Reserve Bank Bulletin

QUARTERLY REVIEW OF MONETARY CONDITIONS[1]

During the March quarter there was some initial uncertainty about prospective liquidity conditions as the market faced, for the first time in several years, the end-of-year tax drain without a compensatory deposits scheme. However, these concerns eased later in the quarter as it became apparent that the liquidity withdrawals would be handled comfortably. Reflecting these perceptions, short-term rates trended up over the first half of the quarter, but began to fall from the latter part of February. Over the quarter as a whole, long-term government stock rates increased by around 2.5 percentage points, although rates fluctuated significantly over this period in response to shifts in market expectations. Growth in the broad monetary and credit aggregates, after allowing for seasonal influences, continued to ease. However, these figures remain difficult to interpret. Open market operations were used to successfully avoid undue disruptions in short-term liquidity conditions over the tax flow period and to achieve a level of primary liquidity appropriate to the new liquidity management regime at the end of March.

Introduction

Developments during the March quarter still reflected the new operating environment to some extent. For the first time since 1977, the market faced an end-of-year tax flow without the assistance of a compensatory deposit scheme to smooth the liquidity drain associated with March tax payments. However, adequate liquidity had been allowed to build up prior to the tax drain period and the system handled the tax flow comfortably. As a result, the upwards trend in short-term (30 — 90 day) rates, which had resulted from some market nervousness over the first half of the quarter, was reversed from the end of February. The other main features of the quarter were:

— an overall increase in government stock rates of about 2 percentage points, but with significant fluctuations in rates during the quarter;

— a continued slowing in growth of lending by the M3 institutions, despite relatively strong credit growth by the trading banks; and

— some firming in the exchange rate over the quarter as a whole.

This article briefly examines these developments.

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

Monetary Policy Stance

The policy stance adopted in March 1985 was to fully fund expected net public sector injections into primary liquidity[2] over 1985/86 by selling medium to long-term debt through the stock tenders. As described in last quarter's *Review*, the debt programme for 1985/86 was not affected by the changes to liquidity management policy announced early in December. The debt programme continued to be based on fully funding under the previous six month definition of primary liquidity, and open market operations were assigned the role of achieving a level of primary liquidity under a one month definition, which was appropriate to the new liquidity management regime. This approach was primarily adopted in order to ensure that the modifications to liquidity management policy would not

2 The primary liquidity definition used for operational purposes up until December 1985 consisted of the cash deposits of the financial system at the Reserve Bank and private sector holdings of discountable government securities (both stock and Treasury bills) with six months or less to maturity. Following the modifications to liquidity management policy announced on 3 December 1985, and a subsequent modification announced on 4 February 1986, the definition of primary liquidity was changed progressively through to 15 April 1986. The revised definition of primary liquidity applicable from 15 April was the cash deposits of the financial system at the Reserve Bank plus private sector holdings of discountable government securities with one month or less to maturity. During the tax period, no securities maturing after 15 May were included in primary liquidity, in line with Reserve Bank discount policy over this period.

be misinterpreted as an easing in the underlying stance of monetary policy. It also assisted in smoothing the profile of the debt sales programme between the 1985/86 and 1986/87 financial years.[3]

Consistent with the full funding stance, the borrowing programme for 1985/86 was revised upwards in mid-January following the Government's decision to refinance the Meat Board's debt held with the private sector (which had the effect of providing a one-off liquidity injection in March 1986). The Government announced a $100 million increase in the size of the January tender (a $300 million tender had previously been indicated), and that a further tender would be held in February, of an amount to be specified when details of the Meat Board loan were finalised.

The Government borrowing programme for 1985/86 was finalised early in February when the February tender was set at $400 million. This figure was based on a finalised estimate of the Meat Board influence, and a revised fiscal deficit forecast of $1.7 billion, slightly higher than the previous $1.6 billion estimate released in November.

Near the end of March it became apparent that taxation revenue was running below expectations. Accordingly, an additional tender of $350 million was scheduled for early April to absorb the expected shortfall. In the event, large flows to Government on the last day of March meant that overall net public sector liquidity injections were closer to previous forecasts than had appeared likely in late March. As described below, net liquidity injections were virtually fully-funded over the 1985/86 year as a whole, excluding the injections which resulted from Reserve Bank operations carried out as part of the transition to the new liquidity management regime.

Primary Liquidity

A discussion of developments in primary liquidity (PL) over the March quarter is complicated by several factors:

- the gradual reduction in access to the Reserve Bank discount window over the quarter meant that the definition of PL which is most relevant for analysing the stance of policy changed during the quarter;
- the level of PL was also influenced by the seasonal build-up prior to the March tax drain;
- although the debt programme had been finalised on the basis of fully funding PL injections under the previous six month definition, there was a need to inject liquidity over the quarter in order to obtain an appropriate starting level for PL under the new one month definition;
- the one month definition did not become fully operative over the quarter as May securities were permitted to be discountable during the tax drain.

Table 1 compares the actual liquidity influences for the March quarter (using a six month definition for PL) with projections, released in mid-February, which were used as the basis for finalising the debt programme for 1985/86.

The major reason for the difference between the

3 A fuller discussion is provided on pp.115–116 of the March 1986 *Bulletin*.

TABLE 1
INFLUENCES ON PRIMARY LIQUIDITY[1] (6 MONTH DEFINITION) OVER THE MARCH QUARTER 1986
($ million)

	Total **March Qtr**	*Projected[6]* **March Qtr**
Government Influence		
Fiscal Deficit	−1776	−1940
Other[2,7]	+ 267	6
Reserve Bank Influences		
Open Market Operations	425	110
Other[3,7]	332	508
Public Debt Transactions		
Treasury Bill Tenders	—	—
Stock Tenders[4]	−1030	−1030
EQWD Stock Take Up	− 19	− 19
Securities Approaching Maturity[5]	317	317
Retail Debt.	6	117
Residual[7]	− 18	− 115
Changes in Primary Liquidity (6 Month Definition)	−1496	−2046

Notes

1 For the purposes of this table, primary liquidity is defined as total private sector holdings of government securities with less than six months to maturity (not including retail securities) plus settlement balances held at the Reserve Bank by the trading banks and Post Office Savings Bank.

2 Includes additional liquidity impact of the Government's transactions which are not captured in the fiscal deficit due to timing factors.

3 Includes changes in producer board account balances, notes in circulation, interest received on Reserve Bank government security holdings, plus Reserve Bank purchases of foreign exchange on behalf of Government.

4 The liquidity impact of government stock sales in the quarter was greater than the total of stock tendered during the quarter as delays in tender settlements meant that a significant part of the December tender was settled in January.

5 Comprises government securities becoming less than six months to maturity during the quarter.

6 From detailed projections underlying press release dated 19 February.

7 Subject to revision.

forecasts and the final outcome is the Bank's subsequent open market operations. As noted above, these operations were designed to ensure that there was an appropriate level of less than one month (i.e. discountable) securities in the system at the end of March. However, they also had the effect of adding to primary liquidity under the previous six month definition because they were conducted by way of sell-backs, rather than outright purchases of short-dated securities, in line with market preferences.

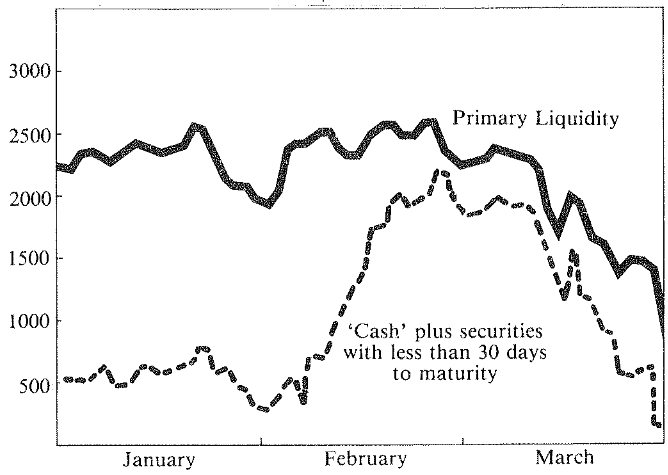
In total, these operations account for approximately $300 million of the $550 million difference between the actual influences on six month PL for the March quarter and the February projections.

The remaining $250 million difference reflects the balance of various forecast errors. A larger than expected fiscal deficit (smaller March outflow), combined with various timing factors, contributed to the Government influence being an estimated $425 million above forecast. However, this was partly offset by a lower than expected injection from the Reserve Bank ($175 million) and higher than expected outflow through net retail debt sales ($110 million). The expected transfer of the Dairy Industry Reserve Account to the private sector did not eventuate, and this combined with lower than expected note redemptions contributed to the Reserve Bank shortfall. The higher net retail debt sales were due to higher than anticipated sales of Kiwi Bonds.

In order to assess the effective liquidity of the financial system during the March quarter, it is more appropriate to use a definition of PL which takes account of the declining access to the Bank's discount window over this period. Figure 1 shows the profile of PL on this basis. The daily average levels of PL during January and February, at $2,298 and $2,383 million respectively, were about the same as the average over the month of December ($2,397 million). Although these levels appear high, they were the result of a seasonal build-up in liquidity prior to March and did not represent any easing in the stance of policy. This was reflected in the firming in short-term interest rates which took place over the first half of the quarter, despite the high PL levels. The change to a one month PL definition means that, in future, the pre-tax drain build-up in PL will be limited to the month prior to the tax drain, rather than occurring six months before as was the case in 1985/86.

The tax drain saw PL fall steadily over March, reaching an end-of-month low of $783 million, while over the month as a whole PL averaged $1,743 million. These figures include the May securities which were made discountable over the tax drain period, despite having more than one month to maturity. Excluding these, PL under a one month definition was $428 million at the end of March and this figure provides the broad starting point from which the 1986/87 debt programme will be based.

Figure 1
Primary Liquidity
$million



Government Stock Tenders

Two stock tenders were held in January, offering $400 million and $100 million (nominal value) respectively (see table 2), while a final $400 million tender was held in February — no March tender was held as the settlement period would have coincided with the tax drain. The second January tender was held in order to sell the $100 million of stock which had not been settled from Tender No. 25. This tender was the most heavily subscribed, with bids totalling almost three and a half times the amount of stock on offer. The other

TABLE 2
NEW ZEALAND GOVERNMENT STOCK SALES BY TENDER

Tender number	*Date held*	*Stock offered*	*Maturity date*	*Total amount offered $m*	*Total bids submitted $m*	*Over-subscriptions accepted $m* [1]	*Total successful bids $m*	*Allotment Yield % p.a.* [2]
19.	16/5/85	N.Z. Govt. Stock	15.03.87	75.0	153.3	—	75.0	21.85
			15.10.90	100.0	180.9	—	100.0	20.39
			15.04.95	75.0	153.7	—	75.0	19.18
20.	20/6/85	N.Z. Govt. Stock	15.03.87	50.0	198.3	—	50.0	19.60
			15.03.91	150.0	642.6	—	150.0	18.15
			15.04.95	100.0	287.7	—	100.0	17.33
21.	18/7/85	N.Z. Govt. Stock	15.03.91	150.0	735.6	—	150.0	18.18
			15.04.95	150.0	484.1	—	150.0	17.86
22.	19/9/85	N.Z. Govt. Stock	15.03.87	50.0	162.6	—	50.0	22.22
			15.03.91	150.0	437.5	—	150.0	19.59
			15.08.93	100.0	264.7	—	100.0	18.84
23.	17/10/85	N.Z. Govt. Stock	15.10.91	150.0	768.7	—	50.0	19.96
			15.08.93	150.0	408.8	—	150.0	19.55
24.	14/11/85	N.Z. Govt. Stock	15.10.91	200.0	476.6	—	200.0	17.78
			15.08.93	100.0	391.9	—	100.0	17.20
25.	12/12/85	N.Z. Govt. Stock	15.09.89	100.0	316.2	—	100.0	17.36
			15.10.91[3]	100.0	450.2	—	—	—
			15.08.93	100.0	323.3	—	100.0	16.85
26.	23/1/86	N.Z. Govt Stock	15.09.89	150.0	168.0	—	100.0	19.97
			15.10.91	150.0	397.6	30.0	180.0	19.42
			15.07.94	100.0	396.9	20.0	120.0	18.76
27.	30/1/86	N.Z. Govt. Stock	15.10.91	100.0	335.2	—	100.0	19.37
28.	13/2/86	N.Z. Govt. Stock	15.09.89	100.0	206.6	—	100.0	20.6
			15. 6.91	150.0	397.2	—	150.0	19.8
			15.07.94	150.0	376.9	—	150.0	19.0
29.	3/4/86	N.Z. Govt Stock	15.09.89	100.0	300.1	—	100.0	20.4
			15.06.91	150.0	639.7	—	150.0	19.7
			15.07.94	100.0	386.8	—	100.0	18.8

Note:
[1] 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 in the tender (this facility was announced on 2 February, 1984 and was covered on page 18 of the January/February 1984 *Bulletin* (Vol 47)).
[2] The weighted average yield under the yield bid system.
[3] The successful competitive bid for this stock was $99.966m at an interest rate of 16.690%. However, the successful tenderer subsequently advised the Reserve Bank that it would be unable to uplift the stock, (see Economic Notes in January 1986 *Bulletin* for further details). The stock was offered again in Tender No. 27 on 30 January 1986.

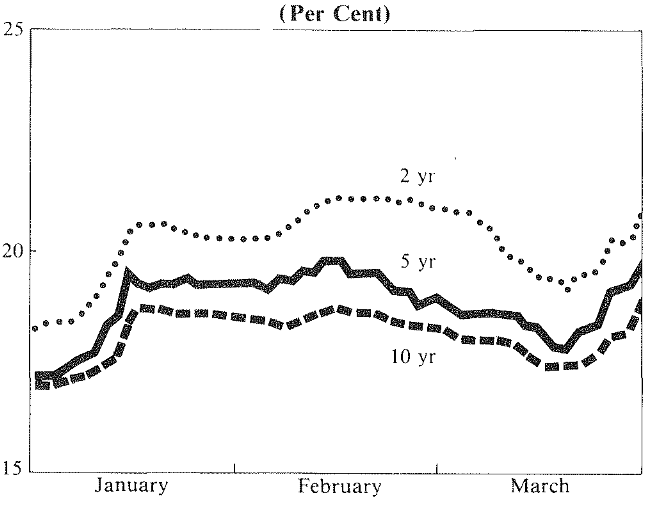
two tenders were both around two and a half times oversubscribed.

Average rates accepted in the first January tender (held on 23 January) were 20 per cent for the September 1989 stock, 19.4 per cent for the October 1991 stock and 18.7 per cent for the July 1994 stock. For the two shorter stocks, these rates represented an increase of around 2.6–2.7 percentage points on the corresponding rates in the December tender. No direct comparison is possible for the 1994 stock as this was not offered in December, but the average yield was almost 2 percentage points above the rate on a 1993 stock offered in the December tender. The average rate for the 1991 stock in the end-of-January tender was unchanged from the corresponding rate in the previous week's tender, but rates increased again in the February tender. The average rate on the 1989 stock increased by 0.6 percentage points, while those on the 1991 and 1994 stocks increased by 0.4 and 0.3 percentage points respectively. The larger increase in the short-term rates had the effect of steepening the yield curve for government stock over this period.

Interest Rates

The March quarter stock tender results were in line with developments in secondary market rates for government stock. In particular, secondary market rates increased significantly prior to the first January tender (see figure 2). This increase began in the early part of January, and was accentuated by a sharp (0.7–1 percentage point) increase on 17 January, following the announcement of the larger than expected January tender and the additional February tender. This response to the increase in the borrowing programme suggests that market participants were still focusing heavily on short-term developments. The bulk of the increased borrowing requirement was due to the one-off influence associated with the shift in Meat Board financing from the private sector to the Government. Hence, it did not represent any change in the stance of monetary policy, nor did it have any implications for future trend developments in the size of the fiscal deficit.

Figure 2
Government Stock Rates
(Per Cent)

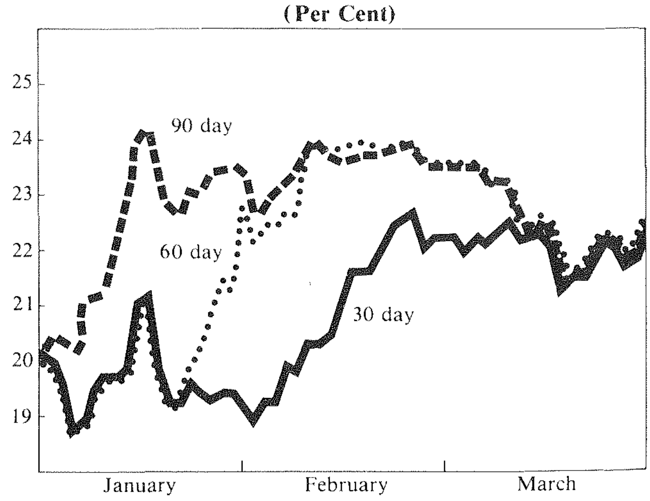


Rates increased further during the first half of February, triggered by the announcement of the size of the February tender (which was larger than the market was expecting) and the upwards revision to the fiscal deficit. However, rates eased again from the middle of the month. This fall can be attributed in part to an increase in overseas investor interest, and possibly to the temporary pause in the stock tender programme. As has been the case on other occasions during the year, the decline in long-term rates also coincided with a decline in short-term rates, suggesting that lower short-term funding costs may have been an additional factor behind the fall in government stock rates.

During the latter half of March rates rose again as the market appeared to shift its attention towards the prospective size of the 1986/87 borrowing programme. This increase was accentuated by the announcement of the additional $350 million tender in early April.

Movements in short-term (30 — 90 day) interest rates over the quarter were dominated by market perceptions concerning the March tax flow. Initial market uncertainty contributed to a substantial premium being paid on bills maturing after the tax flow period relative to bills with shorter maturities (which explains the temporary divergence in the rates for different maturities shown in figure 3). This sentiment was also responsible for the general upwards movement in short-term rates over January and the first half of February. However, as the quarter progressed it became increasingly apparent that the system would handle the tax flow comfortably and rates began to decline from the latter part of February. This confidence was enhanced by the announcement early in February that some $350 million of May 1986 securities would be eligible for discounting. In addition, more active liquidity management operations by the Reserve Bank played a significant role in reducing market uncertainty (see section on liquidity management operations below). Nevertheless, rates firmed again slightly near the end of March, reflecting possible market uncertainty over liquidity conditions beyond the March tax period.

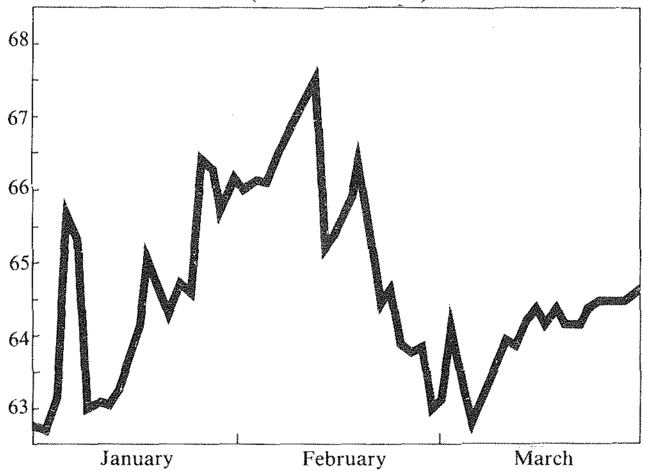
Figure 3
Commercial Bill Rates
(Per Cent)



Exchange Rates

The quarter began with the Reserve Bank's trade-weighted exchange rate index at close to the pre-float level of 62.7. The index subsequently fluctuated within the range of 62–68, before settling at around 64.7 at the end of March. As a comparison of figures 3 and 4 indicates, movements in the exchange rate broadly mirrored movements in domestic interest rates over this period. In addition to domestic factors, however, the firming trend in the exchange rate over the March quarter may have been partly attributable to a general decline in interest rates overseas (which made New Zealand interest rates relatively more attractive).

Figure 4
Exchange Rate Index
(Base 1979 = 100)



Monetary and Credit Aggregates

Although the broad monetary aggregate (M3) fell in dollar terms over the March quarter, growth in annual percentage change terms increased to an estimated 23.7 per cent for the year ended March, compared with growth rates of 20.6 per cent for the December 1985 year and 19.3 per cent for the year ended September 1985. However, this increase was largely due to a base period distortion associated with the sharp fall in M3 during the March quarter of 1985, as a result of the large foreign exchange outflow prior to the dollar's float in March 1985.

In quarterly seasonally adjusted terms, M3 increased by 3 per cent in the March quarter, well down on the 5.3 per cent increase in the December quarter. These figures may also be slightly misleading, however, to the extent that the seasonal pattern of M3 growth has been affected by the changes to liquidity management policy over the past year. In particular, in the absence of a compensatory deposit scheme, there was a stronger build-up in liquidity prior to the March tax drain than in previous years, and this may have been reflected in stronger M3 growth over the December quarter and a sharper decline over the March quarter than has been normal in previous years. As a result, the seasonally adjusted quarterly growth rates shown above may have overstated the underlying monetary growth rate over the December quarter, and understated underlying monetary growth over the March quarter.

The slowing in credit growth by the M3 institutions which had been recorded over the second half of 1985 continued over the March 1986 quarter. Private sector credit grew by 3.1 per cent, which compares with growth of 4 per cent in the December quarter, 5 per cent in the September quarter and 5.8 per cent in the June quarter. However, this slowing in the rate of credit expansion was not shared evenly across the major institutional groups.

Lending and Deposit by Institution

Trading bank lending growth was relatively strong over the March quarter, averaging around 2 per cent on a monthly basis, after slowing during the December quarter (see table 3). Most other institutional groups recorded a decline in credit growth over the March quarter, although lending by both the POSB and the building societies did pick up slightly in the month of March.

There was a similar divergence in the rates of deposit

TABLE 3
MONTHLY LENDING AND DEPOSIT GROWTH[1]
(in percent)

	LENDING				*DEPOSITS*			
	Average Dec Qtr.	*Jan.*	*Feb.*	*Mar.*	*Average Dec Qtr.*	*Jan.*	*Feb.*	*Mar.*
Trading Banks[2]								
— Monthly	+ 0.5	+ 1.3	+ 2.6	+ 2.1	+ 1.9	+ 0.6	+ 2.0	+ 2.7
— Annual	+24.9	+20.2	+20.4	+17.5	+31.2	+34.5	+34.5	+32.1
Finance Coys								
— Monthly	+ 0.2	+ 0.9	+ 1.5	− 2.0	+ 3.5	+ 0.2	− 0.3	+ 2.5
— Annual	+27.1	+24.6	+24.7	+19.8	+24.1	+26.1	+28.3	+28.6
Trustee Savings Banks								
— Monthly	+ 0.2	+ 1.0	+ 0.3	+ 0.4	+ 0.6	+ 1.4	+ 1.0	+ 1.0
— Annual	+ 8.7	+ 7.1	+ 6.5	+ 5.9	+11.5	+11.4	+11.6	+10.9
Private Savings Banks								
— Monthly	− 1.3	− 1.7	− 1.6	− 1.6	− 1.4	− 0.7	− 1.2	− 0.6
— Annual	−16.4	−17.1	−17.4	−17.6	−15.5	−15.7	−15.8	−15.9
POSB								
— Monthly	+ 2.3	+ 0.7	+ 0.6	+ 4.0	+ 1.0	+ 1.0	− 0.1	+ 0.5
— Annual	+96.9	+88.7	+84.2	+ 84.6	+ 9.6	+ 9.7	+ 8.6	+ 8.3
Building Societies								
— Monthly	+ 0.7	− 1.3	+ 0.4	+ 7.6	+ 2.1	+ 0.5	− 0.7	+ 0.9
— Annual	+ 8.6	+ 7.4	+ 6.8	+ 9.0	+ 8.6	+10.7	+10.8	+12.0

[1] Monthly figures are seasonally adjusted, except for building societies whose lending displays no stable seasonal pattern and deposits of finance companies which display no stable seasonal pattern.
[2] Weekly averages.

growth experienced by trading banks compared with other institutional groups over the quarter. Although down slightly from the previous quarter, trading bank deposit growth remained relatively high at a monthly average of 1.8 per cent over the March quarter. In contrast, the other main institutional groups all experienced moderate or falling deposit growth over the quarter as a whole.

Liquidity Management Operations

During the March quarter, the Bank was more active in its operations aimed at influencing the daily level of cash balances held by financial institutions at the Reserve Bank. Over March itself, the Bank entered the market almost daily, offering to buy and sell securities or to enter into sell-back transactions in order to achieve a moderate and more stable level of cash balances. These operations had the desired effect of reducing uncertainty in the market and appeared to contribute to generally more settled conditions over the tax drain period in particular. Settlement balances over March averaged $111 million, as compared with averages of $42 million and $33 million over January and February respectively.

Twelve Treasury bill tenders were held over the quarter. Only one of these, Tender 49 scheduled for 14 January, was a nil tender. No Treasury bills were sought in this tender because large government stock settlements were expected to coincide with relatively light injections from government expenditure during the settlement week. The remaining tenders were all fully subscribed, although the oversubscription facility was utilised for the 25 March tender when bids for one maturity were less than the amount on offer. The bill maturities sold in the tenders were generally fairly short, with the majority of securities maturing before the end of the tax drain. The rates accepted in the tenders were up to 4 percentage points lower than rates for commercial bills of comparable maturities, reflecting a desire by the settling institutions (the trading banks and the Post Office) to hold discountable assets during this period.

Open market operations involving $1,649 million were conducted over the March quarter, an increase from the $1,180 million carried out during the December quarter. Most of the operations involved sales of short-dated Treasury bills out of the Reserve Bank's portfolio, which had the effect of transferring the system's cash into securities within PL, with maturities scheduled to coincide with subsequent drains from the system. The Reserve Bank also undertook operations designed to increase the overall level of short-dated securities in the system (see discussion above). These consisted of $376 million in 'sell-backs' (short-term loans secured by government stock) maturing after March and $50 million purchases of commercial securities.[4]

Discounting of government securities totalled around $470 million during the quarter, which compares with discounting of $579 million during the December quarter and $1,357 million during the March quarter of 1985. The average term to maturity of securities discounted was generally relatively short, which minimised the cost to the settling institutions of discounting. Within the quarter, the level of discounting was highest during the month of March. However, of the $241 million discounted over the month, $131 million took place on the last working day following an unexpectedly large liquidity outflow. Despite the large tax flows during March, the level of discounting over the remainder of the month was about the same as that over January and February, reflecting the more active open market operations carried out by the Bank during this period.

Retail Stock Transactions

Redemptions of retail debt instruments exceeded new subscriptions by $6 million over the March quarter, down from net redemptions of $33 million in the previous quarter (see table 4). The net redemption rate over both the March 1986 and December 1985 quarters was low compared with the June and September 1985 quarters ($178 million and $102 million respectively). This decline in the rate of net redemptions was the result of some large Kiwi Bond sales to institutional investors over the latter part of the fiscal year. Kiwi Bonds are

4 These operations correspond to the open market operations in column 1 of the Primary Liquidity Influences table (table 1).

TABLE 4
SUBSCRIPTIONS AND REDEMPTIONS OF RETAIL DEBT INSTRUMENTS: COMPARISON OF DECEMBER QUARTER 1985 AND MARCH QUARTER 1986

	December Q 1985			*March Q 1986*		
	Subscriptions ($m)	*Redemptions ($m)*	*Net ($m)*	*Subscriptions ($m)*	*Redemptions ($m)*	*Net ($m)*
Inflation Adjusted Bonds	—	− 17.2	− 17.2	—	− 16.3	− 16.3
Kiwi Savings Stock I	—	− 39.7	− 39.7	—	− 23.3	− 23.3
Kiwi Savings Stock II	—	− 3.9	− 3.9	—	− 2.4	− 2.4
Kiwi Savings Stock III	—	− 3.2	− 3.2	—	− 1.6	− 1.6
Kiwi Savings Stock IV	—	—	—	—	− 2.3	− 2.3
Kiwi Savings Stock V	+ 4.4	—	+ 4.4	—	—	—
Kiwi Bonds I	+ 133.3	—	+ 133.3	—	—	—
Kiwi Bonds II	+ 0.6	—	+ 0.6	+ 2.3	—	+ 2.3
Kiwi Bonds III	—	—	—	+ 12.7	—	+ 12.7
Kiwi Bonds IV	—	—	—	+ 88.0	—	+ 88.0
Kiwi Bonds V	—	—	—	+ 5.3	—	+ 5.3
Our New Zealand Bonds	—	− 3.3	− 3.3	—	− 5.3	− 5.3
Other Savings Stock	—	− 104.7	− 104.7	—	− 62.2	− 62.2
Total[1]	**+ 138.3**	**− 171.5**	**− 33.3**	**+ 108.1**	**− 113.6**	**− 5.5**

[1] Note that columns may not add to totals due to rounding.

open to all investors and are freely transferable in the same way as wholesale stock.

Kiwi Bonds were the only retail instrument on offer during the March quarter. Rates on this instrument are kept under review in light of movements in rates for wholesale government stock, and new issues are opened from time to time in order to maintain rates at a level in line with, but slightly below, the yields on government stock with comparable maturities.

Such an adjustment was made following the results of Stock Tender 26, held on 23 January, when a general increase in wholesale stock rates indicated that an increase in the rates offered on the second issue of Kiwi Bonds was warranted. Accordingly, the second issue was closed on 24 January and replaced on 30 January with a third issue, which offered rates of 19.5 per cent for two years and 18.5 per cent for four years (an increase of 3.5 and 2.5 percentage points respectively). The third issue was subsequently closed on 14 February, following the results from Tender 28 which indicated that a further increase in Kiwi Bond rates would be desirable. The fourth issue was opened on 21 February, offering 20 per cent for two years and 19.5 per cent for four years. However, this issue was closed shortly thereafter on 26 February, in response to an easing in secondary market stock rates which had subsequently eroded the margin between wholesale stock and Kiwi Bond rates. The fifth issue of Kiwi Bonds was opened on 7 March, with rates of 18.5 per cent and 17.5 per cent for the two and four year stocks respectively.

Conclusion

Monetary conditions remained firm over the March quarter. Short-term interest rates increased over the first half of the quarter due to market uncertainties regarding the March tax drain but eased again later in the quarter once it became clear that the tax drain would be handled comfortably. Longer-term rates firmed over the quarter as a whole as did the exchange rate. Although movements in the monetary and credit aggregates remained difficult to interpret, overall growth in the broad money and credit aggregates was more moderate than in the December quarter. This growth was quite unevenly distributed across institutional groups, however, with the trading banks continuing to record the strongest growth. The stance of policy was unchanged during the quarter, while open market operations were used to achieve a level of primary liquidity appropriate to the new liquidity management regime by the start of the 1986/87 year.