Monetary Policy Measures

ON 19TH DECEMBER 1979, THE MINISTER OF FINANCE, THE RIGHT
HON. R. D. MULDOON, announced an easing in the reserve asset ratios applied to
trading banks and a reduction in the Government Security ratios applied to trustee
and private savings banks.

The Minister said that domestic inflation rates and a
deteriorating external current account mean that
monetary policy will need to remain generally firm over
the year ahead. However, real activity has been slowing
recently and it is Government policy to ensure that the
economy is stabilised and does not slip into a short-term
recession. "I have already taken some fiscal measures
over the last few months aimed at maintaining real
economic activity at a stable level," Mr Muldoon said.
"It is important that monetary policy, while remaining
firm, should not lead to monetary conditions that are
unduly tight."

"The reduced fiscal deficit in the current year, coupled
with more active public debt policies, has already
reduced the growth rates of the monetary aggregates
and the reserve base of the financial system," Mr
Muldoon added. "The narrow money supply M1 is cur-
cently growing at only about 4 per cent a year. Though
the growth rates of broader monetary aggregates and
private sector credit are still well in excess of this rate,
the growth of M1 and the reserve base are usually
leading indicators and the growth of the broader
aggregates is expected to slow markedly over the next
year," Mr Muldoon said.

The Government has decided to act in anticipation of
these trends in order to maintain a smooth transition to
more stable monetary conditions.

As the first step, the reserve asset ratios applied to
trading banks will be eased slightly from the very tight
positions which had been applied since July 1979. As
from January 1980 reserve ratios will be set on the basis
of an estimated level of free reserves of $50 million.
"This is still a firm position but it should help moderate
interest rate pressures during the March quarter," Mr
Muldoon said.

The other measure announced by the Minister to take
effect in the March quarter is a reduction in the
Government security ratios applied to trustee and
private savings banks. The trustee savings bank ratio
will be reduced by 1 percentage point from 39 per cent
to 38 per cent and the private savings bank ratio will be
reduced by 2 percentage points from 56 per cent to 54 per
cent. These reductions will take effect from 1st February
1980 and will release approximately $34 million for
investment by the savings banks in the private sector.