

NEW ZEALAND ECONOMIC CHRONOLOGY 1985

The following Chronology lists significant economic events that occurred in the 1985 calendar year. It does not include regular economic reports or statistical releases, as these are too numerous to report in this resume.

January 17 Government Stock Tender No. 16

The 16th tender of government stock offered a total of \$400 million in three maturities. The tender was filled as detailed below:

Maturity	Amount Offered (\$m.)	Amount Allotted (\$m.)	Weighted Average Yield (%)
15/ 3/1987	150	150	17.908
15/ 3/1990	150	150	17.464
15/10/1994	100	100	17.087

January 25 New Zealand Futures Exchange

The New Zealand Futures Exchange began operations with a United States dollar contract. The decision to open trading with the United States dollar contract was made in view of recent changes to exchange control regulations, which resulted in an upsurge in activity on the foreign exchange market.

January 29 Meat Board Notes Deal

The New Zealand Meat Producers Board signed a US\$200 million (NZ\$426 million) notes and advances facility in Hong Kong, priced at 0.10 per cent over LIBOR (London Interbank Offered Rate).

Butter Sale to Algeria

New Zealand and Australia secured their first joint butter marketing contract with a major sale of 28,000 tonnes to Algeria.

Treasury Bill Tenders Commence

The first tender of Treasury bills was held. The tender system replaced tap issue Treasury bills, the final issue of which closed on 25 February.

February 7 Compulsory Ratios Abolished

The Government announced the abolition of the set of regulations and controls collectively known as the 'compulsory ratio system'. The ratio system required financial institutions to invest fixed proportions of their total funds in government and public securities. Eight sets of regulations and a directive under the Reserve Bank Act were revoked on 11 February.

February 14 Government Stock Tender No. 17

The 17th tender of government stock offered a total of \$400 million in three maturities. The tender was filled as detailed below:

Maturity	Amount Offered (\$m.)	Amount Allotted (\$m.)	Weighted Average Yield (%)
15/12/1988	100	100	18.378
15/ 3/1990	150	150	17.760
15/10/1994	150	150	17.353

February 22 Kiwi Savings Stock Fourth Issue

The Minister of Finance, the Hon. R.O. Douglas, announced the closure of the third issue of Kiwi Savings Stock and its replacement by a fourth issue. The new issue, available from 28 February, offered a rate of 17 per cent for either a two or a four year term, with interest paid quarterly and the stock redeemable after 15 January 1986.

February 28 Rent Freeze Expires

The rent freeze imposed in April 1984 expired.

March 2 New Zealand Dollar Floated

The Minister of Finance, the Hon. R.O. Douglas, announced that the New Zealand dollar would be floated on 4 March 1985. Under the new regime the Reserve Bank would no longer quote official buy and sell rates for the New Zealand dollar. It would not withdraw completely from the market, but would continue to act to meet Government requirements for foreign exchange. It would also monitor market trends and developments through minor market dealings, and it retained the option of entering the market during periods of undue volatility to smooth exchange rate fluctuations.

March 6 Foreign Ownership Limits Abolished

The Government announced that limits on foreign ownership in New Zealand financial institutions, advertising agencies and fishing processors had been abolished. Previously foreign ownership had been limited to 70 per cent in financial institutions, 49 per

cent in land-based fish processors and 40 per cent in advertising agencies.

March 8 **Open Market Operations**

The Governor of the Reserve Bank, Mr Spencer Russell, confirmed that the Bank, in accordance with its ongoing open market operations, was moving to restore liquidity in the financial system to a more appropriate level. The steps were taken in order to ease some of the excessive short-term interest rate pressures following the float of the dollar. These pressures were the result of the coincidence of large capital outflows immediately prior to the float with the annual tax drain.

March 12 **Open Market Operations**

The Governor of the Reserve Bank announced further measures designed to settle conditions in financial markets. The measures included setting the interest rate on trading bank compensatory deposits at 19.5 per cent (rather than at the higher prevailing rates) and the cancellation of the government stock tender due to have been held on 21 March. Call rates, which reached a peak of 500 per cent (buy) and 750 per cent (sell) on 8 March, fell to 10 to 15 per cent (buy) and 20 to 25 per cent (sell) by 13 March.

March 15 **\$20 million Export Credit**

An export credit agreement for NZ\$20 million was signed by the Deputy General Manager of the New Zealand Railways Corporation, Mr M.R.H. Henare. The seven year, fixed interest loan guaranteed by the Export Credit Guarantee Department (ECGD) of the British Government, was arranged for the Railways to assist with the electrification of the North Island main trunk line.

March 19 **Government Borrowing Programme**

Finance Minister, the Hon. R.O. Douglas, announced the Government's borrowing programme for the 1985/86 fiscal year. Mr Douglas said the Government intended to offset fully the monetary injections into the economy as a result of the fiscal deficit and other public sector activity. However, some allowance would be made for growth in the liquidity base, consistent with the objective of a lasting reduction in inflation. About \$700 million would be raised in three tenders to be held on 18 April 1985, 16 May 1985 and 13 June 1985. Announcements on subsequent tenders would be made later, but it was intended that the programme would be concentrated in the first three quarters of the fiscal year to allow for the absence of a Compensatory Deposits Scheme next March.

March 20 **Three Year Projections**

The Treasury released a set of detailed economic projections for the three years to 1987/88. The report indicated a generally positive medium-term outlook for the New Zealand economy.

March 28 **New Housing Package**

The first stage of a three-part \$830 million housing package was announced by the Minister of Housing, the Hon. P.B. Goff. The range of measures were mainly directed to assisting low and moderate income families to purchase their own homes.

April 2 **Import Licence Levels**

The Minister of Trade and Industry, the Hon. David Caygill, announced details of import licence allocations for 1985/86. Licensed imports were to be kept at about 1984's levels. The general schedule allocation for the 1985/86 licensing year would be set at 100 per cent of 1984/85 where issued on a volume basis and 105 per cent where based on value.

Housing Package

The Minister of Housing, the Hon. P.B. Goff, announced the second part of the \$830 million housing package. The programme allowed for an extra 1,500 state rental units over the next year, most of them from new construction.

April 10 **Housing Package**

Details of the third and final part of the Government's housing policy package were released. The measures were generally designed to assist families who would otherwise not have been able to service a mortgage or who could do so, but had not been able to save a deposit.

April 15 **POSB Home Loans**

The Post Office Savings Bank increased the amount of money its customers could borrow to buy or renovate houses by 33 per cent, to a maximum of \$60,000. The Postmaster-General, the Hon. Jonathan Hunt, said the increase would allow customers to do away with the need for both a first and second mortgage and would thus reduce legal costs. Priority would be given to Post Office depositors, but funds would also be lent to non-depositors at a higher rate of interest.

April 18 **Government Stock Tender No. 18**

The 18th tender of government stock offered a total of \$250 million in two maturities. The tender was filled as detailed below:

<i>Maturity</i>	<i>Amount Offered (\$m.)</i>	<i>Amount Allotted (\$m.)</i>	<i>Weighted Average Yield (%)</i>
15/10/1990	150	150	18.989
15/ 4/1995	100	100	17.953

April 25 **Petrol Price Increase**

Price increases which took effect from midnight on 25 April took premium grade petrol to 99 cents a litre and regular grade to 96 cents a litre.

May 6 **Interest Rates Futures**

The New Zealand Futures Exchange announced that trading in the prime commercial paper contract would begin on 20 May 1985. The new contract would be based on prime 90-day commercial bills as traded in the New Zealand money market.

May 8 **Budget Deficit**

The budget deficit for the 1984/85 financial year was \$2,784 million — \$22 million more than forecast. The Secretary to the Treasury, Mr B. Galvin, stated that net expenditure for the year was \$15,323 million and revenue \$12,539 million.

May 16 Government Stock Tender No. 19

The 19th tender of government stock offered a total of \$250 million in three maturities. The tender was filled as detailed below:

<i>Maturity</i>	<i>Amount Offered (\$m.)</i>	<i>Amount Allotted (\$m.)</i>	<i>Weighted Average Yield (%)</i>
15/ 3/1987	75	75	21.849
15/10/1990	100	100	20.391
15/ 4/1995	75	75	19.175

May 17 New Zealand Bank Notes

The Reserve Bank announced that a new signature would appear on New Zealand bank notes. The signature is that of S.T. Russell, Governor of the Reserve Bank. Its use marks a return to a practice established when the Bank first began issuing notes 50 years ago.

May 23 Export Promotion Package

The Prime Minister, the Right Hon. David Lange, said that exporters would receive \$60 million this year in an export promotion package that included another year of market development tax incentives. He stated that the Government had announced the export package before the next month's Budget to enable exporters to plan ahead.

June 13 1985 Budget

The 1985 Budget was presented to Parliament by the Minister of Finance, the Hon. R.O. Douglas. The main policy statements were:

- confirmation of the Government's commitment to phasing out assistance to land-based and manufacturing industry;
- new procedures for controlling the growth in government expenditure;
- measures to increase the efficiency of the operations of government departments and state-owned enterprises;
- increases in education expenditure and on several other programmes, funded through savings achieved in other areas;
- a significant reduction in the fiscal deficit for 1985/86 — forecast at \$1,286 million or about 2.8 per cent of GDP.

Public Debt Programme

The Minister of Finance, the Hon. R.O. Douglas, announced a reduction in the public debt programme for 1985/86, resulting from the downward revision in the Budget deficit. The borrowing programme for the year was reduced from the \$2.7 billion announced in March to \$2 billion.

June 15 GST Delayed

The Government announced its decision to delay by at least six months the Goods and Services Tax. In a joint statement (on 16 June) with the Minister of Finance, the Deputy Prime Minister, the Hon. G.W.R. Palmer, said it was important that misunderstandings and confusion over the implications of the tax were resolved, and that further time was also needed for administrative reasons.

June 17 Income Tax Cuts

The Minister of Finance, the Hon. R.O. Douglas, announced that two rounds of cuts in personal income tax would be made as a result of the six-month deferral of the Goods and Services Tax — a 'relatively small' package from 1 April 1986, and a larger package from 1 October 1986.

June 20 Government Stock Tender No. 20

The 20th tender of government stock offered a total of \$300 million in three maturities. The tender was filled as detailed below:

<i>Maturity</i>	<i>Amount Offered (\$m.)</i>	<i>Amount Allotted (\$m.)</i>	<i>Weighted Average Yield (%)</i>
15/ 3/1987	50	50	19.596
15/ 3/1991	150	150	18.153
15/ 4/1995	100	100	17.332

June 21 GST Changes Recommended

A three-person advisory panel issued a report recommending detailed changes to the Goods and Services Tax (GST). The Government announced it would be accepting many of the major changes recommended.

June 26 Producer Boards Guarantee

A Government guarantee would be available to producer boards, as a last resort, if they found themselves in difficulty following the removal of the Reserve Bank stabilisation accounts, the Under-Secretary of Finance, Mr T.A. de Cleene, said.

July 1 Post Office Charges

Post Office charges were increased by an average 7 per cent. Postal rates rose between 10 and 15 per cent, with the exception of parcel rates, some of which rose by as much as 90 per cent.

July 3 Kiwi Savings Stock

The Minister of Finance, the Hon. R.O. Douglas, announced that the Fourth Issue of Kiwi Savings Stock would be closed on 5 July, but would be succeeded ten days later by a Fifth Issue at the same interest rate (17 per cent) and for the same periods — either two or four years.

July 4 Rural Bank Funding

The Rural Bank announced the introduction of a \$150 million certificate of deposit credit facility which would allow the Bank to raise money on the open market as it needed.

July 9 Social Welfare Benefits

The Minister of Social Welfare, the Hon. Ann Hercus, announced increases to Social Welfare benefits, two months earlier than planned. The Minister stated that the increases would be matched to movements in inflation rather than wage rates.

July 18 Foreign Investment

The Minister of Finance, the Hon. R.O. Douglas, stated that the Government was now willing to consider requests from foreign investors for up to 100 per cent

ownership in virtually all areas except rural land and air services.

July 19 **Government Stock Tender No. 21**

The 21st tender of government stock offered a total of \$300 million in two maturities. The tender was filled as detailed below:

<i>Maturity</i>	<i>Amount Offered (\$m.)</i>	<i>Amount Allotted (\$m.)</i>	<i>Weighted Average Yield (%)</i>
15/ 3/1991	150	150	18.175
15/ 4/1995	150	150	17.857

July 23 **Housing Corporation Borrowing**

The Housing Corporation announced that it had borrowed NZ\$50 million overseas, with a three and a half year private placement of unsecured notes to selected institutional investors in Japan and Europe.

July 30 **Overseas Borrowing**

New Zealand concluded a 100 million Eurosterling (NZ\$277.7 million) floating rate issue to help refinance maturing sterling debt. The Minister of Finance, the Hon. R.O. Douglas, stated that the refinancing arrangement would save New Zealand about \$700,000 a year.

August 1 **Employment Scheme**

A new employment assistance programme, the Job Opportunity Scheme, began operating. The scheme replaced the Employment Incentive Scheme. It provides a subsidy to public and private sector employers who hire an eligible registered unemployed person and has two levels of assistance (\$75 or \$120 a week) depending on how long the prospective employee has been unemployed.

August 5 **Import Licensing Amended**

Amendments to the Import Control Regulations came into effect. Basic import licences were made freely transferable between companies, and restrictions on the use of a licence by other than the licence holder were reduced. The amendments reflected other moves in the operation of import controls, in particular the increasing volume of tendered licences being made available.

August 7 **Meat Exports**

The Meat Producers Board announced that it was opening up opportunities to allow meat companies to buy back carcasses from the Board for further processing. In future, companies would be able to sell into any market in the world — except the special developing countries, North America and Japan. The Board took control of the marketing of all New Zealand's sheepmeat in 1982.

August 15 **Petrol Price Decrease**

Petrol and diesel prices were reduced 5 cents a litre from midnight, 15 August — the largest reduction in fuel prices in the past twenty-five years. The drop in price followed the rising international value of the New Zealand dollar.

August 20 **Taxation and Benefit Reform**

A statement on tax and welfare benefits reform was presented to Parliament by the Minister of Finance, the Hon. R.O. Douglas. The main points were:

- a marginal increase in the company tax and the fringe benefits tax rate;
- measures to counter tax evasion and avoidance;
- details of the Goods and Services Tax (GST), which is intended to replace most existing indirect taxes from October 1986;
- a new simplified income tax scale, incorporating significantly lower marginal and average income tax rates, also to apply from October 1986;
- substantial new benefit increases to follow the introduction of GST.

September 2 **Minimum Wage**

The minimum adult wage was increased from \$100 to \$170 a week. The new minimum was expected to have little effect on unionised workers' pay although some basic rates would rise.

September 5 **Tax on Exports**

The United States Commerce Department announced a substantial countervailing duty on New Zealand lamb imports. The Department determined that from the date the ruling was published, a NZ36 cents in the pound countervailing duty would be levied on lamb imports. An interim decision on 25 July set a duty of 26 cents.

September 9 **Import Tariff Phase-Out**

Protective tariffs sheltering New Zealand goods from imports would be reduced more slowly than was originally planned, the Minister of Trade and Industry, the Hon. David Caygill said, but the phase-out of the existing import licence scheme would be speeded up. There will be a further review of tariff policy early in 1988, by which time it is intended that import licensing for products outside of industry plans will have been abolished. The scheme for continued phasing down of tariffs may be brought forward following the 1988 review.

Higher Salaries Commission

The Higher Salaries Commission announced recommendations of wage increases for senior public servants and politicians of up to 38 per cent. The Commission later recommended pay increases of 14 to 26 per cent for hospital specialists and doctors (on 17 October) and of 33 to 38 per cent for members of the judiciary (on 8 November).

September 10 **1985 Wage Round**

Negotiations on the first award in the 1985 wage round began.

September 12 **Revised Stock Sales Programme**

Finance Minister, the Hon. R.O. Douglas, announced a probable increase in the programme of government stock sales for the current fiscal year. He stated that the revised programme did not imply any change in

monetary policy and the Government maintained its objective of fully funding the 1985/86 net public sector injection through borrowing from the private sector.

September 19 Government Stock Tender No. 22

The 22nd tender of government stock offered a total of \$300 million in three maturities. The tender was filled as detailed below:

<i>Maturity</i>	<i>Amount Offered (\$m.)</i>	<i>Amount Allotted (\$m.)</i>	<i>Weighted Average Yield (%)</i>
15/ 3/1987	50	50	22.215
15/ 3/1991	150	150	19.591
15/ 8/1993	100	100	18.835

September 20 Foreign Exchange Dealing Licence

The Governor of the Reserve Bank, Mr Spencer Russell, confirmed that following discussions between Broadbank Corporation and the Bank, the Corporation had relinquished its foreign exchange dealing licence. Mr Russell indicated that the Bank had been in close contact with Broadbank since its difficulties in the foreign exchange market had first become apparent.

Live Sheep Exports

The Government lifted a nine year old ban on live sheep exports.

October 4 Cashless Shopping System

The New Zealand Bankers' Association announced that trading banks would proceed with the commercial development of a nationwide cashless shopping system. The four trading banks — Westpac, ANZ, BNZ and the National — had been testing electronic funds transfer at point of sale (EFT/POS) for the past eight months. It was found that the average cost per transaction for the pilot scheme (involving more than 100 EFT/POS terminals) was 13.6 cents, compared with around 70 cents for a cheque.

October 7 Labour Force Survey

The Department of Statistics began collecting information for a major new quarterly survey of employment and unemployment based on a sample of 12,000 households.

October 10 Trading Bank TCD Tender

Competition for large parcels of cash increased when a trading bank offered the first known tender for deposits. The TCD (transferable certificates of deposit) tender allowed the trading bank to bypass the common intermediary in TCD sales, merchant banks.

October 15 Petrol Price Falls

The price of petrol and diesel fuel dropped by 4 cents a litre following further strengthening of the New Zealand dollar.

October 16 Synthetic Petrol Plant

The world's first commercial scale gas-to-petrol plant at Motunui, near New Plymouth, began producing petrol. The first of the two 2,200-tonne a day methanol plants

at the complex began production on 12 October 1985, and petrol was first produced on Wednesday night, 16 October 1985.

October 17 Government Stock Tender No. 23

The 23rd tender of government stock offered a total of \$300 million in two maturities. The tender was filled as detailed below:

<i>Maturity</i>	<i>Amount Offered (\$m.)</i>	<i>Amount Allotted (\$m.)</i>	<i>Weighted Average Yield (%)</i>
15/10/1991	150	150	19.960
15/ 8/1993	150	150	19.551

October 22 Marketing Board Loan

The Apple and Pear Marketing Board announced that it had arranged an offshore financing package totalling US\$125 million. The decision to arrange an international financing package followed the Government's encouragement to the producer boards to reduce their dependence on Reserve Bank funding and to follow a more market orientated approach to their financing.

November 2 Machinery/Meat Deal with Poland

Poland would buy \$40 million worth of meat under an agreement confirmed by the Minister of Overseas Trade and Marketing, the Hon. M.K. Moore. The sale of lamb cuts and carcasses was contingent on the Meat Board and its agents arranging purchases of Polish equipment by New Zealand and other countries.

November 5 Kiwi Bonds

The Kiwi Savings Stock 5th issue was closed and replaced with a new retail instrument, Kiwi Bonds. The new instrument has similar terms and conditions. The main difference is in the frequency of reviewing the interest rates — interest rates on Kiwi Bonds will be maintained at a level in line with, but slightly below, the market determined yields on wholesale government stock of comparable maturity.

November 8 Prudential Supervision

The Minister of Finance, the Hon. R.O. Douglas, announced that legislation would be introduced in Parliament this year to strengthen Reserve Bank powers of prudential supervision of the banking industry. Mr Douglas said the legislation would provide the supervisory powers needed by the Bank to assist the maintenance of public confidence in the banking system. The Reserve Bank Act will be amended to ensure that the Bank regularly receives detailed reports and statistics to monitor the position and performance of the key financial institutions. The Bank will be given powers of last resort intervention but responsibility for the failure of any institution or the associated losses will not be shifted onto the Government or taxpayers.

November 11 New Banking Licences

The Minister of Finance, the Hon. R.O. Douglas, announced that legislation would be introduced this year which would allow (subject to certain qualitative

criteria being met) existing institutions to call themselves 'banks' and which would also allow new institutions to set up as banks. Under the legislation the Reserve Bank would be given the responsibility for granting bank authorisations.

November 14 Government Stock Tender No. 24

The 24th tender of government stock offered a total of \$300 million in two maturities. The tender was filled as detailed below:

<i>Maturity</i>	<i>Amount Offered (\$m.)</i>	<i>Amount Allotted (\$m.)</i>	<i>Weighted Average Yield (%)</i>
15/10/1991	200	200	17.783
15/ 8/1993	100	100	17.195

December 3 Liquidity Management

It was announced that the Government's liquidity management programme had been modified, although the Minister of Finance, the Hon. R.O. Douglas, stressed that there had been no change in monetary policy itself. The modifications included a change in the definition of primary liquidity and an increase (together with regular adjustments) in the interest rate on the cash balances held at the Reserve Bank by trading banks and other settlement institutions.

December 5 Borrowing Programme

Details were released of the Government's borrowing programme for the remainder of the current financial year by the Minister of Finance, the Hon. R.O. Douglas. Mr Douglas said that the full year stock tender programme would be for \$2.5 billion. About \$1.9 billion had been raised to date, leaving \$600 million to be raised from two remaining tenders scheduled for 12 December 1985 and 23 January 1986.

December 12 First Issue of Kiwi Bonds Closed

The Minister of Finance, the Hon. R.O. Douglas, announced the closure of the first issue of Kiwi Bonds.

Economic Statement

A set of economic policy measures were outlined in a statement to Parliament by the Minister of Finance, the

Hon. R.O. Douglas. The measures primarily concerned taxation changes and import tariff reductions designed to assist the farming sector to adjust to recent changes in the economic environment. However, the Minister also foreshadowed changes to the operations of the trading arms of state-owned enterprises and a review of the legislation and other procedures relating to the present system of industrial relations.

Government Stock Tender No. 23

The 23rd tender of government stock offered a total of \$300 million in three maturities. The tender was filled as detailed below:

<i>Maturity</i>	<i>Amount Offered (\$m.)</i>	<i>Amount Allotted (\$m.)</i>	<i>Weighted Average Yield (%)</i>
15/ 9/1989	100	100	17.360
15/10/1991	100	100	16.690
15/ 8/1993	100	100	16.848

December 19 Employment Policy

The Minister of Employment, the Hon. T.K. Burke, announced a set of job training and employment policy measures. The measures, estimated to cost about \$300 million are intended to replace several existing (Government funded) schemes. The announcement followed the release of a discussion paper on industrial relations reform.

December 20 New Zealand Steel Restructuring

The Minister of Finance, the Hon. R.O. Douglas announced that subject to shareholder approval, the Government would assume responsibility for servicing approximately \$1,000 million of debt related to the New Zealand Steel expansion project, in exchange for shares in the enterprise. The programme is intended to ensure the longer-term viability of the project without levels of import protection which would seriously penalise downstream steel users. In line with the tariff reductions announced on 12 December, products from the expansion project will not be accorded import licensing protection and competing imports will be subject to a normal tariff of 10 per cent.