

Raymond Squarm
RS

RESERVE BANK OF AUSTRALIA

MINUTES OF THE NINETY-THIRD MEETING OF THE RESERVE BANK
BOARD HELD IN DARWIN ON 5 JUNE 1968

PRESENT

H.C. Coombs, Chairman
J.G. Phillips, Deputy Chairman
Sir William Gunn, K.B.E., C.M.G.
D.J. Hibberd, O.B.E.
Sir Theo Kelly, O.B.E.
Sir Leslie Melville, K.B.E.
W.W. Pettingell, C.B.E.
Sir Richard Randall
H.W. Rowden

H.M. Knight was present at the meeting as an observer

A.S. Holmes attended for Economic conditions and prospects, and Economic and Financial Research Fund; L.T. Hinde for Administration of Statutory Reserve Deposit Accounts; R.A. Johnston for Investment Department items; and R.T. Walker for Rural Credits Department periodical review.

MINUTES

Minutes of the ninety-second meeting held in Sydney on 1 May 1968 were signed as correct.

RESEARCH
DEPARTMENT

Economic conditions and prospects

Memorandum discussed. The Board noted that both the composition and volume of aggregate spending was changing. It noted also that:

- (a) new lending by banks was still at rather high levels but that the increase in overdraft advances may be tapering off;
- (b) the growth in bank deposits had eased markedly;
- (c) lending by some other financial institutions and new capital raisings seemed to be expanding fairly rapidly.

After consideration of these and other factors in the present situation, the Board decided that the Governor should recommend to the Treasurer action along the following lines:

- (a) an increase of $\frac{1}{4}\%$ p.a. in the interest rates paid on trading bank fixed deposits and on savings bank deposits;
- (b) on deposits of \$100,000 or over fixed for any period from 30 days to 2 years, trading banks be free to pay any rate not exceeding the two-year fixed deposit rate;

RESEARCH
DEPARTMENT
(Cont'd)

Economic conditions and prospects (Cont'd)

- (c) no change be made for the time being in the specified maximum interest rate chargeable on trading bank overdrafts;
- (d) some increase in the interest rates charged on loans made by savings banks where this is appropriate.

BANKING
DEPARTMENT

Administration of Statutory Reserve Deposit Accounts
Memorandum discussed. The Board noted that:

- (a) bank liquidity had declined further; banks' new lending was continuing at relatively high levels;
- (b) on current estimates a significant tightening in bank liquidity was still expected over the year as a whole.

It agreed that no S.R.D. action was necessary this month, but in the light of the developing situation action to raise the S.R.D. ratio during the seasonal upswing may need to be considered fairly early in the new financial year.

The Board decided that with the Section 31 estimates the banks should be informed along the following lines:

- (a) Although there were still uncertainties, estimates now suggest that L.G.S. assets plus Statutory Reserve Deposits of the major trading banks could fall by about \$40m. over 1967/68; deposits could increase by about \$370m. On the basis of these estimates the aggregate ratio of L.G.S. assets plus statutory reserves to total deposits at the end of the financial year would be about 3 percentage points lower than at the end of June 1967.
- (b) No S.R.D. action was expected before the end of the current financial year.

INVESTMENT
DEPARTMENT

Government
Finances

Temporary finance for the Commonwealth Government
Memorandum noted.

INVESTMENT
DEPARTMENTGovernment
Finances
(Cont'd)Commonwealth bond market

Memorandum discussed. The Board agreed that:

- (a) for the time being the Bank should continue its on 'change market management by buying in selected stocks at an average rate of up to \$100,000 a day, subject to increases at the Governor's discretion, and by selling in moderate amounts as considered necessary;
- (b) in its operations generally, the Bank should stand ready to buy and sell securities as required.

The Board recognised that, if increases were made in interest rates paid on bank deposits along the lines recommended in the decision on Economic conditions and prospects, bond market conditions could change. The Board agreed that the Bank should not resist appropriate changes in bond yields in such circumstances.

Commonwealth loans

Memorandum noted.

Possible new Commonwealth loan

The Board noted that there was likely to be a Commonwealth loan raising in July. At this stage, the timing of the loan had not been decided, but the Bank could be asked for its recommendations on issue terms before the July Board meeting.

Note Issue

Note circulation

Memorandum noted.

Other

Overseas funds

Memorandum discussed. The Governor reported to the Board on discussions he had had during his recent visit abroad. He said that there was a general acceptance by the central banks of the countries making up the Basle group that the United Kingdom had to face a decline in the sterling balances held by members of the outer sterling area, many of whom were diversifying their holdings of international reserves. It was realised that the U.K. would

INVESTMENT
DEPARTMENTOther
(Cont'd)

Overseas funds (Cont'd)
require financial assistance from non-sterling area countries, particularly European countries, U.S.A. and Canada if this diversification were to be achieved without causing a major upset to the international financial system.

To permit this diversification to be made, a scheme had been suggested under which the U.K. would receive support by means of medium-term loans, through the B.I.S., from the Basle group of countries. It was however uncertain which countries, if any, would agree to this proposal, particularly as Governments would be involved; a study group was to report back to the June B.I.S. meeting on the technical aspects and the initial reaction of Governments was to be tested. The Governor said that he was concerned about the present distribution of our international reserves.

The Board agreed that, as a first step, the Governor should discuss with the Treasurer and the Treasury our international reserve policy in the light of present trends abroad.

Short term money market
Memorandum noted.

Savings bank activities
Memorandum discussed. The Board agreed that no special comment to the savings banks on their prospective outlay for housing seemed indicated at this stage.

RURAL CREDITS
DEPARTMENT

Periodical review
Memorandum noted.

OTHER

Economic and Financial Research Fund
Memorandum discussed. The Board agreed that \$50,000 be credited to the Economic and Financial Research Fund for the year ended 30 June 1968.

NEXT MEETING

It was agreed that the next meeting of the Board would be held in Sydney on Wednesday, 3 July commencing at 11.00 a.m.; following meetings to be in Sydney on 31 July and 4 September.