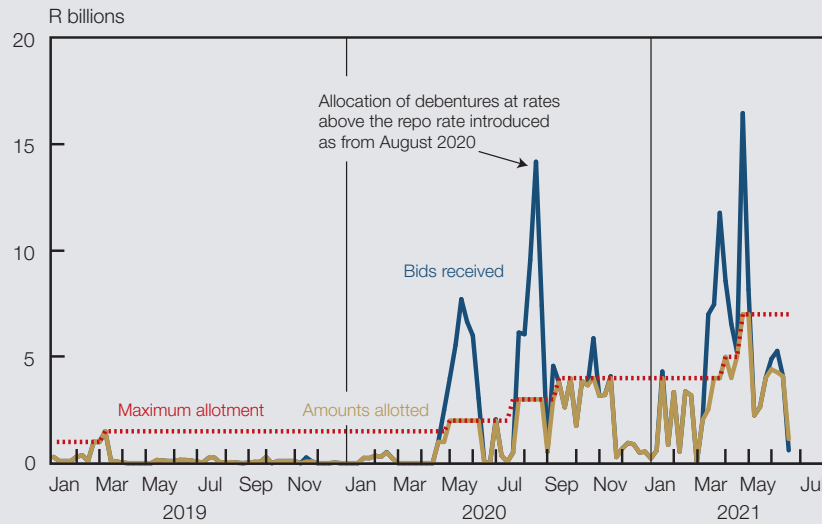


Box 3 Recent developments in South African Reserve Bank debentures

To drain excess liquidity from the market, the South African Reserve Bank (SARB) issues debentures with maturities of 7, 14, 28 and 56 days every Wednesday.

Market participants did not favour SARB debentures prior to August 2020, with rates capped at the repurchase (repo) rate. Higher-yielding assets were usually preferred, such as 91-day Treasury bills (TBs) which, on average, traded 46 basis points above the repo rate in 2020. Nonetheless, in April and May 2020, the demand for SARB debentures increased regardless of the low return, as market participants were willing to place surplus funds at rates below the repo rate amid the SARB's extraordinary measures to inject additional liquidity into the money market.

Debenture auctions



Source: SARB

On 31 July 2020, the SARB announced the enhancement of the current open market operation instruments, which included the allotment of SARB debentures at rates below and above the prevailing repo rate. Following the announcement, the demand for SARB debentures increased sharply in August 2020 and again in March and April 2021 alongside the generally high demand for shorter-dated money market instruments at attractive rates close to the 91-day TBs. From March to June 2021, 56-day debentures were allocated at 3.85% on average – 35 basis points above the repo rate – while 91-day TBs were allocated at 3.77%, on average. The SARB increased the amount of debentures on offer from R5.0 billion to R7.0 billion in April 2021 in response to the higher demand for debentures, and kept it at that level up to June.