

## ECONOMIC NOTES

### Treasury Bill Tenders and Open Market Operations

Liquidity conditions remained reasonably stable over the review period (5 August — 2 September). System cash balances averaged \$42 million over this period, just below the level of \$50 million which is targeted in daily open market operations. However, cash balances were more variable through mid-August when early settlements for stock tender 34 were higher than anticipated and rather irregular on a day-to-day basis.

Primary liquidity, defined as settlement balances plus government securities with 30 days or less to maturity, ranged from \$569 million to a 2 September peak of \$1051 million, with an average level over the period of \$740 million. The PL level increased steadily during the review period, reflecting a seasonal build-up as the relatively large volume of September securities entered PL. These securities are timed to offset the forecast large tax flows in mid and late-September. A total of \$97 million of Treasury bills were discounted on six separate occasions during the review period. A large proportion of the discounting (\$80 million) occurred on days when there was sufficient cash elsewhere in the system for settlement purposes.

Treasury bill tenders 78 — 81 were held during the review period. The total volume of Treasury bills sold was \$330 million with tender 79 being for \$270 million. Treasury bill tender 80 held on 19 August was a nil tender, reflecting the net cash withdrawal, associated with end-of-month tax flows, forecast for the settlement week.

The Reserve Bank continued to conduct open market operations to influence cash balances around an aiming level of \$50 million. Operations were conducted on

eleven occasions during the review period. This involved selling government securities when cash balances were forecast to be above \$50 million, and purchasing government securities or conducting sell-back operations when cash balances were forecast to be below \$50 million. When the Bank sought to remove cash from the system, almost all the securities sold (sales totalled \$305 million) had end-August or end-September maturities, coinciding with the forecast end-of-month tax drains from the system. Open market operations injections totalled \$495 million, with \$291 million of this being by sellback operations and the remainder by the purchase of government securities (within PL). On two occasions, 20 and 27 August, the Bank offered to inject cash but the rates bid were below market and no cash was injected.

Stock tender 34 was held on 7 August with the settlement period beginning on 11 August and ending on 1 September. Total cash settlements for the nominal value of \$500 million tendered were \$476 million. As with the previous tender the majority of settlements (almost 80 per cent) were made over the first half of the settlement period.

#### Treasury Bill Tenders & Open Market Operations

##### Treasury Bill Tenders:

Tender	Amount Offered \$m	Term	Amount Sold \$m	Weighted Average % Rate
78	30	14 days	30	14.94
79	70	35 days	105	15.939
	150	70 days	90	16.533
	50	210 days	75	16.429
80	Nil Tender			
81	30	21 days	30	15.743

## Open Market Operations:

	Amount Offered \$m	Term	Amount Sold \$m	Amount Purchased \$m	Amount Injected \$m
8 August	40				
Treasury Bills		19 days	—	18	—
Treasury Bills		20 days	—	2	—
Treasury Bills		24 days	—	20	—
11 August	50				
Treasury Bills		15 days	10	—	—
Treasury Bills		50 days	40	—	—
12 August	100				
Treasury Bills		15 days	—	26	—
Treasury Bills		16 days	—	10	—
Sell-backs		8 days	—	—	64
13 August	30				
Treasury Bills		19 days	—	10	—
Treasury Bills		20 days	—	20	—
14 August	15				
Treasury Bills		14 days	—	15	—
Treasury Bills		18 days	—	—	—
15 August	130				
Treasury Bills		17 days	—	—	—
Treasury Bills		18 days	—	—	—
Sell-backs		5 days	—	—	34
Sell-backs		17 days	—	—	96
18 August	80				
Treasury Bills		8 days	40	—	—
19 August	30				
Treasury Bills		8 days	—	11	—
Treasury Bills		9 days	—	5	—
Treasury Bills		13 days	—	4	—
Treasury Bills		14 days	—	1	—
20 August	25				
Treasury Bills		41 days	—	—	—
21 August	50				
Government Stock		25 days	—	15	—
Treasury Bills		11 days	—	5	—
Treasury Bills		12 days	—	5	—
22 August	75				
Government Stock		24 days	—	30	—
Treasury Bills		10 days	—	—	—
Treasury Bills		11 days	—	2	—
Sell-back		12 days	—	—	43
25 August	20				
Treasury Bills		1 day	20	—	—
26 August	75				
Government Stock		20 days	—	5	—
Sell-back		6 days	—	—	48
Sell-back		7 days	—	—	6
27 August	25				
Government Stock		19 days	—	—	—
Treasury Bills		1 day	—	—	—
Treasury Bills		5 days	—	—	—
Treasury Bills		6 days	—	—	—
29 August	40				
Treasury Bills		55 days	40	—	—
1 September	25				
Treasury Bills		17 days	15	—	—
Treasury Bills		24 days	10	—	—
2 September	105				
Treasury Bills		16 days	45	—	—
Treasury Bills		23 days	22	—	—
Treasury Bills		24 days	38	—	—

## Monetary and Credit Aggregates

The Governor of the Reserve Bank, Mr Spencer Russell, on 15 August 1986, released provisional figures for the monetary and credit aggregates as at the end of June 1986.

Mr Russell said that the effect of the Government's firm monetary policy was apparent in the slower rate of monetary growth recorded over recent months. The broad monetary aggregate (M3) grew by 1.6 per cent in the June quarter (seasonally adjusted), down from 3.2 per cent in the March quarter and 5 per cent in the December quarter of 1985.

Over the year to June, M3 expanded by an estimated 13.2 per cent, which compares with growth of 23.3 per cent for the year to March. Mr Russell said that this comparison somewhat overstated the sharpness of the decline as the annual growth rate for the year to March was distorted by the effect of the sharp fall in M3 in the March quarter of 1985. "Nevertheless, the trend was clearly in a downwards direction," he said.

Mr Russell considered that the underlying rate of monetary growth for the June half-year was probably in the order of 10 per cent per annum, compared with around 17 per cent for the second half of 1985.

Growth in the narrow monetary aggregate (M1) also appeared to be slowing, though the decline was less marked than for M3. Over the June quarter M1 grew by 3.4 per cent (seasonally adjusted), which compares with growth of 2.2 per cent in the March quarter and 7.6 per cent in the December quarter of 1985. Over the year to June, M1 expanded by 17.7 per cent, down from growth of 21.6 per cent in the year to March.

Mr Russell also commented that the private sector credit statistics showed a continuation of the falling trend in credit expansion which had been evident over recent quarters. Private sector credit (PSC) grew by 3.2 per cent (seasonally adjusted) in the June quarter, which compares with growth of 4.3 per cent in the March quarter and 4.2 per cent in the December quarter of 1985. The annual growth rate for the year ended June was 18.2 per cent, down from 20 per cent in the year to March and 22.8 per cent in the year to December 1985.

Regarding the difficulties experienced in interpreting the monetary aggregates over recent times, the Governor said that it was not clear to what extent the aggregates were still being distorted by changes taking place in the financial sector. Institutional changes were likely to continue to affect the aggregates in the future, though the significant initial distortions arising from deregulation now appeared to be moderating. Mr Russell, however, warned that movements in the aggregates should still be interpreted with considerable caution.

## MONETARY AND CREDIT AGGREGATE STATISTICS

	<i>M1</i> <sup>1</sup>	<i>M3</i> <sup>2</sup>	<i>Private Sector Credit</i> <sup>3,4</sup>		<i>M1</i> <sup>1</sup>	<i>M3</i> <sup>2</sup>	<i>Private Sector Credit</i> <sup>3,4</sup>
	Actual (\$ million)				Quarterly Percentage Changes (Seasonally Adjusted)		
<i>1983</i>							
Dec.	3,480	17,897	11,861				
<i>1984</i>				<i>1984</i>			
Mar.	3,251	17,935	12,416	Mar.	0.5	3.6	2.6
June	3,267	18,636	12,795	June	1.1	3.9	4.4
Sep.	3,140	19,691	13,435	Sep.	2.2	5.6	3.7
Dec.	3,866	21,209	13,866	Dec.	6.2	4.0	5.0
<i>1985</i>				<i>1985</i>			
Mar.	3,338	20,646	15,111	Mar.	-6.2	0.7	5.9
June	3,557	22,772	15,694	June	7.0	10.6	6.2
Sep.	3,466	23,497	16,675	Sep.	3.5	2.9	5.2
Dec.	4,342	25,537	17,021	Dec.	7.6	5.0	4.2
<i>1986</i>				<i>1986</i>			
Mar.	4,059	25,449	18,137	Mar.	2.2	3.2	4.3
June (est)	4,185	25,769	18,547	June (est)	3.4	1.6	3.2
	Annual Percentage Changes				Monthly Percentage Changes (Seasonally Adjusted)		
<i>1983</i>				<i>1985</i>			
Dec.	14.8	11.8	14.0	Aug.	-1.9	0.7	1.5
<i>1984</i>				Sep.	4.3	1.2	1.0
Mar.	8.3	11.3	15.4	Oct.	8.3	1.6	0.5
June	11.1	14.9	20.0	Nov.	-5.0	1.5	2.2
Sep.	6.2	17.4	21.1	Dec.	5.6	1.7	0.9
Dec.	11.1	18.5	16.9	<i>1986</i>			
<i>1985</i>				Jan.	-4.4	0.1	1.4
Mar.	2.1	15.1	21.7	Feb.	-0.8	0.9	2.2
June	8.9	22.2	22.7	Mar.	8.7	3.4	0.5
Sep.	10.4	19.3	24.1	Apr.	-4.9	-1.5	2.1
Dec.	12.3	20.4	22.8	May	2.7	0.3	1.2
<i>1986</i>				June (est)	3.4	0.8	0.6
Mar.	21.6	23.3	20.0				
June (est)	17.7	13.2	18.2				

## NOTES

- 1 M1 includes notes and coin held by the public, cheque account balances at savings banks, and cheque account balances at trading banks (net of Government deposits and the deposits of the selected financial institutions at trading banks).
- 2 M3 includes M1 plus demand and call deposits of POSB, trustee savings banks, private savings banks, official money market dealers (prior to August 1984), finance companies, current accounts of stock and station agents and all time and term deposits with the selected financial institutions (net of the deposits of these institutions with each other).
- 3 Private sector credit measures total lending by the selected financial institutions to the private sector (including local authorities) in the form of advances, loans, mortgages, leasing and factoring, etc. (net of advances between the selected financial institutions).
- 4 The quarterly seasonally adjusted private sector credit series appears to have been significantly affected by recent changes in the financial sector and therefore the Bank cautions against placing too much emphasis on them.