

The Temporary Loan Act was passed just before the close of the session, after news had been received of war having broken out in Europe, and when an impression seemed to prevail that it was possible England might be embroiled, and, consequently, that it might be difficult to obtain money at a reasonable rate of interest. That impression gained strength from the high rate to which exchange was immediately raised. The Temporary Loan Act was passed, therefore, to enable money to be obtained pending arrangements being made under the other Loan Acts.

By an Order in Council (copy of which we enclose) we have been appointed agents to raise money, and to prepare and issue the necessary bonds, under the Temporary Loan Act.

We have made an arrangement (copy of which we enclose) with the Bank of New Zealand, whereby that Bank agrees to advance £200,000 on security of debentures for £225,000 to be negotiated as stated in the arrangement.

You will see from that arrangement that the Bank is either to borrow money at a rate not exceeding 1 per cent over Bank of England rate for the time being, for a term of not less than twelve months, or is, in conjunction with yourselves, to sell the debentures at such rates as, within sixty days after their receipt, you may jointly agree upon. At the end of sixty days, should you not have made a sale, and should the Bank not have borrowed upon the debentures as already described, the Bank will be at liberty to do what it thinks best, unless you, at your discretion, place it in funds to cover the amount advanced and to retire the debentures. That provision was inserted in order to give you power, should you think it necessary to use such a power, to take the matter entirely out of the hands of the Bank. We hope, however, that you will see your way to work cordially with the Bank, and that, so working, you will be able to agree upon the disposal of the debentures in the way which you believe will be most conducive to the interests of the Colony.

We have given the Bank the option of borrowing on the debentures without selling them, because we are inclined to think that that would be the best mode of at once disposing of them in case there was a reasonable probability that the causes of a difficulty in the way of obtaining money would soon be at an end.

The object of the Government would, of course, be to make such use, from time to time as might be required, of the powers of raising the larger loans under the Immigration and Public Works Loan Act and the Defence and other Purposes Loan Act. It is quite possible that, by the time you receive this letter, you will have come to the conclusion that there was no necessity to have provided for this temporary loan—that the securities under the other Loan Acts might have been made available; but we have only very imperfect knowledge here of what is taking place in Europe, and, under the circumstances, seeing that immediate use of money was required, the course which has been adopted seems to be the most desirable.

We should observe that the power given to the Bank to act independently after the sixty days, was one for which the Bank stipulated, seeing that an absolute advance was being made, and that otherwise the Bank might be prevented from covering itself. We hope, however, that within the sixty days, yourselves and the Bank will have jointly agreed as to what is best to be done.

Should you feel that it is necessary you should operate upon the power of paying off the Bank, we presume that it will only be in the event of your not agreeing with the Bank as to what should be done, and disapproving of the course proposed by the Bank. Should you, however, resolve to exercise the power, and pay the Bank the £200,000, you will be at liberty to dispose of the debentures as you may think best for the interests of the Colony.

We leave you to make such charge for this special service as you may consider reasonable.

We have again, in conclusion, to express the hope that you will aid the Bank to do the very best possible for the Colony under the circumstances we have narrated, and which you will readily understand.

Should the Hon. Mr. F. Dillon Bell or the Hon. Dr. Featherston be in England when you receive this letter, we shall be glad if you will consult those gentlemen, or either of them, on the matter respecting which we have now addressed you.

We have, &c.,
JULIUS VOGEL,
D. POLLEN.

Messrs. Julyan and Sergeaunt,
Crown Agents to the Colonies, London.