# MONETARY POLICY MEASURES

Over the past few weeks the Government has made a number of announcements relevant to monetary policy. Some have been directed at the level of interest rates, while others have been designed to restrain credit growth to within the guideline limits announced last year.

## CLOSURE OF KIWI SAVINGS STOCK II

On 9 February 1984, the Minister of Finance, the Right Hon. Sir Robert Muldoon, announced the closure of the second Kiwi Savings Stock issue. This second issue, which had been opened on 5 September 1983, offered an interest rate of 10 per cent per annum, reducible to 8.5 per cent per annum on stock redeemed within twelve months. Though pitched at somewhat lower rates relative to those ruling in the market than had been the case with Kiwi Stock I, the second issue was still initially quite successful and by the end of October had attracted a net $119 million. New subscriptions fell away quite sharply after this however. At the time of its closure, Kiwi Stock II had raised a net $127 million in total, which compared with the net $1,096 million attracted during the period Kiwi Stock I was on the market.

In making the announcement, the Minister pointed to the unsettled market conditions prevailing at the time. Wholesale deposit rates in particular had risen sharply in early February. There was a concern that the presence of Kiwi Stock II may have been inhibiting a general decline in other market interest rates to a level more in line with the current rate of inflation. However, Sir Robert also announced the Government's intention to return to the retail market once rates had settled down again.

## RENEWAL OF CONTROLS ON LENDING INTEREST RATES AND THE PRICE OF FINANCIAL SERVICES

Amendments extending the Financial Services Regulations (No. 2) 1983 and Economic Stabilisation (Mortgage Loans) Regulations 1983 to 31 August 1984 were announced by the Acting Minister of Finance, the Hon. John Falloon, on 27 February 1984. The Economic Stabilistion (Mortgage Loans) Regulations 1983, which came into force in November 1983 and require new mortgage lending to be at a maximum of 11 per cent for first mortgages and 14 per cent for second and subsequent mortgages, have been renewed unamended.

There have, however, been some administrative changes in respect of the Financial Services Regulations (No. 2) 1983 which control financial service prices, including interest rates other than where security is over property. Increases in financial service prices other than interest rates and which are no more than the current movement in the Consumers Price Index will now in general be permitted, subject to prior notification to the Reserve Bank. Consideration will not, however, be given to catch-ups in respect of the period of the freeze. Some further allowance may be given where the supplier can show that its specific cost increases are in excess of general price movements and that such increases are a result of factors external to the supplier. Increases over and above those suggested by these guidelines would be considered only where the supplier could prove its business would not be financially viable should the increase be declined.

Changes have also been made to the appeal procedures incorporated in the Regulations. A Financial Services Price Review Authority has been established, consisting of one member of the Commerce Commission, to hear appeals against decisions arising under the Regulations. This new appeal procedure has been modelled on that incorporated in the Department of Trade and Industry's Price Surveillance Scheme and replaces a procedure which required appeals to be heard by a full sitting of the Commission.

## TRADING BANK RESERVE ASSET RATIO

On 27 February 1984, the Acting Minister of Finance, the Hon. John Falloon, announced that the reserve asset ratio to be applied to trading banks for March would be determined on the basis of an estimated 'free' reserves margin of minus $50 million, compared with the zero margin aimed at in February. This represented a further tightening of ratio policy and followed evidence that in the first three weeks of February, trading bank lending was continuing to expand at a rate in excess of the 1 per cent per month credit guideline imposed on all groups of major financial institutions in early 1983. Over the four months to January 1984, the rate of growth in bank lending averaged around 2 per cent per month and preliminary February figures showed no change in this trend, with an increase of 2 — 3 per cent in prospect for the month as a whole.

The margin of free reserves aimed at when setting the trading bank reserve asset ratio had already been reduced from $100 million, which is considered to represent a *neutral* policy stance, to $50 million in January and to zero in February, both measures taken in response to the excessive lending growth recorded over the last three months of 1983. Each reduction in the free reserves margin increases the likelihood that the banks' actual reserve asset holdings in any one month will fall below the required level. Should this happen the bank(s) involved are required to borrow from the Reserve Bank to make good the shortfall at a penal interest rate. This penal borrowing charge was also increased recently, effective from February 1984 (see page 17 of the January/February issue of the *Bulletin*). The combined effect of these measures has been to increase both the likelihood and the cost of the banks being required to borrow from the Reserve Bank. The objective is to encourage the banks to contain their lending growth within the credit guideline by increasing the potential cost of exceeding the guideline. (For a more complete description of the operation of the reserve asset ratio system, refer to the October 1981 issue of the *Bulletin*.)

## INFLATION ADJUSTED SAVINGS BONDS

More attractive terms and conditions on the issue of Inflation Adjusted Savings Bonds were announced by the Acting Minister of Finance, the Hon. John Falloon, on 28 February 1984. The $20,000 upper limit on individual bond holdings has been removed so that an individual may now invest any amount (provided each investment is for a minimum of $100 with multiples of $50 thereafter)

The inflation premium payable is in future to be calculated from the date of investment until the date of redemption Previously it had been calculated only until one month before the date of redemption The new method of calculating the premium applies to all requests for repayment of bonds received by the Reserve Bank after 31 March 1984 (i e repayments made from 1 May 1984 onwards)

A minimum inflation adjustment of 1 25 per cent in every quarter will apply from the quarter ending 31 March 1984 Previously, while there was a minimum premium of 5 per cent per annum (compounded quarterly) over the whole life of a bond, very low increases in particular quarters, if offset by high increases in other quarters, could result in a return lower than 5 per cent per annum during the low index periods For example, quarterly increases in the Consumers Price Index during 1983 of less than 1 25 per cent could have resulted in an inflation premium of less than 5 per cent over 1983 on those bonds which had also been held over earlier years when the inflation rate was in excess of 5 per cent.

These enhancements apply to all Inflation Adjusted Savings Bonds, including those currently held