

Chapter VIIINEW ZEALAND

The Prime Minister of New Zealand (Mr. Nash) paid two visits to England, in June 1939 and July/Aug. 1942.

In the last two years before the war New Zealand had suffered a severe and rapid contraction in her sterling assets (Reserve Bank plus Trading Banks) which by the end of November 1938 had fallen to the equivalent of £NZ8.5 mn. - as contrasted with a level of £NZ34 mn. eighteen months previously. For all practical purposes, therefore, New Zealand was down to bedrock, and the Reserve Bank, indeed, was on the verge of breaking its statutory proportion of 25% sterling. The following figures show that the climax came quite suddenly, though its genesis was spread over several years.

New Zealand sterling assets (gross)

(£NZ millions)

	<u>Reserve Bank</u>	<u>Trading Banks</u>	<u>Total</u>
End June 1937	21.5	12.2	33.7
End Dec. 1937	17.0	5.2	22.2
End June 1938	16.6	8.3	24.9
End Nov. 1938	4.8	3.7	8.5

There was nothing in New Zealand's basic productive position to account for this rapid decline. Unlike 1930-33, her production and exports were at a high level, and overseas prices good. The causes of the debacle were twofold:

- (i) the gradual monetary effects of domestic policy, and
- (ii) a growing crisis of confidence, leading to a flight of capital.

The Labour Government came into power in November 1935. It is broadly true to say that though it took extensive powers, and set in motion policies which were bound in time to produce a marked effect on the New Zealand economy, those effects were not of a nature to produce a crisis during its first term of office.

Nevertheless

Nevertheless, the trends were evident. Purchasing power had been increased by a rise of 20% in advances by the commercial banks and by the expenditure on public works of money borrowed both from the public and the Reserve Bank. The result was a rise in imports from £NZ39.5 mn. in 1935-36 to £NZ57.5 mn. in 1937-38. There was a smaller rise in exports, and the excess of exports over imports fell from + £NZ14.2 mn. to + £NZ4.4 mn. The total balance of payments became adverse, and overseas funds began to decline.

With the renewal of the Labour mandate in October 1938, the Government sharply stepped up its programme of expansion. Advances from the Reserve Bank for public works and housing reached over £NZ11 mn. by December 1938. The^{of} total public works (including housing) programme for 1938-39 was put at nearly £NZ26 mn. A far-reaching "social security" programme was put into operation.

These events, cumulative as they were, led to an undoubted crisis of confidence, and to the flight of capital from New Zealand; and there is no evidence to show that this fugitive capital was largely owned by overseas holders: much of it was New Zealand capital. In little more than 5 months the country lost two-thirds of its sterling assets, and was reduced to external penury. Concurrently, a surplus of deposits over withdrawals in the New Zealand Savings Banks turned into a substantial excess of withdrawals.

On 7th December 1938 the New Zealand Government introduced a stringent system of exchange control, with licensing of imports and exports. This was designed, immediately, to prevent any further flight of capital, and ultimately, to correct the balance of payments by a reduction of imports. Both effects were secured, though the second began to appear only after 6 or 9 months.

No cessation

No cessation took place, however, in the internal expansion. The public works programme remained unchanged, and new projects for establishing secondary industries were mooted. Advances by the commercial banks rose still further, and more borrowing - though not at so rapid a rate - took place from the Reserve Bank.

The attention drawn by all these happenings to New Zealand's affairs could not fail to have a marked effect on her credit in London. New Zealand (like Australia) had for decades been a heavy borrower on the London market, where since 1929 it had become increasingly difficult to place new loans on behalf of these two Dominions. The market for their stocks was well nigh saturated; and little exceptional stress or difficulty was required to make any normal operations on their behalf impossible.

Early in 1939 New Zealand sterling stocks became unsaleable in any large amounts, and what dealings took place were at sharply depreciated prices with wide quotations. On 30th June 1939, New Zealand short-dated sterling stocks were yielding nearly 7% in London, and were not saleable even at that yield in any significant amounts. It is fair to record that for this New Zealand must bear the chief responsibility. Her exports were at record levels in value, prices were good, and the terms of trade with the U.K. in her favour rather than otherwise. The adverse balance of payments was essentially her own creation; and if the actual crisis was precipitated by a flight of capital, a crisis of some sort was latent and inevitable even without that flight.

By great good fortune New Zealand had no London maturities in 1938 or 1939; but she had a heavy maturity (£17 mn.) in January 1940. It was ostensibly to make arrangements to meet this maturity that Mr. Nash came to London in June 1939. It soon appeared, however, that he wanted more than the full conversion of this large sum: he wanted to borrow in addition £5 or £6 mn. for defence purposes; and as much as £10 mn. to make up the estimated deficit in his balance of payments over the ensuing 6 or 9 months.

The New Zealand Government was also planning to borrow £2 mn. sterling from banks trading in New Zealand, and the National Bank of New Zealand had suggested that the Bank of England might be willing to promise the New Zealand Government an advance against the eventual loan. The Governor was not willing to accept this proposal.

It was some time before Mr.Nash could be convinced that the ordinary London investor - which was the source he wished to exploit - far from lending New Zealand any new money, on any terms whatever, was more than unwilling to look at any sort of a conversion loan for the £17 mn. maturity. It is true that ridiculously expensive terms - say borrowing at 6% for short-term - were never discussed with Mr.Nash. (He would not have considered them). He accepted the verdict of all his advisers that no new money could be raised from the investment market, and sought help from H.M.Treasury. In the upshot Mr.Nash secured £9 mn. out of his desired £15 or £16 mn. of new money. H.M.G. lent him £5 mn. for defence purposes, and New Zealand was granted £4 mn. under the Export Credits mechanism.

Attention was then turned to the £17 mn. maturity, and prolonged discussion took place with the Bank of England. After the fullest and most pressing enquiry of the market, the Governor had to tell Mr.Nash that no New Zealand stock - even a conversion - could be successfully issued at that time on conventional lines. No such stock could be underwritten, since the public response was expected to be negligible.

Mr.Nash having accepted this verdict, attention was then turned to the details of any special stock that might be devised - though in the Governor's mind it was clear from the outset that there were no practicable terms on which the investing public would be a heavy subscriber. (In this opinion he was proved fully right). The main argument with Mr.Nash took place on these special features of the conversion stock. No suggestion was ever made that he should take this or that measure internally; no criticism of his

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domestic programme was offered; he was told only what the state of the market was and asked to go some small distance towards meeting the market; and to do his best in his own time and his own way, given a breathing space, to restore New Zealand credit in London.

What he was in fact offered was 5 years in which to meet his maturity - i.e., a conversion loan repayable in 10 half-yearly instalments beginning about a year after issue. The rate of interest was moderate in the circumstances: $3\frac{1}{2}\%$ at 99. One unusual feature in the prospectus was a specific undertaking by the New Zealand Government "pursuant to an order of the Governor General in Council.....to provide for the redemption of the stock by making available in London out of funds accruing from exports from the Dominion or otherwise sufficient sterling to repay by instalmentsthe whole of this issue by 1st January 1945". It was the requirement of this undertaking which probably was the least acceptable feature of the conversion to Mr.Nash. But the requirement was not devised to humiliate New Zealand, but to offer an inducement to the necessary outside interests to join in assuring the success of the operation. How necessary all possible assurances were was evident when - the terms of the prospectus having been agreed with Mr.Nash - the Governor came to organising a group of powerful supporters for the conversion. The new issue was to be for £16 mn. - New Zealand repaying slightly over £1 mn. on 1st January 1940. In fact the public converted only £3.2 mn. out of the £17.2 mn. of the maturing issue, and new money subscribed by the public amounted to the negligible sum of £249,000. There was thus £12.5 mn. of the £16 mn. uncovered - and it was to the placing of this that the Governor directed his attention.

In the upshot the Bank of England organised a consortium comprised of the Bank itself and the principal clearing banks*, which, with a lesser participation by the Crown Agents, took up this £12.5 mn. of stock - and that with no prospect of there being an early market for it. The Bank's own share was £7,043,300. The Clearing Banks also agreed to underwrite about £6 mn. of the loan

*Drawings and sales (including resale of stock taken over from the bankers) extinguished this holding by Feb. 1943.

for a commission of 1%; the balance was to be underwritten by the Bank without commission. The Clearing Banks, moreover, agreed to refrain from selling their allotments before November, an undertaking renewed from time to time. Meanwhile the Bank of England would supply any stock which the market might need. These arrangements were terminated in January 1943.

As regards Mr.Nash's further requirements, he approached the Co-operative Wholesale Society, with a view to raising a loan of £5 mn. for ten years. The Society seemed to be inclined to lend half this amount, but the Bank took the view that it would be a great mistake for the New Zealand Government to try to pick up loans in this casual way instead of centralising their borrowing through the proper channels. As the Treasury put it, in writing to the Dominions Office, ".....When the time came for repaying these casual loans, which would not be fitted into any reasonable programme, we should be told that the situation was very difficult and asked once more to give our help." The Treasury, therefore, took steps to discourage the Society from undertaking this transaction.

The Governor made it plain to Mr.Nash during the negotiations that if New Zealand could re-establish her credit in London - by whatever means she chose in her own discretion - he confidently expected that some part of the serial repayments could be reborrowed, i.e., that New Zealand would not in fact have to repay £16 mn. within 5 years. In pursuance of this idea the Governor personally recommended that the prospectus should contain an offer of conversion into two medium-term New Zealand sterling stocks, to be available on the occasion of each half-yearly repayment.

How wise this was is shown by the result. Of the £16 mn. issued, £14.6 mn. had been dealt with by July 1944, and of this £14.6 mn. slightly over £4 mn. was converted into the two medium-term New Zealand stocks in terms of the prospectus. Thus New Zealand had repaid £10.5 mn.

The event

The event, therefore, justified the hopes that were expressed to Mr.Nash in 1939. It is true that the whole status of New Zealand credit was profoundly affected by the war - which broke out less than a year after the New Zealand crisis of November 1938. Nevertheless it was apparent even by the autumn of 1939 that the main external crisis for New Zealand had already passed. The balance of payments was beginning to right itself; London funds were slowly rising; and there is no reason to suppose that New Zealand could not have carried out the terms of the Conversion Loan even if the war had not broken out. Nor is there any reason to suppose that the Governor's anticipation of a re-borrowing by New Zealand of some of the repayments would not have been realised. The first of the current series of maturities, which were already in Mr.Nash's mind in 1939, was dealt with by a satisfactory conversion (the £7 mn. of $4\frac{1}{2}\%$ New Zealand stock which matured on 1st March 1944). Of this some 85% was converted by holders into a $3\frac{1}{2}\%$ 1960-64 stock, a striking change from the 1939 operation.

The Dominions Secretary wrote to congratulate the Governor on the issue of the loan and to thank him for the help and advice he had given. In reply (L. 2.8.39) the Governor said that Mr.Nash was going home via New York, the main reason, as stated by himself, being a hope that he could borrow some money there....."At the same time he avoided the chance of saying thanks for the £16 mn. in any way to anybody, the Bank of England included, or even that he was satisfied. None the less Mr.Nash interests me by his devout wrong headedness, by his friendly attitude towards enemies and by his determination on the economic slaughter of his Dominion".

Mr. Nash's second visit to London, in the summer of 1942, followed a visit to Washington to discuss the application to New Zealand of Lend-Lease and Reverse Lend-Lease principles; the New Zealand Government were reluctant to come to any agreement without further clarification of their sterling position vis-a-vis the U.K. and Australia.

Apart from this the New Zealand Government wished to arrive at a clear understanding on the post-war debt situation between themselves and the U.K.

The Bank thought that Reciprocal Lend-Lease would hardly reduce exports to the U.K. by more than say 10%; less if there were an increase in food production. The fact that New Zealand had the prospect of a much greater proportional increase in Lend-Lease relief from America than the U.K. had provided an offset - partly because there was scarcely any room for extending the scope of Lend-Lease to the U.K.

On the basis of the first six months of 1942 it seemed likely that New Zealand would have a surplus in her balance of payments for the whole year of about £22 mn.; out of this perhaps war expenditure abroad would absorb £10 mn., leaving £12 mn., as the amount by which New Zealand might be able to reduce outstanding arrears of war expenditure repayable to H.M.G., and totalling at this time about £16 mn.

As a minimum figure for London the Bank thought that from £16 to £20 mn. (£NZ20-25) would be reasonable.

Mr. Nash arrived in July, and towards the end of the month the Governor saw him in connection with Debt maturing up to 1st January 1946. This amounted to £45 mn. Government Debt and £3.4 mn. Municipal Debt. Writing on 31st July, the Governor said-

".....On the question of dealing with these maturities, you are free to give three months' notice to repay the 3½% Conversion Loan (callable 1.7.41) and could thus dispose in toto of £7,500,000; but you could not reborrow on the market at the rate of 3½%.

As to the other maturities and especially that of £7.3 mn. (N.Z. 4½% Stock) on the 1st March 1944, nothing could be done on the market about renewal or conversion until six months (or at most a year) before the maturity date, depending on the

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then existing conditions; and we must realise that at the moment the market here is more or less dead"

Mr.Nash had previously seen the Chancellor, and the following extracts from a Treasury memorandum (paragraph 6 is a redraft by the Bank) indicate the usual difficulties experienced in satisfying him:-

"1. I understand that when Mr.Nash saw the Chancellor Mr.Nash expressed himself as satisfied with the assurance that we would if necessary make non-interest-bearing advances to New Zealand to prevent her balances falling to an unduly low level, but mentioned three points which he wished to discuss.....later.....

2. Mr.Nash discussed his three points at the Treasury on 30th July. Briefly he wants to protect his sterling position in the light of 'reciprocal aid' (which may diminish his sterling receipts), the maturities of New Zealand loans up to March 1946, and New Zealand's need to restore capital equipment and replenish stocks at the end of the war without having to borrow afresh. Mr.Nash did not make any specific proposals, but asked for our suggestions. Presumably what he would like would be for us to lend New Zealand the money to repay the maturing loans and to lend New Zealand money to cover her sterling war expenditure, thus allowing her sterling balances to increase largely above the present figure of £30 mn.

3. To put it brutally, Mr.Nash wishes New Zealand to be enriched during the war (at our expense) enough to cover post-war reconstruction needs and to convert New Zealand market loans into Government-to-Government loans. On both points we must clearly say No.

4. Our proposal meant that if New Zealand balances fall below an agreed amount (say, £16 to £20 mn.), we will make interest-free advances. If New Zealand balances rise above that amount, the excess will be available, first, to repay such advances and, secondly, to meet New Zealand sterling war expenditure in cash. The system whereby New Zealand borrows from us for sterling war expenses on the same terms as those on which we ourselves borrow internally would disappear. New Zealand balances would thus remain at about the same level (unless they were more than sufficient to cover all her sterling war expenditure). Mr.Nash's idea seems to be that New Zealand balances should increase a great deal. Perhaps the reply to Mr.Nash might be on the following lines.

5. (a) Reciprocal Lend-Lease. The Chancellor would confirm the assurance already given as to interest-free advances, if necessary, to prevent New Zealand sterling balances falling below an agreed level - say, £16 mn. - subject to consultation on capital or special items of New Zealand expenditure in sterling.

(b) Maturities

(b) Maturities. The Governor has advised Mr.Nash that a conversion loan could not be issued now on terms which New Zealand would think reasonable. The right course is to wait, if necessary, till about six months before the first regular maturity (which falls due, we think, on 1st March 1944) and then to consider either repayment, if that is feasible, or conversion.

We could promise to assist a conversion issue by any means available to us. (During the war we have power, in effect, to underwrite such an issue, but those powers will expire when the war and the Vote of Credit system is ended).

We cannot offer to lend New Zealand the money to repay these loans and thus turn them into a Government-to-Government debt. We have no power to do this and it would be most undesirable for Government-to-Government debts become a political question and all-too-often have to be remitted.

(c) Capital Equipment Charges, i.e. Cost of Reconstruction and Re-Stocking in New Zealand.

It will certainly be our desire to export both capital and consumption goods to New Zealand after the war, but in return we shall want to obtain New Zealand pounds to pay for the wool, foodstuffs, etc., which we shall desire to import. If New Zealand pays us out of accumulated sterling balances, we get no New Zealand pounds in exchange for our exports, and we shall not be furnished with means to pay for our imports.....

Undoubtedly the war will impoverish New Zealand to the extent that stocks are run down, repairs and capital works suspended etc., but we shall be impoverished to a much greater extent and there seems some reason to hope that New Zealand will be less impoverished than most countries.

If New Zealand balances increase during the war, this is equivalent to New Zealand growing rich out of the war and our being correspondingly impoverished. We do not want the war to leave behind it a legacy of War Debts and increased New Zealand balances represent a form of War Debt.....

Under this arrangement the system of interest-bearing loans from us to New Zealand under the Memorandum of Security would cease. New Zealand war expenses in sterling would henceforth always be met in cash, but if necessary we would make interest-free advances.....

6. New Zealand would thus be assured of the capacity to meet her current external commitments and preserve her credit. If, as is by no means excluded, New Zealand's fears about her balance of payments are not realised, and her sterling funds remain at about their present level, or even increase, then she is in a better position to deal with debt maturities and face post-war restocking. In short, the arrangement we have suggested is definitely more favourable to New Zealand than that hitherto operative. We cannot go beyond this with ordinary prudence, nor should New Zealand expect us to do so."

The Treasury now proceeded to draft three letters to Mr.Nash from the Chancellor of the Exchequer. The first of these, concerning Reciprocal Aid was slightly amended by the Bank, was agreed with Mr.Nash and embodied in a single comprehensive letter

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sent to him on 15th August -

"I recognise that the reciprocal aid given by New Zealand to the United States forces may in various ways result in diminishing New Zealand's sterling resources; for example, foodstuffs might not be available for sale to us, as the result of the quantities supplied to the United States forces.

There are of course factors working in the opposite direction, such as the exchange paid by the United States to provide New Zealand pounds for the pay etc., of United States troops.

I would agree that the position might, should the New Zealand Government so request, be reviewed at three-monthly intervals, beginning on 1st October 1942, and if it is found that, taking factors on both sides into account, the presence of United States forces and the reciprocal aid given to them has directly involved New Zealand in a net loss of exchange income, the United Kingdom Government will make good the appropriate amount to New Zealand by cancelling a corresponding amount of indebtedness under the Memorandum of Security."

The other drafts dealt with the Memorandum of Security, Loan Maturities and Sterling Balances. The Bank were less satisfied with these and in particular with that which dealt with Loan Maturities. They submitted an alternative less likely in their opinion to "cause misunderstanding and trouble in years to come". Mr. Nash also submitted an alternative draft covering these remaining points: in the event the Chancellor's letter of 15th August continued as follows:-

"On the 11th July 1941, I confirmed and extended an arrangement by which the United Kingdom will finance New Zealand's overseas war expenditure for the whole period of the war by advances on an overdraft basis, New Zealand undertaking to apply in repayment of such advances any sterling that can be spared.

On May 29th 1942, the Secretary of State for Dominion Affairs cabled your Prime Minister advising him that in connection with your representations re losses of sterling on account of supplying goods to the United States of America on Reverse Lend-Lease the United Kingdom Government "are ready to safeguard New Zealand as regards her sterling position during the war and for the duration of the war the United Kingdom Treasury will make any advance required to prevent New Zealand balance being unduly depleted.

The Treasury assume the New Zealand Authorities will keep in touch with them as regards overseas expenditure and will consult them as regards any exceptional items. The Treasury are ready to charge no interest to New Zealand during the war and to leave the question of repayment to be settled later .

Any sums

Any sums necessary to meet New Zealand Local Body or Government Loans which fall due for repayment in the United Kingdom during the period of the war will be one of the exceptional items on which there will be consultation between the New Zealand Authorities and the Treasury as provided for in these arrangements.

With regard to loans which fall due within the early period after the conclusion of hostilities His Majesty's Treasury will co-operate in every possible way to assist your Government in successfully dealing with these loans."

The Bank were far from satisfied with the last paragraph, and Mr.Cobbold wrote to the Treasury: ".....so far as early post-war maturities are concerned, I much prefer the form of assurance.....on which we agreed earlier* (and which you did not tell me it was intended to change) to the formula finally adopted....." It appeared that failure to follow the Bank's draft here was due to a mistake.

Mr.Nash returned to Washington, but still seems to have been dissatisfied and hesitated to sign the Reciprocal Aid Agreement without further assurances. He again raised the contention that Reciprocal Aid for American Forces in New Zealand would cost sterling and wished to be safeguarded against any loss of sterling from this factor. The New Zealand Government also pointed out that the amount to be made good by cancelling a corresponding amount of indebtedness under the Memorandum of Security (i.e., amounts advanced to cover New Zealand's sterling war expenditure) might exceed the amount of outstanding indebtedness. After consultation with the Bank, the Chancellor replied that he would find it difficult to go beyond what he said in his letter of 15th August, but that if difficulties should arise they would be dealt with in a friendly spirit.

New Zealand then decided to sign and did so on 3rd September.

*"You have expressed to me the New Zealand Government's concern to consider as early as possible arrangements to deal with their loan maturities on the London market which fall due up to the end of March 1948. For reasons which I have explained to you, I think that it is impossible for you to make any arrangements so far in advance about these maturities and that we can only leave the subject for consideration some months before the first maturity date. You may, however, rest assured, in the future as in the past, of the willing co-operation of the Treasury and also, I am sure, of the Bank of England when the time comes for the New Zealand Government to consider how to deal with these maturities."

A note (R.N.K. 14th November 1943) pointed out that in addition to £7,339,656 $4\frac{1}{2}\%$ Inscribed Stock due for repayment on the 1st March 1944 New Zealand had shortly to meet two instalments (roughly £3 million) on $3\frac{1}{2}\%$ Conversion Stock 1939/45 "..... since New Zealand's total funds in London now amount to £24,323,000 sterling it would seem inevitable that the March maturity will have to be dealt with by other means than repayment". The Treasury agreed. New Zealand had maturities up to 1975 amounting to over £400,000,000.

The New Zealand Government would have preferred to repay the whole of the $4\frac{1}{2}\%$ Inscribed Stock if H.M. Treasury would advance the money required. In their opinion they had adequate funds in London; but redemption would have deferred repayment of their War Debt (then about £10 million) and *was refused*.

By the terms of the prospectus issued on 15th January they were offered conversion into New Zealand Government $3\frac{1}{2}\%$ Stock 1960/64, with a cash payment of 10/-^s%. Any Stock not converted would be paid off on 1st March.

Finance of this repayment followed the precedent introduced in 1943 in connection with the Australian Conversions, viz. an advance by the Bank of England (in this case to the New Zealand Reserve Bank) against Stock registered in the names of their nominees. Repayments of the advance were made out of sales of the Stock, at the Bank of England's discretion. Any profits, after repayment of the advance, and any interest on the Stock held went to the Reserve Bank, which bank was also to have priority of purchase of Stock offered by the Bank of England. Intimation to the public was given in the Chancellor's answer to a question in the House of Commons, which included a reference to the provision of funds from the Vote of Credit.

Over £6 million (about 82%) of the total was converted, and the Bank advanced £1,316,000 against new Stock. This amount of Stock, however, was taken up by the Reserve Bank, and the Treasury reimbursed the Bank of England (both on 1st March). Final figures (28th March 1944) were -

Exchanged

Exchanged into New Zealand Government 3½% 1960/64	£6,016,747
For repayment	<u>1,322,909</u>
	<u>£7,339,656</u>

In a note (25th October 1944) Mr. Kershaw reminded the Governor, Deputy Governor and Mr. Holland-Martin that the New Zealand Government had two maturities falling due as follows, viz.

£7.6 million	4½%	(1st March 1945)
£9.7 million	3%	(1st April 1945)

The total funds in London of the Reserve Bank were £28 million, with a barely upward trend, though the recent Agreement with the United Kingdom gave New Zealand "some quite appreciable increases in the price of her products". But there was not more than half of this to spare at the moment or in prospect, and ^{again} a conversion offer seemed inevitable. The £28 million was "little enough with which to face the large replacement demands for consumer goods which in due course will arise in New Zealand". In view of the narrow market for New Zealand (and Australian and other similar) Stocks the Bank recommended dealing with the two loans in one operation.

After considerable cabling to New Zealand and discussion of the New Zealand Government's views, by the terms of the prospectus issued on 15th January 1945 holders of the two maturing loans were offered repayment or exchange into New Zealand 3½% Stock 1962/65 (the 4½% on the 1st March 1945 and the 3% on the 1st April 1945), those converting receiving a cash payment of 10/-%. ^s Non-converting holders were repaid in full.

Similar financial procedure was adopted as in 1944. Unconverted Stock up to approximately £10 million was underwritten by H.M. Treasury and it was announced by the Chancellor in the House of Commons (16th January 1945) that advances up to that figure would be made from Vote of Credit. The final figures were -

4½% Stock

Converted	£6,346,966	
Redeemed	<u>1,233,941</u>	£7,580,907

3% Stock

Converted	£8,557,281	
Redeemed	<u>1,099,999</u>	<u>9,657,280</u>
		<u>£17,238,187</u>

In

In 1945 also by the terms of the Bank of New Zealand Act (effective from the 1st November) the Ordinary Shares and "D" Long-Term Mortgage Shares on the Wellington register of the Bank of New Zealand were vested in the State and the voting rights of the holders cancelled. Shares on the London register were excluded from compulsory acquisition by the State and holders offered either -

- (a) £1:16: - in cash
- (b) £1:16: - in New Zealand $3\frac{1}{4}\%$ Registered Stock 1962/65
- (c) £2: 6: 8 in 3% tax free non-transferable New Zealand Government Stock registered in New Zealand
- (d) £2:13: 4 3% Ordinary New Zealand Government Stock 1957/60 registered in New Zealand

A holder might elect to take either one of the options or a combination of all or any of them.

On the London register were -

512,150 Ordinary Shares (of which 5,646 were registered with addresses outside the Sterling Area)

52,856 "D" Shares (of which 344 with addresses outside the Sterling Area)

H.M.Treasury agreed that cash options by a non-resident (for which a cheque was issued by the High Commissioner) should be remittable (and not blocked).

A transfer of $3\frac{1}{4}\%$ Stock in exchange for Bank of New Zealand shares was effected according to schedules of names supplied by the Dominion of New Zealand Offices in London from time to time. The first schedule (representing £619,965 Stock) was sent to the Bank on 25th April 1946. Subsequent schedules followed at intervals, nine in all. £646,141 shares were converted into Stock. The last transfer was made on 13th December 1946.

By the Finance Act of 1948 all Ordinary Shares and "D" Long-Term Mortgage Shares in the capital of the Bank of New Zealand registered in London (Sydney and Melbourne) not held by or on behalf of His Majesty ~~were~~ deemed to be vested in His Majesty as from the 1st January 1949.

U.K. STERLING LIABILITIES TO NEW ZEALAND(comprising deposits, advances, bills and, if held for
banking offices in New Zealand, British Government
securities)

£ millions

	<u>Total</u>	<u>Reserve Bank of New Zealand Holdings (a)</u>	<u>Funds with Commercial Banks (net) (b)</u>
At 31st December 1941	14.3	8.8	5.5
" 31st March 1942	20	15.0	5
" 30th June "	25	20.1	5
" 30th September "	29	21.5	7
" 31st December "	26.5	20.2	6.3
" 31st March 1943	22	15.4	7
" 30th June "	27	24.1	3
" 30th September "	25	21.5	3
" 31st December "	30.5	27.1	3.4
" 31st March 1944	30	22.9	7
" 30th June "	33	25.7	7
" 30th September "	48	28.3	20
" 31st December "	52.7	31.8	20.9
" 31st March 1945	60	39.1	21
" 30th June "	70	50.9	19
" 30th September "	78	57.1	21
" 31st December "	86.1	66.9	19.2
" 31st March 1946	64	53.4	11
" 30th June "	76	68.3	8
" 30th September "	75	69.4	6
" 31st December "	78.8	73.3	5.5

Note End-year figures have been revised but those for end-quarters are estimates obtained by an approximate correction of the unrevised figures.

(a) Includes small amounts held on Government and Private Accounts in the Drawing Office.

(b) Including certain official accounts.

Statistics Office,
18th May 1950.
R.H.J./565.