

*Mr Beetham*

## NEW ZEALAND CREDIT AND CURRENCY

### ANALYSIS

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### A BILL INTITULED

5 An Act to vest the sole rights to create money in the Reserve Bank on behalf of the Crown; to declare the monetary policy of New Zealand to be not inflation, not deflation, but equation; to remove the rental component from interest; to provide for a New Zealand Balance Sheet showing the money supply and the value of the output of goods and services for which it exists; and to provide for matters incidental thereto, for the objective of achieving and sustaining a stable internal price level with overall economic stability and economic and social justice for all the people of New Zealand

10

No. 80—1

*Price 20c*

BE IT ENACTED by the General Assembly of New Zealand in Parliament assembled, and by the authority of the same, as follows:

**1. Short Title**—This Act may be cited as the New Zealand Credit and Currency Act 1978. 5

**2. Interpretation**—In this Act, unless the context otherwise requires,—

“Account” includes any capital, loan, reserve, special, or other account, or fund within an account, and any subsidiary account or fund of an account; 10

“Advances” means monetary advances made by the Reserve Bank or by any trading bank to any person, body, whether corporate or incorporate, whether repayable or not, which enables money to be paid from a bank account, and includes unexercised overdraft facilities; 15

“Bank credit” or “credit” means any advances made by the Reserve Bank pursuant to this Act or any other enactment: 20

(a) to any customer of the Reserve Bank;

(b) to any trading bank;

(c) to any public sector account;

(d) to any government, central bank, or organisation of an overseas country,

and includes advances deemed to have been made by the Reserve Bank to a trading bank by virtue of section 6 of this Act; 25

“Bank note” has the same meaning as in the Reserve Bank of New Zealand Act 1964, but does not include any bank note which has been deemed not to be in circulation pursuant to section 21 of that Act or which has been called in by notice under section 22 of that Act; 30

“Coin” means an official coin which has been issued under the Decimal Currency Act 1964 or which, having been issued under the Coinage Act 1933, remains legal tender; 35

“Currency” means bank notes or coins;

“Demand deposit” means money in an account of a customer with the Reserve Bank or with a trading bank when, and to the extent, that such account is in credit; 40

“Equation” has the meaning assigned to it in section 11 of this Act;

“Legal tender”—

5 (a) In the case of a bank note, has the meaning assigned to it in section 20 of the Reserve Bank of New Zealand Act 1964;

(b) In the case of a coin, has the meaning assigned to it in section 14 of the Decimal Currency Act 1964;

10 “Money” means credit or currency;

“Money supply” has the meaning assigned to it by section 7 of this Act;

“New Zealand Government account” means—

15 (a) Any account established under Part III of the Public Finance Act 1977:

(b) Any account or fund of a Government agency that is included in the First Schedule to the Public Finance Act 1977:

20 (c) Any account or fund kept by the Development Finance Corporation of New Zealand:

(d) Any account or fund kept by the Housing Corporation of New Zealand:

(e) Any account or fund kept by the Rural Banking and Finance Corporation of New Zealand:

25 (f) Any account or fund that is declared by any other enactment to be a New Zealand Government account within the meaning of this Act;

“Public Sector Account” means—

30 (a) Any New Zealand Government account:

(b) Any account or fund kept by a regional authority:

(c) Any account or fund kept by a territorial authority:

35 (d) Any account or fund kept by a special purpose authority;

“Regional authority” means—

(a) The Auckland Regional Authority constituted by the Auckland Regional Authority Act 1963:

40 (b) A Regional Council constituted under Part II of the Local Government Act 1974:

(c) A United Council constituted under Part II of the Local Government Act 1974:

(d) A District Council constituted under Part II of the Local Government Act 1974 that is, by section 628 of that Act, deemed to be a Regional Council; 5

“Reserve Bank” means the Reserve Bank of New Zealand constituted by Part I of the Reserve Bank of New Zealand Act 1964;

“Service charge” has the meaning assigned to it in section 13 of this Act; 10

“Special purpose authority” means any public body, other than a regional authority or a territorial authority, that is a “local authority” within the meaning of any part of the definition of that term in section 2 of the Local Authorities Loans Act 1956 either by inclusion in that definition or by being deemed by any other enactment to be so included or by being deemed by any other enactment to be a “local authority” for the purposes of that Act or for any of the purposes of that Act; 20

“Territorial authority” means a City Council, a Borough Council, a County Council, a District Council, or a Town Council;

“Trading bank” means any bank named in the First Schedule to the Reserve Bank of New Zealand Act 1964. 25

**3. Rights of creation and cancellation of credit and currency vested in the Crown**—The sole right to create and cancel credit and currency in New Zealand is hereby vested in Her Majesty the Queen of New Zealand. 30

**4. The monetary branch of central government**—(1) There shall be a monetary branch of central government in New Zealand, in addition to the legislative, executive, and judicial branches.

(2) The monetary branch of central government in New Zealand shall consist of Her Majesty (represented by the Governor-General) and the Reserve Bank. 35

**5. Reserve Bank Crown agent for creation and cancellation of credit and currency**—(1) The sole right of Her Majesty to create and cancel credit and currency in New Zealand shall, on behalf of Her Majesty, be exercised by the Reserve Bank. 40

(2) From and after the date of commencement of this Act, bank credit shall be created or cancelled on behalf of Her Majesty only by the Reserve Bank in accordance with the provisions of this Act.

5 (3) The Reserve Bank shall continue to exercise the sole right to issue bank notes in New Zealand pursuant to section 20 of the Reserve Bank of New Zealand Act 1964 and to have the right to deem bank notes not to be in circulation pursuant to section 21 of that Act and to have the right to  
10 call in bank notes pursuant to section 22 of that Act and, from and after the date of the commencement of this Act, such rights shall be exercised on behalf of Her Majesty subject to the provisions of this Act.

(4) From and after the date of commencement of this Act,  
15 coins shall be issued or withdrawn pursuant to the provisions of the Decimal Currency Act 1964 on behalf of Her Majesty by the Reserve Bank only and subject to the provisions of this Act.

**6. Bank credit created before commencement of Act—**All  
20 bank credit which has been created by any trading bank by way of advances to its customers and which is owing by them to such trading bank at the commencement of this Act shall be deemed to have been advanced on that date by the Reserve Bank to that trading bank and, in addition to being  
25 owed by such customers to that trading bank, shall constitute a debt owing by that trading bank to the Reserve Bank.

**7. Money supply—**From the commencement of this Act, New Zealand money from time to time shall consist of—

- 30 (a) Coins which are legal tender in New Zealand; and  
(b) Bank notes which are legal tender in New Zealand;  
and  
(c) Bank credit, being the total amount of advances made  
by the Reserve Bank that have not been cancelled  
35 by repayment; and  
(d) Bank credit, being advances deemed to have been made by the Reserve Bank to trading banks by virtue of section 6 of this Act that have not been cancelled by payment of the debt constituted by  
40 that section.

**8. Trading banks to make advances and discounts only from existing money supply—**(1) From the commencement of this Act, no advances or discounts shall be made by a trading bank otherwise than from the existing money supply.

(2) A trading bank that makes advances or discounts in contravention of subsection (1) of this section commits an offence against this Act.

**9. Creation and cancellation of money advanced to trading banks—**(1) The Reserve Bank may issue money from time to time to trading banks by way of coins, bank notes, or bank credit in proportion to the demand deposits held by each trading bank in accounts of their customers from time to time, and shall make such issue in accordance with the provisions of this Act and, subject thereto, to the provisions of the Reserve Bank of New Zealand Act 1964.

(2) Money owing by trading banks to the Reserve Bank from time to time shall be cancelled upon its payment or repayment, and part of such money may be called in for cancellation by the Reserve Bank from time to time from any trading bank to maintain the proportion specified in subsection (1) of this section or for any reduction of the money supply made necessary by the provisions of this Act and, subject thereto, the provisions of the Reserve Bank of New Zealand Act 1964.

**10. Equation of money supply—**(1) The Reserve Bank shall create and cancel money from time to time so as to maintain a state of equation of the money supply with the value of the current output of goods and services, and shall do so in accordance with the provisions of section 11 of this Act and, subject thereto, in accordance with such directions of the House of Representatives as may be made from time to time pursuant to section 14 of this Act.

(2) For the purposes of achieving and maintaining from time to time the state of equation and of making any necessary adjustments in the money supply for such purposes, the Reserve Bank shall make continuous surveys to ascertain the extent to which the production of goods and services exceeds or falls short of desirable possible production.

**11. Monetary policy—**(1) It is hereby declared to be the monetary policy of New Zealand that equation shall be achieved and maintained in accordance with the formula—

$$M \times V = I = V_a$$

Where—

- M is the money supply,
- V is the velocity of circulation,
- 5 I is the incomes, and
- V<sub>a</sub> is the value of the current output of goods and services

and shall be so achieved and maintained by applying the policy of eliminating the rental component (being the scarcity value artificially induced) in interest on working funds and investment capital.

10 (2) It shall be the duty of the Reserve Bank to administer the monetary policy declared by subsection (1) of this section by altering the two elements M and V in the multiplication  
15 in the aforesaid formula in such a way as to eliminate the rental component in interest rates.

(3) In respect of advances made by the Reserve Bank to Public Sector Accounts pursuant to section 12 of this Act, the Reserve Bank shall—

20 (a) In respect of advances made to any Public Sector Account before the commencement of this Act and which remain owing at such date, eliminate the aforesaid rental component forthwith and either make no charge or substitute a service charge in terms of section 13 of this Act, and

25 (b) In respect of advances made by the Reserve Bank to any Public Sector Account after the commencement of this Act, either make no charge or make a service charge in terms of section 13 of this Act.

30 **12. Public Sector Accounts**—(1) The Reserve Bank may from time to time issue money by way of bank credit to the New Zealand Government or to any public body in respect of a New Zealand Government account and may from time to time issue money by way of bank credit to any regional  
35 authority or territorial authority or special purpose authority in respect of any other Public Sector Account, and shall do so in respect of any Public Sector Account or any class or classes of Public Sector Accounts as may from time to time be specified in any resolution of the House of Representatives made  
40 pursuant to section 14 of this Act which requires money to be so issued.

(2) Money issued pursuant to subsection (1) of this section may be so issued in accordance with such terms and conditions as may be prescribed from time to time in any resolution of the House of Representatives made pursuant to section 14 of this Act and, subject thereto, in accordance with such terms and conditions as may be prescribed from time to time by the Reserve Bank. 5

(3) Subject to the provisions of subsection (2) of this section, money owing to the Reserve Bank in respect of advances made to a Public Sector Account shall be cancelled upon its repayment, and part of such money may be called in for cancellation by the Reserve Bank from time to time from any Public Sector Account for the purpose of any reduction of the money supply made necessary by the provisions of this Act. 10 15

(4) Subject to the terms of any resolution made by the House of Representatives pursuant to section 14 of this Act, money issued in respect of any Public Sector Account pursuant to this section may be so issued by way of advances made by the Reserve Bank to that account and, if the account is not held by the Reserve Bank, may be made by way of advances to that Public Sector Account held by a trading bank. 20

(5) Where the Reserve Bank makes any advances to a Public Sector Account held by a trading bank pursuant to subsection (4) of this section, the following provisions shall apply— 25

- (a) The trading bank shall be deemed to be the agent of the Reserve Bank for the purpose of those advances:
- (b) The trading bank shall comply with any directions made by the Reserve Bank regarding the operations of that Public Sector Account: 30
- (c) The amount of such advances or the balance thereon remaining repayable to the Reserve Bank shall continue to be money issued by way of bank credit to that Public Sector Account pursuant to subsection (1) of this section: 35
- (d) The amount of such advances or the balance thereon remaining repayable to the Reserve Bank shall be deemed not to be money issued by the Reserve Bank to that trading bank pursuant to section 9 of this Act and shall not be so included for the purposes of 40



the statement of advances made to trading banks in subsection (2) of section 15 of this Act (which relates to the New Zealand Balance Sheet) or for any other purposes of this Act:

- 5 (e) If so directed by the Reserve Bank, the advances made by the Reserve Bank to that Public Sector Account and transactions thereon shall be operated from a separate account within that Public Sector Account.

10 **13. Service charges—**(1) The balances owing from time to time to the Reserve Bank by the trading banks in respect of advances made pursuant to section 9 of this Act and in respect of advances deemed to have been made by virtue of section 6 of this Act shall be subject to the payment of a service charge fixed from time to time by the Reserve Bank.

15 (2) The balances owing from time to time to the Reserve Bank in respect of any advances made to a Public Sector Account may be subject to the payment of a service charge fixed from time to time in respect of that Public Sector Account or of any class or classes thereof of which it is one, and may be so fixed by any resolution of the House of Representatives made pursuant to section 14 of this Act or, subject  
20 thereto, by the Reserve Bank.

(3) No service charge fixed pursuant to subsections (1) or (2) of this section shall exceed an amount equivalent to  
25 the rate of 1 percent per annum calculated on the daily balance or balances of the amount or amounts remaining payable or repayable.

(4) Except as is provided for in subsection (3) of this section, no balance referred to in subsections (1) or (2) of  
30 this section shall be subject to the payment of any charge for interest or its equivalent.

**14. Reserve Bank subject to resolutions of the House of Representatives—**(1) In its administration of this Act, the Reserve Bank shall be independent of the Executive Govern-  
35 ment, but shall be subject to resolutions of the House of Representatives made pursuant to subsection (2) of this section.

(2) The House of Representatives may from time to time make, alter, amend, or rescind resolutions for all or any of the following purposes:

- (a) Giving any direction or making any other provision concerning the implementation of any of the provisions of this Act: 5
- (b) Supplementing any of the provisions of this Act:
- (c) Prescribing the manner or circumstances in which the Reserve Bank shall make decisions under this Act:
- (d) Giving any direction provided for in section 10 of this Act: 10
- (e) Giving any direction provided for in section 12 of this Act:
- (f) Giving any direction provided for in section 13 of this Act: 15
- (g) Dealing with any circumstances arising out of any conflict between any of the provisions of this Act and any of the provisions of the Reserve Bank of New Zealand Act 1964 or of the International Finance Agreements Act 1961 or of any other enactment: 20
- (h) Making provision for any special or other reports to be made by the Reserve Bank to the House of Representatives in any circumstances not provided for in this Act: 25
- (i) Adopting rules of procedure for dealing with annual, special, or other reports of the Reserve Bank to the House of Representatives pursuant to the provisions of this Act or of any resolution made under this section: 30
- (j) Adopting rules of procedure for dealing with other matters arising from any of the provisions of this Act which come before the House of Representatives:
- (k) Concerning anything incidental to any of the matters provided for in paragraphs (a) to (j) of this subsection. 35

(3) Any member of the House of Representatives (whether or not he is also a member of the Executive Council) may, without leave propose a motion that a resolution of the House of Representatives be adopted pursuant to this section or pursuant to section 8 of the Reserve Bank of New Zealand Act 1964, or may move any amendment to any such motion. 40

(4) Every motion proposing that a resolution of the House of Representatives be passed pursuant to this section or pursuant to section 8 of the Reserve Bank of New Zealand Act 1964 shall be initiated by notice of motion, and shall be explained and debated and voted upon by the House of Representatives on the sitting day next after the day on which such notice was given, unless the House of Representatives resolves—

- 5 (a) To have the explanation, debate, and voting on the same sitting day on which the notice was given:
- 10 (b) To postpone those steps or any of them until a specified sitting day later in the same session of Parliament:
- 15 (c) To refer the motion to a committee of the House of Representatives for the taking of evidence thereon and for consideration and report, in which case the motion shall be debated or further debated and shall be voted upon on the same sitting day as the report of that committee is made to the House of Representatives.
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(5) The provisions of this section shall apply, notwithstanding any rules or orders of the House of Representatives to the contrary.

**15. New Zealand Balance Sheet—**(1) The Reserve Bank shall, as soon as practicable after each period of 12 months ending with the 31st day of March, but no later than the next 31st day of May, prepare and publish a New Zealand Balance Sheet for that 12 month period.

- (2) Every New Zealand Balance Sheet shall contain—
- 30 (a) A statement of the money supply for that period showing the overall changes therein:
  - (b) A statement of the value of the output of goods and services for that period showing the overall changes therein:
  - 35 (c) A statement of the totals, as separate amounts, of coins, bank notes, and bank credit in existence for that period and showing the overall changes in each of them:
  - 40 (d) Statements of the totals of bank credit in existence during that period and showing the overall changes therein (expressed as separate global amounts) of the following:

- (i) Advances made or deemed to have been made by the Reserve Bank to trading banks:
- (ii) Advances made by the Reserve Bank to New Zealand Government accounts:
- (iii) Advances made by the Reserve Bank to regional authorities: 5
- (iv) Advances made by the Reserve Bank to territorial authorities:
- (v) Advances made by the Reserve Bank to special purpose authorities: 10
- (vi) Advances made by the Reserve Bank to the Governments' central banks, and other organisations of overseas countries:
- (vii) All other advances made by the Reserve Bank. 15
- (3) Advances made to a District Council that is both a regional authority and a territorial authority may be apportioned for the purposes of the statements specified in subsection (2) of this section according to the purposes for which the advances were made but, unless so apportioned, shall be included in the statement of advances to territorial authorities. 20
- (4) No statement contained in any New Zealand Balance Sheet shall disclose the identity of any trading bank or of any Public Sector Account or any other account or of any person or body, nor shall it disclose separately the advances that have been made to any of them. 25
- (5) The New Zealand Balance Sheet of every year shall be signed by the Governor of the Reserve Bank and by the Deputy Governor of the Reserve Bank: 30
- Provided that in the absence or other disability of either the Governor or the Deputy Governor, the Reserve Bank may appoint any other Director thereof to sign the New Zealand Balance Sheet in his place.
- (6) A copy of every New Zealand Balance Sheet shall be laid before the House of Representatives within 28 days after the receipt thereof by the Speaker if Parliament is then in session and, if not, within 28 days after the commencement of the next ensuing session: 35
- Provided that the Reserve Bank may publish the New Zealand Balance Sheet before it is laid before the House of Representatives. 40

(7) Upon its being laid before the House of Representatives, the New Zealand Balance Sheet shall forthwith be available for discussion and debate in the House of Representatives, and thereafter it shall be referred to a committee  
5 of the House of Representatives for consideration and report and, during the time that the committee has the New Zealand Balance Sheet for consideration, the committee may take evidence and receive submissions on any matters arising from  
10 the New Zealand Balance Sheet and on any matters pertaining to this Act or the administration thereof.

(8) The report to the House of Representatives of the committee thereof to which the New Zealand Balance Sheet was referred may contain such recommendations as the committee thinks fit and may contain any proposal for a resolution  
15 to be adopted pursuant to section 14 of this Act or pursuant to section 8 of the Reserve Bank of New Zealand Act 1964 and, in any such case, the proposal for a resolution shall be deemed to be a notice of motion from the committee.

(9) The provisions of this section shall apply, notwithstanding any rules or orders of the House of Representatives  
20 to the contrary.

**16. Annual report**—(1) The annual report of the Reserve Bank made pursuant to section 44 of the Reserve Bank of New Zealand Act 1964 shall include a narrative report on the  
25 administration of the provisions of the New Zealand Credit and Currency Act 1978 during the year in respect of which that report is made.

(2) The provisions of subsections (7), (8), and (9) of section 15 of this Act shall apply, with the necessary modifications,  
30 to the annual report of the Reserve Bank:

Provided that, if the annual report and the New Zealand Balance Sheet are laid before the House of Representatives on the same sitting day and are referred to the same committee of the House of Representatives, all proceedings  
35 pertaining thereto in the House of Representatives and in that committee may be taken together.

**17. Special report where trading bank commits an offence**—(1) It shall be the duty of the Reserve Bank to make a special report to the House of Representatives in the event  
40 that it finds that a trading bank has committed an offence against this Act.

(2) A copy of any special report required by subsection (1) of this section shall be laid before the House of Representatives within 4 days after the receipt thereof by the Speaker if Parliament is then in session and, if not, within 4 days after the commencement of the next ensuing session: 5

Provided that the Reserve Bank may publish the special report before it is laid before the House of Representatives.

(3) The provisions of subsections (7), (8), and (9) of section 15 of this Act shall apply, with the necessary modifications, to any special report made by the Reserve Bank pursuant to this section. 10

**18. Special report in cases of international or overseas hindrance—**

(1) The Reserve Bank may make a special report to the House of Representatives in the event of its encountering any hindrance or obstruction or otherwise being denied the capacity to achieve or maintain the monetary policy of New Zealand declared by section 11 of this Act, or to carry out any of its functions under this Act because of any directions, conditions, or other actions or impositions made by any body referred to in section 2 of the International Finance Agreements Act 1961 or by any other international body or organisation or by any overseas body or organisation. 15 20

(2) A copy of any special report made pursuant to subsection (1) of this section shall be laid before the House of Representatives within 14 days after the receipt thereof by the Speaker if Parliament is then in session and, if not, then within 14 days after the commencement of the next ensuing session: 25

Provided that the Reserve Bank may publish the special report before it is laid before the House of Representatives. 30

(3) The provisions of subsections (7), (8), and (9) of section 15 of this Act shall apply, with the necessary modifications, to any special report made by the Reserve Bank pursuant to this section. 35

**19. Control of interest rates and discount rates charged by trading banks—**

(1) The Reserve Bank, by exercising its powers under section 34 of the Reserve Bank of New Zealand Act 1964, shall control the rates of interest payable to or by trading banks and the rates of discount chargeable by trading banks. 40

(2) In controlling rates of interest and rates of discount the Reserve Bank shall prevent any increases in such rates above the levels thereof pertaining on the date of the commencement of this Act.

5 (3) In controlling rates of interest and rates of discount the Reserve Bank shall from time to time, by notice in writing to all trading banks, require them to make progressive reductions in such rates until, in the case of interest rates, the rental component in such rates is eliminated and  
10 until, in the case of discount rates, such rates are at such levels for particular transactions that, in the opinion of the Reserve Bank, are acceptable in the public interest.

**20. Trading banks and customers**—(1) Nothing in this Act shall authorise the Reserve Bank to require that any  
15 advances made by a trading bank to any customer shall have any prior approval of the Reserve Bank.

(2) It shall be competent for the Reserve Bank to require information about advances made by a trading bank to a  
20 Public Sector Account or about the demand deposits in a Public Sector Account prior to any advances being made by the Reserve Bank to that Public Sector Account or during any period that advances made by the Reserve Bank to a Public Sector Account or any part thereof remain repayable.

(3) Except as is provided in section 19 of this Act or in  
25 subsection (2) of this section, nothing in this Act shall authorise any alteration in the normal relations between any trading bank and any of its customers.

**21. Conflict with other enactments**—In the event of any  
30 conflict between any of the provisions of this Act and any of the provisions of any other enactment or the Standing Orders of the House of Representatives, the provisions of this Act shall prevail.

**22. Administration of Act to be charge on funds of Reserve Bank**—(1) The costs of and incidental to the administration  
35 of this Act from time to time shall be a charge on the funds of the Reserve Bank.

(2) No moneys appropriated by or pursuant to any Act or otherwise appropriated by Parliament shall be used in  
40 defraying the costs of, or incidental to, the administration of this Act.