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Statement by the Hon. W.F. BIRCH ,
Governor of the Fund for NEW ZEALAND ,
at the Joint Annual Discussion

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This annual meeting of the IMF is a pivotal to economic confidence and a recovery

We can continue to endorse open market fundamentals, and lead the world, including developing, emerging and transition economies, into a new era of global growth.

inward-looking policies, setting back for many years the achievement of that growth.

I welcome the focus now being developed by the G7. The contribution of the large

if they run open stable policies that maintain investor confidence.

There will always be cause for concern about the volatility of capital flows where

where financial sector reform has not been addressed, bad loans abound: where governance

But where capital is desperately needed to lift the living standards of a people, it is no answer to shut out that capital, or impose constraints that boost its price.

always to establish, at domestic and international level, a sound economic and fiscal framework.

most protected economies in the western world. Designed to protect, it greatly increased our vulnerability.

crisis, capital surges, inflation, and banking problems seen more recently in Asia.

Without reform, the impact of the Asian crisis on New Zealand would inevitably

Instead, in 1985, we floated the Kiwi dollar. It is universally understood today that the Government and central bank are not going to prop it up. This is a totally clean float.

foreign exchange liabilities. The exchange rate adjusts freely, in line with economic fundamentals.

We base our policy framework on five principles:

- An open economy, open trade policies and open capital markets
- Price stability as the sole statutory priority of the central bank
- Prudent fiscal policy, including a buffer against fiscal shock
- Flexible labour markets
- And a low-rate broad-base tax system.

Those policies have trebled our growth, halved net public debt, cut net public foreign currency debt to zero, cut employment from 11% to 6%, and transformed our economic future.

If we want exporters to compete globally, we have to give them world input prices. Legislation passed last week timetables the removal of all remaining tariffs by July 2006.

New Zealand has increased its Asian exports by 75% since 1990. Last year 7.8% of GDP and 36% of total exports went to Asia.

We have more exposure to Asian markets than any other OECD nation, leaving aside Japan, Korea and Australia, so inevitably, the Asian crisis hurt us.

We expect -0.5% growth in the year to March 1999. Fiscal surpluses are off the table for 2 years. But we see growth recovering late this year to 3% in 1999-2000, and 4% in 2000-01.

New Zealanders exporting into a flat Japanese market have been able to boost sales by 20% in recent years. Large competitive efficiency gains in the last 3-4 years now combine with a major movement of the kiwi dollar in their favour.

Even on the low-growth assumption that demand for New Zealand exports goes on contracting till late 1999, our Treasury expects growth to average above 2.8% in 1993-2001.

There are however clear risks to global growth in the period ahead. In this environment, the IMF has a key role.

Accountability is fundamental. If banks can make bad lending decisions with relative impunity from financial consequences, there will be no end to bad loans they make.

The IMF has to be more than a financial bank. It should also be a Knowledge Bank—a provider of surveillance, expert advice and even more important, an assurance of transparency.

Transparency is central to responsible management. It is not, as somebody here described it, “motherhood and apple-pie.” For the banking sector, in particular, it is *the* critical discipline.

Like central banks at national level, the IFls have, at international level, a responsibility to warn where imprudent activity is creating risks for financial or economic stability.

They did not, in the run-up to the Asian crisis, warn adequately of the underlying risks to stability. True, others also missed the boat. But the IFIs have a special responsibility.

This annual meeting is pivotal, in particular because the juggernaut set in motion by the Asian crisis may have some distance yet to travel, before we can halt its destruction.

I am encouraged by the steps already taken by Asian countries such as Korea and Thailand, but big risks still remain for the world economy.

It may be, for example, that growth in the US economy in 1999, reduced by events elsewhere, may fall as low as 0-1%. That would cause impacts in Europe and world-wide.

If so, it would be difficult in the extreme for nations to find their way through that minefield, without clear strong delineation from the IMF and World Bank of the best choices to make.

Confidence depends on being able to identify a reliable path though all these present difficulties, into a better global future.

Without leadership, the risk of a return to ad hoc protectionism based on myopic analysis and self-defeating policies is enlarged to seriously dangerous proportions.

Providing that leadership and confidence is, in my view, the key task of this meeting.