ECONOMIC NOTES

28th Government Stock Tender

Government Stock Tender No. 28 was held on 13 February 1986. A total of $400 million of stock was offered for sale, comprising $100 million maturing in September 1989, $150 million in June 1991 and $150 million in July 1994. Valid bids received totalled $980 million, almost two and a half times the amount on offer. This was slightly up on the $963 million bids received in the main January tender (No. 26), which was also for $400 million.

The weighted average yields on successful bids were 20.6 per cent for the 1989 stock, 19.8 per cent for the 1991 stock and 19 per cent for the 1994 stock. The average yield on the 1991 stock was about 0.4 per cent higher than that received in Tender 27, held on 30 January. Compared with yields in Tender 26, held on 23 January, yields in Tender 28 increased by around 0.6 per cent, 0.4 per cent and 0.3 per cent for the 1989, 1991 and the 1994 maturities respectively. These yields were up slightly on secondary market yields immediately prior to the tender for the latter two maturities, while the average yield for the 1989 stock was around 0.4 per cent above the secondary market yield.

Treasury Bill Tenders and Open Market Operations

Over the review period (17 February to 16 March), liquidity conditions were reasonably stable and firm. System cash balances averaged $41 million during the last two weeks in February and $95 million during the first two weeks of March. The average level of primary liquidity declined from $2.5 billion over the last two weeks in February to $2.2 billion over the first two weeks of March. This high level of primary liquidity is necessary to accommodate the strong withdrawals occurring over March as a result of tax payments to government. A total of $107 million of government securities were discounted over the review period.

Treasury Bill Tenders and Open Market Operations

Treasury Bill Tenders

Tender	Amount Offered $m	Terms	Amount Sold $m	Weighted Average % Rate
55	100	28 days	100	18.552
56	100	14 days	100	18.059
	75	21 days	75	18.141
57	100	10 days	100	17.047

Open Market Operations

	Amount Offered $m	Term	Amount Sold $m	Amount Purchased $m	Amount Injected $m
19 February Treasury Bills	50	8 days	50	—	—
	20	9 days	20		
24 February Sell-back	50	49 days	—	—	50
27 February Sell-back	30	46 days	—	—	30
28 February Sell-back	25	52 days	—	—	25
3 March Treasury Bills	75	16 days	20	—	—
		24 days	55		
4 March Treasury Bills	75	16 days	40	—	—
5 March Treasury Bills	40	15 days	40	—	—
6 March Sell-back	90	46 days	—	—	90
10 march Sell-back	25	35 days	—	—	23
11 March Treasury Bills	40	14 days	35	—	—
		15 days	5		
12 March Sell-back	10	26 days	—	—	10
13 March Sell-back	65	4 days	—	—	25
14 March Treasury Bills	160	6 days	25	—	—
		7 days	25	—	—
		11 days	45	—	—
		12 days	65	—	—

Treasury bills, totalling $375 million, were sold by tender during the review period. Of these $307 million were end-March maturities and $68 million were early April maturities. This 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 four days during the last two weeks in February and on nine days in the period up to 16 March. Six of these operations were sales of Treasury bills undertaken in response to strong forecast cash injections on these days. On the remaining seven occasions, the Bank conducted sell-back transactions in order to moderate the tightening in liquidity conditions expected to occur on these days. The increased frequency of operations over this period reflects the Bank's desire to smooth liquidity flows in order to provide a greater degree of stability in the financial markets.

Stock tender settlements in the last two weeks of February totalled $208 million. The remaining $143 million of settlements for Stock Tender 28 were received on 3 March, the final day of the settlement period for this tender.

Liquidity Management

The Governor of the Reserve Bank, Mr Spencer Russell, commented on 28 February 1986, on the forthcoming March tax period and the change to the new liquidity management arrangements. Mr Russell said that the Bank was confident that the financial system was well placed to handle the March tax flow, and that the Bank wanted to see a smooth transition to the new liquidity management arrangements which start on 1 April 1986. Mr Russell said that the Bank would intervene in the market during the transition period, as required, to ensure that the level of primary liquidity remains at a level which is consistent with the maintenance of orderly market conditions, but without compromising the current firm monetary policy.

Monetary and Credit Aggregates

The Governor of the Reserve Bank, Mr Spencer Russell, on 5 March 1986, released provisional figures for the monetary and credit aggregates as at the end of December 1985.

Mr Russell said that the statistics showed a continuation of the decline in credit growth which had been recorded in recent months. Private sector credit (PSC) grew by 2.4 per cent (seasonally adjusted) during the December quarter, which was well down on the increases of 5.7 per cent and 4.9 per cent recorded in the June and September quarters respectively. The annual growth rate for the year ended December was 21.1 per cent, down from the 24.1 per cent recorded for the year to September 1985. "The falling trend in credit growth indicated that the Government's firm monetary policy stance was having an effect," Mr Russell said.

On the other hand, growth in the broad money supply, M3, appeared to have held up over the December quarter. The provisional figures indicated that M3 increased by 20.1 per cent during the year to December 1985, compared with the 19.3 per cent rise recorded in the year to September 1985. Mr Russell said that he expected the decline in credit growth to feed through into slower monetary growth over the coming months, though it was likely that M3 was still being inflated to some extent by the effects of deregulation on the financial sector.

An increase in cheque account balances at the trading banks contributed to growth in the narrow monetary aggregate (M1) of 12.8 per cent for the year to December 1985, up from 10.4 per cent in the year to September. However, the annual rate of M1 growth remained well below the growth rate of the broad money supply. Mr Russell repeated previous warnings that all the aggregates needed to be interpreted with caution at present, given the major changes which were taking place in the financial sector.