

# Reduction of interest rates

**Statement issued by Senator the Honourable O. P. F. Horwood, Minister of Finance**

15 September 1978

For nearly a year now the Government has attempted to stimulate the economy gradually and selectively to achieve our higher growth potential. Steps announced prior to the Budget in March of this year were reinforced by Budgetary concessions and subsequently followed by monetary policy adjustments and the abolition of sales duties. In June of this year the prescribed investment requirements of financial institutions were significantly reduced. Less than a month ago the Governor of the South African Reserve Bank announced a  $\frac{1}{2}$ % reduction in the Bank rate. This was followed by a similar reduction in the minimum overdraft rates of the clearing banks.

In view, however, of the need for further moderate stimulation of the economy and particularly as a contribution to the reduction in cost pressures, the authorities regard it as essential that the interest rate structure of the economy be reduced by a further margin.

With regard to Treasury issues it has been decided to discontinue the present series of tax-free 8% Treasury Bonds with effect from Monday, 18 September 1978, and to offer a new series of tax-free 7% Treasury Bonds. For practical reasons this series will be available from 16 October 1978. The aggregate investment in both the old 8% and the new 7% Treasury Bonds together may not exceed R40 000 per taxpayer.

In line with the general deposit rate reduction it will also be necessary to withdraw the present series of  $9\frac{1}{2}$  per cent National Defence Bonds with immediate effect and to replace them with a new series with similar conditions but with a reduced coupon rate of  $8\frac{1}{2}$  per cent. This series will be available for subscription from 1 November 1978.

As far as the Post Office is concerned, my colleague, the Minister of Posts and Telecommunications, has agreed to lower the deposit rate on Post Office Savings Bank Certificates from 8% to 7% as from 1 October 1978. For existing holders the decrease in the rate will apply as from 1 January 1979.

The present series of National Savings Certificates will be replaced by a new series on 1 November 1978 yielding 7 per cent in the first year,  $7\frac{1}{2}$  per cent in the second year and 8 per cent in the third year.

The Treasury will approach the market with its customary new stock issues on 2 October 1978. The nominal rates of interest offered will be 10 per cent on the 22 year issue and 8,15 per cent on the 3 year issue.

The banks and the building societies have agreed to reduce most of their deposit rates in concert with the lower rates announced here in respect of the Post

Office and the Treasury. Separate announcements are being made by the banks and the building societies as to their new rate structures.

In addition, the building societies intend to adjust their mortgage rates downward not later than 1 January 1979. An announcement to this effect will be made later this month.

It is trusted that this general reduction in the interest rate structure will contribute materially to further improving the investment climate, to increased economic activity and to a meaningful reduction in cost pressures.

**Statement issued by the President of the Clearing Bankers Association of Southern Africa, Mr. R. J. N. Abrahamsen**

15 September 1978

Following the Governor's announcement on 22 August 1978 reducing Bank rate by  $\frac{1}{2}$ % per annum and in view of the current easier liquidity conditions and the general fall in market interest rates, the commercial and general banks have agreed that the interest rates payable on deposits with them will be reduced overall by 1% per annum with effect from 18 September 1978, except in the case of special savings deposits in respect of which the reduction of 1% per annum will take place as from 25 September 1978.

The following rates will therefore apply:

Individual deposits accepted for a period of, or subject to notice of withdrawal of:	New effective maximum rate of interest per annum from dates indicated Per cent
(a) less than six months, including savings deposits and call loans	7
(b) six months and longer but less than 12 months	$7\frac{3}{4}$
(c) twelve months and longer, but less than 24 months	$8\frac{1}{2}$
(d) twenty-four months and longer	9

This reduction will affect only amounts up to R250 000.