INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/114

NEW ZEALAND

May 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR NEW ZEALAND

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with New Zealand, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 19, 2025 consideration of the staff report that concluded the Article IV consultation with New Zealand.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 19, 2025, following discussions that ended on March 13, 2025, with the officials of New Zealand on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 29, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for New Zealand.

The document listed below has been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR25/159

IMF Executive Board Concludes 2025 Article IV Consultation with New Zealand

FOR IMMEDIATE RELEASE

Washington, DC – **May 26, 2025:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with New Zealand on May 19, 2025.

Tight monetary policy has helped bring inflation back to target, but at the expense of growth. Real GDP contracted by 0.5 percent y/y in 2024, as investment fell by 4.1 percent y/y, household consumption stagnated. The slowdown has been particularly pronounced in interest-rate-sensitive sectors including retail trade, construction, and manufacturing. The financial sector remains resilient despite rising non-performing loans. A recovery in external demand and improved terms of trade have helped narrow the current account deficit to 6.2 percent of GDP, though it remains above long-term trends. Despite a challenging economic backdrop, the government delivered modest fiscal consolidation in FY2023/24, with the primary deficit narrowing to 2.4 percent of GDP. Tight monetary policy helped bring inflation within the Reserve Bank of New Zealand (RBNZ)'s 1–3 percent target band in 2024Q3, after 13 consecutive quarters, with headline inflation reaching 2.5 percent y/y in 2025Q1. The RBNZ has thus eased the Official Cash Rate (OCR) several times since August 2024, bringing it closer to the neutral rate.

The return of inflation to target is enabling monetary policy easing and a return to growth. Inflation is forecast to remain within the target band, allowing monetary policy to gradually move to a neutral stance. Real GDP is projected to expand by 1.4 percent y/y in 2025, with monetary policy easing providing a boost to consumption and investment. Growth is expected to accelerate to 2.7 percent y/y in 2026, as the lagged impact of lower interest rates is fully realized. Fiscal policy is expected to continue to balance needed medium-term consolidation with growth considerations. The government's broad-based structural reform agenda is aimed at boosting medium-term productivity growth, including via reforms to attract foreign investment, enhance competition, reduce regulatory burdens, accelerate housing supply growth, and progress toward closing of the infrastructure gap.

Risks to the outlook are tilted to the downside. Downside risks stem from a softer-than-expected recovery due to elevated global uncertainty and a weak labor market or the occurrence of a natural disaster. Upside risks include a stronger rebound in growth due to faster-than-expected monetary policy transmission. As a small open economy, New Zealand is vulnerable to trade disruptions, geoeconomic fragmentation, or a global economic slowdown.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed that the economy is showing signs of a nascent recovery and that inflation has returned to the Reserve Bank of New Zealand's target, after a prolonged period of significant price pressures. Noting the country's exposure to trade and investment shocks, Directors underscored the importance of maintaining prudent policies to safeguard macroeconomic stability and implementing ambitious structural reforms to address medium- and long-term economic challenges.

Directors commended the role of monetary policy in helping bring inflation back to target. They agreed that the current monetary policy easing is appropriate and should continue until reaching a neutral level, while remaining data-dependent and responsive to economic conditions. Directors welcomed the expanded macroprudential toolbox and concurred that macroprudential tools should continue to be used to address financial risks that may emerge as policy rates are reduced.

Directors agreed that fiscal policy should focus on growth-friendly, medium-term consolidation, while supporting the most vulnerable. They called for comprehensive revenue reforms that enhance efficiency and incentivize long-term investment. Directors also encouraged the authorities to pursue expenditure reforms, including to the pension system, that are grounded in a cost-benefit analysis.

Directors agreed that financial stability risks are contained and recommended that household and financial balance sheets continue to be monitored closely. They welcomed progress in key reforms, notably the Depositor Compensation Scheme and the Deposit Takers Act. Directors noted the authorities' efforts to increase banking competition and emphasized that prudential settings should remain adequately calibrated to guard against financial stability risks. Given housing shortages, they called for improving affordability and expanding housing supply and welcomed the reform efforts around resource management in these areas.

Directors commended ongoing structural reforms to overcome slow productivity growth and boost long-term growth. They welcomed the authorities' plans to boost competition and innovation, reduce barriers to overseas financing, and deepen capital markets. Investing in infrastructure and enhancing resilience to natural disasters will also be needed.

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

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[2] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Table 1. New Zealand: Main Economic Indicators, 2021-30

(Annual percent change, unless otherwise indicated)

	2021	2022	2023	2024 Est.	2025 Projections	2026	2027	2028	2029	2030
NATIONAL ACCOUNTS										
Real GDP (production)	5.7	2.9	1.8	-0.5	1.4	2.7	2.7	2.2	2.2	2.2
Domestic demand	10.0	4.5	-0.8	-0.8	1.8	2.6	2.4	2.1	2.1	2.0
Private consumption	7.9	4.1	1.0	0.2	1.0	3.1	3.0	2.4	2.4	2.3
Public consumption	7.9	5.2	0.8	0.0	0.5	0.5	0.5	0.7	0.8	0.8
Investment	17.2	4.1	-5.4	-4.1	2.4	3.2	2.7	2.3	2.1	2.1
Public	6.2	3.6	10.2	0.5	0.3	2.3	2.5	2.8	2.8	2.8
Private	12.6	4.3	-3.2	-6.5	1.9	3.5	2.7	2.1	1.7	1.8
Private business	14.5	7.3	-2.2	-5.0	2.6	3.5	2.8	2.1	1.6	1.6
Dwelling	8.6	-2.3	-5.6	-10.1	0.0	3.6	2.3	2.4	2.1	2.4
Inventories (contribution to growth, percent)	1.4	0.0	-1.4	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Net exports (contribution to growth, percent)	-4.8	-1.6	2.6	0.3	0.3	-0.1	0.0	0.0	0.0	0.0
Real gross domestic income	5.0	2.3	1.1	0.3	2.9	3.1	2.8	2.4	2.3	2.3
Investment (percent of GDP)	25.0	26.3	24.2	23.1	23.4	23.4	23.3	23.2	23.1	23.1
Public	5.7	5.9	6.5	6.4	6.3	6.2	6.2	6.2	6.2	6.2
Private	19.4	20.4	17.8	16.7	17.1	17.2	17.1	17.0	16.9	16.8
Savings (gross, percent of GDP)	19.0	17.1	17.3	16.9	18.3	18.8	19.0	19.2	19.4	19.6
Public	-3.5	-4.2	-3.5	-4.4	-5.1	-3.9	-2.5	-1.4	-0.4	0.0
Private	22.5	21.3	20.9	21.3	23.4	22.7	21.5	20.6	19.9	19.6
Potential output	1.5	1.9	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Output gap (percent of potential)	1.8	2.7	2.4	-0.3	-1.1	-0.6	-0.1	0.0	0.0	0.0
LABOR MARKET										
Employment	2.2	1.7	3.3	-0.1	0.7	1.5	2.0	1.7	1.3	1.5
Unemployment (percent of labor force, ann. average)	3.8	3.3	3.7	4.7	5.3	5.2	4.7	4.3	4.5	4.4
Wages (nominal percent change)	3.8	6.5	7.0	4.6	4.3	3.9	3.3	3.3	3.0	3.0
PRICES										
Terms of trade index (goods and services, % change)	-1.0	-3.1	-3.4	2.9	1.9	1.3	0.5	0.4	0.2	0.1
Consumer prices (avg, % change)	3.9	7.2	5.7	2.9	2.4	2.3	2.2	2.0	2.0	2.0
GDP deflator (avg, % change)	3.0	5.8	5.1	3.6	3.2	2.8	2.2	2.2	2.2	2.1
MACRO-FINANCIAL										
Official cash rate (policy rate, percent, avg)	0.3	2.2	5.2	4.7	3.6	3.3	3.3	3.3	3.3	3.3
Credit to the private sector (percent change)	6.1	4.3	0.1	1.6	3.2	5.6	4.5	4.0	3.9	4.0
Interest payments (percent of disposable income)	5.3	6.3	8.5	8.1	7.3	7.2	7.0	6.9	6.9	6.9
Household savings (percent of disposable income)	3.6	3.3	2.7	2.5	2.4	2.3	2.9	3.6	4.4	5.1
Household debt (percent of disposable income)	174	173	168	166	160	160	159	158	157	157
GENERAL GOVERNMENT (percent of GDP) 1/										
Revenue	37.6	38.8	37.0	38.7	37.6	37.5	37.5	37.7	37.9	38.0
Expenditure	40.0	43.3	40.9	41.9	43.1	42.3	40.5	39.7	38.8	38.0
Net lending/borrowing	-2.5	-4.4	-3.9	-3.2	-5.5	-4.8	-3.1	-2.0	-0.9	0.0
Operating balance	-0.3	-2.2	-1.7	-0.7	-3.0	-2.5	-0.8	0.1	1.1	1.9
Cyclically adjusted primary balance 2/	-2.8	-4.2	-3.7	-3.4	-3.6	-2.9	-1.4	-0.2	1.1	2.0
Gross debt	46.0	48.6	45.8	48.4	53.2	56.4	59.0	58.8	57.5	55.1
Net debt	10.6	17.0	19.0	19.8	23.5	26.4	28.0	28.6	28.0	26.4
Net worth	94.6	102.0	96.3	94.4	87.1	81.3	77.3	74.8	73.5	73.0
BALANCE OF PAYMENTS										
Current account (percent of GDP)	-6.0	-9.2	-6.9	-6.2	-5.1	-4.6	-4.3	-3.9	-3.7	-3.5
Export volume	-2.3	-0.5	11.0	4.1	3.9	3.9	4.1	4.0	4.2	4.2
Import volume	14.5	4.7	-0.4	2.4	2.0	3.5	3.2	3.3	3.4	3.4
Net international investment position (percent of GDP)	-47.9	-52.5	-51.3	-49.4	-52.1	-54.0	-55.8	-57.3	-58.6	-59.6
Gross official reserves (bn US$)	16.4	13.7	14.8	23.2	...	...	...	...	...	...
MEMORANDUM ITEMS										
Nominal GDP (bn NZ$)	353	385	413	427	448	472	496	518	540	564
Percent change	9.0	9.2	7.1	3.4	4.9	5.5	4.9	4.4	4.4	4.3
Nominal GDP per capita (US$)	48,845	47,819	48,360	48,448	47,158	49,022	50,472	51,643	53,044	54,378
Real gross national disposable income per capita (NZ$)	54,586	55,293	54,662	53,632	54,724	55,635	56,458	57,044	57,611	58,081
Percent change	3.7	1.3	-1.1	-1.9	2.0	1.7	1.5	1.0	1.0	0.8
Population (million)	5.1	5.1	5.2	5.3	5.4	5.5	5.5	5.6	5.7	5.8
US$/NZ$ (average level)	0.708	0.636	0.614	0.605	...	...	...	...	...	...
Nominal effective exchange rate	109.9	106.5	105.0	104.9	...	...	...	...	...	...
Real effective exchange rate	107.6	105.5	105.7	106.1	...	...	...	...	...	...

Sources: Authorities' data and IMF staff estimates and projections.

1/ Fiscal year.
2/ In percent of potential GDP.

INTERNATIONAL MONETARY FUND

NEW ZEALAND

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

April 29, 2025

KEY ISSUES

Context. Tight monetary policy has helped bring inflation back to target after a prolonged period of elevated price pressures, but at the expense of growth. A nascent recovery is underway as monetary policy is easing again. House prices have stabilized, and financial sector risks are contained. The current juncture presents an opportunity for a bold reform agenda to address medium- and long-term challenges stemming from an aging population and weak productivity growth.

Outlook and Risks. The economic recovery is expected to pick up this and next year, as private demand strengthens. Inflation is expected to remain within the target band, and current account normalization is set to continue. Risks to the outlook are to the downside, weighing New Zealand's exposure to trade policy and investment shocks against the potential for stronger monetary policy passthrough.

Policy Recommendations:

- **Fiscal policy** should balance medium-term consolidation with growth considerations and support to the most vulnerable. A return to growth provides an opportunity to proactively tackle longer-term challenges stemming from an aging population and structural weakness.
- **Monetary policy** is easing appropriately and should continue until it reaches, and holds at, a neutral level while remaining responsive to economic conditions; macroprudential tools should be used to address associated risks.
- **The financial system** is resilient with well-capitalized banks, and the ongoing modernization of the regulatory framework should continue. Financial stability considerations should take precedence when determining prudential settings.
- **Structural policies** remain a first order priority to address persistently low productivity growth and housing supply constraints. Reforms to improve competition, broaden available sources of funding for businesses, and reduce infrastructure gaps are critical for securing sustainable long-term growth.

Approved By
Sanjaya Panth (APD) and Niamh Sheridan (SPR)

Discussions were held virtually during February 17–19 and in Wellington, Auckland, and Christchurch during February 26–March 13, 2025. The mission team comprised Evan Papageorgiou (Head), Mike Xin Li, Monica Petrescu, and John Spray (all APD). The mission met the Minister of Finance, the Acting Governor of the Reserve Bank, the Secretary to the Treasury, senior Treasury and Reserve Bank officials, analysts and think tanks, trade union representatives, and business groups. Mark Blackmore (OED) participated in the discussions. Dan Zheng and Madelen Conde Panesso (both APD) contributed analysis and assisted in the preparation of this report.

CONTENTS

ANNEXES

A NEED TO FOCUS ON LONGER TERM CHALLENGES

A. Reform and Innovation for Strong and Sustainable Growth

1. The return of inflation to target is enabling monetary policy easing and a return to growth. With inflation within the target band, monetary policy easing is providing a boost to consumption and investment. The economic recovery should continue this year and into 2026, with output gradually reaching its potential. Fiscal policy is expected to balance medium-term consolidation with growth considerations.

2. Now is the time to embrace a bold reform agenda to address longstanding economic challenges. Ensuring fiscal sustainability through medium-term consolidation remains a key priority. Securing sustainable long-term growth will require boosting productivity, including via reforms to strengthen competition, broaden the availability of external and non-bank financing, and incentivize innovation. Addressing structural weakness, together with proactively tackling challenges stemming from an aging population, are critical for long-term fiscal sustainability. Tackling long-standing housing supply shortfalls and infrastructure gaps will require reforming land use policies and planning protocols while addressing financing constraints. Guided by strong institutions, high-quality policymaking (Annex I), and the ability to build consensus, New Zealand has successfully implemented major and innovative reforms in the past, and it will need to do so again.

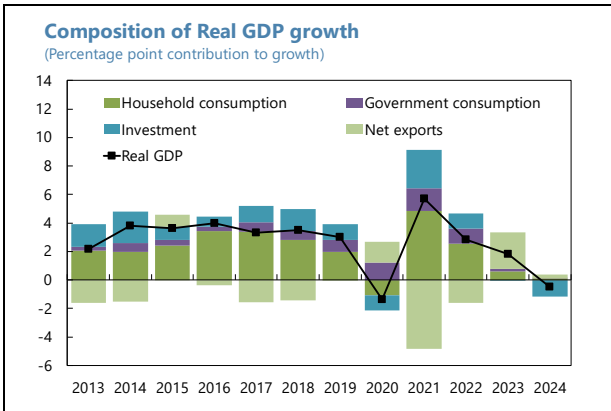
B. Recent Developments: Bottoming Out and the End of Tight Monetary Policy

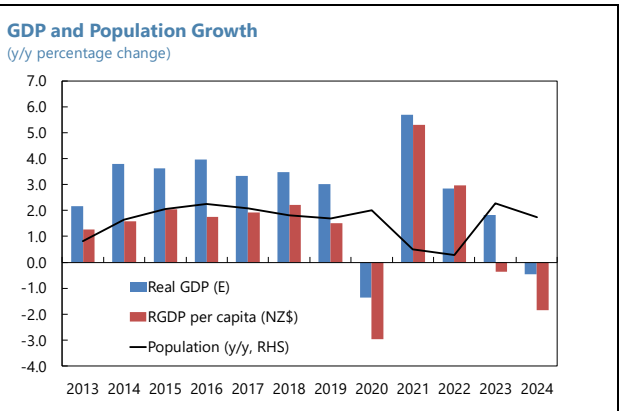
3. The New Zealand economy faltered in 2024 amid tight financial conditions. Real GDP contracted by 0.5 percent y/y in 2024, as investment fell by 4.1 percent y/y, private consumption stagnated, and public demand softened as the government consolidated its fiscal position (Figure 1). The slowdown has been particularly pronounced in interest-rate-sensitive sectors including retail trade, construction, and manufacturing. Personal income tax cuts in 2024 may have helped prevent a decline in consumer demand, although household spending was curtailed by a second consecutive year of decline in real disposable income per capita. The ultra-tight labor market conditions observed in the post-pandemic period have renormalized, with the unemployment rate rising to 5.1 percent in 2024Q4. Net migration remained positive in 2024, helping support demand and address supply constraints.[1] However, this net inflow conceals considerable churn, as 2024 witnessed a record number of New Zealand citizens departing the country,[2] raising a risk of brain drain and skill shortages. Lower capacity utilization indicates some slack, consistent with the output gap turning negative in 2024. Outturns in 2024Q4 and high frequency data suggests a nascent economic recovery, with some signs of improved consumer and business confidence observed in recent quarters.

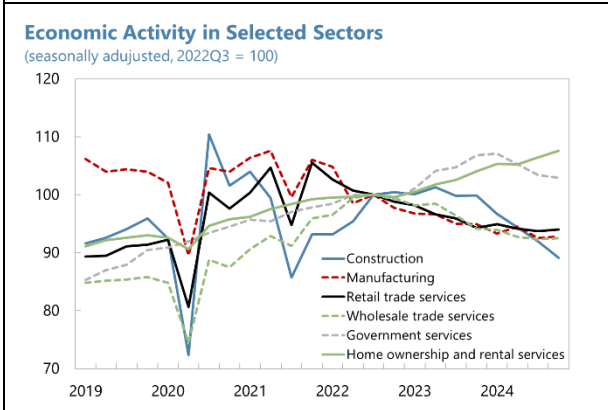
[1] See IMF New Zealand Selected Issues Paper, 2024.

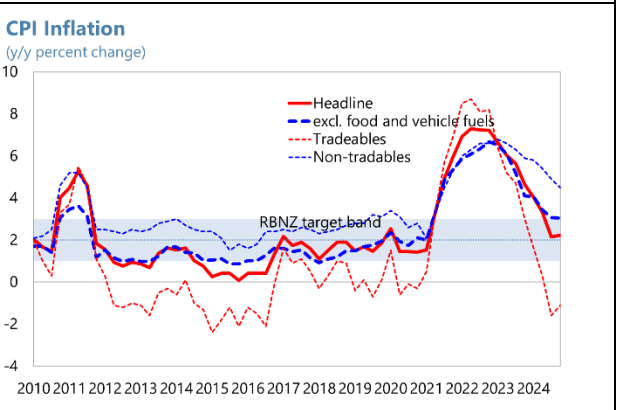
[2] This was largely driven by the large wage differential with Australia in 2024.

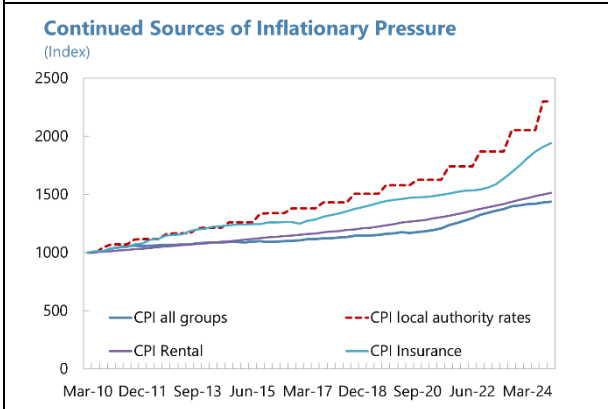
4. Weaker global prices and tight monetary policy brought inflation to target after 13 consecutive quarters, and monetary policy has since started to ease. Inflation fell to within the Reserve Bank of New Zealand (RBNZ)'s 1–3 percent target band in 2024Q3, reaching 2.5 percent y/y in 2025Q1. While inflation has been falling across many categories—notably in imported goods—price pressures remain in some non-tradables sectors, with the rise in insurance costs, rental costs, and local government tax contributions persistently outpacing headline inflation. Wage growth and hourly earnings growth have also slowed as labor market conditions normalize. After a prolonged period of tight monetary policy, the RBNZ has eased the Official Cash Rate (OCR) five times since August 2024, by a total of 200 bps, to 3½ percent.

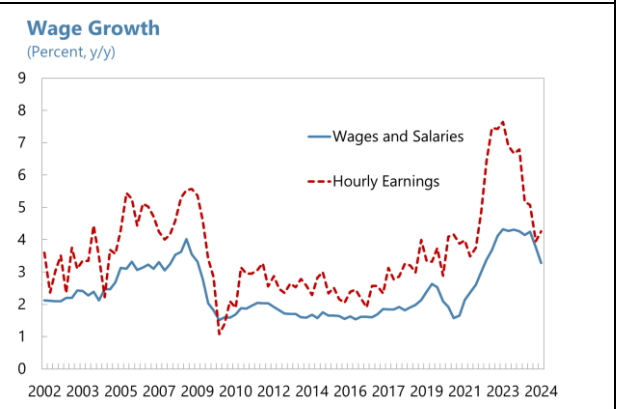






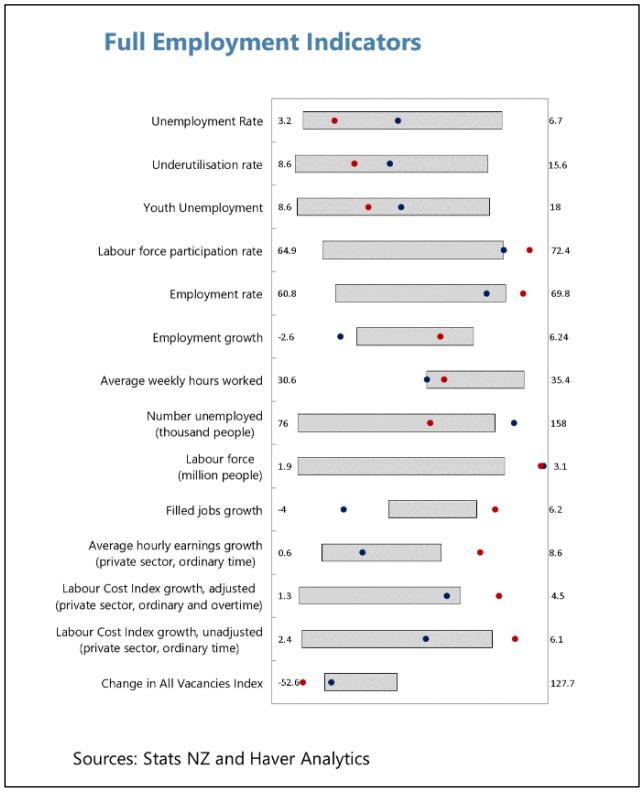


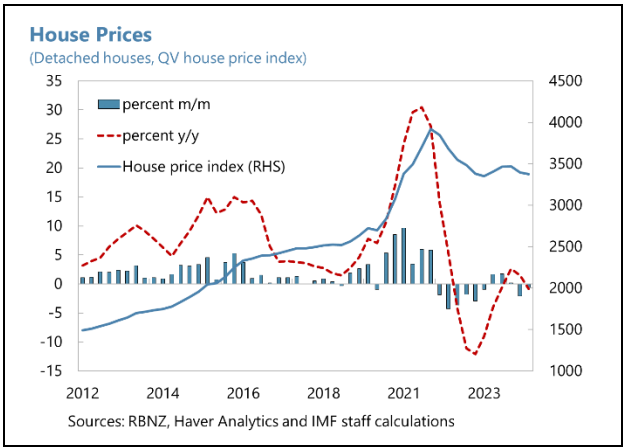


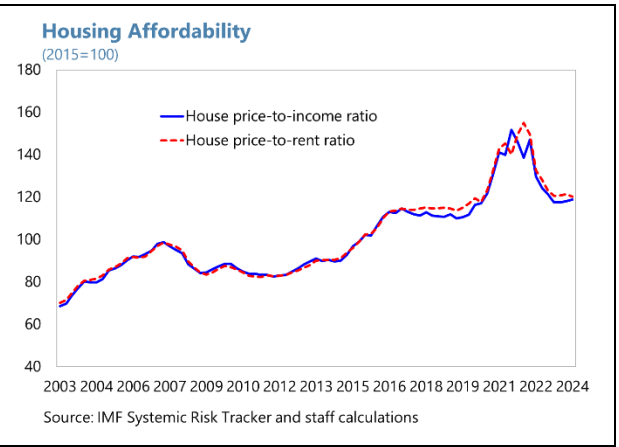


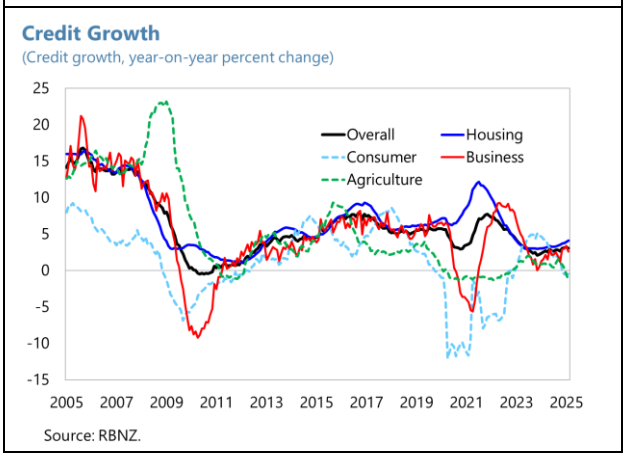
5. The decline in domestic demand helped reduce the current account deficit in 2024, although it remains high. A recovery in external demand, improved terms of trade, and a slowdown in imports due to the contraction in domestic demand have helped narrow the goods trade deficit. The recovery in inbound tourism continues, although total arrivals still lag pre-pandemic levels. Despite a recent decline in global interest rates, the long average maturity of New Zealand's foreign liabilities has limited improvement in the primary income account. The current account deficit remains high, at 6.2 percent of GDP for 2024 (Figure 3), with a significant structural component. New Zealand's external position in 2024 is assessed as weaker than implied by medium-term fundamentals and desirable policies (Annex II).

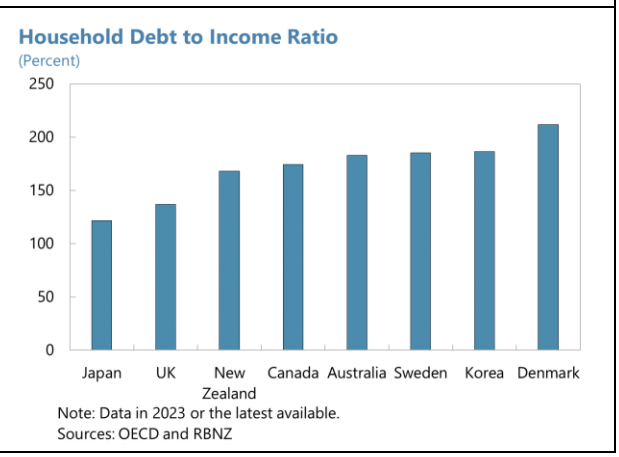
6. Housing prices stabilized while household and corporate balance sheets continued to weaken. With housing supply and demand both soft, house prices stabilized around 15 percent below their post-pandemic peak, but still over 25 percent above pre-pandemic levels (Figure 5). However, housing affordability returned close to pre-pandemic levels thanks to growth in nominal incomes. Mortgage arrears have been rising, with debt service costs still elevated; household debt remains high at over 160 percent of disposable income. Businesses saw an erosion of cash buffers and rising insolvencies amid soft economic conditions, especially in sectors with interest-sensitive demand; a temporary underwrite scheme helped support some enterprises in the construction sector through the downturn. The rise in non-performing loans (NPLs) has so far been more muted than in past recessions. Credit growth remained subdued across sectors, underscoring weak demand.











C. Outlook and Risks: Recovery Amid Further Easing

7. Growth is expected to pick up as monetary policy eases and price pressures remain contained.

- **Growth is projected to rebound to 1.4 percent y/y in 2025**. A normalization of monetary policy should support consumption and investment, with aggregate demand also supported by an improvement in net exports (Table 1). Economic growth is expected to accelerate to 2.7 percent y/y in 2026, above long-run potential growth of around 2¼ percent, as the lagged impact of lower interest rates is fully realized and structural reforms support increased investment. The negative output gap is expected to close gradually. Over the medium-term, the economy is expected to grow at 2.2 percent, supported by positive net migration and modest productivity growth.

- **Inflation is expected to temporarily tick up**, as domestic and external pressures pull in opposing directions. The negative output gap will put downward pressure on inflation in the near term, while rising import prices and the depreciation of the exchange rate will put upward pressure on the prices of tradables. Inflation is expected to temporarily increase in 2025, but remain within the target band. Inflation expectations and wage setting expectations suggest that prices are well anchored.

- **The current account is likely to further improve in 2025** due to a narrowing trade deficit and favorable terms of trade, gradually converging toward the historical average deficit of 3½ to 4 percent of GDP (Table 3).

8. **IMF staff assess the balance of risks to the outlook as tilted to the downside** (Annex III).

- *Domestic*. A softer 2025 recovery due to continued uncertainty and a weak labor market, or the occurrence of a natural disaster, could delay fiscal consolidation, stress balance sheets, and expose latent financial sector vulnerabilities. Medium-term growth could also be hampered by a larger-than-expected fiscal multiplier from the fiscal consolidation. A prolonged period of low growth may necessitate a change in policy stance to stimulate aggregate demand, macroprudential policies to target pockets of vulnerabilities, and well-targeted fiscal measures to protect vulnerable households. Conversely, growth may rebound more quickly than forecast due to faster-than-expected monetary policy transmission.2F Similarly, supply-led growth could be driven by higher migration, productivity gains, or investment driven by structural reforms.

- *External*. As a small open economy, New Zealand is vulnerable to trade disruptions, geoeconomic fragmentation, or a global economic slowdown. Weaker external demand and delays in investment would hamper economic activity. A decline in key export prices would erode the external balance and, consequently, the fiscal balance through reduced business profits and tax revenues. Similarly, a significant increase in imported inflation, if not offset by the deflationary impact of weaker global demand, could increase inflation expectations and require a monetary policy response. Exchange rate flexibility should be a primary external shock absorber, and a diversified export base will support economic stability and growth. The RBNZ reverse stress testing exercise signaled banks are attuned to balance sheet implications of geopolitical risks, which could raise funding costs and trigger asset price volatility. On the upside, stronger persistence of the positive terms of trade could create a larger-than-expected contribution of net exports to the economy.

Authorities' Views

9. The authorities see the improved outlook for 2025 and 2026 as set against a high level of uncertainty. There is broad agreement that growth is picking up in 2025, aided by easing financial conditions. The authorities offered that risks remain broadly balanced, although the scale of uncertainty has increased. They flagged that trade and tariff policy changes have emerged as a large downside risk. Other key risks are associated with investment shocks. They view the outflow of New Zealand citizens being consistent to similar periods in history, potentially aiding labor market adjustment and avoiding a steeper rise in unemployment. The authorities agreed with staff's external sector assessment and expect the external position to strengthen over the medium term.

POLICIES FOR MACROFINANCIAL STABILITY AND SUSTAINABLE GROWTH

The configuration of fiscal and monetary policies remains appropriate: fiscal consolidation is expected over the medium-term (albeit at a more gradual pace than anticipated in 2024), and monetary easing is appropriate, with the policy rate moving to a neutral level.[3] Beyond the short-term pressures and risks that call for careful and agile policy calibration, the macroeconomic environment provides a window of opportunity for New Zealand to consider broad-based reforms needed to address medium-term challenges, including fiscal sustainability, productivity, housing supply, and financial sector resilience.

A. Fiscal Policy Is Appropriate and Should Continue Balancing Medium-Term Sustainability and Growth

10. Despite a challenging economic backdrop, the government delivered modest fiscal consolidation in FY2023/24.[4] A robust labor market supported personal income tax revenue, and together with a one-time boost from increased Residence Withholding Tax—as taxpayers took advantage of the lower trustee tax rate before the increase on April 1, 2024—offset the persistent weakness in corporate income tax revenue. Revenue from auctions under the Emissions Trading Scheme (ETS) remained soft due to low demand.[5] Government expenditure rose due to inflation, benefits indexation, and higher financing and insurance costs. Additionally, the Accident Compensation Corporation (ACC) operating deficit widened significantly as the number and cost of claims increased.[6] The primary deficit narrowed from 3.1 to 2.4 percent of GDP in FY2023/24, and contracted 0.3 percent of potential GDP on a cyclically adjusted basis (Table 2). The ongoing weakness in productivity growth is expected to pose increasing structural fiscal challenges, including through weaker growth in wages and business profits.

11. In the context of soft demand and a negative output gap, the government's policy statement for Budget 2025 outlines a more gradual medium-term consolidation. On a cyclically adjusted basis, the authorities envision a mildly expansionary fiscal stance in FY2024/25

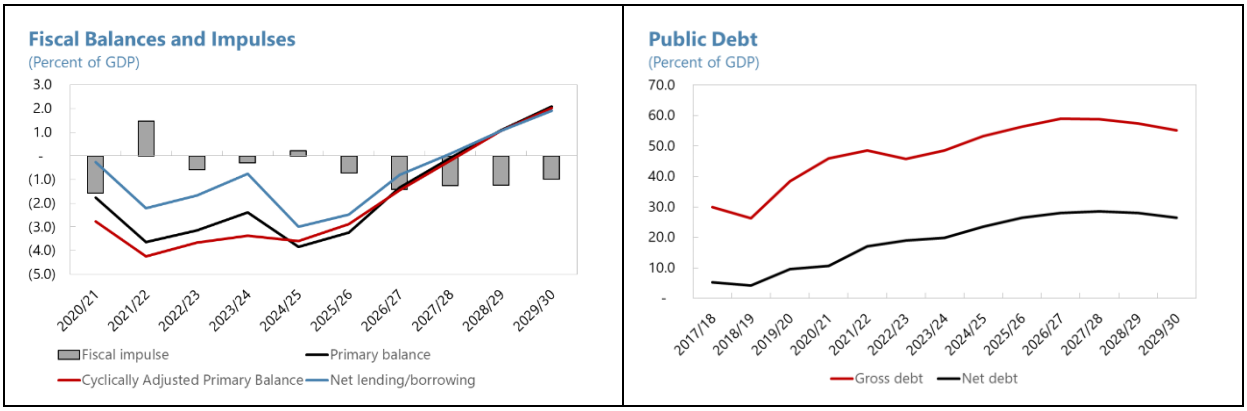
[3] Staff's fiscal policy discussions with the authorities were based on the 2025 Budget Policy Statement—the latest publicly available fiscal policy document—prior to the publication of the budget itself.

[4] The authorities' GAAP-based fiscal accounts indicate a worsening of the operating balance before gains and losses (OBEGAL) in FY2023/24. The discrepancies stem from GAAP's broader SOE coverage, inclusion of tax debt impairment expenses, and differing measurement approaches. The fiscal year in New Zealand is July 1–June 30.

[5] The ETS is the key tool for domestic emissions reduction. Demand was well below volume on offer in auctions conducted in 2024, and carbon prices in the secondary market also declined. The reduction in the number of units on offer under the ETS going forward, announced in August 2024, may see more auctions clear starting in 2025.

[6] The ACC is a Crown entity, and it provides a comprehensive no-fault insurance scheme for people who suffer personal injuries. It was established as a fully funded (through a payroll tax) scheme over the long-term but has been in persistent deficits in recent periods due to rapidly increasing costs. If the ACC remains underfunded for an extended period, pressure to increase government appropriations to close funding gaps will mount.

and a smaller-than-previously-planned negative impulse in FY2025/26, to avoid hindering growth with aggressive procyclical tightening as the recovery gets underway. The Budget Policy Statement also signals a further delay in restoring an operating surplus in order to temporarily accommodate both cyclical and structural weaknesses in the fiscal position. The authorities plan to continue capping operating allowances (money available to fund new policies or increases in costs of existing policies) in coming budgets; this is intended to keep growth in total expenditure sufficiently below GDP growth through rationalization and reprioritization within the budget envelope. Consolidation will also be supported by existing measures from Budget 2024, including reduced reliance on emergency housing, reinstating ETS revenue funding, and eliminating commercial buildings depreciation, along with potential new measures to be announced in Budget 2025.



12. Maintaining a credible fiscal policy framework is essential for fiscal sustainability and access to favorable financing conditions. Debt sustainability risks remain low (see Annex IV), and tight sovereign spreads signal continued investor confidence in New Zealand's fiscal position. The small estimated positive impulse of 0.2 percent of potential GDP in FY2024/25 (on a cyclically adjusted basis) is appropriately countercyclical in the context of a negative output gap and ongoing monetary policy easing.[7] The constraint on operating allowances, if fully implemented, will contribute to a meaningful and appropriate adjustment in FY2025/26 and onward. This is also consistent with the authorities' continued commitment to medium-term consolidation as guided by their fiscal rules, which staff consider broadly appropriate.[8] Should cyclical demand and labor market conditions turn out materially weaker than expected in the near term, automatic stabilizers should be allowed to operate and the social safety net could be prudently strengthened. However, repeated delays in restoring the operating surplus and frequent changes in fiscal objectives, while well-justified in the government's budget policy statements and still consistent with maintaining total debt at prudent levels, can potentially create uncertainty around the fiscal policy framework

[7] The widening of the non-cyclically adjusted primary deficit in FY2024/25 is larger due to a large cyclical component, including through automatic stabilizers, in the shift of the fiscal position as the output gap turned sharply to negative.

[8] Budget 2025's short-term fiscal intentions (for the next four fiscal years) include (i) returning OBEGALx to surplus by 2027-28; (ii) putting net core Crown debt as a share of GDP on a downward trajectory toward 40 percent; and (iii) reducing core Crown expenses as a share of GDP. The introduction of OBEGALx, a new operating balance indicator that excludes the ACC, aims to prevent undesirable fiscal policy tightening to offset temporary ACC shortfalls.

and complicate the tracking of fiscal performance and commitments. If revenue outperforms current projections, the overperformance should be saved (instead of spent) to rebuild fiscal buffers and to expedite medium-term adjustment and restore the operating surplus sooner, thereby preserving the credibility of the fiscal policy framework. Additionally, over-reliance on capping operating allowances as the primary fiscal adjustment tool poses implementation risks which need to be carefully managed. Spending pressures have proven to be both persistent and often unpredictable; therefore, maintaining effective budget constraints by preventing upward adjustments to allowances over budget and electoral cycles requires strong political commitment.

13. Comprehensive revenue reforms are well-suited to address the structural fiscal deficit. While New Zealand boasts one of the most comprehensive and efficient consumption tax systems, its relatively low tax wedge and high corporate income tax rate result in a lower burden on individuals and a greater tax burden on entities compared to the OECD average. This, together with uneven capital income taxation, provides scope for tax reforms to improve the tax mix and boost revenue against rising spending pressures, including through a comprehensive capital gains tax, a land value tax, and judicious adjustments to the corporate income tax regime aimed at reducing the cost of capital (as discussed in the 2024 Article IV Staff Report).[9] These reforms could also be calibrated to incentivize investment and enhance productivity growth, and designed to be progressive in the context of rising intergenerational inequality. With estimated lower fiscal multipliers (compared to direct cuts in government spending), tax-based consolidations can also minimize potential adverse growth and distributional implications.[10]

14. Expenditure reforms are also needed. On the expenditure side, a comprehensive cost-benefit analysis of government programs—particularly around personnel costs, transfers, and social benefits—could guide spending reforms while safeguarding growth-critical and high-quality infrastructure investment, education and health spending, and support for the most vulnerable. Staff welcome the authorities' plan for reviewing the ACC's financial performance and sustainability and call for decisive action to close the ACC deficit—which is projected to add some 1 percent of GDP annually to the fiscal deficit over the forecast period—including greater levy adjustments if needed.

15. Reforms can address long-term fiscal pressures from population aging and require early dialogue with various stakeholders to build domestic consensus. New Zealand's aging population is expected to drive up the costs of superannuation (NZS); unlike in most other OECD countries, NZS is funded through general taxation, with a relatively small reserve fund (aimed at smoothing tax burden across generations), and accounted for 5.2 percent of GDP in FY2023/24.[11]

[9] Effective January 1, 2025, New Zealand adopted the OECD "Pillar 2" rules aimed at stopping tax-base erosion and profit shifting. A Domestic Income Inclusion Rule (DIIR) component of the rules will apply from January 1, 2026. New Zealand's statutory corporate income tax rate of 28 percent is much higher than the global minimum of 15 percent under "Pillar 2."

[10] For New Zealand's fiscal multiplier estimates, see Selected Issues of 2019 Article IV.

[11] New Zealand Superannuation Fund (NZSF) was established in 2001, funded by government contributions, intended to smooth the tax burden across generations by partially pre-funding a small share of the future cost of NZS. As of FY23/24, the net worth of the NZSF stood at NZ$74.8 bn (18 percent of GDP). While it has consistently generated

(continued)

NZS is the government's largest transfer payment program and will continue to grow with demographic shifts, further straining fiscal deficits (see Annex V). To mitigate this, a combination of pension reforms may be necessary: reducing the generosity of benefits (e.g., by adjustments to indexation or introduction of means-testing); raising the age of eligibility; or increasing contributions. Reforms to KiwiSaver (a voluntary private retirement savings fund) to promote greater contributions, could also help ensure adequacy of retirement income and mitigate the impact of the reforms to NZS. These reforms should be carefully balanced and coordinated to distribute costs across generations and income groups while ensuring adequate retirement income. Early dialogue with various stakeholders is essential, and the Treasury's triannual Long-Term Insights Briefing and the 2025 Long-Term Fiscal Statement present a valuable opportunity to initiate policy discussions on these issues and on other long-term spending pressures associated with population aging (i.e., in healthcare and aged care). Fiscal policy can also play a key role in enhancing productivity, including through tax policies (¶12), R&D incentives (¶29), and high-quality investment in infrastructure (¶30); strong medium-term growth remains key for expanding the revenue base.

Authorities' Views

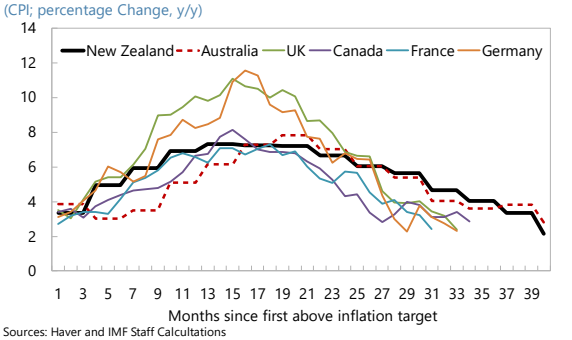
16. The authorities stressed the need to continue with fiscal consolidation, and doing so in a way that supports economic growth. They reaffirmed their commitment to restoring an operating surplus and maintaining a prudent debt level over the medium term, while ensuring that the consolidation strategy is implemented in a growth-friendly manner. To this end, they have initiated comprehensive expenditure reforms aimed at achieving efficiency gains and rationalizing spending within operating allowances, while recognizing challenges stemming from ongoing spending pressures. The authorities acknowledged the role of revenue policies in supporting fiscal consolidation, while emphasizing the need for well-designed policies that account for current economic challenges and the need to promote investment. The authorities highlighted the opportunity to review public sector balance sheets for gains in efficiencies and effectiveness as an additional area of focus. They consider the balance sheet has the potential to provide support for fiscal policy over the longer-term, including broader spillovers for investment and growth. The authorities agreed with the necessity of addressing long-term spending needs arising from an aging population to ensure the sustainability of the pension, health, and aged care systems.

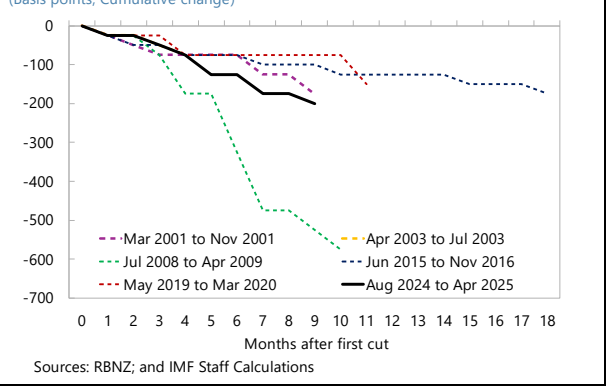
B. The Case for a Period of Neutral Monetary Policy

17. The Reserve Bank's policy rate cuts since August 2024 are timely and appropriate. Persistently high headline inflation—which spent 13 quarters above target, longer than in most peer economies—justified the RBNZ's very restrictive monetary policy, including to prevent inflation expectations from de-anchoring. However, with a rapid deterioration in economic conditions in the second half of 2024, the Monetary Policy Committee re-evaluated the timing and speed of policy easing. The RBNZ started easing in August 2024 and has had its second fastest rate cutting cycle in

high investment returns, it remains a residual financing source for NZS and is not meant to fully cover future NZS payments.

25 years. The cuts to the OCR are timely and appropriate, are in line with previous staff advice,[12] and support inflation staying within the target band.





18. If the inflation outlook remains benign, a neutral monetary policy stance is warranted, while maintaining the direction of other concurrent policies. Given that the shrinking demand and rising unemployment have created a negative output gap and inflation is forecast to remain within the target band, monetary policy should move to a neutral stance. The neutral level of rates is estimated as 3–3¼ percent by the RBNZ and the IMF.[13] The RBNZ should continue to taper its balance sheet through pre-announced sales of Large-Scale Asset Program bonds.[14] The ongoing foreign currency accumulation under the foreign reserves framework (NZ$24 billion as of November 2024) provides additional resources against short-term shocks, but the exchange rate should remain the primary absorber to buffer external shocks to exports and growth.

19. Upside risks to inflation due to global shocks, a faster-than-normal transmission of monetary policy, or higher-than-expected growth in house prices call for a gradual approach by the RBNZ. The passthrough of policy rate cuts depends on the interaction with economic conditions including the fiscal stance, economic and credit cycles, private balance sheets, the ability of the financial system to intermediate credit, and the attentiveness of firms and households to economic conditions.[15] Recent IMF research suggests increased attentiveness to aggregate conditions leads to higher investment by firms in response to expansionary monetary shocks in the short term. However, this attentiveness may dampen the impact of such shocks over the longer term as prices in the economy become more flexible (Annex VI). Econometric estimates vary significantly

[12] See the 2023 (¶17) and 2024 (¶17) Article IV Staff Reports.

[13] The RBNZ calculates a suite of measures for the neutral interest rate using a variety of data indicators and economic models, the average of these represents the estimate of the neutral interest rate. (RBNZ Bulletin article, 2024). The latest RBNZ neutral rate estimates were 3.3 percent and 2.9 percent for the medium- and long-term, respectively (Feb 2025 MPS).

[14] Given the slow pace and the small relative size of bond sales (approximately NZ$5 bn per year), this is neither expected to have any major impact on the monetary stance nor to influence financial market dynamics.

[15] Given the sustained period of high inflation, firms and households in New Zealand may be paying more attention to current economic conditions.

from country to country, and the RBNZ estimates that in New Zealand peak transmission takes place 7 quarters after policy adjustment (although in one study it was estimated at 5 quarters; RBNZ MPS Nov 2023). Many households have shifted toward short-term fixed-rate mortgages in anticipation of monetary easing, with more than 70 percent scheduled to reprice this year. Given the chronic housing shortage and already high household leverage, the RBNZ should monitor the effect of monetary easing and make full use of its rich macroprudential toolbox to mitigate emergent risks (Section C). Other factors that would require a more gradual approach to rate cuts include stalling domestic disinflation and a significant and sustained rebound in international price pressures that affect the disinflation process. Given the current high level of uncertainty and recent rapid changes in rates, it may be appropriate to maintain a neutral stance for an extended period, while staying adaptable in response to evolving economic conditions.

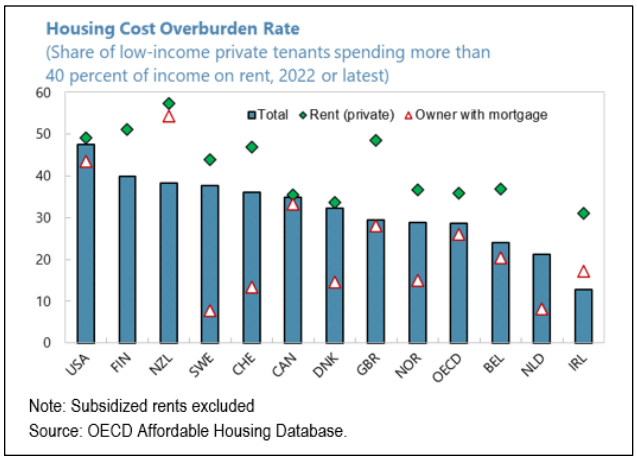
Authorities' Views

20. The authorities deem that monetary policy has successfully brought inflation to target. The OCR cuts since August 2024 have helped boost lending activity and aided the recovery; looking ahead the authorities stressed the need to closely monitor inflation, inflation expectations, the housing market, and broad economic activity. They emphasized that the flexible macroprudential toolkit is well suited to mitigate risks of rapid growth in housing credit, and that monetary policy would need to respond only if housing credit caused the economy to overheat and generated inflation above target. They emphasized that monetary transmission through the housing channel could be faster, but other important monetary policy transmission channels are likely to work as normal. The authorities noted that inflation expectations are anchored and that there remains a negative output gap which would allow some flexibility against temporary rises in inflation. The RBNZ sees the LSAP drawdown as not impeding secondary market conditions. The RBNZ and Treasury have systems in place to enable coordinated and effective responses to future crises, while ensuring central bank independence and continue to consider opportunities for improvement.

C. Housing and Financial Sector Reforms Are Key for Growth and Stability

21. Policies to increase housing supply are imperative. Despite recent improvement, housing affordability in New Zealand is among the lowest in the OECD, while the existing housing stock has significant quality issues.[16] Housing prices are expected to start rising as the economy recovers, while supply remains constrained. The Government's *Going for Housing Growth* program aims to improve housing supply via a multi-prong reform agenda which includes (i) introducing housing growth targets; (ii) strengthening provisions in the National Policy Statement on Urban Development around increased housing density in select areas; and (iii) a new development levy system (announced in March) to give councils greater flexibility to raise funds for needed local infrastructure. Moreover, ongoing efforts to amend and eventually replace the 1991 Resource

[16] A large share of households report issues with insulation, heating, and mold, see BRANZ pilot housing survey 2018-19.

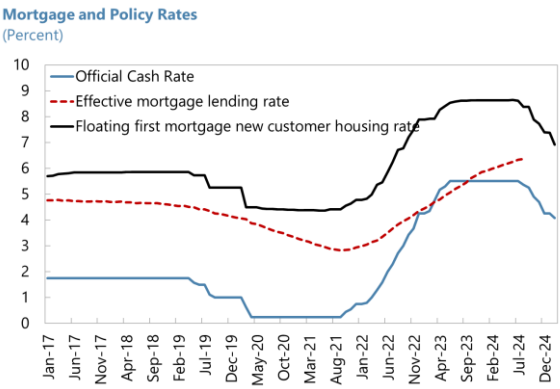


Management Act (RMA) could improve planning efficiency through greater use of national standards and a shift away from ex-ante consent toward compliance and monitoring. While these reforms are aligned with previous IMF recommendations, further efforts to free up land supply and incentivize its efficient use—including through tax reforms, such as land value or comprehensive capital gains taxes—are needed.[17] The wind-down of KiwiBuild leaves a gap in prospects for affordable homes. Reforms to the Overseas Investment Act (OIA) to facilitate build-to-rent investments will have a minimal impact on supply given the small size of the sector.

22. Financial stability risks are contained and macroprudential policy settings are appropriate. Household debt service costs have likely peaked as fixed-rate mortgages reprice onto lower rates at a rapid pace. NPLs are expected to remain well below Global Financial Crisis levels. The banking sector is well capitalized and profitable, with elevated provisions, and thus well-positioned to manage rising arrears and continue providing credit. Banks rely primarily on stable funding sources such as deposits and long term-debt, with limited need to tap into wholesale markets given low credit demand. The core funding ratio requirement will help mitigate risks from persistent current account deficits going forward, and broad macroprudential measures can help contain risks from credit provision. While the share of high-risk lending remains low, the July 2024 activation of debt to income (DTI) limits is an appropriate guardrail to protect against the buildup of risk as interest rates come down, and still gives banks some, limited, room to lend to different types of higher risk borrowers, including through an accompanying and countercyclical easing of loan to value restrictions.[18]

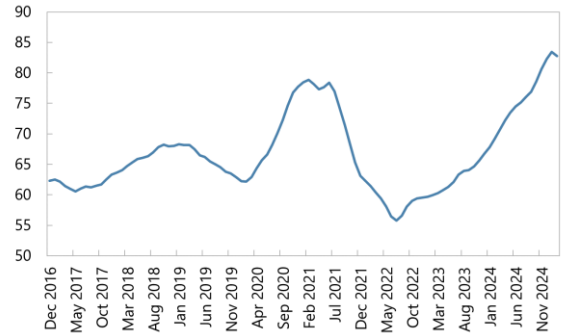
[17] See the 2023 (¶43) and 2024 (¶21 and ¶38) Article IV Staff Reports.

[18] The caps allow banks to give at most 20 percent of credit for residential loans to owner occupiers with a DTI > 6 or to property investors with a DTI > 7, with a higher threshold for new builds. The new LVR settings allow banks to give 20 percent (from 15 percent) of owner-occupier lending to borrowers with an LVR > 80 percent, and 5 percent of investor lending to borrowers with an LVR > 70 percent (from 65 percent).



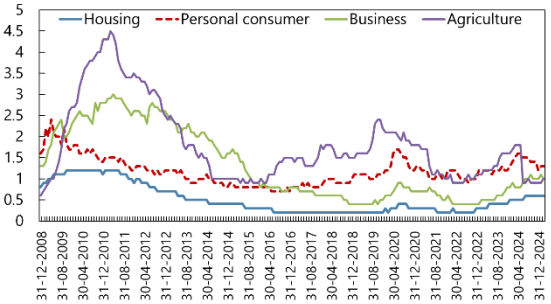
Mortgage and Policy Rates
(Percent)

Source: Reserve Bank of New Zealand Financial Stability Report



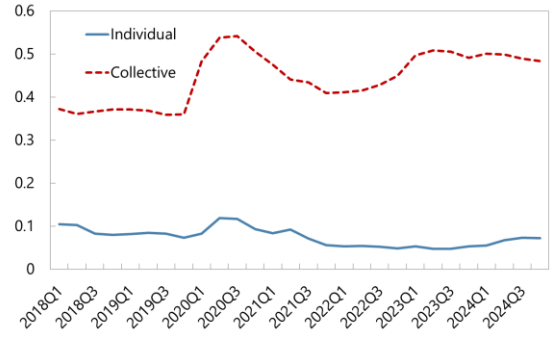
Share of Outstanding Mortgages Repricing within 12 Months
(Percent)

Source: Reserve Bank of New Zealand and IMF. staff calculations



Non-Performing Loans
(Percent)

Sources: RBNZ.
Note: The NPL ratio is made up of all impaired loans and loans more than 90 days past due, as a proportion of total lending for each loan purpose.



Bank Loan Loss Provisions
(Share of total loans)

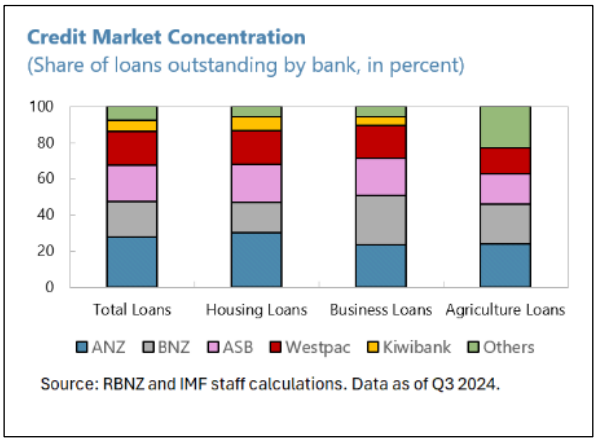
Sources: Haver Analytics and IMF staff calculations

23. Implementing the Deposit Takers Act (DTA) remains essential for preserving financial stability. The Depositor Compensation Scheme (DCS) for up to NZ$100,000 per customer, per deposit-taker, is on track to launch in July 2025 funded by a risk-based levy framework which appropriately aligns costs with risks to maintain proportionality; a flat levy for credit unions and building societies will apply until 2028. Multiple public consultations are ongoing around prudential standards to be implemented from 2028. Incorporating the smaller non-bank deposit sector into the prudential regime in a proportionate way should remain a key consideration. The DCS, the implementation of DTI limits, and prudential standards being developed under the DTA, mark significant progress in implementing the recommendations of the 2017 FSAP (Annex VII).

24. The government is considering policies to strengthen banking competition and reduce borrowing costs. The August 2024 Commerce Commission (NZCC) market study into personal banking services points to high market concentration and the high profitability of the largest banks as evidence of insufficient competition. In response, the government is encouraging private capital injections for state-owned Kiwibank, to allow it to increase credit provision,[19] and has issued an

[19] An injection of capital for Kiwibank of NZ$500 million is planned over 2025-26, which follows a recent NZ$225 million capital injection. A subsequent capital injection is envisioned for 2027/28.

updated Financial Policy Remit for the RBNZ with added focus on competition.[20] Broadening sources of bank and non-bank financing (including through development of capital markets, ¶27) could improve access to credit. Ongoing monitoring of the pace of credit expansion and potential fiscal risks emerging from the state owed bank is warranted. Recommendations from an ongoing Parliamentary inquiry into banking competition are pending, and may include revisiting capital requirements with a view to reduce borrowing costs.



25. The primacy of financial stability should be preserved in setting prudential standards, even as there is scope to support stronger competition in credit provision. In response to concerns raised during the Parliamentary inquiry on banking competition, the Reserve Bank is preparing an evidence-based review of key aspects of deposit-taker capital settings, including comparison with settings in peer economies, with support from international experts. Alternative options to encourage competition include (i) reducing barriers to entry, including for digital banks; (ii) accelerating progress on open banking; (iii) reducing switching costs through improving financial education, strengthening fee transparency, and regulating claw-back fees; and (iv) taking a proportionate approach in developing prudential standards for different-sized deposit takers, as set out in the RBNZ's Proportionality Framework. The introduction of the DCS may also provide a boost to smaller banks. Vigilance is warranted as economic analyses deliver a mixed verdict on whether banking competition mitigates or raises individual and systemic risks.[21] Moreover, the primary objective of financial stability should not become subordinated to other priorities when it comes to setting prudential standards. Capital requirements should be calibrated to reflect New Zealand's particular risks and circumstances, and should not be diluted in order to boost competition or credit provision. This is particularly critical given delays and uncertainty over the implementation of global regulatory standards in other advanced economies.

Authorities' Views

26. The authorities view expanding the housing supply as a key priority. They expect that recently announced reforms around development levies will give local councils more flexibility to raise funds for local infrastructure investment and thus support housing supply growth. They also

[20] In December 2024 the government issued a renewed Financial Policy Remit and Letter of Expectations to the RBNZ that emphasizes financial sector competition. This Remit provides the RBNZ a list of principles to consider when setting prudential standards, with decisions about relative weights of various priorities remaining with the RBNZ. It is broadly consistent with ongoing RBNZ work including on the implementation of the DTA.

[21] One view is that more bank competition can erode profit margins and reduce franchise value, leading to increased risk taking; on the other hand, more market power could raise bank risk if interest charged to customers make it harder to repay loans. See e.g. Allen and Gale (2003); Berger et. al. (2017); Boyd and De Nicolo (2005).

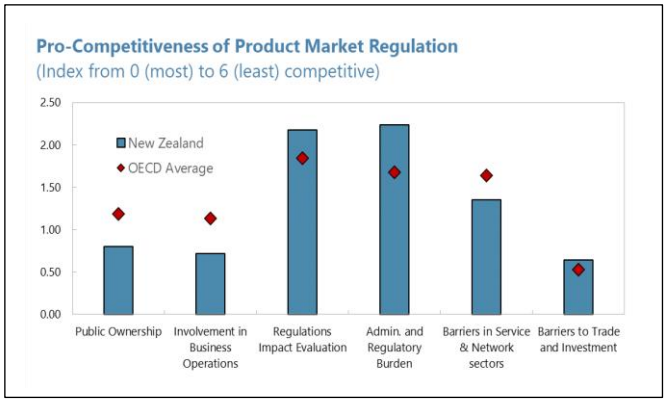
consider that ongoing reforms to the RMA to streamline planning processes, as well as efforts to deepen the National Policy Statement on Urban Development, including through enhanced monitoring, will help make housing supply more responsive to demand.

27. The RBNZ considers that financial sector reforms are progressing in line with expectations. They deem that the risk-based levy framework funding the DCS appropriately aligns costs with risks. They also highlighted that the Proportionality Framework and the new Financial Stability Remit will help guide ongoing work under the DTA. The authorities agreed that prudential regulation should be calibrated to maintain financial stability, with consideration to the risks and vulnerabilities faced by New Zealand, but they also acknowledged an ongoing discussion on the relationship between regulatory capital and borrowing costs. They expect that ongoing work on open banking, reducing barriers to entry, and reviewing the granularity of risk weights will help enhance banking competition and improve outcomes for depositors and borrowers.

D. Reforms to Boost Productivity Are Needed

28. Tackling the productivity challenge remains critical for securing strong and sustainable medium-term growth. New Zealand's weak labor productivity growth, low capital intensity, and limited innovation relative to peers are well documented. Small firms face challenges expanding, while competition policies have not prevented the formation of oligopolies. Limited financing options, with a restrictive FDI regime and underdeveloped capital markets, hamper firm prospects. [22]

29. A broad-based reform agenda is needed to boost productivity.



- *Competition*. Recent years have seen a significant shift in competition policy in New Zealand, including rewriting Section 36 of the Commerce Act to broaden the definition of anti-competitive behavior in a manner aligned with international standards, and empowering the NZCC to conduct market studies. However, the pro-competitiveness of market regulation continues to compare unfavorably with peers, indicating scope to review regulatory and governance arrangements with a competition lens. Sector-specific policies may also be necessary: the OECD has identified scope to improve competition in network sectors, including the electricity sector, and in retail and dairy.[23] To guard against the excessive consolidation of market power going forward, the ongoing review of the Commerce Act should consider

[22] See Selected Issues Paper: New Zealand's Productivity Challenge for a detailed discussion.

[23] See OECD Economic Surveys: New Zealand 2024.

replacing the current voluntary merger notification regime with a call-in or a mandatory notification regime.

- *Access to financing*. Ongoing reforms to the screening regime for overseas investment (moving to a risk-based approach) should reduce the administrative burden for investors, but continued efforts, including through the recently established *Invest New Zealand*, will be needed to attract foreign capital. Further deepening of domestic capital markets is necessary to improve financing options for firms; planned analyses by New Zealand agencies on this topic could help inform policies. Promoting higher contributions to KiwiSaver could help accelerate capital market development. Additional reforms will also be needed to reduce barriers for firms to issue equity and bonds, and to adjust liquidity management settings to encourage KiwiSaver investment into a variety of asset classes. The ongoing Capital Markets Reforms are a welcome step in this direction.

- *Innovation*. In light of low R&D and lagging rates of innovation (see accompanying Selected Issues Paper), the government should review and appropriately adjust R&D tax credits and other innovation incentives to ensure efficiency in encouraging applied innovation across firms, while maintaining public investment in fundamental research.[24]

30. Investment in infrastructure is essential for boosting productivity and ensuring economic resilience.

- Bridging the wide infrastructure gap and maintaining the existing capital stock remains crucial for growth prospects, but the challenge is compounded by the high cost of capital. Recent legislation to fast-track approvals for critical projects, and the government's focus on attracting private sector investment, including through the newly established National Infrastructure Agency, could help accelerate infrastructure development. The use of alternate financing models including road tolling, PPPs, and value capture schemes, should be underpinned by the principles in the PPP and the Funding and Financing Frameworks, with due consideration for accountability and risk allocation. Publishing a National Infrastructure plan is essential to secure a stable long-term project pipeline and ensure prioritization according to growth criticality.

- Improving the economy's resilience to natural disasters (¶8) requires investment in infrastructure and resource management. A recent report on adaptation by the Climate Change Commission found current efforts to be insufficient to address significant and increasing natural disaster risks.[25] The development of a comprehensive national framework for adaptation in line with recommendations by the 2024 Parliamentary inquiry could help accelerate these efforts. The availability of financing for adaptation efforts also requires ongoing attention.

[24] Public research and R&D tax incentives and grants are consistently found to be among the most cost-effective tools to enhance innovation; public research is found to result in the largest amount of R&D per dollar spent because it tends to focus on areas with high knowledge spillovers—see April 2024 Fiscal Monitor, Chapter 2.

[25] The Climate Change Commission is an independent Crown agency advising the government.

Authorities' Views

31. The authorities have long considered that a multi-prong approach is needed to boost New Zealand's productivity growth. Encouraging higher capital intensity, reducing the restrictiveness of the regulatory environment, and closing the infrastructure gap remain key priorities. The authorities emphasized that ongoing OIA reforms will significantly reduce barriers to foreign investment in New Zealand, while the review of the Commerce Act could help boost competition. They noted that a National Infrastructure Plan will help develop a more stable and predictable infrastructure pipeline, and that fast-tracking the consenting process for critical projects will help ensure effective and timely approvals. The authorities also highlighted the Funding and Financing Framework and the revised PPP Framework as paving the way for engaging with and encouraging private sector infrastructure investment.

STAFF APPRAISAL

32. New Zealand's economy is beginning to recover, but medium-term challenges remain. In the near term, real GDP growth is expected to pick up as monetary easing supports private domestic demand. While the external position in 2024 is assessed as weaker than implied by medium-term fundamentals and desirable policies, favorable commodity prices should continue to benefit the agricultural sector and the trade balance, while inflation is expected to remain within the target band. Risks to the outlook are tilted to the downside, as New Zealand remains highly exposed to global economic conditions. Over the medium-term, productivity growth is likely to remain modest absent significant structural reforms.

33. Fiscal policy should prioritize medium-term consolidation and address long-term spending pressures, while balancing growth considerations. While New Zealand's government debt is sustainable, substantial adjustment is needed over the medium term to preserve fiscal sustainability and rebuild buffers. Expenditure reforms should be based on comprehensive cost-benefit analyses while preserving high-value spending priorities and protections for the most vulnerable. Tax policy reforms can support a more growth-friendly fiscal consolidation and increase the efficiency of the tax system while incentivizing investment. Given that further delays in restoring the operating surplus could undermine the credibility of the fiscal framework, any upside surprises to revenues should be saved. Reforms to address long-term spending pressures from an aging population should be considered, focusing on ensuring the sustainability of New Zealand Superannuation while also incentivizing greater private retirement savings through KiwiSaver.

34. Monetary easing has been appropriate and timely, and interest rates should be held at a neutral level if macroeconomic conditions progress as expected. The negative output gap creates scope for lowering the OCR to 3–3¼ percent (approximately neutral) by mid-2025. However, upside risks to inflation due to a prolonged global shock, a faster-than-normal transmission of monetary policy, or higher-than-expected growth in house prices imply monetary policy will need to remain flexible and responsive to economic conditions. The introduction of DTI restrictions to address a potentially rapid growth in housing credit demand as the recovery takes hold is in line

with earlier IMF advice; location-based DTIs could be considered at a later stage to account for regional differences.

35. The primacy of financial stability must be maintained in setting prudential regulation. The introduction of the DCS fills an important gap in the financial system, and the DTA is a welcome step to harmonize regulation for bank and non-bank deposit takers. Any cost-benefit analysis of capital requirements should also factor in the positive impact of financial stability on growth.[26] Cross-country comparisons can be challenging, as comprehensive assessments of the banking system, the overall regulatory framework, the economy, and the nature and extent of risks are required. Prudential settings should remain adequately calibrated to guard against financial stability risks. A broader policy agenda is instead needed to improve credit availability for businesses, including via accelerating capital market development and enacting proposed reforms to reduce barriers to foreign investment.

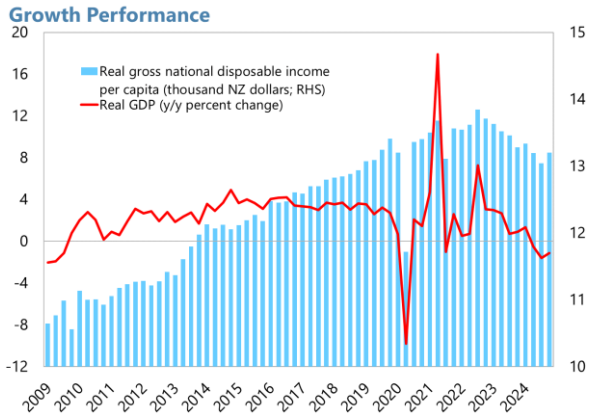
36. Continued reform efforts are needed to boost productivity growth and address housing supply shortages. The review of the Commerce Act should update competition policies in line with international best practices and provide adequate tools to tackle changing markets in a digital age. R&D tax incentives should be adequately calibrated to encourage innovation across different types of enterprises; larger incentives or reduced administrative burdens for smaller firms may be appropriate. Ongoing reforms to the RMA have the potential to streamline planning processes and thus support both housing and business development. At the local level, ensuring councils are using new tools at their disposal to fund needed infrastructure will be essential to support housing supply growth

37. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

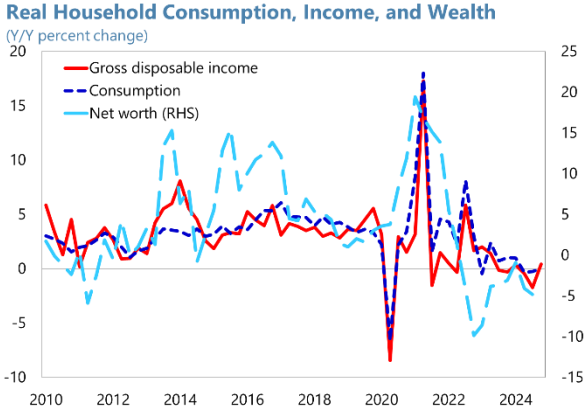
[26] See, for example, Allen & Carletti (2010); Eichengreen et al. (2012).

Figure 1. The 2024 Recession Reflected Soft Domestic Demand

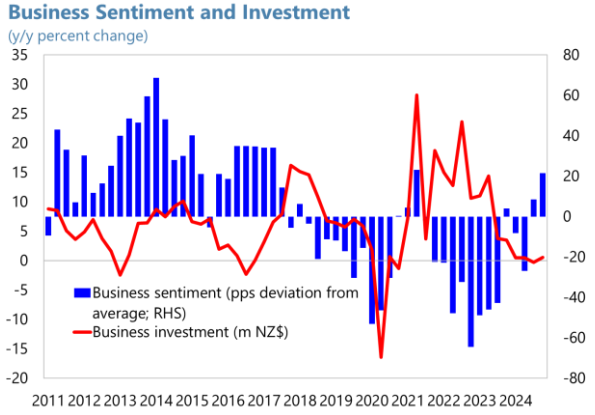
In 2024, disposable income per capita continued its persistent decline and the country entered a recession.



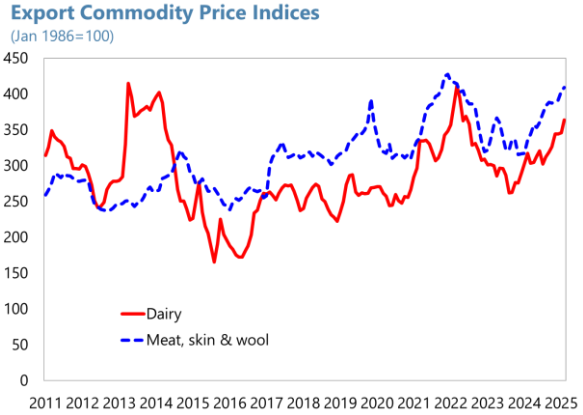
The recession impacted gross disposable income, consumption, and net worth…



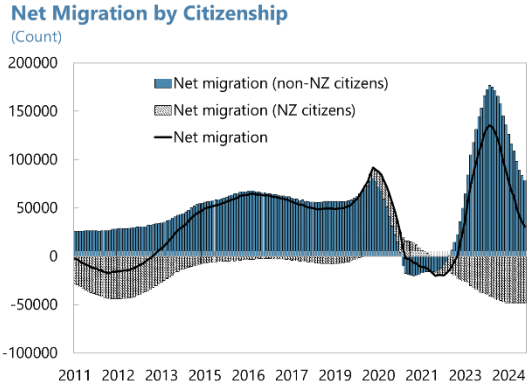
…business investment declined substantially, but sentiment has started to tick up…



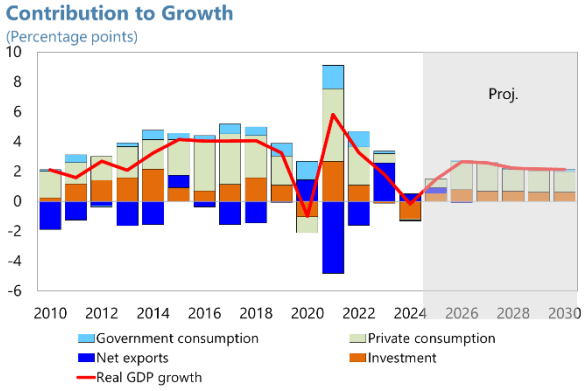
…improving terms of trade due to rising prices for New Zealand's main export commodities supported growth.



Although net migration levels remain positive, there is a large outflow of NZ citizens.



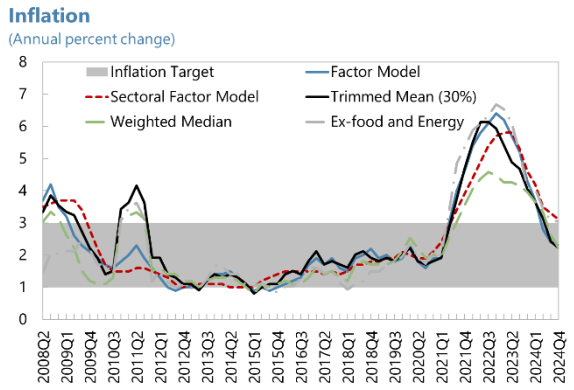
Robust growth in consumption and investment is expected from 2025 onward.



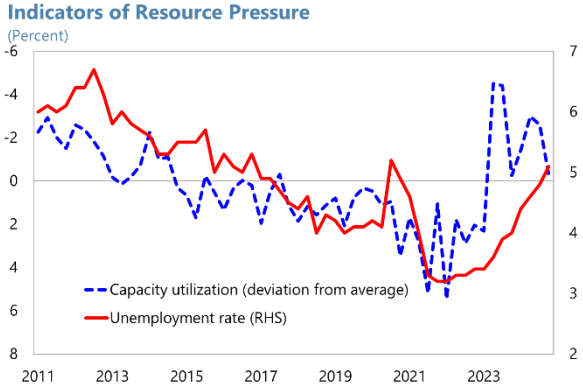
Sources: Stats NZ; Haver Analytics; and IMF staff calculations.

Figure 2. Monetary Policy Successfully Brings Inflation to Target

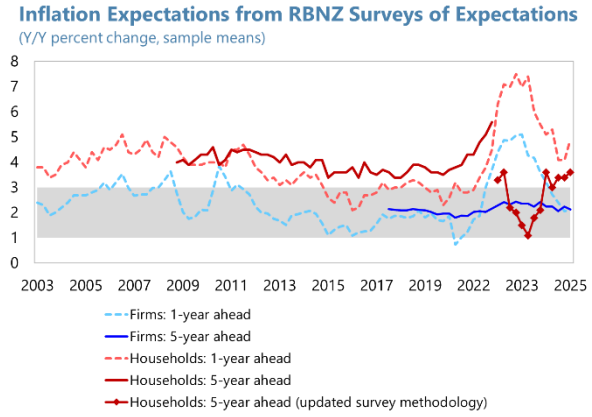
Inflation fell within the target band in 2024Q3. Measures of core inflation continue falling.



Slack in the economy has grown evidenced by lower capacity utilization and rising unemployment

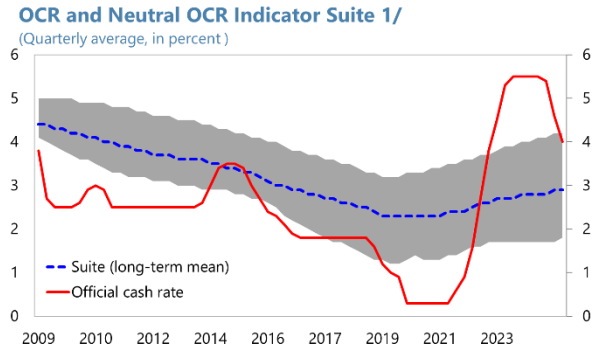


Inflation expectations for firms and household remain anchored



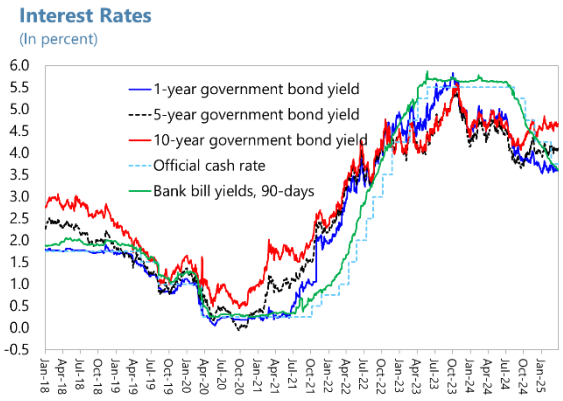
Wage growth expectations have fallen back to historic levels

Following a sustained period of tight monetary policy interest rates are now headed towards neutral



1/ Data up to 2025Q1 and the OCR was cut to 3.5 percent in April 2025. Shaded area indicates the range between the maximum and minimum values from a suite of neutral OCR indicators.

The yield curve is starting to normalize as market anticipates fewer near-term cuts

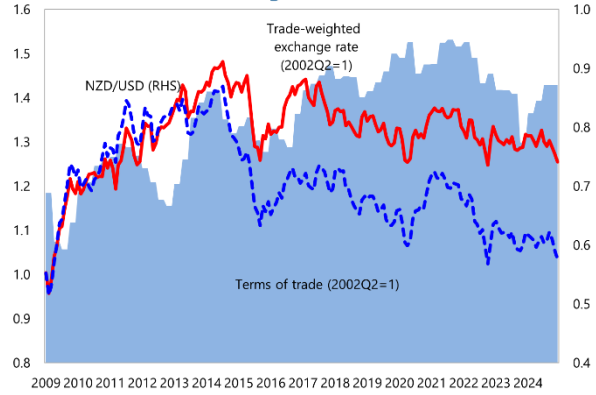


Sources: RBNZ; Stats NZ; Haver Analytics; and IMF staff calculations.

Figure 3. Current Account Deficit is Narrowing Gradually

Despite recent improvements in terms of trade, the New Zealand dollar has weakened on both bilateral and trade-weighted bases since October 2024 …

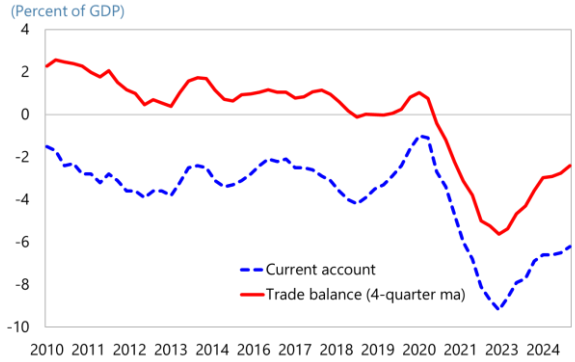
Terms of Trade and Exchange Rates



…. while the current account continued a gradual adjustment.

External Balance

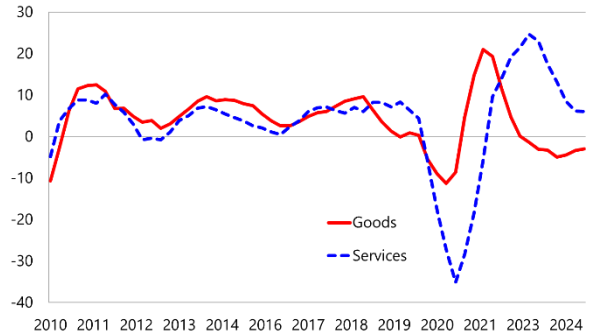
(Percent of GDP)



Imports demand weakened as economic activity slowed, …

Import Volume

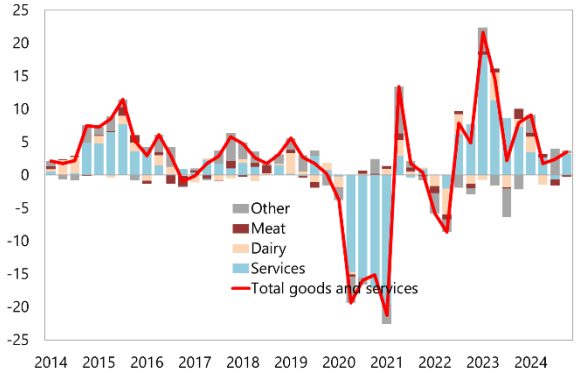
(4-quarters ma; y/y percent change)



…. while growth in exports also started to normalize.

Export Composition

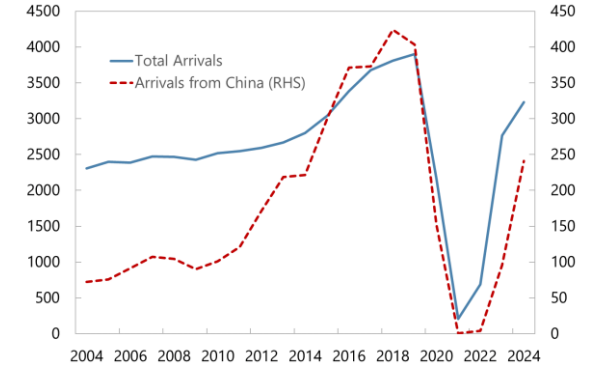
(Contribution to real export growth, percentage points)



Tourist arrivals rebounded sharply following the border reopening, but remain below pre-pandemic levels.

Tourist Arrivals

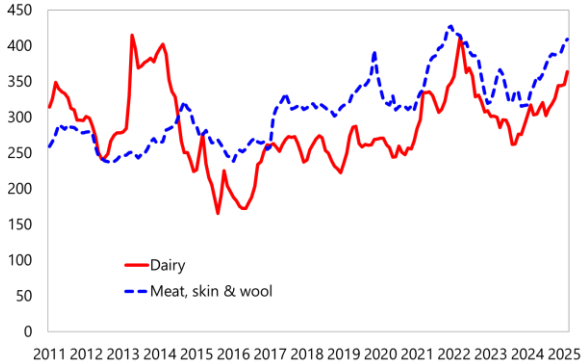
(Thousands of People)



The price outlook of key exports is expected to drive the terms of trade, which will be important for narrowing the trade deficit.

Export Commodity Price Indices

(Jan 1986=100)



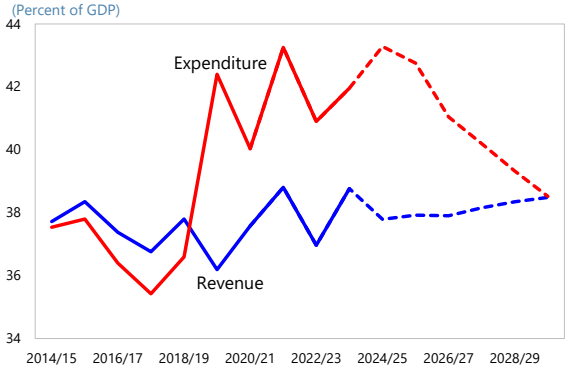
Sources: Reserve Bank of New Zealand; Stats NZ; Haver Analytics; and IMF staff calculations.

Figure 4. The Pace of Fiscal Consolidation is Constrained by a Weak Economy

Persistent spending pressures amid a significant economic downturn have limited the pace of near-term fiscal consolidation, …

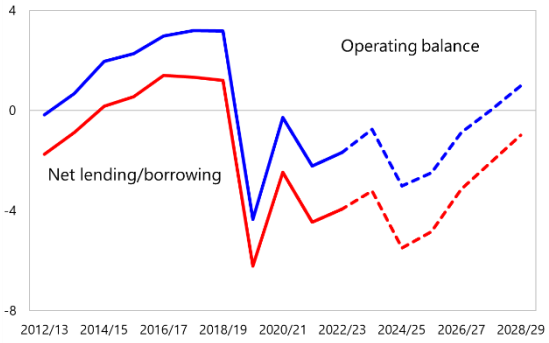
General Government Revenue and Expenditure

(Percent of GDP)



… and delayed the restoration of fiscal surpluses.

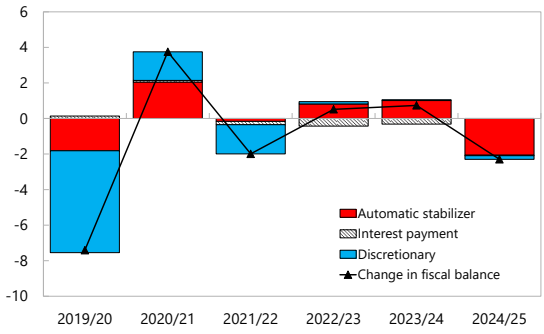
Overall and Operating Balance



As the negative output gap widens, cyclical components of the deficit (capturing changes in fiscal position due to economic cycles) are expected to have widened , …

Drivers of Changes in Fiscal Balances

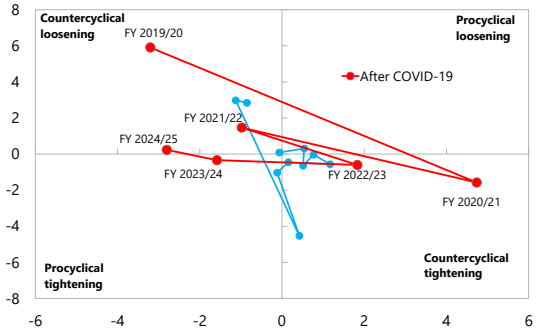
(Percent of GDP, change from previous year)



… resulting in a small positive impulse in FY2024/25.

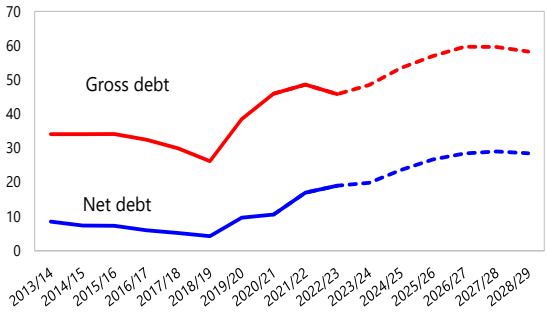
Discretionary Fiscal Policy and Cyclical Conditions

(Y: fiscal impulse, X: change in output gap, percentage points)



While projected deficits will add to public debt, …

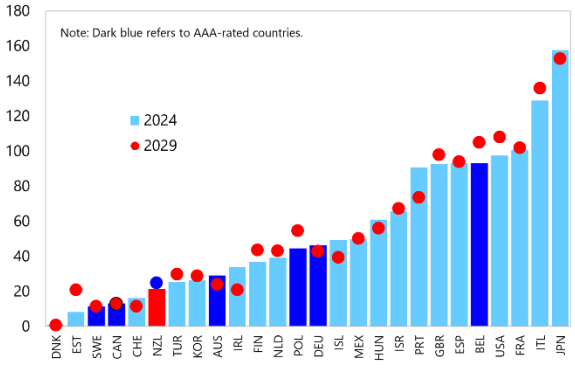
General Government Debt



… the level of New Zealand government's indebtedness remains low across OECD economies.

Net Public Debt

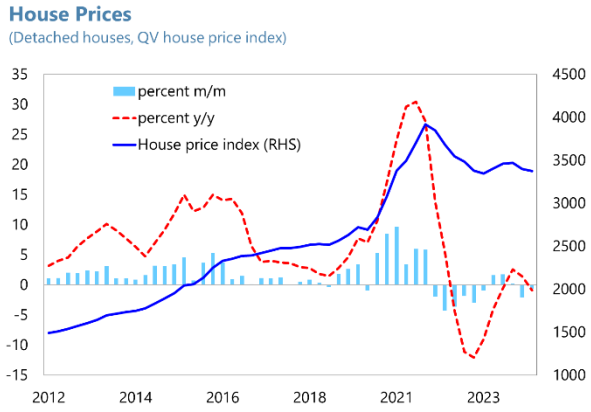
(Percent of GDP)



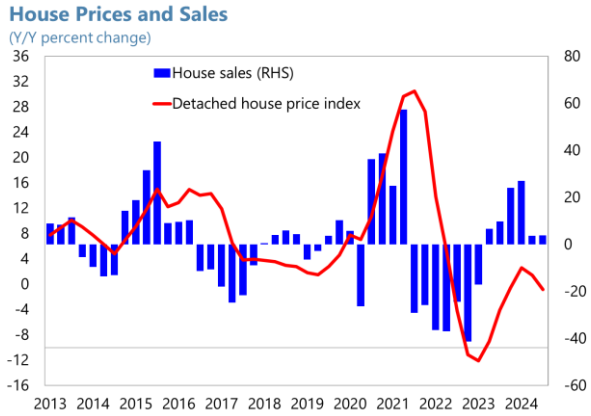
Sources: New Zealand Treasury (*Budget 2024* and *2024 Half-Year Economic and Fiscal Update)*; and IMF staff calculations.

Figure 5. The Housing Market Has Stabilized

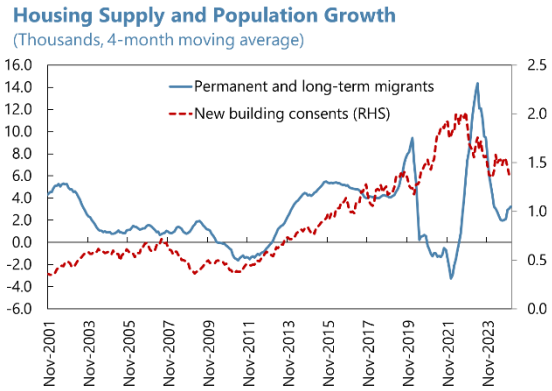
House prices have stabilized around 2023 levels …



…with the growth in sales similarly slowing down…

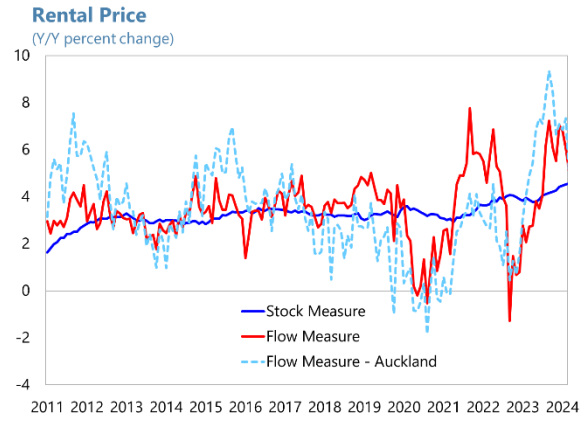


Housing supply growth is slowing, and population growth has declined …

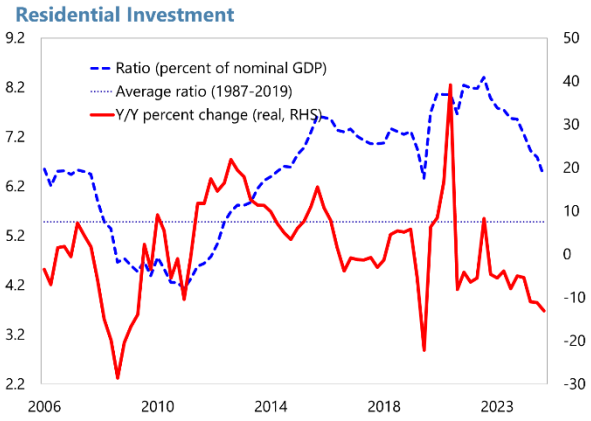


Sources: Stats NZ, IMF staff calculations,

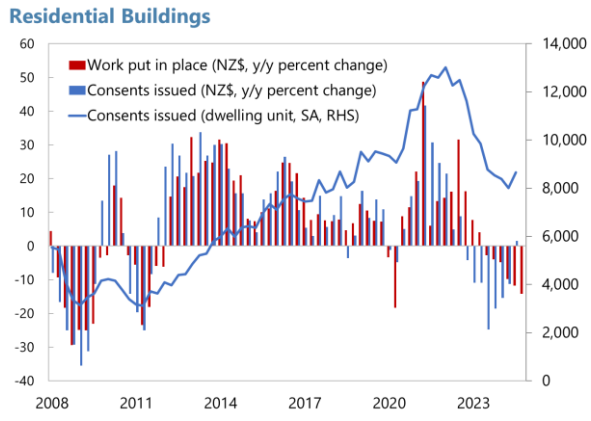
…reducing pressures on rents.



Residential investment remains weak…



…and the number of consents issued remains low.

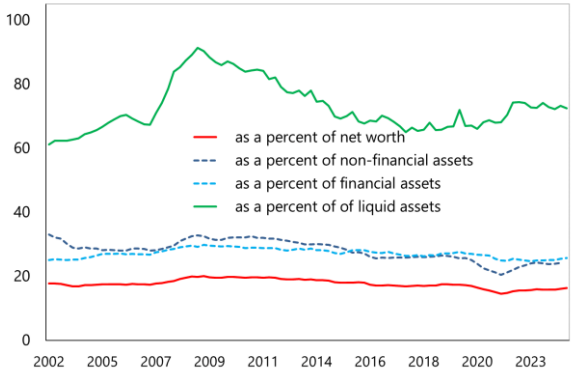


Sources: RBNZ; Stats NZ; Haver Analytics; and IMF staff calculations.

Figure 6. Risks from Household and Corporate Balance Sheets Remain Elevated

Household debt has broadly stabilized…

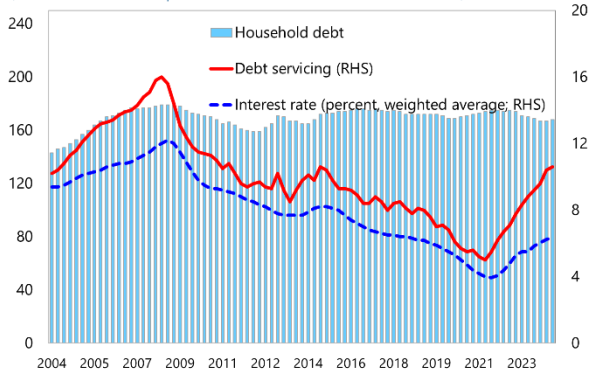
Household Debt



…but debt service costs have continued to rise.

Household Debt and Debt Service

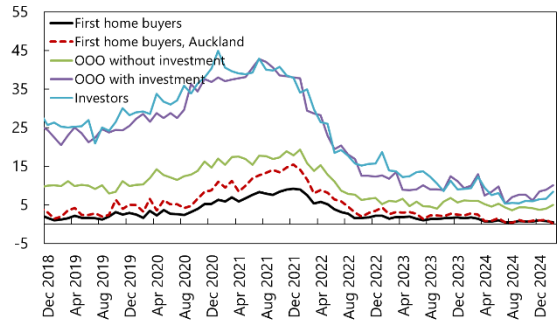
(Percent of nominal disposable income, unless otherwise indicated)



The share of high debt-to-income ratio levels remains low…

Share of New Commitments to Borrower Type with DTI >7

(Percent)

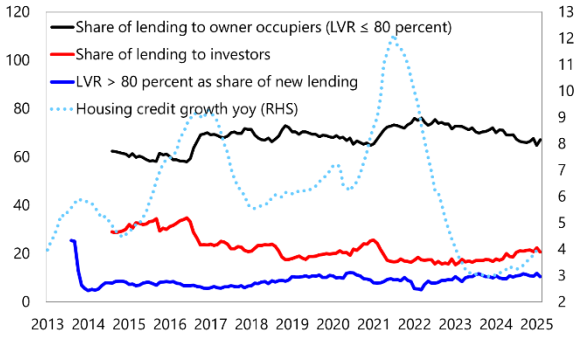


Notes: OOO refers to Other Owner Occupiers. Investment refers to property collateral Share of new commitment is calculated to each borrower type group.

…and high loan-to-value lending is stable.

Mortgages Approvals by Borrower and Leverage, Housing Credit Outstanding

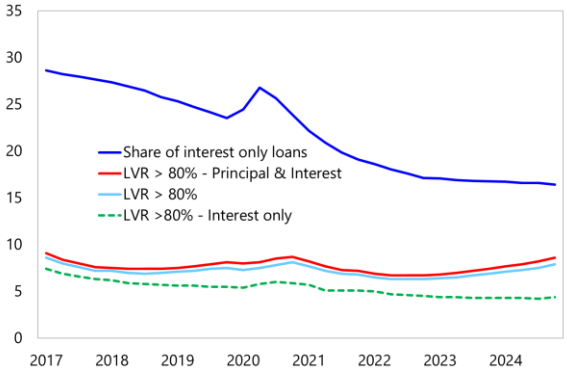
(Percent)



The share of interest only loans remains well below pre-pandemic levels

Existing Residential Mortgage Lending

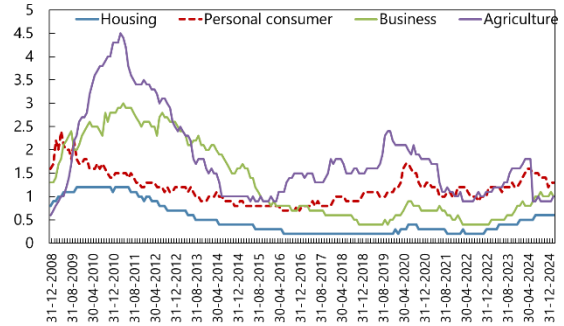
(Percent share of total)



NPLs are rising for both households and businesses

Non-Performing Loans

(Percent)



Note: The NPL ratio is made up of all impaired loans and loans more than 90 days past due, as a proportion of total lending for each loan purpose.

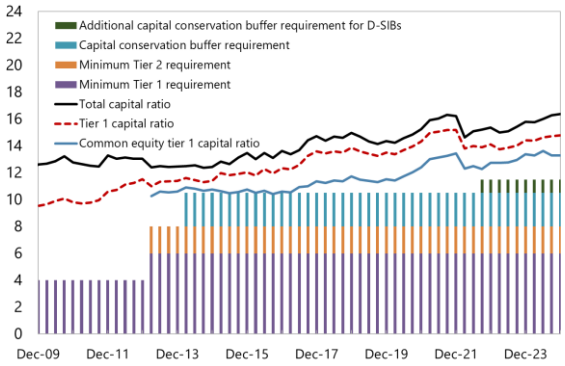
Sources: RBNZ; Stats NZ; and Haver Analytics.

Figure 7. The Banking Sector Is Well Equipped to Handle the Economic Downturn

Bank capital ratios are above current requirements, in preparation a 2028 increase, …

Capital Ratios of Registered Banks

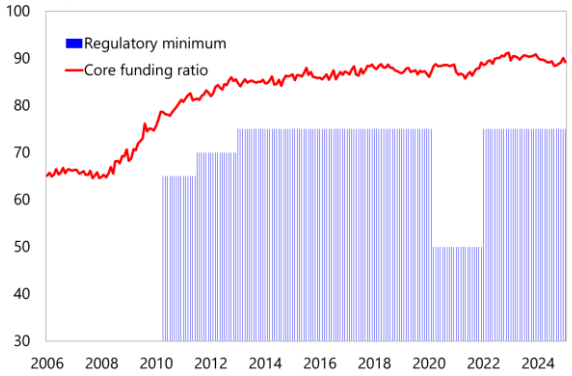
(Percent of risk-weighted assets)



The core funding ratio is also well above the regulatory requirement.

Core Funding Ratio

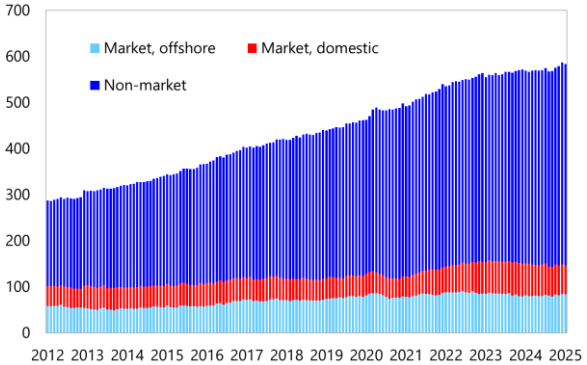
(Percent)



A large share of bank funding is from stable sources, such as long-term debt or deposits.

Total Funding

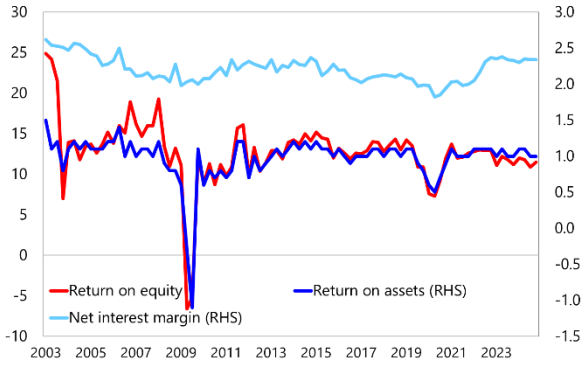
(In billions of $NZ)



… and profitability remains strong

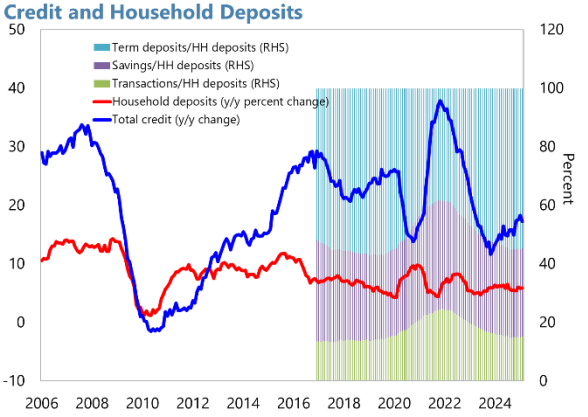
Profitability

(Percent)



Household credit growth remains below pre-pandemic levels, while deposits have stabilized, with the composition continuing to shift away from transactional balances.

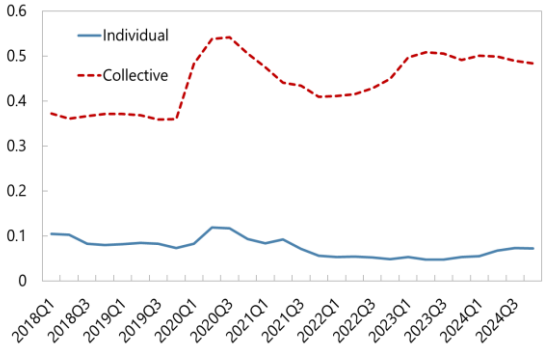
Credit and Household Deposits



Banks are keeping loss provisions elevated.

Bank Loan Loss Provisions

(as a share of total loans)

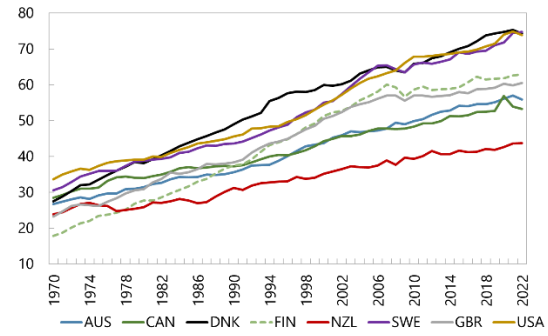


Source: Haver Analytics, RBNZ, and IMF staff calculations.

Figure 8. Significant Challenges in Productivity Growth and Innovation

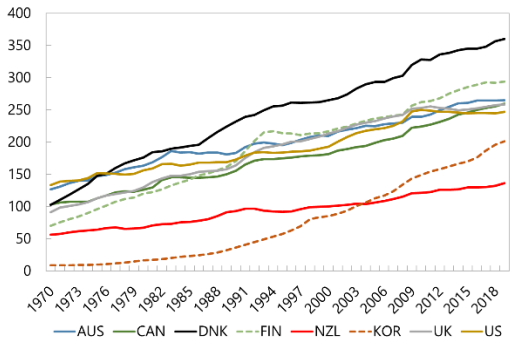
New Zealand's productivity continues to lag behind that of peers….

GDP per Hour Worked
(in 2015 USD)



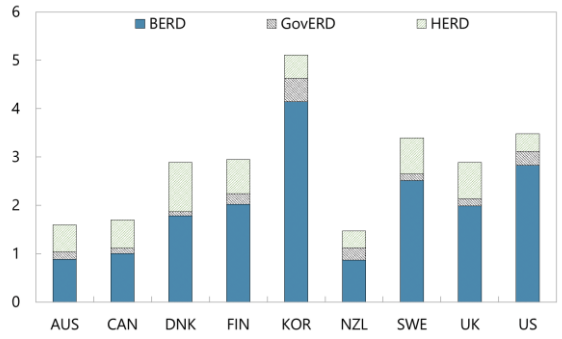
…and capital intensity remains low.

Real Capital Stock per Hour Worked
(in thousands of 2017 USD)



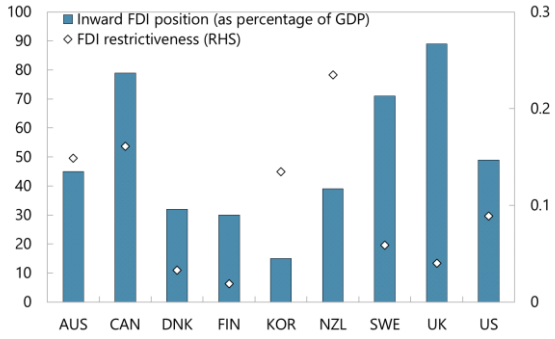
R&D investment is low relative to peers….

Investment in R&D
(as a percentage of GDP, 2022 or latest)



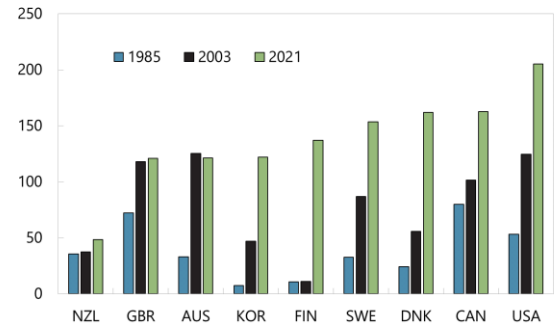
…while FDI is limited given restrictive policies.

Inward FDI Position and FDI Restrictiveness



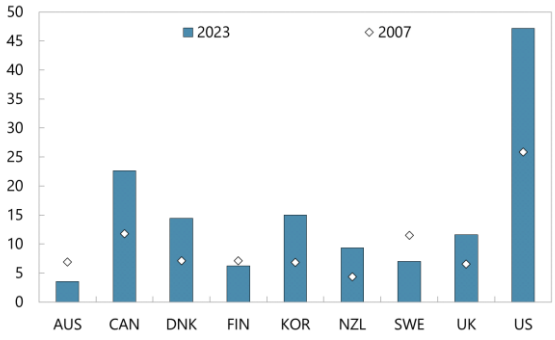
Equity markets are underdeveloped relative to peers…

Equity Market Capitalization
(Percent of GDP)



…and the role of private capital, including venture capital, remains limited.

Venture Capital Investment
(as percentage of GDP)



Source: OECD Stats, Penn World Tables, World Development Indicators, and IMF staff calculations

Table 1. New Zealand: Main Economic Indicators, 2021-30

(Annual percent change, unless otherwise indicated)

	2021	2022	2023	2024 Est.	2025	2026	2027	2028	2029	2030
						Projections				
NATIONAL ACCOUNTS										
Real GDP (production)	5.7	2.9	1.8	-0.5	1.4	2.7	2.7	2.2	2.2	2.2
Domestic demand	10.0	4.5	-0.8	-0.8	1.8	2.6	2.4	2.1	2.1	2.0
Private consumption	7.9	4.1	1.0	0.2	1.0	3.1	3.0	2.4	2.4	2.3
Public consumption	7.9	5.2	0.8	0.0	0.5	0.5	0.5	0.7	0.8	0.8
Investment	17.2	4.1	-5.4	-4.1	2.4	3.2	2.7	2.3	2.1	2.1
Public	6.2	3.6	10.2	0.5	0.3	2.3	2.5	2.8	2.8	2.8
Private	12.6	4.3	-3.2	-6.5	1.9	3.5	2.7	2.1	1.7	1.8
Private business	14.5	7.3	-2.2	-5.0	2.6	3.5	2.8	2.1	1.6	1.6
Dwelling	8.6	-2.3	-5.6	-10.1	0.0	3.6	2.3	2.4	2.1	2.4
Inventories (contribution to growth, percent)	1.4	0.0	-1.4	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Net exports (contribution to growth, percent)	-4.8	-1.6	2.6	0.3	0.3	-0.1	0.0	0.0	0.0	0.0
Real gross domestic income	5.0	2.3	1.1	0.3	2.9	3.1	2.8	2.4	2.3	2.3
Investment (percent of GDP)	25.0	26.3	24.2	23.1	23.4	23.4	23.3	23.2	23.1	23.1
Public	5.7	5.9	6.5	6.4	6.3	6.2	6.2	6.2	6.2	6.2
Private	19.4	20.4	17.8	16.7	17.1	17.2	17.1	17.0	16.9	16.8
Savings (gross, percent of GDP)	19.0	17.1	17.3	16.9	18.3	18.8	19.0	19.2	19.4	19.6
Public	-3.5	-4.2	-3.5	-4.4	-5.1	-3.9	-2.5	-1.4	-0.4	0.0
Private	22.5	21.3	20.9	21.3	23.4	22.7	21.5	20.6	19.9	19.6
Potential output	1.5	1.9	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Output gap (percent of potential)	1.8	2.7	2.4	-0.3	-1.1	-0.6	-0.1	0.0	0.0	0.0
LABOR MARKET										
Employment	2.2	1.7	3.3	-0.1	0.7	1.5	2.0	1.7	1.3	1.5
Unemployment (percent of labor force, ann. average)	3.8	3.3	3.7	4.7	5.3	5.2	4.7	4.3	4.5	4.4
Wages (nominal percent change)	3.8	6.5	7.0	4.6	4.3	3.9	3.3	3.3	3.0	3.0
PRICES										
Terms of trade index (goods and services, % change)	-1.0	-3.1	-3.4	2.9	1.9	1.3	0.5	0.4	0.2	0.1
Consumer prices (avg, % change)	3.9	7.2	5.7	2.9	2.4	2.3	2.2	2.0	2.0	2.0
GDP deflator (avg, % change)	3.0	5.8	5.1	3.6	3.2	2.8	2.2	2.2	2.2	2.1
MACRO-FINANCIAL										
Official cash rate (policy rate, percent, avg)	0.3	2.2	5.2	4.7	3.6	3.3	3.3	3.3	3.3	3.3
Credit to the private sector (percent change)	6.1	4.3	0.1	1.6	3.2	5.6	4.5	4.0	3.9	4.0
Interest payments (percent of disposable income)	5.3	6.3	8.5	8.1	7.3	7.2	7.0	6.9	6.9	6.9
Household savings (percent of disposable income)	3.6	3.3	2.7	2.5	2.4	2.3	2.9	3.6	4.4	5.1
Household debt (percent of disposable income)	174	173	168	166	160	160	159	158	157	157
GENERAL GOVERNMENT (percent of GDP) 1/										
Revenue	37.6	38.8	37.0	38.7	37.6	37.5	37.5	37.7	37.9	38.0
Expenditure	40.0	43.3	40.9	41.9	43.1	42.3	40.5	39.7	38.8	38.0
Net lending/borrowing	-2.5	-4.4	-3.9	-3.2	-5.5	-4.8	-3.1	-2.0	-0.9	0.0
Operating balance	-0.3	-2.2	-1.7	-0.7	-3.0	-2.5	-0.8	0.1	1.1	1.9
Cyclically adjusted primary balance 2/	-2.8	-4.2	-3.7	-3.4	-3.6	-2.9	-1.4	-0.2	1.1	2.0
Gross debt	46.0	48.6	45.8	48.4	53.2	56.4	59.0	58.8	57.5	55.1
Net debt	10.6	17.0	19.0	19.8	23.5	26.4	28.0	28.6	28.0	26.4
Net worth	94.6	102.0	96.3	94.4	87.1	81.3	77.3	74.8	73.5	73.0
BALANCE OF PAYMENTS										
Current account (percent of GDP)	-6.0	-9.2	-6.9	-6.2	-5.1	-4.6	-4.3	-3.9	-3.7	-3.5
Export volume	-2.3	-0.5	11.0	4.1	3.9	3.9	4.1	4.0	4.2	4.2
Import volume	14.5	4.7	-0.4	2.4	2.0	3.5	3.2	3.3	3.4	3.4
Net international investment position (percent of GDP)	-47.9	-52.5	-51.3	-49.4	-52.1	-54.0	-55.8	-57.3	-58.6	-59.6
Gross official reserves (bn US$)	16.4	13.7	14.8	23.2	...	...	...	...	...	...
MEMORANDUM ITEMS										
Nominal GDP (bn NZ$)	353	385	413	427	448	472	496	518	540	564
Percent change	9.0	9.2	7.1	3.4	4.9	5.5	4.9	4.4	4.4	4.3
Nominal GDP per capita (US$)	48,845	47,819	48,360	48,448	47,158	49,022	50,472	51,643	53,044	54,378
Real gross national disposable income per capita (NZ$)	54,586	55,293	54,662	53,632	54,724	55,635	56,458	57,044	57,611	58,081
Percent change	3.7	1.3	-1.1	-1.9	2.0	1.7	1.5	1.0	1.0	0.8
Population (million)	5.1	5.1	5.2	5.3	5.4	5.5	5.5	5.6	5.7	5.8
US$/NZ$ (average level)	0.708	0.636	0.614	0.605	...	...	...	...	...	...
Nominal effective exchange rate	109.9	106.5	105.0	104.9	...	...	...	...	...	...
Real effective exchange rate	107.6	105.5	105.7	106.1	...	...	...	...	...	...

Sources: Authorities' data and IMF staff estimates and projections.

1/ Fiscal year.

2/ In percent of potential GDP.

Table 2. New Zealand: Fiscal Accounts, 2019/20–2029/30 1/

(In percent of GDP, unless otherwise indicated)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
							Projections				
GENERAL GOVERNMENT 2/											
Revenue	**36.2**	**37.6**	**38.8**	**37.0**	**38.7**	**37.6**	**37.5**	**37.5**	**37.7**	**37.9**	**38.0**
Tax revenue	30.5	32.5	33.7	31.4	32.6	31.8	31.7	31.7	32.0	32.2	32.3
Direct taxes	19.6	20.9	22.9	21.2	22.1	21.7	21.5	21.6	21.8	21.9	22.1
Individual and withholding	12.8	13.2	14.1	13.9	14.6	14.4	14.3	14.3	14.5	14.6	14.7
Corporate	4.8	5.8	6.8	5.3	5.4	5.2	5.2	5.2	5.2	5.3	5.3
Property	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Indirect taxes	10.9	11.6	10.8	10.2	10.5	10.1	10.2	10.2	10.2	10.3	10.3
Of which: GST	7.3	7.9	7.6	7.4	7.3	7.0	7.0	7.0	7.1	7.1	7.1
Non-tax revenue	5.7	5.1	5.1	5.6	6.1	5.8	5.8	5.7	5.7	5.7	5.7
Expenditure	**42.4**	**40.0**	**43.3**	**40.9**	**41.9**	**43.1**	**42.3**	**40.5**	**39.7**	**38.8**	**38.0**
Expense	40.5	37.8	41.0	38.6	39.5	40.6	40.0	38.3	37.6	36.9	36.1
Employee expenses	9.1	9.0	9.1	9.0	9.4	9.5	9.3	8.7	8.6	8.4	8.3
Other operating expenses (excl. depreciation)	6.4	6.7	7.6	7.1	6.9	7.4	7.4	6.7	6.2	5.9	5.5
Social benefits	14.8	15.2	15.1	15.2	15.5	15.8	15.7	15.4	15.2	15.0	14.8
Other transfers	6.6	3.5	5.6	3.2	3.1	3.3	3.2	2.9	2.9	2.8	2.8
Interest	1.2	1.2	1.3	1.8	2.1	2.1	2.0	2.2	2.3	2.4	2.4
Other	2.4	2.3	2.3	2.4	2.5	2.5	2.4	2.4	2.4	2.4	2.4
Net acquisition of nonfinancial assets	1.9	2.2	2.2	2.3	2.4	2.5	2.3	2.3	2.1	2.0	1.9
Of which: Gross fixed capital formation	3.9	4.3	4.2	4.4	4.8	4.3	4.4	4.2	4.2	4.1	4.0
Operating balance	-4.4	-0.3	-2.2	-1.7	-0.7	-3.0	-2.5	-0.8	0.1	1.1	1.9
Primary balance	-5.6	-1.8	-3.6	-3.1	-2.4	-3.8	-3.2	-1.3	-0.1	1.1	2.1
Net lending (+)/borrowing (-)	**-6.2**	**-2.5**	**-4.4**	**-3.9**	**-3.2**	**-5.5**	**-4.8**	**-3.1**	**-2.0**	**-0.9**	**0.0**
GENERAL GOVERNMENT BALANCE SHEET 2/											
Liabilities	**73.4**	**76.4**	**76.9**	**71.1**	**74.9**	**77.9**	**80.8**	**82.1**	**80.9**	**78.6**	**75.3**
Gross debt	38.5	46.0	48.6	45.8	48.4	53.2	56.4	59.0	58.8	57.5	55.1
Other liabilities 3/	34.9	30.5	28.3	25.3	26.4	24.7	24.3	23.1	22.1	21.1	20.3
Assets	**158.7**	**171.1**	**178.8**	**167.3**	**169.3**	**164.9**	**162.1**	**159.4**	**155.7**	**152.1**	**148.4**
Financial assets	71.4	82.6	81.8	72.3	75.4	71.7	71.4	71.1	69.2	67.3	65.3
Debt relevant	28.8	35.4	31.6	26.7	28.6	28.8	30.0	30.9	30.2	29.4	28.4
Other	42.5	47.2	50.3	45.5	46.8	42.9	41.4	40.2	39.0	37.9	36.8
Nonfinancial assets	87.3	88.5	97.0	95.1	93.9	93.2	90.7	88.3	86.4	84.8	83.1
Net financial worth	**-2.0**	**6.1**	**5.0**	**1.2**	**0.5**	**-6.2**	**-9.4**	**-11.0**	**-11.6**	**-11.3**	**-10.1**
Net debt 4/	**9.7**	**10.6**	**17.0**	**19.0**	**19.8**	**23.5**	**26.4**	**28.0**	**28.6**	**28.0**	**26.4**
Central government	5.7	6.8	12.9	14.6	15.3	18.6	21.3	22.8	23.2	22.7	21.3
Local government	4.0	3.8	4.1	4.4	4.5	4.9	5.1	5.2	5.3	5.4	5.4
Net worth	**85.3**	**94.6**	**102.0**	**96.3**	**94.4**	**87.1**	**81.3**	**77.3**	**74.8**	**73.5**	**73.0**
Central government	41.4	51.5	54.4	51.2	50.8	44.4	40.4	37.9	36.5	36.0	36.4
Local government	43.9	43.1	47.6	45.0	43.6	42.6	40.9	39.5	38.4	37.5	36.7
MEMORANDUM ITEMS											
Cyclically adjusted primary balance (percent of potential GDP)	-4.3	-2.8	-4.2	-3.7	-3.4	-3.6	-2.9	-1.4	-0.2	1.1	2.0
Fiscal impulse (change in CAPB; in percent of potential GDP)	5.9	-1.6	1.5	-0.6	-0.3	0.2	-0.7	-1.4	-1.3	-1.2	-1.0
Change in real revenue (percent)	-3.8	10.1	3.5	-2.1	5.1	-1.7	2.8	2.8	3.3	2.8	2.7
Change in real primary expenditure (percent)	17.4	0.2	8.0	-4.0	2.1	4.2	1.4	-2.0	-0.1	-0.3	0.0
New Zealand Superannuation Fund											
Budget transfers (+ = receipts)	0.5	0.6	0.7	0.6	0.4	0.2	0.0	0.0	0.0	0.0	0.0
Net assets	13.9	16.7	15.4	16.1	17.8	18.9	19.0	19.2	19.5	19.9	20.2
Contributed capital	5.6	5.8	6.1	6.2	6.3	6.3	6.0	5.7	5.5	5.3	5.2
Central government											
Revenue	32.8	34.4	35.5	33.6	35.1	34.4	34.4	34.3	34.6	34.8	34.9
Expenditure	38.6	36.5	39.6	36.9	37.8	39.4	38.7	37.0	36.2	35.5	34.8
Net lending (+)/borrowing (-)	-5.8	-2.1	-4.1	-3.3	-2.6	-5.0	-4.4	-2.7	-1.6	-0.7	0.1
Local government											
Revenue	4.1	4.0	4.1	4.3	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Expenditure	4.5	4.3	4.4	4.9	5.2	5.1	5.0	4.9	4.9	4.8	4.8
Net lending (+)/borrowing (-)	-0.4	-0.3	-0.3	-0.6	-0.6	-0.5	-0.5	-0.4	-0.4	-0.3	-0.3
GDP (in billion NZ$)	318	343	366	402	421	435	459	484	507	529	552

Sources: Authorities' data and IMF staff estimates and projections.

1/ The fiscal year runs from July to June.

2/ Accrual basis; GFS. Comprises Core Crown (excludes RBNZ), Crown entities, and local governments. Includes New Zealand Superannuation Fund.

3/ "Other liabilities" include government pension liabilities, and the Accident Compensation Corporation (ACC) liabilities.

4/ "Net debt" is gross debt less debt-relevant financial assets - cash and equivalents, marketable securities, etc. (often held to cover pension liabilities).

Table 3. New Zealand: Balance of Payments, 2021–30

(In percent of GDP, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
			Est.		Projections					
Current account	-6.0	-9.2	-6.9	-6.2	-5.1	-4.6	-4.3	-3.9	-3.7	-3.5
Balance on goods and services	-3.3	-5.9	-3.6	-2.4	-1.6	-1.2	-0.9	-0.7	-0.5	-0.3
Exports of goods and services	22.0	23.4	23.5	23.9	24.7	24.4	24.4	24.7	24.9	25.4
Exports of goods	18.1	18.9	16.8	16.8	16.9	16.6	16.5	16.5	16.5	16.6
Exports of services	4.0	4.5	6.7	7.2	7.8	7.8	7.9	8.2	8.5	8.8
Imports of goods and services	25.3	29.2	27.0	26.3	26.2	25.6	25.3	25.3	25.4	25.6
Imports of goods	19.7	22.1	19.7	18.8	18.7	18.2	17.9	17.9	18.0	18.1
Imports of services	5.6	7.1	7.3	7.5	7.6	7.4	7.3	7.4	7.4	7.5
Primary income, net	-2.5	-3.2	-3.2	-3.4	-3.4	-3.3	-3.3	-3.2	-3.1	-3.1
Inflows	2.9	2.8	3.0	3.0	3.1	3.1	3.2	3.2	3.2	3.2
Outflows	5.4	6.0	6.2	6.4	6.5	6.5	6.4	6.3	6.2	6.2
Secondary income, net	-0.1	0.0	0.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Inflows	0.8	0.8	1.0	0.9	1.0	0.9	0.9	0.9	0.9	0.9
Outflows	0.9	0.9	1.1	1.2	1.0	1.1	1.1	1.1	1.1	1.1
Capital and financial account										
Capital account, net	0.0	-0.1	0.8	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial account, net	-4.0	-7.3	-3.4	0.0	-5.1	-4.6	-4.3	-4.0	-3.7	-3.5
Direct investment	-2.1	-3.9	-1.0	-0.7	-2.2	-2.2	-2.0	-1.8	-1.7	-1.7
Equity	-2.3	-2.5	-0.6	-0.6	-1.6	-1.6	-1.4	-1.3	-1.3	-1.2
Debt	0.2	-1.4	-0.4	-0.1	-0.6	-0.6	-0.5	-0.5	-0.5	-0.4
Portfolio investment	-3.3	-2.0	-3.3	-4.8	-2.1	-1.8	-1.7	-1.6	-1.4	-1.3
Equity	4.4	-3.1	-0.3	1.9	0.9	1.1	1.0	0.9	0.9	0.9
Debt	-7.7	1.1	-3.1	-6.7	-3.0	-2.9	-2.7	-2.5	-2.3	-2.2
Financial derivatives	0.0	-0.3	-0.6	0.1	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1
Other investment	0.2	-0.8	1.0	2.0	-1.0	-1.0	-0.9	-0.8	-0.8	-0.7
Reserve assets	1.3	-0.3	0.5	3.4	...	...	...	...	...	...
Net errors and omissions	2.0	2.1	2.7	6.3	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET										
Net international investment position	-47.9	-52.5	-51.3	-49.4	-52.1	-54.0	-55.8	-57.3	-58.6	-59.6
Equity, net	3.4	-2.8	-1.5	4.1	3.2	2.6	2.0	1.5	1.1	0.7
Assets	56.2	44.6	45.1	53.5	53.5	53.5	53.5	53.5	53.5	53.5
Liabilities	52.7	47.4	46.6	49.4	50.3	51.0	51.5	52.0	52.4	52.8
Debt, net	-58.0	-55.5	-55.7	-62.6	-64.5	-65.8	-66.9	-68.0	-68.8	-69.6
Assets	36.2	38.3	36.6	40.1	40.1	40.1	40.1	40.1	40.1	40.1
Liabilities	94.3	93.9	92.4	102.7	104.6	105.9	107.1	108.1	109.0	109.7
External assets (gross)	99.1	88.8	87.7	102.8	102.8	102.8	102.8	102.8	102.8	102.8
Equity	56.2	44.6	45.1	53.5	53.5	53.5	53.5	53.5	53.5	53.5
Debt	36.2	38.3	36.6	40.1	40.1	40.1	40.1	40.1	40.1	40.1
External liabilities (gross)	147.0	141.3	139.0	152.2	154.9	156.8	158.6	160.2	161.4	162.4
Equity	52.7	47.4	46.6	49.4	50.3	51.0	51.5	52.0	52.4	52.8
Debt	94.3	93.9	92.4	102.7	104.6	105.9	107.1	108.1	109.0	109.7
Of which: NZ$ denominated	51.1	53.7	54.6	61.0	62.1	62.8	63.5	64.2	64.7	65.1
FX denominated	43.2	40.2	37.8	41.8	42.5	43.0	43.5	44.0	44.3	44.6
Short-term	30.9	30.3	29.3	33.4	34.0	34.4	34.8	35.2	35.4	35.7
MEMORANDUM ITEMS										
Gross official reserves (bn US$)	16.4	13.7	14.8	...	...	...	...	...	...	...
In months of prospective imports	2.5	2.4	2.6	...	...	...	...	...	...	...
In percent of short-term external debt	21.7	19.5	20.3	...	...	...	...	...	...	...

Sources: Authorities' data and IMF staff estimates and projections.

Table 4. New Zealand: Monetary and Financial Sector, 2021–30

(In billion NZ$, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
						Projections				
CENTRAL BANK										
Net foreign assets	14	16	16	30	32	33	35	37	38	40
Net domestic assets	39	50	23	30	28	27	27	27	27	27
Net domestic claims	43	58	29	36	35	35	34	35	36	35
Claims on Central government (net)	34	37	9	21	21	20	19	19	19	19
Claims on Other Depository Corporations	9	21	21	15	14	14	15	15	14	14
Other items net	-4	-8	-6	-7	-7	-7	-7	-8	-8	-9
Monetary base	54	66	39	60	60	61	62	64	66	66
DEPOSITORY CORPORATIONS										
Net foreign assets	-106	-105	-91	-85	-89	-93	-97	-102	-106	-111
Net domestic assets	498	504	504	504	538	562	585	610	635	660
Net domestic claims	576	594	602	602	640	669	698	727	758	788
Claims on Central government (net)	50	45	40	44	41	40	39	39	39	39
Claims on State and Local Government	7	7	8	9	9	10	10	11	11	11
Claims on Public Nonfinancial Corporations	2	1	1	1	2	2	2	2	2	2
Claims on Private Sector	505	528	539	552	574	603	632	660	689	719
of which: Private Sector Credit	504	527	538	551	574	603	632	660	689	719
Claims on Other Financial Corporations	11	12	13	13	14	15	15	16	17	17
Other items net	-79	-90	-97	-98	-102	-107	-113	-118	-123	-128
Broad money	392	399	413	419	449	469	488	508	529	550
MEMORANDUM ITEMS										
Private sector credit 2/	526	549	562	583	603	633	662	689	717	746
Housing loans 1/	326	340	350	364	372	393	413	431	451	471
Business loans 1/	116	124	124	128	138	145	152	158	165	171
Household deposits	217	228	242	259	270	284	297	310	324	338
				In percent of GDP						
Private sector credit 2/	149	142	136	137	136	136	136	135	135	134
Housing loans 1/	92	88	85	86	84	84	85	85	85	85
Business loans 1/	33	32	30	30	31	31	31	31	31	31
Household deposits	61	59	59	61	61	61	61	61	61	61
				Percentage change						
Private sector credit 2/	6.1	4.3	2.4	3.7	3.4	5.0	4.6	4.1	4.1	4.0
Housing loans 1/	10.1	4.2	3.0	4.1	2.3	5.4	5.2	4.5	4.5	4.5
Business loans 1/	5.8	7.4	0.2	2.9	7.5	5.6	4.4	4.2	4.1	3.7
Household deposits	6.7	5.3	5.9	7.2	4.3	5.0	4.7	4.5	4.4	4.3

Sources: RBNZ and IMF staff calculations.

1/ Registered banks.

2/ Depository corporations.

Table 5. New Zealand: Financial Soundness Indicators, 2020–24

	2020	2021	2022	2023	2024
	As at end-year, unless otherwise indicated				
Interest rates (percent)					
90-day bank bill rate	0.5	0.5	4.5	5.7	4.3
90-day bank bill rate, real	-1.2	-3.3	-2.5	-0.1	1.3
Stock market index (percent change)	13.9	-0.4	-12.0	2.6	11.4
Liquidity and funding (in percent)					
Liquid assets to total assets	17.0	16.8	18.0	17.1	16.6
Liquid assets to short-term liabilities	25.1	24.2	27.1	25.7	25.1
1-month maturity mismatch	6.8	7.4	8.9	9.5	8.6
Core funding ratio	88.5	89.1	91.2	90.9	90.1
Asset composition (percentage share of total)					
Agricultural	12.7	11.7	11.2	11.0	10.7
Business	23.5	23.2	24.0	23.6	23.5
Households	63.8	65.1	64.9	65.4	65.7
Of which: Housing	60.7	62.4	62.3	62.8	63.2
Asset quality (in percent)					
Non-performing loans to total loans	0.6	0.4	0.4	0.6	0.7
Non-performing loans net of provisions to capital	2.2	2.3	2.8	4.6	5.4
Non-performing loans (in millions of NZ$)	2,898	2,080	2,143	3,552	4,137
Capital adequacy (in percent)					
Regulatory capital to risk-weighted assets	15.2	16.2	15.4	15.8	16.4
Tier I capital to risk-weighted assets	14.3	15.2	14.1	14.4	14.8
Common equity tier 1 to risk-weighted assets	12.4	13.4	12.7	13.4	13.3
Capital to assets	7.6	7.8	8.3	8.6	8.7
Profit Ratios (in percent)					
Return on assets	0.9	1.0	1.1	1.0	1.0
Return on equity	12.0	12.6	12.9	11.2	11.5
Net interest margin	1.9	2.0	2.4	2.3	2.3

Sources: Reserve Bank of New Zealand; and IMF staff estimates.

Note: Capital adequacy measures, NPLs net of provisions to capital, liquid assets, 1-month mismatch ratio, core funding ratio, and return on equity are calculated for locally incorporated banks only.

Annex I. Past Policy Recommendations

	Fund Recommendations	Policy Actions
Monetary Policy	• Monetary policy should remain restrictive to bring inflation to target, and should remain flexible and data driven, with policy cuts warranted in 2024 ahead of the RBNZ OCR forward track under declining domestic demand.	• The RBNZ maintained a restrictive stance, with rates at 5½ percent until August 2024; it then re-evaluated and brought forward planned easing in light of new data showing abating price pressures and an economic slowdown, closer to Staff advice.
Fiscal Policy	• In the near-term, the authorities should adopt a fiscal policy stance consistent with supporting disinflation. Commitment to a credible medium-term consolidation path toward a return to surplus is needed, including comprehensive plans for expenditure rationalization. • Reform the tax system to improve revenue mobilization, including through more progressive and comprehensive direct taxes.	• The government consolidated its fiscal position in FY2023/24, envisions a mildly positive impulse in FY2024/25, and adopts a more gradual consolidation over the medium term to accommodate cyclical concerns. Strict spending controls via capping operating allowances are set to continue. • A long-term insights briefing on tax policy is being prepared, but no major reforms are currently underway or planned.
Housing and Financial	• Reforms to expand the housing stock are needed, including to address land use restrictions, local infrastructure funding needs, and land use incentives via taxes. • A proportionate approach to rule-making under the DTA is needed to support competition and address concerns of smaller deposit-takers.	• New legislation is underway to replace the Resource Management Act to improve planning efficiency. The *Going for Housing Growth* program aims to boost housing supply, including by introducing a new development levy system to help local councils raise needed funds, setting housing growth targets, and encouraging higher-density construction in select areas. The Kiwibuild scheme for affordable housing was discontinued. • Agreement reached to fund the new Depositor Compensation Scheme via a risk-based levy framework.
Structural	• Investment in adaptation infrastructure and limiting residential zoning in high-risk areas are needed to prepare the economy for the impact of natural disasters and climate change. • Public investment in R&D and new and existing infrastructure are critical for productivity growth • Reforms to immigration and to improve education outcomes and skills matching to address skills shortages.	• Work on a National Adaptation Framework, which will help incentivize investment in adaptation infrastructure, is underway. • Established the National Infrastructure Agency to attract private sector investment. Agreed to enable road tolling. • Announced reforms to the Accredited Employer Work Visa to ease restrictions and administrative procedures for hiring low-skill workers.

Annex II. External Sector Assessment

Overall Assessment: *New Zealand's external position was weaker than implied by medium-term fundamentals and desirable policies in 2024, an assessment unchanged from the 2024 Article IV. This reflects a persistently large current account deficit of 6.2 percent of GDP, notwithstanding a decline from last year. Going forward, the authorities' planned fiscal consolidation, together with their strong commitment to exchange rate flexibility, will support a narrowing of the current account gap over the medium-term.*

Potential Policy Responses: *While vulnerabilities associated with the financial account remain manageable, bolstered by a credible commitment to a floating exchange rate, the ongoing current account deficits present a significant source of risk. With both fiscal and external imbalances (adjusted for business cycles) at historically high levels and the private sector's savings-investment (SI) balance mostly normalized while the public sector's SI deficit remains large, decisive policy actions including through a credible medium-term fiscal consolidation are needed to address the twin deficit situation. Structural reforms to boost productivity will also help close the current account gap over the medium-term.*

Foreign Assets and Liabilities: Position and Trajectory

Background. New Zealand's reported Net International Investment Position (NIIP) has benefited from favorable valuation effects (see the 2024 Article IV Staff Report for more details) and improved to 49 percent of GDP at end-2024. Two quarters of New Zealand's gross liabilities are debt obligations, more than 60 percent of which are local currency-denominated, and the rest is primarily foreign-direct equity investment. Going forward, the still large current account deficits are expected to lead to a deterioration in New Zealand's NIIP over the medium-term, as the previously favorable valuation effects taper off.

Assessment. The relative resilience of balance sheets across sectors and the structure of New Zealand's external debt—with the majority denominated in NZD and a positive net FX open position—help mitigate the vulnerabilities associated with the negative NIIP.

2024 (% GDP)	NIIP: -49	Gross Assets: 103	Debt Assets: 49	Gross Liab.: 152	Debt Liab.: 103

Current Account

Background. The current account deficit has narrowed slowly, owing to a slow recovery in services exports and the ongoing fiscal deficit. With the positive output gap closing in 2024, the cyclical component of the current account deficit has shrunk, and the cyclically-adjusted current account balance is estimated to be -6.3 percent of GDP. The slow decrease in the deficit is due to several factors but two are most notable. First, the prolonged impact of the pandemic, coupled with the late easing of travel restrictions in mid-2022 has contributed to an incomplete tourism recovery in New Zealand. As of October 2024, total arrivals are approximately 15 percent below pre pandemic levels, resulting in a slack of about 1 percent of GDP in the tourism receipts, despite a partial offset from increased per-visitor spending. Chinese tourist arrivals have been particularly slow to recover—mainly due to a delayed rebound in China's outbound tourism. Second, the delay in fiscal consolidation, driven by policy decisions, rising costs, indexation, and disaster-related spending, has also hindered adjustments in the national savings-investment balance (see the 2024 Article IV Staff Report for further discussion), even as the private sector's balance has largely normalized.

Assessment. The shortfall created by the incomplete services export recovery is likely to be transitory, but it is considered a temporary component of the current account deficit that is not fully accounted for by the model's cyclical adjustments, which is incorporated through an adjustor of 0.4 percent of GDP.[1] The model estimated cyclically adjusted CA norm for 2024 was -2.0 percent of GDP, implying an estimated CA gap of 3.9 percent of GDP. The negative contribution from policy gaps reflects a looser than desirable fiscal policy stance, which contributed to the current account deficit. The EBA External Stability (ES) approach suggests that the NIIP would stabilize at current levels with a CA deficit of 2.9 percent of GDP, which when compared with the cyclically adjusted CA deficit for 2024 (see above), yields an estimated CA gap of 3.0 percent. However, recent substantial net errors and omissions (NEOs) in the official BOP statistics (Data Adequacy Assessment, Annex IX) continue to complicate the assessment of New Zealand's external positions.[2]

New Zealand: Model Estimates for 2024 (in percent of GDP)

Decomposition of New Zealand's Current Account (CA) Valuation	
2024 CA balance (percent of GDP)	-6.2
Cyclical adjustment in the model (percentage point of GDP)	-0.1
Model-based cyclically adjusted CA balance (percent of GDP)	**-6.3**
Adjustment for incomplete tourism recovery not fully accounted for by the model	+0.4
Final cyclically adjusted CA balance (percent of GDP)	**-5.9**
Norm (for CA model, percent of GDP)	**-2.0**
CA gap (percent of GDP), o.w.,	**-3.9**
Contribution of identified policy gaps	-0.8
Unexplained residuals	-3.1
IIP-stabilizing CA/GDP ratio (for ES model, percent of GDP)	**-2.9**
Assumed current account elasticity	-0.21

Sources: National authorities; and IMF staff estimates.

Real Exchange Rate

Background. In 2024, New Zealand's trade-weighted real effective exchange rate has depreciated by approximately 3 percent, reflecting the New Zealand dollar's weaknesses against the currencies of its major trading partners, particularly the US dollar. This appears to be primarily driven by interest rate differentials, which have counteracted the positive effects of improved terms of trade.

Assessment. The CA gap of -3.9 and -3.0 percent of GDP from the macro-balance and external sustainability models, respectively, suggest an estimated REER gap of around 18.6 and 14.3 percent based on the EBA-estimated elasticity of the current account to GDP ratio to the REER of 0.21. Separately, the EBA REER (level and index) models imply that, in real effective terms, the New Zealand dollar (NZD) was overvalued by 12.7 percent and 4 percent respectively as of end-2024. The NZD depreciated (on a trade-weighted basis) further in the first quarter of 2025, which would, *ceteris paribus*, contribute to narrowing the misalignment.

CA Model	
CA gap (Adjusted CA less norm, percent of GDP)	**-3.9**
REER gap (positive implies real overvaluation, percent)	**+18.6**
ES Model	
CA gap (Adjusted CA less IIP-stabilizing CA percent of GDP)	-3.0
REER gap (positive implies real overvaluation, percent)	+14.3
Reduced form REER equations (REER gap only, positive implies real overvaluation)	
REER index equation (percent)	+12.7
REER level equation (percent)	+4

Source: IMF staff estimates.

Capital and Financial Accounts: Flows and Policy Measures

Background. The current account deficit was financed primarily through portfolio inflows (mostly with maturities longer than 2 years), including into government securities, in 2024.

Assessment. Vulnerabilities associated with the financial account remain manageable, bolstered by a credible commitment to a floating exchange rate.

FX Intervention and Reserves Level

Background. The RBNZ has increased its FX intervention capacity to about 5⅓ percent of GDP in 2024, as measured by reserve assets minus short-term FX liabilities, under its new FX Management and Coordination Framework, without needing to deploy it.

Assessment. The authorities' commitment to exchange rate flexibility and mainly domestic currency or hedged external debt reduces the need for reserve holdings and supports staff's assessment of adequate reserves.

[1] The incomplete tourism recovery adjustor accounts for the temporary impact of the COVID-19 shock on the tourism balance. Under the assumption that tourism flows will have recovered by 2025 for New Zealand, a tourism adjustor of 0.4 percent of GDP is calculated in four steps: (i) first, subtracting the IMF staff pre-pandemic projection of the travel balance for 2024 from the currently projected 2024 travel balance yields the overall impact of the both transitory and structural factors impacting the tourism balance after the COVID-19 shock; (ii) second, subtracting the IMF staff pre-pandemic projection of the travel balance for 2025 from the currently projected 2025 travel balance provides an estimate of the structural change on the tourism balance following the pandemic; (iii) third, netting out the structural change estimated in the second step from the overall effect calculated in the first step yields a measure of the transient effect on the travel services balance; (iv) applying the coefficient of 0.75 (i.e., the estimated impact of changes in the travel services balance on the CA) on the estimate of the transient effect on the travel services balance calculated in the third step yields the tourism adjustor applied by IMF staff.
[2] The substantial NEOs make reconciling current account and financial account transactions more difficult and thereby the current account assessment more uncertain. The NEOs (unidentified and therefore not captured in stock data) can also lead to mismeasurement of the NIIP and by extension the NIIP-stabilizing current account balance, further introducing uncertainties in the overall assessment.

Annex III. Risk Assessment Matrix[1]

Source of Risk	Likelihood	Expected Impact	Policy Recommendations
Global Conjunctural Risks			
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**High**	**Medium**. New Zealand's relatively small economy and geographic location makes it highly reliant on global trade and financial flows. Any disruptions could raise prices, slow growth, and generate a further depreciation of the exchange rate.	Exchange rate flexibility as a shock absorber, with potential inflationary impact (expected to be limited) closely watched. Strengthen the rules-based multilateral trading system, and diversify its export base, including by deepening international and regional economic cooperation (such as via FTAs). Continue structural reforms to attract foreign investment.
Global Structural Risks			
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	**High**	**Medium**. Broader geopolitical tensions could impact New Zealand's export performance and availability of imported inputs due to trade route disruptions or slower global growth. This would impact domestic growth and could cause higher inflation.	Seek greater integration through trade partnerships, facilitate labor mobility, and strengthen domestic supply chains to withstand external shocks where feasible.
Cyberthreats. Cyberattacks on physical or digital infrastructure or misuse of AI technologies trigger financial and economic instability.	**Medium**	**Medium**. An escalation of attacks could destabilize banks and affect critical facilities, slowing the recovery and disrupting financial markets.	Preventative investment in strengthening critical infrastructure; fast liquidity provision in case of financial market disruptions.
Domestic Risks			
Systemic financial instability. High interest rates	**Medium**	**Low**. The banking system is globally integrated. Banks' reliance on stable funding sources, with	Stand ready to use liquidity windows in the event funding stress. Continue to monitor

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 and 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risk	Likelihood	Expected Impact	Policy Recommendations
and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.		limited use of wholesale markets, limits exposures. The banking system is well capitalized and has significant buffers, and the loan book credit quality is overall strong, despite some recent increases in NPLs.	banks' balance sheets. Ensure capital requirements remain adequately calibrated to reduce systemic risks.
Unexpectedly large or disorderly housing market disruptions. Correction of pockets of overvaluation could propagate a broader correction, especially if the recovery is softer than expected and demand remains low. Alternatively, monetary loosening could induce a housing market bubble.	**Low**	**Medium.** A significant correction in prices would adversely affect household wealth and consumption. It would also cause significant financial market instability, although LVR restrictions should reduce associated costs, and DTI ratios activated July 2024 should be containing high-risk lending.	Closely monitor the buildup of risks in the housing sector. Adjust interest rates if the correction puts inflation on a path away from the RBNZ's target and continue to rely on adjusting macroprudential settings.
Extreme climate events or natural disasters. Extreme climate events driven by rising temperatures or a major earthquake cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**Medium**	**High.** Stronger and more frequent economic disruptions. Larger fiscal costs related to disaster recovery and adaptation. Higher insurance premiums and associated risks.	Combined monetary, fiscal policy easing; review medium-term fiscal framework to explicitly build in buffers for this risk going forward. Build adaptation infrastructure (e.g., flood defenses) and property-level mitigation measures. Conduct climate risk stress testing of financial sector.
Protracted Recession. The economy fails to recover due to the prolonged effects of monetary tightening and fragile balance sheets. Inflation may fall below the target or reappear, leading to stagflation.	**Medium**	**Medium.** An extended downturn would put pressure on household and firm balance sheets leading to increasing financial sector stress.	Fiscal and monetary policy would need to work together to stimulate aggregate demand and protect vulnerable households. Under stagflation scenario, it would be important for the RBNZ to maintain its credibility by ensuring inflation remains in the target band. Macroprudential policy can address pockets of financial stress. Structural reforms can help boost productivity.

Annex IV. Sovereign Debt and Debt Sustainability Framework

Annex IV. Figure 1. Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting relatively low levels of vulnerability across the near-, medium-, and long-term horizons.
Near term 1/			
Medium term	Low	Low	The medium-term risk of sovereign stress is low, reflecting New Zealand's strong institutions, the depth of its investor pool, and the credibility of its macroeconomic policies, all of which contribute to overall stability.
Fanchart	Low	...	
GFN	Low	...	
Stress test		...	
Long term	...	Low	The long-term risk of sovereign stress also remains relatively low. However, fiscal challenges stemming from age-related expenditure on pension and health have started to materialized and will contribute to adverse debt dynamics in the long run.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: New Zealand is at a low overall risk of sovereign stress with a strong sovereign credit rating (Aaa from Moody's and AA+ from S&P and Fitch). The post-pandemic recovery was stronger than that of most advanced economies; however, the economy is more recently experiening a downturn under tightened monetary policy. Tax revenues have surpassed pre-pandemic levels, while government expenditure continues to exceed historical averages. This reflects, among other things, increased costs, government policies aimed at enhancing social benefits, and spending pressures stemming from demographic changes. Looking ahead, a fiscal consolidation is anticipated, which is expected to contribute to a gradual decline in the debt trajectory and manageable refinancing risks over the medium term. Over the longer run, New Zealand should continue with reforms to tackle risks arising from population aging and climate change.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex IV. Figure 2. Debt Coverage and Disclosures

							Comments
1. Debt coverage in the DSA: 1/			CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?							n.a.	
2. Subsectors included in the chosen coverage in (1) above:								
			Subsectors captured in the baseline				Inclusion	
CPS	NFPS	GG: expected	CG	1	Budgetary central government		Yes	
				2	Extra budgetary funds (EBFs)		No	Not applicable
				3	Social security funds (SSFs)		Yes	
				4	State governments		Yes	
				5	Local governments		Yes	
				6	Public nonfinancial corporations		No	
				7	Central bank		No	
				8	Other public financial corporations		No	
3. Instrument coverage:				Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/	
4. Accounting principles:				Basis of recording		Valuation of debt stock		
				Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/	
5. Debt consolidation across sectors:					Consolidated	Non-consolidated		

Color code: chosen coverage | Missing from recommended coverage | Not applicable

Reporting on Intra-Government Debt Holdings

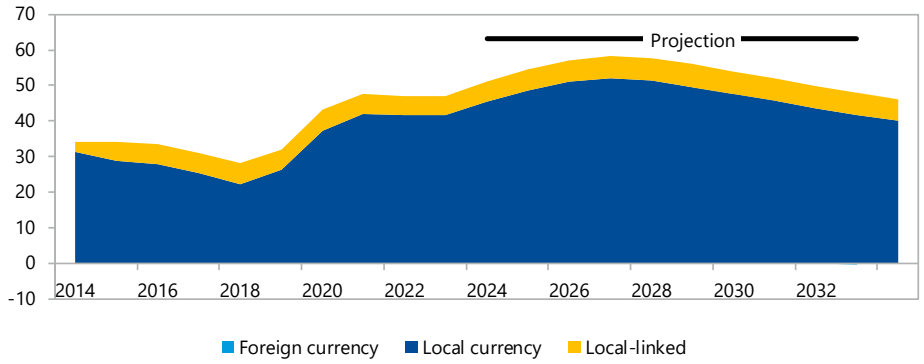
				Holder / Issuer	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt								0
				2	Extra-budget. funds								0
				3	Social security funds								0
				4	State govt.								0
				5	Local govt.								0
				6	Nonfin pub. corp.								0
				7	Central bank								0
				8	Oth. pub. fin. corp								0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: In New Zealand, the general government consists of the central government, state and local governments, and social security funds.

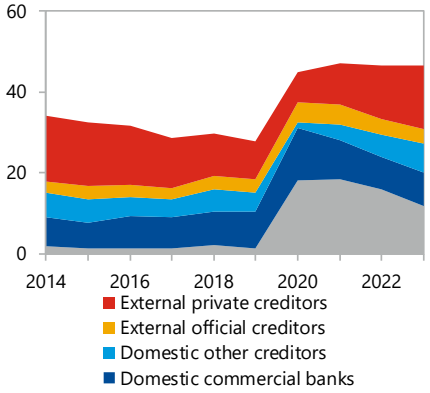
Annex IV. Figure 3. Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



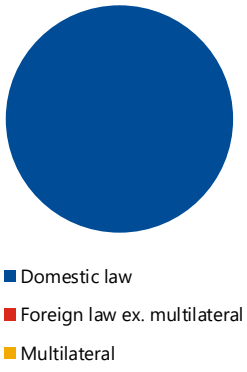
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



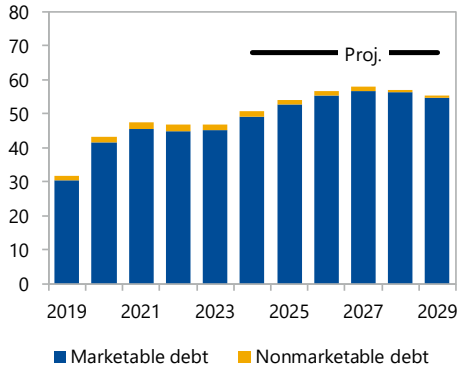
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (percent)



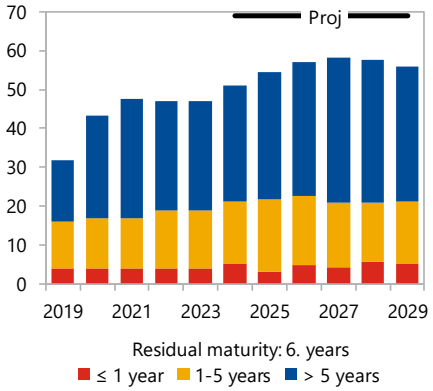
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

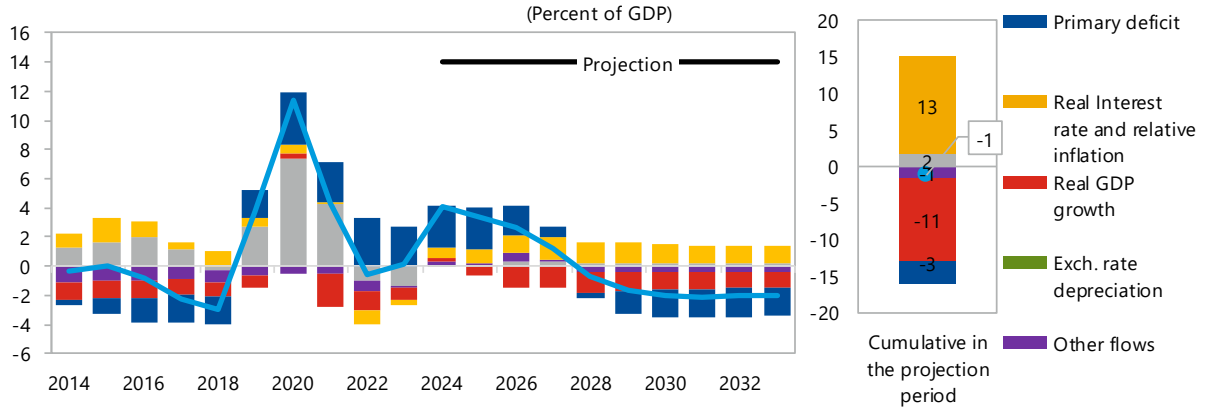
Commentary: Public debt in New Zealand increased during the pandemic, but is expected to decline over the medium term following the planned consolidation. The share of FX debt is very low and indexlinked bonds also make a small share (less than 5 percent) of total outstanding debt.

Annex IV. Figure 4. Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	47.0	51.1	54.5	57.1	58.4	57.7	56.1	54.0	51.9	49.9	47.9
Change in public debt	0.1	4.1	3.4	2.7	1.2	-0.6	-1.7	-2.0	-2.1	-2.0	-2.0
Contribution of identified flows	1.5	4.1	3.4	2.4	1.0	-0.9	-1.9	-2.2	-2.2	-2.2	-2.2
Primary deficit	2.7	2.9	3.0	2.0	0.7	-0.5	-1.5	-2.0	-2.0	-2.0	-2.0
Noninterest revenues	36.6	37.7	37.4	37.4	37.6	37.8	38.0	37.2	37.2	37.2	37.2
Noninterest expenditures	39.3	40.5	40.4	39.4	38.4	37.4	36.4	35.2	35.2	35.2	35.2
Automatic debt dynamics	-1.1	0.9	0.2	-0.3	0.0	0.0	0.1	0.2	0.1	0.2	0.2
Real interest rate and relative inflation	-0.3	0.6	0.9	1.2	1.4	1.4	1.4	1.4	1.3	1.3	1.3
Real interest rate	-0.3	0.6	0.9	1.2	1.4	1.4	1.4	1.4	1.3	1.3	1.3
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-0.8	0.2	-0.7	-1.5	-1.4	-1.3	-1.3 .	-1.2	-1.1	-1.1	-1.1
Real exchange rate	0.0	...	...	...	...	...	... .	...	...	...	...
Other identified flows	-0.1	0.3	0.2	0.7	0.2	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	1.0	1.2	0.6	1.1	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-1.4	0.0	0.0	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Gross financing needs	7.2	8.6	9.8	7.0	7.5	5.8	6.2	5.0	3.6	2.7	3.2
of which: debt service	5.6	6.6	7.3	5.5	7.2	6.7	8.2	7.3	5.9	5.1	5.6
Local currency	5.6	6.6	7.3	5.4	7.1	6.6	8.1	7.3	5.9	5.0	5.5
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	1.8	-0.5	1.4	2.7	2.6	2.4	2.3	2.2	2.2	2.2	2.2
Inflation (GDP deflator; percent)	5.1	3.2	2.9	2.4	2.0	2.2	2.1	2.1	2.1	2.1	2.1
Nominal GDP growth (percent)	7.0	3.0	4.6	5.0	4.5	4.6	4.5	4.4	4.4	4.4	4.4
Effective interest rate (percent)	4.4	4.6	4.8	4.7	4.7	4.8	4.8	4.8	4.7	4.8	4.9

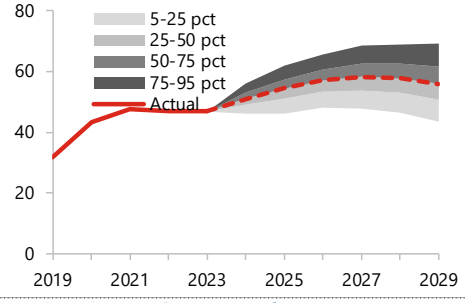
Contribution to Change in Public Debt



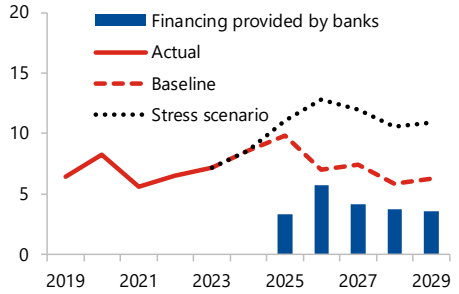
Commentary: Public debt is projected to peak around 58 percent of GDP in 2027 before gradually declincing, as the planned fiscal consolidation takes place under the authorities' fiscal strategy which mandates a returning of operating surplus, and amid anticipated stable macroeconomic conditions.

Annex IV. Figure 5. Medium-Term Risk Assessment

Final Fanchart (Percent of GDP)



Gross Financing Needs (Percent of GDP)



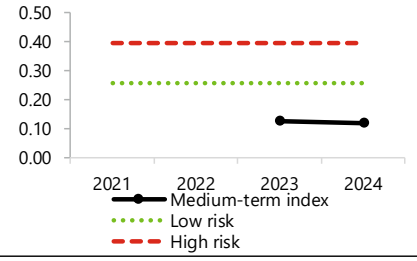
	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	25.8	0.4	
Probability of debt non-stabilizaiton *(percent)*	9.2	0.1	
Terminal debt-to-GDP x institutions index	9.6	0.2	
Debt fanchart index (DFI)		0.7	
Risk signal: 3/		Low	
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	7.5	2.6	
Initial Banks' claims on the gen. govt *(pct bank assets)*	4.8	1.6	
Chg. In banks' claims in stress *(pct banks' assets)*	2.1	0.7	
GFN financeability index (GFI)		4.8	
Risk signal: 4/		Low	

0 25 50 75 100

Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	(normalized)	Weight	Contribution
Debt fanchart index	0.7	0.1	0.5	0.1
GFN finaceability index	4.8	0.1	0.5	0.0
Medium-term index		0.1		
Risk signal: 5/		Low		
Final assessment:		Low		

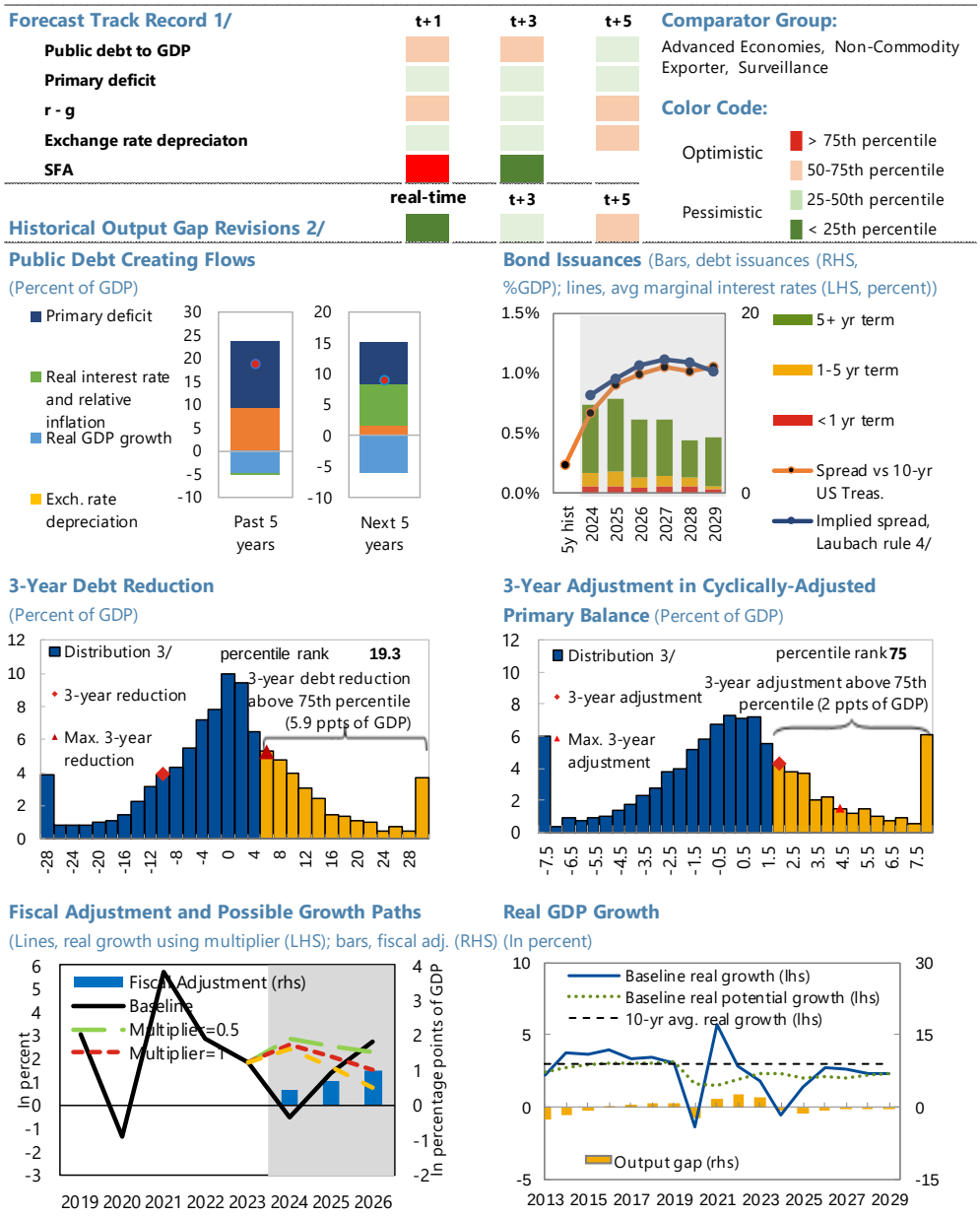
Prob. of missed crisis, 2024-2029, if stress not predicted: 0.0 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 84.1 pct.

Commentary: Medium-term modules indicate low levels of solvency and liquidity risk, based on a stabilizing and declining debt path and manageable gross financing needs. This further reflects New Zealand's mitigating fundamentals, such as low historical volatility, strong institutions, a low terminal level of debt, and its stable banking sector and a robust domestic financing pool.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex IV. Figure 6. Realism of Baseline Assumptions



Commentary: Staff projections in recent years have reasonably aligned with the outturns, notwithstanding unforeseen shocks like the North Island weather events. Primary balance is projected to improve over the medium term and sustain a small surplus, in line with the authorities' fiscal strategy, helping debt stabilize and eventually decline while the macroeconomic conditions normalize. Historical and cross-country comparions confirm broadly realistic assumptions about growth, fiscal adjustment, and debt dynamics.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

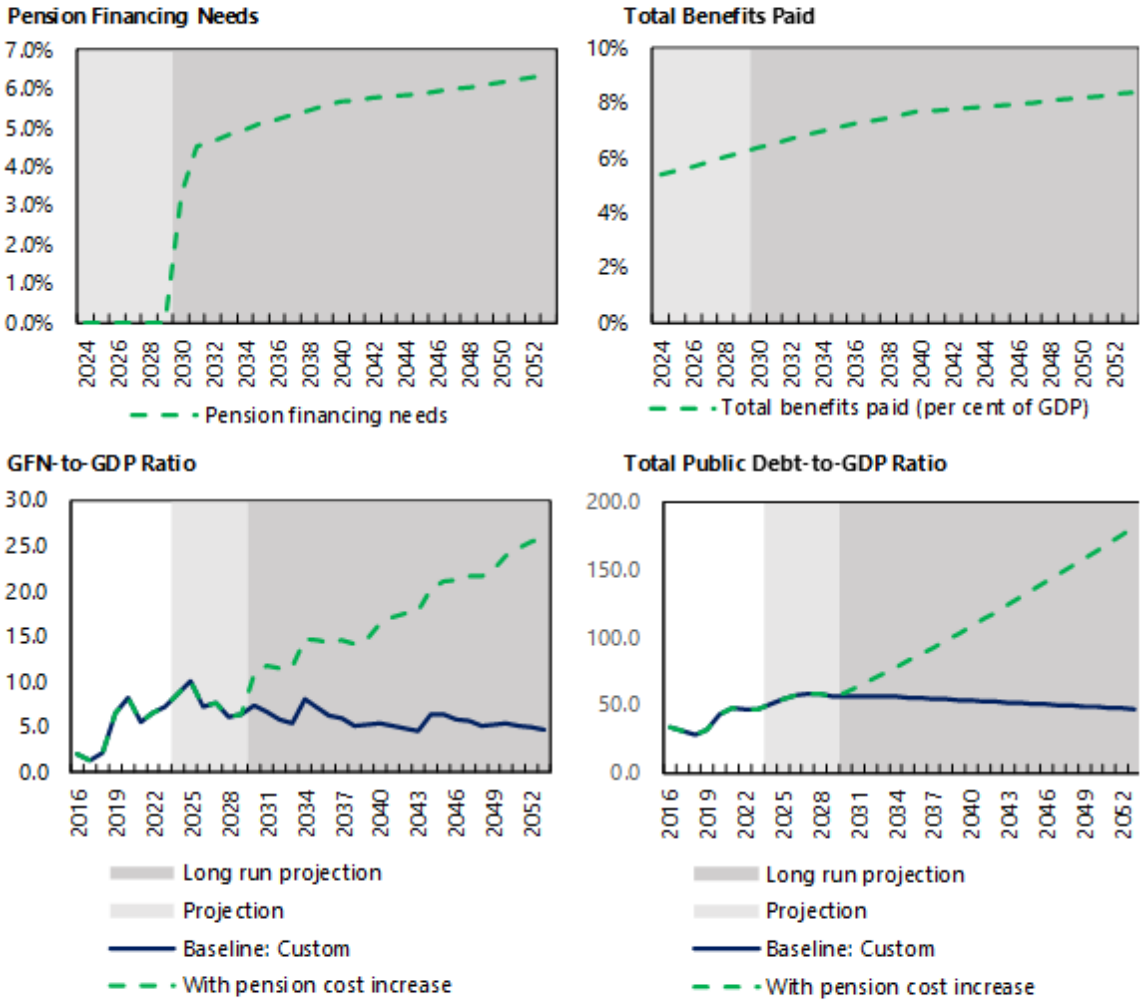
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex IV. Figure 7. Demographics: Pensions

Permanent adjustment needed in the pension system to keep pension assets positive for:	30 years	50 years	Until 2100
(pp of GDP per year)	4.3%	5.4%	6.4%



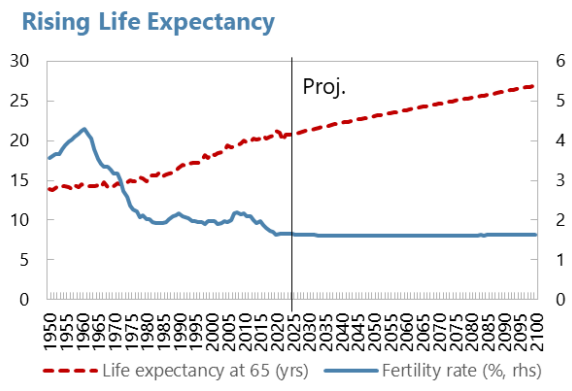
Commentary: Population aging is expected to increase pension benefit payments and add to government spending and financing pressures, which, if not mitigated by offsetting policies and reforms, could lead to an explosive public debt trajectory over the long term.

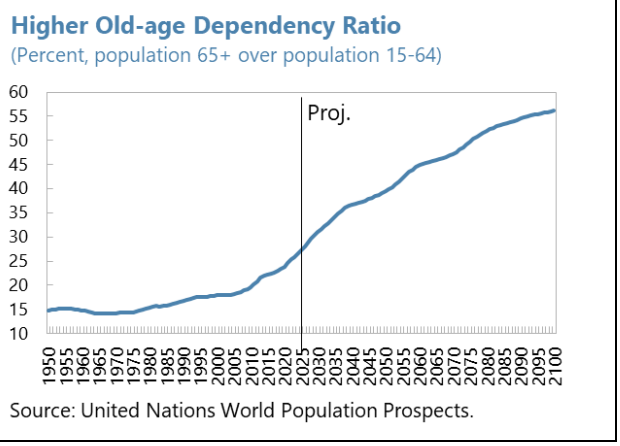
Annex V. Macroeconomic and Fiscal Implications of Aging and Pension Reforms in New Zealand[1]

New Zealand's aging population, along with the corresponding increase in old-age dependency, poses significant macroeconomic and fiscal challenges over the next few decades and gives rise to increasing pressures on the pension system. Using a dynamic general equilibrium macro-pension model, we analyze the macroeconomic and fiscal implications and explore options to address them. Particularly, policy options include raising the retirement age, reducing benefit generosity, increasing contributions, and a combination of these. Findings emphasize the need for careful consideration of the impacts across generations and highlight migration's role in alleviating the pressures. Ongoing policy dialogue is essential to ensure the sustainability of New Zealand's pension system.

Context

1. New Zealand's population is aging. Like in many advanced economies, the fertility rate in New Zealand has significantly declined in recent decades and is currently around its lowest level in 75 years. Similarly, health and quality of life advancements have driven life expectancy to rise significantly, resulting in a considerable increase in the old-age dependency ratio (OADR) since the 1980s. Projections indicate that the OADR will more than double by 2100. New Zealand's population includes a sizable proportion of foreign-born individuals, particularly working-age migrants, which helps alleviate the challenges posed by an aging population. However, low remittance outflows suggest a potential long-term commitment from these migrants to live and eventually become citizens or permanent residents of New Zealand, thereby increasing pressures on the pension system eventually.[2]





[1] Prepared by Danial Baksa, Mike Li, and Zsuzsa Munkacsi. This annex provides a high-level summary of an IMF Working Paper planned for the second half of 2025, which will include more details.

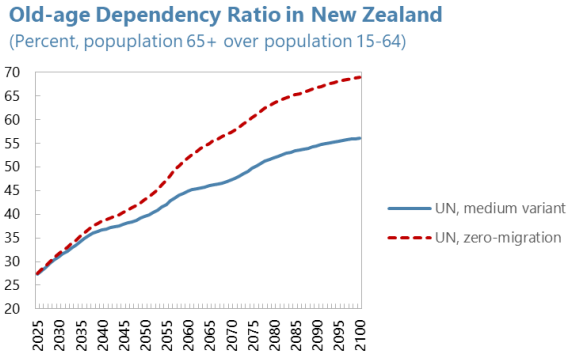
[2] New Zealand citizens and permanent residents who are 65 or older and have lived in New Zealand for a certain amount of time are eligible for New Zealand Superannuation. The residential requirement ranges from 10 to 20 years based on the date of birth.

2. Population aging has profound macroeconomic and fiscal implications, in particular for the pension system. New Zealand operates a multi-tier pension system comprising of a universal public pension (New Zealand Superannuation; NZS) and a voluntary private savings scheme (KiwiSaver). NZS is funded through general taxation and is designed to protect against poverty in old age, while KiwiSaver encourages private savings, including through government-matched contributions. As the population ages, NZS expenditure is expected to rise, increasing pressures on fiscal deficits, and raising critical policy questions regarding public debt and national savings.

Modeling and Scenario Analysis

3. A dynamic general equilibrium model integrating demographic changes and overlapping generations is used to quantify the macroeconomic and fiscal implications of population aging and pension reforms in New Zealand. The model, Overlapping Generations and Retirement (OGRE), was introduced in Baksa and Munkacsi (2016a) and features two types of households: young and retired, each with distinct economic roles.[3] The young households participate in the labor market and contribute to pension schemes (including through paying taxes), while the retired households rely on pension income. The model captures population dynamics through time-varying demographic parameters related to fertility and mortality changes. The model accounts for pension benefits linked to pre-retirement average income and incorporates fiscal policy through revenues from various taxes and expenditures related to public consumption, pensions and unemployment benefits. This comprehensive approach allows for an in-depth understanding of the interactions between demographic trends, labor markets, fiscal policies, and the pension system. The model is calibrated to the unique characteristics of New Zealand's economy and its initial demographic structure (which features a large share of migrants).

4. Baseline projections assuming current demographic trends illustrate quickly mounting superannuation spending pressures over the coming decades. In this scenario, a demographic shock based on the United Nations' medium scenario population projections is simulated and no pension policy change is assumed.[4] The model confirms sharply rising NZS expenditure as population ages and the



Source: United Nations World Population Prospects.

[3] The OGRE framework has also been applied to Portugal and Spain (2016b), Lithuania (2016c), Germany and Slovakia (2020), and Korea (2024) in their previous works.

[4] Probabilistic methods are used to estimate future fertility, mortality, and international migration levels in United Nations' projections, accounting for historical variability and uncertainty from similar countries, with the medium scenario reflecting mean fertility, mortality, and median net migration from thousands of distinct trajectories.

OADR increases.[5] The model also points to a significant slowdown in growth in the coming decades as the labor force shrinks (due to a smaller working-age population) and households accumulate additional savings (by reducing consumption) for a longer lifespan. This, in turn, leads to falling fiscal revenues, compounding the fiscal pressure from rising NZS expenditure, and contributes to sharply rising public debt.

5. Several scenarios are simulated to analyze the macroeconomic and fiscal impact of various pension reform options. The reform efforts in these scenarios focus on stabilizing the public debt-to-GDP ratio over the period from 2035 to 2075.[6] For illustrative purposes, the following reform options are considered in these alternative scenarios:

- **Increased age of eligibility for NZS**.[7] This adjustment is assumed to be implemented incrementally over multiple years, in line with trend in increasing life expectancy. Raising the retirement age will encourage older individuals to remain in the workforce—which can support economic growth—and slow the increase in pension spending by improving the OADR.

- **Reduced generosity of NZS payments**. This scenario aims to assess the impact of a reduced average replacement rate for new pensioners on total NZS spending and is therefore agnostic to specific reform choices.[8] While a reduced public pension may encourage private savings, careful considerations are needed to ensure sufficient retirement income (¶9).

- **Increased contributions to cover NZS payments**. The model assumes contributions from both employees and employers to support NZS payments for the current elderly population. These contributions are assumed to be paid into general budget resources but can, in practice, be earmarked to cover NZS payments.[9]

6. These illustrative reform options are found to be effective in mitigating the adverse fiscal impacts of aging, but the implied reform efforts are significant. For instance, the retirement age will need to increase by 7 years, the gross replacement rate will have to be reduced by more than 40 percent for new pensioners (which is very significant), and contributions (from employees and employers) will need to increase from 0 to 8 percent to neutralize the impact of

[5] The increase in the OADR is more rapid in the zero-migration scenario of the United Nations' population projections, which differs from the medium scenario by assuming zero net migration from 2024 onward.

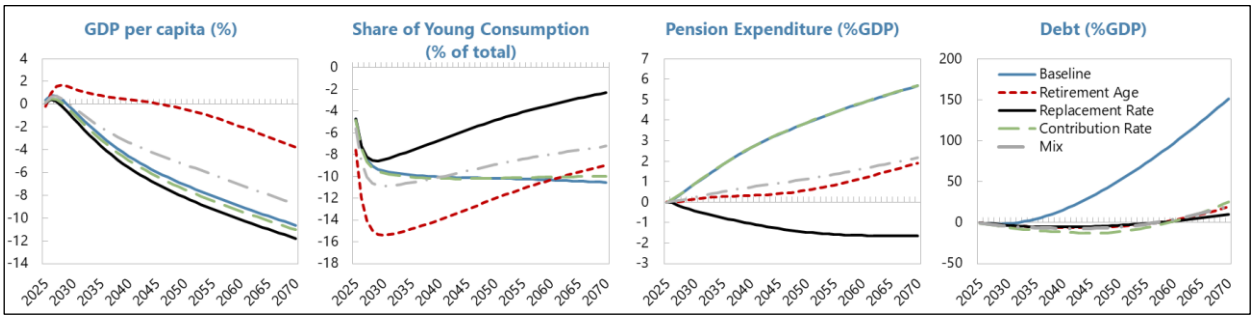
[6] This approach reflects the significant demographic shifts anticipated during this period. A shorter time frame would, *ceteris paribus*, reduce the necessary reform efforts, but would also risk requiring future reforms as demographics continue to deteriorate.

[7] For modeling purposes, the age of eligibility distinguishes between younger and older cohorts and is based on the effective retirement age.

[8] In practice, this could be implemented through means-testing NZS payments or adjusting the indexation, which is currently linked to the growth of after-tax average ordinary time weekly earnings (AOTWE). Some of these reforms may increase hardships for low-income groups, necessitating targeted transfers that should be considered when assessing the overall fiscal impact.

[9] The New Zealand Superannuation Fund (NZSF) was established in 2001 to balance the tax burden across generations in funding PAYGO benefits and has been financed solely through government contributions.

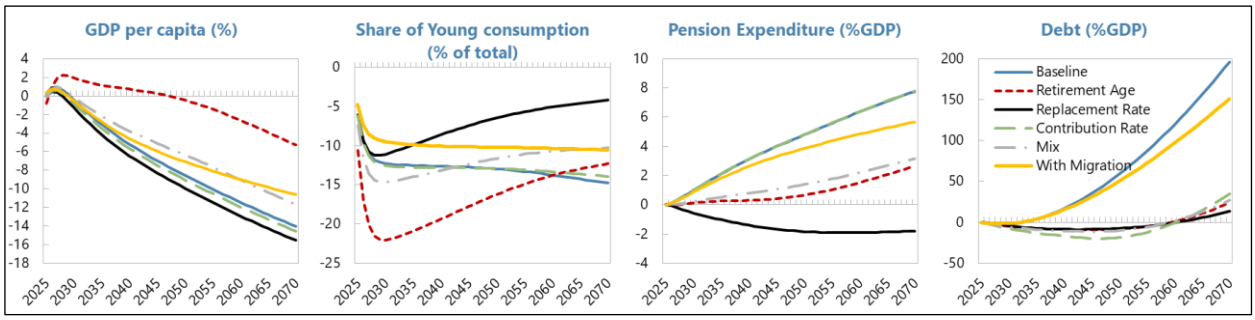
population aging on the public debt-to-GDP ratio if implemented individually (text table). The magnitude of these reforms also highlights the substantial negative impact of aging on growth, with GDP per capita expected to be over 10 percent below its steady-state trend due to reduced consumption and investment. These reforms imply different burdens for different generations, with retirement age and replacement rate reforms affecting the older generation more, while contribution reforms impact the younger generation more. A combination of these different reforms implemented jointly would help to spread the costs across reform instruments and generations. To illustrate, in a scenario where the reform burden is spread evenly among the three reform instruments, the required increase in retirement age, reduction in the gross replacement rate, and increase in the contribution rate would reduce to 2.3 years, 14.2 percent, and 2.7 percent, respectively.



Fiscal Instruments

Variable	Unit	Baseline	Higher Ret. Age	Lower Rep. Rate	Higher SSC	Mix (1/3 of each reform)
Retirement Age	Years	66.4	7	0	0	2.3
Gross Repl. Rate	percent	0	0	-42.5	0	-14.2
Contr. Rate (Employee + Employer)	percent	0	0	0	8	2.7

7. Migration helps mitigate the macroeconomic and fiscal impact of population aging in New Zealand. To illustrate, a separate scenario based on the United Nations' zero migration scenario population projections is simulated. This scenario indicates a more rapid increase in the OADR (due to migrants' more favorable age profile and their contribution to increasing the working-age population) and, by extension, more adverse macroeconomic and fiscal trends associated with population aging in New Zealand (text charts). Accordingly, the reform efforts required to neutralize aging's impact on public debt over the 2035-75 period are also significantly higher. For example, to stabilize the public debt-to-GDP ratio without migration, retirement age would need to increase by 8 years (vs. 7 years with migration), the gross replacement rate would need to be reduced by 47.5 percent (vs. 42.5 percent) for new pensioners, and contributions would need to increase to 10 percent (vs. 8 percent). To extrapolate from this, a scenario with higher migration (compared to the UN medium scenario) would likely lead to slower population aging and lesser reform efforts needed to neutralize its impact on public debt. However, given the magnitude of the demographic shifts globally, migration alone is unlikely to be sufficient to fully neutralize the fiscal impact of aging.



Fiscal Instruments

Variable	Unit	Baseline	Higher Ret. Age	Lower Rep. Rate	Higher SSC	Mix (1/3 of each reform)
Retirement Age	Years	66.4	8	0	0	2.7
Gross Repl. Rate	percent	0	0	-47.5	0	-15.8
Contr. Rate (Employee + Employer)	percent	0	0	0	10	3.3

Conclusions and Policy Implications

8. Early dialogue and policy reform are essential to address emerging long-term fiscal pressures from aging. Preliminary findings from staff analysis confirm significant long-term implications of population aging on consumption, employment, and the fiscal outlook. Migration helps mitigate these implications but is unlikely to fully neutralize the budgetary impact of population aging. Several pension reforms options can be considered to ensure the sustainability of New Zealand's pension system while bolstering national savings. It will be important to carefully consider the distributional effects of these reforms and balance and coordinate these reforms to ensure that costs are distributed across generations rather than placing the burden on any single group. Pension reforms can also have distributional effects among current generations, which can be evaluated using micro-founded modeling that extends beyond the scope of the overlapping generations model discussed here. These findings emphasize the need for initiating an early policy dialogue involving various stakeholders to proactively address the macroeconomic and fiscal challenges posed by an aging population.

9. Promoting greater private retirement savings can help alleviate the pressure on NZS. Reforms to the NZS will need to be considered alongside efforts to build up other sources of retirement income. In this regard, the KiwiSaver voluntary private savings scheme, established in 2007, provides a means to save for retirement. Incentivizing greater savings through KiwiSaver—by either making it compulsory, increasing the contribution rate (currently set at a 3 percent default minimum for both employer and employee), or both—can, over time, build up individual retirement savings accounts and create space to reduce NZS payments and thereby alleviate fiscal pressures on the government. The accumulation of private savings also supports the government's strategy for deepening the capital markets. To further incentivize financial savings, the government can consider

removing the tax advantage associated with housing investment. Transition issues (including the speed of implementation) will need to be carefully considered.[10]

10. Moreover, the participation of older workers in the labor force is crucial for New Zealand. High participation in this age group helps reduce the fiscal burden of an aging population and sustain economic growth. Three features of the current tax and welfare system enhance older worker participation and contribute to New Zealand's relatively high rates for workers over 65 among OECD countries: a low labor tax wedge, the universality of NZS without retirement requirements, and a flat-rate pension. Ongoing research by the IMF and the New Zealand Treasury (Crichton, Hellwig, and Spray; forthcoming) uses administrative tax data to examine how changes in tax brackets affect labor supply among NZ Super recipients. It finds that workers over 65 exhibit higher labor elasticities than the general population, indicating they are more responsive to high marginal tax rates—likely due to greater liquidity and less career trade-off from reducing labor supply. This should be duly considered in tax and pension policy reforms.

[10] This will be explored in the forthcoming Working Paper by Baksa, Li, and Munkacsi.

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Annex VI. Firm Attentiveness and the Effectiveness of Monetary Policy in New Zealand[1]

1. Prior research suggests that the effectiveness of monetary policy depends on the state of the economy. For instance, Tenreyro and Thwaites (2016) show that monetary policy shocks have a weaker impact during recessions, describing this phenomenon as "pushing on a string." Similarly, Vavra (2014) and McKay and Wieland (2021) provide evidence for state-dependent monetary policy effectiveness, attributing its reduced impact during recessions to shifts in price adjustment distributions and durable expenditures. Additionally, Coibion and Gorodnichenko (2015) argue that information rigidity declines in downturns, further explaining why monetary policy's effectiveness may vary over time.

2. In a recent IMF working paper, Rezghi (2025) investigates a new investment channel of monetary policy transmission related to firms' financial conditions and incentives for information acquisition. This interaction between financial condition of a firm and their attentiveness can potentially generate a novel form of cross-sectional heterogeneity and state dependence in monetary policy transmission. More specifically, shifts in firms' financial conditions influence their investment responses to monetary shocks—both directly, by altering the marginal benefits and costs of investment, and indirectly, by shaping their attentiveness to aggregate economic conditions, which in turn affects their pricing and investment decisions.

3. Evidence linking financial conditions and attentiveness comes from the *Survey of Firms' Expectations* in New Zealand.[2] The findings indicate that smaller firms, which are more likely to be financially constrained, tend to monitor macroeconomic indicators such as inflation, unemployment, and GDP growth more closely. These firms also exhibit smaller nowcast errors for these variables and show a greater willingness to invest in acquiring macroeconomic information. Since firm size is commonly used as a proxy for financial constraints (Gertler and Gilchrist, 1994), this result suggests a potential link between financial constraints and firms' attentiveness to economic conditions.

4. The paper further examines how this interaction between financial conditions and attentiveness shapes investment responses to monetary shocks, both theoretically and empirically. Incorporating this new channel into a DSGE model, reveals that lower levels of attentiveness among firms leads to a sluggish and dampened investment response immediately following an expansionary monetary policy shock.[3] Initially, firms do not fully adjust their investment, but aggregate capital in the economy increases over time as stickier prices generate

[1] Prepared by Abolfazl Rezghi based on "Inattentiveness and the Investment Channel of Monetary Policy" IMF Working Paper No. 2025/025.

[2] For more information on the survey refer to Coibion et al. (2018).

[3] Since the model assumes an asymmetric effect for monetary policy, the result also holds true for contractionary shocks.

higher demand, spurring greater investment and production over longer horizons. This finding aligns with empirical evidence suggesting that attentiveness strengthens firms' investment responses. Using an aggregate measure of information rigidity from Coibion and Gorodnichenko (2015), the study reveals that a one standard deviation reduction in information rigidity—indicative of a higher level of attentiveness—enhances the impact of a one standard deviation expansionary monetary policy shock on aggregate fixed capital by approximately half a percentage point. Similarly, using firm-level measures of attentiveness from Song and Stern (2024), the paper finds that attentive firms are more responsive to expansionary shocks.

5. **Additionally, the paper conducts a counterfactual analysis to examine how changes in the financial structure of the economy affect the transmission of monetary policy.** Increasing the share of financially constrained firms—and thus raising aggregate attentiveness to economic conditions—leads to a more subdued aggregate response to monetary shocks. Constrained firms, facing tighter borrowing limits, reduce their investment despite the expansionary shock, whereas unconstrained firms, with better access to financing, increase theirs. As a result, the larger share of constrained firms dampens the overall aggregate investment response. Moreover, in an economy with more attentive firms, greater price flexibility reduces the medium-term real effects of monetary shocks, even though firms respond more quickly and adjust their investments more rapidly in the short term. This mechanism offers a novel explanation for why monetary policy tends to be less effective during recessions, when more firms are financially constrained and, consequently, more attentive.

6. **These results have key policy implications, particularly in the context of New Zealand's post-COVID inflationary environment and subsequent recession.** On the one hand, monetary shocks are expected to have a more muted effect during recessions, as suggested by Tenreyro and Thwaites (2016). On the other hand, as Pfäuti (2023) suggests, a high-inflation environment can increase attentiveness among economic agents, providing another channel through which monetary shocks can have a stronger effect on the economy in the short-term. Given New Zealand's prolonged period of elevated inflation, firms and households may be more responsive to monetary policy than in previous cycles, potentially amplifying the effects of current expansionary measures. This underscores the importance of considering firms' information acquisition behavior when designing and implementing monetary policy.

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Annex VII. Follow-Up on Key Recommendations of the 2017 FSAP

Recommendation	Time Frame	Update and Implementation
Financial Stability and Financial Sector Resilience		
Increase RBNZ resources for the supervision and regulation of banks, insurance companies, and FMIs.	ST	**Partially complete.** A new funding agreement signed with the Minister of Finance in June 2020 provided the RBNZ with increased funding for the next five years, in part to support a more intensive supervisory model. Staff numbers have increased significantly in the supervisory area (covering deposit takers, insurers and Financial Markets Infrastructures) over the past several years, with a presence now established in Auckland, where many of the NZ operations of RBNZ-regulated entities are headquartered. Frontline supervision is supported and complemented by the establishment of dedicated Risk Specialists, Licensing & Authorizations and Resolution & Recovery functions. This process is ongoing with further investment likely required post 2025.
Strengthen cooperation and collaboration arrangements with Australian authorities.	ST	**In process**. Trans-Tasman cooperation is explicitly managed through the work under the Trans-Tasman Council on Banking Supervision (TTBC). The TTBC remit covers insurers and other entities in addition to banks. There is also a standing mechanism for coordination between New Zealand and Australian communications through a dedicated working group under the TTBC umbrella. In recent years, regulators on both sides participated in hypothetical bank crisis simulation exercises in September 2017 and September 2024, and a follow-up exercise on communications coordination in 2019. Additional work-streams have also been established to coordinate arrangements with respect to managing cyber incidents, and entity specific Crisis Management Groups which plan preferred recovery or resolution options for Trans-Tasman groups. The RBNZ Act contains a new cooperation function for the RBNZ that includes 'overseas central banks and relevant international institutions'. The trans-Tasman cooperation provision in the current Act (s.68A) is carried across to the deposit takers sectoral legislation under the Deposit Takers Act (DTA). Semi-annual supervisory colleges are in place between RBNZ Prudential Supervision and Specialist Supervision function and counterparts at the Australian Prudential Regulation Authority for exchange of information and coordination of Trans-Tasman supervision and enabling staff secondment/exchange.

Recommendation	Time Frame	Update and Implementation
Clarify responsibilities of the Treasury and RBNZ on financial sector issues to reinforce the role of RBNZ as prudential regulator and supervisor.	ST	**Complete.** Governance and prudential regulation options have been examined in Phase 2 Review of the RBNZ Act. A new financial stability objective for the RBNZ was introduced in the RBNZ Act 2021. The Act also requires the Minister of Finance to issue a Financial Policy Remit outlining matters that the RBNZ will have to have regard to in pursuing its financial stability objectives, prudential standards and its implementation. The first Remit was issued 30 June 2022. The RBNZ Act designates a government department as the formal monitor of the RBNZ on behalf of the Minister of Finance (replacing the role played by the current board). The Minister has appointed the Treasury in the monitor role. The DTA further clarifies the role of the Minister in the prudential framework (e.g., role in the crisis management and deposit taker resolution frameworks).
Issue enforceable standards on key risks, governance, risk management, and controls to make RBNZ's supervisory expectations more transparent and support supervisory preventive action.	ST	**Partially complete** Prudential requirements for deposit takers will be set through 'standards' as a secondary legislative instrument. The DTA clearly sets out the areas where the RBNZ can set standards. The scope of standard-setting broadly aligns with those areas expected by the Basel Core Principles (BCPs). Within the scope permitted by legislation, the RBNZ will still choose in what areas to set standards, supported by guidance where appropriate. Consultation on the policy for DTA standards was undertaken in 2024. Exposure drafts of the standards will be consulted on in 2025/26. Standards are expected to be issued at the beginning of 2027 with entry into force expected mid-2028. IPSA already uses standards as the means to set prudential requirements for licensed insurers. The legislation is being reviewed to take account of experience and to follow up on the recommendations of independent reports in recent years. The RBNZ will continue to use standards to regulate the sector. As part of the review the RBNZ is expecting to introduce new standards for governance and risk management but legislation is not expected to be in force before 2027.
Review and extend the enforcement regime to promote preventive action and enhance sanctions powers, including by eliminating ministerial consent for directions, and making compliance with RBNZ policy documents evidence of prudent practice.	MT	**In process.** The DTA will expand the current enforcement toolkit (e.g., with the inclusion of enforceable undertakings and remedial notices) and removes the requirement for Ministerial consent to issue directions, thereby removing the current high threshold for using this tool to take corrective action. An Enforcement Framework has been developed and published. Dedicated resources for the Enforcement team has been increased.

Recommendation	Time Frame	Update and Implementation
Initiate on-site programs to test the foundation of the three-pillar approach and directors' attestations and increase supervisory engagement with institutions in order to require appropriate action.	ST	**In process**. In 2018 a team was formed for the purposes of performing deep dive on-site thematic reviews. These are performed across both the deposit taking and insurance sectors and focus on a range of risk, governance and compliance matters. Thematic reviews undertaken include; conduct and culture of banks and life insurers, role of the appointed actuary, bank liquidity and governance. The DTA empowers the RBNZ to undertake on-site inspections of deposit takers. Workstreams have been established to implement the DTA including one that will operationalize onsite supervision by 2028 (e.g., frequency and scope of inspections across large and small deposit takers). The current review of IPSA will consider the design of a similar on-site inspection power for the insurance sector.
Refine Financial Markets Authority (FMA) supervision by a) direct monitoring of aspects of asset management relevant to financial stability; b) ensuring quality of Financial Markets Supervisors; and c) enhancing insurance intermediary and conduct regulation and supervision.	I	a) **In process.** The FMA published findings of a thematic review of liquidity risk management practices in July 2021. Supplementing the FMA good practice guide of April 2020, the FMA is now preparing industry guidance, based on IOSCO recommendations, for consultation later in 2023. The FMA published a sector risk assessment on the Managed Investment Schemes sector in January 2023, to provide guidance to the market and to inform of future FMA and supervisor monitoring. The FMA has also completed thematic projects/ guidance related to demonstrating value for money and maturing the industry approach to better articulating and substantiating ESG labels and claims. b) **In process.** The relicensing process for supervisors concluded in early 2023. The current license duration is five years, and this was the second such re-licensing round. The process focused on areas identified for the sector in 2018, and license conditions were strengthened where required. Following re-licensing the FMA is reviewing its ongoing approach to oversight of supervisors. The FMA continues to have strong engagement with Supervisors including through regular operational meetings, sector forums, chief executive and senior management relationship meetings and attending Board meetings. In 2020 and 2021, the FMA required supervisors to undertake and identify risks in the MIS sector and report back to the FMA (which contributed to the Sector Risk Assessment published by the FMA in January 2023). c) **In process.** The new financial advice regime, which came into effect on March 15, 2021, continues to be successfully embedded and operationalized. Full licensing of financial

Recommendation	Time Frame	Update and Implementation
		advice providers was completed in March 2023, and monitoring of the sector is now underway. In anticipation of the Conduct of Financial Institutions Bill and the Insurance Contracts Bill (that reforms and updates the Insurance Contract Law) passing into law, the FMA has established a program for implementation.
Expand the FMA's regulatory perimeter to include licensing and supervision of custodians and appropriate oversight of wholesale asset managers.	ST	**In process.** The FMA has received its outsourced thematic on custodial arrangements and is progressing work to consider whether there is a case for recommending the establishment of a regulatory regime for custodians. It is also refreshing guidance for custodians on their current obligations under the FMC regime. The FMA has conducted a thematic review of the use of wholesale investor exclusions under the FMC legislation, and has taken (and published) regulatory action, in the form of public warnings, where it has seen non-compliance in the use of these exclusions, and continues to investigate cases where further action may be required.
Adopt and implement proposed Financial Market Infrastructures (FMI) legislation on regulation, oversight, and enforcement powers.	I	**Completed**. The Financial Market Infrastructures Act (FMI Act) was enacted in May 2021. The Financial Market Infrastructure Regulations 2023 were made on 22 May 2023 to support implementation of the FMI Act. The FMI Standards for designated FMIs were issued on 27 July 2023. The FMI Act and FMI Standards came into force with effect from 1 March 2024. Since the FMI Standards were issued all five of the previously designated FMIs were redesignated under the FMI Act. FMI supervision continues to be strengthened as the regulators are developing a more intensive risk-based supervision approach for FMI.
Adopt the CPSS-IOSCO Principles for Financial Market Infrastructures (PFMI) through detailed requirements in secondary legislation; change the frequency of FMI self-assessments in the proposed regime from three to two years; and enhance compliance of the designated FMIs with PFMI requirements.	ST	**Partially complete**. The FMI Act provides the ability for the PFMI to be implemented via legally binding standards, a form of secondary legislation. The RBNZ and the FMA issued the standards in July, 2023 and they came into force with effect from 1 March 2024. The frequency of FMI self-assessments has been changed from three to two years
Ensure that designated nonfinancial businesses and professions are subject to AML/CFT requirements, particularly company service providers, lawyers, and accountants.	MT	**Completed**. The *AML/CFT Amendment Act 2017,* which extends the coverage of the AML/CFT laws, has come fully into effect. The legislation now covers lawyers, conveyancers and businesses that provide trust and company services (from July 1, 2018); accountants (from October 1, 2018); and real estate agents (from January 1, 2019).

Recommendation	Time Frame	Update and Implementation
Expand data collection and modeling efforts to develop structural models for credit risk in commercial real estate (CRE) and corporate portfolios.	MT	**In process**. An annual stress testing program has been implemented since 2020. This includes regular solvency and liquidity stress tests, looking at severe but plausible scenarios for both banks and insurers. The program also considers emerging risks, with a focus in 2023 on climate change. This work has also included developing models to enable ongoing assessment of risks to dairy lending. Data collection has expanded as well, with a 'New credit flows' survey now in place to collect monthly new lending data on all business lending and the interest rates associated with that lending. Breakdowns for business lending include commercial property, which is further disaggregated into investment property; and residential and commercial property. Definitions align with the Bank Balance Sheet survey, in which we collect data on the stock of lending. Looking ahead, work is progressing towards collecting loan level data from banks. Once this data becomes available, this will enable much more in-depth analysis and modelling of risks across sectors, including commercial real estate and corporate portfolios.
Macroprudential Framework		
Strengthen arrangements for macroprudential policy by increasing communication efforts; by increasing the transparency of the process to adjust the framework; and by maintaining an accountability framework that does not jeopardize the integrity and independence of the macroprudential decision-making process.	C	**Partially complete** In 2019, the RBNZ published a review of experience with its loan-to-value ratio policy and a framework document providing more clarity on the purpose and strategy for using macroprudential tools. The RBNZ is currently updating this framework and developing guidance notes on individual macroprudential tools. The publication of guidance notes has been delayed while DTIs were put in place, as this might affect how we administer the loan-to-value policy. The Financial Policy Remit enables the Minister to articulate government's policy priorities that are relevant to how the RBNZ goes about addressing systemic risk (that is, macro-prudential policy). The DTA will subject macro-prudential powers to the same general framework as other standard-setting powers, with the exception that the scope of lending-standard tools in relation to property lending (e.g. LVRs and DTIs) needs to be empowered through regulation. The current Macro-Prudential Policy MoU will be superseded in the new prudential framework for deposit takers by the role played by the Financial Policy Remit and the process around the setting of standards (including lending standards).
Introduce DTI measures in the macroprudential toolkit.	I	**Completed.** Following advice from the RBNZ in 2021 on measures to address unsustainable house prices, the Minister

Recommendation	Time Frame	Update and Implementation
		of Finance agreed to add DTI restrictions to the macroprudential toolkit. The DTI restrictions were formally added to the toolkit in April 2023.
Implement DTI measures if the changes to the LVR do not reduce the risks in the housing sector.	I	**Completed.** The RBNZ consulted with stakeholders on the possible introduction of DTI limits in late 2022. The framework for DTI restrictions was published in April 2023. Banks were provided 12 months to update their systems for the new framework. Starting on 1 July 2024 DTI limits have been in place, set at a 20% speed limit for owner-occupier lending above a DTI of 6x, and 20% speed limit for investor lending above a DTI of 7x. Reflecting the introduction of DTI limits, LVR speed limits were marginally eased.
Increase capital buffer requirements to reflect the concentration of the financial sector in four banks.	I	**Completed.** The 2019 Capital Review, required banks to raise their minimum capitalization from 10.5 percent of risk-weighted assets to 18 percent for the four large banks and 16 percent for the remaining smaller banks in seven years, starting from July 2020. In the context of the COVID-19 response, the start date was pushed out to July 2022. The first step up in capital requirements has taken effect with the part introduction of the D-SIB capital requirement.
Crisis Readiness, Management, and Resolution		
Strengthen domestic crisis management arrangements by reaching ex-ante agreement on roles, responsibilities, and processes; prepositioning, mobilization, logistics, and communications plans; and testing through simulation exercises.	MT	**In process.** Phase 2 Review of the RBNZ Act examined options to enhance the crisis management regime, most of which have been developed with reference to the 2017 FSAP recommendations. The DTA designates the RBNZ as the Resolution Authority, with a broader range of powers. A Depositor Compensation Scheme (DCS) will be be live on 1 July 2025 with further ongoing enhancements through to DTA being in force. The DTA also establishes an obligation on the Reserve Bank to issue a Statement of Approach to Resolution, which must include a description of the Reserve Bank's intended approach to co-operating with other departments and agencies, to engaging with the Minister. The DTA also clarifies the role of the Minister in the crisis management and deposit taker resolution frameworks. An amendment to the Public Finance Act 1989 is also included in the DTA, and will address a gap in the current arrangements, enabling the Government to act quickly and use public funds in a financial crisis.
Reconsider the merits of deposit insurance, or in the absence of policy support, introduce a limited depositor preference to provide legal certainty for the *de minimis* exemption in OBR.	MT	**Partially complete.** The DTA will introduce a depositor compensation scheme with a NZ$100,000 limit per person per institution, funded by a levy on deposit takers, with a Government backstop. This will be in place from 1 July 2025.
Revise the RBNZ Act to provide greater clarity and certainty in	MT	**In process.** The DTA states that the RBNZ is the resolution authority, and will include clear objectives and functions, while

Recommendation	Time Frame	Update and Implementation
resolution, by inserting objectives in resolution including protection of depositors and the public interest and requiring accountability reporting against these objectives; by clarifying that the RBNZ is the sole resolution authority and inserting an express requirement for ministerial consent for resolutions with fiscal or systemic implications only.		widening resolution powers. The Act will also include "no creditor worse off" provisions, and provides obligations to regularly report on the conduct of a resolution. Ministerial consent for triggering all resolutions has been retained to align with existing New Zealand statutory management regimes. However, the requirement for Ministerial consent before directions may be issued has been removed.
C = continuous; I (immediate) = within one year; ST (short-term) = 1–3 years; MT (medium-term) = 3–5 years.		
Sources: IMF (2017), *New Zealand, Financial Sector Assessment Program—Financial System Stability Assessment*; and New Zealand authorities.		

Annex VIII. Data Adequacy Assessment

Annex VIII. Table 1. New Zealand: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/
A

Questionnaire Results 2/

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	B	A	A	A	A	A

Detailed Questionnaire Results

Data Quality Characteristics						
Coverage	A	A	A	A	A	
Granularity 3/	A		A	A	A	
			A		A	
Consistency			A	B		A
Frequency and Timeliness	A	B	B	A	A	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision is adequate for surveillance. The authorities are continuing to enhance data quality and expand the range of data available and are making some gradual progress towards subscribing to the IMF's Special Data Dissemination Standard (SDDS). While GFS format fiscal data are only provided on a yearly basis, New Zealand Treasury's published GAAP format fiscal data at higher frequencies enable adequate assessment of fiscal policy. The assessment on the consistency of external sector statistics reflects the large and positive net errors and omissions (NEOs) in Stats NZ's Balance of Payments statistics in recent quarters. Significant revisions to historical national accounts data have somewhat complicated economic assessment, but the rationale for revisions was made clearly by Stats NZ.

Changes since the last Article IV consultation. The net errors and omissions (NEOs) in Stats NZ's Balance of Payments statistics were large and positive for several consecutive quarters.

Corrective actions and capacity development priorities. Stats NZ has been working towards identifying the possible causes of NEO and resolving data issues.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Not applicable.

Other data gaps. The authorities still do not produce a monthly CPI index which hampers the formulation of monetary policy. New Zealand does have a monthly Selected Price Index which includes prices on 44 percent of the full CPI basket, but this is not indicative of CPI.

Annex VIII. Table 2. New Zealand: Data Standards Initiatives

New Zealand does not participate in the IMF Data Standards Initiatives.

Annex VIII. Table 3. New Zealand: Table of Common Indicators Required for Surveillance

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	New Zealand[8]	Expected Timeliness[6,7]	New Zealand[8]
Exchange Rates	Apr-25	Apr-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Feb-25	Mar-25	M	M	M	...	1M	...
Reserve/Base Money	Jan-25	Feb-25	M	M	M	...	2M	...
Broad Money	Jan-25	Feb-25	M	M	M	...	1Q	...
Central Bank Balance Sheet	Feb-25	Mar-25	M	M	M	...	2M	...
Consolidated Balance Sheet of the Banking System	Feb-25	Mar-25	M	M	M	...	1Q	...
Interest Rates[2]	Apr-25	Apr-25	D	D	D	...	...	...
Consumer Price Index	Dec-24	Jan-25	Q	Q	M	...	2M	...
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Jan-25	Mar-25	M	M	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Jan-25	Mar-25	M	M	M	...	1Q	...
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Jan-25	Mar-25	M	M	Q	...	2Q	...
External Current Account Balance	Dec-24	Mar-25	Q	Q	Q	...	1Q	...
Exports and Imports of Goods and Services	Dec-24	Mar-25	M	M	M	...	12W	...
GDP/GNP	Dec-24	Mar-25	Q	Q	Q	...	1Q	...
Gross External Debt	Dec-24	Mar-25	Q	Q	Q	...	2Q	...
International Investment Position	Dec-24	Mar-25	Q	Q	Q	...	3Q	...

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

NEW ZEALAND

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

April 29, 2025

Prepared By

Asia and Pacific Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of March 25, 2025)

Membership Status: Joined: August 31, 1961; Article VIII

General Resources Account:	SDR Million	Percent Quota
Quota	1,252.10	100.00
Fund Holdings of Currency	941.16	75.17
Reserve position in Fund	311.11	24.85
Lending to the Fund		
New Arrangements to Borrow		

SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	2,053.84	100.00
Holdings	2,153.90	104.78

Outstanding Purchases and Loans: None

Financial Arrangements: None

Projected Payments to Fund (SDR Million; based on existing use of resources and present holdings of SDRs) [1/]

	Forthcoming				
	2025	2026	2027	2028	2029
Principal					
Charges/Interest	0.02	0.02	0.02	0.02	0.02
Total	**0.02**	**0.02**	**0.02**	**0.02**	**0.02**

1/ When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangement:

The New Zealand dollar has floated independently since March 1985. The de facto exchange rate arrangement is floating, and the de jure exchange rate arrangement is free floating. New Zealand accepted the obligations under Article VIII, Sections 2a, 3, and 4 of the IMF's Articles of Agreement on August 5, 1982 and maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions, other than restrictions notified to the Fund in accordance with Decision No. 144-(52/51).

Article IV Consultation:

New Zealand is on the 12-month consultation cycle. The 2024 Article IV consultation was concluded by the Executive Board on May 7, 2024.

FSAP Participation and ROSCs:

New Zealand has participated in two FSAPs to date.

- The FSSA from the 2003 FSAP mission and the Detailed Assessments of Observance of IOSCO Objectives and Principles of Securities Regulation and FATF Recommendations for Anti-Money Laundering and Combating the Financing of Terrorism were published under Country Reports No. 04/126, No. 04/417, and No. 05/284, respectively.

- New Zealand participated again in 2016, with one FSAP mission in August 2016 and another FSAP mission in November 2017. The FSSA was discussed by the Executive Board at the time of the discussion of the Staff Report for the 2017 Article IV Consultation with New Zealand.

Technical Assistance:

- A monetary and financial statistics (MFS) technical assistance (TA) mission visited New Zealand during October 1-12, 2018. The *TA report* was published on June 14, 2019.

Statement by Mark Blackmore, Alternate Executive Director for New Zealand, May 19, 2025

The New Zealand authorities appreciate the constructive and engaging consultation with the IMF mission team and broadly concur with the staff appraisal.

Recent Economic Developments, Outlook and Risks

New Zealand's economy is recovering after a sharp contraction in the middle of 2024 driven by tighter financial conditions, cost of living pressures and slower net migration inflows. The level of real GDP at the end of 2024 was around 7 percent above its pre-pandemic level notwithstanding -0.5 percent growth for the calendar year as a whole. The economy grew by 0.7 percent quarter-on-quarter in December after contracting in the June and September two quarters. The unemployment rate increased through 2024 but was unchanged at 5.1 percent in the March 2025 quarter. The authorities expect economic growth to gradually recover during 2025 and solidify in 2026 at a slightly above trend pace. Lower interest rates will encourage spending, although elevated global economic uncertainty is expected to weigh on business investment decisions. Higher prices for some of New Zealand's key commodities and a lower exchange rate will support export revenues. Employment growth is expected to pick up in the second half of the year as the domestic economy recovers.

Inflation has returned to near the mid-point of the Monetary Policy Committee's 1 to 3 percent target band as demand softened and supply constraints eased. Consumer prices were 2.5 percent higher in the March 2025 quarter than a year earlier. As in other countries goods price inflation has fallen substantially, while services have declined more slowly. With inflation inside the target band and firms' inflation expectations and core inflation consistent with inflation remaining at target over the medium term, monetary policy has been moving to a less restrictive stance. The full economic impact of cuts in the Official Cash Rate (OCR) since August 2024 are yet to be fully realized.

The authorities have adjusted down expectations for real GDP growth in 2025 and 2026 relative to previous forecasts. While the authorities see the risks around the outlook as broadly balanced, the recently announced increases in global trade barriers have increased uncertainty, weakened the outlook for global economic activity and created a downside risk to the outlook for economic activity and inflation in New Zealand. While the direct consequences of new tariffs on New Zealand exports to the United States is likely to be modest in aggregate, the authorities are wary of the potential indirect effects from weaker global growth and supply chain disruption/alignment over the short and medium term.

The housing market is stable with macro-financial risks well contained. Nominal house prices are largely unchanged over the past year, remaining around 13 percent below their peak in November 2021. Sales volumes have increased as mortgage rates have declined but remain below average. A large volume of unsold properties and weak net migration are expected to restrain house price and rent increases in the near term. Prudential policies have contributed to

significant resilience in the financial system, which has been evident as earlier house price declines have not been associated with widespread impacts on financial stability. Debt-to-income (DTI) restrictions were introduced into the macro-prudential toolkit in July 2024 but are minimally binding, as high-risk lending remains low given subdued housing market activity.

The current account deficit is declining as excess demand pressures disappear and COVID-related effects dissipate. The authorities expect the current account deficit to narrow to sustainable levels as services exports recover further and the fiscal deficit narrows. While the current account deficit is large, a considerable external rebalancing since the Global Financial Crisis has been associated with an improvement in the net international investment position from -84 percent of GDP in 2009 to -49 percent now. Moreover, external resilience is supported by the economy's sound macroeconomic fundamentals and institutions, including the freely floating exchange rate, and characteristics of the external balance sheet, including the maturity profile and currency denomination of external debt.

Monetary Policy has eased

Monetary policy is moving toward a neutral stance after a period of restrictive policy. The Monetary Policy Committee (MPC) began decreasing the policy interest rate in August 2024 and has decreased rates by a cumulative 200 basis points since then. Future policy decisions will be determined by the outlook for inflationary pressure over the medium term. The next monetary policy decision occurs Wednesday 29 May, with market pricing suggesting a 25-basis point reduction in the OCR, taking it to 3.25 percent. The RBNZ is also continuing to implement its well-signaled plan to unwind its balance sheet measures.

The monetary framework continues to work effectively. The modernization of governance and decision-making processes over recent years is consistent with the longstanding pillars of New Zealand's sound approach to monetary policy: an operationally independent central bank, flexible inflation targeting and a freely floating exchange rate. The MPC's Remit and Charter were updated in December 2023, in accordance with legislative changes to return to a single mandate focused on inflation. The Remit remains focused on achieving a medium-term inflation target of 1-3 percent, with a focus on the 2 percent midpoint. Employment has been added as one of the variables (alongside output, interest rates and the exchange rate) the MPC should seek to avoid unnecessary volatility in while pursuing its inflation objective.

Rebuilding Fiscal Buffers

The Government's fiscal strategy prudently balances a range of considerations and is integral to its broader economic strategy. The Government is committed to a sustained medium term fiscal consolidation that will rebuild buffers, increase resilience and support monetary policy and growth by helping to alleviate inflationary pressures and freeing up resources. Within this strategy, the Government continues to make long-term investments in accordance with its priorities while ensuring value-for-money and seeing overall government spending declining over time.

Budget 2025 will be presented on Thursday 22 May. The Government has signaled new spending initiatives will be strictly limited to a small number of priorities - health, education, law and order, defence, some critical social investments, modest measures to support business growth and to provide some carefully targeted cost of living relief. Beyond a small number of exceptions, government departments are not receiving additional funding in the Budget. In total, the Budget 2025 "operating allowance" for net new policy spending has been set at NZ$1.3 billion, down from NZ$2.4 billion signaled previously. To allow for additional spending in the priority areas a significant savings or prioritization exercise involving a line-by-line review of previous spending commitments has been undertaken.

The fiscal stance is contractionary over the authorities' four-year forecast horizon. This is achieved mainly by a decline in real government consumption expenditure back to levels more consistent with pre-pandemic levels, partially offset by investment spending. The fiscal stance is currently less contractionary than earlier planned owing to weaker than expected growth constraining revenues and the need to support economic growth at a time of increased economic uncertainty. The authorities note that near-term fiscal impulse forecasts are highly uncertain. There has been material volatility in recent years, mainly owing to variability in the timing of revenue collection, capital budget execution and cyclical adjustments.

The fiscal rules support fiscal sustainability while providing space for long-term investments. The Government's fiscal strategy is focused on two key goals: putting net debt on a downward trajectory that maintains prudent debt levels and returning its preferred operating balance measure to surplus by 2027/28. Net public debt is forecast to peak at around 26 percent of GDP midway through the Treasury's forecast period ending 2028/29. Maintaining a strong public sector balance sheet provides an important fiscal buffer for future shocks, including future economic downturns, pandemics, natural disasters and climate-related events. The Government's fiscal plan has the majority of increased public debt over the forecasts going to fund net capital spending.

Maintaining Financial Stability

New Zealand's financial system is sound and resilient, although financial stability risks have increased because of increased tariffs and global economic uncertainty. The banking system's capital and liquidity positions are strong, with profitability and asset quality remaining high. Bank capital ratios have continued to increase. The RBNZ is closely monitoring pressures among households and business sectors from past increases in financial conditions. There have been limited signs of distress in banks' lending portfolios to date, with only a small share of borrowers falling behind on their payments. While the financial system was resilient to the effects of the North Island weather events in 2023, this and current geopolitical risks underscore the ongoing need to enhance understanding and manageme-nt of the financial system's exposure to low-probability but high impact risks. The RBNZ has recently published the results of its 2024 General Insurance Industry Stress test which found that insurers could pay all claims from a very severe seismic shock, reflecting improvements in resilience since the Canterbury earthquakes.

The RBNZ is also working with the largest banks on a stress test that examines the impact of trade and related disruptions on banks.

The authorities are continuing implementation of a major overhaul of the financial regulatory framework. The authorities have progressed a wide-ranging reform agenda building on the recommendations contained in the 2017 FSAP. A major milestone was reached with the enactment of the Deposit Takers Act (DTA) in 2023. This legislation modernized the regulatory framework to provide a single, coherent regulatory regime for all bank and non-bank deposit takers which will apply from 2028. It enhances regulation and supervision, management and resolution of any deposit taker in financial distress. The DTA also introduced a new deposit insurance scheme, the Depositor Compensation Scheme (DCS), which comes into effect 1 July 2025.

The RBNZ is reviewing the calibration of bank capital requirements. The recently announced review will consider the most effective way for prudential capital requirements to support the resilience of the financial system, building on work underway considering risk weights. Capital requirements were last reviewed in 2019, and banks have been phasing the changes in. A planned increase in requirements on 1 July 2025 will proceed.

Lifting Productivity and Growth

The structural policy agenda works toward a more productive economy. The authorities recognize that further efforts are needed to materially improve New Zealand's productivity performance, lift sustainable growth and deliver higher living standards. The Government's economic growth agenda was set out in February 2025. "Going for Growth" sets out five pillars for lifting economic growth: developing talent, competitive business settings, promoting global trade and investment, innovation, technology and science, and Infrastructure for growth. Across these themes, the Government is interested in reforms to support increased capital investment by firms, supported by higher domestic savings and inbound overseas investment; secure affordable and abundant energy supply; tax; and regulatory settings that support greater competition in key sectors. Economic growth is a key focus of this year's Budget, and it is expected that each of the five pillars will be represented in Budget 2025.

New Zealand continues to be a strong advocate for a rules-based, international trading system. It is actively expanding its network of high-quality trade agreements. In recent years, it has concluded Free Trade Agreements (FTAs) with the European Union, the United Kingdom, the United Arab Emirates, and the Gulf Cooperation Council, alongside other plurilateral agreements covering trade in digital services and environmental goods. New Zealand and India have also commenced negotiations towards a comprehensive FTA.

Housing affordability and closing the infrastructure deficit remain structural challenges. A lack of affordable housing has been a long-standing policy concern due to its adverse impacts on economic and social outcomes. The authorities are progressing reforms to ease regulatory, planning and infrastructure constraints on housing supply. Further implementation of reforms to

ease land use constraints is needed to achieve greater housing affordability. The authorities are progressing reform and replacement of the Resource Management Act and have made changes across the infrastructure system to improve the pace of infrastructure delivery, the quality of that infrastructure, how it is financed, and how it is managed over its lifetime. By December, the New Zealand Infrastructure Commission will deliver a 30-year National Infrastructure Plan. This will give the Government a long-term view of planned investment over the next 10 years, New Zealand's infrastructure needs, and the spending required over the next 30 years to address them. Beyond simply investing more, the authorities are considering how public asset management and performance can be improved.

The Government is committed to meeting emissions targets in an economically efficient way. The New Zealand Emissions Trading Scheme (ETS) is the Government's cornerstone policy for reducing net emissions. Modelling in the second emissions reduction plan (ERP2) shows that New Zealand is expected to achieve its emissions reduction targets, including net zero emissions and the methane target, by 2050. The authorities agree that formulating an enduring, sustainable approach to helping New Zealand prepare for and respond to physical climate change is important. There is value in landing a coherent national approach through the National Adaptation Framework, in addition to the consideration of climate risk and adaptation within the context of wider government asset management and investment decisions.

New Zealand actively supports international cooperation to address climate change. New Zealand remains committed to the Paris Agreement's goal to limit warming to 1.5 degrees, and will continue to prioritize support for Pacific Island countries to adapt to the impacts of climate change.