REPORT OF THE COMMITTEE ON BALANCE-JF-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/27), (b) background material, dated 5 August 1963, provided by the International Monetary Fund, (c) the International Monetary Fund Executive Board decision, dated 20 September 1963 (Annex B hereto), and (d) material provided by the New Zealand Government relating to the New Zealand Government's policy on import control for the period 1 July 1963 to 30 June 1964.

2. In conducting the consultation, the Committee followed the Plan for such consultations recommended by the CONTRACTING PARTIES (BISD, 7th Supplement, pages 97-98). The consultation was conducted on 3 December 1963. 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 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 connection 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 September 20, 1963, taken at the conclusion of its recent consultation with New Zealand, and particularly to paragraph 5 which reads as follows:
The Fund welcomes the elimination by New Zealand of the remaining currency area discrimination in import licensing and current invisible payments. The New Zealand authorities have stated that restrictions must be maintained if undue borrowing abroad or pressure on the reserves is to be avoided. While recognizing the need for restrictions on imports and current payments under existing circumstances, the Fund feels that continued maintenance of such restrictions is likely to have adverse effects on industrial efficiency and economic growth. The Fund urges New Zealand to pursue policies which will enable it to maintain balance of payments equilibrium while progressively dismantling such restrictions.

"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 Article XIV consultation with New Zealand. The Fund has no additional alternative measures to suggest at this time."

Balance-of-payments position and prospects

4. In his opening statement, the text of which is annexed to this report (Annex A), the representative of New Zealand said that for the second year in succession, the balance-of-payments position of his country had improved. In 1962-63 export income had increased by £42 million or 14 per cent up to a record level of £336 million; all the three major exports of New Zealand (meat, wool and dairy products) which together account for 90 per cent of the export earnings had shown a considerable increase. Over the same period imports increased by £14.5 million or 6 per cent to a total of £273 million. It was, however, expected that the rise in imports for the calendar year 1963 would exceed the increase in export earnings.

5. The traditional net deficit on current invisible transactions, resulting from growing expenditure on freight and transport, insurance, travel and remittance of investment income and interest on external debt, had increased in 1962/63 by £3.4 million, which was considerably less than in the two preceding years, when the increase of the deficit had amounted to £6 million each year.

6. Current account transactions for the year ending in June 1963 showed a surplus of £5.6 million while in 1960/61 and 1961/62 there had been deficits of £67 million and £18.6 million respectively. The latest figures available, for the twelve months ending October 1963, were, however, not so favourable. The current account balance for this period showed a deficit of £11.5 million, exports having increased by £59 million and imports by £48 million from the level of the corresponding previous twelve months.
7. As the rise in imports had kept pace with the increase in export income, the foreign exchange reserves of the banking system had remained at virtually the same level, £64.5 million at the end of November 1962 and £64.6 million on 13 November 1963. At the end of June 1963 they had stood at £95.7 million, but the normal seasonal pattern involved a considerable downswing in the second half of the year; the December figure was expected to be in the range of £50 to £60 million, somewhat lower than in 1962. Throughout the period overseas investment held by the Treasury remained at a level of about £30 million.

8. Export prices for butter, meat and wool had been appreciably higher in 1963 than in 1962, while cheese prices had remained stable. It was not likely that any further general improvement would take place in the coming year; prices were expected to stay at about present levels, or, in the case of wool, move somewhat downwards. The best available forecasts of prices and quantities would govern the provision for imports in the 1964/65 Licensing Schedule.

9. A member of the Committee noted that in the basic document for the consultation (BOP/27, section 7(b)) it was stated that "in the circumstances then prevailing an increase in the total value of licences in the 1963/64 Licensing Schedule had not been deemed advisable", and questioned the meaning of this statement in view of the substantially increased imports (by £48 million) in the year ending October 1963 over the previous year. The representative of New Zealand explained that the statement quoted above related to the situation at the time when the 1963/64 Licensing Schedule was issued. Since then there had been, mainly as a result of the rise in export income, a certain easing of the conditions of issue of licences. This had resulted in an increase in imports in many categories including those in category E (exempt items).

10. The view was expressed by a member of the Committee that in order to try to restore equilibrium, the Government of New Zealand might look into the possibilities of diversifying the economy. In reply the representative of New Zealand said that it was the aim of his Government to diversify the economy of the country by creating new efficient industries. The smallness of the domestic market and the lack of raw materials were the main limiting factors. It was to be expected that a steel mill would be set up in three or four years' time, utilizing as raw material the supplies of iron sand available on New Zealand beaches. An oil refining industry would also soon enter into production.

11. A member of the Committee pointed out that it appeared from the background material supplied by the International Monetary Fund that receipt and payments on the "travel" account showed large deficits (£9.9 million in 1962) and asked if something was being done to attract more foreign tourists to New Zealand. The New Zealand representative said that efforts in that direction were being made but that the remote situation of the country involving high travelling expenses made it most unlikely that the deficit could be eliminated in the foreseeable future.
Alternative measures to restore equilibrium

12. The representative of New Zealand stated that during the past year fiscal and monetary policies had been consistent with the expansionary phase brought about mainly by the upward trend in export income, their main objectives being to avoid a repetition of previous periodic upsurges in domestic expenditure while keeping demand at a sufficient level to ensure full employment. The main emphasis in the 1963 budget had been on the provision of incentives for farm production and the encouragement of exports. Government finance was generally sound and the outcome of the fiscal operations for the year ending March 1964 should have no inflationary impact on the economy.

13. The New Zealand representative recalled that at the previous consultation, in 1962, the members of the Committee had suggested that the New Zealand Government had tended to rely unduly on monetary policy when trying to correct the difficulties that had arisen in 1960/61. In the period now under review the restraint on bank credit had, however, been eased and trading bank advances had contributed a moderate increase to the money supply. The average level of bank advances in October 1963 was at £207 million, or £11 million higher than a year earlier. The policy had been to allow the banking system to contribute to the financing of a moderate expansion in the level of economic activity but to retain the use of reserve ratio policy as a means of control, to prevent any expansionary rise in bank credit from becoming excessive.

System and methods of the restriction

14. In answering a number of questions, the representative of New Zealand recalled that at the 1962 consultation (cf. L/1853) the Committee had noted with concern the discontinuation of the "token" import scheme and expressed concern over the element of discrimination which remained in the licensing system. The hope had been expressed that the discrimination would be removed, that the decision with regard to the "token" import scheme would be reconsidered and that the licensing system would generally be simplified. The New Zealand representative stated that the token import licences had since been reintroduced, in October 1962, for 144 items on the same basis as in 1961. In the 1963/64 Licensing Schedule token licences were granted to the extent of 100 per cent of the licences issued in 1962/63 and, as from 28 November 1963 the token licence scheme had been extended to all items covered by the scheme in 1961. The residual element of discrimination, in respect of motor vehicles, had been eliminated in the 1963/64 Licensing Schedule. There was thus no longer any element of currency discrimination in the licensing system.

15. A new simplified procedure for issuing import licences was announced in November 1963 and would take effect in the 1964/65 licensing period. Under the new scheme all basic licences would be prepared and issued from information held in the records of the Customs Department. It was to be expected that the
majority of such licences would be issued shortly after the release of the Licensing Schedule. The new scheme would apply to about 80,000 licences, or 72 per cent of all those issued, and would mean that the number of documents required would be reduced by about half a million. Other relaxation measures included the transfer of numerous items to the A category and the increase in flexibility for manufacturers through the extension of the group licensing procedure.

16. The New Zealand representative pointed out that the increase in export earnings had led to a further easing of the import restrictions through, inter alia, (a) a higher allocation for motor vehicles (12,000 or 13,000 additional cars), (b) the continuation of the "free funds" scheme introduced in 1962, and (c) the extension beyond the original provisions of the 1963/64 Licensing Schedule of the basis of issue of licences for many items.

17. The representative of New Zealand said that it was clear that the simplification and liberalization measures that had recently been taken had led to a substantial rise in the imports; it was the hope of his Government that this development would continue. One had to bear in mind, however, that the main exports of New Zealand, primary and agricultural products, were subject to considerable price fluctuations and to import restrictions in many major markets.

18. The New Zealand Government intended to continue to import goods and services up to the limit permitted by the export earnings, and the experience in the past indicated that an improvement on the export side was followed without delay by a corresponding increase in imports. His Government felt that in the present balance-of-payments situation, it had gone as far as it could in relaxing the import restrictions. It hoped that the trend towards freer importing, which had been so evident in the past year, could be continued in 1964/65.

19. The Committee welcomed the simplification and liberalization measures taken by the Government of New Zealand which thus demonstrated that it took seriously the views and comments presented at this Committee last year. The Committee hoped that it would be possible for the New Zealand Government to take further steps in the same direction.

20. In reply to a question the representative of New Zealand explained that the transfer of items from the "Basic" category to the A category meant a liberalization, as further licences in the A category were granted to the full extent of the actual sales performances, the purpose of retaining licensing control over A category goods being mainly to prevent excessive stock building. In the "Basic" category it was normally more difficult to get the originally fixed allocations increased.
21. A member of the Committee asked about the possibilities to get token licences granted to a larger extent. The New Zealand representative explained that it appeared difficult to extend further the area of token licensing, the number of products, which were not yet licensed in any quantity, being rather limited.

22. Members of the Committee asked that the possibilities of transferring items from the D category (where licences may be granted under exceptional circumstances), into other categories where some imports could take place should be investigated. The New Zealand representative pointed out that import licences were, in special circumstances, granted for items in the D category. He considered that for the time being it would not be possible to transfer D items to other categories without reducing the import of other, more essential, products. There were 110 D items in the 1963/64 Import Licensing Schedule. For many of these items T (token) allocations are being made under decisions taken since the original Schedule was issued. Because of administrative difficulties in adapting the description of these items to the new coding it had not been possible to reclassify these items as T items during the currency of the 1963/64 Schedule and their designation therefore remained nominally D.

23. A member of the Committee pointed out that New Zealand had, in connexion with the recent adoption of a new customs tariff, increased some tariff rates. He asked if it would not be possible to liberalize the licensing system for such items. The New Zealand representative confirmed that it was the basic policy of his Government to rely on tariffs rather than on quantitative restrictions for the protection of industries. It was to be expected that the movement in that direction would continue.

24. One member of the Committee, while appreciating the removal of the discrimination towards the dollar area in the New Zealand restrictions, regretted that another form of discrimination, in favour of the Soviet Union and relating to canned fish, seemed to result from a trade agreement concluded in 1963 between New Zealand and the Soviet Union. The New Zealand representative explained that the New Zealand Trade Agreement with the Soviet Union provided only for the exchange of most-favoured-nation treatment between the two parties. Lists of products were annexed to the agreement solely for the purpose of indicating export interests of the two parties; there was nothing in the agreement from which any reciprocal or unilateral discriminatory treatment could arise. Following the conclusion of the Agreement it was decided to give some opportunity to new suppliers from the Soviet Union to compete with existing suppliers on the New Zealand market and for this purpose an additional import licence allocation of up to £50,000, mainly for canned fish, was made. The licences were for issue to the private trade in the usual manner and were available for imports from any source. The extent of imports from the Soviet Union would depend on commercial considerations, mainly price and quality. The licences were issued for the purpose of giving opportunity to new suppliers to enter the New Zealand market in which other exporters had become established suppliers. This was not a "basic" allocation and would not be repeated in the next licensing period.
Effects of the restrictions

25. A member of the Committee noted the elimination from the New Zealand licensing system of two large categories, replacement and automatic licensing, whereby new importers had been able to obtain licences. Members of the Committee pointed out that the system of basing the allocation of licences on the imports under a previous base period tended to make it difficult for new traders and new products to enter the New Zealand market. The New Zealand representative admitted that certain such consequences were inherent in the licensing system and were very difficult to avoid, but he stressed that it was an established principle that licences should be granted, when circumstances warranted, to importers not qualifying for such licences on a basis of trade in a past representative period. He also said that the New Zealand Government would assist foreign exporters to obtain information on the market opportunities for their products under the licensing system in New Zealand. A member of the Committee suggested that it might be very helpful to have prior to the beginning of each licensing period, along with the publication of the Schedule, a compilation showing the allocations available for each item on the allocation list where quotas were available. Another member said that the individual considerations of import licences for goods under category C created an element of uncertainty amongst overseas exporters.

26. Members of the Committee expressed concern that the import restrictions imposed for balance-of-payments reasons could be used to protect New Zealand industry. They doubted if the long-term needs of the New Zealand economy would be served by the establishment and growth of industries which would not be able to compete in the domestic market without the existing restrictions; they therefore welcomed the statement of the New Zealand representative referred to in paragraph 10 above. The New Zealand representative said that the licensing system was not intended to protect the domestic industry. If there was a domestic production of a certain item, the imports of the same item would, however, evidently in many cases be considered less essential. In reply to a question about the bicycle industry, the New Zealand representative stressed that no protection had been sought by that industry.

27. In reply to questions about the reasons for recent decreases in the imports of certain specific items (paper, canned fish, and kitchen utensils), the New Zealand representative pointed out that in many cases commercial considerations by the importers were the decisive factor, not the licensing policy. In so far as paper imports were concerned, there had, however, been a decrease in the licensing, since the domestic industry, which was also exporting, had increased its production and imports were consequently considered as less essential.
General

28. 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. It also thanked him for his full replies to the questions that had been put.

29. The Committee welcomed the simplification and liberalization measures that had been taken in the past year by the New Zealand Government and hoped that there would be further development in that direction.

30. 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 the points raised by members of the Committee would be brought to the immediate attention of his Government.

ANNEXES

A. Opening statement by the representative of New Zealand.

B. International Monetary Fund Executive Board decision.
Opening Statement by the Representative of New Zealand

I am pleased to be able to report, for the second year in succession, an improvement in New Zealand’s balance-of-payments position and prospects. The rising trend in New Zealand’s export income has been accompanied by an easing in import restrictions and a corresponding increase in imports.

Members of the Committee have available the excellent and comprehensive survey of economic developments in New Zealand which was prepared by the staff of the International Monetary Fund for their consultation with New Zealand under Article XIV of the Fund Agreement. I should like to draw attention to some of the salient features of the current economic situation in New Zealand and, in some respects, to supplement the Fund’s background paper with some later information.

Balance-of-payments position

Compared with the previous year, New Zealand’s export income for the year to June 1963 increased by £42 million or 14 per cent. Receipts for our major products increased as follows:

- Butter £8 million
- Meat £14 million
- Wool £14 million
- Other exports £6 million

Members of the Committee will recall that meat, wool and dairy products account for about 90 per cent of New Zealand’s export earnings so that the state of world demand for these products governs the level of our export income. For us, it is a good year when receipts for meat, wool and dairy products all show an upward trend. Export receipts for the year ended June 1963 did in fact reach a record level - £336 million, compared with £294 million the previous year.

Over the same period private imports increased by £13.4 million or 6 per cent.

<table>
<thead>
<tr>
<th>Imports</th>
<th>June Years</th>
<th>£ million</th>
<th>Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1962</td>
<td>1963</td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>24.4</td>
<td>25.5</td>
<td>1.1</td>
</tr>
<tr>
<td>Private</td>
<td>233.9</td>
<td>247.3</td>
<td>13.4</td>
</tr>
<tr>
<td></td>
<td>258.3</td>
<td>272.8</td>
<td>14.5</td>
</tr>
</tbody>
</table>
Since June 1963 the rising trend in imports has gathered momentum and, for the calendar year 1963 as a whole, the rise in imports will, almost certainly, exceed the increase in export earnings.

Last year the attention of the Committee was drawn to the steadily growing net deficit on current invisible transactions which is a rather disturbing feature of New Zealand's balance of payments. The increase of £3.4 million from the year ended June 1962 to June 1963 is, however, considerably less than the average for recent years.

### Net deficit on current invisible Items

<table>
<thead>
<tr>
<th>June</th>
<th>Net Deficit</th>
<th>Annual Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1958</td>
<td>30.6</td>
<td>8.2</td>
</tr>
<tr>
<td>1959</td>
<td>38.4</td>
<td>7.8</td>
</tr>
<tr>
<td>1960</td>
<td>42.0</td>
<td>3.6</td>
</tr>
<tr>
<td>1961</td>
<td>48.0</td>
<td>6.0</td>
</tr>
<tr>
<td>1962</td>
<td>54.0</td>
<td>6.0</td>
</tr>
<tr>
<td>1963</td>
<td>57.4</td>
<td>3.4</td>
</tr>
</tbody>
</table>

This deficit results from growing expenditure on freight and transport, insurance, travel and remittance of investment income and interest on external debt. Receipts from these items have not shown the same rising trend.

For the year ended June 1963 New Zealand earned a surplus of £5.6 million on all current account transactions. This was a modest figure but a welcome change from the deficits incurred during the two previous years.

### Balance on current account

<table>
<thead>
<tr>
<th>Years ended 30 June</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus</td>
<td>12.8</td>
</tr>
<tr>
<td>Deficit</td>
<td>29.5</td>
</tr>
<tr>
<td></td>
<td>67.0</td>
</tr>
<tr>
<td></td>
<td>18.6</td>
</tr>
<tr>
<td></td>
<td>5.6</td>
</tr>
<tr>
<td></td>
<td>47.9</td>
</tr>
<tr>
<td></td>
<td>162.7</td>
</tr>
</tbody>
</table>

Thus over the past six years New Zealand has borrowed externally or drawn upon reserves to the extent of £115 million - or at an average rate of about £19 million a year.
The World Bank has recently authorized a small loan to New Zealand of £2.8 million for port development. Negotiations are continuing with the Bank for a larger loan for railways and electricity projects. Apart from these loans, for which negotiations have extended over a considerable period, the most recent loan raised externally by the New Zealand Government was for £10 million on the London market in August 1962.

So far we have been reviewing the results for the year ended 30 June (which coincides with the period covered by the annual Licensing Schedule). The latest available figures cover overseas exchange transactions up to October 1963 and an examination of these shows how rapidly the situation can change.

For the year ended 31 October the current account balance had changed to a deficit of £11.5 million. Total exports, at £344 million, were £39 million up on the previous October year. Over the same period private imports increased from £222 million to £270 million, an increase of £48 million. The net deficit on invisibles increased to £50 million.

It is because the rise in imports has fully kept pace with the increase in export income, that the overseas reserves of the banking system have shown no increase over the past twelve months. They totalled £64.5 million at the end of November 1962 and £64.6 million at 13 November 1963.

### Net overseas reserves of the banking system

<table>
<thead>
<tr>
<th>Year</th>
<th>Last Balance Day</th>
</tr>
</thead>
<tbody>
<tr>
<td>June</td>
<td>December</td>
</tr>
<tr>
<td>1957</td>
<td>113.1</td>
</tr>
<tr>
<td>1958</td>
<td>52.9</td>
</tr>
<tr>
<td>1959</td>
<td>100.7</td>
</tr>
<tr>
<td>1960</td>
<td>118.7</td>
</tr>
<tr>
<td>1961</td>
<td>62.0</td>
</tr>
<tr>
<td>1962</td>
<td>73.4</td>
</tr>
<tr>
<td>1963</td>
<td>95.7</td>
</tr>
</tbody>
</table>

The normal seasonal pattern involves a downswing in the level of reserves during the second half of the year which went as high as £52 million in 1960. This year it seems likely that overseas reserves in December will finish up somewhere in the range of £50-60 million, which will involve a reduction on the closing figure for 1962 - (£61.6 million).

It is too early to attempt a forecast of the reserves at June 1964 as the figure could be affected, among other things, by external borrowing, but it may be appropriate to recall a statement made last year that a total much below £100 million in June can imply difficulty during the second half of the year when the seasonal decline in reserves normally occurs.
Our experience shows that it is always difficult to make reliable forecasts of future price trends for our principal exports. On this occasion, however, it would be straining optimism too far to suppose that any general improvement is likely in the coming year. Rather, the reverse must be expected. Export income has been running at record levels and it would not be prudent to suppose that this will continue throughout the coming year.

At the beginning of 1963 the price of New Zealand butter on the British market (where over 90 per cent of our butter exports are sold) was 315/- per cwt. The price increased to 335/- per cwt. in June 1963 and is still firm. These prices are appreciably above those ruling in 1962. The increase is due partly to the continued operation of quota arrangements by the British Government but, on this occasion, the main factor appears to have been the retarding effect on production of the severe winter conditions in Europe early in 1963.

The London price obtained for New Zealand cheese remained unchanged at £230 per ton throughout the year and no significant changes are expected in the coming year.

For meat, satisfactory marketing conditions throughout the year contributed to a rise of 10 per cent in receipts in the year to October 1963. The best assumption we can make is that prices will, allowing for seasonal variations, stay about present levels.

Apart from a lull in February 1963, the upward trend in wool prices has continued since December 1962 and current prices are now about one third higher than in November last year. Compared with the sort of fluctuations experienced in recent years, this is a strong upward movement. It must be attributable, in the main, to the buoyant level of demand in the main industrial countries. We think some easing must be expected in the price levels reached during the last couple of months, but to what extent it is difficult to foresee.

For all our exports, the best forecasts of prices and quantities available at the time will govern the provision which can be made for imports in the 1964-65 Licensing Schedule which will be issued about March next year.

Alternative measures to restore equilibrium

During the past year fiscal and monetary policies have been consistent with the expansionary phase brought about mainly by the upward trend in export income. However, the main objective has been to avoid a repetition of the periodic upsurges in domestic expenditure which have overstrained the economy in the past, while keeping demand at a sufficient level to ensure full employment.
The 1963 budget made provision for a moderate reduction in personal income tax but the main emphasis was on the provision of incentives for farm production and the encouragement of exports. The Government finances generally are in a sound position. There has been a good response to Government loan raising and conversion operations and if, as we expect, taxation receipts come up to expectations, the outcome of fiscal operations for the year ending March 1964 should not exert an inflationary impact upon the economy.

Last year there was some disposition in the Committee to think that we had tended to rely unduly on monetary policy in an endeavour to correct the difficult situation which had arisen in 1960-61. Over the past year, however, the degree of restraint on bank credit has been eased and during the year to September 1963, trading bank advances contributed a moderate increase of £6.2 million to the money supply. The figures for October show the average level of bank advances, at £207 million to be £11 million above the level of the previous year. The policy has been to allow the banking system to contribute to the financing of a moderate expansion in the level of economic activity but to retain the use of reserve ratio policy, as a means of control, to prevent any expansionary rise in bank credit from becoming excessive.

Import licensing

Members of the Committee will have read the basic document (BOP/27) which gives a concise account of New Zealand's import restrictions and of the main provisions of the 1963/64 Import Licensing Schedule.

I should like to comment on some of the changes made in the light of the observations made by the Committee in their report last year (L/1853 of 17 October 1962). Paragraph 31 of the report stated:

"The Committee noted with concern 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."

I am pleased to be able to report that improvements have been made with regard to all of the matters on which comment was made by the Committee in their 1962 report.

Token licences

Before the end of October 1962 token import licences were reintroduced.Licences were issued for a range of 144 items on the same basis as in 1961.
In the 1965/64 Schedule provision for token licences was continued to the extent of 100 per cent of licences issued in 1962/63. On 28 November the Government announced the extension of the token import licence scheme to all items subject to token licensing in the 1961 Import Schedule.

Discrimination

The 1962/63 Schedule retained a residual element of discrimination in respect of motor vehicle licensing. This was eliminated in the 1963/64 Schedule. There is no longer any element of currency discrimination in import licensing or on the basis of issue of non-remittance licences.

Simplification of the licensing system

On 14 November 1963 the Minister of Customs announced a new procedure for issuing import licences which will take effect in the 1964/65 licensing period.

Under the new scheme the Customs Department will prepare and issue all basic licences from information held in its records. It is expected that the majority of licences will be issued shortly after the release of the Licensing Schedule but, because of the magnitude of the job, it may take some weeks to complete the task at the main ports.

Details of the new procedure will be published in the 1964/65 Schedule. It will apply to about 80,000 licences, or 72 per cent of all those issued, and importers will consequently be relieved of the task of handling and processing about half a million pieces of paper.

Other measures of simplification include the large increase in the number of "A" items and the added flexibility given to manufacturers by the extensions of the group licensing procedure.

Liberalization

The increase in New Zealand's export earnings has led to an easing of the import restrictions in several respects apart from those already mentioned. The largest single instance is the higher allocation for motor vehicles as a result of which it is estimated that an additional 12/13,000 cars will be imported.

Arrangements have also been made to continue the "free funds" scheme which was introduced last year.

In addition, the basis of issue of licences for many items in the schedule has been extended beyond the provision made at the time the 1963/64 Licensing Schedule was issued.
Conclusion

All these measures are reflected in the substantial rise in New Zealand’s imports which is already occurring and which we hope can continue. However, we must recognize that primary products, on which we depend for our export income, are subject to considerable price fluctuations. There is also the point that the restrictions imposed on imports of temperate agricultural products in many of the world’s major markets increase the uncertainties of the long-term outlook.

Nevertheless New Zealand will continue to import goods and services up to the full limit permitted by our export earnings. What has happened this year bears out the statement we made at the last consultations - that a recovery in our terms of trade and improvement in our export receipts would be followed without delay by a relaxation of our import restrictions and a corresponding increase in imports.

We feel that an examination of our balance-of-payments situation at the present time must lead to the conclusion that we have gone as far as we can prudently go in relaxing the restrictions at this stage. We hope that circumstances will allow the trend towards freer importing, so evident in our experience of the past year, to be continued in 1964/65.
International Monetary Fund Executive Board Decision
Taken at the Conclusion of the Fund's Consultation
with New Zealand on 20 September 1965

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 twelve months to March 1963 domestic expenditure probably expanded at a slower rate than in the previous year. The severe pressure on resources which existed in 1960/61 eased somewhat and consumer prices rose only slightly. Trading bank credit continued to be firmly restrained in 1962, and advances at the end of that year were 5 per cent lower than a year earlier. Budgetary policy in the twelve months to March 1963 was moderately expansionary. There was a deficit of around £NZ 61 million, of which some £NZ 53 million was financed by net domestic borrowing from the nonbank public.

3. Current monetary policy is designed to permit an increase of about 3 per cent in bank advances during 1963. The budget estimates for the current fiscal year ending March 1964 provide for a smaller deficit than that experienced last year. However, there does not appear to be any appreciable volume of unused resources within the economy, and domestic expenditure and output have expanded at a more rapid rate in recent months. The Fund therefore attaches importance to the realization of present plans to finance the budget deficit from non-inflationary sources. This will be essential if the expansion resulting from official policies is to be held within limits consistent with the resolve of the New Zealand authorities to break away from the periodic over-expansion and dampening of the economy which has characterized the past.

4. The intensification of quantitative restrictions in 1961, together with the easing in the pressure of domestic expenditure, led to a fall of 15 per cent in private import payments in 1962. Export receipts, aided by higher prices for important export commodities and a large increase in the volume of meat sales, rose by 4.5 per cent. There was a current account surplus of £NZ 3 million in 1962 compared with a deficit of £NZ 52.5 million in 1961. These and other transactions, including net official capital inflow of £NZ 4 million, resulted in an increase of £NZ 12.5 million to £NZ 61.6 million, in net overseas assets of the banking system in the twelve months to December 1962. At July 3, 1963 these assets totaled £NZ 92.9 million.
5. The Fund welcomes the elimination by New Zealand of the remaining currency area discrimination in import licensing and current invisible payments. The New Zealand authorities have stated that restrictions must be maintained if undue borrowing abroad or pressure on the reserves is to be avoided. While recognizing the need for restrictions on imports and current payments under existing circumstances, the Fund feels that continued maintenance of such restrictions is likely to have adverse effects on industrial efficiency and economic growth. The Fund urges New Zealand to pursue policies which will enable it to maintain balance of payments equilibrium while progressively dismantling such restrictions.

6. In concluding the 1963 consultations, the Fund has no other comments to make on the transitional arrangements maintained by New Zealand.