

Statements regarding monetary policy

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

17 February 1976

Although there have been certain encouraging developments in the South African economy during recent months, there remains an urgent need to continue with policies designed to curb inflation and strengthen the balance of payments in the continuing condition of world depression. While the annual rate of increase of the seasonally adjusted consumer price index, which had already declined from a peak of 18,2 per cent in the third quarter of 1974 to 11,9 per cent during the third quarter of 1975, decreased further to 10,4 per cent during the fourth quarter, it remains unacceptably high. Similarly, although the seasonally adjusted deficit on the current account of the balance of payments has shown an encouraging improvement during the fourth quarter of 1975, a further reduction is desirable.

Moreover, while there was a marked reversal of the earlier downward movement in the Reserve Bank's net gold and other foreign reserves following the rand devaluation of 22 September 1975, the net purchases of foreign exchange from the Bank have since the last week of December again increased to levels which are above normal. This suggests the reappearance of unfavourable "leads and lags" in the balance of payments, which appears to have been brought about by new expectations of a possible devaluation of the rand, particularly as a result of the further decline in the price of gold in January 1976.

Against this background it is a matter of concern that, after rising at an annual rate of 11 per cent during the first half of 1975, the seasonally adjusted money and near-money supply increased at annual rates of 21 and 23 per cent during the third and fourth quarters of 1975, respectively, and that this excessive rise was mainly attributable to a further expansion of bank credit to the private sector at seasonally adjusted annual rates of 20 per cent during the third quarter and 18 per cent during the fourth quarter. The latter increase occurred despite the substantial raising of the banks' liquid asset requirements after September 1975, and was made possible by the movement of funds from the government to the private sector during the last three quarters of 1975. More recently, the government sector has, on balance, withdrawn funds from the private sector and thereby exerted a tightening effect on the banking sector, which should continue to be felt until late in March 1976. In April and May, however, it is expected that a substantial easing of the money market and banking situation will again occur due to an appreciable seasonal shift of government funds to the private sector.

There is clearly a link between the excessive increase in bank credit to the private sector and the recent abnormally high purchases of foreign exchange from the Reserve Bank. After the usual consultation with the Treasury, the Reserve Bank has therefore decided to

impose direct quantitative restrictions on bank credit to the private sector. This step is designed as a temporary measure to ensure an immediate reduction in the rate of increase of bank credit to the private sector and is being taken not only to strengthen the balance of payments but also to reduce the potential inflationary effects of excess liquidity in the economy.

Taking 31 December 1975 as base, the new restrictions will limit the increase in, firstly, the discounts, loans and advances to the private sector and, secondly, the private sector investments of each banking institution registered under the Banks Act (other than a discount house) to a maximum of $1\frac{1}{2}$ per cent up to the end of March 1976 and to $\frac{1}{2}$ per cent per month thereafter until further notice. The required notices to give effect to these restrictions will shortly appear in the Government Gazette.

The substantial movements of short-term capital funds in the balance of payments have raised the question whether the existing exchange control measures are effectively observed. The Reserve Bank is therefore engaged in a thorough investigation into alleged circumventions of existing exchange control regulations and is taking steps to ensure full compliance with these regulations. The authorities will not hesitate to deal severely with anyone found to be contravening the regulations in any way.

The new measures should be viewed in conjunction with the various concessions announced by the Minister of Finance in August 1975 in regard to exchange control over the inward movement of funds and forward exchange cover. These concessions were designed to stimulate the inflow of private capital, and they remain in force. Taken together, these various measures should help to redress the balance between domestic and foreign financing of our expanding production and trade.

3 March 1976

Following the decision of 17 February 1976 to impose direct restrictions on bank credit to the private sector – a step which had to be taken expeditiously in view of the abnormal pressure on the official gold and other foreign reserves at the time – the Reserve Bank held extensive discussions on the practical implementation of the new measures with the various Associations of banking institutions. In response to representations made during these discussions for an easing of the announced restrictions, the Bank informed the Associations on 23 February that the matter would be reconsidered after all banking institutions had submitted their Form MBI for January 1976.

These forms have now been received and show that, after rising at seasonally adjusted annual rates of 20 and 18 per cent during the third and fourth quarters of 1975, respectively, bank credit to the private sector increased at a seasonally adjusted annual rate of nearly

25 per cent during January. In the case of several individual banks the rate of increase was considerably higher. This general increase is clearly excessive and provides further confirmation of the link between bank credit and the abnormally high purchases of foreign exchange from the Reserve Bank during this period. It also underlines the urgent need for a more restrictive credit policy.

In view, however, of the exceptionally large expansion of bank credit during January, it is now evident that many banks would have to reduce their outstanding credit quite considerably before the end of March 1976 if they were to comply with the limit originally laid down for that date of $1\frac{1}{2}$ per cent above the December 1975 figure. Since such a substantial reduction might exert an unduly deflationary and disruptive effect on the domestic economy, it has been

decided, after the usual consultation with the Treasury, to permit banking institutions to increase their discounts, loans and advances to the private sector, as defined, between 31 December 1975 and 31 March 1976 by $3\frac{1}{2}$ per cent, instead of $1\frac{1}{2}$ per cent as formerly laid down. The limitation on the increase in these discounts, loans and advances of $\frac{1}{2}$ per cent per month during subsequent months, and the requirements in regard to the banks' private sector investments as set out in the announcement of 17 February, remain unchanged.

In spite of the above concession, there are still a number of banks which will have to reduce their outstanding credit to the private sector. In effecting this reduction, it is expected that they will take into account the basic requirements of the economy under present conditions and the need to avoid disruption.

Statement regarding gold swap agreements

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

17 March 1976

In order to strengthen the foreign exchange component of its total gold and other foreign reserves, the South African Reserve Bank, after consultation with the Treasury, entered into gold swap agreements with overseas parties during the week ended 12 March 1976. In terms of these agreements the Bank sold gold spot and repurchased it forward. In virtue of the nature of these operations, the gold sold will not be disposed of on the private market but will revert to the South African Reserve Bank on termination of the agreements.

The initial effect of these swap transactions is, on the one hand, to reduce the Reserve Bank's gold holdings and, on the other, to increase its foreign exchange reserves. However, since the Bank's gold holdings are still valued at the old statutory price of R29,55 per fine ounce, whereas the swaps occurred at market-related prices, the increase in the Bank's foreign exchange reserves naturally exceeds the decline in its gold holdings.

These swap transactions constitute the major reason for the decline of R147,5 million in the Reserve Bank's gold holdings, the increase of R480,9 million in its other foreign reserves, and the resultant increase of R333,4 million to a level of R1 199,8 million in its total gold and other foreign reserves during the week ended 12 March 1976.

While these swap transactions do not in themselves affect South Africa's underlying balance of payments position or reduce the need for corrective monetary and fiscal policies, they do serve the important purpose of increasing the cash content of the Reserve Bank's foreign reserves and thereby affording the Bank more flexibility in its gold marketing policy.

Verklarings insake monetêre beleid

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

17 Februarie 1976

Alhoewel daar gedurende onlangse maande sekere bemoedigende verwickelinge in die Suid-Afrikaanse ekonomie was, bly daar 'n dringende behoefte om voort te gaan met beleidsmaatreëls wat bedoel is om inflasie te beteuel en die betalingsbalans te verbeter in die voortgesette toestand van wêrelddepressie. Terwyl die jaarkoers van toename in die seisoensaangesuiwerde verbruikersprysindeks, wat alreeds van 'n hoogtepunt van 18,2 persent in die derde kwartaal van 1974 tot 11,9 persent gedurende die derde kwartaal van 1975 afgeneem het, verder tot 10,4 persent gedurende die vierde kwartaal gedaal het, bly dit onaanneemlik hoog. Eweneens, alhoewel die seisoensaangesuiwerde tekort op die lopende rekening van die betalingsbalans gedurende die vierde kwartaal van 1975 'n bemoedigende verbetering getoon het, is 'n verdere vermindering wenslik.

Bowendien, hoewel daar ná die randdevaluasie van 22 September 1975 'n opmerklike ommeswaai was in die vroeëre afwaartse beweging in die Reserwebank se netto goud- en ander buitelandse reserwes, het die netto aankope van buitelandse valuta by die Bank weer sedert die laaste week van Desember tot vlakke toegeneem wat bo-normaal is. Dit dui op 'n herverskyning van ongunstige „vervroegings en vertragingss” in die betalingsbalans, wat skynbaar deur nuwe verwagtings omtrent 'n moontlike devaluasie van die rand teweeggebring is, veral as gevolg van die verdere daling in die prys van goud in Januarie 1976.

Teen hierdie agtergrond is dit 'n saak van kommer dat, nadat dit teen 'n jaarkoers van 11 persent gedurende die eerste helfte van 1975 gestyg het, die seisoensaangesuiwerde hoeveelheid geld en kwasi-geld teen jaarkoerse van 21 en 23 persent gedurende die derde en vierde kwartale van 1975 onderskeidelik toegeneem het, en dat hierdie oormatige styging in hoofsaak toe te skryf was aan 'n verdere uitbreiding van bankkrediet aan die private sektor wat teen seisoensaangesuiwerde jaarkoerse van 20 persent gedurende die derde kwartaal en 18 persent gedurende die vierde kwartaal gestyg het. Laasgenoemde toename het plaasgevind ondanks die aansienlike verhoging ná September 1975 van die banke se likwiede batevereistes, en is moontlik gemaak deur die beweging van fondse vanaf die regering- na die private sektor gedurende die laaste drie kwartale van 1975. Meer onlangs het die regeringsektor per saldo fondse uit die private sektor onttrek en daardeur 'n vernouingseffek op die banksektor uitgeoefen, wat tot laat in Maart 1976 nog steeds gevoel behoort te word. Dit word egter verwag dat daar in April en Mei 'n aansienlike verruiming in die geldmark- en banktoestand sal plaasvind as gevolg van 'n aanmerklike seisoensverskuiwing van regeringsfondse na die private sektor.

Daar is duidelik 'n verband tussen die oormatige toename in bankkrediet aan die private sektor en die

onlangse abnormaal hoë aankope van buitelandse valuta by die Reserwebank. Ná die gebruikelike oorlegpleging met die Tesourie het die Reserwebank dus besluit om regstreekse kwantitatiewe beperkings op bankkrediet aan die private sektor in te stel. Hierdie stap word as 'n tydelike maatreël bedoel om 'n onmiddellike vermindering in die uitbreidingskoers van bankkrediet aan die private sektor te verseker, en dit word gedoen nie slegs om die betalingsbalans te verbeter nie maar ook om die potensiële inflasionistiese uitwerking van oormatige likwiditeit in die ekonomie te verminder.

Met 31 Desember 1975 as basis, sal die nuwe beperkings die toenames in, eerstens, die diskonteringe, lenings en voorskotte aan die private sektor en, tweedens, die private sektor-beleggings van elke bankinstelling wat onder die Bankwet geregistreer is (uitgesonderd diskontohuise) beperk tot 'n maksimum van $1\frac{1}{2}$ persent tot die einde van Maart 1976 en tot $\frac{1}{2}$ persent per maand daarna tot nadere kennisgewing. Die nodige kennisgewings om hierdie beperkings te magtig sal binnekort in die Staatskoerant verskyn.

Die aansienlike bewegings van korttermyn-kapitaal-fondse in die betalingsbalans het die vraag geopper of die bestaande deviesebeheermaatreëls effektief nagekom word. Die Reserwebank is dus besig met 'n grondige ondersoek na beweerde ontduikings van die bestaande deviesebeheerregulasies en doen stappe om die volledige nakoming van hierdie regulasies te verseker. Die owerhede sal nie huiwer om streng op te tree teenoor enigeen wat die regulasies op enige wyse oortree nie.

Die nuwe maatreëls moet gesien word in samehang met die onderskeie toegewings wat die Minister van Finansies in Augustus 1975 ten opsigte van deviesebeheer oor die invloed van fondse en valutatermyndekking aangekondig het. Hierdie toegewings was bedoel om die invloed van kapitaal aan te moedig, en hulle bly van krag. Gesamentlik behoort hierdie verskillende maatreëls te help om die ewewig tussen die binnelandse en buitelandse finansiering van ons uitbreidende produksie en handel te herstel.

3 Maart 1976

Ná die besluit van 17 Februarie 1976 om regstreekse beperkings op bankkrediet aan die private sektor in te stel – 'n stap wat vinnig gedoen moes word in die lig van die abnormale druk op die amptelike goud- en ander buitelandse reserwes op daardie tydstip – het die Reserwebank omvattende samesprekings oor die praktiese toepassing van die nuwe maatreëls met die verskillende assosiasies van bankinstellings gevoer. Na aanleiding van versoë vir die verligting van die aangekondigde beperkings wat tydens hierdie besprekings gerig is, het die Bank op 23 Februarie die assosiasies in kennis gestel dat die saak heroorweeg sal word nadat al die bankinstellings hulle MBI vorms vir Januarie 1976 ingedien het.

Hierdie vorms is nou ontvang en toon dat, nadat bankkrediet aan die private sektor teen seisoensaangesuiwerde jaarkoerse van onderskeidelik 20 en 18 persent gedurende die derde en vierde kwartale van 1975 toegeneem het, dit in Januarie teen 'n seisoensaangesuiwerde jaarkoers van byna 25 persent gestyg het. In die geval van verskeie individuele banke was die koers van toename aansienlik hoër. Hierdie algemene styging is ooglopend oormatig en verskaf verdere bevestiging van die skakel tussen bankkrediet en die abnormaal hoë aankope van buitelandse valuta by die Reserwebank gedurende hierdie tydperk. Dit onderstreep ook die dringende behoefte aan 'n meer beperkende kredietbeleid.

In die lig van die buitengewoon groot uitbreiding van bankkrediet gedurende Januarie, is dit egter nou duidelik dat baie banke hulle uitstaande krediet voor die einde van Maart 1976 aansienlik sal moet inkort indien hulle moet voldoen aan die beperking van 1½ persent bo die Desember 1975-syfer wat oorspronklik vir daardie datum neergelê is. Aangesien so 'n aansienlike

inkorting 'n uitermatige deflasionistiese en ontwrigtende uitwerking op die binnelandse ekonomie mag hê, is daar, ná die gebruikelike oorlegpleging met die Tesourie, besluit om bankinstellings toe te laat om hulle diskonterings, lenings en voorskotte aan die private sektor, soos gedefinieer, tussen 31 Desember 1975 en 31 Maart 1976 met 3½ persent, in plaas van die 1½ persent soos voorheen neergelê, te laat toeneem. Die beperking op die toename in hierdie diskonterings, lenings en voorskotte van 'n ½ persent per maand gedurende die daaropvolgende maande, asook die vereistes t.o.v. die banke se private sektor-beleggings, soos uiteengesit in die aankondiging van 17 Februarie, bly onveranderd.

Ondanks die bostaande toegewing, is daar nog 'n hele aantal banke wat hulle uitstaande krediet aan die private sektor sal moet verminder. By die teweegbring van hierdie inkorting word dit verwag dat hulle rekening sal hou met die basiese vereistes van die ekonomie onder die huidige omstandighede en die noodsaaklikheid om ontwrigting te vermy.

Verklaring insake goudruilooreenkomste

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

17 Maart 1976

Ten einde die buitelandse valutakomponent van sy totale goud- en ander buitelandse reserwes te versterk, het die Suid-Afrikaanse Reserwebank, ná oorlegpleging met die Tesourie, goudruilooreenkomste met buitelandse instansies gedurende die week geëindig 12 Maart 1976 aangegaan. Ingevolge hierdie ooreenkomste het die Bank goud verkoop en op 'n termynbasis teruggekoop. Uit hoofde van die aard van hierdie transaksies sal die goud wat verkoop is nie op die private mark van die hand gesit word nie, maar by die beëindiging van die ooreenkomste na die Suid-Afrikaanse Reserwebank terugkeer.

Die aanvanklike uitwerking van die ruiltransaksies is dat dit enersyds die Reserwebank se goudbesit verminder en andersyds sy buitelandse valutareserwes verhoog. Aangesien die Bank se goudbesit egter nog steeds teen die ou statutêre prys van R29,55 per fyn ons gewaardeer word, terwyl die ruiltransaksies teen markverwante pryse aangegaan is, oorskry die styging in die Bank se buitelandse valutareserwes vanselfsprekend die afname in sy goudbesit.

Hierdie ruiltransaksies is die hooforsaak van die daling van R147,5 miljoen in die Reserwebank se goudbesit, die styging van R480,9 miljoen in sy ander buitelandse reserwes en die gevolglike styging van

R333,4 miljoen tot 'n peil van R1 199,8 miljoen in sy totale goud- en ander buitelandse reserwes gedurende die week geëindig 12 Maart 1976.

Terwyl hierdie ruiltransaksies op sigself nie Suid-Afrika se onderliggende betalingsbalansposisie beïnvloed of die noodsaaklikheid vir korrektiewe monetêre en fiskale beleid verminder nie, dien dit wel die belangrike doel om die kontantinhoud van die Reserwebank se buitelandse reserwes te verhoog en die Bank sodoende meer buigbaarheid in sy goudbemarkingsbeleid te gee.