STATEMENT BY THE PRIME MINISTER-DESIGNATE, MR R.J. HAWKE, M.P.

The decision to devalue the Australian dollar has been taken against the background of continuing uncertainty regarding the exchange rate. The incoming Australian Government is determined to take all necessary measures to end this uncertainty.

In reaching this decision, the incoming government has been faced with the urgent need to end the damaging and destabilising effects of speculation against the dollar deliberately created by leading members of the Liberal National Party Government.

Both the Prime Minister and his Deputy made repeated statements alleging that my government's election would result in a devaluation of the dollar. The outgoing Minister for Industry and Commerce, Mr Peacock, went to the extremes of irresponsibility by quantifying a devaluation at 15%.

It is difficult to exaggerate the irresponsibility of such statements made during the course of an election campaign.

By contrast, I carefully and consistently refused to enter into speculation regarding the exchange rate. Any other course would have been highly irresponsible on the part of the alternative Prime Minister of Australia, as indeed it was on the part of anybody holding or seeking high office in Australia.

In such reprehensible circumstances, it was inevitable that market participants would take the appropriate precautionary measures and that speculators in the market would begin to move funds accordingly. In the two weeks prior to the election when these statements were being made, notifications of capital outflows from Australia exceeded $2,500m. (See Table.) The effect of the statements by Ministers and of the capital outflows was to generate further speculation concerning devaluation. The magnitude of the capital outflows has been such as to put considerable pressure on short-term money markets and on financial institutions, thereby generating significant increases in short-term interest rates and in some market determined medium-term interest rates. The banking system in particular has been hit by the outflow of funds and has been actively bidding for deposits in the marketplace at high rates of interest.

The incoming Government is concerned about the persistence of this uncertainty in regard to exchange rates over the tax run-down period of the next four months. Continued uncertainty could lead to further pressure on interest rates and reductions in the availability of funds to key sectors of the economy over this period.

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Information made available to the incoming Government in the last two days has made it clear that the previous Government's abandonment of responsible economic management went far beyond the matter of the value of the currency. Official Treasury estimates put the Federal budget deficit at $4.3 billion in 1982-83, before allowance for additional expenditure associated with recent bushfires and floods. On the basis of policies of the previous Government, prior to the commencement of the election campaign, Treasury estimates put the budget deficit in 1983/84 at $9.6 billion. Thus the persistent indications from the previous Government that the deficit on unchanged policies would be of the order of $6 billion can only be seen as a deliberate attempt to mislead the Australian people.

While accepting the figure of $9.6 billion as a reasonable estimate of the prospective 1983/84 deficit as a result of current Government policies, I stress that this is not an estimate of the deficit which will emerge from new policies. Treasury forecasts on unchanged policies indicate a very weak economy in 1983/84, with at least a further 1% decline in employment and a considerably higher average level of unemployment in 1983/84 than in the present year. It is because of this dismal prospect, and particularly its adverse impact on receipts, that their deficit blow-out is predicted. The new Government will use all instruments of economic policy to stimulate the economy, and the prospective deficit will need to be re-assessed in this light. The incoming Government will also vigorously re-examine the expenditure plans of the Fraser Government.

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In reaching its decision the incoming Government has given the closest consideration to both the costs and the benefits of a devaluation. In addition to eliminating the possibility of currency induced tightness in monetary markets over the next three or four months, it will ensure that interest rates will be considerably lower than would otherwise have been the case. This decision will also improve the competitive position of Australian producers. It will enable beleaguered Australian industries to compete more effectively against imports and it will encourage our export industries to make maximum use of any world recovery emanating, in particular, from the United States' economy. In these various ways this decision should contribute to halting the rise in unemployment. The devaluation will, however, increase the cost of goods imported into Australia and will tend to increase the local price of goods sold in both domestic and export markets. In the present climate of a deteriorating economy, however, these inflationary effects should be both muted and delayed.

I wish to make these points clear

- This decision to vary the value of the dollar by a single discrete change of 10% is a decision forced on the Government by the unique circumstances of the past fortnight. It is not intended to signal any change in Government policy in regard to the setting of the Australian exchange rate. The present exchange rate management regime which has operated since 1977 will continue. This single discrete change is taken only in the light of the unprecedented circumstances facing the new Government and all subsequent movements in the exchange rate -

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upwards as well as downwards - will follow the gradualist approach previously in force.

- In spite of the decision to devalue, it remains the incoming Government view that the fundamental factors determining the Australian exchange rate remain sound. The balance of trade has improved substantially during 1982/83 and on present unchanged policy forecasts, the Current Account deficit should, at worst, be no higher in 1983/84 than in 1982/83. Indeed, with growing signs of stronger growth emerging in the international economy, Australia's trading position could improve quite substantially in 1983/84. This decision restores Australia's international competitiveness, as measured by unit wage costs indexes, to at least the level prevailing in 1979/80.

- In spite of the difficulties which it has inherited, it is the Government's firm view that any policy to restore the economy and reduce unemployment over the medium-term must be associated with a falling rate of inflation. The incoming Government will take all steps necessary to ensure that nothing, including the effects of this devaluation, stands in the way of the achievement of such a decline in inflation.

Canberra, A.C.T.
8 March 1983

ATTACHMENT

The Reserve Bank's cash sales of foreign currency since the beginning of February have been as follows:

	Net Sales $m
Week to 7 February	72.5
" " 14 February	350.7
" " 21 February	83.1
" " 28 February	972.8
1 March	303.7
2 March	405.5
3 March	488.3
4 March	358.0
	3034.6

On Monday 7th March net sales by the Bank were approximately $200 million. Thus since Mr Peacock's devaluation statement on 17 February reserves have fallen by more than $2700 million.