

1938.

NEW ZEALAND.

RESERVE BANK OF NEW ZEALAND.

ANNUAL REPORT OF THE BOARD OF DIRECTORS AND STATEMENT OF ACCOUNTS FOR THE YEAR
ENDED 31st MARCH, 1938.*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 herewith a general report on the operations of the Reserve Bank during the financial year ended the 31st March, 1938.

After making provision for rebate on unmatured British Treasury bills, depreciation in other assets, and superannuation and retiring allowances for the staff, the net profit for the year totalled £195,811 3s. 7d., which amount has been paid into the Public Account to the credit of the Consolidated Fund in accordance with the provisions of section 36 of the Reserve Bank of New Zealand Act, 1933.

The increase of £48,668 10s. 1d. on the previous year's net profit was due, partly to the fact that the Dairy Industry Account of the Primary Products Marketing Department (which has been overdrawn since its inception) was in operation throughout the year, as compared with about six months in the previous year, partly to a larger average holding of investments, and partly to increased sales of sterling. As pointed out in last year's report, however, whilst a net reduction in the Bank's sterling assets yields an immediate exchange profit, it does so at the expense of future earning-power.

Ever since the Bank commenced operations its profits have been affected by the low rate at which British Treasury bills (one of the main sources of the Bank's income) have been obtainable in London. The average rate yielded by such bills acquired by the Bank last year was 11s. 9-96d. per centum, as compared with 11s. 2d. and 11s. 1½d., respectively, for the previous two years.

As a partial set-off against higher income, the expenses of the Bank were greater by about 10 per cent.

Amongst the principal causes of the higher expenditure were the further supplies of bank-notes necessitated by the expanding note issue, and the fact that the public debt in New Zealand was managed by the Bank for the whole year, as against only half of the previous year. Both of those factors resulted in an increase in the cost of the Staff of the Bank; and, in addition, the total amount of salaries was raised by certain adjustments made during the year, as well as by the normal increase in the aggregate salaries, which may be expected to continue for some years in view of the comparatively low age of the members.

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

LIABILITIES.

Bank-notes.

The total of notes outstanding was higher at all times during the year than at the corresponding dates of the previous year, and the amount outstanding at the end of the year (£13,553,546 10s.) exceeded the figure at the 31st March, 1937, by £431,736.

These figures represent the aggregate of the notes held by the trading banks and by the public. What may be called the effective note-circulation—that is, the notes in the hands of the public—increased from £8,790,175 on the 22nd March, 1937, to £9,536,178 on the 28th March, 1938. (The figure for the 29th March, 1937, is not used for comparison, as it was affected by the temporary demand for notes for the Easter holidays.)

The expansion of the circulation during the past year was to be expected, having regard to the increase in the turnover in domestic trade and in the national wages bill during the year.

Demand Liabilities.

(a) *State*.—The aggregate of these balances was £1,715,454 4s. 7d. below the corresponding total at the end of the previous financial year. This decrease can be accounted for in part by the liquidation of "Advances to the State for other Purposes," which stood at £800,000 (including £100,000 for the Housing Account) on the 31st March, 1937.

(b) *Banks*.—The reduction of £3,392,375 11s. 6d. in these balances corresponds, approximately, to the net sales of sterling by, and withdrawals of bank-notes from, the Reserve Bank.