

# Statement regarding interest rate adjustments

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

30 May 1974

After the usual consultation with the Treasury, the Reserve Bank has decided to make the following interest rate adjustments with effect from 1 June 1974:

1. The Bank rate is increased from  $6\frac{1}{2}$  per cent to  $7\frac{1}{2}$  per cent per annum.

2. The pattern of interest rates for the Reserve Bank's transactions in Government securities is adjusted as follows:

The rate for securities with a maturity of 3 years is increased from  $5\frac{1}{2}$  per cent to  $6\frac{1}{2}$  per cent per annum and the rate for securities with maturities of 20 years and longer from  $8\frac{1}{4}$  per cent to  $8\frac{1}{2}$  per cent per annum. The necessary adjustments will be effected to the rates for securities with maturities of between 3 and 20 years.

3. The prescribed maximum interest rates which banking institutions and building societies may pay on deposits accepted or renewed and on building society shares issued on or after 1 June 1974, are increased by  $1\frac{1}{2}$  per cent, except for the rates on subscription and tax-free shares of building societies, which are increased by 1 per cent. Moreover, from this date these maximum interest rates will not apply to deposits accepted by registered banking institutions from other registered banking institutions. The necessary Government Notice regarding these changes will appear in a Government Gazette shortly.

These adjustments are deemed to be in the interest not only of relative economic stability and a strong balance of payments but also of continued rapid economic growth. They have become necessary as a result of recent domestic and international economic developments, and are in accordance with the basic supply and demand conditions presently prevailing in both domestic and foreign financial markets.

Although interest rates in most industrial countries have either remained exceptionally high or risen further to new record levels during recent months, they have remained at relatively moderate levels in South Africa. After reaching a low point in the third quarter of 1973, South African interest rates did show a marked upward movement. Moreover, this firming tendency was given official recognition by the increase in Bank rate from  $5\frac{1}{2}$  to  $6\frac{1}{2}$  per cent on 14 January 1974. But by comparison with most other countries, South Africa still has low interest rates. Thus, for example, the prime lending rate of commercial banks in South Africa last week stood at 9 per cent, whereas the comparable rates in the United Kingdom and in the United States have recently been in the vicinity of 12 and 11,5 per cent, respectively.

The upward tendency in South African interest rates since the third quarter of 1973 was the natural conse-

quence of two main factors. The first was the strong demand for credit which accompanied the continued upward cyclical movement in the economy. The second was a net outflow of foreign capital during the second half of 1973 and again in April 1974, mainly in the form of "leads and lags" in foreign payments. This outflow was largely attributable to the abnormally wide discrepancy between South African and foreign interest rates and, at one stage, towards the end of 1973, also to unfounded speculation on a possible devaluation of the rand. Together with a moderate deficit on the current account of the balance of payments, this net outward movement of funds produced a decline in the Reserve Bank's gold and other foreign reserves from the peak of R1 268,0 million reached at the end of July 1973 to a low point of R764,8 million on Friday, 4 January 1974, followed by a moderate recovery to R858,9 million last Friday, 24 May.

The explanation why South African interest rates nevertheless did not rise to nearly the same extent as those in most other countries lies partly in the continued rapid increase in the quantity of money and near-money in the domestic economy. This, in turn, was partly related to the substantial increase in the price of gold after November 1973 and to the existence of exchange controls on outward capital movements. A major cause of the increased liquidity, however, was the exceptionally large increase in bank credit to the private sector, which amounted to no less than 36 per cent during 1973 and a further 25 per cent at a seasonally adjusted annual rate in the first quarter of 1974.

Unfortunately, this upsurge in domestic bank credit was also a major factor contributing to the net outflow of capital and to the resultant decline in the reserves. In the past, cyclical upswings in South African economic activity, including imports, have traditionally been financed to a significant extent by foreign credits. But on this occasion the relatively low level of interest rates in South Africa and, until recently, the availability of substantial additional credit from South African banks resulted in the substitution of domestic financing for foreign financing on a large scale, a process which showed up in the balance of payments as a net outflow of short-term capital.

Naturally, this combination of expanding bank credit and declining reserves during the second half of 1973 adversely affected the liquidity of the banks themselves. Indeed, towards the end of 1973 and during the first four months of 1974 the banks and the discount houses had to resort to Reserve Bank credit on a large scale. Although it charged them penalty rates for such accommodation and in January 1974 raised Bank rate and related interest rates, the Reserve Bank by creating credit in this way made it possible for the banks to continue expanding their credit to the

private sector. Some of the banks also continued extending credit on such a scale that they failed to comply with the minimum liquid asset requirements. In these circumstances, market interest rates naturally tended to rise further and strong upward pressure came to be exerted on most controlled deposit and other interest rates.

The position was further complicated by the fact that the banks experienced a decline in their medium and long-term deposits, against which their liquid asset requirements are 28 and 5 per cent, respectively, and an increase in short-term deposits, against which they have to hold liquid assets equal to 45 per cent. This resulted from their inability to compete effectively for medium and long-term deposits at the controlled deposit rates and from the resultant increase in the flow of funds through non-banking channels. Since these funds largely reappeared in the banking system as short-term deposits, they increased the banks' required liquid assets in the manner described above.

More recently the position has changed in some respects. After still rising considerably during January and February, bank credit to the private sector tended to level off during March and April. During the period March to May there was also a shift of funds from the public to the private sector. After increasing fairly steadily during the first quarter, the Reserve Bank's gold and foreign exchange reserves declined noticeably in April and subsequently showed marked fluctuations from week to week. The net effect of these various developments was an easing of the position of the banks, which enabled virtually all of them to comply fully again with the liquid asset requirements and to repay their outstanding borrowings from the Reserve Bank.

Apart from the balance of payments and banking developments referred to above, it appears that the cyclical upward movement in total investment and consumption expenditure has now progressed to a stage where the economy is once again approaching a state of demand inflation. Given the fact that the rate of increase of the consumer price index over the twelve months ended April 1974 amounted to 9.6 per cent, there is clearly a need to prevent undue demand inflationary pressures from being added to the other inflationary factors already at work in the economy.

In view of all these considerations, it would be irresponsible for the monetary authorities to permit a continued expansion of domestic bank credit at the exceptionally high rate of the past year and to attempt to maintain the present abnormal discrepancy between domestic and foreign interest rates. In the prevailing circumstances such an easy and artificially cheap money policy would encourage demand inflation as well as weaken the balance of payments. Equally important, it would before long undermine the present policy of encouraging growth, since some measure of economic stability and a sound overall balance of pay-

ments position are both essential if a high rate of real growth is to be sustained. It is important that an adequate supply of loanable funds be available to continue financing a high rate of growth, and the monetary authorities will take the necessary steps to this end. But if excessive reliance is placed on domestic bank credit as a source of such funds, the resultant adverse effects on the rate of inflation and the balance of payments might curtail the present upswing prematurely.

It has therefore been decided not to reduce the liquid asset requirements for banking institutions but to continue the present policy of slowing down the rate of expansion of domestic credit, and to accept as a logical consequence of this a further increase in interest rates. In view of the underlying strength of the rand, it is not considered necessary to remove the discrepancy between domestic and foreign interest rates completely, but merely to narrow it in the manner indicated.

It is expected that the banks will react to the increase of 1 per cent in Bank rate by raising their prime lending rates from the present 9 per cent to 10 per cent. At the same time the increase of  $1\frac{1}{2}$  per cent in the maximum deposit rates should enable them to compete more effectively with the so-called "grey market" for medium and long-term deposits and thus to obtain significant relief as far as their liquid asset requirements are concerned. Their liquidity position will, of course, also benefit to the extent that the announced steps have a favourable effect on the balance of payments. It is further expected that the government sector will not on balance withdraw funds from the private sector in the near future, whereas the financing of the large maize crop should entail a considerable expansion of Reserve Bank credit during the coming months. The banks should therefore in the normal course of events experience a further easing of their liquid asset position in the period ahead. In this respect, the balance of payments will be a key factor and the monetary authorities will, of course, keep the situation under constant review.

As far as the building societies are concerned, it is accepted as inevitable that their mortgage rates will have to be increased, but it is hoped that they will limit this increase as far as possible. In addition, the Government will shortly issue a statement regarding the expansion of the existing subsidy schemes in regard to interest rates on building society and farm mortgage loans and in respect of housing loans for public servants.

For the reasons given, it is expected that the announced adjustments to monetary policy will help to contain demand inflation, encourage a net inflow of foreign capital, support the reserves, and in all these ways contribute to the basic policy objective of maintaining rapid economic growth on a sound basis. By itself, of course, monetary policy cannot ensure that

these objectives will be attained. The importance of continued close co-ordination between monetary, fiscal and other economic policies therefore needs to be underlined.

## Notes to tables

Attention is again drawn to the fact that revisions of some of the figures appearing in the *Quarterly Bulletin* are effected once a year in the June issue. All the seasonally adjusted series have been revised, not only to take into account changing seasonal patterns but also as a result of revisions of the basic data. In contrast to the usual practice, particulars of private capital movements during 1973 have not been published in table S-60. These figures will only become available after the compilation and processing of the data collected in terms of the Second Census of Foreign Transactions, Liabilities and Assets.

# Verklaring insake rentekoersaanpassings

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

30 Mei 1974

Ná die gebruikelike oorlegpleging met die Tesourie het die Reserwebank besluit om met ingang 1 Junie 1974 die volgende rentekoersaanpassings aan te bring:

1. Die Bankkoers word vanaf  $6\frac{1}{2}$  tot  $7\frac{1}{2}$  persent per jaar verhoog.
2. Die stel rentekoerse vir die Reserwebank se transaksies in staatseffekte word soos volg aangepas: Die koers vir effekte met 'n looptyd van 3 jaar word vanaf  $5\frac{1}{2}$  persent tot  $6\frac{1}{2}$  persent per jaar en vir effekte met looptye van 20 jaar of langer vanaf  $8\frac{1}{4}$  persent tot  $8\frac{1}{2}$  persent per jaar verhoog. Die nodige aanpassings in die koerse van effekte met looptye van tussen 3 en 20 jaar sal aangebring word.
3. Die voorgeskrewe maksimum rentekoerse wat bankinstellings en bouverenigings mag betaal op deposito's geneem of hernieu en op bouvereniging aandele uitgereik op of ná 1 Junie 1974, word met  $1\frac{1}{2}$  persent verhoog, behalwe die koerse op subskripsie- en belastingvrye aandele van bouverenigings, wat met 1 persent verhoog word. Bowendien sal hierdie maksimum rentekoerse vanaf hierdie datum nie van toepassing wees op deposito's wat deur geregistreerde bankinstellings van ander geregistreerde bankinstellings geneem word nie. Die nodige Regeringskennisgewing met betrekking tot hierdie veranderings sal binnekort in 'n Staatskoerant verskyn.

Hierdie aanpassings word geag om in die belang te wees, nie slegs van betreklike ekonomiese stabiliteit en 'n sterk betalingsbalans nie, maar ook van voortgesette vinnige ekonomiese groei. Hulle het nodig geword as gevolg van onlangse binnelandse en internasionale ekonomiese ontwikkelings en is in ooreenstemming met die basiese vraag-en-aanbodtoestande wat tans in die binnelandse sowel as die buitelandse finansiële markte bestaan.

Alhoewel rentekoerse in die meeste nywerheidslande gedurende die afgelope paar maande of buitengewoon hoog gebly het of verder tot nuwe rekordpeile gestyg het, het hulle in Suid-Afrika op 'n betreklik matige vlak gebly. Nadat dit in die derde kwartaal van 1973 'n laagtepunt bereik het, het Suid-Afrikaanse rentekoerse sedertdien wel 'n duidelike opwaartse beweging getoon. Bowendien is aan hierdie neiging tot verstewiging amptelik erkenning gegee deur die verhoging van die Bankkoers vanaf  $5\frac{1}{2}$  tot  $6\frac{1}{2}$  persent op 14 Januarie 1974. Maar in vergelyking met die meeste ander lande het Suid-Afrika nog steeds lae rentekoerse. So het die prima-uiteenkoers van die handelsbanke in Suid-Afrika verlede week byvoorbeeld op 9 persent gestaan, terwyl die vergelykbare koerse in die Verenigde Koninkryk en die Verenigde State onlangs ongeveer 12 en 11,5 persent, onderskeidelik, bedra het.

Die opwaartse neiging van Suid-Afrikaanse rentekoerse sedert die derde kwartaal van 1973 was die natuurlike gevolg van twee hoof faktore. Die eerste was die sterk vraag na krediet wat met die voortgesette sikliese beweging in die ekonomie gepaard gegaan het. Die tweede was 'n netto uitvloeiing van buitelandse kapitaal gedurende die tweede helfte van 1973 en weer in April 1974, hoofsaaklik in die vorm van „vervroegings en vertragings” in buitelandse betalings. Hierdie uitvloeiing kon grotendeels toegeskryf word aan die abnormale groot verskil tussen Suid-Afrikaanse en buitelandse rentekoerse en, in een stadium, teen die einde van 1973, ook aan ongegronde spekulasie omtrent 'n moontlike devaluasie van die rand. Tesame met 'n matige tekort op die lopende rekening van die betalingsbalans, het hierdie netto uitvloeiing van fondse 'n daling in die goud- en ander buitelandse reserwes van die Reserwebank teweeggebring vanaf die hoogtepunt van R1 268,0 miljoen wat aan die einde van Julie 1973 bereik is tot 'n laagtepunt van R764,8 miljoen op Vrydag, 4 Januarie 1974, wat deur 'n matige herstel tot R858,9 miljoen verlede Vrydag, 24 Mei, gevolg is.

Die verklaring waarom Suid-Afrikaanse rentekoerse desondanks nie in nagenoeg dieselfde mate as dié in die meeste ander lande gestyg het nie, lê gedeeltelik in die voortgesette vinnige toename in die hoeveelheid geld en kwasi-geld in die binnelandse ekonomie. Dit het op sy beurt weer gedeeltelik verband gehou met die aansienlike styging in die prys van goud ná November 1973 en met die bestaan van valutabeheer oor uitwaartse kapitaalbewegings. 'n Belangrike oorsaak van die verhoogde likwiditeit was egter die buitengewoon groot toename in bankkrediet aan die private sektor, wat gedurende 1973 nie minder nie as 36 persent, en in die eerste kwartaal van 1974, teen 'n seisoensaangesuiwerde jaarkoers, 'n verdere 25 persent, beloop het.

Ongelukkig was hierdie sterk oplewing in die binnelandse bankkrediet ook 'n belangrike faktor wat tot die netto uitvloeiing van kapitaal en die gevolglike daling in die reserwes bygedra het. In die verlede is sikliese opswaie in Suid-Afrikaanse ekonomiese bedrywigheid, met insluiting van invoere, tradisioneel in 'n betekenisvolle mate deur buitelandse krediete gefinansier. Maar by hierdie geleentheid het die betreklik lae peil van rentekoerse in Suid-Afrika en, tot onlangs, die beskikbaarheid van aansienlike verdere krediet van Suid-Afrikaanse banke, gelei tot grootskaalse vervanging van buitelandse deur binnelandse finansiering, 'n proses wat in die betalingsbalans as 'n netto uitvloeiing van korttermynkapitaal na vore gekom het.

Hierdie kombinasie van uitbreiding van bankkrediet en dalende reserwes het gedurende die tweede helfte van 1973 vanselfsprekend die likwiditeit van die banke

self ongunstig beïnvloed. Teen die einde van 1973 en gedurende die eerste vier maande van 1974 moes die banke en die diskontohuise in werklikheid op groot skaal hul toevlug tot Reserwebankkrediet neem. Alhoewel die Reserwebank vir sodanige akkommodasie strafkoerse toegepas het en in Januarie 1974 die Bankkoers en verwante rentekoerse verhoog het, het hy, deur op hierdie wyse krediet te skep, die banke in staat gestel om met die uitbreiding van hul krediet aan die private sektor voort te gaan. Sekere van die banke het ook op so 'n skaal voortgegaan om krediet te verleen dat hulle nie meer aan die minimum likwiede batevereistes voldoen het nie. Onder hierdie omstandighede het markrentekoerse natuurlik geneig om verder te styg en het die meeste beheerde deposito- en ander rentekoerse onder sterk opwaartse druk te staan gekom.

Die posisie is verder bemoeilik deur die feit dat die banke 'n daling ondervind het in hul middel- en langtermyndeposito's, waarteen hul likwiede batevereistes onderskeidelik 28 en 5 persent is, en 'n toename in hul korttermyndeposito's, waarteen hulle likwiede bates moet aanhou tot 'n bedrag van 45 persent. Dit was die gevolg van hul onvermoë om teen die beheerde depositokoerse effektief om middel- en langtermyndeposito's mee te ding en van die gevolglike toename in die vloei van fondse deur nie-bank-kanale. Aangesien hierdie fondse grotendeels as korttermyndeposito's weer in die bankstelsel te voorskyn gekom het, het hulle die banke se vereiste likwiede bates laat toeneem op die wyse wat hierbo beskryf is.

Meer onlangs het die posisie in sekere opsigte verander. Nadat dit gedurende Januarie en Februarie nog aansienlik gestyg het, het bankkrediet aan die private sektor gedurende Maart en April geneig om meer gelyk te verloop. Gedurende die tydperk Maart tot Mei was daar ook 'n verskuiwing van fondse van die openbare na die private sektor. Nadat dit gedurende die eerste kwartaal betreklik bestendig gestyg het, het die goud- en buitelandse valuta-reserwes van die Reserwebank gedurende April merkbaar gedaal en vervolgens van week tot week opvallende skommings getoon. Die netto uitwerking van hierdie verskillende ontwikkelings was 'n verruiming van die posisie van die banke, wat hulle feitlik almal in staat gestel het om weer ten volle aan die likwiede batevereistes te voldoen en hul uitstaande Reserwebanklenings terug te betaal.

Afgesien van die ontwikkelings betreffende die betalingsbalans en die bankwese waarna hierbo verwys is, wil dit voorkom asof die sikliese opwaartse beweging in die totale investerings- en verbruiksbesteding nou gevorder het tot 'n stadium waarin die ekonomie weer eens 'n toestand van vraaginflasie nader. Gegewe die feit dat die koers van toename van die verbruikersprysindeks gedurende die twaalf maande wat in April 1974 geëindig het, 9,6 persent beloop het, bestaan daar duidelik 'n behoefte om te

voorkom dat oormatige vraag-inflasionistiese druk toegevoeg word aan die ander inflasionistiese faktore wat alreeds in die ekonomie werksaam is.

In die lig van al hierdie oorwegings sou dit onverantwoordelik van die monetêre owerhede wees om 'n voortgesette uitbreiding van binnelandse bankkrediet toe te laat teen die buitengewoon hoë koers van die afgelope jaar en om te probeer om die huidige abnormale verskil tussen binnelandse en buitelandse rentekoerse te handhaaf. Onder die heersende omstandighede sou so 'n beleid van maklike en kunsmatige goedkoop geld sowel vraaginflasie aanmoedig as die betalingsbalans verswak. Net so belangrik, sou dit die huidige beleid om groei aan te moedig eerlank ondermyn, aangesien 'n sekere mate van ekonomiese stabiliteit en 'n gesonde posisie van die betalingsbalans in sy geheel albei noodsaaklik is om 'n hoë reële groeikoers te handhaaf. Dit is belangrik dat 'n toereikende hoeveelheid uitleenbare fondse beskikbaar moet wees om voort te gaan om 'n hoë groeikoers te finansier, en die monetêre owerhede sal die stappe doen wat vir hierdie doel noodsaaklik is. Maar indien daar in 'n *buitensporige* mate op binnelandse bankkrediet as 'n bron van sulke fondse staatgemaak word, sou die gevolglike nadelige uitwerking daarvan op die inflasiekoers en die betalingsbalans die huidige oplewing te vroeg aan bande kon lê.

Daar is derhalwe besluit om nie die likwiede batevereistes vir bankinstellings te verlaag nie maar om met die huidige beleid van verlangsamings van die uitbreidingskoers van die binnelandse krediet voort te gaan, en om as 'n logiese uitvloeisel daarvan 'n verdere styging van rentekoerse te aanvaar. Gesien die onderliggende sterkte van die rand, word dit nie noodsaaklik geag om die verskil tussen binnelandse en buitelandse rentekoerse geheel en al te verwyder nie maar slegs om dit op die aangeduide wyse te vernou.

Daar word verwag dat die banke op die verhoging van 1 persent in die Bankkoers sal reageer deur hul prima-uitleenkoerse vanaf die huidige 9 persent tot 10 persent te verhoog. Terselfdertyd behoort die verhoging van 1½ persent in die maksimum deposito-koerse hulle in staat te stel om meer effektief met die sogenaamde „grysmark” om middel- en langtermyndeposito's mee te ding en daardeur betekenisvolle verligting te verkry wat hul likwiede batevereistes betref. Hul likwiditeitsposisie sal natuurlik ook bevoordeel word in die mate waartoe die aangekondigde maatreëls 'n gunstige uitwerking op die betalingsbalans het. Daar word verder verwag dat die regeringsektor in die nabye toekoms op 'n netto basis geen fondse aan die private sektor sal onttrek nie, terwyl die finansiering van die groot mielie-oes gedurende die eerskomende maande 'n aansienlike uitbreiding van Reserwebankkrediet behoort mee te bring. Die banke behoort derhalwe in die normale gang van sake gedurende die tydperk wat voorlê 'n verdere verruiming van hul likwiede bateposisie te ondervind.

In hierdie opsig sal die betalingsbalans 'n sleutelfaktor wees en die monetêre owerhede sal die situasie natuurlik voortdurend in die oog hou.

Wat die bouverenigings betref, word dit as onvermydelik aanvaar dat hul verbandkoerse verhoog sal moet word, maar daar word gehoop dat hulle hierdie verhoging soveel as moontlik sal beperk. Hierbenevens sal die Regering binnekort 'n verklaring uitreik aangaande die uitbreiding van die bestaande subsidieskemas met betrekking tot rentekoerse op bouverenigings- en plaasverbandlenings en ten opsigte van behuisingslenings vir staatsamptenare.

Om die genoemde redes word verwag dat die aangekondigde aanpassings van die monetêre beleid sal help om vraaginflasie in toom te hou, 'n netto invloeiing van buitelandse kapitaal aan te moedig, die reserves te ondersteun, en op al hierdie maniere by te dra tot die basiese beleidsdoelstelling om vinnige ekonomiese groei op 'n gesonde grondslag te handhaaf. Op sy eie kan monetêre beleid natuurlik nie verseker dat hierdie doelstellings bereik sal word nie. Die belangrikheid van voortgesette noue koördinasie tussen monetêre, fiskale en ander vorms van ekonomiese beleid moet derhalwe beklemtoon word.

## Opmerkings oor tabelle

Die aandag word weer eens gevestig op die feit dat sommige van die syfers wat in die *Kwartaalblad* verskyn, een keer per jaar in die Junie-uitgawe hersien word. Alle reekse waarvan die seisoensinvloed uitgeskakel is, is hersien, nie alleen om veranderde seisoenspatrone in ag te neem nie maar ook as gevolg van hersienings van die basiese gegewens. In teenstelling met die gebruik is besonderhede omtrent private kapitaalbewegings gedurende 1973 nie in tabel S-60 gepubliseer nie. Hierdie syfers sal eers beskikbaar wees ná die samestelling en verwerking van die gegewens wat versamel word met die Tweede Sensus van Buitelandse Transaksies, Laste en Bates.