

ECONOMIC NOTES

26th Government Stock Tender

Government Stock Tender No. 26 was held on 23 January 1986. A total of \$400 million of stock was offered for sale, comprising \$150 million maturing in September 1989, \$150 million in October 1991, and \$100 million in July 1994. Valid bids received totalled almost \$1 billion, well in excess of stock on offer.

The weighted average yields on successful bids were 20 per cent for the 1989 stock, 19.4 per cent for the 1991 stock and 18.7 per cent for the 1994 stock. Average yields were higher than those in the previous tender by 2.6 percentage points for the 1989 stock and 2.7 per cent for the 1991 stock. The average yield on the 1994 stock was 1.3 per cent higher than eleven months previously.

27th Government Stock Tender

Government Stock Tender No. 27 was held on 30 January 1986 to sell the unsettled stock offered in Tender No. 25. October 1991 stock amounting to \$100 million was offered for sale. Valid bids received totalled \$335 million.

The weighted average yield on successful bids was 19.4 per cent, 2.7 percentage points higher than the weighted average yield on the October 1991 stock offered in Tender No. 25.

Treasury Bill Tenders and Open Market Operations

Liquidity conditions remained reasonably firm through January and for the first three weeks of February. System cash balances averaged \$42 million in January and \$32 million during the first three weeks of February. Discounting of government securities occurred on five occasions in January (a total of \$96 million). In the first three weeks of February \$104 million of securities were discounted. The average level of primary liquidity, which was \$2.3 billion in January, rose to \$2.4

Treasury Bill Tenders and Open Market Operations

Treasury Bill Tenders

Tender	Amount Offered \$m	Term	Amount Sold \$m	Weighted Average % Rate
48	75	21 Days	75	18.023
	75	35 Days	75	18.350
	50	70 Days	50	18.279
49	Nil			
50	40	21 Days	40	17.047
51	50	7 Days	50	14.132
	50	49 Days	50	18.081
52	40	7 Days	40	16.218
	50	21 Days	50	16.975
53	100	14 Days	100	17.641
	100	35 Days	100	18.489
54	100	7 Days	100	18.007

Open Market Operations

	Amount Offered \$m	Term	Amount Sold \$m	Amount Purchased \$m	Amount Injected \$m
6 January Treasury Bills	50	22 Days	30	—	—
		51 Days	20	—	—
10 January Sellback	40	11 Days	—	—	40
22 January Treasury Bills	40	11 Days	40	—	—
23 January Treasury Bills	50	8 Days	50	—	—
27 January Government Securities	75	108 Days	—	6	—
31 January Sellback	70	17 Days	—	—	20
		74 Days	—	—	50
5 February Sellback	40	69 Days	—	—	40
7 February Sellback	30	67	—	—	30

billion in the first three weeks of February. This high level of primary liquidity is necessary to accommodate the strong withdrawals which will occur in March as a result of tax payments to government.

Treasury bills amounting to \$340 million of Treasury bills were sold by tender during January. Of these, \$73 million were January maturities, \$167 million February maturities, and \$100 million were March maturities. The first three tenders held in February sold \$390 million of Treasury bills. Of these, \$175 million were February maturities and \$215 million were March maturities. The choice of maturities reflected the Bank's desire to match Treasury bill maturities with forecast liquidity withdrawals from the system.

The Reserve Bank conducted open market operations on six occasions during January and on two occasions during the first three weeks of February. Three of these operations were sales of Treasury bills which were carried out in response to strong forecast cash injections on these days. On four occasions the Bank conducted sell-back transactions in order to moderate the tightening of liquidity conditions which was expected to occur on these days. On 27 January, the Bank offered to purchase \$75 million of government securities, but since most of the bids were below market rates, it purchased only \$6 million of securities.

Stock settlements in January totalled \$317 million, \$198 million was received for stock sold in Tender 25 and \$119 million for stock sold in Tender 26. Stock tender settlements during the first three weeks of February totalled \$503 million, \$240 million for stock sold in Tender 26, \$93 million for stock sold in Tender 27 and \$170 million for stock sold in Tender 28. In line with past months, a large proportion of Tender 25, 26 and 27 settlements were received on the final day of the settlement period for each of these tenders.

Liquidity Projections

The Governor of the Reserve Bank, Mr S.T. Russell, released on 19 February 1986, revised liquidity projections, following the announcement of a revised 1985/86 fiscal deficit by the Minister of Finance, the Hon. R.O. Douglas. Mr Russell said that a \$1.7 billion fiscal deficit implied a net public sector injection of \$2.9 billion, the amount that has been raised through tender sales of government stock this financial year.

Reserve Bank Prepares Modifications to Tender Procedures

The Reserve Bank has prepared modifications to the procedure for tendering for government securities but they will not be put into effect until they have been discussed with the market, the Governor of the Reserve Bank, Mr Spencer Russell, said on 21 February 1986.

"We want to be sure that they are reasonable and workable and, above all, that they do not adversely affect the widespread participation in the system which has produced funds for the Government at the lowest market-related cost", he said.

The changes, which will be circulated to dealers in government securities in a discussion paper, include:

- A review of the existing exemptions from the deposit requirement with the intention of making the exemptions limited to an amount which would be negotiated between the Bank and the registered bidder.
- As a general rule, the limit to be related to the financial substance of the bidder.
- Special limits to be granted to a particular bidder in an individual tender where these can be justified to the Bank.
- For registered bidders without an exemption, the deposit requirement to be 10 per cent instead of the present 5 per cent.

In addition, consideration will be given to changing the settlement period for tenders and to a number of other minor changes.

Mr Russell said that the modifications resulted from the internal examination which had begun when the Bank learned that Rakiura Holdings Limited had defaulted after making a successful tender for Government stock.

"There can never be a positive guarantee that such an incident will not recur but our aim is to reduce the possibility as much as possible without unduly limiting the competition which is the major advantage of the present system.

We will now invite the comments of the market which shares with the Bank the desire that the system be fair and efficient and we expect that changes will be made shortly."