

# NEW ZEALAND ECONOMIC CHRONOLOGY 1991

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*The following chronology covers the calendar year 1991, listing significant economic announcements. It does not include regular economic statements or statistical releases, as these are available elsewhere and are too numerous to list in this summary.*

## **January 11 Monetary Conditions**

In response to the emergence of an upward sloping interest rate yield curve, the Reserve Bank released a public statement, reiterating that short-term rates should generally exceed long-term rates while inflation is being reduced.

## **January 17 Gulf War Begins**

The US-led forces in the Gulf began attacks on targets in Iraq and Kuwait.

## **January 17 Release of December Quarter 1990 Inflation Data**

During the December quarter the Consumers Price Index (CPI) rose by 1.1 per cent. This brought year-on-year inflation to 4.9 per cent.

## **January 24 New Bank Registration**

BNZ Finance Ltd was granted registered bank status.

## **February 21 Monetary Policy Statement**

The Reserve Bank released its third Monetary Policy Statement.

**February 22**  
**Technical Changes to Monetary Policy Implementation**

Technical changes to monetary policy implementation arrangements were introduced by the Reserve Bank. These changes were agreed to by settlement banks, and were expected to have a neutral impact on monetary conditions.

**February 28**  
**End of War Against Iraq**

The President of the United States, Mr George Bush, ordered the suspension of United States-led allied combat operations in the Gulf, signalling the end of the war against Iraq.

**March 5**  
**New Safeguards for Banking Industry**

The Governor of the Reserve Bank Dr Don Brash, outlined the new safeguards that have been introduced to the banking industry following the DFC failure. These include requiring banks to keep a certain amount of capital available, a limit to the amount lent to one borrower or group, and guidelines for internal control of banks.

**March 12**  
**Increase in Deficit**

The Government announced an increase in the projected year to June 1991 financial deficit from \$691 million - as projected in the December "Economic and Social Initiative" - to \$1.4 billion.

**April 17**  
**Release of March Quarter 1991 Inflation Data**

During the March quarter the Consumers Price Index (CPI) rose by 0.6 per cent. This brought year-on-year inflation to 4.5 per cent.

**April 23**  
**Yield Curve**

The Governor of the Reserve Bank gave a speech in which he outlined the conditions under which a flat or positive yield curve could emerge over the coming year. These conditions included expectations of low inflation in the June quarter being realised, a continuing favourable inflation outlook, and further progress toward reducing the fiscal deficit in the July Budget.

**May 15**  
**Employment Contract Act**

The Employment Contract Act 1991 took effect.

**May 21**  
**Revision to Current Account Deficit**

The Department of Statistics announced a revision from around \$4.2 billion to \$2.2 billion in the year March 1990 balance of payments current account deficit.

**July 12**  
**State Asset Sales Proceeds**

The Minister of Finance, the Hon. Ruth Richardson, announced that state assets sales proceeds in 1991/92 would be devoted exclusively to the repayment of overseas debt.

**July 15**  
**Release of June Quarter 1991 Inflation Data**

During the June quarter the Consumers Price Index (CPI) rose by 0.1 per cent. This brought year-on-year inflation to 2.8 per cent.

**July 30**  
**1991 Budget**

The 1991 Budget was presented in Parliament by the Minister of Finance. Key features relevant to monetary policy included:

- a forecast financial deficit for 1991/92 of \$1,739 million, projected to fall to around \$500 million by 1993/94;
- restructuring of health funding and significant changes in the funding and charging for public housing;
- higher levies on petrol and wages to fund ACC reforms, and higher alcohol and tobacco excise.

**July 31**  
**Reserve Bank Response to 1991 Budget**

The Reserve Bank issued a response welcoming the deficit reductions announced in the Budget. The statement indicated that the forecast fiscal deficits appeared to be sustainable. The Bank noted various Budget decisions would boost the CPI, but that the Bank's focus would be on underlying inflation, excluding this type of one-off

effect. The statement added that recent fiscal and inflation developments meant that the Bank had no reason to prevent the yield curve turning upward sloping, provided conditions remained consistent with price stability.

**August 12**  
**Monetary Policy Statement**

The Reserve Bank released its fourth Monetary Policy Statement.

**September 25**  
**Increase in Cash Target**

The Reserve Bank eased monetary policy, announcing a \$5 million increase in the settlement cash target (to \$20 million). The decision to ease was taken because it appeared that inflation would fall below the indicative inflation ranges for the years to December 1991 and December 1992.

**October 4**  
**Government Revises Superannuation Changes**

The Government announced its intention to revise changes to the superannuation policy which had been set out in the July 1991 Budget.

**October 8**  
**Revised Estimate of Fiscal Deficit**

It was announced that the Government's audited fiscal deficit for the 1990/91 year was \$513 million less than estimated on Budget night.

**October 15**  
**Release of September Quarter 1991 Inflation Data**

During the September quarter the Consumers Price Index (CPI) rose by 0.4 per cent. This brought year-on-year inflation to 2.2 per cent.

**November 13**  
**Current Assessment of Inflation**

The Governor of the Reserve Bank gave a speech in which he noted that inflation was expected to end up in the upper half of the Bank's 1.5 - 3.5 per cent indicative inflation range for 1992, and that the Bank would not feel comfortable with an exchange rate level that would put that inflation target at risk.

**December 9  
Inflation Forecasts**

The Reserve Bank released a statement noting that its latest economic forecasts would be released on 17 December and, based on then current monetary conditions, would show underlying inflation in 1992 to be a little below the mid-point of the Bank's 1.5 - 3.5 per cent indicative range for that year.

**December 17  
Revisions to Fiscal Outlook**

The Minister of Finance announced formal revisions to the fiscal outlook for the current and following two fiscal years, presented in the July 1991 Budget. The Minister noted that a fiscal surplus was now unlikely to be achieved by the original target date of 1993/94. The expected financial deficit for the current fiscal year was revised upwards from its Budget night level of \$1.75 billion to \$2.75 billion. For the 1993 and 1994 fiscal years, financial deficits of \$2.3 and \$2.25 billion respectively were forecast, up from Budget night projections of \$686 million and \$528 million respectively.

**December 18  
Settlement Accounts**

The Reserve Bank announced changes to the calculation of interest payable on balances in the settlement accounts held at the Reserve Bank. Henceforth, interest would only be paid on individual balances up to \$5 million, and the rate would be calculated as the 7 day cash rate less 300 base points, rather than as 65 per cent of the 7 day cash rate. The Bank noted that the changes were intended to enhance the functioning of the cash market and did not reflect a shift in the stance of monetary policy.

**December 24  
Settlement Accounts**

The Reserve Bank modified the changes to the payment of interest in settlement balances announced on 18 December, stating that the significant falls in overnight interest rates in recent days had been an over-reaction to the 18 December measure. Effective immediately, the Bank would pay interest on individual balances up to \$20 million.