1949
NEW ZEALAND

RESERVE BANK OF NEW ZEALAND

ANNUAL REPORT OF THE BOARD OF DIRECTORS AND STATEMENT OF ACCOUNTS FOR THE YEAR ENDED THE 31ST MARCH, 1949

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

Laid on the Table of the House Pursuant to Section 38 of the Reserve Bank Act, 1933

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 the 31st March, 1949.

BOARD OF DIRECTORS

It is with deep regret that the Board records the death of Mr. W. F. L. Ward, Governor of the Bank, which occurred on 8th July, 1948. Mr. Ward was appointed Governor as from 1st February, 1944, having been Acting-Governor since 1st May, 1941, and Deputy Governor from the inception of the Bank until that date.

Mr. E. C. Fussell, who, since 21st May, 1941, had been Deputy Governor of the Bank, was appointed Governor as from 21st July, 1948. Mr. A. Ross, previously Deputy Chief Cashier, was appointed Deputy Governor as from 3rd November, 1948.

The appointments of Mr. Fussell and Mr. Ross were made by Orders in Council issued pursuant to the provisions of section 25 of the Reserve Bank of New Zealand Act, 1933. Both Mr. Fussell and Mr. Ross have been with the Bank since its inception.

PROFITS

The net profit for the year, after making provision for depreciation and contingencies, amounted to £739,930 15s. 1d. 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 the 31st March, 1949, compared with that of the previous year were as follows :—

Liabilities

Bank Notes

The increase during the year of £799,342 in notes outstanding from £48,557,528 on the 31st March, 1948, to £49,356,870 on the 31st March, 1949, reflects a further slowing down in the rate of increase. This trend is shown by the following table :—

Notes Issued as at 31st March,	£	Increase. £
1939	15,246,971	..
1940	18,284,757	3,037,786
1941	21,440,823	3,156,066
1942	24,145,054	2,704,231
1943	30,390,754	6,245,700
1944	36,254,495	5,863,741
1945	40,201,306	3,946,811
1946	43,489,031	3,287,725
1947	46,878,128	3,389,097
1948	48,557,528	1,679,400
1949	49,356,870	799,342

The effective note circulation—that is, notes in the hands of the public—was £42·199 millions on the last Wednesday in March, 1949, an increase of £1·443 millions for the year. The following figures show the increase by denominations that has taken place in recent years. A point of interest is the proportionately greater increase that has occurred in £5 and £10 notes.

(£000)

—	Last Balance Day in March,						
	1943.	1944.	1945.	1946.	1947.	1948.	1949.
10/-	906	952	990	1,087	1,143	1,171	1,216
£1	7,332	8,021	8,356	9,143	9,422	9,434	9,521
£5	13,306	16,422	18,599	21,085	22,486	23,117	24,027
£10	2,095	2,791	3,366	3,256	4,218	4,687	4,990
£50	2,154	2,634	2,504	1,706	2,091	1,987	2,086
Trading banks' notes outstanding	382	376	371	366	363	361	359
Total active circulation ..	26,175	31,196	34,186	36,643	39,633	40,757	42,199

Demand Liabilities

(*a*) *State.*—Total deposits held by the Bank under this heading showed a decrease of £2·58 millions, from £23·15 millions on the 31st March, 1948, to £20·57 millions on the 31st March, 1949.

From May, 1948, to February, 1949, the monthly average of these deposits was £10·057 millions. The customary increase in this item during March (and, to a lesser extent, during April) reflects principally the receipt by the Government of income-tax.

(*b*) *Banks.*—The total deposits held by the trading banks at the Reserve Bank increased by £12·42 millions, from £47·10 millions on the 31st March, 1948, to £59·52 millions on the 31st March, 1949.

This increase is mainly attributable to—

(1) Reduced purchases of sterling from the Reserve Bank by the trading banks:

(2) Compensation which the trading banks received in New Zealand currency for the exchange appreciation of the 19th August, 1948:

(3) The repayment of Government securities held by the trading banks.

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 as on the 31st March, 1949, amounted to £11·7 millions.

Assets

Gold

The value of gold held by the Reserve Bank increased by £430,834 6s. 5d. during the year to £3,232,981 6s. 5d. This increase is due to the Reserve Bank's acquisition of New-Zealand-produced gold and of sovereigns in terms of Regulation 5 of the Finance Emergency Regulations 1940 (No. 2). Further reference to the purchase of gold by the Bank is made later in this report. The above-mentioned regulation became effective with the issue of the Gold Acquisition Notice 1948 on the 19th August, 1948.

Gold coin and bullion are valued in the balance-sheet at cost.

Sterling Exchange

On the 31st March, 1949, sterling exchange held by the Reserve Bank totalled £50,596,285, compared with £69,442,400 on the 31st March, 1948. While this represents a substantial reduction in terms of New Zealand currency, the decline may be attributed mainly to the alteration of the rate of exchange to parity with sterling in August, 1948. The actual reduction in holdings during the year in terms of sterling amounted to £(stg.)5,405,650.

In accordance with section 4 of the Finance Act, 1934, the Bank received compensation from the Government equal to the amount by which the value of its exchange holdings (in terms of New Zealand currency) were reduced as a result of the adjustment of the exchange rate. Further reference to the Government's liability in respect of compensation will be found under the headings of "Investments" and "Exchange Rate."

The average amount of sterling exchange held by the Reserve Bank throughout the year was approximately £(stg.)10 millions less than that of the previous year.

The banking system's aggregate holdings of foreign exchange are reviewed in a separate section of this Report.

Advances to the State or State Undertakings

(1) *Marketing Organizations.*—Advances to these organizations outstanding at balance date totalled £4,164,966. The average amount outstanding during the year on a weekly average basis was £1·332 millions, a decrease from that of the previous year of £167,000.

During the year, consequent upon the passing of the Apple and Pear Marketing Act, 1948, the responsibility for marketing New Zealand apples and pears passed from the Marketing Department to the Board set up by this Act. Overdraft accommodation is made available by the Bank to the Apple and Pear Marketing Board, on terms similar to those extended to the Dairy Products Marketing Commission, at the rate of 1 per cent. per annum. This rate is also applicable to the other marketing organizations.

(2) *Other Purposes.*—The amount outstanding on the 31st March, 1949, was £38 millions, which was the same as that outstanding on the 31st March, 1948.

During the year the Bank continued to take up New Zealand Government Treasury bills at a discount rate of 1 per cent.

As in the previous year, advances to the Government declined during the middle months of the year and increased as the year progressed, reaching £47·44 millions on the last Wednesday of December, 1948.

From January to early March, 1949, advances remained at approximately £45·5 millions, subsequently being reduced to £38 millions at the end of March from receipts of income-tax.

Other Advances

Loan to the Government of the Czechoslovak Republic.—Under the authority contained in section 4 of the Finance Act (No. 2), 1946, an agreement was signed in London between the Government of New Zealand and the Government of the Czechoslovak Republic on the 22nd January, 1948, under which the Reserve Bank of New Zealand, acting on behalf of the Government of New Zealand, was authorized to make available to the Czechoslovak Republic credit facilities up to £1,000,000 for the purchase in New Zealand of New-Zealand-grown wool.

Investments.—Investments increased from £7·87 millions on the 31st March, 1948, to £34·10 millions on the 31st March, 1949. On the 19th August, 1948, investments totalled £11·33 millions, of which £7·3 millions were held in London. Following revaluation as a result of the alteration of the rate of exchange, the latter were recorded at £5·9 millions, thereby reducing total investments in terms of New Zealand currency by £1·4 millions.

During September and October, 1948, total investments increased by £6·6 millions as a result of—

(1) The payment of £3·6 millions for purchase of stock taken up by the Reserve Bank as underwriter of the 3-per-cent. New Zealand Government stock issued in London in July, 1948 ;

(2) The investment in New Zealand of £3 millions in 1-per-cent. Government stock maturing 1962.

On the 13th January, 1949, the Government made a payment of £19 millions to the Reserve Bank in the form of 1-per-cent. stock maturing on the 15th June, 1959. This was made on account of the compensation due under section 4 of the Finance Act, 1934, to the Reserve Bank and the trading banks for losses incurred in the appreciation of New Zealand currency on the 19th August, 1948. Of the total of £19 millions, a sum of £17·3 millions was due in respect of the overseas assets held by the Reserve Bank itself, while the balance of £1·7 millions was a first instalment of the sum due to the trading banks in respect of overseas funds held by them on account of the Reserve Bank. This latter sum was paid in cash to the trading banks by the Reserve Bank.

An increase of £1 million in investments occurred on the 29th March, 1949, when a substantial portion of the last compensation payment was received in the form of 1-per-cent. stock maturing on 15th June, 1959.

DISCOUNT RATE

The minimum rate for the discounting of approved bills of exchange remained unaltered at $1\frac{1}{2}$ per cent.—the rate ruling since the 26th July, 1941.

EXCHANGE RATE

Since 9 p.m. on the 19th August, 1948, New Zealand currency has been at parity with sterling. This exchange-rate appreciation of the New Zealand currency is expressed in the alteration of the Reserve Bank's official buying and selling rates for sterling to the following:—

Buying sterling	£(N.Z.)100 = £(stg.)100
Selling sterling*	£(N.Z.)101 = £(stg.)100

* In respect of authorized transactions.

In consequence, adjustments were made by the trading banks in the whole range of their exchange-rate quotations. The principal rates quoted by the trading banks as at the 31st March, 1949, for buying and selling sterling will be found in an Appendix to this report.

The total liability of the Consolidated Fund in respect of compensation for the alteration of the rate of exchange was approximately £20·6 millions including £17·3 millions in respect of assets held by the Reserve Bank. The balance of £3·3 millions comprised the Reserve Bank's liability to the trading banks in respect of assets held by them as agents for the Reserve Bank and compensation for losses incurred under forward exchange contracts. This compensation was paid to the Reserve Bank by the Government, partly in stock and partly in cash, in settlement of the Government's liability to the banking system. Payment of the last instalment, amounting to £1·6 millions, was effected at the end of March, 1949.

ACQUISITION OF NEW-ZEALAND-PRODUCED GOLD

In his Budget address on the 19th August, 1948, the Minister of Finance stated that provision would be made immediately for purchase by the Reserve Bank of all gold produced in New Zealand. On the following day an Emergency Regulation brought into effect Regulation 5 of the Finance Emergency Regulations 1940 (No. 2), which requires all gold-producers to offer their entire production to the Reserve Bank for purchase "at such price as may be determined by the Minister having regard to the current price of gold in London."

Acting through various branches of the trading banks situated in the gold-producing localities, the Reserve Bank, in accordance with these regulations, has purchased all gold offered at a uniform price of £8 8s. 6d. per fine ounce. This price, which is based on the official price in London, provides the Bank with an expense margin to cover various costs incurred in handling the gold and shipping it overseas for refinement. This processing must in practice be carried out at one of the mints authorized to furnish "Good Delivery" certification in accordance with international monetary practices.

To enable New Zealand manufacturers and dentists to obtain supplies of gold of local origin arrangements have been made with two licensed gold-dealers with refining facilities at their disposal to supply granulated pure gold and various gold alloys to these users under the Bank's general supervision. The maximum selling-price for these specialized forms of refined gold has been fixed at £9 per fine ounce.

UNDERWRITING OF NEW ZEALAND GOVERNMENT LOANS IN LONDON

(1) 3-per-cent. £(stg.)16,000,000 1966–68 Conversion Loan

During the year under review a New Zealand Government loan bearing interest at 4½ per cent. per annum maturing 1st March, 1948–58, became available for redemption in London. Of the total indebtedness of £(stg.)19,225,465, stockholdings amounting to £(stg.)3,225,465 were repaid in cash from sterling resources, while the holders of the balance £(stg.)16,000,000 were offered conversion into a 3-per-cent. stock maturing 1st September, 1966–68. This conversion offer was accepted by the holders of £(stg.)7,833,700 of maturing stock, and the Reserve Bank, as underwriter, took up the balance of the conversion loan in July and August, 1948. On the 31st March, 1949, the Reserve Bank's holdings of this conversion loan had been reduced to £(stg.)4,000,000 as the result of sales on the open market, which yielded a net profit of £(stg.)52,949 17s.

(2) 3-per-cent. £(stg.)7,000,000 1973–77 Conversion Loan

During the year the Government exercised its option to repay a 3½-per-cent. £(stg.)7,322,579 loan maturing 1st February, 1949–54. Holders of £(stg.)7,000,000 of this loan were offered conversion into a 3-per-cent. security maturing 1st June, 1973–77. The remainder of the loan was repaid in cash.

This conversion operation, which was underwritten by the Reserve Bank, was most successful, the issue being heavily oversubscribed within a few minutes of the opening of the offer.

MANAGEMENT OF PUBLIC DEBT IN NEW ZEALAND

During the financial year ended the 31st March, 1949, the following Loans domiciled in New Zealand fell due for repayment :—

(*a*) 2½-per-cent. £3,760,535, maturing 15th May, 1948 ;

(*b*) 4-per-cent. £3,484,980, maturing 30th November, 1948.

(*a*) 2½-per-cent. Loan Repayable 15th May, 1948 (£3,760,535)

This was the short-term issue of the 2nd Liberty War Loan issued October/November, 1942. Trading-bank holdings in the 2½-per-cent. 15th May, 1948, loan were £2,215,690, and these were repaid in cash. An offer of reinvestment in the "tap" issue of 3-per-cent. 15th July, 1963–65, stock was made to the remaining holders, whose holdings totalled £1,544,845. The total number of holders, including trading banks, was 12,200, of whom 11,295 were repaid in cash, £3,529,160; and 905 holders reinvested to the extent of £231,375 in the "tap" loan.

The relatively small proportion of reinvestments to repayments is probably attributable to the large number of holders in this loan who lent their money for patriotic reasons rather than for long-term investment.

(*b*) 4-per-cent. Loan Repayable 30th November, 1948 (£3,484,980)

This was the short-term loan issued in May, 1939, the price of issue being £99 per cent.

The trading banks held £1,942,800, and, in keeping with the Government's policy, this was redeemed in cash, the offer of reinvestment being confined to the balance of the loan (£1,542,180), held by approximately 1,330 holders. Repayments in cash, including trading banks' holdings, were £2,988,635, and reinvestments in the "tap" loan were £496,345.

Over-counter Issues

On the 1st April, 1948, applications in hand for the "tap" issue of 3-per-cent. stock at par maturing 15th July, 1963–65 (opened on the 19th January, 1948), totalled £3,525,240, from 698 holders. Applications were accepted up to the 31st March, 1949, additional receipts up to that date being :—

	Number of Applications.	Amount.
Cash subscriptions	2,255	£20,555,005

An analysis of subscriptions to the "tap" loan for the period 19th January, 1948, to 31st March, 1949, is as follows:—

——	Applications.	Amount.
		£
Cash subscriptions	698	3,525,240 (19/1/48 to 31/3/48)
	2,255	20,555,005 (1/4/48 to 31/3/49)
Total cash subscriptions	2,953	24,080,245
Reinvestment from $2\frac{1}{2}$-per-cent. loan which matured on 15/5/1948	905	231,375
Reinvestment from 4-per-cent. loan which matured on 30/11/1948	396	496,345
	4,254	24,807,965
Made up of—		
Death-duty stock	702	893,750
Ordinary registered stock	3,552	23,914,215
	4,254	24,807,965

Conversion Loan

On the 15th March, 1949, the Reserve Bank, on behalf of the Government, issued a prospectus inviting applications at par for conversion into $2\frac{1}{2}$-per-cent. stock repayable 15th June, 1954–55, or 3-per-cent. stock repayable 15th June, 1961–64, in respect of the following New Zealand Government loans:—

Maturity.	Amount.		
	£		
$2\frac{1}{2}$-per-cent. 15th June, 1947–49	7,094,400	30,000	holders.
3-per-cent. 15th February, 1949–50 ..	9,712,860	17,000	,,
4-per-cent. 15th May, 1949–52	12,432,440	3,500	,,
	£29,239,700	50,500	holders.

The closing date of the conversion offer was the 14th April, 1949.

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.	
1948							
March	46,995	7,801	56,316	15,864	18,593	1,972	93,788
April	51,943	7,992	61,463	15,039	18,593	1,966	92,964
May	58,847	8,046	68,405	14,662	16,378	1,954	89,110
June	62,030	7,251	70,797	16,170	16,377	1,950	86,850
July	63,584	7,419	72,515	14,839†	16,377	1,931	83,799
August.. ..	66,948	7,532	75,984	8,863	16,377	1,916	83,859
September ..	62,123	7,373	70,946	9,715	16,377	1,914	86,724
October ..	62,434	8,025	71,853	9,886	16,377	1,910	84,931
November ..	61,778	8,281	71,466	12,273	16,377	1,901	82,166
December ..	65,663	8,126	74,952	13,203	14,431	1,898	80,097
1949							
January ..	74,015	9,523	85,150	14,038	14,431	1,869	80,042
February ..	77,159	8,806	87,520	15,536	14,431	1,855	80,010
March	59,350	7,170	68,155	16,749	14,432	1,850	89,606

* Includes deposits at Reserve Bank, notes and coin.
† On and after the 20th August, 1948, overseas assets and liabilities converted to New Zealand currency at rate £(stg.)100 = £(N.Z.)100.

Liabilities in New Zealand
(£000)

Last Wednesday in Month.	Demand Liabilities.	Time Liabilities.	Total Demand and Time Liabilities.
1948			
March	142,348	39,098	181,446
April	139,244	39,054	178,298
May	143,242	39,883	183,125
June	137,907	41,646	179,553
July	134,992	41,849	176,841
August	137,623	41,841	179,464
September ..	132,498	41,995	174,493
October	133,300	41,301	174,601
November ..	137,063	40,889	177,952
December ..	144,033	39,872	183,905
1949			
January	147,395	38,834	186,229
February ..	151,037	38,607	189,644
March	145,501	37,512	183,013

Net overseas assets held by the trading banks increased during the year by £885,000, notwithstanding the adjustment in the rate of exchange on the 19th August, 1948. The actual increase for the year in terms of sterling was £(stg.)3·955 millions.

The reduction during the year of £4·160 millions in the trading banks' holdings of Government securities was due to the repayment of 2½-per-cent. and 4-per-cent. stock on maturity.

Consonant with the policy of the Government, the Reserve Bank has continued the supervision of certain classes of trading-bank advances, full co-operation in respect of its administration being received from the trading banks. A decrease of £3·775 millions is recorded for trading-bank advances during the year under review, the total outstanding under this heading on the last balance day of March being £88·745 millions.

Classification of Trading Banks' Advances as at the Last Balance Day in March
(£000)

—	1946.	1947.	1948.	1949.
Farmers	19,308	21,626	20,030	19,313
Dairy companies, freezing-works, &c.	8,582	8,847	8,255	9,212
Other manufacturing and productive industries	8,867	12,968	20,159	23,002
Merchants, wholesalers—				
(a) Mainly importers	2,455	4,262	7,962	5,925
(b) Others	919	1,402	4,924	2,155
Retailers	3,071	4,645	9,505	7,659
Transport	875	1,250	1,752	1,893
All others	13,724	17,637	19,933	19,586
Total advances	57,801	72,637	92,520	88,745

NET OVERSEAS ASSETS

On the last Wednesday in March, 1948 (31st March), the net overseas assets held by the New Zealand banking system on account of New Zealand business totalled £84·9 millions, while on the last Wednesday in March, 1949 (30th March), the figure had fallen to £67·4 millions, a decrease of £17·5 millions during the year. This reduction is due almost entirely to the exchange rate appreciation which occurred on 19th August, 1948. The following table shows changes in the amount of the net overseas assets of the banking system during the year; columns "A," "B," and "C," being expressed in sterling, and column "D" in New Zealand currency.

Net Overseas Assets* (Reserve Bank and Trading Banks)

Last Wednesday in Month.	Reserve Bank (£(stg.)000). "A"	Trading Banks (£(stg.)000). "B"	Total (£(stg.)000). "C"	Total (£(N.Z.)000). "D"
1948				
March	55,687	12,794	68,481	84,916
April	61,234	12,128	73,362	90,969
May	63,007	11,824	74,831	92,791
June	64,119	13,040	77,159	95,677
July	62,310	11,966	74,276	92,103
August †	63,464	8,863	72,327	72,327
September	53,643	9,715	63,358	63,358
October	47,328	9,886	57,214	57,214
November	41,521	12,273	53,794	53,794
December	43,331	13,203	56,534	56,534
1949				
January	43,402	14,038	57,440	57,440
February	47,028	15,536	62,564	62,564
March	50,697	16,749	67,446	67,446

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

† On and after 20th August, 1948, overseas assets and liabilities converted to New Zealand currency at rate: £(stg.)100 = £(N.Z.)100.

EXCHANGE CONTROL TRANSACTIONS

Receipts from exports during the past financial year totalled £143·9 millions, an increase of approximately £9·6 millions over receipts from this source during the previous year. Payments in respect of imports for the year ended the 31st March, 1949, totalled £109·0 millions, compared with £124·8 millions for the previous 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, 1948.	Year Ended 31st March, 1949.
Receipts		
Current items—		
Exports	134,274	143,896
Other trade transactions	8,507	8,187
Commissions, royalties, and insurance	813	828
Donations and allowances	816	1,080
Travellers' expenses	844	787
Interest and dividends	†	1,015
Legacies	†	1,345
Private debts due in New Zealand	†	782
Receipts by High Commissioner in London	8,529	577
	†	158,497
Capital items—		
Realization of overseas balances	1,082	441
Other capital receipts	†	10,944
Total	172,760†	169,882
Payments		
Current items—		
Imports	124,775	109,025
Other trade transactions	4,497	5,593
Commissions, royalties, and insurance	984	1,441
Donations and allowances	1,531	1,225
Travellers' expenses	2,390	2,645
Interest and dividends	7,607	6,377
Legacies	1,507	1,588
Private debts due overseas	†	3,534
Government payments ‡ (excluding imports and debt services)	24,000	22,077
Film hire and entertainments	566	627
	†	154,132
Capital items—		
Debt Repayment—		
Government	14,509	3,242
Local body	84	1,485
Other capital payments	†	12,914
Total	187,039†	171,773

* 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.

† For the year ended March, 1948, on the receipts side, only a total figure (£17,894,000) for interest and dividends, legacies, private debts and other capital receipts is available and is included in "Total receipts." On the payments side, only a total figure (£4,590,000) of private debts and other capital payments is available and is included in "Total payments."

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

MONEY SUPPLY

The table below sets out the changes in the total amount of money in the form of coin and notes in public circulation and bank demand deposits from 1939 to 1949 :—

AMOUNT OF MONEY IN NEW ZEALAND IN THE FORM OF COIN, NOTES, AND BANK DEMAND DEPOSITS*

(£ millions)

Last Balance Day in March.	Coin.	Notes.	Trading Bank Demand Liabilities.	Government Deposits at Reserve Bank.	Other Demand Liabilities Reserve Bank†.	Total Amount of Money.	Annual Increase.
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
Monthly							
1948—							
March ..	3·17	40·76	142·35	23·15	0·58	210·0	..
April ..	3·15	40·32	139·24	16·12	0·39	199·2	..
May ..	3·17	40·34	143·24	10·30	0·36	197·4	..
June ..	3·18	40·54	137·91	12·00	0·45	194·1	..
July ..	3·18	40·53	134·99	10·85	0·63	190·2	..
August ..	3·18	40·91	137·62	9·37	0·38	191·5	..
September ..	3·18	40·72	132·50	11·94	0·17	188·5	..
October ..	3·20	40·76	133·30	8·92	0·25	186·4	..
November ..	3·20	40·68	137·06	9·33	0·47	190·7	..
December ..	3·34	44·87	144·03	8·87	0·37	201·5	..
1949—							
January ..	3·15	40·88	147·39	8·98	0·63	201·0	..
February ..	3·21	40·84	151·04	11·64	0·27	207·0	..
March ..	3·19	42·20	145·50	22·25	0·40	213·5	..

* Excluding deposits held at savings-banks.
† Excluding balances held by the trading-banks.

The increase of £3·5 millions in the money-supply between 1948 and 1949 is the smallest annual increase in year ended March comparisons since 1939. Summaries of the causes of this increase and of the total increase of £157·7 millions since the end of March, 1939, are shown in the following table:—

CAUSES OF CHANGES IN THE AMOUNT OF MONEY

(£ millions)

Last Balance Day in March.	1939–49 (Ten Years).	1948–49 (One Year).
(*a*) Overseas transactions*	+84·4	+5·8
(*b*) Bank credit—		
(1) Reserve Bank advances	+27·8	+3·9
(2) Reserve Bank investments in New Zealand	+ 4·1	+3·0
(3) Trading bank advances and discounts	+34·1	−4·1
(4) Trading bank investments in New Zealand	+ 6·0	−4·3
(5) Total bank credit (1) to (4)	(+72·0)	(−1·5)
(*c*) Shift from time to demand liabilities of trading banks †	− 7·6	+1·6
(*d*) Other items	+ 8·9	−2·4
Total change	+157·7	+3·5

* 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.

† Minus sign indicates shift from demand to time liabilities.

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.

GENERAL

The banking figures reviewed in this report reflect the buoyancy that still characterizes economic conditions in New Zealand. For several years there has been a sharp upward trend in the values of internal and external trade, production, and national income. Official statistics show that New Zealand's national income increased from £193 millions in 1938–39 to £422 millions in 1947–48. While this would appear to indicate a great increase in national prosperity, it is important to note that real prosperity depends on the actual physical volume of production rather than on its monetary valuation. The extent to which real standards of living are raised is measured by the improvement that occurs in living and working conditions, in the quantities, qualities, and kinds of goods produced, and their equitable distribution. The increase in the money value of the national income during recent years is partly due to a rise in the volume of production, but its main cause is to be found in the high prices that have resulted from war and post-war circumstances both here and overseas.

During times of changing conditions such as arose during the war and still exist, price control is indispensable. In New Zealand, with its exceptionally large export and import trade per head of the population, the best efforts to stabilize internal prices are inevitably limited to some extent by the effect of price changes overseas. This fact needs to be kept always in mind in shaping our economic and our financial policies and practice.

We are now at the stage when we have more than full employment—that is, there are more vacancies in industry and commerce than there are applicants to fill those vacancies.

Looking at our position from the financial viewpoint, therefore, it is clear that, though monetary expansion can give a stimulus to employment and to prosperity when a state of under-employment exists, it cannot do so now. Increasing the money supply in New Zealand could not under present conditions cause our standard of living to rise; it could only increase the problem of restraining prices.

But even though the standard of living in New Zealand is good, we want not only to maintain it, but to improve it. This, as already indicated, can best be achieved by an increase in the volume and efficiency of production.

So far as monetary policy is concerned, our best course from a long-term point of view is to keep careful and watchful guard over the purposes for which new money is issued, whether such new money comes from the central bank or from the trading banks. Keeping always a clear sense of proportion, no opportunity should be lost to reduce central bank credit by reasonable amounts; to the extent that this is done, the central bank will be all the stronger to help should the need again arise to use credit expansion to stimulate employment and the demand for goods and services.

STAFF

The Board of Directors desires to place on record its appreciation of the efficient manner in which the staff has discharged its duties during the past year. The standard of work performed in the Bank has remained at a consistently high level.

For and on behalf of the Board of Directors:

E. C. Fussell, Governor.
A. Ross, Deputy Governor.

30th June, 1949.

APPENDIX

EXCHANGE RATES

In conformity with the appreciation of the exchange value of New Zealand currency to parity with sterling, trading banks were quoting the following rates at the 31st March, 1949 :—

New Zealand on London*

(On the basis of £(stg.)100)

	Buying.	Selling.
Telegraphic transfers ..	£(N.Z.)100 7 6	£(N.Z.)101 0 0

	Air Mail†	Sea Mail.	Air Mail and Sea Mail.
On demand ..	£(N.Z.)100 0 9	£(N.Z.) 99 16 9	£(N.Z.)101 0 0
3 days' sight ..	„ 100 0 0	„ 99 16 0	No quotation.
30 days' sight ..	„ 99 17 3	„ 99 13 3	£(N.Z.)100 19 3
60 days' sight ..	„ 99 14 0	„ 99 10 0	„ 100 18 6
90 days' sight ..	„ 99 10 9	„ 99 6 9	„ 100 17 6
120 days' sight ..	„ 99 7 6	„ 99 3 6	No quotation.
Sterling notes ..	£(N.Z.) 98 1 9		£(N.Z.)101 0 0

London* on New Zealand

(On the basis of £(stg.)100)

	Buying.	Selling.
Telegraphic transfers ..	£(N.Z.)101 0 0	£(N.Z.)100 7 6

	Air Mail†.	Sea Mail.	Air Mail and Sea Mail.
On demand ..	£(N.Z.)101 8 6	£(N.Z.)101 17 6	£(N.Z.)100 7 6
30 days' sight ..	„ 101 15 3	„ 102 4 3	No quotation.
60 days' sight ..	„ 102 2 0	„ 102 11 0	„
90 days' sight ..	„ 102 8 9	„ 102 17 9	„
120 days' sight ..	„ 102 15 6	„ 103 4 6	„

New Zealand on Other Countries

	Buying.	Selling.
Australia—		
Telegraphic transfers	£(A.)124 10 9 per £(N.Z.)100	£(A.)124 0 0 per £(N.Z.)100
On demand ..	„	„
Australian notes ..	£(A.)126 14 3 per (£N.Z.)100	„
Canada—		
Telegraphic transfers	$402·95 per £(N.Z.)100	$396·96 per £(N.Z.)100
On demand‡ ..	$404·45 „	„
Canadian dollar notes and coin ..	$411·53 „	„
United States of America—		
Telegraphic transfers	$402·95 per £(N.Z.)100	$396·96 per £(N.Z.)100
On demand‡ ..	$403·69 „	„
U.S. dollar notes and coin	$410·75 „	„

* These rates apply to all parts of the British Isles.
† Customer pays air-mail postage.
‡ Sea-mail.

RESERVE BANK OF NEW ZEALAND

Profit and Loss Account For Year Ended 31st March, 1949

	£	s.	d.		£	s.	d.
General charges, including salaries, rent, cost of note issue, and other expenses	290,548	18	6	Balance of profit after making provision for rebate on Treasury bills not yet due and for sundry liabilities and contingencies ..	1,030,479	13	7
Balance, being profit for year	739,930	15	1				
	£1,030,479	13	7		£1,030,479	13	7

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	645,593	8	8	Balance as at 1st April, 1948	645,593	8	8
Balance	739,930	15	1	Balance from Profit and Loss Account ..	739,930	15	1
	£1,385,524	3	9		£1,385,524	3	9

RESERVE BANK OF NEW ZEALAND—*continued*

BALANCE-SHEET AS AT THE 31ST MARCH, 1949

Liabilities	£	s.	d.	*Assets*	£	s.	d.
General Reserve Fund	1,500,000	0	0	Gold (at cost)	3,232,981	6	5
Bank notes	49,356,869	10	0	Sterling exchange	50,596,284	16	9
Demand liabilities—				Subsidiary coin	278,875	18	3
(*a*) State	20,572,329	1	0	Advances—			
(*b*) Banks	59,523,072	14	8	To State or State undertakings—			
(*c*) Other	966,521	13	1	(1) Marketing organizations	4,164,966	8	7
Liabilities in currencies other than New Zealand				(2) For other purposes	38,000,000	0	0
currency	24,345	6	8	Other	4,867,548	3	7
Other accounts	3,472,300	2	4	Investments	34,095,301	0	7
Profit and Loss Appropriation Account ..	739,930	15	1	Other assets	919,411	8	8
	£136,155,369	2	10		£136,155,369	2	10

N.B.—Holdings of sterling have been converted into New Zealand currency at the rate of £(stg) 100=£(N.Z.) 100.

E. C. FUSSELL, Governor.
A. ROSS, Deputy Governor.
W. R. EGGERS, Chief Accountant.

AUDITORS' CERTIFICATE AND REPORT

We have audited the balance-sheet as at 31st March, 1949, above set forth. Subject to the qualification that certificates confirming the balances in respect of advances, aggregating £4,867,548 3s. 7d., made to the Governments of two other countries have not yet been received by us, we have obtained all the information and explanations we have required.

We have accepted the certificate of the Bank of England as to assets held on account of the Reserve Bank of New Zealand.

In our opinion, the Balance-sheet is properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Bank as at 31st March, 1949, according to the best of our information and the explanations given to us and as shown by the books of the Bank.

D. A. F. CROMBIE
F. H. HARRIS } Public Accountants, Auditors.

Wellington, New Zealand, 30th June, 1949.

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