

NEW ZEALAND ECONOMIC CHRONOLOGY 1986

The following Chronology covers the calendar year 1986, listing significant economic events that occurred in that year. It does not include regular economic reports or statistical releases, as these are too numerous to report in this resume. A record of regular government stock tenders is contained in the statistical section of the Quarterly Bulletin Table E1 and is not repeated here unless of special significance.

January 9 Debt Refinancing

The Minister of Finance, the Hon. R.O. Douglas, announced the Government's intention to refinance \$US500 million (\$NZ1000 million) of its overseas debt. The first part of the debt was to be raised through a fixed-rate 25 year \$US150 million issue in the US domestic market at an interest rate of 9.875 per cent.

January 14 Overseas Borrowing

The Government announced the issue of \$US350 million in the Euronote market, set at the Libor (London inter-bank offer rate) to complete the debt refinancing package announced on January 9.

January 23 Meat Board Deficit

It was announced the financing of the Meat Board's 1984/85 season losses with the Reserve Bank would require the holding of an additional stock tender in February to offset the associated liquidity injection and maintain the Government's monetary policy stance.

January 24 Kiwi Bonds Third Issue

The closure of the second issue of Kiwi Bonds and its replacement by a third issue was announced. The new issue, available from 30 January, offered a rate of 19.5 per cent for two years and 18.5 per cent for four years.

January 24 Import Licensing

The Minister of Trade and Industry, the Hon. David Caygill, announced the results of the latest general round of import licence tenders. Import

licensing was eased on 340 categories of products, increasing access for imports to about 15 per cent of domestic production.

January 27 Stock Exchange

The Wellington Stock Exchange took its first step towards computerisation with a test run of an exchange-owned computer system for recording quotes and sales.

January 29 Overseas Borrowing

Moves by New Zealand to refinance more of its overseas debt to minimise costs and currency risks were announced by the Minister of Finance, the Hon. R.O. Douglas. In particular, the Government was to repay a number of old loans in the following three months and new loans were being negotiated to minimise the cost of servicing this debt and reduce the risks associated with holding too much debt in particular currencies.

January 30 Government Stock Tender No. 27

The 27th tender of Government stock offered a total of \$100 million in one maturity. This tender made up the shortfall in the Government's borrowing programme due to the inability of Rakiura Holdings Ltd to settle their successful bid for stock worth almost \$100 million in the 12 December 1985 tender.

February 4 Liquidity Management Policy

The Deputy Governor of the Reserve Bank, Dr R.S. Deane announced that the Reserve Bank would be prepared to discount, on demand, government

securities maturing up until 15 May 1986. Prior to 29 January, no securities maturing after 30 April were to be discountable under the new definition of Primary Liquidity (announced 3 December 1985). The change had been made to allow \$350 million of government securities to be available for discounting, if required, over the March Period.

February 7 Borrowing Programme

The Minister of Finance, the Hon. R.O. Douglas, announced that the Government borrowing programme for 1985/86 had been finalised at slightly under \$3 billion. This figure included the 13 February tender of \$400 million. February 7 Borrowing Facility The Minister of Finance, the Hon. R.O. Douglas, announced that the Government had renegotiated a US\$1.5 billion facility arranged in November 1984. New Zealand's lower overseas borrowing requirements since the float of the dollar had made it prudent to reduce the facility to \$1 billion. Favourable terms for New Zealand overseas borrowing continued to persist with a reduction in the fee structure and a drop in the interest rate.

February 13 CER

New Zealand and Australia agreed in principle to seek to expand the closer economic relationship treaty between the two countries to include other groups of Pacific and Asian nations.

February 14 Kiwi Bonds Fourth Issue

The closure of the third issue of Kiwi Bonds and its replacement by a fourth issue was announced. The new issue, available from 21 February, offered a

rate of 20.5 per cent for two years and 19.5 per cent for four years.

February 18

Revised Fiscal Deficit

The Minister of Finance, the Hon. R.O. Douglas, revised the November 1985 estimate of the 1985/86 fiscal deficit before borrowing upwards from \$1.6 billion to \$1.7 billion. Four negative factors contributed significantly to the variation from the \$1.3 billion budget night forecast less than expected fringe benefit taxation receipts, reduced customs duty revenues, increased Post Office spending costs and increased debt servicing costs.

February 25

Dollar Coin Replacement

The Minister of Finance, the Hon. R.O. Douglas, announced the Government had decided to issue a \$1 coin in 1987 to replace the bank note. The new coin will be heptagonal in shape, about the same size as the 10 cent piece, and made from a golden colour aluminium-bronze alloy.

February 26

Kiwi Bonds Fifth Issue

The closure of the fourth issue of Kiwi Bonds and its replacement by a fifth issue was announced. The new issue, available from 7 March, offered a rate of 18.5 per cent for two years and 17.5 per cent for four years.

March 5

Overseas Loan

The Government negotiated a US\$150 million (NZ\$280 million) loan on the Euromarket as part of its programme to refinance maturing debt. Finance Minister, the Hon. R.O. Douglas, said the loan was for seven years at an interest rate of 8.25 per cent.

March 20

Government Borrowing

Another US\$200 million was raised in the New York capital market by the

Government as part of the Government's US dollar refinancing operation announced in January 1986.

March 24

Liquidity Management Operations

As part of the modified liquidity management framework, the Reserve Bank began targetting levels of daily settlement cash balances. The target level was set at \$50 million, although this figure was not publicly announced until April 28.

March 24

PSIS Unfreezes Funds

The remaining \$5.8 million frozen by the Public Investment Society Management Act, 1979, was released. The amount represented the last five per cent of members' frozen funds, together with rebates suspended following the Act.

March 24

Petrol Price Decrease

Petrol and diesel prices fell 2 cents a litre at midnight as the Government moved to pass on the advantages of falling world oil prices.

March 26

Opposition Leadership Change

The opposition caucus elected the Hon. J.B. Bolger to replace the Hon. J. McLay, as the Leader and the Hon. G.F. Gair as the Deputy Leader.

March 26

Wholesale Sales Taxes

It was announced that most wholesale sales taxes would be reduced to 20 per cent on the 1 April 1986. The reductions were a step towards the introduction of GST in October 1986 when sales tax would be reduced to a uniform 10 per cent.

March 27

Additional Stock Tender

The Minister of Finance, the Hon. R.O. Douglas, announced an extra

stock tender of \$350 million to be held on 3 April 1986. This tender was required because it was thought that the March tax take had been lower than anticipated.

April 1

Deputy and Assistant Governor Appointments

The Minister of Finance, the Hon. R.O. Douglas, announced the appointment of Mr R.L. Knight as Deputy Governor of the Reserve Bank of New Zealand. He replaced Dr R.S. Deane who became chairman of the State Services Commission. Following the appointment of Mr R.L. Knight as Deputy Governor, Mr R. J. Lang, Executive Adviser of the Reserve Bank, took up the position of Assistant Governor of the Bank.

April 2

Government Borrowing Programme

The Minister of Finance, the Hon. R.O. Douglas, provided details of the likely borrowing programme for the June quarter 1986. It was intended to raise \$1500 million in three tenders during the quarter, to be held on 17 April, 15 May and 12 June. This was in addition to the 3 April tender of \$350 million announced on 27 March. The lack of finality of the extensive Government Expenditure Review in conjunction with preparation of the 1986/87 Budget prevented a full year programme from being released. The June quarter programme was therefore based on offsetting expected liquidity injections over the period. Mr Douglas emphasised that the Government remained committed to fully funding net public sector injections over the coming year.

April 3

Definition of Primary Liquidity

The Governor of the Reserve Bank, Mr S.T. Russell, clarified the way in which the new one month definition of primary liquidity would operate in practice. The definition of primary

liquidity indicated the basics on which the Reserve Bank would discount government securities at the market's initiative. He stated that a rolling 30 day definition of primary liquidity would be used. This new definition would effectively commence on 15 April 1986. Each day, government securities which had 30 days to maturity would come within the definition of primary liquidity and therefore be discountable on demand.

April 15 Benefits Increased

Social security benefits, national superannuation and income-tested war pensions were increased in line with the latest three-monthly Consumer Price Index figure.

April 17 Kiwi Bonds Sixth Issue

The closure of the fifth issue of Kiwi Bonds and its replacement by a sixth issue was announced. The new issue, available from 24 April, offered a rate of 17.5 per cent for two years and 17 per cent for four years.

April 23 The 1985/86 Budget Deficit

The Minister of Finance, the Hon. R.O. Douglas announced that the budget deficit outcome for the 1985/86 financial year was \$1870.9 million, or 4.1 percent of GDP, up only \$67.9 million on the Government's February forecast. He said this result, the best deficit out-turn in nine years, was also the only occasion in that period when a government had been able to cut the deficit in two years.

April 28 Fourth Petrol Price Fall

The price of premium grade petrol dropped by 6 cents a litre to 82 cents, the fourth drop since the high of 99 cents in August 1985. The Minister of Energy, the Hon. R.J. Tizard, said the drop in world oil prices and the continuing strength of the New Zealand dollar were again reasons for the latest price drop.

May 5 Kiwi Bonds Seventh Issue

The closure of the sixth issue of Kiwi Bonds and its replacement by a seventh issue was announced. The new issue, available from 22 May, offered a rate of 15 per cent for two years and 14.5 per cent for four years.

May 9 Housing Package

A housing package, to assist the elderly totalling \$21 million this year, was announced by the Minister of Housing, the Hon. Phil Goff. He said that total assistance available for pension rental flats would rise by 25 per cent to \$35,000 per unit. This would comprise a \$5000 grant and a \$30,000 loan subsidised at 3.5 per cent interest over 25 years.

May 14 Government Loan

The Government arranged a US\$250 million (NZ\$431 million) floating rate note issue on the Eurodollar market. Finance Minister, the Hon. R.O. Douglas, said the issue would be used to maintain overseas reserves while enabling the Reserve Bank to repay similar floating rate debt which it had on its books.

May 19 Government Expenditure Reform

The Government released a 'Statement on Government expenditure reform'. The trading activities of the Electricity Division, State Coal Mines, Post Office and Civil Aviation would be changed from departmental organisations to corporate structures. The major changes facing these state organisations included the need to finance activity by borrowing in ordinary financial markets, the need to pay tax and usually a dividend, and the removal of many special privileges previously embedded in legislation and practice. The major benefits expected were an improved structure of incentives to perform designated

functions efficiently, and clearer identification of the underlying resource costs of such functions.

May 28 Overseas Borrowing

New Zealand borrowed US\$200 million by issuing bonds in the Eurodollar market. Announcing this, Associate Minister of Finance, the Hon. David Caygill, said the funds would be used to refinance existing debt and maintain the level of official reserves. The bond offer completed a series of borrowings to restructure the U.S. dollar portion of the Government's overseas debt.

May 31 CER : Licensing Eased

The Government lifted import licensing restrictions on bicycles, sporting equipment, toys and many other goods after a review prompted by the Australian Government under the CER agreement. The overall effect was to remove all quantitative access restrictions on a range of Australian goods. The exemptions were in line with the Government's policy of progressive elimination of import licensing.

June 10 Trade Code Signed

The Government decided to be signatory to the anti-dumping code under the General Agreements on Tariffs and Trade. Reliance on quantitative restrictions (i.e. import licensing) as the main source of trade protection meant that anti-dumping procedures until recently, had been, relatively unused in New Zealand.

June 13 Kiwi Bonds Eighth Issue

The closure of the seventh issue of Kiwi Bonds and its replacement by a eighth issue was announced. The new issue, available from 20 June, offered a rate of 14 per cent for two years and 14 per cent for four years.

June 26

Dairy Board Funding

The Government announced it would guarantee Dairy Board borrowing of up to \$650 million for four years to enable the Board to smooth farmers' prices and pay off a discounted Reserve Bank loan. The guarantee replaced the Board's access to Reserve Bank credit for farm product price stabilisation.

June 26

Trustee Banks to Merge

All trustee savings banks except Taranaki agreed to amalgamate their operations under a new corporate identity. Coinciding with this move would be a removal of several legal restrictions on the operating flexibility of trustee banks together with further moves to eliminate the banks' Government guarantee over a period of time. A parent holding company has been formed which will own 75 per cent of the banks' assets, with the other 25 per cent owned directly by a series of regional community trusts. These trusts will also hold shares in the holding company.

June 27

Public Debt Programme

The Governor of the Reserve Bank, Mr Spencer Russell, announced the Government's intended borrowing programme for the September quarter and gave an indication of the expected programme for the full 1986/87 fiscal year. Three tenders of \$500 million were scheduled for the September quarter and on current information a further three of \$500 million were timetabled for the December quarter.

June 27

Mortgage Package

A \$28 million, low-interest loan package for low and middle-income first-home buyers building new houses was announced by the Minister of Housing, the Hon. P.B. Goff. The loans were stage one of a two-stage package to help offset the effect of the goods and services tax.

July 2

Rural Finance Package

A package of measures aimed at financial restructuring for at risk but potentially viable farmers was introduced. The major features of the package were a discount scheme for farm borrowings from the Rural Bank and for loans taken out through the Department of Maori Affairs, a conditional seasonal finance guarantee scheme, and extended social welfare assistance for farm families in distress.

July 3

BNZ Public Share Float

The Government announced changes in legislation that would permit the public issue of shares by the Bank of New Zealand. The share issue is intended to increase the BNZ's capital base by about \$150 million.

July 7

Housing Package

A \$20 million urban renewal package, including new and existing policies, was announced by the Minister of Housing, the Hon. P.B. Goff. The package included \$12 million in home improvement loans for low-income families, \$6 million for urban renewal projects like infill housing and sweat equity schemes, and \$2 million in grant and loan assistance to local authorities, trusts and housing co-operatives.

July 16

Economic Development Commission

The Associate Minister of Finance, the Hon. D.F. Caygill, announced the establishment of the Economic Development Commission and the appointment of the Treasury secretary, Mr B. V. Galvin, as its first chairman. An independent body, the new commission will have the power to initiate its own enquiries as well as undertaking assignments at the request of the Government. The Commission would examine issues relevant to economic development

and adjustment and enhance understanding of economic policy.

July 17

Amendment Bill

The Reserve Bank of New Zealand Amendment Bill was tabled in Parliament. The Bill provided for application for registration as banks by interested parties of sound financial condition and with expertise in banking. The bill also gave the Reserve Bank extended powers to monitor the financial condition and risk exposure of banks as part of its prudential supervision, and in some circumstances to manage the exit from financial markets of failing institutions.

July 22

Petrocorp-New Zealand Steel Debt Refinancing

The Minister of Finance, the Hon. R.O. Douglas announced the Government had refinanced \$US500 million of the Petrocorp and New Zealand Steel Limited debt. The loan was raised at the floating Libid rate — London Interbank bid rate — and offered substantial cost and debt servicing savings on existing debt.

July 25

Government Expenditure Cuts

The Minister of Finance, the Hon. R.O. Douglas, listed spending reductions totalling \$1.57 billion, including \$840 million of measures announced in May. More than half the total included borrowing shifts and one-off revenue gains, rather than direct cuts in departmental spending.

July 31

1986 Budget

The 1986 budget was presented to Parliament by the Minister of Finance, the Hon. R.O. Douglas. The main policy statements were:

— confirmation that the introduction of the Goods and Services Tax and cuts in income tax planned for October 1 1986 would proceed as announced;

- the Government assumed direct responsibility for major project and producer board debt worth \$7.2 billion as part of the process to deregulate protected industries and improve efficiency in the economy;
- measures to reduce the incidence of tax evasion and tax avoidance;
- changes in the timing of provisional and terminal tax payments to improve the pattern of tax flows to the public account;
- the fiscal deficit for 1986/87 was forecast to be \$2452 million, around 5 per cent of forecast GDP.

August 1 New Tendering Procedures

New rules covering bidders for Government Stock tenders and Treasury Bill tenders were introduced. Features of the new rules include a higher deposit for non-exempt bidders (10 per cent, up from 5 per cent), tighter provisions on registration as a bidder and the introduction of bidding and settlement limits.

August 5 Government Borrowing

The Government undertook further borrowing in the Euromarket as part of its plan to refinance the debt on the major energy projects. The US\$500 million borrowing would form part of the \$NZ7.2 billion provision for Think Big projects and producer board refinancing announced in the Budget.

August 13 Kiwi Bonds Ninth Issue

The closure of the eighth issue of Kiwi Bonds and its replacement by a ninth issue was announced. The new issue, available from 14 August, offered a rate of 15.5 per cent for two years and 15.5 per cent for four years.

August 18 New Credit Rating

The New York credit agency Moody's, announced a new AA3 credit rating for New Zealand. In a move to a new rating system, Moody's

indicated it took account of New Zealand's continuing political stability, good economic growth prospects and improving debt picture. But New Zealand's heavily agricultural-based exports were vulnerable to long-term price weaknesses. In addition, import barriers in key markets subjected it to the threat of export volume limitations. Moody's considered New Zealand's total external debt and debt service costs to be relatively high, but were encouraged by their downward trend.

September 17 Kiwi Bonds Tenth Issue

The closure of the ninth issue of Kiwi Bonds and its replacement by a tenth issue was announced. The new issue, available from 25 September, offered a rate of 14.5 per cent for two years and 14.5 per cent for four years.

September 18 Government Loan

New Zealand completed a US\$250 million (NZ\$530 million) fund-raising effort in the United States money market, the Minister of Finance, the Hon. R.O. Douglas, announced. The loan was to be used to refinance public debt being assumed by the Government.

September 20 Agricultural Products in GATT

GATT member countries signed the Ministerial Declaration on the Uruguay Round, agreeing to launch a new round of multilateral trade negotiations. The new round will include consideration of the international trade in agricultural products and in services.

September 20 Live Sheep Exports

A Cambridge company negotiated what was thought to be the biggest live export deal from New Zealand — a \$50 million plus contract to ship one and a half million lambs to Saudi Arabia over three years.

September 22 Liquidity Management

The Reserve Bank announced that the daily settlement cash target used in liquidity management policy had been reduced from \$50 million to \$40 million. The change was made in order to keep short-term liquidity management operations consistent with the thrust of the Government's medium-term monetary policy stance.

October 1 Liquidity Management

The Deputy Governor of the Reserve Bank, Mr Lindsay Knight, announced that the expected monthly average level of Primary Liquidity would be around \$400 million over the next few months. This would imply somewhat tighter liquidity conditions than in September when primary liquidity had been allowed to rise significantly to allow for the flow of taxes to government. Mr Knight also said that the appropriateness of the level of cash settlement balances and primary liquidity would be regularly reviewed in the context of both seasonal factors and emerging economic and monetary conditions.

October 1 Goods and Services Tax

The Goods and Services Tax was introduced. The main changes included:

- a flat 10 per cent consumption tax on goods and services;
- major exemptions from GST are: existing housing sold by unregistered persons, financial services, sales of second hand goods and fund raising activities;
- reductions in income tax rates;
- increases in Social Welfare payments to low income families;
- the abolition of sales tax in most areas.

October 6 Wage Round : In-House Agreement

The first award was settled in the 1986 wage round. Sixty-five Taranaki

factory workers, members of the United Food and Chemical Workers settled an in-house wage agreement at 6 per cent. This settlement was followed by another significant in-house 6 per cent agreement at the Fisher & Paykel Mosgiel plant. The latter in-house agreement of two hundred Engineers Union members set the trend for a number of in-house deals at the beginning of the wage round braking with the traditional national award system.

October 7 Wage Round :

First Major Award Settlement

The first main award of the 1986 wage round was settled. The general driver's award, a traditional trendsetter was settled at 6 per cent, well below the level being sought by other key unions. This agreement set the tone for future agreements in the December quarter.

October 9 Public Debt Programme

The Minister of Finance, the Hon. R.O. Douglas, provided details of the likely borrowing programme for the remainder of the fiscal year. Mr Douglas confirmed that three \$500 million tenders would be held during the December quarter and that on the basis of present information, no tenders were scheduled for the March 1987 quarter. The tenders tentatively scheduled for the remainder of 1986/87 together with the seven tenders held to date were expected to fully fund net public sector injections of \$4665 million. (As indicated in the September 1986 *Bulletin*, the additional stock tender for \$350 million held on 3 April 1986 proved to be unnecessary for the 1985/86 public debt programme and was accordingly regarded as part of the 1986/87 public debt programme). The fiscal deficit appeared to be broadly on track with the budget night estimate of \$2.45 billion; that position to be reviewed following the supplementary estimates round held in November.

October 10 Social Security Benefits

Social security benefits increased 11 per cent. The Minister of Social Welfare, the Hon. Ann Hercus said the increases were based on a rise of 6.12 per cent in the consumer price index for the six months to September, plus 5 per cent to compensate for the Goods and Services Tax.

October 28 LPG Loan Scheme

Liquigas Limited launched a \$25 million subsidised loans scheme to attract up to 1,800 vehicle conversions a month to liquified petroleum gas. The system replaces the Government subsidy for conversions.

October 29 Business Tax Loopholes

Proposals to close business tax loopholes were unveiled in a tax report — the Consultative Document on Accrual Tax and Treatment of Income and Expenditure. Finance Minister, the Hon. R.O. Douglas, said the proposals were aimed at making income taxable as it was earned and preventing expenditure becoming tax deductible before the period to which it properly applied.

October 31 Alternative Fuels

The Government formally handed over control of the alternative fuels loan scheme to the cng and lpg industries. The two sectors of the alternative fuels industry are now responsible for their own installer registrations, marketing, loans schemes, warranties and various other inter-industry controls.

November 3 Liquidity Management

The Reserve Bank announced a reduction in the daily settlement cash balance from \$40 million to \$30 million. The change reflected the markets' growing ability to operate at the \$40 million level as well as the need to

ensure that short-term liquidity management operations continued to be consistent with the thrust of the Government's medium-term monetary policy stance.

November 4 Liquidity Management

The Assistant Governor of the Reserve Bank, Mr Peter Nicholl, said that the average primary liquidity level for November was expected to be around \$360 million. Mr Nicholl also said that because the market had misinterpreted seasonal build-ups of primary liquidity in previous March tax flow periods as an easing in monetary policy, the Reserve Bank proposed to limit the seasonal build-up of primary liquidity in February/March 1987. Accordingly, some of the forecast net liquidity inflows in November would be offset through the sale of treasury bills maturing in May 1987.

November 5 New Zealand Debt

The Associate Minister of Finance, the Hon. David Caygill announced that New Zealand had issued US\$270 million of debt through a sovereign note programme set up in New York. The programme, operating in the United States commercial paper market, allowed the Government to issue debt on a daily basis. The funds raised would be used to refinance the overseas currency debt of the Think Big projects.

November 28 CER Agreement

Apparel, one of the last remaining products outside the Closer Economic Relations Agreement, had now been included, Trade and Industry Minister, the Hon. D.F. Caygill, announced. An agreed increasing scale of access to both markets was to be replaced in 1995 by no quantitative restrictions on apparel trade allowing free trade.

December 3
Credit Rating

New Zealand's credit rating was dropped by international credit rating agency Standard and Poors from AA plus to AA. Standard and Poors pointed to a mild recession in New Zealand as part of the reason for the rating drop.

December 5
Overseas Borrowing

It was announced by the Minister of Finance, the Hon. R.O. Douglas, that New Zealand had borrowed NZ\$800 million on the New York market. The issue comprised bonds with maturities of seven and twenty years. The coupon on the seven year bonds was 7.70 per cent and on the twenty year bonds 8.75 per cent.

December 10
Petrol Rise

The price of petrol would rise by a cent a litre and road user charges would increase by 9.7 per cent on 1 April 1987 to help pay the National Roads Board's increased budget.

December 11
Government Stock Tender
No. 38

The 38th tender of Government stock offered a total of \$500 million in three maturities. The tender was filled with the use of the oversubscription facility.

December 16
Farm Debt Discounts

The Minister of Agriculture, the Hon. C.J. Moyle, announced the Government would extend its farm debt discounting scheme six months, because of an overwhelming response.

December 17
Kiwi Bonds Eleventh Issue

The closure of the tenth issue of Kiwi Bonds and its replacement by a eleventh issue was announced. The new issue, available from 18 December, offered a rate of 17 per cent for two years and 16.5 per cent for four years.

December 24
Amendment Act

The Reserve Bank of New Zealand Amendment Act 1986 was passed into law. The Act's provisions would take effect from 1 April 1987. ■