New Zealand

Economic and Financial

Overview

April 1997

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Castlepoint Reef, Wairarapa Coast

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FURTHER INFORMATION

Unless otherwise specified, all monetary units in this Overview are New Zealand dollars. The mid-point exchange rate on February 28, 1997 was NZ$ = US$0.6910. 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 April 1997.

New Zealand is a parliamentary democracy situated in the South Pacific. It has a population of 3.6 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.

Following a recession in 1990 and early 1991, New Zealand is now into its sixth successive year of economic growth. From the trough of the recession in mid-1991 until September 1996, economic growth has averaged 3.5% per annum. Investment has been a driving force behind this expansion, which has been accompanied by both strong employment growth and low inflation. Over the last two years, economic growth has slowed somewhat against a background of tight monetary conditions. However, the economy has continued to grow at a relatively healthy pace, recording growth of 2.3% in the year to September 1996. While overall annual economic growth has slowed recently, the service sector has continued to post strong growth, up by over 4% in the year to September 1996. On the other hand, the primary and manufacturing sectors have slowed down markedly. This reflects the fact that the primary and manufacturing sectors have been much more affected by the recent strength of the New Zealand dollar than the largely non-tradeable service sector.

The continued strong activity in the non-tradeable sector of the economy has added to both current account and inflationary pressures. The annual current account deficit reached 4.6% of GDP in the year to September 1996 and annual CPI inflation stood at 2.6% in December 1996. These inflationary and current account pressures are, however, by no means as significant as those seen in the past. In the mid-1980s for example, inflation increased to over 16% and the current account deficit widened to be equivalent to 9% of GDP. The expansion of the 1990s, therefore, looks to be more sustainable than those of the past.

SUMMARY

New Zealand's economic success story of recent years suggests that the comprehensive programme of economic reforms administered since the mid-1980s are bearing fruit. These reforms were designed to foster the development of an open, competitive and resilient economy and have transformed New Zealand from being one of the most controlled OECD countries to one of the most market-oriented.

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.

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, the Crown's financial position (net worth) and the cash flow position.

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 1995/96, a surplus on the operating balance of $3,314 million was achieved. This compares with a surplus of $2,695 million recorded for 1994/95 and a surplus of $755 million for 1993/94. A surplus of $2,493 million is forecast for 1996/97.

The Coalition Agreement signed between the National Party and New Zealand First in December 1996 established budget priorities for the next three years. The Government's current fiscal strategy includes increases in social spending. Altogether, new policy initiatives specified in the Coalition Agreement are to be limited to a total fiscal cost of $5 billion spread over the next three years.

Even with those additional expenditures, the Government has maintained its commitment to prudent and conservative fiscal policy, as reflected by established long-term objectives. Operating surpluses of 3.2, 2.5 and 3.1% of GDP are still forecast for 1997/98, 1998/99 and 1999/2000, thereby permitting steady debt reduction, increases in the Crown's net worth and the possibility of additional tax cuts in later years, depending on fiscal and economic outcomes.

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. A Policy Targets Agreement was entered into between the Government and the Governor of the Reserve Bank, which required the Bank to maintain underlying inflation in the range of 0% to 2% over any 12-month period. The new Coalition Government increased the range from 0% to 3% in December 1996. Firm monetary policy led to steady declines in the rate of inflation in the late 1980s. The annual rate of underlying inflation remained below 2% from December 1991 until March 1995. Since then, underlying inflation has been in the range of 2% to 2.5%.

At 30 June 1996, New Zealand's direct public debt was $42.2 billion, or 46.5% of estimated GDP. At the same date, external public debt was $8.9 billion, and interest charges on external public debt were $752 million, or an estimated 2.7% of export revenues for 1995/96. The Government achieved its objective of zero net foreign-currency debt during 1996.

STATISTICAL DATA

	1992	1993	1994	1995	1996
		(dollar amounts in millions)			
Gross Domestic Product at Current Prices(1)(2)	$72,146	$74,426	$80,585	$85,468	$90,160
Annual % Increase (Decrease) in Real GDP(1)(2)(3)	(1.2%)	1.2%	6.2%	5.3%	3.1%
Population (thousands)(1)	3,415.8	3,452.0	3,491.1	3,539.3	3,618.3
Unemployment Rate(4)	10.1%	9.8%	8.3%	6.3%	5.9%
Change in Consumer Price Index(5)	1.0%	1.3%	1.1%	4.6%	2.0%
Exchange Rate(6)	0.5459	0.5382	0.5947	0.6695	0.6846
90 Day Bank Bill Rate(7)	6.8%	6.4%	6.1%	9.0%	10.0%
5 Year Government Loan Stock Rate(7)	8.1%	7.1%	7.3%	7.7%	9.1%
Terms of Trade Index(2)(8)	1,079	1,136	1,110	1,111	1,102
Current Account Deficit as a % of GDP(1)(2)	(2.6%)	(1.7%)	(1.3%)	(3.9 %)	(4.1%)

GOVERNMENT FINANCE (10)

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97(9)
Total Revenue	$27,427	$29,835	$30,183	$33,648	$35,059	$65,465
Total Expenses	32,576	31,429	29,639	30,400	31,743	33,226
Revenue less Expenses	(5,149)	(1,594)	544	3,248	3,316	2,239
SOE and CE surpluses/(deficits)	-	775	211	(553)	(2)	354
Operating Balance	(5,149)	(819)	755	2,695	3,314	2,493
as % of GDP	(7.1%)	(1.1%)	0.9%	3.1%	3.7%	2.6%
Net Direct Domestic Borrowing	2,976	2,515	863	1,746	1,174	-
Net Direct Overseas Borrowing	(1,842)	(1,583)	(1,755)	(2,997)	(2,707)	-

DIRECT PUBLIC DEBT

Internal Funded Debt	$19,786.5	$22,363.6	$22,950.5	$25,151.7	$25,441.9	-
Internal Floating Debt	$7,349.7	$7,347.3	$7,692.0	$7,610.2	$8,367.3	-
External Debt	$19,967.8	$18,575.9	$15,590.0	$11,943.1	$8,399.3	-
Total Public Debt	$47,104.0	$48,286.8	$46,232.5	$44,705.0	42,208.5	-

(1) Year ended 31 March.

(2) 1996 data provisional. Prior years' data revised.

(3) Production-based. Calculated as the average of the four quarterly index numbers at constant 1982/83 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) 1996/97 Budget December Update

(10) Year ended 30 June. This table is prepared in accordance with New Zealand Generally Accepted Accounting Practice (GAAP). The 1991/92 figures exclude State-Owned Enterprises and Crown Entities, which are included in the data for following years.

NEW ZEALAND


WHANGAREI
AUCKLAND
TAURANGA
HAMILTON
ROTORUA
GISBORNE
TAUPO
NEW PLYMOUTH
NAPIER
HASTINGS
WANGANUI
PALMERSTON NORTH
MASTERTON
WELLINGTON
NELSON
BLENHEIM
GREYMOUTH
CHRISTCHURCH
TIMARU
OAMARU
QUEENSTOWN
DUNEDIN
INVERCARGILL

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. 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 1.3 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 1996 (the date of the most recent census) was estimated to be 3,618,302. Just over half of the population lives in the five main urban areas of Auckland (997,940), Wellington (335,468), Christchurch (331,443), Hamilton (159,234) and Dunedin (112,279).

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 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	58	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 October 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 five minority parties. The National Party and New Zealand First signed a Coalition Agreement in December 1996 and have formed a Coalition Government. The Prime Minister is the Right Honourable Jim Bolger, Leader of the National Party. The Honourable Winston Peters, Leader of New Zealand First, is Deputy Prime Minister and Treasurer.

The judicial system in New Zealand is based on the British model. By convention and the Constitution Act 1988, 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 (79%), with NZ Maori (13%), Pacific Islanders (5%) and other ethnic groups (3%), 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 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 the citizenship right of British subjects. There are outstanding claims under the Treaty which are for Maori and the Crown to resolve.

Since 1992, the Government has developed processes and polices to enable the Crown and Maori to settle any Treaty of Waitangi claim relating to events before September 1992. The Coalition Government has altered the settlement framework by removing the $1 billion fiscal cap on government expenditure on settlements. However, in its place the Government has undertaken to be fiscally responsible and to act in a manner 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 number of smaller claims totalling approximately $45 million.

The Crown and Maori are continuing negotiations on other Treaty claims and expect to settle claims relating to the South Island in the near future.

FOREIGN RELATIONS

New Zealand is a committed member of the international community of nations. This is demonstrated through New Zealand's active participation in the United Nations, particularly through its seat on the United Nations Security Council during 1993 and 1994, and contributions of personnel to international peacekeeping operations that are large relative to New Zealand's size.

New Zealand has traditionally consulted closely on foreign policy matters with nations with whom it shares close and long-standing relationships, such as the United States, Britain, and Australia. In recent years, foreign policy has focused increasingly on developing economic linkages with other countries particularly those of the Pacific Rim.

New Zealand maintains 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); and bilateral trade arrangements such as the Closer Economic Relations (CER) agreement with Australia. New Zealand also remains committed to the unilateral removal of trade barriers as a means of strengthening its own international competitiveness and economic well-being.

New Zealand has close relationships with its major economic partners. Trade is fairly evenly spread among Australia, East Asia, North America and Europe. New Zealand's closest neighbour and largest trading partner is Australia. The two countries enjoy comprehensive agreements on closer economic relations, covering free trade in goods and services, and related issues of economic integration. [See External Sector - External Trade - Principal Trading Partners.]

New Zealand is progressively strengthening its trade and economic ties with Asian economies. Japan is New Zealand's second largest trading partner. The dynamic Asian economies of South Korea, Taiwan, Hong Kong, China, Malaysia, Indonesia, Singapore, Thailand and the Phillipines are rapidly increasing in their importance as trading partners.

New Zealand makes an active contribution towards the security and economic well-being of the South Pacific region. It is a member of the South Pacific Forum and New Zealand's Official Development Assistance is focused on the economic development of this region.

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.

Parapenting at Te Mata Peak, Hawkes Bay

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 agricultural sector. The economy is strongly trade-oriented, with exports of goods and services totalling 33% of GDP in the year to 30 June 1996.

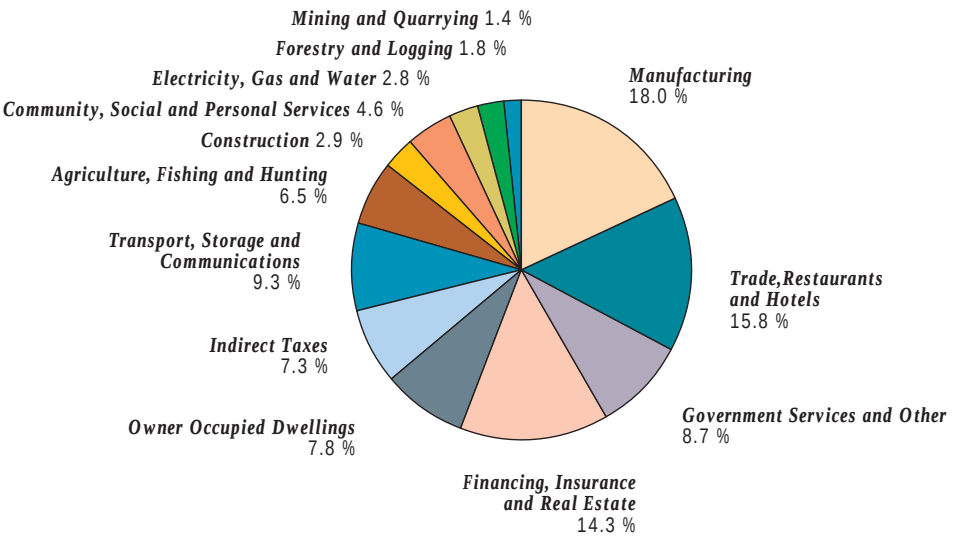
While economic growth has slowed over the last two years, the New Zealand economy is still expanding at a healthy rate of 2.3% per annum. New Zealand has been enjoying economic growth accompanied by low inflation and strong employment growth since 1993. This success story has followed a period of far reaching structural reforms commencing in the mid-1980s and aimed at improving the microeconomic efficiency of the economy while simultaneously bringing greater stability to the macroeconomy. Structural changes have been marked by a diversification in exports and a shift away from pastoral agriculture as the dominant sector.

BACKGROUND

The more sustainable growth that New Zealand has seen over recent years suggests that the comprehensive programme of reforms that successive administrations have administered since 1984 are bearing fruit. The reforms marked a radical departure from past policies. They followed a period of poor economic performance in the wake of a long-term decline in New Zealand's terms of trade and inadequate policy responses.

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.

PERCENTAGE CONTRIBUTION TO NOMINAL GDP BY KIND OF ECONOMIC ACTIVITY
YEAR ENDED MARCH 1994



SOURCE: STATISTICS NEW ZEALAND

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.

THE 1990s

The New Zealand economy is now into its sixth successive year of growth with growth increasing by an average of 3.5% per annum since the trough of the recession in mid-1991. Over the period June 1991 to September 1996, investment has been a significant force driving growth, accounting for just over half of the 18.8% growth seen in the period and increasing its share of GDP from 16% to 21.7%. Investment growth has been particularly strong since March 1993, growing at 11.4% on average per annum in the three and a half years to September 1996.

The contribution of net trade to growth has been negative. This is true even of the period June 1991 to June 1994 when export growth was particularly impressive, at 6.9% on average per annum. However, this was more than offset by strong growth in imports, up on average by 9% per annum in the three years to June 1994, in part reflecting strong investment fuelling imports of capital goods. Between June 1994 and September 1996 both import and export growth slowed to an average of 7.9% and 3.5% per annum respectively.

The economic upswing has led to significant employment creation as well as substantial falls in unemployment. From late 1993 employment growth has been strong, peaking at an annual rate of 5% in mid 1995, while unemployment has trended downwards from its peak of 10.9% in September 1991 to reach 5.9% in December 1996.

In the eighteen months since June 1995, the unemployment rate has been roughly stable at around 6%, despite continued strong employment growth of over 4% during this period. The stability of the unemployment rate results primarily from two factors: first there has been strong growth in the labour force since 1984 as improving job opportunities have encouraged people to participate in the labour force. Participation rates have increased from 62.9% in March 1993 to 65.5% in December 1996. Secondly, significant net inward migration has boosted the size of the labour force growth.

Despite rapid economic growth, inflation remained low in the early phases of recovery with underlying inflation trending down until mid-1994 to be close to the mid-point of the then official target range of 0% to 2%. However, during 1995 underlying inflation was at the top end of the target range and exceeded the upper limit in mid year.

In 1996 the inflation target was breached for 3 successive quarters prior to a widening of the target range to 0% to 3% in December when the National/New Zealand First Coalition Government took office.

The current account balance improved over the period from September 1990 to mid-1994, with an initial depreciation of the currency of around 9% over the year to June 1992 boosting exports. After a period of stabilisation, the exchange rate began to appreciate in early 1993. This contributed to a deterioration in the current account with slower export growth and continued import growth as noted above. A rising deficit on investment income has also weakened the current account position, reflecting both the servicing costs of New Zealand's external debt and the surge of foreign investment seen after controls on capital movements were removed. The current account deficit was 4% of GDP in the year to September 1996.

Fiscal constraint and an expansion of the tax base combined with economic recovery have caused the fiscal position to improve significantly since 1991. The operating balance moved into surplus in fiscal year 1993/94 and has continued to improve, with the surplus reaching $3.3 billion or 3.7% of GDP in 1995/96.

INTERNATIONAL COMPARISONS

New Zealand's economic performance over recent years compares favourably with other OECD countries as shown by the following tables of economic indicators. In the three years to 1995, New Zealand's annual average growth rates were well above those of its major trading partners and above the OECD average. Annual consumer price inflation in New Zealand has consistently been below the OECD average over the 1991-95 period and, up until 1994, was below all or all but one of its main trading partners' inflation. While New Zealand's unemployment rate was well above the OECD average in 1991 it has shown the largest reduction over the years 1991-95.

REAL GDP ANNUAL PERCENTAGE CHANGE

	1991	1992	1993	1994	1995	1996(1)
United States	(1.0)%	2.7%	2.3%	3.5%	2.0%	2.4%
Australia	(1.6)	2.9	4.0	4.9	3.2	4.1
Japan	4.0	1.1	0.1	0.5	0.9	3.6
European Union	1.5	0.9	(0.5)	2.9	2.5	1.6
New Zealand(2)	(1.7)	0.9	5.0	5.9	5.9	3.0
OECD average	0.8	1.8	1.0	2.7	2.0	2.4

Source: OECD, Statistics New Zealand

(1) OECD estimates

(2) Production based, 1996 OECD estimate

ANNUAL AVERAGE GROWTH OECD

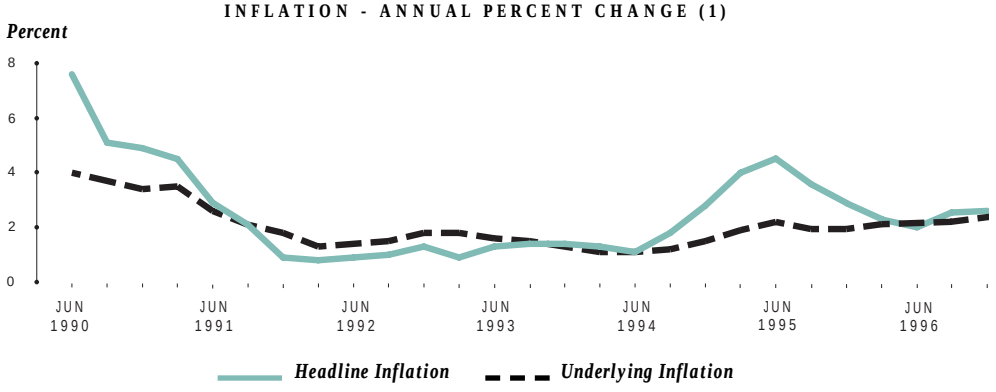
CONSUMER PRICE INFLATION: ANNUAL PERCENT CHANGE

	1991	1992	1993	1994	1995	1996(1)
United States	4.2	3.0	3.0	2.6	2.8	3.3
Australia	3.2	1.0	1.8	1.9	4.6	2.1
Japan	3.3	1.7	1.2	0.7	(0.1)	0.5
European Union	5.1	4.5	3.5	3.0	3.1	2.2
New Zealand	2.6	1.0	1.3	1.8	3.8	2.6
OECD average	6.1	4.9	4.7	4.8	5.5	4.7

Source: OECD.

(1) 1996 = November except for New Zealand where inflation is for December quarter.

INFLATION - ANNUAL PERCENT CHANGE (1)



SOURCE: STATISTICS NEW ZEALAND

(1) For a full discussion on New Zealand's recent inflation history, see "Prices and Costs", page 22

STANDARDISED UNEMPLOYMENT RATES

	1991	1992	1993	1994	1995	1996(1)
United States	6.8	7.5	6.9	6.0	5.5	5.4
Australia	9.5	10.7	10.8	9.7	8.5	8.8
Japan	2.1	2.2	2.5	2.9	3.1	3.2
European Union	8.5	9.4	10.9	11.4	11.0	10.9
New Zealand	10.3	10.2	9.4	8.1	6.3	7.3(2)
OECD average	6.8	7.5	8.0	7.9	7.5	7.5

Source: OECD.

(1) 1996 = October except for US which is for November and New Zealand which is for the September quarter.

(2) The New Zealand seasonally adjusted unemployment rate for the December 1996 quarter was 5.9%.

RECENT DEVELOPMENTS AND OUTLOOK

Over 1995 and 1996, economic growth has moderated as a result of high interest rates, an appreciating exchange rate and slower international demand. From the height of 6.2% in the year to March 1994, growth slowed to an annual 2.3% in September 1996. Although overall growth has moderated, those sectors of the economy sheltered from the effects of the strength of the domestic currency have continued to post strong growth. While output in primary industries and manufacturing showed very modest growth in the year to September 1996, the service sector grew by 4.3%. The slowdown in growth has been much more marked in the primary and manufacturing sectors, reflecting the fact that these two tradeable sectors are much more exposed to international competition than the largely non-tradeable services sector. Despite slower growth, inflationary pressures have persisted.

CPI inflation for the year to December 1996 was 2.6%, still within the Government's recently widened inflation target band of 0% to 3%. Annual inflation in the non-tradeable sector, however, was 4.3%. Strong demand for housing as well as buoyant domestic demand and employment growth have contributed to inflation pressures.

Although some inflation and current account pressures have recently emerged, these are by no means as significant as in the past. In the mid-1980s, for example, inflation increased to over 16%, whereas during the current economic cycle underlying inflation has not exceeded 3%. Similarly, while the current account deficit is now over 4% of GDP, this is well below the deficit of 9% of GDP seen in 1986. The expansion of the 1990s, therefore, looks to be more durable than what has been seen in the past with the economy continuing to enjoy steady economic growth at what is now believed to be the bottom of the current economic cycle.

Economic prospects for the next four years remain positive. The latest Treasury forecast (outlined in the December 1996 Economic and Fiscal Update) projects sustained growth over the next four years, with growth averaging just above 3% each year. Monetary conditions are expected to ease gradually serving to buoy investment and consumption. Firms are expected to adjust to a strong real exchange rate by cutting costs, reducing profit margins and adopting new technologies. Cost and margin reduction by firms as well as reduced house price inflation is expected to put downward pressure on the overall price level while improved competitiveness and a favourable international economic outlook are expected to strengthen export growth.

Tax cuts originally scheduled for 1997/98, but postponed until 1998/99 with the formation of the new Coalition Government, as well as additional government spending of $0.95 billion in 1997/98, are also expected to spur activity over the forecast period.

The latest OECD projections (December 1996) also point to a favourable outlook for New Zealand. The OECD estimates growth to be around 3% during the 1997 and 1998 calendar years compared to around 2% in the OECD as a whole and inflation in these two years to be at or below 2% compared to an OECD average of over 3%.

REFORMS SINCE THE MID-1980s

Since the mid 1980s, macroeconomic policies have been directed at achieving low inflation and fiscal balance. The focus of policy-making has shifted to be on medium term objectives rather than being preoccupied with short-term results with the aim of providing a more stable and predictable policy environment for private sector decision-making. There has also been an extensive agenda of microeconomic reforms intended to open individual sectors of the economy to competitive pressures and to allow market signals to dominate investment, production and consumption decisions with the aim of improving the productive potential of the economy. Substantial deregulation of activity occurred affecting virtually all sectors of the economy. Barriers to competition and international trade were reduced. Foreign participation in New Zealand's economic development has also been facilitated by the easing of restrictions on capital flows.

By 1987 price stability had become the main objective of monetary policy with the Reserve Bank Act (see Monetary Policy) stipulating that price stability was the Reserve Bank's sole monetary policy objective. While the Coalition Agreement in December 1996 widened the Bank's objective to encompass sustainable economic growth, employment and development opportunities within the New Zealand economy, the Reserve Bank's commitment to maintaining low inflation remains firm. Indeed, the Reserve Bank sees that maintaining a stable general level of prices is the best contribution that it can make to achieving its new objectives.

Public sector reform has been aimed at both eliminating the role of government in the provision of commercial goods and services and improving the efficiency of 'core' government departments. The core government reforms culminated in 1994 in the Fiscal Responsibility Act (see below).

Industrial relations were reformed in 1991 with the Employment Contracts Act which introduced the legal framework for a decentralised, enterprise-level bargaining system. This ended a rigid and complex system of industry wide and occupational wage awards (see Labour Markets).

Principal reforms introduced since the mid-1980s include the following:

- removal of controls on prices, interest rates and wages
- ending of subsidies to agriculture and manufacturing
- reductions in tariffs and an end to import licensing
- a free float of the exchange rate since March 1985
- sweeping deregulation of financial markets, including the abolition of controls on capital movements
- changes to both state sector and private sector labour market legislation to permit the evolution of more flexible patterns of wage bargaining
- corporatisation/privatisation of state-owned assets
- widespread deregulation of previously controlled sectors including transport, energy, banking, telecommunications, broadcasting and the waterfront industry.

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 will 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, the Crown's financial position (net worth) and the cash flow position.

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

Following a prolonged period of fiscal deficits, New Zealand has achieved surpluses since 1993/94. The main indicator of the fiscal position, the operating balance, is calculated on an accruals basis. The improvement in the operating balance has been due to a growing economy, increasing tax revenues and firm control over expenses. In 1995/96, the operating balance surplus was $3,314 million or 3.7% of GDP. The most recent estimates for the 1996/97 operating balance indicate a surplus of 2.6% of GDP.

The Crown's net worth, the second key indicator of the Government's financial position, has improved from negative $5.6 billion as at 30 June 1994 and negative $3.2 billion as at 30 June 1995 to positive $3.3 billion as at 30 June 1996. As of 31 December 1996, the Crown's net worth stood at $5.5 billion.

Firm control of Government operating expenses has reduced expenses as a percentage of GDP from 41.2% in 1992/93 to 34.9% in 1995/96. The downward trend is forecast to continue, with expenses as a share of GDP falling further from an estimated 34.7% of GDP in 1996/97 to 32.1% in 1999/2000. As discussed in the section on "Public Finance and Fiscal Policy", expenses have been controlled by using output budgeting, accrual reporting and decentralising cost management. While firm control has been exercised on total outlays, spending has been allowed to increase for selected priority areas, including health and education.

Recent Fiscal Policy Developments

Successive Governments have substantially reformed the tax system and widened the tax base during the past decade. Reforms have included introduction of a comprehensive Goods and Services Tax (GST); removal of exemptions and concessions applying to personal and company taxation; and a flattening and reduction of statutory rates of personal and company taxation, with the top rate for personal income tax falling from 66% to 33% and the company rate falling from 48% to 33%.

More recently, the 1996 Budget package included tax reductions of $1.1 billion in 1996/97, targeting the middle and low-income families. The tax rate for low and middle income earners was reduced from 28 to 24 percent, and the threshold income level at which the top tax rate of 33% applies was raised by more than $3,000. Further tax cuts were planned for 1997/98, but these have been deferred as part of a new package of budget initiatives.

Recent fiscal policy developments primarily reflect the formation of a new Government late last year. The Coalition Agreement, signed in December, established budget priorities for the next three years. The Government's current fiscal strategy includes a combination of increases in social spending, again targeting health and education, along with reduction and eventual abolition of a surcharge on income of superannuants. Altogether, new policy initiatives specified in the Coalition Agreement will be limited to a total fiscal cost of $5 billion spread over the next three years. The Budget Policy Statement issued on 4 March 1997 specifies that around $0.95 billion will be spent in the first year. The exact phasing of the remaining spending is yet to be determined.

Even with these additional expenditures, the Government has maintained its commitment to prudent and conservative fiscal policy, as reflected by established long-term objectives. The second round of tax reductions planned for 1997/98 has been deferred until 1998/99 to limit the aggregate fiscal stimulus arising from the increase in spending. Operating surpluses of roughly 3.2, 2.5 and 3.1% of GDP are still forecast for 1997/98, 1998/99 and 1999/2000, thereby permitting steady debt reduction, increases in the Crown's net worth and the possibility of additional tax cuts in later years depending on fiscal and economic outcomes.

The second important recent fiscal policy development concerns the possible implementation of a compulsory savings scheme, depending on the outcome of a national referendum scheduled for September 1997. If the referendum results in a vote of support for the savings scheme, the Government will consider the option of implementing a series of individual income tax rate reductions to help finance the required contributions.

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 Minister of Finance and the Governor of the Reserve Bank. In December 1996 a revised PTA was entered into which requires the Bank to maintain inflation in the range of 0% to 3% over any 12-month period (previously 0% to 2%). The revised PTA 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 inflation target is defined as the Consumer Price Index (CPI) but the PTA also acknowledges that in some circumstances it will be appropriate for CPI inflation to move outside the 0% to 3% range.

The principal such circumstances are:

- significant changes in the terms of trade arising from an increase or decrease in either import or export prices
- an increase or decrease in the rate of GST, or a significant change in other indirect tax rates
- a crisis such as a natural disaster or a major disease-induced fall in livestock numbers which is expected to have a significant impact on the price level
- a significant price level impact arising from changes to government or local authority levies
- a movement in interest rates that causes a significant divergence between the change in the CPI and the change in the CPI excluding the interest costs component.

There was a steady decline in the rate of CPI inflation form 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 before falling back to 2.0% in the year to June 1996 and 2.6% in the year to December 1996.

Between December 1991 and March 1995, underlying inflation remained consistently within the target range. In 1995 and 1996, however, underlying inflation has been in the 2% to 2.5% 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. Many 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.

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.

- In 1986/87, the Government borrowed to refinance the major project debt for which the Government had assumed direct responsibility. The borrowing involved a net increase in the external public debt of New Zealand at 31 March 1987 of approximately $6,500 million.

- During 1989/90, the Government assumed responsibility for Tourist Hotel Corporation debt of $100 million and Railways debt of $1,100 million. In addition, major project debt of $702 million was included in the measure of Gross Public Debt.

- As a result of favourable exchange-rate movements, asset sales and improved fiscal performance during 1995/96, direct public debt decreased by a net amount of $2,497 million including swaps between 1 July 1995 and 30 June 1996. This decrease consisted of a net increase in internal debt of $1,047 million and a net decrease in external debt of $3,544 million. These figures include the debt of the New Zealand Railways Corporation and the Electricity Corporation of New Zealand for which the Government has assumed responsibility.

- In July 1996, a debt repurchase operation was undertaken which resulted in the repurchase and cancellation of $800 million of foreign-currency debt.

- 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 46.5% of GDP in the year ended June 1996, down from 51.6% the previous year.

- As it is projected to run a surplus on its operations in the 1996/97 fiscal year, the Government has budgeted to use the surplus cash generated to repay foreign-currency debt and some domestic debt. The proceeds from its domestic bond programme will be used to finance maturing domestic term debt. The proceeds of any asset sales in 1996/97 will also be used to repay foreign-currency debt.

NATIONAL ACCOUNTS

Economic growth has slowed from the heights of 1994 when real gross domestic product was growing over 6% per annum. Although overall growth has moderated over the last two years, the economy is still expanding at a relatively healthy pace and activity remains strong in the non-tradeable sector. 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				
	1992(1)	1993(1)	1994(1)	1995(2)	1996(2)
	(dollar amounts in millions)				
Compensation of employees	$33,001	$33,785	$35,072	$37,435	$39,906
Operating surplus	21,644	22,665	26,680	28,581	30,229
Consumption of fixed capital	6,884	7,403	7,665	8,052	8,490
Indirect taxes	10,837	10,888	11,172	12,134	12,742
less subsidies	241	316	291	317	322
Gross Domestic Product	$72,146	$74,426	$80,297	$80,875	$91,045
Final Consumption Expenditure:					
General Government	12,269	12,682	12,578	12,478	13,024
Private	45,810	46,680	49,056	52,738	56,167
Physical Increase in Stocks	85	757	1,756	1,145	1,319
Gross Fixed Capital Formation	11,536	12,280	14,636	17,213	18,650
Gross National Expenditure	$69,700	$72,398	$78,026	$85,573	$89,160
Exports of Goods and Services	21,647	23,840	25,267	27,136	27,132
Less Imports of Goods and Services	19,201	21,812	22,708	25,241	26,131
Expenditure on Gross Domestic Product	$72,146	$74,426	$80,585	$85,468	$90,160
Statistical Discrepancy	-	-	(288)	407	885
Index of real GDP(3)	99.1	100.2	106.5	112.1	115.6
Annual % increase of real GDP	(1.2%)	1.2%	6.2%	5.3%	3.1%

(1) Revised

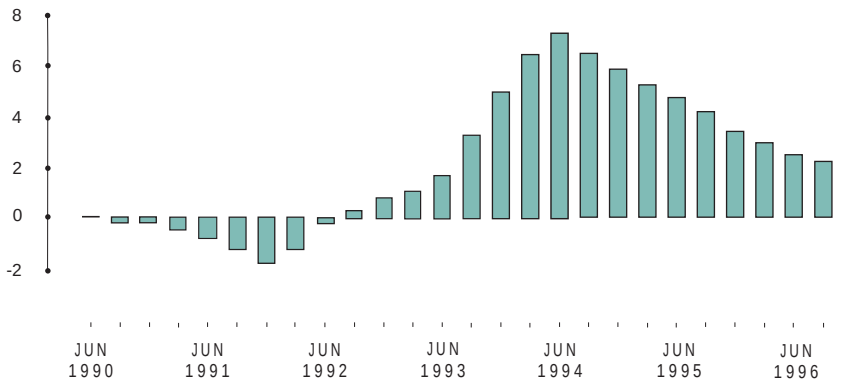
(2) Provisional

(3) Production-based. Calculated as the average of the four quarterly index numbers at constant 1982/83 prices, base = 100.

Real GDP is currently estimated to have increased by 2.2% from the quarter ended September 1995 to the quarter ended September 1996. Real GDP in the year to September 1996 was 2.3% higher than a year earlier.

REAL GROSS DOMESTIC PRODUCT

Annual Average Percent Change



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

GROSS DOMESTIC PRODUCT BY PRODUCTION GROUP

	Year ended 31 March					
	1990	1991	1992	1993(1)	1994(2)	1994(2) % of Total
	(dollar amounts in millions)					
Trade, restaurants and hotels	$10,292	$11,411	$10,244	$11,102	$12,675	15.8%
Financing, insurance etc	10,740	10,570	10,511	10,540	11,517	14.3
Owner-occupied dwellings	5,275	5,914	6,214	6,153	6,274	7.8
Food, beverages and tobacco	4,015	4,260	4,441	4,389	4,526	5.6
Agriculture	4,491	3,989	4,511	4,344	4,973	6.2
Transport and storage	3,687	3,653	3,633	3,745	3,925	4.9
Community, social, personal services	2,720	2,839	3,121	3,418	3,705	4.6
Fabricated metal products	2,840	2,605	2,534	2,653	3,050	3.8
Communications	2,183	2,349	2,677	2,507	2,508	3.1
Construction	3,216	2,803	2,389	2,325	2,289	2.9
Electricity, gas and water	2,134	2,086	2,107	2,126	2,228	2.8
Paper products and printing	1,827	1,965	1,934	1,886	1,982	2.5
Chemicals, petroleum, rubber, plastic	1,776	1,490	1,481	1,574	1,795	2.2
Forestry and logging	615	701	850	1,052	1,437	1.8
Mining and quarrying	836	1,005	1,082	1,107	1,121	1.4
Manufactured wood products	752	720	723	866	1,030	1.3
Textiles, apparel and leather	864	817	813	803	825	1.0
Basic metal industries	460	424	477	671	645	0.8
Non-metallic mineral products	413	424	381	417	491	0.6
Fishing and hunting	249	233	236	270	263	0.3
Other manufacturing	151	142	122	136	156	0.2
Nominal industry (bank services)	(2,996)	(3,000)	(2,935)	(2,581)	(2,655)	(3.3)
Total market production groups	$56,539	$57,399	$57,545	$59,504	$64,761	80.7%
Total non-market production groups	9,112	9,375	9,323	9,462	9,668	12.0
Total all production groups	$65,651	$66,774	$66,968	$68,965	$74,427	92.7%
GST on production	4,400	4,741	4,691	4,820	5,161	6.4
Import duties	604	556	514	553	616	0.8
Other indirect taxes	87	67	74	87	93	0.1
GROSS DOMESTIC PRODUCT	$71,406	$72,962	$73,030	$75,220	$80,297	100.0%

(1) Revised.

(2) Provisional

Nominal figures for 1995 and 1996 are not yet available.

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 2.0% in June 1996. In December 1996, the CPI inflation rate rose to 2.6%.

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.

Underlying inflation is a more internationally comparable measure of the trend in household inflation. Underlying inflation removes the direct effects of interest-rate movements, significant changes in taxes and government charges, significant one-off commodity price shocks and the price impact arising from natural disasters from the CPI. Underlying inflation remained within the 0% to 2% range from December 1991 until March 1995. Since then, underlying inflation has been at 2% or above, reaching 2.4% in December 1996. Strong growth in the non-tradeables sector of the economy has contributed to the persistence of inflation. Inflation in the non-tradeables sector was 4.3% in the December quarter as compared to 0.8% inflation in the tradeables sector.

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 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)		Price Index(2)(3)		Consumers Price Index(4)		Underlying Inflation	Labour Cost Index(5)	
1992	March	1079	1.3	958	1.2	978	0.8	1.3	–	–
	June	1079	(1.7)	963	1.9	980	0.9	1.4	–	–
	September	1108	1.8	970	2.4	984	1.0	1.5	–	–
	December	1117	4.5	979	2.7	986	1.3	1.8	1000	–
1993	March	1133	5.0	983	2.5	987	0.9	1.8	1003	–
	June	1136	5.3	987	2.5	993	1.3	1.6	1006	–
	September	1130	2.0	996	2.7	998	1.4	1.5	1009	–
	December	1113	(0.4)	1000	2.2	1000	1.4	1.3	1010	1.0
1994	March	1126	(0.6)	999	1.7	1000	1.3	1.1	1013	1.3
	June	1110	(2.3)	1003	1.6	1004	1.1	1.1	1016	1.0
	September	1114	(1.4)	1007	1.2	1016	1.8	1.2	1020	1.1
	December	1140	2.4	1009	0.9	1028	2.8	1.5	1023	1.3
1995	March	1136	0.9	1010	1.1	1040	4.0	1.9	1026	1.3
	June	1111	0.1	1011	0.8	1050	4.6	2.2	1029	1.3
	September	1102	(1.1)	1830	0.6	1052	3.5	2.0	1035	1.5
	December	1126	(1.2)	1831	0.6	1058	2.9	2.0	1042	1.9
1996	March	1110	(2.3)	1838	0.9	1063	2.2	2.1	1047	2.0
	June	1102	(0.8)	1834	0.5	1071	2.0	2.3	1050	2.0
	September	1104	0.2	1837	0.4	1077	2.4	2.3	1056	2.0
	December	NA	NA	1839	0.4	1085	2.6	2.4	1063	2.0

(1) Base: Average of 10 years ended June 1989 = 1000.
(2) Base: December Quarter 1982 = 1000.
(3) All industry inputs.
(4) Base: December quarter 1993 = 1000.
(5) Base: December quarter 1992 = 1000

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 put 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.

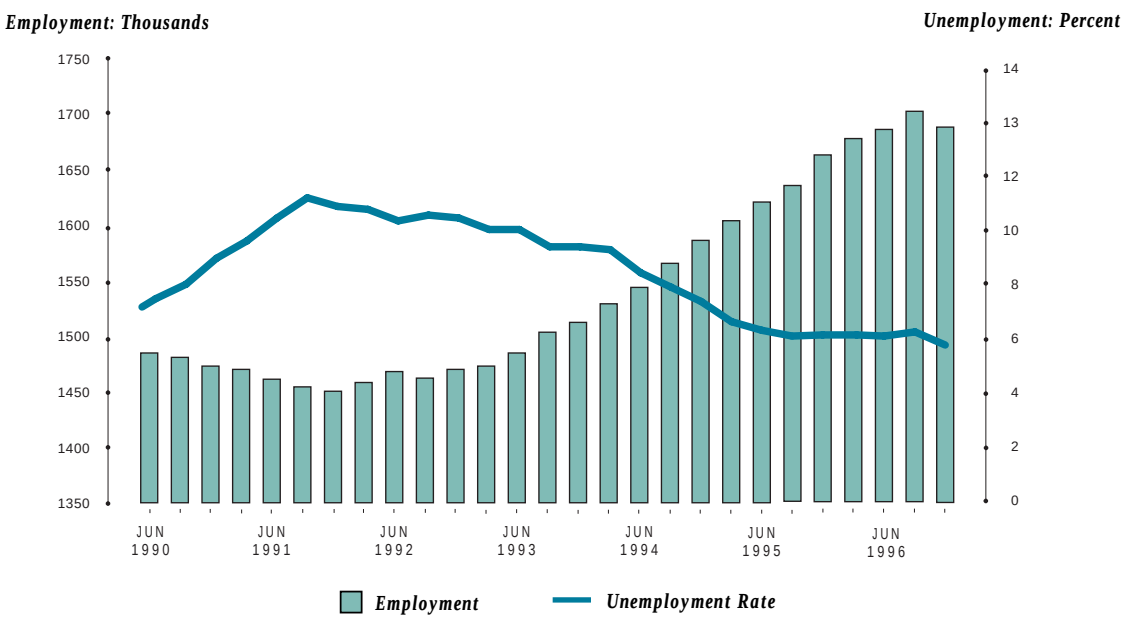
Employers and employees together choose whether to enter into individual contracts (i.e., contracts covering one employee) or collective contracts (covering two or more employees). No employer or employee is covered by any contract to which he or she is not a party.

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.

In recent years, wage settlements have been increasingly tailored to the circumstances of the firms and workers involved. Overall nominal wage increases have been small. 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.

Since then, however, the labour market has improved showing strong employment growth and a sharp fall in unemployment. In the December quarter 1996, seasonally adjusted employment stood at 1.69 million, up 2% on December 1995 and up from 1.45 million in December 1991. In recent times, employment growth in the services sector grew by 5.2% in the year to December 1996 as compared to a fall in employment of 6.6% in the primary and manufacturing industries over the same period. The seasonally adjusted unemployment rate for the December 1996 quarter was 5.9% of the labour force, or 106,000 people, down from the peak of 10.9% in March 1992.

EMPLOYMENT AND UNEMPLOYMENT



SOURCE: STATISTICS NEW ZEALAND

Tongaporutu River, North Taranaki

Three Sisters, Tongaporutu

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 September 1996 but the related downstream activities of processing, distribution and retailing of farm processed products means that it plays an important part in the New Zealand economy. The agriculture, forestry and fishing industries employed around 9% of the labour force in December 1996.

In the year ended 30 June 1996, agricultural and horticultural products are estimated to have generated $11.2 billion in export receipts, amounting to 55% of the country's total exports of goods for that year.

In the year ended 31 March 1996, gross agricultural production is estimated to have totalled about $10.8 billion, virtually unchanged from the previous year's total. Dairy products accounted for around 31% of the total, cattle 12%, sheep 9% and wool 8%. Horticultural products contributed approximately 13%.

The past five years have seen changes in agricultural land use with low profitability in the sheep and beef sector prompting a conversion to dairy farming.

The move towards dairy farming has meant a continued reduction in sheep numbers from a peak of around 70 million in the early 1980s to 48 million in 1996. Dairy cattle numbers have increased from 3.4 million in 1990 to 4.1 million in 1996. Beef cattle numbered 4.9 million in 1996 while commercially-farmed deer and goats numbered 1.6 million. Bloodstock for thoroughbred and harness racing is also a significant industry. Crop-producing, fruit-growing and horticulture are increasingly important, with principal crops being barley, wheat, corn, oats, peas, potatoes and seeds, and with apples and kiwifruit as the principal horticultural exports. Other significant export crops developed in recent years include nashi, berryfruit, honey, flowers, onions and squash. Viticulture has developed into a substantial industry, and New Zealand wines regularly win international honours.

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 following table shows sales of the principal categories of agricultural products for the years indicated, and as a percentage of total sales for 1994.

GROSS AGRICULTURAL PRODUCTION(1)

	Year ended 31 March					
	1990	1991	1992	1993	1994	1994 % of Total
	(dollar amounts in millions)					
Dairy products	$2,152	$1,637	$2,234	$2,523	$2,584	24.0%
Cattle	1,232	1,376	1,443	1,551	1,531	14.2%
Sheep	859	883	845	1,032	1,214	11.3%
Sale of live animals	721	671	701	876	887	8.2%
Agricultural services	726	758	807	876	920	8.6%
Wool	1,251	859	811	729	702	6.5%
Fruit, nuts and oil seeds	619	692	833	725	591	5.5%
Vegetables	409	419	390	447	505	4.7%
Crops and seeds	336	312	314	342	356	3.3%
Poultry products	214	208	196	206	213	2.0%
Other horticultural products	165	160	177	195	207	1.9%
Non-Farm Income	128	115	135	170	169	1.6%
Pigs	124	126	126	133	143	1.3%
Other products n.e.c.	158	150	177	237	218	2.0%
Value of livestock change	112	207	108	(13)	514	4.8%
Total output	$9,206	$8,570	$9,297	$10,029	$10,743	100%
Less intermediate consumption	$(4,715)	$(4,581)	$(4,786)	$(5,685)	($5,770)	
Agriculture contribution to GDP	$4,491	$3,989	$4,511	$4,344	$4,973	

(1) Revised.
Data for 1995 and 1996 are not yet available.

Forestry

Forestry and logging, manufacture of wood products and manufacture of paper products and printing were estimated to have contributed 6.8% of GDP in the year ended 31 March 1996. 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 1996, the value of exports of forestry products was NZ$2,586 million (f.o.b.), 12.8% of New Zealand's total merchandise exports (excluding re-exports). The largest markets for forestry exports are Japan (30%) and Australia (28%) . The Republic of Korea (17%), the United States (5%), Taiwan (4%) 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 1.5 million hectares and produce 99% of the country's wood. Seventy-one thousand hectares of new forest were expected to be planted during 1996. Radiata pine, which makes up 90% 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 50% of New Zealand's planted production forests are owned by two major private sector forestry companies (Carter Holt Harvey Limited and Fletcher Challenge Limited). Another 15% is owned by other private companies - including recent overseas acquirers. Seven percent remains in Crown ownership, being managed by 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. In September 1996, the Government completed the sale of its shares in Forestry Corporation of New Zealand (a State-Owned Enterprise) to a consortium led by Fletcher Challenge Ltd for $1.6 billion. The consortium included Fletcher Challenge Forests (37.5%), Brierley Investments Ltd (25%) and Citifor Inc (37.5%). Citifor is a subsidiary of the China International Trust and Investment Corporation.

New Zealand's total plantation forest growing stock at 1 April 1995 was estimated as 270 million cubic metres. For the year ended 30 June 1996, an estimated 17.3 million cubic metres of wood were removed from New Zealand production forests. This produced a range of products, including sawn timber (2.9 million cubic metres); plywood (160,000 cubic metres); medium density and other fibreboard (632,000 cubic metres); particleboard (159,000 cubic metres); wood pulp (1.4 million tonnes); and paper and paperboard (893,000 tonnes). Some 5.6 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 percent by 2010. This increase will more than double the volumes of forestry products available for future export.

Fishing

Over the last decade, fishing has developed into a major New Zealand industry and export earner. Fish and other seafood accounted for $1,089 million in export revenues in the year ended December 1996, about 5.2% 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 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. There are large reserves of coal and natural gas, extensive geothermal fields and a geographical structure which has supported substantial hydroelectric development. The main minerals mined, in addition to coal, are limestone, iron sand, gold and sand 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 and alternative energy programmes were developed and promoted. As a result, New Zealand has in recent years been 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. Major developments have been the passage of the Crown Minerals Act and the Resource Management Act. Passage of the Energy Companies Act and Electricity Act resulted in the deregulation of the electricity and gas distribution industries and the corporatisation of the operations of electricity supply authorities. The legislation removed franchises, deregulated price controls, and established an information disclosure regime for the energy distribution and transmission industries.

On 1 February 1996, the Government implemented a separation of the Electricity Corporation of New Zealand (ECNZ) into two separate State-Owned Enterprises. This involved transferring eight power stations(about a third of ECNZ's generating capacity) to Contact Energy Limited. Following the completion of the implementation phase, from 1 October 1996, ECNZ and Contact Energy compete in New Zealand's newly-formed wholesale electricity market.

Natural Gas. Natural gas is currently produced in the North Island from the large offshore Taranaki Maui field, and smaller onshore fields in the Taranaki district. Half the gas is used for petrochemicals: 47% by Methanex New Zealand Limited for the production of chemical methonal and synthetic petrol (the product mix depending on relative prices) and 3% for ammonia\urea production. The remaining gas is used half for electricity generation and half to distribute in the North Island as a premium fuel. Natural gas production is expected to average approximately 215 petajoules per annum to the year 2000.

Oil. New Zealand's crude oil and condensate production was 1.5 million tonnes in the year ended 31 March 1996. For the year ended 31 March 1996, domestic gasoline production was 1.6 million tonnes. Of this, approximately 13% was produced by the Motunui synthetic fuels plant, which converts natural gas into gasoline. Domestic consumption of gasoline was 2.1 million tonnes. Total domestic consumption of gasoline, diesel, fuel oils and other fuel products was 4.5 million tonnes, and total crude petroleum imports were 3.9 million tonnes.

Coal. Coal is New Zealand's most abundant energy resource with 8.6 billion tonnes potentially recoverable from 42 district coalfields. Of this amount 82% is lignite, located mainly in Southland, 14% is sub-bituminous, located mainly in South Auckland (Waikato), and 4% is bituminous, located mainly in Westland. Lignite is used mainly for industrial fuel, sub-bituminous coal for industrial fuel, electricity generation and domestic heating and 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 the year to December 1995 total coal production was 3.48 million tonnes with a total value of NZ$184 million. Approximately 1.2 million tonnes of coking coal with the value of $90 million were exported.

Electricity. Hydro-electric power is a major energy source. The two government-owned electricity generation companies, ECNZ and Contact Energy, together generate about 95% of the nation's electric power. These companies had total net capacity of 7,103 mega watts as at 30 June 1996. This comprises 4,817 mega watts of hydro power, 2054 mega watts of thermal power, 232 mega watts of geothermal power and a nominal amount of wind power.

The Government and ECNZ have announced a proposal to sell six small hydro stations to regional companies or Maori interests. These stations comprise approximately 3.8% of the country's generating capacity.

MANUFACTURING

New Zealand's manufacturing industries make an important contribution to the national economy. In the year ended March 1994, manufacturing accounted for around 18.5% of nominal GDP. The proportion of the labour force employed in manufacturing was around 17% in the year ended December 1996.

Manufacturing has contributed significantly to growth in recent years. From the trough of the current economic cycle in June 1991 until September 1996, manufacturing output grew by 29.5% as compared to 20% growth in GDP for the economy as a whole. Over the last year, growth rates in the manufacturing sector have fallen from the high of 7.4% in mid-1994 to annual growth rates of 1.0% in 1996. Strong competition from imports as the New Zealand dollar has strengthened has affected the sector.

Primary food processing is the biggest manufacturing sector (contributing 22.7% of sales in the year ended 31 March 1996). Fabricated metals including machinery, motor vehicle assembly, electrical and electronics (21%), other food processing (13.7%), chemicals (12.2%) and paper and printing (9.8%) make up the other major sectors.

Exports have been a primary driver of growth in the manufacturing sector over recent years. Between June 1991 and September 1996, non-food manufacturing export volumes grew on average by about 8.8% per year. Growth was particularly strong in the four years to June 1995 with export growth of non-food manufacturing goods averaging 10.9% per annum but in the last year, to September 1996, growth has slowed to 2.3%. The performance of non-commodity manufactured exports has been especially impressive, averaging 12.5% over the June 1991 to September 1996 period and growing by a strong 16.4% on average per annum between June 1991 and 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. Over the last year (to September 1996), however, exports of non-commodity manufactures fell by 0.3%, again a reflection of the appreciating exchange rate.

As in the rest of the economy, major structural changes have occurred in the manufacturing sector since 1984. Tariffs have been systematically reduced, although relatively high tariff protection remains for a few industries such as motor vehicles, footwear, clothing and textiles. All quantitative controls on imported goods were phased out by July 1992. Most remaining tariffs were reduced by one-third from their 1992 levels by 1 July 1996. Some specific duties remain (eg on some clothing items) but they, too, are being reduced in line with the tariff reductions.

A further review of tariff levels after 1996 was completed in 1994. By 2000, the highest tariff level will be 15 percent, and this will apply only to the few industries mentioned above. All other tariffs will be at zero, 5 percent or 10 percent by 2000. Specific tariffs will also continue to reduce in line with ad valorem tariffs. It is proposed that remaining tariffs be reviewed again in 1998. At that time, the Government will determine how to move towards a zero end-point under a unilateral domestic tariff reduction programme.

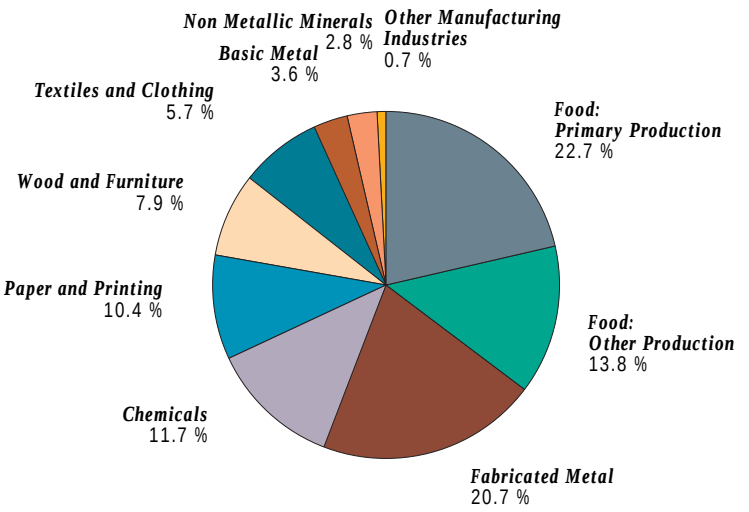
The following table sets forth the sales of goods and services in the manufacturing sector for the five years ended 31 March 1996. It also shows the development of the manufacturing index for the same period.

SALES OF THE MANUFACTURING SECTOR BY INDUSTRY GROUP

Industry division	Year ended 31 March					
	1992	1993	1994	1995	1996	1996 (% of total)
	(dollar amounts in millions)					
Food:						
Primary production	$8,676	$9,876	$10,691	$10,911	$11,756	22.7%
Other production	5,742	6,064	6,393	6,829	7,131	13.8
Fabricated metal	6,604	7,696	9,219	10,477	10,721	20.7
Chemicals	4,416	4,839	5,310	6,103	6,022	11.7
Paper and printing	4,486	4,365	4,440	4,886	5,361	10.4
Wood and furniture	2,371	2,862	3,513	4,056	4,072	7.9
Textiles and clothing	2,780	2,866	2,916	3,171	2,956	5.7
Basic metal	1,491	1,532	1,691	1,849	1,871	3.6
Non-metallic minerals	905	999	1,130	1,344	1,422	2.8
Other manufacturing industries	332	363	372	382	369	0.7
Total	$37,802	$41,463	$45,675	$50,008	$51,681	100.0%
Manufacturing index(1)	100	105.3	110.7	119.9	119.9	

(1) Index of Gross Domestic Product at constant 1991/92 prices by production group, base = 100.

SALES OF THE MANUFACTURING SECTOR BY INDUSTRY GROUP
YEAR ENDED 31 MARCH 1995



SOURCE: STATISTICS NEW ZEALAND

Coastline, Auckland Island, Sub-Antartica

Chatham Island

Dolphins at Kaikoura

SERVICE INDUSTRIES

The service sector accounted for around 64% of real GDP in September 1996 and employed around 66% of the employed labour force in the December quarter 1996. Over the June 1991 to September 1996 period, the service sector grew by 20.9%, similar to the 20% growth recorded for the economy as a whole over this period. However, the service sector excluding government services grew by a greater extent, by 24.3%. This reflects the government strategy of constraining the size of the public sector. In the year to September 1996, the service sector has continued to grow strongly, recording annual average growth of 4.3% as compared to total GDP growth of 2.3%.

Within the service sector, the trade, restaurants and hotels sector grew by an annual average of 4% between September 1991 and September 1996, with rising domestic incomes and strong tourism growth underpinning activity. However, over the year to September 1996, the sub-sector's growth slowed to just 0.6% on an annual average basis due to a fall-off in retail and wholesale activity. The sub-category of accommodation, restaurants and hotels continued to enjoy relatively strong growth of 3.7% in the year to September 1996, benefiting from continued growth in international visitor arrivals as well as the trend for households to eat out more frequently.

The transport and communications sector has proved resilient in the face of a slowing economy over the last couple of years as well as increasing competition within the communications industry. Annual growth of 9.0% was recorded for September 1996, a rate little changed from the double digit annual growth rates seen in 1995 and the first half of 1996.

Strong economic activity, rising exports and imports and the growth in tourism has supported activity in the transport and storage 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. This investment should allow continuing fast growth in the transport sector.

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.

Growth in the finance and business sector has been relatively steady over the last three years, hovering between 2% and 3% per annum. The sector grew by 3.1% in the year to September 1996. Some parts of this sector, in particular the banking industry, are continuing to undergo restructuring.

The community, social and personal services sector has shown strong growth over the June 1991 to September 1996 period, growing on average by 6.6% per annum. This compares to an average annual growth rate of 3.5% for the economy as a whole. This sector grew by 6.4% in the year to September 1996. Rising incomes and growing tourist numbers have contributed to its 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.

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 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. 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 improved sharply over recent years, aided by improvement in economic conditions and in provisioning. However the banking sector is very competitive and, as a consequence, interest margins are low by international standards. Life insurance companies also play a significant role in New Zealand.

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, 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. In the past ten years, however, the transport sector has been systematically deregulated and most of the legislative barriers to competition have been removed. Previously government-owned operations have been 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. This process is continuing. There have been significant improvements in recent years in the efficiency and quality of the services available as a result of these reforms.

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 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.

Railways

New Zealand's railway system connects all major population centres and includes rail and passenger ferries operating between the North and South Islands. 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 October 1990, the core rail business of New Zealand Railways Corporation was separated from it and sold by the Crown in September 1993 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. Light aircraft, including helicopters, are used extensively in agriculture for topdressing, spraying and planting and in forestry for log recovery from remote or difficult terrain. Light aircraft also form a major component of New Zealand's tourism infrastructure, being widely used for transport between tourism centres, providing access to remote locations, flight-seeing and heli-skiing operations. Light aircraft are also used for scheduled services on provincial routes.

Air services on New Zealand's major domestic routes are operated by Air New Zealand Limited and Ansett New Zealand Limited, which is wholly owned by News Limited. Air New Zealand has recently purchased 50% of Ansett Holidays Limited, the parent of Ansett Australia and owner of 49% of Ansett International.

Air New Zealand owns Mount Cook Group Limited, a tourist-oriented airline and tour operator. Air New Zealand also owns two commuter airlines, Air Nelson Ltd and Eagle Airways Ltd. Ansett New Zealand operates commuter services through its subsidiary Transair. A number of small independent commuter airlines operate on provincial routes, some in direct competition with Air New Zealand.

Tourism

Tourism is the largest single source of foreign-exchange revenue and a major growth industry in New Zealand. In the year to March 1996, foreign-exchange earnings of $4.77 billion were generated from international visitors (including New Zealand's share of international airfare payments). This was an increase of 40% on 1994 earnings. 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 1996, just over 1,529,000 overseas visitors entered New Zealand, an increase of 9% over the previous year. The largest number of visitors came from Australia (436,000 or 28.5% of the total), Japan (165,000 or 11%), the United States (147,000 or 10%), the United Kingdom (136,000 or 9%) and the Republic of Korea (127,000 or 8%).

With a few exceptions, traditional western markets have produced small increases in numbers, while Asian markets have increased substantially. Significant growth was achieved in visitor arrivals from the Republic of Korea, with a 41% increase over the previous year, and China, with 13,600 arrivals for the year to December 1996, an increase of 53% over the previous year. In total, Asian countries (excluding Japan) provided New Zealand with a total of 322,000 visitors, an increase of 10% over the previous year. Expanding air services from this region have assisted this growth rate.

Visitor expenditure has also risen. The New Zealand Tourism Board estimates that expenditure per visit has increased from $2,041 in the year ending September 1993 to $2,776 in the year ending March 1996.

Communications

New Zealand has a sophisticated and comprehensive telecommunications network. Competition has been allowed in all sectors of the market since 1989. Major competitors are all privately owned, including Telecom Corporation of New Zealand Limited (the former State-Owned Enterprise) and Clear Communications Limited which competes both in long distance services and local service provision. Both BellSouth and Telecom provide cellular services now taken up by approximately 13% of the population.

Most postal services are provided by New Zealand Post Limited, a commercially-run State-Owned Enterprise. New Zealand Post is very profitable and has been able to maintain high service delivery standards while reducing prices across a wide range of its services over the last two years. Private operators are able to compete provided they charge at least twice the price of the standard nationally delivered letter. There are a number of private sector courier companies.

Two national radio networks are provided by Radio New Zealand Limited, a Crown entity. Television New Zealand Limited, a State-Owned Enterprise, provides three television channels. There are numerous private radio stations. TV3, a private television operator, operates one national channel and plans to introduce another in 1997. Pay TV services are provided by a five-channel UHF television broadcast service and new cable television services are expected to be available to more than 10% of the population by the end of 1997. Further non-commercial television 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.

Autumn Pasture

Lake Taupo, Mecca for Trout Fishing

Hot Air Balloon Festival, Hamilton

EXTERNAL TRADE

External trade is of fundamental importance to New Zealand. New Zealand's reliance on imports for raw materials and capital equipment for industry and supply of output relative to domestic demand has made the country strongly trade-oriented.

New Zealand is committed to a reduction of world-wide trade barriers and to the unilateral reduction of its own barriers. Since reforms began in 1984, tariffs have been systematically reduced and quantitative controls on imported goods eliminated. A further review of tariffs in 1998 will determine how to move towards a zero end-point under a unilateral domestic tariff reduction programme, taking into account policies and progress of other trading partners.

New Zealand is a member of the Cairns group which successfully pushed for liberalisation of agricultural trade in the recent Uruguay round of GATT. It is also promoting liberal trading arrangements in other regional and bilateral fora, including APEC.

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 booking and WTO consistent.

Merchandise Trade

The following table records the total value of exports and imports of goods since 1992.

BALANCE OF EXTERNAL MERCHANDISE TRADE

Year ended 30 June	Exports (FOB)(1)	Imports (CIF)	Balance of Trade	Exports as a % of Imports
	(dollar amounts in millions)			
1992	17,840	15,483	2,357	115.2
1993	18,971	17,333	1,638	109.5
1994	19,827	18,469	1,358	107.3
1995	20,925	21,261	(336)	98.4
1996(2)	20,721	21,352	(631)	97.0

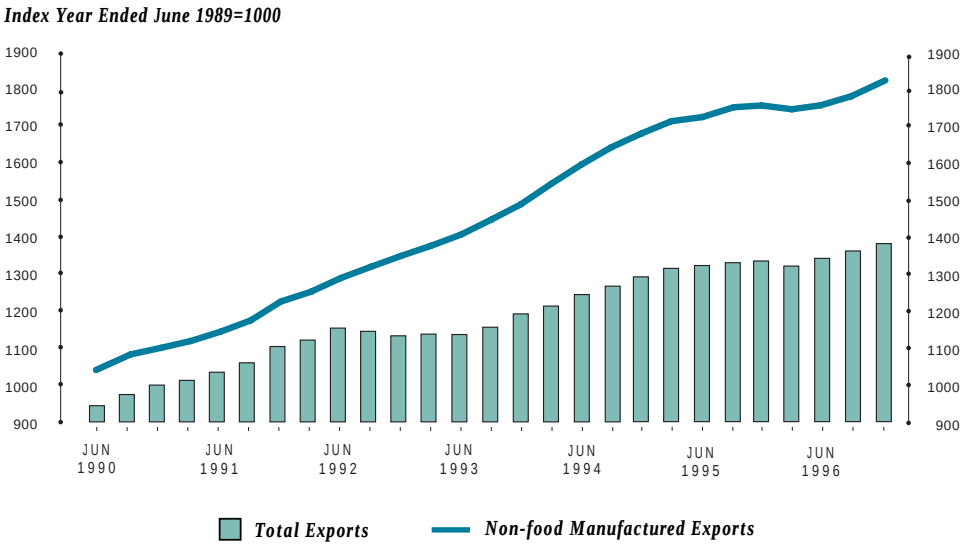
(1) Includes re-exports

(2) Provisional

Export volumes have grown strongly since 1990, averaging 6.0% growth per year.

Export volumes of goods grew by 1.6% in the year ended June 1996. However, in the year to June 1996, the total value of merchandise exports fell by 1.0% to $20.7 billion with the reduction in returns to exporters caused by the appreciation in the exchange rate more than offsetting growth in volumes. Merchandise imports in the same period increased by 0.4% to $21.4 billion. Import growth has slowed in tandem with the moderation in economic growth. The slow growth in nominal imports is also due to lower prices because of the appreciation in the exchange rate. Weaker exports have seen the annual trade balance move from a $336 million deficit in June 1995 to a $631 million deficit in June 1996.

INDEX OF EXPORT VOLUMES
YEAR TO DATE



SOURCE: STATISTICS NEW ZEALAND

Trade in services

In the year to 30 June 1996, exports of services totalled $6,846 million, amounting to around 25% of total exports of goods and services on a balance of payments basis.

Tourism is the major service sector to have increased sharply in recent years. For example, visitor arrivals have increased by over 30% over the last three years. Continued growth from Asian markets, combined with investment in marketing, airline and accommodation capacity, and visitor attractions points to further strong growth.

Imports of services have also risen sharply, especially for transport. This in part reflects increasing freight volumes. Services totalling $7,159 million in the year to 30 June 1996 made up 27% of total imports on a balance of payments basis.

Terms of Trade

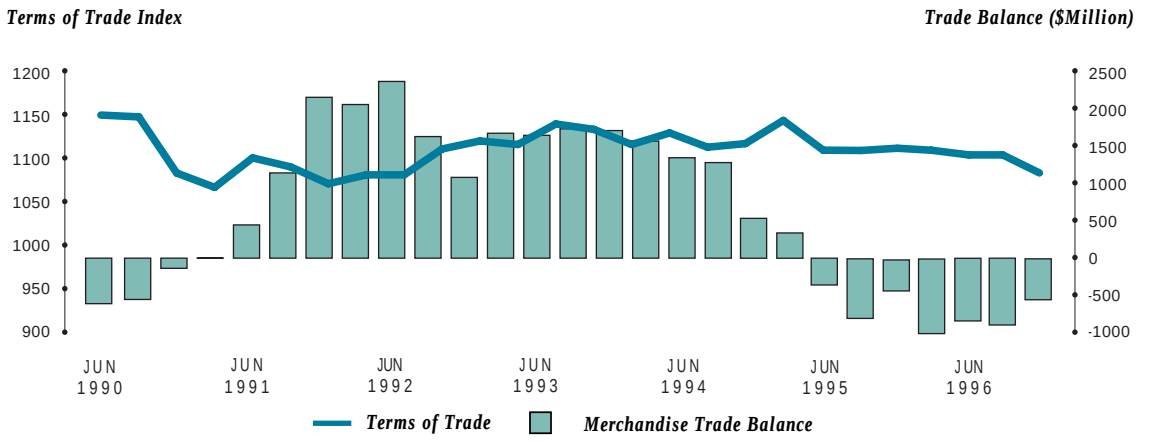
The Terms of Trade Index rose by around 0.8% in the year ended June 1996. Export prices fell by 1.4%, with rises in dairy prices more than offset by falls in prices for meat, wool and manufactured goods. More recently, dairy prices have eased. Import prices also fell, with price reductions recorded for capital goods and transport equipment.

TERMS OF TRADE

		Total Exports Price Index (1)		Total Imports Price Index (1)		Terms of Trade Index (2)	
1992	March	1041	4.6	1099	3.3	1079	1.3
	June	1067	8.9	1126	10.8	1079	(1.7)
	September	1096	10.3	1126	8.3	1108	1.8
	December	1106	9.1	1127	4.4	1117	4.5
1993	March	1133	8.8	1139	3.6	1133	5.0
	June	1121	5.1	1124	(0.2)	1136	5.3
	September	1109	1.2	1118	(0.7)	1130	2.0
	December	1058	(4.3)	1082	(4.0)	1113	(0.4)
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	1080	2.0	1083	1.1	1136	0.8
	June	1038	(1.0)	1064	(1.0)	1111	0.1
	September	1047	(1.3)	1082	0.2	1102	(1.1)
	December	1058	(1.9)	1070	(0.7)	1126	(1.2)
1996	March	1045	(3.2)	1069	(1.0)	1110	(2.3)
	June	1023	(1.4)	1056	(0.7)	1103	(0.8)
	September (3)	1015	(3.1)	1047	(3.2)	1104	(0.2)
	December (3)	984	(7.0)	1031	(3.6)	1087	(3.5)

(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 .

MERCHANDISE TRADE & TERMS OF TRADE



SOURCE: STATISTICS NEW ZEALAND

COMPOSITION OF MERCHANDISE EXPORTS AND IMPORTS

Agricultural products still provide the foundation for New Zealand's economy. Whilst the size of the agriculture sector has fallen relative to GDP, 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 1996.

The agricultural sector is highly efficient and has increased the value added to agricultural exports. For example, 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 rapidly growing East Asian market (excluding Japan) now takes around 28% of dairy exports.

New Zealand's export base has widened, as other sectors expand their relative contribution to export revenue. Exports of forestry products, horticultural products and fish have all increased considerably from comprising 7.8% of the value of exports in the year ended June 1972 to 23.2% of New Zealand's exports in 1996. Aluminium also remains an important export earner.

The manufacturing sector has been the major source of export growth and diversification over the last few years. Exports of non-food manufactured goods have increased from 19% of total merchandise exports in 1980 to 34% in the year ended June 1996. 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. New Zealand exports a range of manufactures, including plastic goods, carpets and textiles, wines, medium density fibre-boards, high-tech communications equipment, electric fencing, furniture and security products.

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 74% over the last ten years, reflecting both tariff reductions and a higher degree of value added in the manufacturing sector.

Over the last couple of years, capital goods imports have grown particularly strongly, although this growth rate has eased since mid-1996. This growth has reflected high business confidence and strong investment growth. In the year to 30 June 1996, mechanical machinery accounted for 17% of merchandise imports, and electrical machinery 11%. Imports of industrial supplies and consumer goods have also risen significantly, as manufacturing activity and household incomes have grown.

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

COMPOSITION OF PRINCIPAL MERCHANDISE EXPORTS

	Year ended 30 June					
	1992	1993	1994	1995	1996	1996 % of Total
	(dollar amounts in millions)					
Dairy products etc	$2,377	$2,666	$2,831	$2,758	$2,998	14.9%
Meat and edible meat offal	3,002	3,057	2,874	2,613	2,656	13.2
Wood and wood products	976	1,487	1,676	1,645	1,531	7.6
Fish, crustaceans and molluscs	1,078	1,073	1,113	1,118	1,142	5.7
Wool and other animal fibre	1,180	992	1,138	1,340	1,115	5.5
Fruit and nuts	854	745	762	876	994	4.9
Aluminium and articles thereof	693	660	676	866	816	4.1
Raw hides and skins	554	581	647	664	728	3.6
Mechanical machinery	396	497	636	690	698	3.5
Albuminoidal substances	509	595	638	591	649	3.2
Paper and paperboard	423	429	417	431	523	2.6
Electrical machinery	272	335	393	449	481	2.4
Wood pulp	386	361	335	500	447	2.4
Mineral fuels	501	486	448	333	373	1.9
Gold, stones and pearls, etc	184	267	314	315	307	1.5
Vegetables	262	246	314	319	290	1.4
Animal originated products n.e.i.	285	263	265	262	273	1.4
Iron and steel	313	303	286	247	271	1.3
Plastics and articles thereof	161	205	230	262	264	1.3
All other commodities	2,749	2,991	3,174	3,921	3,565	17.7
TOTAL NEW ZEALAND PRODUCE	$17,156	$18,241	$19,166	$20,200	$20,134	100.0%
Re-exports	685	730	661	725	587	
Total Merchandise Exports f.o.b.	$17,840	$18,971	$19,827	$20,925	$20,721	

COMPOSITION OF PRINCIPAL MERCHANDISE IMPORTS

	Year ended 30 June					
	1992	1993	1994	1995	1996	1996 % of Total
	(dollar amounts in millions)					
Mechanical machinery	2,015	$2,388	$2,824	$3,147	$3,414	17.2%
Vehicles	1,346	1,623	1,991	2,474	2,491	12.6
Electrical machinery	1,455	1,589	1,711	2,058	2,142	10.8
Mineral fuels	995	1,082	968	1,029	1,180	6.0
Plastics and articles thereof	608	723	757	874	844	4.3
Optical, photographic, etc	471	546	590	627	633	3.2
Paper and paperboard	389	481	425	501	538	2.7
Pharmaceutical products	432	485	505	498	537	2.7
Inorganic chemicals	393	322	322	356	367	1.9
Iron and steel	237	290	331	354	350	1.8
Iron or steel articles	283	223	246	286	342	1.7
Printed books, newspapers, etc	271	296	305	320	306	1.5
Aircraft	547	616	430	1,086	299	1.5
Organic chemicals	210	232	278	308	293	1.5
Rubber and articles thereof	176	220	230	248	268	1.4
Chemicals	202	216	247	236	247	1.2
Apparel; not knitted or crocheted	133	166	171	201	225	1.1
Toys, games, sports equipment	138	169	171	179	215	1.1
Fertiliser	87	118	142	167	205	1.0
Aluminium and articles thereof	164	170	167	230	205	1.0
All other commodities	3,661	4,025	4,207	4,569	4,694	23.7
TOTAL MERCHANDISE IMPORTS v.f.d	$14,215	$15,979	$17,019	$19,745	$19,798	100.0%
c.i.f. Value	$15,483	$17,333	$18,469	$21,261	$21,353	

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 - take 45% of New Zealand's exports. These same economies also supply 54% of New Zealand's imports.

The United Kingdom, once New Zealand's traditional export market, now takes 6% of our exports, compared to 70% in 1950.

The dynamic Asian economies are also becoming increasingly important trading partners. The major Asian markets (excluding Japan) accounted for 21% of New Zealand exports in the June 1996 year, compared to 16% in June 1991. These markets also provide around 14% of New Zealand’s imports.

GEOGRAPHIC DISTRIBUTION OF NEW ZEALAND'S TRADE

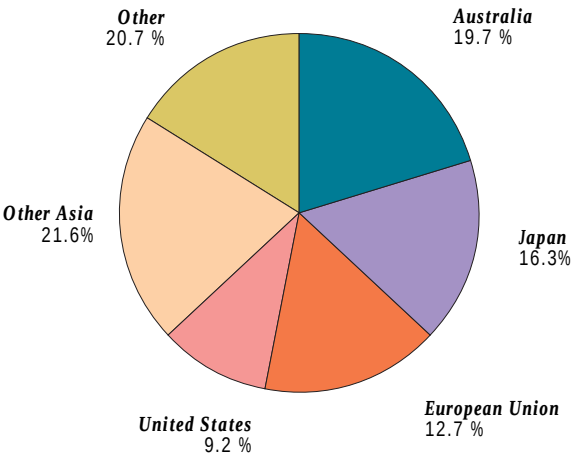
	EXPORTS(1)(2) Year ended 30 June									
	1992		1993		1994		1995		1996	
	(dollar amounts in millions)									
Australia	$3,189	18.6%	$3,530	19.4%	$3,844	20.1%	4,094	20.3%	$3,967	19.7%
Japan	2,704	15.8	2,751	15.1	2,877	15.0	3,409	16.9	3,277	16.3
United States	2,232	13.0	2,180	12.0	2,176	11.4	2,031	10.1	1,844	9.2
United Kingdom	1,144	6.7	1,194	6.5	1,163	6.1	1,262	6.2	1,278	6.4
Korea, Republic of	766	4.5	855	4.7	928	4.8	1,034	5.1	1,027	5.1
Hong Kong	357	2.1	407	2.2	475	2.5	575	2.8	679	3.4
Taiwan	427	2.5	484	2.7	500	2.6	627	3.1	570	2.8
China	361	2.1	367	2.0	519	2.7	543	2.7	519	2.6
Germany	406	2.4	482	2.6	484	2.5	497	2.5	497	2.5
Malaysia	350	2.0	381	2.1	389	2.0	395	2.0	468	2.3
Italy	212	1.2	199	1.1	260	1.4	286	1.4	331	1.6
Indonesia	192	1.1	242	1.3	207	1.1	300	1.5	305	1.5
Canada	263	1.5	309	1.7	356	1.9	285	1.4	298	1.5
Singapore	253	1.5	272	1.5	256	1.3	263	1.3	295	1.5
Thailand	174	1.0	207	1.1	185	1.0	253	1.3	256	1.3
Belgium	226	1.3	224	1.2	238	1.2	223	1.1	221	1.1
Phillipines	133	0.8	205	1.1	200	1.0	194	1.0	218	1.1
France	211	1.2	213	1.2	203	1.1	229	1.1	213	1.1
Saudi Arabia	205	1.2	227	1.2	216	1.1	168	0.8	192	1.0
Russia	-	-	107	0.6	134	0.7	137	0.7	177	0.9
Other	3,350	19.5	3,404	18.7	3,557	18.6	3,393	16.8	3,493	17.3
Total	$17,156	100.0%	$18,241	100.0%	$19,166	100.0%	$20,200	100%	$20,134	100.0%

(1) Free on Board

(2) Excludes Re-exports

GEOGRAPHIC DISTRIBUTION OF EXPORTS

YEAR ENDED 30 JUNE 1995



SOURCE: STATISTICS NEW ZEALAND

	IMPORTS(1) Year ended 30 June									
	1992		1993		1994		1995		1996	
	(dollar amounts in millions)									
Australia	$3,163	22.2%	$3,467	21.7%	$3,657	21.5%	$4,146	21.0%	$4,649	23.5%
United States	2,597	18.3	2,966	18.6	3,073	18.1	4,022	20.4	3,414	17.2
Japan	2,160	15.2	2,442	15.3	2,694	15.8	2,916	14.8	2,628	13.3
United Kingdom	874	6.2	996	6.2	1,037	6.1	1,233	6.2	1,077	5.4
Germany	592	4.2	680	4.3	754	4.4	911	4.6	980	4.9
China	320	2.2	459	2.9	517	3.0	644	3.3	713	3.6
Italy	329	2.3	362	2.3	448	2.6	428	2.2	503	2.5
France	252	1.8	284	1.8	295	1.7	332	1.7	499	2.5
Taiwan	400	2.8	453	2.8	487	2.9	537	2.7	498	2.5
Malaysia	135	1.0	218	1.4	203	1.2	257	1.3	406	2.1
Singapore	340	2.4	225	1.4	280	1.6	378	1.9	386	1.9
Canada	230	1.6	230	1.4	263	1.5	281	1.4	383	1.9
Korea, Republic of	225	1.6	258	1.6	273	1.6	309	1.6	350	1.8
Sweden	177	1.2	220	1.4	301	1.6	340	1.9	326	1.6
Saudi Arabia	459	3.2	363	2.3	339	2.0	255	1.3	302	1.5
Netherlands	154	1.1	180	1.1	195	1.1	215	1.1	221	1.1
Indonesia	77	0.5	112	0.7	130	0.8	183	0.9	211	1.1
Switzerland	156	1.1	184	1.2	201	1.2	188	1.0	204	1.0
Hong Kong	195	1.4	218	1.4	207	1.2	213	1.1	193	1.0
Belgium	95	0.7	97	0.6	123	0.7	135	0.7	151	0.8
Other	1,287	9.0	1,566	9.8	1,544	9.1	1,824	9.2	1705	8.6
Total	$14,215	100.0%	$15,979	100.0%	$17,019	100.0%	$19,745	100%	$19,798	100%

(1) Value for Duty

PRINCIPAL TRADING PARTNERS

Australia

Australia is New Zealand's largest trading partner. In the year ended 30 June 1996, bilateral trade amounted to $8,932 million, or around 20% 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 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.

Japan

Japan is New Zealand's second largest trading partner, with bilateral trade amounting to $6,162 million in the year ended 30 June 1996.

Japan is one of New Zealand's key single export markets (second only to Australia), taking around 16% of total exports in the year ended June 1996. Forestry products constitute the largest category of exports to Japan - wood and wood articles make up 17.5% of exports to Japan, and wood pulp, 3%. Exports of New Zealand wood products have more than doubled in the past five years. Japan is also a key market for aluminium, taking around half of total exports. Other important commodities include fish, meat, dairy products, vegetables and fruit.

Japan is also a major supplier of New Zealand's imports, providing almost 14% of total imports. Imports from Japan are dominated by technology intensive appliances. Vehicles account for just under half and mechanical and electrical machinery account for just over a quarter of total imports from Japan.

New Zealand is a popular tourist destination for the Japanese. During 1996, Japan overtook the United States to become the second largest source of international visitors to New Zealand. Japanese arrivals numbered 165,000 for the year ending December 1996.

United States

The United States has for many years been one of New Zealand's largest export markets and a major supplier of imports. In the year ended 30 June 1996, exports to the United States accounted for 9% of New Zealand's total exports. In the same year, the United States supplied 17% 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, veal, lamb, wool, casein (milk derivative), fish, fruit, and a growing range of manufactured goods. The development of trade in dairy products has been constrained by long-standing quotas on these items.

European Union

The members of the European Union constitute important trading partners for New Zealand. Together, the Union members constitute New Zealand's second biggest export market, taking 17% 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.

The central gain to New Zealand from the GATT Uruguay Round is expected to arise over the medium term from major liberalisation of agriculture through increased market access and substantial reductions in export subsidies. Already, subsidy reductions appear to have contributed to increases in international dairy prices.

In particular New Zealand now has legal security through the WTO to export of 76,667 metric tonnes of butter and 227,600 metric tonnes of sheepmeat into the European Union.

Asian Economies

The dynamic Asian economies of the Republic of Korea, Taiwan, Hong Kong, China, Malaysia, Indonesia, Singapore, Thailand and the Philippines are rapidly increasing in importance to New Zealand as trading partners. In the year ended June 1996, 5% of New Zealand's exports went to the Republic of Korea, making it the fifth largest export market. These countries are all in the 20 largest export markets for New Zealand and accounted for 22% of merchandise exports in the year ended June 1996, compared to 16% in 1991.

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).

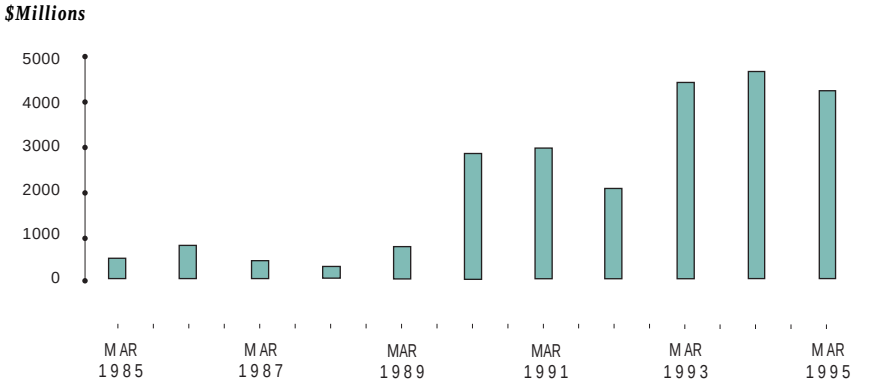
There are no restrictions on the movement of funds in or out of New Zealand, or on repatriation of profits. No additional performance measures are imposed on foreign-owned enterprises.

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					
	1990	**1991**	**1992**	**1993**	**1994**	**1995**
	(dollar amounts in millions)					
Net Foreign Direct Investment	2,824	2,932	2,026	4,405	4,706	4,261
Net Foreign Portfolio Investment	158	557	(396)	1,087	5,582	1,465

NET FOREIGN DIRECT INVESTMENT



SOURCE: STATISTICS NEW ZEALAND

BALANCE OF PAYMENTS

The current account deficit was an estimated 4.6% of GDP in the year to September 1996, up from 4.1% in the March 1996 year. After improving steadily during the early 1990s, the current account deficit has increased substantially over the past 18 months. This mainly reflects strong import growth and strongly increasing profits accruing to foreign-owned firms operating in New Zealand.

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

	Year ended 31 March					
	1992(1)	1993(1)	1994(1)	1995(2)	1996(2)	Year Ended September 1996(2)
Current Account:	(dollar amounts in millions)					
Export Receipts	$16,834	$18,604	$19,517	$20,616	$20,183	$20,490
Import Payments	(13,244)	(15,192)	(16,382)	(18,524)	(19,303)	(19,865)
Merchandise Trade Balance	3,591	3,411	3,136	2,093	881	625
Invisibles Balance(3)	(5,472)	(4,663)	(4,180)	(5,402)	(4,538)	(4,828)
Current Account Balance	$(1,882)	$(1,252)	$(1,044)	$(3,310)	$(3,657)	$(4,203)
Deficit as % of GDP	(2.6%)	(1.7%)	(1.3%)	(3.9%)	(4.1%)	(4.6%)
Capital Transactions (Net):						
Official	$(1,932)	$(1,498)	$(1,907)	$(2,113)	$(2,924)	$(2,488))
Private(4)	604	7,295	3,288	7,470	NA	NA
Residual	1,707	(4,464)	393	(2,426)	7,255	(10,511)
Net Apparent Capital Inflow (Outflow)(4)	$379	$1,333	$1,774	$2,931	$4,333	$8,023
Reserves:						
Net Change in Holdings	$(819)	$381	$734	$(813)	653	(3,079)
Net Change in Transactions	$(1,501)	$62	$738	$(379)	675	(3,819)

(1) Revised.

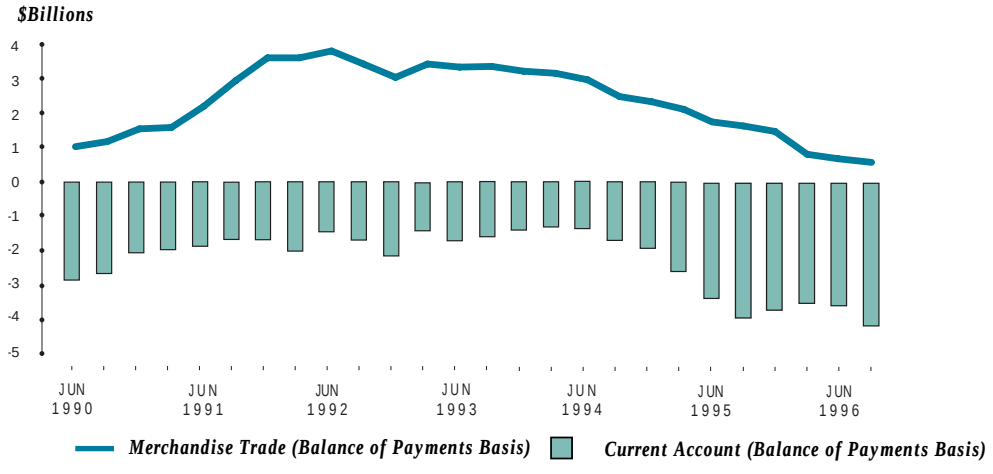
(2) Provisional.

(3) Includes transfers.

(4) "Private " also includes official sector domestically-issued securities such as government bonds and treasury bills

BALANCE OF PAYMENTS

Annual Totals



SOURCE: STATISTICS NEW ZEALAND

FOREIGN-EXCHANGE RATES AND OVERSEAS RESERVES

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. The float has had positive implications for the effectiveness of monetary policy, which no longer has to contend with injections and withdrawals of New Zealand dollars associated with a fixed exchange-rate regime.

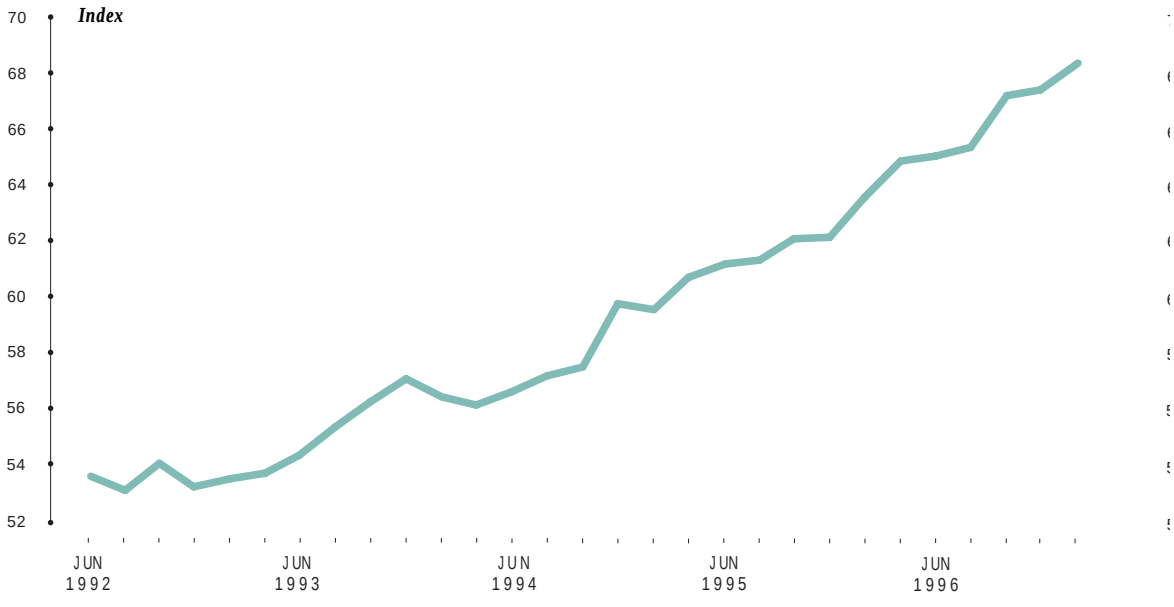
There are no exchange controls on foreign-exchange transactions undertaken in New Zealand, either by New Zealand residents or non-residents.

EXCHANGE RATES

Last Business Day in June	U.S.A. Mid-rate US$ per NZ$1	Japan Mid-rate Yen per NZ$1	Trade–Weighted Exchange Rate Index(1)
1992	0.5459	68.49	53.6
1993	0.5382	57.26	54.3
1994	0.5947	58.72	56.8
1995	0.6695	56.50	61.2
1996	0.6846	74.68	65.1
July	0.6931	74.83	65.9
August	0.6924	75.04	65.5
September	0.6999	77.60	66.7
October	0.7046	80.31	67.3
November	0.7088	80.56	66.9
December	0.7064	82.01	67.5
1997 January	0.6898	83.99	68.2
February	0.6910	83.37	67.9

(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.

TRADE WEIGHTED EXCHANGE RATE INDEX



SOURCE: STATISTICS NEW ZEALAND

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 1996 (approximately $1,524 million).

NEW ZEALAND'S OFFICIAL RESERVES

Last Balance Day in June	Reserve Bank Overseas Reserves (1)	Treasury Overseas Reserves	Reserve Position at IMF(2)	Special Drawing Rights	Total Official Reserves
	(dollar amounts in millions)				
1992	4,331.7	968.6	162.9	2.1	5,465.6
1993	4,624.1	1,298.1	270.3	0.5	6,193.0
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

(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.

Salmon fishing, Upper Rakaia River, Canterbury

Lake Hayes, Otago

Ski touring, Fox Glacier

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 approach to banking supervision also places emphasis on the role of bank directors. Directors are required to sign each disclosure statement and face potentially severe penalties where a disclosure statement is held to be false or misleading.

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 Minister of Finance, has a wide-ranging powers to intervene for the purpose of avoiding significant damage to the financial system.

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 consolidation of some smaller banks, the number of registered banks stood at 17 in February 1997. Sixteen of these are subsidiaries or branch operations of foreign banks. As of the September quarter 1996, total assets of the registered banks in respect of their New Zealand operations amounted to $116 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.

Several aspects of the banking sector have either been reformed or are currently being reviewed with the objective of promoting greater efficiency in the banking system by updating law to better fit with modern banking practices. This has included a review of the law relating to cheques, and will include refinements to legislation relating to netting arrangements and aspects of statutory management.

The New Zealand payments system is being reviewed, 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. It is expected that significant reforms will be implemented during 1997.

Business Law Environment

Company Law

The Companies Act 1993 updates and rationalises the Companies Act 1955. Companies registered under the Companies Act 1955 have until 1 July 1997 to re-register under the new Act.

Securities Law

As well as the Companies Act 1993, the key statute regulating the securities markets is the Securities Act 1978. The Securities Act requires that certain information must be disclosed when securities are offered to the public. Recent legislative amendments have widened the scope of the Securities Act to include interests in unit trusts, superannuation schemes and life insurance policies when they are offered to the public. The amendments require certain key features about the product to be clearly and briefly set out in a plain English 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 per cent or more of the voting securities of an issuer).

Competition Law

The purpose of the Commerce Act 1986 is to promote competition. Very broadly, the Act 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.

Financial Reporting Act 1993

The Financial Reporting Act prescribes requirements for financial reporting and establishes the Accounting Standards Review Board, which is responsible for approving financial reporting standards with which the Act requires compliance by larger companies.

Waikato River near Taupo with Huka Lodge

Keas (Native parrot)

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 under the provisions of the Act. A Policy Targets Agreement has been entered into between the Government and the Governor of the Reserve Bank, which defines price stability as 12-monthly increases in the Consumer Price Index (CPI) of between 0% and 3% per annum (prior to December 1996, the target range was 0% to 2% per annum). The Policy Targets Agreement also refers to possible price shocks and contemplates that these may cause the CPI inflation rate to move outside the target range. If this occurs, the Reserve Bank is accountable for ensuring that the effects of such shocks on the inflation rate are transitory.

To facilitate monitoring of its performance in achieving its inflation objective, the Reserve Bank publishes a measure of "underlying inflation" which excludes the direct effects of the categories of price shocks referred to in the Policy Targets Agreement, namely interest-rate movements, significant changes in indirect taxes and government charges and significant one-off price shocks arising from changes in the terms of trade or natural disasters. The underlying inflation rate remained consistently within the 0% to 2% per annum target range between December 1991 and March 1995. Subsequently, the underlying inflation rate has been at, or slightly above 2%.

There was 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 before falling back to 2.0% in the year to June 1996 and 2.6% in the year to December 1996.

The Government fully funds any net injections of liquidity by way of regular Treasury bill and bond tenders. The Reserve Bank controls the total supply of liquidity by restricting the supply of discountable paper and by using open market operations aimed at holding settlement cash at a pre-announced target level. The Reserve Bank's operations in the settlement cash market and its control over the quantity and maturity structure of discountable bills allow it to influence the supply and cost of liquidity for financial institutions and, ultimately, the interest rates facing the household and corporate sectors.

In March 1997, the Reserve Bank released proposals which, if implemented, will substantially change the Reserve Bank's monetary policy operating procedures. In essence, the proposal is to introduce an official cash (interest) rate, in substitution for the present framework which is based on controlling the quantity of settlement cash in the banking system.

In implementing monetary policy, the Reserve Bank operates with a considerable degree of autonomy. This policy autonomy has been 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 Minister of Finance 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. 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 underlying 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 for underlying inflation.

Following the achievement of price stability (0% to 2% underlying inflation) in December 1991, monetary conditions eased gradually. Interest rates on 90-day bank bills fell from 7.8% in December 1991 to 5.3% in December 1993. The exchange rate remained reasonably stable during 1992 and early 1993. During 1993, stronger economic activity contributed to a build-up in inflationary pressures and, in turn, a substantial firming in monetary conditions which has been sustained through to early 1997 albeit, since late 1996, more in terms of exchange-rate appreciation than interest rates. In the early months of 1997, interest rates have tended to fall.

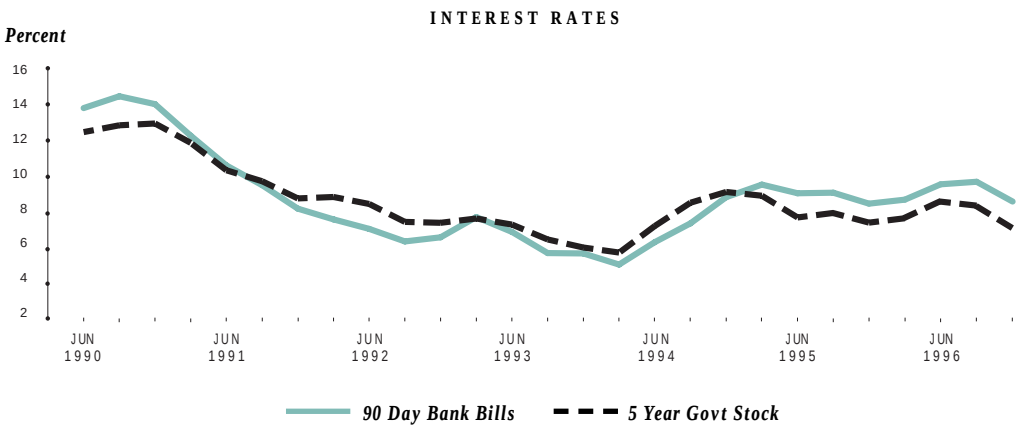
INTEREST RATES AND MONEY AND CREDIT AGGREGATES

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. However, in March 1997, the Reserve Bank released for market comment a proposal to introduce an official cash rate regime in New Zealand.

KEY INTEREST RATES: MONTHLY AVERAGES

	Month	Call Rate	90-Day Bank Bill Rate	Government Loan Stock Rates 2 Year	Government Loan Stock Rates 5 Year	Bank Base Lending Rates(1)
1992	March	7.0%	7.3%	7.7%	8.6%	11.8%
	June	6.7	6.8	7.4	8.2	11.4
	September	6.3	6.3	6.8	7.3	11.0
	December	7.0	6.9	7.1	7.5	10.4
1993	March	7.1	7.2	7.3	7.3	11.0
	June	5.9	6.4	6.9	7.1	10.5
	September	4.9	5.3	5.7	5.9	9.8
	December	4.8	5.3	5.5	5.8	9.5
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

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



SOURCE: STATISTICS NEW ZEALAND AND THE RESERVE BANK OF NEW ZEALAND

	Quarter	M1(1)	M3	Private Sector Credit	Domestic Credit
		Annual % Changes			
1992	March	2.1%	11.3%	5.9%	8.5%
	June	6.8	7.8	3.8	6.0
	September	2.8	13.5	13.7	12.6
	December	0.7	10.7	14.2	10.7
1993	March	(2.7)	6.2	8.3	6.1
	June	(0.2)	9.6	10.6	8.0
	September	5.1	5.3	3.7	2.3
	December	8.7	5.4	8.4	6.4
1994	March	15.1	6.6	12.9	10.3
	June	22.0	5.8	10.5	9.2
	September	11.9	4.1	10.4	6.7
	December	6.0	3.5	8.9	6.5
1995	March	2.6	6.7	7.8	4.2
	June	(1.4)	8.8	11.5	7.1
	September	(1.7)	10.2	12.1	11.6
	December	6.3	15.6	14.2	11.6
1996	March	7.5	12.5	15.2	11.5
	June	0.6	18.1	16.6	12.2
	September	1.1	13.8	14.9	11.8
	December	3.2	11.8	11.3	8.9

(1) M1 figures include non-cheque transaction balances which can be drawn on using electronic funds transfer/point of sale facilities.

Franz Josef Glacier, Southern Alps

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 Minister of Finance 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 Minister 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 move 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 will 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 Minister 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.

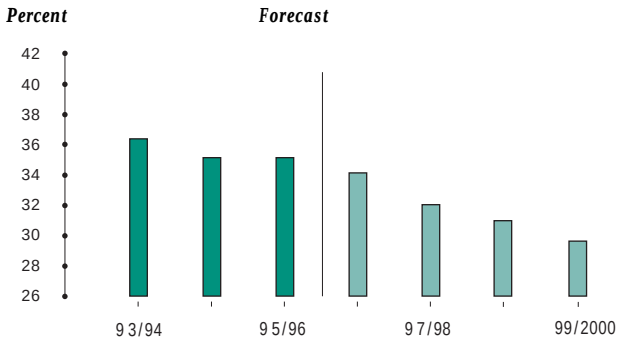
The Fiscal Responsibility Act establishes a set of principles for use as a benchmark against which the fiscal policies of the Government can be judged by Parliament and its Finance and Expenditure Committee.

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 future 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 Minister of Finance 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.

GOVERNMENT EXPENDITURE
Total Operating Expenses as a Percentage of GDP



SOURCE: THE TREASURY

FISCAL POLICY OBJECTIVES

The term "prudent debt levels" is interpreted, at present, to mean net public debt in the range of 20% to 30% of GDP. According to the 31 December 1996 Crown Financial Statements, net public debt has fallen below 30% of GDP. Nonetheless, the Government considers it prudent to continue reducing net debt to below 20% of GDP. The most recent statement of the Coalition Government's long-term fiscal objectives, the 1997 Budget Policy Statement, includes, the following:

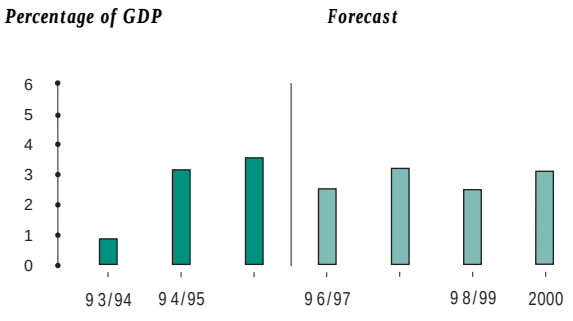
- Operating Expenses- Limit the burden on current and future taxpayers by focussing on the efficiency and quality of expenditure and reducing expenses to below 30% of GDP.
- Operating Revenues - Maintain a low-rate, broad-based tax regime to raise sufficient revenue to meet its long-term operating balance objective of running surpluses, on average, over the business cycle.
- Operating Balance - Once gross Crown debt is reduced to below 30% of GDP and net debt below 20% 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.
- Crown Debt - Steadily reducing gross Crown debt to 30% of GDP, consistent with reducing net debt to 20% 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.

OPERATING BALANCE as a Percentage of GDP
(Generally Accepted Accounting Practice)



SOURCE: THE TREASURY

CURRENT FISCAL POSITION

The following table summarises the Government's fiscal position according to GAAP 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. Disaggregated data on a consistent GAAP basis are not available prior to 1992/93.

CROWN OPERATING STATEMENT(1)

	Year ended 30 June					
	1991/92	1992/93	1993/94	1994/95	1995/96	1996/9 Budget(2)
	(dollar amounts in millions)					
Revenue						
Levied through the Crown's Sovereign Power						
Direct Taxation	NA	$16,591	$17,585	$19,843	$21,255	$21,089
Indirect Taxation	NA	9,221	10,120	10,370	10,978	11,521
Compulsory fees, fines, penalties and levies	NA	151	190	225	235	249
Sub Total	NA	25,963	27,895	30,438	32,468	32,859
Earned through the Crown's Operations						
Investment Income	NA	1,646	1,368	2,170	1,606	1,621
Unrealised gains/(losses) arising from changes in the value of commercial forests	NA	766	(292)	(65)	(87)	8
Other operational revenue	NA	791	518	438	410	342
Sales of goods and services	NA	669	694	667	662	635
Sub Total	NA	3,872	2,288	3,210	2,591	2,606
TOTAL REVENUE	NA	$29,835	$30,183	$33,648	$35,059	35,465
Total Revenue as a % of GDP(3)	NA	39.1%	36.9%	38.8%	38.6%	37.1%
EXPENSES (By functional classification)						
Social security and welfare	NA	$12,071	$11,479	$11,724	$12,240	12,461
Health	NA	4,168	4,602	4,886	5,228	5,601
Education	NA	4,539	4,627	4,803	4,949	5,343
Core government services	NA	1,464	1,723	1,340	1,565	1,607
Law and order	NA	1,173	1,150	1,190	1,234	1,252
Defence	NA	1,054	1,049	1,013	970	1,026
Transport and communications	NA	781	815	796	821	866
Economic and industrial services	NA	744	711	673	997	833
Primary services	NA	372	299	309	304	347
Heritage, culture and recreation	NA	310	241	233	247	274
Housing and community development	NA	260	39	46	40	54
Other	NA	236	14	181	48	297
Finance costs	NA	3,961	3,788	3,757	3,703	3,173
Net foreign-exchange losses/(gains)	NA	296	(898)	(551)	(603)	(8)
Supplementary Estimates Provision	NA	–	–	–	-	100
TOTAL EXPENSES	NA	$31,429	$29,639	$30,400	$31,743	$33,226
Total Expenses as a % of GDP(3)	NA	41.2%	36.2%	35.1%	35.0%	34.7%
Revenue less expenses	NA	(1,594)	544	3,248	3,316	2,239
Net surplus (deficit) less distributions attributable to SOEs and Crown Entities	NA	775	211	(553)	(2)	254
OPERATING BALANCE	NA	$(819)	$755	$2,695	$3,314	$2,493
Operating Balance as a % of GDP(3)	NA	(1.1%)	0.9%	3.1%	3.7%	2.6%

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

(2) Budget revisions announced 2 December 1996.

(3) GDP: Treasury estimate for June years.

STATEMENT OF FINANCIAL POSITION

The Statement of Financial Position (balance sheet) summarises the Crown's assets and liabilities as at 30 June 1996. The difference between total assets and total liabilities is termed the Crown Balance, a measure of government net worth.

STATEMENT OF FINANCIAL POSITION

as at 30 June 1996

	1996	1995
	(dollar amounts in millions)	
ASSETS		
Cash and bank balances	$ 344	$ 210
Marketable securities and deposits	9,062	6,523
Advances	3,457	4,782
Receivables	4,782	4,453
Inventories	336	326
State-owned enterprises and Crown entities	18,487	16,420
Other investments	211	223
Physical assets	13,925	13,432
Commercial forests	551	646
State highways	7,759	7,454
Intangible assets	7	18
TOTAL ASSETS	$58,921	$54,487
LIABILITIES		
Payables and provisions	$ 4,070	$ 3,824
Currency issued	1,675	1,620
Borrowings	41,500	44,096
Pension liabilities	8,332	8,106
TOTAL LIABILITIES	$55,577	$57,646
TOTAL ASSETS LESS TOTAL LIABILITIES	$3,344	$(3,159)
CROWN BALANCE		
Accumulated operating balance	(1,550)	(5,074)
Revaluation reserve	4,894	1,915
CROWN BALANCE	$3,344	$(3,159)

Social Services, Education and Health Expenditure

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 table below shows the social services expenses met by the Government, using the IMF's Government Financial Statistics classifications. For the 1996/97 financial year, they are forecast to comprise 71% of total government operating expenses. There is no separate social security or social insurance scheme in New Zealand and over a fifth of the total ($5,601 million in 1996/97) is for New Zealand Superannuation (publicly funded pensions).

TOTAL SOCIAL SERVICES EXPENSES (1)

	Year ended 30 June					
	1992	1993	1994	1995	1996	1997(2)
	(dollar amounts in millions)					
Social Security and Welfare	NA	$12,071	$11,479	$11,724	$12,240	$12,461
Education	NA	4,539	4,627	4,803	4,949	5,343
Health	NA	4,168	4,602	4,886	5,228	5,601
Total	NA	$20,778	$20,708	$21,413	$22,417	$23,405
Social Services Expenses as a percentage of GDP	NA	27.2%	25.3%	24.7%	24.7%	24.5%

(1) GAAP basis

(2) Budget revisions announced 2 December, 1996.

The Government's overall strategy is based on efforts to achieve sustained growth in incomes and employment as offering the best way of improving the quality of life in New Zealand. Well-designed social policies fit in with this broader strategy by providing opportunity and security for those most in need, at a cost that is sustainable within current and future budget strategies.

The Government has, in recent years, implemented reforms in the social services sector designed to reduce the rate of growth in spending in these areas, to improve the effectiveness and value of expenditures on social services through changes to service delivery systems and more accurately targeted benefits, and to encourage greater private provision of services.

Priorities for the Government over the next few years are the provision of high quality health and education services, with particular focus on investment in early childhood education. Effort will also be directed at ensuring social services provided to at-risk groups are well coordinated and that parents receiving support are aware of their responsibilities. The Budget Policy Statement (March 1997) foreshadows increased spending in these priority areas over the next three fiscal years.

The Government also has key objectives in employment policy of reducing the percentage of job seekers who are long-term unemployed, and of involving job seekers in part-time work and training while they are unemployed.

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

The personal income tax scale is currently in transition. For the 1996/97 income year it has three steps, 22.125%, 24.375% and 33%. The top tax rate threshold is slightly below current average full-time earnings. All income (other than capital gains) is taxed, but a rebate results in a 15% rate for those on very low wages or salaries and no other income. Withholding taxes apply to wages and salaries and to interest income and dividends. Fringe benefits are taxed separately.

A refundable tax credit is available to low-income families with children. For those receiving taxpayer-funded old age pensions, a tax surcharge of 25% applies to other income above an exempt level, up to the point at which the surcharge equals the pension. The Coalition Government has stated its intention to abolish the surcharge.

The tax treatment of pension funds and other savings is "TTE": 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, after a three year transition, to be 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.

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 the 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 distribution 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.

During 1996, further sales of Housing Corporation mortgages were undertaken. The Government also sold the Waikato Regional Airport Limited, the Maori Development Corporation, the commercial arm of Radio New Zealand, Works and Development Services Corporation NZ Limited and the Forestry Corporation of New Zealand during 1996.

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 December 1996 Coalition Agreement states that the following "strategic assets" of the Government will not be sold:

- Electricorp (ECNZ)
- Contact Energy
- Transpower
- New Zealand Post
- TV1
- Radio New Zealand - National Programme - Concert FM.

In addition, any sale over 24.9% of power and gas utilities, airports and ports currently owned by local bodies or consumer trusts, would require prior approval of rate payers or consumers.

As detailed in the table below, approximately $13.2 billion has been raised from the sale of 27 businesses and other assets since the programme was launched in 1987.

PROCEEDS FROM BUSINESS SALES AS AT 25 MARCH 1996

Business	($ million) Proceeds
New Zealand Steel Limited	$327.22
Petroleum Corporation of New Zealand Limited	801.06
Development Finance Corporation New Zealand 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	19.78
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	2,175.93
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
Total	$15,913.37

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

The following section lists each of the principal government enterprises and describes its functions, status and financial relationship to the Government. Except where otherwise stated, the Government does not guarantee or otherwise support any of the liabilities of State-Owned Enterprises.

Finance and Insurance

Government Superannuation Fund. The Government Superannuation Fund (GSF) is the major provider of superannuation (pension) services for the state sector. In the year ending 30 June 1996, the GSF's assets were valued at $3,144 million. The benefits paid by the GSF are guaranteed by the Government, which currently pays its contribution as benefits are paid out. The Government's liability in the event of having fully to fund these benefits was estimated by the GSF's actuary to be $8,328 million at 30 June 1995. As a result of a review, all GSF schemes, with one minor exception, were closed to new members on 1 July 1992. State sector employers are now able to establish superannuation schemes on behalf of their employees. Any new schemes will be established under their own Trust Deeds, be fully funded as costs accrue and carry no Government guarantee.

Housing Corporation of New Zealand. The Housing Corporation of New Zealand (HCNZ), a statutory corporation funded in part by the Government, assists low income people into home ownership via the initial provision of housing finance. Its principal role is to manage the mortgage portfolio. The HCNZ Group includes its subsidiary, Community Housing Ltd. Community Housing Ltd provides suitable accommodation for community groups and individuals with disabilities.

For the year ended 30 June 1996, the Group recorded the following results:

	($ million)
Total Revenues	$140
Net Profit after Tax	43
Total Assets	731
Debt Owed to the Government	147
Debt - Other	198
Subordinated Debt	229
Reserves	41
Other Liabilities	115

The Government guarantees all securities issued by the HCNZ.

Earthquake Commission (EQC). The EQC provides insurance for property owners against earthquake, volcanic eruption, hydrothermal activity, tsunami and landslip. This insurance is compulsory for all residential properties and optional for commercial properties insured in New Zealand against fire, with a levy being added to all fire insurance premiums. The levy is collected by insurance companies and paid to the Commission. As of 30 June 1996, the net assets of the Commission were $2.5 billion. The Commission also buys reinsurance, and at present has reinsured $1.6 billion of risk. The Commission has no debt.

The Government guarantees all liabilities of the Commission. In the event that the Commission's own assets plus reinsurance were insufficient to meet claims, the Government would provide any shortfall. In the year ended 30 June 1996, the guarantee fee paid by the Commission to the Government totalled $20 million.

Transport

New Zealand Railways Corporation. Following the sale of New Zealand Rail, the Corporation has responsibility for only residual issues and for ownership of land on which the rail network operates. For the financial year ended 30 June 1996, New Zealand Railways Corporation recorded a net profit of $7.7 million.

Airways Corporation of New Zealand Limited. Airways Corporation of New Zealand Limited, a State-Owned Enterprise, operates the country's air traffic control system. For the year ended 30 June 1996, the Corporation generated a net profit after tax and extraordinary items of $848,000.

Communications

New Zealand Post Limited. New Zealand Post Limited (NZ Post), a State-Owned Enterprise, operates a universal postal service.

For the year ended 31 March 1996, NZ Post recorded the following results:

	($ million)
Total Revenues	$644.4
Net Profit after Tax	75.2
Total Assets	451.7
Shareholders' Funds	206.7
Debt and Provisions	205.8

In the year ended 31 March 1996, NZ Post paid the Crown $60.2 million in dividends.

Radio New Zealand. Radio New Zealand is a Crown entity established in December 1988. For the year ended 30 June 1996, Radio New Zealand achieved a net profit after tax and abnormal items of $2.1 million. The Government sold Radio New Zealand's commercial arm on 10 July 1996.

Television New Zealand Limited (TVNZ). Television New Zealand Limited, a State-Owned Enterprise, was established on 1 December 1988 following deregulation of the broadcasting industry.

In the financial year ending on 31 December 1995, TVNZ recorded the following results:

	($ million)
Total Revenues	$427.5
Net Profit after Tax	43.1
Total Assets	468.0
Shareholders' Funds	238.3
Debt and Provisions	135.6

In the year ended 31 December 1995, a dividend of $30.2 million was declared.

Industrial

Coal Corporation of New Zealand Limited. Coal Corporation of New Zealand Limited (Coalcorp), a State-Owned Enterprise, undertakes the production and sale of coal (including export sales) from a number of underground and opencast coal mines in several locations around New Zealand. In the last financial year, Coalcorp produced a substantial proportion of the country's total coal output and was the major coal exporter in New Zealand.

For the year ended 30 June 1996, Coalcorp recorded the following results:

	($ million)
Total Revenues	$189.6
Net Profit after Tax	14.7
Total Assets	173.5
Shareholders' Funds	100.4
Debt and Provisions	47.5

In the year ended 30 June 1996, dividends of $8.45 million were declared.

Electricity Corporation of New Zealand Limited. Electricity Corporation of New Zealand Limited (ECNZ), a State-Owned Enterprise, currently supplies around 74% of all electricity consumed in New Zealand.

At 30 June 1996, ECNZ had total assets of $3,535 million and total liabilities of $1,609 million. For the year ended 30 June 1996, ECNZ declared $1,461 million in dividends including a capital reduction. The Crown also received $38.6 million in profits from its sale of Maui gas to ECNZ and Contact Energy.

Contact Energy Limited. Contact Energy Limited, a State-Owned Enterprise, was separated from ECNZ on 8 February 1996. Contact currently generates around 22% of all electricity consumed in New Zealand.

At 30 June 1996, Contact had total assets of $1,401 million and total liabilities of $473 million. Since formation to 30 June 1996, Contact earned total revenue of $210 million, and generated a surplus of $40 million.

Trans Power New Zealand Limited (Trans Power). Trans Power was separated from ECNZ on 1 July 1994 and established as a separate State-Owned Enterprise. Trans Power owns and operates the national transmission grid, including the under-water HVDC link between the North and South Islands.

For the year ended 30 June 1996, Trans Power recorded the following results:

	($ million)
Sales	$541.3
Net Profit after Tax	95.9
Total Assets	3,109.9
Shareholders' Funds	1,329.8
Debt	1,655.6

Transpower declared a dividend to the Crown of $62.7 million for the year ended 30 June 1996.

Commercial

Government Exotic Forestry Assets. In the early 1990s, the Government sold cutting rights to about 350,000 hectares of its exotic forests to private forestry interests. Cutting rights to a further 190,000 (approx) hectares of exotic forest in the Bay of Plenty were sold to government-owned Forestry Corporation of New Zealand Limited (FCNZ). A second State-Owned Enterprise, Timberlands West Coast Limited, was sold cutting rights to about 24,000 hectares of exotic forests on the West Coast of the South Island. The Crown also currently controls a further 24,000 hectares of planted forest.

On 23 September 1996, the Government completed the sale of FCNZ to a consortium comprising Fletcher Challenge Ltd, Citifor Inc. and Brierley Investments Ltd for $1.6 billion.

For the year ended 30 June 1996, **Timberlands West Coast Limited** recorded the following results:

	($ million)
Sales	$27.4
Net Profit after Tax	6.1
Total Assets	128.3
Shareholders' Funds	121.1
Debt	5.1

No dividend was paid to the Crown.

Government Property Services Limited. Government Property Services Limited (GPS), a State-Owned Enterprise, engages in the provision of office space to public and private sector clients throughout New Zealand.

For the year to 31 March 1996, GPS recorded the following results:

	($ million)
Total Revenues	$32.6
Net Profit after Tax	19.1
Total Assets	289.4
Shareholders' Funds	161.8
Debt	127.6

During the year to 31 March 1996, no dividend was received by the Government.

Land Corporation Limited. Land Corporation Limited (Landcorp), a State-Owned Enterprise, operates around 130 farms totalling close to 400,000 hectares. It also holds a portfolio of financial assets relating to rural and urban land.

For the year ended 30 June 1996, Landcorp recorded the following audited results:

	($ million)
Total Operating Revenues(1)	$66.5
Net Profit after Tax	19.9
Total Assets	512.7
Shareholders' Funds	428.9
Debt	48.2

(1) Excluding profits on asset sales of $20.5 million.

For the year to 30 June 1996, dividends of $37.0 million were paid.

Works and Development Services Corporation (NZ) Ltd (WORKS). WORKS, as a State-Owned Enterprise, was New Zealand's largest multi-disciplinary consultancy, maintenance and construction business. WORKS was established in April 1988 from the former Ministry of Works and Development.

WORKS' audited results for the year to 30 June 1996 were as follows:

	($ million)
Total Revenues	$288.3
Net Profit after Tax	16.2
Total Assets	138.9
Shareholders' Funds	83.8
Debt and Provisions	55.1

For the year ended 30 June 1996, dividends of $13.6 million have been or will be paid. In addition, a capital repayment of $15 million took place during 1995/96.

A divestment process for WORKS was undertaken in 1996. Bids were considered for either the company as a whole or for each of its major operating subsidiaries. Subsequent to the company's balance date, the separate subsidiaries were sold for a total of $108 million. The parent company ceased to be an State-Owned Enterprise and is in the process of being wound down.

Met Service of New Zealand Ltd (Met Service). Met Service, previously a division of the Ministry of Transport, was established in July 1992 as the world's first fully commercial national meteorological service.

For the year ended 30 June 1996, the following results were recorded:

	($ million)
Total Revenues	$22.9
Net Profit after Tax	3.0
Total Assets	12.1
Shareholders' Funds	8.5

For the year ended 30 June 1996, a dividend of $1.8 million was declared. Met Service also paid a $1 million special dividend and $1 million capital reduction during 1995/96.

Vehicle Testing NZ Limited (VTNZ). VTNZ, previously a division of the Ministry of Transport, was established as a State-Owned Enterprise in February 1994. The company provides vehicle inspection and certification services (primarily for goods and service vehicles), and related products.

For the year ended 30 June 1996, the following results were recorded:

	($ million)
Total Revenues	$17.8
Net Profit after Tax	1.0
Total Assets	12.5
Shareholders' Funds	5.5
Debt	2.3

For the year ended 30 June 1996, a dividend of $0.49 million was declared.

Fiordland Mountains

Mokau River, North Taranaki

Auckland

Public Debt(1)

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 some liquidity assets. The categories of risk managed are interest-rate, currency, liquidity, credit and operational risk.

In 1988, the NZDMO introduced reform 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 the 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 favourable exchange-rate movements, asset sales and improved fiscal performance during 1995/96, direct public debt decreased by a net amount of $2,497 million including swaps between 1 July 1995 and 30 June 1996. This decrease consisted of a net increase in internal debt of $1,047 million and a net decrease in external debt of $3,544 million. These figures include the debt of the New Zealand Railways Corporation and the Electricity Corporation of New Zealand for which the Government has assumed responsibility.

In June 1996, the Government undertook a foreign-currency debt repurchase transaction. This involved the repurchase and cancellation of £174 million ($390 million) of bulldog stock and US$280 million ($410 million) of Yankee notes. The total $ value of the repurchases was $800 million, which contributed to the net decrease in external debt mentioned above. The Government achieved its target of zero net foreign-currency debt in September 1996 following the sale of Forestry Corporation of New Zealand for $1.6 billion.

As of 30 June 1996, 21% 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 $4,987 million.

Under existing legislation, amounts payable in respect of principal and interest on 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.

As it is projected to run a surplus on its operations in the 1996/97 fiscal year, the Government has budgeted to use the surplus cash generated to repay foreign-currency debt and some domestic debt. The proceeds from its domestic bond programme will be used to refinance maturing domestic term debt. The proceeds of any asset sales in 1996/97 will also be used to repay foreign-currency 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 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

	As at 30 June					
	1991	1992	1993	1994	1995	1996
Funded Debt(1)			(dollar amounts in millions)			
Internal(2)	$16,311.9	$19,786.5	$22,363.6	$22,950.5	$25,151.7	$25,441.9
External(3)(4)	19,132.4	19,056.6	17,692.3	15,080.9	10,832.2	7,905.9
Floating Debt						
Internal Debt(5)	7,634.6	7,349.7	7,347.3	7,692.0	7,610.2	8,367.3
External Debt(3)(6)	856.3	911.2	883.6	509.1	1,110.9	493.4
Total Direct Debt	$43,935.2	$47,104.0	$48,286.8	$46,232.5	$44,705.0	$42,208.5
Total Public Debt as a % of GDP(7)	60.5%	63.8%	63.3%	56.5%	51.6%	46.5%

(1) Includes the effect of swap transactions. Excludes indebtedness to international financial organisations arising from membership.

(2) Includes Government Wholesale Bonds, Kiwi Bonds, Index Linked Bonds.

(3) External debt is converted at the mid-point of the 3:00 P.M. spot rate on 30 June for each year.

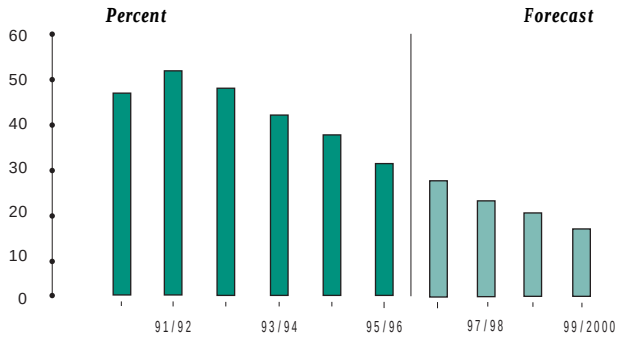
(4) Includes Public Bonds, Private Placements, Syndicated Loans, and Medium Term Notes.

(5) Treasury Bills and Reserve Bank Bills.

(6) Includes Sovereign Notes and Euro-Commercial Paper.

(7) GDP: Treasury Estimate for June years.

NET PUBLIC DEBT
AS A PERCENTAGE OF GDP



SOURCE: THE TREASURY

The following table shows the direct public debt of New Zealand at 30 June 1996 by currency of payment after swap positions are taken into account and shows the estimated interest for the year ending 30 June 1997 including swap positions.

DIRECT PUBLIC DEBT BY CURRENCY OF PAYMENT

External Debt	Amount outstanding at 30 June 1996(1)	Estimated interest for the year to 30 June 1997(2)
	(dollar amounts in millions)	
Repayable in United States Dollars	$3,953.4	$322.3
Repayable in Japanese Yen	2,135.3	94.9
Repayable in Pounds Sterling	415.5	25.0
Repayable in Deutschmarks	793.0	24.6
Repayable in European Currency Units	547.0	22.3
Repayable in Swiss Francs	224.8	3.3
Repayable in Other Currencies	858.4	0.0
Internal Debt	33,160.0	2,625.0
Subtotal	42,087.4	3,117.4
Swaps	121.1	–
Total Direct Public Debt	$42,208.5	–

(1) Converted at the midpoint of the 3:00 P.M. spot exchange rates on 30 June 1996, which were: NZD 1 = US$0.6829 = Yen 74.7926 = ECU 0.5484 = Pounds 0.4409 = DM 1.0378 = SwFr 0.8529 = Aus$ 0.8650 =Can$ 0.9306 = ITL 1046.809 = HK $5.2854.

(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 1996, 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 PUBLIC DEBT AT 30 JUNE 1996 (1)(2)

Maturing in year ending 30 June	1997	1998	1999	2000	2001	2002	2003-2006	2007+	Total
	(dollar amounts in millions)								
United States dollars	$933	$251	–	–	$220	–	293	$770	$4,052
Japanese Yen	322	467	(200)	59	59	616	560	297	2,180
British pounds	–	318	–	–	–	–	–	53	371
German marks	726	223	223	–	149	–	116	–	1,214
Swiss francs	23	–	–	–	114	–	–	–	137
European currency units	445	–	–	–	–	–	–	–	445
Total External Debt	$2,449	$1,036	$1,608	$59	$542	$616	$969	$1,120	$8,399
Percent of Total Foreign Debt	29.2%	12.3%	19.2%	0.7%	6.5%	7.3%	11.5%	13.3%	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 1996, the total payment of interest on public debt of the Government was $3,468 million. The following table indicates the movements in external interest-bearing public debt since 1987, excluding swap positions.

MOVEMENTS IN EXTERNAL 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 1987(4)	21,735.0	51.2	1,292.1	8.6
31 March 1988	17,256.8	44.1	1,477.8	9.0
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

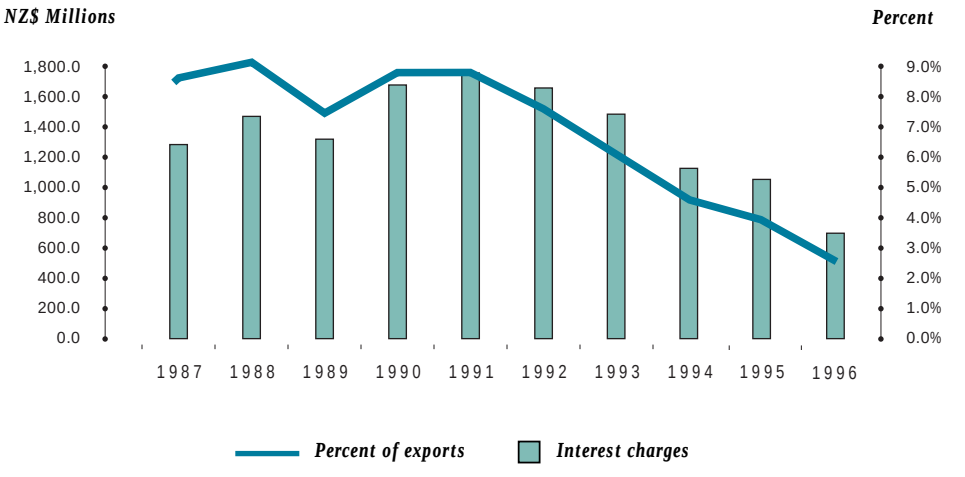
(1) Excludes non-interest-bearing indebtedness to international organisations.

(2) External debt is converted at the at the Bank of New Zealand sell rate on 2 March 1987 for 1987, at the midpoint of the 3:00 P.M. spot exchange rate on 29 February 1988 for 1988, at the mid-point of the 3:00 P.M. spot rate on 31 March 1989 for 1989, 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.

(4) In 1986/87, the Government borrowed to refinance the major project debt for which the Government had assumed direct responsibility. This enabled the project companies involved to restructure their balance sheets so as to operate on a proper commercial basis. The borrowing involved a net increase in the external public debt of New Zealand at 31 March 1987 of approximately $6,500 million.

INTEREST CHARGES ON EXTERNAL PUBLIC DEBT



SOURCE: THE TREASURY

The following table sets forth the maturity dates of New Zealand public debt outstanding as at 30 June 1996, including the effect of swap positions.

Loans Maturing in Year ending 30 June(1)	External(2)	Internal (dollar amounts in millions)	Total Debt
1997	1,955.6	3,265.1	5,220.7
1998	1,036.0	2.683.1	3,719.1
1999	1,608.3	3.448.5	5,056.8
2000	59.0	3,657.6	3,716.6
2001	542.0	1,946.2	2,488.2
2002	616.0	3,102.4	3,718.4
2003 to 30 June 2006	969.0	3,322.1	4,291.1
After 30 June 2006	1,120.0	3,467.7	4,587.7
Treasury Bills	–	7,129.0	7,129.0
Other	493.4(3)	1,787.5(4)	2,280.9
Total	$8,399.3	$33,809.2	$42,208.5

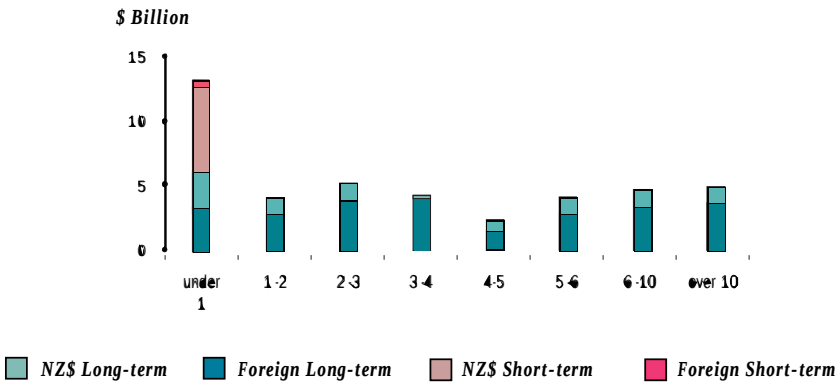
(1) With respect to many of the loans, the Government has the option to redeem the securities at an earlier date.

(2) Converted at the mid-point of the 3:00 P.M. spot exchange rate on 30 June 1996.

(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.

ESTIMATED MATURITY PROFILE OF GROSS DIRECT PUBLIC DEBT AS AT 30 JUNE 1996



SOURCE: THE TREASURY

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.

PUBLIC DEBT OF NEW ZEALAND

TABLE I - INTERNAL DEBT AS AT 30 JUNE 1996

Instrument/Currency	Principal Outstanding	Maturity Date	Coupon Rate	Fiscal Year of Issue	Amortisation
Government Stock	302,829,000	15/10/96	14.00	1987	
	2,594,620,000	15/11/96	9.00	1991	
	2,312,645,000	15/07/97	10.00	1990	
	2,599,000,000	15/07/98	8.00	1992	
	43,525,000	15/06/99	4.59	1984	
	3,255,000,000	15/02/00	6.50	1994	
	1,944,000,000	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	
	3,247,500,000	15/04/04	8.00	1992	
	3,266,800,000	15/11/06	8.00	1994	
	198,000,000	15/02/16	4.50	1996	
	23,094,716,000				
Treasury Bills	7,129,000,000	03/07/96-18/06/97	7.87-10.16	1996	
Reserve Bank Bills	1,238,399,624	02/07/96-30/08/96	9.48-10.24	1996	
Loans	1,000,000	01/08/96	10.70	(1)	
	2,000,000	15/11/96	9.54	(1)	
	2,000,000	01/03/97	13.00	(1)	
	2,000,000	01/06/97	9.35	(1)	
	1,000,000	15/07/97	9.53	(1)	
	189,216,423	15/10/97	0.00	1991	
	1,000,000	01/12/97	10.50	(1)	
	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)	
	44,059,937	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)	
	22,199,128	01/09/13	Variable	1994	1996-2013
	7,593,000	01/07/96-30/06/06	6.00		
	362,532,688				
Retail Stock	12,235,214	1/07/96-31/08/96	7.00-7.50	1993(3)	
	47,289,766	13/07/96-31/10/96	6.75-7.25	1993(3)	
	86,401,534	16/09/96-31/08/97	6.00-6.50	1993-94(3)	
	5,741,551	09/08/97-31/10/97	5.50-6.00	1994(3)	
	7,607,614	154/09/97-28/02/98	5.00-5.50	1994(3)	

Instrument/Currency	Principal Outstanding	Maturity Date	Coupon Rate	Fiscal Year of Issue	Amortisation
	1,162,120	07/01/98-31/03/98	4.75-5.25	1994(3)	
	18,882,122	01/07/96-04/09/98	3.75-4.50	1994-95(3)	
	6,233.151	10/09/96-22/12/98	6.00-6.75	1995(3)	
	48,010,348	23/12/96-31/05/99	8.00-8.75	1995(3)	
	50,943,343	01/07/96-29/06/99	7.25-8.50	1995-96(3)	
	66,104,620	24/07/96-29/06/99	6.75-8.00	1996(3)	
	151,622,118	01/07/96-29/06/99	6.25-7.75	1996(3)	
	47,055,000	Call	3.00	1985(4)	
	549,288,501				
Total NZD Internal Debt	32,373,936,813				
USD	277,071,371	15/10/97	0.00	1991(5)	
JPY	28,468,916,751	15/10/97	0.00	1991(5)	

(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 upon 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.

(5) Loans raised within New Zealand, but denominated in foreign currency.

TABLE II - EXTERNAL DEBT AS OF 30 JUNE 1996 (denominated in foreign currencies)

Currency	Principal Outstanding	Maturity Date	Coupon Rate	Fiscal Year of Issue	Amortisation
USD	50,000,000	05/07/96	4.83	1993	
	200,000,000	25/07/96	9.38	(1)	
	50,000,000	05/08/96	4.15	1994	
	20,000,000	05/08/96	4.05	1994	
	30,000,000	09/08/96	Variable	1994	
	10,000,000	03/09/96	Variable	1994	
	100,000,000	25/09/96	8.25	1987	
	150,000,000	02/04/97	8.00	1987	
	25,000,000	14/10/97	Variable	1993	
	25,000,000	14/10/97	Variable	1993	
	3,600,000	11/12/97	Variable	1993	
	50,000,000	21/03/98	7.13	1988	
	10,000,000	17/08/98	Variable	1993	
	100,000,000	19/08/98	Variable	1994	
	1,000,000,000	12/04/99	Variable	1994	
	150,000,000	16/07/00	10.50	1986	
	200,000,000	15/11/05	10.63	1986	
	300,000,000	15/12/06	8.75	1987	
	45,085,000	15/01/11	9.88	1986	
	122,654,000	01/04/16	8.75	1987	
	58,325,000	25/09/16	9.13	1987	
	2,699,664,000				
JPY	5,500,000,000	29/11/96	4.20	1994	
	5,520,000,000	29/11/96	3.00	1994	
	5,000,000,000	06/01/97	2.83	1995	
	2,000,000,000	18/11/97	3.80	(2)	
	2,000,000,000	08/12/97	3.80	(2)	
	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	(2)	
	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	(2)	
	1,000,000,000	11/10/02	4.00	(2)	
	5,000,000,000	05/08/04	Variable	1995	
	24,000,000,000	21/01/08	6.20	1987	1997-08
	30,000,000,000	22/12/09	6.20	1987	1997-10
	10,000,000,000	27/11/12	6.34	1993	
	2,500,000,000	Euro-commercial Paper Programme			
	159,710,000,000				
GBP	10,000,000	27/10/97	Variable	1993	
	150,000,000	19/11/98	7.38	1993	
	18,407,431	04/05/08	11.25	1983	
	4,816,651	25/09/14	11.50	1985	
	183,224,082				
DEM	300,000,000	09/09/96	Variable	1990	
	70,000,000	04/12/98	Variable	1993	
	453,000,000	Euro-commercial Paper Programme			
	823,000,000				

Currency	Principal Outstanding	Maturity Date	Coupon Rate	Fiscal Year of Issue	Amortisation
CHF	75,000,000	14/04/98	Variable	(2)	
	96,825,000	10/01/06	5.75	(3)	
	20,000,000	Euro-commercial Paper Programme			
	191,825,000				
AUD	250,000,000	05/03/03	2.00	1993	
	250,000,000				
CAD	200,000,000	23/12/96	6.25	1994	
	200,000,000				
ECU	300,000,000	26/06/97	10.63	1990	
	300,000,000				
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	
	351,000,000,000				
HKD	100,000,000	13/09/96	4.70	1994	
	100,000,000				

(1) Debt of the Electricity Corporation of New Zealand for which the Government assumed responsibility on 1 July 1995, 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.

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

TABLE III - EXTERNAL DEBT ISSUED 1 JULY 1996 TO 25 MARCH 1997

Currency	Principal Outstanding	Maturity Date	Coupon Rate	Amortisation
USD	100,000,000	09/12/97	4.88	
GBP	70,000,000	26/08/98	6.00	
	100,000,000	03/04/00	6.63	
	170,000,000			

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 1996

QUANTIFIABLE CONTINGENT LIABILITIES

	1996	1995
	(dollar amounts in millions)	
Guarantees and Indemnities	$436	$784
Uncalled Capital	2,283	1,808
Legal Proceedings and Disputes	1,026	1,254
Other Contingent Liabilities	1,242	1,419
TOTAL QUANTIFIABLE CONTINGENT LIABILITIES	**$4,987**	**$5,312**

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
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
Coal Corporation of New Zealand Limited
Contact Energy Limited
Contaminated Sites
Crown Health Enterprises
Crown Research Institutes
Development Finance Corporation Limited
Electricity Corporation of New Zealand Limited
GPO Holdings Limited
Housing Corporation of New Zealand
Housing New Zealand Limited
Maui Developments Limited
Pharmaceutical Management Agency
Purchasers of Crown Operations
Sale of Crown Assets
Tax Liabilities
Waitangi Tribunal Claims
Works and Development Services Corporation (NZ) Limited

This "New Zealand Economic and Financial Overview – April 1997" is principally derived from the description of New Zealand that appears as Exhibit (d) to New Zealand's Annual Report on Form 18-K to the U.S. Securities and Exchange Commission for the fiscal year ended June 30, 1996.

Additional information with respect to New Zealand is available in such Annual Report, in the exhibits to such Annual Report, and in amendments thereto. Such Annual Report, exhibits and amendments can be inspected and copied at the public reference facilities maintained by the Commission at: Room 1024, 450 Fifth Street, N.W.,

Mount Manganui Beach

Washington, D.C. 20549, Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661; and 7 World Trade Center, 13th Floor, New York, New York 10048. Copies of such documents may also be obtained at prescribed rates from the Public Reference Section of the Commission at its Washington address or, without charge, from the New Zealand Debt Management Office in Wellington, New Zealand, by telephoning 64 4 471-5076.

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