

EXCHANGE RATES

No change was made during the year in the Reserve Bank's official buying and selling rates for sterling, which are :—

Buying sterling	£(N.Z.)100 = £(stg.)100
Selling sterling (for approved transactions)		£(N.Z.)101 = £(stg.)100

Following the devaluation of sterling in terms of gold and the United States dollar in September, 1949, from \$4.03 to \$2.80, it was necessary to decide whether or not New Zealand currency should maintain its value relative to sterling. The decision made was that the present rate of parity with sterling should be retained. As a result of the consequent devaluation of the New Zealand pound relative to the United States dollar, the rates now being quoted by the trading banks for telegraphic transfers of United States dollars are (on the basis of £(N.Z.)1)—buying, \$2.7991; selling, \$2.7586; compared with \$4.0295 and \$3.9696 previously.

New Zealand's external trade is predominantly with sterling-area countries, and a high proportion of our trade with other countries is financed in terms of sterling. New Zealand has at present good markets for her exports; but the appreciation of New Zealand currency against sterling which would have resulted if New Zealand had elected to maintain the value of its currency in terms of the United States dollar would either have caused an increase in the sterling prices of our exports to the sterling area or, if these prices could not be raised, a reduction in the income of New Zealand's primary producers.

The change in the sterling/dollar parity was the occasion of a change in the dollar value of a large number of currencies. Many countries, including the whole of the sterling area except Pakistan, maintained the sterling value of their currencies. Certain other currencies remained unchanged in relation to the United States dollar, while a third group chose a middle course and changed the value of their currencies in relation to both sterling and the United States dollar. Such changes as were made in the sterling rates of exchange for various currencies were necessarily reflected in New Zealand's quotations for the same currencies, since New Zealand remained at par with sterling. An Appendix to this report shows the changes that were made in the New Zealand trading banks' quotations.

The effect of these changes has been to increase the New Zealand price of imports from the dollar and other hard-currency areas. It is to be expected, too, that as the United Kingdom and other soft-currency countries have to pay more (in sterling) for some of the raw material used in the manufacture of goods subsequently exported to New Zealand, the prices of some of our imports may rise also. On the other hand, New Zealand has shared in the increased prices for sterling-area commodities, including wool, which resulted from devaluation. Our exports to the dollar area have increased in value, not only in terms of New Zealand currency, but also in terms of dollars. The calendar year 1950 should show a reduction in our dollar deficit.

TRADE

At the present time the value of New Zealand's external trade is exceptionally high. Exports for the year ended 30th June, 1949 (Customs figures), amounted to £147.9 millions, approximately £2.8 millions in excess of those of the previous year. Imports for the same period totalled £110.1 millions, compared with nearly £147 millions for 1947-48. In comparing these figures, allowance should be made for the appreciation of the New Zealand pound by 25 per cent. in terms of sterling in August, 1948.

New Zealand, in common with other sterling-area countries, has exercised great restraint on expenditure for imports from the dollar areas compatible with the Dominion's essential requirements.