

1940.
NEW ZEALAND.

RESERVE BANK OF NEW ZEALAND.

ANNUAL REPORT OF THE BOARD OF DIRECTORS AND STATEMENT OF ACCOUNTS FOR THE YEAR
ENDED THE 31st MARCH, 1940.

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 reports as follows on the operations of the Reserve Bank during the financial year ended the 31st March, 1940.

After making such provision as the Board thinks proper for rebate on unmatured Treasury Bills and for depreciation in other assets, the net profit for the year totalled £361,363 6s. 10d. This amount has been paid into the Public Account to the credit of the Consolidated Fund in accordance with the requirements of the Reserve Bank of New Zealand Amendment Act, 1936.

Expenditure increased during the year by approximately 43 per cent. as compared with the previous year. The main factor in this increase was the higher cost of the note issue, whilst salaries and office accommodation also accounted for larger sums. As regards the note issue, the necessity of laying in larger supplies of bank notes coincided with the introduction of the new issue, and, in addition, there was a marked increase in transportation costs. The increase in salaries was caused partly by additions to the staff in order to deal with the expanded functions of the Bank, and partly by normal increases to the staff generally.

On the other hand there was a marked increase in revenue, occasioned mainly by the considerably higher level of advances to the State throughout the year, which was much more than sufficient to counteract the reduction in the rate charged by the Bank for this accommodation. The yield on sterling funds was also greater than in the previous year.

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

LIABILITIES.

Bank Notes.

The total of the notes outstanding at the end of the financial year (£18,284,757) was approximately £3,000,000 higher than the corresponding figure last year : this was accounted for in part by the fact that Easter fell in the latter part of March this year, and the circulation therefore reflected the usual demand for notes for that holiday period. However, both the total of the notes outstanding and the effective note circulation were consistently higher throughout the year than in the previous year, the weekly average of the latter being £12,635,999 as against £10,364,124.

Demand Liabilities.

(a) *State* : The increase of approximately £2½ million represents to a large extent sums awaiting disbursement from the Wool Account to growers to which reference is made below.

(b) *Banks* : The increase of approximately £6,100,000 resulted in the main from the increase in advances to the State by the Reserve Bank, as the trading banks are now unable to reduce the amount of their balances by buying sterling from the Reserve Bank except to cover remittances on behalf of their customers for licensed imports and other authorized purposes.

No action was taken by the Bank under section 23 of the Reserve Bank of New Zealand Amendment Act, 1936, to raise the percentage of the statutory minimum balances of the trading banks. These minimum balances aggregated £1,245,994 at the 31st March, and their free balances therefore amounted to £10,198,611.

ASSETS.

Sterling Exchange.

The increase of £8,794,294 16s. 8d. in the Bank's holding of sterling exchange is accounted for partly by the proceeds of the bulk of the Dominion's exports under war-time arrangements with the United Kingdom Government being received at a much earlier stage than heretofore, and partly by delays in deliveries of imported goods beyond the months for which authority to remit in payment for them was authorized by the Reserve Bank.

This subject is dealt with more fully later in this Report.