Sustained sound policies bode well for New Zealand

Following a vigorous expansion in recent years, a cyclical slowing in New Zealand's economy began in 2005, and growth declined to 2¼ percent, the IMF said in its annual economic review. With the exchange rate reaching a post-float record high in December, the slowdown affected the tradables sector most heavily, and the external current account deficit widened to twice its 20-year average. At the same time, an unexpected revival of the housing market sustained domestic demand, which, along with higher oil prices, pushed inflation slightly above the medium-term target range of 1 to 3 percent.

More recently, domestic demand growth has slowed and the exchange rate has declined. Against this backdrop, growth is likely to be sluggish in 2006 but is expected to recover in 2007, led by exports. With slower growth easing resource pressures, inflation is expected to moderate, allowing for an eventual easing of monetary policy.

The IMF Executive Board commended the authorities on their continued implementation of sound macroeconomic policies during a challenging phase in the business cycle and considered the current policy stance to be supportive of a soft landing for the economy. The Directors endorsed the government's far-sighted conduct of fiscal policy, which has allowed the operating surplus to rise substantially during years of strong growth. They also saw monetary policy as well placed to accommodate the one-off effects on headline inflation of the recent exchange rate depreciation and oil price increases. At the same time, with the labor market remaining tight, they saw little room to cut interest rates in the near term but noted that there was scope to ease monetary policy if the economy slowed more abruptly.

The Directors welcomed recent steps to improve the financial sector regulatory framework and supported efforts to strengthen the monitoring of household debt-service capacity in view of the notable rise in that sector's indebtedness in recent years. They also supported the government's decision to develop a new regulatory framework for nonbank financial institutions. ■

New Zealand	2002	2003	2004	2005	Proj. 2006
	(annual percent change)				
GDP (production basis)	4.8	3.4	4.4	2.2	0.9
Headline consumer price index (end of period)	2.7	1.6	2.7	3.2	2.9
	(percent of GDP)				
OBERAC[1]	2.2	4.3	4.6	5.6	3.4
External current account balance	–4.0	–4.3	–6.6	–8.8	–8.9
Nominal effective exchange rate[2]	112.3	126.0	132.3	135.9	…

[1]Operating balance excluding revaluations and accounting changes—New Zealand's indicator of current cash flow.
[2]IMF Information Notice System index (1990=100).
Data: New Zealand authorities and IMF staff estimates and projections.

Libya urged to take up comprehensive reform plan

After the lifting in 2003–04 of international sanctions, which had lasted more than 10 years, Libya decided to undertake structural reforms and accelerate its transition to a market economy. While the authorities have recently made progress in liberalizing the economy, it remains largely state-controlled and nondiversified. Three-fourths of employment is still in the public sector, private investment is minuscule (2 percent of GDP), and the oil sector is dominant.

Libya's macroeconomic performance in 2005 was relatively strong, according to the IMF's annual economic review. Growth was about 3½ percent, inflation was low, the fiscal and external current accounts registered large surpluses, and international reserves increased. Unlike in previous years, the non-oil economy was the primary driver of growth, mainly as a result of increased government spending. Activity grew 7 percent in trade, hotels, and transportation, and 5 percent in construction and services.

Libya	2002	2003	2004	2005
	(annual percent change, unless otherwise noted)			
Real GDP	3.3	9.1	4.6	3.5
Real nonhydrocarbon GDP	4.7	2.2	4.1	4.6
Consumer prices	–9.9	–2.1	–2.2	2.5
Overall fiscal balance (percent of GDP)	5.2	14.2	17.5	32.6
Gross international reserves (billion dollars)	15.0	19.5	25.6	39.3

Data: Libyan authorities and IMF staff estimates.

In 2005, the authorities continued to reform and open up the economy. In particular, they streamlined the tariff schedule; partially liberalized interest rates; and passed laws to reinforce the central bank's independence, allow foreign banks to operate in Libya, and fight money laundering. They also broadened the privatization program and the scope for foreign investments to include downstream activities in the oil, health care, transportation, and insurance sectors; and launched the privatization of a major public bank.

The IMF Executive Board welcomed Libya's strong macroeconomic performance. It commended recent structural reforms and stressed the importance of accelerating the transition to a market economy. Noting the lack of a comprehensive medium-term plan, the Directors urged the authorities to take advantage of Libya's comfortable financial situation to pursue their reform agenda, using as a blueprint the medium-term strategy prepared by IMF staff at the authorities' request. They stressed that successful implementation of reforms would depend on careful prioritization and sequencing and effective coordination among government institutions. The Directors underscored that economic diversification would require a sustained effort, including, in particular, enhancements to the government's privatization strategy and improved conditions for foreign investment. ■

For more information, please refer to IMF Public Information Notices Nos. 06/50 (New Zealand) and 06/38 (Libya) on the IMF's website (*www.imf.org*).