MONETARY POLICY MEASURES

On 30th October 1981 the Minister of Finance, the Right Honourable R. D. Muldoon, announced some significant changes in the Government's monetary policy.

1. BACKGROUND

The purpose of the recently announced policy changes is to ease the monetary pressure currently evident in the economy. Very rapid growth in all the major monetary aggregates has been recorded in recent months, with M3 estimated to have grown by 18 percent in the year to August 1981 (compared with 12.5 percent over the 1980 calendar year) and private sector credit by 26 percent (compared with 18.5 percent last year).

The monetary policy measures will help ease these growth rates by redirecting some savings flows to the Government. In the process, the public's deposits with the financial institutions will be reduced directly and the institutions themselves will lose reserves to the Government. This should reduce the ability of financial institutions to continue the present very rapid growth of private sector credit. The measures will therefore help to ease the monetary impact of the Government's deficit budgeted for this financial year.

2. MONETARY POLICY CHANGES

The monetary policy measures cover three main areas:

(a) An issue of 'premium stock' which is a variation of 'savings stock'.
(b) Modifications to improve inflation bonds.
(c) More generous prizes through Post Office Savings Bank bonus bonds.

(a) Premium Stock

This is to be made available on tap with a maturity of four years from date of investment. No closing date will be specified on their introduction.

Interest will be payable six monthly at an annual rate of 12 percent. A 4 percent premium will be paid as a lump sum in addition to interest on two years and a 10 percent premium will be paid on the eighth (final) interest date on four years. Both the interest and premiums will be taxable. Yields are 13.8 percent after two years, and 14.9 percent after four.

Early redemption will be available on two weeks' notice after a period of four weeks from the time of application with interest payable on a pro rata basis to date of repayment. The maximum holding is $250,000.

(b) Inflation Bonds

The present annual subscription limit of $5,000 is to be eliminated while the maximum total holdings will be increased from the current $10,000 to $20,000.

Starting with a second issue of bonds shortly, the early redemption facility has been extended to all holders, subject to no inflation premium being paid unless bonds are being redeemed by holders of 60 years of age or over, or those purchasing a first home, a first farm or a first commercial fishing vessel.

In addition some technical changes have been made starting with the new issue. This includes a change in the timing of interest paid, clarification of the provisions for when a holder dies and a clarification on what constitutes a first home, a first farm or first fishing vessel.

(c) Post Office Bonus Bonds

At the present time the prize fund on bonus bonds (which is pooled and allocated by lottery) is 6 percent of the value of bonds issued. The prize fund will be increased to 8 percent.