

1950
NEW ZEALAND

RESERVE BANK OF NEW ZEALAND

ANNUAL REPORT OF THE BOARD OF DIRECTORS AND STATEMENT OF ACCOUNTS FOR
THE YEAR ENDED 31st MARCH, 1950

**Except where otherwise specified, all amounts
are expressed in New Zealand currency.**

*Presented to Parliament pursuant to Section 38 of the Reserve Bank of New Zealand Act,
1933, and 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 31st March, 1950.

BOARD OF DIRECTORS

It is with deep regret that the Board records the death of Mr. J. G. Duncan on 6th May, 1949. Mr. Duncan had been a member of the Board since the inception of the Bank and during that time had rendered outstanding service.

The vacancy has been filled by the appointment of the Hon. B. Roberts by Order in Council gazetted on 7th July, 1949, pursuant to the provisions of section 7 of the Reserve Bank of New Zealand Amendment Act, 1936.

PROFITS

The net profit for the year, after making provision for depreciation and contingencies, amounted to £774,833. 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 31st March, 1950, compared with that of the previous year were as follows:—

LIABILITIES

Bank-notes

The value of notes outstanding on 31st March, 1950, was £53,031,091, compared with £49,356,870 on 31st March, 1949, an increase of £3,674,221. There was a smaller increase in the effective note circulation—that is, the value of notes held by the public. This figure was £44,301,863 on the last Wednesday in March—£2,102,643 higher than the corresponding figure of £42,199,220 in 1949. Changes in the net note circulation are shown in the following table:—

Last Balance Day in March,	Net Note Circulation. (£000)	Increase. (£000)
1940	14,835	3,660
1941	17,162	2,777
1942	20,177	3,015
1943	26,175	5,998
1944	31,196	5,021
1945	34,186	2,990
1946	36,643	2,458
1947	39,633	2,989
1948	40,757	1,124
1949	42,199	1,443
1950	44,302	2,103

The increase during the year may be attributed in part to higher wages, salaries, and other incomes, normal increase in population, availability for spending of wartime savings repaid on the maturity of short-term Victory and Liberty Loans, and to the expansion of bank credit.

The following table, showing by denominations the notes held by the public, once again reveals more than proportionate increases in the notes of high denominations.

(£000)

	Last Balance Day in March,						
	1944.	1945.	1946.	1947.	1948.	1949.	1950.
10s.	952	990	1,087	1,143	1,171	1,216	1,241
£1	8,021	8,356	9,143	9,422	9,434	9,521	9,376
£5	16,422	18,599	21,085	22,486	23,117	24,027	25,408
£10	2,791	3,366	3,256	4,218	4,687	4,990	5,606
£50	2,634	2,504	1,706	2,001	1,987	2,086	2,313
Trading banks' notes outstanding	376	371	366	363	361	359	357
Total active circulation ..	31,196	34,186	36,643	39,633	40,757	42,199	44,302

Demand Liabilities

(a) *State*.—The amount on deposit under this heading on 31st March, 1950, was £33,296,116, compared with £20,572,329 on 31st March, 1949. The increase was mainly accounted for by larger balances in the Public Account, the Post Office Account, and the Meat Industry Account. From May, 1949, to February, 1950, the average of these deposits was £9.08 millions. The customary increase in demand liabilities to the State during March reflects principally the receipt by the Government of income-tax.

(b) *Banks*.—There was a further substantial rise during the year in this item, which on 31st March, 1950, amounted to £67,395,420, an increase of £7,872,347. This was principally the result of a general increase in Reserve Bank credit during the year. In addition, there was the redemption of bank holdings of Government stock amounting to £2·7 millions.

No alteration was made to the statutory minimum balances which the trading banks are required to deposit with the Reserve Bank—namely, 7 per cent. of their demand liabilities and 3 per cent. of their time liabilities in New Zealand. The statutory minimum balances on 31st March, 1950, amounted to £12·7 millions.

ASSETS

Gold

During the year the Bank continued to purchase all gold produced in New Zealand. On 31st March, 1950, holdings were valued (at cost) at £4,070,032, an increase of £837,051 over the previous year's figure. Further reference to this part of the Bank's activities appears later in this report.

Sterling Exchange

There was a fall of £1,440,785 in the Bank's holdings of sterling exchange during the year, from £50,596,285 to £46,155,500. Net overseas assets of the trading banks were, however, higher than in the previous year by £3·35 millions, due to their abnormally large holdings of wool bills. Further reference to the total of net overseas assets is made later in this report.

Advances to the State or State Undertakings

(1) *Marketing Organizations*.—There was a considerable increase in the amount of accommodation required by the marketing organizations during the year. Compared with a total of £4,164,966 on 31st March, 1949, there was £7,450,388 outstanding on 31st March, 1950. The average for the year was £6·6 millions, compared with £1·3 millions in the previous year. The main reason for this was the larger stocks of produce held awaiting shipment, as a result of the highly favourable conditions for dairy production earlier in the season.

(2) *Other Purposes*.—The total of advances to the State for Other Purposes as at 31st March, 1950, was £53 millions, compared with £38 millions on 31st March, 1949.

Accommodation may be granted to the Government by way of overdraft or by the purchase of three-months Treasury bills or of Government stock. The overdrafts and the Treasury bills are shown as "Advances to State or State Undertakings—For Other Purposes." Holdings of Government stock are recorded under the heading of "Investments." In considering the amount of accommodation granted to the Government by the Reserve Bank, reference should be made to both of these headings.

By the Finance Act, 1949, authority was given for the Government Insurance Commissioner to obtain accommodation by way of overdraft from the Reserve Bank. No such advances were outstanding on 31st March, 1950.

Other Advances

Loans to Foreign Governments.—The French and Czechoslovak Governments, to which credits were granted in 1947 and 1948 respectively to finance purchases of New Zealand wool, continued to draw to some extent on those credits during the year.

Investments

Investments increased from £34,095,301 on 31st March, 1949, to £43,658,142 on 31st March, 1950. The main cause of this increase was the purchase during June, 1949, of £14 millions of 1-per-cent. Government stock, maturing in 1962, to provide finance for the redemption of the unconverted portion of three loans which had been offered for conversion. In December, 1949, a further £2 millions was invested in this stock, but in March, 1950, £5 millions was redeemed.

Overseas investments (included in the total) declined during the year from £7.1 millions to £5.6 millions. This was the result of sales in London during January, 1950, of the following New Zealand Government stocks:—

	£
(a) 3½-per-cent. stock maturing 1955-60	200,649
(b) 3½-per-cent. stock maturing 1960-64	1,235,489

RESERVE RATIO

No change was made during the year in the statutory minimum reserve ratio of 25 per cent.

During the year the reserve ratio fluctuated between a maximum of 46.1 per cent. in May, 1949, and a minimum of 27.7 per cent. in December. A reduction in the ratio during this part of the year is a normal seasonal movement. Sterling reserves normally increase each year between January and May or June as a result of receipts from exports, and decrease during the rest of the year.

DISCOUNT RATE

The minimum rate for discounting approved bills remained unchanged during the year at 1½ per cent.

MANAGEMENT OF PUBLIC DEBT IN NEW ZEALAND

CONVERSION LOANS

During the financial year ended 31st March, 1950, the following loans domiciled in New Zealand reached their optional or final maturity dates:

- (a) 2½ per cent., maturing 15th June, 1947-49.
- (b) 2½ per cent., maturing 15th February, 1949-50.
- (c) 4 per cent., maturing 15th May, 1949-52.

Stockholders were offered the following options:—

- (1) Repayment of principal and accrued interest at 15th June, 1949;
- (2) Reinvestment of principal from 15th June, 1949, in either of two new securities—3 per cent. maturing 15th June, 1961-64, or 2½ per cent. maturing 15th June, 1954-55.

Of the £29,235,775 of maturing securities, £15,111,380 was reinvested, 2,519 applications amounting to £6,777,895 being received for the short-term and 4,768 applications amounting to £8,333,485 for the long-term issue. Securities totalling £14,124,395 held by 41,370 of the 49,000 stockholders were repaid in cash. Included in the securities repaid were the holdings of the trading banks, amounting to about £2.7 millions, which were not subject to the conversion offer.

The details of each of the three maturing loans were:—

(a) 2½ Per Cent., Maturing 15th June, 1947-49

This was the short-term security of the 3rd Liberty War Loan issued in June-July, 1943. At 15th June, 1949, there were about 29,000 stockholders with total investments of £7,092,970.

The majority of the holders of this loan chose repayment. The amount repaid was £5,077,510, and £2,015,460 was converted, being the holdings of about 3,350 stockholders. About 2,000 of them chose the long-term security.

(b) *2½ Per Cent., Maturing 15th February, 1949 50*

This was the short-term security of the Victory Loan issued in August-October of 1944, and on 15th June, 1949, there were 16,500 holdings totalling £9,710,365.

Of this sum, £7,015,080 held by about 2,400 stockholders was converted, the number seeking long-term investment again being in excess of those investing in the short-term stock. The conversions included large holdings by the primary produce marketing authorities.

In both these loans the relatively small proportion of holders preferring reinvestment was probably due to the large number who originally lent their money in wartime for patriotic purposes rather than as a permanent investment.

(c) *4 Per Cent., Maturing 15th May, 1949 52*

This stock was originally part of the New Zealand Conversion Loan of 1933.

The total investment in this loan at 15th June, 1949, was £12,432,440. About 1,550 of the 3,500 stockholders elected to reinvest £6,080,840; less than 100 of them chose the short-term security.

LIBERTY LOAN BONDS

On 15th September, 1949, 318,633 Liberty Bonds issued in conjunction with the 1st Liberty Loan in 1942 matured.

The purchase-price of these bonds in 1942 was £1 each and the repayment value at maturity £1 4s. each. On 31st March, 1950, 63,247 bonds with a repayment value of £75,896 were still outstanding.

OVER-COUNTER ISSUES

In terms of a prospectus dated 20th April, 1949, the public was invited to make cash application for two new securities. These were:

Long Term: 3-per-cent. stock maturing 15th May, 1964-66.

Short Term: 2½-per-cent. stock maturing 15th May, 1955-56.

These securities remained "on tap" until 10th March, 1950. A total of 164 applications for £7,489,555 was received for the short-term loan, and 2,289 applications for £11,799,270 in the long-term loan. These figures include applications for stock in exchange for shares in the Renown Collieries.

Subscriptions covered the following types of stock:—

	2½ Per Cent. 1955-56.		3 Per Cent. 1964-66.	
	Number.	Amount.	Number.	Amount.
		£		£
Ordinary stock	152	7,484,425	1,802	11,098,735
Death-duty stock	12	5,130	487	700,535
	164	7,489,555	2,289	11,799,270

ACQUISITION OF NEW ZEALAND-PRODUCED GOLD

During the year the Reserve Bank continued to purchase New Zealand-produced gold in accordance with Regulation 5 of the Finance Emergency Regulations 1940 (No. 2).

Offerings of raw and refined gold to the Reserve Bank during the period amounted to 88,295 oz. (gross weight), bringing the total bought by the Bank since the inception of the scheme in August, 1948, to 142,886 oz.

Sales by the Bank to licensed gold-dealers in New Zealand for refining and resale to local manufacturers and dentists aggregated 10,579 oz. (gross weight), raising the total sold since August, 1948, to 14,604 oz.

As a result of the increase in the London price of gold following devaluation of sterling in terms of the United States dollar in September, 1949, the price paid by the Reserve Bank to New Zealand gold-producers for clean, melted gold was increased from £8 8s. 6d. to £12 4s. 6d. per ounce of fine content. This price is based on the official buying-price in London and provides the Bank with an expense margin to cover various costs incurred in handling and shipping the gold overseas for refining. The maximum price at which the licensed gold-dealers may sell refined gold and gold alloys to local manufacturers and dentists was raised from £9 to £12 17s. per fine ounce.

TRADING BANKS

The following combined figures are compiled from the monthly returns furnished by the trading banks to the Reserve Bank in accordance with statutory requirements:—

ASSETS

(£000)

Last Wednesday in Month.	Deposits at Reserve Bank.	Reserve Bank Notes.	Total Cash in New Zealand.*	Net Overseas Assets.	Securities.		Advances and Discounts.
					Government.	Other.	
1949							
March	59,350	7,170	68,155	16,749	14,432	1,850	89,606
April	64,884	8,814	75,222	16,730	14,432	1,839	85,134
May	72,853	8,712	83,130	16,598	14,432	1,825	81,506
June	86,161	8,046	95,764	13,623	11,731	1,823	80,070
July	81,978	8,339	91,716	15,281	11,731	1,803	78,698
August	79,844	8,413	89,652	13,435	11,731	1,788	81,709
September ..	80,430	8,198	90,009	11,166	11,731	1,785	81,787
October	79,515	8,990	89,881	12,691	11,731	1,782	81,158
November ..	76,454	9,654	87,762	13,141	11,731	1,772	84,020
December ..	78,251	9,701	89,480	15,320	11,731	1,769	80,027
1950							
January	88,900	10,801	101,392	16,498	11,731	1,727	78,588
February	88,804	9,287	99,713	18,125	11,731	1,713	84,359
March	69,208	8,894	79,696	20,100	11,731	1,712	96,071

* Includes deposits at Reserve Bank, notes, and coin.

LIABILITIES IN NEW ZEALAND
(£000)

Last Wednesday in Month.	Demand Liabilities.	Time Liabilities.	Total Demand and Time Liabilities.
1949			
March	145,501	37,512	183,013
April	152,170	37,577	189,746
May	154,414	37,844	192,258
June	153,621	38,666	192,288
July	153,609	39,145	192,755
August	146,410	40,225	186,635
September	147,360	40,047	187,407
October	148,586	39,945	188,531
November	146,615	40,116	186,731
December	161,669	39,673	201,342
1950			
January	163,110	39,036	202,146
February	174,364	38,965	213,328
March	164,591	39,043	203,635

The trading banks' total demand and time liabilities in New Zealand increased by £20.6 millions during the financial year, the major part of the increase occurring between November and February. Despite an increase of £1.5 millions in time liabilities, the proportion of time liabilities to total demand and time liabilities in New Zealand continued the decline noted in recent years. The following table illustrates the trend in the proportions of the trading banks' demand and time liabilities in New Zealand during the past fifteen years:—

PERCENTAGE OF TOTAL DEMAND AND TIME LIABILITIES IN NEW ZEALAND

Last Monday in—	Demand.	Time.
March, 1935	43.8	56.2
March, 1938	54.2	45.8
March, 1941	65.2	34.8
March, 1944	74.1	25.9
Last Wednesday in—		
March, 1947	78.2	21.8
March, 1950	80.8	19.2

The net overseas assets of the trading banks at the end of March, 1950, were the highest in recent years. Their comparatively rapid increase since December, 1949, reflects the high prices received for wool and other exports which are sold in a free market and not by bulk contracts.

The policy of redeeming at maturity Government and other securities held by the trading banks was continued with the repayment in June, 1949, of Government stock amounting to £2.7 millions. The reduction in trading banks' holdings of Government securities since their peak in February, 1943, amounts to £24.6 millions, the total held at

the end of the financial year being £1·7 millions above the figure for March, 1939. Holdings of other securities have fallen from a peak of £2·5 millions in June, 1944, to £1·7 millions at the end of March, 1950.

The trading banks' advances and discounts increased by £6·5 millions during the year to a total of £96·1 millions, the seasonal rise during the March quarter being greater than usual as a result of abnormally large advances to finance wool purchases.

CLASSIFICATION OF TRADING BANKS' ADVANCES AS AT THE
LAST BALANCE DAY IN MARCH
(£000)

	1947.	1948.	1949.	1950.
Farmers	21,626	20,030	19,313	17,305
Dairy companies, freezing-works, &c. ..	8,847	8,255	9,212	9,908
Other manufacturing and productive industries	12,968	20,159	23,002	25,931
Merchants, wholesalers—				
(a) Mainly importers	4,262	7,962	5,925	7,578
(b) Others	1,402	4,924	2,155	2,829
Retailers	4,645	9,505	7,659	8,258
Transport	1,250	1,752	1,893	2,145
All others	17,637	19,933	19,586	20,695
Total advances	72,637	92,520	88,745	94,649

The most significant changes in the above table are the reduction in advances to farmers (especially wool-growers), the increase in advances to importers and retailers (reflecting the improved value and volume of stocks held), and to "Other manufacturing and productive industries."

CONTROL OF ADVANCES

The policy of restricting certain classes of trading bank advances was continued throughout the year. In August, 1949, advances to enable primary producers to purchase essential farm equipment and machinery were removed from the restricted class, provided that each individual advance did not exceed £1,500 (including similar advances still outstanding) and repayment was made within two years. During March, 1950, an administrative change was made. It was decided that it would no longer be necessary for the trading banks to refer to the Reserve Bank in cases where the term of the proposed advance did not exceed two years and the amount applied for did not exceed £2,000. In exercising their discretion in such cases the trading banks were expected to apply the general principles of advance control, which remained unchanged, but were authorized to use their own judgment in dealing with marginal or doubtful cases instead of referring them to the Reserve Bank.

Further changes effected in May, 1950, are recorded in an Appendix to this report.

NET OVERSEAS ASSETS

The following table shows changes in the amount of the net overseas assets of the banking system during the financial year ended 31st March, 1950:—

NET OVERSEAS ASSETS* (RESERVE BANK AND TRADING BANKS)
(£000)

Last Wednesday in Month.		Reserve Bank.	Trading Banks.	Total.
	1949			
March	50,697	16,749	67,446
April	53,607	16,730	70,338
May	58,233	16,598	74,830
June	58,923	13,623	72,546
July	55,295	15,281	70,576
August	50,872	13,435	64,307
September	47,559	11,166	58,725
October	42,094	12,691	54,785
November	39,589	13,141	52,730
December	37,024	15,320	52,344
	1950			
January	40,928	16,498	57,426
February	43,257	18,125	61,382
March	47,319	20,100	67,419

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

Net overseas assets held by the banking system at the end of the financial year, £67.42 millions, were approximately the same as at the beginning, £67.45 millions.

The pattern shown by the figures is due mainly to seasonal factors. From January until June net overseas assets normally increase steadily because overseas receipts exceed payments during those months. Export proceeds are at a relatively low level from August until December, while imports show a rising tendency in the last quarter of the calendar year.

The Reserve Bank acquires foreign exchange resulting from the sale of exports through official marketing channels—principally dairy-produce and meat—and the proceeds are usually more than sufficient to meet the Government's requirements of foreign exchange. On the other hand, the trading banks acquire foreign exchange resulting from the sale of other exports and from most "invisible" receipts, but these are not sufficient to meet the public's demand for funds to pay for imports and other remittances. Therefore the Reserve Bank sells sterling to the trading banks from time to time in order to keep them supplied with sufficient working balances to meet current requirements.

EXCHANGE CONTROL TRANSACTIONS

For the financial year ended 31st March, 1950, receipts of foreign exchange by the New Zealand banking system exceeded payments by £541,000. This surplus compares with an adverse balance of £1,891,000 for the previous financial year.

The following table sets out in detail the Dominion's external receipts and payments for the past two years :—

EXCHANGE CONTROL TRANSACTIONS*
(£000)

	Year Ended 31st March,	
	1949.	1950.
Current items—	<i>Receipts</i>	
Exports	143,896	154,717
Other trade transactions	8,187	5,338
Commissions, royalties, and insurance	828	1,208
Donations and allowances	1,080	1,309
Travellers' expenses	787	1,147
Interest and dividends	1,015	1,102
Legacies	1,345	1,183
Private debts due in New Zealand	782	642
New Zealand Government receipts n.e.i.	577	1,080
	158,497	167,726
Capital items	11,385	7,588
Unidentified	327
Total	169,882	175,641
Current items—	<i>Payments</i>	
Imports	109,025	122,797
Other trade transactions	5,593	6,198
Commissions, royalties, and insurance	1,441	2,075
Donations and allowances	1,225	1,327
Travellers' expenses	2,645	4,859
Interest and dividends	6,377	6,140
Legacies	1,588	1,413
Private debts due overseas	3,534	1,310
Government payments†	22,077	17,606
Film hire and entertainments	627	675
Capital items—	154,132	164,400
Debt repayment—		
Government	3,242	1,832
Local body	1,485	697
Other capital payments	12,914	8,171
Total	171,773	175,100

* In this table foreign currencies have been converted into New Zealand currency at the rate of exchange ruling at the time of each transaction—viz., on the basis of £(N.Z.)125 = £(stg.)100 up to and including 19th August, 1948, and thereafter on the basis of parity with sterling.

† Excluding interest and remittances for imports under departmental certificates but including remittances for general purposes, a substantial portion of which is used in payment for Government imports.

Compared with 1948-49 the most significant changes in 1949-50 (in terms of New Zealand currency) occurred in three items—receipts from exports and payments for imports, which increased by £10·8 millions and £13·8 millions respectively, and “Government payments,” which declined by £4·5 millions.

The increase in export receipts was due largely to a favourable export season for all major exports, particularly wool.

The fact that a surplus of only £541,000 was obtained after an export season which yielded record receipts emphasizes the need for continuation of some form of exchange and import control. At the present time overseas funds are relatively large, but they normally fluctuate considerably for seasonal reasons, being highest in May or June, and lowest in November or December. This fact must be taken into account in considering the adequacy of the overseas funds relative to future requirements.

The table set out below analyses New Zealand's recorded balance of exchange transactions with various countries during the year:—

BALANCE OF TRANSACTIONS ANALYSED BY COUNTRIES, YEAR ENDED 31ST MARCH, 1950
(£000)

	Receipts.	Payments.	Balance.
United Kingdom	129,013	115,891	+13,122
Australia	5,905	26,434	--20,529
Other sterling area	3,202	7,038	-- 3,836
United States of America	10,313	17,699	-- 7,386
Other American account	165	29	+ 136
Canada	2,752	4,650	-- 1,898
Belgian monetary area	2,038	416	+ 1,622
Switzerland	253	337	-- 84
France	7,062	255	+ 6,807
French monetary area	169	4	+ 165
Netherlands	3,406	213	+ 3,193
Netherlands monetary area	135	214	-- 79
Sweden	419	605	-- 186
Italy	1,337	149	+ 1,188
Denmark	628	38	+ 590
Norway	202	283	-- 81
Japan	1,006	255	+ 751
China	4	186	-- 182
All other countries	7,632	404	+ 7,228
Total	175,641	175,100	+ 541

This table reveals the pattern of New Zealand's overseas trade and payments. The surpluses with the European countries arise mainly from the sale of wool. These surpluses, together with that with the United Kingdom, were sufficient in 1949-50 to cover the deficits with hard-currency areas and Australia. The large deficit with Australia is the result not only of Australia's small need for our exports, being herself a primary producing country, but is due also to the fact that she is in a position to supply New Zealand with materials and other goods not so readily available from other sources.

The deficit in payments with the United States of America and Canada for the financial year 1949-50 was \$(U.S.)39 millions. Comparable figures for the three calendar years 1947 to 1949 are as shown in the following table.

NEW ZEALAND'S DOLLAR DEFICIT: CALENDAR YEARS
(\$U.S.)millions)

—	1947.	1948.	1949.
Exports	37·0	35·2	29·6
Other receipts	5·8	4·8	3·4
Imports	118·0	74·2	72·3
Other payments	9·5	9·2	13·3
Deficit	84·7	43·5	52·6

During the first quarter of 1950 there was a substantial improvement in New Zealand's dollar balance of payments. This was true also of the whole sterling area, due in part to the devaluation of sterling in September, 1949, and in part to the maintenance of a high level of business activity in the United States, which brought about a strong demand for imports. During 1950 New Zealand's dollar deficit is likely to be reduced, owing to increased exports to the dollar area of wool, sheep-skins, and pelts, and to the economy which is being exercised in dollar expenditure. However, New Zealand will still incur a considerable deficit in dollars, and the need for careful economy in the use of dollars has by no means been removed.

AMENDMENTS TO EXCHANGE CONTROL REGULATIONS

On 9th March, 1950, the Government announced certain amendments to the exchange control regulations in force in New Zealand.

The amendments consisted of the following:

- (1) An amendment to Regulation 6 of the Finance Emergency Regulations 1940 (No. 2) giving the Minister of Finance power, by notice published in the *Gazette*, to exempt specified foreign currencies from the requirements of that regulation. Such power already existed in Regulation 7 in respect of foreign securities.
- (2) A notice published in the *Gazette* on 9th March, 1950, to the effect that—
 - (a) The taking, transfer, or sending of sterling area securities from New Zealand without prior approval was no longer prohibited.
 - (b) Sterling-area currencies were exempt from the requirement that foreign currencies (notes, postal notes, money-orders, promissory notes, bills of exchange, and free bank deposits) should be offered for sale or assignment to the Reserve Bank, and that fixed bank deposits should be declared to the Reserve Bank.
 - (c) Foreign securities domiciled in the sterling area were exempt from the requirement that they should be declared to the Reserve Bank.
 - (d) Holders of sterling-area currency or securities could in future sell, transfer, charge, or otherwise deal with them with greater freedom without obtaining the prior consent of the Reserve Bank.
 - (e) The power of the Government (which it had never used) to acquire foreign currency and foreign securities compulsorily no longer applied to sterling-area currencies or securities.
 - (f) The exemptions granted did not apply to foreign securities or currencies held by the six New Zealand trading banks.

The regulations which were amended have been in force since 18th June, 1940. They are part of the over-all exchange control system in operation in New Zealand, and were introduced as a wartime emergency measure. It is now considered that, so far as the sterling area is concerned, the need for the restrictions has passed.

Three other points should be emphasized:—

- (1) In accordance with the terms on which export licences are issued, the net proceeds in foreign currency of the sale of exports must still be sold to a bank in New Zealand.
- (2) The taking or sending of money from New Zealand is still subject to control.
- (3) It is still contrary to the exchange control regulations to be a party to any transaction which involves the conversion of New Zealand currency into the currency of any other country at a rate of exchange other than the official rate.

The offers of sale of foreign currency, and the declaration of foreign securities which have been made to the Reserve Bank under Regulations 6 and 7, permitted the compilation of statistics concerning holdings of foreign currency and securities by persons ordinarily resident in New Zealand. A summary of the figures as at 1st November, 1949, is as follows:—

FOREIGN BALANCES AND SECURITIES HELD BY NEW ZEALAND RESIDENTS (AS AT 1ST NOVEMBER, 1949)
(£000)

Country.	Balances.	Unlisted Securities (Face Value).	Listed Securities (Estimated Market Value).
United Kingdom	874	1,408	9,397
Australia	1,106	1,785	22,962
United States of America	292	27	127
Canada	101	40	335
Other	111	658	..
Total	2,483	3,918	32,821

The above table does not include—

- (a) Numerous balances, mostly small, in various countries for which no sufficiently reliable basis of valuation is available.
- (b) Trading balances, amounting to £2.9 millions, which are required by their owners for normal business purposes.
- (c) Securities, valued at £23.05 millions, held by banks, insurance companies, shipping companies, and other trading concerns, which are regarded as essential for the purposes for which they are held.
- (d) Miscellaneous securities for which no sufficiently reliable basis of valuation is possible.

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.

A greater flexibility in the use of licences for imports from the sterling area was permitted during the year under review, and licences granted for the importation of goods from any sterling-area country may now be used for the importation of similar goods from any other sterling-area country.

With Marshall Aid from the United States due to terminate in 1952, further means of promoting international trade must be sought, especially in respect of the sterling area's commerce with hard-currency countries. It is to the advantage of New Zealand and of other countries as well that the assistance received from the United States by the United Kingdom should promote the rehabilitation of the latter's economic system and restore its gold and dollar reserves.

MONEY SUPPLY

The table below sets out the changes in the total volume of money (in the form of coin and notes in public circulation and bank demand deposits) from 1939 to 1950 :—

VOLUME OF MONEY IN NEW ZEALAND IN THE FORM OF COIN, NOTES AND BANK DEMAND DEPOSITS*
(£ Millions)

—	Coin.	Notes.	Trading Bank Demand Liabilities.	Government Deposits at Reserve Bank.	Other Demand Liabilities Reserve Bank†.	Total Volume of Money.	Annual Increase.
Last balance day 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	36·64	110·92	29·21	0·79	180·5	32·5
1947 ..	3·04	39·63	126·79	17·43	0·55	187·4	6·9
1948 ..	3·17	40·76	142·35	23·15	0·58	210·0	22·6
1949 ..	3·19	42·20	145·50	22·25	0·40	213·5	3·5
1950 ..	3·34	44·30	164·59	34·20	0·62	247·0	33·5
Last Wednesday in month—							
1949							
March ..	3·19	42·20	145·50	22·25	0·40	213·5	..
April ..	3·21	42·02	152·17	14·68	0·52	212·6	..
May ..	3·10	41·63	154·41	10·52	0·35	210·0	..
June ..	3·21	42·26	153·62	7·54	0·61	207·2	..
July ..	3·22	42·27	153·61	8·73	0·21	208·0	..
August ..	3·23	42·62	146·41	7·41	0·28	200·0	..
September ..	3·25	42·69	147·36	5·74	0·39	199·4	..
October ..	3·49	43·67	148·59	5·67	0·47	201·9	..
November ..	3·36	44·40	146·62	9·75	0·14	204·3	..
December ..	3·50	48·75	161·67	7·73	0·42	222·1	..
1950							
January ..	3·30	44·46	163·11	8·73	0·43	220·0	..
February ..	3·33	44·51	174·36	13·85	0·52	236·6	..
March ..	3·34	44·30	164·59	34·20	0·62	247·0	..

* Excluding deposits held at savings-banks.

† Excluding balances held by the trading banks.

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.

APPENDICES

APPENDIX No. 1—EXCHANGE RATES

The following table shows the changes that were made in the trading banks' quotations for various currencies as a result of devaluation in September, 1949 (rates are those for telegraphic transfers) :—

New Zealand on	Pre-devaluation.		As at 31/3/50.	
	Buying.	Selling.	Buying.	Selling.
United States of America (dollars per £(N.Z.))	4·0295	3·9696	2·7991	2·7586
Canada (dollars per £(N.Z.)) ..	4·0295	3·9696	3·0802	3·0333
France (francs per £(N.Z.)) ..	1,105·27	1,078·61	987·82	963·28
Belgium (francs per £(N.Z.)) ..	177·94	173·29	141·05	137·35
Switzerland (francs per £(N.Z.))	17·36	17·01	12·25	12·00
Pakistan (N.Z. pence per rupee)	17 $\frac{3}{4}$	18 $\frac{3}{4}$	25 $\frac{3}{4}$	26 $\frac{3}{4}$

Quotations for sterling and other currencies on 31st March, 1950, were—

NEW ZEALAND ON LONDON*

(On the basis of £(stg.)100)

	Buying.		Selling.	
	£(N.Z.)	100	7	6
Telegraphic transfers	£(N.Z.)	101	0	0
	Air Mail.†		Sea Mail.	Air Mail and Sea Mail.
On demand ..	£(N.Z.)	100	0	9
3 days' sight ..	„	100	0	0
30 days' sight ..	„	99	17	3
60 days' sight ..	„	99	14	0
90 days' sight ..	„	99	10	9
120 days' sight ..	„	99	7	6
Sterling notes	£(N.Z.)	98	1	9

LONDON* ON NEW ZEALAND

(On the basis of £(stg.)100)

	Buying.		Selling.	
	£(N.Z.)	101	0	0
Telegraphic transfers	£(N.Z.)	101	0	0
	Air Mail.†		Sea Mail.	Air Mail and Sea Mail.
On demand ..	£(N.Z.)	101	8	6
30 days' sight ..	„	101	15	3
60 days' sight ..	„	102	2	0
90 days' sight ..	„	102	8	9
120 days' sight ..	„	102	15	6

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

† Customer pays air-mail postage.

NEW ZEALAND ON OTHER COUNTRIES

	Buying.	Selling.
Australia (£(A.) per £(N.Z.)100)---		
Telegraphic transfer	124 10 9	124 0 0
Notes	126 14 3	124 0 0
South Africa (£(N.Z.) per £(S.A.)100)---		
Telegraphic transfer	99 11 6	101 3 0
Notes	97 3 0	101 3 0
Holland (guilders per £(N.Z.)1)—		
Telegraphic transfer	10.68	10.45
Sweden (kroner per £(N.Z.)1) -		
Telegraphic transfer	14.55	14.23
India and Ceylon (New Zealand pence per rupee)	17 $\frac{7}{8}$	18 $\frac{3}{8}$

APPENDIX No. 2—THE STERLING AREA CURRENCY AND SECURITIES EXEMPTION NOTICE 1950

(Serial Number 1950/20)

(Date of notification in the *Gazette* : 9th March, 1950)

Pursuant to the Finance Emergency Regulations 1940 (No. 2) (hereinafter referred to as the regulations), the Minister of Finance hereby gives notice as follows :—

1. (1) This notice may be cited as the Sterling Area Currency and Securities Exemption Notice 1950.

(2) This notice shall come into force on the 9th day of March, 1950.

2. Subject to the provisions of clause 5 of this notice, foreign securities which are registered or inscribed in any of the countries specified in the Schedule hereto are hereby exempted from the restrictions imposed by paragraph (d) of clause (1) of Regulation 3 of the regulations.

3. Subject to the provisions of clause 5 of this notice, foreign currency of any of the countries specified in the Schedule hereto is hereby exempted from the operation of Regulation 6 of the regulations.

4. Subject to the provisions of clause 5 of this notice, foreign securities which are domiciled in any of the countries specified in the Schedule hereto are hereby exempted from the operation of Regulation 7 of the regulations.

5. The exemptions contained in the foregoing provisions of this notice do not apply to any foreign securities or foreign currency held by any of the following banks in respect of its New Zealand business, namely :—

- (a) The Bank of Australasia :
- (b) The Commercial Bank of Australia, Limited :
- (c) The Bank of New South Wales :
- (d) The Bank of New Zealand :
- (e) The National Bank of New Zealand, Limited :
- (f) The Union Bank of Australia, Limited.

SCHEDULE

COUNTRIES OF THE STERLING AREA

The United Kingdom.	The Dependent Territories of the Countries of the
Australia.	British Commonwealth other than Canada.
The Union of South Africa.	The Republic of Ireland.
Pakistan.	Burma.
Ceylon.	Iceland.
The Republic of India.	Iraq.

Dated at Wellington, this 8th day of March, 1950.

CHAS. M. BOWDEN,
For Minister of Finance.

APPENDIX No. 3—CONTROL OF ADVANCES

On 24th May, 1950, the Prime Minister announced further amendments to the advance control system, as follows:—

1. Advances for purposes hitherto in the controlled categories were freed from control for amounts up to £2,000 for each customer.

2. Advances for the following purposes (irrespective of amount) were freed from control:—

- (a) Purchase of live-stock needed for primary production.
- (b) Purchase of farm machinery, farm vehicles, and farm implements.
- (c) Purchase of tools of trade.

3. The system whereby the trading banks could exercise their own discretion in doubtful cases without reference to the Reserve Bank in respect of advances up to £2,000, was amended by the extension of that discretionary limit to £4,000. This allowed for the fact that the first £2,000 was freed from control.

In all other respects the control procedure and the list of restricted classes of advances remained unchanged.

APPENDIX No. 4—1950 NATIONAL DEVELOPMENT LOAN

On 29th May, 1950, in order to obtain funds to finance the 1950-51 programme of national development works, the Government invited subscriptions to a new loan issue of £20 millions. Two securities were offered—a 3-per-cent. stock repayable 15th August, 1959-61, issued at 99½ per cent., and a 2½-per-cent. stock repayable 15th August, 1954, issued at par. The loan closed on 23rd June and was oversubscribed.

RESERVE BANK OF NEW ZEALAND
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1950

	£	s.	d.		£	s.	d.
General charges, including salaries, rent, cost of note issue, and other expenses	342,796	16	7		1,117,629	14	4
Balance, being profit for year	774,832	17	9		1,117,629	14	4
	£1,117,629 14 4				£1,117,629 14 4		
				Balance of profit after making provision for rebate on Treasury bills not yet due and for sundry liabilities and contingencies			

PROFIT AND LOSS APPROPRIATION ACCOUNT

	£	s.	d.		£	s.	d.
Payments to New Zealand Government in terms of section 36 of Reserve Bank of New Zealand Act, 1933	739,930	15	1		739,930	15	1
Balance	774,832	17	9		774,832	17	9
	£1,514,763 12 10				£1,514,763 12 10		
				Balance as at 1st April, 1949			
				Balance from Profit and Loss Account			

