



South African Reserve Bank

**Record of proceedings of the special Financial Markets Liaison Group (FMLG)
meeting held at the Head Office of the South African Reserve Bank, Pretoria,
21 August 2013**

Present: Daniel Mminele (Chairperson), SARB
Videshree Rooplall (Secretary), SARB
Leon Myburgh, SARB
Callie Hugo, SARB
Tom Khosa, SARB
Garth Klintworth, Absa Bank
Justin Nichols, Absa Bank
Stephen Charles, FirstRand / Rand Merchant Bank
Andries du Toit, FirstRand / Rand Merchant Bank
Clive Sindelman, Investec Bank
Donna Oosthuysen, International Banking Association
Roy Havemann, National Treasury
John Chemaly, Nedbank
Gary Tamblyn, Nedbank
Arno Daehnke, Standard Bank

Apologies: Tim Masela, SARB
Samantha Springfield, SARB
Mike Harvey, Absa Bank
CJ Giddy, FirstRand / Rand Merchant Bank
Richard Wainright, Investec Bank
Thuto Shomang, National Treasury
Peter Lane, Nedbank

Summary of discussions

1. Banks' participation in the weekly main repurchase auctions

1.1. Following deliberations at a meeting of the Money-Market Sub-committee, bidding by the four major banks in the main repurchase (repo) auctions was discussed. The South African Reserve Bank (SARB) reiterated that it was not aware of any prior agreement between the four major banks and the SARB for each bank to bid for 25 per cent of the total amount on offer. The SARB stated that such any arrangements among banks would constitute collusive behaviour and could undermine the effective implementation of monetary policy in the long run. The matter was resolved with the four major banks, with the SARB stating clearly that banks would be expected to bid according to their liquidity requirement, and not on the basis of any pre-determined formula.

2. Changes to the Money-Market Liquidity Management Strategy of the South African Reserve Bank

2.1. The SARB gave a presentation on its proposed changes to the Money-Market Liquidity Management Strategy. The purpose of the changes was to improve the effectiveness of the monetary policy implementation framework, and would entail the SARB gradually increasing the money-market shortage to a more appropriate level to better manage money-market liquidity and short-term money-market rates. Going forward, the money-market shortage would reflect the trend growth in the notes and coin in circulation outside the SARB, as well as in commercial banks' required cash reserve balances with the SARB. The SARB would also use foreign exchange (FX) swaps more actively for liquidity management purposes.

2.2. The objective of the proposed changes was not to increase the cash reserve ratio, but to allow growth in the money-market shortage to reflect the trend growth in the monetary base. The monetary policy transmission mechanism was working well, but if the structural money-market shortage declined to very low levels, this could pose risks to monetary policy implementation.

- 2.3. A member mentioned that given a higher money-market shortage, the interbank exposure could be very large at the 16:30 daily square-off position. It was agreed that this matter should be discussed at the next Liquidity Forum meeting.
- 2.4. FMLG members were informed that the SARB issued a press release at 11:30 on the same day (21 August 2013) regarding the changes to its Money-Market Liquidity Management Strategy. It was mentioned that the revised strategy should not be construed to be providing signals about the SARB's future monetary policy stance. Furthermore, the gradual approach to restoring the structural money-market shortage to an appropriate level should not be interpreted as monetary-policy tightening.

Enquiries

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Secretary of the FMLG