ECONOMIC NOTES

Treasury Bill Tenders and Open Market Operations

No Treasury bills were offered for sale in tender 15, scheduled for the first week of May. This decision reflected the low levels of cash balances leading up to the tender date and some significant cash withdrawals expected over the settlement week. $200 million of Treasury bills were sold in tender 16 as cash balances strengthened over mid-May. A tightening of liquidity conditions later in the month saw small amounts, of $30 million each, offered in tenders 17 and 18.

Heavy cash withdrawals over the last week in April were accompanied by some $90 million of discounting by the banking system. On 1 May and 2 May, the Reserve Bank intervened in the market to moderate the impact of the large cash withdrawals forecast over the first week of May with $75 million being injected through buy-back transactions in government securities.

As cash balances recovered following this initial period of tightness, the Bank supplemented the regular Treasury bill tender process by selling $130 million of short-dated bills from portfolio over 8-15 May.

On 20 May, the Bank offered to purchase $25 million of 5-6 month government stock with the intention of providing an opportunity for institutions to switch these maturities for more liquid Treasury bills subsequently offered for sale in tender 17. However, market interest in the offer was weak and only $8 million was purchased by the Bank.

The market was considerably more receptive to offers of buy-back arrangements over 24-27 May when an amount of $106 million was injected at terms ranging between 60 and 100 days.

The main components of primary liquidity (discountable securities and settlement balances of the banking system) rose by around $110 million over 1-14 May and increased by a further $413 million on 15 May with the inclusion of November 1985 government stock maturities in the definition of the aggregate.

Interest rates firmed over the end of April and upward pressure continued through May. In particular, the weighted average yield on Treasury bills sold in tenders 17 and 18 (19.843 per cent and 19.948 per cent respectively), reflected expectations that liquidity conditions would remain firm over the subsequent period.

TREASURY BILL TENDERS AND OPEN MARKET OPERATIONS

Treasury Bill Tenders

Tender	*Amount Offered $m.*	*Term*	*Amount Sold $m.*	*Weighted Average Rate %*
15	—			
16	100	35 days	120	17.495
	100	42 days	80	18.405
17	30	28 days	30	19.843
18	30	28 days	30	19.948

Open Market Operations

	Amount Offered $m.	*Term*	*Amount Sold $m.*	*Amount Purchased $m.*
24 April TCDs	50	12- 16 days	50	—
1 May Buy-backs	50	70-115 days	—	50
2 May Buy-backs	25	70-115 days	—	25
8 May Treasury bills	25	21- 23 days	25	—
9 May Treasury bills	25	20- 21 days	25	—
10 May Treasury bills	30	19- 21 days	30	—
15 May Treasury bills	50	14- 16 days	50	—
20 May Govt stock	25	5- 6 mths	—	8
24 May buy backs	70	60-100 days	—	81
27 May buy backs	25	60-100 days	—	25

19th Government Stock Tender

Government Stock Tender No. 19 was held on 16 May 1985. A total of $250 million of stock was offered for sale comprising $75 million of stock maturing in 1987, $100 million of stock maturing in 1990, and $75 million of stock maturing in 1995. The tender was fully subscribed, with total bids submitted amounting to $488 million compared with $481 million in Tender No. 18 (which also sought $250 million). For each of the three maturities, the bids received were approximately twice the volume of stock on offer.

The average yields on successful bids were up significantly on the yields recorded in the previous tender. The weighted average yields on the 1990 and 1995 maturities, at 20.4 per cent and 19.2 per cent respectively, were 1.4 and 1.2 percentage points higher than for the same maturities in the April tender. The weighted average yield for the 1987 maturity was 21.85 per cent, compared with 17.9 per cent in the January tender, when the stock was last offered.

Overseas Debt Table

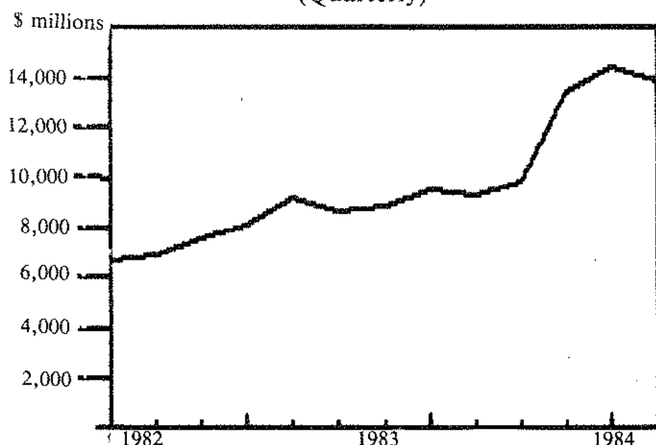
A new table (table G.5) with quarterly information on New Zealand's official overseas debt, i.e. the overseas debt of the Government and the Reserve Bank appears in this issue of the *Bulletin*. The table also includes quarterly information on the overseas debt of government corporations, as surveyed by the Reserve Bank.

Overseas debt of the private sector is not included in the table. This information is only collected annually through a survey conducted by the Department of Statistics.

The official overseas debt fell by a provisional $479 million in the March 1985 quarter after having peaked at $14,395 million in the December 1984 quarter. However, the fall was offset by an estimated $446 million increase in the overseas debt of the government corporations to a provisional $4619 million.

During the 1980s New Zealand's debt increased both in nominal terms and as a proportion of GDP. The largest quarterly increase during the period occurred in the September 1984 quarter when the 20 per cent devaluation of the New Zealand dollar contributed to a $3,562 million increase in official overseas debt. Also during this quarter the overseas debt of government corporations increased by $1,004 million to $3,931 million. The overseas debt of the corporations relates mainly to the financing of New Zealand's energy projects.

Graph 1
Official Overseas Debt
(Quarterly)



The decision to float the New Zealand dollar means that the Government no longer needs to borrow overseas to finance the current account deficit. Under a freely floating exchange rate, any deficit in the overseas current account is generally financed from private capital inflows either from private borrowing or overseas investment in New Zealand.

New Signature Appears on New Zealand Bank Notes

A new signature is beginning to appear on New Zealand bank notes. It is that of S.T. Russell, Governor of the Reserve Bank, and its use marks a return to a practice established when the Bank first began issuing notes 50 years ago.

The first notes bearing the new signature are $5 notes which are entering circulation as replacements for those withdrawn as no longer suitable for use. They will be followed progressively by notes of other denominations.

The first notes issued by the Reserve Bank in 1934 were signed by the Governor, Leslie Lefeaux. When a new design was issued in 1940, Mr Lefeaux was about to retire and the signature became that of the Bank's Chief Cashier.

The position of Chief Cashier was abolished in a re-organisation of the Bank in 1984. As a result, it was decided to revert to the original practice and use the Governor's signature on bank notes. This is in line with procedures generally adopted by other countries.

The introduction of the new signature will depend on the life of the notes at present in circulation. This in turn varies with their face value. $1 and $2 notes last about seven months, $5 notes about eight months and $10 and $20 notes have an average life of 11 and 12 months respectively. The $50 notes were only introduced recently and their life has not yet been established. Because the $100 notes do not circulate freely there is no comparable method of calculating its life.

In all, the Reserve Bank withdraws each year about 150 million notes with a total face value of about $1 billion.

IMF Interim Committee Meeting

The Interim Committee of the International Monetary Fund held its twenty-fourth meeting in Washington D.C. on 17 to 19 April 1985, under the chairmanship of the Honourable H.O. Ruding, Minister of Finance of the Netherlands. Mr Ruding's appointment to the chair was discussed in Economic

Notes, (Reserve Bank *Bulletin*, March 1985) along with a description of the Interim Committee's function.

The meeting focussed on issues relating to adjustment efforts and balance of payments prospects for IMF member countries over the medium term. In particular, it discussed external indebtedness, capital flows, trade policies and the role of IMF surveillance of member countries' policies.

The Committee noted that medium term economic prospects will be affected by developments in the fields of trade, capital flows, interest rates and exchange rates. It suggested that in this respect the major industrial countries have a responsibility to pursue policies which will result in sustainable non-inflationary growth without restricting the access of developing countries to new and expanding markets. The Committee stressed the urgent need to reverse the emerging trend towards protectionism. It also saw a need to reduce the fiscal deficit in a number of countries.

The Committee acknowledged that many developing countries had made progress in reducing their debt servicing difficulties but noted that a number of them still face serious debt problems. In the view of the Committee any developing countries that adopted policies aimed at adjustment, and the promotion of exchange rate and price stability, should be given favourable support by creditors through adequate flows of new funds at realistic interest rates and a readiness to reschedule existing loans. The Committee stated that these policies will assist the restoration of growth and creditworthiness, and encourage flows of foreign investment capital.

Members of the Committee examined the prospect of a further SDR allocation. However, there was insufficient support for an allocation and the Committee agreed to reconsider the issue at its next meeting which will take place in Seoul, South Korea, on 8–11 October 1985.

Australian Mini-Budget

On 14 May, the Australian Treasurer, Mr Keating announced measures that would reduce the Government's spending for 1985/86 by A$1,259 million.

The expenditure measures were announced as part of the 1985/86 Budget, which is expected to reduce the fiscal deficit in money terms when it is formally tabled in Parliament in August.

The measures include major savings in industry assistance and development (A$204.1 million), transport and communication (A$180.6 million), social security and welfare (A$127.2 million), housing (A$112.7 million), health (A$85.8 million) and defence (A$83.9 million).

The expenditure measures were part of the Government's economic policies to prevent price rises flowing on from the recent depreciation of the Australian dollar. The savings would reduce the demands of the government sector on financial markets and assist in moderating interest rate pressures which had increased recently.