

1943
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, 1943

*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, 1943.

The net profit for the year, after making provision for depreciation and contingencies, amounted to £379,118 11s. 1d. 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, 1943, as compared with those of the previous year were as follows :—

LIABILITIES

Bank Notes

Throughout the year notes in circulation continued their upward movement, and at the balance date the total of notes outstanding was £6,245,699 10s. higher than at 31st March, 1942.

Expansion of notes in circulation is not confined to New Zealand, and is in the main attributable to the war. So far as New Zealand is concerned, the following factors have all contributed in varying degree : full employment, high wages and overtime, the pay of the Services, and the presence of American troops in New Zealand. The fact that a large proportion of the American troops stationed in New Zealand are paid in United States dollars has brought about a large increase in the work of the banking office.

ASSETS

Sterling Exchange

Although the increase since 31st March, 1942, is only £485,270 as at 31st March, 1943, the following table shows clearly how, throughout the year, the Bank's holdings of sterling were largely in excess of the previous year's figures. The decrease shown in March was due to the Bank providing sterling for the Government to enable approximately £8,000,000 sterling due under the Memorandum of Security to be repaid :—

Last Monday in Month.				£(N.Z.)	Last Monday in Month.				£(N.Z.)
1941					1942				
April	..	..	..	20,515,776	April	..	..	..	20,614,438
May	..	..	..	21,240,184	May	..	..	..	22,774,577
June	..	..	..	19,967,001	June	..	..	..	24,722,575
July	..	..	..	15,582,660	July	..	..	..	24,668,845
August	..	..	..	15,090,850	August	..	..	..	25,219,709
September	..	..	..	14,747,969	September	..	..	..	26,610,331
October	..	..	..	11,528,333	October	..	..	..	25,827,387
November	..	..	..	11,044,531	November	..	..	..	26,454,990
December	..	..	..	13,293,676	December	..	..	..	26,573,999
1942					1943				
January	..	..	..	13,757,244	January	..	..	..	28,751,671
February	..	..	..	19,498,715	February	..	..	..	31,262,642
March	..	..	..	18,344,282	March	..	..	..	22,230,554

Advances

To the State or State Undertakings :—

- (i) *Marketing Department* : Advances under this heading show a decline of approximately £3,500,000, the amount outstanding at 31st March, 1943, being £4,219,613 3s. 2d. The average advance to the Department throughout the year was approximately £5,840,000, which was slightly higher than the 1942 average of approximately £5,735,000.
- (ii) *Other Purposes* : The figure of £31,135,000 as at 31st March, 1943, is £9,135,000 greater than the amount advanced under this heading at 31st March, 1942.

The rates for accommodation remained unchanged throughout the year 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

INVESTMENTS

The large increase of £6,148,607 in the Bank's investments is due almost entirely to the taking-up by the Bank of Government Stock to enable the payment by the Government under the Memorandum of Security to be made.

DISCOUNT RATE

The minimum rate for the discounting of approved bills of exchange has remained unchanged since 26th July, 1941, at 1½ per cent.

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 two War Loans were issued and in each case were over-subscribed.

A new feature of both these loans was the introduction of the acceptance of advance subscriptions. This is an arrangement whereby, some months prior to the opening of the next War Purposes Loan, the Bank accepts subscriptions to be applied to the purchase of Stock in accordance with the terms of the prospectus when issued. Applications are accepted for amounts of £10 or multiples thereof.

Applicants are required to specify whether long- or short-dated Stock is desired, but provided written notification is given to the Reserve Bank not later than seven days after the opening date of the particular loan, applicants may switch from long- to short-dated Stock, or *vice versa*, or they may withdraw their subscriptions. Subscriptions which are withdrawn do not bear interest, but otherwise interest accrues at the rate specified in the prospectus as from the original date of lodgment of the subscription.

Liberty Loan

On the 27th February, 1942, the Bank announced that it would receive advance subscriptions for the next War Purposes Loan, applications to be in accordance with the scheme as set out above.

On 4th May the Bank issued the prospectus of the Liberty Loan, which, for convenience of reference, subsequently became known as the 1st Liberty Loan, to distinguish it from the 2nd Liberty Loan, issued later in the year.

The prospectus offered £15,000,000 for public subscription in the following Stocks : 2½-per-cent. 1947 Stock ; 3-per-cent. 1952-55 Stock.

In addition, for the convenience of small subscribers, Liberty Bonds were also available. These Bonds, which could be purchased at £1 each, will be redeemed after seven years at £1 4s. each, representing interest compounded for the period at approximately £2 16s. per cent., less social and national security taxes thereon.

When the loan closed on 3rd June, 1942, a total of £17,675,000 had been subscribed, made up as follows :—

	Applications.	Amount. £
2½-per-cent. 1947 Stock	14,875	6,303,000
3-per-cent. 1952-55 Stock	15,163	11,060,000
Liberty Bonds .. .. .	..	312,000
		<hr/>
		£17,675,000

As no record was available of individual purchasers of Liberty Bonds, no actual figure can be given of the number of people who purchased these Bonds, but it is probable that the figure was in excess of 60,000.

Advance subscriptions to this loan totalled £1,952,560 after allowing for withdrawals amounting to £1,650.

2nd Liberty Loan

The prospectus for the 2nd Liberty Loan was issued on the 12th October, 1942. Ten million pounds was invited for subscription, and the following Stocks were offered: 2½-per-cent. 1948 Stock; 3-per-cent. 1953-56 Stock. No issue of £1 Bonds was made.

The loan closed on the 14th November, 1942, and was over-subscribed by £416,000. Subscriptions were as follows:—

	Applications.	Amount. £
2½-per-cent. 1948 Stock	12,906	1,891,000
3-per-cent. 1953-56 Stock	12,119	8,525,000
	<u>25,025</u>	<u>£10,416,000</u>

Advance subscriptions totalled £2,678,810, or over 25 per cent. of the total amount of the loan.

The organization set up to raise these loans was on a national basis, and War Loan Committees were formed throughout the country.

The Board desires to place on record its appreciation of the excellent work performed by these Committees, by the National Savings Organization, and by the many organizations, the press, and individuals throughout New Zealand whose efforts played such a substantial part in the success achieved.

EXCHANGE CONTROL

The procedure of licensing of overseas trade during the year was not altered, but the operations of Lend-Lease and Reverse Lend-Lease have to be taken into account when considering the table shown below. The large quantities of Lend-Lease imports which have come into the country do not involve disbursements of overseas funds, and conversely, large quantities of goods which might normally have been exported have been made available under the Reverse Lend-Lease arrangement to the United States for their troops in the Pacific and New Zealand.

The administration of the Finance Emergency Regulations 1940 (No. 2) has continued to operate smoothly.

Owing to the presence in New Zealand of American troops, the Bank authorized suppliers of goods and services to accept United States dollar notes, and announced the rates of conversion into New Zealand currency. Although the majority of the public complied with the official rates, it became evident that some transactions were taking place at unofficial rates. The Bank therefore issued a warning that the official rates must be observed. Action has been taken with regard to subsequent breaches, and penalties incurred by the persons concerned.

The following table gives a classification of foreign exchange transactions for the years ended 31st March, 1941, 1942, and 1943:—

Summary of Transactions
(£(N.Z.)000.)

Receipts.	Year ended 31st March,			Payments.	Year ended 31st March,		
	1941.	1942.	1943.		1941.	1942.	1943.
In respect of—				In respect of—			
Exports	73,302	72,774	80,885	Imports, excluding payments in respect of Government imports and in respect of goods imported prior to introduction of licensing system	42,015	39,623	33,103
Interest, dividends, legacies, immigrants' funds, repatriated capital, and private debts due in New Zealand	4,220	4,231	4,339	Interest, dividends, legacies, emigrants' funds, repatriated capital, and private debts due overseas	3,935	3,782	3,643
Trade debts due in New Zealand, including overseas earnings of New Zealand firms	3,443	2,897	3,687	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	2,759	2,294	3,445
Commissions, royalties, and insurance	120	166	252	Government debt and other services, including payments in respect of imports	19,628	34,501	46,981
Donations and allowances ..	382	431	290	Local-body-debt services ..	3,635	1,800	2,013
Travellers' expenses ..	280	268	493	Commissions, royalties, and insurance	538	549	922
Receipts on account of American Authorities and personnel	..	..	5,057	Donations and allowances ..	622	606	565
Receipts by High Commissioner in London	..	..	599*	Film hire and entertainments	343	226	794
Unclassified	965	504	395	Travellers' expenses ..	274	198	72
				American Authorities and personnel	..	..	1,832
				Unclassified	15	..	..
	<u>82,712</u>	<u>81,271</u>	<u>95,997</u>		<u>73,764</u>	<u>83,579</u>	<u>93,370</u>

* Previously included in "Unclassified."

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 Overseas Assets.	Government Securities.	Advances and Discounts.
1942.									
March	..	..	..	16,218	3,955	20,938	12,533	23,733	49,629
April	..	..	..	20,274	3,892	24,896	13,150	23,848	47,444
May	..	..	..	20,404	3,953	25,053	13,657	25,877	44,423
June	..	..	..	16,666	4,060	21,378	12,597	27,242	44,321
July	..	..	..	19,059	4,048	23,729	13,448	27,243	42,671
August	..	..	..	20,931	3,824	25,383	13,822	27,852	42,149
September	..	..	..	21,410	4,216	26,275	13,818	30,049	42,403
October	..	..	..	21,050	4,036	25,651	14,143	30,254	43,570
November	..	..	..	18,730	4,298	23,619	13,596	30,301	44,575
December	..	..	..	18,431	3,766	22,633	14,007	34,317	43,983
1943.									
January	..	..	..	22,692	5,054	28,362	13,741	35,317	43,089
February	..	..	..	25,822	4,845	31,281	15,313	36,330	41,271
March	..	..	..	19,682	4,172	24,446	14,852	36,166	44,931

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

Last Monday in Month.				Demand Liabilities.	Time Liabilities.	Total Demand and Time Liabilities.
1942.						
March	..	..	..	61,525	28,420	89,945
April	..	..	..	62,529	28,632	91,161
May	..	..	..	63,815	28,309	92,124
June	..	..	..	60,382	28,083	88,464
July	..	..	..	62,383	27,971	90,354
August	..	..	..	63,848	28,638	92,486
September	..	..	..	65,781	28,788	94,569
October	..	..	..	66,017	28,832	94,850
November	..	..	..	65,587	28,799	94,386
December	..	..	..	70,919	28,769	99,688
1943.						
January	..	..	..	74,663	28,398	103,061
February	..	..	..	79,030	28,528	107,558
March	..	..	..	77,139	28,559	105,698

On the assets side of the balance-sheet the movement during the past year in deposits at the Reserve Bank showed relatively slight fluctuations during 1942; but a fall of over £6,000,000 from £25,822,000 to £19,682,000 occurred between February and March, 1943. The trading banks' holdings of Reserve Bank notes, too, showed little change throughout the year, there being a net increase of £217,000 over the figure of £3,955,000 for March, 1942.

The total holdings of cash in New Zealand, comprising deposits at the Reserve Bank, holdings of Reserve Bank notes, and gold and coin, amounted to £24,446,000 at March, 1943, as compared with the figure of £20,938,000 for March, 1942.

Net overseas assets showed a general rising tendency, the figure for March, 1943, of £14,852,000 showing a net increase of £2,319,000 for the year.

The holdings of Government securities showed a consistent rise throughout the year. This item, which stood at £36,166,000 at the end of March, 1943, showed the greatest relative percentage increase for the year (52·4 per cent.) over the corresponding March, 1942, figure of £23,733,000.

A general fall, however, in advances and discounts was shown throughout the year, the figure for March, 1943, of £44,931,000 being £4,698,000 lower than the March, 1942, figure of £49,629,000; this net decrease is comparable with that for the financial year 1941–42. The percentage of advances and discounts to total demand and time liabilities fell from 55·2 per cent. as at March, 1942, to 42·5 per cent. as at March, 1943.

On the liabilities side the figure for demand liabilities showed a steady rise throughout the year, the figure for March, 1943, of £77,139,000 being 25·4 per cent., or £15,614,000, greater than that for March, 1942.

In the year under review the movement in time liabilities, as that for the year 1941–42, was again very slight, a net change of £139,000 increase being shown. Total demand and time liabilities rose from £89,945,000 in March, 1942, to £105,698,000 in March, 1943. The highest figure ever recorded for this item was £107,558,000 for February, 1943.

WARTIME CHANGES IN MONEY SUPPLY

As shown by the following table, the total amount of money—i.e. immediately available spending-power—in the form of coin and notes in active circulation and bank demand deposits has increased by £(N.Z.)67,000,000, or 123 per cent., between the outbreak of war in September, 1939, and 31st March, 1943.

Money Supply in New Zealand (1939–43)

(£(N.Z.) Millions.)

Category.	September, 1939.	March, 1943.	Increase.
Coin held by public (estimated)	1·5	2·3	+0·8
Notes held by public	13·4	26·1	+12·7
Government deposits (Reserve Bank)	1·8	15·6	+13·8
Other demand liabilities (Reserve Bank)	0·3	0·4	+0·1
Demand deposits (Trading Banks)	37·4	77·1	+39·7
Total	54·4	121·5	+67·1

The increase in money is due to two main causes, viz.—

- (a) Receipts from overseas in excess of payments overseas.
- (b) Expansion of bank credit.

The former accounted for £(N.Z.)28·5 m. of the increase, as evidenced by the rise in the Reserve Bank's sterling exchange from £(N.Z.)5·3 m. to £(N.Z.)22·2 m. and the rise in the trading banks' net overseas assets from £(N.Z.)3·3 m. to £(N.Z.)14·9 m.

Expansion of bank credit during the period totalled £(N.Z.)36·2 m., including an increase of £(N.Z.)18·3 m. in the advances and investments of the Reserve Bank, and of £(N.Z.)17·9 m. in the combined advances and investments of the trading banks, whose holdings of securities (mainly Government) rose by £(N.Z.)26·6 m., while their advances fell by £(N.Z.)8·7 m.

The diversion of productive capacity, resources, and man-power to the war effort has inevitably resulted in a reduced supply of goods and services available for civilian use.

At the same time as revealed by the above figures, the supply of money has been substantially increased.

The maintenance of economic stability therefore depends to a very important extent not only on the avoidance as far as practicable, of any further expansion of bank credit, but also on the transfer of a large proportion of immediate spending-power from the public to the Government for war purposes.

STAFF

The Board desires to place on record its deep regret at the loss of Pilot Officer S. S. Mitchell, a member of the Bank's staff who made the supreme sacrifice whilst on active service in the Middle East with the Royal Air Force.

At the 31st March, 1943, thirty-five members of the staff were on active service with His Majesty's Forces. Of this number, six were serving in the Navy, twenty in the Army, and nine in the Air Force.

The work of the staff, both permanent and temporary, has been maintained at a high level. War conditions have brought about many problems and much extra work, and the Board has pleasure in again recording its appreciation of the response by the staff to the calls made on them during the year.

For and on behalf of the Board of Directors :

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

30th June, 1943.

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RESERVE BANK OF NEW ZEALAND

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1943

Dr.	£	s.	d.	Cr.	£	s.	d.
General charges, including salaries, rent, cost of note issue, and other expenses	150,201	3	8	Balance of profit after making provision for rebate on Treasury Bills not yet due, and for sundry liabilities and contingencies	529,319	14	9
Balance, being profit for year ..	379,118	11	1				
	<u>£529,319</u>	<u>14</u>	<u>9</u>		<u>£529,319</u>	<u>14</u>	<u>9</u>

PROFIT AND LOSS APPROPRIATION ACCOUNT

Dr.	£	s.	d.	Cr.	£	s.	d.
Payments to New Zealand Government in terms of section 36 of Reserve Bank of New Zealand Act, 1933 ..	350,241	19	9	Balance as at 1st April, 1942 ..	350,241	19	9
Balance ..	379,118	11	1	Balance from Profit and Loss Account ..	379,118	11	1
	<u>£729,360</u>	<u>10</u>	<u>10</u>		<u>£729,360</u>	<u>10</u>	<u>10</u>

BALANCE-SHEET AS AT 31ST MARCH, 1943

Liabilities	£	s.	d.	Assets	£	s.	d.
General Reserve Fund ..	1,500,000	0	0	Gold (at face value) ..	2,801,877	10	0
Bank notes ..	30,390,753	10	0	Sterling exchange ..	19,021,776	5	5
Demand liabilities—				Subsidiary coin ..	20,958	9	9
(a) State ..	15,564,794	15	4	Advances to the State or State undertakings—			
(b) Banks ..	20,128,898	11	7	(1) Marketing Department ..	4,219,613	3	2
(c) Other ..	741,801	6	0	(2) For other purposes ..	31,135,000	0	0
Liabilities in currencies other than New Zealand currency ..	18,466	6	1	Investments ..	10,294,835	10	6
Other accounts ..	1,280,771	11	9	Other assets ..	2,510,543	13	0
Profit and Loss Appropriation Account	379,118	11	1	N.B.—Holdings of sterling have been converted into New Zealand currency at the rate of £100 sterling equals £124(N.Z.).			
	<u>£70,004,604</u>	<u>11</u>	<u>10</u>		<u>£70,004,604</u>	<u>11</u>	<u>10</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, 1943, above set forth and have obtained all the information and explanations we have required.

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, 1943, according to the best of our information and the explanations given to us and as shown by the books of the Bank.

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

Wellington, New Zealand, 30th June, 1943.

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