

# NEW ZEALAND ECONOMIC CHRONOLOGY 1983

The following Chronology covers the calendar year 1983, listing significant economic events that occurred in that year. It does not include regular economic reports or statistical releases, as these are available elsewhere and are too numerous to report in this resume.

## January 19 Meat Board Acceptance Facility

The Meat Board confirmed that it had arranged an acceptance facility giving it access to £125 million sterling. The funds would be used to finance the purchase and export of meat by the Board.

## January 31 Foreign Exchange Dealing

The Reserve Bank tightened restrictions on dealing in foreign exchange, blocking loopholes which had allowed merchant banks to participate in foreign exchange contracts.

## March 1 Employment Incentives

Increases in various categories of employment subsidies to employers took effect, costing \$6 million in a full year. The increased incentives placed particular emphasis on training in skilled areas.

## Planning Council Report

The Planning Council released an authored paper entitled 'Issues in Equity'. The report summarised the opinions of various sectors of the community on social justice in New Zealand. Although mainly directed towards social issues, the report frequently made reference to the interaction between social and economic factors, both having an input into people's perceptions of social justice.

## Investment Study Released

'Equity Investment in New Zealand', a report on the investment performance of the sharemarket, was released by the Institute of Economic Research. The report evaluated returns from sharemarket investment on a time series basis and compared the returns to inflation over the period considered.

## March 8 Devaluation

In response to a 10 per cent devaluation of the Australian dollar, the Government devalued the New Zealand dollar by 6 per cent against the basket of currencies resulting in a slight revaluation against the Australian dollar.

## March 16 Government Securities

The Minister of Finance, the Rt. Hon. R.D. Muldoon, announced monetary policy changes, including the

introduction of Kiwi Savings Stock, effective from 21 March. Available to non-institutional investors, the stock paid 15 per cent per annum at quarterly rests, and was redeemable on seven days' notice after one month, with the interest rate being 13 per cent per annum if redeemed within one year.

New Treasury bill and government stock rates were also announced, while Premium Stock was withdrawn as from 18 March. Treasury bill yields were increased from 11.25 per cent and 11.5 per cent to 12 per cent and 12.5 per cent for 13 week and 26 week bills respectively. Government stock yield increases ranged from 0.75 percentage points (to 13 per cent) for one year, to 1.5 percentage points (to 14 per cent) for three years.

## CER

The Australian Deputy Prime Minister and Minister for Overseas Trade confirmed the newly elected Labour Government's formal approval of the CER agreement.

## March 24 Security Ratios Increased

The Minister of Finance, the Rt. Hon. R.D. Muldoon, announced an increase in the government security ratios applicable to finance companies from 18 per cent to 20 per cent.

## March 28 Final Signing of CER

Following delays due to the Australian general election, the final signing of the CER agreement between Australia and New Zealand took place. The ultimate aim of the agreement is to promote free trade between the two countries by 1995.

## March 30 Import Licences

The Minister of Customs, the Hon. K.R. Allen, announced that import licences in 1983/84 would be maintained at 1982/83 values, while those determined by volume would be reduced to 90 per cent of the levels prevailing in 1982/83.

## April 1 Foreign Exchange Dealing

The Minister of Finance, the Rt. Hon. R.D. Muldoon, revealed moves to widen the entry qualifications for foreign exchange dealers.

## April 8 Local Authority Stock

The Minister of Finance, the Rt. Hon. R.D. Muldoon, announced that local authority stock would be issued at a discount, such that investors would obtain a yield 1 per cent above the current coupon rate.

## April 12 Lending Guideline Imposed

The Reserve Bank issued credit guidelines to the trading

banks, involving upper limits of 1 per cent per month growth in lending, after adjusting for seasonal factors.

#### **April 16 Meat Board Loan**

The Meat Board revealed its intention to raise a \$50 million promissory note issue on the domestic wholesale money market. The facility was designed to enable the Board to manage its funding requirements more flexibly.

#### **April 19 Credit Guidelines Extended**

The credit guideline imposing a limit of 1 per cent growth in lending per month (seasonally adjusted) was extended to finance companies, building societies, savings banks and other major financial institutions.

#### **April 30 International Credit Rating Reduced**

Standard and Poor's Corporation, the USA-based credit rating company, reduced New Zealand's international rating from AAA to AA+. The reasons given included the increasing Government deficit, deteriorating current account deficit, and reduced domestic economic flexibility. Standard and Poor's stressed, however, that in the longer term the prospects were favourable, citing the country's abundant natural resources and the investment projects being constructed to utilise these resources.

#### **May 3 Lignite Report Released**

The Minister of Energy, the Hon. W.F. Birch, released a report on the lignite coal resources in the Southland-Central Otago region. Written by the Liquid Fuels Trust Board, the report produced revised estimates of the lignite reserves, estimating the recoverable reserves to be 5.3 billion tonnes. Numerous development options were canvassed in the report.

#### **May 13 Medium Term Review**

The Institute of Economic Research released its 'Medium Term Review 1983', the first of a revised form of medium term forecasting report. Forecasting to 1986, the Institute foresees an improvement in economic growth, but at a rate insufficient to significantly reduce unemployment.

#### **May 23 Freeze Extended**

The Prime Minister, the Rt. Hon. R.D. Muldoon, announced the extension of the Wage/Price Freeze to 29 February 1984. Involving the extension of existing regulations under the Economic Stabilisation Act 1948, applicable to prices, wages, interest rates, directors' fees, rents and dividends, the regulations were further widened in scope, to include reimbursing allowances paid to employees. The regulations applicable to such allowances were back-dated to 20 May 1983.

#### **June 13 Interest on Deposit Regulations 1983**

These regulations replaced the Interest on Deposits

Order (No. 2) 1982, which was due to expire on 22 June 1983. The prescribed maximum interest rates which could be paid on deposits accepted by financial institutions, as outlined in the Interest on Deposits Order (No. 2) 1982, were left unchanged, while the definition of interest was amended to bring it into line with that contained in Section 2 of the Reserve Bank of New Zealand Act 1964.

#### **June 15 Withdrawal of Kiwi Stock**

The Minister of Finance, the Rt. Hon. R.D. Muldoon, announced the withdrawal of Kiwi Savings Stock, effective from 16 June. In the three months the issue was open, it raised a total in excess of \$1,400 million, although subsequent withdrawals have reduced this amount.

#### **June 17 Transport Option Study**

The Institute of Economic Research released a study of transport regulation options, entitled 'By Rail or Road'. Using a case study, the report evaluated some of the effects of rail protection and provided a framework for the analysis of the various policy options.

#### **June 30 OECD Report**

The report on the New Zealand economy by the Organisation for Economic Co-operation and Development (OECD) was released. The main conclusions of the report were:

- increased unemployment in the 1984 and 1985 fiscal years
- improvement in the external deficit in the 1984 fiscal year
- increased competitiveness in international trade, as New Zealand's inflation rate falls to those levels prevailing in the OECD
- continuation of slow growth in the economy in the 1984 and 1985 fiscal years.

#### **July 11 Tendering of Government Stock**

The Reserve Bank outlined the structure of the proposed Government Stock Tender Scheme. Based on the Australian scheme, the Government would offer an amount of government stock, for which the institutions place tenders by bidding for a desired yield in each maturity. Of the total stock 95 per cent would be allocated on the basis of the yield bids, the remaining 5 per cent being allocated in a non-competitive bid at the weighted average of the successful yield bids. The Bank indicated that approximately eight tenders would be held each year.

#### **July 27 Interest Rate Policy**

The Minister of Finance, the Rt. Hon. R.D. Muldoon, announced major reductions in government security interest rates, Treasury bill rates falling to 7.8 per cent for 91 days and 7.9 per cent for 182 days. He indicated that government institution borrowing and lending rates would also be reduced, and that the Government expected the private sector to follow suit.

**July 28****1983 Budget**

The Minister of Finance, the Rt. Hon. R.D. Muldoon, presented the Budget for the 1983/84 financial year. Major features were:

- Expenditure forecast to rise by 13.1 per cent to \$14,336 million, while revenue forecast to rise by 2.4 per cent to \$11,167 million, resulting in a Budget (table 2) deficit of \$3,169 million (9.5 per cent of forecast GDP).
- Debt Servicing (up 36.9 per cent), and development of Industry (up 28.1 per cent), were the two fastest growing categories of expenditure.
- Increase in the family rebate, particularly for low income families, funded by an increase in the standard marginal tax rate from 31 to 31.5 cents per dollar. The temporary tax surcharge on high income earners was retained.
- Exemptions from estate and gift duties were increased, as were tax deductible employment-related expenses.
- Accelerated depreciation allowances for new residential rental properties, effectively doubling the depreciation rate for the first five years.
- Indirect taxes on tobacco and alcohol increased by approximately 8 per cent.
- Supplementary minimum prices held at the same levels for the 1983/84 season.
- Announcement of temporary long distance fee applicable to heavy trucks operating beyond 150 km.

**August 4****New Lending Rates by Government**

New lending rates by various government institutions were announced, including reduced rates for selected borrowers via the Post Office Savings Bank, Rural Bank and the Department of Maori Affairs. Mortgage rates with the Housing Corporation were lowered from 28 July.

**August 5****New Foreign Exchange Dealers**

As part of a move to create a more competitive foreign exchange market, the Minister of Finance, the Rt. Hon. R.D. Muldoon, announced the names of nine new foreign exchange dealers (seven of whom would be operating from 1 September). Also announced was the cessation of the Reserve Bank's quotation of the US\$ exchange rate on a fixed basis per day. This would be permitted to vary during the day, in line with market forces. In addition, the Reserve Bank would no longer participate in the forward exchange market.

**August 11****Local Authority Rates Cut**

The Minister of Finance, the Rt. Hon. R.D. Muldoon, announced reductions in interest rates applicable to local authority stock.

**September 1****Securities Act**

The amended Securities Act took effect, the main provisions relating to the content and issuing of prospectuses, trust deeds and financial advertising.

**September 5****Kiwi Savings Stock II**

The Minister of Finance, the Rt. Hon. R.D. Muldoon, announced the introduction of a new issue of Kiwi Savings Stock, the terms being similar to those of the original issue, but at lower interest rates. The stock carried an interest rate of 10 per cent per annum, payable quarterly, and was redeemable after four weeks, with the rate being reduced to 8 per cent per annum if redeemed within one year.

**September 8****Government Stock Tender No. 1**

The first Government Stock tender offered \$100 million on two maturities (15 June 1985 and 15 August 1987) with \$286.79 million being received in bids. The full \$100 million was allocated with weighted average yields of 8.706 per cent and 9.005 per cent respectively for the successful bids.

**1983 Energy Plan Released**

The Minister of Energy, the Hon. W.F. Birch, released the 1983 Energy Plan, which comprised a general resumé of the energy development programme and suggested an acceleration in the utilisation of the Maui gas field as an option in medium term energy development.

**Hire Purchase Controls Abolished**

The Government revoked regulations restricting hire purchase financing of motor vehicle sales.

**September 14****POSB Housing Package**

A housing package for first home builders was released with the main feature being a \$5,000 suspensory loan, the loan being made available to those whose house and section together did not exceed \$70,000 in cost.

**September 22****Interest Rates Reduced**

Interest rates on the government funded Energy Conversion Loan Scheme and the Alternative Fuels Vehicle Conversion Loan Scheme were reduced to 10 per cent.

**September 27****Energy Planning '83' Released**

The Minister of Energy, the Hon. W.F. Birch, released the Ministry of Energy's summary of the Energy Plan, 'Energy Planning '83'. A condensed version of the Energy Plan, it comprises five sections: energy and energy planning; energy forecasting; resources; future developments; and public participation in energy planning.

**October 6****Butter Quota Proposals**

The European Community Commission proposed to cut New Zealand's butter quota to 83,000 tonnes in 1984, compared to 87,000 tonnes in 1983. It was suggested that subsequent reductions in the quota be made at a

rate of 2,000 tonnes a year to be at a level of 75,000 tonnes by 1988.

#### **October 13                    Government Stock Tender No. 2**

The second tender for Government Stock, comprising \$200 million offered in three maturities (15 October 1985, 15 October 1986, 15 October 1989) resulted in bids worth \$215.734 million being lodged, of which \$194.822 million were successful. Weighted average yields of the successful bids for each of the three maturities were 9.524 per cent, 9.902 per cent and 10.646 per cent respectively.

#### **October 25                    Dairy Board Borrowing**

The New Zealand Dairy Board announced details of a borrowing programme to raise a minimum of \$100 million. This move towards shorter term borrowing followed the Government's imposition of a \$750 million limit on the Board's overdraft facility with the Reserve Bank.

#### **November 1                    Transport Deregulation**

The Transport Amendment Act No. 2 became effective, commencing the first stage of a progressive deregulation of land transport. Completion of the transitional phase is scheduled for 31 October 1986.

#### **November 4                    Meat Board Controls Sheepmeat**

The Meat Board announced that it had invoked Section 10 of the Meat Export Control Act, allowing it to take control of all export sheepmeat for the 1983 season. It also announced plans for marketing in the United Kingdom.

#### **November 7                    Wool Board Finances Changed**

The Government announced changes to the Wool Industry Act 1977 allowing the Wool Board to vary its levies on farmers, and to extend the levy to meet the cost of all its activities, instead of just promotion and research. The Wool Board indicated its desire to increase the levy from the then current level of 5 per cent, to 6 per cent in the 1983 season.

The Government also announced changes in the minimum wool prices funding account, including an increase in the fund's interest rate from 1 per cent to the equivalent of the 12 month government stock rate.

#### **November 9                    Mortgage Interest Controls**

The Financial Institution (Mortgage Loans) Regulations 1983 took effect, placing maximum limits on mortgage interest rates of 11 per cent for first mortgages and 14 per cent for second and subsequent mortgages. When introducing the new regulations the Government also revoked the Interest on Deposit Regulations 1983.

#### **November 10                  Modified Meat Task Force Report Accepted**

The Minister of Agriculture, the Rt. Hon. D. MacIntyre, announced that the Government had accepted the broad recommendations of the meat industry task force, but with a number of modifications. As part of the implementation of the modified recommendations, a Meat Industry Council will be established and charged with a number of responsibilities, including the overseeing of the strategies and marketing plans developed by the meat industry and the Meat Board.

#### **November 11                  New Governor Named**

The Prime Minister, the Rt. Hon. R.D. Muldoon, announced the decision to appoint Mr Spencer Russell as the next Governor of the Reserve Bank, his appointment taking effect from 17 May 1984, when the current Governor, Mr D.L. Wilks, retires.

#### **November 17                  Government Stock Tender No. 3**

The third tender for Government Stock, comprising \$400 million offered in three maturities (15 October 1985, 15 May 1987, 15 October 1991) raised \$143 million from a total of \$458 million received in bids. Weighted average yields for the successful bids in each of the maturities were 10.644 per cent, 10.586 per cent and 10.901 per cent respectively.

#### **November 18                  Tender Basis Altered**

The Minister of Finance, the Rt. Hon. R.D. Muldoon, announced a change in the allotment method for future government stock tenders. Future allotments would be made on the basis of a uniform yield (the highest successful yield), while the non-competitive facility would be removed.

#### **Air Services Licensing Liberalisation**

Royal assent was given to the Air Services Licensing Bill. The legislation is designed to liberalise the air transport sector as part of a general policy of transport deregulation.

#### **Bid for New Zealand Forest Products Ltd.**

A partial takeover bid for ordinary shares in New Zealand Forest Products Limited was launched. The bid resulted in approximately 25 per cent of the company's share capital being purchased jointly by Watties Industries Limited and Goodman Group Limited.

#### **November 21                  Bulk Tariff Increase Announced**

The Minister of Energy, the Hon. W.F. Birch, announced an increase in the bulk electricity tariff averaging 4 per cent, effective from 1 April 1984. A two stage price differential between the North and South Islands would result in a 6 per cent increase for the North Island and no change for the South Island.

**November 23 Iranian Lamb Deal**

The Meat Board concluded a lamb-for-cash deal with Iran, involving an estimated 140,000 tonnes of lamb, valued at approximately \$400 million.

**November 24 Wage Legislation Passed**

The State Services Conditions of Employment Bill, designed to restructure the relationship between public and private sector wages and salaries, was passed.

**November 25 Public Accounts Released**

The Public Accounts for the first six months of the 1983/84 financial year revealed a deficit of \$2,011 million.

**November 28 National Development Strategy**

The Government released the National Development Strategy. A medium-term economic and social plan, the strategy laid down in general terms the broad objectives of Government policy over the next few years.

**November 29 Japan-New Zealand Methanol Deal**

Japan-New Zealand methanol deal concluded, involving the export of methanol to Japan.

**December 1 EMG Report**

The Planning Council's revised Economic Monitoring Group released its first report, 'Foreign Exchange Constraints, Export Growth and Overseas Debt'. The report examined trends in New Zealand's exports and imports, terms of trade and external deficit constraint and indicated the Group's concern about the consequences of a continuation of current borrowing levels.

**December 2 Revised Government Stock Tenders**

The Minister of Finance, the Rt. Hon. R.D. Muldoon, announced details of further changes in the Government Stock tender system. A new stock, to be inflation-indexed, was outlined as were details of allotment procedures based on a uniform yield.

**New Banknote**

The Reserve Bank announced the commencement of a new issue of \$50 banknotes. This was the first change in the denominational structure of New Zealand currency since 1967.

**December 6 Finance Bill Passed**

The Finance Bill was passed through all stages in the House of Representatives. It amended the Economic Stabilisation Act 1948 to allow the introduction of the Economic Stabilisation (Mortgage Loans) Regulations 1983. The regulations were retrospective to 10

November and replaced the Financial Institutions (Mortgage Loans) Regulations 1983 and those parts of the Financial Services Regulations 1983 relating to private mortgage loans. The new regulations limit mortgage interest rates to the levels contained in the replaced regulations and provide for the extension of interest rate controls to existing mortgages upon review.

**Planning Council Report**

The Planning Council released the second version of its National Sectoral Programme, entitled 'Towards 1990: Patterns of National and Sectoral Development'. The report was based on two economic models and on consultations with representatives of 26 sectors within the economy, and projects growth rates in the economy consistent with sectoral constraints.

**December 13 Industrial Law Reform Bill**

Major changes to industrial relations were initiated with the passing of the Industrial Law Reform Bill. The main effect of the legislation is to make unions voluntary organisations by removing the unqualified preference clause in union rules. Clauses in the Bill pertaining to youth rates were defeated in the committee stages.

**Temporary Butter Quota**

European Community Agriculture Ministers agreed to a temporary quota for New Zealand butter exports to the Community of 13,833 tonnes for January/February 1984.

**December 15 Government Stock Tender No. 4**

The fourth tender for Government Stock comprised \$400 million in three maturities for normal stock (15 December 1984, 15 June 1986, 15 October 1991) and two maturities for inflation-indexed stock (15 March 1989 and 15 March 1994). Total bids received amounted to \$404.222 million, of which \$313.644 million were successful. Allotment yields for ordinary stock were 9.89 per cent, 11 per cent and 11 per cent respectively, with the indexed stock allotted at an interest rate of 6 per cent per annum.

**Wage Negotiations Held**

Negotiations between the Government and representatives of employers and employees were held to discuss the post-freeze incomes policy. The discussions focused on the two main options available: a general wage adjustment or a limited wage round.

**December 16 Increased Ratios**

The Minister of Finance, the Rt. Hon. R.D. Muldoon, announced increases in government security ratios applicable to finance companies and building societies. Finance company security ratios will rise from 20 to 25 per cent effective from 29 February 1984, while the building society ratios will rise by 3 per cent to 19 per cent from 9 February 1984. This followed lending growth by these institutions in excess of the guideline.

**December 19                      Electrification Approved**

Cabinet approved \$85 million of tenders for the electrification of the trunk rail line between Palmerston North and Te Rapa.

**December 20                      Price Surveillance Outlined**

The Minister of Trade and Industry, the Hon. H.C. Templeton, announced details of the price surveillance system that would be in operation from 29 February 1984, the date designated as the last day of the freeze. The main provisions are: a restriction to no more than two price increases in the year following the end of the freeze, this applying to suppliers of goods and services; while manufacturers and service industries with annual turnovers in excess of \$10 million and \$3 million respectively are required to give twenty days' notice to the Department of price increases, which has discretion in accepting these. Retailers, wholesalers and importers face no price increase restrictions, but must submit returns of sales and profit to the Department, which can investigate and alter price changes.

**Directors' Fees and Company Distributions Regulations**

The Prime Minister, the Rt. Hon. R.D. Muldoon, announced that the Limitation of Directors Fees Regulation 1982 and the Companies (Limitation of Distributions) Regulation 1982 would be allowed to expire on 29 February 1984.

**December 21                      Road User Charges Increased**

The Minister of Transport, the Hon. G.F. Gair, and the Minister of Works and Development, the Hon. A.P.D. Friedlander, announced increases of up to 20 per cent in

road user charges for heavy vehicle operators, the increases to apply from 1 April 1984.

**Labour Market Analysis Released**

The Institute of Economic Research released a report on various aspects of the labour market in New Zealand. 'Studies in the Labour Market' covered topics such as labour supply, employment and unemployment and labour productivity growth rates.

**December 22                      Government Financial Institutions included in Regulations**

The Governor of the Reserve Bank, Mr D.L. Wilks, announced that government-owned financial institutions would be subject to a requirement to hold public sector securities in terms of the Finance Companies (Investment) Regulations 1983. A phasing-in period would be allowed where necessary, with the Development Finance Corporation Ltd. having up to five years to fully comply with the Regulations.

**December 23      New Zealand Forest Products Ltd. Bid for Watties**

New Zealand Forest Products Limited announced their intention of seeking a further 40 per cent of capital of Wattie Industries Limited. If successful, this would result in NZFP holding 65 per of Watties' share capital.

**December 28                      Reserves Margin Narrowed**

Following a growth in bank lending in excess of the guideline, the Reserve Bank announced that the free reserves margin used when setting the trading bank reserve asset ratio for January, had been reduced from \$100 million to \$50 million.