

New M3 financial institutions

This article, prepared by Alan Boaden, explains the designation of three additional organisations as M3 financial institutions, and describes their impact on M3 sector statistics.

Introduction

Three new M3 Financial Institutions (M3FIs) have been included in the money and credit aggregates and other M3 sector statistics.¹ In each case data for a year or more have been incorporated, so there are significant changes to some statistical series over a period of time. The new M3FIs and their effective dates of inclusion in the M3 survey are as follows:

- The Public Trust Office from October 1990.
- New Zealand Housing Corporation from July 1992.
- New Zealand Mortgage Corporation from July 1992.

In recent months revised and more complete data have been received from a number of other M3FIs. These figures have also been included in the money and credit aggregates and other statistics. This article:

- reviews the Reserve Bank's criteria for designating organisations as M3FIs;
- explains why each of the new M3FIs fits those criteria; and
- describes the impact on published statistics.

Criteria for identifying M3FIs

The Reserve Bank introduced new monetary and credit aggregates in 1987. The concepts of money and M3FIs adopted at that time were consistent with the recommendations of the Review Committee on New Zealand Finance Statistics initiated by Statistics New Zealand (then the Department of Statistics) earlier in the 1980s.

The Review Committee's report, published in January 1983, made the following points.

“The need is for monetary and credit aggregates which are sufficiently broad to capture all major financial instruments, which meet certain liquidity and security requirements, and encompass all significant deposit-taking and lending institutions.”

¹ This is only the second time since the new money and credit aggregates were published in 1987 that new respondents have been added. The first addition was the Bonus Bonds Trust in 1990.

“Institutions to be included ... should be significant deposit acceptors or significant issuers of other comparable forms of liquid assets.”

“An institution’s liabilities need to satisfy the following two criteria:

- (i) most of them satisfy the liquidity criterion; and
- (ii) most of them are held by the New Zealand private sector.”

The Committee concluded that the choice of what should be included in M3 and other aggregates should be made on the basis of institutions rather than instruments. However, the type of instruments issued by institutions was to be the main criterion for selection as an M3FI. The Committee favoured this approach because of the advantages of a balance sheet framework which would facilitate analytical work. This led to the exclusion of instruments such as Treasury bills, not on the grounds of deficient liquidity characteristics or nearness to “money”, but because they were not issued by an M3FI. Other instruments, perhaps less like “money”, were in some cases included because they were issued by M3FIs.

No final, ironclad definition of appropriate institutions was established, but the Reserve Bank followed the recommendations above in designating the original set of M3FIs in the mid-1980s. Given the pace and extent of change in the financial sector, it is necessary for the Reserve Bank to be flexible and to consider possible new M3FIs on a case-by-case basis. The specific reasons for including each of the new organisations are explained below.

New M3 financial institutions

(1) Housing Corporation of New Zealand

The Housing Corporation is a crown entity set up under its own Act of Parliament. Its main functions are the ownership and management of a large portfolio of housing loans. In 1992 the ownership and management of state house rental properties were transferred from the Housing Corporation to Housing New Zealand Limited.

The predominant business of the Housing Corporation now is lending to the private sector, in particular low income families, for housing purposes. Borrowings from the private sector, including bonds issued, make up a major part of its liabilities. It therefore meets the criteria described above for inclusion among the set of M3FIs.

(2) Mortgage Corporation of New Zealand Ltd

Mortgage Corporation is a group of companies, established as a special purpose company, to acquire a portfolio of residential mortgages from the New Zealand Housing Corporation. It purchased about \$270 million of the Housing Corporation’s prime mortgages when it was established on 27 July 1992. It has subse-

quently purchased more mortgages from the Housing Corporation and some from Residential Mortgages Limited, a subsidiary of Fletcher Challenge Limited.

Mortgage Corporation was funded by the issue of securities of various values and maturities. These were mainly sold to other New Zealand financial institutions, but some were bought by individual investors. These securities are liquid in the sense that they can be bought and sold at low transactions costs.

Mortgage Corporation's assets are claims on the New Zealand private sector. Its liabilities are liquid securities, mainly held by New Zealand residents. It is clear, therefore, that Mortgage Corporation should be included as an M3FI.

(3) The Public Trust Office

The 1983 Review Committee on Finance Statistics recommended that trust companies be excluded from monetary and credit aggregates. However, in addition to its custodial duties, the Public Trust Office offers "SafeCare" accounts which closely resemble bank accounts.

Any person may become a client of the Public Trust Office and open a SafeCare account. Initially deposits are for a term of thirty days but they are then available on call. Money deposited is invested in government stock, bank deposits and transferable certificates of deposit (TCDs). There is no management fee that a unit trust might have.

These services provided by the Public Trust Office are very similar to those offered by a bank. Accordingly, we collect data on this part of the Public Trust Office's activities and include them in the monetary aggregates and other M3 sector statistics.

(4) The Bonus Bonds Trust

Prior to October 1990, Bonus Bonds represented liabilities of the Government, though the scheme was managed by the Post Office Savings Bank. On 1 October 1990, management and ownership of the scheme were transferred to the ANZ Bank which established it as the Bonus Bonds Trust.

The Bonus Bonds Trust was designated an M3FI in early 1991 with effect from October 1990. This decision was taken because bonus bonds meet the liquidity criteria for M3-type financial instruments. They can be readily cashed, given several days notice, at any time. Also, their withdrawal value is a fixed capital amount and is not subject to exit fees.

It was not appropriate to include bonus bonds in M3 prior to October 1990 because the owner of the liabilities then, the Government, was not, and is not, an M3FI. Government retail debt has never been included in New Zealand measures of money and credit aggregates.

Impact on statistics

The introduction of the new M3FIs has significantly *increased the levels* of the broad money and credit aggregates. The revised money and credit aggregates are shown in Table A1 of this Bulletin as normal.

The addition of the new respondent institutions has also caused a number of *discontinuities* to the aggregates at the effective dates of inclusion of the new M3FIs, namely October 1990 and July 1992. The annual percentage changes (APCs) in the aggregates were distorted for twelve months after each of these dates as comparisons involved two different groups of institutions.

To assist users of statistics, Tables 1 and 2 below present two sets of adjusted money and credit aggregates. The money supply measures shown in Table 1 are M2, M3 and the resident measure M3(R). M1 is not included as it was not affected by the introduction of new respondents. Table 2 shows the official and resident measures of Private Sector Credit (PSC) and Domestic Credit (DC).

The first set of adjusted aggregates covers the period October 1990 to September 1991. It excludes the Public Trust Office (which was included in the February 1994 statistics with effect from October 1990) and the Bonus Bonds Trust (which had earlier been included with an October 1990 starting date).

The second set runs from July 1992 to June 1993. This set includes the Public Trust Office and the Bonus Bonds Trust, but excludes Housing Corporation and Mortgage Corporation, both of which were added from July 1992. Both sets of adjusted aggregates also make allowance for some revisions to individual banks' data that were incorporated with the February 1994 statistics.

Tables 3 and 4 show the APCs in the official and adjusted series. The APCs in the adjusted aggregates provide a more meaningful measure of growth than those in the official figures for the periods October 1990 to September 1991 and July 1992 to June 1993. This is illustrated in the graphs in this article. The sharp increases in the "official" APCs in October 1990 and July 1992 are due to the addition of new respondents.

As well as providing more meaningful APCs for the two periods, the two sets of adjusted aggregates will enable external analysts to construct spliced series for longer periods if they so wish.

Table 1
Adjusted Monetary Aggregates

(\$ million)

	M2	Adjusted M2	M3	Adjusted M3	M3(R)	Adjusted M3(R)
1990						
Oct.	25,367	25,076	52,454	51,073	47,821	46,440
Nov.	25,332	25,033	51,954	50,565	47,755	46,365
Dec.	25,073	24,763	52,832	51,432	47,536	46,135
1991						
Jan.	24,468	24,150	52,168	50,805	47,019	45,656
Feb.	24,588	24,266	51,888	50,521	46,886	45,519
Mar.	24,057	23,729	51,847	50,474	46,523	45,150
Apr.	24,637	24,275	52,578	51,171	47,255	45,847
May	25,202	24,828	52,870	51,451	47,519	46,099
June	25,516	25,136	52,876	51,451	47,476	46,051
July	25,311	24,911	52,969	51,524	47,450	46,004
Aug.	24,948	24,537	52,346	50,890	47,143	45,687
Sept.	25,402	24,986	54,001	52,333	47,919	46,250
Oct.	25,049		55,751		48,167	
Nov.	24,751		55,209		47,416	
Dec.	25,099		56,489		47,907	
1992						
Jan.	25,135		57,154		49,114	
Feb.	25,266		56,470		48,712	
Mar.	25,729		57,731		50,030	
Apr.	26,034		57,087		49,581	
May	25,824		57,100		49,765	
June	25,979		57,003		49,176	
July	25,256	24,877	60,967	57,007	53,054	49,094
Aug.	25,336	25,346	62,297	58,344	53,171	49,218
Sept.	26,064	25,934	62,963	59,120	53,708	49,865
Oct.	26,460	26,106	62,556	59,669	53,326	50,439
Nov.	26,323	24,820	62,601	59,384	53,933	50,716
Dec.	26,343	25,303	64,239	61,027	54,204	50,992
1993						
Jan.	27,052	25,731	63,620	60,878	54,046	51,304
Feb.	26,663	25,382	62,429	59,767	53,207	50,545
Mar.	26,096	25,151	62,597	60,247	52,587	50,237
Apr.	26,167	24,798	62,906	59,889	54,058	51,041
May	25,375	23,933	62,670	59,781	53,604	50,715
June	25,728	24,678	63,459	60,405	53,681	50,627
July	25,040		63,920		54,982	
Aug.	25,845		64,642		55,195	
Sept.	26,052		65,614		55,756	
Oct.	26,315		65,799		56,728	
Nov.	27,828		66,899		57,198	
Dec.	26,222		67,262		57,800	
1994						
Jan.	28,273		67,449		58,130	
Feb.	27,296		65,824		57,013	

Table 2
Adjusted Credit Aggregates

(\$ million)

	PSC	Adjusted PSC	PSC(R)	Adjusted PSC(R)	DC	Adjusted DC	DC(R)	Adjusted DC(R)
1990								
Oct.	53,186	52,452	52,533	51,800	62,927	60,545	62,274	59,893
Nov.	53,011	52,274	52,084	51,346	62,368	59,979	61,441	59,051
Dec.	54,743	53,999	53,800	53,055	64,822	62,422	63,879	61,478
1991								
Jan.	54,493	53,745	53,664	52,916	64,121	62,758	63,292	61,929
Feb.	54,842	54,091	54,057	53,305	63,641	62,274	62,856	61,488
Mar.	55,395	54,641	54,637	53,882	63,668	62,294	62,909	61,536
Apr.	55,224	54,450	54,471	53,696	63,187	61,779	62,433	61,026
May	55,483	54,701	54,798	54,017	64,372	62,952	63,687	62,268
June	56,452	55,667	55,547	54,762	65,455	64,029	64,550	63,124
July	56,241	55,445	55,309	54,512	64,902	63,457	63,970	62,524
Aug.	55,908	55,105	55,325	54,523	64,835	63,379	64,253	62,797
Sept.	56,150	55,233	55,312	54,395	65,564	63,895	64,726	63,057
Oct.	56,538		55,735		66,736		65,933	
Nov.	56,111		55,424		65,935		65,249	
Dec.	56,296		55,625		66,914		66,243	
1992								
Jan.	57,074		56,383		67,600		66,909	
Feb.	57,464		56,630		68,121		67,287	
Mar.	58,639		57,723		69,098		68,182	
Apr.	58,060		57,467		68,809		68,216	
May	58,551		57,463		69,768		68,680	
June	58,585		57,507		69,371		68,293	
July	62,758	59,135	62,007	58,384	73,537	69,871	72,786	69,120
Aug.	62,545	59,127	61,950	58,532	73,855	70,394	73,260	69,799
Sept.	63,857	60,638	63,144	59,925	75,064	71,803	74,351	71,090
Oct.	64,512	61,320	63,814	60,622	75,659	72,425	74,961	71,727
Nov.	64,123	60,964	63,408	60,249	74,768	71,567	74,053	70,852
Dec.	64,311	61,204	63,572	60,465	75,365	72,216	74,626	71,477
1993								
Jan.	64,270	61,312	63,407	60,449	75,899	72,900	75,036	72,037
Feb.	63,597	60,789	62,652	59,844	75,235	72,386	74,290	71,441
Mar.	63,777	61,120	62,832	60,174	74,417	71,717	73,472	70,772
Apr.	63,553	60,503	62,952	59,902	74,761	71,669	74,160	71,068
May	65,145	62,043	64,434	61,332	76,422	73,278	75,711	72,567
June	65,111	61,958	64,327	61,174	75,862	72,667	75,078	71,883
July	65,375		64,636		76,344		75,605	
Aug.	65,821		64,905		76,590		75,674	
Sept.	66,520		65,376		76,511		75,367	
Oct.	67,082		66,308		77,329		76,555	
Nov.	67,543		66,771		78,879		78,107	
Dec.	70,185		67,468		79,943		77,226	
1994								
Jan.	71,685		67,935		80,653		76,903	
Feb.	70,583		68,474		78,876		76,767	

Table 3 Adjusted Monetary Aggregates

(Year-on-Year Percentage Changes)

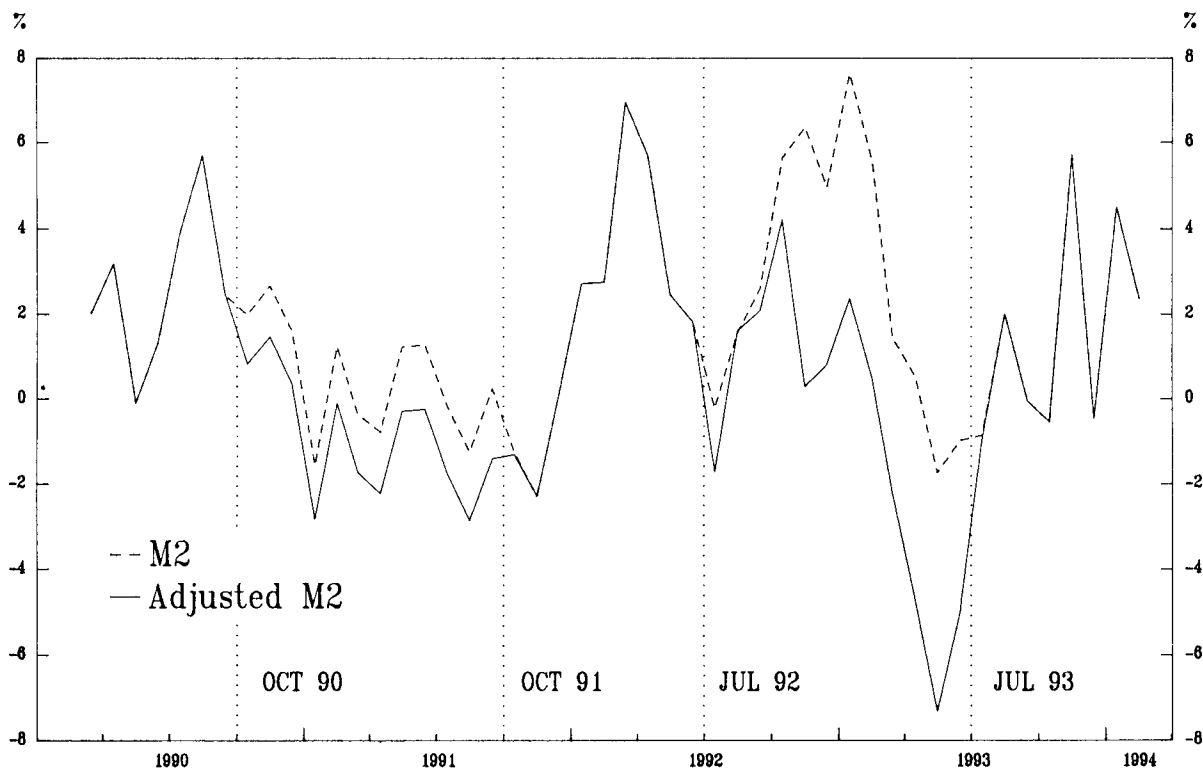
	M2	Adjusted M2	M3	Adjusted M3	M3(R)	Adjusted M3(R)
1990						
Sep.	2.4	2.4	7.0	7.0	6.4	6.4
Oct.	2.0	0.8	13.0	10.0	10.7	7.5
Nov.	2.7	1.5	13.0	9.9	12.3	9.0
Dec.	1.6	0.3	14.5	11.5	10.7	7.5
1991						
Jan.	-1.6	-2.8	11.5	8.6	8.1	5.0
Feb.	1.2	-0.1	13.3	10.3	9.1	5.9
Mar.	-0.4	-1.7	12.8	9.8	8.2	5.0
Apr.	-0.8	-2.2	13.2	10.2	9.1	5.9
May	1.2	-0.3	11.5	8.5	7.3	4.1
June	1.3	-0.2	9.8	6.8	4.9	1.8
July	-0.2	-1.7	9.1	6.1	3.8	0.6
Aug.	-1.2	-2.9	5.2	2.3	1.8	-1.4
Sept.	0.2	-1.4	7.5	4.2	2.6	-1.0
Oct.	-1.3		6.3		0.7	
Nov.	-2.3		6.3		-0.7	
Dec	0.1		6.9		0.8	
1992						
Jan.	2.7		9.6		4.5	
Feb.	2.8		8.8		3.9	
Mar.	7.0		11.3		7.5	
Apr.	5.7		8.6		4.9	
May	2.5		8.0		4.7	
June	1.8		7.8		3.6	
July	-0.2	-1.7	15.1	7.6	11.8	3.5
Aug.	1.6	1.6	19.0	11.5	12.8	4.4
Sept.	2.6	2.1	16.6	9.5	12.1	4.1
Oct.	5.6	4.2	12.2	7.0	10.7	4.7
Nov.	6.4	0.3	13.4	7.6	13.7	7.0
Dec.	5.0	0.8	13.7	8.0	13.1	6.4
1993						
Jan.	7.6	2.4	11.3	6.5	10.0	4.5
Feb.	5.5	0.5	10.6	5.8	9.2	3.8
Mar.	1.4	-2.2	8.4	4.4	5.1	0.4
Apr.	0.5	-4.7	10.2	4.9	9.0	2.9
May	-1.7	-7.3	9.8	4.7	7.7	1.9
June	-1.0	-5.0	11.3	6.0	9.2	3.0
July	-0.9		4.8		3.6	
Aug.	2.0		3.8		3.8	
Sept.	0.0		4.2		3.8	
Oct.	-0.5		5.2		6.4	
Nov.	5.7		6.9		6.1	
Dec.	-0.5		4.7		6.6	
1994						
Jan.	4.5		6.0		7.6	
Feb.	2.4		5.4		7.2	

Table 4 Adjusted Credit Aggregates

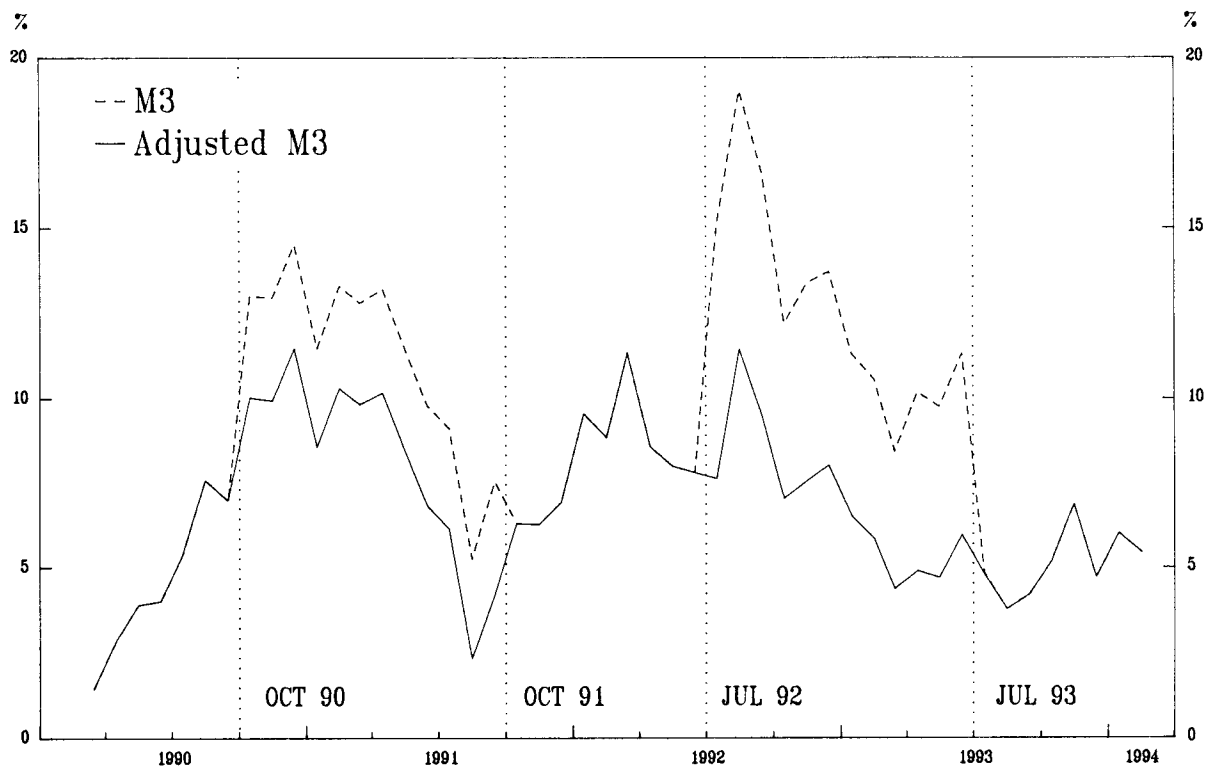
(Year on Year Percentage Changes)

	PSC	Adjusted PSC	PSC(R)	Adjusted PSC(R)	DC	Adjusted DC	DC(R)	Adjusted DC(R)
1990								
Sept.	10.1	10.1	10.4	10.4	9.3	9.3	9.5	9.5
Oct.	10.7	9.1	11.4	9.8	12.6	8.3	13.2	8.9
Nov.	9.1	7.6	8.7	7.2	11.3	7.1	11.0	6.7
Dec.	12.5	11.0	11.6	10.1	15.1	10.9	14.4	10.1
1991								
Jan.	11.0	9.5	10.5	9.0	12.9	10.5	12.5	10.1
Feb.	11.0	9.5	10.3	8.8	13.6	11.1	13.0	10.5
Mar.	11.1	9.6	10.5	9.0	13.0	10.5	12.5	10.0
Apr.	9.4	7.9	9.2	7.6	10.3	7.8	10.1	7.6
May	10.3	8.7	10.1	8.5	12.0	9.6	11.9	9.4
June	9.3	7.8	8.6	7.0	12.3	9.9	11.7	9.2
July	10.0	8.5	9.3	7.7	12.3	9.8	11.6	9.1
Aug.	5.9	4.4	6.2	4.6	7.8	5.4	8.0	5.6
Sept.	5.5	3.8	5.4	3.6	7.0	4.2	6.9	4.1
Oct.	6.3		6.1		6.1		5.9	
Nov.	5.8		6.4		5.7		6.2	
Dec.	2.8		3.4		3.2		3.7	
1992								
Jan.	4.7		5.1		5.4		5.7	
Feb.	4.8		4.8		7.0		7.1	
Mar.	5.9		5.6		8.5		8.4	
Apr.	5.1		5.5		8.9		9.3	
May	5.5		4.9		8.4		7.8	
June	3.8		3.5		6.0		5.8	
July	11.6	5.1	12.1	5.6	13.3	7.7	13.8	8.1
Aug.	11.9	5.8	12.0	5.8	13.9	8.6	14.0	8.6
Sept.	13.7	8.0	14.2	8.3	14.5	9.5	14.9	9.8
Oct.	14.1	8.5	14.5	8.8	13.4	8.5	13.7	8.8
Nov.	14.3	8.7	14.4	8.7	13.4	8.5	13.5	8.6
Dec.	14.2	8.7	14.3	8.7	12.6	7.9	12.7	7.9
1993								
Jan.	12.6	7.4	12.5	7.2	12.3	7.8	12.1	7.7
Feb.	10.7	5.8	10.6	5.7	10.4	6.3	10.4	6.2
Mar.	8.8	4.2	8.9	4.2	7.7	3.8	7.8	3.8
Apr.	9.5	4.2	9.5	4.2	8.6	4.2	8.7	4.2
May	11.3	6.0	12.1	6.7	9.5	5.0	10.2	5.7
June	11.1	5.8	11.9	6.4	9.4	4.8	9.9	5.3
July	4.2		4.2		3.8		3.9	
Aug.	5.2		4.8		3.7		3.3	
Sept.	4.2		3.5		1.9		1.4	
Oct.	4.0		3.9		2.2		2.1	
Nov.	5.3		5.3		5.5		5.5	
Dec.	9.1		6.1		6.1		3.5	
1994								
Jan.	11.5		7.1		6.3		2.5	
Feb.	11.0		9.3		4.8		3.3	

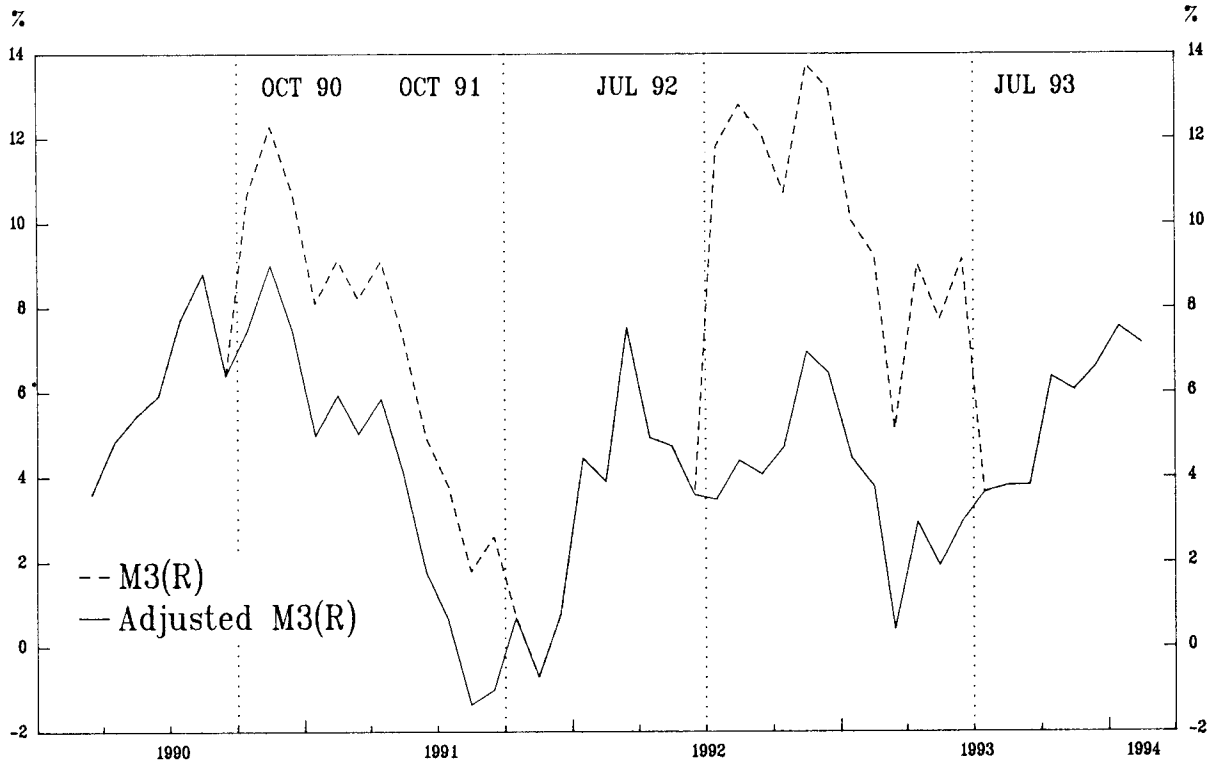
M2
Annual Percentage Changes



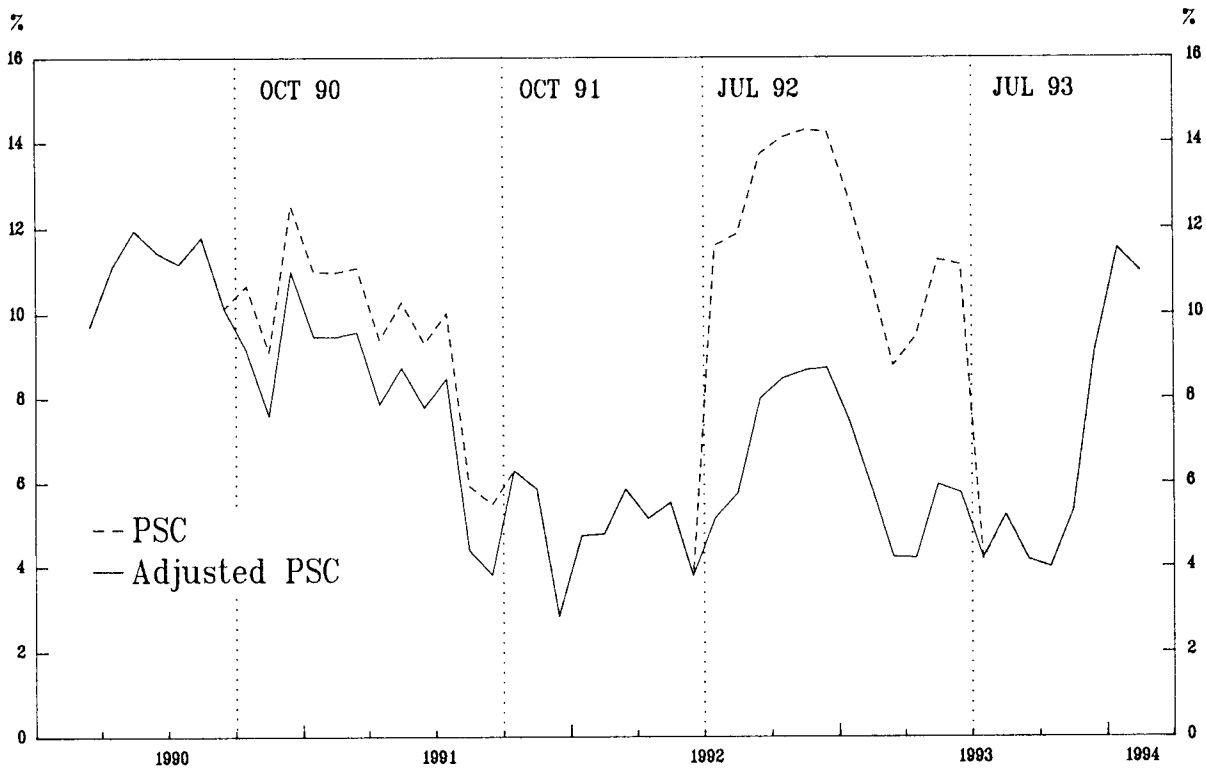
M3
Annual Percentage Changes



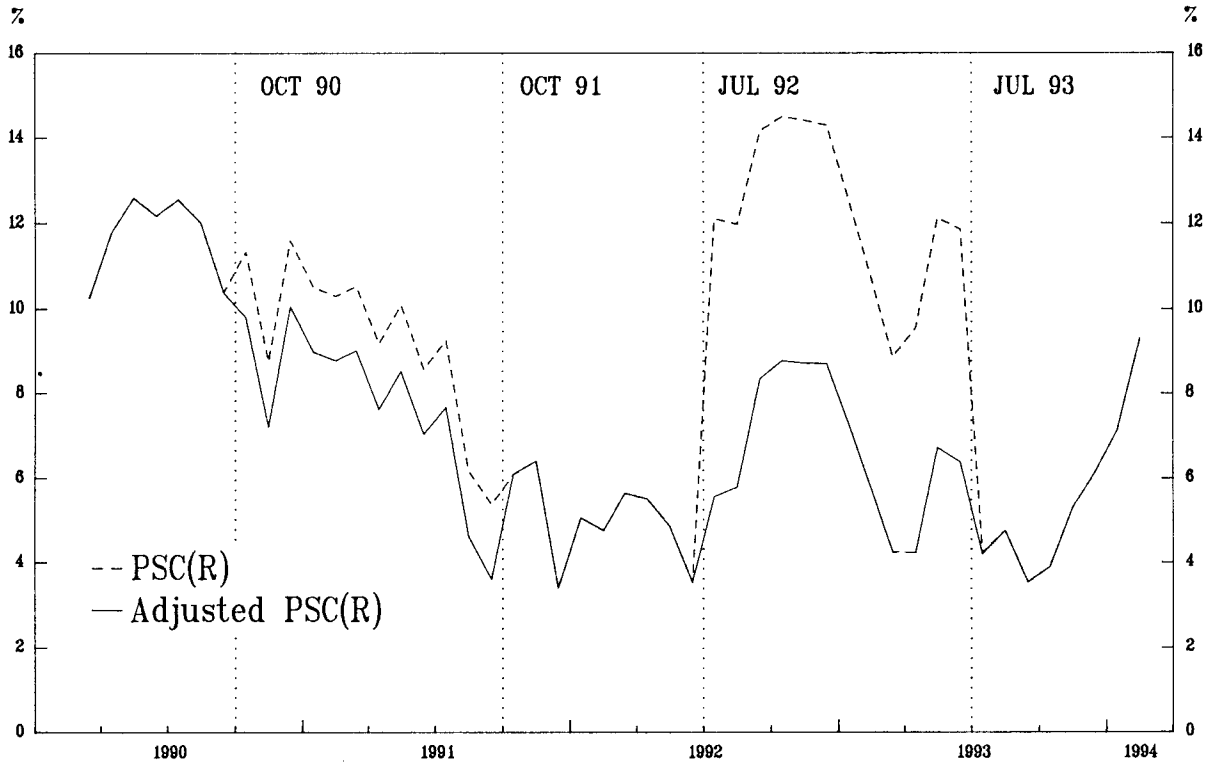
Resident M3 Annual Percentage Changes



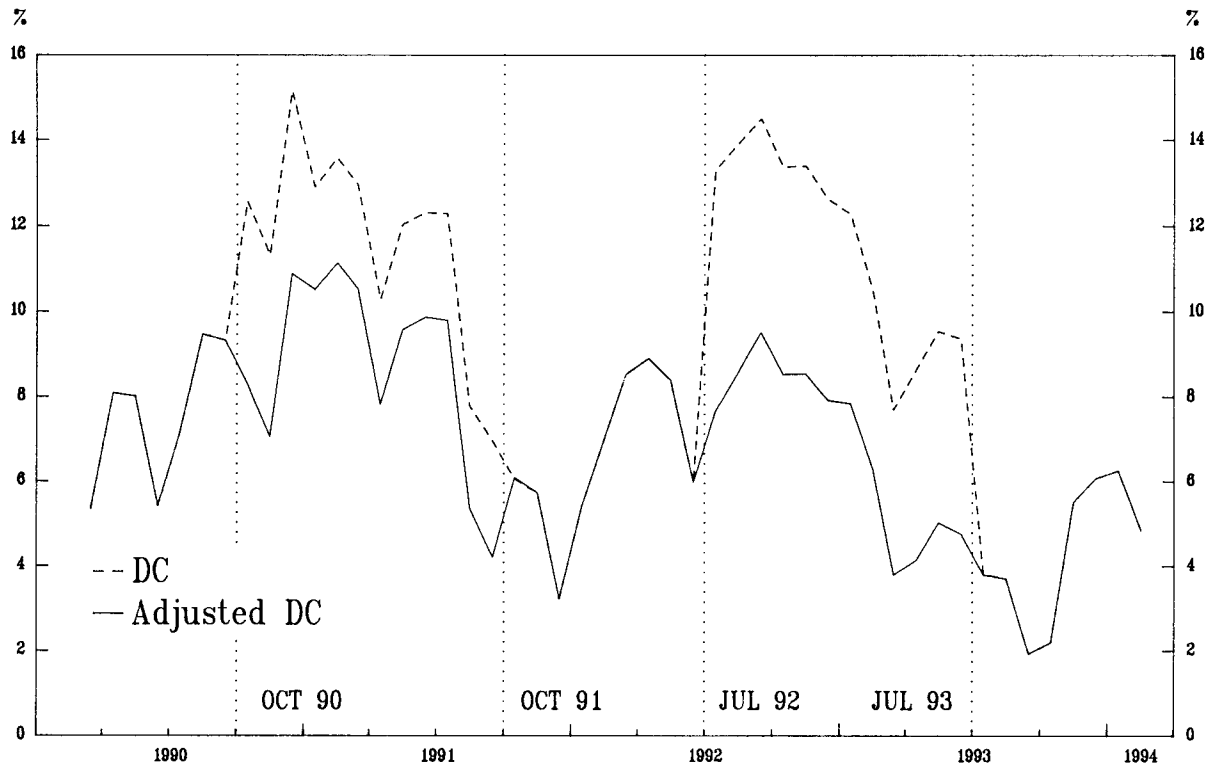
PSC Annual Percentage Changes



Resident PSC
Annual Percentage Changes



DC
Annual Percentage Changes



Resident DC Annual Percentage Changes

