

1947
NEW ZEALAND

RESERVE BANK OF NEW ZEALAND

ANNUAL REPORT OF THE BOARD OF DIRECTORS AND STATEMENT OF ACCOUNTS
FOR THE YEAR ENDED 31st MARCH, 1947

*Presented to both Houses of the General Assembly pursuant to Section 20 of the Reserve
Bank of New Zealand Amendment Act, 1936*

ANNUAL REPORT

To the Right Hon. the MINISTER OF FINANCE.

THE Board of Directors presents hereunder the report on the operations of the Reserve Bank of New Zealand during the financial year ended the 31st March, 1947.

BOARD OF DIRECTORS

The appointments of two of the Directors, Mr. George Lawn and Mr. Mark Silverstone, expired on the 26th September, 1946, and, pursuant to the provisions of section 7 of the Reserve Bank of New Zealand Amendment Act, 1936, the Governor-General in Council reappointed them to the Board.

PROFITS

The net profit for the year, after making provision for depreciation and contingencies, amounted to £(N.Z.)581,784 2s. 1d. This amount has since been paid into the Public Account to the credit of the Consolidated Fund.

BALANCE-SHEET

The principal changes in the Balance-sheet as at the 31st March, 1947, compared with that of the previous year, were as follows:—

LIABILITIES

Bank Notes

The total of notes outstanding on the 31st March, 1947, was £(N.Z.)46,878,128, an increase of approximately £(N.Z.)3.39 millions since the 31st March, 1946. As the demand for notes at Easter time is always high, and Easter this year was shortly after the 31st March, the Balance-sheet figure reflects the increased demand.

The effective note circulation—that is, the total of notes held by the public—was £(N.Z.)39·63 millions on the last Wednesday in March, an increase of £(N.Z.)2·99 millions for the year. The effective note circulation by denominations on the 31st March, 1947, compared with the 31st March, 1946, was as follows:—

(£(N.Z.)000)

—				31st March, 1946.	31st March, 1947.	Increase.
						Per Cent.
10s.	..	..	..	1,087	1,143	5
£1	..	..	..	9,143	9,422	3
£5	..	..	..	21,085	22,486	7
£10	..	..	..	3,256	4,218	30
£50	..	..	..	1,706	2,001	17
Trading bank notes outstanding				366	363	..
				36,643	39,633	..

Demand Liabilities

(a) *State*.—Deposits under this heading decreased by £(N.Z.)1·68 millions, from £(N.Z.)24·52 millions on the 31st March, 1946, to £(N.Z.)22·84 millions on the 31st March, 1947. This decrease is mainly accounted for by smaller balances held at the Bank in the Meat Industry Account and the Post Office Account, partly offset by an increase in the balance held by the Wool Disposal Commission.

(b) *Banks*.—The total deposits held by the trading banks at the Reserve Bank increased by £(N.Z.)6·77 millions, from £(N.Z.)47·77 millions on the 31st March, 1946, to £(N.Z.)54·54 millions on the 31st March, 1947. The highest figure for these balances during the year was £(N.Z.)64·87 millions on the 26th August, 1946.

As mentioned in last year's report, a rise in these deposits is a reflection of the fact that the trading banks' requirements of sterling in payment for imports have been relatively low compared with the proceeds of exports.

A further contributing factor in the increase recorded this year was the repayment by the Government at maturity of certain New Zealand Government stock held by the banks.

No alteration was made to the statutory minimum balances which the trading banks are required to hold at the Reserve Bank—namely, 7 per cent. of their demand liabilities in New Zealand and 3 per cent. of their time liabilities in New Zealand. The statutory minimum balances required to be held during March, 1947, totalled £(N.Z.)10·1 millions.

ASSETS

Sterling Exchange

On the 31st March, 1947, holdings of sterling exchange totalled £(N.Z.)85,847,760 compared with £(N.Z.)65,655,890 on the 31st March, 1946, an increase of £(N.Z.)20·19 millions. The average throughout the year was approximately £(N.Z.)19 millions higher than in the previous year.

Advances to the State or State Undertakings

(1) *Marketing Organizations*.—No advances were outstanding under this heading at the balance date, though the average amount outstanding during the year, on a weekly average basis, was £(N.Z.)1·066 millions. This amount was £(N.Z.)1·203 millions less than the average amount of £(N.Z.)2·269 millions outstanding during the previous year.

No change was made in the rates charged on advances to marketing organizations, which remained as follows:—

First £(N.Z.)5,000,000	.. ..	1 per cent. per annum.
Thereafter .. ..	.. ..	1½ per cent. per annum.

Credit balances in individual marketing accounts are set off against advances in other marketing accounts, and as, in any case, total advances did not exceed £(N.Z.)5,000,000 during the year, the effective rate has been 1 per cent.

(2) *Other Purposes.*—The decline of £(N.Z.)9 millions from the amount of £(N.Z.)45 millions outstanding on the 31st March, 1946, to £(N.Z.)36 millions on the 31st March, 1947, was due, in the main, to the fact that various Government Departments had funds available for temporary investment and the Treasury had issued bills to these Departments instead of to the Bank.

The rate of discount on New Zealand Government Treasury bills taken up by the Reserve Bank remained unchanged at 1 per cent. The same rate was charged on overdraft accommodation extended to the Government in terms of section 21 (1) (a) of the Finance Act, 1946.

Investments

Investments declined from £(N.Z.)5·19 millions on the 31st March, 1946, to £(N.Z.)3·87 millions on the 31st March, 1947.

This reduction of £(N.Z.)1·32 millions was caused partly by the redemption, at maturity, of New Zealand Government securities held by the Bank in New Zealand, and partly by sale, to the Government, of New Zealand Government securities domiciled in London.

The last-named securities were used by the Government in payment for Bank of New Zealand shares on the London register in cases where such shares were transferred to the Government, by the holders, in exchange for payment in that form.

DISCOUNT RATE

The minimum rate for the discounting of approved bills of exchange has remained unchanged since 26th July, 1941, at 1½ per cent.

EXCHANGE RATE

The Bank's official buying rate for sterling, which was fixed at £(N.Z.)124 = £(stg.)100 on the 1st August, 1934, in accordance with the terms of section 16 (3) of the Reserve Bank of New Zealand Act, 1933, remained unchanged.

Since the suspension in 1938 of the Bank's obligation to redeem its notes in sterling, no official selling rate has been quoted.

No alteration was made during the year in the following rates quoted by the trading banks for buying and selling sterling:—

NEW ZEALAND ON LONDON*

(On the basis of £(stg.)100)

	Buying.				Selling.			
	Air Mail.†		Sea Mail.		Sea Mail and Air Mail.			
Telegraphic transfers	£(N.Z.)124	0 6	£(N.Z.)123	7 6	£(N.Z.)125	0 0		
On demand ..	124	0 6	123	15 3	125	0 0		
3 days' sight ..	" 123	19 9	" 123	14 6			No quotation.	
30 days' sight ..	" 123	16 0	" 123	10 9	£(N.Z.)124	18 3		
60 days' sight ..	" 123	11 9	" 123	6 6	" 124	17 0		
90 days' sight ..	" 123	7 6	" 123	2 3	" 124	15 9		
120 days' sight ..	" 123	3 3	" 122	18 0			No quotation.	

* These rates apply to all parts of the British Isles.

† Customer pays air-mail postage.

LONDON* ON NEW ZEALAND
(On the basis of £(stg.)100)

		Buying.		Selling.	
Telegraphic transfers		£(N.Z.)125	0 0	£(N.Z.)124	7 6
				Sea Mail and Air Mail.	
On demand ..	£(N.Z.)125 12 6	£(N.Z.)126	2 6	£(N.Z.)124	7 6
30 days' sight ..	„ 126 0 9	„ 126	10 9	No quotation.	
60 days' sight ..	„ 126 9 0	„ 126	19 0	„	
90 days' sight ..	„ 126 17 3	„ 127	7 3	„	
120 days' sight ..	„ 127 5 6	„ 127	15 6	„	

* These rates apply to all parts of the British Isles.

† Customer pays air-mail postage.

BANKING LEGISLATION

(1) RESERVE BANK ADVANCES

Section 21 of the Finance Act, 1946 (the full text of which is attached in the Appendix to this report), amended the lending powers of the Reserve Bank. The Bank is now empowered to grant accommodation by way of overdraft to—

- (a) The Government of New Zealand ;
- (b) Any Department of State or statutory authority having power to carry on business or to borrow on overdraft ;
- (c) Any statutory marketing authority.

Prior to this amendment the purpose for which the Bank was empowered to grant overdraft accommodation to the Government or any statutory authority was confined to financing the purchase and marketing of New Zealand produce.

The amount of overdraft accommodation which may be granted to the Government under the amended legislation is limited to the amount of the investments held by the Treasury for the time being.

The reason for authorizing the Reserve Bank to provide, by way of overdraft, part of its general accommodation to the Government was to enable the Bank to meet the day-to-day requirements of the Government by day-to-day accommodation. This method, when required, has been found to be both more efficient and more economical than the former practice of discounting Treasury bills with a term of three months in order to meet requirements of a much shorter duration.

The various trading Departments of the State—*e.g.*, the Government Life Insurance Department, the State Fire and Accident Insurance Office, and the Public Trust Office—are now authorized to borrow on overdraft from the Reserve Bank. These Departments are required by law to bank with the Reserve Bank, and it is reasonable that they should be provided with access to facilities for day-to-day accommodation similar to that available to customers of other banks.

(2) LOANS TO FOREIGN GOVERNMENTS

In addition to the above-mentioned extension of the Bank's lending powers, section 4 of the Finance Act (No. 2), 1946, empowers the Bank, upon such terms and conditions as may be approved by the Minister of Finance, to advance moneys from time to time up to an aggregate of £(N.Z.)10 millions at any one time to the Governments of other countries in respect of the purchase of any New Zealand produce for export to those countries. In lieu of making loans, the Reserve Bank may guarantee similar advances made by any other bank. The full text of the section is attached in the Appendix to this report.

(3) BANK HOLIDAYS

During the war the number of Bank holidays was reduced by Emergency Regulation. This reduction was made permanent by a section of the Statutes Amendment Act, 1946. The statutory Bank holidays now to be observed are—

New Year's Day.	|	Christmas Day.
Good Friday.		The day after Christmas Day.
Easter Monday.		The Sovereign's birthday.
Anzac Day.		Labour Day.

The present hours of business (10 a.m. to 3 p.m., Monday to Friday) were made permanent, and all banks now remain closed on Saturdays.

(4) WEEKLY BALANCING DAY

Section 37 of the Finance Act, 1946, provided that the Governor of the Reserve Bank may from time to time, with the approval of the Minister of Finance, appoint such day of the week as he thinks fit to be the weekly balancing day for the purposes of the weekly Statement of Assets and Liabilities of the Reserve Bank and the monthly returns of the trading banks.

The reason for this amendment was that Monday was proving to be inconvenient as a balancing day both in Australia and New Zealand; and as it was desirable that there should be uniformity between the two countries, it was subsequently agreed, both in Australia and New Zealand, that Wednesday should be the appointed day, and since the 8th January, 1947, the returns have been made up accordingly.

(5) BILLS OF EXCHANGE

At the time of the introduction of Saturday closing for banks, a regulation was made altering the basis of computation of the days of grace for bills of exchange. This alteration was made permanent by section 13 of the Statutes Amendment Act, 1946.

MANAGEMENT OF PUBLIC DEBT IN NEW ZEALAND

The following major loan operations were undertaken during the year:—

CONVERSION LOAN

In last year's report the preliminary results of the conversion on the 15th April of the 4 per cent. 1946-49 stock were given. Holders were offered conversion to 3 per cent. stock maturing 15th April, 1960-63, and the final results were:—

Total amount of loan	£(N.Z.)8,931,480
Number of holders	10,787
	Number of Holders.
Conversion	4,992
Redemptions	5,795
	Amount. £(N.Z.)
	6,505,115
	2,426,365
	<u>10,787</u>
	<u>£(N.Z.)8,931,480</u>

LOANS REPAYED

During the year the following loans were repaid at maturity:—

	Number of Holders.	Amount. £(N.Z.)
4 per cent. New Zealand Government stock, 1st April, 1946 ..	3,185	382,323
2½ per cent. New Zealand Government stock, 1st August, 1946 ..	4,360	3,305,370

In addition, the Government exercised its option to repay the 3 per cent. loan, totalling £(N.Z.)5,582,970, maturing 15th September, 1946-48. Repayment was effected to the 1,430 holders on the 15th March, 1947.

OVER-COUNTER ISSUES

1. On 14th December, 1946, the over-counter issue of 3 per cent stock maturing 15th July, 1961-63, which had been open since 3rd January, 1946, was closed. Receipts totalled £(N.Z.)18,319,590.

2. On the 23rd January, 1947, the Bank issued a prospectus inviting applications for 3 per cent. stock at par maturing 15th July, 1962-64, on which interest was to be payable from the date of the taking up of the stock. Results to the 31st March, 1947, were as follows:—

Applications	..	..	..	..	670
Amount issued	..	..	..	..	£(N.Z.)2,436,725

EXCHANGE CONTROL

The following table gives a classification of overseas exchange transactions for the years ended 31st March, 1944 to 1947, inclusive:—

SUMMARY OF TRANSACTIONS

(£(N.Z.)000)

	Year ended 31st March,			
	1944.	1945.	1946.	1947.
<i>Receipts</i>				
In respect of—				
Exports	74,118	85,287	108,521	112,911
Interest, dividends, legacies, immigrants' funds, repatriated capital, and private debts due in New Zealand	4,901	5,861	8,129	14,459
Trade debts due in New Zealand, including overseas earnings of New Zealand firms	3,216	4,205	5,388	5,478
Commissions, royalties, and insurance	250	295	441	546
Donations and allowances	350	424	669	481
Travellers' expenses	194	272	713	623
Receipts on account of American authorities and personnel	16,440	5,818	1,724	3,593
Receipts by High Commissioner in London	4,081	28,559	16,212	10,278
Unclassified	294	156	..	..
	103,844	130,877	141,797	148,369
<i>Payments</i>				
In respect of—				
Imports, excluding payments in respect of Government imports	28,152	30,873	36,139	69,668
Interest, dividends, legacies, emigrants' funds, repatriated capital, and private debts due overseas	3,778	4,741	5,745	7,952
Trade debts due overseas, including earnings in New Zealand of overseas firms	2,372	1,437	1,881	2,538
Government debt and other services, including payments in respect of imports	51,470	48,063	87,344	44,389
Local-body debt services	1,414	1,539	1,140	1,381
Commissions, royalties, and insurance	846	719	627	659
Donations and allowances	787	675	1,141	1,350
Film hire and entertainments	619	508	544	579
Travellers' expenses	113	191	496	1,735
American authorities and personnel	6,318	4,402	1,014	30
Unclassified	403	169	..	..
	96,272	93,317	136,071	130,281

The figures for the year ended 31st March, 1947, compared with those of the previous year, show an increase in receipts from exports of £(N.Z.)4·390 millions and a rise in payments for imports (other than Government) of £(N.Z.)33·529 millions. This trend in import figures was expected as the result of overseas supplies becoming more freely available following developments in the restoration of industry to meet civilian requirements.

The total figures for the year disclose a balance of receipts over payments of £(N.Z.)18·088 millions.

There has been no change during the year under review in the administrative procedure of the Exchange Control Regulations covering overseas trade, funds, and securities.

TRADING BANKS

An increase of £(N.Z.)18·7 millions in the trading banks' total demand and time liabilities in New Zealand was the principal change recorded in the statutory returns for the year ended March, 1947, as compared with those at the end of the previous year. Of this increase, £(N.Z.)15·9 millions was in demand liabilities and £(N.Z.)2·8 millions in fixed deposits.

During the same period the trading banks' advances and discounts increased by £(N.Z.)15·1 millions and unexercised overdraft authorities increased by £(N.Z.)1·6 millions. Reference is made elsewhere in this report to the supervision of trading bank advances.

Repayment on maturity of issues of New Zealand Government securities was the main reason for the reduction of £(N.Z.)5·9 millions in the trading banks' total holdings of securities during the year.

The banks' cash items increased by £(N.Z.)2·7 millions during the year—namely, an increase of £(N.Z.)2·1 millions in deposits at the Reserve Bank and increases of £(N.Z.)361,000 and £(N.Z.)258,000 respectively in their holdings of notes and coin.

NET OVERSEAS ASSETS*

On the last Monday in March, 1946, net overseas assets held by the New Zealand banking system on account of New Zealand business totalled £(N.Z.)98·4 millions. They dropped to £(N.Z.)88·7 millions at the end of April, 1946, rose to £(N.Z.)114·4 millions in February, 1947, and on the last Wednesday in March, 1947, had dropped again to £(N.Z.)99·5 millions following the payment of a gift of £(N.Z.)12·5 millions from the New Zealand Government to the United Kingdom Government. Thus the net increase for the year was £(N.Z.)1·1 millions.

It will be seen that the increase in net overseas assets does not agree with the excess of external receipts over payments as shown earlier in this report. This is mainly due to the fact that net overseas assets are taken as at the last weekly balancing day of the financial year, whereas the exchange transactions relate to the period up to the 31st March, the last day of the financial year. Hence the two figures would not be expected to agree, particularly when large transactions take place in the last few days of the financial year.

One factor contributing to the maintenance of a high level of net overseas assets was the record total of export receipts.

On the other hand, imports, though showing a welcome improvement, were still difficult to obtain.

* Reserve Bank's sterling exchange less overseas liabilities plus trading banks' net assets overseas in respect of New Zealand business.

AMOUNT OF MONEY

The table below shows the changes in the total amount of money in the form of coin, notes, and bank demand deposits during recent years :—

AMOUNT OF MONEY IN NEW ZEALAND IN THE FORM OF COIN, NOTES, AND BANK DEMAND DEPOSITS*
(£(N.Z.)millions)

—	Coin.	Notes.	Trading Bank Demand Liabilities.	Government Deposits at Reserve Bank.	Other Demand Liabilities Reserve Bank.†	Total Amount of Money.	Annual Increase.
Last Monday in March—							
1939 ..	1·38	11·18	38·45	3·82	1·03	55·9	0·6
1940 ..	1·62	14·84	46·64	6·78	0·11	70·0	14·1
1941 ..	1·69	17·16	53·68	6·27	0·93	79·7	9·7
1942 ..	1·85	20·18	61·52	13·46	0·21	97·2	17·5
1943 ..	2·23	26·18	77·14	15·56	0·37	121·5	24·3
1944 ..	2·47	31·19	85·09	18·09	0·89	137·7	16·2
1945 ..	2·62	34·19	93·66	16·80	0·69	148·0	10·3
1946 ..	2·89	35·64	110·92	29·21	0·79	180·5	32·5
1947(Wednesday)	3·04	39·63	126·79	17·43	0·55	187·4	6·99
Last Monday of month—							
1946—							
March ..	2·89	36·64	110·92	29·21	0·79	180·5	..
April ..	2·92	37·89	114·65	24·33	0·29	180·1	..
May ..	2·96	37·74	114·90	19·10	0·38	175·1	..
June ..	2·99	37·84	116·63	18·57	0·82	176·9	..
July ..	2·99	38·36	116·42	15·02	0·30	173·1	..
August ..	3·01	38·86	118·08	12·73	0·37	173·0	..
September ..	3·01	38·86	120·39	13·42	0·48	176·2	..
October ..	3·11	39·80	120·08	14·34	0·43	177·8	..
November ..	3·04	39·06	120·62	12·71	0·84	176·3	..
December ..	3·18	41·76	122·72	12·20	0·26	180·1	..
Last Wednesday of month—							
1947—							
January ..	3·03	39·71	126·10	14·74	1·05	184·6	..
February ..	3·02	39·36	128·71	20·27	0·46	191·8	..
March ..	3·04	39·63	126·79	17·43	0·55	187·4	..

* Excluding deposits held at savings-banks.

† Excluding balances held by the trading banks.

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

deposits, large quantities of liquid assets such as short-term deposits and Government stock, there is no indication of any large-scale movement to turn them into cash in order to finance current expenditure. Thirdly, a large portion of demand deposits is lying relatively idle, as is shown by their low average velocity of circulation.

INTEREST RATES AND YIELDS

There have been no significant changes during the past financial year in the rates of interest which are prescribed for the various types of deposits and for overdrafts. Interest rates payable on new mortgages registered during the year averaged 3·85 per cent., as compared with 4·10 per cent. in the previous year. The reduced average is due largely to the high proportion of rehabilitation loans to returned servicemen at preferential rates of interest.

There has continued to be plenty of money seeking investment in stocks and shares, as is shown by the rising trend in share prices and by the large response to those few public issues of share capital which have taken place during the year. Yields on the market price of company shares have been fairly steady at a level about two-thirds that of 1938. Prices of Government stocks have been firm, with long-term issues yielding about 3 per cent. The fact that a "tap" loan of 3 per cent. at par has been available throughout almost the whole of the year has, in effect, put a ceiling on the prices of comparable issues.

PRICES

During the year 1946-47, price levels, as indicated by the official price indexes, have remained relatively stable, the exception being the export index (all groups), the latest available figure—namely, January, 1947—showing an increase of 18 per cent. above that of March, 1946. The imported items included in the wholesale index show a slight fall in price, this being due in part to the removal of sales tax on clothing and building-materials; but there was a slight rise in the prices of locally produced items. The following table summarizes the price changes which occurred between March, 1946, and March, 1947:—

PRICE CHANGES IN NEW ZEALAND, 1946-47

—	March, 1946.	March, 1947.	Change.
Export prices (1926-30 = 1000) ..	1222	1442 (January)	Per Cent. +18·0
Wholesale (1926-30 = 1000)—			
Locally produced	1222	1270	+ 3·9
Imported	1853	1791	- 3·3
All groups	1588	1570	- 1·1
Wartime prices index (15th December, 1942 = 1000)	1009	1013	+ 0·4
Nominal male wage rates (1926-30 = 1000)	1414	1454	+ 2·8
Share prices (1926-30 = 1000) ..	1327	1455	+ 9·6

SUPERVISION OF TRADING BANK ADVANCES

During the period covered by the Government's stabilization programme, arrangements have been in operation whereby the trading banks have co-operated fully with the Government to ensure that their lending policy would be compatible with the war effort.

Since the end of hostilities the policy of controlling advances in certain categories has been continued and adapted to post-war conditions.

The provisions are reviewed from time to time and are communicated to the trading banks by the Reserve Bank after consultation with the Government. In order to secure the closest possible uniformity in the observance of the policy by the banks, all marginal or doubtful cases are referred to the Reserve Bank for determination as to whether the application in question is inside or outside the scope of permissible advances.

The trading banks, for their part, have always loyally and carefully co-operated with the Reserve Bank in carrying out the requirements of the policy, while the Reserve Bank deals with each case solely on merit; and to safeguard the confidential relationship between customers and their own bankers the Reserve Bank does not ask that the identity of any applicant should be disclosed.

The broad classes of advances which are subject to control are—

- (a) Advances for speculative purposes.
- (b) Purchases of real property.
- (c) Purchase of investments.
- (d) Advances for other capital purposes—*e.g.*, construction and extension of industrial and commercial premises and plant.
- (e) Repayment of mortgages.
- (f) Advances to finance hire-purchase and other credit sales.
- (g) Advances for luxury purposes.

Some exceptions, where justifiable, are made under some of the headings, after reference to the Reserve Bank, but as a general rule the requirement is that finance for the above purposes, including those which are beneficial and essential to the community, should be financed from the available money which is already in existence, and not from any fresh creation of credit.

GENERAL

Without in any way underestimating the value of credit and currency control as an indispensable factor in the maintenance of economic stability and progress, it is nevertheless an even more fundamental fact that high standards of living are derived not from money itself, but from the quantities and qualities of goods produced and services rendered. These depend on the utilization and conservation of the real resources of soil, forests, mineral wealth, and capital equipment; the effectiveness of this utilization of real resources depends on the energies of the people as a whole and their pride in performing good work, and good administration of work, according to their functions in the economic structure. These qualities produce a growing productive efficiency, and therefore an increasingly high standard of living, when coupled with the intelligent organization of industry, trade, employment, and finance, the maintenance of industrial peace, and the promotion of measures to encourage constructive co-operation between all people who have dealings with each other, whether nationally or internationally.

STAFF

In conclusion, the Board takes this opportunity to express its appreciation of the willing and efficient service rendered by the whole staff during the year under review.

For and on behalf of the Board of Directors :

W. L. WARD, Governor.
E. C. FUSSELL, Deputy Governor.

27th June, 1947.

NOTE.—Where figures are given to a certain degree of approximation the total shown may not be the same as the sum of the items.

APPENDIX

AMENDMENT TO LENDING POWERS OF RESERVE BANK

Section 21 of the Finance Act, 1946, reads as follows :—

21. (1) The Reserve Bank of New Zealand may from time to time grant accommodation by way of overdraft—

- (a) To the Government of New Zealand :
- (b) To any Department of State or statutory authority having power to carry on any business or to borrow moneys on overdraft :
- (c) To any Board or other authority having statutory powers in relation to the marketing of any New Zealand produce, for the purpose of financing the purchase and marketing of such produce.

(2) Notwithstanding anything to the contrary in any Act, accommodation under paragraph (a) of the last preceding subsection in respect of the Public Account may be granted by the Reserve Bank and received by the Government up to any amount not exceeding the amount of the investments for the time being held by the Treasury under subsection two of section thirty-nine of the Public Revenues Act, 1926.

(3) Paragraph (gg) of subsection one of section thirteen of the Reserve Bank of New Zealand Act, 1933, as set out in section twelve of the Reserve Bank of New Zealand Amendment Act, 1936, and the said section twelve are hereby repealed.

Section 4 of the Finance Act (No. 2), 1946, reads as follows :—

4. (1) The Reserve Bank of New Zealand may from time to time, upon such terms and conditions, whether as to security or otherwise, as may be approved by the Minister of Finance, advance moneys to the Government of any other country in respect of the purchase of any New Zealand produce for export to that country, or guarantee any such advance that may be made by any other bank.

(2) The amount outstanding in respect of any advances or guarantees under this section shall not at any time exceed in the aggregate the sum of ten million pounds.

(3) If any loss is suffered by the Reserve Bank of New Zealand in respect of any such advance or guarantee, the amount of the loss shall, without further appropriation than this section, be paid to the Reserve Bank out of the Consolidated Fund.

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RESERVE BANK OF NEW ZEALAND

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1947

<i>Dr.</i>	£	s.	d.	<i>Cr.</i>	£	s.	d.
General charges, including salaries, rent, cost of note issue, and other expenses	272,547	9	4	Balance of profit after making provision for rebate on Treasury bills not yet due, and for sundry liabilities and contingencies	854,331	11	5
Balance, being profit for year	581,784	2	1				
	<u>£854,331</u>	<u>11</u>	<u>5</u>		<u>£854,331</u>	<u>11</u>	<u>5</u>

PROFIT AND LOSS APPROPRIATION ACCOUNT

<i>Dr.</i>	£	s.	d.	<i>Cr.</i>	£	s.	d.
Payments to New Zealand Government in terms of section 36 of Reserve Bank of New Zealand Act, 1933	540,919	18	9	Balance as at 1st April, 1946	540,919	18	9
Balance	581,784	2	1	Balance from Profit and Loss Account	581,784	2	1
	<u>£1,122,704</u>	<u>0</u>	<u>10</u>		<u>£1,122,704</u>	<u>0</u>	<u>10</u>

RESERVE BANK OF NEW ZEALAND—continued
BALANCE-SHEET AS AT 31ST MARCH, 1947

	£	s.	d.		£	s.	d.
General Reserve Fund	1,500,000	0	0	Gold (at face value)	2,801,877	10	0
Bank notes	46,878,128	0	0	Sterling exchange	85,847,760	9	10
Demand liabilities—				Subsidiary coin	49,263	15	8
(a) State	22,835,144	18	3	Advances to the State or State undertakings—			
(b) Banks	54,540,503	15	7	(1) Marketing organizations			
(c) Other	511,667	12	0	(2) For other purposes	36,000,000	0	0
Liabilities in currencies other than New Zealand				Investments	3,868,093	2	11
currency				Other assets	1,354,091	2	6
Other accounts	26,455	15	8	N.B.—Holdings of sterling have been converted			
Profit and Loss Appropriation Account	3,047,401	17	4	into New Zealand currency at the rate of			
	581,784	2	1	£100 sterling equals £124(N.Z.).			
	£129,921,086	0	11		£129,921,086	0	11

AUDITORS' CERTIFICATE AND REPORT

W. F. I. WARD, Governor.
E. C. FUSSELL, Deputy Governor.
W. R. EGGERS, Chief Accountant.

We have audited the balance-sheet as at 31st March, 1947, above set forth and have obtained all the information and explanations we have required.
We have accepted the certificate of the Bank of England as to assets held on account of the Reserve Bank of New Zealand.
In our opinion the balance-sheet is properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Bank as at 31st March, 1947, according to the best of our information and the explanations given to us and as shown by the books of the Bank.

D. A. F. CROMBIE }
D. G. JOHNSTON } Public Accountants, Auditors.

Wellington, New Zealand, 29th May, 1947.