

CAUSES OF CHANGES IN THE VOLUME OF MONEY  
(£ Millions)

Last Balance Day in March.	1939-50 (Eleven Years).	1949-50 (One Year).
(a) Overseas transactions* .. .. .	+82·9†	-1·5
(b) Bank credit—		
(1) Reserve Bank advances .. .. .	+47·4	+19·6
(2) Reserve Bank investments in New Zealand .. .. .	+15·2†	+11·0
(3) Trading bank advances and discounts .. .. .	+40·6	+6·5
(4) Trading bank investments in New Zealand .. .. .	+3·1	-2·8
(5) Total bank credit (1) to (4) .. .. .	(+106·3)	(+34·2)
(c) Shift from time to demand liabilities of trading banks‡ .. .. .	-9·2	-1·5
(d) Other items .. .. .	+11·2	+2·2
Total change .. .. .	+191·2	+33·5

\* 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.

† Apart from the amount of £600,000 paid in cash by the Government to the Reserve Bank, the adjustments consequent on the exchange-rate appreciation neither increased nor decreased the amount of money in circulation in New Zealand in the form of coin, notes, and bank demand deposits, and are therefore not included in the above table.

‡ Minus sign indicates shift from demand to time liabilities.

The table above shows an increase in the volume of money of £33·5 millions in the financial year. Excluding advances for marketing purposes and credits to the French and Czechoslovak Governments, there was a net use of bank credit by the Government to the extent of £23·3 millions (net borrowings of £26 millions from the Reserve Bank, less repayment of £2·7 millions of securities held by the trading banks).

The increase of £191·2 millions since March, 1939, in the volume of money in circulation in New Zealand covers the war and more than four years of the post-war period. During the war years expanding bank credit and the accumulation of overseas balances were the main causes of the increase in the money supply, the accumulation of overseas funds being the major factor. Since March, 1946, however, bank credit has been expanded by £72·4 millions, comprising increases of £22·4 millions in trading bank credit and £49·9 millions in Reserve Bank credit. Attention was drawn in the Bank's last report to the need to review constantly the purposes for which, in a time of full employment, new money is issued, whether from the central bank or from the trading banks; and to the advisability of effecting reasonable reductions in central bank credit as and when practicable. This need still exists and, in the present circumstances, every endeavour should be made to finance capital expenditure from savings rather than by the creation of new money.

#### STAFF

Once again the Board has pleasure in placing on record its appreciation of the loyal co-operation and efficient service rendered by the staff during the year.

For and on behalf of the Board of Directors:

E. C. FUSSELL, Governor.

A. ROSS, Deputy Governor.

30th June, 1950.