

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## REPORT OF THE COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS OF THE CONSULTATION UNDER ARTICLE XII:4(b) WITH

### N E W Z E A L A N D

1. In accordance with its terms of reference, the Committee conducted the consultation with New Zealand under paragraph 4(b) of Article XII. The Committee had before it the following documents: (a) a basic document (BOP/10) and supplementary documentation on the 1962/63 Licensing Schedule, distributed under cover of document L/1760/Add.1, and (b) documents provided by the International Monetary Fund as mentioned in paragraph 3 below.

2. In conducting the consultation, the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES (BISD, 7/S pages 97-98). The consultation was completed on 27 September 1962. This report summarizes the main points of the discussion.

#### Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement, the CONTRACTING PARTIES had invited the International Monetary Fund to consult with them in connexion with this consultation with New Zealand. In accordance with the agreed procedure the representative of the Fund was invited to make a statement supplementing the Fund's documentation concerning the position of New Zealand. The statement made was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES the Executive Board decision relating to the last consultation with New Zealand under Article XIV of the Fund Agreement and the background material prepared in connexion with that consultation.

"With respect to Part I of the Plan for Consultations, relating to balance of payments position and prospects, and with respect to Part III, relating to system and methods of the restrictions, the Fund calls the attention of the CONTRACTING PARTIES to the Executive Board decision of July 25, 1962, taken at the conclusion of its recent consultation with New Zealand, and particularly to paragraph 5, which reads as follows:

'In addition to the domestic measures taken, the Government intensified restrictions on imports in 1961; the licensing schedule for the year ended June 30, 1963 provides for private imports of £NZ 240 million to £NZ 250 million, compared with actual payments

of £NZ 272 million in 1961. The Fund considers that, in the circumstances presently prevailing, the general level of external restrictions maintained by New Zealand is not more than is required to prevent a serious decline in foreign exchange reserves. These restrictions are, however, intensive and complex, and some residual discrimination remains. The Fund believes that efforts to eliminate the payments deficit and to achieve a satisfactory level of reserves should be made in ways which will permit progress toward a relaxation of restrictions. The Fund welcomes the steps taken to eliminate discrimination against imports from Japan and believes that New Zealand should give priority to the removal of the remaining discrimination affecting current transactions.'

"With respect to Part II of the Plan for Consultations, relating to alternative measures to restore equilibrium, the Fund draws attention to the decision taken at the conclusion of its last consultation with New Zealand, including the paragraph quoted above. The Fund has no additional alternative measures to suggest at this time."

Opening statement by the representative of New Zealand

4. In his opening statement, the full text of which is appended to this report, the New Zealand representative provided the Committee with a detailed description of the problems and prospects for the New Zealand economy. He said he was pleased to inform the Committee that the remedial measures which his Government had taken in 1961 for arresting the deterioration in New Zealand's balance-of-payments position had had some effect. Inflationary pressures had been checked, the current account deficit had been greatly reduced and, from a capital inflow of £NZ 25.5 million during the year ended June 1962, £NZ 11.3 million had been added to net overseas assets. Import restrictions had been relaxed, but due to the persistent deficit on current account it had not been possible for his Government to go as far as it would have wished in freeing imports.

5. Turning to the economic scene and to recent trade developments, the representative of New Zealand stressed the continued dependence of the New Zealand economy on exports of a narrow range of agricultural products and the fact that exports accounted for more than one quarter of national income. Despite the sale of greater quantities of exports, export income had fallen in 1960 and 1961 and a further fall in the 1962 calendar year might occur. In view of the large share of gross national product derived from exports, the deterioration in New Zealand's terms of trade had had a markedly unfavourable effect in reducing the quantity of imports New Zealand was able to buy.

6. Although there had been an improvement in the foreign reserve position during the past year, leading to an increase in net overseas assets from £NZ 62.0 million at the end of June 1961 to £NZ 73.4 million at the end of June 1962, the improvement had been due to external borrowing. The balance

of current transactions for the year ended June 1962 showed a deficit of £NZ 18.6 million as compared with a deficit of £NZ 67.0 million for the year ended June 1961. A disturbing factor had been the rapidly growing deficit on invisibles. For the year ended June 1962 the deficit on invisibles was £NZ 54.0 million or more than double the deficit recorded five years ago. It was apparent from this brief outline that the overall balance-of-payments situation continued to be difficult.

7. Commenting on New Zealand's principal exports, the representative of New Zealand explained that during the past year there had been a slight increase in receipts for butter and cheese. This improvement had been offset by a fall in receipts for meat. It was expected that the London market for butter would remain firm. The price of wool was on average slightly lower than last year and some further deterioration was not unlikely. Despite some recovery in lamb prices on the London market towards mid-July, market prospects for New Zealand's principal exports seemed to indicate that the total export income for the year ending June 1963 was unlikely to be in excess of £NZ 300 million, an amount close to average export receipts for recent years.

8. Describing measures taken by his Government under the current import policy, the representative of New Zealand explained that, apart from some technical changes, the current Licensing Schedule for the period 1 July 1962 to 30 June 1963 was designed to make provision for private imports to the value of £NZ 250 million. This compared with private import payments of £NZ 234 million during the year ended June 1962 and £NZ 273 million for the calendar year of 1961. An innovation introduced in conjunction with the current Licensing Schedule, the so-called "free-funds scheme", provided that 80 per cent of eligible private funds held overseas could be used for importing goods for which import licences could be obtained under the Licensing Schedule, on the condition that the balance of the funds held abroad would be repatriated through the banking system. On the other hand, the "token" import licence provision had been removed from the 1962/1963 schedule in order to allow greater supplies of essential materials.

9. Commenting on internal developments, the representative of New Zealand informed the Committee that the inflationary difficulties of 1960 and 1961 had been largely overcome. Tax collections had increased and vigorous use of monetary restrictions had brought about a sharp fall in bank advances. As a result of these measures the demand for labour had eased.

10. In concluding his opening statement, the representative of New Zealand summed up the difficulties faced by his country in maintaining the standard of living of an increasing population in the face of continuing dependence on imports of most essential raw materials, coupled with difficulties of expanding access to markets and export income. Any improvement in the terms of trade would be a welcome development and would undoubtedly be followed by a further relaxation in import restrictions. Under existing circumstances there was, however, no practicable alternative but to continue import controls. The provision made for imports was the maximum warranted in view of the present balance-of-payments position and prospects.

Balance-of-payments position and prospects

11. The Committee thanked the representative of New Zealand for his clear and comprehensive opening statement and expressed satisfaction with the improvement in New Zealand's foreign asset holdings since the last consultation and with the consequential provision which had been made for a larger volume of imports under the current Licensing Schedule.

12. Members of the Committee enquired to what extent the tightening of import restrictions early in 1961 had affected the level of industrial production. The representative of New Zealand explained that the Government had borrowed externally in order that requirements for domestic industry, on which employment depended, could be met as fully as practicable. When imports had to be cut back in the spring of 1961, due primarily to developments beyond New Zealand's control, cuts were implemented in a way which would cause the least disturbance to industrial production. Similarly, the Supplementary Licensing Schedule for the first half of 1962 had given priority to imports of material and equipment for industry. The import restrictions appeared to have had little adverse effect on industrial production. However, the high level of industrial production achieved in the fiscal year 1960/61 had not been altogether unrelated to the heavy external deficit incurred in that year.

13. In reply to a question concerning the stock position in the first half of 1962, the representative of New Zealand explained that a rapid build-up of stocks, beginning in the latter half of 1960, had provided the economy with some cushion against the cut-back in imports in the spring of 1961. As a result of the tightening of import controls and of bank credit, stocks were reduced during the final quarter of 1961 and the first half of 1962. Nevertheless, it was felt that a review of the current stock position would show that on the whole stocks had not fallen below normal levels. This did not exclude the possibility of stock shortages in particular industries. In reply to a related question, the representative of New Zealand explained that, while there appeared to be no necessity for importers to concentrate arrivals in the latter half of the current calendar year in order to rebuild stocks, imports were nevertheless expected to be relatively heavier during this period, both as a result of the normal seasonal increase in imports towards the end of the year, and also because licences under the Schedule were issued on a yearly basis.

14. Noting that New Zealand's foreign exchange reserves were usually at a seasonally low level at the end of each calendar year, a member of the Committee enquired as to the likely level at the end of this year. The representative of New Zealand stated that, in view of the recent borrowing by his Government in the United States and in the United Kingdom bond markets, it was expected that reserves would not fall below £NZ 50 million. A lower level of reserves at the end of the year would give cause for concern.

15. In the discussion of the factors responsible for the rapid increase in net deficits on current invisible transactions, the representative of New Zealand explained that practically all headings under the invisibles category

had contributed to this unfavourable development. Payments for shipping had gone up by almost 50 per cent over the past five years, reflecting partly a higher volume of trade. With respect to exports, it was evident that New Zealand had been shipping an increased volume of exports for reduced financial returns. Another factor had been the increase in shipping freight rates by the "Conference Lines", which carried the bulk of New Zealand's trade to and from European destinations. Since "Conference Lines" freight rates had recently been increased again, there appeared to be little prospect of a decrease in the freight bill. Net payments for foreign travel had approximately doubled over the last five years as a result of a significant increase in private and business travel. While receipts from tourism had shown some increase, New Zealand's peripheral position was an obstacle to the expansion of the tourist industry. Major increases had also been registered with respect to interest payments on New Zealand's foreign debt, reflecting both a higher level of indebtedness and higher interest rates on new debts. Similarly, there had been an increase in investment income remittances from earnings on a larger volume of foreign investment. With respect to this latter heading, there might also have been some decrease in receipts from New Zealand's foreign investment. It was the New Zealand Government's hope that the import facilities provided under the "free-funds" scheme would provide a stimulus to the repatriation of balances held abroad by New Zealand residents.

16. Referring to New Zealand's balance-of-payments statistics, one member of the Committee enquired about the prospects for an up-turn of private capital inflows following the decline in 1961. The representative of New Zealand stated that his Government was constantly aware of the need to encourage private foreign investment. While he was not in a position to give a forecast of the development of private capital imports, it was his Government's hope that the continuing favourable prospects for investment in New Zealand and the encouragement of investment under existing tax laws would facilitate a higher rate of private capital inflow. Prospects for the establishment of industries, including an aluminium smelting plant in Southland, and for the further expansion of wood processing plants, were considered favourable. If present plans materialized, considerable inflows of investment capital in connexion with these projects could be expected. As regards the decrease in private capital inflows in 1961, the representative of New Zealand expressed the view that variations in capital imports were likely to appear larger in balance-of-payments statistics than in records of transfers through the banking system.

17. In reply to questions regarding recent capital transactions by the Government, the representative of New Zealand explained that his Government had been obliged in recent years to rely extensively on external borrowing, both for financing economic development and for off-setting deficits on current account. In order to facilitate debt repayments, the Government had invested abroad in periods when the balance-of-payments position had shown improvement. As repayments fell due, these investments had been realized to effect payment.

18. Commenting on the recent introduction of a new tariff and enquiring about its effects on the balance-of-payments position, one member of the Committee observed that, in view of the often substantial margins of preference, importers might be discouraged from buying in the cheapest market and thus prevent the best utilization of foreign exchange resources. The representative of New Zealand explained that certain adjustments in the tariff structure, providing in a number of cases for increased rates of duty, had been necessary as the old rates adopted some considerable time ago had ceased to meet the needs of New Zealand's changing economy. Since the tariff had only recently been introduced, and since balance-of-payments controls had to be maintained, it was difficult to assess the overall effect of the new tariff on the level of import demand. As regards the possible impact of preference margins on foreign exchange expenditure, the representative of New Zealand stated that his Government was aware that margins of preference might involve the possibility that imports would not be made from the cheapest source of supply. In respect of steel imports, the Government had reduced margins of preference under the new tariff accordingly.

#### Alternative measures to restore equilibrium

19. The Committee welcomed the success of the measures adopted by the New Zealand authorities for overcoming the inflationary pressures in the economy.

20. Members of the Committee enquired about the anticipated effect of the current Government budget on the internal situation. The representative of New Zealand replied that, much as his Government wished to reduce and eventually eliminate budget deficits, the 1962/63 Government budget might result in an internal deficit, though the primary aim had been to stimulate growth and to maintain employment. The internal deficit was expected to be smaller than the 1961/62 deficit of £NZ 16.9 million. If account was taken of external borrowing, the current budget might show an overall surplus and was, therefore, not expected to have an inflationary influence.

21. In the further discussion of fiscal and monetary measures applied by New Zealand, members of the Committee enquired about reasons for the apparently more extensive reliance on monetary measures. The representative of New Zealand explained that there had been greater emphasis on monetary measures in 1961/62 because of the need, at that time, to bring about a fall in bank advances, which had shown a very rapid increase in the period from September 1960 to March 1961. On the other hand, the Government budget in 1960/61 had been balanced. The Government had no a priori preference regarding the use of either monetary or fiscal measures for restraining inflationary pressures and for curbing import demand. Measures of both types were used, separately or together, as appropriate.

22. Members of the Committee asked for information about measures undertaken by the New Zealand Government for the diversification of production. Referring to his earlier statement, the representative of New Zealand recalled that over

the past six years New Zealand had borrowed externally or drawn down reserves to permit an increased rate of industrial development. There appeared to be possibilities for the establishment and expansion of industries based on indigenous natural resources, such as deposits of iron sand and natural gas or on cheap hydro-electric power, for example, the plan for the establishment of an aluminium smelting plant. The pulp and paper industry had, since its establishment, shown notable increases in production. Further expansion of this industry was being encouraged. While most of the smaller industries which had commenced were of the type producing import substitutes, some had found opportunities to export. The establishment of the aluminium smelting works, and, to a lesser extent, the establishment of the pulp and paper industry had been conceived as producing mainly for export. Access to export markets was an important factor in establishing these industries on an economic basis.

#### System and methods of the restrictions

23. One member of the Committee noted that in certain cases, where encouragement had been given to newly established industries, imports of raw materials appeared to have been subject to limitation as to the source of supply. The representative of New Zealand assured the Committee that in no case did the Government require manufacturers to buy only from certain sources. It was possible, however, that in isolated cases subsidiaries might have limited purchases to the traditional sources of supply of the overseas parent company. He pointed out, that import licences issued by the Government were valid for imports from all sources.

24. Members of the Committee noted with regret that no progress had been made by New Zealand in the elimination of the separate licensing of imports of motor vehicles from dollar and non-dollar areas, a matter which had been raised during previous consultations. In their view, there was no need for any differentiation and they urged the New Zealand authorities to eliminate the discrimination involved. The representative of New Zealand stated that the differentiation in licensing treatment had been maintained because of the difficulty of providing for sufficient imports of automobiles and the necessity therefore to import as many units as possible. On average, three motor vehicles from non-dollar sources could be imported for about the same cost in overseas funds as two from the dollar area. The representative of New Zealand further explained that, early in 1962, differentiation in licensing treatment had been eliminated with respect to imports under the non-remittance scheme. He informed the Committee that the question of issuing licences for motor vehicles on a global basis was now being re-examined.

25. The Committee expressed disappointment that the New Zealand authorities had felt it necessary to discontinue the "token" licence scheme. It was pointed out that, in accordance with the relevant provisions of the General Agreement (Article XII:5(c) (ii) (2)), restrictions imposed for balance-of-payments reasons should not be applied in such a manner as to preclude the importation of minimum commercial quantities. They expressed the hope that the New Zealand authorities, when reviewing their import policy, would keep this requirement

in mind; in any event, the saving in foreign exchange, to be applied to other imports, as a consequence of the discontinuation of the "token" licence provisions would be small. While the effect on increased import availabilities for other categories of goods was small, the maintenance of established trading channels was a matter of considerable importance. The representative of New Zealand stated that the discontinuation of this scheme had been a matter of regret to his Government. They had taken this step since the retention of this licensing category would have meant a reduction in import possibilities for essential commodities, particularly raw materials, a shortage of which could lead to unemployment. He undertook to bring the views expressed by members of the Committee to the urgent attention of his Government.

26. Members of the Committee noted with concern that imports of items competing with local products had in many instances been subject to severe restrictions. Another matter for concern was the large degree of variation in import allocations in different periods. The uncertainty as to import possibilities in the New Zealand market made it extremely difficult for exporters to become established in that market. The representative of New Zealand stated that, although the overall level of imports had not been subject to large fluctuations from year to year, the special characteristics of a small market, such as New Zealand, often led to considerable fluctuations in the level of import requirements for certain categories of imports. He explained further that, in order to provide sufficient flexibility for items admitted on the basis of a reference period, the licensing provisions for these items included the possibility of licenses being issued under the "C category" procedure in addition to the basic allocation.

27. In clarifying the provisions relating to import facilities under the "free-funds" scheme, the representative of New Zealand explained that imports under this scheme were, in general, limited to those classes of goods for which licences were ordinarily available. Consequently "free funds" could not normally be used to import "D category" items. In order to achieve the objectives of the "free-funds" scheme, import facilities under this scheme were limited to the 1962/63 licensing period. Experience with the operation of this scheme so far indicated that a large part of the funds declared eligible for effecting import payments were being used for automobile imports.

28. Members of the Committee said that the examination of the restrictive system operated by New Zealand had shown, as was stated in the Fund decision, that the restrictions were intensive and complex and that some residual discrimination remained. They expressed the hope that the New Zealand authorities would eliminate the remaining discrimination and, pending further import liberalization, would simplify the system of licensing controls as far as practicable.

#### Effects of the restrictions

29. The Committee noted that the need to conserve foreign exchange reserves and to rely to a greater degree on domestic production involved some incidental protection for domestic industries. They welcomed the assurance by the

representative of New Zealand that no encouragement would be given to the establishment of industries which would flourish only during periods when imports were restricted. They also welcomed the statement by the New Zealand representative that every effort would be made to avoid discrimination or unnecessary disruption of established trade in the administration of import controls maintained for balance-of-payments reasons.

#### General

30. The Committee thanked the representative of New Zealand for his clear and concise replies to the numerous questions posed by members of the Committee. They welcomed the success of the measures adopted by the New Zealand authorities for overcoming the problems facing the economy and expressed appreciation for the increase in import facilities under the current Licensing Schedule. They hoped that import restrictions would be further relaxed and eliminated as rapidly as the balance-of-payments position permitted.

31. The Committee noted with concern, however, that the "token" import scheme had been discontinued. They also expressed disappointment and concern over the fact that there continued to be an element of discrimination in the system of import licensing. They hoped that the remaining discrimination would soon be removed and that the New Zealand authorities would reconsider their decision with regard to the "token" import scheme. They noted that the licensing system was complex and expressed the hope that it would be simplified.

32. The representative of New Zealand thanked the Committee for their understanding and co-operation throughout the consultation, and gave an assurance that the points raised by members of the Committee would be brought to the immediate attention of his Government.

#### List of Annexes

- A. Opening Statement by the Representative of New Zealand
- B. International Monetary Fund Executive Board Decision of 25 July 1962.

ANNEX A

Opening Statement by the Representative of New Zealand

At the balance-of-payments consultations held in November 1961, the Committee was informed of an intensification in New Zealand's import restrictions. This action was inevitable following a sharp deterioration in New Zealand's balance-of-payments position. The external current account deficit for the year ended 30 June 1961 totalled £67 million. Capital transactions brought in £9.4 million leaving a balance of £57 million which was financed by drawing down overseas reserves from £119 million in June 1960 to £62 million in June 1961.

This year I am pleased to be able to inform the Committee that the remedial measures have had a beneficial effect. Inflationary pressure has been checked, the current account deficit has been greatly reduced and, from a capital inflow of £25.5 million during the year ended June 1962, £11.3 million was added to net overseas assets.

Restrictions on imports have been relaxed, but as New Zealand is still incurring a current account deficit, the Government has not been able to go as far as it would have wished in freeing imports.

The New Zealand economy

Members of the Committee have available to them an excellent survey of economic developments in New Zealand prepared by the International Monetary Fund. Earlier this year we welcomed in New Zealand representatives of IMF on the occasion of New Zealand's Article XIV consultations since becoming a Fund member. I am sure that the Committee will find the Fund's report most helpful.

As background to these consultations I should like to stress again the dependence of the New Zealand economy on a narrow range of agricultural exports. Dairy produce, meat, wool and their associated by products account for practically the whole of New Zealand's exports. Export earnings produce more than one quarter of our national income and pay for the great bulk of raw materials and equipment used in industry.

Adverse movements in our terms of trade directly affect the quantity of imports New Zealand can afford to buy. Despite the sale of greater quantities of exports, export income fell in 1960 and 1961 and a further fall is expected this year. On a per capita basis the loss is proportionately greater because of the 2 per cent annual increase in population.

At this stage future prospects are difficult to assess. If as a result of future developments New Zealand had to face restrictions on its access to the British market, our external position could become very serious indeed.

Over 90 per cent of our exports of butter, cheese and lamb are sold in Britain and our experience leads us to the conclusion that there are no alternative markets for quantities of that order.

Balance of payments

As a result of the lower rate of importing New Zealand's balance-of-payments position has improved this year but the situation is still difficult. The simplest indicator is the level of net overseas assets. The net overseas assets are the foreign exchange and overseas investments held by the New Zealand banking system in respect of New Zealand business, less overseas liabilities, and are commonly referred to as New Zealand's reserves of overseas exchange.

Generally speaking the reserves show a marked seasonal movement from a high point in June to a low point in December. This movement reflects the high rate of exporting from December to May and the accelerated importing towards the end of the year.

Since 1957 the figures have been as follows:

Year	Last balance day in	
	<u>June</u>	<u>December</u>
1957	113.1	45.5
1958	52.9	55.1
1959	100.7	87.6
1960	118.7	66.0
1961	62.0	49.1
1962	73.4	

A figure much below £100 million in June implies difficulty during the second half of the year when a seasonal decline in reserves normally occurs.

Changes in net overseas assets include receipts from external borrowing which have been substantial in recent years. A more accurate view of New Zealand's balance-of-payments difficulties can be obtained from the balance on current transactions which for the past six years has been as follows:

	Years ended 30 June	
	<u>Surplus</u>	<u>Deficit</u>
1957		3.0
1958		77.1
1959	12.8	
1960	29.5	
1961		67.0
1962		18.6
	<u>42.3</u>	<u>165.7</u>

Thus over the past six years New Zealand had borrowed externally or drawn upon reserves to the extent of £123 million or at an average rate of more than £20 million a year. The improvement in the reserve position during the past year has been due entirely to external borrowing despite the heavy reduction in importing which occurred at the same time. Export earnings showed little change in total, the slight improvement in receipts for butter and cheese being offset by a fall in receipts for meat.

A disturbing feature has been the rapidly growing deficit on invisible items.

Net deficit on invisible items

<u>June years</u>	<u>£ million</u>
1957	22.4
1958	30.6
1959	38.4
1960	41.9
1961	48.0
1962	54.0

since 1959 current receipts on invisibles have increased from £25 million to £30 million but payments have risen much more rapidly from £63 million to £84 million. The major items concerned are transport, insurance, travel, investment income and interest on external debt.

Export prospects

I should like to comment briefly on market prospects for New Zealand's principal exports.

Members of the Committee will know that the United Kingdom placed a quota restriction of 390,000 tons on butter which may be imported into the United Kingdom during the year ending 31 March 1963. New Zealand has been allocated 156,000 tons of this current quota. Since the quota was introduced the price of butter has risen from 285s. per cwt. to 295s. on 28 May and to 305s. on 12 June. The market remains firm.

The price of cheese on the United Kingdom market has been stable for some time now. Supplies are accumulating, however, and there is a possibility that the price may fall if these supplies continue to build up.

New Zealand's main meat product is lamb which is nearly all sold on the London market. After last year and the early months of 1962 when lamb prices on the London market were relatively low, there was a recovery towards mid-1962, resulting mainly from severe winter conditions in Britain. Drought in New Zealand during the summer brought on our production earlier than usual, thus, in spite of the lower prices in the first few months of the year, receipts have been higher compared with last year. The United States continues as New Zealand's major market for beef.

Strenuous efforts are being made to diversify New Zealand's market outlets for meat. One success has been the development of a market for mutton in Japan. New Zealand is now the major exporter of mutton to Japan. Unfortunately there has been some recent fall in demand apparently due to pressure on Japanese importers to conserve exchange. However, unexpected and substantial orders for mutton from the Soviet Union have ensured that there will be no difficulty in selling the current season's production.

Wool prices this year have on average been slightly lower than last year. There does not seem to be any prospect of a significant increase in the price of wool in the near future, in fact if anything a further deterioration may be expected. During the past season an expected rise in the wool clip did not eventuate.

This brief commodity survey gives no indication of any appreciable improvement in total export receipts in the near future.

Forecasts are difficult to make, but export income for the year to June 1963 seems unlikely to exceed £300 million or close to the average of recent years. Some recovery in our terms of trade would be a welcome development for New Zealand and would undoubtedly be followed by further relaxation in import restrictions.

#### Changes in the import licensing system

A number of important modifications have been made in the presentation of the licensing schedule since last year. The schedule has been changed from a calendar year to a June year basis. Also, with the introduction of the new tariff on 1 July of this year it was necessary to base the new schedule on the structure of the tariff. This involved regrouping 4,000 items into approximately 1,000 items.

The 1961 import licensing schedule was extended to cover the first half of 1962, and a supplementary schedule was issued. The 1962/63 schedule has been designed to limit private import payments to the value of £250 million. In the year to June 1962 private import payments totalled £234 million, compared with £273 million in the calendar year 1961. The current schedule provides for a higher level of imports than when New Zealand's position was reviewed in this Committee last November.

An innovation which has been introduced in the 1962/63 schedule is the "free funds" scheme. This is intended as an incentive to business firms to use holdings of overseas exchange for commercial imports on a non-remittance basis. The amount of funds held overseas privately by business is not known, but it is thought to be considerable. Under this scheme 80 per cent of the eligible funds may be used for importing goods and the balance must be repatriated to New Zealand through the banking system. The "token" import

licence provision has been removed from the schedule for 1962/63 in order to allow greater supplies of essential raw materials. Licences issued under the Free Funds Scheme are limited to those classes of goods for which ordinary licences would have been available. Up to 26 July 1962 the Reserve Bank had received 263 applications for a total of £2,016,000. Most of these have been approved, but some have been referred back for further information. Funds to the value of £1,388,000 have been declared eligible for use under this scheme.

#### Internal conditions

The inflationary difficulties of 1960 and 1961 have been largely overcome. For the financial year ended March 1961 taxation collected increased by nearly 7 per cent - from £314 million in 1960/61 to £335 million in 1961/62. Vigorous use of monetary restraints has brought about a fall in bank advances. The demand for labour has eased. In these circumstances the administration of import licencing is far less difficult than when the pressure of demand is excessive. We hope that the restoration of balance will be followed by further improvement in New Zealand's general economic situation.

#### Conclusion

Whatever the outcome of the United Kingdom/EEC negotiations New Zealand obviously faces trading difficulties in the future. It will be difficult for us to sell all the butter, cheese, and meat we produce. This is the problem of access to markets. The prices we receive for our goods will on average be probably no better than they are now, and may be worse. New Zealand's dependence on imports of raw materials will continue, though recent developments in the fields of petroleum, natural gas, scrap iron and iron sands may eventually result in appreciable savings of overseas exchange. Nevertheless, with our natural increase in population, coupled with a considerable gain from migration, and only stable receipts from exports, New Zealand would seem to face a decline in living standards unless marketing conditions for our exports improve.

I should like to stress the point that New Zealand has no desire to restrict imports anymore than is absolutely necessary, but under existing circumstances there is no practicable alternative to the controls which have been imposed. The provision made for imports is the maximum which is warranted in view of our present balance-of-payments prospects.

ANNEX B

International Monetary Fund Executive Board Decision  
Taken at the Conclusion of the Fund's Consultation  
with New Zealand on 25 July 1962

1. The Government of New Zealand has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.
2. In the year ended March 31, 1961 domestic expenditure rose more rapidly than production; an acute shortage of labor developed and a sharp rise in imports led to a deterioration in the balance of payments. The Government took measures designed to correct the situation gradually without dislocating the economy. Firm restraint was imposed on bank credit to the private sector mainly through the variation of reserve ratios for the trading banks and an increase in the discount rate of the Reserve Bank. Minimum deposits for hire purchase transactions were raised and repayment periods reduced. An effort was made to restrain the growth of government expenditure and in the budget for 1961/62 the increase was kept to 4.3 per cent, about half the rate in the two previous years. However, the Public Account for the year ended March 31, 1962 showed an internal deficit of about £NZ 16.9 million.
3. In 1961/62 trading bank advances fell and the money supply was about the same at the end of the year as at the beginning. The growth of domestic expenditure was checked, but total demand still exceeds available supplies. The consumer price index for the March quarter of 1962 was 2.9 per cent higher than 12 months earlier. The Fund emphasizes the importance of continued efforts to apply domestic financial policies which are designed to strengthen the balance of payments and to prevent too rapid a growth of domestic expenditure, including in present circumstances a policy aimed at reducing the internal deficit in the budget. Such policies would help to provide a basis for sustained economic growth.
4. Largely as a result of falling export prices, export receipts declined slightly in both 1960 and 1961. Imports rose in 1960 and in the first half of 1961 under the impact of the rising domestic expenditure and, with a steady rise in the net invisible deficit, the net overseas assets of the banking system fell from £NZ 118.7 million in June 1960 to £NZ 62.0 million a year later. Imports have been falling since the middle of last year and in the first quarter of 1962 payments for private imports were nearly 50 per cent below the level of a year earlier. Net overseas assets of the banking system rose from £NZ 51.7 million at the end of 1961 to £NZ 73.4 million at the end of June 1962.
5. In addition to the domestic measures taken, the Government intensified restrictions on imports in 1961; the licensing schedule for the year ended June 30, 1963 provides for private imports of £NZ 240 million to £NZ 250 million,

compared with actual payments of £NZ 272 million in 1961. The Fund considers that, in the circumstances presently prevailing, the general level of external restrictions maintained by New Zealand is not more than is required to prevent a serious decline in foreign exchange reserves. These restrictions are, however, intensive and complex, and some residual discrimination remains. The Fund believes that efforts to eliminate the payments deficit and to achieve a satisfactory level of reserves should be made in ways which will permit progress toward a relaxation of restrictions. The Fund welcomes the steps taken to eliminate discrimination against imports from Japan and believes that New Zealand should give priority to the removal of the remaining discrimination affecting current transactions.

6. In concluding the 1962 consultations, the Fund has no other comments to make on the transitional arrangements maintained by New Zealand.