

GENERAL AGREEMENT ON TARIFFS AND TRADE

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

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 for the consultation, BOP/39; (b) background material dated 23 October 1964 provided by the International Monetary Fund; (c) an announcement concerning New Zealand's import restrictions, L/2230/Add.1; and (d) material provided by the New Zealand Government relating to the New Zealand Government's policy on import control for the licensing period 1964-65.
2. In conducting the consultation, the Committee followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97 and 98). The consultation was completed on 6 November 1964. 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 the 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 was as follows:

"The International Monetary Fund has transmitted to the CONTRACTING PARTIES a background paper on New Zealand dated October 23, 1964.

"The Fund is soon to conduct a consultation with New Zealand under Article XIV of the Fund Agreement and expects to transmit to the CONTRACTING PARTIES the Executive Board decision relating to that consultation when it becomes available."

Balance-of-payments position and prospects

4. In his opening statement, the text of which is annexed to this report, the representative of New Zealand, before outlining New Zealand's recent experience and prospects in the balance-of-payments field, explained some of the main structural features of New Zealand's external trade. He said that over 90 per cent of

New Zealand's export receipts were earned by the sale of primary produce, mainly meat, wool, dairy products, and their related by-products. The value of New Zealand's exports and consequently its imports of goods and services averaged around 25 per cent of its national income. The major imports consisted of capital equipment and raw materials used in industry.

5. New Zealand's export receipts reached a record level of £387 million for the year ending June 1964, which represented an increase of 15.2 per cent compared with the previous year. Among the major export products, the increase in exports of wool, by 21.9 per cent contributed significantly to the increase in exports. Other current receipts amounted to £36 million. However, for the same period, expenditure on imports increased sharply, totalling £322 million, and payments for invisible items amounted to £99 million; thus out of total current receipts of £423 million there remained only £2.0 million as surplus on current account. This small surplus indicated a slightly adverse change compared with the previous year (1962-63) when the current account surplus amounted to £5.6 million.

6. The sharp increase in imports in the year 1963-64 was attributable to several factors: (a) the increase in expenditure by £10 million to £48 million on items exempted from import licensing; (b) an increase in import expenditure as a result of the special additional issue of licenses particularly for motor vehicles; (c) an increase due to a steep rise in national expenditure for the fiscal year 1963-64, and (d) an increase in imports due to fuller utilization of licences compared with previous years. As a result of all these factors, the expenditure on total imports (Government and private) rose from £273 million in 1962-63, to £322 million in 1963-64, representing an increase of 18 per cent.

7. The traditional net deficit on current invisible transactions continued to increase. The representative of New Zealand stated that in the six years since 1958 the deficit on current invisibles had more than doubled and now absorbed about 17 per cent of New Zealand's export income. He attributed this trend to growing expenditure on freight, transport, insurance, investment income due to overseas residents, and to growth in other miscellaneous payments.

8. In explaining the external reserves position, the representative of New Zealand said that over the past six years the Government of New Zealand had raised loans overseas amounting to £100 million. But as a result of the rise in imports which had accompanied the rise in export income, the overseas reserves of New Zealand had shown little improvement in the past two years. In the June year 1963-64 the overseas reserves of the banking system increased as compared with the preceding year by £5.4 million, and this figure was augmented by an increase of £2.2 million in the Treasury's holdings of overseas securities, giving a total improvement of £7.6 million. New Zealand required a relatively high level of overseas reserves to conduct its normal trading activities, because of the great distance from its principal markets, the seasonal pattern of its trade and the exposure of its exports to unpredictable and substantial price fluctuations. Regarding the long-term balance-of-payments position, the representative of New Zealand stated that as 25 per cent of national income depended on overseas sales and on world market conditions, it was not possible to make any precise forecasts about the long-term effects on the balance-of-payments position of the measures now being taken.

9. The members of the Committee thanked the representative of New Zealand for his clear and detailed statement and welcomed the recent measures announced in October (L/2230/Add.1) to relax some of the import controls. The Committee recognized the difficulties of New Zealand in regard to its balance-of-payments position, especially New Zealand's dependence on exports of a few primary products. In reply to questions on New Zealand's long-term measures to overcome its balance-of-payments problems, the representative of New Zealand explained that among long-term measures contemplated by his Government; one of the most important was the further development of agriculture. An Agricultural Development Conference had established targets for production up to a decade ahead, and these targets had been accepted by the Government for its long-term planning. In addition, the Government was taking measures to encourage farm investment, research and improvement in production methods, but it was noted that, despite substantial expansion in the agricultural production, not more than 15 per cent of the labour force would be absorbed by this sector; hence the development of other sectors, particularly that of manufacturing industry, was essential. Among such measures he mentioned the special investment allowance providing for tax deductions for depreciation of more than full cost, and also an initial allowance of depreciation of 15 per cent on the cost of certain farm buildings. Other aspects of agricultural development, such as marketing, supply of fertilizer, labour and technical problems, were still under study by the agricultural conference. The final report of the conference was expected early next year. He emphasized that the Government was making a conscious effort to help agricultural development in every way; and the fact that the Government had adopted the target set by the conference, which required a substantial increase in production, would itself be a stimulant to that sector of the economy.

10. In reply to a request for a forecast of export receipts for the following fiscal year, ending in March, the representative of New Zealand explained that the balance-of-payments forecasts were made on a half-yearly basis to June and December. No significant change was expected for the year ending June 1965 as compared with the year ending June 1964. In view of the unpredictability of export receipts from dairy products, wool and meat, it was difficult to make accurate projections.

11. In respect of industrial development, the representative of New Zealand stated that the Government recognized the desirability of diversification of the economy through the creation of new efficient industries, and in fact was taking a number of measures to encourage the development of such industries. As examples of new industries, he pointed to the oil-refinery, which had come into operation earlier in 1964, the aluminium rolling and steel mill which had expanded production during the year, and the substantial investment in the newsprint industry since 1960; these had contributed considerably to the growth of the economy. New industries were being established to produce nylon yarn and fibre, cement, pharmaceuticals, and components for motor vehicles; plans were still under consideration for the establishment of an aluminium smelting industry. The Government

had allocated £30 million for the development of new hydro-electric projects in the South Island; the availability of low-cost electric power would contribute substantially to industrial development. He emphasized that despite the Government's emphasis on agricultural development they were well aware of the need to broaden the basis of the economy.

Alternative measures to restore equilibrium

12. The Committee welcomed the measures announced on 23 October 1964 to restrain inflationary pressure in New Zealand. Recognizing the apparently satisfactory fiscal situation of New Zealand as indicated in the opening statement of the representative of New Zealand and the document of the International Monetary Fund, the Committee enquired as to the extent of the impact of Government borrowing on the budgetary situation and as to its possible inflationary effects. In explaining the position of his Government, the representative of New Zealand pointed to a situation peculiar to New Zealand's fiscal system, whereby commercial banks were prohibited from subscribing to Government loans and Treasury bills. The Government was therefore obliged to seek any banking accommodation from the Reserve Bank; consequently if the Government was able to meet its revenue needs by taxation and through public borrowing, without resorting to the Reserve Bank, this would indicate a satisfactory position. The Government borrowed to finance its works programmes, and the amount borrowed invariably exceeded the expenditure on redemption of debt. It was generally accepted in New Zealand that as long as the Government could obtain finance from public borrowing without resorting to the Central Bank, there was no danger of an inflationary impact from the Government sector. The net increase in receipts from borrowing was due to the growth in population and the growth of savings. He assured the Committee that the figures for domestic borrowing in the Public Accounts did not include any borrowing from the Central Bank, but the surplus of £12.5 million recorded the extent of the improvement in the Government's position with the Central Bank.

13. In replying to a question on the recent general wage increase, its pressure on prices and its eventual effect on the balance-of-payments position, the representative of New Zealand explained that the wage increase of 6 per cent in 1964 applied only to minimum wage rates. This wage increase has exerted some pressure on prices, and the Government was taking corrective measures; in this connexion he cited the recent measures adopted by the Government in October 1964 which reflected their concern over the problem, but he said that the increase in the price level of the order of 2 per cent in 1963/64 was not unprecedented and did not call for immediate drastic measures.

System and methods of restrictions

14. The Committee welcomed the continuation of the token licence scheme, and expressed the hope that a greater variety of goods, including consumer items, would be brought under this scheme. The representative of New Zealand pointed out

that commodities subject to the token licence scheme were those considered to hold less priority. In the 1963-64 licensing schedule, token licences were extended to many items which had not been included since 1961; examples were roasted coffee, coffee essence, biscuits, milk and cream, tomato soups, canned beans, marmite, etc. This scheme continued to operate on 100 per cent of 1961 allocations. This involved import expenditure of the order of £1 million annually. The representative of New Zealand said that it would be difficult for the Government to extend immediately the list of items under token licence, but he promised nevertheless to convey to his Government the points made by the Committee. The suggestion was made with reference to Article XII:3(c) of the General Agreement that token quotas might be increased to 20 per cent in the base period since the entry rate of 10 per cent often made it barely worthwhile for importers to do business.

15. In answer to a question, the representative of New Zealand explained that actual payments for imports were influenced by some factors unforeseen at the time of licence issue; thus in the case of exempt items, the forecast made at the beginning of last year was subject to a wide margin of error. For replacement items, the difference was determined by actual utilization needs. Some differences arose due to the usage factor, and special decisions which were made after the issue of the licence schedule for additional licences, depending on the availability of funds. In giving an example, he mentioned the special decision of the Government last year to import more automobiles, amounting to an additional £12 million over and above the original provision.

16. The members of the Committee expressed the hope that every possible effort would be made to simplify the present import control system and also to bring in greater flexibility as regards sources of supply. In this connexion the Committee enquired whether the New Zealand Government had any further plans for reducing the number of items subject to import control. In reply the representative of New Zealand stated that it was the continual endeavour on the part of New Zealand to simplify their import control system, and a major step towards simplification was taken when the Government had made the issue of 80,000 basic licences automatic last year. The announcement of last month had liberalized another ten commodities, and the Government hoped to continue in this direction. It was pointed out that there was no restriction of any kind on sources of supply once a licence was issued.

17. The Committee welcomed the announcement that greater opportunities were to be given the new importance to qualify for import licences. A member of the Committee welcomed New Zealand's start in this direction, and hoped that the Government of New Zealand would soon see its way clear to increase allocations to new importers beyond the level apparently envisaged at present. The representative of New Zealand assured the Committee that he would convey the views of the Committee to his Government.

18. The representative of New Zealand said that the simplification and liberalization measures that had been taken since 1958 had led to a substantial rise in imports; it was the hope of his Government that this liberalization and simplification would continue.

19. Members of the Committee expressed their satisfaction over New Zealand's abstaining from bilateral payments arrangements.

Effects of restrictions

20. Members of the Committee expressed concern that import restrictions imposed for balance-of-payments reasons may afford incidental protection to New Zealand's industry. They doubted whether the long-term needs of the New Zealand economy were served by the establishment and growth of industries which would not be able to compete in the domestic market without the continuation of the existing restrictions. The New Zealand representative said that the licensing system was not intended to protect domestic industry. If there was domestic production of a certain item, the import of the same item would, however, in many cases be considered less essential. He stated that New Zealand would pursue policies to make its industries competitive. Incidentally certain members pointed out that a too systematic policy of industrialization might lead eventually to the establishment of industries which could not subsist unless they enjoyed an excessive measure of protection.

21. A member of the Committee, commenting on the difficulties in exporting to New Zealand, pointed to the desirability of greater imports of consumer goods under the overall allocation and indicated that his country's efforts to close its own trade gap were frustrated by the restrictive policy followed by the Government of New Zealand. The representative of New Zealand acknowledged the problem, but stated that the restrictions were based on the criterion of essentiality and therefore capital goods and raw materials were given priority in imports. Nevertheless he hoped that a greater proportion of consumer items could be imported, although within the available resources they could not go beyond what they were importing at present.

General

22. Members of the Committee thanked the representative of New Zealand for his very clear and comprehensive opening statement which had greatly reduced the need for supplementary questions. They also thanked him for his full replies to the questions which had been put.

23. The Committee welcomed the simplification and liberalization measures which had been taken in the past year by the New Zealand Government, and hoped that there would be further developments in that direction. It was also hoped that

the Government of New Zealand would bear in mind the inherent dangers of over-protection and would pursue policies which would allow for a greater range of imports. The Committee also welcomed the assurance of the New Zealand representative that his Government would use monetary and fiscal measures instead of quantitative restrictions to the maximum extent practicable to deal with its balance-of-payments problems.

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

ANNEXOpening Statement by Representative
of New Zealand

I should like to thank the representative of the International Monetary Fund for his statement. As he explained, New Zealand's consultations with the IMF under Article XIV of the Fund Agreement are to take place later this month. However, the Fund staff have generously provided us with a review of the New Zealand economy prepared specifically for this consultation, and we would like to express our thanks to them for the trouble they have gone to in preparing this excellent paper.

Before commenting upon New Zealand's recent experience and prospects in the balance-of-payments field I should like to draw the attention of members again, very briefly, to the main structural features of New Zealand's external trade. In the first place, well over 90 per cent of New Zealand's export receipts are earned by the sale of primary produce - mainly meat, wool, dairy produce and their related by-products. The value of our exports, and consequently the value of our imports, average around 25 per cent of New Zealand's national income. Our imports include, as a major component, the great bulk of the capital equipment and raw materials used in industry.

Because it is certain that New Zealand will continue to import goods and services up to the full limit that can be afforded, it follows that any increase in the total flow of imports of fundamentally dependent upon the expansion of New Zealand's export trade.

Foreign exchange transactions

Members will recall that the Import Licensing Schedule in New Zealand is drawn up on an annual basis which runs from 1 July to 30 June each year. The figures I shall quote therefore relate to the last complete licensing year which ended on 30 June 1964.

For the year ended June 1964 New Zealand's export income reached a new record level of £387 million. Compared with the previous year, this represented an increase of £51 million or 15.2 per cent. Export receipts for our major products increased as follows:

| | <u>£(NZ) million</u> | <u>Percentage Increase</u> |
|---------------|----------------------|--------------------------------|
| Butter | 5 | 9.6 |
| Cheese | 3 | 17.1 |
| Meat | 6 | 6.5 |
| Wool | 24 | 21.9 |
| Other exports | 12 | 22.8 |

Of these earnings, which, with other current receipts, totalled £423 million, £322 million was spent on imports and £99 million was spent on payments for invisible items, leaving only a small surplus of £2.0 million on current account. This result represented a slight adverse change compared with the previous year (1962/63) when the current account surplus amounted to £5.6 million. The results for the two immediate past years, however, were both much more satisfactory than in 1960/61 and 1961/62, when current account deficits totalling £35.6 million were incurred.

In reviewing the results for the past year I think it is significant to recall that the 1963/64 Import Licensing Schedule was planned to result in private import payments for the year totalling £258 million. In fact, private import payments reached £293 million, so that the target figure was exceeded by £35 million or nearly 14 per cent. This shows that the controls operate with a fair margin of flexibility.

The sharp increase in imports in 1963/64 was due to several factors. Expenditure on items exempt from import licensing increased by £10 million to £48 million. Within this total the cost of sugar imports more than doubled to exceed £9 million and substantial increases occurred in import payments for petroleum products, fertilizers and books.

Among the major categories of imports, the largest increase occurred in the case of motor vehicles. As a result of a special additional issue of licences, expenditure on imports of motor vehicles rose by £12 million or about 45 per cent compared with the previous year.

Substantial, but less spectacular, increases occurred in all other main categories of imports. This upsurge in importing was associated with a steep rise in national expenditure of the order of 9.5 per cent for the fiscal year 1963/64. Part of the rise in imports occurred because importers generally made fuller use of their licences than they had done in previous years. In past years, for various reasons, about 15 per cent of licences issued were unused and therefore not reflected in import payments. In 1963/64 the proportion of unused licences fell to about 10 per cent; over £12 million of the rise in import payments in 1963/64 was due to this factor.

The combined result of all these factors was to raise expenditure on total imports (Government and private) from £273 million in 1962/63 to £322 million in 1963/64 - an increase of 18 per cent. Thus in 1963/64 exports went up by 15 per cent and imports by 18 per cent.

The steadily growing net deficit on invisibles continues to be a disturbing feature of New Zealand's overseas exchange transactions.

| <u>£(NZ) million</u> | | |
|----------------------|--------------------------------------|----------------------------|
| <u>June Years</u> | <u>Net Deficit on Invisibles</u> | <u>Annual Increase</u> |
| 1958 | 30.6 | 8.2 |
| 1959 | 38.4 | 7.8 |
| 1960 | 42.0 | 3.6 |
| 1961 | 48.0 | 6.0 |
| 1962 | 54.0 | 6.0 |
| 1963 | 57.4 | 3.4 |
| 1964 | 62.4 | 5.0 |

In the six years since 1958 the deficit on current invisibles has more than doubled and now absorbs about 17 per cent of New Zealand's export income. The deficit is expected to rise appreciably again this year as a result of increases in shipping freights, fares, insurance, investment income due to overseas residents and other miscellaneous payments. Receipts for these items are not showing the same rising trend and the deficit on invisibles has been rising faster than export income.

New Zealand has had to borrow externally or draw upon reserves to the extent of £113 million over the past seven years.

External Balance on Current Account

| <u>£(NZ) million</u> | | |
|----------------------------|----------------|----------------|
| <u>Years ended 30 June</u> | | |
| | <u>Surplus</u> | <u>Deficit</u> |
| 1958 | | 77.1 |
| 1959 | 12.8 | |
| 1960 | 29.5 | |
| 1961 | | 67.0 |
| 1962 | | 18.6 |
| 1963 | 5.6 | |
| 1964 | 2.0 | |
| | 49.9 | 162.7 |
| | 49.9 | 162.7 |
| 1958-64 | | 112.8 |

The foregoing figures are derived from the foreign exchange transactions of the New Zealand banking system. The more comprehensive balance-of-payments statistics show that the true current account deficit is larger than the banking figures indicate. The difference is attributable to a number of things such as imports which are not currently paid for and the accumulation in New Zealand of the proceeds of foreign investment.

Over the past six years the New Zealand Government has raised loans overseas totalling £100 million - £63 million from the United Kingdom and £37 million from the United States and World Bank. The World Bank has recently authorized a loan of £2.8 million for port development, and negotiations are continuing for loans for railways and electricity projects.

Because the rise in imports has fully kept pace with the rise in export income, the overseas reserves of the New Zealand banking system have shown little increase over the past two years. Generally 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 close of the year. Since 1957 the figures have been as follows:

Overseas Reserves of the Banking System

| | <u>£(NZ) million</u> | |
|------|----------------------------|-----------------|
| | <u>Last Balance Day in</u> | |
| | <u>June</u> | <u>December</u> |
| 1957 | 113.1 | 45.5 |
| 1958 | 52.9 | 55.1 |
| 1959 | 100.7 | 87.6 |
| 1960 | 113.7 | 66.0 |
| 1961 | 62.0 | 49.1 |
| 1962 | 73.4 | 61.6 |
| 1963 | 95.7 | 60.4 |
| 1964 | 101.1 | |

From June 1963 to June 1964 the overseas reserves of the banking system increased by £5.4 million. Over the same period Treasury-held overseas securities increased by £2.2 million, giving a total improvement of £7.6 million. The latest available figure for the reserves of the banking system is £81.8 million at 14 October. In addition, the Treasury holdings of overseas securities at 30 September 1964 stood at £32.6 million.

New Zealand requires a relatively high level of overseas reserves to conduct its normal trading activities because of its great distance from its principal markets, the seasonal pattern of its trade and the liability of its exports to unpredictable and substantial price fluctuations. Having regard to all the factors involved, the present level of reserves cannot be regarded as entirely satisfactory.

Export prospects

Because of the high rate of killing in the 1963/64 meat season (caused by a dry season and food shortages), the volume of meat production will be less in 1964/65. However, a shortage in Europe has led to higher beef prices and associated rises in the prices received for lamb and mutton. We expect that the net effect of the decline in volume taken together with the rise in prices should result in meat export receipts for the current year at about the same level as in 1963/64.

Wool production in the coming year is expected to increase slightly but prices received at the opening wool sales of the season have been generally lower than those of last season. Again, as in the case of meat, the best assumption we can make is that receipts for wool are likely to be of about the same order as in 1963/64.

After remaining unchanged at 335s. per cwt. for over a year, the wholesale price of New Zealand butter on the London market increased in October 1964 to 350s. per cwt. However, the longer term price prospects for this commodity are more uncertain than this recent stability might suggest. There may be a small reduction in the quantity of New Zealand butter available for export in 1964/65 and a slight increase in cheese exports which should be cleared at about present prices. We see no grounds for expecting any significant variation in export receipts for dairy produce this year.

To sum up these prospects, the indications are that export earnings in 1964/65 will be about the level attained in 1963/64. However, if the pace of expansion in industrialized countries were to slacken, the consequent weaker demand for primary products would be felt immediately by New Zealand.

Internal policies

So far as the internal economy is concerned, the Government's aim has been to encourage soundly-based growth and expansion and to check inflationary pressures. For the fiscal year ended March 1964, some disinflationary impact was achieved by an overall cash surplus of £12.5 million in the Government accounts. A further surplus is expected this financial year. Changes in taxation proposed in the 1964 Budget were aimed at continuing incentives for investment, particularly in agriculture and for export development. There were no general tax reductions.

The effectiveness of Government policies in restraining consumption is reflected in the latest statistics of national income and expenditure. Personal expenditure on consumer goods and services increased by 5.9 per cent in 1963/64 which was considerably less than the rise of 9.8 per cent in gross national product at current prices. On the other hand, private domestic capital formation showed a marked increase of 14.4 per cent.

To effect the expansionary impact of higher wool prices the Government introduced a voluntary wool income retention scheme by which farmers could postpone tax liability by placing part of their income in "frozen" accounts. An impetus to saving has resulted from a large increase in the numbers of savings banks and branches. Controls over certain categories of hire purchase financing have been tightened. Less urgent capital projects have been deferred. Through the conduct of its public borrowing policies and by maintaining a firm control over the level of commercial bank advances, the Government has endeavoured to place an effective restraint on internal demand.

To promote exports, the Government has established a national committee to devise long-term plans for the expansion of agricultural production. Certain preliminary recommendations from this committee have already been adopted. Of course, no one realises more than we in New Zealand that these plans are based on the faith that there will be a corresponding growth in the marketing opportunities for primary products in the years ahead.

Import licensing system

A full explanation of the current import licensing schedule and of the recent changes is given in the basic documents circulated to members of the Committee. The main changes in this year's schedule were designed to offset last year's increased usage by keeping initial allocations for a range of "basic" items to 90 per cent of the licence entitlements for the previous year.

As a result of the September 1964 review, however, and in the light of the Government's expectation that export earnings in 1964/65 will be of about the same order as export earnings in 1963/64, most basic allocations have been raised to 100 per cent of the licence entitlements for the previous year. At the same time ten additional items have been exempted from import licensing; their annual value is estimated at £5 million. The Government also announced its intention of making some additional provision for new importers.

The degree of import licensing is kept under continual review and it is the Government's aim to proceed with relaxation of the restrictions whenever conditions warrant such action. However, New Zealand faces a number of difficulties in this respect. Being so far from our major markets there are considerable lags between placing orders and receiving goods. It is therefore difficult to take prompt action to check any sudden run on our exchange reserves. But a rapid decline in reserves is always possible when the prices of our exports are subject to wide and

sudden fluctuations. There is also the point that our foreign exchange earning potential is affected adversely by protectionist policies followed in the agricultural sector by many industrial countries. Changes in business activity in the major industrial countries also have a direct impact on the prices of our exports. All these factors make it difficult to build up and maintain our reserves at a level where restrictions on imports could be safely eliminated.

But New Zealand is a trading nation. Our economic development, our employment and living standards are all dependent upon a continued flow of imports. Accordingly, New Zealand will continue to import goods and services up to the full limit permitted by our export earnings. For the first quarter of the current licensing year (July to September) imports have in fact been running above last year's record levels. We could go beyond this only by increased borrowing or drawing on our exchange reserves, neither of which would be desirable in present circumstances.

