

1938.

NEW ZEALAND.

RESERVE BANK OF NEW ZEALAND.

ANNUAL REPORT OF THE BOARD OF DIRECTORS AND STATEMENT OF ACCOUNTS FOR THE YEAR
ENDED 31st MARCH, 1938.*Presented to both Houses of the General Assembly pursuant to Section 20 of the Reserve Bank of New Zealand Amendment Act, 1936.*

ANNUAL REPORT.

To the Hon. The MINISTER OF FINANCE:

THE Board of Directors presents herewith a general report on the operations of the Reserve Bank during the financial year ended the 31st March, 1938.

After making provision for rebate on unmatured British Treasury bills, depreciation in other assets, and superannuation and retiring allowances for the staff, the net profit for the year totalled £195,811 3s. 7d., which amount has been paid into the Public Account to the credit of the Consolidated Fund in accordance with the provisions of section 36 of the Reserve Bank of New Zealand Act, 1933.

The increase of £48,668 10s. 1d. on the previous year's net profit was due, partly to the fact that the Dairy Industry Account of the Primary Products Marketing Department (which has been overdrawn since its inception) was in operation throughout the year, as compared with about six months in the previous year, partly to a larger average holding of investments, and partly to increased sales of sterling. As pointed out in last year's report, however, whilst a net reduction in the Bank's sterling assets yields an immediate exchange profit, it does so at the expense of future earning-power.

Ever since the Bank commenced operations its profits have been affected by the low rate at which British Treasury bills (one of the main sources of the Bank's income) have been obtainable in London. The average rate yielded by such bills acquired by the Bank last year was 11s. 9-96d. per centum, as compared with 11s. 2d. and 11s. 1½d., respectively, for the previous two years.

As a partial set-off against higher income, the expenses of the Bank were greater by about 10 per cent.

Amongst the principal causes of the higher expenditure were the further supplies of bank-notes necessitated by the expanding note issue, and the fact that the public debt in New Zealand was managed by the Bank for the whole year, as against only half of the previous year. Both of those factors resulted in an increase in the cost of the Staff of the Bank; and, in addition, the total amount of salaries was raised by certain adjustments made during the year, as well as by the normal increase in the aggregate salaries, which may be expected to continue for some years in view of the comparatively low age of the members.

The principal changes in the balance-sheet, as compared with the figures at the close of the previous year, were as under:—

LIABILITIES.

Bank-notes.

The total of notes outstanding was higher at all times during the year than at the corresponding dates of the previous year, and the amount outstanding at the end of the year (£13,553,546 10s.) exceeded the figure at the 31st March, 1937, by £431,736.

These figures represent the aggregate of the notes held by the trading banks and by the public. What may be called the effective note-circulation—that is, the notes in the hands of the public—increased from £8,790,175 on the 22nd March, 1937, to £9,536,178 on the 28th March, 1938. (The figure for the 29th March, 1937, is not used for comparison, as it was affected by the temporary demand for notes for the Easter holidays.)

The expansion of the circulation during the past year was to be expected, having regard to the increase in the turnover in domestic trade and in the national wages bill during the year.

Demand Liabilities.

(a) *State*.—The aggregate of these balances was £1,715,454 4s. 7d. below the corresponding total at the end of the previous financial year. This decrease can be accounted for in part by the liquidation of "Advances to the State for other Purposes," which stood at £800,000 (including £100,000 for the Housing Account) on the 31st March, 1937.

(b) *Banks*.—The reduction of £3,392,375 11s. 6d. in these balances corresponds, approximately, to the net sales of sterling by, and withdrawals of bank-notes from, the Reserve Bank.

The banks maintained balances in excess of their statutory requirements during the whole of the year. The aggregate of the statutory minimum balances on the 31st March, 1938, was £3,491,429.

There was no occasion during the year to alter the percentages of those minima to demand and time liabilities in New Zealand under the powers conferred by section 23 of the Reserve Bank of New Zealand Amendment Act, 1936.

(c) *Other*.—The operations of the State Advances Corporation were mainly responsible for the decrease of £635,969 13s. 8d. under this heading.

ASSETS.

Sterling Exchange.

The sterling exchange eligible as a reserve for notes in circulation and other demand liabilities decreased during the year by the equivalent of £(N.Z.)2,852,696 2s. 2d. (= £(sterling)2,300,561 7s. 7d.).

Any surplus London funds available from the proceeds of the sale of dairy-produce, after providing for the Government's requirements in London, are made available to the trading banks under a special arrangement. The decrease in the Reserve Bank's holding of sterling was due mainly to further purchases by them, outside the scope of this arrangement, in excess of their sales to the Bank.

Subsidiary Coin.

The increase of £72,822 16s. 1d. represents the replenishment of the Bank's holding of silver coin. This had been allowed to fall below normal requirements by the end of the previous year in anticipation of the arrival of King George VI coins, which have since been received.

Advances.

(a) *To the State or State Undertakings* :—

(i) **Primary Products Marketing Department** : This sub-title was altered during the year so as to include any overdraft on the Internal Marketing Account as well as the overdraft on the Dairy Industry Account. At the close of the previous year the overdraft on the Dairy Industry Account totalled £6,225,908 8s. 7d. By the 31st March, 1938, the total of the combined overdrafts was smaller to the extent of £1,025,059 11s. 2d. Further particulars of the operations of the above-mentioned accounts are given later.

(ii) **Other Purposes** : Nil. During the year accommodation granted against Treasury bills in connection with the Government's housing scheme rose from £100,000 to £1,300,000. In the month of March, however, when Government balances were swollen as a result of revenue collection, the Treasury utilized some available funds by temporarily relieving the Bank of all the Treasury bills which had been taken up in this connection.

(b) *Other*.—As in the previous year, a certain amount of temporary accommodation was granted to the banking system to assist in tiding over the period during which the maximum effect of the collection of the national revenue was being felt; but repayment was effected before the end of the financial year.

Investments.

Despite the fact that the average holdings included under this heading were higher than during the previous year, there was a decrease for the year of £482,925, partly on account of the further temporary utilization of available balances on public accounts consequent upon the collection of revenue.

ADVANCES TO PRIMARY PRODUCTS MARKETING DEPARTMENT.

Particulars of the accommodation granted to the State during the year through the medium of the two accounts operated by this Department are shown in the following tables :—

(a) *Dairy Industry Account.*

Date.	Amounts advanced.	Repayments.			Total.	Balance of Advance outstanding at End of Month.
		Sterling.	New Zealand Equivalent of Sterling.	In New Zealand.		
(000 omitted.)						
1937.	£(N.Z.)	£	£(N.Z.)	£(N.Z.)	£(N.Z.)	£(N.Z.)
April ..	1,884	1,694	2,100	84	2,184	5,926
May ..	1,520	2,177	2,699	74	2,773	4,673
June ..	1,750	1,377	1,707	108	1,815	4,608
July ..	1,600	1,724	2,138	72	2,210	3,998
August ..	1,920	1,186	1,471	76	1,547	4,371
September ..	1,900	1,823	2,261	55	2,316	3,955
October ..	2,270	1,658	2,056	24	2,080	4,145
November ..	2,188	1,382	1,714	28	1,742	4,591
December ..	3,843	1,813	2,248	23	2,271	6,163
1938.						
January ..	2,920	1,902	2,359	160	2,519	6,564
February ..	1,932	1,932	2,396	183	2,579	5,917
March ..	2,394	2,518	3,122	45	3,167	5,111
Totals ..	26,121	21,186	26,271	932	27,203	..

(b) Internal Marketing Account.

Date.				Advances.	Receipts.	Balance.
(000 omitted.)						
1937.				£(N.Z.)	£(N.Z.)	£(N.Z.)
September	..	..	..	14	30	Cr. 16
October	..	..	..	61	58	Cr. 13
November	..	..	..	53	50	Cr. 10
December	..	..	..	57	56	Cr. 9
1938.						
January	..	..	..	111	45	Dr. 60
February	..	..	..	19	52	Dr. 57
March	..	..	..	68	69	Dr. 56
Totals	..	..	..	416	360	..

The Internal Marketing Account was opened in accordance with the provisions of the Primary Products Marketing Amendment Act, 1937 ; but, as shown above, the overdraft on that account has not so far assumed more than modest proportions.

The overdraft on the Dairy Industry Account on the 31st March, 1938, represented the amount then outstanding on account of purchases of dairy-produce in respect of the current year's production and, in addition, the deficit of approximately £300,000 resulting from the first year's operations under the scheme of guaranteed prices.

In accordance with the provisions of the legislation relating to the Primary Products Marketing Department, all moneys derived from the sale of produce by the Department must be paid into one or other of the above accounts and thus be applied in reduction of any overdraft which may be outstanding on the relative account at the time. The measure of protection which is thereby afforded to the Bank, however, does not constitute specific security for the overdrafts, inasmuch as the produce is neither hypothecated to nor controlled by the Bank ; and, moreover, the proceeds may fall short of the total cost, including administrative and other expenses.

It is understood that the deficit in respect of the first year's operations on the Dairy Industry Account is the responsibility of the Government and not of the dairy-farmer ; but, as no provision has yet been made as to the source from which that portion of the overdraft is to be met, it is not secured either directly or indirectly.

In view of the prohibition of unsecured loans or advances contained in section 14 (d) of the Reserve Bank of New Zealand Act, 1933, the Bank appeared to be acting *ultra vires* in granting the overdrafts on the two accounts of the Primary Products Marketing Department : but the statutory position in this matter has now been regularized by section 13 of the Finance Act (No. 2), 1937, which provides that advances in aid of the Primary Products Marketing Department accounts shall not be deemed to be, or to have been, unsecured.

Nevertheless, the Board is of the opinion that all borrowings by the State, whether or not wholly or partly covered by other assets, should be secured on the Consolidated Fund in accordance with the usual practice.

DISCOUNT RATE.

The Reserve Bank has had no occasion during the year to alter its discount rate, which has remained at 2 per cent. since the 29th June, 1936.

Despite the comparative lowness of this rate, no bills were submitted to the Bank for discount or rediscount.

EXCHANGE RATE.

The rates at which the Reserve Bank has been prepared to pay its notes in sterling and to issue notes in exchange for sterling or gold have remained unchanged at £125 (N.Z.) and £124 (N.Z.), respectively, for £100 sterling.

The trading banks also retained their selling and buying rates for telegraphic transfers of sterling at their previous year's levels of £124 10s. (N.Z.) and £124 (N.Z.), respectively, for £100 sterling.

MANAGEMENT OF THE PUBLIC DEBT.

There were no new issues to the public during the year, nor were there any offers of conversion of stock held by the public.

STATE ADVANCES CORPORATION.

On the 10th May, 1937, the Bank undertook the management of all securities issued by the State Advances Corporation.

The list of applications for the 3¼ per cent. stock or debentures (series “ B ”), due 1st June, 1944, offered to the public in the prospectus issued by the Bank on the 16th February, 1937, was still open on the 31st March, 1938.

NEW ZEALAND GOVERNMENT SECURITIES.

New Zealand Government securities in the Dominion remained relatively stable during the year, as indicated in the following table of approximate market prices and yields of certain representative loans at the end of each quarter :—

Date.				1943-46, 4 per Cent.	1946-49, 4 per Cent.	1952-55, 4 per Cent.	1953-57, 3½ per Cent.
<i>Market Price (excluding Accrued Interest).</i>							
1937.				£ s. d.	£ s. d.	£ s. d.	£ s. d.
March ..	..	..	..	101 2 6	101 10 0	101 17 6	..
June ..	..	..	..	102 12 6	103 2 6	103 7 6	98 12 6
September ..	..	..	..	102 12 6	103 5 0	104 0 0	98 5 0
December ..	..	..	..	101 15 0	102 5 0	102 7 6	96 15 0
1938							
March ..	..	..	..	101 17 6	102 10 0	103 5 0	97 15 0
<i>Yield to Final Maturity Date.</i>							
1937.				£ s. d.	£ s. d.	£ s. d.	£ s. d.
March ..	..	..	..	3 15 8	3 15 10	3 16 4	..
June ..	..	..	..	3 11 5	3 12 6	3 14 1	3 11 3
September ..	..	..	..	3 11 5	3 12 0	3 13 0	3 11 10
December ..	..	..	..	3 13 5	3 14 1	3 15 6	3 14 1
1938.							
March ..	..	..	..	3 13 1	3 13 4	3 14 0	3 12 7

Prices and yields of New Zealand Government stocks quoted on the London market moved between somewhat wider limits, as shown by the following table :—

Date.				1956-71, 5 per Cent.	1948-58, 4½ per Cent.	1943-63, 4 per Cent.	1949-54, 3½ per Cent.	1952-55, 3 per Cent.
<i>Market Price (excluding Accrued Interest).</i>								
1937.				£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
March ..	..	..	..	113 10 0	103 13 9	100 18 9	98 10 0	91 16 3
June ..	..	..	..	111 5 0	101 1 3	98 13 9	95 12 6	88 5 0
September ..	..	..	..	112 7 6	104 12 6	100 11 3	97 13 9	89 5 0
December ..	..	..	..	113 13 9	103 15 0	100 1 3	97 11 3	90 0 0
1938.								
March ..	..	..	..	110 18 9	101 17 6	99 2 6	95 3 9	87 5 0
<i>Yield to Final Maturity Date.</i>								
1937.				£ s. d.	£ s. d.	£ s. d.	£ s. d.	£ s. d.
March ..	..	..	..	4 4 9	4 4 4	3 18 6	3 12 0	3 12 1
June ..	..	..	..	4 7 1	4 8 0	4 1 4	3 16 9	3 17 11
September ..	..	..	..	4 5 10	4 2 11	3 17 9	3 13 4	3 16 7
December ..	..	..	..	4 4 6	4 4 1	3 19 7	3 13 8	3 15 4
1938.								
March ..	..	..	..	4 7 3	4 6 9	4 0 10	3 17 8	4 0 5

OVERSEAS FUNDS, RESERVE BANK AND TRADING BANKS.

During the year there was a diminution of £(N.Z.)7,820,000 in the combined net overseas assets of the whole banking system in respect of New Zealand business, as shown by the following comparisons of the figures for the last Mondays in March, 1937, and March, 1938, respectively :—

Date.	Reserve Bank.	Trading Banks.	Total.
(Expressed in New Zealand currency.)			
(000 omitted.)			
	£	£	£
29th March, 1937 ..	19,099	15,286	34,385
28th March, 1938 ..	16,930	9,635	26,565
Decrease ..	2,169	5,651	7,820

The lowest point reached during the year—viz., £22,985,000, on the 31st January, 1938—was £5,095,000 less than the lowest figure for the previous financial year (on the 28th December, 1936).

The figures relating to external trade shown later in this report indicate that the decrease in overseas funds resulted in the main from a shrinkage in the surplus of exports over imports.

TRADING BANKS.

The following combined figures are compiled from the monthly returns made by the trading banks to the Reserve Bank in accordance with statutory requirements :—

Date.	Liabilities in New Zealand.			Advances and Discounts.	Net Overseas Assets.	* Bankers' Cash.	Percentage of Bankers' Cash to Total Demand and Time Liabilities in New Zealand.
	Demand.	Time.	Total.				
(000 omitted.)							
1937.	£	£	£	£	£	£	
March 29	36,898	31,975	68,873	46,954	15,286	12,808	18·6
April 26	38,519	32,464	70,983	47,485	16,284	14,736	20·8
May 31	36,667	32,506	69,173	48,033	15,114	14,836	21·4
June 28	36,053	32,948	69,001	47,711	15,413	14,550	21·1
July 26	34,825	33,304	68,129	48,171	14,055	14,452	21·2
August 30	33,699	33,361	67,060	49,476	11,968	14,319	21·4
September 27	32,890	33,051	65,941	50,696	10,919	13,299	20·2
October 25	33,312	32,312	65,624	52,647	10,429	11,923	18·2
November 29	32,622	32,337	64,959	54,781	8,180	11,274	17·4
December 27	33,575	32,092	65,667	54,002	6,662	13,162	20·0
1938.							
January 31	36,186	31,632	67,818	53,313	6,755	15,323	22·6
February 28	36,476	31,371	67,847	53,460	8,269	13,109	19·3
March 28	37,006	31,225	68,231	55,837	9,635	10,528	15·4

* Bankers' cash includes balances with Reserve Bank, Reserve Bank notes and coin, but excludes London funds.

The percentage of cash to liabilities shown above may appear relatively high when compared with the cash ratios of banks in the United Kingdom ; but it must be remembered that the existence of a short-term money-market enables the latter to reinforce their cash reserves with money at call or short notice and also bills of exchange and certain other securities which can immediately be converted into cash. On the other hand, the banks trading in the Dominion can convert into New Zealand currency without delay any liquid funds they hold in London in respect of New Zealand business.

The outstanding variations disclosed by the above figures are the increase of £8,883,000 in the advances and discounts on the one hand and the decrease of £5,651,000 in the overseas assets on the other.

The aggregate of the unexercised overdraft authorities granted by the trading banks fell during the year by £431,026 to £24,799,432.

This year the Reserve Bank is enabled, by the courtesy and with the assistance of the trading banks, to make available the following quarterly analysis of their aggregate advances :—

	Figures at end of Month.				
	1937.				March, 1938.
	March.	June.	September.	December.	
(000 omitted.)					
1. Farmers—	£	£	£	£	£
(a) Mainly dairy	4,703	5,101	5,317	5,192	4,980
(b) Mainly wool	5,418	5,368	5,984	6,459	6,058
(c) Mainly meat	1,948	1,925	2,104	2,238	2,188
(d) Mainly agricultural	316	322	327	385	378
(e) Mixed	4,141	4,058	4,418	4,672	4,499
2. Industries allied to primary production—					
(a) Dairy companies, factories, &c.	1,251	1,279	1,068	1,135	1,732
(b) Freezing-works, meat companies, &c.	922	852	315	757	1,735
(c) Woollen-mills	622	386	534	483	825
(d) Other	1,347	1,652	1,497	1,385	1,924
3. Other manufacturing and productive industries	3,886	3,856	4,065	4,090	4,642
4. Merchants and wholesalers—					
(a) Mainly importers	3,311	3,084	3,895	4,026	4,190
(b) Other	1,353	1,303	1,274	1,271	1,059
5. Retailers	3,301	3,505	3,855	4,083	4,080
6. Transport	561	582	614	638	709
7. Local bodies, municipal authorities, public utility concerns, &c.	498	845	845	1,303	719
8. Stock and station agents	642	688	1,118	1,929	1,350
9. Hotels, restaurants, &c.	931	860	1,071	1,217	1,189
10. Financial companies, societies, &c. ..	1,585	1,685	1,847	2,179	2,150
11. Professional	1,364	1,450	1,407	1,387	1,497
12. Private individuals	4,862	5,156	5,236	5,391	5,551
13. Miscellaneous	3,191	3,218	3,154	3,202	3,609
Totals	46,153	47,175	49,947	53,422	55,064

REVIEW OF TRADE, PRICES, AND BUSINESS.

(a) *External Trade.*—The movement in the balance of merchandise trade with all countries, after allowing for freight and other charges, is indicated by the following table, which is based on figures published by the Government Statistician. The totals of exports and imports are shown for the twelve months to the end of each month during the year, with the corresponding surplus of exports :—

Year ended	Exports.	Imports.	Surplus of Exports.
(Expressed in New Zealand currency.)			
(000 omitted.)			
1937.	£	£	£
March	60,234	47,621	12,613
April	62,500	48,404	14,095
May	63,349	49,599	13,750
June	64,621	50,076	14,545
July	64,765	51,390	13,376
August	66,073	53,401	12,673
September	65,994	54,356	11,638
October	66,330	54,983	11,347
November	66,618	55,847	10,771
December	66,713	56,161	10,553
1938.			
January	67,166	57,080	10,087
February	65,152	57,763	7,389
March	65,008	58,065	6,943

The surplus for the year ended the 31st March, 1938, was several million pounds less than the favourable annual balance required to provide for Government and local bodies' debt service and other expenses overseas, in addition to the estimated amount of invisible items such as net tourist expenditure, commissions, interest, &c. The Dominion has thus been drawing upon its overseas resources during the year to a considerable extent.

(b) *Commodity Prices*.—The rising tendency of prices noted last year has continued, as shown in the following table based on indices compiled by the Government Statistician. The slight decrease in the index number of export prices is due to a decline of 33 per cent. in the price of wool, largely offset by increases of 23 per cent. in dairy-produce prices and 9 per cent. in meat-prices.

(Base 1909-1913=1000.)

Index.	March, 1937.	March, 1938.	Percentage Increase.		Highest and Lowest Points reached during Year ended 31st March, 1938.	
			March, 1937, over March, 1936.	March, 1938, over March, 1937.		
A. Wholesale—					Highest.	Lowest.
Imported items	1383	1425	5·33	3·04	1425	1383
Locally produced items ..	1548	1605	6·98	3·68	1685	1548
Combined wholesale index ..	1472	1522	6·2	3·40	1565	1472
B. Export prices	1351	1345	12·21	0·44*	1563	1345
C. Retail prices	1538	1605	7·55	4·36	1620	1550

* Decrease.

(c) *Business and Trade*.—The following statistics, compiled by the Government Statistician, give some indication of the trend of business and trade during the year :—

—	Year ended 31st March, 1937.	Year ended 31st March, 1938.	Percentage Increase 1937 as compared with 1936.	Percentage Increase 1938 as compared with 1937.
(000 omitted.)				
Exports (excluding specie)	£(N.Z.) 60,235	£(N.Z.) 65,008	21·3	7·9
Imports (excluding specie)	£(N.Z.) 47,621	£(N.Z.) 58,065	27·2	21·9
Sales tax	£(N.Z.) 3,051	£(N.Z.) 3,519	23·6	15·3
Bank debits (excluding Government)	£(N.Z.) 874,020	£(N.Z.) 957,212	22·6	9·5
Building permits (main towns) ..	£(N.Z.) 5,433	£(N.Z.) 8,167	8·9	50·3
Railways—				
Revenue	£(N.Z.) 6,904	£(N.Z.) 7,592	10·6	10·0
Number of passengers	21,235	22,441	4·3	5·7
Freight tonnage	6,814	7,516	10·1	10·3
Coastal cargo tonnage (inwards) ..	1,902	1,991	17·4	4·7
Number of motor-vehicles (licensed) ..	256	280	12·3	9·4

(d) *General Survey*. The foregoing statistics indicate that the year ended March, 1938, was characterized by the maintenance of conditions of economic buoyancy.

The increase in export values is due mainly to the higher level of prices for butter and cheese and to the fact that the year's figures include some of the higher values realized by wool during the 1936-37 season, which thus offset, to some extent, the recent fall in wool-prices. Farm production has been well maintained during the year, but there is at present, owing to unfavourable seasonal conditions, a slight falling-off in the production of butterfat.

An important element in the economic development of New Zealand has been the fact that the products of expanding pastoral industries have found in Great Britain a secure market unhampered by restrictive trade policies. At the present time, when the channels of international trade are obstructed by the widespread adoption of restrictions on trade and foreign exchange, it is gratifying to note that New Zealand still holds a favourable position in the British market. During the past year 85·8 per cent. of the total exports of New Zealand were shipped to British countries, including 79·5 per cent. to Great Britain.

The total value of imports increased considerably during the year, partly due to a rise in prices and partly to increased quantities. These additional imports were accounted for partly by increased consumption, but there was also a considerable building-up of importers' stocks of certain commodities. Notable increases in both value and quantities occurred in the imports of motor-vehicles, iron and steel goods, and machinery. An unusually large import was that of approximately 3,000,000 bushels of wheat, rendered necessary by the reduced yield of local wheat crops.

Banking figures have naturally reflected the general rise in prices and in business turnover, increases being recorded in note circulation, advances, and bank debits. The percentage of trading-bank advances to deposits has risen from 68 per cent. in March, 1937, to 82 per cent. in March, 1938. Post Office Savings-bank deposits during the year exceeded withdrawals by £3,400,000, and accumulated deposits, including interest, have risen from £58,000,000 to £63,000,000.

The maintenance of a high level of business activity has naturally reacted favourably on Government finances, and, in spite of the absence of borrowing overseas, it has been possible to finance an extensive programme of public-works expenditure partly by revenue from taxation, partly by loans from the Post Office Savings-bank and other Government Departments, and, as regards housing, by advances from the Reserve Bank, which, however, have temporarily been repaid out of funds available from other sources. Public-works construction has therefore been an important factor in determining the distribution of capital and labour resources and the nature and volume of employment.

With the exception of the Primary Products Marketing Department overdrafts, all advances made by the Bank to the Government were repaid by the end of the financial year. This restraint in the use of Reserve Bank credit for financing public expenditure is regarded by the Board as a wise course to have followed during a year of relatively high export values, especially as there has been a large increase in trading bank advances and a decrease of £(N.Z.)7,800,000 in the combined net overseas assets of the Reserve Bank and the trading banks.

Whilst not wishing to comment upon the question of public works generally, the Board regards it as highly desirable, on financial grounds, that the extent of such works should be regulated as far as practicable according to the state of employment in other directions, a slowing-down being arranged when the demand for labour for other purposes is relatively satisfactory and an acceleration during periods of comparative business inactivity; but it is considered that in neither event should reliance be placed upon the requisite funds being provided by the Reserve Bank when they can reasonably be derived from other sources unless, and to the extent that, any expansion of the currency is indicated at the time.

If, however, recourse is to be had to additional expenditure on public works during periods of relative trade depression, the Board would stress the importance of avoiding any undue expansion of credit when the trade position of the Dominion is favourable, for in the ordinary course, unless overseas funds are allowed to accumulate when the proceeds of exports—and, consequently, the national income—are at a high level, it would be difficult to maintain purchasing-power—involving a strain on the overseas position—if and when the Dominion's overseas trade position materially deteriorates.

STATISTICAL SUMMARY.

The Bank has arranged to publish a monthly bulletin of statistics which will include a collection of information already available from various other sources, but also some financial data not published hitherto.

STAFF.

The Board again has pleasure in recording its appreciation of the manner in which the Staff generally have performed their duties during the past year.

For and on behalf of the Board of Directors—

3rd June, 1938.

L. LEFEAUX, Governor.

W. L. WARD, Deputy Governor.

PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31ST MARCH, 1938.

<i>Dr.</i>			<i>Cr.</i>		
General charges, including salaries, rent, cost of note-issue, and other expenses	£	s. d.	Balance of profit after making provision for rebate on Treasury bills not yet due, and for sundry liabilities and contingencies	£	s. d.
Staff Superannuation and Provident Fund	90,753	15 9		299,064	19 4
Balance, being profit for year	12,500	0 0			
	195,811	3 7			
	<u>£299,064</u>	<u>19 4</u>		<u>£299,064</u>	<u>19 4</u>

PROFIT AND LOSS APPROPRIATION ACCOUNT.

<i>Dr.</i>			<i>Cr.</i>		
Payment to New Zealand Government in terms of section 36 of Reserve Bank of New Zealand Act, 1933	£	s. d.	Balance at 1st April, 1937	£	s. d.
Balance	47,142	13 6	Balance from Profit and Loss Account	195,811	3 7
	195,811	3 7			
	<u>£242,953</u>	<u>17 1</u>		<u>£242,953</u>	<u>17 1</u>
			Balance	£	s. d.
				195,811	3 7

BALANCE-SHEET AS AT 31ST MARCH, 1938.

<i>Liabilities.</i>			<i>Assets.</i>		
General Reserve Fund	£	s. d.	Gold (at face value)	£	s. d.
Bank-notes	1,500,000	0 0	Sterling exchange	2,801,791	0 0
Demand liabilities—	13,553,546	10 0	Subsidiary coin	16,535,953	16 0
(a) State	6,138,218	10 7	Advances—	227,798	0 7
(b) Banks	5,477,773	19 2	(a) To the State or State undertakings—		
(c) Other	271,175	2 5	(1) Primary Products Marketing Department	5,200,848	17 5
Other liabilities	96,992	10 3	Investments	2,423,525	0 0
Profit and Loss Appropriation Account	195,811	3 7	Other assets	44,501	2 0
			N.B.—Holdings of sterling have been converted into New Zealand currency at the rate of £100 sterling equals £124 (N.Z.).		
	<u>£27,233,517</u>	<u>16 0</u>		<u>£27,233,517</u>	<u>16 0</u>

L. LEFEAUX, Governor.

W. L. WARD, Deputy Governor.

W. H. WELSH, Chief Accountant.

Auditors' Certificate and Report.—We have audited the balance-sheet as at 31st March, 1938, above set forth, and 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, 1938, according to the best of our information and the explanations given to us and as shown by the books of the Bank.

J. L. GRIFFIN }
D. G. JOHNSTON } Public Accountants, Auditors.

Wellington, New Zealand, 26th May, 1938.

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