

greatest confidence, can scarcely be said to have commanded equal prices. A sale of £758,000, which preceded yours by less than four months, was disposed of at £94 3s., and a further negociation for the same Colony of £1,000,000, just five months later than yours, nominally realized £98 1s.; but taking into account that a 2 per cent. sinking fund, instead of 1, is to be applied to annual drawings at par (making the annual charge 7 per cent.), and that the payments for the stock are spread over a period ending in April, 1869, the actual cost of the money to New South Wales will be greater than that paid by New Zealand.

With regard to the conversion of the old debentures (General and Provincial) into new, the rates at which the exchanges were to be effected formed a question of a very intricate kind. The differences in the rates of interest, in the periods of currency, and in the supposed market value of the various debentures, rendered it impossible to apply any general rule to the solution of the difficulty. In each case we endeavoured, from all the information we could command, to arrive at the market value of the old stock, and then offer an equivalent in the new at 97, taking care in so doing that the result should be in favour of the Government.

The 6 per cents. were more easily dealt with than others, inasmuch as those of Auckland had been admitted to the Stock Exchange and obtained a quotation or nominal selling price. That price afforded a measure, to some extent, of the market value of the 6 per cents. of the other Provinces, which were held in no less estimation here than those of Auckland, and the result was the establishment of an uniform difference in value of $4\frac{1}{2}$ per cent. between the General and Provincial 6 per cents.

It is unnecessary, even if it were possible, that we should here explain the multifarious considerations which presented themselves, with regard to the bonds bearing higher rates of interest. These matters were all freely discussed with you at the time, and the final conclusions arrived at will be found in our advertisements of the 1st May, 23rd July, and 23rd November (of which copies are enclosed). In placing these terms before the public, it was never supposed that they were such as to induce all holders of the old stock to come into the scheme. Some would have rejected any conditions which should fail to secure to them an increase of income on their investments; while many others are found who prefer a security which is not subject to disturbance by a possible early return of the capital.

The debentures belonging to *bona fide* investors of these classes, who, in the aggregate, hold a considerable portion of the old loans (more especially of the General Government) it is hopeless to expect to consolidate, except by a very slow process. Nothing short of an absolute necessity to sell will induce such people to disturb their arrangements; but if, when driven into the market, they should find the new bonds more saleable than the old, then they would be glad to convert, in order to find a purchaser. In the course of time all might thus be got in, but such a mode of proceeding would necessitate the keeping open of the scheme for an indefinite period, which the Government of New Zealand might not think it expedient to do.

Notwithstanding these counteracting influences, the consolidation scheme as a whole has proved a very decided success. Had it been more so, there might have been room left for supposing that the terms offered to the public were extravagant, but such a conclusion is now out of the question.

It will be seen from the enclosed schedule that the total of the old debt (on which it was possible to operate) was £4,536,350, and that the total amount actually withdrawn amounted to £2,735,550, for which there has been issued in exchange new stock representing £2,987,000.

The total annual charge to which the Colony was before liable in respect of the old stock extinguished was £207,737, and the present annual charge in respect of the new stock substituted for it is £179,220, being an increase in the nominal debt of £251,450, and a decrease in the annual charge of £28,517. In addition to this saving, the operation will render immediately available for other purposes so much of the accumulated sinking funds as properly belong to the converted debt. The amount so disposable out of funds accumulated under "The Loan Act, 1863," supposing the investments to realize what they cost, is £40,532; and the sum to be derived in like manner from the sinking funds formed under various other Acts is estimated by us, upon the very imperfect information we possess, at about £105,061, making altogether a present saving of £145,593. If this amount were applied to the purchase and extinction of some more of the old debentures (which is a fair way of measuring its value as part of the operation), a further reduction would be effected of about £153,000 in the outstanding debt, and £9,180 in the annual charge to be provided by the Colony.

The immediate results of the conversion, so far as it has yet been carried, may therefore be said to be, the substitution of a charge upon your revenues of £179,220 a year for thirty-six and a half years, in lieu of the former one of £207,737 a year for twenty-eight years—the latter period being that which would have been required to extinguish the debt at the old rates of contribution to the sinking funds, provided it should be found possible throughout the whole of the time to secure interest at the rate of 5 per cent. per annum for the money, and provided, further, that the securities in which investments had been made should eventually realize what they had cost. These are two conditions upon which very grave doubts may be entertained; while, on the other hand, the mode by which provision has been made for the extinction of the new debt, relieves your Government from all contingent liabilities of this kind.

The mere money value of the difference between the old and new charges (irrespective of £145,593 in sinking fund) is, as already stated, £28,517 a year for twenty-eight years. This annuity, capitalized at compound interest at 5 per cent., would, at the end of that period, amount to £1,745,500, and that sum would be sufficient to pay off the whole of the then outstanding debt, and leave a surplus of £537,600. Instead of following this course, however, your Government will probably find it more

advantageous at once to relieve its exchequer to the extent of £28,500 a year, which is by no means an inconsiderable item; and when, in addition to this relief, it is borne in mind that other considerable advantages, present and prospective, will result from the consolidation of the public debts of the Colony, it will be evident that a very important work has been accomplished. The actual saving in money already realized, great as that is, will in fact be of only secondary importance when compared to the benefits which may reasonably be expected to follow from the comparatively improved financial position which the Colony will occupy whenever it may become necessary for her again to resort to

Sub-Enclosures
C., D., and E.

Sub-Enclosure F.

Sub-Enclosure F2.

Sub-Enclosure F3.

Sub-Enclosure G.

Sub-Enclosure H.