

1937.

NEW ZEALAND.

RESERVE BANK OF NEW ZEALAND.

ANNUAL REPORT OF THE BOARD OF DIRECTORS AND STATEMENT OF ACCOUNTS FOR THE
YEAR ENDED 31st MARCH, 1937.*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 herewith presents a general report on the operations of the Reserve Bank during the financial year ended 31st March, 1937.

The net profit for the year amounted to £147,142 13s. 6d. after making provision for rebate on unmatured Treasury bills, depreciation of other assets, and contribution to the Staff Superannuation and Provident Fund. In accordance with a request received from the Acting Minister of Finance under the provisions of section 11 of the Finance Act, 1934, the Board authorized the payment in advance to the Consolidated Fund of £100,000 in respect of the year's operations; the balance of £47,142 13s. 6d. has since been paid to the Consolidated Fund in conformity with the requirements of the Reserve Bank of New Zealand Amendment Act, 1936.

The following three new factors were largely responsible for the amount of the surplus profits being greater than in previous years:—

- (i) The cessation of the payment of a dividend to shareholders, which had previously absorbed £25,000 a year, consequent upon the cancellation of the share capital.
- (ii) Interest on the overdraft on the Dairy Industry Account.
- (iii) Discount on Treasury bills held in respect of temporary accommodation granted to the State.

In addition, sales of sterling were considerably greater than in previous years; but it must be remembered that, in so far as such transactions represented a reduction of the Bank's holding of London funds (and not merely the resale of funds purchased during the year) the resulting profit was non-recurring and, moreover, has been gained at the expense of the future earning capacity of the bank's sterling assets.

British Treasury bills, in which security the bulk of the Bank's sterling funds are invested, continued to be issued at a low rate during the whole of the year. The average rates at which bills were allotted at the weekly tenders in London ranged from 9s. 8d. to £1 0s. 4d. per cent. per annum, and the average rate earned by the bank on such bills was 11s. 1½d., as against 11s. 2d. for the previous year.

The principal changes in the balance sheet as compared with the figures at the close of the previous year were as follows:—

LIABILITIES.

Capital.

In accordance with the provisions of section 2 of the Reserve Bank of New Zealand Amendment Act, 1936, the amount of £500,000 previously shown under this heading was transferred on the 1st April, 1936, to the General Reserve Fund, increasing the total of the latter to £1,500,000.

Bank-notes.

The circulation of notes was maintained at a higher level than during the previous year, and the amount outstanding at the end of the year (£13,121,810 10s.) was £2,934,506 above the corresponding figure at the 31st March, 1936. This increase is due in part to the assumption by the Reserve Bank on the 1st August, 1936, of the liability in respect of the outstanding notes in New Zealand of the other banks carrying on business in the Dominion, which amounted on that date to £549,395; and doubtless the increases in trade activity and in the national wages bill were responsible for a greater demand for notes.

Demand Liabilities.

(a) *State.*—A reduction of £941,294 16s. 5d. During the year the Treasury purchased sterling funds for the equivalent of £(N.Z.)4,427,352 16s. 7d. in connection with the repayment in London of £1,869,988 9s. 9d. sterling of the Government's 6-per-cent. 1936–51 sterling loan on the 1st August, 1936, and of the Southland Electric-power Board 5-per-cent. and 6-per-cent. Guaranteed Bonds 1936–54, amounting to £1,549,500 sterling, on the 15th September, 1936.

(b) *Banks*.—These balances decreased by £179,243 5s. 5d., important transactions being sales of sterling to the banks on the one hand, and on the other augmentations to their accounts resulting from advances made by the Bank to the Dairy Industry Account. The balances which they were required by statute to maintain with the Reserve Bank in respect of their demand and time liabilities amounted in the aggregate to £3,542,110 on the 29th day of March, 1937.

ASSETS.

Reserve.

Sterling Exchange.—The sterling exchange eligible as cover for notes in circulation and other demand liabilities decreased during the year by the equivalent of £(N.Z.)5,488,854 13s. 10d. to a total of £(N.Z.)19,387,749 18s. 2d. (=£(sterling)15,635,282 3s. 8d.).

As mentioned above, part of this decrease was due to sales of funds to the Treasury to provide for the repayment of debt in London, in addition to which the sales of sterling to the trading banks during the year exceeded the total amount purchased from them by the equivalent of approximately £(N.Z.)1,415,250. On the other hand, the total was increased by £(N.Z.)9,748,880 in respect of the sale in London of dairy-produce under the terms of the Primary Products Marketing Act.

Subsidiary Coin.

The amount of silver coin has purposely been allowed to fall below the usual level with the object of replenishing the stock when supplies of King George VI coins are available.

Advances.

(1) To the State or State undertakings:—

(a) *To the Dairy Industry Account*: The overdraft of £6,225,908 8s. 7d. on this account at the end of the financial year represented advances of £(N.Z.)16,220,520 8s. 10d., less receipts in respect of sales amounting to £(N.Z.)9,994,612 0s. 3d. Further details of these operations are given below.

(b) *For other Purposes*: The accommodation provided under this heading during the year consisted of £100,000 for the Housing Account, £700,000 in connection with the provision of funds in London for the repayment of the Southland Electric-power Board loans referred to above, and £1,000,000 for general purposes. All of these sums were made available against the issue of three months' Treasury bills. The amount provided for general purposes was repaid before the end of the financial year, leaving a balance of £800,000 advances to the State at that date.

(2) *Other*.—A certain amount of temporary accommodation was granted to the banking system whilst the maximum effect of the collection of the national revenue was being felt; but repayment was made before the end of the financial year.

Investments.

The total of the investments included under this heading increased by £1,105,332 during the year.

A word of explanation as to how certain of the Bank's assets are shown is perhaps desirable, as the statutory form of weekly return might permit of some items being included under one of several headings.

Accommodation granted to the Government against Treasury bills, for example, might be included alternatively under "Discounts—Treasury and Local Body Bills"; "Advances—to the State or State Undertakings"; or, possibly, "Investments." If the most important consideration were to show the total amount of Treasury bills held by the Bank at any time, regardless of how they had been acquired, the amount might be shown under the heading of "Discounts." If, however, Treasury bills were issued to the public and some of these bills were discounted for a third party (for example, one of the trading banks) at a time when the Reserve Bank held bills which had been taken direct from the Treasury, to combine the two holdings would show neither the amount of accommodation which had been granted by the Bank to the Treasury nor the extent to which assistance had been given to the market.

It has therefore been decided to include under the heading of "Discounts" only such bills as are discounted for third parties, and to show as "Advances to the State" any temporary accommodation granted to the Treasury, whether against Treasury bills or otherwise. This procedure will reveal at any time the extent to which the power to grant accommodation to the Treasury under section 15 of the Reserve Bank of New Zealand Amendment Act, 1936, has been exercised.

Long-dated Government securities, which can now be held by the Bank without limit as to amount, are included under the heading of "Investments."

CANCELLATION OF SHARE CAPITAL.

In accordance with section 2 of the Reserve Bank of New Zealand Amendment Act, 1936, the share capital of the Bank was cancelled on the coming into force of that Act on the 1st April, 1936. The option given to shareholders to receive either £6 5s. in cash or a like amount of 4-per-cent. Government stock, due 1st April, 1946, in exchange for each fully-paid £5 share, was exercised as follows:—

		£	£
Holders of	32,532 shares elected to receive cash amounting to	203,325	
Holders of	67,000 shares elected to receive stock amounting to ..	418,750	
Holders of the remaining	468 shares, who had not declared their option by the 31st August, 1936, were allotted (in terms of section 49 of the Finance Act, 1936) 4-per-cent. stock amounting to	2,925	
			421,675
	<u>100,000</u>		<u>£625,000</u>

DAIRY INDUSTRY ACCOUNT.

With the co-operation of the Primary Products Marketing Department, the trading banks in the Dominion, and the Bank of England in London the machinery of financing the dairy-produce acquired under the terms of the Primary Products Marketing Act has worked quite smoothly.

The details of the operations on the Dairy Industry Account up to the 31st March, 1937, were as follows :—

(000 omitted.)

	Amounts advanced.	Repayments.				Balance of Advance outstanding at End of Month.
		Sterling.	New Zealand.	In New Zealand.	Total.	
1936.	£	£	£	£	£	£
August ..	70	..	..	5	5	65
September ..	1,408	..	..	9	9	1,464
October ..	2,571	198	245	24	269	3,766
November ..	1,494	666	826	39	865	4,395
December ..	3,270	1,292	1,602	29	1,631	6,034
1937.						
January ..	2,445	2,091	2,593	47	2,640	5,839
February ..	2,439	1,394	1,728	48	1,776	6,502
March ..	2,522	2,221	2,754	44	2,798	6,226

MANAGEMENT OF THE PUBLIC DEBT.

On the 1st October, 1936, the management of the public debt was transferred from the Treasury to the Reserve Bank in accordance with the provisions of section 22 of the Reserve Bank of New Zealand Act, 1933. The Bank thus assumed the responsibility for another service which is generally regarded as one of the normal functions of a central bank.

The first major operation undertaken by the Bank in this connection was the issue on the 15th October last of the prospectus of the Government loan for a total of £13,930,000 in the form of either 3½-per-cent. stock or debentures, repayable 1953–57, or 3-per-cent. stock or debentures, repayable 1939–41. This loan was offered at par either for payment in cash or in exchange for holdings of New Zealand Government 4-per-cent. stock or debentures, 1937–40, amounting to £12,426,875 6s. 11d., public notice of the redemption of which on the 15th January, 1937, had been given in terms of section 15 (I) of the New Zealand Debt Conversion Act, 1932–33. The result of the issue was as follows :—

(a) Conversions—	£	£
Into 3½-per-cent. 1953–57 loan	6,634,545	
Into 3-per-cent. 1939–41 loan	2,027,855	
		8,662,400
(b) Cash subscriptions—		
To 3½-per-cent. 1953–57 loan	730,300	
To 3-per-cent. 1939–41 loan	2,046,650	
		2,776,950
Total of cash and conversion applications		11,439,350
Amount offered for subscription		13,930,000
Balance not taken up		£2,490,650

The amount by which the total of the cash and conversion applications fell short of the total amount for which applications were invited is accounted for as follows :—

(i) Balance required to complete the repayment of the 4-per-cent. 1937–40 loan	£	£
Less cash provision for redemption	987,525	
	26,875	960,650
(ii) Amount intended to be used for redemption of short-dated securities issued in connection with the repayment of the Southland Electric-power Board loans in London		1,530,000
		£2,490,650

The balance required to complete the repayment of the 4-per-cent. 1937-40 loan was provided mainly by the issue to the trading banks of three months' Treasury bills at the rate of $1\frac{1}{4}$ per cent. per annum, and the securities which had been issued to various Government Departments and to the Reserve Bank to provide for the repayment of the Southland Electric-power Board's sterling loans have been renewed.

The Board considers it a cause for satisfaction that advantage was taken of the opportunity of dealing with a 4-per-cent. Government loan at the earliest optional maturity date, thereby effecting a considerable saving to the State in the annual charge for interest and at the same time splitting up into convenient new maturities a large loan which was due to mature finally within a few years.

STATE ADVANCES CORPORATION.

On the 16th February a prospectus was issued by the Bank inviting subscriptions for stock or debentures of the State Advances Corporation bearing interest at the rate of $3\frac{1}{4}$ per cent. per annum and repayable on the 1st June, 1944. In terms of section 25 of the State Advances Corporation Act, 1936, these securities are guaranteed by the State. No date was announced for the closing of the list of applications, and these securities were still on offer on the 31st March.

The Reserve Bank will undertake the registration and management of the above-mentioned stock and debentures when issued.

DISCOUNT RATE.

The Bank has not yet been called upon to discount any bills for the public; but, in accordance with the requirements of subsection (2) of section 13 of the Reserve Bank of New Zealand Act, 1933, the minimum rate at which the Bank is prepared to discount or rediscount bills has been made public at all times.

The rate at present is 2 per cent., having been reduced from $2\frac{1}{2}$ per cent. on the 29th June, 1936.

EXCHANGE RATE.

The rates at which the Bank has been prepared to pay its notes in sterling and to issue notes in exchange for gold or sterling have remained unchanged at £125 (N.Z.) and £124 (N.Z.) respectively for £100 sterling.

When the Reserve Bank originally fixed its buying and selling rates a margin of £1 between the two was decided upon in order to allow a certain amount of latitude for the trading banks to operate between those limits. It was assumed that the trading banks might wish to accelerate or to discourage purchases of sterling from their customers from time to time according to the state of their London funds and that in certain circumstances they might be prepared to pay a slightly higher price for sterling than at other times. A similar movement upwards and downwards within outside limits takes place, of course, in the market rates of exchange of countries on the gold standard; and it appears to the Board to be desirable that the banks trading in the Dominion should be able to alter their buying and selling rates for sterling within the outside limits set by the Reserve Bank without affecting the basic rate and, moreover, without undue significance attaching to any such restricted movements.

NEW ZEALAND TRADING BANKS.

The position of the trading banks as disclosed by the monthly returns made by them to the Reserve Bank in accordance with statutory requirements was as follows:—

(000 (N.Z.) omitted.)

Date.	Bankers' Cash.			Total Cash in New Zealand.	London Funds (expressed in New Zealand Currency).	Combined Totals of " A " and " B. "	Government Securities held in New Zealand.	Advances and Discounts in New Zealand.	Liabilities in New Zealand.			Ratio of " C. "	
	Balances at Reserve Bank.	Holdings of							Demand.	Time.	Total (Demand and Time).	To Demand Liabilities.	To Demand and Time Liabilities.
		Reserve Bank Notes.	Silver Coin.										
				" A. "	" B. "	" C. "	" D. "		" E. "		" F. "	" C. " to " E. "	" C. " to " F. "
1936.	£	£	£	£	£	£	£	£	£	£	£		
Mar. 30	8,938	3,593	754	13,285	14,143	27,428	5,082	44,919	31,946	36,530	68,476	85.9	40.1
April 27	8,571	3,627	738	12,936	15,980	28,916	5,157	45,091	32,049	37,311	69,360	90.2	41.7
May 25	8,075	3,520	735	12,330	16,701	29,031	5,202	44,971	31,584	36,675	68,259	91.9	42.5
June 29	6,686	3,337	733	10,755	17,317	28,072	5,326	45,077	30,806	36,067	66,872	91.1	42.0
July 27	6,366	3,518	717	10,601	16,729	27,330	5,229	45,185	30,268	35,614	65,882	90.3	41.5
Aug. 31	5,693	3,357	683	9,733	14,438	24,170	5,184	45,826	29,907	34,893	64,800	80.8	37.3
Sept. 28	6,865	3,403	652	10,919	12,891	23,810	5,171	46,000	28,935	34,486	63,420	82.3	37.5
Oct. 26	7,661	3,428	632	11,720	10,763	22,484	5,215	47,780	28,889	34,048	62,937	77.8	35.7
Nov. 30	9,546	3,169	659	13,375	8,414	21,789	5,699	49,512	29,189	33,384	62,572	74.6	34.8
Dec. 28	11,040	3,198	524	14,763	7,908	22,671	5,710	48,282	31,080	33,124	64,204	72.9	35.3
1937.													
Jan. 25	11,870	4,713	736	17,319	7,362	24,681	7,593	47,417	35,021	32,949	67,970	70.5	36.3
Feb. 22	11,735	4,292	725	16,753	8,308	25,061	7,618	45,759	36,738	32,600	69,337	68.2	36.1
Mar. 29	8,864	3,335	608	12,808	11,048	23,856	7,617	46,954	36,898	31,975	68,873	64.7	34.6

Some of the above figures were affected by the alteration in the method of financing the shipment of dairy-produce consequent upon the passing of the Primary Products Marketing Act, and doubtless for that reason the total of sterling funds was lower and balances at the Reserve Bank higher during part of the financial year than they would otherwise have been.

Advances and discounts increased by £2,035,243, and the total of demand and time liabilities by £396,473, the latter movement being the net result of an increase of £4,951,697 in demand liabilities and a fall of £4,555,224 in time liabilities.

As each trading bank is required to keep a balance at the Reserve Bank of not less than the aggregate of 7 per cent. of its demand liabilities and 3 per cent. of its time liabilities, this movement from fixed to free deposits had a bearing on the amount of such statutory minimum balances. The power to raise the percentage of such reserve balances, conferred by section 23 of the Reserve Bank of New Zealand Amendment Act, 1936, was not exercised during the year.

The ratios in the last two columns of the above summary show that the trading banks as a whole maintained a liquid position throughout the year, whilst their willingness to lend to suitable borrowers is indicated by the fact that the total unexercised overdraft facilities of their customers (as shown in the monthly returns made in accordance with the provisions of section 24 of the Reserve Bank of New Zealand Amendment Act, 1936) did not fall below £20,000,000.

The rates quoted by the trading banks for fixed deposits remained unchanged.

LONDON FUNDS.

During the year there was a diminution in the aggregate of the London funds held by the Reserve Bank and by the trading banks on account of New Zealand business, as shown by the following comparison of the figures for the last Monday in March, 1936 and 1937, respectively:—

(000 omitted.)

Date.	Reserve Bank.	Trading Banks.	Total.
(Expressed in New Zealand currency.)			
30th March, 1936 ..	£ 24,830	£ 14,143	£ 38,973
29th March, 1937 ..	19,099	11,048	30,147
	5,731	3,095	8,826

The lowest point reached during the year, according to the respective returns, was £24,442,341 on the 28th December, 1936; but the position at the beginning of the year was sufficiently strong to enable the movement to take place without exerting any undue pressure on the financial system of the Dominion as a whole. It should, however, be realized that as orders for goods to be imported are in many, if not most, cases placed before the amount of the proceeds of produce exported during any season is ascertainable it is necessary for sterling funds to be maintained at a level sufficient to enable the strain of a sudden substantial fall in the prices realized by those exports to be borne without reducing the total of the funds below the minimum amount regarded as necessary to provide a backing for the currency of the Dominion.

EXTERNAL TRADE.

According to figures published by the Government Statistician the values of the Dominion's exports and imports (excluding specie) to and from all countries during the financial year were—

	N.Z. Currency. (000 omitted.)
	£
Exports ..	60,235
Imports ..	47,621
Showing an excess of exports of ..	£12,614

which was approximately equivalent to the amount absorbed by interest on the Government and local bodies' debt, and by the debt redemptions referred to above.

PRICES.

The following comparison of prices at the beginning and end of the financial year, which is based on statistics published by the Government Statistician, shows a more pronounced upward movement generally, and particularly so in the export index, than was the case the previous year.

(Base 1909-13 = 1000.)

Index.	March, 1936.	March, 1937.	Percentage Increase.	Highest and Lowest Point reached during Period.	
A. Wholesale—				Highest.	Lowest.
Imported items	1321	1383	5·33	1383	1319
Locally produced items ..	1441	1548	6·98	1553	1441
Combined wholesale index ..	1386	1472	6·2	1472	1386
B. Export prices	1204	1351	12·21	1388	1193
C. Retail prices	1429	1538	7·55	1538	1429

The rise in the export index is, of course, mainly attributable to the higher prices realized for wool.

BUSINESS AND TRADE.

The following statistics, compiled by the Government Statistician, indicate that the improvement in business and trade generally, to which reference was made in the Bank's annual report for the previous year, has continued with increased force.

	Year ended 31st March, 1936.	Year ended 31st March, 1937.	Percentage Increase 1936 as compared with 1935.	Percentage Increase 1937 as compared with 1936.
	(000 omitted.)			
Exports (excluding specie)	£(N.Z.) 49,676	£(N.Z.) 60,235	10·6	21·3
Imports (excluding specie)	£(N.Z.) 37,440	£(N.Z.) 47,621	15·0	27·2
Sales tax	£(N.Z.) 2,468	£(N.Z.) 3,051	13·7	23·6
Bank debits (excluding Government)	£(N.Z.) 712,809	£(N.Z.) 874,020	7·1	22·6
Building permits (main towns) ..	£(N.Z.) 4,988	£(N.Z.) 5,433	61·3	8·9
Railways—				
Revenue	£(N.Z.) 6,244	£(N.Z.) 6,904	5·7	10·6
Number of passengers	20,359	21,235	3·6	4·3
Freight tonnage	6,189	6,814	2·7	10·1
Coastal shipping tonnage	1,618	1,899	5·3	17·4
Number of motor-vehicles (licensed) ..	228	256	9·0	12·3

Though doubtless a rise in prices has to some extent accounted for those of the above increases which are expressed in terms of money, the figures nevertheless indicate a material expansion in the actual volume of transactions.

STAFF.

The Board would like to express appreciation of the high quality of the services rendered by the staff generally during the past year.

For and on behalf of the Board of Directors—

L. LEFEAUX, Governor.
W. L. WARD, Deputy Governor.

25th June, 1937.

PROFIT AND LOSS ACCOUNT FOR YEAR ENDED 31ST MARCH, 1937.

General charges, including salaries, rent, cost of note-issue, and other expenses	£	s.	d.	Balance of profit after making provision for rebate on Treasury bills not yet due, and for sundry liabilities and contingencies	£	s.	d.
Staff Superannuation and Provident Fund	81,775	4	7		238,917	18	1
Balance, being profit for year	10,000	0	0				
	147,142	13	6				
	£238,917	18	1		£238,917	18	1

PROFIT AND LOSS APPROPRIATION ACCOUNT.

	£	s.	d.		£	s.	d.
Payments to Government in terms of section 11 of the Finance Act, 1934 ..	100,000	0	0	Balance from Profit and Loss Account ..	147,142	13	6
Balance	47,142	13	6				
	<u>£147,142</u>	<u>13</u>	<u>6</u>		<u>£147,142</u>	<u>13</u>	<u>6</u>

BALANCE-SHEET AS AT 31ST MARCH, 1937.

	Liabilities.	£	s.	d.		Assets.	£	s.	d.
General Reserve Fund	1,500,000	0	0	Gold (at face value) .. .. .	..	2,801,791	0	0
Bank-notes	13,121,810	10	0	Sterling exchange .. .. .	..	19,387,749	18	2
Demand liabilities—					Subsidiary coin .. .. .	..	154,975	4	6
(a) State	7,853,672	15	2	Advances to the State or State under-				
(b) Banks	8,870,149	10	8	takings—				
(c) Other	907,144	16	1	(1) Dairy Industry Account .. .. .	..	6,225,908	8	7
Other liabilities	78,587	1	1	(2) For other purposes .. .. .	..	800,000	0	0
Profit and Loss Appropriation Account		47,142	13	6	Investments .. .. .	..	2,906,450	0	0
					Other assets .. .. .	..	101,632	15	3
					N.B.—Holdings of sterling have been converted into New Zealand currency at the rate of £100 sterling equals £124 (N.Z.)				
		<u>£32,378,507</u>	<u>6</u>	<u>6</u>			<u>£32,378,507</u>	<u>6</u>	<u>6</u>

L. LEFEAUX, Governor.

W. I. WARD, Deputy Governor.

W. H. WELSH, Chief Accountant.

Auditors' Certificate and Report.—We have audited the balance-sheet as at 31st March, 1937, 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, 1937, 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, 24th May, 1937.

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