



PRIME MINISTER

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STATEMENT BY THE PRIME MINISTER

MR. WILLIAM McMAHON

ON THE AUSTRALIAN DOLLAR

The Government has decided to establish the market rate for the Australian dollar on the U.S. dollar at an appreciation of 6.32% on the previous parity relationship. This means an overall depreciation in relation to the parities of our trading partners as a whole of approximately 1.75%.

On this basis, the Government has decided that the Reserve Bank will fix market limits for buying and selling centering on a mid point of U.S. \$1.1910 equals \$1 Australian.

The Government has also decided that, in future, exchange rates for the Australian dollar will be fixed on the United States dollar rather than on sterling as has previously been the practice. On this basis the daily quotations for the Australian dollar will maintain a fixed relationship with the U.S. dollar.

Turning to the other aspect, i.e. the gold parity, and having in mind the margin of 2½% about parity recently approved by the International Monetary Fund, the Government's decision is consistent with the maintenance of Australia's gold parity in the Fund. Australia's gold parity shows an appreciation of 8.57% on the previous parity relationship with the U.S. dollar. The gold parity of a country's currency is, of course, a matter for its own determination. Nevertheless, as a member of the International Monetary Fund Australia, like other members, also has an obligation under the Articles of Agreement of the Fund to obtain the Fund's concurrence to any change we might wish to make in the parity of the Australian dollar. Having regard to the present strength of our balance of payments, there would not have been any possibility of demonstrating to the Fund that we are suffering from a fundamental disequilibrium - the condition that must be satisfied to gain the Fund's concurrence.

At the same time, however, the Government has noted that the strength of the balance of payments over the past eighteen months has been the result, in no small measure, of an extraordinarily high rate of capital inflow. The Government has already indicated its concern as to some aspects of this matter by its public indication that it has the whole subject under urgent examination.

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We shall in fact be pressing ahead with that examination and I can say now that we will not hesitate to take what action we consider to be necessary.

The changes in international exchange rates will adversely affect some of the rural industries in which producers are already experiencing difficult times. The Government is therefore prepared to examine and consider the position of those rural industries which are seriously affected.

CANBERRA,
22 December, 1971.