Exchange Control.

The introduction of exchange control on the 7th December, 1938, directly concerned the Bank, firstly, by the suspension of the obligation to redeem notes in sterling, and secondly, by the operation of section 10 of the Reserve Bank of New Zealand Amendment Act, 1936, whereby the Bank is charged with the general duty of regulating and controlling the transfer of moneys to or from New Zealand, and the disposal of moneys that are derived from the sale of any New Zealand products and for the time being are held overseas.

The broad lines upon which the control system is being operated are as follows:—

(1) The Comptroller of Customs notifies the Bank of all export licenses issued under the Export Licenses Regulations 1938.

(2) The proceeds of exports have to be paid over to the trading banks carrying on business in New Zealand, which act as agents for the Reserve Bank for this purpose, and are held by them at the disposal of the Reserve Bank in accordance with the terms of clauses 11 and 12 of the Export Regulations.

(3) The trading banks are also requested to account to the Reserve Bank for all exchange received by them overseas in respect of their New Zealand business otherwise than from exports, as such receipts are regarded as a set-off against payments allowed for purposes other than imports.

(4) The Comptroller of Customs also advises the Bank of all import licenses granted under the Import Control Regulations 1938.

(5) The trading banks are authorized to use overseas funds held by them on behalf of the Reserve Bank to pay for goods imported under license.

(6) The trading banks are not authorized to make other disbursements from overseas funds held on behalf of the Reserve Bank except against exchange permits issued by the Bank. (This requirement is relaxed to the extent of normal payments not exceeding £25 each, but all such transactions must subsequently be advised to the Bank.)

(7) The requirements of the Government for overseas funds, including the debt service, are met by the Reserve Bank out of the proceeds of dairy-produce exported; any surplus remaining after meeting the needs of the Government provides practically the only source from which to cover any excess payments by the trading banks in respect of import licenses and exchange permits over and above their receipts of overseas funds arising from exports or otherwise.

In operating the permit system for transfers the Bank has been guided by your assurance to the effect that one of the objects of exchange control is to enable overseas debts—whether Government, local body, or private—to be met on their due dates.

Owing, however, to the extent to which import licenses had been issued the Reserve Bank was unable to build up its holding of sterling to any appreciable extent during the remainder of the year, the increase from the date of the introduction of the Exchange Regulations to the 31st March, 1939, amounting to only about £(N.Z.)527,000, despite the fact that that period covered a considerable portion of the export season.

Trading Banks.

Trading-bank deposits and advances at the end of March, 1939, were approximately at the same level as at the end of March, 1938; but the average of deposits during the year ended March, 1939, was 3 per cent. lower than during the previous year, while advances, on the average, were 10 per cent. higher. Cash holdings increased by £3,500,000, holdings of Government securities by £2,500,000, but net overseas assets fell by (£N.Z.)5,000,000. The unexercised overdraft facilities decreased from £24,750,000 to £23,500,000.

Post Office Savings-bank.

Sums deposited in the Post Office Savings-bank for the year ended March, 1939, were 7·8 per cent. less, and withdrawals were 16·8 per cent. greater than for the previous year, withdrawals for the year ended March, 1939, showing an excess of £(N.Z.) 4,200,000 over deposits, as against excess deposits of £(N.Z.)3,400,000 during the year ended March, 1938.

Overseas Funds: Reserve Bank and Trading Banks.

The combined net overseas assets of the whole banking system in respect of New Zealand business declined by £(N.Z.)17,293,000 during the year, as shown by the following comparison of the figures for the last Mondays in March, 1938, and March, 1939, respectively:—

Date.	Reserve Bank.	Trading Banks.	Total.
(Expressed in New Zealand Currency.) (000 omitted.)			
	£	£	£
28th March, 1938 ..	16,930	9,635	26,565
27th March, 1939 ..	4,626	4,646	9,272
Decrease ..	12,304	4,989	17,293