



# New Zealand

Economic and Financial  
Overview

February 1999

# Table of Contents

|    |  |  |
|----|--|--|
| 3  | <b>Summary</b>   |  |
| 5  | <b>Selected Statistical And Financial Data</b>             |  |
| 6  | <b>Map</b>   |  |
| 9  | <b>New Zealand</b>   |  |
| 9  | Area and Population  |  |
| 9  | Form of Government   |  |
| 10 | Social Framework   |  |
| 10 | The Treaty of Waitangi                                     |  |
| 11 | Foreign Relations  |  |
| 11 | Membership in International Economic Organisations         |  |
| 13 | <b>The Economy Of New Zealand</b>                          |  |
| 13 | Introduction   |  |
| 13 | Background   |  |
| 14 | The 1990s  |  |
| 15 | Recent Developments and Outlook                            |  |
| 17 | Fiscal Policy  |  |
| 19 | Monetary Policy  |  |
| 19 | Public Sector Restructuring                                |  |
| 20 | Microeconomic Reforms                                      |  |
| 20 | Public Debt  |  |
| 21 | National Accounts  |  |
| 23 | Prices and Costs   |  |
| 25 | Labour Markets   |  |
| 27 | <b>Industrial Structure and Principal Economic Sectors</b> |  |
| 39 | <b>External Sector</b>                                     |  |
| 39 | External Trade   |  |
| 46 | Foreign Investment Policy                                  |  |
| 47 | Balance of Payments  |  |
| 48 | Foreign-Exchange Rates and Overseas Reserves               |  |
| 51 | <b>Supervision Of The Financial Sector</b>                 |  |
| 51 | The Reserve Bank of New Zealand                            |  |
| 51 | Financial Sector Structural Developments                   |  |
| 52 | Business Law Environment                                   |  |
| 53 | <b>Monetary Policy</b>                                     |  |
| 54 | Interest Rates and Money and Credit Aggregates             |  |
| 57 | <b>Public Finance and Fiscal Policy</b>                    |  |
| 57 | Public Sector Financial System                             |  |
| 57 | Public Sector Financial Management                         |  |
| 60 | Current Fiscal Position                                    |  |
| 61 | Statement of Financial Position                            |  |
| 62 | Taxation   |  |
| 65 | <b>Government Enterprises</b>                              |  |
| 65 | Reform of Government Enterprises                           |  |
| 66 | Sale of Government Enterprises                             |  |
| 68 | Performance of Government Enterprises                      |  |
| 71 | <b>Public Debt</b>   |  |
| 71 | Debt Management Objectives                                 |  |
| 71 | Debt Record  |  |
| 72 | Summary of Public Debt                                     |  |
| 73 | Interest and Principal Requirements                        |  |
| 75 | <b>Tables And Supplementary Information</b>                |  |

## FURTHER INFORMATION

Unless otherwise specified, all monetary units in this Overview are New Zealand dollars. The mid-point exchange rate on February 26, 1999 was NZ\$ = US\$0.5255. See "Foreign Exchange Rates and Overseas Reserves" for a discussion of the valuation of the New Zealand dollar in recent years.

The fiscal year of the Government of New Zealand ends on 30 June.

Spelling and punctuation conform to usage in New Zealand and have not been adjusted to conform to usage in the United States or any particular external market.

Where figures in tables have been rounded, totals listed may not equal the sum of the figures.

In tables, NA = Not Available

**This Overview is based on data available as at February 1999.**

New Zealand is a parliamentary democracy situated in the South Pacific. It has a population of 3.8 million in a country similar in size to Japan. New Zealand has a market economy with sizeable manufacturing and services sectors complementing a highly efficient, export-oriented agricultural sector. Energy-based industries, forestry, mining, horticulture and tourism have expanded rapidly over the last decade. These, together with growth in manufacturing, have contributed to a movement away from pastoral agriculture as the dominant economic sector.

In the late-1992 to late-1996 period the New Zealand economy enjoyed continuous growth. Growth was particularly strong in the 1994 to 1995 period, outpacing that of most other OECD countries. This success followed a period of far-reaching structural reforms commencing in the mid-1980s aimed at improving the microeconomic efficiency of the economy while simultaneously bringing greater stability to the macroeconomy.

However, as a small trading nation, New Zealand's economy is inevitably linked to the fortunes of the world economy. The slowdown in key Asian trading partners during the latter part of 1997 and through 1998 took its toll on economic activity. In addition, a drought affected large parts of the country over the 1997/98 summer. These shocks occurred when the economy was already in a slowing phase. The end result saw the New Zealand economy contract over the first half of 1998.

The reforms of the past fifteen years, however, mean that the New Zealand economy is much better placed than previously to withstand global demand shocks such as the Asian crisis. A flexible labour market, fewer barriers to trade, low inflation and freely functioning financial markets can all be expected to ease the adjustment process.

One of the clearest signs that the economy is adjusting to international conditions has been the significant fall in the New Zealand dollar over the 18 months to December 1998. The monetary policy framework and flexibility in labour markets should work to ensure that the competitiveness gains from the exchange rate are not eroded over time. Interest rates have also been on a sustained downward trend since August 1998.

## Summary

Recent indicators point to a pick up in growth starting in the September 1998 quarter. This coupled with the significant easing in monetary conditions seen since early 1997 sets the stage for a recovery in economic activity in New Zealand. In addition, tax cuts implemented in mid-1998 and growth in government spending should lend support to domestic demand over coming quarters. Latest Treasury forecasts are for a steady expansion in activity over the next three years.

In the 1991 to 1994 period, the current account deficit remained low by historical standards, remaining in the range of around 1% to 2.5% of GDP. Since then, the current account position has deteriorated, with the current account deficit standing at 6.6% in the year to September 1998. The current account position is expected to show a modest improvement over the next three years with the deficit falling to around 5% of GDP by 2002.

An extensive agenda of macro and microeconomic reforms has allowed the price system to emerge as the dominant signal for investment, production and consumption decisions. The major changes implemented include removal of controls on prices, interest rates and wages; a free float of the New Zealand dollar; extensive taxation reform aimed at reducing marginal rates and broadening the tax base; removal of agricultural subsidies and price supports; removal of quantitative import controls and sharp reductions in tariffs; deregulation of the oil, banking and transport industries; deregulation of the labour market; privatisation of State-Owned Enterprises; and wide-ranging public sector financial management reforms.

## Summary / continued

New Zealand has significantly altered the basis of its financial reporting. The Fiscal Responsibility Act, passed in 1994, requires all of the Crown's financial reporting to be in accordance with New Zealand Generally Accepted Accounting Practice (GAAP). Consequently, the primary fiscal indicators are now the operating balance, net debt and net worth.

The Fiscal Responsibility Act requires the Government to pursue its policy objectives in accordance with the principles of responsible fiscal management set out in the Act. These include reducing debt to prudent levels to provide a buffer against future adverse events; maintaining, on average, operating balance once prudent debt levels are reached; achieving and maintaining levels of net worth to provide a buffer against adverse events; managing the risks facing the Crown; and pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of future tax rates. In 1997/98, a surplus on the operating balance of \$2,534 million was achieved. This compares with a surplus of \$1,908 million recorded for 1996/97 and a surplus of \$3,314 million for 1995/96. A deficit of \$52 million is forecast for 1998/99. This decline in the fiscal position largely reflects the deterioration in the world outlook during 1998.

The Government's commitment to an ongoing prudent and conservative fiscal policy is reflected in the long-term objectives identified in its 1998 Fiscal Strategy Report. The objectives are to:

- reduce expenses to below 30% of GDP.
- reduce net public debt to below 15% of GDP.
- run surpluses on average over the cycle once net public debt is reduced to below 15% of GDP.
- maintain net worth at significantly positive levels.

As a result of pressures on the main fiscal indicators, arising largely out of the deterioration in the world economy, the Government has taken a number of initiatives designed to contain expenditure growth and return to a fiscal track consistent with progress towards the long-term objectives.

The Reserve Bank of New Zealand Act 1989 stipulates that the Reserve Bank is to formulate and implement monetary policy directed to the economic objective of achieving and maintaining stability in the general level of prices. The Act requires that there be a Policy Targets Agreement between the Treasurer and the Governor of the Reserve Bank. Initially, the Policy Targets Agreement required the Bank to maintain inflation in the range of 0% to 2% over any 12-month period. The range was increased to 0% to 3% in December 1996.

Prior to December 1997, the price stability target was defined as the Consumers Price Index (CPI). In December 1997, the price stability target was redefined as the All Groups Consumer Price Index excluding Credit Services (CPIX) as published by Statistics New Zealand. This measure replaces the broadly similar measure of underlying inflation previously calculated by the Reserve Bank. CPIX is consistent with international practice, which generally excludes changes in interest rates from inflation calculations. Firm monetary policy led to a steady decline in the rate of CPI inflation from a peak of 18.9% for the year ended 30 June 1987 to less than 2% over the period between December 1991 and September 1994. CPI inflation increased to 4.6% in the year to June 1995 but has since fallen steadily to reach 0.4% in the year to December 1998. The CPIX rate was 1.1% for the same period.

At 30 June 1998, New Zealand's gross direct public debt was \$38.7 billion, or 39.2% of estimated GDP. At the same date, external public debt was \$7.0 billion, and interest charges on external public debt were \$395 million, or an estimated 1.4% of export revenues for 1997/98. The Government achieved its objective of zero net foreign-currency debt during 1996.

( SELECTED STATISTICAL  
AND FINANCIAL DATA )

**Statistical Data**

|   | 1994                         | 1995     | 1996     | 1997     | 1998     |
|---|------------------------------|----------|----------|----------|----------|
|   | (dollar amounts in millions) |          |          |          |          |
| Gross Domestic Product at Current Prices(1)(2)    | \$80,824                     | \$86,556 | \$91,461 | \$95,132 | \$98,126 |
| Annual % Increase (Decrease) in Real GDP(1)(2)(3) | 6.3%                         | 5.4%     | 3.6%     | 2.7%     | 2.3%     |
| Population (thousands)(1)                         | 3,603.7                      | 3,616.5  | 3,672.6  | 3,728.8  | 3,771.2  |
| Unemployment Rate(4)                              | 8.3%                         | 6.3%     | 5.9%     | 6.7%     | 7.7%     |
| Change in Consumer Price Index(5)                 | 1.1%                         | 4.6%     | 2.0%     | 1.1%     | 1.7%     |
| Exchange Rate(6)                                  | 0.5947                       | 0.6695   | 0.6846   | 0.6788   | 0.5070   |
| 90 Day Bank Bill Rate(7)                          | 6.1%                         | 9.0%     | 10.0%    | 7.0%     | 9.2%     |
| 5 Year Government Loan Stock Rate(7)              | 7.3%                         | 7.7%     | 9.1%     | 7.0%     | 6.9%     |
| Terms of Trade Index(2)(8)                        | 1,110                        | 1,085    | 1,086    | 1,076    | 1,063    |
| Current Account Deficit as a % of GDP(1)(2)       | (1.0%)                       | (3.1%)   | (3.1%)   | (4.8%)   | (7.3%)   |

**Government Finance (10)**

|                                 | 1993/94 | 1994/95 | 1995/96 | 1996/97 | 1997/98 | 1998/99(9) |
|---------------------------------|---------|---------|---------|---------|---------|------------|
| Total Revenue                   | 30,183  | 33,648  | 35,059  | 34,778  | 35,581  | 34,594     |
| Total Expenses                  | 29,639  | 30,400  | 31,743  | 32,953  | 34,211  | 35,721     |
| Revenue less Expenses           | 544     | 3,248   | 3,316   | 1,825   | 1,370   | (1,127)    |
| SOE and CE surpluses/(deficits) | 211     | (553)   | (2)     | 83      | 1,164   | 1,075      |
| Operating Balance               | 755     | 2,695   | 3,314   | 1,908   | 2,534   | (52)       |
| as % of GDP                     | 0.9%    | 3.1%    | 3.7%    | 2.0%    | 2.6%    | (0.1%)     |
| Net Direct Domestic Borrowing   | 863     | 1,746   | 1,174   | (2,181) | 1,199   | -          |
| Net Direct Overseas Borrowing   | (1,755) | (2,997) | (2,707) | (3,373) | (1,185) | -          |

**Direct Public Debt**

|                          |          |          |          |          |          |   |
|--------------------------|----------|----------|----------|----------|----------|---|
| Internal Funded Debt     | 22,950.5 | 25,151.7 | 25,441.9 | 24,769.0 | 22,665.4 | - |
| Internal Floating Debt   | 7,692.0  | 7,610.2  | 8,367.3  | 7,683.6  | 9,378.9  | - |
| External Debt            | 15,590.0 | 11,943.1 | 8,399.3  | 4,916.8  | 6,704.6  | - |
| Total Direct Public Debt | 46,232.5 | 44,705.0 | 42,208.5 | 37,369.4 | 38,748.9 | - |

- (1) Year ended 31 March.
- (2) 1998 data provisional. Prior years' data revised.
- (3) Production based. Calculated on the average of the four quarterly index numbers at constant 1991/92 prices, base = 100.
- (4) June quarter, seasonally adjusted.
- (5) Annual percentage change, June quarter.
- (6) US\$ per NZ\$ at midpoint rate on 30 June for each year.
- (7) June monthly average.
- (8) Year ended 30 June. Base: Average of 10 years ended 30 June 1989 = 1000.
- (9) 1998/99 Budget December Update.
- (10) Year ended 30 June. This table is prepared in accordance with New Zealand Generally Accepted Accounting Practice (GAAP).



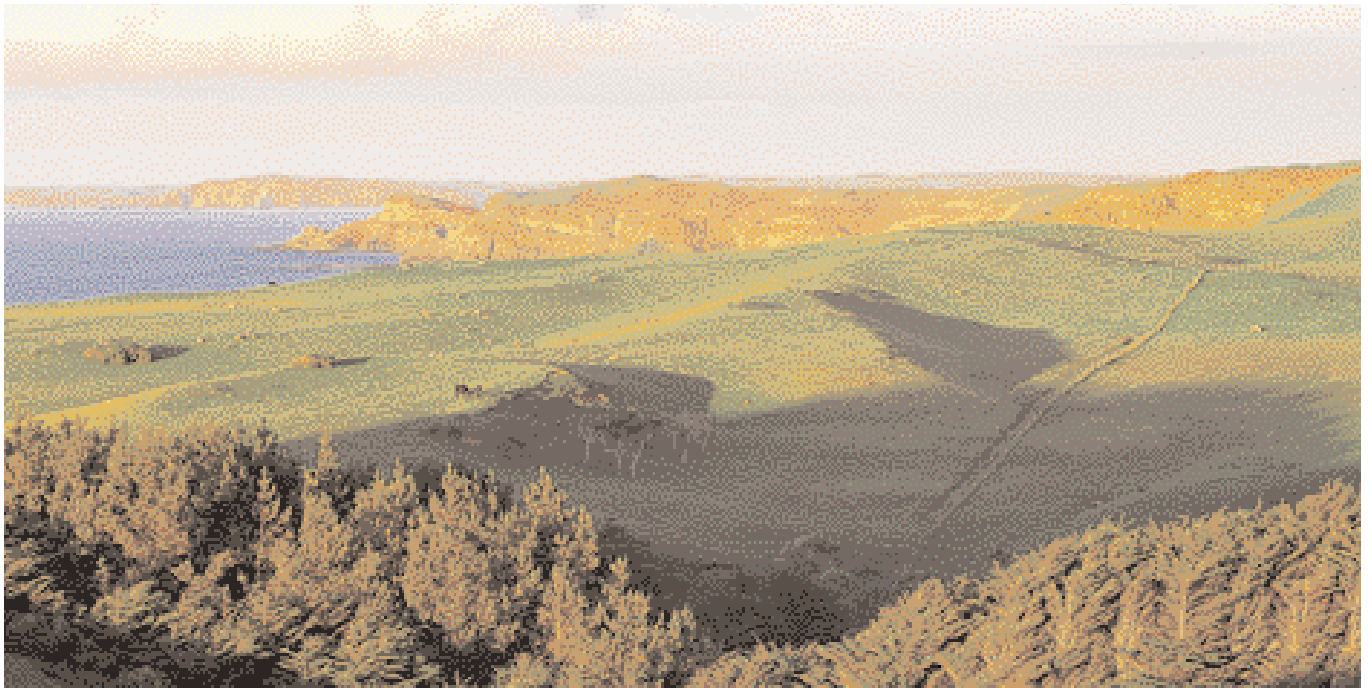
# Dawn of the New Millenium



Sunrise, Pitt Island, Chatham Islands.

Pitt Island will be the first inhabited land to see the sun on 1 January 2000. The first rays of the sun will strike Mt Hakepa at 04.59'46" New Zealand Summer Time (15.59'46" on 31 December, GMT).

Pitt Island



# New Zealand

## Area and Population

New Zealand is situated in the South Pacific Ocean, 6,500 kilometres (4,000 miles) south-southwest of Hawaii and 1,900 kilometres (1,200 miles) to the east of Australia. With a land area of 268,000 square kilometres (103,000 square miles), it is similar in size to Japan or Britain. It is comprised of two main adjacent islands, the North Island and South Island, and a number of small outlying islands. Because these islands are widely dispersed, New Zealand has a relatively large exclusive maritime economic zone of 3.1 million nautical square kilometres.

Over half of New Zealand's total land area is pasture and arable land, and more than a quarter is under forest cover, including 1.7 million hectares of planted production forest. It is predominantly mountainous and hilly, with 13% of the total area consisting of alpine terrain, including many peaks exceeding 3,000 metres (9,800 feet). Lakes and rivers cover 1% of the land. Most of the rivers are swift and seldom navigable, but many are valuable sources of hydro-electric power. The climate is temperate and relatively mild.

The population of New Zealand as of March 1998 was estimated to be 3,771,200. Over half of the population (around 57%) lives in the six main urban areas of Auckland (1,057,100), Wellington (345,500), Christchurch (337,200), Hamilton (164,600), Napier/Hastings (115,700) and Dunedin (112,800). Auckland is the fastest growing of the main urban areas and is home to 28% of the population.

## Form of Government

New Zealand is a sovereign state with a democratic parliamentary government based on the Westminster system. Its constitutional history dates back to the signing of the Treaty of Waitangi in 1840, when the indigenous Maori people ceded sovereignty over New Zealand to the British Queen. The New Zealand Constitution Act 1852 provided for the establishment of a Parliament with an elected House of Representatives. Universal suffrage was introduced in 1893. Like Canada and Australia, New Zealand has the British monarch as titular Head of State. The Queen is represented in New Zealand by the Governor-General, appointed by her on the advice of the New Zealand Government.

As in the United Kingdom, constitutional practice in New Zealand is an accumulation of convention, precedent and tradition, and there is no single document that can be termed the New Zealand constitution. The Constitution Act 1986 has, however, updated, clarified and brought together in one piece of legislation the most important constitutional provisions that had been enacted in various statutes. It provides for a legislative body, an executive and administrative structure and specific protection for the judiciary.

Legislative power is vested in Parliament, a unicameral body designated the House of Representatives. It currently has 120 members, who are elected for three-year terms through general elections at which all residents over 18 years of age are entitled to vote. Authority for raising revenue by taxation and for expenditure of public money must be granted by Parliament. Parliament also controls the Government by its power to pass a resolution of no confidence or to reject a Government proposal made a matter of confidence, in which event the Government would be expected to resign.

The executive Government of New Zealand is carried out by the Executive Council. This is a formal body made up of the Cabinet and the Governor-General, who acts on the Cabinet's advice. The Cabinet itself consists of the Prime Minister and his/her Ministers, who must be chosen from among elected Members of Parliament. Each Minister supervises and is responsible for particular areas of government administration. Collectively, the Cabinet is responsible for all decisions of the Government.

As a result of a referendum held in conjunction with the 1993 election, New Zealand has changed from a "First Past the Post" (FPP) system of electing Members of Parliament to a "Mixed Member Proportional" (MMP) system of proportional representation. MMP is similar to the German Federal system of election to the Lower House. Under MMP, the total number of seats each party has in Parliament is proportional to that party's share of the total list vote. Around half of all Members of Parliament are elected directly as electorate representatives as under the FPP system. The remaining members are chosen by the parties from party lists. This change was put in place for the 1996 election. There is provision for the review of the MMP system in 2002.

At the last six general elections, the distribution of seats in Parliament among the principal parties was as follows:

|                   | 1981 | 1984 | 1987 | 1990 | 1993 | 1996 |
|-------------------|------|------|------|------|------|------|
| National Party    | 47   | 37   | 40   | 67   | 50   | 44   |
| Labour Party      | 43   | 56   | 57   | 29   | 45   | 37   |
| New Zealand First | -    | -    | -    | -    | 2    | 17   |
| The Alliance      | -    | -    | -    | -    | 2    | 13   |
| ACT               | -    | -    | -    | -    | -    | 8    |
| United            | -    | -    | -    | -    | -    | 1    |
| Other             | 2    | 2    | -    | 1    | -    | -    |
| TOTAL             | 92   | 95   | 97   | 97   | 99   | 120  |

Following the general election in November 1996, six political parties are now represented in Parliament; the National Party, the Labour Party, the Alliance Party, New Zealand First, ACT and United. The Alliance is a grouping of four minority parties. (A fifth party, the Greens, left the Alliance in November 1997 but Green MPs continue to support the Alliance in the House).

The National Party and New Zealand First signed a Coalition Agreement in December 1996 and formed a Coalition Government. The Right Honourable Jenny Shipley replaced the Right Honourable Jim Bolger as Prime Minister and Leader of the National Party on 8 December 1997. In August 1998, the Coalition was disbanded. Several New Zealand First MPs left the party and became Independents. The National Party continues as a minority Government with the support of ACT, United and some Independent MPs on issues of confidence and supply.

The judicial system in New Zealand is based on the British model. By convention and the Constitution Act 1986, the judiciary is independent from the executive.

## Social Framework

New Zealand has a high degree of social and political stability and a modern social welfare system which includes universal entitlement to primary and secondary education and subsidised access to health services for all residents. The population is mainly European (72%), with NZ Maori (15%), Pacific Islanders (6%), Asians (5%) and other ethnic groups making up the remainder. There is a high incidence of intermarriage among these groups. The majority of Europeans are of British descent, while the NZ Maori are of the same ethnic origin as the indigenous populations of Tahiti, Hawaii and several other Pacific Islands. In recent years there has been an increasing level of immigration from Asian countries.

The principal social services financed by the Government are health and education, income support for low and middle income families, and a range of benefits and pensions, including New Zealand Superannuation and the unemployment, single parent, sickness and invalid benefits. The publicly-funded social services are augmented by privately-financed schools, health services, pension plans and philanthropic services.

## The Treaty of Waitangi

The Treaty of Waitangi is regarded as a founding document of New Zealand. First signed at Waitangi on 6 February 1840, the Treaty is an agreement between Maori and the British Crown and affirms for Maori their status as the indigenous people of New Zealand.

The Treaty comprises three articles. The first grants to the Queen of England the right to "govern" New Zealand while the second article guarantees Maori possession of their lands, forests, fisheries and other resources. The third and final article gives Maori all the citizenship rights of British subjects. There are outstanding claims by Maori that the Crown has breached the Treaty, particularly the guarantees under the second article, which are for Maori and the Crown to resolve.

Since 1992, the Government has developed processes and policies to enable the Crown and Maori to settle any Treaty of Waitangi claim relating to events that took place before September 1992. The Government settlement framework originally had a \$1 billion fiscal cap on government expenditure on settlements. However, this was later replaced by the Government undertaking to be fiscally responsible and to settle claims at a level consistent with settlements already concluded.

Settlements concluded thus far include:

- the settlement of commercial fisheries claims in September 1992 for \$170 million.
- the Waikato-Tainui raupatu (land confiscation) claims settled in May 1995 for \$170 million.
- a settlement of \$170 million of all the historical claims of the Ngai Tahu tribe, whose lands cover most of the South Island. The settlement was agreed in November 1997 and given legislative effect in September 1988.
- the Turangi township claim settled in September 1998 for \$5 million.
- a number of smaller claims totalling approximately \$40 million.

In December 1997, the Maori Reserved Land Act was enacted to correct a historical injustice affecting a significant amount of Maori-owned land. The land was subject to a legislative regime that provided perpetual leases and fixed rents according to a prescribed formula. The new legislation puts the leases on more commercial terms. It also provides the owners and lessees each with a right of first refusal should the other wish to sell its interest. Lessees are compensated for the move to market-based rentals and owners for the delay in the move to market rentals.

The Crown and Maori are continuing negotiations on other Treaty claims.

## **Foreign Relations**

New Zealand foreign policy is one of constructive international engagement. At the heart of this engagement lies a strong sense of national interest.

A central strategic foreign policy objective is to enhance New Zealand's position as a successful, open and secure trading nation. Exports of goods and services make up 32% of New Zealand's GDP. Trade is essential if the nation is to prosper. New Zealand is therefore committed to a multi-track trade policy: multilateral trade liberalisation through the World Trade Organisation; regional co-operation and liberalisation through active membership of such fora as the Asia Pacific Economic Cooperation (APEC), which New Zealand is hosting in 1999, and bilateral trade arrangements such as the Closer Economic Relations (CER) agreement with Australia. New Zealand also recognises that the unilateral removal of trade barriers is a means of strengthening its own international competitiveness and economic well-being.

New Zealand is also determined to meet its responsibilities and advance its interests as a constructive member of the world community. International problems require international responses and the rule of international law and the maintenance of stability are vital if states are to prosper. New Zealand is therefore active in international organisations such as the United Nations and its agencies. It is involved in issues such as sustainable development, disarmament, peacekeeping and peacemaking, good government initiatives and overseas development assistance.

Asia-Pacific regional linkages remain at the core of New Zealand's political and economic interests. The countries of APEC take more than 70% of New Zealand's exports. They provide 70% of New Zealand's tourist visitors, and 80% of New Zealand's investment. As well as these economic connections, people-to-people links between New Zealand and the wider Asia-Pacific region are extensive. Both within and outside the region, New Zealand's interests are well diversified. Australia, the European Union, North America and East Asia each take between 15-20% of New Zealand exports.

Just as the New Zealand economy has been opened to the world, so new relationships have been developed and more traditional relationships have been deepened. New Zealand trade and foreign policy has extended the boundaries of engagement, recognising the intersection between global integration and the pursuit of national interest.

## **Membership in International Economic Organisations**

New Zealand is a long-standing member of the Organisation for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank).

Other major international economic organisations of which New Zealand is an active member include the International Finance Corporation (1961), the International Development Association (1975), the Asian Development Bank (1967) and the European Bank for Reconstruction and Development (1991). New Zealand is also a contracting party to the World Trade Organisation.

## Gulf Harbour



Gulf Harbour Marine Village, Whangaparaoa peninsula, Auckland.



World Cup of Golf, October 1998. New Zealand team members, Greg Turner and Frank Nobilo.



The course designed by Robert Trent Jones, Jr.

# The Economy of New Zealand

## Introduction

New Zealand has a mixed economy which operates on free market principles. It has sizable manufacturing and service sectors complementing a highly efficient export-oriented agricultural sector. The economy is strongly trade-oriented, with exports of goods and services accounting for around 32% of total output.

New Zealand's economic performance has improved significantly over the 1990s. Following a prolonged period of poor economic performance in the wake of a long-term decline in New Zealand's terms of trade, coupled with inadequate policy responses, the mid-1990s saw output recover strongly. Growth in GDP outpaced that of most other OECD countries. This success followed a period of far-reaching structural reforms commencing in the mid-1980s aimed at improving the microeconomic efficiency of the economy while simultaneously bringing greater stability to the macroeconomy.

However, as a small trading nation, New Zealand's economy is inevitably linked to the fortunes of the world economy. The slowdown in key Asian trading partners during the latter part of 1997 and through 1998 took its toll on economic activity. In addition, a drought affected large parts of the country over the 1997/98 summer. These shocks occurred when the economy was already in a slowing phase. The end result saw the New Zealand economy contract over the first half of 1998.

Recent data however, suggests the economy is on a recovery path. Growth picked up in the September 1998 quarter and more recently both business and consumer confidence has shown an upturn.

Further, the reforms of the past fifteen years mean that the New Zealand economy is much better placed than previously to withstand global demand shocks such as the Asian crisis. A flexible labour market, fewer barriers to trade, low inflation and freely functioning financial markets can all be expected to ease the adjustment process.

One of the clearest signs that the economy is adjusting to international conditions has been the significant fall in the New Zealand dollar over the 18 months to December 1998. The monetary policy framework and flexibility in labour markets should work to ensure that the competitiveness gains from the exchange rate are not eroded over time.

## Background

New Zealand emerged from World War II with an expanding and successful agriculture-based economy. In the 1950s and 1960s, a period of sustained full employment, GDP grew at an average annual rate of 4%. Agricultural prices remained high, due in part to a boom in the wool industry during the Korean War. However, even during this period there were signs of weakness. In 1962, the Economic and Monetary Council advised the Government that between 1949 and 1960 New Zealand's productivity growth had been one of the lowest amongst the world's highest earning economies.

In the late 1960s, faced with growing balance of payments problems, successive Governments sought to maintain New Zealand's high standard of living with increased levels of overseas borrowing and increasingly protective economic policies.

Problems mounted for the New Zealand economy in the 1970s. Access into key world markets for agricultural commodities became increasingly difficult. The sharp rises in international oil prices in 1973 and 1974 coincided with falls in prices received for exports. As in many OECD countries, policies in New Zealand were principally aimed at maintaining a high level of economic activity and employment in the short term. High levels of protection of domestic industry had greatly undermined competitiveness and the economy's ability to adapt to the changing world environment. The combination of expansionary macro policies and industrial assistance led to macroeconomic imbalances, structural adjustment problems and a rapid rise in government indebtedness. After the next major shift in oil and commodity prices in 1979 and 1980, New Zealand's position deteriorated further.

From around 1984 onwards, the direction of economic policy in New Zealand turned away from intervention toward the elimination of many forms of government assistance. On the macroeconomic level, policies have aimed at achieving low inflation and a sound fiscal position while microeconomic reforms have been intended to open the economy to competitive pressures.

The reforms included the floating of the exchange rate; abolition of controls on capital movements; the ending of industry assistance; the removal of price controls; deregulation across a number of sectors of the economy; corporatisation and privatisation of state-owned assets; and labour market legislation aimed at facilitating more flexible patterns of wage bargaining.

The adjustment to this new economic framework took time. During the mid-to-late 1980s, the economy virtually stagnated and then entered recession in the early 1990s. The beginning of a fiscal consolidation process in the early 1990s, along with a cyclical downturn in key trading partners (the US, Australia and the UK) helped tip the economy into recession.

## **The 1990s**

From the end of 1992 until late 1997, the New Zealand economy enjoyed continuous growth. This growth was rapid by past standards with annual growth reaching 5% to 7%, in the 1993-94 period.

The amount of spare capacity in the economy by the early 1990s allowed a significant easing in monetary policy which included a substantial depreciation of the New Zealand dollar. The improvement in competitiveness along with stronger trading partner growth helped boost exports through 1993.

Domestic demand also picked up strongly. Export activity helped support investment growth and, in addition, economic restructuring in the 1980s had made a large part of the existing capital stock obsolete. This made for a strong rebound in investment to meet the demands of a growing economy. Private investment recorded annual growth of between 15% and 30% in the mid-1993 to mid-1995 period.

Gathering momentum in the economy also saw household spending strengthen, with annual growth in consumer spending peaking at 6% to 7% in late 1994/early 1995. In part, buoyant consumer spending reflected a replacement cycle for consumer durables following a sustained period of weak/negative real income growth in the late 1980s and early 1990s. Rapid employment growth and falling unemployment along with a strong housing market and the associated wealth effects also underpinned household spending. The unemployment rate fell from a peak of 10.9% in late 1991 to 6.0% at the end of 1996. A large net inflow of migrants, peaking at around 30,000 a year in 1996, also provided a boost to activity.

Against this background, pressures on the economy's capacity developed. In order to contain inflationary pressures, monetary conditions were tightened over the 1994 to late 1996 period. This involved a rapid rise in the exchange rate and a doubling in short-term interest rates to around 10%. Nevertheless, inflation picked up and the (then) official target range for annual underlying inflation of 0% to 2% was breached over 1995/96. Although the overall target was not breached by a significant amount, annual inflation was running at 4% to 5% in the non-tradeables sector of the economy. This was being fuelled by strong housing market activity, in part reflecting the high levels of inward migration.

Against a background of tighter monetary conditions and declining net migration flows, the economy slowed markedly from the heights of 1994. The sharp rise in the exchange rate, which began appreciating while interest rates were still falling, meant that the tradeables sector of the economy slowed by a greater degree than the non-tradeables sector. Overall economic growth on an annual average basis slowed to around 2.5% to 3% over most of 1996 and 1997.

In the 1991-1994 period the current account deficit remained low by historical standards, remaining in the range of around 1% to 2.5% of GDP. Since then the current account position has deteriorated with the current account deficit standing at 6.6% in the year to September 1998. The merchandise trade surplus has declined, to stabilise at a much lower level than that seen in the 1992-95 period, while the deficit on the international investment income balance has increased to reach around 8% of GDP.

This investment income deficit reflects the servicing of the country's large net external liability position, which at March 1998 stood at just over 90% of GDP. The country's indebtedness is, in the main, a result of private sector decisions reflecting both a demand for investment funds from the business sector and a demand from households for funds to finance house purchases.

New Zealand's strong banking system, sound fiscal position and floating exchange rate, together with the fact that foreign direct investment has been an important driver of the build up in external liabilities, means that concerns about the size of the current account deficit need to be kept in perspective. However, a large current account deficit does make any economy vulnerable to changes in financial market sentiment.

Following a period of large and persistent fiscal deficits, New Zealand's fiscal position improved over the first part of the 1990s assisted by fiscal consolidation and the economic recovery. In 1990/91, the country was running a fiscal deficit equivalent to nearly 3% of GDP while by 1995/96 the fiscal position was in surplus of just over 3%. Recent economic developments (see below) point to some deterioration of the fiscal position in the immediate years ahead. However, the prudent fiscal policy of recent years, which has allowed a significant reduction in the Crown's net debt (from over 50% of GDP in 1991/92 to around 25% currently), puts New Zealand in a good position to be able to weather the current economic situation.

## **Recent Developments and Outlook**

Over the course of 1997, the economy, which was slowing anyway in response to the past tightening in monetary conditions and a fallback in net migration flows, was adversely affected by the onset of the Asian crisis and a drought (brought about by the El Nino weather pattern). The drought affected agricultural and related production. By the end of 1997, the economy was slipping into recession and over the first half of 1998 contracted by 1.8%.

A weakening labour market, deteriorating consumer and business confidence and a significant easing in monetary conditions accompanied the slowdown in growth.

The Asian crisis has affected New Zealand directly through reducing demand for exports. Asia, including Japan, takes around 30% of New Zealand's merchandise exports. Sectors particularly exposed to the region include dairy, meat, fishing, forestry and aluminium. On the services side, the tourism sector has been severely affected with the last year seeing a significant fall in Asian tourist numbers.

As a commodity producer, New Zealand has also been vulnerable to the decline in world commodity prices. However, export receipts have been cushioned from the effect of declining world prices by the significant fall in the New Zealand dollar seen during the latter part of 1997 and through 1998.

The reforms of the last 15 years, however, mean that the New Zealand economy is much better placed to be able to adjust to global demand shocks such as the Asian crisis. Export value data have shown a pattern of falling exports to Asia but strong growth to the US and some European markets. Similarly tourism numbers have shown strong growth from destinations such as Australia and some European countries. New Zealand's increased competitiveness and solid growth in these alternative markets has supported the redirection of exports.

The clearest sign of an adjusting economy has been the significant fall in the New Zealand dollar, down by around 20% from the highs of early 1997. This downward movement in the dollar is not, however, solely Asia-related. It also reflects a response to New Zealand's large current account deficit and the sanctioning of market-led easing in monetary conditions by the Reserve Bank.

Negative investor sentiment towards the entire Asian region also contributed to the volatility in New Zealand financial markets seen over much of 1998. Although overall monetary conditions eased significantly, short-term interest rates fluctuated between 7% and 10% over the first 8 months of the year. It is only since August that rates have been on a sustained downward trend to be around 4.5% in December 1998.

The significant easing in monetary conditions seen since early 1997 and continued easy conditions in the near term sets the stage for a recovery in economic activity in New Zealand. In addition, tax cuts implemented in mid-1998 and growth in government spending should lend support to domestic demand during 1999.

Recent data suggests that the economy is on a recovery path. In the September quarter the economy posted growth of 0.7% quarter-on-quarter, with exports making the most significant contribution to growth. Since then there have been signs of increased momentum in the domestic economy and both business and consumer confidence have picked up. Recent export and tourist arrival data are also showing signs of recovery in some Asian markets.

However, relative to the growth experienced in the previous cycle, growth over the next three years is expected to be moderate. The Treasury's latest forecast (December Economic and Fiscal Update 1998) projects growth of around 1.5% in 1999, 2% in 2000 and 3.5% in 2001.

A weak world economy in the near term and high household debt levels are expected, to some extent, to dampen the stimulatory impact of easier monetary conditions. In 1999, key OECD trading partners such as the US and Australia are expected to slow markedly and, while the Asian region is expected to stabilise, structural problems suggest the recovery process will be slow. The weak international environment will be reflected in reduced demand for exports and a decline in the terms of trade. This will have negative flow-on effects for domestic demand. However, the fact that the global economy, and more particularly the US, has entered 1999 with more momentum than expected could provide a more positive outlook for the New Zealand economy.

Household debt has increased rapidly in recent years. It is part of the story behind New Zealand's deteriorating current account position (see The 1990s above). Household debt as a percentage of household disposable income has increased from 60% in the early 1990s to around 93% in 1998. This suggests households will want to save and repay debt over the forecast period.

An improving world economy in the 2000 year should enable exporters of manufactured goods and tourism to benefit from enhanced competitiveness associated with past falls in the New Zealand dollar. In addition, there are a number of special events which should serve to add to economic momentum over the next couple of years, including the APEC Conference in 1999 and the America's Cup and Sydney Olympics in 2000. Improving confidence and the past easing in monetary conditions can be expected to support a gradual strengthening across all sectors of the economy.

Inflation is expected to remain well within the Reserve Bank's target range of 0% to 3% over the next three years. In the near term there is expected to be some feed through of the lower exchange rate into prices but this is expected to be offset by weakness in the housing and labour markets as well as subdued world commodity prices.

Over the forecast period, the Reserve Bank is expected to adopt a relatively cautious approach towards setting monetary policy. As a consequence, monetary conditions in December 1998 are considered to be near the end of the easing cycle. A gradual tightening of monetary conditions from the second half of 1999 is expected to help ensure sustainable growth in the economy.

The current account position is expected to show a modest improvement over the forecast horizon with the deficit falling to around 5% of GDP by 2002. Following some negative impact from falling terms of trade during 1999, the goods and services balances are expected to improve, reflecting the strengthening world economy and competitiveness gains. The improving trends in these components of the current account are not likely, however, to be sufficient to make any substantial changes to New Zealand's current account position, which remains a product of servicing the country's large net external liability position.

Uncertainty surrounding global growth prospects continues to cast uncertainty over the New Zealand economy's future path. While the Treasury's current view is one of a moderate expansion beginning in the second half of 1998, there are a range of potential outcomes. For example, a more favourable world environment in conjunction with easy monetary conditions could combine to push the economy into a stronger growth phase. On the other hand, a more severe downturn amongst key trading partners could result in the New Zealand economy slipping briefly back into recession in 1999.

## Fiscal Policy

### Prudent Fiscal Management

In 1994, the Government enacted the Fiscal Responsibility Act. This Act is intended to assist in achieving consistent good quality fiscal management over time. Good quality fiscal management should enable the Government to make a major contribution to the economic health of the country and be better positioned to provide a range of services on a sustained basis.

The Act requires the Crown's financial reporting to be in accordance with New Zealand Generally Accepted Accounting Practice. The primary fiscal indicators are the operating balance, net debt and net worth.

The Fiscal Responsibility Act requires the Government to pursue its policy objectives in accordance with the principles of responsible fiscal management set out in the Act. These include:

- reducing debt to prudent levels to provide a buffer against future adverse events.
- maintaining, on average, operating balance once prudent debt levels are reached i.e., the Government is to live within its means over time, with some scope for flexibility through the business cycle.
- achieving and maintaining levels of net worth to provide a buffer against adverse events.
- managing the risks facing the Crown.
- pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of future tax rates.

### Key Fiscal Indicators

**Operating Balance:** Following a prolonged period of fiscal deficits, New Zealand achieved operating surpluses in 1993/94. Surpluses are forecast to continue until 1998/99. In 1997/98 the operating balance was \$2.5 billion. Forecasts for 1998/99, 1999/2000 and 2000/01 are -\$0.1 billion, -\$1.3 billion and -\$1.0 billion respectively. This decline in the fiscal position largely reflects the recent deterioration in the world outlook.

The initial improvement in the operating balance from 1993/94 onwards reflected a growing economy, increasing tax revenues and firm expense control. Subsequent reductions in the operating balance reflect two rounds of tax reductions, lower nominal economic growth, which reduced tax revenue growth, and changes in accounting policy.

Firm control of Government operating expenses has reduced expenses as a percentage of GDP from 41% in 1992/93 to 35% in 1997/98. Expenses as a share of GDP are expected to stabilise around 36% of GDP over 1998/99 to 2001/02.

Expenses have been controlled with output budgeting, accrual reporting and decentralising cost management. While firm control has been exercised on total outlays, spending has been allowed to increase in selected priority areas, including health and education.

**Net Debt:** Repaying debt is a priority for the Government. Reflecting this, net debt has fallen from 49% of GDP in 1992/93 to 24% in 1997/98. Debt repayments have been financed from operating surpluses and asset sales proceeds.

Looking forward, net debt is projected to rise to 28% of GDP by 2000/01, largely reflecting forecast operating deficits. The proceeds from any future asset sales will reduce net debt but are not forecast because of the difficulty and sensitivity of forecasting sale prices. Sales processes are under way for a number of government assets.

**Net Worth:** Net worth, the third of the Government's main fiscal indicators, improved from -\$7.7 billion in 1992/93 to \$9.9 billion in 1997/98. In 1998/99, net worth will fall by around \$7.4 billion to \$2.5 billion, largely because a change in Generally Accepted Accounting Practice requires the recognition of the future costs of past Accident Compensation Corporation (ACC) claims.

## Long-term Objectives and the Projected Fiscal Position

The Government's commitment to prudent and conservative fiscal policy is reflected in its long-term objectives identified in the Government's 1998 Fiscal Strategy Report. The objectives are to:

- reduce expenses to below 30% of GDP.
- reduce net public debt to below 15% of GDP.
- run surpluses on average over the cycle once net public debt is reduced to below 15% of GDP.
- maintain net worth at significantly positive levels.

However, forecasts show increasing expenses and net debt as a percentage of GDP, operating deficits in 1999/2000 and beyond, and falling net worth. Two recent events largely drive these forecast changes:

- a significant downward revision to New Zealand's growth outlook. This reduction in nominal GDP impacts on the Crown's fiscal position principally through reduced taxation revenue.
- the recognition of the future costs of past ACC claims. Previously, the future costs of past claims were not recognised in the ACC's financial statements but instead were accumulated as an unfunded liability and recorded as a note to the financial statements. Recognition of the future costs of past ACC claims is expected to result in a negative impact of around \$7.4 billion on the Crown's net worth at 30 June 1999. An operating balance impact of around \$500 million a year, relative to previous forecasts, is also expected from 1999/2000 onwards. It reflects the interest that would have been earned had levies for the full cost of claims been received at the times the claims were lodged and put aside to meet the future cost of those claims.

## Responses to the Projected Fiscal Position

The Government views these deviations as temporary and is committed to returning to a fiscal track consistent with its long-term objectives. Recent changes demonstrating its commitment include:

**\$750 million reduced spending:** Three packages of reduced spending intentions totalling \$750 million have been announced by the Government. The purpose of the packages was to recoup some of the operating balance losses stemming from revised economic forecasts.

The most recent package was announced in September 1998. It has a relatively small operating balance impact in the short term, but a significant medium-term impact. The major initiatives included in the package are:

- lowering the New Zealand Superannuation wage floor from 65% to 60% of the average weekly wage.
- cancelling plans to abolish income and asset testing on long-term hospital care.

**New policy spending limited:** The fiscal forecasts incorporate expense provisions for both the current and subsequent two financial years. The Government has committed to limiting new policy spending to \$600 million in the years beyond 1999/2000. This limit is slightly tighter than spending increases over the past three years.

The Government's December 1998 Budget Policy Statement indicates that fiscal trends are consistent with progress towards the long-term objectives.

## Monetary Policy

The Reserve Bank of New Zealand Act 1989 stipulates that the Bank is to formulate and implement monetary policy directed to the economic objective of achieving and maintaining stability in the general level of prices (subject to certain provisions which enable the Government to override that objective, provided it is done in accordance with a set of procedures which would make the override publicly transparent). The Act requires that there be a Policy Targets Agreement between the Treasurer and the Governor of the Reserve Bank. Initially the Policy Targets Agreement required the Bank to maintain CPI inflation in the range of 0% to 2% over any 12-month period. The range was increased to 0% to 3% in December 1996.

In December 1997, the price stability target was redefined as the All Groups Consumer Price Index excluding Credit Services (CPIX) as published by Statistics New Zealand. This measure replaces the broadly similar measure of underlying inflation previously calculated by the Reserve Bank. CPIX is consistent with international practice, which generally excludes changes in interest rates from inflation calculations.

Firm monetary policy led to a steady decline in the rate of CPI inflation from a peak of 18.9% for the year ended 30 June 1987 to less than 2% over the period between December 1991 and September 1994. CPI inflation then increased to 4.6% in the year to June 1995 but has since fallen steadily to reach 0.4% in the year to December 1998. CPIX was 1.1% for the same period, well within the 0% to 3% target range.

## Public Sector Restructuring

Reforms over the past decade include:

- implementation of far-reaching reforms in New Zealand's public sector intended to achieve fiscal savings, increase efficiency, and focus on those activities for which government involvement remains appropriate. Beginning in 1987, Government-owned trading enterprises involving energy, transport, banking, insurance, forestry, construction, air traffic control, property, communications and broadcasting were restructured to emphasise managerial accountability for profitable operations. This has resulted in marked increases in productivity and the return to profitability of some state businesses.
- privatisation of State-Owned Enterprises and assets for which government ownership serves no specific social or economic purpose. Thirty-six government businesses and other assets have been sold since early 1988. (See "Sale of Government Enterprises").
- systematic reorganisation of government departments through a series of financial management reforms aimed at increasing the efficiency and accountability of public sector managers and the transparency of government decision-making with the introduction of full accrual accounting.
- major reform of social services in education, health, superannuation and welfare benefits to achieve greater efficiency and improved resource use, to ensure that assistance is directed to those most in need, to encourage greater initiative and self-reliance, and to contain and reduce the fiscal cost of social services.
- unwinding of a number of financial arrangements involving guarantees to energy-related projects and termination of concessionary financing of the producer boards controlling major agricultural exports.

## Microeconomic Reforms

The Government is pursuing a programme of microeconomic reforms aimed at strengthening the long-term economic potential of an open and competitive economy. The main themes are lowering barriers to entry to industries, reducing the cost of capital, maintaining a flexible labour market and a "light-handed" approach to regulation generally.

The following are recent initiatives on these lines:

- removal of tariffs on motor vehicles and the elimination of all other tariffs by 2006.
- removal of prohibitions on parallel importing. (The import of pirated goods is still prohibited and penalties have been increased. The United States administration has announced a review of this action.)
- review of the monopoly powers of producer boards.
- wide-ranging reforms of electricity generation, distribution and retailing with the aim of introducing greater competition and reducing prices.
- review of the management and financing of roads and highways owned by central and local government with the aim of improving investment and use decisions.
- review of environmental and resource use legislation with the aim of reducing compliance costs while maintaining appropriate environmental safeguards.

In the social policy area, the following initiatives have been undertaken or are in train:

- the introduction of competition into the previously exclusively state-run accident compensation insurance regime.
- measures to reduce the dependency of beneficiaries on the state through stronger obligations and incentives to undertake full or part-time work.
- the progressive lowering of the state-funded pension scheme from 65% to 60% of the average weekly wage.

## Public Debt

Prior to March 1985, successive Governments had borrowed under a fixed exchange-rate regime to finance the balance of payments deficit. Since the adoption of a freely floating exchange-rate regime, Governments have undertaken new external borrowing only to rebuild the nation's external reserves and to meet refinancing needs.

As a result of a combination of unfavourable exchange-rate movements, asset sales and improved fiscal performance during 1997/98, gross direct public debt increased by a net amount of \$1,380 million including swaps between 1 July 1997 and 30 June 1998. This increase consisted of a net decrease in internal debt of \$408 million and a net increase in external debt of \$1,788 million.

The Government achieved its objective of zero net foreign-currency debt in September 1996 following the sale of Forestry Corporation of New Zealand for \$1.6 billion.

Government gross direct debt amounted to 39.2% of GDP in the year ended June 1998, up from 37.8% the previous year.

The proceeds from its domestic bond programme will be used to finance maturing domestic term debt and finance the forecast cash deficit during 1998/99. The proceeds of any asset sales in 1998/99 will also be used to reduce the Crown's debt.

## National Accounts

Economic growth has slowed from the heights of 1994 when real gross domestic product was growing over 6% per annum. Indeed, official data shows that the New Zealand economy was technically in recession in the first half of 1998, with real GDP contracting by 1.8% over this period. The September quarter saw a return to growth of 0.7%. This contraction in economic activity largely reflects the adverse effects of the Asian crisis, a severe drought and the lagged impact of tight monetary conditions. The following table shows Gross Domestic Product and Gross National Expenditure in nominal terms for the last five years.

### Gross Domestic Product and Gross National Expenditure

|                                       | Year ended 31 March          |               |               |               |               |
|---------------------------------------|------------------------------|---------------|---------------|---------------|---------------|
|                                       | 1994(1)                      | 1995(1)       | 1996(1)       | 1997(2)       | 1998(2)       |
|                                       | (dollar amounts in millions) |               |               |               |               |
| Compensation of employees             | 35,263                       | 37,523        | 39,753        | 42,190        | 43,721        |
| Operating surplus                     | 26,757                       | 28,997        | 30,550        | 30,735        | 31,573        |
| Consumption of fixed capital          | 7,700                        | 8,185         | 8,661         | 9,152         | 9,590         |
| Indirect taxes                        | 11,408                       | 12,170        | 12,810        | 13,447        | 13,682        |
| less subsidies                        | 304                          | 319           | 313           | 318           | 319           |
| <b>Gross Domestic Product</b>         | <b>80,824</b>                | <b>86,556</b> | <b>91,461</b> | <b>95,206</b> | <b>98,247</b> |
| Final Consumption Expenditure:        |                              |               |               |               |               |
| General Government                    | 12,578                       | 12,535        | 13,218        | 13,760        | 14,928        |
| Private                               | 49,026                       | 52,943        | 56,576        | 59,849        | 62,337        |
| Physical Increase in Stocks           | 1,729                        | 1,438         | 1,161         | 571           | 880           |
| Gross Fixed Capital Formation         | 14,768                       | 17,607        | 19,251        | 20,120        | 19,531        |
| <b>Gross National Expenditure</b>     | <b>78,101</b>                | <b>84,522</b> | <b>90,206</b> | <b>94,299</b> | <b>97,677</b> |
| Exports of Goods and Services         | 25,311                       | 27,173        | 27,423        | 27,545        | 28,172        |
| Less Imports of Goods and Services    | 22,588                       | 25,139        | 26,169        | 26,713        | 27,723        |
| Expenditure on Gross Domestic Product | 80,824                       | 86,556        | 91,461        | 95,132        | 98,126        |
| Statistical Discrepancy               | -                            | -             | -             | 74            | 121           |
| Index of real GDP(3)                  | 107.6                        | 113.4         | 117.5         | 120.7         | 123.5         |
| Annual % increase of real GDP         | 6.3%                         | 5.4%          | 3.6%          | 2.7%          | 2.3%          |

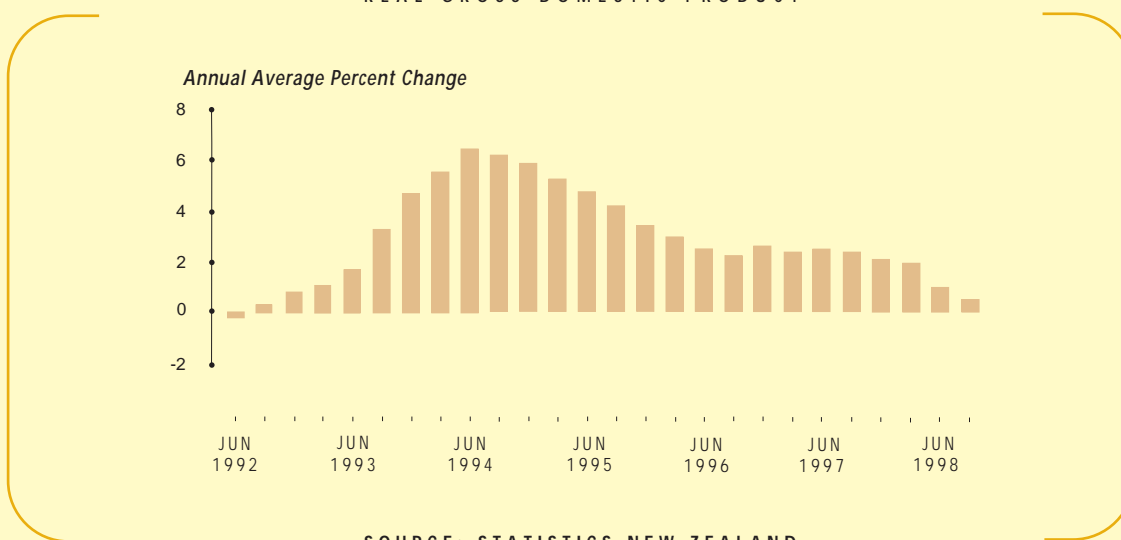
(1) Revised

(2) Provisional

(3) Production-based. Calculated as the average of the four quarterly index numbers at constant 1991/92 prices, base = 100.

Real GDP is currently estimated to have decreased by 0.7% from the quarter ended September 1997 to the quarter ended September 1998. Real GDP in the year to September 1998 was 0.4% higher than a year earlier.

### REAL GROSS DOMESTIC PRODUCT



SOURCE: STATISTICS NEW ZEALAND

The following table shows nominal Gross Domestic Product by major industries at market prices.

### Gross Domestic Product by Production Group

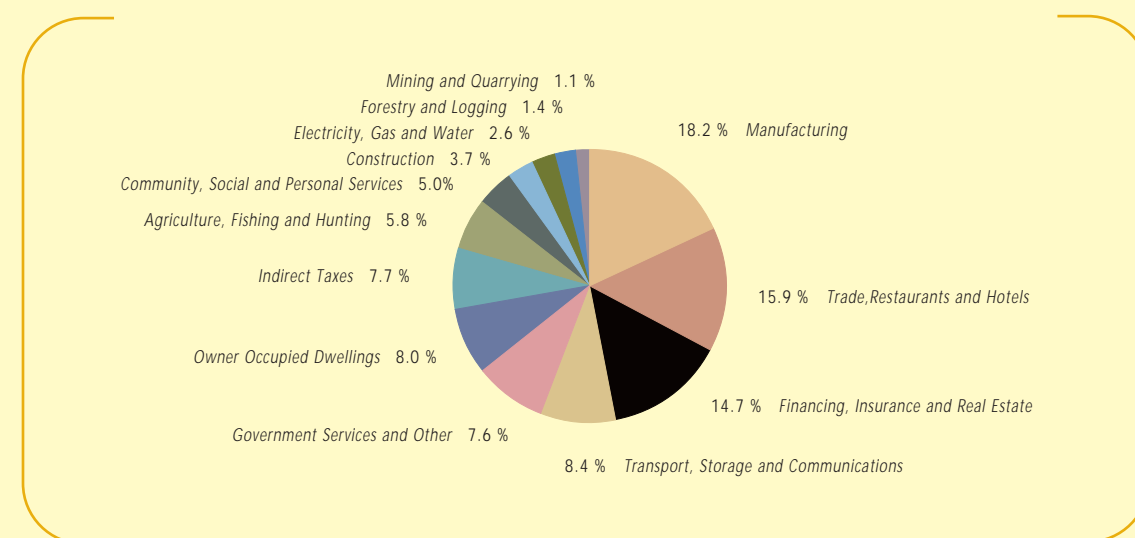
|                                       | 1992          | 1993          | Year ended 31 March |               |               | 1996%<br>of Total |
|---------------------------------------|---------------|---------------|---------------------|---------------|---------------|-------------------|
|                                       |               |               | 1994(1)             | 1995(2)       | 1996(2)       |                   |
| (dollar amounts in millions)          |               |               |                     |               |               |                   |
| Trade, restaurants and hotels         | 10,244        | 11,102        | 12,539              | 13,783        | 14,579        | 15.9              |
| Financing, insurance etc              | 10,641        | 10,693        | 11,573              | 12,746        | 13,451        | 14.7              |
| Owner-occupied dwellings              | 6,214         | 6,153         | 6,265               | 6,603         | 7,358         | 8.0               |
| Food, beverages and tobacco           | 4,441         | 4,389         | 4,607               | 4,853         | 5,060         | 5.5               |
| Agriculture                           | 4,511         | 4,344         | 4,956               | 4,852         | 5,008         | 5.5               |
| Transport and storage                 | 3,633         | 3,745         | 4,057               | 4,480         | 4,739         | 5.2               |
| Community, social, personal services  | 3,121         | 3,418         | 3,730               | 4,034         | 4,536         | 5.0               |
| Fabricated metal products             | 2,534         | 2,653         | 3,032               | 3,356         | 3,504         | 3.8               |
| Construction                          | 2,389         | 2,325         | 2,600               | 3,048         | 3,376         | 3.7               |
| Communications                        | 2,677         | 2,507         | 2,475               | 2,622         | 2,900         | 3.2               |
| Electricity, gas and water            | 2,107         | 2,126         | 2,316               | 2,383         | 2,344         | 2.6               |
| Paper products and printing           | 1,934         | 1,886         | 1,979               | 2,215         | 2,446         | 2.7               |
| Chemicals, petroleum, rubber, plastic | 1,481         | 1,574         | 1,800               | 2,178         | 2,075         | 2.3               |
| Forestry and logging                  | 850           | 1,052         | 1,494               | 1,306         | 1,298         | 1.4               |
| Manufactured wood products            | 723           | 866           | 970                 | 1,197         | 1,174         | 1.3               |
| Mining and quarrying                  | 1,082         | 1,107         | 1,126               | 1,080         | 1,032         | 1.1               |
| Textiles, apparel and leather         | 813           | 803           | 840                 | 873           | 871           | 1.0               |
| Basic metal industries                | 477           | 671           | 650                 | 613           | 683           | 0.7               |
| Non-metallic mineral products         | 381           | 417           | 496                 | 579           | 604           | 0.7               |
| Fishing and hunting                   | 236           | 270           | 272                 | 285           | 305           | 0.3               |
| Other manufacturing                   | 122           | 136           | 156                 | 165           | 165           | 0.2               |
| Nominal industry (bank services)      | (2,935)       | (2,581)       | (2,665)             | (3,145)       | (3,429)       | (3.7)             |
| <b>Total market production groups</b> | <b>57,676</b> | <b>59,656</b> | <b>65,268</b>       | <b>70,104</b> | <b>74,079</b> | <b>81.0</b>       |
| Total non-market production groups    | 9,322         | 9,462         | 9,666               | 9,846         | 10,299        | 11.3              |
| Total all production groups           | 66,998        | 69,118        | 74,934              | 79,950        | 84,378        | 92.3              |
| GST on production                     | 4,691         | 4,820         | 5,180               | 5,713         | 6,171         | 6.7               |
| Import duties                         | 514           | 553           | 616                 | 775           | 805           | 0.9               |
| Other indirect taxes                  | 74            | 87            | 93                  | 118           | 107           | 0.1               |
| <b>GROSS DOMESTIC PRODUCT</b>         | <b>72,277</b> | <b>74,578</b> | <b>80,824</b>       | <b>86,556</b> | <b>91,461</b> | <b>100.0</b>      |

(1) Revised.

(2) Provisional

Nominal figures for 1997 and 1998 are not yet available.

### PERCENTAGE CONTRIBUTION TO NOMINAL GDP BY KIND OF ECONOMIC ACTIVITY YEAR ENDED MARCH 1996



SOURCE: STATISTICS NEW ZEALAND

## Prices and Costs

Annual inflation as measured by the Consumers Price Index (CPI) remained below 2% from the December quarter 1991 through to the September quarter 1994. The CPI inflation rate then rose to 4.6% in the year ended June 1995 before falling back to 0.4% in December 1998.

The main reason for the sharp increase in CPI inflation during the period from September 1994 to June 1995 was the significant increases in home mortgage interest rates. New Zealand includes changes in home mortgage interest rates in the CPI, unlike most other industrialised countries. Interest rates make up around 6.5% of the CPI. Home mortgage interest makes up 5.2% of the CPI.

Because of interest rates' perverse effect on measured CPI inflation, the Reserve Bank concentrated on underlying inflation as its target for monetary policy. This measure, which the Reserve Bank calculated itself, excluded movements in mortgage rates, in addition to excluding one-off "significant" movements in international prices and government charges. Underlying inflation remained within the 0% to 2% range from December 1991 until March 1995. In the following two years, underlying inflation was at 2% or above, peaking at 2.4% in December 1996.

Over the first half of 1997, inflationary pressures waned somewhat. Underlying inflation fell to 1.5% by the June 1997 quarter, and was now in the middle of the Reserve Bank's newly defined target range of 0% to 3%. Underlying inflation remained around this level for the remainder of 1997.

In December 1997, CPIX replaced the Reserve Bank's measure of underlying inflation as the target for monetary policy. CPIX, which is constructed by the official statistical agency, excludes interest rates. Latest data shows that annual CPIX inflation was 1.1% in the year to December 1998.

Strong price pressures from the non-tradeable sector of the economy, particularly from the housing sector, were primarily responsible for the overall rise in inflation in the 1994 to 1996 period. Annual non-tradeable inflation rose from a trough of 0.8% in March 1992 to a peak of 4.9% in June 1996. Non-tradeable inflation remained stubbornly high in 1997, remaining above 3% for the course of that year.

More recent inflation outturns indicate that annual non-tradeables inflation has subsided in part due to the marked weakening in the housing sector. In particular, non-tradeable inflation has fallen from 3.2% in March 1998 to 1.8% in December 1998.

Inflationary pressures from the tradeable sector were quite subdued in the period when non-tradeables inflation was quite marked. The subdued price pressures from the tradeable sector largely reflected the strong rise in the nominal exchange rate that occurred over the period 1993 to 1996.

Over recent quarters, tradeable inflation has started to rise, mainly as a result of the sharp depreciation of the exchange rate over the past 18 months. Annual tradeable inflation rose to 1.5% in December 1998, from a low of -0.1% recorded in December 1997.

The following table shows on a quarterly basis the Terms of Trade Index, the Producers Price Index, the Consumers Price Index, the underlying inflation rate/CPIX and the Ordinary Time Wage Rate Index and, in each case, the percentage change over the same quarter for the previous year.

## Prices and Costs

|      |           | Terms of Trade Index (1) |       | Producers Price Index(2)(3) |     | Consumers Price Index(4) |     | Underlying Inflation/ CPIX(5) | Labour Cost Index(6) |     |
|------|-----------|--------------------------|-------|-----------------------------|-----|--------------------------|-----|-------------------------------|----------------------|-----|
| 1994 | March     | 1126                     | (0.6) | 971                         | -   | 1000                     | 1.3 | 1.1                           | 1013                 | 1.0 |
|      | June      | 1110                     | (2.3) | 975                         | -   | 1004                     | 1.1 | 1.1                           | 1016                 | 1.0 |
|      | September | 1114                     | (1.4) | 980                         | -   | 1016                     | 1.8 | 1.2                           | 1020                 | 1.1 |
|      | December  | 1140                     | 2.4   | 981                         | -   | 1028                     | 2.8 | 1.5                           | 1023                 | 1.3 |
| 1995 | March     | 1127                     | 0.1   | 982                         | 1.1 | 1040                     | 4.0 | 1.9                           | 1026                 | 1.3 |
|      | June      | 1085                     | (2.3) | 983                         | 0.8 | 1050                     | 4.6 | 2.2                           | 1029                 | 1.3 |
|      | September | 1090                     | (2.2) | 986                         | 0.6 | 1052                     | 3.5 | 2.0                           | 1035                 | 1.5 |
|      | December  | 1117                     | (2.0) | 987                         | 0.6 | 1058                     | 2.9 | 2.0                           | 1042                 | 1.9 |
| 1996 | March     | 1102                     | (2.2) | 991                         | 0.9 | 1063                     | 2.2 | 2.1                           | 1047                 | 2.0 |
|      | June      | 1086                     | 0.1   | 989                         | 0.6 | 1071                     | 2.0 | 2.3                           | 1050                 | 2.0 |
|      | September | 1108                     | 1.7   | 990                         | 0.4 | 1077                     | 2.4 | 2.3                           | 1056                 | 2.0 |
|      | December  | 1081                     | (3.2) | 991                         | 0.4 | 1085                     | 2.6 | 2.4                           | 1063                 | 2.0 |
| 1997 | March     | 1083                     | (1.7) | 992                         | 0.1 | 1082                     | 1.8 | 2.0                           | 1070                 | 2.2 |
|      | June      | 1076                     | (0.9) | 990                         | 0.1 | 1083                     | 1.1 | 1.5                           | 1076                 | 2.5 |
|      | September | 1063                     | (3.9) | 995                         | 0.5 | 1088                     | 1.0 | 1.8                           | 1082                 | 3.0 |
|      | December  | 1064                     | 0.3   | 1000                        | 0.9 | 1094                     | 0.8 | 1.8                           | 1086                 | 2.8 |
| 1998 | March     | 1107                     | 2.2   | 996                         | 0.4 | 1096                     | 1.3 | 1.7                           | 1090                 | 2.5 |
|      | June      | 1063                     | (1.2) | 1003                        | 1.3 | 1101                     | 1.7 | 1.7                           | 1097                 | 2.5 |
|      | September | 1078                     | 1.2   | 1003                        | 1.3 | 1107                     | 1.7 | 1.7                           | 1102                 | 1.8 |
|      | December  | NA                       | NA    | NA                          | NA  | 1098                     | 0.4 | 1.1                           | 1105                 | 2.1 |

(1) Base: Average of 10 years ended June 1989 = 1000.

(2) Base: December Quarter 1997 = 1000.

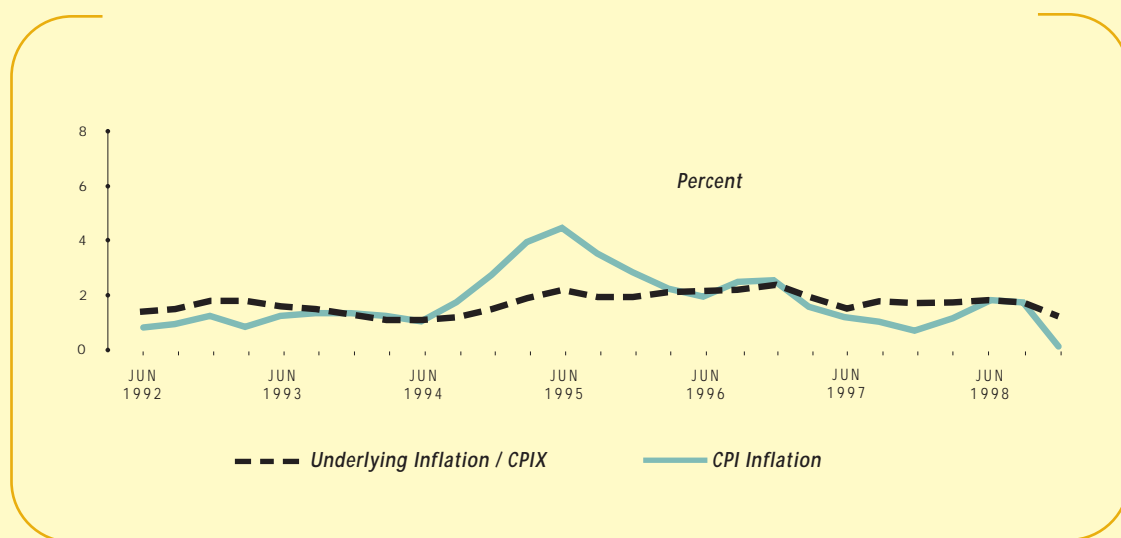
(3) All industry inputs.

(4) Base: December quarter 1993 = 1000.

(5) Reserve Bank calculation of underlying inflation up to September 1997, CPIX thereafter.  
(The rates for underlying inflation and CPIX have been identical since December 1995).

(6) Base: March quarter 1993 = 1000.

### INFLATION - ANNUAL PERCENT CHANGE



SOURCE: STATISTICS NEW ZEALAND

## Labour Markets

After being highly regulated for many decades, New Zealand's labour market has been substantially deregulated and decentralised in recent years. Reform began in 1987 and 1988, when the Labour Relations Act and the State Sector Act introduced greater flexibility in the private and state-sector labour markets. More comprehensive deregulation took place with the passage of the Employment Contracts Act in May 1991.

The Employment Contracts Act puts employment contracts on a similar basis to other commercial transactions. It allows employers and employees to determine the terms of their employment relationship with few external legal constraints other than contract law and minimum standards. Employees are not required to join any union, and cannot be pressured to do so or not to do so. They choose whether to bargain individually or collectively, and whether they will represent themselves or appoint an agent to bargain for them. Similarly, employers are free to decide how they will bargain - e.g., at the workplace level, at the firm level or in conjunction with other employers.

Employers and employees together choose whether to enter into individual contracts or collective contracts. No employer or employee is covered by any contract to which he or she is not a party.

Available evidence suggests that the Act has allowed many employers and employees to make far-reaching changes in their employment practices. Many employers have agreed with their employees to change standard working hours and to reduce hourly rates for overtime. Other employers have introduced piece-rate pay, bonuses, or salary scales (for former wage workers) in which pay is determined at periodic performance appraisals.

Between the mid-1980s and late 1991, as the Government implemented its programme of stabilisation, liberalisation, and state-sector restructuring in what had been a highly regulated economy, employment fell and unemployment rose.

However, the labour market improved from the end of 1992. Employment growth was very strong in the 1994 - mid 1996 period with annual growth running at between 4% and 5.5%. The unemployment rate dropped sharply from nearly 11% in 1991 to around 6% in 1996.

Over the last 18 months or so, the labour market has weakened in line with a slowing economy. In the December 1998 quarter, seasonally adjusted employment stood at 1.72 million. The unemployment rate in December 1998 was 7.7% of the labour force. Employment growth across all sectors has been weak over the last year. However, latest data shows manufacturing employment up about 4% in the year to December 1998. This is in contrast to the declines in manufacturing employment seen from the end of 1996 through to end 1997. Service sector employment growth was particularly strong over the 1995 to mid-1997 period but over recent quarters employment in this sector has fallen.

## Auckland International Airport



Auckland International Airport has undergone a programme of extensive development over recent years, including major expansion and redevelopment of the international terminal. The Government sold its share in Auckland International Airport Limited by public float during 1998.

# Industrial Structure and Principal Economic Sectors

## Primary Industries

The agricultural, horticultural, forestry, mining, energy and fishing industries play a fundamentally important role in New Zealand's economy, particularly the export sector.

## Agriculture and Horticulture

The agricultural sector, comprising the land, labour, capital and services involved in getting agricultural and horticultural products to the farm gate, constituted just 5.9% of GDP in the year to March 1998. The manufacture of primary foods contributed a further 2.7% of GDP. However, downstream activities, including transportation, rural financing and retailing, that are related to agricultural production mean that it plays an even greater part in the New Zealand economy.

The importance that agriculture plays in the New Zealand economy was highlighted during the 1997/98 summer when a drought affected large parts of the east coast of both islands. The resultant fall in agricultural production had a significant effect on total GDP and accounted for almost half of the 1% drop in GDP during the March 1998 quarter.

The agricultural sector employed 8.8% of the total labour force in the year to March 1998, making it the fourth largest sector in terms of people employed in the New Zealand economy.

In the year ended 30 June 1998, agricultural and horticultural exports accounted for over 40% of total export receipts and generated approximately \$8.7 billion in export earnings.

In the year ended 31 March 1996, gross agricultural production was estimated to have totalled about \$10.3 billion. Dairy production accounted for around 30% or \$3.1 billion, cattle 12% and sheep 10%. Horticultural products contributed 18% to total agricultural production.

The changing makeup of agricultural production over the past 10 years, reflecting the relative returns of different farming types, has been mirrored by the changes in stock numbers. The relative decline in profitability of sheep farming has reduced stock numbers from around 65 million during the late 1980s to around 47 million sheep in June 1998, while beef numbers have remained constant at around 4.8 million. Over the same period, dairy cow numbers have increased considerably from 3.2 million to 4.3 million, reflecting the good returns for dairy products over this time. Deer and goat numbers have remained stable at 1.4 million. Bloodstock for thoroughbred and harness racing is also a significant industry and the national yearling sales attract buyers from around the world.

Horticultural crops have become increasingly important with principal crops being apples and kiwifruit. Continuing development of new varieties of each should help to improve exports in the future. Other significant export crops include wheat, barley, peas, maize, oats, nashi pears, berryfruit, flowers, onions and other fresh fruit and vegetables. Exports of horticultural products totalled \$1.45 billion in the year ended June 1998.

The viticulture industry has developed significantly over recent years due to the regular successes of New Zealand wines in international competitions. Exports of wine recently topped the \$100 million mark for the first time.

The marketing of key commodities, like meat, wool, dairy products, deer, pork, pipfruit and kiwifruit is undertaken through producer boards, established by statute but funded by respective industries. While dairy, pipfruit and kiwifruit have single seller boards, the other four industries have boards which provide organisational, product promotion and quality assurance services.

The Government has announced that it sees the removal of all producer boards' statutory backing as inevitable over time. The Government is committed to reform in this area in a manner that is appropriate for each industry, and is in the best interest of producers and the New Zealand economy in general with minimal disruption.

The following table shows sales of the principal categories of agricultural products for the years indicated, and as a percentage of total sales for 1996.

## Gross Agricultural Production

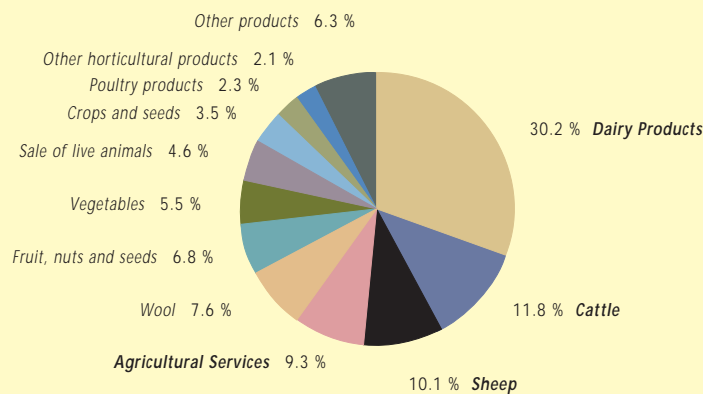
|                                 | 1992    | 1993    | Year ended 31 March |         |         | 1996<br>% of<br>Total(2) |
|---------------------------------|---------|---------|---------------------|---------|---------|--------------------------|
|                                 |         |         | 1994                | 1995(1) | 1996(2) |                          |
| (dollar amounts in millions)    |         |         |                     |         |         |                          |
| Dairy products                  | 2,234   | 2,523   | 2,584               | 2,593   | 3,114   | 30.2                     |
| Cattle                          | 1,443   | 1,551   | 1,531               | 1,379   | 1,221   | 11.8                     |
| Sheep                           | 845     | 1,032   | 1,216               | 1,102   | 1,047   | 10.1                     |
| Agricultural services           | 807     | 876     | 941                 | 860     | 960     | 9.3                      |
| Wool                            | 811     | 729     | 702                 | 951     | 780     | 7.6                      |
| Fruit, nuts and oil seeds       | 833     | 725     | 591                 | 736     | 699     | 6.8                      |
| Vegetables                      | 390     | 447     | 506                 | 577     | 564     | 5.5                      |
| Sale of live animals            | 701     | 876     | 887                 | 624     | 475     | 4.6                      |
| Crops and seeds                 | 314     | 342     | 361                 | 312     | 360     | 3.5                      |
| Other products n.e.s.           | 177     | 237     | 220                 | 205     | 310     | 3.0                      |
| Poultry products                | 196     | 206     | 219                 | 225     | 237     | 2.3                      |
| Other horticultural products.   | 177     | 195     | 208                 | 229     | 221     | 2.1                      |
| Non-Farm Income                 | 135     | 170     | 169                 | 186     | 163     | 1.6                      |
| Pigs                            | 126     | 133     | 147                 | 140     | 142     | 1.4                      |
| Value of livestock change       | 108     | (13)    | 503                 | 219     | 34      | 0.3                      |
| Total output                    | 9,297   | 10,029  | 10,785              | 10,338  | 10,327  | 100.0                    |
| Less intermediate consumption   | (4,787) | (5,684) | (5,829)             | (5,488) | (5,319) |                          |
| Agriculture contribution to GDP | 4,510   | 4,345   | 4,956               | 4,850   | 5,008   |                          |

(1) Revised.

(2) Provisional.

Data for 1997 and 1998 are not yet available.

### GROSS AGRICULTURAL PRODUCTION - YEAR ENDED 31 MARCH 1996



SOURCE: STATISTICS NEW ZEALAND

## Forestry

The contribution of the forestry sector (i.e., the contribution from the market production groups forestry and logging; manufacture of wood products; and two-thirds of manufacture of paper products and printing) to New Zealand's GDP is estimated as being 5.3% for the March 1996 year. Forestry is the basis of an important export industry with more than 60% of wood from the planted production forests eventually being exported in a variety of forms, including logs, wood chips, sawn timber, panel products, pulp and paper and further manufactured wooden products including wooden furniture and componentry. For the year ended 30 June 1998, the value of exports of forestry products was \$2,242 million (f.o.b.), 10.7% of New Zealand's total merchandise exports (excluding re-exports). The largest markets for forestry exports are Australia (31% by value) and Japan (26%). The Republic of Korea (11%), the United States (8%), Taiwan (5%) and a range of Asian countries are important developing markets for New Zealand's forestry exports.

New Zealand's climate and soils are well-suited to the growth of planted production forests. Planted production forests cover an area of 1.7 million hectares and produce 99% of the country's wood. Sixty-four thousand hectares of new forest were planted during 1997. Radiata pine, which makes up 91% of the plantation estate, matures in 25 to 30 years, more than twice as fast as in its natural habitat of California. This species has had considerable research investment in New Zealand since it was introduced last century and has demonstrated its versatility for a wide range of uses.

About 40% of New Zealand's planted production forests are owned or managed by two major private sector forestry companies (Carter Holt Harvey Limited and Fletcher Challenge Limited). Another 24% is owned by other private sector companies, including recent overseas acquirers. Seven percent remains in Crown ownership, being managed by Government agencies and State-Owned Enterprises. The balance (30%) comprises a mix of private ownership, Maori trusts and local authorities.

The mix of forest ownership, however, is changing. Most of the recent new planting has been carried out by investment syndicates and other small private owners.

New Zealand's total plantation forest growing stock at 1 April 1997 was estimated as 329 million cubic metres. For the year ended 30 June 1998, a provisional estimate of 14.4 million cubic metres of wood were removed from New Zealand production forests. This produced a range of products, including sawn timber (3.2 million cubic metres); plywood (178,000 cubic metres); medium density and other fibreboard (602,000 cubic metres); particleboard (171,000 cubic metres); wood pulp (1.4 million tonnes); and paper and paperboard (866,000 tonnes). Some 4.4 million cubic metres of unprocessed logs were exported during the same period.

The wood supply from the planted production forest is expected to increase by more than 70% by 2010. This increase will more than double the volumes of forestry products available for future export.

## Fishing

Fishing has developed into a major New Zealand industry and is now the fourth largest export earner. Fish and other seafood accounted for \$1,008 million in export revenues in the year ended June 1998, about 5.0% of total merchandise exports.

More than 80% of production is exported, the most important species being orange roughy, rock lobster, squid, snapper and hoki. The main export markets are the United States, Japan and Australia. New Zealand's unpolluted coastal waters are also well-suited to aquaculture. The main species farmed are Pacific oyster, green-lipped mussels and quinnat salmon.

New Zealand has an Exclusive Economic Zone (EEZ) of 3.1 million nautical square kilometres supporting a wide variety of inshore fish, some large deep water fin fish, squid and tuna. The New Zealand domestic fishing fleet has grown substantially in recent years and investment in processing capacity has increased accordingly. Foreign vessels under charter to New Zealand companies are used extensively, but the involvement of foreign licensed fleets in New Zealand fishing has reduced.

The conservation and management of the fisheries is based on a proportional quota management system designed to protect the future sustainability of the fisheries while facilitating their optimum economic use. The system uses market forces to allocate fishing rights without arbitrarily restricting fishing methods.

The maximum levels of catch are controlled by the Government, which assigns access rights to resources by issuing tradeable quotas up to a maximum allowable catch for each species.

## Energy and Minerals

New Zealand has significant natural energy resources, with good reserves of coal, natural gas and oil/condensate, extensive geothermal fields, and a geography and climate which has supported substantial hydroelectric development. The main minerals mined, in addition to coal, are gold, silver, ironsands, various industrial minerals and gravel for construction.

Programmes for the exploitation of New Zealand's energy resources were accelerated after the first oil shock in 1973. Oil and gas exploration was increased and energy conservation programmes were developed and promoted. As a result, New Zealand is able to supply a significant proportion of its energy requirements.

Since 1984, the Government has separated its commercial activities from its policy and regulatory functions in the energy sector and has deregulated the previously controlled oil, gas and electricity markets. Notably franchise area restrictions were removed, operations of electric supply authorities corporatised and information disclosure regimes introduced for the electricity and gas industries.

In 1994, the transmission functions of the Electricity Corporation of New Zealand (ECNZ) became a separate State-Owned Enterprise, TransPower. In 1996, about a third of ECNZ's generation assets were transferred to a new State-Owned Enterprise, Contact Energy. ECNZ and Contact Energy, along with private sector companies, now compete in New Zealand's newly-formed wholesale electricity market.

In 1998, the Government introduced a further round of reforms to promote greater economic efficiency in the electricity generation, distribution and retail industries. This included a decision to further split ECNZ into three competing State-Owned Enterprises so that in total there would be four competing generators formed from the initial ECNZ. The Government has recently decided that Contact Energy should be privatised through a partial share float. The latest round of reform also requires local power companies to separate the ownership and control of the line businesses from the energy retailing and generation activity. The requirements for separation were enacted through the Electricity Industry Reform Act 1998.

**Natural Gas:** Natural gas is currently produced in the Taranaki region of the North Island from the large offshore Maui field and smaller onshore fields. There are three main groups of users of gas in New Zealand; electricity generation, petrochemical production and reticulation. In recent years, an increasing proportion of gas (over 40% in year ended 31 March 1998) has been used for electricity generation. More than a third is used for petrochemicals, mostly by Methanex New Zealand Limited for the production of chemical methanol and for ammonia/urea production. The remaining 22% is reticulated in the North Island as a premium fuel. Natural gas production has averaged over 200 PJ per annum and is likely to continue until the Maui field draws down around 2005.

**Oil:** New Zealand's crude oil and condensate production was 2.35 million tonnes in the year ended 31 March 1998, of which 1.5 million tonnes were exported. Total crude petroleum imports were 3.8 million tonnes. In the same year, domestic gasoline production was 1.6 million tonnes, of which about 27% was premium unleaded petrol and 73% regular unleaded petrol. Domestic consumption of gasoline was 2.2 million tonnes. Total domestic consumption of gasoline, diesel, fuel oils and other fuel products was 4.62 million tonnes.

**Coal:** Coal is New Zealand's most abundant energy resource with 8.6 billion tonnes potentially recoverable from 42 coalfields. Of this amount 80% is lignite, located mainly in Southland, 15% is sub-bituminous, located mainly in the Waikato region south of Auckland, and 5% is bituminous, located mainly on the West Coast of the South Island. Lignite is used mainly for industrial fuel and sub-bituminous coal for industrial fuel, steel manufacture, electricity generation and domestic heating. Bituminous coal, which is typically very low ash, low sulphur coking coal, is mainly exported for metallurgical applications.

Coal "reserves" refer to that portion of the coal resource that is known to be recoverable under current technological and economic conditions. Total measured coal reserves are approximately 1.9 billion tonnes. In 1997 total coal production was 3.4 million tonnes, of which approximately 1.2 million tonnes of coking coal with the value of \$91 million were exported.

**Electricity:** ECNZ and Contact Energy had a total net capacity of 6,600 MW as at 31 March 1998 and together generate about 89% of the nation's power. Other private companies operate power and cogeneration plant. In the year ended 31 March 1998, hydro-electric power produced 64% of the total national electricity supply of 36,600 Gigawatt hours (including cogeneration), thermal power (mostly gas) generated 22%, geothermal 5.5% and cogeneration 8%. There is a small but increasing amount of wind power.

The Government and ECNZ are proceeding with proposals to sell six small hydro stations to regional companies or Maori interests. These stations comprise approximately 3.8% of the country's generating capacity. So far three stations have been sold.

## Manufacturing

New Zealand's manufacturing industries make an important contribution to the national economy. In the year ended March 1998, manufacturing accounted for around 18% of GDP. The proportion of the labour force employed in manufacturing was around 17% in the year ended March 1998.

Manufacturing has contributed significantly to growth in recent years. From the trough of the current economic cycle in June 1991 until December 1997, manufacturing output grew by 31% as compared to 25% growth in GDP for the economy as a whole. Manufacturing output grew strongly in the 1992-1995 period but since 1995 output growth has slowed. In part this is explained by the appreciation of the exchange rate over the 1994-1997 period. In addition, industry restructuring and, more recently, a slowing domestic economy has played a role.

Fabricated metals (including machinery, motor vehicle assembly, electrical and electronics) have now overtaken primary food processing as the biggest manufacturing sector. These two sectors contributed 48% of sales in the year ended 31 March 1998. Other food processing (14.8%), chemicals (11.3%) and paper and printing (9.5%) make up the other major sectors.

Exports have been a primary driver of growth in the manufacturing sector over recent years. The performance of non-commodity manufactured exports has been especially impressive, averaging over 10% over the June 1991 to June 1997 period and growing by a strong 16.4% on average per annum in the four years to June 1995. An international focus by New Zealand manufacturers, and attention to marketing, design, reliability, customer responsiveness and cost, have been key factors in this success. Since 1997, growth has slowed. However, pockets of the sector continue to perform well and over the first half of 1998 annual growth was running in double digits on a value basis.

Looking ahead, once the world economy begins to improve, exporters of manufactured goods should be well-placed to take advantage of the enhanced competitiveness associated with the falls in the New Zealand dollar seen over the past 18 months.

As in the rest of the economy, major structural changes have occurred in the manufacturing sector since 1984. Tariffs have been systematically reduced. All quantitative controls on imported goods were phased out by July 1992. Currently over 95% of goods come into New Zealand tariff free. On 29 September 1998, the Government announced that all remaining tariffs would be phased out by 2006. This is four years ahead of the 2010 APEC zero tariff deadline.

Tariffs applying to motor vehicles were removed in May 1998.

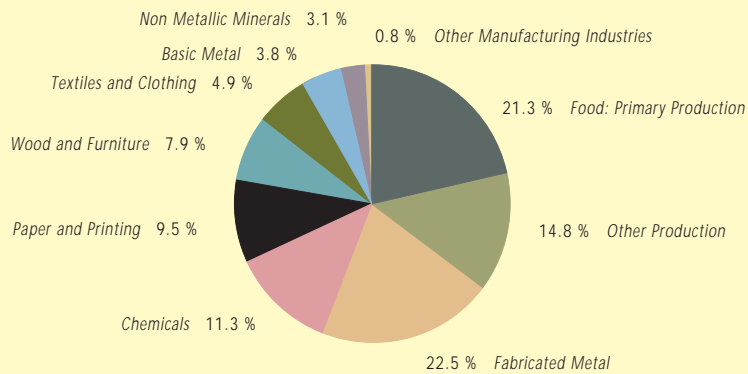
The following table sets forth the sales of goods and services in the manufacturing sector for the five years ended 31 March 1998. It also shows the development of the manufacturing index for the same period.

## Sales of the Manufacturing Sector By Industry Group

| Industry division              | Year ended 31 March |               |               |               |               | 1998%<br>of total |
|--------------------------------|---------------------|---------------|---------------|---------------|---------------|-------------------|
|                                | 1994                | 1995          | 1996          | 1997          | 1998          |                   |
| (dollar amounts in millions)   |                     |               |               |               |               |                   |
| Food:                          |                     |               |               |               |               |                   |
| Primary production             | 10,324              | 10,202        | 11,010        | 10,986        | 11,116        | 21.3              |
| Other production               | 6,393               | 6,829         | 7,131         | 7,273         | 7,714         | 14.8              |
| Fabricated metal               | 9,219               | 10,477        | 10,721        | 11,204        | 11,735        | 22.5              |
| Chemicals                      | 5,310               | 6,080         | 5,926         | 6,025         | 5,915         | 11.3              |
| Paper and printing             | 4,440               | 4,886         | 5,361         | 5,147         | 4,954         | 9.5               |
| Wood and furniture             | 3,513               | 4,056         | 4,072         | 4,081         | 4,131         | 7.9               |
| Textiles and clothing          | 2,916               | 3,171         | 2,956         | 2,858         | 2,566         | 4.9               |
| Basic metal                    | 1,691               | 1,849         | 1,871         | 1,849         | 1,978         | 3.8               |
| Non-metallic minerals          | 1,130               | 1,344         | 1,422         | 1,504         | 1,610         | 3.1               |
| Other manufacturing industries | 372                 | 382           | 369           | 374           | 419           | 0.8               |
| <b>Total</b>                   | <b>45,308</b>       | <b>49,277</b> | <b>50,840</b> | <b>51,300</b> | <b>52,138</b> | <b>100.0</b>      |
| Manufacturing index(1)         | 106.9               | 114.3         | 116.7         | 117.8         | 120.7         |                   |

(1) Base 1992/93 = 100.

SALES OF THE MANUFACTURING SECTOR BY INDUSTRY GROUP  
YEAR ENDED 31 MARCH 1998



SOURCE: STATISTICS NEW ZEALAND

## **Service Industries**

The service sector accounted for around 58% of real GDP in June 1998 and employed 70% of the total labour force. Growth in the service industries has been strong throughout the latest cycle and particularly so in the 1994-1996 period.

Within the service sector, the trade, restaurants and hotels sector recorded annual growth rates of between 4% and 10% for much of the 1994-1996 period, with rising domestic incomes and strong tourism growth underpinning activity. However, over the last year or so, the sub-sector has slowed reflecting a fall-off in the growth of visitor arrivals and a slowing domestic economy.

The transport and communications sector has continued to grow strongly in the face of a slowing economy as well as increasing competition within the communications industry. Annual growth was running at around 3% in June 1998. Within the communications sector, the cellular communications market has grown at a fast pace and offers further potential for growth along with areas such as Internet services and video conferencing.

Strong economic activity, rising exports and imports and the growth in tourism have supported activity in the transport sector. Deregulation has also played a part in some areas, particularly ports, road transport, rail and aviation. This sector has also seen significant investment over the last year or two, adding new planes, ferries, buses, and upgrades at ports and airports including redevelopment of the terminal complex at Wellington International Airport and major extensions to terminals and runways at Auckland International Airport. This investment should allow continuing fast growth in the transport sector.

Growth in the finance and business sector has been relatively steady around 3% to 5% per annum over the last couple of years. Some parts of this sector, in particular the banking industry, are continuing to undergo restructuring.

The community, social and personal services sector showed strong growth over the June 1991 to June 1997 period, growing on average by around 6% per annum. This is nearly twice the average annual growth rate for the economy as a whole over this period. Rising incomes and growing tourist numbers contributed to this growth. There have been a number of large investment projects in this sector, such as the Museum of New Zealand in Wellington and casinos in Auckland and Christchurch. Growth has slowed over recent quarters, however, to be flat in the year to June 1998.

## **Financial Services**

In the mid-1980s most direct controls on the financial services sector were lifted. The result has been rapid growth in money market activity, the development of a sizeable secondary market in government securities, the introduction of a range of new financial instruments, including forward contracts, options and interest and exchange-rate futures, and the growing use of such devices to hedge interest-rate and exchange-rate risk.

As a result of the removal of entry barriers and restrictions, the financial services sector has grown rapidly, and many financial institutions now offer a wide range of competitive services. The most notable development has been the Reserve Bank Act 1989. The Act provides for a system of registration for banks and a policy of prudential supervision for such registered banks. The major concern of the prudential supervision policy is maintaining the stability of the financial system. The Act identifies price stability as the primary objective of monetary policy and gives the Reserve Bank greater autonomy in pursuit of that objective.

All inter-bank settlement and cheque-clearing is performed using modern and well-integrated computerised systems. Several banks offer banking services on the Internet. Most of the registered banks and a number of merchant banks operate in the wholesale banking area, while a number of registered banks provide mainly retail banking services.

The profitability of banks in New Zealand has been relatively strong over recent years. Although economic conditions in 1998 were somewhat less buoyant than previously, improved operational efficiency and historically low levels of provisioning meant that banks remained well-placed to improve their profitability. Nevertheless, the banking sector is very competitive and, as a consequence, interest margins are low by international standards.

## Transport

Transport is a major component of economic activity in New Zealand. The country's transport system owes its characteristics, not only to New Zealand's dependence on external trade and remoteness from many of its trading partners, but also to its rugged terrain and scattered population and the division of the country into two main islands spanning 2,011 kilometres in length. As a result, the establishment of a comprehensive network of roads (around 93,000 kilometres) and railways (4,200 kilometres) linked to ports and airports has involved capital costs that are high in relation to the size of the population. However, the efficiency of the country's internal transport system has played a critical role in New Zealand's economic growth.

Much of this transport infrastructure was developed and operated by government-owned monopolies. Over the past fifteen years, however, the transport sector has been systematically deregulated and legislative barriers to competition have been removed. Previously government-owned operations were corporatised and many have been sold.

Since 1983, domestic air services have been effectively deregulated. In 1986, the overseas investment restrictions on foreign ownership of New Zealand airlines were lifted. New Zealand's three major international airports and a number of provincial airports have been progressively restructured as limited liability companies. In 1998, Auckland and Wellington International Airports and a number of provincial airports were sold.

Since 1985, New Zealand's international aviation policy has been to encourage its negotiating partners in bilateral air services negotiations towards mutual liberalisation, thereby increasing competition in existing and potential markets. The number and scope of New Zealand's bilateral air service agreements has increased significantly in recent years, especially with Asian and Pacific Rim countries. New Zealand's air services agreements are regarded as being the most liberal in the world. Building on strong progress during 1997, New Zealand signed two further "open skies" agreements in 1998 with Brunei and Chile and secured improved air access to key markets within Europe.

New Zealand has progressively moved to a safety audit and monitoring approach in regard to the regulation of the transport sector. The general effect of this move has been to shift more responsibility for safety on to transport operators and other participants in the transport sector.

**Roading:** On 8 December 1998, the Government released a document outlining options for changes to the way the roading system is funded and managed. The deadline for submissions on the document is 30 April 1999, after which the Government will make decisions on a new road management system.

**Railways:** New Zealand's railway system connects all major population centres and includes three inter-island rail ferries. Until October 1990, the system was maintained and operated by the government-owned New Zealand Railways Corporation, which also operated a network of road passenger services and a nationwide parcel service in competition with private firms. In September 1993, the core business was sold to a consortium of New Zealand and overseas interests now operating as Tranzrail.

**Shipping:** Around 90% of New Zealand's total international trade is carried by sea. The vast majority of this is carried by about 30 foreign companies, with four New Zealand companies carrying around 10% of the total.

Benefits from the reform of New Zealand's port industry have been realised through corporatisation and privatisation of the ports and in lower stevedoring costs stemming from receptiveness to new technology, changes in conditions of employment and reduced manning levels. The number of waterside workers is estimated to have reduced by almost 60% following the implementation of reform legislation in May 1988.

Ship turnaround times have halved and New Zealand exporters have been able to negotiate lower freight rates as a result of the savings derived from port reforms.

In November 1994, the Government passed legislation to permit foreign vessels to compete in New Zealand's coastal trade from February 1995. This has provided further benefits for the economy, particularly through reducing transport costs and increasing the choice of coastal transport services for the manufacturing and agricultural sectors.

**Civil Aviation:** New Zealand has a large number of registered aircraft and licensed pilots per capita. Large aircraft are used for international and domestic freight and passenger transport. Light aircraft, including helicopters, are used extensively in agriculture, tourism and for scheduled services on provincial routes.

A total of 41 international airlines, including Air New Zealand, link New Zealand with the rest of the world with both freight and passenger services. International flights operate from a number of international airports, of which Auckland, Wellington and Christchurch are the most significant. Hamilton, Palmerston North, Queenstown and Dunedin are secondary airports used for international flights.

A large number of domestic airlines operate from 23 airports and aerodromes. Air New Zealand and Ansett New Zealand are the largest domestic operators of scheduled services while a number of smaller operators compete on predominantly provincial routes.

## Tourism

Tourism is one of the largest single sources of foreign-exchange revenue and a major growth industry in New Zealand. In the year to June 1998, foreign-exchange earnings of \$3.1 billion were generated from international visitors (excluding New Zealand's share of international airfare payments). This was an increase of 85% on earnings in 1988. The country's beautiful scenery, natural environment and a range of outdoor activities make New Zealand an increasingly popular tourist destination.

During the year ended December 1998, just over 1,485,000 overseas visitors entered New Zealand, a fall of 1% over the previous year. However, the drop in total tourist arrivals is directly attributed to a significant fall in tourists from Asia during the year. Asian tourist arrivals are now showing signs of recovery. Recent tourist numbers show improvements from a number of Asian countries including Thailand, Malaysia and China.

The largest number of visitors came from Australia (501,000 or 34% of the total), the United States (162,000 or 11%), Japan (153,000) and the United Kingdom (155,000).

Visitor expenditure has also risen. The New Zealand Tourism Board estimates that expenditure per visit increased from \$2,041 in the year ended September 1993 to \$2,356 in the year ended September 1998.

Markets such as Europe, Australia and North America have grown in importance to New Zealand's tourism industry over the past 18 months or so on the strength of favourable exchange rates. In particular, visitor arrivals from Australia increased by 10% over the past year and the US market has grown over 13% since December 1997.

The prospects for the tourist industry look positive with one-off events including the America's Cup, millennium 2000 celebrations, the APEC summit and the Sydney 2000 Olympics expected to make significant contributions to tourist arrivals throughout 1999 and 2000.

## Communications

New Zealand was the first country to expose its entire telecommunications market to full competition in 1989. Telecom New Zealand was privatised in August 1990 and today all major competitors are privately owned. Local telephone services are currently provided by Telecom New Zealand, Clear Communications and Telstra New Zealand. Saturn Communications provides local services in the wider Wellington area. In total, there are more than 25 different operators offering competing call services, with extensive competition in national and international toll services. Telecom New Zealand, Vodafone and Telstra New Zealand provide cellular services, and the total number of cellular connections is estimated to be close to 20% of the New Zealand population. Competition in New Zealand's telecommunications market is expected to remain intense, with the prospect of new competitors entering the market. Today New Zealand has one of the most sophisticated and comprehensive telecommunications networks of the world with more than 99% of its lines connected to digital exchanges.

Internet services and electronic commerce are other areas showing strong growth potential. With the entry of a number of major players into the Internet service provider market, New Zealand has seen a dramatic reduction in the cost of Internet access. These lowered costs, together with extensive publicity, have encouraged a high uptake of Internet access among New Zealanders. Today there are approximately 60 Internet service providers. With almost 180,000 Internet host computers, Internet penetration in New Zealand is one of the highest per capita in the world.

Until recently, most postal services were provided by New Zealand Post Limited, a commercially-run State-Owned Enterprise. New Zealand Post earns significant profits and has been able to maintain high service delivery standards while reducing prices across a wide range of its services over the last several years. In 1998, the Government enacted the Postal Services Act which removed New Zealand Post's statutory monopoly for delivery of standard letters from 1 April 1998. As a result, there are now 19 registered postal operators in the standard letters market offering a range of lower-cost options. It is expected that there will be continued growing competition as a result of the deregulation. There are also a number of private sector courier companies.

Two national radio networks are provided by Radio New Zealand Limited, a Crown Entity. There are numerous private radio stations. Television New Zealand Limited, a State-Owned Enterprise, provides two national television channels. as does CanWest, a private television operator. Pay TV services are provided by a 20-channel UHF television broadcast service and new cable television services are being developed. Further non-commercial and regional television services are developing.

There are six major daily metropolitan newspapers in the main centres and numerous provincial and community newspapers, all of which are privately owned.

## America's Cup 2000

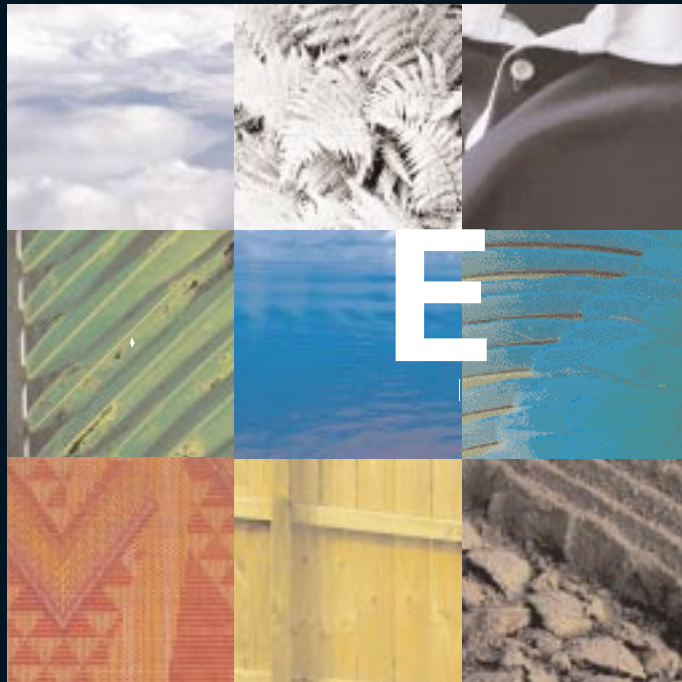


Team New Zealand and Pact 2000 from the New York Yacht Club in action during the "Road to the America's Cup" regatta, Auckland Harbour, March 1997.



The New Zealand Cup Village development at Auckland's Viaduct Basin is transforming a disused warehouse precinct into a world-class sailing, entertainment and residential venue right in the heart of the city. This is the first ever purpose-built Cup village, housing 12 America's Cup syndicates and with moorings for around 90 super yachts.

The America's Cup challenger series, the Louis Vuitton Cup, kicks off in October 1999 with up to 16 potential challengers from 11 countries. The America's Cup itself starts on February 19, 2000.



New Zealand assumed the Chair of APEC in November 1998. During 1999, various New Zealand cities will host a series of APEC business leaders', officials' and Ministerial meetings, culminating in the APEC Leaders' meeting in Auckland in September.

# External Sector

## External Trade

External trade is of fundamental importance to New Zealand. New Zealand remains reliant on exports of commodity-based products as a main source of export receipts and relies on imports of raw materials and capital equipment for industry, making New Zealand strongly trade-oriented.

New Zealand remains committed to a reduction of world-wide trade barriers and to the unilateral removal of its own barriers. Since reforms began in 1984, tariffs have been systematically reduced and quantitative controls on imported goods eliminated. Currently over 95% of goods come into New Zealand tariff free. On 29 September 1998, the Government announced that all remaining tariffs will be phased out by 2006. This is four years ahead of the 2010 APEC zero tariff deadline. Tariffs will continue to reduce each year bar one from 1998 until their complete removal in 2006. Tariffs on passenger cars and vans were removed in the 1998 Budget.

New Zealand is a member of the Cairns group, which successfully pushed for liberalisation of agricultural trade in the Uruguay Round of GATT. New Zealand will also be helping to build a consensus for scheduled WTO negotiations to form part of a new comprehensive Round. Agriculture and services are of prime importance to the New Zealand economy and are already mandated for negotiation. New Zealand will be working with other like-minded countries to reduce barriers to trade in goods and services (including eliminating subsidies and export incentives), and provide improved market access (lowering tariffs and increasing tariff quotas) for New Zealand exporters.

Prior to the start of the new Round (currently scheduled to begin in 2000) New Zealand will host APEC in 1999. This will include 21 member countries from around the Asia-Pacific region (Russia, Vietnam and Peru are the newest members to join). In its role as Chair, New Zealand will be seeking to advance progress to meet the APEC goals of free trade and investment by 2010 for developed countries (2020 for developing countries). Hosting APEC will also provide an opportunity to build APEC support for the start of the new WTO Round.

New Zealand is ready to enter into discussions with any interested trading partners on the possibility of new preferential bilateral or regional free trade arrangements, provided such arrangements are outward-looking and WTO-consistent.

## Merchandise Trade

Export volumes of goods grew strongly in the period from 1990 to 1997, averaging over 5% growth per year. Export volumes then fell 1.1% in the year ended June 1998, reflecting the effects of the Asian crisis and the drought which affected agricultural production. However, in the year ended June 1998, the total value of merchandise exports rose by 3.4% to \$21.7 billion, with the increase in returns to exporters caused by the appreciation of the exchange rate outweighing the reduction in volumes.

Merchandise imports in the year to June 1998 rose by 5.9% to \$22.6 billion. Import growth was strong in the first half of 1998, with the effects of the fall in the exchange rate slow to feed through to the trade balance. However, more recent statistics indicate a fall-off in imports and some improvement in the export position. The strength of imports relative to exports during 1997/98 has seen the annual trade balance move from a \$291 million deficit in June 1997 to a \$844 million deficit in June 1998.

## Trade in Services

Trade in services is dominated by tourist flows and the tourism industry is one of the most important sectors of the New Zealand economy. Visitors from Asia declined 28% over the year reflecting economic weakness in a number of major tourist markets such as Korea, Japan and Thailand. However, strong visitor growth from Australia, the US and Europe (tourists who tend to stay longer and spend more) as a result of a favourable exchange rate resulted in broadly stable service export growth throughout 1998.

Steady import service growth in combination with broadly flat service export growth has led to a deterioration in the services balance over the past year.

The following table records the total value of exports and imports of goods since 1994.

### Balance of External Merchandise Trade

| Year ended 30 June | Exports<br>(FOB)(1)          | Imports<br>(CIF) | Balance<br>of Trade | Exports<br>as a % of<br>Imports |
|--------------------|------------------------------|------------------|---------------------|---------------------------------|
|                    | (dollar amounts in millions) |                  |                     |                                 |
| 1994               | 19,827                       | 18,469           | 1,358               | 107.4                           |
| 1995               | 20,790                       | 21,261           | (471)               | 97.8                            |
| 1996               | 20,546                       | 21,352           | (807)               | 96.2                            |
| 1997               | 21,033                       | 21,324           | (291)               | 98.6                            |
| 1998(2)            | 21,747                       | 22,591           | (844)               | 96.3                            |

(1) Includes re-exports

(2) Provisional

### Terms of Trade

The Terms of Trade Index rose 1.2% in the quarter ended September 1998 compared with the same quarter the previous year. Export prices rose by 6.7% over the year. This rise largely reflected the lower exchange rate, strong export prices for dairy products, a strengthening in international prices for fish and fish products, and seasonal factors. Import prices rose 5.4% over the same period resulting in the increase in the terms of trade index.

### Terms of Trade

|      |              | Exports<br>Price Index (1) |       | Imports<br>Price Index (1) |       | Terms of Trade<br>Index (2) |       |
|------|--------------|----------------------------|-------|----------------------------|-------|-----------------------------|-------|
| 1994 | March        | .... 1059                  | (6.5) | 1071                       | (6.0) | 1126                        | (0.6) |
|      | June         | .... 1048                  | (6.5) | 1075                       | (4.4) | 1110                        | (2.3) |
|      | September    | .... 1057                  | (4.7) | 1080                       | (3.4) | 1114                        | (1.4) |
|      | December     | .... 1079                  | 2.0   | 1078                       | (0.4) | 1140                        | 2.4   |
| 1995 | March        | .... 1072                  | 1.2   | 1083                       | 1.1   | 1127                        | 0.1   |
|      | June         | .... 1014                  | (3.2) | 1064                       | (1.0) | 1085                        | (2.3) |
|      | September    | .... 1036                  | (2.0) | 1082                       | 0.2   | 1090                        | (2.2) |
|      | December     | .... 1050                  | (2.7) | 1070                       | (0.7) | 1117                        | (2.0) |
| 1996 | March        | .... 1035                  | (3.5) | 1069                       | (1.3) | 1102                        | (2.2) |
|      | June         | .... 1007                  | (0.7) | 1056                       | (0.8) | 1086                        | 0.1   |
|      | September    | .... 1008                  | (2.7) | 1036                       | (4.3) | 1108                        | 1.7   |
|      | December     | .... 975                   | (7.1) | 1027                       | (4.0) | 1081                        | (3.2) |
| 1997 | March        | .... 970                   | (6.6) | 1020                       | (4.6) | 1083                        | (2.0) |
|      | June         | .... 965                   | (4.2) | 1021                       | (4.6) | 1076                        | (0.9) |
|      | September    | .... 979                   | (2.9) | 1047                       | 1.1   | 1065                        | (3.9) |
|      | December     | .... 1002                  | 2.8   | 1053                       | 2.5   | 1084                        | 0.3   |
| 1998 | March        | .... 1015                  | 4.6   | 1050                       | 2.9   | 1101                        | 1.7   |
|      | June(3)      | .... 1017                  | 5.4   | 1089                       | 6.6   | 1063                        | (1.2) |
|      | September(3) | .... 1045                  | 6.7   | 1104                       | 5.4   | 1078                        | 1.2   |

(1) Base: Year ended June 1989 = 1000

(2) Base: Average of 10 years ended June 1989 = 1000

(3) Provisional

Percentages represent change over the same quarter of the previous year .

## Composition of Merchandise Exports and Imports

Agricultural products still provide the foundation for New Zealand's economy. While the agricultural sector has suffered over the past year due to a significant drought in the summer of 1997/98, agricultural products remain an extremely important component of merchandise exports. Meat, wool and dairy products are the most important merchandise exports - together they accounted for around 34% of total merchandise exports in the year ended June 1998.

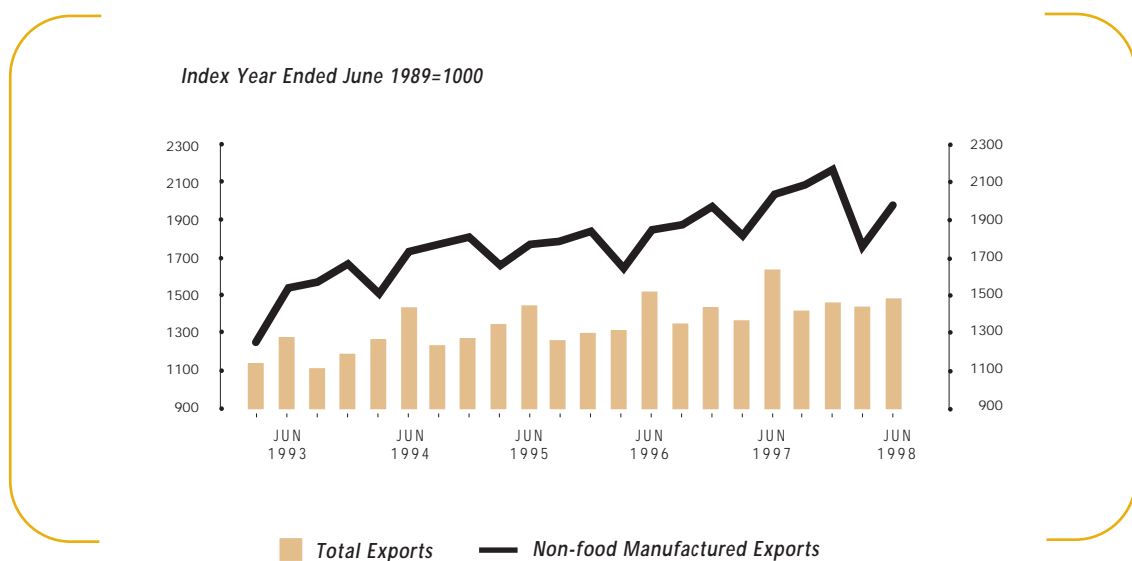
The agricultural sector is highly efficient and has increased the value-added component in agricultural exports. In an effort to move away from traditional commodity markets, two thirds of sheep-meat exports are processed beyond the carcass stage compared with only 17% in 1981, and a high proportion of dairy products are processed and packaged as consumer products. Agricultural exporters are also developing new export markets. For example the dairy industry exports over 90% of total milk production to a total of 120 markets world-wide. It now claims an estimated 31% of total world dairy exports and earns over 60% of its income from global sales of consumer, food service and specialised ingredient products.

New Zealand's export base has widened, as other sectors expand their relative contribution to export revenue. Even though exports of forestry products, fish and horticultural products have suffered recently due to the Asian crisis, their contribution to export earnings has increased considerably. In 1971 the value of exports from these products comprised around 8% of total revenue. In the year ended June 1998 it was over 18%.

The manufacturing sector has been a major source of export growth and diversification over the past decade. Exports of non-food manufactured goods have grown an average of over 7% since 1990 and now account for over 36% of total merchandise exports. The Closer Economic Relations agreement has contributed to a successful expansion by manufacturers into the Australian market. A focus on design, reliability and cost is also seeing manufacturers make inroads into other markets, particularly Asia and the United States. Despite New Zealand's geographical position, it now exports a range of manufactured goods, including plastic goods, carpets and textiles, wines and high-tech computer equipment to countries throughout the world.

As New Zealand has become more internationally oriented, imports have also played a larger role in the economy. In real terms, imports have increased by over 70% over the past ten years, reflecting both tariff reductions and a higher degree of value-added in the manufacturing sector.

### INDEX OF EXPORT VOLUMES YEAR TO DATE



SOURCE: STATISTICS NEW ZEALAND

The following tables show the dollar amounts and percentage distribution of New Zealand's major exports and imports.

### Composition of Principal Merchandise Exports

|                                     | 1994          | 1995          | Year ended 30 June |               | 1998          | 1998<br>% of Total |
|-------------------------------------|---------------|---------------|--------------------|---------------|---------------|--------------------|
|                                     |               |               | 1996               | 1997          |               |                    |
| (dollar amounts in millions)        |               |               |                    |               |               |                    |
| Dairy products etc                  | 2,820         | 2,748         | 2,982              | 3,515         | 3,718         | 17.5               |
| Meat and edible meat offal          | 2,874         | 2,613         | 2,655              | 2,730         | 2,893         | 13.6               |
| Wood and articles of wood           | 1,676         | 1,645         | 1,531              | 1,565         | 1,384         | 6.5                |
| Fish, crustaceans and molluscs      | 1,102         | 1,106         | 1,135              | 1,014         | 1,008         | 4.7                |
| Aluminium and articles thereof      | 676           | 866           | 816                | 811           | 957           | 4.5                |
| Wool and other animal fibre         | 1,054         | 1,253         | 1,034              | 947           | 907           | 4.3                |
| Fruit and nuts                      | 762           | 741           | 818                | 778           | 889           | 4.2                |
| Mechanical machinery                | 636           | 690           | 698                | 758           | 862           | 4.1                |
| Casein and caseinates               | 559           | 509           | 557                | 569           | 652           | 3.1                |
| Electrical machinery                | 393           | 449           | 481                | 516           | 619           | 2.9                |
| Raw hides and skins                 | 646           | 664           | 729                | 663           | 597           | 2.8                |
| Paper and paperboard                | 417           | 431           | 523                | 410           | 486           | 2.3                |
| Iron and steel and articles thereof | 442           | 420           | 436                | 417           | 451           | 2.1                |
| Mineral fuels                       | 448           | 333           | 371                | 551           | 439           | 2.1                |
| Wood pulp                           | 335           | 500           | 477                | 357           | 357           | 1.7                |
| Organic Chemicals                   | 201           | 598           | 272                | 431           | 347           | 1.6                |
| Vegetables                          | 314           | 319           | 290                | 271           | 333           | 1.6                |
| Plastics and articles thereof       | 230           | 262           | 264                | 261           | 280           | 1.3                |
| Animal originated products          | 265           | 262           | 273                | 296           | 280           | 1.3                |
| Gold, stones and pearls, etc        | 314           | 315           | 307                | 263           | 246           | 1.2                |
| All other commodities               | 3,003         | 3,341         | 3,308              | 3,281         | 3,547         | 16.7               |
| <b>TOTAL NEW ZEALAND PRODUCE</b>    | <b>19,166</b> | <b>20,065</b> | <b>19,959</b>      | <b>20,405</b> | <b>21,250</b> | <b>100.0</b>       |
| Re-exports                          | 661           | 725           | 587                | 628           | 498           |                    |
| Total Merchandise Exports f.o.b.    | 19,827        | 20,790        | 20,546             | 21,033        | 21,748        |                    |

### Composition of Principal Merchandise Imports

|   | 1994          | 1995          | Year ended 30 June |               | 1998          | 1998<br>% of Total |
|---|---------------|---------------|--------------------|---------------|---------------|--------------------|
|   |               |               | 1996               | 1997          |               |                    |
| (dollar amounts in millions)              |               |               |                    |               |               |                    |
| Mechanical machinery                      | 2,824         | 3,147         | 3,414              | 3,109         | 3,387         | 16.1               |
| Electrical machinery                      | 1,711         | 2,058         | 2,142              | 2,124         | 2,234         | 10.6               |
| Vehicles                                  | 1,991         | 2,474         | 2,491              | 2,439         | 2,094         | 10.0               |
| Mineral fuels                             | 968           | 1,029         | 1,180              | 1,317         | 1,230         | 5.9                |
| Plastics and articles thereof             | 757           | 874           | 844                | 829           | 877           | 4.2                |
| Optical, photographic, etc                | 590           | 627           | 633                | 650           | 721           | 3.4                |
| Ships, boats and floating structures      | 72            | 86            | 114                | 298           | 665           | 3.2                |
| Pharmaceutical products                   | 505           | 498           | 537                | 531           | 606           | 2.9                |
| Paper and paperboard                      | 425           | 501           | 538                | 569           | 597           | 2.8                |
| Apparel: not knitted or crocheted         | 257           | 297           | 330                | 360           | 424           | 2.0                |
| Aircraft                                  | 430           | 1,086         | 299                | 303           | 381           | 1.8                |
| Iron or steel articles                    | 246           | 286           | 342                | 321           | 339           | 1.6                |
| Apparel and clothing accessories; knitted | 206           | 260           | 244                | 283           | 338           | 1.6                |
| Printed books, newspapers, etc            | 305           | 320           | 306                | 314           | 329           | 1.6                |
| Iron and steel                            | 331           | 354           | 350                | 348           | 328           | 1.6                |
| Chemical products n.e.s.                  | 247           | 236           | 247                | 262           | 264           | 1.3                |
| Rubber and articles thereof               | 230           | 248           | 268                | 250           | 263           | 1.2                |
| Toys, games, sports requisites            | 171           | 179           | 215                | 233           | 251           | 1.2                |
| Organic chemicals                         | 167           | 230           | 205                | 202           | 208           | 1.0                |
| Inorganic chemicals                       | 142           | 154           | 159                | 164           | 170           | 0.8                |
| All other commodities                     | 4,444         | 4,801         | 4,938              | 4,878         | 5,304         | 25.2               |
| <b>TOTAL MERCHANDISE IMPORTS v.f.d</b>    | <b>17,019</b> | <b>19,745</b> | <b>19,798</b>      | <b>19,785</b> | <b>21,010</b> | <b>100.0</b>       |
| c.i.f. Value                              | 18,469        | 21,261        | 21,352             | 21,324        | 22,589        |                    |

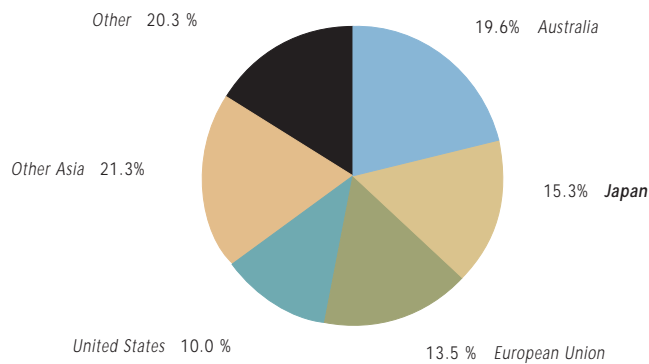
## Geographic Distribution of External Trade

New Zealand's trading relationships are becoming increasingly dominated by Pacific Rim economies. New Zealand's three largest export markets - Australia, Japan and the United States - account for 46% of New Zealand's exports and 54% of its imports.

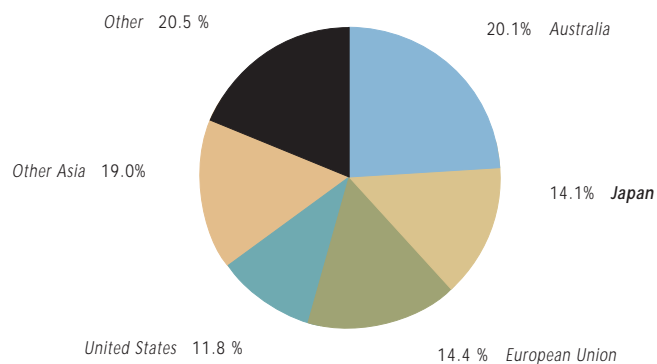
The United Kingdom, once New Zealand's traditional export market, now accounts for just over 6% of its exports compared to 70% in 1950.

The major Asian markets (excluding Japan) accounted for over 18% of New Zealand's total merchandise exports in the year to June 1998. These markets also provide around 14% of New Zealand's imports.

GEOGRAPHIC DISTRIBUTION OF EXPORTS  
YEAR ENDED 30 JUNE 1997



GEOGRAPHIC DISTRIBUTION OF EXPORTS  
YEAR ENDED 30 JUNE 1998



SOURCE: STATISTICS NEW ZEALAND

## Geographic Distribution of New Zealand's Trade

|                            | EXPORTS(1)(2)                |             |               |             |               |             |               |             |               |             |
|----------------------------|------------------------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|
|                            | 1994                         |             | 1995          |             | 1996          |             | 1997          |             | 1998          |             |
|                            | Year ended 30 June           |             |               |             |               |             |               |             |               |             |
|                            | (dollar amounts in millions) |             |               |             |               |             |               |             |               |             |
| Australia                  | 3,844                        | 20.1        | 4,094         | 20.4        | 3,967         | 19.9        | 3,997         | 19.6        | 4,276         | 20.1        |
| Japan                      | 2,877                        | 15.0        | 3,409         | 17.0        | 3,282         | 16.4        | 3,131         | 15.3        | 2,991         | 14.1        |
| United States              | 2,175                        | 11.3        | 2,004         | 10.0        | 1,813         | 9.1         | 2,044         | 10.0        | 2,508         | 11.8        |
| United Kingdom             | 1,163                        | 6.1         | 1,227         | 6.1         | 1,233         | 6.2         | 1,339         | 6.6         | 1,296         | 6.1         |
| Korea, Republic of         | 928                          | 4.8         | 1,034         | 5.2         | 1,027         | 5.1         | 977           | 4.8         | 723           | 3.4         |
| Hong Kong                  | 475                          | 2.5         | 575           | 2.9         | 664           | 3.3         | 569           | 2.8         | 619           | 2.9         |
| China, Peoples Republic of | 519                          | 2.7         | 543           | 2.7         | 519           | 2.6         | 559           | 2.7         | 603           | 2.8         |
| Taiwan                     | 500                          | 2.6         | 627           | 3.1         | 570           | 2.9         | 553           | 2.7         | 554           | 2.6         |
| Germany                    | 484                          | 2.5         | 496           | 2.5         | 497           | 2.5         | 508           | 2.5         | 567           | 2.7         |
| Belgium                    | 238                          | 1.2         | 223           | 1.1         | 221           | 1.1         | 306           | 1.5         | 466           | 2.2         |
| Malaysia                   | 389                          | 2.0         | 394           | 2.0         | 465           | 2.3         | 486           | 2.4         | 437           | 2.1         |
| Italy                      | 260                          | 1.4         | 285           | 1.4         | 330           | 1.7         | 300           | 1.5         | 391           | 1.8         |
| Singapore                  | 256                          | 1.3         | 262           | 1.3         | 289           | 1.4         | 275           | 1.3         | 366           | 1.7         |
| EU-Destination Unknown     | 304                          | 1.6         | 313           | 1.6         | 343           | 1.7         | 292           | 1.4         | 347           | 1.6         |
| Phillipines                | 200                          | 1.0         | 194           | 1.0         | 218           | 1.1         | 295           | 1.4         | 296           | 1.4         |
| Canada                     | 356                          | 1.9         | 284           | 1.4         | 291           | 1.5         | 309           | 1.5         | 275           | 1.3         |
| Russia                     | 134                          | 0.7         | 137           | 0.7         | 177           | 0.9         | 281           | 1.4         | 259           | 1.2         |
| Thailand                   | 185                          | 1.0         | 253           | 1.3         | 256           | 1.3         | 279           | 1.4         | 243           | 1.1         |
| Indonesia                  | 207                          | 1.1         | 300           | 1.5         | 305           | 1.5         | 368           | 1.8         | 215           | 1.0         |
| Other                      | 3,672                        | 19.2        | 3,411         | 17.0        | 3,492         | 17.5        | 3,537         | 17.3        | 3,818         | 18.0        |
| <b>Total</b>               | <b>19,166</b>                | <b>100%</b> | <b>20,065</b> | <b>100%</b> | <b>19,959</b> | <b>100%</b> | <b>20,405</b> | <b>100%</b> | <b>21,250</b> | <b>100%</b> |

(1) Free on Board

(2) Excludes Re-exports

|                            | IMPORTS(1)                   |             |               |             |               |             |               |             |               |             |
|----------------------------|------------------------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|---------------|-------------|
|                            | 1994                         |             | 1995          |             | 1996          |             | 1997          |             | 1998          |             |
|                            | Year ended 30 June           |             |               |             |               |             |               |             |               |             |
|                            | (dollar amounts in millions) |             |               |             |               |             |               |             |               |             |
| Australia                  | 3,657                        | 21.5        | 4,146         | 21.0        | 4,649         | 23.5        | 4,770         | 24.1        | 5,279         | 25.1        |
| United States              | 3,073                        | 18.1        | 4,022         | 20.4        | 3,414         | 17.2        | 3,373         | 17.0        | 3,727         | 17.7        |
| Japan                      | 2,694                        | 15.8        | 2,916         | 14.8        | 2,628         | 13.3        | 2,588         | 13.1        | 2,325         | 11.1        |
| United Kingdom             | 1,037                        | 6.1         | 1,233         | 6.2         | 1,077         | 5.4         | 1,059         | 5.4         | 1,123         | 5.3         |
| China, Peoples Republic of | 517                          | 3.0         | 644           | 3.3         | 713           | 3.6         | 822           | 4.2         | 1,028         | 4.9         |
| Germany                    | 754                          | 4.4         | 911           | 4.6         | 980           | 4.9         | 885           | 4.5         | 932           | 4.4         |
| Taiwan                     | 487                          | 2.9         | 537           | 2.7         | 498           | 2.5         | 548           | 2.8         | 523           | 2.5         |
| Italy                      | 448                          | 2.6         | 428           | 2.2         | 503           | 2.5         | 456           | 2.3         | 455           | 2.2         |
| Malaysia                   | 203                          | 1.2         | 257           | 1.3         | 406           | 2.1         | 372           | 1.9         | 423           | 2.0         |
| Korea, Republic of         | 273                          | 1.6         | 309           | 1.6         | 350           | 1.8         | 381           | 1.9         | 408           | 1.9         |
| Canada                     | 263                          | 1.5         | 281           | 1.4         | 383           | 1.9         | 350           | 1.8         | 395           | 1.9         |
| France                     | 295                          | 1.7         | 332           | 1.7         | 499           | 2.5         | 303           | 1.5         | 367           | 1.7         |
| Saudi Arabia               | 339                          | 2.0         | 255           | 1.3         | 302           | 1.5         | 398           | 2.0         | 334           | 1.6         |
| Singapore                  | 280                          | 1.6         | 378           | 1.9         | 386           | 1.9         | 338           | 1.7         | 327           | 1.6         |
| Switzerland                | 201                          | 1.2         | 188           | 1.0         | 204           | 1.0         | 173           | 0.9         | 277           | 1.3         |
| Sweden                     | 301                          | 1.8         | 340           | 1.7         | 326           | 1.6         | 327           | 1.7         | 272           | 1.3         |
| Thailand                   | 134                          | 0.8         | 142           | 0.7         | 151           | 0.8         | 167           | 0.8         | 221           | 1.1         |
| Netherlands                | 195                          | 1.1         | 215           | 1.1         | 221           | 1.1         | 221           | 1.1         | 196           | 0.9         |
| Indonesia                  | 130                          | 0.8         | 183           | 0.9         | 211           | 1.1         | 196           | 1.0         | 184           | 0.9         |
| Belgium                    | 123                          | 0.7         | 135           | 0.7         | 151           | 0.8         | 172           | 0.9         | 179           | 0.9         |
| Other                      | 1,617                        | 9.5         | 1,893         | 9.6         | 1,747         | 8.8         | 1,886         | 9.5         | 2,036         | 9.7         |
| <b>Total</b>               | <b>17,019</b>                | <b>100%</b> | <b>19,745</b> | <b>100%</b> | <b>19,798</b> | <b>100%</b> | <b>19,785</b> | <b>100%</b> | <b>21,010</b> | <b>100%</b> |

(1) Value for Duty

## Principal Trading Partners

Australia: Australia is New Zealand's largest trading partner. In the year ended 30 June 1998, bilateral trade amounted to \$9,555 million, or around 23% of total exports and imports.

Trade across the Tasman Sea has flourished since the Australia New Zealand Closer Economic Relations Trade Agreement (CER) came into operation in 1983. The original objective of CER was to join the two countries in a free trade area by 1995. The agreement was extended to cover trade in services from 1 January 1989. This provision makes CER the most comprehensive agreement of its kind in the world. Following a review of the agreement in 1988, full free trade in goods was achieved on 1 July 1990, four years ahead of schedule. The two countries also agreed to work towards the harmonisation of administrative procedures in the areas of quarantine, customs and business law, and to restrict the use of industrial assistance policies affecting bilateral trade. There has long been free movement of labour between the two countries.

The 1996 annual review of CER by Trade Ministers resulted in signing further major agreements, the most significant being the Trans-Tasman Mutual Recognition Agreement, which was implemented in May 1998. Under this agreement any goods that can be sold legally in New Zealand may also be sold in Australia, and vice versa, and any person registered to practise an occupation in one country can practise the same occupation in the other.

United States: In 1998 the United States replaced Japan as New Zealand's second largest trading partner, with bilateral trade amounting to \$6,235 million in the year ended 30 June. The United States has been one of New Zealand's largest export markets for many years, and is a major supplier of imports. Exports to the US recorded a 24% increase over the year to June 1998, and comprised 12% of New Zealand's total exports. In the same year, the United States supplied 18% of New Zealand's total imports, the major categories being heavy industrial goods, aircraft and technology.

New Zealand's major exports to the United States are beef, casein (milk derivative), lamb, fish, timber, and a growing range of manufactured goods. The development of trade in dairy products has been constrained by long-standing quotas on these items.

Japan: Japan is New Zealand's third largest trading partner, with bilateral trade amounting to \$5,316 million in the year ended 30 June 1998.

Japan continues to be one of New Zealand's key single export markets (second only to Australia), taking around 14% of total exports in the year ended June 1998. Exports to Japan have, however, fallen 4% over the last year, reflecting a domestic downturn and the financial crisis in Asia more broadly. Forestry products constitute the largest category of exports to Japan - wood and wood articles make up 17% of exports to Japan, and wood pulp 3%. Japan is also a key market for aluminium, taking over half of total exports. Other important commodities include fish, meat, dairy products, vegetables and fruit. As a result of the Asian financial crisis, exports of key commodities, in particular wood and aluminium products, have fallen over the past year. However, recent trends suggest that exports of these commodities are beginning to return to pre-crisis levels.

Japan is also a major supplier of New Zealand's imports, providing over 11% of total imports in the year to June 1998. Imports from Japan are dominated by technology intensive appliances. Vehicles account for just over 40% and mechanical and electrical machinery account for just over a quarter of total imports from Japan.

New Zealand is a popular tourist destination for Japanese. However, due to continued financial instability in Japan, tourism fell from 161,000 in the December 1997 year to 153,000 in the year to December 1998. Currently Japan is the fourth largest source of New Zealand tourist arrivals.

**European Union:** The members of the European Union are important trading partners for New Zealand. Together, the Union members constitute New Zealand's second biggest export market, taking 18% of exports. While the European Union is a relatively open market for non-agricultural goods, New Zealand remains concerned about the Union's access restrictions on agricultural products and the impact of its agricultural export policies on New Zealand's trade in third markets.

**Asian Economies:** The Asian economies of the Republic of Korea, Taiwan, Hong Kong, China, Malaysia, Indonesia, Singapore, Thailand and the Philippines continue to be important trading partners for New Zealand despite the region's recent economic crisis. These countries are all in the 20 largest export markets for New Zealand and accounted for 18% of merchandise exports in the year ended June 1998.

At the aggregate level, the proportion of exports taken by Asia has fallen over the past year, from 38.5% to 35.5%. Although exports to China, Hong Kong and Singapore increased, total exports to North Asia fell 5%, and exports to South East Asia fell 9%. The impact of Asia's economic and financial crisis is expected to have a negative impact on New Zealand exports for some time, offset in part by the depreciation of the New Zealand dollar. However, with extensive restructuring of the affected economies taking place, the longer-term prospects for economic growth in the region are expected to continue to be favourable.

## Foreign Investment Policy

New Zealand welcomes foreign investment. New Zealand's regulations governing foreign investment are liberal by international standards. There are no rules on the maximum level of equity interest a foreign investor may take in a New Zealand enterprise, except with respect to ownership of domestic fishing quotas, Telecom and Air New Zealand (in accordance with international aviation conventions).

There are no restrictions on the movement of funds in or out of New Zealand, or on repatriation of profits. No additional performance measures are imposed on foreign-owned enterprises.

An application to the Overseas Investment Commission (OIC) must be made by non-residents planning to invest more than \$10 million establishing a business, or to purchase an equity share of greater than 25% in a New Zealand company worth more than \$10 million. OIC approval is also required to invest in land over five hectares, islands, the foreshore or reserves. It is rare for investment applications to be declined.

## Foreign Investment Inflows

|                                  | Year ended 31 March          |       |       |       |         |
|----------------------------------|------------------------------|-------|-------|-------|---------|
|                                  | 1994                         | 1995  | 1996  | 1997  | 1998    |
|                                  | (dollar amounts in millions) |       |       |       |         |
| Net Foreign Direct Investment    | 4,538                        | 4,100 | 5,360 | 2,026 | 3,609   |
| Net Foreign Portfolio Investment | 5,582                        | 1,459 | 3,205 | 1,584 | (1,770) |

The stock of foreign direct investment in New Zealand has increased every year since 31 March 1989 (the first year statistics were published). It now stands at \$64.5 billion as at 31 March 1998.

Australia and the US are the largest contributors to total foreign direct investment in New Zealand, with investments worth \$19.2 billion and \$15.9 billion respectively. The United Kingdom is the third largest investor with a total of \$8.5 billion.

## Balance of Payments

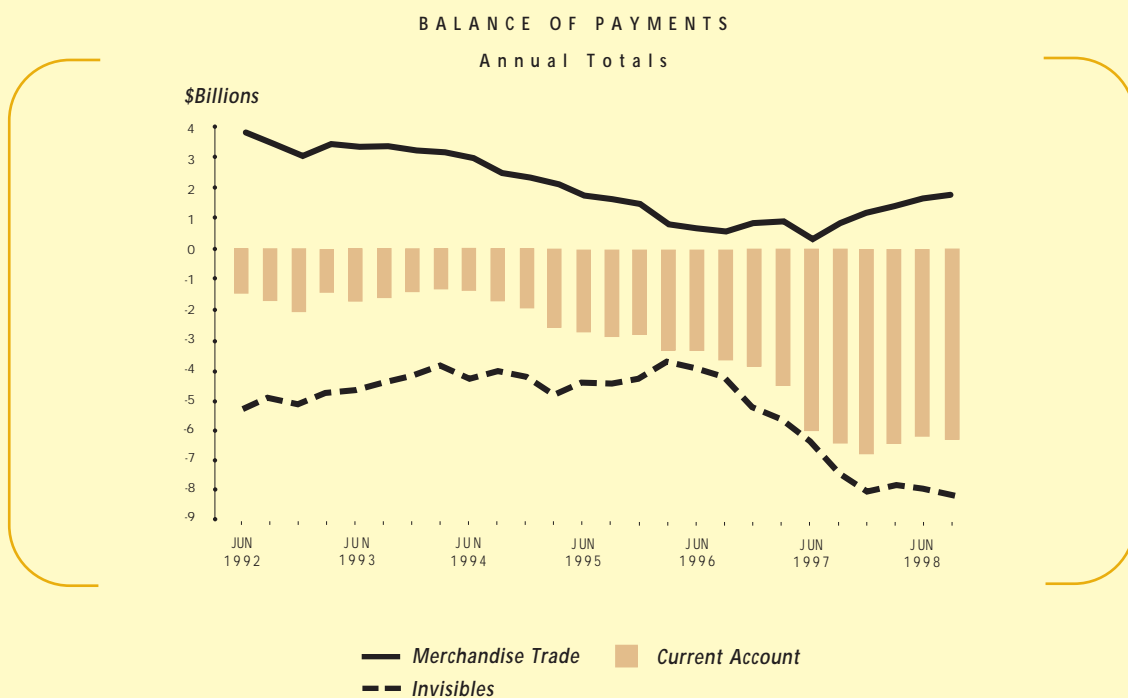
The gradual increase in New Zealand's current account deficit during the mid-to-late 1990s has been largely due to a rising deficit on invisibles, reflecting in part strong foreign investment flows into New Zealand and high rates of return on foreign investments in New Zealand. The deficit peaked at 7.0% of GDP in the year to December 1997 and eased to 6.6% of GDP by September 1998. Net exports of goods and services have come under some pressure from weakening growth in East Asia but overall are holding up with a slight surplus.

Balance of payments statistics are compiled by the Government following principles established by the International Monetary Fund.

### Balance of Payments

|                                       | Year ended 31 March |          |          |          |          | Year Ended<br>September<br>1998(2) |
|---------------------------------------|---------------------|----------|----------|----------|----------|------------------------------------|
|                                       | 1994(1)             | 1995(1)  | 1996(1)  | 1997(2)  | 1998(2)  |                                    |
| (dollar amounts in millions)          |                     |          |          |          |          |                                    |
| <b>Current Account:</b>               |                     |          |          |          |          |                                    |
| Export Receipts                       | 19,517              | 20,615   | 20,168   | 20,592   | 21,706   | 22,143                             |
| Import Payments                       | (16,382)            | (18,522) | (19,303) | (19,715) | (20,447) | (20,536)                           |
| Merchandise Trade Balance             | 3,135               | 2,093    | 866      | 877      | 1,259    | 1,607                              |
| Invisibles Balance(3)                 | (3,950)             | (4,735)  | (3,780)  | (5,557)  | (7,749)  | (8,075)                            |
| Current Account Balance               | (815)               | (2,644)  | (2,914)  | (4,680)  | (6,490)  | (6,468)                            |
| Deficit as % of GDP                   | (1.0%)              | (3.1%)   | (3.2%)   | (4.9%)   | (6.6%)   | (6.6%)                             |
| Capital Transactions (Net):           |                     |          |          |          |          |                                    |
| Official                              | (634)               | (1,400)  | (1,325)  | (1,354)  | (309)    | NA                                 |
| Private(4)                            | 1,360               | 5,116    | 8,930    | 5,374    | 5,420    | NA                                 |
| Residual                              | 88                  | (1,072)  | (4,692)  | 659      | 1,397    | NA                                 |
| Net Apparent Capital Inflow (Outflow) | 1,543               | 2,265    | 3,587    | 5,229    | 5,829    | NA                                 |
| Reserves:                             |                     |          |          |          |          |                                    |
| Net Change in Holdings                | 738                 | (813)    | 653      | (253)    | 1,072    | NA                                 |
| Net Change in Transactions            | 729                 | (379)    | 675      | 614      | (659)    | NA                                 |

- (1) Revised.  
 (2) Provisional.  
 (3) Includes migrants' transfers.  
 (4) "Private " may include some residual official sector data.



## Foreign-Exchange Rates and Overseas Reserves

### Foreign-Exchange Rates

The New Zealand dollar has floated freely since March 1985. Since the exchange rate was floated, the Reserve Bank has not intervened directly in the foreign-exchange market to influence the value of the dollar. There are no exchange controls on foreign-exchange transactions undertaken in New Zealand, either by New Zealand residents or non-residents.

| Last Business Day in June | U.S.A.                     | Japan                     | Trade-                                |
|---------------------------|----------------------------|---------------------------|---------------------------------------|
|                           | Mid-rate US\$<br>per NZ\$1 | Mid-rate<br>Yen per NZ\$1 | Weighted<br>Exchange Rate<br>Index(1) |
| 1994                      | 0.5947                     | 58.72                     | 56.8                                  |
| 1995                      | 0.6695                     | 56.50                     | 61.2                                  |
| 1996                      | 0.6846                     | 74.68                     | 65.1                                  |
| 1997                      | 0.6788                     | 77.81                     | 66.8                                  |
| 1998                      | 0.5070                     | 72.15                     | 56.9                                  |
| July                      | 0.5152                     | 73.92                     | 57.8                                  |
| August                    | 0.4961                     | 70.02                     | 56.8                                  |
| September                 | 0.5037                     | 67.53                     | 55.7                                  |
| October                   | 0.5277                     | 61.72                     | 55.8                                  |
| November                  | 0.5299                     | 65.32                     | 56.6                                  |
| December                  | 0.5269                     | 60.65                     | 56.2                                  |

(1) The Exchange Rate Index is calculated on the basis of representative market rates for a basket of currencies representing New Zealand's major trading partners. On 30 June 1979, the basket equalled 100.

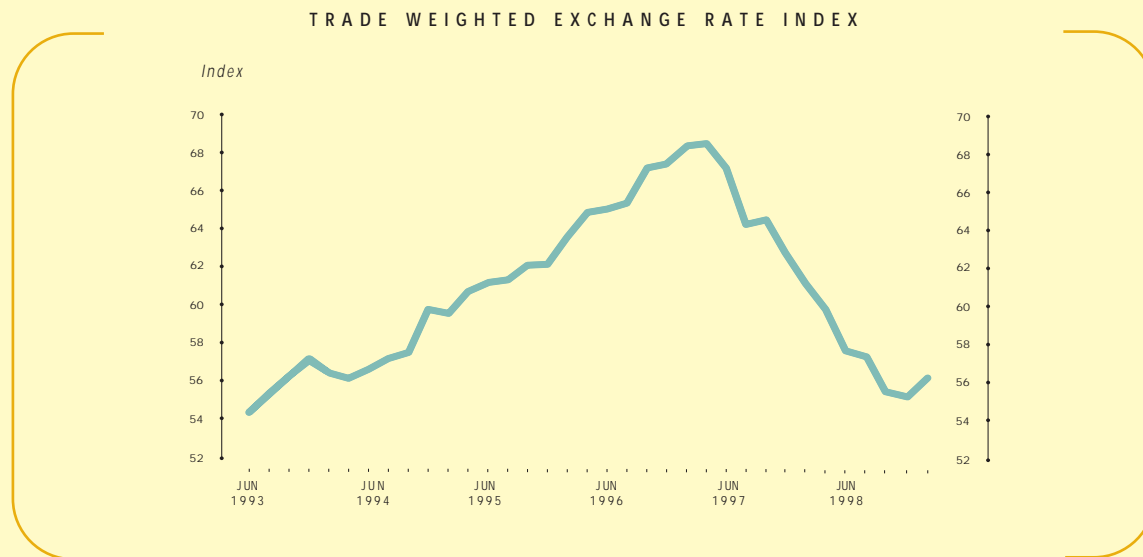
### Overseas Reserves

New Zealand's official external reserves, as shown in the following table, include the net overseas assets of the Reserve Bank, overseas domiciled securities held by the Government and the reserve position at the IMF. New Zealand's quota at the IMF was SDR 650 million as of 30 June 1998 (approximately \$1,688 million).

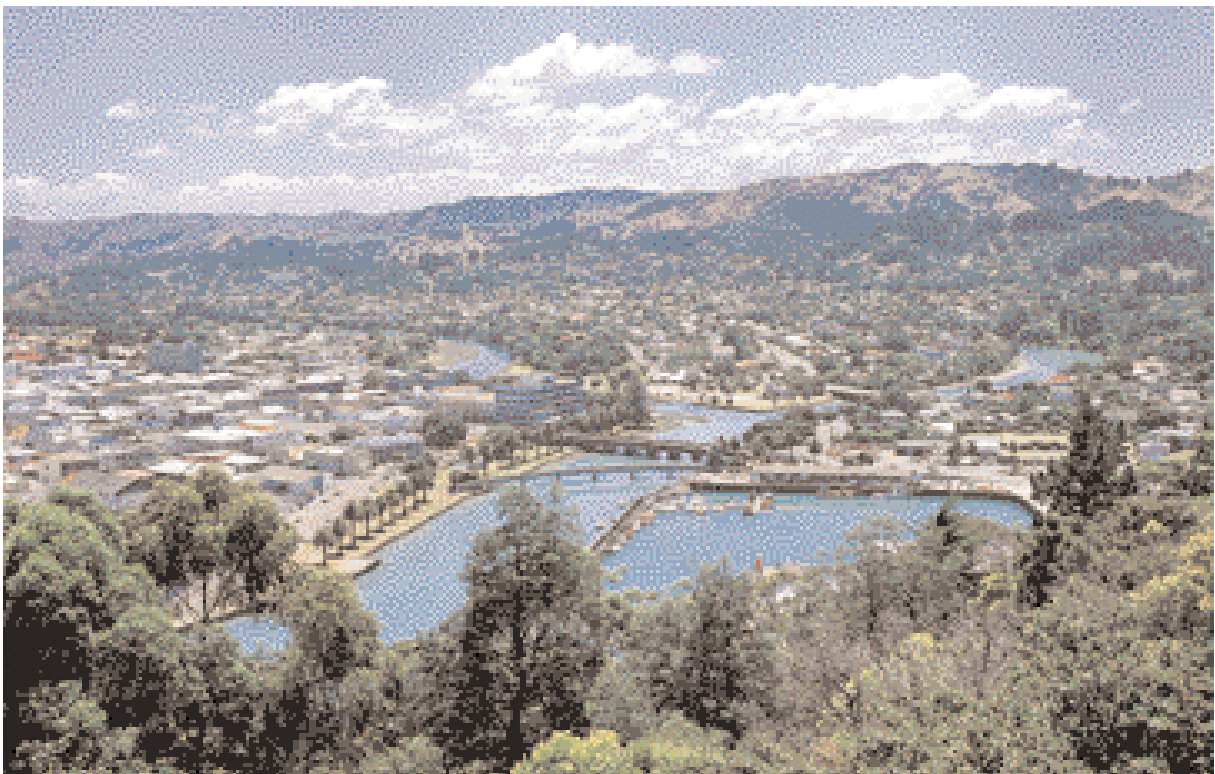
| Last Balance Day in June | Reserve Bank<br>Overseas<br>Reserves (1) | Treasury<br>Overseas<br>Reserves | Reserve<br>Position<br>at IMF(2) | Special<br>Drawing<br>Rights | Total<br>Official<br>Reserves |
|--------------------------|--|----------------------------------|----------------------------------|------------------------------|-------------------------------|
|                          | (dollar amounts in millions)             |                                  |                                  |                              |                               |
| 1994                     | 4,154.5                                  | 2,333.3                          | 256.3                            | 0.2                          | 6,744.3                       |
| 1995                     | 3,931.0                                  | 1,469.0                          | 246.5                            | 0.2                          | 5,646.7                       |
| 1996                     | 3,971.6                                  | 3,769.3                          | 260.2                            | 0.5                          | 8,001.6                       |
| 1997                     | 3,878.6                                  | 2,098.0                          | 246.1                            | 0.2                          | 6,222.9                       |
| 1998                     | 5,083.9                                  | 2,470.4                          | 537.7                            | 2.1                          | 8,094.2                       |

(1) Comprises foreign-exchange reserves and overseas investments of the Reserve Bank of New Zealand.

(2) Equal to New Zealand's quota, less its New Zealand currency subscriptions and any reserve tranche drawings.



## Gisborne: First City to See the Sun



Gisborne, on the East Coast of the North Island, will be the first city to see the dawn of the new Millennium, 39 minutes after the sun first strikes the remote Pitt Island. The inner harbour will be the hub for the many celebrations and events planned for visitors from around the world.



Eastwoodhill Arboretum, near Gisborne, covers 70 hectares and is home to more than 3,500 species of 750 tree genera, including many which are now extremely rare.



Young Nick's Head, South of Gisborne, is the first land sighted by Captain James Cook on 7 October, 1769.

# Supervision of the Financial Sector

## The Reserve Bank of New Zealand

The Reserve Bank of New Zealand was established in 1934 as New Zealand's central bank by Act of Parliament. It is government-owned and has most of the powers normally associated with a central bank. Following passage of the Reserve Bank of New Zealand Act 1989, the primary function of the Reserve Bank has been to formulate and implement monetary policy directed to the economic objective of achieving and maintaining stability in the general level of prices. The Reserve Bank of New Zealand Act 1989 provides the Bank with autonomy to implement monetary policy within the framework of the Act and the Policy Targets Agreement entered into under the Act.

The Reserve Bank, in addition to its role in determining and carrying out monetary policy, is the supervisory authority for New Zealand's registered banks. The Reserve Bank has acknowledged the principle contained in the Basle Concordat that international banks be adequately supervised and has adopted the capital adequacy framework put forward by the Basle Committee on Banking Supervision.

Central to the Reserve Bank's banking supervision policy is strong market discipline for registered banks. This is achieved principally by requiring banks to publish disclosure statements at quarterly intervals. The disclosure statements contain comprehensive information on a bank's financial position and risk profile, and include the disclosure of a bank's credit rating, where applicable.

The objective of supervision is to promote and maintain the overall soundness and efficiency of the financial system. There are no deposit insurance arrangements operating in New Zealand in respect of registered banks or other financial institutions.

Should a registered bank experience financial distress, the Reserve Bank, with the approval of the Treasurer, has wide-ranging powers to intervene for the purpose of avoiding significant damage to the financial system.

## Financial Sector Structural Developments

Since 1984, New Zealand's financial sector has undergone a process of comprehensive deregulation. The principal objective of this deregulation has been to improve the efficiency of the financial sector by making it more competitive and to promote market discipline as the primary regulator of financial markets. Policy initiatives have therefore been directed at reducing impediments to competition. Interest-rate and other controls have been removed and regulatory and legislative distinctions between different institutional groups have been reduced.

One reform of significance was to provide the Reserve Bank with power to register additional banks. Since 1987, there have been no limits on the number of banks that can be registered and no differences in the treatment of resident and non-resident applicants, other than the requirement for the Reserve Bank to have regard for the law and regulatory requirements relating to bank entry in the applicant's country of domicile and their application to New Zealand banks. Until April 1987, New Zealand had four registered banks, previously known as trading banks. By August 1990, there were 23 registered banks in existence. With mergers and the withdrawal of some new entrants, the number of registered banks fell to 15 by December 1994. More recently, a number of overseas banks have set up branches in New Zealand. As at December 1998 there were 18 registered banks. Seventeen of these are subsidiaries or branch operations of foreign banks. As of the June quarter 1998, total assets of the banks registered in New Zealand amounted to \$142 billion.

In February 1988, stamp duty was removed from all financial instruments except cheques, credit cards and the conveyance and leasing of commercial property. This initiative removed most of the distortions which the former duty regime imposed on different categories of financial instruments and institutional groups, encouraging development of secondary markets in financial instruments.

Legislation affecting the financial sector is reviewed as necessary to ensure that it fits with modern banking practices. The law relating to cheques was recently amended to make provision for cheque truncation and non-transferable cheques and it is expected that new legislation relating to payments finality and netting will be passed early in 1999. Also the Law Commission has recently released a consultative paper on changes to existing legislation to deal with electronic commerce.

In March 1998, the Reserve Bank of New Zealand and the registered banks completed the implementation of real-time gross settlement for most high value payments.

The introduction of real time gross settlement was part of an on-going review of the New Zealand payments systems, with the objectives of:

- enhancing the ability of payments systems participants to identify, monitor and manage payments risks.
- reducing the level of settlements risk.
- improving the clarity of payments-related legal rights and obligations.
- enhancing the efficiency of payments processes.

As part of that process, the Reserve Bank, in consultation with registered banks, is developing systems to facilitate real-time gross settlement for all large value payments.

## **Business Law Environment**

### **Company Law**

The Companies Act 1993 provides the framework for the formation and governance of companies. The primary purpose of the legislation is to facilitate the use of the company form as a means of enabling the achievement of economic and social benefits.

### **Securities Law**

The Securities Act 1978 is directed towards the activity of fund raising by all legal entities. The Act is the key statute regulating the securities markets. The Act requires that certain information be disclosed when securities are offered to the public. After recent amendment, "securities" now include interests in unit trusts, superannuation schemes and life insurance policies. Any issue of these products must disclose certain key features of the product in a document aimed at the "prudent but non-expert investor", as well as in a prospectus.

The Securities Amendment Act 1988 provides for civil remedies against insider traders and requires the disclosure of "substantial security" holdings (i.e., an interest in 5% or more of the voting securities of an issuer).

### **Competition Law**

The Commerce Act 1986 and the Fair Trading Act 1986 are the key competition statutes. The Commerce Act aims to promote competition and prohibits:

- agreements that have the purpose or effect of substantially lessening competition.
- the use of a dominant position in a market to exclude competitors.
- business acquisitions that are likely to create or strengthen a dominant position in a market.

The Fair Trading Act 1986 aims to protect consumers against misleading or deceptive behaviour.

### **Financial Reporting**

The Financial Reporting Act 1993 imposes a new set of accounting standards and prescribes requirements for financial reporting. It is important that the information disclosed by company management is accurate and not misleading. The Act attempts to address this issue by setting up the Accounting Standards Review Board. The Board determines the appropriate accounting standards with which companies are required to comply.

# Monetary Policy

The Reserve Bank of New Zealand Act 1989 stipulates that the Bank is to formulate and implement monetary policy directed to the economic objective of achieving and maintaining stability in the general level of prices (subject to certain provisions which enable the Government to override that objective, provided it is done in accordance with a set of procedures which would make the override publicly transparent). The Act requires that there be a Policy Targets Agreement (PTA) between the Treasurer and the Governor of the Reserve Bank. Initially the Policy Targets Agreements required the Bank to maintain CPI inflation in the range of 0% to 2% over any 12-month period. The range was increased from 0% to 3% in December 1996.

In December 1997, the price stability target was redefined as the All Groups Consumer Price Index excluding Credit Services (CPIX) as published by Statistics New Zealand. This measure replaces the broadly similar measure of underlying inflation previously calculated by the Reserve Bank. CPIX is consistent with international practice, which generally excludes changes in interest rates from inflation calculations.

The current Policy Targets Agreement also clarifies that the price stability objective of monetary policy is considered to be the way in which monetary policy can make its maximum contribution to sustainable economic growth, employment and development opportunities within the New Zealand economy. The Agreement acknowledges that there is a range of unusual events that can have a significant temporary effect on inflation as measured by CPIX and mask the underlying trend in prices which is the proper focus of monetary policy. Such events could lead to inflation outcomes outside the target range. Possible disturbances include, for example:

- shifts in the aggregate price level as a result of exceptional movements in the prices of commodities traded in world markets.
- changes in indirect taxes.
- significant government policy changes that directly affect prices.
- a natural disaster affecting a major part of the economy.

When disturbances of this kind arise, the Bank is required to react in a manner which prevents general inflation pressures emerging.

Firm monetary policy led to a steady decline in the rate of CPI inflation from a peak of 18.9% for the year ended 30 June 1987 to less than 2% over the period between December 1991 and September 1994. CPI inflation then increased to 4.6% in the year to June 1995 but has since fallen steadily to reach 0.4% in the year to December 1998.

Between December 1991 and March 1995, underlying inflation remained consistently below 2%. In 1995 and 1996, however, underlying inflation was in the 2% to 2.5% range, but declined to below 2% during 1997. CPIX was 1.1% for the year ended December 1998, well within the 0% to 3% target range.

The Government fully funds any net injections of liquidity by way of regular Treasury bill and bond tenders. The Reserve Bank controls the cost of liquidity by setting the official cash rate. The Bank stands ready to lend cash overnight at 25 basis points above the official cash rate and will take deposits at 25 basis points below the official cash rate. This control of the cost of liquidity for financial institutions provides the level for affecting the interest rates faced by household and corporate sectors.

In implementing monetary policy, the Reserve Bank operates with a considerable degree of autonomy. This policy autonomy is formalised in the Reserve Bank Act 1989, which came into effect on 1 February 1990. Specific monetary policy targets are negotiated in the Policy Targets Agreement between the Treasurer and the Governor of the Reserve Bank and published. While the Act provides that the ultimate responsibility for determination of the monetary policy objective will continue to rest with the Government, it is also intended to ensure that any political override of the Reserve Bank's price stability objective is transparent and open to public and Parliamentary scrutiny.

In assessing monetary conditions, the Reserve Bank monitors a range of indicators, including the nominal exchange rate and the level and term structure of interest rates. To assist in monitoring the overall stance of monetary policy, the Bank employs a Monetary Conditions Index (MCI) which combines the effects of movements in interest rates and exchange rates. In the MCI, a 100 basis movement in 90 - day bank bill rates is equivalent to a 2 percentage point movement in the trade-weighted exchange rate. Other indicators include developments in the monetary and credit aggregates and data on inflation expectations and real economic developments. Movements in these indicators are assessed against a background of all other available and relevant information, especially the projected medium-term outlook for CPIX inflation. Any necessary adjustments to the setting of monetary policy are made in light of this assessment and aim to ensure that the resulting inflation track remains consistent with the 0% to 3% target.

Monetary conditions, as measured by the MCI, started tightening in the second half of 1992, peaking in the last quarter of 1996. This tightening was in response to the prospect of rising inflationary pressures as the expansion in economic activity gathered pace.

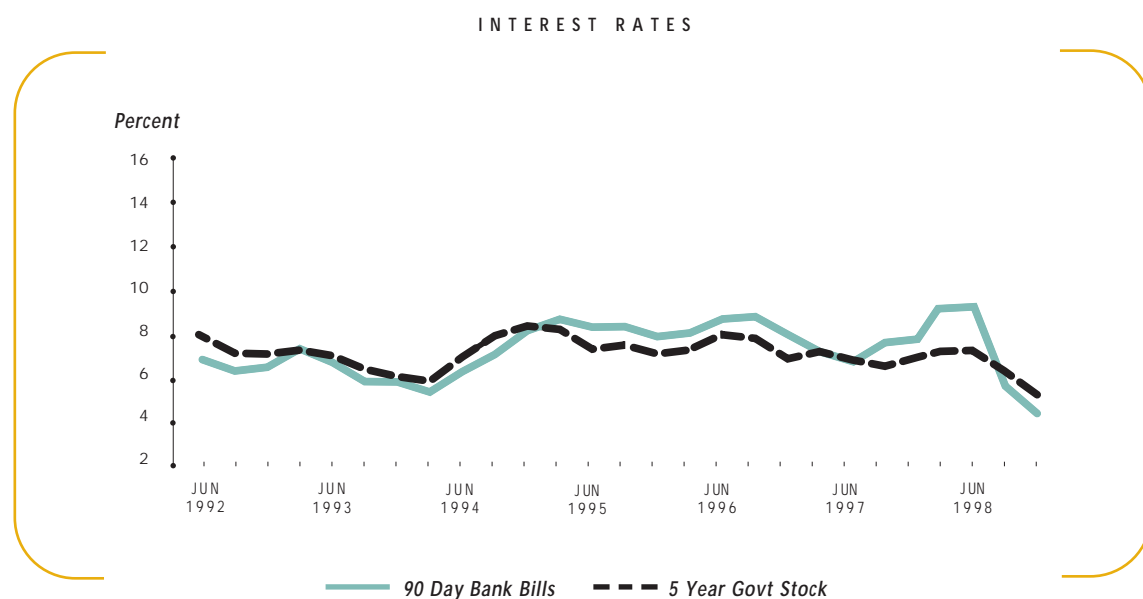
Most of the tightening in monetary conditions over this period came through the exchange rate. The TWI appreciated by around 26% from the second half of 1992 to the end of 1996. Rising short-term interest rates also contributed, but to a lesser extent, to the tightening monetary conditions. The 90-day rate rose from a trough of 4.5% in early 1994 to a peak of around 10% in late 1996.

Since the start of 1997, monetary conditions have been easing as the outlook for inflationary pressures receded with the slower economy. The easing in monetary conditions was more marked over the course of 1998 as it became clear that the economy was slowing much more sharply than was previously anticipated.

The easing in monetary conditions was largely due to the 20% fall in the TWI. However, towards the end of 1998, the fall in the short-term interest rates played a more prominent role in easier monetary conditions, as the 90-day rate reached all-time lows of just over 4% in November.

## Interest Rates and Money and Credit Aggregates

The following tables show developments in major interest rates and money and credit aggregates since the March quarter of 1992. New Zealand has not had an official central bank discount rate, as for example, in Japan or Germany. Since 1987, the rate at which securities can be discounted with the Reserve Bank has been determined as a margin, currently 0.9%, set by the Reserve Bank from time to time, over the prevailing market rates.



## Key Interest Rates: Monthly Averages

| Month |           | Call Rate | 90-Day<br>Bank Bill<br>Rate | Government Loan<br>Stock Rates |        | Bank<br>Base<br>Lending<br>Rates(1) |
|-------|-----------|-----------|-----------------------------|--------------------------------|--------|-------------------------------------|
|       |           |           |                             | 2 Year                         | 5 Year |                                     |
| 1994  | March     | 5.7       | 5.4                         | 5.6                            | 6.0    | 9.1                                 |
|       | June      | 5.1       | 6.1                         | 6.9                            | 7.3    | 9.2                                 |
|       | September | 6.4       | 7.5                         | 8.7                            | 9.0    | 10.0                                |
|       | December  | 8.4       | 9.5                         | 9.5                            | 8.8    | 10.9                                |
| 1995  | March     | 9.2       | 9.4                         | 8.9                            | 8.5    | 12.1                                |
|       | June      | 9.0       | 9.0                         | 8.3                            | 7.7    | 12.1                                |
|       | September | 9.5       | 9.2                         | 8.3                            | 8.0    | 12.2                                |
|       | December  | 8.7       | 8.6                         | 7.9                            | 7.5    | 11.9                                |
| 1996  | March     | 9.1       | 8.9                         | 8.5                            | 8.2    | 11.8                                |
|       | June      | 9.5       | 10.0                        | 9.1                            | 9.1    | 12.6                                |
|       | September | 10.0      | 9.9                         | 8.1                            | 8.3    | 12.8                                |
|       | December  | 8.4       | 8.1                         | 7.0                            | 7.0    | 11.9                                |
| 1997  | March     | 7.4       | 7.6                         | 7.7                            | 7.8    | 11.5                                |
|       | June      | 6.7       | 7.0                         | 6.8                            | 7.0    | 10.9                                |
|       | September | 7.9       | 8.1                         | 7.0                            | 6.9    | 11.6                                |
|       | December  | 7.6       | 8.3                         | 7.4                            | 7.2    | 11.4                                |
| 1998  | March     | 8.6       | 9.0                         | 7.7                            | 7.3    | 12.5                                |
|       | June      | 8.9       | 9.2                         | 7.7                            | 6.9    | 12.6                                |
|       | September | 5.4       | 5.8                         | 6.0                            | 6.0    | 10.4                                |
|       | December  | 3.5       | 4.4                         | 5.0                            | 5.3    | 8.6                                 |

(1) Weighted average base lending rates of the four largest registered banks.

## Money and Credit Aggregates

| Quarter |           | M1(2) | M3   | Private<br>Sector<br>Credit | Domestic<br>Credit | Annual % Changes |    |
|---------|-----------|-------|------|-----------------------------|--------------------|------------------|----|
|         |           |       |      |                             |                    | M1(2)            | M3 |
| 1995    | March     | 3.3   | 7.9  | 8.7                         | 5.9                |                  |    |
|         | June      | 3.0   | 10.4 | 12.5                        | 8.5                |                  |    |
|         | September | (1.6) | 10.2 | 13.2                        | 11.7               |                  |    |
|         | December  | 5.2   | 14.5 | 15.1                        | 11.4               |                  |    |
| 1996    | March     | 6.1   | 13.1 | 16.3                        | 11.3               |                  |    |
|         | June      | (0.6) | 17.6 | 17.1                        | 11.5               |                  |    |
|         | September | 1.9   | 14.4 | 15.8                        | 12.2               |                  |    |
|         | December  | (4.5) | 12.6 | 12.4                        | 9.4                |                  |    |
| 1997    | March     | 3.6   | 8.9  | 11.8                        | 11.0               |                  |    |
|         | June      | 4.4   | 3.6  | 9.8                         | 10.1               |                  |    |
|         | September | 7.3   | 6.8  | 10.8                        | 10.0               |                  |    |
|         | December  | 6.5   | 3.9  | 10.0                        | 9.9                |                  |    |
| 1998    | March     | 0.8   | 7.5  | 8.8                         | 9.9                |                  |    |
|         | June      | 1.7   | 7.7  | 8.6                         | 9.7                |                  |    |
|         | September | 2.2   | 1.2  | 6.7                         | 8.4                |                  |    |
|         | December  | 13.4  | 1.3  | 7.5                         | 8.4                |                  |    |

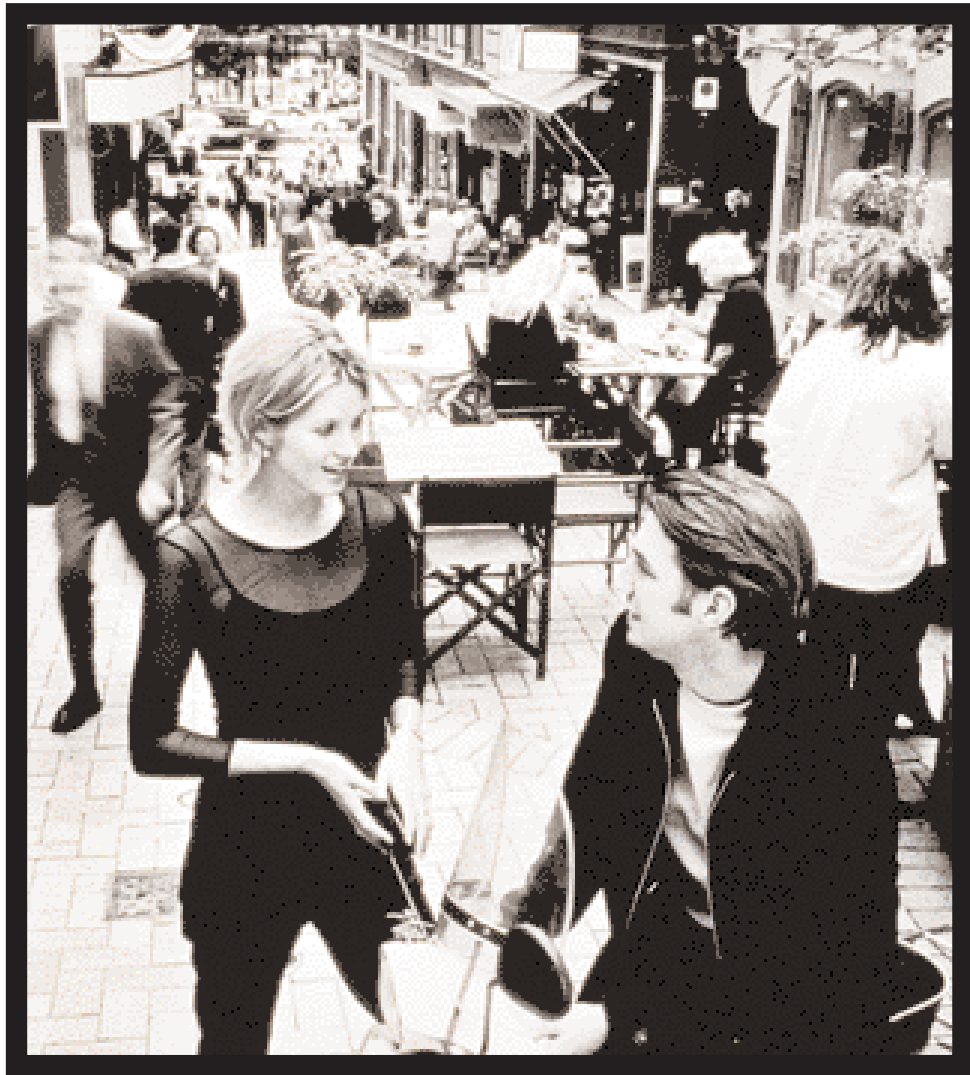
(1) Revised. Data on new basis not available prior to 1995.

(2) M1 figures include currency in the hands of the public and cheque account balances only

# Wellington



Oriental Bay and Mount Victoria from Te Papa



Woodward Street

# Public Finance and Fiscal Policy

## Public Sector Financial System

No public money may be spent by the Government except pursuant to an appropriation by Parliament. At present, there are two methods of appropriation. The first is permanent appropriation, which covers principally the payment of interest on debt and certain fixed charges of the Government, and which does not require the passage of a specific Appropriation Act by Parliament. The second is by annual appropriation which provides for most of the expenditure of the Government, and which does require the passage of a specific Act or Acts each year.

All borrowing by the Government is undertaken under the Public Finance Act 1989, which provides that the Treasurer may from time to time, if it appears necessary or expedient in the public interest to do so, raise a loan from any person, organisation or Government, either within or outside New Zealand, on such terms and conditions as the Treasurer deems appropriate.

## Public Sector Financial Management

In 1994, the fiscal deficit in New Zealand was eliminated after 10 years of difficult political decision-making and management reform. Reform of the public sector financial management system was an integral component of this. New Zealand's public sector financial management system is now underpinned by three key pieces of legislation, the State Sector Act 1988, the Public Finance Act 1989 and the Fiscal Responsibility Act 1994.

**State Sector Act 1988:** This Act defines the responsibilities of chief executives of departments and their accountability to Ministers. The main objectives of the Act are to improve productivity, to ensure that managers have greater freedom and flexibility to manage effectively, and at the same time to ensure that managers are fully accountable to the Government for their performance. This has led to the formulation of performance contracts between Ministers and chief executives. These contracts specify expectations of performance and provide a basis for assessment, which may result in a combination of rewards or sanctions.

**Public Finance Act 1989:** The Public Finance Act 1989 provides the legislative basis for improving the quality and transparency of financial management and information. This is an essential component of the accountability arrangements established under the State Sector Act.

The driving principle behind the Public Finance Act is a shift of focus from what departments consume to what they produce. Hence, budgeting and reporting is on an output basis rather than relying solely on information relating to how outputs are produced. Departments were made responsible for outputs (the goods and services they produce) while Ministers were made responsible for selecting the output mix to achieve government outcomes (desired goals).

The Act requires the Crown and all its sub-entities to report on a basis consistent with Generally Accepted Accounting Practice (GAAP). This has significantly improved the comparability and reliability of the financial information reported.

Consistent with the output focus, the Public Finance Act requires additional disclosures such as statements of intent and statements of service performance. The documents go beyond disclosure of financial information and require disclosure of objectives and service and financial management performance. In addition, the Act specifies other Crown disclosures specific to the public sector such as a statement of unappropriated expenditure and a statement of emergency expenditure or expenses or liabilities.

From 1991, government departments and Offices of Parliament have been required to prepare financial statements consistent with GAAP. The first set of financial statements for the combined Crown (the Government of New Zealand) was produced for the six months ended 31 December 1991. The first annual set was produced for the financial year ended 30 June 1992. From 1 July 1992, the statements also included the Crown's interest in State-Owned Enterprises and Crown Entities. Monthly Crown Financial Statements are now published for the period of the financial year to the end of each month from September onwards.

"Crown Entity" is a collective term for bodies owned by the Crown which are not departments, Offices of Parliament or State-Owned Enterprises. Crown Entities range from Crown Research Institutes to regulatory bodies such as the Commerce Commission and the Securities Commission. Crown Entities are required to table their annual financial statements in Parliament, as are departments and Offices of Parliament.

In addition, the Public Finance Act outlines requirements for ex ante information essential for a robust system of government budgeting. The Public Finance Act specifies a number of specific disclosures required for the Estimates (the Government's Budget documentation). Also as part of ex ante information disclosure requirements, the Act requires departmental forecast reports, Crown Entity statements of intent and statements of corporate intent for State-Owned Enterprises.

***The Fiscal Responsibility Act 1994:*** In 1994, Parliament enacted the Fiscal Responsibility Act, an Act to promote consistent, good quality fiscal management. Effective fiscal management is expected to contribute to the economic health and performance of the economy as a whole.

The Fiscal Responsibility Act 1994 provides the legislative framework for the conduct of fiscal policy in New Zealand. The Act encourages better decision-making by the Government, strengthens accountability and ensures more informed public debate about fiscal policy.

The Act works by requiring Governments to:

- follow a legislated set of principles of responsible fiscal management, and publicly assess their fiscal policies against these principles. Governments may temporarily depart from the principles but must do so publicly, explain why they have departed, and reveal how and when they intend to conform to the principles.
- publish a "Budget Policy Statement" well before the annual Budget containing their strategic priorities for the upcoming Budget, their short-term fiscal intentions, and long-term fiscal objectives. A "Fiscal Strategy Report" that compares Budget intentions and objectives with those published in the most recent Budget Policy Statement is to be published on Budget night.
- fully disclose the impact of their fiscal decisions over a three-year forecasting period in regular "Economic and Fiscal Updates".
- present all financial information under GAAP.
- require the Treasury to prepare forecasts based on its best professional judgement about the impact of policy, rather than relying on the judgement of the Government. It also requires the Treasurer to communicate all of the Government's policy decisions to the Treasury so that the forecasts are comprehensive.
- refer all reports required under the Act to a parliamentary select committee.

These requirements mean that the Government of the day has to be transparent about both its intentions and the short and long-term impact of its spending and taxation decisions. Such transparency is likely to lead Governments to give more weight to the longer-term consequences of their decisions and, therefore, is likely to lead to more sustainable fiscal policy. This increases predictability about, and stability in, fiscal policy settings, which helps promote economic growth and gives people a degree of certainty about the on-going provision of government services and transfers.

The Fiscal Responsibility Act establishes a set of principles for use as a benchmark against which the fiscal policies of the Government can be judged by Parliament and its Finance and Expenditure Committee.

These principles are:

- to reduce debt to prudent levels to provide a buffer against future adverse events.
- to run operating surpluses until prudent debt levels are achieved.
- to maintain, on average, operating balance once prudent debt levels are reached, i.e., the Government is to live within its means over time, with some scope for flexibility through the business cycle.
- to achieve and maintain levels of net worth to provide a buffer against adverse events.
- to manage the risks facing the Crown.
- to pursue policies that are consistent with a reasonable degree of predictability about the level and stability of future tax rates.

As noted above, the Fiscal Responsibility Act does not require the Government to follow these principles but it requires the Treasurer to explain the reasons for any departure from them, how the Government expects to return to them and when. This gives the Government flexibility to respond to particular economic events which may make compliance with the principles difficult but requires the Government to be very clear about the reasons for its decisions.

The term "prudent debt levels" is interpreted, at present, to mean net public debt at 15% of GDP. As at 30 June 1998, net public debt had fallen to 24.4% of GDP but is projected to rise to 28% of GDP by 2000/01, largely reflecting forecast operating deficits.

## Fiscal Policy Objectives

The Government's long-term fiscal objectives are:

- **Operating Expenses:** Limit the burden on current and future taxpayers by focussing on the efficiency and quality of expenditure and reducing expenses to below 30% of GDP.
- **Operating Revenues:** Maintain a low-rate, broad-based tax regime to raise sufficient revenue to meet its long-term operating balance objective of running surpluses, on average, over the business cycle.
- **Operating Balance:** Once gross public debt is reduced to below 25% of GDP and net debt below 15% of GDP, gradually reduce the operating surplus through a mix of increased priority spending and tax reductions, with longer-term intentions of running surpluses, on average, over the cycle.
- **Public Debt:** Steadily reducing gross public debt to 25% of GDP, consistent with reducing net debt to 15% of GDP, and then further lowering gross and net debt at a rate consistent with the operating balance objective.
- **Crown Net Worth:** Maintaining the Crown's net worth at significantly positive levels.

## Financial Management Developments

Since 1990, the Government has sought to maintain a medium-term focus in the budget process by preparing three-year forecasts. It has also sought to control the growth of expenses and improve the effectiveness with which it uses resources within a framework of clearly defined objectives:

- targeting expenses towards policies which advance the Government's economic, social and fiscal goals.
- making fiscal savings from lower-priority activities.
- identifying areas of fiscal risk and taking steps to manage them.
- ensuring value for money from expenses through better management of resources.

## Current Fiscal Position

The following table summarises the Government's fiscal position according to Generally Accepted Accounting Practice in line with the provisions of the Fiscal Responsibility Act 1994. The Operating Balance becomes the measure of fiscal performance because it more accurately reflects the state of the Government's finances.

### Crown Operating Statement(1)

|  | 1993/94       | 1994/95       | Year ended 30 June |               | 1997/98       | 1998/99<br>Budget(2) |
|--|---------------|---------------|--------------------|---------------|---------------|----------------------|
|  |               |               | 1995/96            | 1996/97       |               |                      |
| (dollar amounts in millions)   |               |               |                    |               |               |                      |
| Revenue  |               |               |                    |               |               |                      |
| <i>Levied through the Crown's Sovereign Power</i>                                    |               |               |                    |               |               |                      |
| Direct Taxation  | 17,585        | 19,843        | 21,255             | 20,489        | 21,260        | 20,256               |
| Indirect Taxation  | 10,120        | 10,370        | 10,978             | 11,427        | 11,722        | 11,737               |
| Compulsory fees, fines, penalties and levies   | 190           | 225           | 235                | 263           | 258           | 259                  |
| Sub Total  | 27,895        | 30,438        | 32,468             | 32,179        | 33,240        | 32,252               |
| <i>Earned through the Crown's Operations</i>   |               |               |                    |               |               |                      |
| Investment Income  | 1,368         | 2,170         | 1,606              | 1,596         | 1,154         | 1,283                |
| Unrealised gains/(losses) arising from changes<br>in the value of commercial forests | (292)         | (65)          | (87)               | (48)          | 78            | (12)                 |
| Other operational revenue  | 518           | 438           | 410                | 387           | 420           | 384                  |
| Sales of goods and services  | 694           | 667           | 662                | 664           | 689           | 687                  |
| Sub Total  | 2,288         | 3,210         | 2,591              | 2,599         | 2,341         | 2,342                |
| <b>TOTAL REVENUE</b>   | <b>30,183</b> | <b>33,648</b> | <b>35,059</b>      | <b>34,778</b> | <b>35,581</b> | <b>34,594</b>        |
| Total Revenue as a % of GDP(3)   | 36.9%         | 38.8%         | 38.6%              | 36.9%         | 36.0%         | 34.9%                |
| EXPENSES (by functional classification)  |               |               |                    |               |               |                      |
| Social security and welfare  | 11,479        | 11,724        | 12,240             | 12,620        | 13,003        | 13,828               |
| Education  | 4,627         | 4,803         | 4,949              | 5,335         | 5,714         | 5,939                |
| Health   | 4,602         | 4,886         | 5,228              | 5,626         | 6,001         | 6,563                |
| Core government services   | 1,723         | 1,340         | 1,565              | 1,667         | 1,562         | 1,614                |
| Law and order  | 1,150         | 1,190         | 1,234              | 1,281         | 1,345         | 1,463                |
| Defence  | 1,049         | 1,013         | 970                | 946           | 1,065         | 1,009                |
| Transport and communications   | 815           | 796           | 821                | 888           | 948           | 979                  |
| Economic and industrial services   | 711           | 673           | 997                | 763           | 840           | 908                  |
| Primary services   | 299           | 309           | 304                | 351           | 423           | 337                  |
| Heritage, culture and recreation   | 241           | 233           | 247                | 277           | 297           | 317                  |
| Housing and community development  | 39            | 46            | 40                 | 47            | 29            | 44                   |
| Other  | 14            | 181           | 48                 | 68            | 167           | 158                  |
| Finance costs  | 3,788         | 3,757         | 3,703              | 3,072         | 2,804         | 2,548                |
| Net foreign-exchange losses/(gains)  | (898)         | (551)         | (603)              | 12            | 13            | (116)                |
| Provision for future initiatives   | -             | -             | -                  | -             | -             | 80                   |
| Contingency Expense  | -             | -             | -                  | -             | -             | 50                   |
| <b>TOTAL EXPENSES</b>  | <b>29,639</b> | <b>30,400</b> | <b>31,743</b>      | <b>32,953</b> | <b>34,211</b> | <b>35,721</b>        |
| Total Expenses as a % of GDP(3)  | 36.2%         | 35.1%         | 35.0%              | 34.9%         | 34.6%         | 36.1%                |
| Revenue less expenses  | 544           | 3,248         | 3,316              | 1,825         | 1,370         | (1,127)              |
| Net surplus (deficit) less distributions   |               |               |                    |               |               |                      |
| attributable to SOEs and Crown Entities  | 211           | (553)         | (2)                | 83            | 1,164         | 1,075                |
| <b>OPERATING BALANCE</b>   | <b>755</b>    | <b>2,695</b>  | <b>3,314</b>       | <b>1,908</b>  | <b>2,534</b>  | <b>(52)</b>          |
| Operating Balance as a % of GDP(3)   | 0.9%          | 3.1%          | 3.7%               | 2.0%          | 2.6%          | (0.1%)               |

(1) Includes expenditure sought in the main and supplementary estimates and anticipated expenditure under Permanent Legislative Authority.

(2) Budget revisions announced 9 December 1998.

(3) GDP: Treasury estimate for June year.

## Statement of Financial Position

The Statement of Financial Position (balance sheet) summarises the Crown's assets and liabilities as at 30 June 1998. The difference between total assets and total liabilities is termed the Crown Balance, a measure of government net worth.

as at 30 June 1998

|  | 1998                         | 1997          |
|--|------------------------------|---------------|
|  | (dollar amounts in millions) |               |
| <b>ASSETS</b>                              |                              |               |
| Cash and bank balances                     | 171                          | 196           |
| Marketable securities and deposits         | 10,285                       | 7,581         |
| Advances                                   | 3,367                        | 2,871         |
| Receivables                                | 5,040                        | 5,091         |
| Inventories                                | 302                          | 295           |
| State-Owned Enterprises and Crown Entities | 19,022                       | 18,483        |
| Other investments                          | 261                          | 214           |
| Physical assets                            | 14,962                       | 14,502        |
| Commercial forests                         | 573                          | 505           |
| State highways                             | 8,359                        | 8,210         |
| Intangible assets                          | 14                           | 20            |
| <b>TOTAL ASSETS</b>                        | <b>62,356</b>                | <b>57,968</b> |
| <b>LIABILITIES</b>                         |                              |               |
| Payables and provisions                    | 4,639                        | 4,457         |
| Currency issued                            | 1,809                        | 1,741         |
| Borrowings                                 | 37,892                       | 35,972        |
| Pension liabilities                        | 8,095                        | 8,328         |
| <b>TOTAL LIABILITIES</b>                   | <b>52,435</b>                | <b>50,498</b> |
| <b>TOTAL ASSETS LESS TOTAL LIABILITIES</b> | <b>9,921</b>                 | <b>7,470</b>  |
| <b>CROWN BALANCE</b>                       |                              |               |
| Accumulated operating balance              | 3,132                        | 468           |
| Revaluation reserve                        | 6,789                        | 7,002         |
| <b>CROWN BALANCE</b>                       | <b>9,921</b>                 | <b>7,470</b>  |

## **Taxation**

The main taxes are the income tax and Goods and Services Tax (GST), a value-added tax. Both are applied at low rates to broad bases. This is the result of the major tax reforms undertaken since the mid-1980s. The introduction of GST in 1986 marked a significant shift in the mix of taxation from direct to indirect tax.

### **Personal Income Tax**

All income other than capital gains is taxed. The Government introduced tax reductions on 1 July 1998. As a result, the effective personal tax scale applying to people who earn wage and salary income is as follows: 15% on income up to \$9,500 per annum; 21% on income between \$9,500 and \$38,000 and 33% on income above \$38,000. Withholding taxes apply to wages and salaries and to interest income and dividends. Fringe benefits are taxed separately.

Tax credits are available to low-income families with children.

The tax treatment of pension funds and other savings is "TTE", i.e., contributions are made from Tax-paid income, fund earnings are Taxed, and withdrawals are Exempt.

### **Indirect Taxes**

GST applies at a uniform rate of 12.5%. Financial services and housing rentals are exempt. Additional indirect taxes are applied to alcohol and tobacco products, to petroleum fuels and to gaming. There are also stamp, cheque and gift duties.

### **Company Taxes**

The company tax rate is equal to the top personal tax rate of 33%. Imputation credits are attached to dividends. Inter-corporate dividends (other than from wholly-owned subsidiaries) are taxed as income. Depreciation rates for new assets are based on the economic life of the asset plus a 20% loading. There is immediate deductibility against income of forestry and petroleum and mineral mining development costs and of most agricultural development costs.

### **International Taxation**

The foreign-source income of New Zealand residents is subject to tax, generally with a credit for foreign withholding taxes. New Zealand taxes its residents on the income they earn through non-resident entities in which they have an interest, though not when derived from a "grey list" of seven countries with comparable tax regimes. In addition, foreign-source dividends are subject to withholding payments at a 33% rate, with a credit for foreign taxes.

The tax treatment of the New Zealand income of non-residents encourages inward capital flows where this is feasible. Interest payments to non-residents are subject either to non-resident withholding tax (at a 10% rate where a double tax agreement applies and 15% otherwise) or to a 2% levy. In the case of New Zealand Government debt, the issuer absorbs the levy.

Dividends paid to non-residents are also subject to withholding taxes. Companies paying fully imputed dividends to non-resident investors can receive a rebate of part of the company tax paid, which the company then pays to the investor. The net effect is that the maximum combined level of company tax and withholding tax is 33%. The Government has recently implemented transfer pricing and thin capitalisation regimes, and is moving to relieve New Zealand tax on offshore income derived by New Zealand companies on behalf of non-resident shareholders.



Westland National Park, Mount Tasman and Mount Cook.



Gannet Colony, Cape Kidnappers, Hawkes Bay.

# Government Enterprises

## Reform of Government Enterprises

Government enterprises (including State-Owned Enterprises and Crown Entities) have played a major role in the development of New Zealand's economic infrastructure. Road and rail services, the telecommunications and electricity networks and the postal service were developed and provided by government departments. Government enterprises had an important role in the development of a number of the country's major industries, such as forestry, energy-based industries and tourism. The Government was also involved in providing a number of commercial services, including retail banking, shipping, civil aviation and property and land development.

In May 1986, as an integral part of its overall economic strategy, the Government announced a major programme for reform of government enterprises. The aim of the reforms was to improve the efficiency and accountability of such enterprises and reduce the Government's exposure to business risk. As part of the reform process, successive Governments have been identifying for sale those businesses and assets for which government ownership serves no special social or economic purpose, where sale promises the greatest efficiency and financial gains, or where sale would reduce the risks associated with business ownership.

The other major objective of the reform programme has been to introduce normal commercial incentives, objectives and constraints into government trading operations. To this end, the Government has restructured a large number of its departmental trading activities and established them as businesses operating on a basis as close as possible to private sector companies.

## State-Owned Enterprises

The State-Owned Enterprises (SOEs) are required to operate on the basis of principles and procedures contained in the State-Owned Enterprises Act 1986. Under the Act, the Boards of SOEs have complete autonomy on operational matters, such as how resources are used, pricing and marketing of output. Competitive advantages and disadvantages, including barriers to entry, are being removed, first, so that commercial criteria provide an objective assessment of performance and, secondly, to increase efficiency. Under the Act, SOEs have no responsibility for continuing non-commercial operations and the Government is required to negotiate an explicit contract if it wishes an SOE to carry out such activities.

Boards of directors drawn from the private sector have been formed to manage SOEs. Each Board is required to present to the shareholding Ministers a statement of corporate intent and an outline of business objectives, defining the nature and scope of activities and performance targets. These are closely monitored and SOEs are expected to achieve performance targets and pay dividends on a basis comparable to their private sector competitors. The shareholding Ministers may determine the levels of the dividends.

The SOEs borrow in their own names and on their own credit, in most cases without a guarantee or other form of credit support from the Government. All SOEs have been informed that government policy requires that they disclaim in loan documentation the existence of such guarantees or credit supports.

While comparisons are sometimes difficult to make because of structural change, empirical research suggests substantial improvements in efficiency in SOEs since establishment. Some SOEs have achieved significant improvements in profitability since starting operation and many of them have since been sold. (See "Sale of Government Enterprises".)

## Regulatory Reform

Government corporations are, in general, subject to the same competitive pressures as their private sector counterparts. A number of regulatory barriers to competition have been removed, notably in telecommunications, broadcasting, electricity and transport.

## **Other Reforms**

The Government's overall approach to reform of its commercial activities has been to examine each activity on a case-by-case basis in order to determine the most appropriate structure for the activity. Several other important forms of reorganisation of departmental trading activities have been implemented in addition to corporatisation. For example, government departments have been expected, where appropriate, to fund their activities on a "user pays" principle by raising revenue from the provision of goods and services. Many activities now operate on a full cost recovery basis. In addition, several other government businesses operate under their own statutory framework. For example, the Government's science activities have been reorganised as Crown Research Institutes, which are limited liability companies required by law to meet a range of financial and scientific objectives.

These changes in the structure and financing of state trading activities are expected to yield major real savings over time as the enterprises respond to commercial pressures.

## **Sale of Government Enterprises**

In 1987, the Government announced a programme of business asset sales. Since then, many former State-Owned Enterprises have been sold. In addition, the financial assets of Landcorp, a portfolio of Housing Corporation mortgages, some petroleum mining licences, large areas of the Government's commercial forest plantations and two parcels of shares acquired as a consequence of the sale of Petrocorp have been sold.

In addition, government departments and State-Owned Enterprises have themselves undertaken asset sales from time to time (although the proceeds of these do not go directly to the Crown).

The Government has continued with its case-by-case review of its ownership of State-Owned Enterprises by deciding whether continued Crown ownership of commercial businesses would best serve the welfare of New Zealanders.

During 1998 the Government sold its shares in Auckland International Airport Ltd, Wellington International Airport Ltd, Rotorua and Palmerston North Airports. It also sold the Wellington-based properties in the Government Property Services portfolio and a further tranche of Housing Corporation mortgages.

The Government has also announced its intention to commence a sale process for Contact Energy Limited, selling 40% of the shares to a "cornerstone" investor and the remaining shares by means of a share float. The sale is expected to be completed by mid-1999. The current shareholders' funds of Contact Energy are \$880 million.

In order to promote competition in the electricity sector, the Government plans to split the Electricity Corporation of New Zealand (ECNZ) into three new State-Owned Enterprises.

As detailed in the table below, approximately \$16.76 billion has been raised from the sale of 36 businesses and other assets since the programme was launched in 1987:

### Proceeds from Business Sales as at 31 December 1998

| <b>Business</b>  | <b>(dollar amounts in millions)</b> |
|--|-------------------------------------|
| New Zealand Steel Limited                                    | 327.22                              |
| Petroleum Corporation of New Zealand Limited                 | 801.06                              |
| Development Finance Corporation Limited                      | 111.28                              |
| Health Computing Services                                    | 4.25                                |
| Post Office Bank Limited                                     | 678.48                              |
| Shipping Corporation of New Zealand Limited                  | 31.73                               |
| Air New Zealand Limited                                      | 660.00                              |
| Landcorp Financial Instruments                               | 77.00                               |
| Rural Banking and Finance Corporation of New Zealand Limited | 687.50                              |
| Communicate New Zealand                                      | 0.06                                |
| State Insurance Office                                       | 735.00                              |
| Government Printing Office                                   | 38.58                               |
| National Film Unit   | 2.50                                |
| Tourist Hotel Corporation                                    | 71.85                               |
| Telecom Corporation of New Zealand                           | 4,250.00                            |
| Export Guarantee Office                                      | 20.28                               |
| Forestry Cutting Rights                                      | 1,027.06                            |
| Maui/Synfuels  | 257.05                              |
| New Zealand Timberlands                                      | 366.00                              |
| Government Supply Brokerage Corporation (NZ) Limited         | 3.20                                |
| Housing Corporation Mortgages                                | 2,353.33                            |
| Taranaki Petroleum Mining Licences                           | 121.14                              |
| Bank of New Zealand  | 849.95                              |
| New Zealand Rail Limited                                     | 328.19                              |
| Wrightsons Rights  | 3.45                                |
| Fletcher Challenge Limited Shares                            | 418.06                              |
| GCS Limited  | 47.00                               |
| Waikato Regional Airport Limited                             | 2.13                                |
| Maori Development Corporation                                | 20.93                               |
| The Radio Company Limited                                    | 89.00                               |
| Forestry Corporation of New Zealand Limited                  | 1,600.00                            |
| Works and Development Services Corporation                   | 108.00                              |
| Regional Airports  | 3.23                                |
| Auckland International Airport Limited                       | 459.83                              |
| Wellington International Airport Limited                     | 96.38                               |
| Government Property Services                                 | 108.00                              |
| <b>Total</b>   | <b>16,758.72</b>                    |

These proceeds have contributed directly to the repayment of external and internal public debt.

## Performance of Government Enterprises

The following tables show the Crown's financial interest in State-Owned Enterprises and Crown Entities(1).

|   | Revenue<br>from<br>Crown | Total<br>Revenue | Attributable<br>Surplus/<br>(Deficit) | Distributions<br>to Crown |
|---|--------------------------|------------------|---------------------------------------|---------------------------|
| (dollar amounts in millions)  |                          |                  |                                       |                           |
| <b>State-Owned Enterprises</b>  |                          |                  |                                       |                           |
| Electricity Corporation of New Zealand Limited                                  | -                        | 946              | 303                                   | (135)                     |
| TransPower New Zealand Limited  | -                        | 557              | 71                                    | (67)                      |
| Contact Energy Limited  | -                        | 356              | 77                                    | (48)                      |
| Television New Zealand Limited  | -                        | 427              | 17                                    | (21)                      |
| New Zealand Post Limited  | -                        | 705              | 18                                    | (15)                      |
| Works and Development Services Corporation (NZ) Limited                         | -                        | -                | -                                     | -                         |
| Government Property Services Limited  | -                        | 35               | (13)                                  | (6)                       |
| Solid Energy Corporation Limited  | -                        | 187              | 12                                    | (6)                       |
| Land Corporation Limited  | -                        | 99               | (8)                                   | (9)                       |
| Meteorological Service of New Zealand Limited                                   | -                        | 24               | 2                                     | (8)                       |
| Vehicle Testing New Zealand Limited   | -                        | 22               | -                                     | (1)                       |
| Airways Corporation of New Zealand Limited                                      | -                        | 94               | (1)                                   | (4)                       |
| Timberlands West Coast Limited  | -                        | 29               | -                                     | (1)                       |
| Terralink New Zealand Limited   | -                        | 24               | (4)                                   | -                         |
| New Zealand Railways Corporation  | -                        | 4                | 7                                     | -                         |
| <b>Total State-Owned Enterprises</b>  | <b>-</b>                 | <b>3,509</b>     | <b>481</b>                            | <b>(321)</b>              |
| <b>Crown Entities</b>   |                          |                  |                                       |                           |
| Accident Rehabilitation and Compensation Insurance Corporation                  | 205                      | 2,147            | 579                                   | -                         |
| Earthquake Commission   | -                        | 525              | 450                                   | -                         |
| Housing New Zealand Limited   | -                        | 625              | 122                                   | (50)                      |
| Tertiary education institutions   | 1,017                    | 1,922            | 79                                    | -                         |
| School boards of trustees   | 2,282                    | 2,598            | 43                                    | -                         |
| Crown research institutes   | 226                      | 408              | 12                                    | -                         |
| Airport companies   | -                        | 97               | 25                                    | (14)                      |
| Housing Corporation of New Zealand  | -                        | 67               | (1)                                   | (11)                      |
| New Zealand Fire Service Commission   | 12                       | 180              | -                                     | -                         |
| Health and Hospital Services<br>(including the Residual Health Management Unit) | 808                      | 3,006            | (199)                                 | -                         |
| Health Funding Authority  | 5,088                    | 5,099            | (15)                                  | -                         |
| Museum of New Zealand Te Papa Tongarewa   | 16                       | 29               | (11)                                  | -                         |
| Other   | 2,176                    | 3,357            | (5)                                   | -                         |
| <b>Total Crown Entities(1)</b>  | <b>11,830</b>            | <b>20,060</b>    | <b>1,079</b>                          | <b>(75)</b>               |
| <b>Total Financial Interest in State-Owned Enterprises &amp; Crown Entities</b> | <b>11,830</b>            | <b>23,569</b>    | <b>1,560</b>                          | <b>(396)</b>              |

(1) Except for those entities listed below, all State-Owned Enterprises and significant Crown Entities have a balance date of 30 June, and the information reported in these tables is for the period ended 30 June 1998.

| State Owned Enterprises              | Balance Date | Information Reported to |
|--------------------------------------|--------------|-------------------------|
| Contact Energy Limited               | 30 September | 30 June 1998            |
| Government Property Services Limited | 31 March     | 31 March 1998           |
| New Zealand Post Limited             | 31 March     | 31 March 1998           |
| Timberlands West Coast Limited       | 31 March     | 31 March 1998           |
| Television New Zealand Limited       | 31 December  | 30 June 1998            |
| <b>Crown Entities</b>                |              |                         |
| School boards of trustees            | 31 December  | 31 December 1997        |
| Tertiary education institutions      | 31 December  | 31 December 1997        |

|   | Physical<br>assets | Total<br>assets | Long-term<br>borrowings | Total<br>liabilities | Equity at<br>30 June<br>1998 |
|---|--------------------|-----------------|-------------------------|----------------------|------------------------------|
| (dollar amounts in millions)  |                    |                 |                         |                      |                              |
| <b>State-Owned Enterprises</b>  |                    |                 |                         |                      |                              |
| Electricity Corporation of New Zealand Limited                                  | 3,281              | 3,709           | 993                     | 1,458                | 2,251                        |
| Trans Power New Zealand Limited   | 2,310              | 2,415           | 1,090                   | 1,476                | 939                          |
| Contact Energy Limited  | 1,418              | 1,564           | 519                     | 673                  | 891                          |
| Land Corporation Limited  | 373                | 474             | 74                      | 96                   | 378                          |
| Television New Zealand Limited  | 228                | 476             | 138                     | 226                  | 250                          |
| New Zealand Post Limited  | 342                | 512             | 167                     | 327                  | 185                          |
| Government Property Services Limited  | 225                | 236             | 71                      | 77                   | 159                          |
| Solid Energy Limited  | 65                 | 199             | 40                      | 77                   | 122                          |
| Timberlands West Coast Limited  | 3                  | 119             | -                       | 8                    | 111                          |
| Airways Corporation of New Zealand Limited                                      | 83                 | 166             | 106                     | 131                  | 35                           |
| Vehicle Testing New Zealand Limited   | 9                  | 13              | 2                       | 7                    | 6                            |
| Meteorological Service of New Zealand Limited                                   | 6                  | 9               | 1                       | 4                    | 5                            |
| New Zealand Railways Corporation  | -                  | 12              | -                       | 4                    | 8                            |
| Terralink New Zealand Limited   | 5                  | 16              | 3                       | 13                   | 3                            |
| <b>Total State-Owned Enterprises</b>  | <b>8,348</b>       | <b>9,920</b>    | <b>3,204</b>            | <b>4,577</b>         | <b>5,343</b>                 |
| <b>Crown Entities</b>   |                    |                 |                         |                      |                              |
| Housing New Zealand Limited   | 5,000              | 5,152           | 1,248                   | 1,581                | 3,571                        |
| Earthquake Commission   | -                  | 3,227           | -                       | 48                   | 3,179                        |
| Tertiary education institutions   | 1,998              | 2,434           | 72                      | 308                  | 2,126                        |
| Accident Rehabilitation and<br>Compensation Insurance Corporation               | 40                 | 2,582           | -                       | 1,334                | 1,248                        |
| Crown Health Enterprises<br>(including the Residual Health Management Unit)     | 1,725              | 2,518           | 499                     | 1,574                | 944                          |
| Museum of New Zealand Te Papa Tongarewa   | 772                | 783             | -                       | 6                    | 777                          |
| School boards of trustees   | 577                | 1,081           | 33                      | 391                  | 690                          |
| Airport companies   | 498                | 510             | 82                      | 155                  | 355                          |
| Crown research institutes   | 239                | 347             | 10                      | 86                   | 261                          |
| New Zealand Fire Service Commission   | 244                | 340             | -                       | 169                  | 171                          |
| Housing Corporation of New Zealand  | 144                | 487             | 79                      | 440                  | 47                           |
| Health Funding Authority  | 8                  | 541             | -                       | 524                  | 17                           |
| Other   | 112                | 579             | -                       | 286                  | 293                          |
| <b>Total Crown Entities (1)</b>   | <b>11,357</b>      | <b>20,581</b>   | <b>2,023</b>            | <b>6,902</b>         | <b>13,679</b>                |
| <b>Total Financial Interest in State-Owned Enterprises &amp; Crown Entities</b> | <b>19,705</b>      | <b>30,501</b>   | <b>5,227</b>            | <b>11,479</b>        | <b>19,022</b>                |



Lake Tekapo, Mackenzie Country.



Mount Cook Lily.

# Public Debt <sup>(1)</sup>

## Debt Management Objectives

During 1988, as part of the reform of the Government's financial management, the New Zealand Debt Management Office (NZDMO) was formed to improve the management of risk associated with the Government's fixed income portfolio, which comprises liabilities in both the New Zealand and overseas markets and liquidity assets. The categories of risk managed are market, credit, funding, liquidity, portfolio concentration and operational risk.

In 1988, NZDMO introduced reforms of the public sector's cash management involving centralisation of surplus cash funds for investment and cash management purposes, and decentralisation to departments of the responsibility for payments and other banking operations.

The separation of the Government's financial management from monetary policy enables NZDMO to focus on defining a low-risk net liability portfolio for the Government and implementing it in a cost-effective manner.

Prior to March 1985, successive Governments had borrowed under a fixed exchange-rate regime to finance the balance of payments deficit. Since the adoption of a freely floating exchange-rate regime, the Government has borrowed externally only to rebuild the nation's external reserves and to meet refinancing needs.

As a result of a combination of unfavourable exchange-rate movements, asset sales and improved fiscal performance during 1997/98, direct public debt increased by a net amount of \$1,380 million including swaps between 1 July 1997 and 30 June 1998. This increase consisted of a net decrease in internal debt of \$408 million and a net increase in external debt of \$1,708 million.

As of 30 June 1998, 18% of the interest-bearing direct debt of the Government was repayable in foreign currencies. The quantifiable contingent liabilities of the Government, including the Reserve Bank of New Zealand, State-Owned Enterprises and Crown Entities, amounted to approximately \$5,066 million.

Under existing legislation, amounts payable in respect of principal and interest upon New Zealand securities are a charge upon the public revenues of New Zealand, payable under permanent appropriation. All of the indebtedness of New Zealand is otherwise unsecured.

The proceeds from its domestic bond programme will be used to refinance maturing domestic term debt and to finance the forecast cash deficit during 1998/99. The proceeds of any asset sales in 1998/99 will be used to reduce the Crown's debt.

## Debt Record

New Zealand has always paid when due the full amount of principal, interest and amortisation requirements upon its external and internal debt, including guaranteed debt.

(1) The debt figures in this section are presented in nominal dollars and relate solely to the core Crown entity. In this respect, they may differ from the debt figures as disclosed in the Crown Financial Statements of New Zealand. The latter are presented in accordance with Generally Accepted Accounting Practice and also include the net debt of the Reserve Bank of New Zealand.

## Summary of Direct Public Debt

The following table sets forth the direct funded and floating debt of the Government on the dates indicated. For the purposes of all debt tables herein, "funded debt" means indebtedness with an original maturity of one year or more and "floating debt" means indebtedness with an original maturity of less than one year.

### Direct Public Debt

|                                    | 1993     | 1994     | As at 30 June                |          | 1997     | 1998     |
|------------------------------------|----------|----------|------------------------------|----------|----------|----------|
|                                    |          |          | 1995                         | 1996     |          |          |
| <b>Funded Debt(1)</b>              |          |          | (dollar amounts in millions) |          |          |          |
| Internal(2)                        | 22,363.6 | 22,950.5 | 25,151.7                     | 25,441.9 | 24,769.0 | 22,665.4 |
| External(3)(4)                     | 17,692.3 | 15,080.9 | 10,832.2                     | 7,905.9  | 4,302.2  | 5,923.3  |
| <b>Floating Debt</b>               |          |          |                              |          |          |          |
| Internal Debt(5)                   | 7,347.3  | 7,692.0  | 7,610.2                      | 8,367.3  | 7,683.6  | 9,378.9  |
| External Debt(3)(6)                | 883.6    | 509.1    | 1,110.9                      | 493.4    | 614.6    | 781.3    |
| Total Direct Debt                  | 48,286.8 | 46,232.5 | 44,705.0                     | 42,208.5 | 37,369.4 | 38,748.9 |
| Total Public Debt as a % of GDP(7) | 63.3     | 56.5     | 51.6                         | 46.5     | 37.8     | 39.2     |

- (1) Includes the effect of swap transactions. Excludes indebtedness to international financial organisations arising from membership.  
(2) Includes Government Wholesale Bonds, Kiwi Bonds and Index-Linked Bonds.  
(3) External debt is converted at the mid-point of the 3:00 pm spot rate on 30 June for each year.  
(4) Includes Public Bonds, Private Placements, Syndicated Loans and Medium Term Notes.  
(5) Treasury Bills and Reserve Bank Bills.  
(6) Includes Sovereign Notes and Euro-Commercial Paper.  
(7) GDP: Treasury Estimate for June years.

The following table shows the direct public debt of New Zealand at 30 June 1998 by currency of payment after swap positions are taken into account and shows the estimated interest for the year ending 30 June 1999 including swap positions.

### Direct Public Debt by Currency of Payment

|                                    | Amount<br>outstanding<br>at 30 June<br>1998(1) | Estimated<br>interest<br>for the year to<br>30 June 1999(2) |
|------------------------------------|--|---|
| <b>External Debt</b>               | (dollar amounts in millions)                   |   |
| Repayable in United States Dollars | 3,521.2  | 144.6   |
| Repayable in Japanese Yen          | 1,218.0  | 53.0  |
| Repayable in Pounds Sterling       | 1,211.0  | 1.4   |
| Repayable in Deutschmarks          | 290.5  | 65.0  |
| Repayable in Swiss Francs          | 73.3   | 0.2   |
| Repayable in Other Currencies      | 681.5  | 0.0   |
| Internal Debt                      | 31,906.0                                       | 2,447.7   |
| Subtotal                           | 38,901.5                                       | 2,711.9   |
| Swaps                              | (152.6)  | -   |
| Total Direct Public Debt           | 38,747.0                                       | -   |

- (1) Converted at the midpoint of the 3:00 pm spot exchange rates on 30 June 1998, which were:  
NZD 1 = US\$0.5138 = Yen 72.4050 = Pounds 0.3081 = DM 0.9290 = SwFr 0.7817 = Aus\$ 0.8393 = ITL 914.455  
(2) In some cases interest payments are offset by interest receipts.

As part of its debt management activities, the Government enters into currency swap arrangements which have the effect of converting to a different currency principal obligations on New Zealand's external debt.

The following table sets forth by currency the estimated payments of principal, including mandatory amortisation provisions, to be made on the external direct public debt of New Zealand as at 30 June 1998, shown in New Zealand dollars based on rates of exchange on that date and with adjustment to reflect the effect of currency swap arrangements.

#### Details of External Direct Public Debt at 30 June 1998 (1)(2)

| Maturing in year ending 30 June  | 1999  | 2000 | 2001 | 2002 | 2003 | 2004 | 2005-2008 | 2009+ | Total |
|----------------------------------|-------|------|------|------|------|------|-----------|-------|-------|
| (dollar amounts in millions)     |       |      |      |      |      |      |           |       |       |
| United States dollars            | 1,429 | 21   | 195  | -    | 372  | -    | 752       | 426   | 3,195 |
| Japanese Yen                     | 139   | -    | -    | 576  | 266  | -    | 404       | 138   | 1,523 |
| British pounds                   | 98    | -    | -    | -    | -    | -    | 5         | 16    | 119   |
| German marks                     | 667   | 276  | 544  | -    | -    | -    | 257       | -     | 1,744 |
| Swiss francs                     | -     | -    | 124  | -    | -    | -    | -         | -     | 124   |
| Total External Debt              | 2,333 | 297  | 863  | 576  | 638  | -    | 1,418     | 580   | 6,705 |
| Percentage of Total Foreign Debt | 34.8  | 4.4  | 12.9 | 8.6  | 9.5  | 0.0  | 21.1      | 8.7   | 100.0 |

(1) Adjusted to reflect effect of currency swap arrangements

(2) Includes Sovereign Note Programme (notes not exceeding 270 days to maturity) and Euro-Commercial Paper Programme (notes not exceeding 365 days to maturity).

## Interest and Principal Requirements

For the year ended 30 June 1998, the total payment of interest on direct public debt of the Government was \$2,525 million. The following table indicates the movements in external interest-bearing direct public debt since 1989, excluding swap positions.

#### Movements in External Direct Public Debt

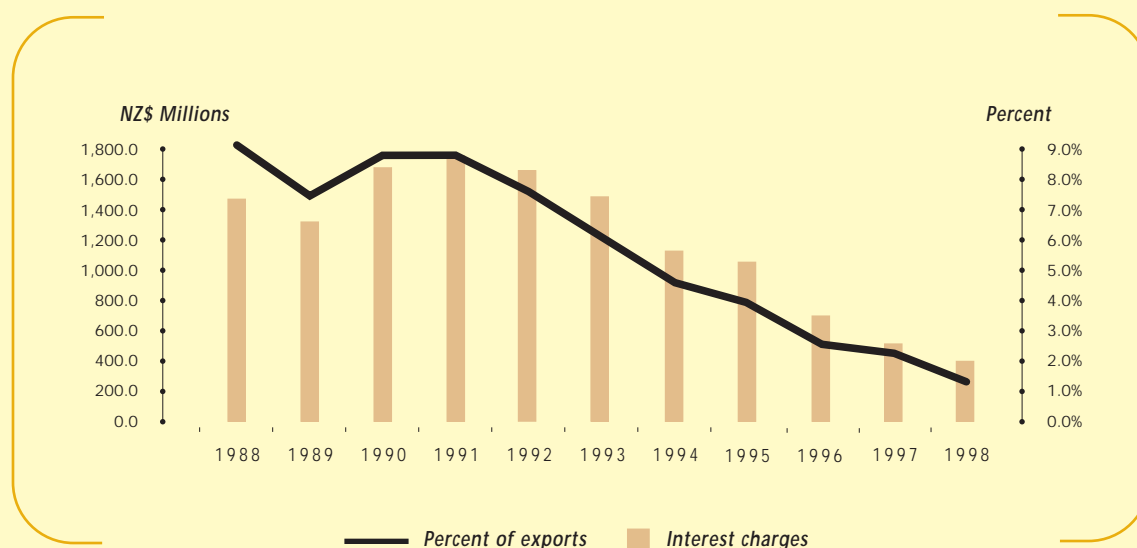
|                              | External Debt(1) |                           | Interest Charges |                     |
|------------------------------|------------------|---------------------------|------------------|---------------------|
|                              | Amount (2)       | As % of Total Public Debt | Amount           | As % of Exports (3) |
| (dollar amounts in millions) |                  |                           |                  |                     |
| 31 March 1989                | 16,592.7         | 41.9                      | 1,372.0          | 7.7                 |
| 30 June 1990                 | 20,969.1         | 47.3                      | 1,681.1          | 8.8                 |
| 30 June 1991                 | 20,960.9         | 47.7                      | 1,764.4          | 8.8                 |
| 30 June 1992                 | 20,136.1         | 42.7                      | 1,667.5          | 7.5                 |
| 30 June 1993                 | 18,521.8         | 38.4                      | 1,469.0          | 6.1                 |
| 30 June 1994                 | 15,527.3         | 33.6                      | 1,142.3          | 4.5                 |
| 30 June 1995                 | 12,014.8         | 26.9                      | 1,044.5          | 3.9                 |
| 30 June 1996                 | 8,927.4          | 21.2                      | 725.2            | 2.7                 |
| 30 June 1997                 | 5,262.5          | 14.1                      | 559.1            | 2.1                 |
| 30 June 1998                 | 6,995.5          | 18.1                      | 395.4            | 1.4                 |

(1) Excludes non-interest-bearing indebtedness to international organisations.

(2) External debt is converted at the midpoint of the 3:00 pm spot exchange rate on 31 March 1989 for 1989 and at the mid-point of the 3:00 P.M. spot rate on 30 June from 1990 onwards.

(3) Based on exports of goods and services for each year.

## INTEREST CHARGES ON EXTERNAL PUBLIC DEBT



SOURCE: THE TREASURY

The following table sets forth the maturity dates of New Zealand direct public debt outstanding as at 30 June 1998, including the effect of swap positions.

| Loans Maturing in Year ending 30 June(1) | External(2)    | Internal<br>(dollar amounts in millions) | Total Debt      |
|--|----------------|--|-----------------|
| 1999                                     | 1,551.8        | 2,035.6                                  | 3,587.4         |
| 2000                                     | 296.5          | 3,867.7                                  | 4,164.2         |
| 2001                                     | 863.2          | 3,444.5                                  | 4,307.7         |
| 2002                                     | 575.6          | 3,101.3                                  | 3,676.9         |
| 2003                                     | 638.2          | 48.5                                     | 686.7           |
| 2004                                     | 0.0            | 3,514.1                                  | 3,514.1         |
| 2005 to 30 June 2008                     | 1,417.9        | 3,532.2                                  | 4,950.1         |
| After 30 June 2008                       | 580.0          | 2,630.7                                  | 3,210.7         |
| Treasury Bills                           | -              | 8,184.0                                  | 8,184.0         |
| Other                                    | 781.3(3)       | 1,685.7(4)                               | 2,467.0         |
| <b>Total</b>                             | <b>6,704.6</b> | <b>32,044.3</b>                          | <b>38,748.9</b> |

(1) With respect to many of the loans, the Government has the option to redeem the securities at an earlier date.

(2) Converted at the mid-point of the 3:00 pm spot exchange rate on 30 June 1998.

(3) Sovereign Note Programme (notes not exceeding 270 days to maturity) and Euro-Commercial Paper Programme (notes not exceeding 365 days to maturity).

(4) Includes Kiwi Bonds and Reserve Bank Bills.

# Tables and Supplementary Information

## Public Debt of New Zealand

Table I - Internal Debt as at 30 June 1998

| Instrument/Currency     | Principal Outstanding | Maturity Date      | Coupon Rate | Fiscal Year of Issue | Amortisation |
|-------------------------|-----------------------|--------------------|-------------|----------------------|--------------|
| Government Stock        | 1,988,000,000         | 15/07/98           | 8.00        | 1992                 |              |
|                         | 43,525,000            | 15/06/99           | 4.59        | 1984                 |              |
|                         | 3,755,000,000         | 15/02/00           | 6.50        | 1994                 |              |
|                         | 3,444,000,000         | 15/02/01           | 8.00        | 1996                 |              |
|                         | 75,962,000            | 15/09/01           | 4.55        | 1984                 |              |
|                         | 2,954,835,000         | 15/03/02           | 10.00       | 1991                 |              |
|                         | 3,510,500,000         | 15/04/04           | 8.00        | 1992                 |              |
|                         | 3,515,800,000         | 15/11/06           | 8.00        | 1994                 |              |
|                         | 1,700,000,000         | 15/07/09           | 7.00        | 1998                 |              |
|                         | 911,523,088           | 15/02/16           | 4.50        | 1996                 |              |
|                         | 21,899,145,088        |                    |             |                      |              |
| Treasury Bills          | 8,184,000,000         | 07/07/98-16/06/98  | 7.37 -9.84  | 1998                 |              |
| Reserve Bank Bills      | 1,194,982,082         | 03/07/98-01/09/98  | 8.14 -9.73  | 1998                 |              |
| Loans                   | 1,000,000             | 01/07/98           | 13.25       | (1)                  |              |
|                         | 2,000,000             | 15/07/98           | 9.00        | (1)                  |              |
|                         | 1,000,000             | 17/08/98           | 13.05       | (1)                  |              |
|                         | 22,029,969            | 15/03/00           | 10.50       | (2)                  |              |
|                         | 70,000,000            | 15/10/01           | 10.00       | (2)                  |              |
|                         | 1,439,200             | 01/04/04           | 16.00       | (1)                  |              |
|                         | 1,500,000             | 01/06/04           | 16.00       | (1)                  |              |
|                         | 2,500,000             | 01/08/04           | 16.00       | (1)                  |              |
|                         | 2,525,000             | 01/10/04           | 16.00       | (1)                  |              |
|                         | 5,000,000             | 01/10/04           | 16.00       | (1)                  |              |
|                         | 3,500,000             | 15/06/05           | 8.00        | (1)                  |              |
|                         | 17,708,794            | 01/09/13           | Variable    | 1994                 | 1997-2013    |
|                         | 7,057,300             | 15/07/98 -01/03/17 | 6.00        |                      |              |
|                         | 137,260,262           |                    |             |                      |              |
| Retail Stock            | 3,882,862             | 01/07/98-04/09/98  | 4.00-4.50   | 1994-95(3)           |              |
|                         | 1,791,078             | 11/09/98-22/12/98  | 6.25-6.75   | 1995(3)              |              |
|                         | 19,296,348            | 24/12/98-31/05/99  | 8.00-8.50   | 1995                 |              |
|                         | 7,169,336             | 26/04/99-31/08/99  | 7.25-7.75   | 1995-96(3)           |              |
|                         | 5,679,180             | 26/07/99-31/12/99  | 6.75-7.50   | 1996(3)              |              |
|                         | 10,282,664            | 01/07/98-29/09/00  | 6.25-6.75   | 1996-97(3)           |              |
|                         | 18,943,759            | 03/09/98-30/06/01  | 6.25-6.75   | 1997                 |              |
|                         | 112,519,501           | 01/07/98-30/09/01  | 6.25-7.25   | 1997                 |              |
|                         | 71,002,532            | 01/07/98-28/02/02  | 6.25-7.50   | 1998                 |              |
|                         | 60,735,784            | 12/08/98-10/04/02  | 6.25-8.00   | 1988                 |              |
|                         | 271,200               | 06/10/98-06/04/00  | 7.00-8.00   | 1998                 |              |
|                         | 125,736,030           | 07/10/98-30/06/02  | 6.50-8.25   | 1998                 |              |
|                         | 53,504,000            | Call               | 3.00        | 1985(4)              |              |
|                         | 490,814,273           |                    |             |                      |              |
| Total NZD Internal Debt | 31,906,201,705        |                    |             |                      |              |

- (1) Debt of the Area Health Boards for which the Government assumed responsibility on 2 August 1993, subsequent to its fiscal issue date.
- (2) Debt of the Electricity Corporation of New Zealand for which the Government assumed responsibility on 1 February 1996, subsequent to its fiscal issue date.
- (3) Kiwi Bonds repayable at holder's option under seven business days' notice.
- (4) Income Equalisation Reserve Deposits repayable at holder's option (subject to criteria under the Income Tax Act 1976) or after five years.

Table II - External Debt as of 30 June 1998 (denominated in foreign currencies)

| Currency               | Principal Outstanding | Maturity Date                   | Coupon Rate | Fiscal Year of Issue | Amortisation |
|------------------------|-----------------------|---------------------------------|-------------|----------------------|--------------|
| USD                    | 133,273,462           | Call                            | Variable    | 1997                 |              |
|                        | 10,000,000            | 16/08/98                        | Variable    | 1993                 |              |
|                        | 100,000,000           | 19/08/98                        | Variable    | 1994                 |              |
|                        | 300,000,000           | 24/07/00                        | 6.25        | 1998                 |              |
|                        | 150,000,000           | 09/07/02                        | 6.75        | 1998                 |              |
|                        | 200,000,000           | 06/10/04                        | 6.25        | 1988                 |              |
|                        | 156,180,000           | 15/11/05                        | 10.63       | 1986                 |              |
|                        | 300,000,000           | 15/12/06                        | 8.75        | 1987                 |              |
|                        | 41,635,000            | 15/01/11                        | 9.88        | 1986                 |              |
|                        | 121,369,000           | 01/04/16                        | 8.75        | 1987                 |              |
|                        | 56,033,000            | 25/09/16                        | 9.13        | 1987                 |              |
|                        | 241,000,000           | Euro-commercial Paper Programme |             |                      |              |
|                        | <u>1,809,490,462</u>  |                                 |             |                      |              |
|                        | JPY                   | 8,200,000,000                   | 07/12/98    | 3.90                 | 1995         |
| 10,000,000,000         |                       | 27/04/99                        | Variable    | 1994                 |              |
| 5,000,000,000          |                       | 10/05/00                        | 3.00        | (1)                  |              |
| 10,000,000,000         |                       | 26/01/01                        | Variable    | 1994                 |              |
| 13,000,000,000         |                       | 24/04/02                        | 5.20        | 1987                 |              |
| 9,540,000,000          |                       | 10/06/02                        | 7.71        | 1992                 |              |
| 9,450,000,000          |                       | 10/07/02                        | 7.74        | 1992                 |              |
| 2,000,000,000          |                       | 11/10/02                        | 4.20        | (1)                  |              |
| 1,000,000,000          |                       | 11/10/02                        | 4.00        | (1)                  |              |
| 5,000,000,000          |                       | 19/12/02                        | 1.36        | 1998                 |              |
| 5,000,000,000          |                       | 05/08/04                        | Variable    | 1995                 |              |
| 10,000,000,000         |                       | 27/11/12                        | 6.34        | 1993                 |              |
| <u>88,190,000,000</u>  |                       |                                 |             |                      |              |
| GBP                    | 70,000,000            | 26/08/98                        | 6.00        | 1997                 |              |
|                        | 150,000,000           | 19/11/98                        | 7.38        | 1993                 |              |
|                        | 100,000,000           | 03/04/00                        | 6.63        | 1997                 |              |
|                        | 18,407,431            | 04/05/08                        | 11.25       | 1983                 |              |
|                        | 4,816,651             | 25/09/14                        | 11.50       | 1985                 |              |
|                        | 30,000,000            | Euro-commercial Paper Programme |             |                      |              |
| <u>373,224,083</u>     |                       |                                 |             |                      |              |
| DEM                    | 70,000,000            | 04/12/98                        | Variable    | 1993                 |              |
|                        | 200,000,000           | Euro-commercial Paper Programme |             |                      |              |
| <u>270,000,000</u>     |                       |                                 |             |                      |              |
| CHF                    | 57,325,000            | 10/01/06                        | 5.75        | (1)                  |              |
|                        | <u>57,325,000</u>     |                                 |             |                      |              |
| AUD                    | 250,000,000           | 05/03/03                        | 2.00        | 1993                 |              |
|                        | <u>250,000,000</u>    |                                 |             |                      |              |
| ITL                    | 30,000,000,000        | 13/07/98                        | Variable    | 1994                 |              |
|                        | 30,000,000,000        | 28/01/99                        | Variable    | 1994                 |              |
|                        | 111,000,000,000       | 04/06/01                        | 8.00        | 1991                 |              |
|                        | 45,000,000,000        | 10/06/02                        | 7.70        | 1992                 |              |
|                        | 45,000,000,000        | 10/06/02                        | 7.71        | 1992                 |              |
|                        | 45,000,000,000        | 25/06/02                        | 7.70        | 1992                 |              |
|                        | 45,000,000,000        | 25/06/02                        | 7.71        | 1992                 |              |
| <u>351,000,000,000</u> |                       |                                 |             |                      |              |

(1) Debt of the Electricity Corporation of New Zealand for which the Government assumed responsibility on 1 February 1996, subsequent to its fiscal issue date.

(2) Debt of the New Zealand Railways Corporation for which the Government assumed responsibility on 1 January 1990, subsequent to its fiscal issue date.

Table III - External Debt Issued 1 July 1998 to 31 December 1998

| Currency | Principal Outstanding | Maturity Date | Coupon Rate | Amortisation |
|----------|-----------------------|---------------|-------------|--------------|
| USD      | 100,000,000           | 27/08/99      | 0.00        |              |
|          | 300,000,000           | 20/01/04      | 5.25        |              |
|          | <u>400,000,000</u>    |               |             |              |

## Contingent Liabilities and Non-Quantifiable Guarantees

Pursuant to Section 27(f) of the Public Finance Act 1989, a Statement of Contingent Liabilities must be provided, including guarantees given under Section 59 of the Act.

### Statement of Contingent Liabilities as at 30 June 1998

#### QUANTIFIABLE CONTINGENT LIABILITIES

|  | 1998                         | 1997         |
|--|------------------------------|--------------|
|  | (dollar amounts in millions) |              |
| Guarantees and Indemnities                       | 496                          | 373          |
| Uncalled Capital                                 | 2,922                        | 2,250        |
| Legal Proceedings and Disputes                   | 362                          | 669          |
| Other Contingent Liabilities                     | 1,286                        | 1,203        |
| <b>TOTAL QUANTIFIABLE CONTINGENT LIABILITIES</b> | <b>5,066</b>                 | <b>4,495</b> |

Contingent liabilities of the Reserve Bank of New Zealand, State-Owned Enterprises and Crown Entities are included in the combined Crown classification. Contingent liabilities in respect of sub-entities are excluded.

#### Non-Quantifiable Contingent Liabilities

The following lists those contingent liabilities of the Crown which cannot be quantified. Contingent liabilities in respect of sub-entities are included.

#### Institutional Guarantees

Commerce Commission  
District Court Judges and Justices of the Peace  
Earthquake Commission Fund  
Fletcher Challenge limited  
Maori Trustee  
National Provident Fund  
Persons Exercising Investigating Powers  
Public Trust Office  
Reserve Bank of New Zealand

#### Other Contingent Liabilities

Alkylammonium Compound Compensation  
Bank of New Zealand  
Contact Energy Limited  
Contaminated Sites  
Crown Health Enterprises  
Crown Research Institutes  
Development Finance Corporation Limited  
Electricity Corporation of New Zealand Limited  
Housing Corporation of New Zealand  
Housing New Zealand Limited  
Pharmaceutical Management Agency  
Purchasers of Crown Operations  
Sale of Crown Assets  
Solid Energy Limited (previously Coal Corporation of New Zealand Limited)  
Southland Electric Power Supply Consumer Trust  
Tax Liabilities  
Waitangi Tribunal Claims  
Works Civil Construction  
Works Consultancy Services

