

Since March, 1939, the amount of money in New Zealand has increased by £(N.Z.)131·6 millions; since March, 1946, the increase has been £(N.Z.)6·99 millions, as compared with £(N.Z.)32·5 millions in the previous year.

Causes of changes in the two periods 1939-47 and 1946-47 are shown in the following table :—

CAUSES OF CHANGES IN THE AMOUNT OF MONEY*
(£(N.Z.) millions)

—	1939-47.	1946-47.
(a) Overseas transactions†	+93·27	+ 0·20
(b) Bank credit—		
(1) Reserve Bank advances	+11·62	— 3·22
(2) Reserve Bank investments in New Zealand	— 2·83	— 0·60
(3) Trading bank advances and discounts ..	+17·49	+15·06
(4) Trading bank investments in New Zealand	+12·91	— 5·88
(5) Total bank credit ((1) to (4))	+(39·19)	+(5·36)
(c) Shift from time to demand liabilities of trading banks‡	— 5·52	— 2·80
(d) Other items	+ 4·64	+ 4·23
Total change	+131·58	+ 6·99

* For 1947 the figures relate to last Wednesday in March; earlier figures relate to last Monday in March. † As shown by changes in Reserve Bank's sterling exchange plus overseas investments, and trading banks' assets overseas in respect of New Zealand business, less overseas liabilities in respect of New Zealand business. ‡ Minus sign indicates shift from demand to time liabilities.

The above table shows that the predominant cause of the monetary expansion which has occurred since the outbreak of World War II has been the excess of external receipts over external payments, resulting in an accumulation of overseas assets and of bank deposits within New Zealand. This was responsible for no less than 71 per cent. of the total increase in the amount of money since March, 1939. With an expansion in imports there will be a fall in net overseas assets; at the same time, and arising from the same cause, there would be a reduction in the amount of money in New Zealand. Thus, in due course, a considerable part of the monetary expansion which has taken place may be expected to adjust itself, the amount of money being reduced and the volume of goods being increased by the incoming imports.

During the year the Government reduced its indebtedness to the banking system by no less than £(N.Z.)9·7 millions, the money supply being reduced by this amount. This movement was more than offset, however, by an increase in trading bank advances by £(N.Z.)15·1 millions and by "other items" amounting to £(N.Z.)4·2 millions, the net increase in the money total for the year being £(N.Z.)6·99 millions. An expansion in trading bank advances is to be expected during a period of transition from war to peace, and the present total, though high compared with pre-war figures, is not abnormal if allowance is made for price changes and the special post-war needs of an economy in which there is full employment.

The following relevant factors should also be taken into consideration. In the first place, the diversion of current incomes into savings, as shown by savings-bank deposits and National Savings investments, is still maintained at a high level, though below the wartime peaks. Secondly, while people hold, besides cash and savings