

either by law or custom they should be required to keep a certain percentage of their reserves with the Reserve Bank. In the case of New Zealand I would suggest that the requirement should be 7 per cent. of demand liabilities and 3 per cent. of time liabilities.

Provided these two conditions can be fulfilled, I should recommend the establishment in New Zealand of a Reserve Bank on recognized lines, to which should be given the exclusive right for a period of years of note-issue in New Zealand, the custody of Government balances, and the custody of the minimum reserves of the trading banks.

It must, of course, be recognized that the sphere and function of a Reserve Bank is entirely different from those of trading banks. A Reserve Bank must not be expected or called upon to act as a trading bank: and it should itself be careful not to compete with trading banks. The statutes which are suitable for reserve functions properly exclude much that would be perfectly legitimate trading banking. The distinction is vital.

10. To avoid overloading the report with a multitude of matters which, though of great importance, are of a technical nature, I have put my detailed suggestions for carrying out the proposals indicated above in the form of draft statutes modelled on the lines of general central banking legislation, with such modifications as seem indicated in the circumstances of New Zealand.

11. I would here only summarize my recommendations as follows:—

- (1) That permanent legislation should be passed making the New Zealand note inconvertible in New Zealand but convertible into sterling at rates fixed within certain limits;
- (2) That an independent Reserve Bank should be set up charged with responsibility for the stability of New Zealand currency, invested with the privilege of note-issue, and charged with holding the Government account and the banking reserves of New Zealand;
- (3) That the note-issue should be unified and concentrated in the Reserve Bank, the note-issuing powers of existing banks being abrogated;
- (4) That the trading banks should be required to transfer to the Reserve Bank the gold they now hold in New Zealand in exchange either for Reserve Bank notes, with which they can pay off their own notes, or for credit at the Reserve Bank;
- (5) That the trading banks should be required to keep with the Reserve Bank minimum reserves of 7 per cent. of their demand liabilities in New Zealand and 3 per cent. of their time liabilities in New Zealand;
- (6) That thereafter the existing prohibition on the export of gold coin from New Zealand should be withdrawn.

I am, Sir,

Your obedient servant,

O. E. NIEMEYER.

The Right Hon. G. W. Forbes.