GENERAL REVIEW

Against the backdrop of another difficult year for the international economy in 1982/83, the New Zealand economy encountered a set of mixed fortunes. Major gains were made with respect to some important objectives such as reducing inflation, implementing the large industrial projects, and concluding a closer trading arrangement with Australia. On the other hand, the domestic economy moved into a sharp recession, unemployment rose rapidly, and the external deficit widened by a substantial margin.

The events of the year provided a clear illustration of the way in which the international situation impacts on the New Zealand economy. First, in a direct sense, the international recession aggravated our balance of payments position and in turn this had a significant impact on domestic activity. Secondly, the competitive difficulties faced by New Zealand exporters re-emphasised the importance of reducing inflation, especially in view of the success achieved on this front by most of our trading partners. Indeed, from the broader perspective of the need to re-establish conditions conducive to a resumption of sustainable economic growth, a concerted effort to moderate cost and price pressures was judged to be a paramount objective.

With this in mind, the Government opted in June 1982 for a comprehensive freeze on prices, wages, dividends, rents, interest rates and the exchange rate. This approach differed from that adopted by many other countries which have relied on tight fiscal and monetary policies as the major planks of an anti-inflation strategy, policies which have generally succeeded in their primary objective but which have extracted a considerable cost in terms of output foregone and higher unemployment. New Zealand did not escape these latter effects but it was apparent by the end of the year that the principal benefit of the freeze was clearly accruing in the form of a sharp reduction in the quarterly inflation rate, which was down to 0.8 per cent in the March 1983 quarter compared with a peak of 5 per cent in the June 1982 quarter.

The protracted world-wide recession and the freeze dominated the course of events within New Zealand for much of the year. Despite a sizeable personal income tax adjustment effective from 1 October 1982, real personal disposable income fell during the year by about 4 percent. This downturn was one of the sharpest experienced for many years, and was accentuated by declining farm incomes and reduced corporate profitability.

The expansion in real expenditures experienced in 1981/1982 began to falter in the early months of 1982/83 and although sales were sustained in some areas by anticipation of possible indirect tax changes, by the end of September a wide range of indicators confirmed the arrival of a sharp downturn in the economy. Retail turnovers fell through the first three quarters, and despite some recovery in the final quarter, sales were down by 4 per cent in real terms over the year as a whole. Automobile sales dipped to 12 per cent below the previous year’s level; the number of dwelling permits issued declined by 16 per cent; and, if it had not been for some major projects, other non-residential investment activity would also have fallen.

The major development projects not only ensured an overall rise in private sector investment but also contributed to a large increase in public authority capital spending. These effects, together with some stock-building, were sufficient to offset the decline in private consumption and resulted in an estimated unchanged level of gross national expenditure. This would translate into a small decline in real GDP, of the order of 1 per cent, when allowance is also made for a flattening off in real export growth in the face of the international recession and a marked easing in the growth of import volumes as domestic conditions worsened.

In these circumstances, a rise in unemployment was unfortunately inevitable. But the rate of the deterioration was nevertheless disturbing: the number of people registered as unemployed rose from 47,000 to 73,000 during the year. This increase was probably aggravated by the turnaround in net long-term migration, from an out-flow of 11,000 in 1981/82 to an inflow of 3,000 in 1982/83. After several years of relatively static total population, there was an increase of 1 per cent in the latest year.

The redeeming feature of this situation was that all the major price indices showed easing trends, including producers, consumers, capital goods and house and land prices. Underlying economic influences undoubtedly contributed in an important way to this moderation of price rises and, it is to be hoped, to a corresponding dampening of inflationary expectations. Import price rises slowed, domestic credit expansion was sharply curtailed, and real economic activity eased. Some of these movements were in train before the freeze was imposed, but the freeze ensured that their effects were more immediately apparent. The overall result was a welcome and impressive reduction in the rate of inflation.

The important task now is to capitalise on this success for the longer-term. Imbalances still prevail in the economy. These imbalances, most of which have become more marked over the past few years, included in 1982/83 an external current account deficit (OET basis) equivalent to 5.1 per cent of GDP; unemployment amounting to over 5 per cent of the labour force; a fiscal deficit of 5.5 per cent of GDP; and money supply (M3) which grew by over 7 per cent in the final six months of the financial year, itself due warning of a rebuilding of potential inflationary pressures.

While an extension of the freeze has been judged to be necessary to ease the transition back to traditional policy experience, it is shown that imbalances such as these can only be resolved ultimately by placing more reliance on policies which allow movements in relative
prices in the various markets to adjust over time in such a way as to achieve some reasonable balance between supply and demand. In the case of the labour market, the important price is the cost of different categories of labour relative to other inputs into the production process; for the foreign exchange market, the spot and forward exchange rates are the variables which should assist adjustment to a more acceptable position; in the money market equilibrium is dependent on flexible interest rates (i.e. varying the price of money and loans); and in the Government sector, resolution of the problem of a rising fiscal deficit is heavily dependent on appropriate pricing of Government services, directly by way of charges and indirectly by way of taxation.

The marked easing in the rate of inflation will itself be useful in helping to promote adjustment to the imbalances just discussed, but neither an extension of the freeze nor reduced inflation will in themselves be sufficient to resolve these matters. When imposing the freeze the Government faced the dilemma that the use of the conventional tools of balance of payments, fiscal and monetary policies — the exchange rate, Government charges and taxes, and interest rates — was heavily constrained by the increases in costs seen to flow from the use of these instruments. By year end, however, the need to consolidate on the gains made by moving to address some of the imbalances had been recognised and Government interest rates had been increased and other monetary steps taken to cope with an expansionary liquidity situation.

Every country is faced with a range of economic policy objectives — few would disagree that ideally we should aim for a stable price level, full employment, steadily growing incomes and standards of living, balanced international accounts. To achieve these, even in an ideal world, requires the balanced use of a range of policy instruments. In the real world, however, it is rarely, if ever, possible to achieve all the objectives simultaneously. Rather, different weights have to be attached to the various objectives at different times and therefore to the use of alternative tools at different times; but in doing so it has to be recognised that concentrating too much attention on any one objective or policy tool for too long can be counter productive if it leads to the emergence of imbalances in other areas. The freeze has been useful in attacking inflation, but in the longer run a balanced mix of policies will be required. As far as the financial system is concerned, the Government acknowledged this explicitly in its 1982 Budget when the Minister of Finance observed “that interest rate controls impede financial flows, but they are an essential part of the Government’s broad anti-inflationary package. Once inflation has been reduced to more tolerable levels, I propose to return to the monetary policy this Government adopted from 1976 to 1981: a policy based on financial market flexibility.”

The Bank fully supports these sentiments. Although interest rate controls were understandably seen by the Government to be an integral part of the freeze package, a flexible interest rate policy is essential to an effective monetary policy; it rewards savings and penalises spending (especially on speculative activities) in inflationary circumstances; it is more equitable, particularly for small savers and borrowers; it promotes the growth and adaptability of the efficient and lower cost financial institutions at the expense of the less secure and less efficient intermediaries; and it avoids not only the arbitrariness of direct controls over interest rates but also the problems associated with the diversion of funds through non-regulated channels.

During 1982/1983, the financial sector provided a sharp reminder of the magnitude and rapidity with which imbalances can shift. In the first half of the year, the overseas current account deficit deteriorated sharply and substantial sales of inflation adjusted bonds continued. At the same time, the demand for credit fell off as economic conditions worsened. As deposit growth slowed, the financial institutions found themselves with high lending to deposit ratios which were becoming a constraint on their ability to lend. In these circumstances, a slow-down in the growth rates of the money supply and private sector credit was inevitable. The liquidity trough was reached around September 1982: M1 had fallen by 3 per cent in the six months to September 1982, while M3 had increased by only 3 per cent in the same period. Trading bank reserves fell to $855 million on average in October.

However, a combination of events then brought about a recovery in liquidity; the tax cut widened the fiscal deficit; the domestic financing of this by way of debt sales weakened; the overseas current account deficit levelled off; private capital inflow accelerated strongly; and Reserve Bank credit expanded, both to the producer boards and by way of supplementary minimum price payments (SMPs) to the farm sector. The net result was an unprecedented growth in trading bank reserves, to over $2,500 million in March 1983 and a recovery in money supply (M3) growth to over 7 per cent in the final six months of the March year. On the other hand, slack real demand contributed to a continuation of the credit slow down. In the six months to March 1983, private sector credit actually fell by 0.7 per cent, a very sharp turnaround when compared with annual growth in the 20 to 30 per cent range in 1981/1982.

The Government moved in March to tighten monetary policy and absorb some of the excess liquidity, primarily by way of increases in government security interest rates and the introduction of an attractive retail instrument known as Kiwi Saving Stock. In the face of a rising money supply and a slack credit situation, a more active public debt sales policy appeared to be the most viable option. Although there was a 2 percentage point adjustment to the finance companies' government security ratio, other more widespread ratio changes were not pursued during 1982/83. Such changes, which are designed to constrain excessive credit creation by financial institutions, could have been a less useful, indeed less relevant, tool in the particular circumstances prevailing at the time. This is not to deny that ratio policy could be useful once the demand for credit shows signs of recovering.

The important point is, of course, that to control the money supply some movement in interest rates is unavoidable. The fact that this appeared to some to conflict with the freeze was unfortunate but the need to tighten liquidity was over-riding. Control of the reserve base and the money supply is a prerequisite to the preservation of the lower rate of inflation achieved by the freeze. Moreover, reasonable control of the fiscal deficit before borrowing is in turn a prerequisite to the successful implementation of a flexible monetary policy. The problem is that control of the fiscal deficit is not a task in a country which is persisting in demanding more from the Government in expenditure of various kinds than it is prepared to accord to the Government in revenue from various types of taxation and charges.

Again the difficulty lies in achieving a suitable mix. The proportion of Government revenue received in New Zealand from direct taxes has been high by overseas
standards and remains so despite the adjustments made in the 1982 Budget. A case can therefore be made, as the Task Force on Tax Reform argued in its report in April 1982, in favour of a gradual switch to indirect taxes. Unfortunately indirect taxes are seen to have a direct effect on inflation through their initial price effects. However, it can be argued that where average and marginal personal tax rates are relatively high they are undoubtedly taken into account, explicitly or implicitly, in the determination of nominal income changes, and that a given direct tax increase will, through its impact on costs, work through to a similar inflationary effect to that of an equivalent indirect tax move. In any event, it is apparent that a widening of the tax base warrants consideration.

The other avenue for reducing the fiscal imbalance is by restraining Government expenditure. Although progress has been made with respect to some important components of spending, the relatively large items of salaries and social welfare payments are sensitive issues which are difficult to tackle and involve other than economic judgments. Nevertheless, these revenue and expenditure difficulties must be resolved if the size of the fiscal deficit is not to impose an unsustainable burden on monetary policy and Government borrowing. Increased debt sales can finance the deficit, but only at the cost of high interest rates and in time an excessive proportion of total Government expenditure being devoted to debt servicing.

Appropriate broadly based policies are also prerequisites to promoting adjustment to the country’s external imbalance. In the latter part of the 1970s, considerable progress was made in reducing the overseas deficit (OEI basis) gradually but steadily, from 10 per cent of GDP in 1974/75 to under 3 per cent by 1978/79. The faster export volume growth and restrained import volumes which underpinned this change reflected a combination of demand restraint, export incentives, exchange rate changes and, towards the end of the period, a more flexible and efficient monetary policy. Good weather also played its part. But the lesson seemed clear: a range of corrective policies applied consistently over time can achieve worthwhile results.

Unfortunately, the adjustment process was sharply interrupted by the effects of the second oil shock in 1979/80, the subsequent lengthy international recession, and the persistence of a high internal rate of inflation.

Both the external position and our international competitiveness should be assisted in time by other moves initiated in recent years, such as the industry studies programme, closer economic relations with Australia, and a reduced emphasis on protection by means of import licensing. The general objective of these measures is to assist a progressive movement towards lower and more uniform rates of protection.

Nevertheless, the widening of the current account deficit highlights the persistence of a number of problems which point essentially to insufficient external competitiveness. These include the erosion in the profitability of many areas of exporting; the unfavourable farm terms of exchange (prices of outputs compared with costs) which are inhibiting confidence and investment; the rise in external public and private debt with its associated increase in the debt service ratio; and the costs of agricultural and other support schemes to the internal budget.

The recovery in the international economy, which appeared to be strengthening by the end of the year, will assist in the resolution of these problems but the worldwide concern to avoid a return to inflationary conditions suggests that the pick-up will be gradual and that its impact on the demand for, and prices of, our exports is likely to be moderate. As we move out of the freeze period, we should therefore also aim to revert to those policies which proved helpful in promoting the adjustments made in the late 1970s if we are to gain the full benefit of the longer-term moves mentioned earlier.

In particular, it is important that the gains achieved on the inflation front, which will help to ease the cost pressures on exporters, should not be dissipated. For this reason, the Government has placed prime emphasis on the need to reach a satisfactory agreement on new income determination procedures. The problem in this area is two-fold: first, to reach accord on suitable economic criteria that relate real income movements to changes in real output; and, secondly, to change the community’s attitudes in such a way that the need to contain cost pressures is widely agreed to be paramount to our country’s need to sustain and expand trade. It will be by such changes in attitudes, some of which have shown pleasing signs of emerging during the freeze period, that any new income determination procedures will become acceptable and workable.

Moreover, flexibility in the relative cost of labour is now seen by many as a prerequisite to the creation of more jobs and a reduction in unemployment. Although other considerations such as the rate of growth of national output, the nature of the tax system, the supply of labour, and technological changes bear importantly on the total level of employment, it seems inescapable that the wage level is a major factor in balancing these demand and supply factors. More adaptability in this area, across both different industries and different unions, is essential if the problem of unemployment is to be tackled effectively.

In summary, the New Zealand economy faces a number of significant imbalances: in the labour market, in the external accounts, and in the Government’s own fiscal operations. Although the freeze policies have contributed substantially to the aim of pulling back inflation, which will in turn have favourable longer run influences on business confidence and some of the other economic objectives, economic management must basically depend on a well balanced mix of policies if a range of objectives is to be pursued with any assurance of long-term success. The Government is now giving considerable emphasis to monetary policy and the formulation of new income determination procedures. This must be supplemented by vigorous efforts to moderate the budget deficit. As soon as possible the conventional instruments of policy, such as interest rates, indirect taxes and the exchange rate, should be further freed from the constraints of the freeze. Reduced rigidities in the economy generally, and in the labour market and the protected areas in particular, are also prerequisites to the eventual resumption of sustainable economic growth. It is ultimately only by means of such growth that the balance of payments constraint will be reduced, more jobs will be created, and increased living standards achieved.

**MONETARY CONDITIONS AND POLICY**

The predominant features of monetary conditions during 1982/83 were the very substantial swings in monetary and credit growth that occurred during the
year and the imposition of further controls on interest rates.

At the beginning of the year the major credit aggregates, stimulated by an expectation that the 1981/82 fiscal deficit would be large and by strong demand for credit, were increasing at rates well in excess of the growth of nominal incomes. Private sector credit had grown by 30 per cent over the year to March 1982 and total domestic credit had increased by 22.9 per cent over the same period. However, M1 (the narrowly defined money supply) and M3 (the broadly defined money supply and selected liquid assets) grew at the slower rates of 17.4 per cent and 16.8 per cent respectively. This was due mainly to the deterioration in the overseas exchange transactions balance and a 1981/82 fiscal out-turn which was less expansionary than anticipated by many financial institutions, especially after the impact of substantial sales of inflation bonds in the second half of the year.

The latter two factors—the maintenance of a relatively firm overall fiscal position and a widening external current account deficit—contributed to a marked slowdown in money and credit growth during the first half of the 1982/83 year. The reserves of the financial institutions actually fell over that period.

Additionally, sales of Inflation Adjusted Savings Bonds proceeded rapidly (sales of these bonds totalled $300 million in the June and September quarters of 1982). As a result of these developments, the reserve assets of trading banks fell to an average of $855 million in October 1982 ($329 million lower than a year earlier). The reserve position of other financial institutions also weakened over this period and the ratio of lending to deposits of many financial institutions rose considerably.

Developments of this sort would usually have given rise to higher interest rates, as financial institutions competed more vigorously for deposits and attempted to reduce the demand for credit by increasing its cost. Some upward pressure on deposit rates did occur during the first few months of 1982/83. However, the interest rate controls introduced with the freeze in June 1982 (designed to prevent any further upward movements, and institutions were forced to use other methods to protect their balance sheet positions. Lending criteria were tightened, while at the same time the demand for credit fell away with the downturn in economic activity. This combination of demand and supply effects produced a sharp fall in the rate of growth by lending—private sector credit, which had increased by 9.7 per cent in the last half of 1981/82, slowed to 6.8 per cent in the first half of 1982/83 and fell to −0.7 per cent in the second half (all seasonally adjusted).

From October on, liquidity conditions began to ease again. While this had been expected, the speed and strength of the easing was not anticipated. A number of influences all operated in the same direction simultaneously. The fiscal stance in the second half of the year was much easier than in the first as a result of the impact of the October tax cut. The private capital inflow, which had been growing in the early part of the year, accelerated rapidly. The net inflow in 1982/83 was $1,284 million, of which $919 million occurred during the second half of the year. At the same time, the current account deficit of the balance of payments stabilised at around $1,700 million, Reserve Bank lending to producer boards increased, and sales of public debt instruments to the non-M3 private sector slowed down.

These influences combined to generate a strong upturn in deposit growth and a rapid build-up in the reserve assets of the trading banks. By the end of the year trading bank reserve assets, at $2,545 million on average for March, were three times the level reached in October 1982.

As would be expected, these divergent trends for deposit and lending growth in the second half of 1982/83 led to a turnaround in the balance sheet positions of most financial institutions. For example, the lending to deposit ratio of the trading banks had fallen back to 75 per cent (72 per cent seasonally adjusted) by March.

This much more comfortable lending to deposit ratio (which was also reflected in the balance sheets of other financial institutions), combined with a slack demand for credit, resulted in a significant easing in deposit interest rates towards the end of the year, mainly in the large deposit categories. Although there were some reports of lending rates easing by the end of the year, these are expected to be slower in responding to the changed conditions since financial institutions are expected initially to improve margins between their lending and deposit rates, these margins having been eroded by the intense competition for deposits in the first half of the year and the controls on lending rates.

Indicative of the extent of the easing in deposit rates towards the end of 1982/83 was the downward movement in trading banks' transferable certificate of deposit (TCD) rates and in commercial bill selling rates which occurred between October 1982 and March 1983. In October, TCD interest rates were at the maximum allowed under the interest rate controls, 16.5 per cent, but by the end of March they had eased back to around 13 per cent. Commercial bill rates over the same period fell from a peak of 18.25 per cent to around 14 per cent.

While this easing of liquidity brought about some welcome interest rate reductions, the strong growth in the reserve base of the financial system also presented a risk that credit could again grow at an excessive rate once demand conditions picked up. The concern was that such expansion of credit would threaten the Government's strategy to combat inflation, and would put renewed pressure on the balance of payments. To contain these risks the Government announced a series of monetary policy measures in March 1983. These included a new promotional campaign for Inflation Adjusted Savings Bonds, and the introduction of a highly attractive new government debt instrument, Kiwi Savings Stock. The competitiveness of Treasury bills and 'tap' issue government securities was also improved with the yield curve being raised by up to 1.5 percentage points. The new yields (with previous yields in brackets) range from 12 (11.25) per cent for 13 week Treasury bills to 14 (13) per cent for securities with maturities of three years or over.

When announcing these measures, the Minister of Finance said that it was important that government investments be made competitive with private sector investments in order to ensure that any inflationary pressures from the monetary sector would be contained. While the fall in private sector interest rates had contributed to this objective, the risks were considered to be such that it was felt necessary to hasten the closing of the remaining margin by increasing government debt interest rates. However, given the slack demand for
### Money Supply and Selected Liquid Assets of the Public

<table>
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<tr>
<th>At end of Quarter</th>
<th>Money Supply (M1)</th>
<th>Money Supply (M3)</th>
<th>Private Sector Credit</th>
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<td>Annual % Change</td>
<td>Annual % Change</td>
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**1980**
- Mar.: 2,147 5.5 -3.1 10,800 15.7 2.1 6,608 21.4 3.7
- Jun.: 2,294 10.7 5.1 11,388 16.9 3.2 6,636 16.7 3.2
- Sep.: 2,184 8.9 1.9 11,667 15.0 3.6 6,977 16.5 3.6
- Dec.: 2,482 4.7 1.4 12,373 12.5 3.1 7,384 18.4 6.7

**1981**
- Mar.: 2,452 14.2 4.8 12,336 14.2 3.6 7,958 20.4 5.8
- Jun.: 2,650 15.5 6.3 13,310 16.9 5.6 8,272 24.6 6.4
- Sep.: 2,566 17.5 4.1 13,750 17.9 4.5 9,336 33.8 8.2
- Dec.: 2,861 15.2 -0.3 14,448 16.8 2.2 9,421 27.6 4.8

**1982**
- Mar.: 2,878 17.4 6.0 14,403 16.8 3.5 10,344 30.0 4.7
- Jun.: 2,906 9.7 -0.5 15,025 12.9 2.0 10,327 24.8 5.2
- Sep.: 2,643 3.0 -2.1 14,984 9.0 0.9 10,654 14.1 1.6
- Dec.: 3,030 5.9 2.7 16,004 10.8 4.0 10,407 10.5 -1.2

**1983**
- Mar. (est): 2,985 3.7 3.4 15,922 10.5 3.3 10,638 2.8 0.5

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1 Includes holdings of local authority securities
2 Adjusted in September 1981 and March 1982 for interest debits

### Money Supply (M1)

**Money Supply and Selected Liquid Assets (M3)**

(Annual Percentage changes at Quarterly rests from March 1978 to March 1983)

![Money Supply (M1) Chart](chart1)

### Credit Aggregates

Annual Percentage changes at Quarterly rests from March 1978 to March 1983

![Credit Aggregates Chart](chart2)
credit at the time, and the prospect of a continued fall in the inflation rate, it was expected that the measures would put only limited pressure on private sector interest rates. It is thus expected that these should continue to moderate, at least in the medium term.

Two further monetary policy measures announced in March 1983 were the lifting of the finance company government security investment requirement from 18 per cent to 20 per cent, and the announcement of an intention to explore the feasibility of selling some government securities by tender. The former move signalled the Government's intention to adjust financial institutions' ratios as a means of containing credit growth; finance company lending growth in the previous year having been among the fastest of all financial institutions. It followed the introduction in February 1983 of new regulations governing the finance company ratio requirement, designed to make the ratio system for these institutions a more effective, equitable and enforceable instrument of monetary policy.

The only other ratio change made during 1982/83 (apart from the trading banks' reserve asset ratio which was adjusted as usual from month to month) was a 1 per cent increase, from 1 July 1982, in the requirement imposed on building societies, life insurance companies and private superannuation funds. In each case, however, the increased requirement could be satisfied by investment in local authority securities, the reason for the move being to increase the supply of finance available to local authorities. Local authority loan rates were also increased in March 1983 when Government rates were adjusted upwards.

When announcing that investigations would be under-taken into tendering public debt, the Minister said that the system seemed to have advantages over the present arrangement in achieving monetary objectives. He emphasised that many technical questions had to be investigated, and no firm commitment to proceed had been made. At year end Treasury and the Reserve Bank had begun discussions with interested parties in the market, and it is expected that a decision on whether or not to proceed will be made shortly.

**Interest Rate Controls**

A number of changes were made to the interest rate controls in 1982/83. At the start of the year, the Financial Services Regulations 1979 were in force, which effectively froze the lending interest rates of the major financial institutions to those ruling in November 1981. Pressures on profits of financial institutions increased under this regime, although institutions with higher margins (for example, finance companies) were able to compete more effectively for the limited funds available.

Furthermore, lending was increasingly diverted to those areas where the profit margins were greatest. For example, mortgage finance tended to be reduced in favour of the more profitable areas of personal loans and commercial lending.

As part of the Government's extensive and anti-inflationary package of controls announced in June 1982 the lending interest rate controls were widened and controls on deposit interest rates were introduced. Under the Financial Services Regulations 1982 all lenders with total loans outstanding in excess of $100,000 were required to give prior notification of any proposed increases in lending interest rates or the price of any new financial service to the Reserve Bank at least 28 days before their implementation. In administering these Regulations the Reserve Bank has had regard to the Government's view that interest rate increases are inconsistent with the wage/price freeze, and virtually all notifications were subject to an objection by the Bank.

In August 1982 the $100,000 limit was lowered to $10,000 under the Financial Services Regulations (No.

### CHANGES IN ASSETS OF SELECTED FINANCIAL INSTITUTIONS
($ million)

<table>
<thead>
<tr>
<th>Year Ended</th>
<th>Government</th>
<th>Marketing and Stabilisation</th>
<th>Private *</th>
<th>Domestic Credit</th>
<th>Overseas</th>
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<td>+1,556</td>
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<td>Mar. (est)</td>
<td>+318</td>
<td>+540</td>
<td>+294</td>
<td>+1,152</td>
<td>+10</td>
<td>+357</td>
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* Includes local authorities
2) 1982. The change was designed to reduce flows of funds through uncontrolled channels, including the solicitors' mortgage market. Unlike the major financial institutions, much of the solicitors' mortgage activity was not covered by the Regulations; instead the Regulations cover the individual lender. While the mortgage interest rates of the major lending institutions had remained unchanged, interest rates on mortgages via solicitors rose as the demand for funds exceeded the supply. The lowering of the limit to $10,000 also significantly reduced the opportunity for the small investor to take advantage of the higher rates being offered on company debentures. However, an exemption covering investors other than financial institutions was made to permit most investments at up to 18 per cent per annum.

Deposit interest rates were also controlled under the Interest on Deposits Order 1982 introduced in June 1982 and replaced in July 1982 by the Interest on Deposits Order (No. 2) 1982. The Orders halted the general upward movements in deposit rates and reduced slightly the range of rates being offered by differing types of financial institutions. Trading banks and saving banks were given the same maximum rates while building societies were allowed, on average, an additional 0.5 per cent. Finance companies were allowed a further 1 per cent.

Commercial bill dealers had been constrained since November 1981 in the rates they could charge in discounting bills. Selling rates were not controlled until the June measures came into effect, when buyers were restricted to the yields prevailing on 22 June 1982. Furthermore, trading bank sales of bills were effectively brought within the confines of the Interest on Deposits Order by a Reserve Bank directive. This meant that initially there was a significant discrepancy between the selling rates on bank and non-bank bills, particularly for bills of less than 90 days. As a result virtually no bank bills were issued immediately after the implementation of the Order. Instead it was more profitable for a bank merely to endorse a bill issued by a customer. The bill could then be sold as a non-bank bill but with the effective security of a bank issued bill. In response to this anomaly, the rates at which bank bills were able to be sold were raised to a level closer to those of non-bank bills.

An amendment to the Reserve Bank Act was introduced and passed in December 1982. The change was designed to support the controls on interest rates by tightening the definitions of financial institutions and interest rate, and by providing a method to cover commercial bill acceptances by financial institutions.

While co-operation from the various groups of institutions was generally excellent, the Interest on Deposit Regulations came under some pressure as liquidity tightened sharply in mid-year. Subsequently, the rapid growth in liquidity, combined with slow growth in demand for loans and moderated inflationary expectations, brought market forces into play again and many rates moved off their prescribed maxima.
PUBLICATION ANNOUNCEMENT

MONETARY POLICY AND THE NEW ZEALAND FINANCIAL SYSTEM
Second Edition

The second edition of this book brings together in one volume a range of 25 articles on the financial system and monetary policy in New Zealand.

Much of the material has been previously published in various issues of the Bank's monthly Bulletin and in the first edition of this book which was published in 1979, although the text of this book has been updated and edited to provide a comprehensive and integrated coverage of a wide range of matters pertaining to the financial system. In particular, the policy sections of the book have substantially revised since the first edition to give a more comprehensive coverage of the policy issues involved in monetary policy. The book should be of interest to a relatively broad audience of students, teachers and interested participants in economic processes.

The topics covered include detailed descriptions of the full range of New Zealand financial institutions, the services they provide and how they operate; the functioning of the domestic financial system as a whole, and its relationship to the broader economy; and the role of monetary and credit policy, including both the objectives of policy and its operational characteristics. Some special topics are also included, such as chapters on farm income stabilisation schemes and the role of money in the Reserve Bank's econometric model.

Further details will be noted in a later issue of the Bulletin.