

The additional loan expenditure on hydro-electric schemes and other public works, land-settlement, forestry, &c., increased the wealth and productive capacity of the Dominion, and thereby placed the people in a better position to carry a debt reduced by £1,360,000.

New Zealand conversions.

Another important factor in lightening the burden of debt-charges was the success of the Government's policy in bringing interest-rates down to a much lower level. The conversion of practically the whole of the internal public debt reduced the gross interest against the Consolidated Fund by approximately £1,000,000 per annum.

London conversions.

In regard to the external debt, the Government has taken advantage of every opportunity that presented itself, but it is possible to take action only in the case of loans in respect of which the right to repay has accrued. However, in 1933 we were able to convert £5,000,000 5-per-cent. bonds into  $3\frac{1}{2}$ -per-cent. stock at an issue price of £97 per cent. The next year, 1934, £3,989,100 of 4-per-cent. stock was converted into  $3\frac{1}{2}$ -per-cent. stock at par.

Lastly, there was the recent successful operation whereby £10,135,800 of 5-per-cent. stock was dealt with. The maturity date of this stock was 1st July, 1945, but the Government had the right to redeem it on or after 1st July, 1935, on giving three months' notice.

Prior to my departure for London negotiations with a view to early conversion of the loan were in train, and matters in regard thereto received my personal attention when I reached London. As a result of these negotiations, and having regard to the then-existing conditions of the London money-market, it was decided to utilize New Zealand resources to the extent of £2,135,800 in redemption of portion of the loan, leaving £8,000,000 subject to the final conversion offer, the object being to facilitate conversion and to ensure the most favourable terms.

The interest-rate on the new issue is 3 per cent., which, in conjunction with an issue price of  $98\frac{1}{2}$  per cent., gives a yield to the investor of £3 2s. 1d. per cent. over the full twenty-year currency of the loan. These terms compared favourably with the price and return on comparable stocks on the market.

The issue was an immediate success, and leading financial journals in London commented favourably upon the results achieved. Cash subscriptions for the purpose of repaying stock not converted amounted to £10,148,000. This, in conjunction with conversion applications from a majority of holders of the old loan, clearly indicated what a good reputation New Zealand has in London financial circles.

Allowing for redemption of the discount on issue and other expenses over the period of the loan, the cost of the £8,000,000 converted works out at about £3 4s. 8d. per cent. Of the remaining £2,135,800, plus cost of exchange in remitting the same to London (£523,270), approximately £1,250,000 will be provided out of the Public Debt Repayment Account and the balance will be borrowed internally, but no public issue for the purpose will be necessary.

As a result of all these external transactions the interest bill will be lightened by £300,000 sterling per annum, of which the 1935 conversion alone, after allowing for the exchange, saves £219,000.

Further conversion foreshadowed.

Next year we have the right to call £5,869,989 of 6-per-cent. debt, and the sound financial policy pursued by the Government should be reflected in satisfactory terms of conversion giving a further substantial saving in interest-charges.

#### LOCAL-BODY CONVERSIONS.

Local-body loan-conversion.

Honourable members will recall that in the financial statement presented in 1933 reference was made to the necessity for including in the general scheme of reconstruction some provision for a permanent lowering of the rate of interest on local-body securities. On that occasion I pointed out that, owing to the number and variety of the bodies concerned and the complications regarding differential rating over special areas, &c., immediate conversion on a comprehensive basis was not possible.

The problem was therefore tackled in two phases. First, an immediate reduction of 20 per cent. in interest was provided by statute, superseding the previous provisions for stamp duty to the extent of 10 per cent. under the National Expenditure Adjustment Act, 1932. The 20-per-cent. reduction as provided by