MONETARY POLICY MEASURES

On 24th April, 1980, The Minister of Finance, The Right Hon. R. D. Muldoon, made a statement regarding the Government's domestic loan raising plans for the current year.

The Minister said that it has been decided not to have a Government cash loan this quarter.

"The growth in the broad money supply and private sector credit from most institutions has moved down to more reasonable levels during the last nine months and these trends should continue. As a result there is less need for significant net new loan raisings from the private sector in order to finance the deficit before borrowing and for monetary policy purposes."

"The reduced competition for funds by the Government this quarter should ease the pressure on interest rates," Mr Muldoon added.

"There is a need however to at least maintain the present level of investment in government securities. A conversion loan offer will be made therefore to holders of existing stock which is due to mature on 15th May 1980," Mr Muldoon concluded. The holders of this stock will be offered conversion of their holdings at maturity and letters detailing the offer will be sent to them next week by the Reserve Bank. The new stocks being offered are: 1 year at 12.0 percent; 2 years at 12.5 percent; 3 years at 13.0 percent; and 5 years at 13.5 percent.

These yields are similar to those currently offered by the Reserve Bank on sales of Government stock from its portfolio. The only change is that the peak rate of 13.5 percent will be offered for a five year term as against six years at present.

Government stock will continue to be available also to other investors through the specialised dealers even though there is no cash loan.

On 28th April, 1980, The Minister of Finance, The Right Hon. R. D. Muldoon, announced changes in the limits on personal lending by trading banks and trustee savings banks.

The Minister said the existing limit of 2 percent of the respective savings banks' deposits which trading and trustee savings banks can lend by way of personal loans is to be abolished. This measure represents a further step in the removal of controls over the operations of these institutions although it is not expected to have a significant impact on the amount lent in the short term.

While the provision of funds for mortgage lending will remain a first priority for savings banks this move will give them greater flexibility in their lending policies, particularly with respect to personal loans for home additions and alteration.

On 1st May, 1980, The Minister of Finance, The Right Hon. R. D. Muldoon, announced increases in the Government security ratios for finance companies and life insurance offices.

Mr Muldoon said: "The ratio for finance companies will be increased by 2.5 percentage points to 25 percent and that applying to life insurance companies will be increased by 1 percentage point to 30 percent, in both cases with effect from 1 July 1980."

In explaining these moves Mr Muldoon said: "Finance company lending has continued to accelerate over recent months despite the fact that finance companies were cautioned about their lending behaviour. They were told that a continuation of the trend would make it necessary for the Government to consider adjusting their Government security ratio requirements. The Government has now done this."

The increase in the Government security requirements applied to life offices reflects the view of the Government that priority in the allocation of funds should be given to new development projects rather than being used to purchase existing financial assets. The latter tends to be the case at the present time. The Minister noted that the increase in the life offices' ratio restored the position as it applied before the 1977 recession.

On 1st May, 1980, The Minister of Finance, The Right Hon. R. D. Muldoon announced new rates of interest for local authority loans to take effect on or after 2nd May, 1980.

The new rates with the old ones in parenthesis, are:

1 - 3 years	12.0 percent (1 - 2 years 11.5%)
4 - 5 years	13.5 percent (3 - 5 years 12.5%)
6 years	14.0 percent (6 years 13.5%)
7 years and over	13.0 percent (7 - 9 years 12.0%, 10 years and over 11.25%)

Mr Muldoon said that since more competitive rates had been set in April last year the response to local authority loans had been most encouraging. However more recently there were signs that the major investors were finding the yields of other stock issues more attractive and the present modest increases were designed to restore the earlier competitive edge held by local authority stock.