

(b) Internal Marketing Account.

Date.				Advances.	Receipts.	Balance.
(000 omitted.)						
1937.				£(N.Z.)	£(N.Z.)	£(N.Z.)
September	..	..	..	14	30	Cr. 16
October	..	..	..	61	58	Cr. 13
November	..	..	..	53	50	Cr. 10
December	..	..	..	57	56	Cr. 9
1938.						
January	..	..	..	111	45	Dr. 60
February	..	..	..	19	52	Dr. 57
March	..	..	..	68	69	Dr. 56
Totals	..	..	..	416	360	..

The Internal Marketing Account was opened in accordance with the provisions of the Primary Products Marketing Amendment Act, 1937 ; but, as shown above, the overdraft on that account has not so far assumed more than modest proportions.

The overdraft on the Dairy Industry Account on the 31st March, 1938, represented the amount then outstanding on account of purchases of dairy-produce in respect of the current year's production and, in addition, the deficit of approximately £300,000 resulting from the first year's operations under the scheme of guaranteed prices.

In accordance with the provisions of the legislation relating to the Primary Products Marketing Department, all moneys derived from the sale of produce by the Department must be paid into one or other of the above accounts and thus be applied in reduction of any overdraft which may be outstanding on the relative account at the time. The measure of protection which is thereby afforded to the Bank, however, does not constitute specific security for the overdrafts, inasmuch as the produce is neither hypothecated to nor controlled by the Bank ; and, moreover, the proceeds may fall short of the total cost, including administrative and other expenses.

It is understood that the deficit in respect of the first year's operations on the Dairy Industry Account is the responsibility of the Government and not of the dairy-farmer ; but, as no provision has yet been made as to the source from which that portion of the overdraft is to be met, it is not secured either directly or indirectly.

In view of the prohibition of unsecured loans or advances contained in section 14 (d) of the Reserve Bank of New Zealand Act, 1933, the Bank appeared to be acting *ultra vires* in granting the overdrafts on the two accounts of the Primary Products Marketing Department : but the statutory position in this matter has now been regularized by section 13 of the Finance Act (No. 2), 1937, which provides that advances in aid of the Primary Products Marketing Department accounts shall not be deemed to be, or to have been, unsecured.

Nevertheless, the Board is of the opinion that all borrowings by the State, whether or not wholly or partly covered by other assets, should be secured on the Consolidated Fund in accordance with the usual practice.

DISCOUNT RATE.

The Reserve Bank has had no occasion during the year to alter its discount rate, which has remained at 2 per cent. since the 29th June, 1936.

Despite the comparative lowness of this rate, no bills were submitted to the Bank for discount or rediscount.

EXCHANGE RATE.

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

The trading banks also retained their selling and buying rates for telegraphic transfers of sterling at their previous year's levels of £124 10s. (N.Z.) and £124 (N.Z.), respectively, for £100 sterling.

MANAGEMENT OF THE PUBLIC DEBT.

There were no new issues to the public during the year, nor were there any offers of conversion of stock held by the public.