

Reference: 20160036

9 March 2016



Thank you for your Official Information Act request, received on 12 February 2016.
You requested the following:

"..copies of any and all advice to the Minister of Finance (and/or his office) around the recently-concluded IMF Article IV consultation. This includes material related to the report itself, selected issues papers, and to the Concluding Statement issued late last year. The request should be read to include emails, but to exclude any material relating to scheduling meetings, the mission or the timing of IMF releases."

Information Being Released

Please find enclosed the following documents:

Item	Date	Document Description	Decision
1.	28 October 2015	Aide Memoire briefing prior to IMF visit	Release in full
2.	4 February 2016	e-mail outlining Staff Report release and key outtakes	Release in full

Email attachments are publically available (see below).

Information Publicly Available

The following information is also covered by your request and is publicly available on the International Monetary Fund website:

Item	Date	Document Description	Website Address
1.	8 February 2016	New Zealand Article IV Consultation Staff Report	https://www.imf.org/external/country/NZL/index.htm
2.	8 February 2016	Buff Statement (included in above)	https://www.imf.org/external/country/NZL/index.htm

Accordingly, I have refused your request for the documents listed in the above table under section 18(d) of the Official Information Act – the information requested is or will soon be publicly available.

Please note that this letter (with your personal details removed) and enclosed documents may be published on the Treasury website.

This fully covers the information you requested. You have the right to ask the Ombudsman to investigate and review my decision.

Yours sincerely

Mark Vink
Manager, Macroeconomic and Fiscal Policy

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Information for release

1.	<u>Aide Memoire Meeting with IMFs Article IV Mission Team</u>	1
2.	<u>Email Release of IMF Article IV Staff Report</u>	4

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Reference: T2015/2479

MC-2-4-2

Date: 28 October 2015



To: Minister of Finance (Hon Bill English)
Associate Minister of Finance (Hon Steven Joyce)
Associate Minister of Finance (Hon Paula Bennett)

Deadline: 3 November 2015
(if any)

Aide Memoire: Meeting with IMF's Article IV Mission Team

On Tuesday 3 November 2015 at 8:30am, you are scheduled to meet with a team from the International Monetary Fund (IMF) who are in the country for their annual Article IV consultations. This note briefs you ahead of that meeting.

Article IV Consultations

Under Article IV of its Articles of Agreement, the IMF holds annual bilateral discussions with member countries to discuss their economic performance and outlook. These discussions conclude each year with the release of a short concluding statement, followed by a full staff report a few months later.

This year's Article IV visit to New Zealand is from 28 October 2015 to 10 November 2015. The team comprises Chikahisa Sumi (mission chief), Alexander Pitt, Dan Nyberg, and Adil Mohommad. This is the first time this team has conducted an Article IV mission to New Zealand, though the whole team visited earlier in the year for preliminary discussions. Vicki Plater, our secondee to the IMF's regional constituency office, is accompanying the mission.

You will be meeting with the team midway through their visit following their discussion with officials on preliminary findings. In addition to meetings with The Treasury and the Reserve Bank, they meet with a range of private sector organisations in Auckland, Christchurch and Wellington including:

- Commercial banks
- Fonterra
- Auckland Council
- Canterbury Earthquake Recovery Agency
- Business New Zealand
- New Zealand Institute of Economic Research, and
- The New Zealand Council of Trade Unions

IN-CONFIDENCE**Summary of last year's Article IV Conclusions**

The 2014 report was supportive of New Zealand's overall macroeconomic policy. It concluded that the planned fiscal deficit reduction balanced the challenges of limiting public debt while also supporting economic growth, and that the tightening of monetary policy was appropriate given indications at that time that spare capacity was being exhausted. The report mentioned that the macroprudential framework was well-targeted and should allow the Reserve Bank to take measure to guard against financial sector risk.

The report did note that raising national savings was desirable given New Zealand's net external liability position, although relatively stable, is high by international standards. The Government's ongoing fiscal deficit reduction contributes to this aim. Banks, although well capitalised, face longstanding structural issues that will remain sources of financial sector risk over the medium term. The report also noted that the elevated exchange rate at that time meant New Zealand's non-agricultural tradable sector will need to continue to adapt by further increasing efficiency to remain competitive.

Key Areas of Interest for the 2015 Article IV

Along with their usual interest in the overall economic and fiscal outlook and macro and financial sector policy settings, discussions so far have indicated a particular interest in the following areas:

- **Savings and Investment:** In particular, the incentives to increase private saving with relation to the amount of investment in housing. They are also keen to look at tax and other policy measures to address these issues.
- **House prices:** developments in the housing market, the use of LVRs and other macro prudential tools and the financial stability implications.
- **Potential growth and the cost of capital formation:** Allied to this is the relationship between capacity and inflation and underlying interest rates.

The team's initial thoughts are characterised by:

- The economy has performed well but tailwinds are waning, growth has peaked and the short term outlook is more challenging – their preliminary forecast is growth of 2.2% in 2015 and 2.4% in 2016.
- The medium term outlook is positive as New Zealand's main exports should benefit from the ongoing shift to a more consumption-oriented growth model in China.
- In the short-term, risks are tilted to the downside from China, dairy prices, bumpy US normalization, and (uncontained) house price inflation.
- There is policy space to respond to slower growth/risks from both monetary policy and fiscal policy.

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With respect to the balance between fiscal and monetary policy the team considers there is scope for further monetary easing to support growth and inflation. However, they are conscious of the risk that easier monetary policy could further stoke Auckland house price inflation, which means macroprudential and tax measures are key to manage this risk and allow monetary policy to focus on the real economic cycle. On fiscal policy, the team's current view seems to be that the planned fiscal consolidation is appropriate, but that automatic fiscal stabilizers should be allowed to operate. For the most part they consider that any discretionary loosening of fiscal policy is something that could be deployed if negative risks are realized, not a first line of defence.

Richard Sullivan, **Senior Analyst, Macroeconomic & Fiscal Policy**, 04 890 7257
Mark Vink, Manager, **Macroeconomic and Fiscal Policy**, 04 917 6006

RELEASED UNDER THE
OFFICIAL INFORMATION ACT

From: Renee Philip [TSY]
Sent: Thursday, 4 February 2016 2:11 p.m.
To: ^Parliament: Cameron Burrows
Cc: ^Parliament: Simon Duncan; Mark Vink [TSY]; Richard Sullivan [TSY]; Mark Blackmore [DPMC]
Subject: Release of IMF Article IV Staff Report
Attachments: Article IV Staff Report 2016.PDF; Article IV 2015 NZ BUFF.PDF

[IN-CONFIDENCE]

Hi Cam,

This is a heads up that the IMF Staff Report on NZ is due to be discussed at the IMF Board and then publicly released (release will be Tuesday morning NZ time – I will let you know when we hear the exact time). The Staff Report and the response from New Zealand's representative at the IMF (Buff statement) are attached. The current draft of the press release is at the end of the Staff Report (partially completed, pending Board discussion). I understand the Buff statement is normally released too.

The Staff Report summarises the visit made to New Zealand in October 2015 and meetings with a wide range of businesses and public sector officials. It builds on the Concluding Statement, which was released at the end of the visit.

Key messages

The report notes that the short term outlook for the economy is challenging,, but that New Zealand's flexible economy is well prepared to cope. Monetary and fiscal policy is deemed appropriate although the IMF warn that authorities need to be prepared to act appropriately should economic conditions deteriorate.

The report notes both external and domestic risks to the economy, the latter arising from rapid house price inflation in Auckland. However, the IMF note that New Zealand's flexible economy is resilient, and medium-term prospects remain positive. The IMF states that New Zealand's main exports—agricultural consumer products and tourism—should benefit from the ongoing shift to a more consumption-oriented growth model in China. Also, they expect consumer demand in other Asian countries to grow.

The IMF project output growth to recover to its estimated potential rate of 2½ percent. With core inflation well within the target range and expectations consistent with the band's midpoint, inflation is forecast to rise to within the RBNZ's target range of 1-3 percent in 2016.

In its assessment of macroeconomic management the Staff report regards current settings appropriate, but may need to be adjusted if economic conditions deteriorate.

"Given low inflationary pressures, output below potential, and unemployment edging up, the RBNZ' accommodative monetary stance, including its readiness to ease further if warranted, is appropriate. With regard to fiscal policy, continued strengthening of the public sector balance sheet with a firm commitment to the medium-term objective of reducing debt further should help underpin confidence in New Zealand's economy. The authorities' fiscal easing this year and next, including through an acceleration of public investment in infrastructure, combined with a resumption of a gradual fiscal consolidation path thereafter, is broadly appropriate to support the economy in the short term while bolstering the public sector balance sheet in the longer term. If risks were to materialize, macroeconomic policies would need to be adjusted: a sharp slowdown in the economy could warrant a monetary and, if severe enough, a coordinated fiscal policy response."

The main policy recommendations in the Staff Report are:

Macro prudential measures:

- The central bank should be looking at what other measures (including debt to income ratios) may be used in the future, should current measures not be successful in mitigating financial stability risks.

Fiscal:

- Automatic stabilisers should be allowed to work, even if that means some operating deficits are incurred.
- The Government could look at bringing forward high-quality infrastructure investment to help mitigate any slowdown in the economy.
- The maintenance of a strong public balance sheet should not be undermined as this is a key source of confidence in the NZ economy.

Savings:

- Measures to broaden the coverage of and increase contributions to Kiwisaver should be looked at.
- Reducing tax incentives for investment in housing (such as reducing the scope for negative gearing) should be looked at.

The Buff Statement thanks the staff for a constructive mission and report. It also notes that the New Zealand authorities broadly concur with staff's outlook and analysis and generally agree with the recommendations put forward in the Article IV report. It states that New Zealand's economic management has served us well. But we are not complacent to the risks and continue to seek ways to lift our economic performance. We thank Staff for their report as one of the ways that enables us to continue to assess results and make improvements, drawing also on other best practices.

The level of press coverage is expected to be low. The outlook and recommendations are very similar to those in the concluding statement in October last year. At that time a press conference was held and there was some coverage of the recommendations to broaden Kiwisaver and housing measures in the business press.

Given the messages are very much the same, we would expect any coverage to be small, and along the same lines.

Let us know if you have any questions.

Cheers,
Renee

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