

ECONOMIC NOTES

Influences on Primary Liquidity over the June 1985 quarter

Reserve Bank Information Release, 4 April 1985

The Minister of Finance, The Hon. R.O. Douglas, informed the market on 19 March 1985 that the Government would be seeking to raise about \$700 million through the stock tender programme over the June 1985 quarter.

On 4 April 1985 the Reserve Bank released information to provide some quantitative background to that announcement. It cautioned that the numbers should be treated as only indicative of the likely broad influences on liquidity over the quarter; the influence arising from Government transactions, in particular, is difficult to forecast accurately on a quarterly basis.

A significant influence on liquidity conditions over the June quarter will be the rate at which private sector securities currently held by the Reserve Bank are allowed to run off. Approximately \$900 million of such

securities are due to mature over the period. The projected influences allow for a net liquidity withdrawal from this source of \$740 million, indicating the Reserve Bank's present intention to roll over a portion of its current portfolio of private paper.

The projections indicate that liquidity levels are expected to be broadly unchanged over the June quarter as a whole. Consistent with this, the rate at which Reserve Bank holdings of private paper are allowed to run off may be adjusted to take account of changes in liquidity influences that differ from those currently expected. Equally, however, the assumption of no net change in primary liquidity over the quarter may be departed from if this is considered to be appropriate for the Government's firm monetary policy stance. The authorities will continue to monitor a wide range of indicators in judging the stance of monetary policy.

18th Government Stock Tender

The 18th Government stock tender was held on 18 April 1985. Consistent with the Government's announced public debt sales programme of \$700 million in the June quarter, a total of \$250 million of stock was offered for sale. Two stocks were offered, maturing in 1990 and 1995. The details of the tender are set out below:

	<i>\$m</i>
Fiscal deficit	+ 1,100
Compensatory deposit repayments	- 500
Maturing private sector securities held by the Reserve Bank net of open market operations	- 740
Public debt transactions:	
Stock tenders	- 700
Securities approaching maturity	+ 720
Retail debt	+ 120
Change in primary liquidity	0

<i>Maturity</i>	<i>Amount Offered (\$m)</i>	<i>Bids Received (\$m)</i>	<i>Amount Allotted (\$m)</i>	<i>Weighted Average Yield (%)</i>
15/10/90	150.0	292.8	150	18.989
15/ 4/95	100.0	188.5	100	17.953

Notes to the Table

- For the purpose of this table, primary liquidity is defined as discountable government securities (not including retail securities), settlement balances held at the Reserve Bank by the trading banks and Post Office Savings Bank, plus notes and coin on issue. Discountable securities are those with six months or less to maturity.
- Given the definition of primary liquidity, government securities approaching maturity are counted when they become discountable on demand with the Reserve Bank, rather than when they actually mature.

The interest rates on successful bids were higher than those on comparable maturities in the previous tender. However, the cancellation of the tender scheduled for March meant that the period since the last tender had been longer than usual. In addition, the 18th tender was also the first to be held since the move to a floating exchange rate.

Treasury Bill Tenders and Open Market Operations

\$300 million of Treasury bills were sold in the weekly tenders during the first three weeks in April (tenders 10, 11 and 12). However, no bills were offered for sale in tenders 13 and 14 in view of the low level of cash balances leading up to the last week in April and expected cash withdrawals in early-May.

High levels of cash balances over late March enabled the momentum of the Treasury bill tenders to be sustained through early April, as detailed in the table below. The main components of primary liquidity (discountable securities and the settlement balances of the banking system) fluctuated around the \$900 million level over 1-14 April, and increased by around \$240 million on 15 April as October 1985 Government Stock maturities came within the definition of the aggregate. Interest rates continued to ease from the high levels prevailing in early to mid-March, reflecting the adjustment to a more stable liquidity situation over the period.

Open market operations in April became less frequent and smaller in size than in the previous month as a result of the greater stability in money market conditions. Operations were concentrated around the end of March and the beginning of April as a result of the normal market uncertainties concerning financial flows at the end of the fiscal year.

A rearrangement of the maturity structure of primary liquidity was undertaken on 27 March when the Reserve Bank conducted a 'switching operation' in which some \$50 million of 6-8 month government stocks were converted into more liquid Treasury bills. On 28 March

Treasury Bill Tenders and Open Market Operations

<i>Treasury Bill Tenders</i>				
<i>Tender</i>	<i>Amount Offered \$m</i>	<i>Term</i>	<i>Amount Sold \$m</i>	<i>Weighted Average Rate \$m</i>
10	75	21 days	75	17.79
	75	56 days	75	18.88
11	50	42 days	50	17.226
	25	70 days	25	18.977
12	50	42 days	50	16.55
	25	70 days	25	18.874
13	Nil			
14	Nil			
<i>Open Market Operations</i>				
	<i>Amount Offered \$m</i>	<i>Term</i>	<i>Amount Sold \$m</i>	<i>Amount Purchased \$m</i>
27 March				
Treasury bills	50	28 days	50	—
Govt Stock	50	6-8 mths	—	51
28 March				
Treasury bills	50	14-15 days	50	—
2 April				
Govt Securities	50	6-8 mths	—	5
Private paper	25	60-180 days	—	26
17 April				
T.C.D.'s	5	12 days	5	—
23 April				
T.C.D.'s	31	13-17 days	31	—

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the Bank undertook open market sales of Treasury bills with maturity dates corresponding to expected periods of cash withdrawals from the banking system. \$50 million of bills were sold from portfolio on this day.

On 2 April, the Bank offered to purchase \$75 million of government and private sector securities in anticipation of an expected tightening of liquidity. In the event, liquidity conditions remained relatively stable and only \$31 million of securities were purchased.

On 17 and 23 April, the Reserve Bank undertook sales of short dated commercial securities from portfolio amounting to \$5 million and \$31 million respectively. The sales were made in response to market interest in these maturities.

IMF Executive Director

On 16 February 1985 Mr C.R. Rye was elected to the IMF Executive Board. He will be Executive Director for Australia, Korea, New Zealand, Papua New Guinea, Philippines, Seychelles, Solomon Islands, Vanuatu and Western Samoa.

Mr Rye was previously Deputy Secretary at the Australian Treasury having first joined the Treasury in 1968. Since 1983 he has served as an ex-officio alternate member of the Board of Directors of the Reserve Bank of Australia and the Commonwealth Bank of Australia. As Executive Director he succeeds Mr A.R.G. Prowse also of Australia.

The Executive Board currently consists of 22 Executive Directors chaired by the Managing Director (who is selected by the Executive Board). The five members having the largest voting power (at present the United States, the United Kingdom, the Federal Republic of Germany, France and Japan) each appoint an Executive Director. If those members with the two largest creditor positions in the Fund in the two years preceding a regular election of Executive Directors are not among this group, then they may also appoint an Executive Director for a two year term. This enabled Canada to appoint an Executive Director in 1958 and Saudi Arabia likewise in 1978, 1980, 1982 and 1984. The remaining sixteen Executive Directors are elected for two-year terms by the countries arranging themselves into constituencies large enough to comprise the number of votes needed to elect a Director.

Each Executive Director may appoint an alternate who is usually chosen from one of the other member countries of the constituency.

As a member of the Fund New Zealand has never been large enough (in terms of its quota) to elect its own Director but has instead joined a constituency led by Australia. The fact that the constituency contains both developed and developing members has helped give it a broader perspective on issues. In addition New Zealand has tended to have similar objectives to Australia and this has helped the constituency's Director and his Alternate when speaking during Board discussions. To date the constituency has always had an Australian Executive Director while the position of Alternate Director has been shared by New Zealand and the Philippines. Currently the Alternate Director is Mr A.V. Romualdez from the Philippines. His successor in 1986 will be nominated by Korea.