

1942.

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, 1942.

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 presents hereunder the report on the operations of the Reserve Bank during the financial year ended the 31st March, 1942.

On the 30th April, 1941, Mr. W. F. L. Ward, who, as Deputy Governor, had been carrying out the functions of Governor of the Bank since Mr. Lefeaux's appointment had expired in December, 1940, was appointed Acting-Governor (pursuant to the provisions of the Reserve Bank Emergency Regulations 1940). The appointment was for a period of three months commencing on the 1st May, 1941, and this has been renewed each three-monthly period since then.

By Order in Council dated the 21st May, 1941, issued pursuant to the provisions of section 25 of the Reserve Bank of New Zealand Act, 1933, Mr. E. C. Fussell was appointed Deputy Governor. Both Mr. Ward and Mr. Fussell have been with the Bank since its inception—Mr. Ward as Deputy Governor and Mr. Fussell as Secretary and subsequently as Assistant to the Governors.

Two of the Bank's Directors, Mr. G. Lawn and Mr. M. Silverstone, completed five years' service on the Board on the 23rd August, 1941, and were both reappointed Directors pursuant to the provisions of section 7 of the Reserve Bank of New Zealand Amendment Act, 1936.

After making provision for depreciation and contingencies, the net profit for the year amounted to £350,241 19s. 9d. This amount has since been paid into the Public Account to the credit of the Consolidated Fund.

Major changes in the balance-sheet figures as at 31st March, 1942, as compared with those of the previous year were as follows :—

LIABILITIES.

Bank Notes.

An increase of £2,704,231 10s.

The upward movement mentioned in last year's report continued throughout the year under review, as also did the figure for effective note circulation.

The following table shows how this upward movement has continued since the Bank commenced operations :—

(£(N.Z.)000.)

As at last Monday in March.	Total Notes outstanding.	Effective Note Circulation.*
1935	9,341	6,236
1936	10,153	7,105
1937	13,179	9,844
1938	13,554	9,536
1939	15,334	11,176
1940	18,379	14,835
1941	21,441	17,162
1942	24,132	20,177

* Notes in the hands of the public.

Demand Liabilities.

(a) *State*.—An increase of £6,185,732 to £12,455,283. Receipts from income-tax held in the Public Account accounted largely for this increase.

(b) *Banks*.—An increase of £3,502,478. Balances held by the Bank rose in February, 1942, to a total of £21,482,000. They declined quickly in March when income-tax payments became due, and at 31st March, 1942, totalled £16,346,248.

ASSETS.

Sterling Exchange.

An increase of £999,937. Throughout the year sterling exchange has been on a slightly higher level than for the corresponding periods in the previous year.

*Advances.**To the State or State Undertakings :—*

- (i) *Marketing Department* : An increase of £4,794,170. Large quantities of butter and cheese for which suppliers had been paid but for which no payment was yet due from the United Kingdom Government accounted for the major portion of this increase. Advances to the Marketing Department throughout the year averaged approximately £2,500,000 higher than in the previous year.
- (ii) *Other Purposes* : An increase of £6,500,000 to a total of £22,000,000. Of this total, £20,000,000 were Housing Bills (an increase of £4,500,000 since the 31st March, 1941) and £2,000,000 were for general purposes.

The rates for accommodation to the Government were reduced as from the 26th July, 1941. The new rates are as follows :—

							Per Cent. per Annum.
Marketing Department—							
First £5,000,000	..	..	..	..	..	..	1
Thereafter	..	..	..	..	..	..	1½
General Purposes Treasury Bills—							
First £5,000,000	..	..	..	..	..	..	1
Thereafter	..	..	..	..	..	..	1½

DISCOUNT RATE.

The minimum rate for the discounting of approved bills of exchange was reduced from 2 per cent. to 1½ per cent. as from the 26th July, 1941. The rates quoted since the Bank commenced business are as follows :—

						Per Cent. per Annum.
As from 1st August, 1934	..	..	..	..	..	4
As from 29th July, 1935	..	..	..	..	..	3½
As from 2nd March, 1936	..	..	..	..	..	2½
As from 29th June, 1936	..	..	..	..	..	2
As from 19th November, 1938	..	..	..	..	..	4
As from 6th September, 1939	..	..	..	..	..	3
As from 27th May, 1940	..	..	..	..	..	2
As from 26th July, 1941	..	..	..	..	..	1½

EXCHANGE RATE.

No alteration was made in the Bank's official buying rate for sterling, and no official selling rate was quoted.

MANAGEMENT OF PUBLIC DEBT.

During the year under review the major loan transactions were as under :—

(1) *National Development Loans.*

(a) 3-per-cent. Stock maturing 15th July, 1945, at an issue price of £100 per cent.

(b) 3¼-per-cent. Stock maturing 15th January, 1956–59, at an issue price of £97 5s. per cent.

As mentioned in the last report, the prospectus for the above loans was issued by the Bank on the 3rd January, 1941. The issue was for an unspecified amount and was still open for subscription when the last report was written. In exercise of the right reserved in the prospectus, the invitation for subscriptions to the short-dated 3-per-cent. 1945 Stock was withdrawn on the 14th May, 1941, whilst the lists for the 3¼-per-cent. 1956–59 loan remained open till 16th July, 1941.

Subscriptions to these loans involved the issue of Stock to the total nominal value of £8,423,100, of which £2,147,420 is 3-per-cent. 1945 Stock and £6,275,680 3¼-per-cent. 1956–59 Stock.

(2) *£10,000,000 War Loans at an Issue Price of £100.*

(a) 2½-per-cent. Stock repayable 1st August, 1946.

(b) 3-per-cent. Stock repayable 1st August, 1951–54.

The prospectus for these loans was issued by the Bank on the 1st August, 1941, two classes of Stock as above being offered for subscription. Provision was made for subscription in full or in instalments spread over a period of four months.

The response to these loans was very satisfactory, resulting in over-subscription to the extent of £220,620. Of the total subscriptions, "fully-paid" applications exceeded £8,000,000, indicating that considerable sums were available for immediate investment.

(3) *Conversion Loans.*

Two New Zealand Government loans became due for repayment during the year, these being 3-per-cent. Stock and Debentures which matured on the 15th July, 1941, and 3¾-per-cent. Stock and Debentures which matured on the 15th November, 1941; the latter was subject to the option of the Government to repay the loan on or after the 15th November, 1938, on giving three months' notice in the *New Zealand Gazette*.

In addition to the loans mentioned, the Government decided to exercise its option to repay, before final maturity date, the 3½-per-cent. and 4-per-cent. Stock maturing 15th March, 1943. Accordingly notice was given in the *New Zealand Gazette* that the 3¾-per-cent. Stock and Debentures maturing 15th November, 1941, would be repaid on the 15th August, 1941, and the 3½-per-cent. and 4-per-cent. Stock maturing 15th March, 1943, on the 15th September, 1941.

The loans subject to the conversion offer were as under :—

	£
(a) 3-per-cent. Stock and Debentures maturing 15th July, 1941	4,613,505
(b) 3¾-per-cent. Stock and Debentures maturing 15th November, 1938–41	3,001,015
(c) 3½-per-cent. and 4-per-cent. Stock maturing 15th March, 1940–43	13,658,960

Total	£21,273,480
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The Bank issued a prospectus on the 15th May, 1941, inviting holders of the securities affected to convert to the new issues mentioned below as from the respective repayment dates—namely, 15th July, 15th August, and 15th September, 1941. In any case where the conversion offer was not accepted the securities became repayable on the dates specified.

Provision was made for the payment of interest in respect of the securities up to the conversion dates or repayment dates specified.

Alternative offers in new Stock issues were made to holders of the securities dealt with in terms of the prospectus—conversion into 3-per-cent. short-dated Stock repayable 15th September, 1946–48, being offered at par, whilst conversion to the 3½-per-cent. long-dated issue repayable 15th September, 1957–60, carried a premium of £3 for each £100 converted, such premium being met by the issue of additional Stock for amounts of £5 or multiples thereof. Fractional amounts of £5 became payable in cash on the respective conversion dates.

Up to the 31st March, 1942, additional new Stock totalling £419,660 had been issued to cover the above-mentioned premium, while fractional amounts of £5 refunded in cash totalled £6,948 11s.

		£
The total amount subject to offer in terms of the prospectus was	.. ..	21,273,480
This amount was dealt with as under :—		
Conversions		£
(a) To new issue of 3-per-cent. Stock, 1946–48	.. ..	5,985,070
(b) To new issue of 3½-per-cent. Stock, 1957–60	.. ..	14,220,285
Redemptions	.. ..	1,033,560
		<hr/> 21,238,915
Outstanding as at 31st March, 1942	.. ..	<hr/>£34,565

The lists for the new loans closed on the evening of the 14th June, 1941, but the Bank was authorized to accept applications after such date in any case where, in the opinion of the Bank, application prior to such date was impracticable.

It will be realized that in a conversion transaction such as the one under review, factors such as the absence of security-holders from the Dominion, decease of security-holders, and other factors occasion considerable delay in the completion of the final accounts relative to the transaction. Every effort is being made to clear up the few individual cases outstanding.

(4) *Interest-free Loans for War Purposes.*

The total contributions outstanding by way of interest-free loans at 31st March, 1942, was £1,216,475.

The volume of work entailed in handling these loan and conversion operations was considerable, and the Board desires to express its appreciation of the helpful co-operation of the trading banks, the Stock Exchange Association of New Zealand, Government Departments (in particular the Post and Telegraph Department), the press, and all other organizations and individuals whose assistance was such a material factor in the success of the transactions.

EXCHANGE CONTROL.

No fundamental changes in the procedure of licensing overseas trade took place during the year, and the administration of Exchange Control provisions of the Finance Emergency Regulations 1940 (No. 2) operated smoothly. The power conferred on the Minister of Finance to require New Zealand residents to offer gold coin or gold bullion for sale to the Bank has not so far been exercised.

The table set out below gives a classification of foreign exchange transactions for the years ended 31st March, 1940, 1941, and 1942 :—

Summary of Transactions. (£(N.Z.)000.)

Receipts.	Year ended 31st March.			Payments.	Year ended 31st March.		
	1940.	1941.	1942.		1940.	1941.	1942.
In respect of—				In respect of—			
Exports	70,975	73,302	72,774	Imports, excluding payments	37,868	42,015	39,623
Interest, dividends, legacies, immigrants' funds, repatriated capital, and private debts due in New Zealand	1,588	4,220	4,231	in respect of Government imports and in respect of goods imported prior to introduction of licensing system			
Trade debts due in New Zealand, including overseas earnings of New Zealand firms ..	1,734	3,443	2,897	Interest, dividends, legacies, emigrants' funds, repatriated capital, and private debts due overseas	3,187	3,935	3,782
Commissions, royalties, and insurance	68	120	166	Trade debts due overseas, including earnings in New Zealand of overseas firms and payments in respect of goods imported prior to introduction of licensing system	4,671	2,759	2,294
Donations and allowances ..	342	382	431	Government debt and other services, including payments in respect of imports	14,064	19,628	34,501
Travellers' expenses ..	270	280	268	Local-body-debt services ..	1,634	3,635	1,800
Local-body loan raised overseas	322	..	..	Commissions, royalties, and insurance	323	538	549
Government loan raised overseas	2,500*	..	..	Donations and allowances ..	547	622	606
Unclassified	683	965	504	Film hire and entertainments	293	343	226
				Travellers' expenses ..	727	274	198
				Unclassified	43	15	..
	<hr/> 78,482	<hr/> 82,712	<hr/> 81,271		<hr/> 63,357	<hr/> 73,764	<hr/> 83,579

* Sterling loan from trading banks since repaid.

OVERSEAS FUNDS AND BALANCE OF TRADE.

The following table shows the movements during the past eight years to the end of March, 1942 : -
(£(N.Z.) Millions.)

End of March.					Net Overseas Assets.	Balance of Trade (Twelve Months).
1935	..	..	..	..	45·2	12·4
1936	..	..	..	..	44·1	12·2
1937	..	..	..	..	34·4	12·6
1938	..	..	..	..	26·6	6·9
1939	..	..	..	..	9·3	3·5
1940	..	..	..	..	23·0	14·1
1941	..	..	..	..	29·8	23·3
1942	..	..	..	..	30·9	18·6

It will be remembered, as was stated in last year's report, that the net overseas assets figure quoted does not represent a freely disposable surplus, as a large proportion of this amount has already been allocated to provide for imports.

During the year a sum of £(stg.)9,980,000 was made available in London to meet charges in respect of the Dominion's war expenses. These amounts are first paid by the British Government and subsequently charged by them to the New Zealand Government. It must be remembered, however, that there is a time lag between payment by the British Government and charging to the New Zealand Government.

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TRADING BANKS.

The position of the trading banks as shown by the main items in their monthly returns has been as follows :—

Assets.
(£(N.Z.)000.)

Last Monday in Month.					Deposits at Reserve Bank.	Reserve Bank Notes.	Total Cash in New Zealand.	Net Over- seas Assets.	Government Securities.	Advances and Discounts.
1941.										
March	..	..	..	..	12,832	4,279	17,860	12,239	15,434	53,680
April	..	..	..	..	13,302	4,707	18,758	11,688	18,656	52,253
May	..	..	..	..	13,889	4,455	19,113	11,871	18,655	51,376
June	..	..	..	..	14,100	4,029	18,904	11,111	18,640	50,219
July	..	..	..	..	14,140	4,301	19,218	11,396	20,533	48,423
August	..	..	..	..	12,632	4,204	17,587	10,007	22,333	48,573
September	..	..	..	..	9,240	4,527	14,525	10,947	23,255	47,810
October	..	..	..	..	9,163	3,882	13,759	10,822	23,222	49,460
November	..	..	..	..	8,716	4,226	13,749	11,054	23,190	50,151
December	..	..	..	..	10,719	4,397	15,854	12,009	23,039	50,478
1942.										
January	..	..	..	..	14,402	4,622	19,855	12,709	22,903	49,327
February	..	..	..	..	21,480	3,945	26,222	12,139	22,694	47,056
March	..	..	..	..	16,218	3,955	20,938	12,533	23,733	49,629

Liabilities in New Zealand.
(£(N.Z.)000.)

Last Monday in Month.					Demand Liabilities.	Time Liabilities.	Total Demand and Time Liabilities.
1941.							
March	..	..	..	..	53,682	28,630	82,312
April	..	..	..	..	53,678	28,783	82,460
May	..	..	..	..	53,619	28,762	82,381
June	..	..	..	..	52,552	29,040	81,593
July	..	..	..	..	52,038	29,317	81,355
August	..	..	..	..	51,875	29,145	81,019
September	..	..	..	..	49,723	29,213	78,936
October	..	..	..	..	49,593	29,234	78,827
November	..	..	..	..	51,326	29,124	80,449
December	..	..	..	..	53,976	28,980	82,956
1942.							
January	..	..	..	..	57,787	28,954	86,741
February	..	..	..	..	62,151	28,920	91,070
March	..	..	..	..	61,525	28,420	89,945

The figures showing the greatest relative movement during the year were those for deposits at the Reserve Bank, the highest figure (£21,480,000 for February, 1942) exceeding that of £8,716,000 for November, 1941, by £12,764,000. Total cash in New Zealand tended upwards, and the net rise since March, 1941, was £3,078,000.

While advances and discounts have shown a fairly steady decline during the year—the net fall being £4,051,000 since March, 1941—the proportion of advances and discounts to total demand and time liabilities fell from 65·2 per cent. to 55·2 per cent. during the year. On the other hand, the trading banks' holdings of Government securities rose steadily throughout the year, the net increase being £8,299,000.

On the liabilities side a net rise of £7,843,000 is shown in the figures for demand liabilities, the increase occurring mainly in the latter part of the year under review. Little movement was shown in the figures for time liabilities, the net change being a fall of £210,000.

WAR-TIME CHANGES IN MONEY SUPPLY.

Since the outbreak of war the supply of money in New Zealand, as indicated in the following table, has increased by £(N.Z.)42·8 millions :—

(£(N.Z.) Millions.)						
Category.						
						September, 1939.
						March, 1942.
						Increase or Decrease.
Coin held by public (estimated)	..	..	..	..	..	1·5
Notes held by public	..	..	..	..	..	13·4
Government deposits at Reserve Bank	..	..	..	..	..	1·8
Other demand liabilities of Reserve Bank	..	..	..	..	..	0·3
Demand deposits at trading banks	..	..	..	..	..	37·4
Total	..	..	..	..	..	54·4
						97·2
						+42·8

This increase was due almost entirely to the causes mentioned below :—

(a) Net Income from Overseas—

The Dominion's receipts overseas exceeded external expenditure by as is shown by the rise in the combined net overseas assets of the Reserve Bank and the trading banks, from £(N.Z.) 8·6m. in September, 1939, to £(N.Z.) 30·9m. in March, 1942.

(b) Credit Expansion in New Zealand—

(i) Advances by the Reserve Bank increased by 9·8

(ii) Holdings of securities in New Zealand by the trading banks £(N.Z.) Million.

increased by 13·9

but the effect of this increase was offset to the extent of 4·0

by a fall in trading bank advances, leaving a net increase of 9·9

Thus, the above causes accounted for 42·0

of the total increase of £42·8m. in the supply of money in New Zealand.

STAFF.

As at 31st March, 1942, thirty-six members of the staff were on active service in His Majesty's forces. This represents approximately 70 per cent. of the Bank's permanent staff eligible for such service. The remainder are either serving in the Home Guard or under the E.P.S.

It is with deep regret that the Board places on record the death whilst on active service of two members of the staff, Second Lieutenant P. E. Sefton and Bombardier W. R. Jourdain.

The Board desires to congratulate Sergeant D. P. Phillips, R.N.Z.A.F., who was recently awarded the Air Force Medal for devotion to duty.

The extra work at the Bank arising from the war has imposed a severe strain on the permanent staff who remain at the Bank and on the temporary staff who have been engaged to assist over the war period. The Board desires to record its deep appreciation of their loyal and cheerful services throughout the year.

For and on behalf of the Board of Directors :

W. F. L. WARD, Acting-Governor.
E. C. FUSSELL, Deputy Governor.

29th June, 1942.

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RESERVE BANK OF NEW ZEALAND.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1942.

<i>Dr.</i>	£	s.	d.	<i>Cr.</i>	£	s.	d.
General charges, including salaries, rent, cost of note issue, and other expenses ..	137,972	0	11	Balance of profit after making provision for rebate on Treasury Bills not yet due, and for sundry liabilities and contingencies	488,214	0	8
Balance, being profit for year ..	350,241	19	9				
	<u>£488,214</u>	<u>0</u>	<u>8</u>		<u>£488,214</u>	<u>0</u>	<u>8</u>

PROFIT AND LOSS APPROPRIATION ACCOUNT.

<i>Dr.</i>	£	s.	d.	<i>Cr.</i>	£	s.	d.
Payments to New Zealand Government in terms of section 36 of Reserve Bank of New Zealand Act, 1933 ..	344,942	4	6	Balance as at 1st April, 1941 ..	351,906	10	0
War loan fees refunded to Government ..	6,964	5	6	Balance from Profit and Loss Account ..	350,241	19	9
Balance	350,241	19	9				
	<u>£702,148</u>	<u>9</u>	<u>9</u>		<u>£702,148</u>	<u>9</u>	<u>9</u>

BALANCE-SHEET AS AT 31ST MARCH, 1942.

<i>Liabilities</i>	£	s.	d.	<i>Assets.</i>	£	s.	d.
General Reserve Fund	1,500,000	0	0	Gold (at face value)	2,801,877	10	0
Bank notes	24,145,054	0	0	Sterling exchange	18,536,506	3	7
Demand liabilities—				Subsidiary coin	66,708	15	8
(a) State	12,455,283	8	8	Advances to the State or State undertakings—			
(b) Banks	16,346,247	16	11	(1) Marketing Department	7,720,632	11	9
(c) Other	303,381	12	8	(2) For other purposes	22,000,000	0	0
Liabilities in currencies other than New Zealand currency	17,725	11	1	Investments	4,146,228	5	4
Other accounts	1,041,166	1	7	Other assets	887,147	4	4
Profit and Loss Appropriation Account	350,241	19	9	N.B.—Holdings of sterling have been converted into New Zealand currency at the rate of £100 sterling equals £124(N.Z.).			
	<u>£56,159,100</u>	<u>10</u>	<u>8</u>		<u>£56,159,100</u>	<u>10</u>	<u>8</u>

W. F. L. WARD, Acting-Governor.
E. C. FUSSELL, Deputy Governor.
W. R. EGGERS, Chief Accountant.

Auditors' Certificate and Report.—We have audited the balance-sheet as at 31st March, 1942, above set forth, and have obtained all the information and explanations we require.

We have accepted the certificate of the Bank of England as to assets held on account of the Reserve Bank of New Zealand.

In our opinion the balance-sheet is properly drawn up so as to exhibit a true and correct view of the state of the affairs of the Bank as at 31st March, 1942, according to the best of our information and the explanations given to us and as shown by the books of the Bank.

J. L. GRIFFIN }
D. G. JOHNSTON } Public Accountants, Auditors.

Wellington, New Zealand, 25th June, 1942.

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