II. THE ECONOMY

New Zealand's prosperity is based on diversified industrial and commercial activity, but it remains dependent on primary products and processed foods for about 60 per cent of export earnings. New Zealand's external economy is heavily dependent on agriculture, particularly livestock products. Wool, meat and dairy products together provide about 40 per cent of annual export earnings. Horticulture in New Zealand is of moderate size, but in recent years has undergone rapid expansion. Over a twenty-year period, exports increased from NZ$820.5 million in 1968 to NZ$13 466.2 billion in 1988.

The manufacturing sector provides about one-quarter of New Zealand's export earnings and a similar percentage of gross domestic product (GDP) and employment. The management of forests, providing the basis of the pulp and paper industry, is a rapidly expanding sector; more than 450 000 ha (1 111 934 acres) were planted between 1966 and 1981. New Zealand's annual output of roundwood should reach 36 million m^3 (47 million cu. yd.) in the year 2000. Light industry comprises chiefly food processing and canning, the assembly of motor vehicles, the manufacture of other transport equipment, wood and cork products, clothing, footwear and textile goods.

The New Zealand government seeks both to reduce (and eventually eliminate) the country's dependence on imported fuels, and to increase its energy-related exports, mainly by using natural gas, hydroelectric power and coal, and to increase the output of energy-intensive products such as aluminium. New Zealand also has extensive proven coal reserves.

Economic conditions in New Zealand are improving. The general view is that the economy had bottomed out in 1988 and that New Zealand is now poised for a gradual recovery. After a period of no growth, real growth in GDP of two per cent is expected in 1990. The average annual rate of inflation fell from 15.4 per cent in 1985 to 4.7 per cent in 1988. The trade surplus for 1988 was NZ$2.2 billion versus a 1987 deficit of NZ$92.9 million.

The Government of New Zealand continues to stress the need for a tight monetary policy although it has attempted to bring down interest rates which remain high despite the fall in inflation. The government projects a balanced budget by 1990-1991.