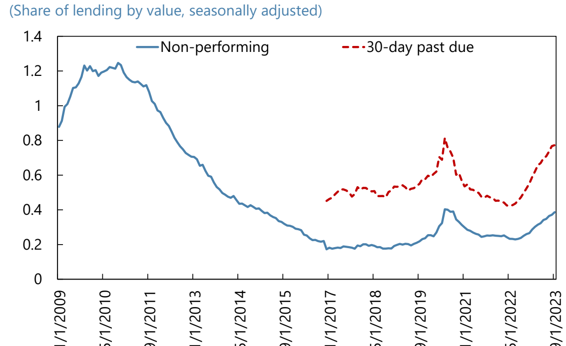
24. The RBNZ is taking new measures to preserve financial stability. The Deposit Takers Act (DTA) passed in 2023 and is being implemented over several years. It will create a single regulatory framework for banks and non-bank deposit-takers to provide a depositor compensation scheme (DCS) for up to NZ$100,000 per customer per deposit-taker (estimated to cover around 93 percent of depositors), and the scheme will come into effect from mid-2025. The consultations on DCS prudential standards and the proportionality framework will develop regulatory standards for deposit takers, considering their size and nature. DCS regulations will determine the fee levied on small and large deposit-takers. A proportionate approach to rule-making is needed to support competition and address concerns of smaller deposit-takers.

Credit Growth
(Credit growth, year-on-year percent change)



Source: Reserve Bank of New Zealand.

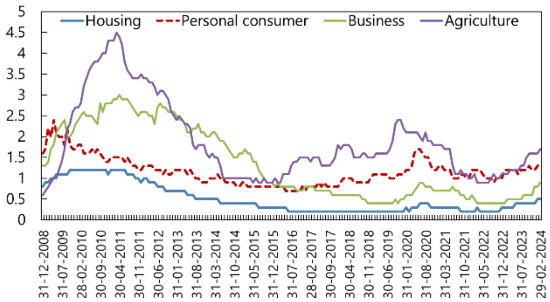
Non-performing and Past Due Mortgage Lending
(Share of lending by value, seasonally adjusted)



Source: RBNZ Financial Stability Report.

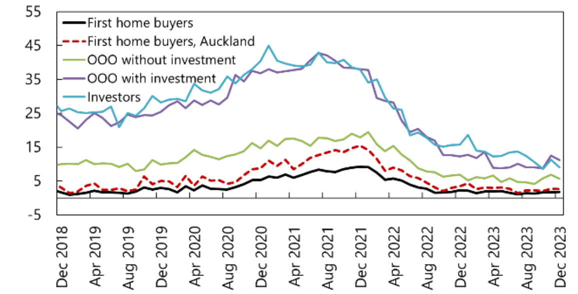
[15] The proposal would allow banks to give 20 percent of their residential loans to owner-occupiers with a DTI greater than 6 and to investors with a DTI greater than 7. The new LVR settings would allow banks to give 20 percent (from 15 percent) of owner-occupier lending to borrowers with an LVR greater than 80 percent, and 5 percent of investor lending to borrowers with an LVR greater than 70 percent (from 65 percent).

Non-Performing Loans
(Percent)



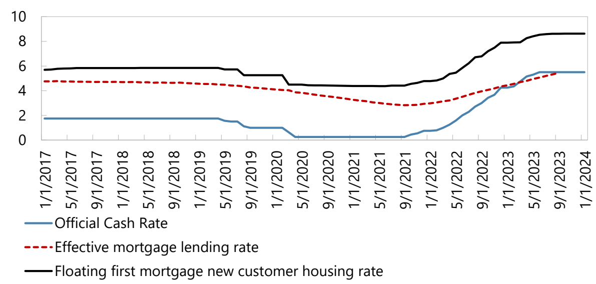
Sources: Reserve Bank of New Zealand.
Note: The NPL ratio is made up of all impaired loans and loans more than 90 days past due, as a proportion of total lending for each loan purpose.

Share of New Commitments to Borrower Type with DTI >7
(Percent)



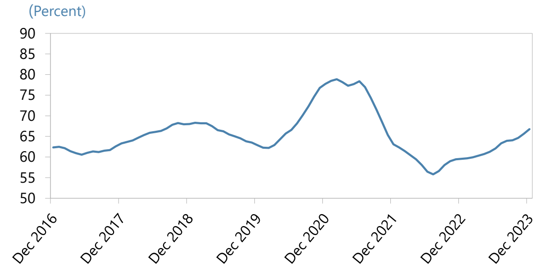
Sources: Reserve Bank of New Zealand, IMF staff calculations.
Notes: OOO refers to Other Owner Occupiers. Investment refers to property collateral. Share of new commitment is calculated to each borrower type group.

Mortgage and Policy Rates
(Percent)



Source: Reserve Bank of New Zealand Financial Stability Report.

Share of Outstanding Mortgages Repricing within 12 Months
(Percent)



Sources: Reserve Bank of New Zealand and IMF. staff calculations.

25. Efforts to strengthen the AML/CFT framework are ongoing. New Zealand is in Asia/Pacific Group on Money Laundering's enhanced follow-up process, and the Ministry of Justice reviewed the AML/CFT Act with strengthened regulations entering into the force in three stages from 2023-2025. In June 2024 amendments will address gaps in customer due diligence (CDD) obligations and enable the application of a risk-based approach. Legislative improvements are being considered to the Companies Act, but further efforts are needed to enhance transparency of beneficial ownership. The ongoing National Risk Assessment will evaluate the risks and can further inform a risk-based approach to the sector. The authorities should also strengthen implementation of the risk-based approach to CDD in the financial and real-estate sectors.

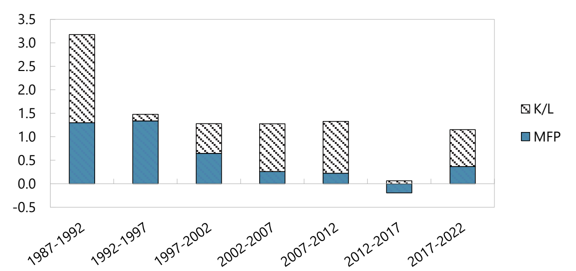
Authorities' Views

26. The authorities agreed that boosting the housing supply should be a priority and that less restrictive land use policies are needed. They also saw a need for additional local infrastructure. They noted existing local government property tax can be used to fund new local infrastructure, and they are also considering additional measures underpinned by more user revenues. Officials will review how to align the incentives on local councils and communities to support urban growth; one option to consider is to share GST receipts from new housing development with councils. The authorities concurred with staff's assessment of financial sector developments and pointed to their active stress testing agenda to detect potential vulnerabilities, including a climate stress test and a general insurance stress test in 2024.

D. Structural Policies

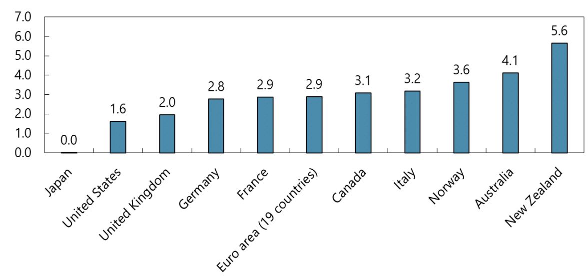
27. New Zealand's productivity growth has been slow for decades. Since 2000, gains in productivity have been largely driven by capital accumulation, whereas multifactor productivity growth (through innovation, technology adoption, education, or a reallocation of resources to more productive businesses) has remained stagnant. Slow productivity growth has contributed to a rapid increase in unit labor costs, undermining New Zealand's competitiveness. To boost productivity, the authorities should promote innovative investment by expanding R&D tax credits and other support measures, while also promoting their take-up and scaling up government investment on R&D. Public investment to close the infrastructure gap also remains critical, including also for maintenance of the existing capital stock.[16] A more predictable infrastructure pipeline would encourage construction companies to expand implementation capacity. Digital infrastructure is also critical given the small size of the ICT sector and considerable productivity gains associated with technology firms (see Annex IX).

Contributions to 5-Year Growth Rates of Real GDP Per Hour Worked
(In percent, annualized)



Sources: OECD and IMF staff calculations.

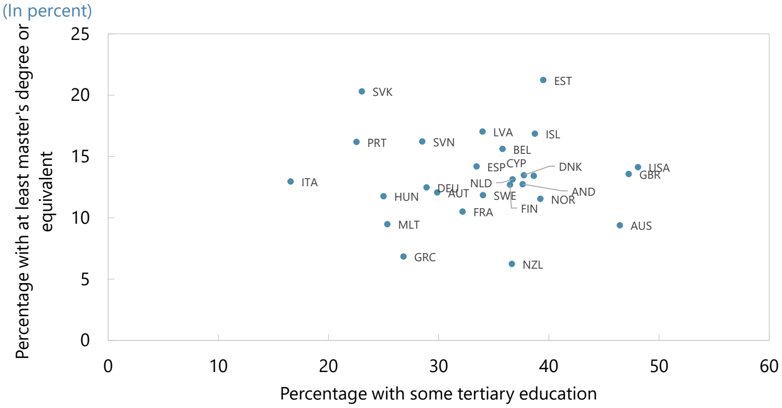
Growth Rates of Unit Labor Cost[1], 2001-21
(In percent, annualized)



Sources: OECD; ABS; and IMF staff calculations.
1/ exchange-rate adjusted.

28. Immigration, together with efforts to improve education outcomes, could address skills shortages and boost productivity. While the population is, on average, highly educated and labor force participation is relatively high, New Zealand lags other advanced economies in terms of post-graduate degrees, partly due to emigration of skilled New Zealanders. Immigrants have, on average, higher education levels and higher labor force participation rates than the native-born population, which has helped offset skills shortages. Results from the 2022 PISA round show that New Zealand's test scores continue to

Education Level of Resident Population Aged 25 and Older (2019-22)
(In percent)

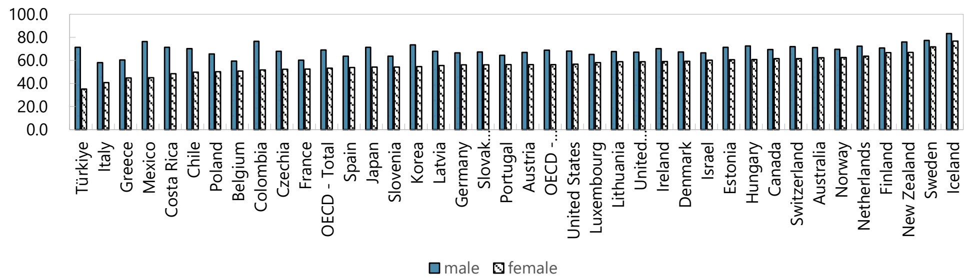


Source: World Development Indicators.

[16] See also the discussion in the 2023 New Zealand Article IV Staff Report on closing infrastructure gaps.

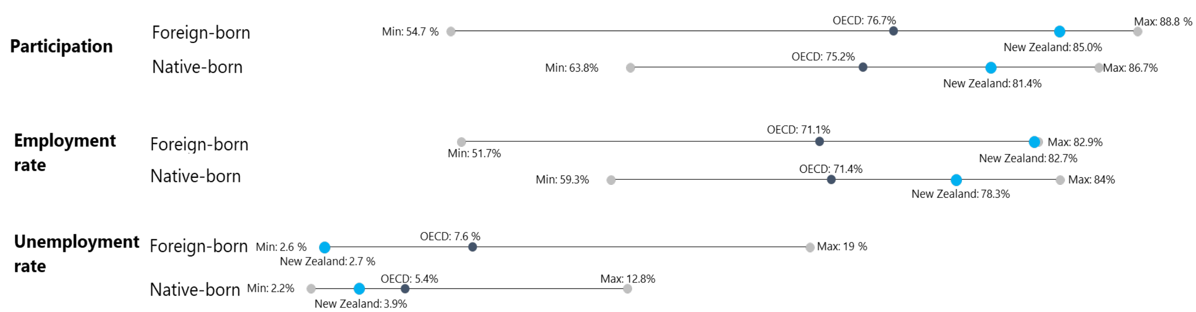
decline, underscoring a need to improve education outcomes. Test scores also reveal discrepancies in education outcomes across socio-economic backgrounds.

Labor Force Participation Rate by Gender, 2022
(Percent)



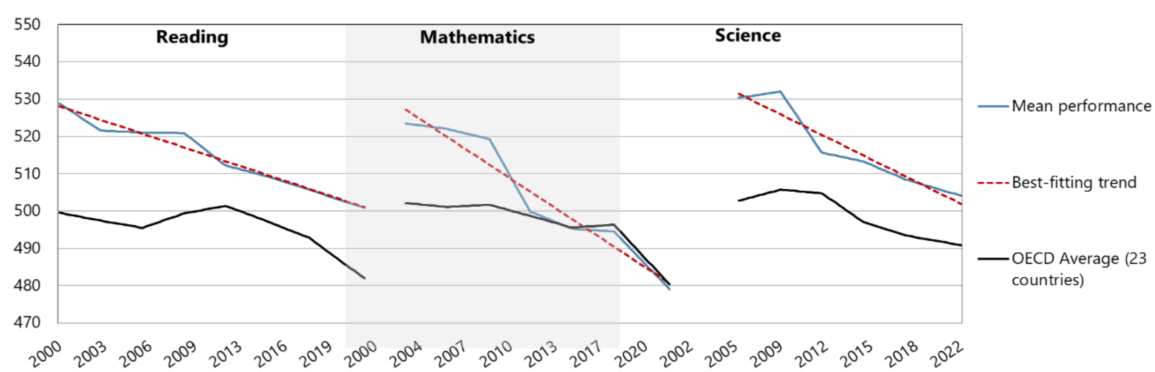
Source: OECD.

Labor Market Integration of Immigrants
(In percent)



Source: OECD.

PISA: Trends in Mathematics, Reading, and Science performance
(Score Points)



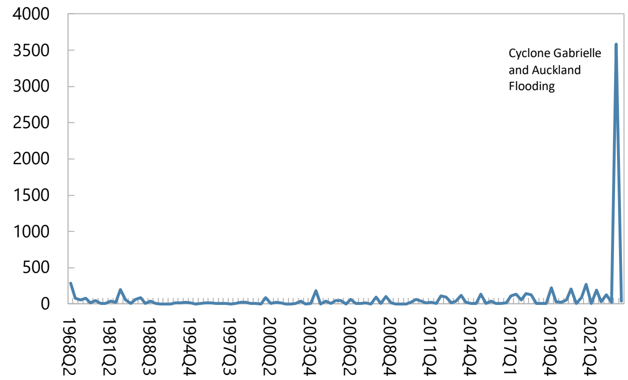
Sources: OECD, PISA 2022 Database

29. **Labor market policies should support inclusive growth.** While unemployment is near historic lows, long-term unemployment rates and Māori unemployment rates remain high. Active labor market policies and expanded training opportunities can help make the labor market more

inclusive. In 2024 the minimum wage in New Zealand is going to increase only by 2 percent y/y, but following years of rapid increases, the minimum wage relative to the median wage remains among the highest in advanced economies and may potentially create headwinds to the employment of low-skilled workers.[17] Minimum wage increases should be commensurate with productivity growth.

30. New Zealand remains highly vulnerable to climate change, climate shocks and natural disasters highlighting the need for additional adaptation policy. The country's heavy reliance on agriculture makes it particularly susceptible to climate shocks, rising average temperatures, and natural disasters. Following last year's North Island weather events, the total cost from Insurance claims came to NZ$3.5 billion which is an order of magnitude larger than any previous weather-related losses and comparable in magnitude to risks from major earthquakes (see chart). This resulted in substantial increases in insurance premiums, destroyed capital, and damaged infrastructure. However, good governance, an effective health care system and resilient infrastructure make New Zealand better prepared than many comparators (Figure 8). The central government has committed new spending on flood protection works and has launched an inquiry into adaptation funding and community relocation from high-risk areas. Policy can focus on implementing the 2023 Infrastructure Action Plan and the 2022 National Adaptation Plan to ensure sufficient spending on adaptation infrastructure, residential zoning in high-risk areas, addressing data gaps in climate vulnerability, rebuild fiscal buffers, and continued stress-testing the financial sector.

Weather Related Insurance Claims
(NZ$ Million, 2002 prices)



Sources: Insurance Council of New Zealand and IMF Staff Calculations

31. New Zealand's ambitious climate goals call for major reforms. The Emissions Trading Scheme (ETS) has helped limit net emissions by incentivizing efficiency gains and removals, particularly from afforestation.[18] However, recent measures have hindered progress towards lowering gross emissions (including cancelling the ETS review) and net emissions (including pushing back the time for pricing agricultural emissions to 2030). Significant reforms will be necessary to meet domestic and international targets, including New Zealand's first Nationally Determined Contribution (NDC) under the Paris Agreement, and the 2050 Net Zero (Selected Issues: Mitigations Options to Meet New Zealand's Climate Goals). These include reducing the number of available units in the scheme, pricing agricultural emissions, and strengthening the incentives for gross emissions reductions within the ETS. Given the ambition of New Zealand's first NDC, the use of international mitigation is likely to be required. In taking policy decisions, environmental integrity risks and relative costs

[17] See Selected Issues: Wage Formation and the Effect of Minimum Wages in New Zealand, 2023.

[18] Selected Issues Paper "Addressing Climate Change—Updates and Emerging Challenges" in the 2023 New Zealand Staff Report.

should be considered. The fiscal cost of offshore mitigation represents a significant fiscal risk with New Zealand Treasury estimates ranging from NZ$3.3 billion to NZ$23.7 billion depending on the scale of emissions gap and the price of international offsets.[19]

Authorities' Views

32. The authorities agreed that efforts to boost productivity are critical for long-term growth. In addition to the role of education, innovation, and capital deepening, they emphasized the need to improve housing affordability to reduce emigration of skilled New Zealanders to Australia and beyond. They also pointed to productivity headwinds from geographic factors, especially New Zealand's low population density and relative remoteness, and from specialization in tourism and agriculture. While geographic isolation is a challenge, advances in technology provide significant opportunities for New Zealand to boost productivity. The authorities noted that New Zealand's economic geography means that policies and regulatory settings need to be high-quality and fit-for-purpose to enable the country to best take advantage of the opportunities presented by new technologies.

33. The authorities emphasized that they remain committed to their adaptation and mitigation goals. They stressed that climate change represents one of the biggest economic and fiscal transitions the country is facing and that recent weather events have highlighted the urgent need to implement and carefully review policies in the National Adaptation Plan. This includes ongoing work to collect data on adaptation preparedness among providers of essential service delivery and active discussions on adaptation options for communities. The authorities stressed that they wish to meet their mitigation goals while also looking for opportunities to improve living standards and growth. They remain committed to pricing agricultural emissions by 2030, arguing that more time is needed for green technological progress in the sector. The authorities emphasized the relatively high marginal abatement cost in New Zealand and noted their efforts to deliver more mitigation than through domestic means alone through identifying international emissions reductions that meet high environmental integrity standards in line with Article 6 of the Paris agreement.

STAFF APPRAISAL

34. New Zealand's policy-induced slowdown continues. In the near term, real GDP growth is expected remain below its long-term trend, as the lagged impact of monetary policy tightening suppresses domestic demand, although improving external conditions should provide some support to growth and narrow the trade deficit, especially through tourism. Headline inflation is projected to return below 3 percent in the second half of 2024, which would allow for some monetary easing, leading to a recovery of growth in 2025. Risks to the outlook are broadly balanced. The external position in 2023 remained weaker than implied by medium-term fundamentals and desirable policies.

[19] New Zealand Treasury "Climate Economic and Fiscal Assessment 2023"

35. Budget 2024 should deliver a tight fiscal stance in the near term and provide a comprehensive consolidation strategy for the medium term. To avoid any upside pressure to inflation, it is important to calibrate the funding, timing, and the parameters of tax relief measures to be fiscally neutral in 2024. While New Zealand's government debt is sustainable, substantial adjustment is needed over the medium term to halt the rapid increase of debt and preserve the fiscal space needed to respond to future shocks. To this end, the fiscal strategy should commit the government to containing operating expenses and using any upside surprises to revenues to reduce debt. Spending reforms should be based on a comprehensive cost-benefit analysis of government programs and address long-term aging-related fiscal pressures while preserving outlays on high-value infrastructure and support to the most vulnerable.

36. Monetary policy is appropriately tight and should remain restrictive to ensure a timely return of inflation to target. The OCR remains significantly above the RBNZ's neutral rate suite of indicators. While the economy is showing signs of slowing more rapidly than previously thought and unemployment is rising, continued vigilance is needed. The increase of financial resources in 2023 (through additional capital and an indemnity) and increased FX reserves support the RBNZ's capacity to safeguard stability. Exchange rate flexibility is important for supporting external adjustment.

37. Financial stability risks appear contained. Non-performing loans have ticked up but remain low and the banking system remains well-capitalized, liquid, and profitable. Yet, continued monitoring is needed, as a protracted downturn that raises unemployment could affect household incomes. Current proposals to revise the macroprudential settings are appropriate, and the introduction of the debt-to-income (DTI) restriction is in line with earlier IMF staff advice. Similarly, the Deposit Takers Act is a welcome step to harmonize regulation for bank and non-bank deposit takers and to introduce deposit insurance.

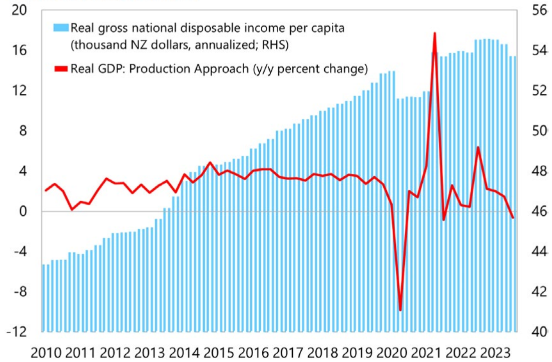
38. Structural reforms are needed to boost the housing supply, revive productivity growth, lower emissions, and address challenges from climate change. The ongoing housing affordability challenges cannot be solved without a significant increase in residential construction. Policy recommendations include reforming land use restrictions, addressing local infrastructure funding needs, and using land value and capital gains taxes to incentivize more efficient land use. To address slow productivity growth, public investment in R&D, new infrastructure, and maintenance of the existing public capital stock are critical. Immigration, together with efforts to improve education outcomes and skills matching, could address skills shortages and boost productivity. To prepare the economy for the impact of climate change, efforts are needed to invest in adaptation infrastructure, limit residential zoning in high-risk areas, address data gaps, and rebuild fiscal buffers. Additional reforms, including pricing agricultural emissions, are needed to achieve domestic and international emissions targets.

39. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Growth Has Slowed

Real GDP growth has slowed markedly, while high migration led real GNI per capita to decline.

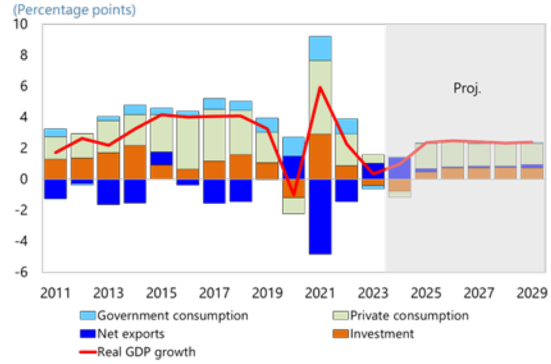
Growth Performance



Consumption and investment declined in 2023 but net exports supported growth.

Contribution to Growth

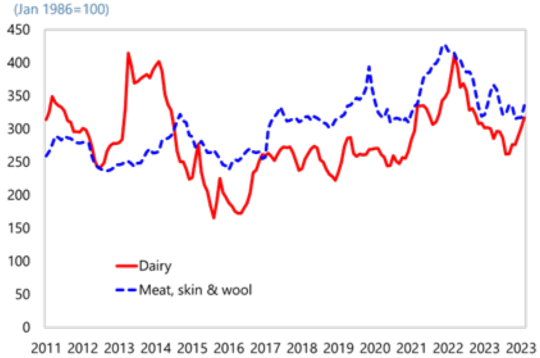
(Percentage points)



Export prices for major commodities declined in 2023, but show signs of a recovery more recently.

Export Commodity Price Indices

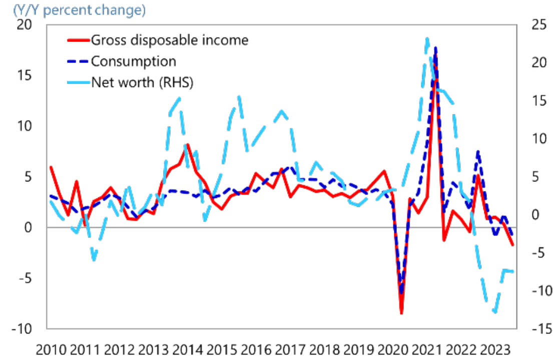
(Jan 1986=100)



The house price correction contributed towards lower net worth, while income and consumption growth slowed.

Real Household Consumption, Income, and Wealth

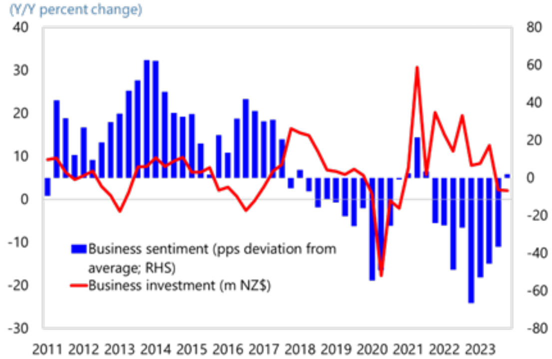
(Y/Y percent change)



Business sentiment and investment have turned negative.

Business Sentiment and Investment

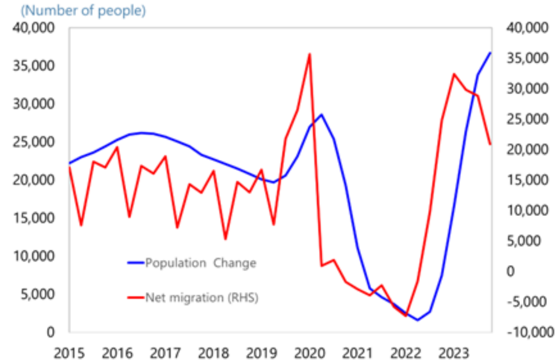
(Y/Y percent change)



Annual migration flows have been at their highest level since records began in 1986.

Population and Migration Growth

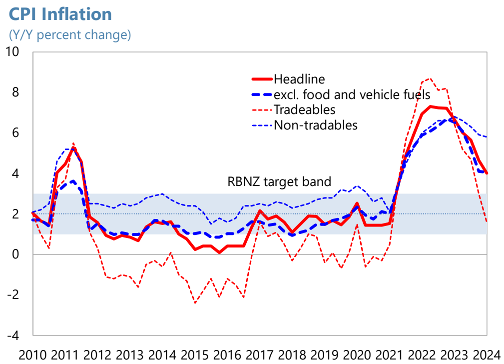
(Number of people)



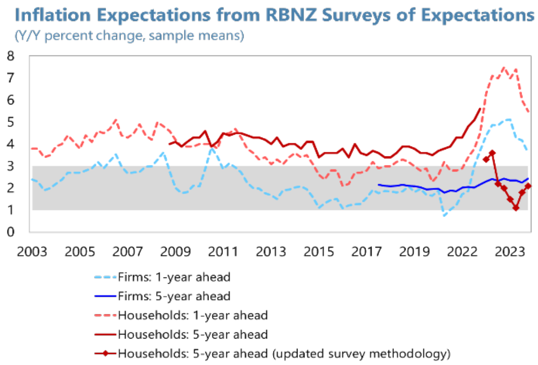
Sources: Statistics New Zealand; Haver Analytics; and IMF staff calculations.

Figure 2. Monetary Tightening Has Helped Put Inflation on a Decline

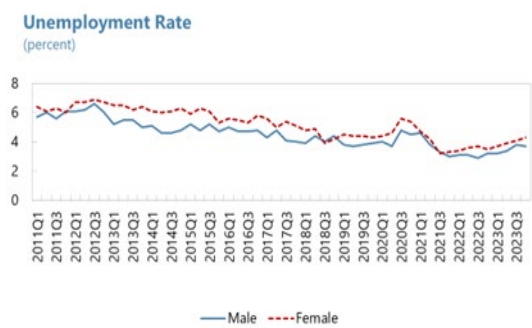
Headline inflation has started to fall rapidly although remains well above target



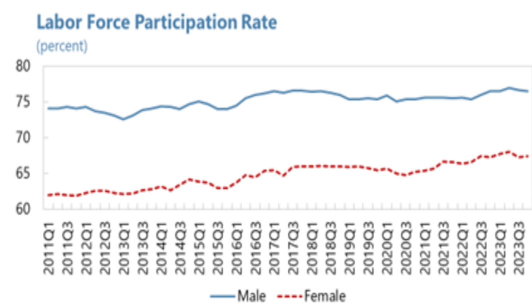
Inflation expectations are falling and remain strongly anchored



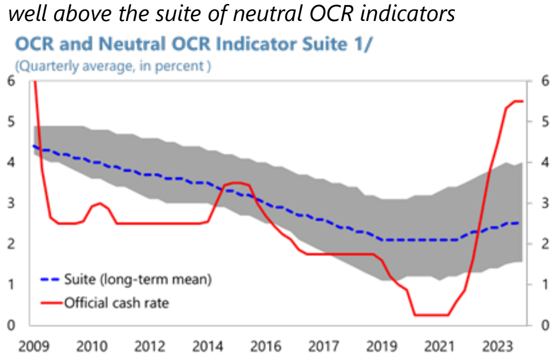
Unemployment has started to rise



amid slowing labor force participation

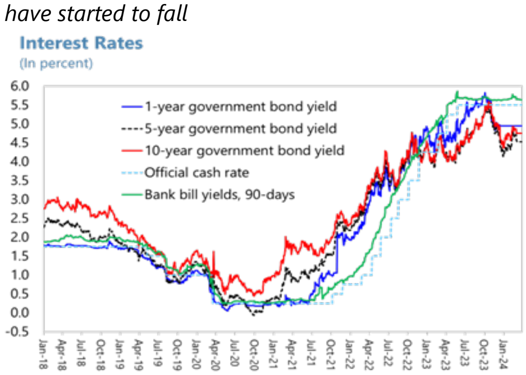


Official cash rate raised by 525 bps since 2021 and is now well above the suite of neutral OCR indicators



1/ Shaded area indicates the range between the maximum and minimum values from a suite of neutral OCR indicators.

Short-term rates have stabilized while long term rates have started to fall

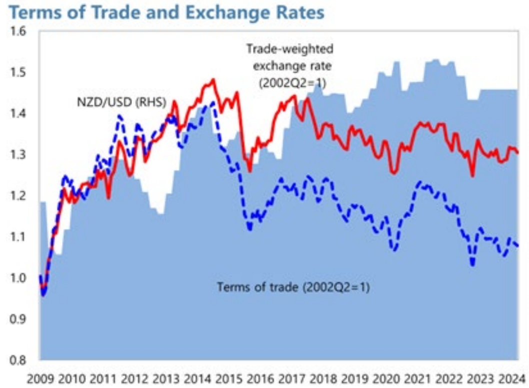


Sources: Reserve Bank of New Zealand; Statistics New Zealand; Haver Analytics; and IMF staff calculations.

Figure 3. Current Account Deficit Remains Large

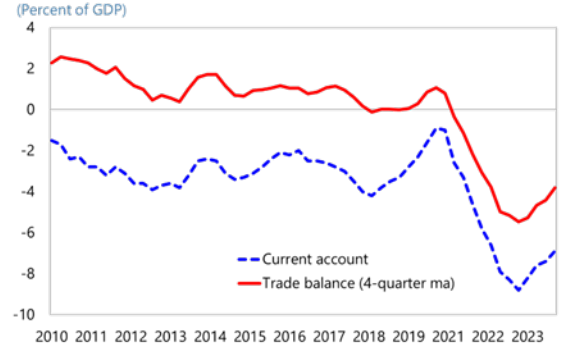
The nominal exchange rate has remained broadly stable…

Terms of Trade and Exchange Rates



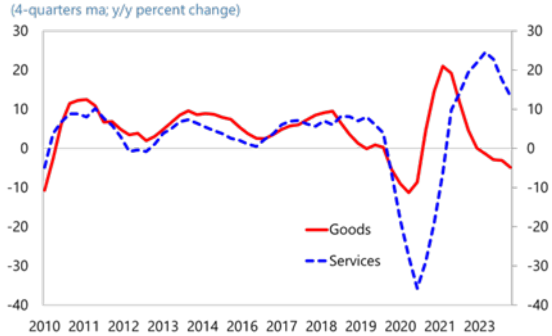
…while the current account deficit remains very large…

Current Account
(Percent of GDP)



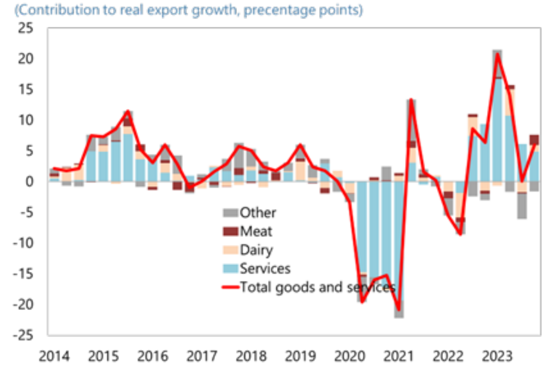
…despite a slowdown in imports under monetary policy tightening.

Import Volume
(4-quarters ma; y/y percent change)



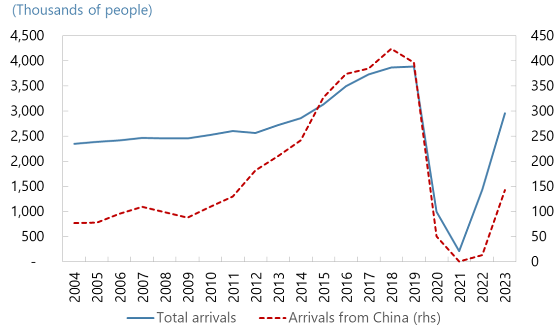
Recent improvement in exports has been primarily driven by a continued recovery in tourist arrivals…

Export Composition
(Contribution to real export growth, precentage points)



…which, however, remain below pre-pandemic levels.

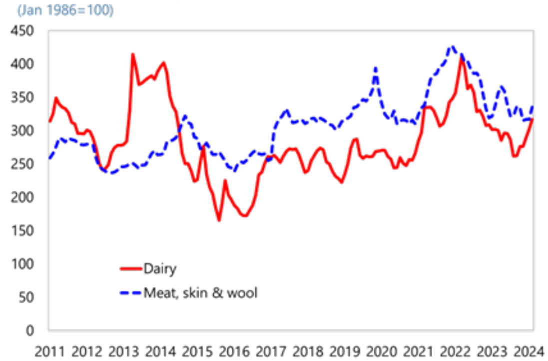
Tourist Arrivals
(Thousands of people)



Sources: Statistics New Zealand, and IMF staff calculations.

Export prices for major commodities declined in 2023, but show signs of a recovery more recently.

Export Commodity Price Indices
(Jan 1986=100)

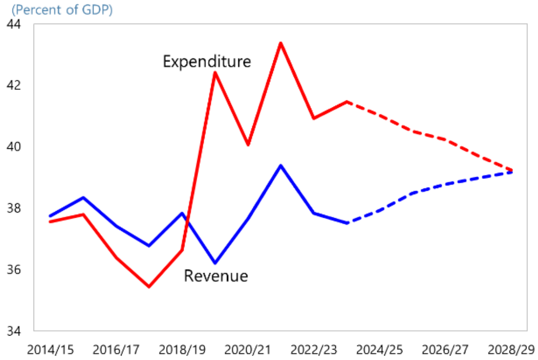


Sources: Reserve Bank of New Zealand; Haver Analytics; World Travel & Tourism Council; and IMF staff calculations.

Figure 4. Fiscal Policy Navigates Difficult Environment

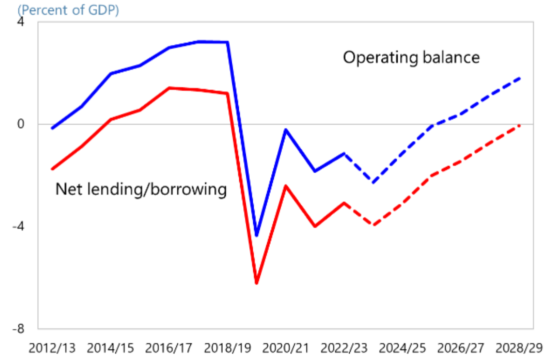
North Island weather events and the high costs of living and borrowing (through indexation and finance costs) have kept budget deficits large…

General Government Revenue and Expenditure
(Percent of GDP)



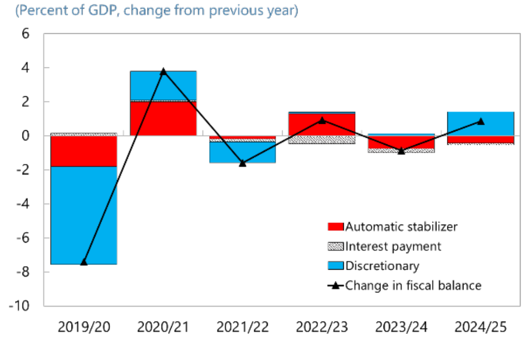
… and delayed the fiscal consolidation.

Overall and Operating Balance
(Percent of GDP)



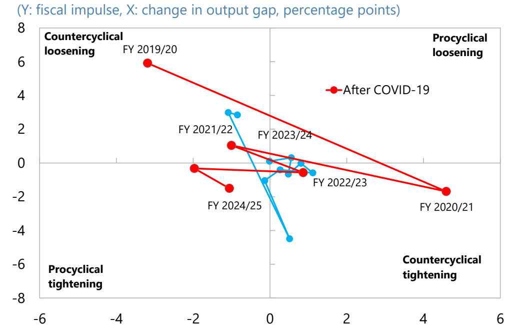
As discretionary spending (including one-off expenditure related to weather events) rolls off…

Drivers of Changes in Fiscal Balances
(Percent of GDP, change from previous year)



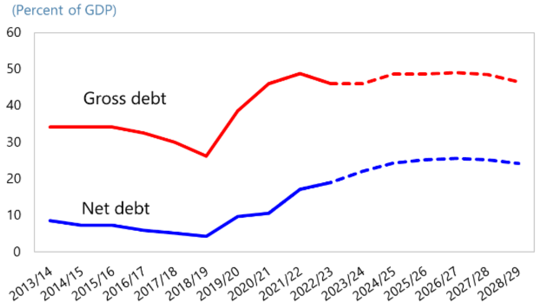
…fiscal stance tightens with impulse turning negative in FY2024/25.

Discretionary Fiscal Policy and Cyclical Conditions
(Y: fiscal impulse, X: change in output gap, percentage points)



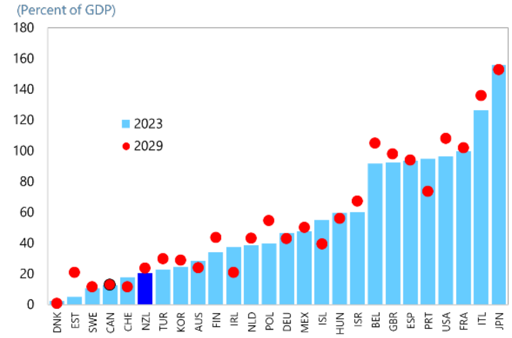
With projected deficits, the government debt ratio is peaking in FY 2025/26 before trending down…

General Government Debt
(Percent of GDP)



…while remaining one of the lowest across OECD countries.

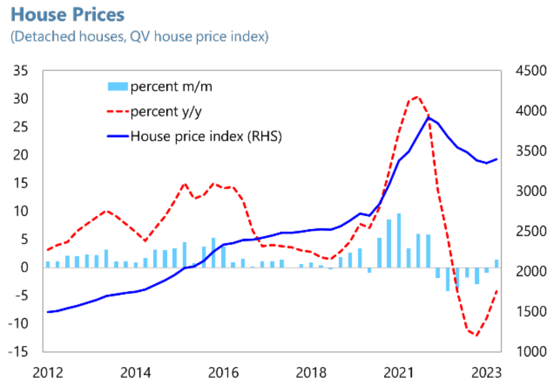
Net Public Debt
(Percent of GDP)



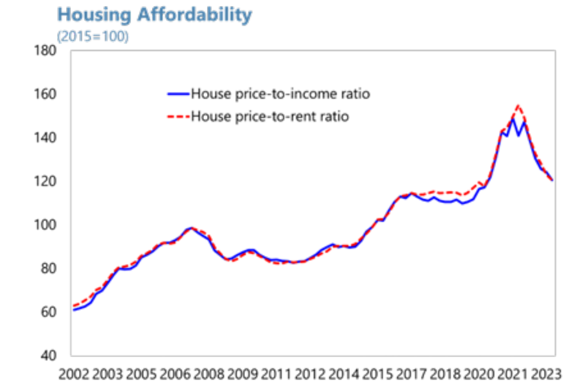
Sources: The Treasury New Zealand, *Budget 2023* and *2023 Half-Year Economic and Fiscal Update*; and IMF staff calculations.

Figure 5. The Housing Market Is Stabilizing

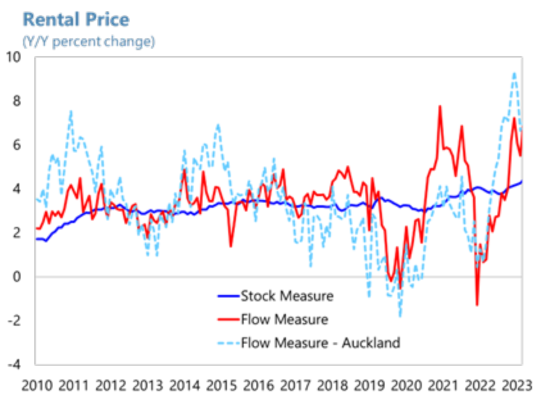
After a prolonged correction, house prices are now stabilizing.



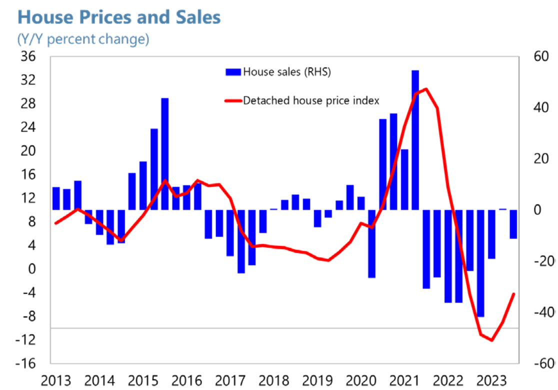
The price decline helped improve affordability metrics.



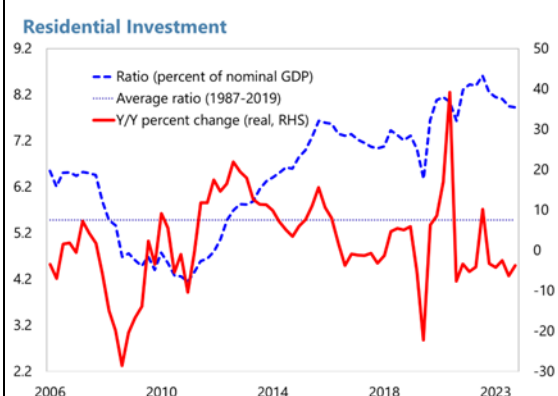
Rental prices are increasing given strong population growth…



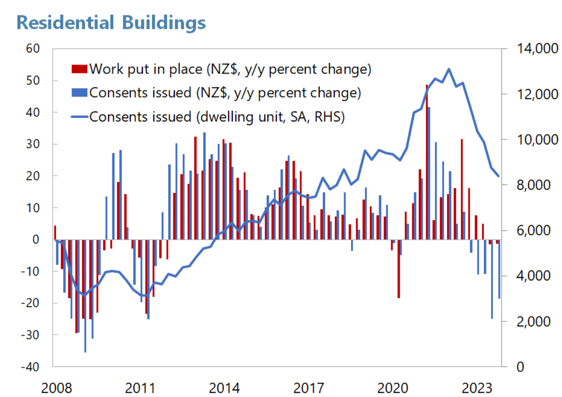
…and sales are mirroring the pickup in house prices.



Residential investment is still weak…



…and the number of new building consents issued is low.



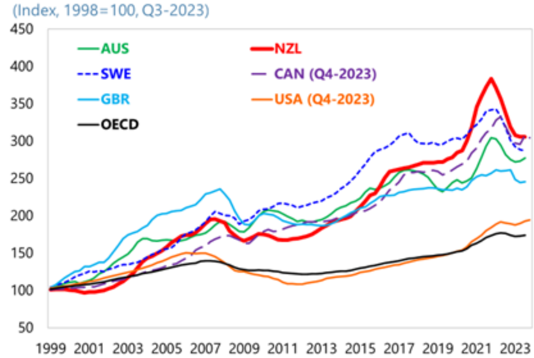
Sources: Reserve Bank of New Zealand; Haver Analytics; and IMF staff calculations.

Figure 6. Household Debt and Balance Sheet Risks Are Elevated

House prices have declined, but remain high by international comparison

Real House Prices in Selected OECD Countries

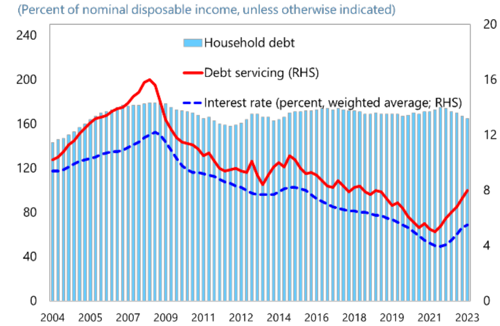
(Index, 1998=100, Q3-2023)



...with household debt still elevated as the debt servicing ratio increases.

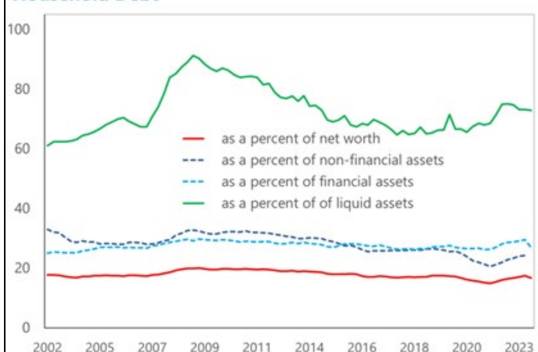
Household Debt and Debt Service

(Percent of nominal disposable income, unless otherwise indicated)



Household debt increased relative to assets due to the fall in house prices.

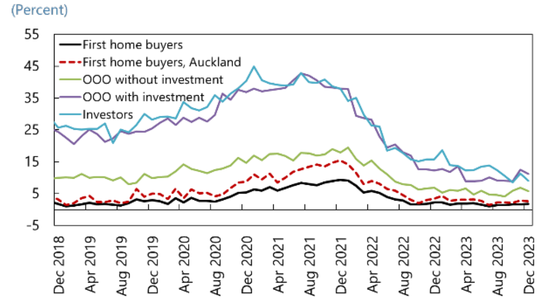
Household Debt



High debt-to-income loans remain on a downward trend

Share of New Commitments to Borrower Type with DTI >7

(Percent)

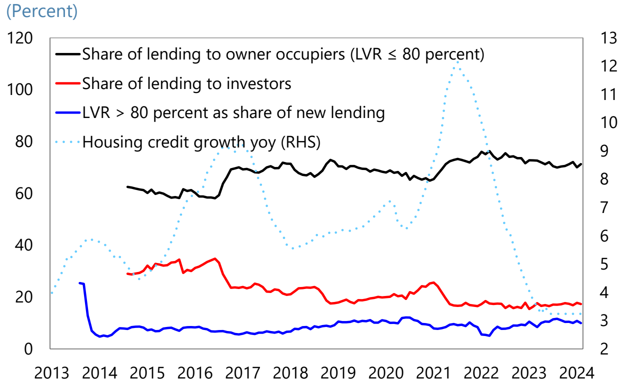


Notes: OOO refers to Other Owner Occupiers. Investment refers to property collateral Share of new commitment is calculated to each borrower type group.

High loan-to-value ratio lending has ticked up, driven by new mortgages for investors, owner occupiers, and first-time homebuyers.

Mortgages Approvals by Borrower and Leverage, Housing Credit Outstanding

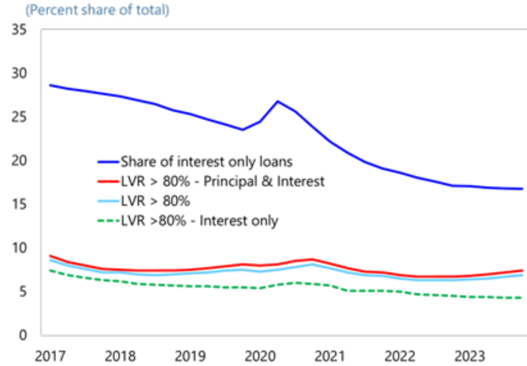
(Percent)



The share of outstanding interest-only loans continues to decline and is below its pre-pandemic level.

Existing Residential Mortgage Lending

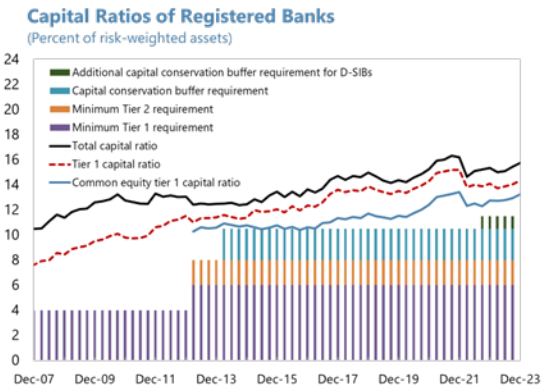
(Percent share of total)



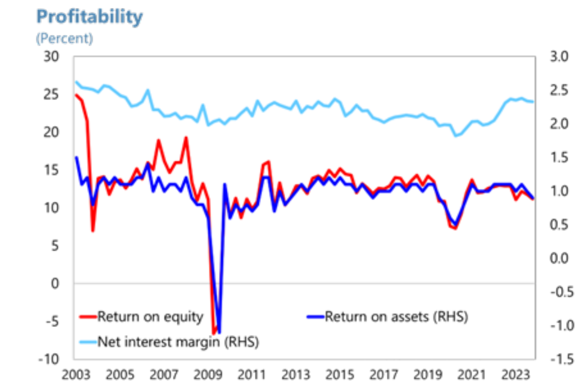
Sources: Reserve Bank of New Zealand; Statistics New Zealand; and Haver Analytics.

Figure 7. The New Zealand Banking Sector Appears Stable

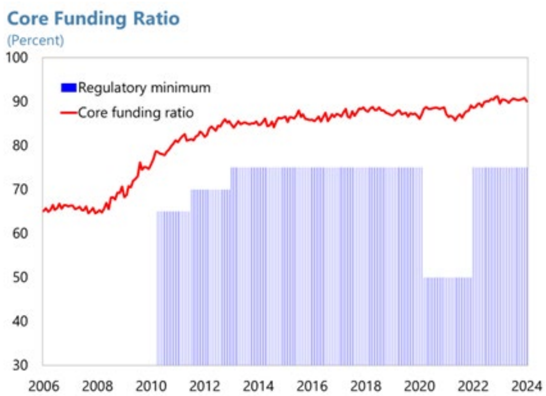
The banks remain well capitalized…



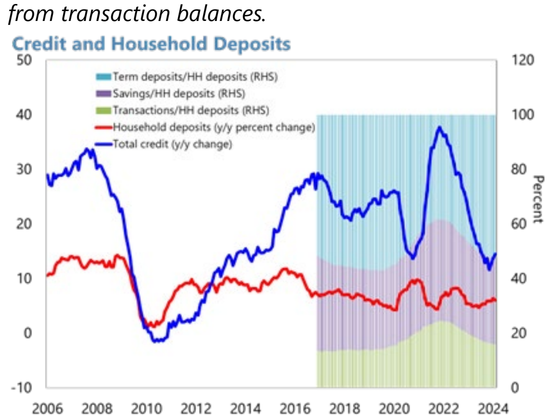
…and profitability remains close to historical norms



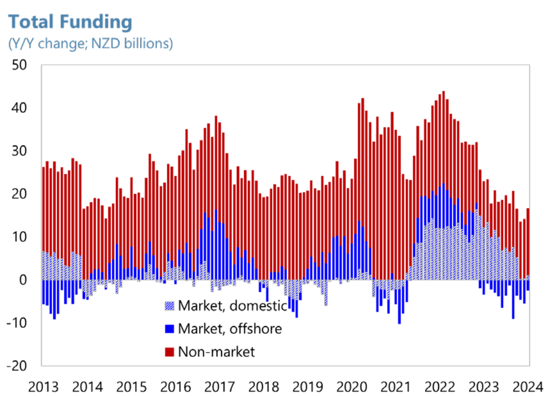
The core funding ratio is also well above the regulatory minimum



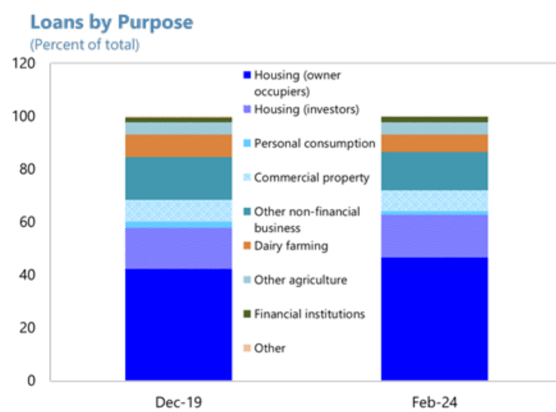
Household credit keeps slowing while deposits shifting away from transaction balances.



Banks are largely tapping the domestic market to meet wholesale funding needs.



Banks' exposure to the housing sector remains high.

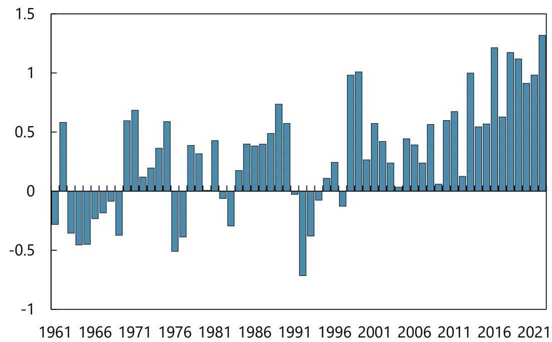


Source: Reserve Bank of New Zealand.

Figure 8. Substantial Climate Risks but Green House Gas Emissions Not Declining

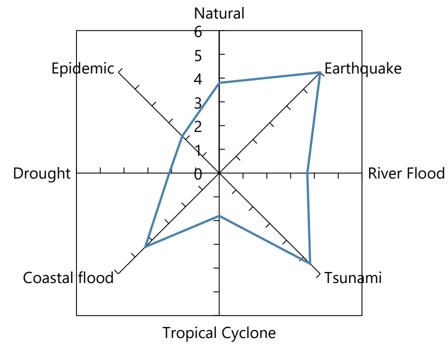
Mean temperatures are approximately 1C higher than the 1960s.

Mean Temperature Change of Meteorological Year
(Temperature change with respect to a baseline 1951-1980, degrees centigrade)



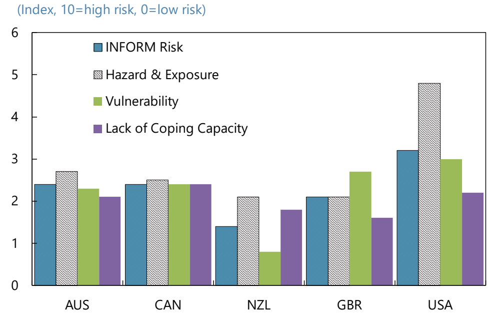
The country faces significant risks from weather shocks and natural disasters…

Hazard and Exposure Risks
(Index, 10=high risk, 0=low risk)



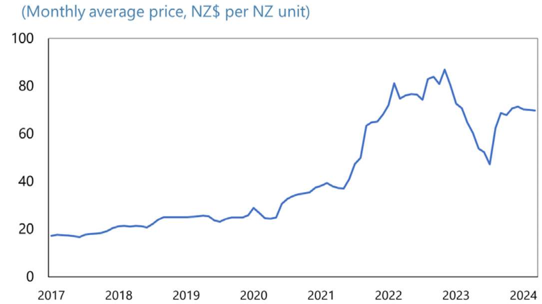
…but overall has lower risks and is better prepared than comparator countries.

INFORM Risk
(Index, 10=high risk, 0=low risk)



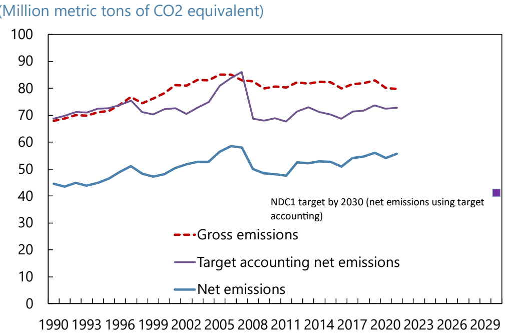
The carbon spot price fell sharply in 2023 due, in part, to carbon unit overhang, but has since recovered to around NZ$70 in end 2024Q1.

Carbon Spot Price
(Monthly average price, NZ$ per NZ unit)



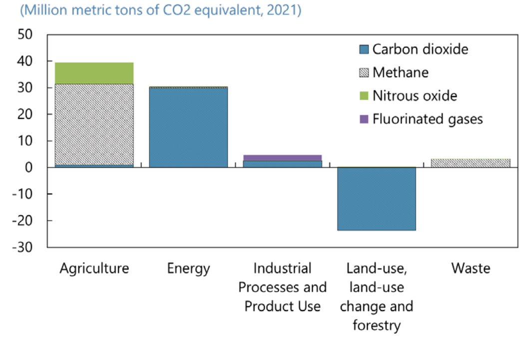
The ETS, amongst other factors, has helped keep emissions constant since 2008.

GHG Emissions and Nationally Determined Contributions
(Million metric tons of CO2 equivalent)



Recent gains have come through LULUCF, while agriculture and energy sectors represent the bulk of emissions.

Greenhouse Gas Emissions by Sector and Type
(Million metric tons of CO2 equivalent, 2021)



Sources: IMF Climate Dashboard; INFORM; www.carbonnews.co.nz; New Zealand's Greenhouse Gas Inventory; Ministry for the Environment, and IMF Staff Calculations

Table 1. New Zealand: Main Economic Indicators, 2020-29

(Annual percent change, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
							Projections			
NATIONAL ACCOUNTS										
Real GDP (production)	-1.4	5.6	2.4	0.6	1.0	2.0	2.4	2.4	2.4	2.4
Domestic demand	-1.7	10.1	3.4	-1.5	-0.4	1.5	2.0	2.1	2.2	2.1
Private consumption	-1.7	7.7	3.2	0.3	-1.6	2.0	2.1	2.3	2.4	2.3
Public consumption	6.7	7.8	4.9	-1.1	-1.1	0.0	0.6	0.4	0.4	0.4
Investment	-7.8	18.1	2.0	-5.1	0.3	1.5	3.0	3.0	3.0	2.9
Public	4.0	7.9	-6.4	4.9	2.5	1.3	2.3	2.5	2.8	2.8
Private	-7.4	13.5	6.3	-2.6	-4.1	1.5	3.2	3.1	3.1	2.9
Private business	-9.3	15.7	9.6	-1.9	-4.5	1.4	3.4	3.4	3.4	3.1
Dwelling	-3.1	9.0	-0.9	-4.2	-3.0	1.9	2.8	2.4	2.4	2.4
Inventories (contribution to growth, percent)	-0.8	1.4	-0.4	-1.1	0.7	0.0	0.0	0.0	0.0	0.0
Net exports (contribution to growth, percent)	1.5	-4.8	-1.5	2.2	1.5	0.3	0.3	0.1	0.1	0.1
Real gross domestic income	-0.7	5.1	1.3	0.0	1.4	2.1	2.5	2.5	2.5	2.5
Investment (percent of GDP)	22.1	25.0	26.0	24.4	24.3	24.2	24.4	24.4	24.4	24.5
Public	5.5	5.7	5.4	5.7	5.7	5.7	5.7	5.6	5.6	5.6
Private	16.6	19.4	20.6	18.7	18.6	18.6	18.7	18.7	18.8	18.9
Savings (gross, percent of GDP)	21.1	19.2	17.2	17.5	18.3	18.9	19.6	20.0	20.3	20.8
Public	-4.3	-3.2	-3.5	-3.5	-3.5	-2.6	-1.7	-1.1	-0.4	-0.1
Private	25.5	22.4	20.7	21.0	21.8	21.4	21.3	21.0	20.7	20.9
Potential output	1.6	1.5	1.9	2.1	2.3	2.3	2.2	2.2	2.2	2.2
Output gap (percent of potential)	-2.3	1.7	2.1	0.6	-0.5	-0.9	-0.7	-0.5	-0.2	0.0
LABOR MARKET										
Employment	1.3	2.2	1.7	3.1	1.1	1.1	1.6	1.7	1.7	1.6
Unemployment (percent of labor force, ann. average)	4.6	3.8	3.3	3.7	5.0	5.4	5.2	5.0	4.7	4.5
Wages (nominal percent change)	3.8	3.8	6.5	7.0	4.8	3.9	3.7	3.2	3.0	3.0
PRICES										
Terms of trade index (goods and services, % change)	1.2	-1.0	-3.1	-3.4	0.6	0.1	0.2	0.1	0.2	0.1
Consumer prices (avg, % change)	1.7	3.9	7.2	5.7	3.1	2.5	2.4	2.1	2.0	2.0
GDP deflator (avg, % change)	2.2	3.0	5.5	5.7	3.0	2.7	2.5	2.0	1.9	2.2
MACRO-FINANCIAL										
Official cash rate (policy rate, percent, avg)	0.4	0.3	2.2	5.2	5.4	5.1	4.2	3.3	3.0	2.8
Credit to the private sector (percent change)	3.9	6.1	4.3	0.1	2.2	4.2	4.0	4.2	4.2	4.3
Interest payments (percent of disposable income)	6.5	5.3	6.3	7.8	7.4	7.7	6.4	5.9	5.6	5.3
Household savings (percent of disposable income)	3.6	3.6	3.2	2.7	2.5	2.4	2.3	2.9	3.6	4.3
Household debt (percent of disposable income)	172	173	172	165	162	160	158	156	155	153
GENERAL GOVERNMENT (percent of GDP) 1/										
Revenue	36.2	37.7	39.4	37.8	37.5	37.9	38.5	38.8	39.0	39.2
Expenditure	42.4	40.1	43.4	40.9	41.5	41.0	40.5	40.2	39.7	39.3
Net lending/borrowing	-6.2	-2.4	-4.0	-3.1	-4.0	-3.1	-2.0	-1.5	-0.7	-0.1
Operating balance	-4.4	-0.2	-1.8	-1.1	-2.3	-1.1	-0.1	0.4	1.1	1.8
Cyclically adjusted primary balance 2/	-4.4	-2.7	-3.7	-3.1	-2.8	-1.3	0.0	0.9	1.5	2.2
Gross debt	38.5	46.0	48.8	46.0	46.0	48.7	48.7	49.0	48.6	46.5
Net debt	9.7	10.6	17.1	19.0	22.1	24.4	25.2	25.6	25.2	24.2
Net worth	85.4	94.7	102.0	95.8	91.0	87.3	85.3	82.7	80.9	79.9
BALANCE OF PAYMENTS										
Current account (percent of GDP)	-1.0	-5.8	-8.8	-6.9	-6.0	-5.4	-4.8	-4.4	-4.1	-3.7
Export volume	-13.5	-2.5	0.2	9.6	6.4	5.2	5.1	4.8	4.9	4.9
Import volume	-15.6	14.4	4.7	-0.2	0.1	3.1	3.5	3.6	4.0	3.8
Net international investment position (percent of GDP)	-55.8	-46.7	-51.2	-51.7	-55.8	-58.6	-60.7	-62.5	-64.0	-64.9
Gross official reserves (bn US$)	13.0	16.4	13.7	14.8	...	...	...	...	...	...
MEMORANDUM ITEMS										
Nominal GDP (bn NZ$)	323	353	381	405	422	441	463	483	504	527
Percent change	1.2	9.1	8.0	6.4	4.1	4.6	4.9	4.4	4.4	4.6
Nominal GDP per capita (US$)	41,325	48,843	47,266	47,519	48,513	49,626	51,030	52,375	54,032	55,717
Real gross national disposable income per capita (NZ$)	52,637	54,667	54,959	53,737	53,458	54,057	54,860	55,606	56,357	57,100
Percent change	-1.8	3.9	0.5	-2.2	-0.5	1.1	1.5	1.4	1.4	1.3
Population (million)	5.1	5.1	5.1	5.2	5.3	5.4	5.4	5.5	5.6	5.6
US$/NZ$ (average level)	0.650	0.708	0.636	0.614	...	...	...	...	...	...
Nominal effective exchange rate	104.5	109.9	106.5	105.0	...	...	...	...	...	...
Real effective exchange rate	100.9	107.6	105.5	105.5	...	...	...	...	...	...

Sources: Authorities' data and IMF staff estimates and projections.

1/ Fiscal year.

2/ In percent of potential GDP.

Table 2. New Zealand: Fiscal Accounts, 2018/19-2028/29[1/]

(In percent of GDP, unless otherwise indicated)

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
							Projections				
GENERAL GOVERNMENT 2/											
Revenue	**37.8**	**36.2**	**37.7**	**39.4**	**37.8**	**37.5**	**37.9**	**38.5**	**38.8**	**39.0**	**39.2**
Tax revenue	31.7	30.5	32.6	34.3	32.2	32.4	32.7	33.3	33.6	33.8	34.0
Direct taxes	20.5	19.6	21.0	23.0	21.5	21.5	21.9	22.3	22.7	22.9	23.1
Individual and withholding	12.6	12.8	13.2	14.2	14.1	14.3	14.5	14.8	15.0	15.2	15.4
Corporate	6.0	4.8	5.8	6.8	5.3	5.2	5.3	5.5	5.6	5.6	5.6
Property	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Indirect taxes	11.2	10.9	11.6	11.2	10.7	10.9	10.9	10.9	10.9	10.9	10.9
Of which: GST	7.5	7.3	7.9	7.6	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Non-tax revenue	6.1	5.7	5.1	5.1	5.6	5.2	5.2	5.2	5.2	5.2	5.2
Expenditure	**36.6**	**42.4**	**40.08**	**43.4**	**40.9**	**41.5**	**41.0**	**40.5**	**40.2**	**39.7**	**39.3**
Expense	34.6	40.6	37.9	41.2	39.0	39.8	39.1	38.6	38.4	37.9	37.4
Employee expenses	8.7	9.1	9.0	9.1	9.0	9.1	9.0	9.0	8.8	8.6	8.6
Other operating expenses (excl. depreciation)	5.5	5.7	5.9	6.8	6.2	6.0	5.7	5.5	5.6	5.5	5.4
Social benefits	13.9	14.8	15.2	15.1	15.4	16.1	15.9	15.7	15.6	15.4	15.2
Other transfers	3.0	7.4	4.4	6.4	4.2	4.1	3.9	3.8	3.5	3.4	3.3
Interest	1.4	1.2	1.2	1.4	1.8	2.1	2.2	2.2	2.4	2.5	2.5
Other	2.3	2.4	2.3	2.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Net acquisition of nonfinancial assets	2.0	1.9	2.2	2.2	1.9	1.7	2.0	1.9	1.9	1.9	1.9
Of which: Gross fixed capital formation	4.0	3.9	4.3	4.2	4.2	4.0	4.0	4.1	4.2	4.3	4.3
Operating balance	3.2	-4.4	-0.2	-1.8	-1.1	-2.3	-1.1	-0.1	0.4	1.1	1.8
Primary balance	1.8	-5.6	-1.7	-3.2	-2.3	-2.4	-1.3	-0.2	0.6	1.4	2.1
Net lending (+)/borrowing (-)	**1.2**	**-6.2**	**-2.4**	**-4.0**	**-3.1**	**-4.0**	**-3.1**	**-2.0**	**-1.5**	**-0.7**	**-0.1**
GENERAL GOVERNMENT BALANCE SHEET 2/											
Liabilities	**57.6**	**73.4**	**76.5**	**77.2**	**71.6**	**68.8**	**69.4**	**69.1**	**68.6**	**67.3**	**63.7**
Gross debt	26.2	38.5	46.0	48.8	46.0	46.0	48.7	48.7	49.0	48.6	46.5
Other liabilities 3/	31.4	34.9	30.5	28.4	25.6	22.8	20.7	20.4	19.6	18.8	17.2
Assets	**150.9**	**158.8**	**171.3**	**179.3**	**167.4**	**159.7**	**156.7**	**154.4**	**151.3**	**148.3**	**143.6**
Financial assets	65.4	71.4	82.7	82.2	72.8	67.6	66.1	66.4	65.1	63.9	61.8
Debt relevant	22.0	28.9	35.4	31.7	27.0	23.9	23.1	23.5	23.4	23.4	22.3
Other	43.4	42.5	47.2	50.5	45.8	43.7	43.0	42.9	41.7	40.5	39.4
Nonfinancial assets	85.5	87.4	88.6	97.0	94.6	92.1	90.6	87.9	86.1	84.3	81.8
Net financial worth	**7.8**	**-2.0**	**6.1**	**5.0**	**1.2**	**-1.2**	**-3.3**	**-2.7**	**-3.4**	**-3.4**	**-1.9**
Net debt 4/	**4.3**	**9.7**	**10.6**	**17.1**	**19.0**	**22.1**	**24.4**	**25.2**	**25.6**	**25.2**	**24.2**
Central government	0.8	5.7	6.8	13.0	14.9	18.0	20.2	20.9	21.3	20.9	20.0
Local government	3.5	4.0	3.8	4.2	4.1	4.1	4.2	4.2	4.2	4.3	4.1
Net worth	**93.2**	**85.4**	**94.7**	**102.0**	**95.8**	**91.0**	**87.3**	**85.3**	**82.7**	**80.9**	**79.9**
Central government	50.6	41.5	51.5	54.7	51.9	48.4	45.8	45.3	43.8	43.2	43.0
Local government	42.6	43.9	43.2	47.4	44.0	42.6	41.5	40.0	38.9	37.8	36.9
MEMORANDUM ITEMS											
Cyclically adjusted primary balance (percent of potential GDP)	1.6	-4.4	-2.7	-3.7	-3.1	-2.8	-1.3	0.0	0.9	1.5	2.2
Fiscal impulse (change in CAPB; in percent of potential GDP)	0.1	5.9	-1.7	1.0	-0.6	-0.3	-1.5	-1.3	-0.9	-0.7	-0.6
Change in real revenue (percent)	6.1	-3.8	10.2	4.4	-2.2	-0.8	2.6	4.3	2.8	2.9	3.0
Change in real primary expenditure (percent)	6.9	17.4	0.2	7.8	-5.3	0.9	0.0	1.3	0.8	0.7	1.3
New Zealand Superannuation Fund											
Budget transfers (+ = receipts)	0.3	0.5	0.6	0.7	0.6	0.5	0.5	0.5	0.5	0.5	0.5
Net assets	13.6	14.0	17.3	17.6	17.7	18.4	19.2	19.3	19.5	19.7	19.8
Contributed capital	5.3	5.6	5.8	6.2	6.2	6.4	6.6	6.7	6.9	7.1	7.2
Central government											
Revenue	34.4	32.8	34.4	36.1	34.5	34.5	34.9	35.5	35.8	36.0	36.2
Expenditure	33.0	38.7	36.5	39.8	37.4	38.2	37.8	37.3	37.0	36.5	36.2
Net lending (+)/borrowing (-)	1.4	-5.8	-2.1	-3.7	-3.0	-3.7	-2.9	-1.8	-1.2	-0.5	0.0
Local government											
Revenue	4.0	4.1	4.0	4.1	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Expenditure	4.3	4.5	4.3	4.3	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Net lending (+)/borrowing (-)	-0.2	-0.4	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
GDP (in billion NZ$)	310	317	343	364	396	414	430	453	473	493	516

Sources: Authorities' data and IMF staff estimates and projections.

1/ The fiscal year runs from July to June.

2/ Accrual basis; GFS. Comprises Core Crown (excludes RBNZ), Crown entities, and local governments. Includes New Zealand Superannuation Fund.

3/ "Other liabilities" include government pension liabilities, and the Accident Compensation Corporation (ACC) liabilities.

4/ "Net debt" is gross debt less debt-relevant financial assets - cash and equivalents, marketable securities, etc. (often held to cover pension liabilities).

Table 3. New Zealand: Balance of Payments, 2020-29
(In percent of GDP, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
				Est.		Projections				
Current account	-1.0	-5.8	-8.8	-6.9	-6.0	-5.4	-4.8	-4.4	-4.1	-3.7
Balance on goods and services	1.0	-3.2	-5.7	-3.8	-2.6	-2.1	-1.8	-1.5	-1.2	-0.9
Exports of goods and services	23.9	22.0	23.8	23.7	24.2	24.4	24.7	25.3	25.9	26.5
Exports of goods	18.2	18.0	19.1	17.1	16.6	16.2	16.2	16.4	16.7	16.8
Exports of services	5.7	4.0	4.7	6.6	7.6	8.2	8.5	8.9	9.2	9.6
Imports of goods and services	22.9	25.3	29.5	27.5	26.7	26.5	26.5	26.8	27.1	27.4
Imports of goods	17.5	19.8	22.4	20.1	19.2	19.0	18.9	19.1	19.4	19.5
Imports of services	5.5	5.5	7.1	7.4	7.5	7.5	7.6	7.7	7.8	7.8
Primary income, net	-1.7	-2.4	-2.9	-2.9	-3.5	-3.2	-3.0	-2.9	-2.9	-2.8
Inflows	2.7	2.9	2.9	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Outflows	4.4	5.3	5.8	6.1	6.5	6.3	6.1	6.0	6.0	5.9
Secondary income, net	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflows	0.9	0.9	0.9	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Outflows	1.0	0.9	0.9	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Capital and financial account										
Capital account, net	0.0	0.0	-0.1	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Financial account, net	-2.3	-5.0	-6.3	-4.1	-6.0	-5.4	-4.8	-4.4	-4.1	-3.7
Direct investment	-1.6	-2.2	-3.0	-1.8	-2.4	-2.3	-2.2	-2.0	-1.9	-1.8
Equity	-1.6	-2.2	-2.4	-0.8	-1.8	-1.7	-1.6	-1.5	-1.4	-1.3
Debt	0.0	0.0	-0.5	-0.9	-0.6	-0.6	-0.6	-0.5	-0.5	-0.5
Portfolio investment	4.4	-4.2	-1.9	-4.1	-2.4	-2.0	-1.7	-1.5	-1.4	-1.2
Equity	1.4	3.3	-3.2	-0.7	0.4	0.6	0.7	0.7	0.7	0.8
Debt	3.1	-7.5	1.3	-3.4	-2.7	-2.6	-2.4	-2.2	-2.1	-2.0
Financial derivatives	-2.5	0.0	-0.3	-0.6	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Other investment	-0.6	0.2	-0.8	1.8	-1.3	-1.2	-1.1	-1.0	-1.0	-0.9
Reserve assets	-2.1	1.3	-0.3	0.5	...	...	...	...	...	...
Net errors and omissions	-1.3	0.9	2.6	2.1	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET										
Net international investment position	-55.8	-46.7	-51.2	-51.7	-55.8	-58.6	-60.7	-62.5	-64.0	-64.9
Equity, net	-8.4	3.5	-3.0	-1.7	-3.1	-4.0	-4.7	-5.4	-5.9	-6.2
Assets	47.3	56.2	45.1	45.9	45.9	45.9	45.9	45.9	45.9	45.9
Liabilities	55.7	52.7	48.1	47.6	49.0	50.0	50.6	51.3	51.8	52.1
Debt, net	-53.2	-56.8	-54.2	-56.1	-58.7	-60.6	-62.0	-63.2	-64.2	-64.8
Assets	45.4	35.9	38.4	37.2	37.2	37.2	37.2	37.2	37.2	37.2
Liabilities	98.6	92.7	92.6	93.2	95.9	97.8	99.2	100.4	101.3	102.0
External assets (gross)	98.5	98.8	89.5	89.1	89.1	89.1	89.1	89.1	89.1	89.1
Equity	47.3	56.2	45.1	45.9	45.9	45.9	45.9	45.9	45.9	45.9
Debt	45.4	35.9	38.4	37.2	37.2	37.2	37.2	37.2	37.2	37.2
External liabilities (gross)	154.3	145.4	140.7	140.8	144.9	147.7	149.8	151.6	153.1	154.0
Equity	55.7	52.7	48.1	47.6	49.0	50.0	50.6	51.3	51.8	52.1
Debt	98.6	92.7	92.6	93.2	95.9	97.8	99.2	100.4	101.3	102.0
Of which: NZ$ denominated	52.2	49.5	51.9	54.9	56.4	57.5	58.3	59.1	59.6	60.0
FX denominated	53.7	43.2	40.7	38.4	39.5	40.3	40.8	41.3	41.7	42.0
Short-term	33.8	30.5	29.5	29.8	30.7	31.3	31.7	32.1	32.4	32.6
MEMORANDUM ITEMS										
Gross official reserves (bn US$)	13.0	16.4	13.7	14.8	...	...	...	...	...	...
In months of prospective imports	2.6	2.5	2.4	2.6	...	...	...	...	...	...
In percent of short-term external debt	17.4	21.9	20.3	20.2	...	...	...	...	...	...

Sources: Authorities' data and IMF staff estimates and projections.

Table 4. New Zealand: Monetary and Financial Sector, 2020-29
(In billions of NZ$, unless otherwise indicated)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
								Projections		
CENTRAL BANK										
Net foreign assets	11	14	16	16	17	17	18	19	20	21
Net domestic assets	27	39	50	44	30	29	28	27	27	28
Net domestic claims	31	43	58	50	37	35	35	34	35	36
Claims on Central government (net)	29	34	37	29	23	23	22	21	21	21
Claims on Other Depository Corporations	2	9	21	21	14	12	13	13	13	13
Other items net	-3	-4	-8	-6	-6	-7	-7	-7	-8	-8
Monetary base	38	54	66	60	47	46	46	46	47	48
DEPOSITORY CORPORATIONS										
Net foreign assets	-100	-106	-105	-91	-95	-99	-104	-109	-114	-119
Net domestic assets	466	498	504	504	525	547	571	593	617	644
Net domestic claims	544	576	594	602	626	653	682	709	739	770
Claims on Central government (net)	49	50	45	40	43	43	42	41	41	41
Claims on State and Local Government	10	7	7	8	8	9	9	10	10	10
Claims on Public Nonfinancial Corporations	2	2	1	1	2	2	2	2	2	2
Claims on Private Sector	473	505	528	539	560	586	614	641	669	700
of which: Private Sector Credit	469	504	527	538	560	586	614	641	669	700
Claims on Other Financial Corporations	12	11	12	13	14	14	15	16	16	17
Other items net	-79	-79	-90	-97	-101	-106	-111	-116	-121	-127
Broad money	366	392	399	413	430	448	467	484	504	525
MEMORANDUM ITEMS										
Private sector credit 2/	496	526	549	562	574	598	622	648	674	703
Housing loans 1/	296	326	340	350	363	380	395	415	434	454
Business loans 1/	109	116	124	125	123	129	136	141	146	154
Household deposits	203	217	228	242	251	263	276	288	301	314
					In percent of GDP					
Private sector credit 2/	153	149	144	139	136	135	134	134	134	133
Housing loans 1/	91	92	89	86	86	86	85	86	86	86
Business loans 1/	34	33	33	31	29	29	29	29	29	29
Household deposits	63	61	60	60	60	60	60	60	60	60
					Percentage change					
Private sector credit 2/	3.9	6.1	4.3	2.4	2.2	4.2	4.0	4.2	4.2	4.3
Housing loans 1/	8.2	10.1	4.2	3.0	3.8	4.6	4.1	4.9	4.7	4.5
Business loans 1/	-5.3	5.8	7.4	0.2	-1.0	4.5	5.3	3.7	3.9	5.2
Household deposits	9.8	6.7	5.3	5.9	4.1	4.6	4.9	4.4	4.4	4.6

Sources: RBNZ and IMF staff calculations.
1/ Registered banks.
2/ Depository corporations.

Table 5. New Zealand: Financial Soundness Indicators, 2019-23

	2019	2020	2021	2022	2023
	As at end-year, unless otherwise indicated				
Interest rates (percent)					
90-day bank bill rate	1.5	0.5	0.5	4.5	5.7
90-day bank bill rate, real	-0.1	-1.2	-3.3	-2.5	0.0
Stock market index (percent change)	30.4	13.9	-0.4	-12.0	2.1
Liquidity and funding (in percent)					
Liquid assets to total assets	13.5	17.0	16.8	18.0	16.5
Liquid assets to short-term liabilities	20.4	25.1	24.2	27.1	25.0
1-month maturity mismatch	6.7	6.8	7.4	8.9	9.0
Core funding ratio	86.8	88.5	89.1	91.2	90.3
Asset composition (percentage share of total)					
Agricultural	13.2	12.7	11.7	11.2	11.2
Business	25.2	23.5	23.2	24.0	23.6
Households	61.5	63.8	65.1	64.8	65.2
Of which: Housing	58.0	60.8	62.5	62.3	62.8
Asset quality (in percent)					
Non-performing loans to total loans	0.6	0.6	0.4	0.4	0.6
Non-performing loans net of provisions to capital	2.0	2.2	2.3	2.8	4.3
Non-performing loans (in millions of NZ$)	2,805	2,898	2,080	2,143	3,105.0
Capital adequacy (in percent)					
Regulatory capital to risk-weighted assets	14.4	15.2	16.2	15.4	15.4
Tier I capital to risk-weighted assets	13.5	14.3	15.2	14.1	14.0
Common equity tier 1 to risk-weighted assets	11.5	12.4	13.4	12.7	12.9
Capital to assets	7.7	7.6	7.8	8.3	8.7
Profit Ratios (in percent)					
Return on assets	0.8	0.9	1.0	1.1	1.0
Return on equity	10.9	12.0	12.6	12.9	11.8
Net interest margin	2.0	1.9	2.0	2.4	2.3

Sources: Reserve Bank of New Zealand; and IMF staff estimates.

Note: Capital adequacy measures, NPLs net of provisions to capital, liquid assets, 1-month mismatch ratio, core funding ratio, and return on equity are calculated for locally incorporated banks only.

Annex I. Past Recommendations

	Fund Recommendations	Policy Actions
Monetary Policy	• Monetary policy should remain restrictive until output and employment gaps fall.	• The RBNZ maintained its restrictive stance keeping rates unchanged at 5½ percent.
Fiscal Policy	• The authorities should prioritize reconstruction efforts in the near term without unduly adding to demand, while aiming for a frontloaded fiscal consolidation. New spending initiatives should be carefully executed to identify cost savings and reductions in public consumption. • Cost-of-living support should be targeted and temporary and focused on supporting vulnerable households and viable businesses.	• Budget 2023 spending package, indexation of benefit payments, and one-off North Island weather events related outlays are leading to a projected positive fiscal impulse in FY23/24. • Fiscal consolidation is envisaged from FY24/25 on, anchored by the authorities' new fiscal strategy. The new government has identified expenditure rationalization as a priority policy area, with additional fiscal space created to fund its planned tax cuts.
Housing and Financial	• Expanding housing stock should continue, reforms to legislation including the Resource Management Act would help. • A tightening of macroprudential restrictions is not called for at this time.	• The new government has repealed earlier reforms to harmonize local planning regimes. • RBNZ has proposed to activate DTI while easing LVR requirements.
Climate	• The planned infrastructure spending post Cyclone Gabrielle should prioritize improving resilience and adaptation to climate shocks • Metrics to monitor the efficacy of climate mitigation policies are needed • The ETS should be strengthened to include pricing agricultural emissions, and incentives slowing gross emissions. • Green public investment, cross-sectoral and sector specific policies should be rolled out	• NZ$380 million committed for investment in flood protection works in areas damaged by the cyclone and launched an inquiry into adaptation funding and community relocation. • An ETS review concluded in August 2023 which included proposals to incentive gross emissions reductions. However, the review has now been indefinitely halted. Plans to include agricultural emissions pricing pushed to 2030. • Legislation passed to repeal the Natural and Built Environment Act and Spatial Planning Act which rolls back environmental protection. Other environmental incentives including the Clean Car discount were dropped.
Structural	• Promote innovation and digitalization especially among marginalized groups • Infrastructure spending should aim at reducing the infrastructure gap and supporting the transition to a net zero carbon growth path.	• $2bn climate infrastructure fund announced in 2023. • Major infrastructure project (Auckland light rail) has been canceled.

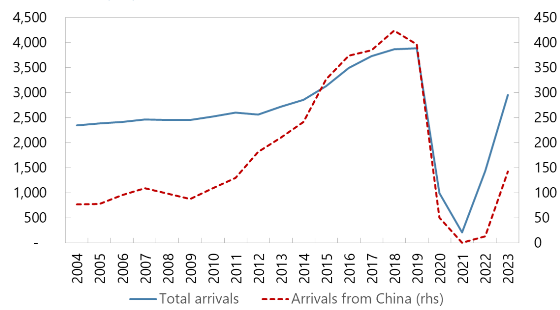
Annex II. External Sector Assessment

New Zealand's external position in 2023 was weaker than implied by medium-term fundamentals and desirable policies, an assessment unchanged from last year. This reflects a persistently large current account deficit of 6.9 percent of GDP, notwithstanding the decline from last year.

1. A multilaterally consistent model estimates that New Zealand's external position in 2023 remained weaker than the level implied by fundamentals and desirable policies. The model evaluates the external balance along current account fundamentals (see IMF, 2023 for more information on the External Balance Assessment (EBA) methodology).

- **The EBA current account (CA) regression model suggests that the current account deficit in 2023 was weaker than implied by fundamentals and desired policy settings.** The model-estimated cyclically adjusted CA norm for 2023 was -1.8 percent of GDP. The underlying, cyclically adjusted CA balance was -5.5 percent, taking into consideration the remaining compression in tourism inflows (1 percent of GDP, as tourist arrivals remain 20 percent below its pre-pandemic levels as of 2023, reflecting a slower resumption in international travels across Asia Pacific) and a positive output gap of 0.6 percent.[1] This results in an estimated CA gap of -3.7 percent of GDP. Applying the EBA-estimated elasticity of the current-account-to-GDP ratio with respect to the REER of -0.21 to this gap results in an estimated currency overvaluation of around 17½ percent (text table). Monetary policy tightening has supported external adjustment, while fiscal consolidation is needed to further narrow the current account deficit, as reflected in a negative contribution from the policy gaps.

Tourist Arrivals
(Thousands of people)



Sources: Statistics New Zealand, and IMF staff calculations.

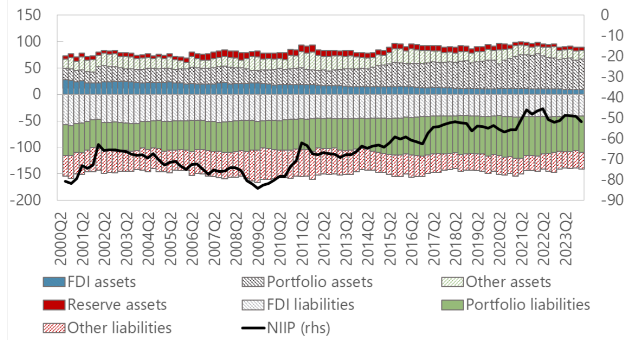
2023 CA balance (percent of GDP)	-6.9
Cyclical adjustment (percentage point of GDP)	+0.4
Adjusted CA balance (percent of GDP)	**-6.5**
COVID-19 adjustment for incomplete recovery in tourism	+1.0
COVID-19 adjusted CA balance (percent of GDP)	**-5.5**
Norm (for CA model, percent of GDP)	**-1.8**
CA gap (percent of GDP), o.w.,	**-3.7**
Contribution of identified policy gaps	-0.6
Unexplained residuals	-3.1
IIP-stabilizing CA/GDP ratio (for ES model, percent of GDP)	**-2.8**
Assumed current account elasticity	-0.21
Sources: National authorities; and IMF staff estimates.	

[1] New Zealand's still incomplete recovery in tourist arrivals as of end-2023 can also be attributed to a relatively late relaxation of travel restrictions (which were only fully removed in July 2022), compounded by China's (a key source market) late reopening and more recently its economic slowdown.

- **The EBA REER index and level regressions suggests that the New Zealand dollar was overvalued in real effective terms in 2023, but to a lesser extent than the last two years' assessment.** The models imply that, in real effective terms, the dollar was overvalued by 9.6 percent and 0.9 percent respectively, but less than in 2021 and 2022. New Zealand's trade-weighted real effective exchange rate has been relatively stable in 2023, though high domestic interest rates and inflation have led to renewed appreciating pressures.

- **The NIIP level and trajectory are on course to narrow over the medium term.** The External Stability (ES) approach suggests that the NIIP would stabilize at current levels with a CA deficit of 2.8 percent of GDP, which when compared with the cyclically adjusted CA deficit for 2023 (see above), gives an estimated gap of 2.7 percent. This implies that the currency is estimated to be overvalued by around 13 percent. Despite a continued large current account deficit, New Zealand's reported NIIP only deteriorated marginally in 2023. This reflects the RBNZ's increased holdings of reserve assets and a continued reduction in New Zealand's foreign liabilities on a marked-to-market basis due to favorable valuation effects (more discussion in Annex III).

International Investment Assets and Liabilities
(Percent of GDP)



Sources: Statistics New Zealand, and IMF staff calculations.

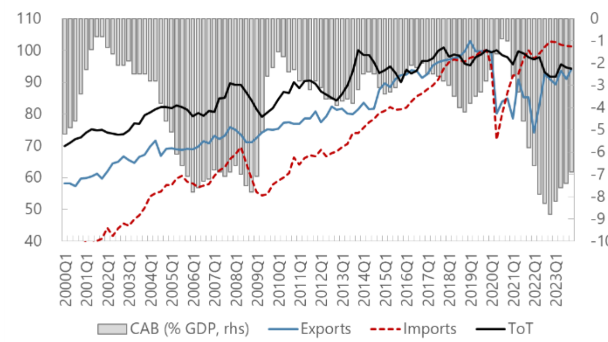
CA Model	
CA gap (Adjusted CA less norm, percent of GDP)	**-3.7**
REER gap (positive implies real overvaluation, percent)	**+17.6**
ES Model	
CA gap (Adjusted CA less IIP-stabilizing CA percent of GDP)	-2.7
REER gap (positive implies real overvaluation, percent)	+12.9
Reduced form REER equations (REER gap only, positive implies real overvaluation)	
REER index equation (percent)	+9.6
REER level equation (percent)	+0.9
Source: IMF staff estimates.	

2. **Based on the results of the EBA CA model, staff assesses the external position in 2023 to be weaker that the level implied by medium-term fundamentals and desirable policies.** The results of the other models support this assessment. In order to provide a reliable estimate for the external position, the current account model is calibrated to global and domestic policy variables and employs multilateral consistency adjustments to account for the temporary but extraordinary impact of the pandemic. However, econometric specifications of large-scale interactions between trade and capital flows can be limiting in the explanatory power and out-of-sample property of models and there may be shortcomings in some conclusions. Vulnerabilities related to the financial account remain contained, supported by a credible commitment to a floating exchange rate. Nevertheless, while the current account deficit is expected to narrow over time, the effects of temporary factors may continue affecting the external balance adjustment process over the next few years and it is a source of vulnerability, and it merits careful monitoring.

Annex III. The Persistence of New Zealand's Current Account Deficit

1. New Zealand's current account deficit remains large at 6.9 percent of GDP in 2023Q4. Exports fell sharply during the pandemic as international tourism and education came to a halt under travel restrictions, and global demand collapsed under extensive lockdowns and severe supply chain disruptions. This was offset to a great extent by a sharp contraction in imports as the domestic economy fell into a recession. The trade deficit, however, started to widen sharply starting 2021 as New Zealand rebounded more strongly than other peer advanced economies, thanks to its successful containment of COVID-19 outbreaks. Imports recovered quickly (more so than after the global financial crisis) under supportive macroeconomic policies, while exports remained subdued owing to global conditions. Tourist arrivals only started to recover in mid-2022 following the easing of New Zealand's border restrictions imposed during the second major lockdown and remain about 20 percent below pre-pandemic levels as of end-2023. Unfavorable terms of trade as dairy and meat prices suffered from weakened global demand (notably from China—New Zealand's largest export market) have also delayed the current account adjustment.

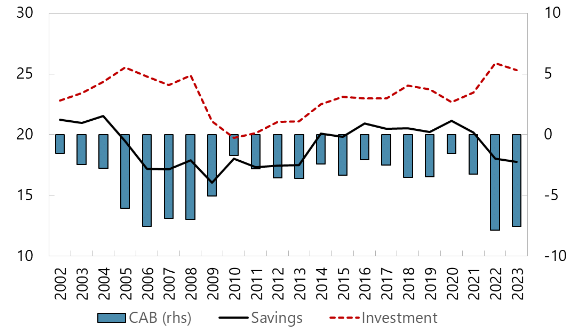
Trade Volume and Terms of Trade
(2019Q4=100)



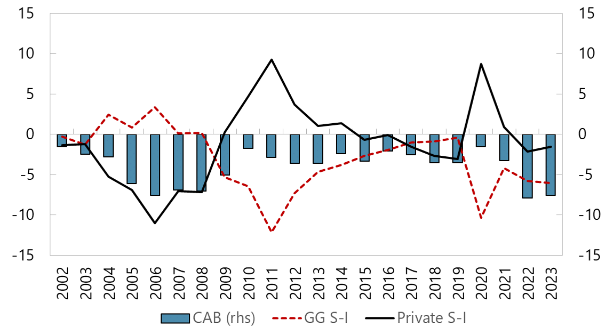
Sources: RBNZ, Statistics New Zealand, and IMF staff calculaions.

2. New Zealand is caught in a "twin deficits" situation with the fiscal deficit also remaining large. The current account deficit reflects the imbalance between how much the country saves and how much it invests. In this respect, the widening in the government's savings-investment (S-I) balance during the pandemic (as a result of automatic stabilizers and discretionary pandemic relief measures) was almost completely offset by an increase in the private sector's S-I balance as lockdown-induced consumption compression, together with the government's income support measures, led to larger savings. While a similar pattern was observed during the global financial crisis, what sets the pandemic reaction apart is that the drawdown of private savings and recovery in private investment in 2021-22, as economic activity normalized, was not matched by a proportional adjustment in the government's S-I balance. This led to a widening of the aggregate S-I balance and—by the accounting identity—the current account deficit. The delay in fiscal consolidation due to policy decisions, indexation, and one-off weather events related spending therefore also contributed to a slower current account adjustment.

Savings-Investment Balance
(Percent of GDP)

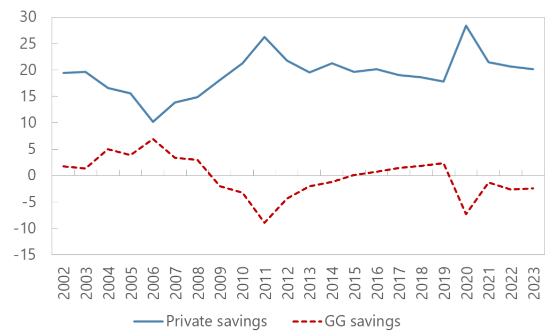


Savings-Investment Balance by Sector
(Percent of GDP)

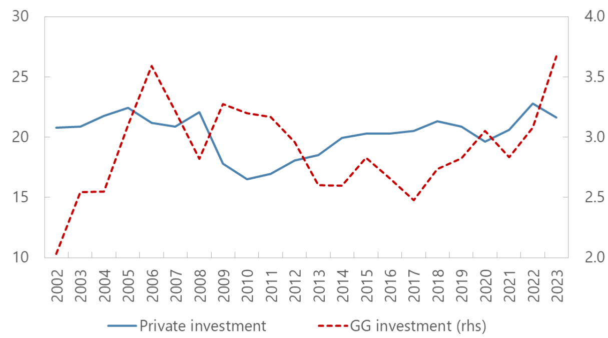


Sources: New Zealand Treasury, Statistics New Zealand, and IMF staff calculations.

Savings by Sector
(Percent of GDP)



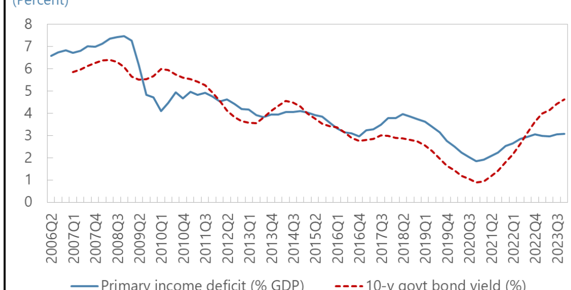
Investment by Sector
(Percent of GDP)



Sources: New Zealand Treasury, Statistics New Zealand, and IMF staff calculations.

3. **The cost of financing New Zealand's current account deficit has increased.** The recent large current account deficits have been financed by portfolio inflows and an increase in FDI, which together amounted to about 6 percent of GDP in 2023. Higher interest rates have increased the cost of servicing the country's foreign liabilities, reflected in a widening primary income account deficit. On the other hand, New Zealand's net international investment position (NIIP) benefited from favorable market price changes (which move inversely to interest rates) and other valuation changes, which helped slow its deterioration against large current account deficits.[1] However, these favorable valuation effects have started to reverse as interest rates retreated from their peaks. While interest rates are expected to fall further, the repricing of New Zealand's net external liabilities (with a

Primary Income Deficit
(Percent)

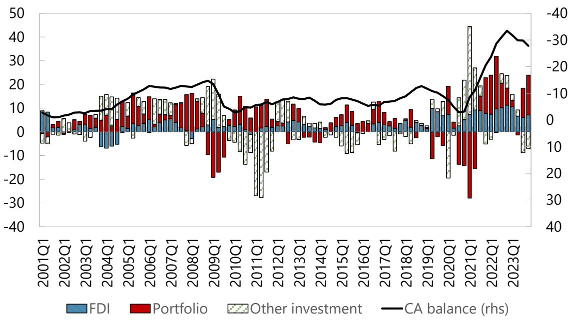


Sources: New Zealand Treasury, Statistics New Zealand, and IMF staff calculations.

[1] More details on this can be found in the Staff Report for the 2023 Article IV Consultation (Annex II). More recently, large positive BOP net errors and omissions (NEOs) may also explain in part the disconnection between the large current account deficits and the more sanguine NIIP developments. Stats NZ has started to address these NEOs through improved survey data.

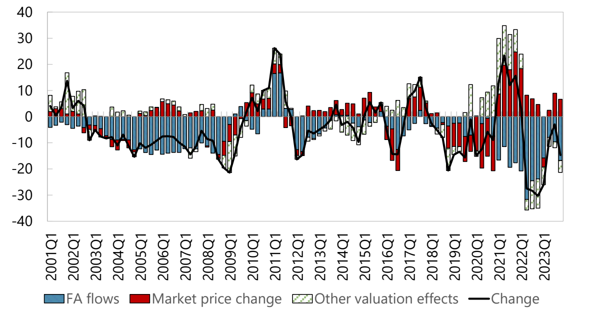
relatively long average residual maturity) is expected to take time, which would delay the adjustment in primary income account.

Financing of Current Account Deficit
(Billions of NZ$, 12-month, excludes errors and omissions)



Sources: Statistics New Zealand, and IMF staff calculations.

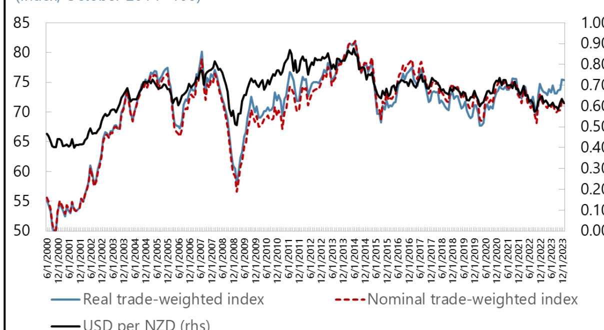
Change in NIIP
(Billions of NZ$, over 12-month period)



Sources: Statistics New Zealand, and IMF staff calculations.

4. The nominal exchange rate has depreciated under large current account deficits, while the adjustment in real exchange rate was attenuated by high inflation. Nominal depreciation has not interrupted the rapid disinflation in tradable goods. This said, the RBNZ has recently updated (in December 2022) its foreign reserves management and co-ordination framework, under which it has taken actions to start rebuilding its FX intervention capacity (to NZ$19 billion, or 4⅔ percent of GDP) for potential use in disorderly market conditions marked by exceptional exchange rate volatility unjustified by economic fundamentals in order to maintain financial stability and support monetary policy.[2] RBNZ has rarely intervened in the past and the recent increase in its intervention capacity, which has remained broadly unchanged in nominal terms since 2008, is appropriate given the growth in its foreign exchange turnover as the economy and its trade volumes grew. New Zealand's FX liquidity risks can also be mitigated by re-establishing dollar liquidity swap line with the Federal Reserve (including on a temporary basis) as RBNZ did during the global financial crisis and the pandemic period.

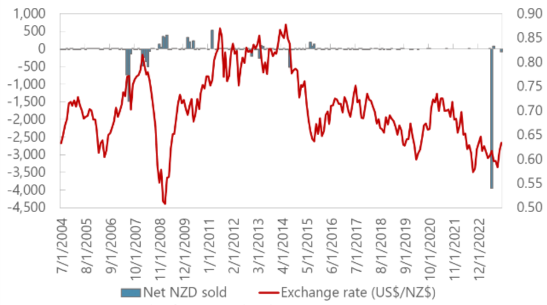
Exchange Rate Movements
(Index, October 2014=100)



Sources: Reserve Bank of New Zealand, and Statistics New Zealand.

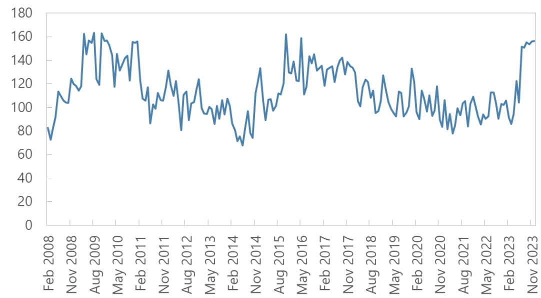
[2] The RBNZ's intervention capacity concept measures its reserve assets less FX liabilities falling due in the next 12 months.

RBNZ Foreign Exchange Interventions
(Millions of NZ$)



Source: Reserve Bank of New Zealand.

Foreign Exchange Intervention Capacity
(Percent of daily FX turnover, spot and derivatives)



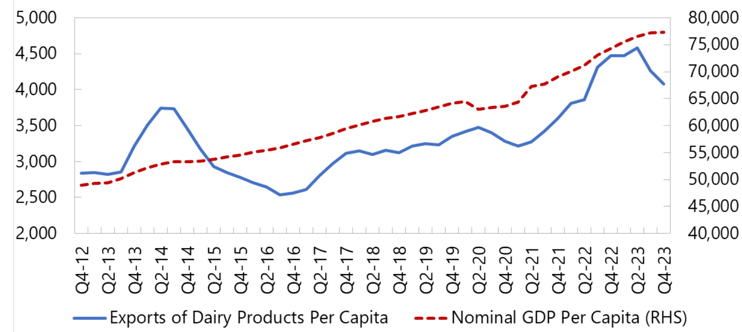
Sources: Reserve Bank of New Zealand, and IMF staff calculations.

Annex IV. New Zealand's White Gold: The High Correlation of Milk and Oil Prices

1. **The dairy industry is a backbone of New Zealand's economy.** New Zealand is one of the largest milk producers globally, and the largest one in per capita terms. The dairy industry accounts directly for almost 5½ percent of domestic output and 2 percent of the total employment. The industry has experienced significant growth following the formation of Fonterra—New Zealand's dairy cooperative owned by 9,000 farmers—under the Dairy Industry Restructuring Act (DIRA) of 2001 and a successful pivot to dairy processing and export. Under this expansion, the downstream impact of the dairy industry on other industries has also increased, with both processing and farming segments being major purchasers in 35 various industries representing 31.5 percent of GDP, including agriculture, forestry, fertilizer and pesticide manufacturing, as well as pharmaceutical, cleaning, chemical manufacturing, and other support services. According to a recent report by Sense Partners, the dairy industry is one of the top employers in New Zealand, providing a total of 55,000 jobs, with 38,462 on farming and 16,325 in dairy processing. In the last two decades, the dairy sector (primary sector) has experienced a yearly average 1.5 percent increase in employment (and 3.2 percent a year since 2019), contrasting with a 3.6 percent decline in manufacturing jobs, primarily fueled by a 92 percent surge in dairy processing jobs. Furthermore, employment in dairy farming has remained relatively stable, with a slight decrease of 3.8 percent in jobs since 2000, barring small fluctuations over the years. The sector also provides the highest average salary within the farming sector and the food and beverage processing sector and demonstrates progressive gender wage gap reductions, with major dairy companies prioritizing workforce diversity.[1]

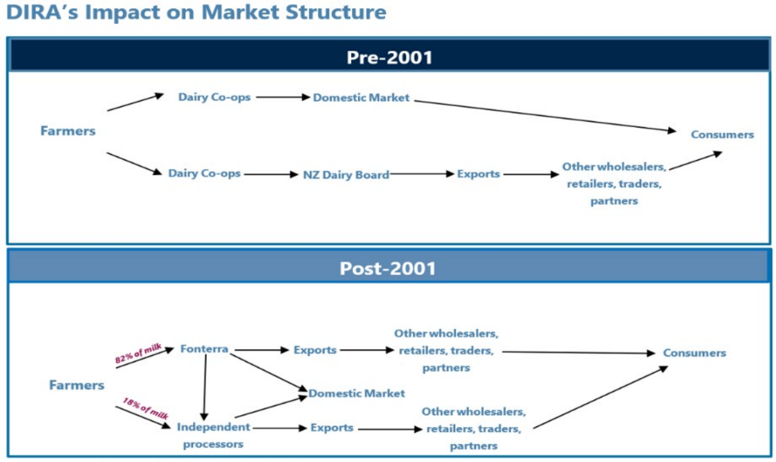
Dairy Per Capita and GDP Per Capita

(Per capita, quarterly, annualized, level in NZ)



Source: Haver Analytics.

DIRA's Impact on Market Structure



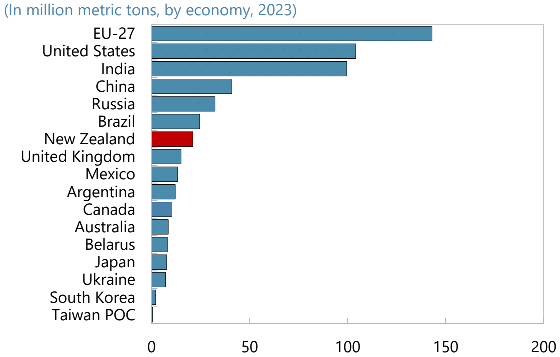
Sources: TDB Advisory Ltd and New Zealand Productivity Commission.

[1] See Sense Partners. 2023. "Solid foundations: Dairy's economic contribution to New Zealand." https://www.dairynz.co.nz/media/0oibxesz/solid-foundations-4-september-2023.pdf.

2. The dairy industry is also an important export engine for New Zealand. Dairy products account for more than a quarter of New Zealand's total exports and are estimated at NZ$20 billion in 2023. New Zealand is the world's leading exporter of whole milk powder (WMP), and more than 90 percent of the milk produced in the country is processed for exports. Similarly, some 90 percent of Fonterra's revenue comes from outside New Zealand. This uniquely places New Zealand as one of the most export-oriented dairy producers globally and underscores its significant role in the global dairy market.

Major Producers of Cow Milk Worldwide

(In million metric tons, by economy, 2023)

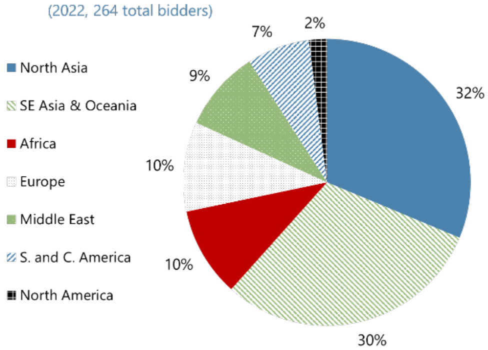


Sources: FAO and US Department of Agriculture.
Note: Taiwan POC stands for Taiwan Province of China.

3. Global dairy prices are set in a competitive process. Dairy prices in New Zealand are determined by auctions held every two weeks by Global Dairy Trade (GDT), one of the most globally recognized platforms for dairy commodities.[2] The GDT auction follows a uniform price bidding with the pricing mechanism based on single-round and sealed-bid auction, where the highest price at which the quantity of each product on offer can be sold is then determined. This process ensures that the final prices reflect the market's supply and demand equilibrium at the time of the auction. New Zealand's largest dairy company, Fonterra, which produces 30 percent of the world's dairy exports, is the primary seller at GDT auctions, accounting for around 99 percent of the whole milk powder sold on the platform. New Zealand's GDT auctions attract almost entirely foreign participants with 30 percent from North Asia includes China representing the major bids.

Winning Bidders by Region

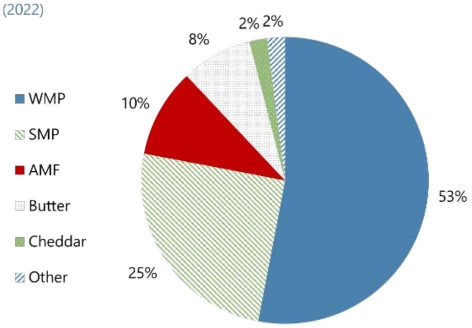
(2022, 264 total bidders)



Source: Globat Dairy Trade (GDT)

Quantity Traded by Product Group

(2022)



1/ WMP: Whole Milk Powder, SMP: Skim Milk Powder; and Anhydrous Milk Fat
Source: Globat Dairy Trade (GDT)

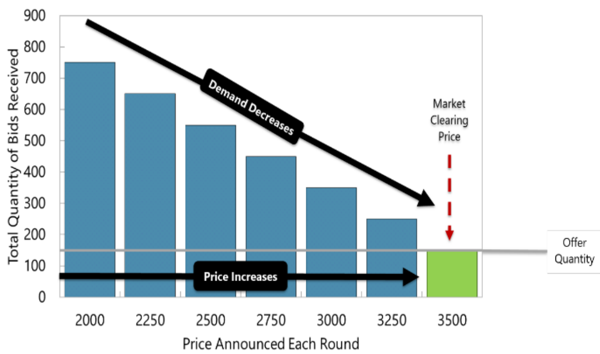
4. Dairy prices are most affected by global demand and carry great importance to New Zealand. The supply of milk is relatively predictable given a stable size of herd and the predictive level of production. Supply is normally fixed days before the auction through Fonterra's published supply forecasts, from which actual auction supply rarely deviates much, and price shocks mostly

[2] Other major wholesale markets for dairy products are the Chicago Mercantile Exchange for the United States, the European Energy Exchange (Germany) and Euronext (France), although European markets are more fragmented.

come from the demand side[3]. While demand for milk, as a staple, is expected to be inelastic, it is increasingly refined to other dairy products such as butter, cheese, yogurt, milk powder, infant formula, and whey concentrate, the supply and demand of which could vary and affect the price of milk. As a result, dairy prices have been quite volatile and are important determinants for New Zealand's dairy export earnings and in turn its trade balance.

How GDT Auction Works

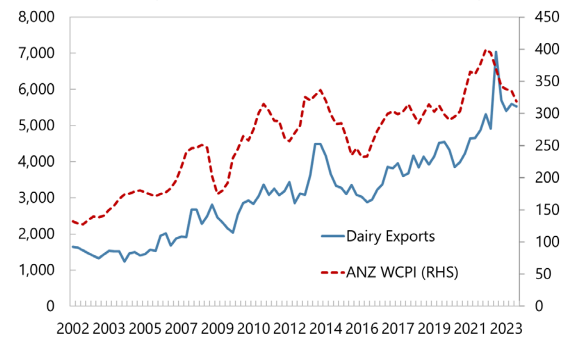
(GDT auction mechanism example)



Source: Global Dairy Trade GDT

Commodity Price Index and Dairy Exports

(ANZ world commodity index Jan-86=100, million of NZ GDP, quarterly)



Source: Haver Analytics.

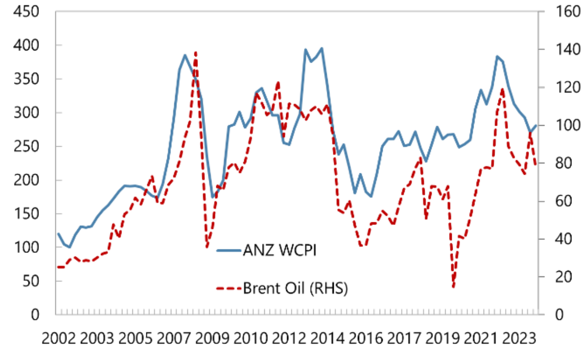
5. Why are dairy and crude oil prices highly correlated? Although dairy prices in New Zealand are directly influenced by dairy inventories in major importers like China and supply disruptions from events such as weather patterns, the strong correlation with oil prices might stem from a similar price insensitive production on the supply side.[4] This similarity has made prices more sensitive to global business cycles and demand shocks which tend to drive commodity prices. Oil price could also pass through to dairy prices through production costs, including, e.g., the cost of fertilizer and feed, transportation, and storage, which all have a high energy content. The manufacturing process (and the required equipment and factories) for refined dairy products is energy intensive. Moreover, the coincidence of unrelated supply shocks can also be a reason behind the price co-movements. For example, OPEC's decision to slow production in 2007 coincided with the drought in New Zealand, both of which drove up prices; and the ramp up in oil production (particularly in the US) due to new drilling technology around 2014-15 coincided with EU's lifting of milk production quota, both of which drove down prices.

[3] See Hillary Stein. 2023. "Got Milk? The Effect of Export Price Shocks on Exchange Rates." Federal Reserve Bank of Boston Research Department Working Papers No. 23-1. https://doi.org/10.29412/res.wp.2023.01.

[4] See Matthew Gould. 2016. "The Link Between Oil and Milk Prices." https://www.agproud.com/articles/19802-the-link-between-oil-and-milk-prices.

Dairy Products Price Index and Brent Oil

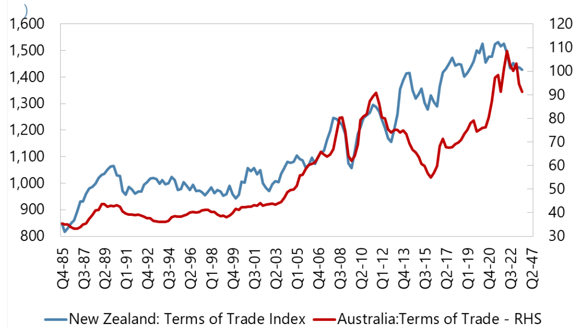
(ANZ world commodity index: dairy, Jan-86=100, USD$ per barrel, quarterly)



Source: Haver Analytics.

Terms of Trade for New Zealand vs Australia

(Index, Q2-2002=1000 for New Zealand, FY 2022=100 for Australia
)



Source: Haver Analytics.

6. **This strong price correlation can be a blessing to New Zealand.** A strong correlation between dairy and oil prices forms a natural hedge and may explain New Zealand's relatively stable terms of trade compared to other commodity exporters. The price correlation and oil futures market pricing information can also be utilized to inform New Zealand's balance of payments projections.

Annex V. Sovereign Debt and Debt Sustainability Framework

Annex V. Figure 1. Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Low	The overall risk of sovereign stress is low, reflecting a relatively low level of vulnerability in the near-term and low levels of vulnerability in the medium-, and long-term horizons.
Near term 1/			
Medium term	Low	Low	Medium-term risks are assessed as low against a mechanical low signal on the basis of the strength of institutions, the depth of the investor pool, the credibility of macroeconomic policies and institutions in New Zealand, contributing to overall stability.
Fanchart	Low	…	
GFN	Low	…	
Stress test	…	…	
Long term	…	Low	Long-term risks remain relatively low, but fiscal challenges stemming from age-related expenditure on health and social security have started to materialized and will feed into debt dynamics.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: New Zealand is at a low overall risk of sovereign stress with a split AA+ sovereign credit rating (Aaa from Moody's and AA+ from S&P and Fitch). The post-pandemic recovery was stronger than most advanced economies, though momentum is slowing under tightened monetary policy. Tax revenues exceeded pre-pandemic levels, while the withdrawal of Covid-related stimulus contributed to lowering overall expenditure. Going forward, a fiscal consolidation is expected in the medium term, but will be slower following the North Island weather events (NIWE; flash floods in January and cyclone Gabrielle in February 2023). Given rebuilding needs following the NIWE, debt is expected to rise thru 2025 before graduall declining. Medium-term liquidity risks as analyzed by the GFN Financeability Module are low. Over the longer run, New Zealand should continue with reforms to tackle risks arising from population aging and climate change. However, the long-term horizon at which these risks would materialize and the authorities' planned measures will help contain risks.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex V. Figure 2. Debt Coverage and Disclosures

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

					Subsectors captured in the baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	
				2	Extra budgetary funds (EBFs)	No	Not applicable
				3	Social security funds (SSFs)	Yes	
				4	State governments	Yes	
				5	Local governments	Yes	
				6	Public nonfinancial corporations	No	
				7	Central bank	No	
				8	Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

	Basis of recording		Valuation of debt stock		
4. Accounting principles:	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-government Debt Holdings

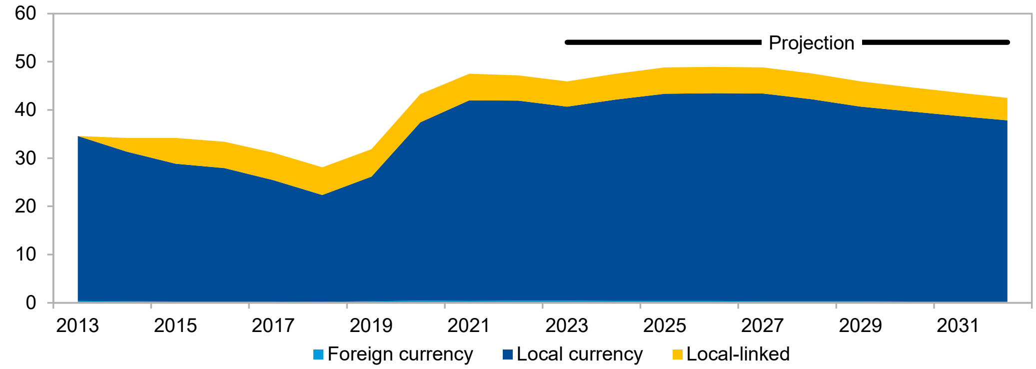
Issuer \ Holder						Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: In New Zealand, the general government consistent of the central government, state and local governments, and social security funds.

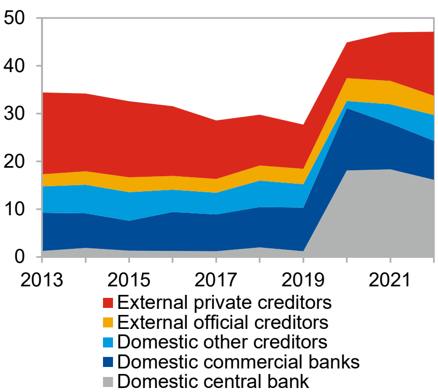
Annex V. Figure 3. Public Debt Structure Indicators

Debt by Currency (percent of GDP)



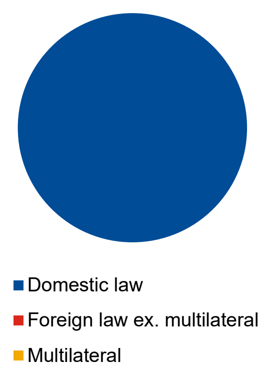
Note: The perimeter shown is general government.

Public Debt by Holder (percent of GDP)



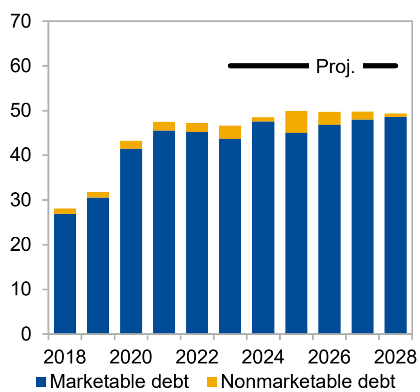
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (percent)



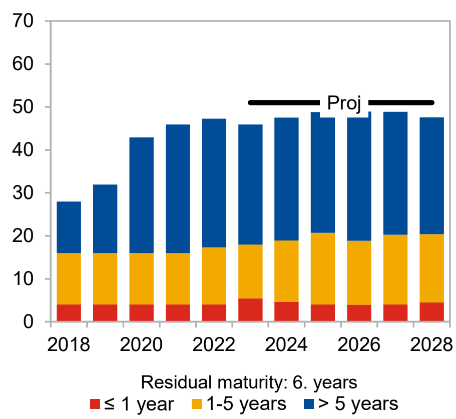
Note: The perimeter shown is general government.

Debt by Instruments (percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (percent of GDP)



Note: The perimeter shown is general government.

Commentary: Public debt in New Zealand increased following the pandemic, but is expected to decline in the medium term following the planned consolidation over the forecast period. The share of FX debt in overall debt is very low and index-linked bonds also make a small share (less than 5 percent) of total outstanding debt.

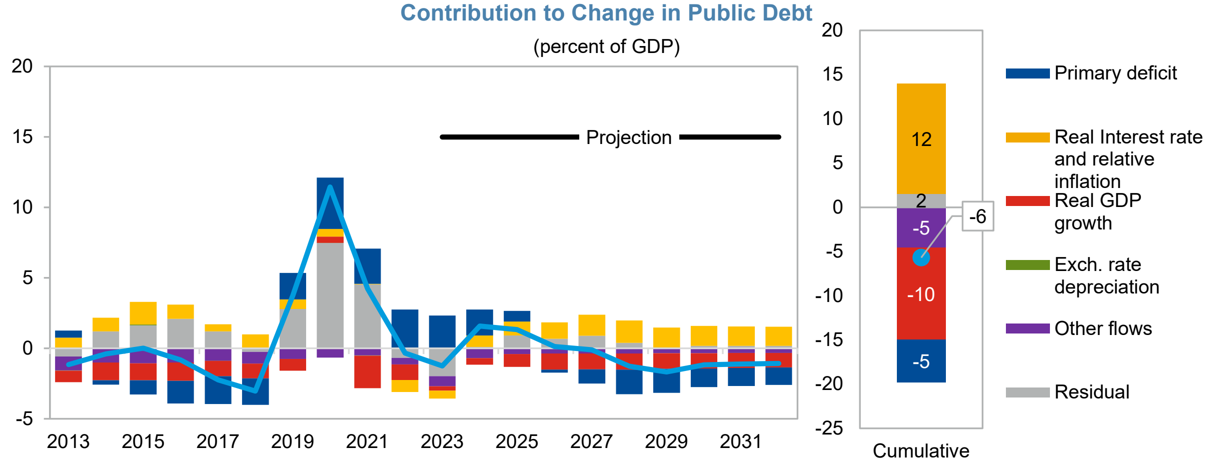
Annex V. Figure 4. Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	47.2	45.9	47.5	48.8	48.9	48.8	47.6	45.9	44.7	43.6	42.5
Change in public debt	-0.3	-1.3	1.6	1.3	0.1	-0.1	-1.3	-1.7	-1.2	-1.1	-1.1
Contribution of identified flows	0.3	0.7	1.5	0.4	-0.6	-1.0	-1.7	-1.7	-1.3	-1.3	-1.2
Primary deficit	2.7	2.3	1.8	0.7	-0.2	-1.0	-1.7	-1.7	-1.3	-1.3	-1.2
Noninterest revenues	37.7	36.9	37.3	37.8	38.3	38.5	38.7	38.7	38.6	38.7	38.7
Noninterest expenditures	40.4	39.2	39.1	38.6	38.1	37.5	37.0	37.0	37.3	37.4	37.5
Automatic debt dynamics	-1.9	-0.9	0.3	0.1	0.0	0.4	0.4	0.4	0.3	0.3	0.3
Real interest rate and relative inflation	-0.8	-0.6	0.8	1.0	1.2	1.5	1.6	1.5	1.4	1.4	1.4
Real interest rate	-0.9	-0.6	0.8	1.0	1.2	1.5	1.6	1.5	1.4	1.4	1.4
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.1	-0.3	-0.5	-0.9	-1.2	-1.1	-1.2	-1.1	-1.1	-1.1	-1.0
Real exchange rate	0.0	…	…	…	…	…	…	…	…	…	…
Other identified flows	-0.5	-0.7	-0.7	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-0.5	-0.7	-0.7	-0.4	-0.4	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3
Contribution of residual	-0.7	-2.0	0.1	0.9	0.7	0.9	0.4	0.0	0.2	0.2	0.2
Gross financing needs	5.9	7.3	8.9	7.8	7.2	6.6	6.6	7.0	7.5	7.0	7.8
of which: debt service	3.9	5.7	7.5	7.4	7.8	7.9	8.8	9.1	9.2	8.7	9.4
Local currency	3.9	5.7	7.5	7.4	7.7	7.9	8.7	9.0	9.1	8.6	9.3
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	2.4	0.6	1.0	2.0	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Inflation (GDP deflator; percent)	5.5	5.7	3.0	2.7	2.5	2.0	1.9	2.2	2.2	2.2	2.2
Nominal GDP growth (percent)	8.0	6.4	4.1	4.6	4.9	4.4	4.4	4.6	4.4	4.4	4.4
Effective interest rate (percent)	3.6	4.4	4.8	4.9	5.0	5.3	5.4	5.5	5.6	5.6	5.6

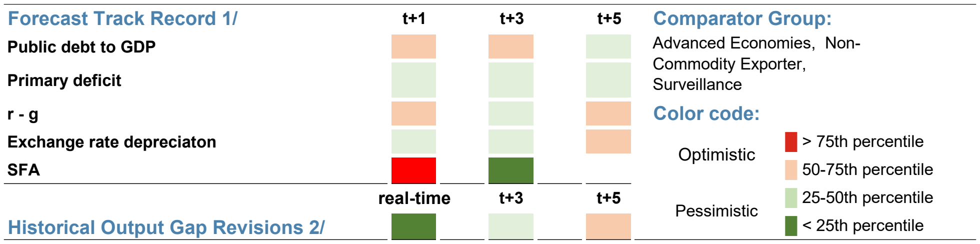
Contribution to Change in Public Debt

(percent of GDP)



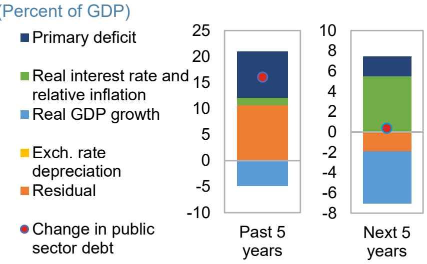
Staff commentary: Public debt is projected to peak around 50 percent of GDP in 2025 before gradually declincing, as the planned fiscal consolidation takes place under th authorities' fiscal strategy that mandates a returning of operating surplus, and among stable economic conditions. Medium-term risks are low, reflecting New Zealand's low historical volatility, low terminal debt and institutional strength, as well as a large and stable banking sector, little FX debt and low GFN to GDP.

Annex V. Figure 5. Realism of Baseline Assumptions

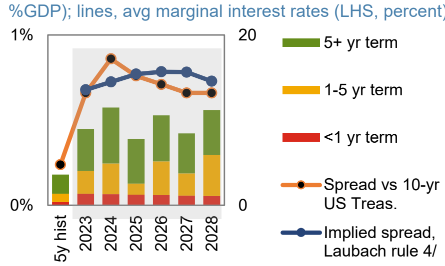


Public Debt Creating Flows

(Percent of GDP)

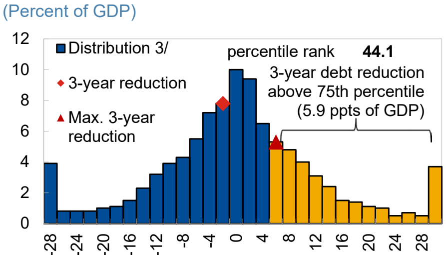


Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))

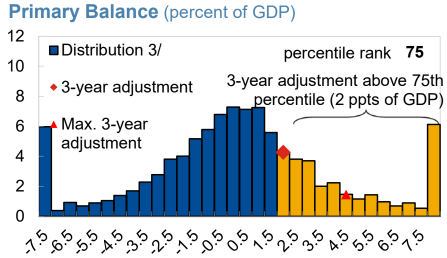


3-Year Debt Reduction

(Percent of GDP)

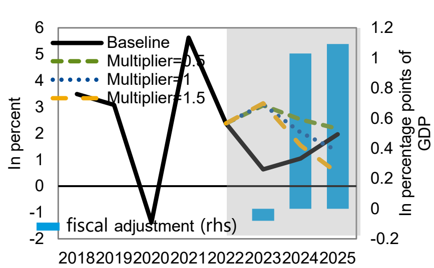


3-Year Adjustment in Cyclically-Adjusted Primary Balance (percent of GDP)



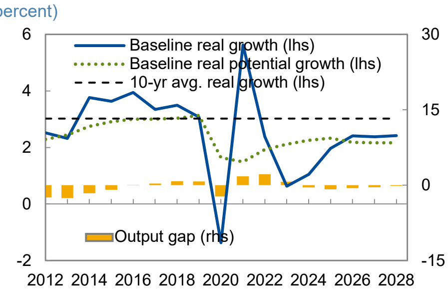
Fiscal Adjustment and Possible Growth Paths

(lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS)



Real GDP Growth

(in percent)



Commentary: The strong post-pandemic recovery has raised tax revenues while Covid-19 expenditure has been withdrawn, with savings repurposed for other spending. The staff projections in recent years are more closely aligned with the outturns, notwithstanding unpredictable shocks like the North Island weather events. Moving forward, the primary balance is projected to improve by the end of the medium term, albeit at a slower pace, and sustain small overall surpluses, helping debt stabilize. Factors such as New Zealand's fiscal institutional framework including its long-term objectives of low debt and small surpluses, a historical track record of running surpluses and containing its debt levels, as well as the exit from Covid-19 stimulus measures, provides credibility towards achieving sustained primary surpluses in the medium term.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

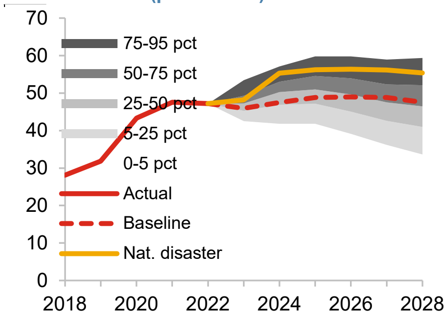
3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex V. Figure 6. Medium-Term Risk Analysis

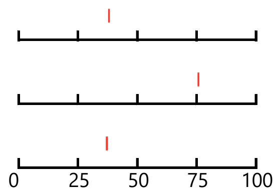
	Value	Contrib [1/]	Percentile in peer group [2/]

Final Fanchart (pct of GDP)

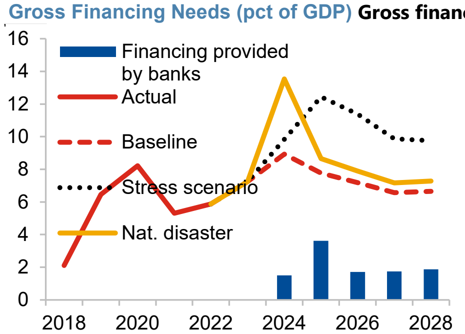


Debt fanchart module

	Value	Contrib	Percentile in peer group
Fanchart width *(percent of GDP)*	25.8	0.4	
Probability of debt non-stabilizaiton *(percent)*	25.5	0.2	
Terminal debt-to-GDP x institutions index	8.2	0.2	
Debt fanchart index (DFI)		0.8	
Risk signal: [3/]		Low	

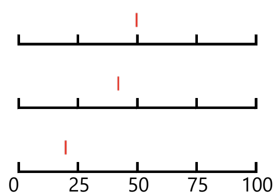


Gross Financing Needs (pct of GDP)



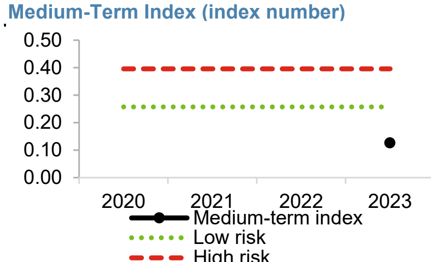
Gross financing needs (GFN) module

	Value	Contrib	Percentile in peer group
Average baseline GFN *(percent of GDP)*	7.4	2.5	
Banks' claims on the gen govt *(pct bank assets)*	4.4	1.4	
Chg. In banks' claims in stress *(pct banks' assets)*	1.2	0.4	
GFN financeability index (GFI)		4.3	
Risk signal: [4/]		Low	



Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-Term Index (index number)



Medium-term risk analysis

	Value	Weight	Contribution
Debt fanchart index (normalized)	0.2	0.5	0.1
GFN finaceability index (normalized)	0.1	0.5	0.0
Medium-term index	0.1		
Risk signal: 5/	Low		
Final assessment:	Low		

Prob. of missed crisis, 2023-2028, if stress not predicted: 0.0 pct.
Prob. of false alarms, 2023-2028, if stress predicted: 78.4 pct.

Commentary: Both medium-term tools point to low levels of risk, alluding to mitigating fundamentals such as low historical volatility, strong institutional frameworks alongside fiscal rules, low terminal debt, and low gross financing needs alongside a stable banking sector and availability of domestic financing. The Debt Fanchart Module shows that debt is on a declining and stabilizing path while the GFN module shows that gross financing needs are consistently low. A natural disaster scenario (such as the recent Cyclone Gabrielle) raises debt in the short term but it returns to a declining path in the medium term.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is advanced economies, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex V. Figure 7. Long-Term Risk Analysis

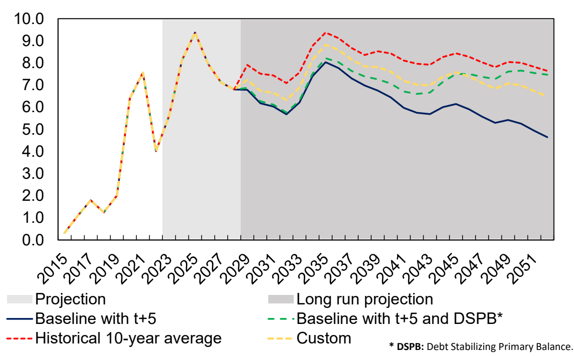
Large Amortization Trigger

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

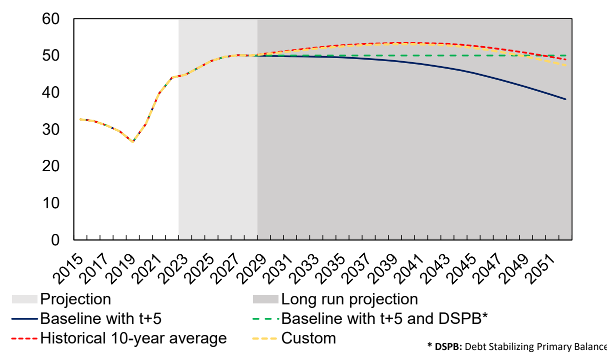
Alternative Baseline Long-term Projections (including Custom scenario)

	Baseline extension of fifth projection year	Custom baseline
Real GDP growth	2.4%	2.4%
Primary Balance-to-GDP	1.0%	0.5%
Real depreciation	-2.0%	-2.0%
Inflation (GDP deflator)	2.0%	2.0%

GFN-to-GDP Ratio



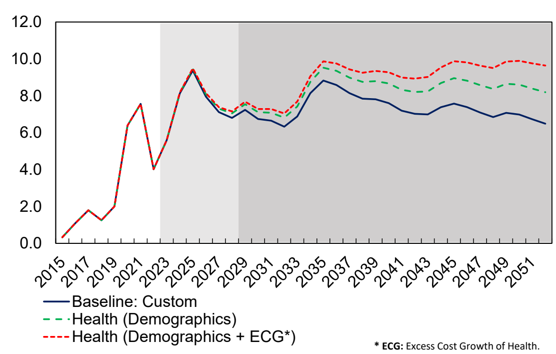
Total Public Debt-to-GDP Ratio



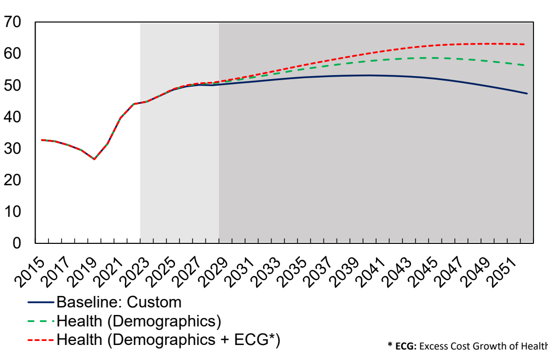
Commentary: Under different long-term scenarios, gross financing needs and public debt remain relatively low and stable. Sustained primary surpluses in the long-term will gradually reduce gross financing needs. In a custom scenario with a smaller long-term primary surplus, or a historical scenario with a small primary deficit, gross financing needs remain stable, between 6 and 8 percent of GDP, while gross debt peaks at around 50 percent of GDP.

Demographics: Health

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: New Zealand's long-term fiscal challenges stem from an aging population, which is expected to increase healthcare costs. The fiscal impact of population aging can be more prominent in a scenario where it is compounded by excess growth of healthcare costs. Under these scenarios, gross financing needs and public debt are projected to reach higher levels but remain relatively low compared to other advanced economies.

Annex VI. Risk Assessment Matrix[1]

Source of Risk	Likelihood	Expected Impact	Policy Recommendations
Monetary policy miscalibration. Amid high economic uncertainty, major central banks loosen policy stance prematurely, hindering disinflation, or keep it tight for longer than warranted, causing abrupt adjustments in financial markets and weakening the credibility of central banks.	Medium	**Medium.** A premature loosening of monetary or fiscal policy could cause inflation to become de-anchored or trigger a domestic wage-price spiral. On the other hand, an excessively tight monetary stance could generate a protracted downturn and generate pockets of distress in the household mortgage sector.	Keep policy on a nimble footing, paying close attention to data. Monetary policy decisions should focus on the inflation outlook and capacity constraints, while addressing financial volatility with macroprudential and financial stability tools. Effective communication will be key especially given the recent change in RBNZ mandate.
Abrupt global slowdown or recession in China. Sharper-than-expected slowdown in the property sector weight on private demand, unexpected fiscal tightening due to local government financing stress and decline in investment, and/or rising geopolitical tensions disrupt economic activity.	Medium	**Medium**. Sharper-than-expected slowdown in China would lead to lower demand for New Zealand key goods exports and tourism. Weaker export growth and terms of trade, and lower government revenues would dampen overall growth and lead to pressure on the exchange rate to depreciate. Conversely, deflation in China could help lower imported inflation.	Combined monetary and fiscal policy easing would be needed to respond to a global recession. The scale of intervention should be calibrated based on inflation dynamics and fiscal space. Lower imported inflation would allow for an earlier loosening of monetary conditions.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of	High	**Medium**. Geopolitical tensions could impact New Zealand's export performance and availability of imported inputs resulting in lower growth and higher inflation.	Strengthen the rules-based multilateral trading system and deepen international and regional economic cooperation.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 and 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risk	Likelihood	Expected Impact	Policy Recommendations
international monetary system, and lower growth.			
Systemic financial instability. High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	**Medium**	**Medium**. The banking system could be affected because it's globally integrated. Loan book credit quality is overall strong and well-monitored, notwithstanding small increases in NPLs, but further increases cannot be discounted.	Stand ready to use liquidity windows in the event funding stress. Continue to monitor banks' balance sheets.
Unexpectedly large or disorderly housing market disruptions. Persistently tight monetary policy and correction of pockets of overvaluation could propagate a broader correction.	**Medium**	**Medium.** Significant declines in housing prices alongside tightening of financial conditions would adversely affect household wealth and consumption and could expose pockets of financial vulnerabilities.	Adjust interest rates if the correction puts inflation on a rapid path to the RBNZ's target. Adjust macroprudential policies.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**Medium**	**High.** Stronger and more frequent economic disruptions. Larger fiscal costs related to disaster recovery and adaptation. Higher insurance premiums and associated risks.	Combined monetary, fiscal policy easing; review medium-term fiscal framework to explicitly build in buffers for this risk going forward. Build adaptation infrastructure (e.g., flood defenses) and property-level mitigation measures. Conduct climate risk stress testing of financial sector.
Cyberthreats. Cyberattacks on physical or digital infrastructure or misuse of AI technologies trigger financial and economic instability.	**Medium**	**Medium**. An escalation of attacks could destabilize banks and affect critical facilities, slowing the recovery and disrupting financial markets.	Preventative investment in strengthening critical infrastructure; fast liquidity provision in case of financial market disruptions.

Annex VII. Follow-Up on Key Recommendations of the 2017 FSAP

Recommendation	Time Frame	Update and Implementation
Financial Stability and Financial Sector Resilience		
Increase RBNZ resources for the supervision and regulation of banks, insurance companies, and FMIs.	ST	**In process.** A new funding agreement signed with the Minister of Finance in June 2020 provided the RBNZ with increased funding for the next five years, in part to support a more intensive supervisory model. Staff numbers have increased significantly in the financial policy area over the past several years, with a significant supervisory and a smaller policy footprint now established in Auckland, where many of the NZ operations of RBNZ-regulated entities are headquartered. Frontline supervision is supported and complemented by the establishment of dedicated Risk Specialists, Licensing & Authorizations and Resolution & Recovery functions. This process is ongoing with further investment likely required post 2025.
Strengthen cooperation and collaboration arrangements with Australian authorities.	ST	**In process**. Trans-Tasman cooperation is explicitly managed through the work under the Trans-Tasman Council on Banking Supervision (TTBC). The TTBC remit covers insurers and other entities in addition to banks. There is also a standing mechanism for coordination between New Zealand and Australian communications through a dedicated working group under the TTBC umbrella. In recent years, regulators on both sides participated in a hypothetical bank crisis simulation exercise in September 2017, and a follow-up exercise on communications coordination in 2019. Additional work-streams have also been established to coordinate arrangements with respect to managing cyber incidents, and entity specific Crisis Management Groups which plan preferred recovery or resolution options for Trans-Tasman groups. The RBNZ Act contains a new cooperation function for the RBNZ that includes 'overseas central banks and relevant international institutions'. The trans-Tasman cooperation provision in the current Act (s.68A) is carried across to the deposit takers sectoral legislation under the Deposit Takers Act (DTA). Semi-annual supervisory colleges are in place between RBNZ Prudential Supervision and Specialist Supervision function and counterparts at the Australian Prudential Regulation Authority for exchange of information and coordination of Trans-Tasman supervision and enabling staff secondment/exchange.
Clarify responsibilities of the Treasury and RBNZ on financial sector issues to reinforce the role of RBNZ as prudential regulator and supervisor.	ST	**In process.** Governance and prudential regulation options have been examined in Phase 2 Review of the RBNZ Act. A new financial stability objective for the RBNZ was introduced in the RBNZ Act 2021. The Act also requires the

Recommendation	Time Frame	Update and Implementation
		Minister of Finance to issue a Financial Policy Remit outlining matters that the RBNZ will have to have regard to in pursuing its financial stability objectives, prudential standards and its implementation. The first Remit was issued 30 June 2022. The RBNZ Act designates a government department as the formal monitor of the RBNZ on behalf of the Minister of Finance (replacing the role played by the current board). The Minister has appointed the Treasury in the monitor role. The DTA further clarifies the role of the Minister in the prudential framework (e.g., role in the crisis management and deposit taker resolution frameworks).
Issue enforceable standards on key risks, governance, risk management, and controls to make RBNZ's supervisory expectations more transparent and support supervisory preventive action.	ST	**In process.** Prudential requirements for deposit takers will be set through 'standards' as a secondary legislative instrument. The DTA clearly sets out the areas where the RBNZ can set standards. The scope of standard-setting broadly aligns with those areas expected by the Basel Core Principles (BCPs). Within the scope permitted by legislation, the RBNZ will still choose in what areas to set standards, supported by guidance where appropriate. IPSA already uses standards as the means to set prudential requirements for licensed insurers. The legislation is being reviewed to take account of experience and to follow up on the recommendations of independent reports in recent years. The RBNZ will continue to use standards to regulate the sector. As part of the review the RBNZ is expecting to introduce new standards for governance and risk management but legislation is not expected to be in force before 2026.
Review and extend the enforcement regime to promote preventive action and enhance sanctions powers, including by eliminating ministerial consent for directions, and making compliance with RBNZ policy documents evidence of prudent practice.	MT	**In process.** The DTA will expand the current enforcement toolkit (e.g., with the inclusion of enforceable undertakings and remedial notices) and removes the requirement for Ministerial consent to issue directions, thereby removing the current high threshold for using this tool to take corrective action. An Enforcement Framework has been developed and published. Dedicated resources for the Enforcement team has been increased.
Initiate on-site programs to test the foundation of the three-pillar approach and directors' attestations and increase supervisory engagement with institutions in order to require appropriate action.	ST	**In process**. In 2018 a team was formed for the purposes of performing deep dive on-site thematic reviews. These are performed across both the deposit taking and insurance sectors and focus on a range of risk, governance and compliance matters. Thematic reviews undertaken include; conduct and culture of banks and life insurers, role of the appointed actuary, bank liquidity and governance.

Recommendation	Time Frame	Update and Implementation
		The DTA empowers the RBNZ to undertake on-site inspections of deposit takers. How this power is operationalized will be a matter for the RBNZ (e.g., frequency and scope of inspections across large and small deposit takers). The current review of IPSA will consider the design of a similar on-site inspection power for the insurance sector.
Refine Financial Markets Authority (FMA) supervision by a) direct monitoring of aspects of asset management relevant to financial stability;	I	a) **In process.** The FMA published findings of a thematic review of liquidity risk management practices in July 2021. Supplementing the FMA good practice guide of April 2020, the FMA is now preparing industry guidance, based on IOSCO recommendations, for consultation later in 2023. The FMA published a sector risk assessment on the Managed Investment Schemes sector in January 2023, to provide guidance to the market and to inform of future FMA and supervisor monitoring. The FMA has also completed thematic projects/ guidance related to demonstrating value for money and maturing the industry approach to better articulating and substantiating ESG labels and claims.
b) ensuring quality of Financial Markets Supervisors; and		b) **In process.** The relicensing process for supervisors concluded in early 2023. The current license duration is five years, and this was the second such re-licensing round. The process focused on areas identified for the sector in 2018, and licence conditions were strengthened where required. Following re-licensing the FMA is reviewing its ongoing approach to oversight of supervisors. The FMA continues to have strong engagement with Supervisors including through regular operational meetings, sector forums, chief executive and senior management relationship meetings and attending Board meetings. In 2020 and 2021, the FMA required supervisors to undertake and identify risks in the MIS sector and report back to the FMA (which contributed to the Sector Risk Assessment published by the FMA in January 2023).
c) enhancing insurance intermediary and conduct regulation and supervision.		c) **In process.** The new financial advice regime, which came into effect on March 15, 2021, continues to be successfully embedded and operationalized. Full licensing of financial advice providers was completed in March 2023, and monitoring of the sector is now underway. In anticipation of the Conduct of Financial Institutions Bill and the Insurance Contracts Bill (that reforms and updates the Insurance Contract Law) passing into law, the FMA has established a program for implementation.

Recommendation	Time Frame	Update and Implementation
Expand the FMA's regulatory perimeter to include licensing and supervision of custodians and appropriate oversight of wholesale asset managers.	ST	**In process.** The FMA has received its outsourced thematic on custodial arrangements and is progressing work to consider whether there is a case for recommending the establishment of a regulatory regime for custodians. It is also refreshing guidance for custodians on their current obligations under the FMC regime. The FMA has conducted a thematic review of the use of wholesale investor exclusions under the FMC legislation, and has taken (and published) regulatory action, in the form of public warnings, where it has seen non-compliance in the use of these exclusions, and continues to investigate cases where further action may be required.
Adopt and implement proposed Financial Market Infrastructures (FMI) legislation on regulation, oversight, and enforcement powers.	I	**Completed**. The Financial Market Infrastructures Act (FMI Act) was enacted in May 2021. Financial Market Infrastructure Regulations 2023 were made on 22 May 2023 to support implementation of the FMI Act. The Standards for designated FMIs were issued on 27 July 2023.
Adopt the CPSS-IOSCO Principles for Financial Market Infrastructures (PFMI) through detailed requirements in secondary legislation; change the frequency of FMI self-assessments in the proposed regime from three to two years; and enhance compliance of the designated FMIs with PFMI requirements.	ST	**In process**. The FMI Act provides the ability for the PFMI to be implemented via legally binding standards, a form of secondary legislation. The RBNZ and the FMA issued the standards in July, 2023. The frequency of FMI self-assessments is intended to be changed from three to two years once these standards are in place.
Ensure that designated nonfinancial businesses and professions are subject to AML/CFT requirements, particularly company service providers, lawyers, and accountants.	MT	**Completed**. The *AML/CFT Amendment Act 2017,* which extends the coverage of the AML/CFT laws, has come fully into effect. The legislation now covers lawyers, conveyancers and businesses that provide trust and company services (from July 1, 2018); accountants (from October 1, 2018); and real estate agents (from January 1, 2019).
Expand data collection and modeling efforts to develop structural models for credit risk in commercial real estate (CRE) and corporate portfolios.	MT	**In process**. An annual stress testing program has been implemented since 2020. This includes regular solvency and liquidity stress tests, looking at severe but plausible scenarios for both banks and insurers. The program looks to consider a range of risks with a particular focus in 2022 and 2023 on climate change. This work has also included developing models to enable ongoing assessment of risks to dairy lending. Data collection has expanded as well, with a 'New credit flows' survey now in place to collect monthly new lending data on all business lending and the interest rates associated with that lending. Breakdowns for business lending include commercial property, which is further disaggregated into investment

Recommendation	Time Frame	Update and Implementation
		property; and residential and commercial property. Definitions align with the Bank Balance Sheet survey, in which we collect data on the stock of lending. Looking ahead, work is progressing towards collecting loan level data from banks. Once this data becomes available, this will enable much more in-depth analysis and modelling of risks across sectors, including commercial real estate and corporate portfolios.
	Macroprudential Framework	
Strengthen arrangements for macroprudential policy by increasing communication efforts; by increasing the transparency of the process to adjust the framework; and by maintaining an accountability framework that does not jeopardize the integrity and independence of the macroprudential decision-making process.	C	**In process.** In 2019, the RBNZ published a review of experience with its loan-to-value ratio policy and a framework document providing more clarity on the purpose and strategy for using macroprudential tools. The RBNZ is currently updating this framework and developing guidance notes on individual macroprudential tools. The publication of guidance notes has been delayed until after the implementation of the DTI framework and consultation on its calibration, as this might affect how we administer the loan-to-value policy. The Financial Policy Remit (see above) will enable the Minister to articulate government's policy priorities that are relevant to how the RBNZ goes about addressing systemic risk (that is, macro-prudential policy). The DTA will subject macro-prudential powers to the same general framework as other standard-setting powers, with the exception that the scope of lending-standard tools in relation to property lending (e.g. LVRs and DTIs) needs to be empowered through regulation. The current Macro-Prudential Policy MoU will be superseded in the new prudential framework for deposit takers by the role played by the Financial Policy Remit and the process around the setting of standards (including lending standards).
Introduce DTI measures in the macroprudential toolkit.	I	**Completed.** Following advice from the RBNZ in 2021 on measures to address unsustainable house prices, the Minister of Finance agreed to add DTI restrictions to the macroprudential toolkit. The DTI restrictions were formally added to the toolkit in April 2023.
Implement DTI measures if the changes to the LVR do not reduce the risks in the housing sector.	I	**In process.** The RBNZ consulted with stakeholders on the possible introduction of DTI limits in late 2022. The framework for DTI restrictions was published in April 2023. Banks have 12 months to update their systems for the new framework, ahead of a possible implementation of the DTI restrictions. In January 2024, RBNZ released a consultation document on the calibration of the DTI limits prior to its implementation.

Recommendation	Time Frame	Update and Implementation
		Whether an intervention is needed will depend on the assessment of financial stability risks at the time.
Increase capital buffer requirements to reflect the concentration of the financial sector in four banks.	I	**Completed.** The 2019 Capital Review, required banks to raise their minimum capitalization from 10.5 percent of risk-weighted assets to 18 percent for the four large banks and 16 percent for the remaining smaller banks in seven years, starting from by July 2020. In the context of the COVID-19 response, the start date was pushed out to July 2022. The first step up in capital requirements has taken effect with the part introduction of the D-SIB capital requirement.
		Crisis Readiness, Management, and Resolution
Strengthen domestic crisis management arrangements by reaching ex-ante agreement on roles, responsibilities, and processes; prepositioning, mobilization, logistics, and communications plans; and testing through simulation exercises.	MT	**In process.** Phase 2 Review of the RBNZ Act examined options to enhance the crisis management regime, most of which have been developed with reference to the 2017 FSAP recommendations. The DTA designates the RBNZ as the Resolution Authority, with a broader range of powers. A Depositor Compensation Scheme (DCS) will be introduced. The DTA also establishes an obligation on the Reserve Bank to issue a Statement of Approach to Resolution, which must include a description of the Reserve Bank's intended approach to co-operating with other departments and agencies, to engaging with the Minister. The DTA also clarifies the role of the Minister in the crisis management and deposit taker resolution frameworks. An amendment to the Public Finance Act 1989 is also included in the DTA, and will address a gap in the current arrangements, enabling the Government to act quickly and use public funds in a financial crisis.
Reconsider the merits of deposit insurance, or in the absence of policy support, introduce a limited depositor preference to provide legal certainty for the *de minimis* exemption in OBR.	MT	**Partially done.** The DTA will introduce a depositor compensation scheme with a NZ$100,000 limit per person per institution, funded by a levy on deposit takers, with a Government backstop. Expected to begin in mid-2025.
Revise the RBNZ Act to provide greater clarity and certainty in resolution, by inserting objectives in resolution including protection of depositors and the public interest and requiring accountability reporting against these objectives; by clarifying that the RBNZ is the sole resolution authority and inserting an express	MT	**In process.** The DTA states that the RBNZ is the resolution authority, and will include clear objectives and functions, while widening resolution powers. The Act will also include "no creditor worse off" provisions, and provides obligations to regularly report on the conduct of a resolution. Ministerial consent for triggering all resolutions has been retained to align with existing New Zealand statutory management regimes. However, the requirement for Ministerial consent before directions may be issued has been removed.

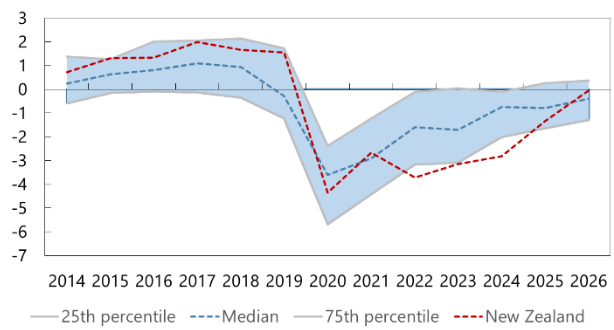
Recommendation	Time Frame	Update and Implementation
requirement for ministerial consent for resolutions with fiscal or systemic implications only.		
C = continuous; I (immediate) = within one year; ST (short-term) = 1–3 years; MT (medium-term) = 3–5 years.		
Sources: IMF (2017), *New Zealand, Financial Sector Assessment Program—Financial System Stability Assessment*; and New Zealand authorities.		

Annex VIII. New Zealand's Fiscal Management and Control in Recent Years

The New Zealand government has, in recent years, operated persistent budget deficits during and after the COVID-19 pandemic. While a significant fiscal response to the pandemic was common across multiple countries around the world, some have been more successful at returning to fiscal sustainability than others. This annex examines how the fiscal position in New Zealand compares internationally in the post-pandemic period, and what policy options there are to maintain fiscal sustainability in the years ahead.

1. **New Zealand has maintained a more accommodative fiscal stance compared to other advanced economies.** The country entered the pandemic with a stronger fiscal position than most of its peers. This allowed the fiscal authority to respond to the crisis in a more forceful manner which helped propel a robust and commendable growth recovery. New Zealand, however, has been less successful in undoing the pandemic relief, due to more restrictive and extended travel restrictions. Together with flood events and Cyclone Gabrielle that devastated parts of the North Island in early 2023, this has led to a delay in fiscal adjustment.

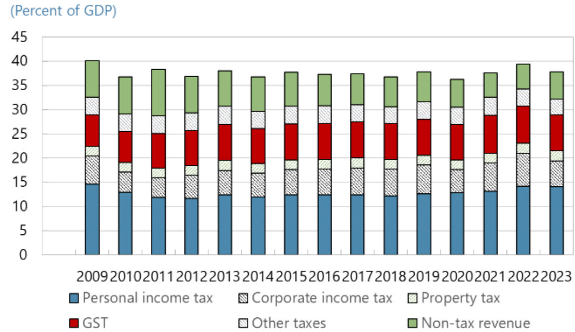
Cyclically Adjusted Primary Balance Across AEs
(Percent of GDP)



Sources: Fiscal Monitor and IMF staff projections.

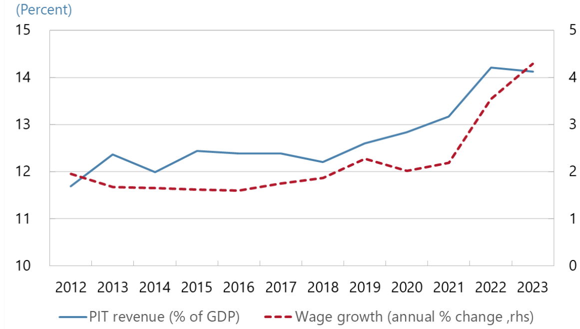
2. **Like in many other advanced economies, revenue as a share of GDP has remained broadly stable absent major policy changes.** Personal income tax (PIT) bracket creep (increase in the average tax rate as wage grows—see also the fiscal policies section of this Staff Report) helped offset somewhat a lower corporate income tax (CIT) during the pandemic, and inadvertently led to an increasing trend in the tax wedge on labor income since the PIT thresholds were last adjusted in 2010. Bracket creep has accelerated since 2022, owing to a robust nominal wage growth. The share of direct taxes in total tax revenue rose from 63 percent to 66¾ percent over the past decade.

Government Revenue Composition
(Percent of GDP)



Sources: Statistics New Zealand, and IMF staff calculations.

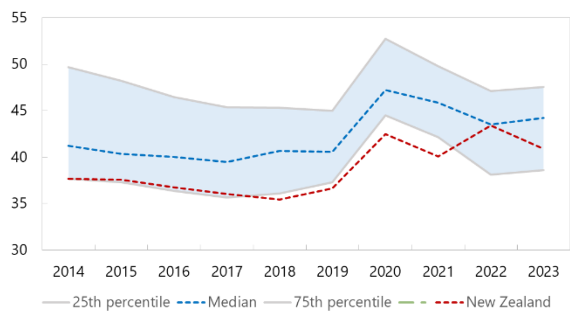
Bracket Creep Since 2012
(Percent)



Source: Statistics New Zealand.

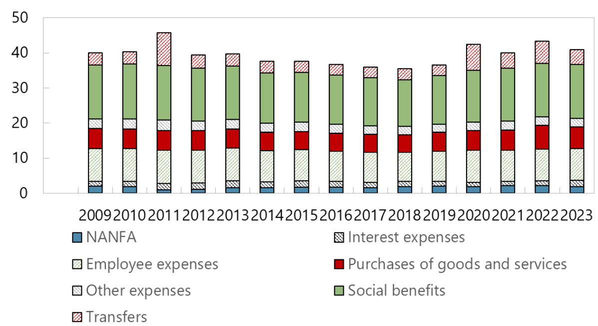
3. On the other hand, government expenditure increased more prominently during the pandemic and has not fully wound down. Before the pandemic, New Zealand's government expenditure was among the lowest in advanced economies. It increased sharply during the pandemic as a result of the government's large-scale income support to households and businesses. While the initial COVID-19 related spending started to wind down in 2021, a local outbreak of the Delta variant prompted a second major lockdown in 2021-22 and triggered contingent extension of the income support measures (focusing on wage subsidies and targeted support to severely affected firms), which delayed the fiscal consolidation. Just as the pandemic relief was rolling off, government expenditure had to be increased to support the rehabilitation and reconstruction efforts following the North Island weather events in early 2023 and to provide the cost-of-living support to households following a surge in inflation. Besides these unfortunate shocks, as the economy rebounded and the labor market tightened since 2022 wages grew rapidly and increased the public wage bill, including through indexation the benefit payments. As the pandemic and cost-of-living crisis disproportionally affected the most vulnerable, the authorities stepped up social benefits to tackle inequality. All these have contributed to keeping government expenditure well above pre-pandemic levels in New Zealand, lagging the adjustment efforts of peer economies.

General Government Expenditure Across AEs
(Percent of GDP)



Sources: October 2023 Fiscal Monitor, and IMF staff calculations.

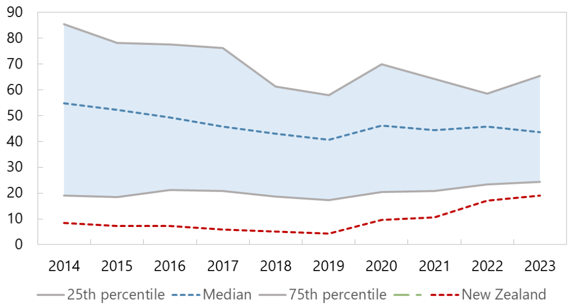
Government Expenditure Composition
(Percent of GDP)



Sources: Statistics New Zealand, and IMF staff calculations.

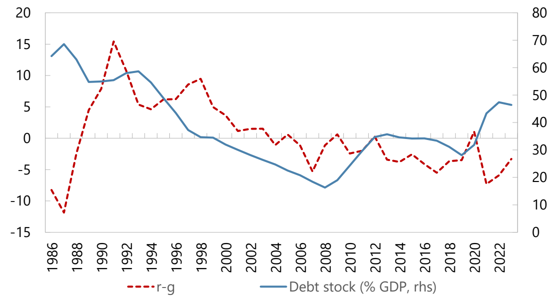
4. The delay in fiscal consolidation has also led to a sharper increase in New Zealand's government debt, which however remains lower than most advanced economies. New Zealand's historically strong fiscal discipline, together with the pre-pandemic low-for-long interest rate environment (which reduced the interest-growth differential to the negative territory), helped the government achieve an enviable reduction in its public debt. This trend has started reversing, and the government's finance costs are on the rise. With the interest-growth differential projected to turn positive and work against debt reduction, at least in the near-term, debt dynamics have become more adverse.

General Government Net Debt
(Percent of GDP)



Sources: October 2023 Fiscal Monitor, and IMF staff calculations.

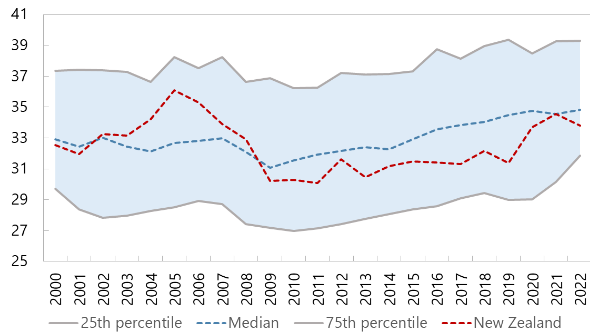
Interest - Growth Differential
(Percent)



Sources: New Zealand Treasury, Statistics New Zealand, and IMF staff calculations.

5. Fiscal management should prioritize safeguarding fiscal sustainability and addressing long-term fiscal challenges. The authorities' fiscal objectives aim at restricting operating allowances in line with bringing operating balance back into surplus, reducing Core Crown expenditure to 30 percent of GDP, and putting net Core Crown debt on a downward trajectory toward 20-40 percent of GDP.[1] Expenditure rationalization will be critical for fiscal consolidation and focus should be given to the areas of highest efficiency gains. Transfers and subsidies should be well structured and well targeted to avoid distortions and inefficient spending. Social benefits need to be carefully calibrated to tackle inequality and population aging. A thorough review of New Zealand's redistributive policies could inform deeper reforms, including on the progressivity of its tax system. Revisiting the role of taxes in economic activity and how they affect economic incentives should also be debated. The authorities should also seize the opportunity to mobilize more revenue (which seems plausible based on a cross-country comparison) in order to finance long-term fiscal challenges. New Zealand's traditionally strong fiscal prudence and its hard-gained fiscal space will continue to serve the country well.

Tax Revenue Across OECD Countries
(Percent of GDP)



Source: OECD.

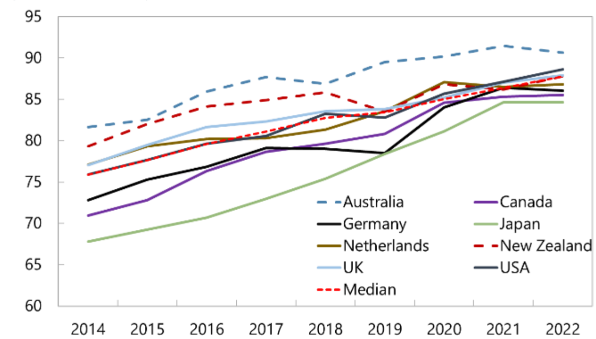
[1] This net debt concept differs from the GFS general government (GG) net debt concept used by IMF staff. The main difference is that net Core Crown debt excludes assets held by New Zealand Superannuation, which is a GG entity.

Annex IX. Digital Infrastructure and Connectivity in New Zealand

1. **New Zealand has sustained its position as a global leader in connectivity, encompassing both mobile and fixed broadband segments.** New Zealand is considered a global "leader" in mobile connectivity, as defined by GSMA, with one of the highest mobile and fixed broadband penetration rates and high-speed advanced mobile network coverage.[1] As of September 2023, New Zealand's mobile phone penetration rate (based on the MCI index, one of the of the telecom industry's most exhaustive benchmarks for mobile connectivity) exceeded 119 percent, a remarkable increase from 100 percent in 2007, making it one of the earliest advanced economies to reach this population milestone.[2] The number of mobile subscriptions in the country climbed to approximately 6.10 million by the end of September 2023, up from the 5.947 million reported by the Commerce Commission as of June 30, 2022.

Mobile Connectivity Index Across AEs

(Index, annual, MCI)

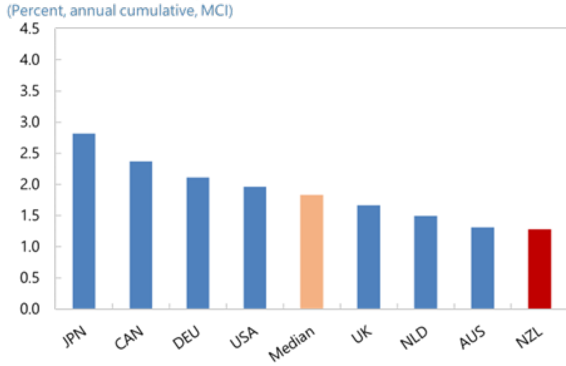


Source: GSMA.

2. **More recently, however, New Zealand's mobile connectivity progress has stalled**. The MCI has been on a flat trajectory since 2015, and New Zealand has ceded the leading position to fall to around the median within its comparative group as also seen in the 2014-22 compound annual growth rate (CAGR). New Zealand's accelerating decline in growth momentum is also seen in the sequential cumulative rate (SCR) underscoring signs of saturation.[3]

Mobile Connectivity Index Cumulative Annual Growth

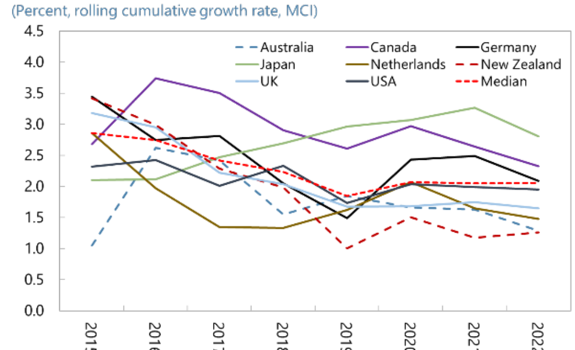
(Percent, annual cumulative, MCI)



Sources: GSMA and IMF Staff Calculations.

Mobile Connectivity Index Sequential Cumulative Growth

(Percent, rolling cumulative growth rate, MCI)



Sources: GSMA and IMF Staff Calculations.

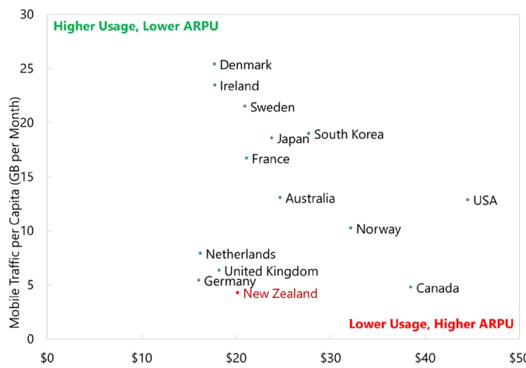
[1] See GSMA and TeleGeography

[2] Penetration rate = the total number of subscriptions divided by the number of households or population. Household penetration is used for fixed data. Population penetration is used for mobile data.

[3] $S_{a,b} = \sum_{i=a}^{b} C_i$, $R_i = \frac{S_{b+1,t}}{S_{b,t-q}}$,

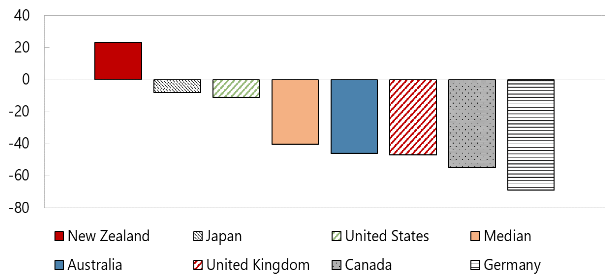
3. Digital infrastructure and affordability remain the two primary challenges holding back New Zealand's progress in mobile connectivity compared to its peers. A deeper examination into New Zealand's declining position reveals shortcomings in mobile download speed, mobile data affordability, and smartphone affordability. According to the Speedtest Global Index, New Zealand's mobile download speed stands at 67.77Mbps, significantly above the global average of 49.25Mbps, yet the country ranks 39th, lagging behing many of its peers. The cost of accessing mobile data and voice services accounts for only 0.53 percent of the monthly GNI per capita—below the United Nations' target of 2 percent and comparable to the median of its peers. However, New Zealand stands out in that the average price for a high-consumption mobile data and voice basket, as a percentage of monthly GNI per capita, has increased between 2018-22.[4] This trend underscores the affordability concerns highlighted in the MCI index. Prices for high-usage bundles in New Zealand surged by 23.2 percent, whereas in Australia they fell by 46 percent, with a group-wide decrease of 12 percent for the same period. Recent data highlight New Zealand as an outlier with the lowest mobile data usage and a high Average Revenue Per User (ARPU), which serves as another benchmark for affordability, especially when contrasting data usage with operator revenue, showing New Zealand's challenge with high mobile data costs.

Mobile Data Traffic vs Mobile ARPU
(GB per month, annual revenue per user, 2022)



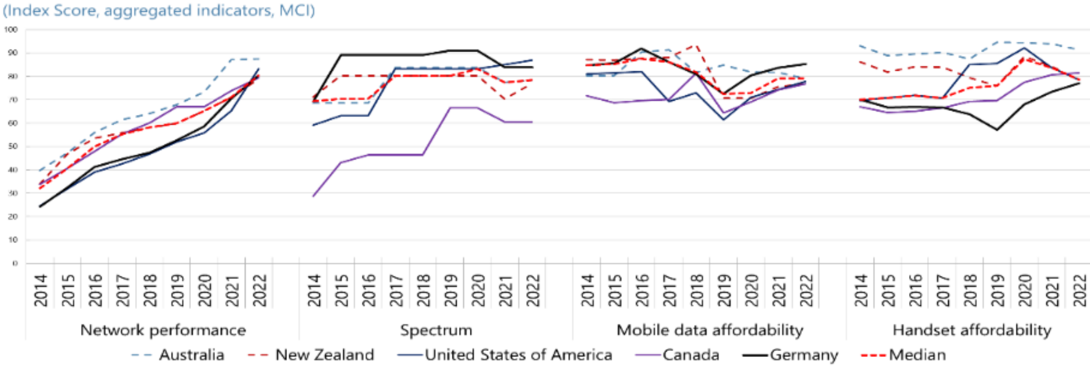
Source: TeleGeography

Mobile Data and Voice Prices Between 2018-2022
(Percent, mobile high-consumption basket price as GNI per capita)



Source: ITU ICT Price Baskets.

Affordability and Infrastructure Dimensions in the Mobile Connectivity Index
(Index Score, aggregated indicators, MCI)

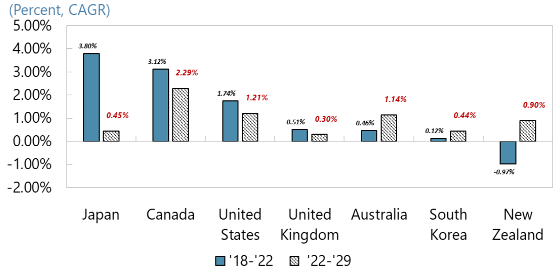


Source: GSMA.

[4] Based on data from the ITU ICT Price Baskets.

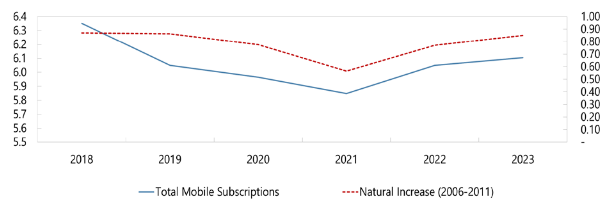
4. Unlike many advanced economies, New Zealand stands out with a downward trend in its total mobile subscriptions. New Zealand had an approximate 1 percent annual decline in mobile subscription growth from 2018-22, a trend which may yet partly improve by 2029 according to TeleGeography. The country was particularly hard-hit in terms of growth rates, as stringent lockdown measures led to historically low migration levels. This was compounded by a tapering in the natural population increase, notably among individuals born between 2006 and 2011, who were aged 10 to 15 years old in 2021. The combination of minimal migration during the pandemic and the patterns in natural population growth partially accounts for the dip in mobile subscription growth. This underscores the importance of enhancing mobile internet service accessibility through more affordable internet plans and smartphones.

Mobile Subscriptions Subscriptions Growth
(Percent, CAGR)



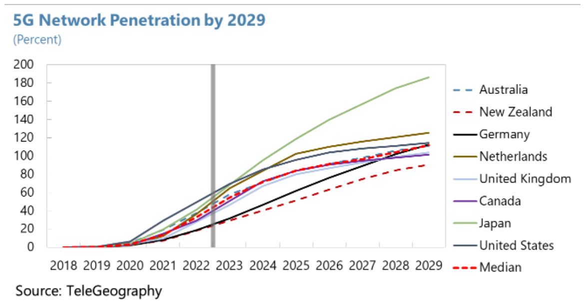
Sources: TeleGeography and IMF staff calculations.

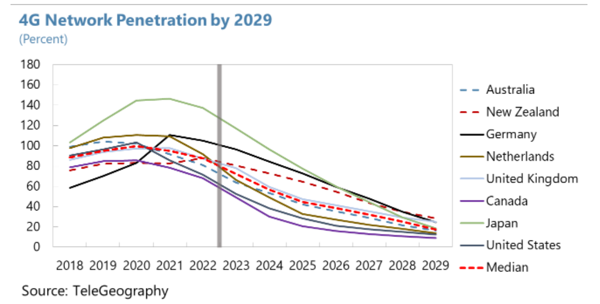
Total Mobile Subscriptions vs Natural Population Increase (2006-2011)
(Number in million, percent)



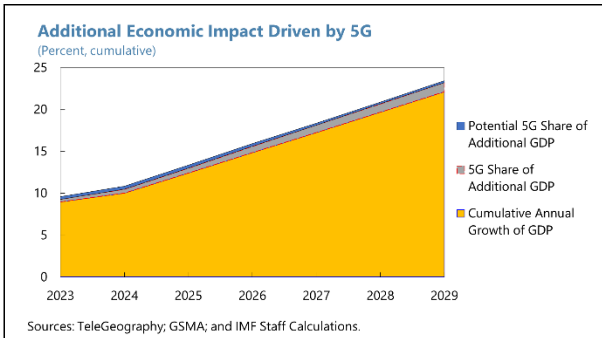
Sources: TeleGeography and IMF staff calculations

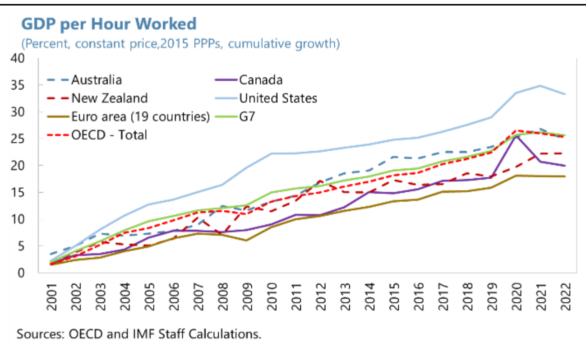
5. The outlook for New Zealand's adoption of 5G, the latest and fastest mobile network generation, appears uncertain, potentially slower than in other economies. A standard method to evaluate progress in the evolution of national mobile networks is measured by two metrics: the sunset of an older mobile network generation and the sunrise of a newer one. New Zealand's sunset from 4G (the preceding network generation) is projected to be the slowest among its peers, with a penetration decline to 28 percent by 2029. This rate significantly trails behind Australia's expected 16 percent and the median of 17 percent for similar economies. Consequently, New Zealand is anticipated to be the last among advanced economies to reach meaningful levels of 5G penetration, achieving only 90 percent by 2029, which falls short of the optimal initial target and is far from the median expectation of 112 percent among other advanced economies. This scenario marks a departure from the early 2000s when New Zealand was at the forefront, quickly adopting and exceeding 100 percent penetration of the fastest network generations available at the time. Furthermore, with the upcoming technological products requiring faster internet speeds, the 5G generation, which offers speeds 10 to 100 times faster than 4G, becomes essential for enabling a wide range of technological advancements.





6. As an advanced economy, New Zealand has substantial potential gains to be had from the rollout and uptake of 5G technology. The new economic growth channels are increasingly centered on digitalization, from artificial intelligence to autonomous vehicles. Proponents suggests that 5G can help unlock these opportunities, potentially addressing the issue of sluggish productivity growth. According to econometric assessments by GSMA,[5] a 10 percent increase in mobile penetration could correspond to a 1 percent uplift in GDP. This enhancement in the baseline of 5G penetration could contribute an additional NZ$25 billion to New Zealand's GDP level by 2029. Moreover, should New Zealand's 5G penetration align with the median country rate, it could result in a further NZ$11 billion increase to the baseline GDP. The deployment of 5G networks, offering up to tenfold reductions in latency, is crucial for supporting emerging technologies such as AR/VR and the operation of interactive, large-scale language models, which could significantly elevate labor productivity, especially in ICT-related sectors.





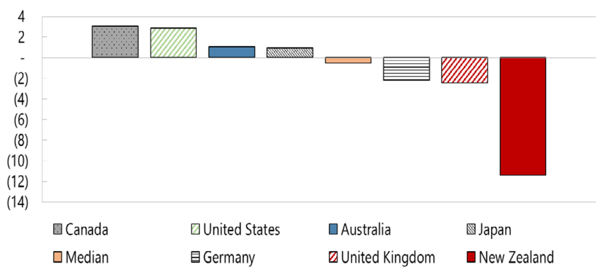
7. The recent investments in and introduction of infrastructure sharing in mobile towers represent a significant step forward in increasing access and affordability of mobile connectivity. In July 2022, New Zealand's mobile network operators, Spark and Vodafone NZ, sold significant shares of their passive mobile tower assets to external investors, marking a transformative period for the country's tower industry. This consolidation aims to support the expansion of digital infrastructure services, including a commitment to new site developments and co-location, enhancing New Zealand's mobile connectivity, especially in rural areas. These transactions have underscored the burgeoning tower industry's role in extending coverage and preparing for future technology like 5G. Shared infrastructure can enhance connectivity affordability via various channels such as cost savings, balance sheet optimization, and competition. By minimizing redundancy,

[5] See "Mobile technology: two decades driving economic growth", working paper by GSMA, November 2020

infrastructure sharing distributes the costs of network expansion among various market participants and can yield considerable capital expenditure savings for mobile network operators and digital infrastructure providers (e.g., tower companies). New Zealand is one of the last advanced economies to introduce tower companies in the mobile sector, unlike the fixed broadband sector, which has been incentivized by the government initiative "The Rural Broadband Initiative (RBI)." A public-private partnership aimed at providing high-speed broadband access to rural communities through governmental funding and public-private partnerships with telecommunications operators. In addition to higher market competition in the fixed broadband, the infrastructure sharing role may account for the enhanced affordability in the sector relative to mobile connectivity.

Fixed-Broadband Data and Voice Prices Between 2018-2022

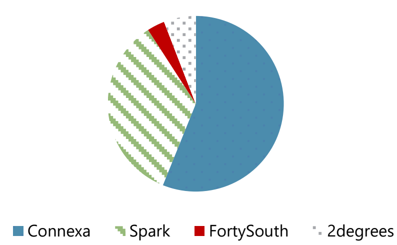
(Percent, fixed-broadband basket price as GNI per capita)



Source: ITU ICT Price Baskets.

Mobile Towers Ownership

(Share of mobile towers)



Source: TowerXchange.

Annex X. International Best Practices for Monetary and Fiscal Policy Coordination and the Case of New Zealand[1]

The coordination between fiscal and monetary authorities remains critical to ensure an appropriate evaluation of the combined macroeconomic stance and associated risks. This short note summarizes IMF staff findings from other country cases and casts New Zealand's experience on monetary and fiscal policy coordination, and discusses some lessons learned.

1. Monetary and fiscal coordination is critical; even more so for countries where central bank measures taken in response to crises could carry fiscal implications. These measures include non-conventional liquidity support to financial and non-financial firms (lending and asset purchases), as well as large-scale purchases of government securities under quantitative easing (QE) programs. While interventions played an important role in in stabilizing financial conditions and mitigating the impact of the crisis on the economy, they could also create additional risks for fiscal policy more broadly. Large scale purchases resulted in central banks taking on additional and new financial risks, which could adversely affect profitability and future transfers to the Treasury – or lead to substantial reallocation of public resources through altering the public expenditure and debt structure. In the wake of the pandemic in 2020, the Reserve Bank of New Zealand (RBNZ) embarked for the first time on a large-scale asset purchase (LSAP) program and a *funding for lending* program (FLP), two important components of the *additional monetary policy* (AMP) toolkit.

2. The 'core' central bank balance sheet does not necessarily have fiscal components.[2] There are no implicit taxes and subsidies,[3] as a central bank would charge fees for payment system and treasury services and applies market-level interest rates for its standard monetary operations,[4] allowing it to run an operational surplus and return dividends to the Treasury. However, incorporating quasi-fiscal activities, in response to systemic crises, can create financial risks from both the asset side and the liability side (Figure 1). Beyond typical business risks in central banking, crisis responses can potentially bear higher risks given exposure to private credit claims; the issuance of short-term interest-paying debt; rising policy rates; and implicit subsidies arising from preferential treatment to counterparties that would not otherwise be eligible for access to central bank reserves.[5]

[1] Prepared by Ashraf Khan and Claney Lattie (Monetary and Capital Markets department).

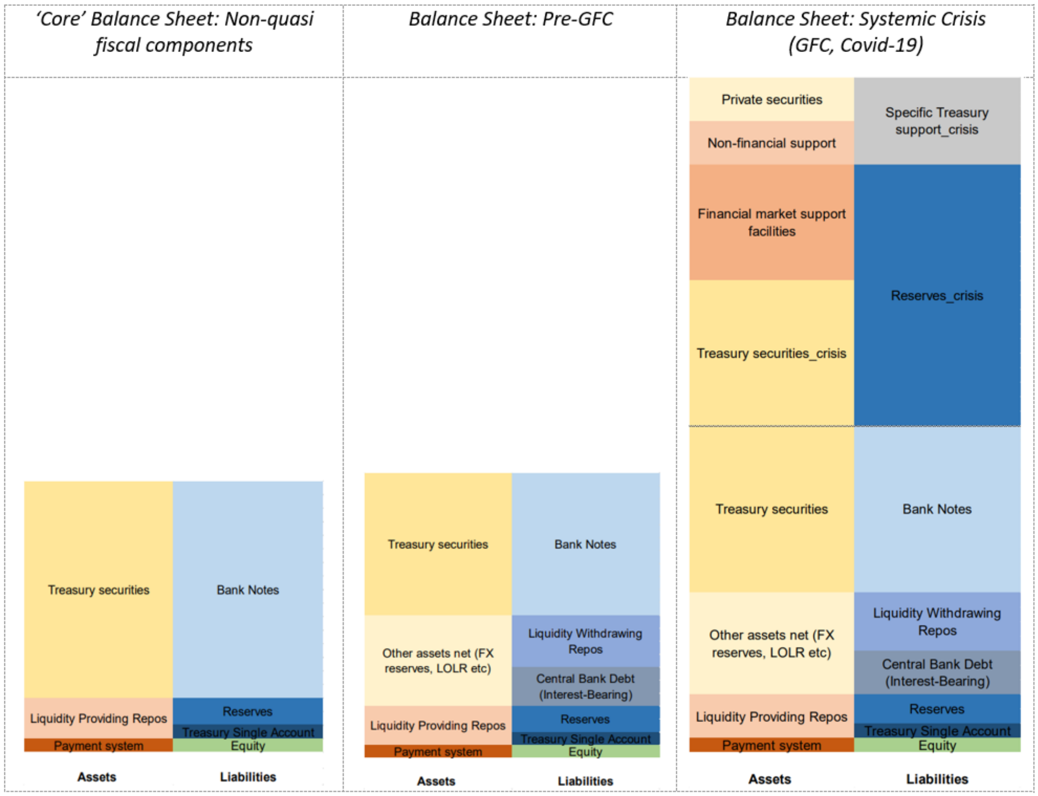
[2] Central bank activity can be considered to have a quasi-fiscal component when it impacts materially the fiscal accounts, and/or affects other aspects of fiscal policy (tax, spending, financing), either directly or in the future, leading to lower dividends for the government, or the need for the Treasury to recapitalize the central bank.

[3] Arguably, there could be a monetary policy tax if, for instance, reserve requirements are not remunerated; any profit the central bank makes accordingly could be seen as part of that monetary policy tax.

[4] Although there may be potential quasi-fiscal implications of conventional monetary operations, these effects typically have a marginal impact on the dividend received by government and distributional effects, in non-crisis times and above the zero-lower bound.

[5] For a taxonomy of risks arising from central bank interventions during crises, see Hooley et al, 2023; pg. 18.

Figure 1. Transitions in Central Banks' Balance Sheet in Response to Global Financial Crises



Source : Hooley, et al. IMF WP 23/114.

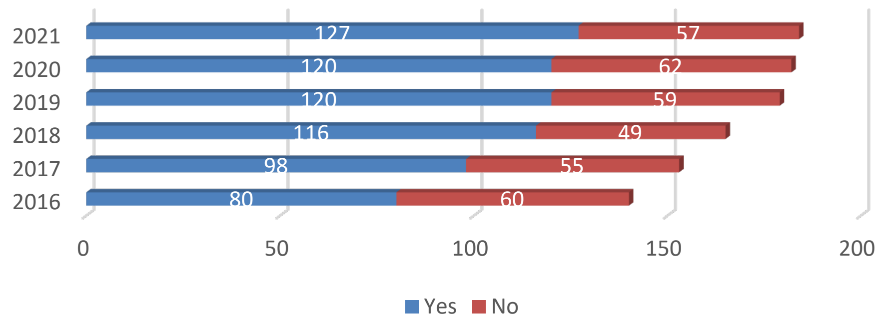
3. Understandably, central bank crisis interventions therefore require a fiscal backstop either directly or through a credible recapitalization mechanism. For countries that conduct policy interventions on the central bank balance sheet, there are strong arguments for the fiscal authority to directly bear any associated financial risks. A 'fiscal backstop' for specific interventions has been provided in various ways in recent crises, including through government deposits, guarantees, an SPV, or loss provisioning mechanisms. In New Zealand, the government has periodically provided additional capital to the Reserve Bank, including to support a higher level of foreign currency reserves, as well as an indemnity to cover losses on LSAP bond holdings. This is consistent with the need for a strong and established (financial) arrangement between central banks and fiscal authorities that can help to ensure central banks have sufficient financial strength to carry out their operations effectively.

4. This, on its turn, requires strong central bank and fiscal governance. The central bank's legal mandate should authorize crisis interventions, thereby promoting central bank accountability. Enhancing central bank governance for specific interventions can help to manage the costs and risks of crisis interventions more effectively. Clear and timely disclosure by central banks of crisis support facilities and ex-post impact assessments promotes transparency and accountability. Proper accounting treatment of risks according to internationally recognized standards can promote good risk management and credibility. Good disclosure practices by the fiscal authority would cover the potential fiscal impact and risks of all crisis interventions carried out by the central bank, as well as any implicit subsidies. The New Zealand Treasury and the Reserve Bank maintain clear and frequent disclosures of their arrangements, provisions of indemnity, and review of available resources that safeguard the central bank's governance and promote operational integrity.

5. A balance needs to be found between oversight and central bank independence. The additional risks to the public sector balance sheet and implications for resource allocation from central bank crisis interventions provide a case for strong external oversight mechanisms, monitoring and data-sharing arrangements. However, any greater external oversight of central bank crisis operations must be balanced against the need to retain central bank operational autonomy – which is the cornerstone of effective monetary policy. Additionally, there are strong arguments for the fiscal authority to have a say in the design and implementation of central bank operations that have quasi-fiscal components for which the fiscal authority has explicitly provided some form of backstop. Though again, this should not negatively affect central bank autonomy.

6. Clear coordination between the central bank and the fiscal authority is necessary, either through existing or new structures. As well as from coordination on specific interventions, countries may benefit from adopting a comprehensive sovereign asset liability management framework to better manage the fiscal risks from crisis interventions. Coordination on debt management may also be beneficial, particularly in the case of large central bank purchases of government securities. Different institutional arrangements can help to improve and formalize coordination, be it through the creation of new structures or from leveraging existing bodies – the latter holds especially for central banks that are also a macroprudential authority. As Figure 2 shows, the number of central banks with an explicit financial stability mandate (including a macroprudential oversight function) is steadily increasing. A macroprudential mandate also brings with it more institutionalized forms of coordination with government, including through a formalized financial stability committee (FSC). Other means of coordination, such as through informal, regular meetings between the central bank governor and the Minister of Finance, the exchange of informal or formal letters or opinions, the participation in joint working groups, or even technical committees providing advice to the central bank's Monetary Policy Committee, and so on, are common ground for many central banks. However, it is essential that these means are aptly and adequately designed to fit their specific purpose: depending on the legal framework, some means of coordination could be intended to facilitate co-decision-making, while others are simply longstanding practice – but not necessarily the most effective way of coordinating.

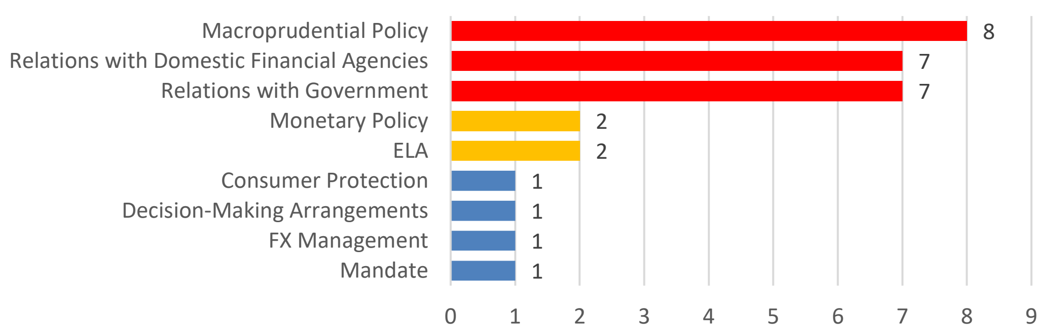
Figure 2. Central Banks as Macroprudential Authority



Source: IMF iMaPP.

7. Ultimately, regardless of the choice of monetary and fiscal coordination mechanisms, these should be properly institutionalized and sufficiently transparent. The central bank in particular, given its degree of autonomy within government, should ensure it is transparent over the various forms of formal or informal coordination. The IMF's Central Bank Transparency Code (CBT) includes detailed best practice levels, allowing central banks to tailor their transparency on, i.a., crisis interventions to the specific need of its stakeholders, be it the fiscal authority, financial institutions, or the public at large. As Figure 3 highlights, CBT review reports highlight critical findings relating to transparency over central bank-government coordination in particular in the areas of macroprudential policy, relations with domestic financial agencies, and relations with government in general. Given the host of central bank interventions conducted over the past years, the relative opacity with which these have taken place (or are wound down), with often potential significant fiscal risk, central banks should actively pursue best practices in transparency.

Figure 3. IMF CBT Findings Relating to Central Bank—Government Coordination



Source: IMF CBT Database (based on the reviews of Canada, Chile, Morocco, North Macedonia, Seychelles, Uganda, and Uruguay).

8. New Zealand maintains strong coordination and appropriate operational mechanisms between the fiscal and monetary authorities. The New Zealand Treasury through close communication with the Reserve Bank (for instance via memoranda of understanding) maintains good coordination and management of the broad macroeconomic stance of the economy and is able to advise the government on appropriate policies. The Reserve Bank through the transparency of its regular monetary policy operations and use its unconventional instruments, and periodic reviews of its frameworks (such as the Review and Assessment of the Formulation and Implementation of Monetary Policy, and the periodic review of the Remit and Charter) provides timely disclosures of its use of resources with good transparency. In addition, the authorities have discussed and explained the coordination practices between Treasury and the Reserve Bank with the IMF in the course of regular bilateral surveillance and have sought staff's advice in an effort to ensure compliance with best international practices. In response, the IMF has evaluated aspects of the monetary and fiscal policies (such as estimating the fiscal costs of the LSAP; see Annex X of the 2023 New Zealand Article IV Staff Report). The IMF's CBT Code for New Zealand could also help evaluate the effectiveness of coordination mechanisms further.

Annex XI. Data Issues

Table 1. New Zealand: Assessment of Data Adequacy for Surveillance

Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	B	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	A		
Granularity 3/	A		A	A	A		
			A		A		
Consistency			A	B		A	
Frequency and Timeliness	A	B	B	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision is adequate for surveillance. The authorities are continuing to enhance data quality and expand the range of data available and are making progress towards subscribing to the IMF's Special Data Dissemination Standard (SDDS). While GFS format fiscal data are only provided on a yearly basis, New Zealand Treasury's published GAAP format fiscal data at higher frequencies enable adequate assessment of fiscal policy.

Changes since the last Article IV consultation. New Zealand has started a monthly Selected Price Index which includes prices on 44 percent of the full CPI basket. The net errors and omissions (NEO) in Stats NZ's Balance of Payments statistics were large and positive for four consecutive quarters as of September 2023. Stats NZ has been working towards identifying the possible causes of NEO and resolving data issues.

Corrective actions and capacity development priorities. Not applicable.

Use of data and/or estimates different from official statistics in the Article IV consultation. Not applicable.

Other data gaps. The authorities still do not produce a monthly CPI index which hampers the formulation of monetary policy.

Table 2. New Zealand: Data Standards Initiatives
New Zealand does not participate in the IMF Data Standards Initiatives.

Table 3. New Zealand: Table of Common Indicators Required for Surveillance

(As of April 2024)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	New Zealand[8]	Expected Timeliness[6,7]	New Zealand[8]
Exchange Rates	Apr-24	Apr-24	D	D	D	...	D	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Feb-24	Mar-24	M	M	M	...	1W	...
Reserve/Base Money	Feb-24	Mar-24	M	M	M	...	2W	...
Broad Money	Feb-24	Mar-24	M	M	M	...	1M	...
Central Bank Balance Sheet	Feb-24	Mar-24	M	M	M	...	2W	...
Consolidated Balance Sheet of the Banking System	Feb-24	Mar-24	M	M	M	...	1M	...
Interest Rates[2]	Apr-24	Apr-24	D	D	D	...	NA	...
Consumer Price Index	Q4-2023	Jan-24	Q	Q	M	...	1M	...
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Feb-24	Apr-24	M	M	A	...	2Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Feb-24	Apr-24	M	M	M	...	1M	...
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Feb-24	Apr-24	M	M	Q	...	1Q	...
External Current Account Balance	Dec-23	Mar-24	Q	Q	Q	...	1Q	...
Exports and Imports of Goods and Services	Feb-24	Mar-24	M	M	M	...	8W	...
GDP/GNP	Dec-23	Mar-24	Q	Q	Q	...	1Q	...
Gross External Debt	Dec-23	Mar-24	Q	Q	Q	...	1Q	...
International Investment Position	Dec-23	Mar-24	Q	Q	Q	...	1Q	...

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("I") irregular; and ("NA") not available.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

NEW ZEALAND

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

April 22, 2024

Prepared By

Asia and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of March 31, 2024)

Membership Status: Joined: August 31, 1961; Article VIII

General Resources Account:	SDR Million	Percent Quota
Quota	1,252.10	100.00
Fund Holdings of Currency	909.59	72.65
Reserve position in Fund	342.88	27.38
Lending to the Fund		
New Arrangements to Borrow	2.94	

SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	2,053.84	100.00
Holdings	2,168.04	105.56

Outstanding Purchases and Loans: None

Financial Arrangements: None

Projected Payments to Fund (SDR Million; based on existing use of resources and present holdings of SDRs) [1/]

	Forthcoming				
	2024	2025	2026	2027	2028
Principal					
Charges/Interest	0.03	0.03	0.03	0.03	0.03
Total	**0.03**	**0.03**	**0.03**	**0.03**	**0.03**

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangement:

The New Zealand dollar has floated independently since March 1985. The de facto exchange rate arrangement is floating, and the de jure exchange rate arrangement is free floating. New Zealand accepted the obligations under Article VIII, Sections 2a, 3, and 4 of the IMF's Articles of Agreement on August 5, 1982 and maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, other than restrictions notified to the Fund in accordance with Decision No. 144-(52/51).

Article IV Consultation:

New Zealand is on the 12-month consultation cycle. The 2023 Article IV consultation was concluded by the Executive Board on August 23, 2023.

FSAP Participation and ROSCs:

New Zealand has participated in two FSAPs to date.

- The FSSA from the 2003 FSAP mission and the Detailed Assessments of Observance of IOSCO Objectives and Principles of Securities Regulation and FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism were published under Country Reports No. 04/126, No. 04/417, and No. 05/284, respectively.

- New Zealand participated again in 2016, with one FSAP mission in August 2016 and another FSAP mission in November 2017. The FSSA was discussed by the Executive Board at the time of the discussion of the Staff Report for the 2017 Article IV Consultation with New Zealand.

Technical Assistance:

- A monetary and financial statistics (MFS) technical assistance (TA) mission visited New Zealand during October 1-12, 2018. The *TA report* was published on June 14, 2019.