

CHECK AGAINST DELIVERY



EMBARGOED UNTIL 7.00 P.M.

33

PRIME MINISTER

SPEECH BY THE PRIME MINISTER
AUSTRALIAN MERCHANT BANKERS' ASSOCIATION
28 OCTOBER 1983

IT IS PARTICULARLY TIMELY THAT I SHOULD ADDRESS THIS ASSOCIATION TONIGHT.

AT THE BROADEST LEVEL, IT IS TIMELY BECAUSE THE ECONOMIC ENVIRONMENT MAKES IT APPROPRIATE TO GIVE EVEN HIGHER PRIORITY TO LONG-TERM ISSUES RELATED TO THE EFFICIENCY, GROWTH AND RELATIVE STANDING OF THE AUSTRALIAN ECONOMY IN A COMPETITIVE WORLD.

IT IS TIMELY AS WELL BECAUSE THE GOVERNMENT WILL SOON BE RECEIVING THE MARTIN COMMITTEE'S RECOMMENDATIONS ON FINANCIAL REFORM.

IN ADDITION, ON ANOTHER MATTER OF CONSIDERABLE INTEREST TO YOUR MEMBERSHIP, MY GOVERNMENT WILL SOON BE COMPLETING ITS REVIEW OF THE FOREIGN INVESTMENT GUIDELINES.

AND IT IS MOST TIMELY BECAUSE, FORTUITOUSLY, THIS EVENING I AM ABLE TO DESCRIBE TO YOU SOME CHANGES IN THE SYSTEM WITHIN WHICH THE FOREIGN EXCHANGE VALUE OF THE AUSTRALIAN DOLLAR IS DETERMINED.

THE CONTRIBUTION OF MERCHANT BANKS TO THE ECONOMY SINCE THE EARLY 1970S HAS BEEN SIGNIFICANT, AS DEMONSTRATED BY THE 25.5 PER CENT AVERAGE ANNUAL RATE OF GROWTH OF TOTAL ASSETS OF MONEY MARKET CORPORATIONS BETWEEN 1971 AND 1983.

COMMANDING TOTAL ASSETS OF \$13.8 BILLION, AND, AT JUNE 1983, PROVIDING MORE THAN 10 PER CENT OF TOTAL LOANS OUTSTANDING FROM BANK AND NON-BANK SOURCES, THE MERCHANT BANKS HAVE BECOME AN IMPORTANT PART OF THE AUSTRALIAN ECONOMY.

MERCHANT BANKS NOW PLAY A VIRTUALLY INDISPENSABLE ROLE IN THE EFFICIENT PROVISION OF FINANCIAL SERVICES TO THE COMMUNITY.

THIS HAS HAPPENED NOT ONLY BECAUSE THEY HAVE BEEN ABLE TO EXPLOIT AREAS IN BUSINESS CLOSED TO MORE REGULATED FINANCIAL INTERMEDIARIES, BUT ALSO BECAUSE THE DYNAMISM AND COMPETITIVE SPIRIT OF MERCHANT BANKS HAS LED TO THE DEVELOPMENT OF NEW MARKETS EVEN WITHIN THE AREAS OPEN TO THE REGULATED SECTOR.

THERE IS NOW A LONG LIST OF INNOVATIONS THAT MERCHANT BANKS HAVE INTRODUCED OR TO WHICH THEY HAVE ADDED IMPETUS.

WITHOUT THE INNOVATIONS MERCHANT BANKS HAVE INTRODUCED IN PROMISSORY NOTES AND A SECONDARY MARKET IN BILLS OF EXCHANGE OR THE VARIOUS FORMS OF LEASING AND PROJECT FINANCING, DEBT FUNDS WOULD BE OLD-FASHIONED AND UNNECESSARILY EXPENSIVE.

MERCHANT BANKS HAVE PLAYED A MAJOR ROLE IN FINANCIAL INNOVATIONS, IN INTRODUCING NEW TECHNOLOGY, IN DEVELOPING SEMI-GOVERNMENT UNDERWRITING SYNDICATES, IN DEVELOPMENT OF THE UNOFFICIAL FOREIGN EXCHANGE HEDGE MARKET, AND IN THE LAUNCHING OF INTEREST RATE FUTURES AS A MAJOR AREA OF BUSINESS.

I UNDERSTAND THAT A FUTURES MARKET IN COMMONWEALTH BONDS IS SOON TO BE ESTABLISHED.

THESE DEVELOPMENTS ALLOW TRADERS TO OBTAIN INSURANCE AND MAY SERVE TO STABILISE INTEREST RATES BY BROADENING THE FINANCIAL MARKET, IN ADDITION TO PROVIDING AN OUTLET FOR RISK TAKERS.

THE EXTRA COMPETITION HAS SERVED TO REDUCE TRANSACTION COSTS AND LOWER THE OVERALL COSTS OF FUNDS, IN ADDITION TO BROADENING THE RANGE OF BORROWING AND LENDING INSTRUMENTS SO THAT CUSTOMERS ARE BETTER SERVED.

ALL THESE DEVELOPMENTS ARE DEPENDENT IN PART ON THE DYNAMISM OF MERCHANT BANKS WHO HAVE TAKEN COMPETITION TO THE OTHER INSTITUTIONS, AND HAVE OFTEN BEATEN ESTABLISHED FINANCIAL INTERMEDIARIES ON THE LATTER'S OWN GROUND.

THE FINANCIAL SYSTEM CANNOT STAND STILL.

WE NEED FLEXIBILITY, ADAPTABILITY AND CONTINUED INVIGORATING COMPETITION.

THE FINANCIAL SYSTEM HAS TO EVOLVE AND KEEP PACE WITH THE WORLD IF AUSTRALIA IS TO BE COMPETITIVE.

WE LOOK FORWARD TO THE ORGANISATIONS REPRESENTED HERE TONIGHT HELPING TO KEEP AUSTRALIA UP WITH THE FIELD.

WE SEE THIS AS BEING NECESSARY TO THE IMPROVEMENT OF AUSTRALIA'S LONG-TERM GROWTH PERFORMANCE.

OVER THE PAST SIX MONTHS THE LABOR GOVERNMENT'S GREATEST EFFORTS HAVE BEEN DIRECTED AT THE MACRO-ECONOMIC CRISIS WHICH WE INHERITED: REVERSING THE HEADLONG DECLINE IN PRODUCTION AND ESPECIALLY EMPLOYMENT THAT HAD CHARACTERISED THE EIGHTEEN MONTHS BEFORE WE TOOK OFFICE; PUTTING INFLATION ON A DOWNWARD PATH; AND ESTABLISHING THE BASIS FOR STRONG RECOVERY WITHOUT REKINDLING INFLATION OVER THE IMMEDIATE FUTURE.

WHILE IT WILL BE MANY YEARS BEFORE WE HAVE MADE ACCEPTABLY LARGE INROADS INTO THE POVERTY AND UNEMPLOYMENT THAT HAVE ACCUMULATED IN AUSTRALIA OVER THE PAST NINE YEARS, THERE ARE NOW CLEAR SIGNS THAT WE ARE MOVING IN THE RIGHT DIRECTION.

THE AUSTRALIAN ECONOMY IS RESPONDING TO OUR EXPANSIONARY FISCAL POLICIES, OUR MONETARY POLICIES DESIGNED TO ACCOMMODATE STRONG GROWTH WITHOUT INFLATION, AND THE PRICES AND INCOMES ACCORD, AS WELL AS TO MORE FAVOURABLE SEASONAL AND INTERNATIONAL CONDITIONS.

ON TOP OF CLEARLY IMPROVED PERFORMANCE ON PRODUCTION AND EMPLOYMENT YESTERDAY WE HAD CONFIRMATION OF THE DOWNWARD TREND IN CONSUMER PRICES.

I AM CONFIDENT THAT WE HAVE ESTABLISHED A BASIS FOR SUBSTANTIAL GROWTH IN PRODUCTION AND EMPLOYMENT OVER THE YEAR OR TWO AHEAD, TOGETHER WITH THE ACHIEVEMENT OF RATES OF INFLATION THAT ARE CLOSER TO THE EXPERIENCE OF THE 1950s AND 1960s THAN TO THAT OF THE LAST DECADE.

THE CONTINUATION OF STRONG NON-INFLATIONARY GROWTH WILL REQUIRE CONTINUED CARE IN MACRO-ECONOMIC MANAGEMENT - IN FISCAL AND MONETARY POLICY, AND IN THE RANGE OF POLICIES EMBODIED IN THE PRICES AND INCOMES ACCORD.

BUT AS OUR POLICIES TO ADDRESS THE IMMEDIATE CRISIS TAKE HOLD, INCREASINGLY OUR MAIN ATTENTION WILL BE FOCUSED ON IMPROVING THE EFFECTIVENESS WITH WHICH AUSTRALIAN RESOURCES ARE USED.

IN THIS CONTEXT, WE ARE CURRENTLY REVIEWING POLICY IN TWO AREAS OF SPECIAL INTEREST TO YOUR MEMBERS - THE MARTIN COMMITTEE REPORT AND THE GOVERNMENT'S REVIEW OF THE FOREIGN INVESTMENT GUIDELINES.

ON FOREIGN INVESTMENT, YOU WOULD ALL BE AWARE THAT BOTH THE TREASURER AND I HAVE SIGNALLED THAT WE DO NOT HAVE IN MIND MAJOR CHANGES IN POLICY - A POLICY THAT HAS ENJOYED BIPARTISAN SUPPORT SINCE THE BASIC LINES WERE SET IN THE LAST YEAR OF THE WHITLAM LABOR GOVERNMENT.

THE GOVERNMENT IS LOOKING FORWARD TO THE MARTIN COMMITTEE'S REPORT TO GUIDE THE REFORM OF THE FINANCIAL SYSTEM.

AGAINST THIS BACKGROUND THERE ARE TWO VITAL TOPICS I SHOULD NOW WANT TO ADDRESS: NAMELY EFFICIENCY IN THE FINANCIAL SYSTEM AND THE BASES OF OUR MONETARY AND EXCHANGE RATE POLICIES IN THIS FIRST YEAR OF ECONOMIC RECOVERY.

OBVIOUSLY THE FINANCIAL SYSTEM HAS TO WORK WITHIN A REGULATORY FRAMEWORK PROVIDED BY GOVERNMENTS, HAVING REGARD TO THEIR WIDER SOCIAL RESPONSIBILITIES.

NO WHERE DOES THE FINANCIAL SYSTEM PLAY A MORE IMPORTANT ROLE THAN IN AUSTRALIA, WITH OUR HIGH RATES OF SAVINGS (AND PARTICULARLY HOUSEHOLD SAVINGS) AND INVESTMENT.

AS A YOUNG WELL-ENDOWED COUNTRY WE HAVE A DISPROPORTIONATE SHARE OF WORLD INVESTMENT OPPORTUNITIES.

IN THE LAST FIVE YEARS, GROSS FIXED INVESTMENT AS A PERCENTAGE OF NATIONAL INCOME HAS AVERAGE 23.7 PER CENT IN AUSTRALIA, WELL ABOVE MOST OTHER DEVELOPED COUNTRIES.

DOMESTICALLY GENERATED SAVINGS HAVE ALSO BEEN HIGH, AT ABOUT 20 PER CENT OF NATIONAL INCOME IN THE LAST FIVE YEARS, BUT THEY HAVE BEEN INSUFFICIENT TO FINANCE ALL THE INVESTMENT UNDERTAKEN.

IN THE LAST FIVE YEARS, NET BORROWING FROM OVERSEAS HAS AVERAGED 3.3 PER CENT OF NATIONAL INCOME, AND IT IS IN FACILITATING THESE BORROWINGS THAT THE MERCHANT BANKS AND OTHER FINANCIAL INTERMEDIARIES HAVE MADE ONE OF THEIR MAIN CONTRIBUTIONS TO DEVELOPMENT.

BUT, WHILE IMPORTED CAPITAL HAS CERTAINLY ALLOWED US TO IMPROVE OUR PRODUCTIVE POTENTIAL, WE CANNOT SIMPLY BORROW FROM OVERSEAS WITHOUT REGARD FOR OUR EXPORT EARNINGS.

WE NEED TO INVEST WISELY, AND, AS IMPORTANTLY, FUNDS MUST BE GATHERED AS EFFICIENTLY AS POSSIBLE, AND AT LEAST COST TO SAVERS, TO MEET INVESTMENT NEEDS.

THAT IN ITSELF CAN INDUCE HIGHER DOMESTIC SAVINGS AND MAKE THEM GO FURTHER.

WE NEED EFFICIENT FINANCIAL INTERMEDIARIES TO BRING TOGETHER THE GREAT RANGE OF LENDERS AND BORROWERS, BIG AND SMALL, DOMESTIC AND FOREIGN, SHORT-TERM AND LONG-TERM.

SAVINGS HAVE TO BE MARSHALLED, TRANSFORMED IN MATURITY, PACKAGED AND ALLOCATED TO THEIR MOST PRODUCTIVE USES.

THE FINANCIAL SYSTEM ALSO HAS TO PROVIDE AN OUTLET FOR SECURE SAVINGS FOR RETIREMENT THROUGH SUPERANNUATION, LIFE INSURANCE AND OTHER FORMS OF SAVINGS.

IMPORTANTLY THE FINANCIAL SECTOR ALSO PLAYS A KEY ROLE AS A MAJOR AND MOST IMMEDIATE LINK BETWEEN AUSTRALIA AND THE WORLD ECONOMY.

WITH THESE CONSIDERATIONS IN MIND, I HAVE BEEN PLEASED RECENTLY TO RECEIVE TWO DETAILED REPRESENTATIONS FROM THIS ASSOCIATION ON THE DEREGULATION OF THE AUSTRALIAN FINANCIAL SYSTEM.

ONE OF THESE WAS THE ASSOCIATION'S SUBMISSION TO THE MARTIN COMMITTEE ON THE REGULATION AND CONTROL OF FINANCIAL CORPORATIONS REGISTERED UNDER THE FINANCIAL CORPORATIONS ACT.

THE MAIN THRUST OF THIS IS A PROPOSAL THAT THE GOVERNMENT SHOULD NOT IMPLEMENT PART IV OF THE ACT, BUT RATHER SHOULD CONTINUE TO USE MORAL SUASION TO ACHIEVE ITS OBJECTIVES IN FINANCIAL MARKETS.

THE SECOND SUBMISSION ARGUES FOR REFORM OF THE EXISTING FOREIGN EXCHANGE ARRANGEMENTS.

IT OUTLINES RECENT DEVELOPMENTS IN OTHER COUNTRIES WITH MANAGED EXCHANGE RATES AND RECOMMENDS THE LICENSING OF ADDITIONAL FOREIGN EXCHANGE DEALERS.

OBVIOUSLY I AM IN NO POSITION TO COMMENT IN DETAIL ON THE FIRST OF THESE SUBMISSIONS, PENDING OUR RECEIPT AND CONSIDERATION OF THE MARTIN COMMITTEE REPORT.

BUT YOU CAN FIND GUIDANCE TO OUR APPROACH IN MY REPEATED STATEMENTS THAT I SEE NO VIRTUE IN REGULATION OF ECONOMIC ACTIVITY FOR ITS OWN SAKE.

THE LABOR GOVERNMENT BELIEVES THAT WHERE MARKETS ARE WORKING EFFICIENTLY THEY SHOULD BE LEFT TO DO THEIR JOB UNLESS THERE ARE CLEAR EQUITY REASONS FOR GOVERNMENT INTERVENTION.

YOUR SECOND SUBMISSION TAKES US INTO THE GENERAL AREA OF MONETARY POLICY AND EXCHANGE RATE MANAGEMENT.

I AM SURE THAT THIS GATHERING IS PARTICULARLY INTERESTED IN - AND WELL INFORMED ON - MONETARY POLICY.

THE GOVERNMENT SEES ITS MONETARY POLICY AS A CRUCIAL ELEMENT IN ITS OVERALL POLICY MIX TO SET THE ECONOMY ON THE PATH TO RECOVERY, AND THEN TO FACILITATE STRONG NON-INFLATIONARY GROWTH OVER A LONG PERIOD.

MONETARY POLICY HAS TO BE VIEWED AGAINST THE BACKGROUND PARTICULARLY OF THE EXPANSIONARY FISCAL POLICY WE HAVE ADOPTED AND THE PRICES AND INCOMES ACCORD.

WE MADE IT CLEAR AT THE TIME OF THE SUMMIT, AND THE TREASURER EMPHASISED IN THE BUDGET, THAT WE WOULD BE SETTING A MONETARY PROJECTION CONSISTENT WITH STRONG GROWTH, BUT NOT SUCH AS WOULD FUEL INFLATION.

IN THE BUDGET, WE MADE ALLOWANCE FOR THE FACT THAT THE VELOCITY OF CIRCULATION OF MONEY COULD BE EXPECTED TO REBOUND IN 1983-84 AS THE ECONOMY PICKED UP AND NON-BANKS PLAYED A GREATER ROLE IN FINANCING ACTIVITY.

ON THIS BASIS WE ADOPTED A MONETARY PROJECTION FOR THE 12 MONTHS TO THE JUNE QUARTER BASED ON M3 GROWTH IN THE RANGE 9 TO 11 PER CENT.

BUT LET ME REPEAT THE QUALIFICATIONS THE TREASURER MADE IN HIS BUDGET SPEECH:

"FOR THE REASONS I HAVE MENTIONED, HOWEVER, POLICY CANNOT FOCUS SOLELY ON M3 AND IN THE YEAR AHEAD WE SHALL BE MONITORING THE PROGRESS OF A RANGE OF FINANCIAL AGGREGATES WITH COVERAGE BOTH NARROWER AND BROADER THAN M3.

"THE PROJECTION IS A CONDITIONAL ONE.

"THERE WILL BE A REVIEW OF THE PROJECTION DURING THE YEAR IN THE LIGHT OF TRENDS IN ACTIVITY AND OTHER RELEVANT DEVELOPMENTS.

"POLICY WILL AIM AT GRADUALLY MOVING THE EXCESSIVE PRESENT GROWTH IN M3 TO WITHIN THE RECOMMENDED RANGE."

WE ARE WATCHING CAREFULLY DEVELOPMENTS IN THIS AREA OF POLICY.

WE ARE AWARE OF THE DISPARITIES BETWEEN M3 AND OTHER MONETARY AGGREGATES.

IN THIS REGARD I NOTE THAT SAVINGS BANK DEPOSITS HAVE BEEN RISING STRONGLY AND HAVE CONTRIBUTED MATERIALLY TO THE PICK UP IN HOUSING ACTIVITY.

WE WELCOME THIS.

WE NOTE, HOWEVER, THAT THIS IS CONTRIBUTING TO THE DISPARITIES IN MOVEMENTS IN THE MONETARY AGGREGATES.

WE ARE ALSO CONSCIOUS OF THE EFFECTS OF CHANGING SEASONALITY.

THIS IS ALWAYS A PROBLEM IN THE AUSTRALIAN MONETARY ENVIRONMENT.

I CAN ASSURE YOU THAT WE ARE VERY CONSCIOUS OF WHAT IS HAPPENING; THAT WE WILL BE CARRYING OUT THE REVIEW PROMISED BY THE TREASURER; AND THAT WE WILL BE TAKING PARTICULAR CARE AS SEASONAL TIGHTENING OCCURS IN 1984 TO ENSURE THAT THERE IS ADEQUATE FINANCE AVAILABLE FOR THE RECOVERY TO PROCEED.

WE ARE ALL VERY CONSCIOUS OF THE TREND IN INTEREST RATES, WHICH HAPPILY HAS BEEN GENERALLY DOWNWARDS THIS YEAR.

LOWER INFLATION AND LOWER INTEREST RATES WOULD MATERIALLY HELP THE RECOVERY IN THE AUSTRALIAN ECONOMY.

WE LOOK TO THE PRICES AND INCOMES ACCORD AND SUPPORTIVE POLICIES TO PRODUCE A SUSTAINED REDUCTION IN INFLATION AND INTEREST RATES.

THIS WOULD GREATLY HELP OUR COMPETITIVENESS AND ENCOURAGE INVESTMENT IN AUSTRALIA.

IT IS IMPORTANT THAT THE GAINS IN THIS AREA SHOULD BE SUSTAINABLE IN THE FUTURE.

THAT IS THE OBJECTIVE OF OUR POLICIES - ECONOMIC RECOVERY ACCOMPANIED BY FALLING INFLATION.

WE ARE PLEASED AT THE STRENGTH OF THE A.C.T.U.'S AND MAJOR UNIONS' ACCEPTANCE OF THE OBLIGATIONS OF THE PRICES AND INCOMES ACCORD AND THE WAGE-SETTING PRINCIPLES RECENTLY DEFINED BY THE ARBITRATION COMMISSION.

I COME NOW TO THE MANAGEMENT OF THE EXCHANGE RATE.

FOR OBVIOUS REASONS, THIS IS NOT A SUBJECT ON WHICH PRIME
MINISTERS USUALLY HAVE A LOT TO SAY.

BUT TONIGHT I AM ABLE TO MAKE A FEW REMARKS.

THERE HAS BEEN RECENT SPECULATION THAT THE GOVERNMENT,
HELL-BENT ON REDUCING GROWTH IN M3 AT ANY COST, WAS
ALLOWING THE EXCHANGE RATE TO BE DELIBERATELY OVER-VALUED
AS AN INSTRUMENT OF ANTI-INFLATIONARY POLICY.

I HAVE RESPONDED BY POINTING OUT THAT, FIRST, WHEN REGARD
IS PAID TO THE TECHNICAL FACTORS SET OUT ABOVE, IT IS NOT
CLEAR THAT WE NEED MARKEDLY TO TIGHTEN MONETARY POLICY;
AND SECONDLY, THAT OUR OBJECTIVE OF FIGHTING INFLATION AND
UNEMPLOYMENT AT THE SAME TIME REQUIRES US TO AVOID PUSHING
THE AUSTRALIAN DOLLAR TO AN ARTIFICIALLY HIGH LEVEL.

NONE OF THIS IS TO DENY THAT DEVELOPMENTS WHICH AFFECT
PERCEPTIONS OF THE UNDERLYING VALUE OF THE DOLLAR WILL
INFLUENCE THE RATE.

RATHER, WE ARE COMMITTED TO AVOIDING DELIBERATELY HOLDING THE
DOLLAR AT A LEVEL ABOVE WHAT MIGHT BE CONSIDERED A MARKET
VALUATION.

IN RECENT MONTHS, THERE HAVE BEEN SIGNS OF SPECULATION
AGAINST THE EXCHANGE RATE MANAGEMENT SYSTEM ITSELF,
INDEPENDENTLY OF JUDGEMENTS ABOUT THE UNDERLYING VALUE OF
THE AUSTRALIAN DOLLAR.

ACCORDINGLY, I AM ABLE NOW TO ANNOUNCE, SIMULTANEOUSLY WITH A STATEMENT BY THE TREASURER, THAT THE GOVERNMENT HAS AUTHORISED THE RESERVE BANK TO IMPLEMENT CHANGES IN THE MANNER IN WHICH THE EXCHANGE RATE IS DETERMINED.

THE GENERAL DRIFT OF THE CHANGES IS TO ALLOW THE PRIVATE SECTOR MORE SCOPE, AND MORE RESPONSIBILITY, IN THE FOREIGN EXCHANGE AREA, IN RESPECT OF BOTH SPOT AND FORWARD TRANSACTIONS.

ON THE SPOT TRANSACTIONS SIDE, THE RESERVE BANK IN FUTURE WILL NOT FIX UNTIL THE END OF THE DAY THE \$A/\$US MID-RATE ON THE BASIS OF WHICH IT WILL SETTLE NET FOREIGN EXCHANGE POSITIONS INCURRED BY THE BANKS DURING THE COURSE OF THEIR DEALINGS THROUGHOUT THE DAY.

THE CHIEF PURPOSE OF THIS CHANGE IS TO DISCOURAGE SPECULATIVE CAPITAL FLOWS DURING THE COURSE OF THE DAY.

ON THE FORWARD TRANSACTIONS SIDE, THE RESERVE BANK WILL WITHDRAW FROM THE UNDERWRITING OF THE FORWARD FOREIGN EXCHANGE MARKETS.

AS A CONSEQUENCE, THE BANKS WILL BE PERMITTED GREATER FREEDOM TO HOLD BALANCES ABROAD AND TO BORROW FOR THE PURPOSE OF MATCHING FORWARD TRANSACTIONS.

ALL THIS WILL ASSIST THE DEVELOPMENT OF A MORE EFFICIENT AND SELF-SUSTAINING FORWARD FOREIGN EXCHANGE MARKET.

THESE CHANGES, THOUGH LARGELY TECHNICAL SHOULD ASSIST IN MODERATING THE VOLATILITY OF DAY-TO-DAY FLOWS OF FUNDS ACROSS THE FOREIGN EXCHANGES.

THIS VOLATILITY HAS, OF COURSE, COMPLICATED THE TASK OF MANAGING THE GROWTH OF THE MONETARY AGGREGATES IN AUSTRALIA IN LINE WITH THE OBJECTIVES ANNOUNCED IN THE TREASURER'S BUDGET SPEECH.

WE BELIEVE THESE CHANGES IN THE MANAGEMENT OF THE FOREIGN EXCHANGE MARKETS WILL MAKE A HELPFUL CONTRIBUTION TO MONETARY MANAGEMENT.

HOWEVER, SUCH MODIFICATIONS AND ADAPTATIONS, HELPFUL AS THEY ARE, SHOULD NOT BLIND US TO THE FACT THAT, IN THE END, THE VALUE OF THE AUSTRALIAN DOLLAR, AND THE FLOWS OF FUNDS ACROSS THE EXCHANGES, WILL NOT BE DETERMINED BY THE PARTICULAR SYSTEMS BEING PURSUED.

SYSTEMS WILL HELP, BUT THEY WILL NOT DETERMINE THE OUTCOME.

RATHER, AS ALWAYS, THE FINAL DETERMINING FACTOR WILL BE THE RELATIVE PERFORMANCE OF THE AUSTRALIAN ECONOMY.

SO FAR AS THE GOVERNMENT IS CONCERNED, THIS BRINGS US BACK TO THE FUNDAMENTALS OF FISCAL POLICY, MONETARY POLICY, WAGES POLICY AND POLICIES AFFECTING THE LONG-TERM GROWTH IN PRODUCTIVITY.

THE CHANGES I HAVE ANNOUNCED TONIGHT, I BELIEVE, ARE BROADLY IN THE DIRECTION FAVOURED BY YOUR ASSOCIATION.

THERE MAY BE SOME CONCERN THAT THE DECISION TO DEFER SETTING THE \$A/\$US MID-RATE UNTIL THE CLOSE OF TRADING WILL CREATE UNCERTAINTY.

I DO NOT BELIEVE THAT ANY CONCERN IS WARRANTED.

THE "INDICATIVE" \$A/\$US MID-RATE THAT WILL BE RELEASED WITH THE TWI AT 9.30 A.M. EACH MORNING AND RATES ESTABLISHED IN SUBSEQUENT TRADING WILL PROVIDE A GUIDE TO THE SETTING OF THE \$A/\$US MID-RATE AT THE END OF THE DAY.

THUS, MARKET PARTICIPANTS WILL HAVE A GOOD DEAL OF INFORMATION AVAILABLE TO THEM.

SMALL TRADERS WILL STILL BE ABLE TO GET DIRECT PRICES FROM THEIR BANKS FOR TRAVEL AND THE LIKE.

TO THE EXTENT THAT THE END-DAY SETTING REDUCES THE OPPORTUNITIES FOR SPECULATION ON MOVEMENTS IN THE \$US IN ASIAN MARKETS OVER THE COURSE OF THE DAY AND SO MAKE PROFITS AT THE EXPENSE OF THE RESERVE BANK - WELL AND GOOD.

THE VOLATILE CAPITAL MOVEMENTS THAT SUCH SPECULATION HAS LED TO ARE THE SORTS OF UNPRODUCTIVE AND UNHELPFUL MOVEMENTS THAT WE WISH TO DISCOURAGE.

THIS AUDIENCE MIGHT BE ESPECIALLY CONCERNED THAT THE DECISION OF THE RESERVE BANK TO WITHDRAW FROM THE OFFICIAL FORWARD MARKET WILL ADVANTAGE THE TRADING BANKS AT THE EXPENSE OF HEDGE MARKET ACTIVITIES IN WHICH THE MERCHANT BANKS ARE ACTIVE.

YOU SHOULD NOTE, HOWEVER, THAT THE BANKS' FORWARD MARKET AS DISTINCT FROM THE BANKS' HEDGE MARKET ACTIVITIES WILL STILL BE LIMITED TO TRADE TRANSACTIONS.

CAPITAL TRANSACTIONS WILL REMAIN THE PROVINCE OF THE HEDGE MARKET.

THUS, A GOOD DEAL OF THE BUSINESS OF THE UNOFFICIAL HEDGE MARKET WILL BE UNAFFECTED.

CONSISTENTLY WITH YOUR SUBMISSION TO ME, YOU WILL HOLD THE VIEW THAT MERCHANT BANKS SHOULD BE AFFORDED LICENCES TO DEAL IN FOREIGN EXCHANGE.

WE HAVE NOT FORGOTTEN THAT MERCHANT BANKS FEEL STRONGLY ABOUT THIS.

18.
I NOTE, HOWEVER, THAT THE CAMPBELL COMMITTEE CAME TO A DIFFERENT VIEW.

IT SUGGESTED THAT TO DO FOREIGN EXCHANGE BUSINESS A BANKING LICENCE SHOULD BE REQUIRED; SO THIS PROPOSAL IS MORE THAN A "TECHNICAL" ADJUSTMENT TO THE EXCHANGE RATE MANAGEMENT SYSTEM.

THAT IS NOT THE END OF THE MATTER AS FAR AS WE ARE CONCERNED.

BUT WE THOUGHT IT INAPPROPRIATE FINALLY TO SETTLE THIS MATTER AT THE PRESENT TIME.

THIS ISSUE IS TO SOME EXTENT RELATED TO THE GRANTING OF BANKING LICENCES AND THE GOVERNMENT IS WAITING FOR THE REPORT OF THE MARTIN COMMITTEE BEFORE IT MAKES ANY DECISIONS.

WE GREATLY WELCOME THE CONTRIBUTION THAT THE MERCHANT BANKS ARE MAKING TO AUSTRALIAN DEVELOPMENT.

WE LOOK FORWARD TO YOU CONTINUING TO PLAY A KEY ROLE IN IMPROVING THE EFFICIENCY OF OUR FINANCIAL SYSTEM.

I INVITE YOU TO REMAIN IN TOUCH WITH US OVER THE NEXT FEW MONTHS, AS WE ADDRESS A RANGE OF ISSUES OF CRUCIAL IMPORTANCE TO YOUR INDUSTRY, AND TO THE LONG-TERM GROWTH PERFORMANCE OF THE AUSTRALIAN ECONOMY.