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August 24, 2023

The Acting Chair's Summing Up
New Zealand—2023 Article IV Consultation
Executive Board Meeting 23/66
August 23, 2023

Executive Directors agreed with the thrust of the staff appraisal. They noted that following a strong post-pandemic recovery New Zealand's economy has slowed substantially due to policy tightening to contain overheating pressures, but inflation remains well above the target range of the Reserve Bank of New Zealand (RBNZ). Against this background, Directors underscored the importance of careful calibration of the fiscal and monetary policy mix to rebalance the economy and help address long-term structural needs.

Directors welcomed the RBNZ's commitment to reduce inflation to target levels in a data-dependent manner. They saw little scope to lower policy rates currently given the tight labor market and stubborn core inflation, and emphasized that a reignition of inflationary pressures would call for additional monetary policy tightening. Compiling a monthly inflation index would enhance the effectiveness of monetary policy.

Directors agreed that reconstruction spending should be prioritized in the aftermath of the North Island weather events, but also emphasized the need for medium-term fiscal consolidation to support rebalancing efforts and create space for addressing longer-term challenges related to population aging and climate change. They supported calls for increasing the efficiency of discretionary spending and welcomed the reinstatement of fiscal rules and the authorities' commitment to fiscal sustainability.

Directors noted that financial stability indicators show few signs of stress, but household and financial balance sheets should continue to be monitored closely. They welcomed the addition of debt-to-income restrictions to the macroprudential toolkit. They noted that the RBNZ should stand ready to provide liquidity if funding markets come under stress, including from spillovers from global financial markets. Directors pointed to housing shortages, noting a strong need to improve affordability and expand housing supply including for social housing. Directors welcomed efforts to further enhance the AML/CFT framework.

Directors commended the authorities' efforts to foster durable, inclusive, and green growth, noting challenges from large infrastructure deficits, climate change, low productivity, aging, and inequality. They welcomed the 2022 Digital Strategy for New Zealand which aims to grow the digital workforce, address labor shortages and skills mismatches, and increase the digital inclusion of under-represented groups. Directors were

encouraged by the decoupling of greenhouse gas emissions and economic growth and noted strong policy initiatives under the Emissions Reduction and National Adaptation Plans, including the review of the Emissions Trading Scheme.

It is expected that the next Article IV Consultation with New Zealand will be held on the standard 12-month cycle.