

Proposed changes to money-market operations

On 10 December 2004, the Financial Markets Department of the South African Reserve Bank issued a consultative paper titled "Modifications to the Money Market Operations of the South African Reserve Bank". This box summarises the main proposals contained in the paper.

The recovery of the exchange rate of the rand over the past three years allowed the Bank to eliminate foreign-currency swaps with counter deposits, generate profits on maturing forward contracts, square off the Bank's oversold foreign exchange forward book and accumulate foreign currency reserves. The partial settlement of the Gold and Foreign Exchange Contingency Reserve Account by the National Treasury, arrangements enhancing the opportunities for the Bank to diversify the instruments in its portfolio, and the complete phasing out of the vault cash deduction when calculating the minimum reserve requirements of banks also helped to provide the Bank with more flexibility in dealing with money-market developments. Under the circumstances the Bank decided to re-evaluate the existing accommodation procedures. Its main objective is to streamline the refinancing operations so as to make them simpler and more transparent, efficient, safe and flexible. The highlights of the proposed modifications to the money-market operations are outlined below.

Changes proposed in December 2004

Repurchase auction changes

- Resume the announcement of the Bank's estimate of the market's liquidity requirement prior to the weekly main repurchase auction.
- Currently, in instances where the Bank has unintentionally over or under-estimated the market's liquidity requirement, supplementary square-off tenders are conducted at the level of the fixed repurchase rate. The abolition of the use of the supplementary square-off facility as a regular feature is proposed. It would instead be reserved for unexpected developments.
- Final clearing or reverse repurchase auctions to accommodate banks with short or long liquidity positions would be conducted at a spread of 50 basis points above or below the prevailing repurchase rate. (Currently the spread is 150 basis points.) The spread would also act as a corridor within which the interbank overnight rate varies.
- The abolition of the marginal lending facility because it is seldom used and when it is used, it is mostly on account of administrative errors associated with the settlement of transactions at the end of the reserve maintenance period.

Eligible instruments for repurchase agreement auctions

- Currently all short-term instruments that qualify for liquid asset requirements are eligible at the repurchase window. It is proposed that instruments issued by public non-financial institutions and guaranteed by government should also be allowed.

The central feature of the Reserve Bank's operations – the conduct of repurchase auctions on Wednesdays with a one-week maturity at a repurchase rate fixed at the level announced by the Monetary Policy Committee – would remain unchanged. Access to cash reserves, through the averaging of reserves actually held against requirements, would also remain unchanged.

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