

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 currently 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.