

1948
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, 1948

*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 Right Hon. the MINISTER OF FINANCE.

THE Board of Directors presents hereunder the report on the operations of the Reserve Bank of New Zealand during the financial year ended 31st March, 1948.

PROFITS

The net profit for the year after making provision for depreciation and contingencies amounted to £(N.Z.)645,593 8s. 8d. This amount has since been paid into the Public Account to the credit of the Consolidated Fund.

BALANCE-SHEET

The principal changes in the Balance-sheet as at 31st March, 1948, compared with that of the previous year were as under:—

LIABILITIES

Bank Notes

The increase during the year of £(N.Z.)1,679,400 in notes outstanding, from £(N.Z.)46,878,128 on 31st March, 1947, to £(N.Z.)48,557,528 on 31st March, 1948, represents a slowing down in the rate of increase compared with recent years, as is shown by the following table:—

Notes issued as at 31st March.			£(N.Z.).	Increase. £(N.Z.).
1939	..	..	15,246,971	..
1940	..	..	18,284,757	3,037,786
1941	..	..	21,440,823	3,156,066
1942	..	..	24,145,054	2,704,231
1943	..	..	30,390,754	6,245,700
1944	..	..	36,254,495	5,863,741
1945	..	..	40,201,306	3,946,811
1946	..	..	43,489,031	3,287,725
1947	..	..	46,878,128	3,389,097
1948	..	..	48,557,528	1,679,400

The effective note circulation—that is, notes in the hands of the public—was £(N.Z.)40·757 millions on the 31st March, 1948, an increase of £(N.Z.)1·124 millions for the year. The effective note circulation by denominations on the 31st March, 1948, compared with the 31st March, 1947, was as follows:—

(£(N.Z.)000)

					31st March, 1947.	31st March, 1948.	Increase.
							Per Cent.
10s.	..	..	..	..	1,143	1,171	2·4
£1	..	..	..	..	9,422	9,434	0·1
£5	..	..	..	..	22,486	23,117	2·8
£10	..	..	..	..	4,218	4,687	11·1
£50	..	..	..	..	2,001	1,987	— 0·7
Trading bank notes outstanding					363	361	— 0·6
					39,633	40,757	..

Demand Liabilities

(c) *State*.—Total deposits held by the Bank under this heading showed an increase of £(N.Z.)0·31 millions, from £(N.Z.)22·84 millions on 31st March, 1947, to £(N.Z.)23·15 millions on 31st March, 1948.

(b) *Banks*.—The total deposits held by the trading banks at the Reserve Bank declined by £(N.Z.)7·44 millions, from £(N.Z.)54·54 millions on the 31st March, 1947, to £(N.Z.)47·10 millions on the 31st March, 1948.

This decrease is due in the main to large purchases of sterling from the Reserve Bank. Although the proceeds of wool exported during the year were received direct by the banks, these purchases were necessary to enable them to finance the greatly increased volume of imports which came into New Zealand during the year.

Further reference to imports will be found later in this report.

The decline in the trading banks' deposits would have been greater but for the fact that as a matter of Government policy their holdings of New Zealand Government stocks maturing 15th September, 1947, which amounted to £(N.Z.)2,691,600, were repaid on due date. Since they were not permitted to reinvest in Government stocks, their accounts at the Reserve Bank were credited with this amount.

No alteration was made to the statutory minimum balances which the trading banks are required to hold at the Reserve Bank—namely, 7 per cent. of their demand liabilities and 3 per cent. of their time liabilities in New Zealand. The statutory minimum balances as on the 31st March, 1948, amounted to £(N.Z.)11·1 millions.

ASSETS

Sterling Exchange

On the 31st March, 1948, holdings of sterling exchange totalled £(N.Z.)69,442,400, compared with £(N.Z.)85,847,760 on the 31st March, 1947, a decrease of £(N.Z.)16·41 millions. The average holding throughout the year was approximately £(N.Z.)7 millions less than the average for the previous year. The banking system's holdings of foreign exchange are dealt with later in this report.

Advances to the State or State Undertakings

(1) *Marketing Organizations*.—Advances to these organizations at balance date totalled £(N.Z.)3,742,380. The average amount outstanding during the year on a weekly average basis was £(N.Z.)1·499 millions, an increase over the average amount outstanding during the previous year of £(N.Z.)0·433 millions.

During the year, consequent upon the passing of the Dairy Products Marketing Commission Act, 1947, the responsibility for marketing New Zealand butter and cheese passed from the Primary Products Marketing Department to the Commission set up by this Act. Overdraft accommodation is made available by the Bank to the Dairy Products Marketing Commission at the rate of 1 per cent. per annum, which rate is now applicable to the other marketing organizations. Previously $1\frac{1}{2}$ per cent. per annum was charged on any advance in excess of £(N.Z.)5,000,000.

It was mentioned in last year's report that credit balances in individual marketing accounts were set off for interest purposes against advances in other marketing accounts. This still applies to accounts controlled by the Marketing Department, but does not apply to accommodation granted to the Dairy Products Marketing Commission, the reason being that the Commission is a statutory body (with separate entity) dealing with dairy products and has no direct connection with the marketing organization administered by the Marketing Department.

(2) *Other Purposes*.—The amount outstanding on the 31st March, 1948, was £(N.Z.)38 millions, an increase of £(N.Z.)2 millions compared with the total of £(N.Z.)36 millions on the 31st March, 1947.

During the year the Bank continued to take up New Zealand Government Treasury bills at the same rate of discount as was applicable last year—namely, 1 per cent. In addition, pursuant to the power given by section 21 of the Finance Act, 1946, the Bank granted temporary accommodation from time to time during the year by way of overdraft to the Government at the rate of 1 per cent. per annum.

At 31st March, 1948, however, no overdraft was current.

Other Advances

Loan to the Government of the French Republic.—It was mentioned in last year's report that the Bank had been empowered under section 4 of the Finance Act (No. 2), 1946, upon such terms and conditions as might be approved by the Minister of Finance, to advance sums from time to time up to an aggregate of £(N.Z.)10 millions outstanding at any one time to the Governments of other countries in respect of the purchase of any New Zealand produce for export to those countries.

On the 2nd July, 1947, an agreement was signed between the Government of New Zealand and the Government of the French Republic under which the Reserve Bank of New Zealand, acting on behalf of the Government of New Zealand, was authorized to make available to the Government of the French Republic a credit amounting to £(stg.)5,000,000.

Investments

Investments increased from £(N.Z.)3·87 millions on the 31st March, 1947, to £(N.Z.)7·87 millions on the 31st March, 1948. This increase was due to the Bank taking up £(N.Z.)4 millions of a special issue of New Zealand Government stock maturing 15th March, 1962, which was issued in New Zealand in connection with the repayment in November, 1947, of the New Zealand Government loan domiciled in London of £(N.Z.)14,027,000.

DISCOUNT RATE

The minimum rate for the discounting of approved bills of exchange remained unaltered at $1\frac{1}{2}$ per cent.—this rate has remained unchanged since the 26th July, 1941.

EXCHANGE RATE

The Bank's official buying rate for sterling, which was fixed at £(N.Z.)124 = £(stg.)100 on the 1st August, 1934, in accordance with the terms of section 16 (3) of the Reserve Bank of New Zealand Act, 1933, remained unchanged.

Since the suspension in 1938 of the Bank's obligation to redeem its notes in sterling, no official selling rate has been quoted.

No alteration was made during the year in the rates quoted by the trading banks for buying and selling sterling. These rates will be found in an Appendix to this report.

MANAGEMENT OF PUBLIC DEBT IN NEW ZEALAND

The following loans matured during the year :—

		£(N.Z.).
$2\frac{1}{2}$ per cent 15th September, 1947, totalling	.. ..	4,763,810
4 per cent. 15th September, 1947, totalling	.. ..	3,249,250
5 per cent. 15th September, 1947, totalling	.. ..	224,700
		<hr/>
	£(N.Z.)	8,237,760
		<hr/>

Of the latter loan, £(N.Z.)75,300 was repayable in Australia and £(N.Z.)149,400 in England. The holders were repaid at maturity on the 15th September, 1947. As mentioned earlier in this report, as a matter of Government policy the trading banks were not given the option of conversion of their holdings in these loans, and they were also repaid on maturity. Other holders totalling £(N.Z.)5,618,990 were given the option of repayment or conversion into the then current tap issue of 3 per cent. stock maturing on the 15th July, 1962-64.

The total amount dealt with was £(N.Z.)8,237,760, of which £(N.Z.)3,044,275 was reinvested in the tap issue by 1,340 holders. The balance of £(N.Z.)5,193,485, representing 13,558 holders, was redeemed on the 15th September, 1947.

OVER-COUNTER ISSUES

(1) When the over-counter issue of 3 per cent. stock maturing 15th July, 1962-64, was closed on the 15th December, 1947, 4,256 applications had been received for a total of £(N.Z.)18,746,572.

(2) On the 19th January, 1948, the Bank issued a prospectus inviting applications for 3 per cent. stock at par maturing 15th July, 1963-65.

Results to the 31st March, 1948, were as follows :—

Applications	.. .. .	698
Amount issued	.. .. .	£(N.Z.)3,525,240.

EXCHANGE CONTROL

The following table gives a classification of overseas exchange transactions for the years 31st March, 1945, to 1948, inclusive :—

SUMMARY OF TRANSACTIONS

(£(N.Z.)000)

	Year ended 31st March,			
	1945.	1946.	1947.	1948.
<i>Receipts</i>				
In respect of—				
Exports	85,287	108,521	112,911	134,274
Interest, dividends, legacies, immigrants' funds, repatriated capital, and private debts in New Zealand	5,861	8,129	14,459	18,976
Trade debts due in New Zealand, including overseas earnings of New Zealand firms	4,205	5,388	5,478	8,507
Commissions, royalties, and insurance	295	441	546	813
Donations and allowances	424	669	481	816
Travellers' expenses	272	713	624	844
Receipts on account of American authorities and personnel	5,974	1,725	3,593	..
Receipts by High Commissioner in London	28,559	16,211	10,278	8,529
	130,878	141,797	148,369	172,760

	Year ended 31st March,			
	1945.	1946.	1947.	1948.
<i>Payments</i>				
In respect of—				
Imports, excluding payments in respect of Government imports	30,927	36,139	69,669	121,996
Interest, dividends, legacies, emigrants' funds, repatriated capital, and private debts due overseas	4,741	5,746	7,952	8,713
Trade debts due overseas, including earnings in New Zealand of overseas firms	1,497	1,881	2,538	4,497
Government debt and other services, including payments in respect of imports	48,063	87,344*	44,389	45,853
Local-body-debt services	1,539	1,140	1,381	508
Commissions, royalties, and insurance	719	627	659	984
Donations and allowances	675	1,141	1,351	1,531
Film hire and entertainments	508	544	579	566
Travellers' expenses	191	496	1,735	2,390
American authorities and personnel	4,458	1,014	30	..
	93,317	136,071	130,281	187,039

* Includes £22,721,250 payment under memorandum of security.

On the receipts side proceeds of exports showed a large increase of £(N.Z.)21·4 millions compared with the previous year. This increase was due mainly to increased prices for our primary products exported, but another material factor was an increase in volume—chiefly meat and wool.

Under the heading of "Interest, dividends, legacies, immigrants' funds, &c.", an increase of approximately £(N.Z.)4·5 millions was recorded for the year. One of the reasons for this increase was the receipt of overseas capital for investment in New Zealand.

On the payments side the increase of £(N.Z.)52 millions under the heading of "Imports" is the most outstanding feature of the whole table. The issue of import licences in the 1947 licensing period on proof of availability of goods was largely responsible for this increase.

The total figures for the year disclose that payments exceeded receipts by £(N.Z.)14.3 millions.

There has been no marked change during the year under review in the administrative procedure of the Exchange Control Regulations covering overseas trade, funds, and securities. As a result of the dollar crisis in August, 1947, more severe restrictions have been placed on the expenditure of dollars.

TRADING BANKS

The following combined figures are compiled from the monthly returns furnished by the trading banks to the Reserve Bank in accordance with statutory requirements:—

ASSETS

(£(N.Z.)000)

Last Wednesday in Month.	Deposits at Reserve Bank.	Reserve Bank Notes.	Total Cash in New Zealand.*	Net Overseas Assets.	Government Securities.	Advances and Discounts.
1947						
March	53,903	7,335	62,199	14,602	21,058	73,011
April	60,196	7,082	68,211	10,789	21,057	75,319
May	63,172	7,216	71,308	10,497	21,057	75,196
June	62,391	7,142	70,423	12,425	21,057	73,913
July	59,900	6,852	67,642	15,118	21,057	75,815
August	58,425	7,070	66,374	12,115	21,057	76,908
September ..	55,148	7,213	63,245	13,280	18,592	78,774
October	55,191	7,694	63,738	12,845	18,593	82,356
November ..	52,520	7,931	61,416	13,872	18,593	83,208
December ..	49,877	9,195	59,890	12,632	18,593	86,984
1948						
January	54,340	8,437	63,977	14,331	18,593	86,740
February ..	57,688	8,182	67,091	16,719	18,593	86,612
March	46,995	7,801	56,316	15,864	18,593	93,788

* Includes deposits at Reserve Bank, notes, and coin.

LIABILITIES IN NEW ZEALAND

(£(N.Z.)000)

Last Wednesday in Month.	Demand Liabilities.	Time Liabilities.	Total Demand and Time Liabilities.
1947			
March	126,791	35,396	162,186
April	128,855	35,989	164,844
May	131,549	36,256	167,805
June	131,771	37,187	168,957
July	129,051	37,989	167,040
August	126,950	39,209	166,159
September ..	126,897	40,219	167,116
October	125,571	40,934	166,505
November ..	126,915	40,823	167,739
December ..	128,219	39,716	167,934
1948			
January	134,451	39,143	173,594
February ..	141,832	38,261	180,092
March	142,348	39,098	181,446

The total demand and time liabilities of the trading banks have reached a record level and the proportion of time liabilities to demand liabilities is abnormally low.

The trading banks' investments in Government securities declined during the year by £(N.Z.)2·465 millions as a result of the repayment of stock referred to earlier in this report. In March, 1939, the banks' holdings of Government stock were £(N.Z.)10,063,000. They rose to a peak of £(N.Z.)36,330,000 in February, 1943. Successive redemptions of maturing stock have reduced these holdings to £(N.Z.)18,593,000.

The trading banks' advances and discounts increased by £(N.Z.)20,777,000 during the year to a total of £(N.Z.)93,788,000 on the 31st March, 1948.

The Reserve Bank's supervision of certain classes of trading bank advances has continued in accordance with the Government's policy. During the year it became apparent that there were misunderstandings as to the scope and nature of the control. Accordingly the Bank issued a statement outlining these aspects of the restriction policy. A copy of this statement is appended to this report.

The following analysis of the trading banks' advances shows that a large proportion of the increased advances was required to finance merchants, wholesalers, and retailers in the building-up of stocks required to meet the shortages which developed during the war period and the early months of reconversion. Substantial increases were recorded also in advances to manufacturing and productive industries other than those associated with meat and dairy production.

CLASSIFICATION OF TRADING BANKS' ADVANCES AS AT THE LAST BALANCE DAY IN MARCH (£(N.Z.)000)

	1945.	1946.	1947.	1948.
Farmers	18,721	19,307	21,626	20,030
Dairy companies, freezing-works, &c. .. .	8,170	8,582	8,847	8,255
Other manufacturing and productive industries ..	8,611	8,867	12,968	20,158
Merchants, wholesalers—				
(a) Mainly importers	1,976	2,455	4,262	7,962
(b) Others	1,164	919	1,402	4,924
Retailers	2,790	3,071	4,645	9,505
Transport	684	875	1,250	1,752
All others	12,785	13,724	17,637	19,933
Total advances	54,902	57,801	72,637	92,520

NET OVERSEAS ASSETS*

On the last Wednesday in March, 1947 (26th March), the net overseas assets held by the New Zealand banking system on account of New Zealand business totalled £(N.Z.)99·5 millions, while on the last Wednesday in March, 1948 (31st March), the figure had fallen to £(N.Z.)84·9 millions, a decrease of £(N.Z.)14·6 millions during the year, reflecting the excess of payments over receipts shown in the exchange control table on page 5 of this report.

* Reserve Bank's sterling exchange less overseas liabilities plus trading banks' net assets overseas in respect of New Zealand business.

AMOUNT OF MONEY

The table below shows the changes in the total amount of money in the form of coin, notes, and bank demand deposits during recent years :—

AMOUNT OF MONEY IN NEW ZEALAND IN THE FORM OF COIN, NOTES, AND BANK
DEMAND DEPOSITS*
(£(N.Z.)millions)

—	Coin.	Notes.	Trading Bank Demand Liabilities.	Government Deposits at Reserve Bank.	Other Demand Liabilities Reserve Bank.†	Total Amount of Money.	Annual Increase.
Last Monday in March—							
1939 ..	1.38	11.18	38.45	3.82	1.03	55.9	0.6
1940 ..	1.62	14.84	46.64	6.78	0.11	70.0	14.1
1941 ..	1.69	17.16	53.68	6.27	0.93	79.7	9.7
1942 ..	1.85	20.18	61.52	13.46	0.21	97.2	17.5
1943 ..	2.23	26.18	77.14	15.56	0.37	121.5	24.2
1944 ..	2.47	31.19	85.09	18.09	0.89	137.7	16.3
1945 ..	2.62	34.19	93.66	16.80	0.69	148.0	10.2
1946 ..	2.89	36.64	110.92	29.21	0.79	180.5	32.5
1947(Wednesday)	3.04	39.63	126.79	17.43	0.55	187.4	6.9
1948(Wednesday)	3.17	40.76	142.35	23.15	0.58	210.0	22.57
Last Wednesday of month—							
1947—							
March ..	3.04	39.63	126.79	17.43	0.55	187.4	..
April ..	3.01	39.89	128.86	12.90	0.32	185.6	..
May ..	3.03	39.79	131.55	11.73	0.53	186.6	..
June ..	3.10	39.84	131.77	9.71	0.36	184.8	..
July ..	3.11	40.33	129.05	10.57	0.50	183.6	..
August ..	3.11	40.35	126.95	10.11	0.36	180.9	..
September ..	3.12	39.92	126.90	9.79	0.44	180.2	..
October ..	3.12	40.03	125.57	9.59	0.37	178.7	..
November ..	3.13	40.12	126.92	11.20	0.59	181.9	..
December ..	3.32	42.79	128.22	11.13	0.50	186.0	..
1948—							
January ..	3.29	40.91	134.45	12.56	0.92	192.1	..
February ..	3.27	40.51	141.83	17.87	0.43	203.9	..
March ..	3.17	40.76	142.35	23.15	0.58	210.0	..

* Excluding deposits held at savings-banks.

† Excluding balances held by the trading-banks.

In March, 1948, the total amount of money in circulation in New Zealand in the form of coin, notes, and bank demand deposits was £(N.Z.)154·16 millions more than in March, 1939, the increase since March, 1947, being £(N.Z.)22·57 millions. Causes of changes in the two periods 1939-48 and 1947-48 are shown in the following table :—

CAUSES OF CHANGES IN THE AMOUNT OF MONEY*

(£(N.Z.)millions)

	1939-48.	1947-48.
(a) Overseas transactions†	+78·68	—14·59
(b) Bank credit—		
(1) Reserve Bank advances	+23·82	+12·20
(2) Reserve Bank investments in New Zealand	+ 1·18	+ 4·00
(3) Trading bank advances and discounts	+38·27	+20·78
(4) Trading bank investments in New Zealand	+10·24	— 2·67
(5) Total bank credit ((1) to (4))	+(73·51)	+(34·31)
(c) Shift from time to demand liabilities of trading banks‡	— 9·22	— 3·70
(d) Other items	+11·20	+ 6·55
Total change	+154·16	+22·57

* For 1947 and 1948 the figures relate to last Wednesday in March ; the figures for 1939 relate to last Monday in March.

† As shown by changes in Reserve Bank's sterling exchange plus overseas investments, and trading banks' assets overseas in respect of New Zealand business, less overseas liabilities in respect of New Zealand business.

‡ Minus sign indicates shift from demand to time liabilities.

The above table shows that over the whole period 1939-48 about half the increase in the amount of money in circulation was due to an excess of external receipts over external payments, resulting in a corresponding accumulation of New Zealand banking assets overseas and of bank deposits within New Zealand. From March, 1947, to March, 1948, external payments have exceeded external receipts by £(N.Z.)14·59 millions ; but although the net overseas assets of the banks fell by that amount, the consequent reduction in the amount of money in circulation in New Zealand was more than offset by an increase of £(N.Z.)34·31 millions in bank credit—namely, £(N.Z.)16·2 millions by the Reserve Bank and £(N.Z.)18·11 millions by the trading banks.

During the past few years the non-availability of essential imports has resulted in an accumulation of foreign exchange, an increase in spending-power in New Zealand, and a relative shortage in the supply of goods. This has been one of the reasons for the adoption during wartime and the continuance after the war of various economic stabilization regulations. As imports become more readily available, the unbalanced monetary condition tends to adjust itself to the extent that the supply of goods in New Zealand is increased and the amount of money in circulation is reduced by drawing on existing bank deposits to pay for them. During the past financial year this adjusting process was counteracted by an expansion of bank credit partly by the Reserve Bank

to meet Government requirements and partly by the trading banks to finance traders, manufacturers, farmers, and others. High levels of prices and of national income that are generated by abnormal conditions prevailing during and immediately after a war invariably produce an expansion of bank credit which, while it may itself be a contributory factor in raising prices, is largely a result rather than a cause of such increases. A sudden and drastic curtailment of bank advances might in these circumstances cause more harm than good and seriously retard the maintenance and improvement of trade, industry, and employment. Hence the necessity for a prudent and flexible bank advances control policy that checks undue expansion of credit but does not hamper sound business development.

In assessing present and prospective economic conditions in New Zealand it is necessary to note whether and to what extent changes in spending-power as shown by the amount of money in circulation and the aggregate amount of private incomes are paralleled by changes in the supply of goods. Comparing the year 1938-39 with 1945-46, the latest year for which the information is available, the amount of aggregate private incomes rose from £(N.Z.)186 millions to £(N.Z.)327 millions, the value of farm production from £(N.Z.)83 millions to £(N.Z.)116 millions, of factory production from £(N.Z.)31 millions to £(N.Z.)55 millions, and the total value of all production from £(N.Z.)136 millions to £(N.Z.)201 millions. In 1939 export receipts amounted to approximately £(N.Z.)65 millions; for the year ended the 31st March, 1948, they were £(N.Z.)134 millions. The great increases in production values and export receipts have been caused mainly by higher prices rather than by an expansion of production of actual goods, and the higher prices have had an important influence on aggregate private incomes.

The movement in export and wholesale prices that has occurred during recent years is shown in the following table of official price statistics:—

PRICE INDEX NUMBERS

(Base : 1926-30 = 1000)

					March, 1939.	December, 1947.	Percentage Increase.
Export prices..	..	..	..	..	869	1815	108·9
Wholesale prices—							
Locally produced	..	..	..	..	1029	1512	46·9
Imported ..	..	..	..	..	1066	2027	90·2
All groups ..	..	..	..	..	1050	1809	72·3

The relatively smaller rise in the wholesale prices of locally produced goods is some evidence of the effects of stabilization measures, which were able to exercise a restraining influence on costs and prices of local production, but which for obvious reasons could not control import prices. The changes that have taken place in the actual quantities of goods produced during the period of rising prices and, consequently, of higher levels

of aggregate incomes and value of production are shown in the following table of official index numbers of the volume of production, which for purposes of comparison includes also the index numbers of value of production :—

INDEX NUMBERS OF VALUE AND VOLUME OF PRODUCTION
(Base : 1938-39 = 100)

Production Year.	Farm.		Factory.		Total (all Groups, including Other).	
	Value.	Volume.	Value.	Volume.	Value.	Volume.
1938-39 ..	100	100	100	100	100	100
1939-40 ..	105	102	110	110	106	105
1940-41 ..	120	116	122	114	118	112
1941-42 ..	119	111	135	117	120	110
1942-43 ..	120	108	148	122	125	109
1943-44 ..	122	105	162	129	129	107
1944-45 ..	143	114	168	132	144	113
1945-46 ..	140	109	179	136	148	112

This table indicates that from 1938 to 1946 farm production increased in volume by 9 per cent. as against an increase of 40 per cent. in value ; factory production showed a 35 per cent. increase in volume as compared with a 79 per cent. increase in value, and total production an increase of 48 per cent. in value and 12 per cent. in volume.

It is clear from these figures that, although production has actually been increased in volume in spite of the difficulties inevitably associated with war, values have reached high levels from which they may recede. In these circumstances it is wise to take all possible steps to strengthen the national economy by greater and more efficient production and by the avoidance of courses of action that would raise costs and prices without increasing the supply of real goods and services.

STAFF

The staff's high standard of work has been maintained during the past year and the Board is pleased to record its appreciation of the efficient and willing services rendered. For and on behalf of the Board of Directors :

W. F. L. WARD, Governor.

E. C. FUSSELL, Deputy Governor.

22nd June, 1948.

APPENDICES

APPENDIX No. 1.—EXCHANGE RATES

During the year ended the 31st March, 1948, the following rates were quoted by the trading banks for buying and selling sterling :—

NEW ZEALAND ON LONDON*

(On the basis of £(stg.)100)

			Buying.			Selling.		
Telegraphic transfers			£(N.Z.)124			£(N.Z.)125		
				7	6		0	0
			Air Mail.†			Sea Mail.		
			£(N.Z.)124			£(N.Z.)123		
On demand	..	..	124	0	6	123	15	3
3 days' sight	..	..	123	19	9	123	14	6
30 days' sight	..	..	123	16	0	123	10	9
60 days' sight	..	..	123	11	9	123	6	6
90 days' sight	..	..	123	7	6	123	2	3
120 days' sight	..	..	123	3	3	122	18	0
								No quotation.

LONDON* ON NEW ZEALAND

(On the basis of £(stg.)100)

			Buying.			Selling.		
Telegraphic transfers			£(N.Z.)125			£(N.Z.)124		
				0	0		7	6
			Air Mail.†			Sea Mail.		
			£(N.Z.)125			£(N.Z.)126		
On demand	..	..	125	12	6	126	2	6
30 days' sight	..	..	126	0	9	126	10	9
60 days' sight	..	..	126	9	0	126	19	0
90 days' sight	..	..	126	17	3	127	7	3
120 days' sight	..	..	127	5	6	127	15	6
								No quotation.

* These rates apply to all parts of the British Isles.

† Customer pays air-mail postage.

APPENDIX No. 2. -CREDIT CONTROL

Following on statements by the Reserve Bank last year, the Bank now makes the following announcement of the general scope and requirements of the Government's policy of supervising the credit facilities granted by the trading banks to their customers in a number of specified categories.

This policy is administered by the Reserve Bank with the co-operation of the trading banks; its objective is to ensure that finance for certain purposes should be obtained, to the fullest extent practicable, by using part of the abundant supply of money already in existence, and not from an avoidable issue of fresh bank credit.

After consultation with the Government the Reserve Bank keeps the banks informed from time to time of the requirements of the credit control policy. By this means the operation of the policy is kept in line with current economic and financial conditions.

It is part of the arrangement that the banks refer to the Reserve Bank all marginal or doubtful cases, and all cases where special circumstances make it desirable that individual consideration should be given by the Reserve Bank, provided, always, that the bank concerned is prepared to grant the advance. Every case so referred is given prompt and thorough consideration on its merits.

The broad classes of advances which are at present subject to control are advances for—

- (1) Speculative purposes.
- (2) Purely investment purposes.
- (3) Capital expenditure for business, industrial, and commercial purposes, including the purchase of farm properties.
- (4) Repayment of mortgages.
- (5) Hire purchase and other credit sales.
- (6) Luxury purposes.
- (7) Building, or purchase, or refinancing of dwellings, except for short periods pending the raising of finance from non-banking sources.

Some of the requirements of the advance control policy admit of no exception—for example, the rule that bank advances must not be granted for speculation is an invariable rule.

But neither hard and fast rigidity nor “rule of thumb” methods govern the general administration of the policy.

For example, under the heading of capital expenditure the procedure is to consider, firstly, whether the purpose for which the accommodation is required is necessary to promote or maintain useful production or services, and secondly, whether it is reasonably practicable to obtain the needed finance from non-banking sources, having regard to local conditions and other circumstances affecting the individual applicant.

Furthermore, capital goods cover a wide range, from factories, ships, and broad acres at one end of the scale down to individual tractors, trucks, and other business and farming vehicles, farm implements and equipment, fencing, and the like at the other end of the scale. Those who require finance, whether in large sums or small, for the above purposes are located some in the main centres and larger towns and some in the remotest rural districts. All these factors are taken into account by the Reserve Bank in considering applications and in ascertaining the reasonable practicability of necessary finance being provided from non-banking sources.

In view of some misconceptions which have arisen, it should be mentioned that finance for raw materials, stock-in-trade, and for current working-expenses are not regarded as capital expenditure and do not come within the scope of the advance control policy and do not require to be referred to the Reserve Bank.

An important feature of the advance control procedure is that, in order to safeguard the confidential relationship between customers and their own bankers, the Reserve Bank never asks that the name of any applicant should be divulged. For this reason, and to avoid administrative confusion, applications or representations must not be made direct to the Reserve Bank by members of the community.

Reserve Bank of New Zealand,
Wellington, 26th January, 1948.

RESERVE BANK OF NEW ZEALAND

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 1948

<i>Dr.</i>		<i>Cr.</i>		£	s.	d.	£	s.	d.
General charges, including salaries, rent, cost of note issue, and other expenses	Balance of profit after making provision for rebate on Treasury bills not yet due, and for sundry liabilities and contingencies	..	..	..	922,991	13	1
Balance, being profit for year					£922,991	13	1

PROFIT AND LOSS APPROPRIATION ACCOUNT

<i>Dr.</i>		<i>Cr.</i>		£	s.	d.	£	s.	d.
Payments to New Zealand Government in terms of section 36 of Reserve Bank of New Zealand Act, 1933	Balance as at 1st April, 1947	..	..	..	581,784	2	1
Balance	Balance from Profit and Loss Account	..	..	..	645,593	8	8
							£1,227,377	10	9

RESERVE BANK OF NEW ZEALAND—*continued*
BALANCE-SHEET AS AT 31st MARCH, 1948

<i>Liabilities</i>	£	s.	d.	<i>Assets</i>	£	s.	d.
General Reserve Fund	1,500,000	0	0	Gold (at face value)	2,802,147	0	0
Bank notes	48,557,528	0	0	Sterling exchange	69,442,400	6	4
Demand liabilities—				Subsidiary coin	120,270	3	4
(a) State	23,154,974	18	3	Advances—			
(b) Banks	47,099,482	12	9	To the State or State undertakings—			
(c) Other	579,649	19	10	(1) Marketing organizations	3,742,380	5	10
Liabilities in currencies other than New Zealand				(2) For other purposes	38,000,000	0	0
currency	390,526	15	10	Other	1,512,119	12	1
Other accounts	3,242,271	13	5	Investments	7,868,093	2	11
Profit and Loss Appropriation Account	645,593	8	8	Other assets	1,682,616	18	3
				N.B.—Holdings of sterling have been converted into New Zealand currency at the rate of £100 sterling equals £124 (N.Z.)			
	£125,170,027	8	9		£125,170,027	8	9

W. F. L. WARD, 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, 1948, 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, 1948, according to the best of our information and the explanations given to us and as shown by the books of the Bank.

Wellington, New Zealand, 15th June, 1948.

D. A. F. (GROMBIE)
F. H. HARRIS } Public Accountants, Auditors.

Approximate Cost of Paper.—Preparation, not given; printing (598 copies) £88 10s.

By Authority: E. V. PAUL, Government Printer, Wellington.—1948.

Price 6d.

