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**Statement by Mr. Silva-Ruete and Mr. Vogel on New Zealand
(Preliminary)
Executive Board Meeting 08/40
May 9, 2008**

New Zealand's reforms undertaken in more than two decades have allowed the country to enjoy an impressive development, demonstrating that a small and remote economy—considering the location of the world economic and financial center—can reach high social and economic standards by implementing sound macroeconomic policies and establishing appropriate institutions. However, as in many countries, the current global economic situation generates important challenges to be faced by the authorities (inflationary pressures, a temporary currency overvaluation that could lead to some permanent economic distortions, a likely slowdown in the country's main export markets, etc.), added to certain domestic factors (including a housing market overvaluation, significant household indebtedness, and issues related to the external refinancing needs of banks).

Thus, the global and domestic economic situations bring forth interesting macroeconomic challenges which are not easy to conciliate. Despite the persistence of large budget surpluses, New Zealand has exhibited significant current account deficits, which highlights the excess of private consumption. While facing a slowdown in economic activity, we find merit in the authorities' decision to transition to lower budget surpluses over time, which is fully understandable in a country which has accumulated years of large fiscal surpluses and New Zealand's need to continue improving infrastructure. At the same time, we wonder how this would affect inflationary pressures, the real exchange rate and the current account deficit. As noted in Mr. Murray and Mr. Ha's helpful Buff statement, "a key challenge, therefore, has been to transition to a lower level of budget surpluses in a way that does not exacerbate the macroeconomic cycle".

Considering the degree of uncertainty prevailed in the global economy, we agree that "monetary policy should remain on hold pending clearer indications of the future path of the economy". While we fully recognize that the inflation-targeting framework has been key to maintaining a long period of low inflation, it is always important to discuss the benefits and costs associated with the system, in order to find ways to improve it. We are encouraged by the authorities' recognition of the risks the financial sector is facing and their measures to deal with them.

With these comments, we wish the authorities continued success in their future endeavors.