

Statement regarding reserve balances and interest rates

Issued by the Governor of the South African Reserve Bank, Dr. T. W. de Jongh

10 April 1973

Following discussions with the banks and building societies on the implications of the recent reduction in Bank rate from 6 to $5\frac{1}{2}$ per cent, and after the usual consultation with the Treasury, the Reserve Bank has decided to reduce the supplementary reserve balances which banking institutions are required to maintain with the National Finance Corporation from 10 to 7 per cent of their short-term liabilities to the public. This reduction will take effect from the date of certification of each bank's monthly statement (BA Form No. 7) for the month ended 31st March 1973, and the required notice will appear in a Government Gazette tomorrow. The banks' *total* liquid asset requirements remain unchanged at 45 per cent of short-term, 28 per cent of medium-term, 5 per cent of long-term and 10 per cent of acceptance liabilities.

This relaxation will afford banking institutions greater freedom in determining the composition of their liquid assets and should enable them to earn a higher average rate of interest on these assets than would otherwise have been possible. A reduction in the total liquid asset requirements of the banks is not considered desirable at this stage, as it is expected that the continuing favourable balance of payments and the expansionary fiscal policy announced in the Budget will result in a continued easing of money market conditions in the period ahead. The liquidity of the banks should therefore remain more than adequate to permit a further expansion of bank credit to the private sector. In this connection banking institutions are once again requested to give priority to credit for production and exports.

In the light of the above it is expected of banking institutions that they will follow the reduction in Bank rate by reducing their overdraft and comparable lending rates by $\frac{1}{2}$ per cent. Such a reduction would not only be in accordance with the present expansionary monetary policy but would also represent a natural reaction to current and prospective supply and demand trends in the money market.

As far as the rates paid by banking institutions on deposits and by building societies on deposits and shares are concerned, there appears to be no justification at present for a general reduction merely because of the lowering of Bank rate. Some deposit rates have, of course, already declined in accordance with market forces, and others, particularly short-term rates, may be expected to follow. But, with the one exception noted below, banks and building societies are not at present being called upon by the authorities to effect any reduction in their rates on deposits and shares.

From the recent discussions with these institutions, it has, however, become clear that the existing voluntary agreement on deposit and share rates has not worked satisfactorily. It will be recalled that statutory control over deposit and building society share rates was instituted in March 1972 at roughly the rates prevailing at the time, but that following the Bank rate reduction from $6\frac{1}{2}$ to 6 per cent in August 1972 these institutions agreed voluntarily to reduce most of their deposit and share rates to $\frac{1}{2}$ per cent below the legal maximum rates. The maximum rate of $8\frac{1}{2}$ per cent payable on participation mortgage funds and on debentures issued by financial institutions was not reduced at the time. However, not all institutions have abided by this "gentleman's agreement".

It has therefore been decided to give legal effect to the rates agreed upon last August. At the same time the opportunity is being taken to effect two changes in the rate pattern which seem justified on the basis of the experience gained since March last year. The first is a reduction of $\frac{1}{4}$ per cent to 7 per cent in the maximum rate payable by building societies on their paid-up indefinite period shares (excluding tax-free shares) and on their ordinary fixed period shares. Since the "dividend" on these shares has since August 1971 been taxed on the same basis as dividends on ordinary shares of companies, it was felt that the previous rate afforded an undue advantage to building societies. The second change is the introduction of a new maximum rate of $7\frac{1}{2}$ per cent for deposits of two years and longer with a view particularly to improving the competitive ability of those banking institutions which rely to a considerable extent on longer-term funds.

The new legal *effective* maximum rates which, with the two exceptions noted above, are identical with the rates voluntarily agreed upon last August, will be the following:

<i>A. Deposit rates of banking institutions and building societies</i>	per cent per annum
1. Deposits accepted for a period of or subject to notice of withdrawal of:	
(a) less than six months, including savings deposits and call loans	$5\frac{1}{2}$
(b) six months and longer, but less than twelve months	$6\frac{1}{4}$
(c) twelve months and longer, but less than twenty-four months	7
(d) twenty-four months and longer	$7\frac{1}{2}$
2. Deposits in terms of the State-assisted home owners' saving scheme	$6\frac{1}{2}$

Verklaring insake reserwesaldo's en rentekoerse

Uitgereik deur die President van die Suid-Afrikaanse Reserwebank, dr. T. W. de Jongh

10 April 1973

Ná samesprekings met die bankinstellings en bouverenigings oor die implikasies van die onlangse vermindering in die Bankkoers van 6 tot $5\frac{1}{2}$ persent en ná die gebruikelike oorlegpleging met die Tesourie, het die Reserwebank besluit om die supplementêre reserwesaldo's wat bankinstellings by die Nasionale Finansiële Korporasie moet hou, van 10 tot 7 persent van hulle korttermynverpligtings teenoor die publiek te verminder. Hierdie vermindering tree in werking vanaf die datum van sertifisering van elke bank se maandopgawe (Vorm B.W. Nr. 7) vir die maand geëindig 31 Maart 1973, en die nodige kennisgewing sal môre in 'n Staatskoerant verskyn. Die banke se totale likwiede batevereistes bly onveranderd op 45 persent van korttermyn-, 28 persent van mediumtermyn-, 5 persent van langtermyn- en 10 persent van aksepterpligtings.

Hierdie verslapping sal bankinstellings meer vryheid verleen by die bepaling van die samestelling van hulle likwiede bates en behoort hulle daartoe in staat te stel om 'n hoër gemiddelde rentekoers op hierdie bates te verdien as wat andersins moontlik sou gewees het. 'n Vermindering in die totale likwiede batevereistes van die banke word nie in hierdie stadium as gewens beskou nie, aangesien daar verwag word dat die volgehoue gunstige betalingsbalans en die ekspansionistiese fiskale beleid wat in die Begroting aangekondig is, 'n voortgesette verruiming in geldmarktoestande in die tydperk wat voorlê tot gevolg sal hê. Die likwiediteit van die banke behoort dus meer as voldoende te bly om 'n verdere uitbreiding in krediet aan die private sektor toe te laat. In hierdie verband word bankinstellings nog eens versoek om voorkeur aan krediet vir produksie en uitvoere te verleen.

In die lig van die voorgaande word dit van bankinstellings verwag dat hulle die vermindering in die Bankkoers sal volg deur hulle oortrekkings- en ander vergelykbare uitleenkoerse met $\frac{1}{2}$ persent te verlaag. So 'n verlaging sal nie alleen in ooreenstemming met die huidige ekspansionistiese monetêre beleid wees nie, maar sal ook 'n natuurlike reaksie op die huidige en verwagte vraag- en aanbodneigings in die geldmark verteenwoordig.

Met betrekking tot die koerse wat bankinstellings op deposito's en wat bouverenigings op deposito's en aandele betaal, wil dit voorkom asof daar tans geen regverdiging bestaan vir 'n algemene verlaging net omdat die Bankkoers verminder is nie. Sommige depositokoerse het natuurlik alreeds in ooreenstemming met markneigings gedaal en andere, in die besonder korttermynkoerse, kan verwag word om te volg. Met die een uitsondering wat hieronder aangedui word, word daar egter nie tans deur die owerhede 'n beroep op banke en bouverenigings gedoen om enige verlaging in hulle koerse op deposito's en aandele aan te bring nie.

Uit die onlangse samesprekings wat met hierdie instellings gevoer is, het dit egter duidelik geblyk dat die bestaande vrywillige ooreenkoms oor deposito- en aandeelkoerse nie bevredigend gewerk het nie. Dit sal onthou word dat wetlike beheer in Maart 1972 oor koerse op deposito's en bouverenigingaandele ingestel is naastenby op die peil wat in daardie stadium gegeld het, maar nadat die Bankkoers in Augustus 1972 vanaf $6\frac{1}{2}$ tot 6 persent verlaag is, het hierdie instellings vrywilliglik ingestem om meeste van hulle deposito- en aandeelkoerse tot $\frac{1}{2}$ persent benede die wetlike maksimumkoerse te verminder. Die maksimumkoers van $8\frac{1}{2}$ persent betaalbaar op deelnemingsverbandfondse en op skuldbriewe wat deur finansiële instellings uitgereik word, is nie in daardie stadium verlaag nie. Alle instellings het hulle egter nie by hierdie onderlinge akkoord gehou nie.

Dit is derhalwe besluit om die koerse waaroor verlede Augustus ooreengekom is, te wettig. Terselfdertyd word van die geleentheid gebruik gemaak om twee veranderinge in die patroon van koerse aan te bring wat geregverdig skyn te wees op grond van die ondervinding sedert Maart verlede jaar. Die eerste is 'n vermindering van $\frac{1}{4}$ persent tot 7 persent in die maksimum koers betaalbaar deur bouverenigings op hulle opbetaalde onbepaaldetermynaandele (met uitsluiting van belastingvrye aandele) en op hulle gewone vastetermynaandele. Aangesien die „dividend“ op hierdie aandele sedert Augustus 1971 op dieselfde basis belas word as dividende op gewone aandele van maatskappye, is gevoel dat die vorige koers 'n onredelike voordeel aan bouverenigings verleen. Die tweede verandering is die invoering van 'n nuwe maksimum koers van $7\frac{1}{2}$ persent vir deposito's van twee jaar en langer met die doel veral om die mededingingsvermoë van dié bankinstellings wat in 'n belangrike mate op langer-termynfondse staatmaak, te verbeter.

Die nuwe wetlike *effektiewe* koerse wat, met die twee uitsonderings hierbo aangedui, identies is aan die koerse waaroor verlede Augustus ooreengekom is, sal die volgende wees:

A. Depositokoerse van bankinstellings en bouverenigings	Persent per jaar
1. Deposito's geneem vir 'n tydperk van, of onderworpe aan kennisgewing van onttrekking van:	
(a) minder as ses maande, met inbegrip van spaardeposito's en daggeldlenings	$5\frac{1}{2}$
(b) ses maande en langer, maar minder as twaalf maande	$6\frac{1}{4}$
(c) twaalf maande en langer, maar minder as vier-en-twintig maande	7
(d) vier-en-twintig maande en langer	$7\frac{1}{2}$
2. Deposito's ingevolge die Staatsondersteunde huiseienaarsbesparingskema	$6\frac{1}{2}$