QUARTERLY REVIEW OF MONETARY CONDITIONS

INTRODUCTION

A major feature of monetary conditions in New Zealand over recent years has been the increasing volatility in the level of liquidity. External factors, which have affected the balance on the current account, domestic fiscal policies, which have resulted in large budget deficits, and the sharp swings in the manner in which domestic monetary policy has been implemented have all been important. Economic policy has been characterised by periodic shifts in objectives. For instance, the varying use of public debt policy has reflected the fluctuating focus between quantity and interest rate objectives and has encouraged substantial and rapid changes in monetary and credit conditions.

This increased volatility has been clearly illustrated in the period covering the June quarter 1984 and extending through into the early part of the September quarter. Trading bank reserve assets, the average of which had reached a then all time high of $2,596 million in April 1984 fell to around $1,415 million by mid-July, a movement paralleled in recent times only by that which occurred in the period following the first issue of Kiwi Savings Stock (March-June 1983). In combination with the tight controls covering interest rates, this drain in liquidity placed considerable pressure on the short-term money markets. On 18 July 1984 however, the New Zealand dollar was devalued by 20 per cent and interest rates were decontrolled. In the fortnight that followed, in what appears to be the most rapid increase ever, trading bank reserve assets more than doubled, moving from approximately $1,416 million on 17 July to $2,888 million on 31 July 1984.

Interest rates similarly showed dramatic variability over this period. Short-term money market rates, which had been between 11 per cent and 12 per cent at the beginning of the year, rose across the board to the maximum permitted rate of 17 per cent by late June. The market clearing interest rate was probably higher still. But by mid-August these rates had fallen, with call rates as low as 6 per cent. Conversely longer term rates had steadily fallen through the first half of the year, reflecting in part expected and subsequently actual regulations, but rose again in late July and early August. Monetary and credit aggregate growth rates also fluctuated, particularly private sector credit.

This article sketches the main developments in monetary conditions and Government policy during the June quarter of 1984 and the first half of the September quarter (to the extent that information is available for the latter period). The decision to go beyond the usual quarterly period for this review reflects the nature of developments; particularly the important effects of the currency crisis in late June and early July and its aftermath. The article also briefly examines the underlying rates of deposit and lending growth of the major financial institutions in the June quarter 1984. Details of monetary conditions and policy in the first quarter of 1984 are provided in the June 1984 *Bulletin* (Vol. 47) on pages 239-245.

EARLY 1984: RAPID BUT SLOWING GROWTH IN MONEY AND CREDIT

The strong growth in the main monetary and credit aggregates recorded during the second half of 1983 continued in the first few months of 1984. However, signs of a slowdown, particularly in the growth of private sector credit, began to emerge in the March quarter 1984 and persisted through the early part of the next quarter. In the months of February, March and April 1984, for example, the rates of increase in private sector credit were 2 per cent, 1.2 per cent and 0.5 per cent respectively.[1] These movements reflected a slowing both in the rate of lending by the trading banks, from 2.6 per cent in the month of February to 0.9 per cent and then 0.1 per cent in the months of March and April, and by the finance companies, whose monthly rates of lending between February and May 1984 were 3.3 per cent, 2 per cent, 1.5 per cent, and −0.1 per cent respectively.[2] [3] Steady growth in lending by the savings banks (of 1.3 per cent, 1.6 per cent, 1.6 per cent, 1.4 per cent between February and May) also contributed.

The downward movement in these growth rates was consistent with Government's desire to contain any excess expansion in monetary and credit aggregates which might have jeopardised the maintenance of a lower rate of inflation. It was a movement that had been encouraged by the use of the credit growth guideline (which essentially advised each institutional group that their lending should grow by no more than 1 per cent per month) in combination with a series of harsher ratio policy moves: the public sector security ratio requirements faced by the finance companies and the building societies were raised (February and March); an additional marginal ratio on finance company lending was introduced to take effect from June 1984; and the reserve asset ratio policy applied to trading banks was progressively tightened over several months.

Meanwhile the broadly defined money supply and selected liquid assets of the public (M3) continued to grow fairly steadily over the first months of 1984. The monthly rate of increase picked up from 1.1 per cent in March to 1.9 per cent in April 1984 but subsequently slowed to 0.9 per cent and then 0.1 per cent in the months of May and June. However, more significant movements over the June quarter were evident in the annual rates of growth recorded — the increase of 16.9 per cent in the year to May 1984 was the largest registered since early 1982 and like those for April and June 1984 reflected the impact of the Kiwi Savings Stock issue in the June quarter 1983 and the absence of a comparably competitive public debt instrument since then.

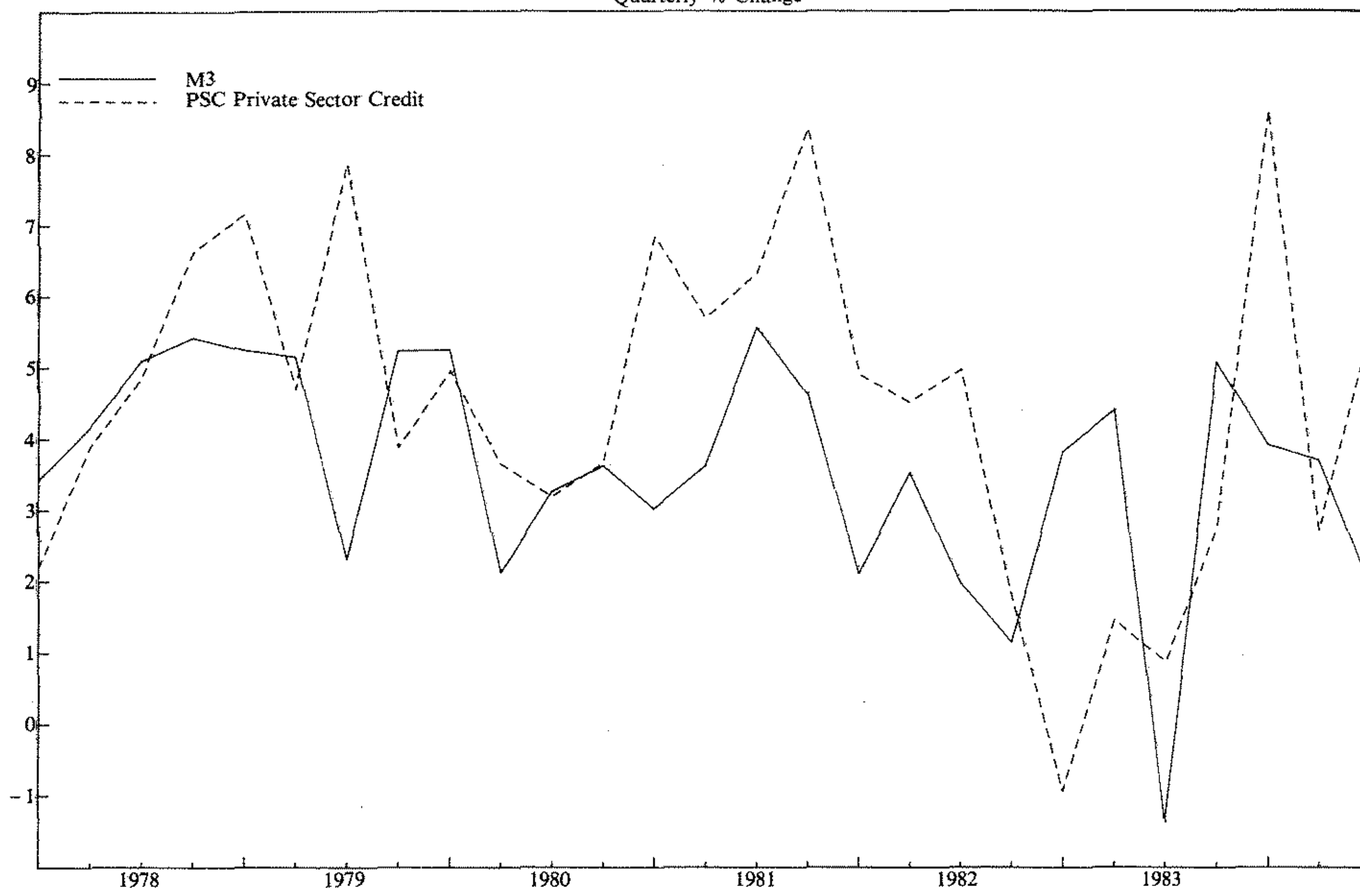
As in earlier periods, the monetary injection from the Government accounts ($1,050.7 million for the June 1984 quarter compared with $1,137.6 million for the same period in 1983) was the major factor underpinning this monetary growth. In the month of April the impact of the Government appeared particularly dominant with a fiscal deficit of $853 million being recorded, $730 million more than for the same month in 1983. However, much of the April deficit reflected timing factors, as indicated by an unusually low deficit in May ($123.2 million). Partially offsetting this overall injection from the Government, was a deterioration in

1 All monthly and quarterly growth rates given in this article are seasonally adjusted unless otherwise stated.

2 Monthly trading bank lending figures are adjusted to exclude the seasonal component of trading bank lending to the Dairy Board.

3 A change in accounting policies by one finance company has required a revision of net loans and advances figures. At this stage seasonally adjusted monthly changes are unavailable.

Figure 1
Seasonally Adusted M3 and PSC
Quarterly % Change



the external accounts. In April and May 1984 OET current account deficits of $164 million and $100 million respectively represented a reversal from the surpluses of $90 million and $112 million recorded in the same months in 1983. A net private capital inflow of $82 million was recorded for the same two months in 1984, compared to a $144 million injection from this source in the same period in 1983.

Another influence was the Government's concern to reduce interest rates which placed an effective constraint on public debt policy over the period. As a consequence public debt sales to the non-M3 sector over the early part of 1984 fell short of the amount required to reduce monetary growth. For most of the period Inflation Adjusted Bonds remained the only retail issue on the market and new subscriptions for this instrument continued to fall short of redemptions despite the improvement in terms and conditions in late February (for details refer March 1984 *Bulletin* (vol. 47, p.85).

In an attempt to lift the level of debt sales to the non-M3 sector a new instrument called 'Our New Zealand Bonds' was introduced late in June. The stock was available for only a limited period (initially 3 months) and offered a fixed interest return of 5 per cent plus a cost of living adjustment. Sales were slow, reaching $17.7 million by the end of June and only $41.1 million by 27 July 1984 (for more details of issues and redemptions of retail stock refer to table 1).

TIGHTENING LIQUIDITY

Public debt policy in the wholesale market had, however, become more successful with the seventh tender, which was held on 3 May 1984. Almost the total amount offered — $600 million — was sold, and at rates at or below those set at previous tenders. While this outcome was a reflection of easy liquidity conditions at the time, the subsequent funding requirements, in combination with the tight ratio requirements faced by various institutions, placed significant pressures on short-term deposit interest rates during the settlement period. Ninety day commercial bills rates, for example, rose to in excess of 15 per cent towards the end of May compared with just over 12 per cent three weeks earlier.

This liquidity tightness was probably also responsible for the relative lack of success of the next tender held on 7 June. On this occasion only $155.2 million of bids were submitted for a total offering of $250 million, of which bids for only $83.7 million were accepted, and almost entirely for indexed stock (for further details of the tenders refer to table 2).

The movement in short-term deposit rates which had occurred in late May was exacerbated in June by an increased drain of foreign exchange, and the accompanying liquidity shortage.

As mentioned in the introductory section, wholesale market interest rates by late June had been pushed hard up against the interest rate ceilings (maximum 17 per cent) and they remained there throughout most of July. This movement was, nevertheless, not reflected in longer term interest rates (for both deposits and lending) in the June quarter. Rates on retail deposits at major institutions for example had generally fallen to 10 or 11 per cent by the middle of March and, in the face of possible further controls, remained at these levels. Certain lending rates also fell, in particular those associated with loans secured by mortgage over real property; mortgage interest rate regulations prescribed

TABLE 1
SUBSCRIPTIONS AND REDEMPTIONS OF RETAIL DEBT INSTRUMENTS: COMPARISON OF MARCH AND JUNE QUARTERS 1984

	March 1984			*June 1984*		
	Subscriptions	*Redemptions*	*Net*	*Subscriptions*	*Redemptions*	*Net*
Inflation Adjusted Bonds	+ 5.6	− 55.0	− 49.4	+ 27.0	− 42.1	− 15.1
Kiwi Savings Stock I	...	− 15.4	− 15.4	...	− 21.0	− 21.0
Kiwi Savings Stock II	+ 16.6	− 7.0	+ 9.6	...	− 5.6	− 5.6
Our New Zealand Bonds	...	...	...	+ 17.7	...	+ 17.7
Other Savings Stock	...	− 0.6	− 0.6	...	− 19.5	− 19.5
Total	**+ 22.2**	**− 78.0**	**− 55.8**	**+ 44.7**	**− 88.0**	**− 43.3**

TABLE 2
NEW ZEALAND GOVERNMENT STOCK SALES BY TENDER

nder mber	Date held	Stock offered	Maturity date	Total amount offered $m	Total bids submitted $m	Over-subscriptions accepted[2] $m	Total successful bids $m	Allotment Yield[3] % p.a.
	8/9/83	N.Z. Govt. Stock	15.06.85	80.0	218.6		80.0	8.71
			15.08.87	20.0	80.0		20.0	9.01
	13/10/83	N.Z. Govt. Stock	15.10.85	100.0	108.2		100.0	9.52
			15.10.86	75.0	69.8		69.8	9.90
			15.10.89	25.0	37.7		25.0	10.65
	17/11/83	N.Z. Govt. Stock	15.10.85	200.0	194.1		76.2	10.64
			15.05.87	150.0	168.5		49.8	10.58
			15.10.91	50.0	96.0		17.0	10.90
	15/21/83	N.Z. Govt. Stock	15.12.84	125.0	172.6		125.0	9.89
			15.06.86	100.0	91.9		88.0	11.00
			15.10.91	50.0	24.4		19.9	11.00
		Index Linked[1]	15.03.89	75.0	55.4		30.7	6.00
			15.03.94	50.0	60.8		50.0	6.00
	2/2/84	N.Z. Govt. Stock	15.06.85	200.0	61.0		58.5	11.00
			15.01.87	100.0	22.8		18.7	11.00
		Index Linked	15.06.89	100.0	43.9		29.9	6.00
			15.06.92	200.0	225.8	1.0	201.0	6.00
	22/3/84	N.Z. Govt. Stock	15.05.86	100.0	86.0		12.6	10.00
		Index Linked	15.06.91	250.0	545.7		222.5	5.30
			15.06.99	50.0	171.2	10.0	60.0	4.59
	3/5/84	N.Z. Govt. Stock	15.04.86	100.0	65.6		55.1	10.00
		Index Linked	15.09.87	100.0	137.1		64.8	5.00
			15.09.92	300.0	588.7	60.0	360.0	4.95
			15.09.01	100.0	197.2	20.0	120.0	4.55
	7/6/84	N.Z. Govt. Stock	15.04.86	50.0	2.9		0.2	10.00
		Index Linked	15.09.87	100.0	35.0		11.4	5.00
			15.09.93	100.0	117.3		72.0	5.00
	27/7/84	N.Z. Govt. Stock	15.06.87	100.0	78.7		68.7	15.00
			15.06.90	100.0	78.2	57.6	15.6	15.50
		Index Linked	15.12.87	150.0	158.0		139.8	5.00
			15.12.91	150.0	212.4	30.0	180.0	5.00
	16/7/84	N.Z. Govt. Stock	15.06.86	150.0	157.9		123.9	15.50
			15.11.92	50.0	220.7	7.8	57.8	15.25
		Index Linked	15.06.89	100.0	92.7		73.7	6.00
			15.06.92	100.0	133.2	20.0	120.0	6.00

te:
On 2 December 1983, the Minister of Finance announced debits of a new 'Index-Linked' Government Stock — details of this stock were provided on page 565 of the December *Bulletin* (Vol. 46).
As from the fifth tender over-subscriptions of up to 20% of the amount offered in any maturity may be accepted subject to the overall amount accepted not exceeding the amount of stock offered not exceeding the amount of stock offered in the tender (this facility was announced on 2 February, 1984 and was covered on page 18 of the January/February *Bulletin* (Vol 47)).
At the same time as Index-linked stock was announced, the allotment system for successful bids under the tender system was also changed from the yield bid to a uniform yield basis. This means that all stock of any one maturity is issued at a uniform yield equal to the *highest* yield accepted in the tender. This system was first operated in the fourth tender. Figures prior to that are presented as a weighted average of the yield at which stock was allotted. The allotment yield for the indexed stock excludes the inflation adjustment component of the interest return.

legal maximum interest rates on first and subsequent mortgages of 11 per cent and 14 per cent respectively. Continuing a decline which began in July 1983, the average rate for new mortgage registrations fell to 11.76 per cent in May 1984 (12.86 per cent excluding mortgages from Government sources), from 12.04 per cent (13.12 per cent) in April and 15.13 per cent (17.27 per cent) a year earlier. Also the interest rates on trading bank term loans and on overdrafts in the six months to March 1984 fell from their preceding September levels by around 1 per cent and 1.5 per cent respectively.

Further controls on both lending and deposit rates were introduced late in the June quarter. In addition to the existing constraints on interest rates on lending secured by way of mortgage or charge, regulations covering other lending by the trading banks, private savings banks, trustee savings banks, life offices, superannuation funds and building societies [the Financial Institutions (Interest Rate) Regulations 1984] and by all other lenders [the Economic stabilisation (Interest Rate) Regulations 1984] were introduced on 29 May 1984. These regulations specified a maximum

lending rate of 15 per cent in the case of the former group and a maximum rate of 17 per cent for the others. The lending controls were followed on 11 June by the introduction of Interest on Deposit Regulations (effective from 12 June 1984) which specified maximum rates of interest of between 8 per cent and 11 per cent payable on deposits with the trading banks and private savings banks, and of between 9 per cent and 11.5 per cent on deposits with other institutions.

By preventing financial institutions from competing for funds these controls could have been expected to force quantitative rationing of credit as institutions attempted to prevent further drains on liquidity. At the same time, however, the controls, by artificially constraining interest rates, probably stimulated the demand for credit. This increase in the demand for credit came at a time when the utilisation of existing credit limits was already increasing in response to such factors as the strengthening in real activity, the need for institutions to fund stock purchased in the seventh tender, and the opportunity for funds to be redeposited in money market instruments at higher interest rates. While financial institutions had been trying, in the face of tighter ratio policy, to hold credit growth, statistics on credit limits indicate that lending institutions were exposed to an upturn in credit facility usage. Although in the first six months of 1984 the average monthly increase in trading bank total credit limits was only 0.7 per cent (the rate at which new and increased limits were granted actually declined by an average 4.3 per cent per month), credit limit growth in the preceding six months had been strong. Total limits had risen on average by 2 per cent per month between August and December, while new and increased limits over the same period had grown on average by 8.7 per cent per month. Similarly, bill lines available but unused, both at the banks and at other dealers, had increased substantially over the year, thereby providing a further avenue for a credit growth upturn. In May 1984 the total of bill limits available but unused, was $1,381.3 million, 72.9 per cent higher than it had been in May 1983.

Thus, while the growth rate of credit limits had slowed by early 1984, there remained considerable scope for the utilisation of credit limits to increase markedly in the June quarter of 1984. In the event, this increased utilisation occurred. The average rate of utilisation of trading bank credit limits, for example, picked up from 67 per cent in the last five months of 1983 to 69.3 per cent over the first six months of 1984, and the 72.2 per cent figure recorded in the month of June was the highest since November 1982. A breakdown of trading bank lending into advances and discounts, and term loans, further confirms that the sharp increase in overall credit growth from May onwards was made possible by the exposed credit limit position established some months earlier. Advances and discounts, which had increased in annual terms by between 1 and 10 per cent in the months of January to April 1984, rose by an average annual rate of 21.7 per cent in the following three month period. In contrast, the strong 19 per cent average annual increase in term loans in the first four months of the year actually declined to around 16 per cent in the three months subsequently.

On 14 June 1984 it was announced that an early general election was to take place on 14 July 1984. In the weeks that followed, heavy purchases of foreign exchange, which resulted from expectations of a devaluation, and funded at least in part from drawings on unutilised credit lines, further contributed to the reversal of the credit growth slowdown of earlier months. Following an increase of 3.4 per cent in private sector credit in the month of May, credit growth of 1.7 per cent was recorded over June. These movements together contributed to a rise of 5.5 per cent in private sector credit in the June 1984 quarter, compared with a 2.7 per cent rise in the first quarter of the year.

DEVALUATION AND RAPID LIQUIDITY GROWTH

On 15 July 1984, the day after the election of a new Government, the Governor of the Reserve Bank announced that because of market uncertainties, and to allow a re-assessment of the country's foreign exchange position, the foreign exchange market would be closed until further notice. On 18 July a 20 per cent devaluation of the NZ dollar was announced and the market re-opened.

Accompanying the devaluation were a range of other policies aimed at keeping monetary and credit conditions under firm control in order to minimise the inflationary effects of the devaluation. The most important of these was the removal of all controls on interest rates introduced during the past year. [The Interest on Deposit Regulations 1984, the Economic Stabilisation (Mortgage Lending) Regulations 1983, and the Economic Stabilisation (Interest Rate) Regulations 1984.] In addition, the Financial Services Regulations were amended to exclude from regulation the prices of financial services which constituted interest and discount rates. In another measure the Finance Companies (Investment) Regulations 1983 were amended to remove the marginal ratio on finance companies which had been introduced in May as a special measure to back up the one per cent a month credit growth guideline (This latter was being consistently breached by this group of institutions). This move left the finance companies facing the more standard public sector security ratio requirement applied to total investments, and their lending, like that of other institutions, remained subject to the credit guideline.

To support the new level of the exchange rate and in the longer term to reduce inflationary pressures and help moderate the size of the balance of payments deficit, the new Government also indicated a wish to accompany the decontrol of interest rates with an appropriate public debt sales programme.

In the event the need to adopt a strong public debt sales stance became immediately apparent with the rapid build-up in liquidity after mid-July. An inflow of foreign exchange more than compensated for the earlier outflow causing the level of liquid assets and of overall reserves within the banking system to rise sharply — reserve assets of the trading banks more than doubled in less than 14 days to reach close to $3 billion.

This inflow of funds into the wholesale market led to an easing in short-term interest rate pressures. Call rates, for example, moved from a maximum 17 per cent at the time of the election to 11–12 per cent at the beginning of August, to 8 per cent by 10 August and to as low as 4 per cent by the end of the subsequent week (18 August). However, other longer term interest rates began to climb sharply, reflecting expectations that liquidity conditions would tighten. Similarly in the retail market, after an initial wait and see period observed by many institutions, both lending and deposit rates began to move upwards, to average at least two percentage points higher in early August than a month earlier.

In both markets, the upward movement was validated

by the acceptance of rates of up to 15 — 15.5 per cent (for conventional stock) and 5 per cent (for index-linked stock) by the Government in the ninth tender. This tender, held on 27 July, offered $500 million of ordinary and index-linked stock of medium and long term maturities. Bids received totalled $527.3 million, of which $446.1 million were accepted. As in the past, keener interest was shown in the index-linked stock. Although the higher yields accepted were likely to put pressure on interest rates in the short-term, they indicated the Government's determination to use public debt policy to contain the money supply in order to dampen inflation and inflationary expectations and achieve lower nominal interest rates in the longer term. Reflecting the easier liquidity conditions, the market had little difficulty in funding this tender — two days after the announcement of the results, over half of the amount sold had been settled, while four days before final settlement was required (13 August) only $38.8 million was still outstanding.

On 16 August 1984 a further tender was held. On this occasion bids totalling $604.5 million were submitted for the $400 million of stock offered. Of these $375.4 million worth were accepted at interest rates of 15.25 — 15.5 per cent for conventional stock and 6 per cent for the index-linked stock. This time the strongest interest was in the small $50 million offering of long term (November 1992) conventional stock. As with the ninth tender, settlement was expected to take place fairly quickly.

Action relating to other aspects of public debt sales policy has also been taken by the new Government. From 24 July 1984 the margins over market selling yields applied when the Reserve Bank 'discounts' government securities were doubled (to 1 per cent for government securities with six months or less to maturity and 1.5 per cent for government securities with more than one year to maturity with a graduated scale to apply to stock with maturity dates in between). The move, which will make it more expensive for the market to reliquify previously issued government securities at the Reserve Bank, will require more active portfolio management on the part of financial institutions. Subsequently, on 15 August 1984 it was announced that the Reserve Bank was to commence dealing on a regular but discretionary basis in the government securities secondary market, a move designed to allow the Bank to have a greater influence on liquidity conditions on a day-to-day basis. In addition the Bank's discount window for government securities was opened to all persons as was access to the Bank's portfolio of government securities with six months or less to maturity. In the last year these facilities have been available to trading banks only. At the time of these changes the Bank also indicated that the possibility of proceeding with a Treasury bill tender to replace the existing 'tap' issue system was again under active investigation. Overall these measures indicate a greater recognition of the way in which an active public debt trading policy can play an important role in the management of monetary policy.

FINANCIAL INSTITUTIONS AND MARKETS

Trading Banks

After easing to less than 1 per cent in the months of March and April 1984, the growth in trading bank lending picked up sharply and in the following three months the average rate of increase was 3 per cent, well in excess of the credit growth guideline. Moreover, in the year to July 1984, an increase in lending of 23.4 per cent was recorded, representing the highest annual growth rate for over two years.

As indicated earlier, this upturn was largely accounted for by an increase in the utilisation of overdrafts. Respective annual growth rates in advances and discounts of 15.2 per cent, 21.7 per cent and 28.5 per cent in May, June and July followed average annual increases of 9.4 per cent in the preceding three months. By comparison, the annual rate of growth in term loans fell from 22.3 per cent in March to an average 16 per cent in May, June and July. While during the June quarter the trading banks maintained a degree of restraint over new credit limits (total credit limits rose by 1.5 per cent in April, were unchanged in May and declined by 0.6 per cent in June), substantial increases in credit limits had occurred in earlier months (an average monthly increase of nearly 1.9 per cent was recorded for the last five months of 1983). It was these earlier increases which made the upturn in lending possible. Figures for the month of July, which show an increase in total credit limits of 1.5 per cent, and in new and increased limits of 5.6 per cent, indicate that some reversal of the June quarter restraint may be occurring.

Meanwhile deposits held at trading banks increased by 2.4 per cent during the June quarter — a rate of growth little changed from that recorded over the preceding three month period. In monthly terms, a small decline of 0.1 per cent in April was followed by a pick up in deposit growth to 1.1 per cent in May and then 1.4 per cent in June. In July, however, a further small fall (0.1 per cent) occurred, reflecting the foreign exchange outflow. (The timing of the deposit movements is a little blurred by these figures, which are monthly averages of weekly figures). In the year to June 1984 deposits grew by a strong 16.1 per cent compared with an increase of only 3.7 per cent a year earlier.

Throughout the period ratio policy continued to be directed towards controlling the growth in lending. To this end the April reserve asset ratio was set on the basis of an estimated free reserves margin of −$50 million. In the event reserve assets rose by more than had been allowed for, resulting in actual free reserves reaching $109 million. This situation was reversed in May when, in response to evidence of a slowing in lending growth, the free reserves margin was raised to +$50 million; but, largely as a result of a much smaller than anticipated injection from Government, a shortfall in reserve assets below requirement of $158 million resulted.

In June, following indications that bank lending growth had again exceeded the credit growth guideline, the reserve asset ratio was tightened and set on the basis of a zero estimated free reserves margin. In addition the effective cost of borrowing from the Reserve Bank was increased from 4 per cent to 7 per cent. Over the month the substantial drain on foreign exchange was largely offset by flows from Government, resulting in reserve assets finishing close to target (−$14 million). In July, again because of the recent upturn in lending, the free reserves margin was reduced further to −$100 million. Although during the early part of July the size of the foreign exchange outflow caused reserve assets to be substantially below their forecast levels, the foreign exchange inflow following the devaluation more than compensated. Reserve assets doubled in the space of a

Figure 2
Seasonally Adjusted Percentage Utilisation of Trading Bank Credit Limits

Figure 3
Trading Bank Lending and Deposits Seasonally Adjusted Monthly
% Change

fortnight (reaching close to $3 billion by the end of the month) and the free reserves outcome for the month as a whole was +$8 million. This tighter ratio policy was maintained in August when the requirement was again determined on the basis of a free reserves margin of -$100 million.

Savings Banks

Total savings bank lending is estimated to have increased by 4.2 per cent over the June quarter, a rate closely in line with that recorded in the three months ending March 1984 (4.5 per cent). The annual rate of increase, however, moved up from an average 9 per cent in the March quarter to an average 12.7 per cent over the following three months.

Credit extended by the Post Office Savings Bank (POSB) continued to show particularly strong growth over the period. Respective monthly increases of 2.6 and 2 per cent in April and May were followed by a somewhat smaller movement of 1.4 per cent in June.[4] The latter may reflect the effect of further constraints imposed by the POSB from 13 June 1984 which limited the amount of loans available in various categories in an effort to ensure that the institution stayed within the credit growth guideline. Nevertheless, because of the POSB's relatively low overall volume of loans outstanding, the greatest contributor to total savings bank growth remained the Trustee Savings Banks (TSBs). Lending growth by this group eased to 2.9 per cent over the June quarter (compared with a 3.1 per cent increase in the March quarter). Monthly lending information recently provided by the TSBs reveals that in April, May and June respectively, increases of 1.1 per cent, 0.9 per cent and 0.5 per cent occurred.[5] On the basis of both actual and seasonally adjusted lending figures, the group appears to have contained its credit growth to within the one per cent per month guideline.

Offsetting the contribution of both the POSB and the TSBs was the fall in lending by the Private Savings Banks (PSBs). Successive declines of 0.4 per cent, 1.3 per cent and 0.8 per cent registered in the months of April, May and June 1984 were similar in magnitude to those recorded in the preceding three months. An even more marked downturn occurred in deposits held at the PSBs which fell over the June quarter by 5.2 per cent (successive monthly declines of 1.4 per cent, 1.2 per cent and 2.6 per cent were recorded). More than compensating for this fall however, were the similar upward movements in deposits at the TSBs (respective monthly increases of 1.2 per cent, 1.6 per cent and 1 per cent) and the POSB (1.9 per cent, 0.8 per cent and 1.3 per cent). As a result the increase in deposits for the savings banks in total was 2.7 per cent over the quarter, somewhat higher than the 1.6 per cent growth observed in the first quarter of the year.

Finance Companies

Total loans and advances by the large finance companies increased by an estimated 2.3 per cent over the June quarter 1984 compared with a 5.4 per cent increase in the March quarter 1984.[6] Estimated monthly movements for April, May and June were 1.5 per cent, -0.1 per cent and 0.7 per cent respectively. This easing in lending probably reflects the impact of the increased public sector security requirement (ultimately to 30 per cent) and the additional marginal ratio requirement faced by the finance companies over the quarter. In annual terms lending by the finance companies continued to show strong growth, increasing by an estimated 25.3 per cent over the year to June 1984.

Total deposits at large finance companies also grew more slowly over the June quarter than in the preceding three month period, increasing by only 1.8 per cent. As with finance company lending, however the annual growth in deposits over the period remained high, registering 29.4 per cent in the twelve months to June.

Building Societies

Steady but reasonably small monthly increases in total advances by the building societies resulted in growth of 2.2 per cent over the June quarter.[7] When account is taken of investment by building societies in commercial bills it is estimated that lending as defined under the guideline grew by 0.8 per cent in April, 1.1 per cent in May and then 1.3 per cent in June. Meanwhile the increase in total shares and deposits at building societies over the June quarter was estimated to be 2.8 per cent, somewhat higher than that recorded in the March quarter (1.8 per cent) but still less than the strong growth rates registered in the second half of 1983.

CONCLUSION

Over the June quarter unusual circumstances, in particular those stemming from the early election, resulted in considerable variability in the recorded movements in monetary and credit conditions. Nevertheless underlying influences (the large fiscal deficit and the balance of payments position) indicate a continued need to contain the growth of the money supply and of credit.

Some important policy changes which will assist in achieving monetary control occurred in the latter part of the period surveyed. The removal of interest rate controls especially should permit more flexibility in the conduct of monetary policy and allow a more efficient flow of funds in the financial sector. In the short and medium-term the devaluation should provide a stimulus to the economy, but with attendant inflationary pressures. It will also enable a reduction in the fiscal burden of current export subsidies but will increase fiscal costs in other areas.

Beyond the short-term, the benefits of devaluation will depend on the monetary and fiscal policies adopted. In particular, efforts to reduce the budget deficit and to ensure a firm and consistent monetary policy are necessary if the economic growth apparent in late 1983/84 is to continue in the medium-term.

4 Monthly Post Office Savings Bank figures are adjusted for lending previously provided by the Housing Corporation.

5 This is a new monthly trustee savings bank lending series. Some minor problems still remain and it should be treated as provisional only.

6 From March 1981 the large finance company data collected by the Reserve Bank of New Zealand has been made up of a survey of companies with outstandings in excess of $5 million at that date.

7 Building society statistics display no stable seasonality. The growth rates given in this text are therefore based on those figures actually received.