

NEW ZEALAND ECONOMIC CHRONOLOGY 1979

The following chronology covers in summary form the most important economic events, policy statements and comments during 1979. Purely statistical material, such as details of production, national income, prices, etc. has been excluded as it is readily available elsewhere. Most of the material comes from the Reserve Bank fortnightly News Review.

January 29

Monetary Policy Measures

The Government announced changes in the reserve requirements applicable to some financial institutions with the objective of moderating the growth of credit. The reserve asset ratio policy applied to the trading banks was tightened by the reduction in the margin of free reserves aimed at each month from \$100 million to \$50 million, with effect from March 1979. The Reserve Bank supported this move by increasing, immediately, from 12 per cent to 13 per cent per annum the rate of interest charged to banks and money market dealers for borrowing from the Reserve Bank.

It was also announced that the security ratio applied to finance companies was raised from 15 per cent of borrowings to 20 per cent with effect from 1st April 1979.

January 31

Government Loans

The terms of the 1979 Cash Loan No. 1 and the conversion offer to holders of stock maturing 15th February 1979 and 15th March 1979 were (all at par):

| <i>Interest Rate (p.a.)</i> | <i>Repayable</i> |
|-----------------------------|------------------|
| 10.50 per cent | 15th March 1980 |
| 10.50 per cent | 15th March 1981 |
| 10.00 per cent | 15th March 1984 |
| 10.00 per cent | 15th March 1989 |

The loan was open from 5th to 16th February.

January

New Zealand Planning Council

The New Zealand Planning Council issued a report, 'Economic Strategy 1979', in which its main purpose was to consider prospective short-term developments in relation to the medium-term goals outlined in its earlier report 'Planning Perspectives 1978-83' and to assess their implications for policy.

February 14

Power Charges

The Government announced that the bulk electricity tariff would be increased by 60 per cent as from 1st May 1979.

February 26

Petrol Sales

The Government announced that regulations banning weekend sales of motor spirits would be introduced on 26th February.

March 3

Foreign Investment

The Government announced that controls on foreign investment in New Zealand were to be eased in order to encourage more overseas investment, particularly in technologically complex areas.

March 6

Electricity Concessions

The Government approved electricity concessions to help retain, establish and develop industries in the South Island. The concessions became available from 1st April.

March 15

Housing

The Government announced a package of housing policy measures involving the easing of many conditions and limits of Housing Corporation loans, the introduction of some new facilities and the raising of the prime interest rate from 8.5 per cent to 9 per cent.

Amongst the measures were:

- the freedom for applicants with a 20 per cent deposit to choose between new and existing houses
- an increase in the home improvement loan limit from \$7,500 to \$10,000
- the provision, during 1979-80 only, of a \$2,500 interest-free suspensory loan for people purchasing new houses. These loans were also available to people financing their houses from sources other than the Housing Corporation.

The measures were designed to encourage better use of the existing housing stock, maintain a stable building industry, discourage urban sprawl and give first home-seekers, particularly young married couples, a better chance to buy a home in an established area close to existing services and facilities and their place of work.

April 3

Monetary Policy

The Government announced a guideline growth rate for private sector credit of 8 per cent - 12 per cent for the year ending 31st March 1980.

April 6

Price Control

The Government lifted price controls and the controls on distributor margins, with price controls on 'Category B' items to be phased out over a period of six months. Only 'Category A' items would then remain under

control. The purpose of these measures was to free profit controls, the margins of importers, wholesalers and retailers, and accommodation and meals in the tourist industry.

The Financial Services Regulations 1979 came into force on 6th April 1979 and modified some provisions of the Stabilisation of Prices Regulations 1974 relating to financial services. Profit ceilings on financial enterprises were removed.

April 12 Government Loan

The terms of the 1979 Cash Loan (No. 2) were (at par):

| <i>Interest Rate (p.a.)</i> | <i>Repayable</i> |
|-----------------------------|------------------|
| 11.0 per cent | 15th May 1980 |
| 12.0 per cent | 15th May 1982 |
| 13.0 per cent | 15th May 1984 |
| 10.0 per cent | 15th May 1989 |

The loan opened on 23rd April and closed on 11th May.

April 19 Local Authority Interest Rates

The Government announced new interest rates for local authority loans. They were (with the previous rates in brackets):

| <i>Interest Rate (p.a.)</i> | <i>Term</i> |
|-----------------------------|-------------------|
| 11.5 per cent (9.50) | 1 year |
| 11.5 per cent (10.00) | 2 years |
| 12.5 per cent (10.24) | 3 years |
| 12.5 per cent (10.24) | 4 years |
| 12.5 per cent (10.24) | 5 years |
| 13.5 per cent (10.50) | 6 years |
| 12.0 per cent (10.50) | 7-9 years |
| 11.25 per cent (10.50) | 10 years and over |

April 24 Railways Charges

The Government announced a 20 per cent increase in suburban rail and road services fares from 13th May. Other Railways charges were to rise by 10 per cent.

May 2 Oil Refinery Expansions

The Government approved the expansion of the Marsden Point Oil Refinery, estimated to cost about \$350 million. Construction was due to start in 1980 and would take about three years. The economic benefits were stated to include savings in oil imports of \$150-\$180 million a year at (then) current oil prices.

May 14 Savings Stock

A second savings stock issue, which was open from 14th May to 13th July, had similar conditions to those of the first issue in 1978. The interest rate was 11 per cent, reducible to 8 per cent if withdrawal was made before 15th May 1980. Subscriptions were limited to \$250,000 per holder for both issues combined.

The stock matures on 15th May 1984, is not transferable and can be redeemed on one month's notice.

May 16 Price Increases

The Government announced a series of price increases from midnight on 16th May. These included raising the price of premium petrol from 31.6 cents to 38.6 cents a litre, similar increases on regular petrol and diesel oil, a sales tax of 20 per cent applicable to caravans, light trailers, camper trailers, boats, some office stationery, ice cream, aerated waters and other non-alcoholic drinks and a sales tax on household appliances including whiteware, cutlery, tableware and kitchenware, lawnmowers and all types of handtools.

May 23 Budget Deficit Revised

The final 1978-79 budget deficit was released by the Government as \$1,446 million, an increase of \$390 million on the 1978 Budget night estimate.

June 5 New Zealand Planning Council

The New Zealand Planning Council issued its report 'The Welfare State? Social Policy in the 1980s'.

June 12 Power Charges

The Government announced cut-rate power charges for exporters by giving a 50 per cent rebate on that part of the increase in power charges which is used for exports. The scheme applied from 1st May, when new power charges took effect, to 31st March 1980.

June 21 Budget

The 1979 Budget was introduced. It estimated the deficit before borrowing to be \$1,090 million, some \$356 million less than the previous year.

Details of the Budget are given on pages 281-284 in the July 1979 *Bulletin*.

June 21 Exchange Rate Policy

A new flexible exchange rate system was announced in the 1979 Budget for immediate implementation. The basic aims of the new system was to halt the erosion of exporters' profitability and remove uncertainty about major exchange rate movements by enabling smaller, more frequent changes to be made.

Under the new system the procedure for changing the value of the New Zealand dollar in terms of a basket of foreign currencies was modified. Rather than adjust the value of the New Zealand dollar at infrequent intervals the Reserve Bank makes small adjustments (each of less than half of 1 per cent) reflecting mainly the rate of cost increases in New Zealand relative to the increase in the costs and prices of our main trading partners. These changes in the basic value of New Zealand currency are not to be announced as they take place but the Reserve Bank publishes a monthly index of the value of the New Zealand dollar measured in terms of the basket of currencies.

While the trend of relative prices will normally be the criterion by which the degree of exchange rate adjustment will be decided, account will also need to be taken of other factors affecting the balance of payments, for

example, any long-term changes in the terms of trade.

In order to enable the new policy to operate from an effective base, the New Zealand dollar was devalued by 5 per cent as from midnight on 21st June.

Details of the new exchange rate policy are contained in the August 1979 *Bulletin*, pages 271-273, the September 1979 *Bulletin*, pages 323-324 and the November 1979 *Bulletin*, pages 442-447.

June 21 Forward Exchange

A liberalisation of the forward exchange system was also announced in the Budget. This liberalisation reinforced and complemented the new flexible exchange rate policy.

Under the new system, people with a future need to buy or sell any foreign currency will be able to enter into forward exchange contracts with New Zealand trading banks to buy or sell United States dollars in exchange for New Zealand dollars irrespective of the purpose for which the funds are required or the source from whence they came. The facility will be available at any time while the exchange risk exists, and it will be available to both residents and non-residents.

Forward exchange contracts will be for initial periods of up to one year but at maturity may be replaced by new contracts on the terms then existing.

The Reserve Bank sets the forward premium or discount from time to time. The main criterion, as in free markets, is the relationship between interest rates in New Zealand and in the United States but other factors may be taken into account, particularly when normal interest rate relationships are upset.

June 27 Trading Bank Ratios

The Government announced a further tightening of trading bank reserve asset ratio policy. The level of free reserves used in setting the ratios was reduced from \$50 million to zero with effect from the July ratios.

June 28 Public Service Investment Society

Emergency Legislation was introduced into Parliament and passed through all its stages to stave off the collapse of the 'technically insolvent' Public Service Investment Society.

July 18 Housing Corporation

The Government announced a tightening in Housing Corporation lending for existing homes as demand was exceeding available funds. As from 18th July loans were confined to:

- (i) those qualifying for interest rate concessions,
- (ii) single people whose income is within the limit of \$160 a week,
- (iii) those qualifying as preferred borrowers.

July 24 Wages Policy

The Government announced its decision to repeal the General Wage Orders Act 1977 and the legislation was introduced to Parliament on 27th July. The new Act

authorised the making of Regulations which authorised a general increase of 4.5 per cent from 3rd September on all wages and salaries fixed by awards or collective agreements. The new legislation included provision to influence wages by Regulation in the same manner as had been done under the Economic Stabilisation Act and also retained powers to control prices if that should prove necessary.

August 7 Post Office Savings Bank

It was announced that the P.O.S.B. had been given approval to introduce overdraft facilities as well as a wider range of term deposit accounts.

August 18 Finance Companies

The Government announced that the Government stock ratio applied to finance companies was to be raised from 20 per cent of borrowings to 22.5 per cent from 1st October 1979.

August 18 Trading Bank Charges

The New Zealand trading banks increased their cheque account charges. The revised charges included a 2c increase for both the clearance and activity fees to 5c and 6c respectively.

August 28 Petrol Price Increase

The price of a litre of standard grade petrol was increased again from 37.1 cents to 38 cents, and for premium grade from 38.6 cents to 39.5 cents.

September 7 Air Fares

The Air Services Licensing Authority permitted Air New Zealand to raise both its domestic air fares and domestic freight rates by 11.25 per cent to cover wage increases and other cost increases. This followed an increase of 10 per cent granted on 1st August to recover the increased cost of aviation fuel.

September 13 Maui Gas

The Government, in announcing a package accompanying the release of the Liquid Fuels Trust Board report, said that Maui gas will be used to replace more than 50 per cent of the country's oil imports by 1987. While the package explained the Government's plans in general terms decisions on specific options still remained to be made. Included in the programme will be a 2,500 tonne methanol plant (estimated to cost up to \$200 million), synthetic fuels plants (estimated \$600 million), refinery expansion (estimated cost \$350 million) and a second Maui platform (estimated cost \$500 million).

September 17 Electricity Price

The Government announced an increase of 6 per cent in bulk electricity charges from April 1980.

September 18**Rail Charges**

Rail charges were increased by 12.5 per cent on 7th October. The increase applied to freight, rail ferry passenger fares and vehicle charges, and long distance rail fares but not to commuter trains or road services passengers.

October 2**Government Cash Loan**

The terms of the 1979 Cash Loan (No. 3) were (at par):

| <i>Interest Rate (p.a.)</i> | <i>Repayable</i> |
|-----------------------------|--------------------|
| 11.5 per cent | 15th November 1980 |
| 12.0 per cent | 15th November 1981 |
| 12.5 per cent | 15th November 1982 |
| 13.0 per cent | 15th November 1985 |

The loan was open from 8th October to 19th October.

Yields on Treasury Bills were also raised in line with increases in yields for short-term stock. As from 3rd October 13-week Treasury Bills were sold to yield 11.25 per cent, and the 26-week Treasury Bills to yield 11.5 per cent.

October 31 Savings Stock and Inflation Adjusted Bonds

The Government announced terms for a third savings stock issue together with an expansion of subscription limits to inflation adjusted savings bonds.

The conditions of the savings stock issue, which opened on 5th November and closed on 7th December, were similar to the previous issues. The interest rate was raised to 11.5 per cent and the maturity date was 15th October 1984. The stock was redeemable on one month's notice, but stock redeemed prior to 15th October 1980 earned interest at 8 per cent. The maximum amount of all savings stock which may be held by any stockholder remained at \$250,000.

The increased limits for inflation adjusted savings

bonds, applicable from 5th November, were:

- (i) The maximum subscription by any subscriber in any calendar year was raised from \$1,000 to \$5,000.
- (ii) The existing restriction on total holdings of \$5,000 was doubled to \$10,000.

November 26**Petrol Price**

The following price increases came into force on 26th November:

| | |
|------------------|--|
| Petrol: | Increased for the third time in 1979, this time by 3.5 cents per litre to reach 43 cents and 41.5 cents per litre for premium and regular grades respectively. |
| Diesel: | Increased by 6.4 cents per litre. |
| Fuel Oil: | Increased to 18.7 cents per litre for heavy oil and 19.2 cents for light oil. |

December 5**Tax Cuts**

The Income Tax Amendment (No. 2) Bill was introduced to Parliament and, for the year beginning 1st April 1980 for personal taxation, shifted the upper limit of the 14.5 per cent tax step from \$4,500 to \$4,900 and the upper limit of the 35 per cent step from \$11,000 to \$11,500.

December 19**Monetary Policy**

The Government, in a statement on monetary conditions and monetary policy, announced the easing of the estimated level of free reserves in setting trading bank free reserves from zero back to \$50 million as from January 1980. Also the trustee savings bank ratios were to be reduced by one percentage point to 38 per cent and the private savings bank ratio by two percentage points to 54 per cent, both effective from 1st February 1980.

**MONETARY POLICY AND THE
NEW ZEALAND FINANCIAL SYSTEM**

A reminder that this new book, incorporating 24 articles on the financial system and monetary policy in New Zealand, is available from leading text book retailers or direct from the Reserve Bank. The cost is \$NZ5.00 per volume (less 10% discount for university and college students). Orders to the Reserve Bank should enclose a cheque or postal note and be addressed to

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