A general fall, however, in advances and discounts was shown throughout the year, the figure for March, 1943, of £44,931,000 being £4,698,000 lower than the March, 1942, figure of £49,629,000; this net decrease is comparable with that for the financial year 1941–42. The percentage of advances and discounts to total demand and time liabilities fell from 55·2 per cent. as at March, 1942, to 42·5 per cent. as at March, 1943.

On the liabilities side the figure for demand liabilities showed a steady rise throughout the year, the figure for March, 1943, of £77,139,000 being 25·4 per cent., or £15,614,000, greater than that for March, 1942.

In the year under review the movement in time liabilities, as that for the year 1941–42, was again very slight, a net change of £139,000 increase being shown. Total demand and time liabilities rose from £89,945,000 in March, 1942, to £105,698,000 in March, 1943. The highest figure ever recorded for this item was £107,558,000 for February, 1943.

Wartime Changes in Money Supply

As shown by the following table, the total amount of money—*i.e.* immediately available spending-power—in the form of coin and notes in active circulation and bank demand deposits has increased by £(N.Z.)67,000,000, or 123 per cent., between the outbreak of war in September, 1939, and 31st March, 1943.

Money Supply in New Zealand (1939–43)

(£(N.Z.) Millions.)

Category.	September, 1939.	March, 1943.	Increase.
Coin held by public (estimated)	1·5	2·3	+0·8
Notes held by public	13·4	26·1	+12·7
Government deposits (Reserve Bank)	1·8	15·6	+13·8
Other demand liabilities (Reserve Bank)	0·3	0·4	+0·1
Demand deposits (Trading Banks)	37·4	77·1	+39·7
Total	54·4	121·5	+67·1

The increase in money is due to two main causes, viz.—

(*a*) Receipts from overseas in excess of payments overseas.

(*b*) Expansion of bank credit.

The former accounted for £(N.Z.)28·5 m. of the increase, as evidenced by the rise in the Reserve Bank's sterling exchange from £(N.Z.)5·3 m. to £(N.Z.)22·2 m. and the rise in the trading banks' net overseas assets from £(N.Z.)3·3 m. to £(N.Z.)14·9 m.

Expansion of bank credit during the period totalled £(N.Z.)36·2 m., including an increase of £(N.Z.)18·3 m. in the advances and investments of the Reserve Bank, and of £(N.Z.)17·9 m. in the combined advances and investments of the trading banks, whose holdings of securities (mainly Government) rose by £(N.Z.)26·6 m., while their advances fell by £(N.Z.)8·7 m.

The diversion of productive capacity, resources, and man-power to the war effort has inevitably resulted in a reduced supply of goods and services available for civilian use.

At the same time as revealed by the above figures, the supply of money has been substantially increased.

The maintenance of economic stability therefore depends to a very important extent not only on the avoidance as far as practicable, of any further expansion of bank credit, but also on the transfer of a large proportion of immediate spending-power from the public to the Government for war purposes.

Staff

The Board desires to place on record its deep regret at the loss of Pilot Officer S. S. Mitchell, a member of the Bank's staff who made the supreme sacrifice whilst on active service in the Middle East with the Royal Air Force.

At the 31st March, 1943, thirty-five members of the staff were on active service with His Majesty's Forces. Of this number, six were serving in the Navy, twenty in the Army, and nine in the Air Force.

The work of the staff, both permanent and temporary, has been maintained at a high level. War conditions have brought about many problems and much extra work, and the Board has pleasure in again recording its appreciation of the response by the staff to the calls made on them during the year.

For and on behalf of the Board of Directors:

W. F. L. Ward, Acting-Governor.
E. C. Fussell, Deputy Governor.

30th June, 1943.