

outside the scope of ordinary banking practice. To some extent some stock and station agents obtain financial accommodation from the banks, but they also get their funds from—

- (1) Their own shareholders ;
- (2) By debenture stock ;
- (3) By deposits from customers.

There are examples in New Zealand of large stock firms which do not require financial accommodation from their bankers.

Question 7. What proportion of the exchange business of New Zealand is conducted by the trading banks—(a) in normal times ; (b) at present ?

Answer : These particulars are not available to us. Possibly 80 per cent. or more is done by the banks, but this is merely conjectural. Under present exchange conditions there is more inducement for importers to endeavour to deal outside the banks.

Question 8. In normal times what is the procedure and what are the determining factors in settling the exchange-rate ?

Answer : Broadly speaking, the exchange-rates in normal times depend on the supply of and demand for London funds, and these exchange-rates may be said to represent the market price at which London funds are bought and sold.

If an unbalanced external trading position results in a shortage or overaccumulation of London funds, it is, of course, necessary to make adjustments to correct the position, because it is obvious that the perpetuation and aggravation of such a position would be to the detriment both of the banking organization and of the country in general. In the last analysis goods pay for goods, and the goods we import must be paid for by the goods we export. Government borrowing overseas would have the effect of relieving a shortage of London funds which might otherwise necessitate an increase in the exchange-rates. An unfavourable trading position might be coupled with conditions of demand for bank accommodation necessitating an increase in overdraft rates.

Subject to the above remarks, it may be said that in normal times an increase in the exchange-rates is an indication that the supply of London funds is less than the demand, and that a decrease in the exchange-rates is an indication that there has been an accumulation of London funds which cannot be disposed of at the current exchange-rate.

Question 9. What are the factors a banker takes into consideration in granting an overdraft ?

Answer : These considerations are—

- (a) The purpose for which the advance is required—*i.e.*, whether the money will be used in such a way as will enable the debtor to provide for interest and repayment, and so enable the bank to avoid becoming involved in frozen assets.
- (b) The length of time for which the advance is required, it being borne in mind that bank advances are normally repayable on demand ; this principle also being necessary to avoid tying up assets.
- (c) Whether the present and prospective value of the security affords a sound and safe cover for the advance. The character and commercial morality of the customer is also largely taken into account, particularly where an advance or part of it is made on the "personal security" of the borrower.
- (d) The banks of this country, recognizing that this country is predominantly a primary producing country, render financial assistance to a very large extent to primary producers ; the proportion that advances to primary producing interests bears to total advances in New Zealand on the books of one of the banks, excluding Government accounts (which may be taken as a typical example) is—

	Per Cent.
Primary producers	53
Co-operative dairy companies	4
Mercantile concerns (which include stock and station agents)	22
	—
	79
Industrial concerns	7
Other parties	14
	—
	100

Question 10. Advances vary from year to year : What are the specific causes of this ?

Answer : Broadly speaking, variations in the output and in the range of prices of produce and in imports may be said to be the root causes of advances varying from year to year. When seasons and prices are good, and the farmers' incomes increase, business activity is promoted, imports increase, new ventures are embarked on, and the demand for overdrafts is stimulated. Low prices, on the other hand, limit the farmers' spending-power, and the community has therefore to pass through the period of adjustment necessary to the altered conditions. During that period advances for new ventures are not so generally sought by borrowers.