With the inevitable diversion of resources to war requirements, the quantities of goods available for civilian consumption have been considerably reduced, and the expansion of spending-power has in New Zealand, as in other countries, created difficult problems of price stabilization.

When the time arrives that a wider range of commercial imports becomes more readily available, some of the expanded spending-power will, presumably, be absorbed in a net outflow of money on account of overseas business, thus simultaneously reducing the amount of money in circulation in New Zealand and increasing the supply of goods, and thereby lessening the gap between spending-power and available commodities. No doubt, also, the wise use of productive resources will make possible larger supplies of locally produced goods for civilian consumption when the demands of war have ceased. Nevertheless, in spite of these considerations, the greatly expanded volume of money in circulation is a factor to be taken into account in considering any plans for the full use of material and human resources during the remainder of the war period and in the preservation of economic and financial stability in the post-war period.

It is essential in the interests of maintaining economic stability that, as far as possible, war expenses should be defrayed from the proceeds of taxation, which should be as high as practicable, and from loans derived from genuine savings, thus minimizing the danger of expansion of credit which is common to countries at war and is in practice unavoidable.

Provided the Government's sound policy of economic stabilization involving controls over prices, costs, wages, &c., is fully maintained, and the surplus spending-power prevented from pervading the whole price structure, the existing supply of money in New Zealand is more than adequate for the financing both of our war effort and of all the activities that can be diverted from war purposes to supplying essential civil requirements.

In view of the well-recognized fact that a superabundance of money in relation to available goods and services exerts an upward pressure on prices and a downward pressure on the purchasing-power of the money, it follows that (apart from temporary finance against Government revenue) any further increase of money in circulation through the medium of credit creation could not fail to accentuate the wartime difficulties of maintaining the financial structure of the country on a safe and strong foundation.

Whole-hearted support by every member of the community of every measure which is designed to utilize the money which is already in existence for all necessary war and civil purposes will bring its reward in a measure of financial and economic stability which will thoroughly justify any immediate sacrifice involved.

STAFF

The staff at the 31st March, 1944, totalled 285, of whom 143 were temporary employees. During the year 8 returned to duty, having been discharged from the Armed Forces. There are 30 men and 1 woman absent on war leave—8 in the Navy, 14 in the Army, and 9 in the Air Force.

The growing volume of central bank business, arising particularly out of war requirements, has placed an added strain on all departments of the Bank, involving long hours of work, and the Board desires to place on record its great appreciation for the consistently high standard of performance of the staff throughout the year.

For and on behalf of the Board of Directors:

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

16th June, 1944.