

1931.
NEW ZEALAND.

BANKING AND CURRENCY IN NEW ZEALAND

(REPORT ON, BY SIR OTTO NIEMEYER, G.B.E., K.C.B., OF THE BANK OF ENGLAND).

Laid on the Table of the House of Representatives by leave of the House.

REPORT.

SIR,—

19th February, 1931.

1. In July last you were good enough to ask me to advise on the banking and currency system of New Zealand, having regard to the position in which that system has emerged from the war, and to the fact that the existing Proclamation under which inconvertible notes are legal tender in New Zealand expires on the 10th January, 1932. Since then I have been so fortunate as to be able to visit New Zealand and discuss these issues with the New Zealand Treasury and with the representatives of the six banks operating in New Zealand. I have the honour now to present the following report:—

2. At the present time the issue of legal-tender currency, apart from subsidiary coin, is entrusted to the six commercial banks. Although before the war gold coin was in circulation and notes were redeemable in gold, that coin has now been withdrawn and the inconvertible notes of the individual banks constitute the sole legal-tender currency. Under wartime regulations still in force, the banks are no longer obliged to keep any gold coin as cover for their notes issued, and there is a legal prohibition on the export of gold coin except with the approval of the Finance Minister. In fact, however, there is held in New Zealand by the banks gold to an amount roughly equivalent to the total notes issued.

3. The factor actually determining the volume of the currency issued in New Zealand is not the physical amount of gold held by the banks, but the general credit position as represented by the balances held by those banks in sterling. It is no accident that the volume of credit in New Zealand is not governed by the limits of currency imposed by note-issue legislation; notes or other monetary circulation are merely the consequence, and not the cause, of a given volume of credit. On a given credit structure public convenience demands a certain amount of notes, and it is credit which governs currency, and not *vice versa*. This was probably true at all times, but it is increasingly true to-day, when means of payment are even less confined to notes and coin than they were fifty or sixty years ago. Equally it is clear that the credit position in New Zealand must to a great extent be governed by the balances held in that market with which the major commercial and financial transactions are conducted—that is to say, London.