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PRIME MINISTER'S DEPARTMENT Canberra - 4 DEC 1967 LIB

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STERLING DEVALUATION : CABINET DISCUSSES EFFECTS ON AUSTRALIA

Statement by the Prime Minister, Mr Harold Holt

When announcing on 20th November the decision of the Government that there should be no change made in the value of the Australian Dollar following the British Government's announcement of devaluation of the Pound Sterling, I said that Cabinet recognised that the effects of this decision would fall unevenly on the Australian economy, I referred to the fact that some industries, particularly some primary industries, are more closely linked with the British market than others, and commented that the difficulties of affected industries were currently under urgent examination to find appropriate ways and means of overcoming their problems.

Cabinet has had before it today a series of papers arising out of this examination by Departments. Our discussion this morning was directed to a paper prepared by the Treasury which dealt with the more general implications, together with the economic context in which they should be seen. This paper covered recent developments overseas, including the extent of devaluations in various countries; our reserves position and balance of payments prospects; our general budget position and prospects; and trends in the Australian economy.

We recognised the difficulty, especially at this early stage, of making anything in the nature of precise calculations of the effects on Australia of the recent devaluations. However, it is now clear that the Sterling devaluation has not been accompanied by an extensive chain of devaluations on the part of other countries. Our holdings of gold and foreign exchange now amount to about $1,070 million. As our drawing rights with the International Monetary Fund stand at $630 million, our total first and second line reserves amount to about $1,700 million. Thus, our reserves position is quite strong.

While it is not possible to make a precise assessment of the direct and indirect effects of the overseas devaluations on our balance of payments for the remainder of the year, we believe that, so far as the direct effect is concerned, apart from the downward adjustments in our Sterling balances, the net effect of the devaluations will be quite small. We have every confidence in the longer term situation of our balance of payments.

We do not believe that the devaluations are likely to lead to any large net effect on this year's Budget, apart from any decisions we might take to deal with problems arising from them. We have concluded from our study of the Treasury paper that, faced as we are with these moderate devaluations by countries,which account for only a relatively small proportion of our total trade, and which have little slack to expand outward by more than a few per cent, the net direct effects on our domestic economy as a whole should be quite small. There is reason to believe that in the longer term, the effects on our economy should be

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favourable. We are not in a position, however, to make firm judgments as to indirect effects which might flow from the conditions now being experienced throughout the world as a result of the devaluation of a major currency.

We considered this afternoon the effects of Sterling devaluation on rural industry, secondary industry, minerals and metals, freight rates and our Territories. These were dealt with in papers prepared by the Departments of Trade and Industry, National Development, Primary Industry and Territories.

Total exports to all markets of rural products in 1966-67 amounted to $2,051 million. Of this total, some $408 million, or twenty per cent, was exported to Britain and other countries which have devalued. The Minister for Primary Industry has asked all the Commonwealth Marketing Boards to examine as a matter of urgency and advise him of their view of the full implications of the effects of the British devaluation on the industries with which they are concerned. It is evident that it will be some time before a full assessment of the effects on all industries can be made, but Cabinet hopes to have a more complete picture before the meetings it will be holding in the week of 11th December.

We have already agreed, at their request, to meet representatives of the manufacturing industries that week, and are considering a variety of representations and requests from other industries.

The Cabinet has made a good deal of progress in its consideration of a programme of export incentives. It has been asked by industry representatives to defer a decision on this until the effects of devaluation can be more clearly seen. However, it is our desire to announce our export incentives programme in the course of the next few weeks. We shall do this after taking into account the views of industry.

CANBERRA,
30th November, 1967.