

RESERVE BANK WEEKLY STATEMENT OF ASSETS AND LIABILITIES

This article introduces a revised format for the Reserve Bank's Weekly Statement of Assets and Liabilities as published in the *Bulletin* (and the *Gazette*). The revised format is intended to provide additional and more meaningful information regarding the Reserve Bank's financial position.

Many changes have occurred in the economy and in the activities of the Reserve Bank since this table was first published. Consequently its usefulness to some people, particularly those wishing to analyse monetary conditions and policy, has diminished. As an example of this, the data have not always been prepared on a basis consistent with that used in other *Bulletin* tables such as the 'Money Supply and Selected Liquid Assets' series. Similarly, the old format was not as suitable as it could have been for analysing trading bank reserve asset movements, most of which involve Reserve Bank accounts.

The principal objective underlying the new format for the statement of the Bank's assets and liabilities is that the data should be consistently defined and classified, both within the bounds of the table and with other data sources. One of the major changes from the previous format is an increased emphasis on the sectoral/functional classifications of the various items so that the role of the Reserve Bank in the economy, and particularly in monetary policy, is more clearly identified. With these objectives in mind, the 'Other' categories of assets and liabilities, which had become relatively large over time, have been disaggregated wherever possible. Finally, more information has been included in the footnotes. In particular, the basis of valuation of the various 'Overseas' items and 'Investments' is given.

On page of this *Bulletin* can be found a table which sets out the Bank's assets and liabilities according to the new format, on a weekly basis since 31 March 1982. Data on the previous basis was published up to 31 March 1982 (see September 1982 *Bulletin*, page 373), and thus a linkage between the two series can be obtained by comparing the alternative series as shown for that date. It is intended that a fuller linkage will be provided in the January/February 1983 *Bulletin*, through the inclusion of historical data for earlier years on the same basis as that now shown for the 1982/83 year.

The following notes indicate the contents of the items in the order in which they appear in the statement together with the changes that have taken place.

LIABILITIES

1 Overseas Liabilities

This heading replaces the previous longer version, 'Liabilities in Currencies other than New Zealand Currency'. It will include amounts borrowed overseas, but denominated in New Zealand currency. These were previously treated as deposits under the 'Demand Deposits' heading. A distinction will continue to be drawn, however, between overseas liabilities

denominated in New Zealand currency, and those denominated in overseas currencies.

Denominated in Overseas Currencies

Short-Term

This shows the New Zealand currency equivalent of outstanding short-term foreign currency liabilities of the Bank — e.g. drawings on overseas standby facilities in relation to the management of official overseas reserves and cheques and drafts drawn on the Reserve Bank's accounts at overseas central banks, but not yet presented.

Long-Term

This classification accommodates official overseas borrowing in the name of the Reserve Bank. The terms are typically in excess of twelve months.

Denominated in New Zealand Currency

Short-Term

This heading includes New Zealand currency amounts lodged by the Government in the International Monetary Fund's New Zealand Account held at the Reserve Bank. These lodgements have been made both as part of New Zealand's subscription to the International Monetary Fund, and on those occasions when New Zealand has borrowed from the Fund. They are included under this heading because the relevant account is technically a demand deposit, although it should be noted that as New Zealand's membership of the Fund might be considered as a permanent arrangement, and as borrowings from it are typically for 3-5 year terms, they might equally be considered as longer term liabilities. The Fund has certain rights to draw on this account should New Zealand's balance of payments position strengthen materially.

Long-Term

This item represents long term overseas borrowing undertaken by the Reserve Bank where the loans are denominated in New Zealand currency.

2 Allocation of Special Drawing Rights by IMF

The cumulative total of SDR allocations made by the IMF to New Zealand are recorded here. As at 15 September 1982, there had been six allocations to those participating in the scheme. New Zealand's allocation totalled SDR 141.3 million (NZ\$213.9 million). In the event of the SDR scheme being cancelled, or if New Zealand withdraws from the scheme, the liability represented by 'Allocation of SDR's may be cancelled by using 'Holdings of SDR's'. If these are insufficient at the time, further SDRs would need to be obtained by using other overseas reserves.

3 Deposits

The distinction between demand and time deposits has now been eliminated as the time deposits classification has only been used occasionally in recent years. In addition, the new deposits classification provides for the separation of the Public Account from other Government deposit accounts and the primary industry stabilisation accounts from other marketing organisation accounts.

State

The Reserve Bank is required to provide banking services to the Government and thus holds the accounts of Government Departments. The most important of these is the Public Account, to which taxation receipts and the proceeds of Government borrowing are credited, and from which general Government expenditure is funded. A detailed breakdown of the Government's expenditure, income and borrowing is given each year in table 2 of the Budget, the bottom line of which, i.e. the cash surplus/deficit, corresponds with the change in the balance of the Public Account held at the Reserve Bank. (The Minister of Finance also releases a press statement after the end of each quarter, in which a similar breakdown is given on a quarterly basis.) In addition to the Public Account, the Government also holds a number of other accounts with the Reserve Bank, mainly in the names of major trading departments e.g. the Ministry of Energy and the Post Office. These departments are commonly referred to as the 'departments outside of the public account'.

This heading also covers Government term deposits at the Reserve Bank. These were made at the end of the 1977/78 and 1979/80 fiscal years and reflected a surplus in the Government's cash position after borrowing.

Marketing Organisations

The Bank acts as banker for various agricultural and marketing authorities, and under this heading are included the following accounts when in credit: the Apple and Pear Industry Accounts, the Dairy Industry Accounts, the Honey Industry Account, the Meat Industry Account, the Milk Industry Account, the New Zealand Meat Producers Board Operating Account, the Poultry Industry Account, the Tobacco Growing Industry Accounts and various marketing imprest accounts.

Stabilisation Accounts

In addition to acting as banker for the various agricultural and marketing authorities the Bank also holds the primary producer stabilisation accounts. This item includes the following accounts when in credit: Meat Income Stabilisation Account, the Minimum Wool Prices Funding Account, the Supplementary Minimum Meat Prices Account, the Supplementary Minimum Wool Prices Account, the Wool Income Retention Account, and the Farm Income Equalisation Account.

Trading Banks

This represents the total of the deposits held by the trading banks with the Reserve Bank. Normally the banks hold only demand deposit balances with the Reserve Bank, and only in small amounts. These

accounts are used to provide working balances for the settlement of inter-bank transactions and for currency, government security and foreign exchange transactions with the Reserve Bank. Each bank's account is required to be in credit at the close of business each day, although the balances (which qualify as a reserve asset) tend to be kept to a minimum since they earn no interest.

Other trading bank deposits with the Reserve Bank which arise from time to time include time deposits and 'Penal Borrowing Contra Deposits'. Time deposits last occurred between 1972 and 1975, when the banks held interest bearing time deposits in lieu of government securities. At that time the trading banks were very liquid, due to a record surplus in New Zealand's overseas exchange transactions. This would normally have been reflected in increased purchases of government securities by banks, but because an increased flow of funds to the Public Account was not needed for fiscal purposes, the trading banks were requested to accept fixed term deposits at the Reserve Bank as an alternative form of reserve asset. These deposits peaked in 1973 at around \$220 million and were run down during 1974 and 1975 with the last deposits being uplifted in July 1975.

Balances appear in the Penal Borrowing Contra Deposit accounts only if the banks fail to meet their reserve asset ratio requirements. (The borrowing, and contra deposit balances, occur in the month following that in which the reserve asset deficiency is recorded.) These balances, however, do not qualify as a reserve asset.

Other

Accounts covered by this heading include, inter alia, the deposits of some public bodies, and of overseas central banks. A number of operating accounts of the Reserve Bank are included under this heading as well.

4 Notes in Circulation

This item shows the total of notes issued by the Reserve Bank and still in circulation. It includes notes held by the trading banks (\$66 million at 15 September 1982) and other financial institutions as well as those in the hands of the public.

5 Other Liabilities

This heading includes a wide range of (mainly) Reserve Bank working accounts, along with the capital and reserve accounts of the Bank.

ASSETS

1 Overseas Assets

As with overseas liabilities, this classification has now been amended to include loans made to overseas residents but denominated in New Zealand currency. These were previously included under the Advances heading. Also Gold, which is included in official overseas reserves and which was previously shown separately, has been brought under this heading.

Denominated in Overseas Currencies

Short-Term

This item includes balances held at overseas central banks, the Bank for International Settlements and at overseas commercial banks, and overseas bills. Holdings of foreign notes and coin are also included.

Long-Term

Overseas investments are comprised mainly of overseas Government securities denominated in some of the major currencies. In recent years efforts have been made to diversify official holdings of overseas reserves among currencies other than the traditionally important sterling investments.

Holdings of Special Drawing Rights

This item records the Bank's current holdings of SDRs. The balance consists of allocations by the International Monetary Fund and those acquired from other participants in the SDR scheme, less SDRs utilised for any purpose. These can include the repurchase of and interest on drawings from the Fund, interest and administrative charges arising from participation in the SDR scheme, and the purchase of foreign currency.

Denominated in New Zealand Currency

Short-Term

This heading includes short-term overseas loans or deposits made by the Reserve Bank where the amount is denominated in New Zealand currency.

Long-Term

This item consists of overseas lending by the Reserve Bank to other countries where the amount is denominated in New Zealand currency. At present this item includes a loan to an overseas country to finance the purchase of goods from New Zealand.

Gold

In 1961 the greater part of the Bank's holdings of gold were sold to the Government to pay the gold subscriptions to the International Monetary Fund and the World Bank. The gold remaining in the Bank's balance sheet is valued at cost. Its 31 March 1982 market value was \$9.5 million, compared with the historical cost value shown of \$0.7 million.

2 Advances and Discounts

Discounts, a relatively small item which was previously shown separately, has now been amalgamated with advances. The sub-headings have been amended to correspond with those for deposits (including separate disclosure of Public Account advances) and an additional sub-heading under 'Trading Banks' has been introduced for Compensatory Deposits.

State

This classification includes short-term borrowing by the Government and overdraft accommodation to

Government departments and state trading organisations.

Marketing Organisations

The amount of advances to marketing organisations is shown under this heading. The major part is normally used to finance stocks of dairy produce held by the New Zealand Dairy Board.

Stabilisation Accounts

This item includes any advance to primary producers through the various stabilisation accounts mentioned under the 'Deposits' heading.

Trading Banks

Compensatory Deposits This represents Reserve Bank deposits made with the trading banks in connection with the Compensatory Deposits Scheme.¹

Other The Reserve Bank has the authority to buy, sell, discount and rediscount bills of exchange and promissory notes. Under this authority the Bank holds export bills which have been discounted by a trading bank and rediscounted by the banks with the Reserve Bank. Also appearing under this heading are borrowings by the trading banks under the reserve asset ratio penal borrowing arrangements, and advances to the trading banks to replace funds used to finance long-term export projects approved by the Reserve Bank.

Other

This item includes other sundry advances and any advances to official money market dealers in New Zealand.

3 Investments in New Zealand

New Zealand Government Securities

The Bank's holdings of government securities domiciled in New Zealand are included under this heading. The Bank purchases and sells government securities mainly through trading banks, dealers in the official short-term money market, and other specialised government security dealers. From time to time the Bank also acquires marketable securities from Treasury to replenish its portfolio.

Other

Currently Reserve Bank investments other than in government securities are in the form of local authority securities, trading bank transferable certificates of deposit and commercial bills.

Other Assets

This heading includes property owned by the Bank, local cheques sent for collection and miscellaneous revenue accounts. Also included is the value of coin held by the Bank as till money or a reserve to meet the coin requirements of the trading banks and the public. Coin is issued by the Treasury from which the Bank purchases supplies for distribution.

¹ See the article entitled 'The Compensatory Deposits Scheme' in the October 1981 issue of the *Bulletin*.