

FURTHER PAPERS RELATIVE TO THE LOAN OF £3,000,000 STERLING.

LETTERS FROM THE CROWN AGENTS TO THE NEW ZEALAND GOVERNMENT.

No. 1.

Copy of a Letter from Mr. P. G. JULYAN to the Hon. F. A. WELD.
(No. 34-912.)

Offices of the Crown Agents for the Colonies,
Spring Gardens, London, S. W.,

26th May, 1865.

SIR,—

Referring to my letter of the 26th ultimo, of which a duplicate will reach you by the present mail, I have the honor to inform you, for the information of your Government, that the prospects of the market, with regard to the negotiation of any portion of your 6 per cent. Debentures, within the limits prescribed, has not improved during the month which has intervened.

The Bank of New Zealand have disposed of the balance of the first instalment of the 8 per cent. Loan at £100 13s. 4d.; but, as that price included £1478 15s. 8d. of accrued interest, the actual selling price must be reduced to £99 10s. 7d., at which rate the purchasers will receive £8 0s. 9d. per cent. for their money. It would appear, however, from the enclosed note received from the Managing Director of the Bank of New Zealand, that some of the Debentures, issued under the same Act in the Colony, which have found their way to this market, are now offering at prices which, after deducting accrued interest, is only equal to about £97 17s. 7d. At that rate they will pay the purchaser £8 3s. 6d. per cent. per annum; and so long as any portion of the one million of the 8 per cent. stock which the Act empowers you to create remains unsold, I need not say that there will not be the slightest prospect of our disposing of any of the 6 per cent. securities.

The difficulties under which the 6 per cents. are placed have been so fully explained in a former letter that it is unnecessary here to refer further to the subject than to state that those difficulties have since been rather increased than otherwise by the sale of the 8 per cents. at a lower price than the Crown Agents calculated upon.

Judging from the Financial Statement of the Hon. Mr. Fitzherbert, which formed one of the enclosures to your letter of the 2nd January last, there would appear to be a serious misconception on your side with respect to the loss sustained by the Colony on the £810,000 raised by the Crown Agents during the first year under "The Loan Act, 1863."

The actual state of the case stands thus:—

The sum of £810,000 was raised by the issue of 5 per cent. Debentures representing £1,000,000.

The annual charge involved in this transaction was—

5 per cent. interest on one million	...	...	...	...	£50,000
1 per cent. on one million for Sinking Fund	...	...	...	...	10,000
					<u>£60,000</u>

£60,000 a year is equal to £7 8s. 1d. per cent. per annum on £810,000.

But supposing the Sinking Fund to be invested at compound interest at 5 per cent., then 11s. 6½d. per cent. per annum on £810,000, paid by half-yearly instalments, would produce £2341 half-yearly, the sum necessary to be added to the fund every six months, in addition to compound interest, to realize £1,000,000 at the end of fifty years.

Under such circumstances, the actual total annual charge to the Colony would have been—

5 per cent. interest on one million	...	...	...	...	£50,000
Sinking Fund	...	...	...	...	4,682
					<u>£54,682</u>

£54,682 per annum is equal to £6 15s. per cent. on £810,000.

One per cent. per annum on £1,000,000 invested in a Sinking Fund in like manner would extinguish the debt in about thirty-six years.

It would scarcely be fair towards the lenders generally to devote £10,000 a year out of the Sinking Fund to the gradual extinction of the debt, by the repurchase of debentures in the market below par, otherwise the whole might be paid off at a much earlier date, and the annual charge to the Colony would be still further lightened; but from the moment the Sinking Fund reaches a million, it may very fairly be so dealt with, or if not then practicable by reason of the possibly increased value of the securities, then the interest of the fund itself, would go a good way towards paying the half-yearly dividends.

As "The Loan Act, 1863," does not sanction any less payment than 1 per cent. per annum to the Sinking Fund, the annual charge on the £810,000 borrowed must continue at the rate of £7 8s. 1d. per cent. for the next thirty-six years; but bearing in mind that at the end of that time a sufficient sum would have accumulated to pay off the whole debt, a repetition of the transaction would, it appears to the Crown Agents, have been far more profitable to the Colony than the issue of the 8 per cents. at the prices realized.

To raise one million sterling at the rate paid for the £810,000 would necessitate the issue of £1,234,600 five per cent. Debentures, the annual interest on which would be £61,730. To raise the same amount on 8 per cent. Debentures, even supposing they were sold at par, would involve the annual payment of £80,000, being a difference against the 8 per cents. of £18,270 a year.