

The following Chronology covers the calendar year 1987, listing significant economic events that occurred in that year. It does not include regular economic reports or statistical releases, as they are available elsewhere and are too numerous to report in this resume.

January 1 Liquidity Management

The Governor of the Reserve Bank, Mr Spencer Russell, announced that the primary liquidity level for January would be around \$375 million, compared with an average of around \$370 million in December.

January 15 Government Borrowing

The Government undertook further overseas borrowing as part of its plan to refinance major energy project debt. A total of 400 million Swiss francs (NZ\$475 million) were raised on the Swiss market.

January 15 New Banks Information Requirements

The Reserve Bank announced the information it would require from prospective new bank applicants. This information as announced by the Governor of the Reserve Bank, Mr Spencer Russell, places emphasis on the quality and background of institutions which wish to call themselves banks, in accordance with the intention of the legislation to take effect from 1 April. Accordingly, the Bank will be looking for detailed information on the mode of operations, proposed activities, management, internal prudential systems, projections of financial performance and previous experience in the banking industry, Mr Russell said.

January 15 Foreign Exchange Market: Code of Behaviour and Practice

The Reserve Bank announced that members of the New Zealand foreign exchange dealing com-

munity have formally accepted and ratified a code of behaviour and practice for the New Zealand foreign exchange market.

The code's prime objective is to convey a sense of standards of behaviour and practice which are both prudent and conducive to efficient market operation, but it also aims to generate a greater awareness of sound dealing practice.

January 22 BNZ Public Share Float

The Bank of New Zealand announced the public float of 13 per cent of its capital in March 1987 – the largest public float in New Zealand's history.

The issue, which will be available to the public and staff at \$1.75 per share, will raise \$180.3 million. The New Zealand Government is to hold the remaining 87 per cent of the bank's capital.

February 2 Liquidity Management

The Deputy Governor of the Reserve Bank, Mr Lindsay Knight, announced that the average primary liquidity level for February was expected to be around \$1,050 million. This is substantially above the average level in January which was around \$385 million. The build-up in primary liquidity during February is the counterpart of the large March tax drain period. Primary liquidity levels at the end of March and beginning of April could be expected to return to around the average levels of December and January.

February 11 Petrol Price Rise

The Government announced that it had increased the price of petrol by 8.4 cents a litre from 11 February

and abolished the minimum price limit on petrol. This minimum price limit on petrol had been in existence since the 1930s.

February 23 Government Loan

The Government raised a further US\$150 million overseas. Announcing this, the Minister of Finance, the Hon. R.O Douglas, said the loan would be used to repay an equivalent amount of floating rate US dollar debt.

March 2 Liquidity Management

The Deputy Governor of the Reserve Bank, Mr Lindsay Knight, said that the average primary liquidity level for March is expected to be around \$1,360 million. Although higher than the average level in February of around \$1,050 million, the build-up was necessary to accommodate the forecast large withdrawals from the system during the tax drain period and at the end of the month, Mr Knight said.

March 6 Meat Board Debt

It was announced that as part of its 1986 Budget night promise, the Government will write off the Meat Board's billion dollar farm price smoothing scheme debt in exchange for \$100 million of the meat industry's reserves.

March 9 Petrocorp Float

The Government confirmed it will press ahead with its second corporate privatisation by issuing 30 per cent of the shares in Petrocorp to the public later in the year.

March 13 Kiwi Bonds Twelfth Issue

The closure of the eleventh issue of Kiwi Bonds and its replacement by a twelfth issue was announced. The rates on the new issue, available from 20 March 1987, will be 18.5 per cent on the two year and 17.5 per cent on the four year maturity.

March 17 Government Borrowing

The Government borrowed £100 million in the Eurosterling market to refinance a loan maturing in June 1987.

March 19 Government Cost Cutting

A new Government cost-cutting exercise will begin on 1 April 1987 and could save about \$1 billion. Announcing this, the Minister of Finance, the Hon. R.O. Douglas, said the exercise was not just a question of increasing revenue by expanding services and charges to customers. But it would also involve greater efficiency and getting better value for every dollar spent.

March 27 Revised Fiscal Deficit

The Minister of Finance, the Hon. R.O. Douglas, revised his post-Budget night deficit forecast of \$2.9 billion down to the Budget night estimate of \$2.45 billion. Tax revenue \$600 million above forecast was given as the reason for the new deficit forecast.

April 1 State Corporations

The Government's nine new state corporations – Government Property Services, the Airways Corporation, Forestcorp, Landcorp, New Zealand Post, Post Office Bank, Electricorp, Telecom, and Coalcorp – came into operation. Negotiations between the Government and the corporations' management boards

on the appropriate value of assets which are to be transferred to these corporations had still to be finalised for all but one of the corporations. The Post Office Bank was the only state corporation to have reached a final agreement with the Government on asset transfer.

April 1 Liquidity Management

The Deputy Governor of the Reserve Bank, Mr Lindsay Knight, said the average level of primary liquidity during April is expected to be around \$380 million. Although significantly lower than the average level for March which was around \$1,050 million, Mr Knight said this level is consistent with the average levels attained before the seasonal February and March primary liquidity build-up which was associated with the March tax drain.

April 2 Government Borrowing

The Minister of Finance, the Hon. R.O. Douglas, announced the Government had begun raising US\$250 million through medium-term notes in the US as part of a US\$1.25 billion financing programme announced in 1986. The loans, according to Mr Douglas, are to be used to refinance debt on the major energy projects and other government debt.

April 2 Crown Assets Transferred

Assets worth \$2,765.1 million in gross value were transferred to the State-Owned Enterprises, announced the Minister of Finance, the Hon. R.O. Douglas.

For the Post Office Savings Bank, assets estimated at \$2,685.5 million, including \$135 million to bring assets and liabilities into equilibrium, were transferred from the Crown. An additional amount of \$250 million was injected into the Post Office Bank in return for shares. A sum of \$79.6 million was transferred to the Government Property

Services, payment for which had been \$18 million in cash. The balance was owed to the Crown.

April 7 Kiwi Bonds Twelfth Issue: Partial Closure

The closure of the four year maturity of Kiwi Bonds was announced. The two year maturity will remain open until a decision on the new rates for both two and four year maturities are made.

April 9 New Export Incentive Scheme

The Minister of Overseas Trade and Marketing, the Hon. M.K. Moore, announced a new \$20 million export incentive scheme. The scheme, called the Individual Exporter Programme, provides for grants of up to \$50,000 a year for small and medium sized companies to explore and develop products and markets. During each of the next two years \$10 million has been allocated to the Market Development Board to distribute.

April 10 State Pay Agreement

The Minister of State Services, the Hon. Stan Rodger, announced that state servants will receive a 7 per cent pay increase.

April 13 1987/88 Public Debt Programme

The Minister of Finance, the Hon. R.O. Douglas, announced details of the Government's intended borrowing programme for the rest of the 1987/88 fiscal year. A further eight tenders, each of \$250 million, are planned with the next tender scheduled for 11 June.

April 13 1987/88 Budget Deficit

The Minister of Finance, the Hon.

R.O. Douglas, announced that a deficit of \$2.2 billion was expected for the 1987/88 financial year.

April 23 **1986/87 Budget Deficit**

The Minister of Finance, the Hon. R.O. Douglas, announced that the budget deficit outcome for the 1986/87 financial year was \$1.95 billion. This figure represents 3.8 per cent of GDP, which makes it the lowest deficit out-turn in ten years.

April 24 **Increase in Daily Cash Target**

The Governor of the Reserve Bank, Mr Spencer Russell, announced an increase in the daily cash target from \$30 million to \$40 million, effective from 27 April. Increased uncertainties in the domestic money market were cited as the reason for the increase.

April 30 **Kiwi Bonds Thirteenth Issue**

The Minister of Finance, the Hon. R.O. Douglas, announced the closure of the two year maturity of Kiwi Bonds Twelfth Issue and its replacement by a thirteenth issue. The new bonds, available from 30 April, offered a rate of 17.5 per cent for two years and 16 per cent for four years.

May 4 **Liquidity Management**

The Deputy Governor of the Reserve Bank, Mr Lindsay Knight, announced that the average primary liquidity level for May is expected to be around \$390 million, compared with an average of around \$380 million in April.

May 11 **Daily Cash Target Reduced**

The Reserve Bank announced that the daily cash target would be re-

stored to the previous level of \$30 million from 12 May. The cash target had been increased from \$30 million to \$40 million on 27 April in response to the highly uncertain conditions in the domestic money market. However, the Bank stated that the uncertainty had now passed and it was therefore appropriate to return to the previous policy setting.

May 17 **New Housing Package**

The Minister of Housing, the Hon. Phil Goff, announced a \$102 million boost in the Government's Home-start Scheme. Features of the package included:

- a 'top-up' loan of up to \$14,000 at 3 per cent interest, with no repayments for five years;
- an increase of \$37.7 million for modest income home lending and the Housing Corporation's rental housing programme; and
- refinance and second-change lending would increase \$4.4 million.

Mr Goff said the \$378 million budget for lending to modest income earners would help around 10,000 families into their first home.

May 26 **Liquidity Management**

The Deputy Governor of the Reserve Bank, Mr Lindsay Knight, announced that the average primary liquidity level for June is expected to be around \$380 million, compared with an average of around \$390 million in May.

June 4 **Kiwi Bonds Fourteenth Issue**

The Minister of Finance, the Hon. R.O. Douglas, announced the closure of the thirteenth issue of Kiwi Bonds and its replacement by a fourteenth issue. The new issue, available from 22 June, offered a

rate of 16.75 per cent for two years and 15.5 per cent for four years.

June 10 **Rural Bank Discounting Scheme**

The Minister in Charge of the Rural Banking and Finance Corporation, the Hon. C.J. Moyle, announced that the Farm Loan Discounting Scheme would close at the end of June. The discounting scheme is available to farmers with Rural Bank finance and allows the bank to write off part of a farmer's mortgage provided other lenders also agree to some concessions. The scheme first began in July 1986, and the bank estimates that 5,100 farmers will have been helped by the scheme when it ends.

June 18 **1987 Budget**

The 1987 Budget was presented to Parliament by the Minister of Finance, the Hon. R.O. Douglas. The highlights were:

- the first government surplus for 35 years was forecast and plans for the repayment of \$600 million overseas debt were indicated. The surplus of \$379 million compares with a previous year deficit of \$1,952 million;
- the sale of government assets to pay off public debt. The Government will sell shares in a number of its businesses, including New Zealand Steel, the Development Finance Corporation, Petrocorp and Air New Zealand;
- measures to reduce the incidence of tax evasion and tax avoidance on overseas earned income;
- an increase in Family Support and the Guaranteed Minimum Family Income;
- higher exemption levels for the National Superannuation surcharge; and
- the abolition of the Farm Ownership Savings Account, from 18 June 1987.

June 25

The Revised 1987/88 Debt Programme

The Governor of the Reserve Bank, Mr Spencer Russell, announced that after considering the pattern of injections to primary liquidity over the remainder of the fiscal year and the need to maintain a stable supply of stock to the market, the public debt programme had been revised as follows:

Tender Date	\$ million (Nominal Value)	Settlement Dates
9 July	250	13 July-3 August
6 August	250	10 August-31 August
15 October	250	19 October-9 November
10 December	200	14 December-21 December

June 26

New Zealand Post Transfer Value

The Minister of Finance, the Hon. R.O. Douglas and the Postmaster-General, the Hon. J. Hunt, announced that the Government and New Zealand Post had reached agreement on the value of assets to be transferred to New Zealand Post. The valuation, which values the assets at \$250 million, will be satisfied by:

- the issue of \$120 million in shares to the Government by New Zealand Post, representing a 100 per cent equity holding by the Crown;
- \$60 million worth of long-term Crown liabilities to be taken over and discharged by the company; and
- a cash sum of \$70 million, largely from the sale of assets, to be paid to the Crown over five years.

June 27

CER

Australia's Minister for Trade and Industry, Senator John Button, and the Minister for Trade, Mr John Dawkins, announced that Australia and New Zealand had reached an

agreement to have free trade between the two countries in clothing by 1995 and footwear by 1990. Free trade for footwear would start on 1 March 1990, with access for clothing increasing by A\$10 million each year until free trade starts on 1 March 1995.

July 1

Liquidity Management

The Deputy Governor of the Reserve Bank, Mr Lindsay Knight, announced that the average primary liquidity level for July is expected to be around \$355 million, compared with an average of around \$380 million in June.

July 15

Coalcorp

The Minister of Energy, the Right Hon. R.J. Tizard, announced that Coalcorp's assets had been valued at \$83.1 million, including an allowance of \$5.8 million to develop the Wairaki and Morley mines at Ohai.

July 22

New Banks

The Governor of the Reserve Bank, Mr Spencer Russell, announced the initial group of eight institutions to which the Reserve Bank had granted banking registration.

The successful institutions (with country of origin of majority shareholder in parenthesis) are:

- NZI Financial Corporation Limited (New Zealand)
- Citibank NA (USA)
- Hong Kong and Shanghai Banking Corporation (Hong Kong)
- Barclays New Zealand Limited (United Kingdom)
- Macquarie Bank Limited (Australia)
- Broadbank Corporation Limited (a subsidiary of National Australia (Australia) Bank Limited)
- Indosuez New Zealand Limited (France)

- CIBC New Zealand Limited (Canada)

July 27

BNZ Allowed Full Branch in Hong Kong

The Chief Executive of the Bank of New Zealand, Mr Bob McKay, announced that approval had been obtained from the Hong Kong Government to set up a full branch operation in Hong Kong.

August 3

Liquidity Management

The Deputy Governor of the Reserve Bank, Mr Lindsay Knight, announced that the average primary liquidity level for August is expected to be around \$475 million. This is above the average level in July which was around \$340 million.

Mr Knight announced that the build-up of primary liquidity in August was the counterpart of the large withdrawals from the system forecast over the September tax drain period.

August 7

Butter Deal with Iran

The Dairy Board announced one of its biggest butter sales outside the United Kingdom in striking a deal worth nearly \$80 million to sell 35,000 tonnes of butter to Iran.

August 7

New Monetary Aggregates

The Governor of the Reserve Bank, Mr Spencer Russell, announced the release of two new monetary aggregate measures; a newly defined broad money supply measure ('M3') and a new aggregate lending measure ('private sector credit'). Mr Russell said that the new figures would give a better picture of overall monetary conditions because they covered a wider range of financial institutions and different forms of borrowing and lending.

August 15 New Zealand Election

The Labour Government was re-elected for a second term in office, the first second term success by a Labour Administration in 49 years. In the final analysis, the Government majority increased by four seats to nineteen.

August 31 Liquidity Management

The Assistant Governor of the Reserve Bank, Mr Peter Nicholl, announced that the average primary liquidity level for September is expected to be around \$625 million. This is substantially above the average level in August which was around \$350 million. The build-up in primary liquidity during September is the counterpart of meeting large withdrawals from the system over the tax drain period at the end of the month.

September 1 Reduction in Daily Cash Target

The Governor of the Reserve Bank, Mr Spencer Russell, announced that the daily cash target would be reduced from \$30 million to \$20 million effective from Wednesday, 2 September 1987. Mr Russell said that this reduction was in response to an improvement in the Bank's ability to forecast daily cash influences.

September 24 Reserve Bank Share Price Indices

The Reserve Bank announced that it would cease to publish its daily share price index and its nine weekly sectoral indices from 9 October 1987. The continuation of the Bank's indices was no longer seen to be warranted because of the introduction in July 1986 of the New Zealand Stock Exchange Capital and Gross Indices.

October 1 Liquidity Management

The Deputy Governor of the Reserve Bank, Mr Lindsay Knight, announced that the primary liquidity level for October is expected to be around \$470 million, compared with an average of around \$625 million in September.

October 7 Monetary Policy Stance Tightened

The Governor of the Reserve Bank, Mr Spencer Russell, announced a further firming of monetary policy by way of an increase in the Reserve Bank's discount margin, from 1 percentage point to 1.5 percentage points.

October 20 Sharemarket Plunge

The New Zealand sharemarket suffered its biggest ever one-day fall, seemingly prompted by a series of sharp falls on main world markets. The Barclays Share Price Index fell 505 points to 2925, compared to the all-time high of 3968 on 18 September 1987.

October 21 Sale of New Zealand Steel

The Minister of Finance, the Hon. R.O. Douglas, announced that Auckland investment bank Equitcorp Holdings had bought the Government's stake in New Zealand Steel in a \$327 million deal. Although much less than the \$2 billion the Government has had to inject into New Zealand Steel as part of its financial restructuring, Mr Douglas said he was satisfied with the arrangement. The \$327 million will be a valuable boost in achieving the projected budget surplus in the year to March 1988.

October 27 The Dollar and Sharemarket Fall

The New Zealand dollar suffered its biggest one-day fall since it was floated with the trade weighted exchange rate index falling 3.7 per cent, and the New Zealand sharemarket fell a further 11 per cent as international nervousness hit financial markets. The dollar fell heavily against all currencies, before firming slightly as trading closed, while the Barclays Share Price Index hit a 16-month low of 2577 after a fall of 322 points. International bearishness and New Zealand reaction to overseas market activity were cited as the main causes of the falls.

November 2 Liquidity Management

The Assistant Governor of the Reserve Bank, Mr Peter Nicholl, announced that the primary liquidity level for November is expected to be around \$600 million. Mr Nicholl explained that this higher level of primary liquidity is a seasonal increase to meet large liquidity withdrawals to the Government.

November 6 Increase in Daily Cash Target

The Governor of the Reserve Bank, Mr Spencer Russell, announced an increase in the daily cash target from \$20 million to \$30 million. Mr Russell said this adjustment was seen to be warranted in view of the current uncertainty in financial markets following the recent sharemarket decline.

November 6 Government Intervenes in Electricorp/PSA Dispute

The Government intervened to resolve a dispute between the Public Service Association and Electricorp over staff reductions, which threat-

ened to result in major cuts in electricity supplies throughout the country.

November 17

Kiwi Bonds Fifteenth Issue

The closure of the fourteenth issue of Kiwi Bonds was announced. A new issue will be opened after the next stock tender on 10 December, the Minister of Finance, the Hon. R.O. Douglas announced.

November 23

New Nominal Exchange Rate Index

The Reserve Bank introduced a new Nominal Exchange Rate Index to measure the value of the New Zealand dollar against a basket of currencies comprising New Zealand's five major trading partners. The Chief Manager of the Reserve Bank's International Department, Mr Allan Smith, said the new index, which is based on a system used by other central banks, is a more accurate way of determining the average value of the New Zealand dollar against a basket of other currencies.

December 1

Liquidity Management

The average level of primary liquidity for December is forecast to be \$515 million. However, the Reserve Bank plans to undertake operations to reduce this figure to around \$400 million.

The \$515 million level was considered to be appropriate given the volume of SOE payments due to be made to the Government during December. However, a significant volume of these payments have been rescheduled into the March quarter.

December 4

Revised Fiscal Surplus

The Minister of Finance, the Hon. R.O. Douglas, revised his budget night surplus forecast of \$379 million down to \$229 million.

December 4

New Registered Bank

The Governor of the Reserve Bank, Mr Spencer Russell, announced that Countrywide Banking Corporation Limited had been granted banking registration under the provisions of the Reserve Bank of New Zealand Act 1964.

December 4

Government Loan

The Minister of Finance, the Hon. R.O. Douglas, announced that the Government had borrowed US\$250 million (NZ\$390 million) in the New York market to refinance existing debt.

December 10

State Services Bill

The Government introduced legislation enabling it to appoint heads of government departments.

Under the State Sector Bill, introduced by Labour Minister Stan Rodger, the Prime Minister can direct the appointment of departmental heads in contracts of up to five years.

The Bill will replace the State Services Conditions of Employment Act 1977 and the State Services Act 1962.

December 17

Economic Reform

The Government announced further plans for economic reform. The main features of the economic package were:

- an increase in the Goods and Services Tax to 12.5 per cent not earlier than 1 October 1988;
- a programme of asset sales to repay one-third (\$14 billion) of the national debt of \$42 billion by 1992;
- from 1 October 1988, a guaranteed minimum family income for wage and salary earners with children which will be 'significantly' above present benefits rates;
- a single personal income tax rate from 1 October 1988; the rate of

which to be announced in February;

- a reduction in company tax rates from 1 October 1988 to a rate comparable but not less than the personal tax rate;
- a full dividend imputation scheme from 1 April 1988, to integrate personal and business tax systems;
- a four year programme of tariff reductions on goods not subject to industry plans and a two step reduction in rates of duty on cars;
- superannuation funds, life offices and related organisations will be subject to tax from 1 April 1988; and
- all measures to operate within fiscal constraint, so that any net cost of package must be met by expenditure reduction in other areas.

December 18

Kiwi Bonds Fifteenth Issue

The Minister of Finance, the Hon. R.O. Douglas, announced the introduction of a fifteenth issue of Kiwi Bonds. The new issue offered a rate of 14.25 per cent for two years and 14 per cent for four years.

December 21

Appointment of Reserve Bank Directors

The Minister of Finance, the Hon. R.O. Douglas, announced the appointment and re-appointment of Directors to the Board of the Reserve Bank of New Zealand.

Mr Jeff Todd has been re-appointed as a director of the Reserve Bank, for a three year term, commencing 1 February 1988. Mr Douglas also announced the appointment of Mr Eion Edgar to the Board of the Reserve Bank for a three year period. He replaces Mr Callum Kirkpatrick, whose term expires on 31 January 1988.

Mr Edgar is a senior partner in the Dunedin-based sharebroking firm Forsyth, Barr and Company, and is chairman of the Dunedin Regional Stock exchange.