Statement on relaxation of cash reserve and liquid asset requirements for banking institutions

Issued by the Governor of the South African Reserve Bank, Dr Gerhard de Kock

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Following a meeting held in Pretoria today between the Reserve Bank, the Registrar of Financial Institutions and senior representatives of the Clearing Bankers' Association, the Merchant Bankers' Association and the Association of General Banks and Finance Houses, and after consultation with the Treasury, it has been decided to reduce the financial requirements for banking institutions with immediate effect as follows:

In the case of the eight largest banks, the supplementary minimum reserve balances which they are required to hold with the Reserve Bank against their short and medium-term liabilities to the public will be reduced from 4 to nil per cent and from 3 to 2 per cent, respectively. At the same time, their required liquid asset holdings, which by definition include their balances with the Reserve Bank, will be reduced from 58 to 54 per cent in the case of short-term liabilities, and from 35 to 34 per cent in the case of medium-term liabilities. Based on the figures for the end of August 1982, this should reduce the required reserve balances with the Reserve Bank and also the total required liquid assets of these banks by about R328 million.

In the case of all other banking institutions, the supplementary minimum reserve balances which they have to hold with the Reserve Bank against their short and medium-term liabilities to the public will also be reduced from 4 to nil per cent and from 3 to 2 per cent, respectively. In addition, their required balances with the National Finance Corporation will be reduced from 3 to 2 per cent of their medium-term liabilities to the public. Their total liquid asset requirements, however, will remain unchanged. These changes should "free" about R94 million for investment in other liquid assets such as Treasury bills, short-term Government stock and liquid bankers' acceptances and trade bills.

The total reduction in minimum reserve balances with the Reserve Bank stemming from these changes in the requirements for both groups of banks should therefore amount to about R422 million.

The purpose of these reductions in the banks' financial requirements is *not* to relax the present restrictive monetary policy. It is to avoid a further tightening of monetary conditions and an accompanying further rise in short-term interest rates, which in the opinion of the Reserve Bank would not be justified in present circumstances.

In accordance with the conservative monetary policy stance adopted by the authorities some time ago, short-term financial markets and general monetary conditions have tightened considerably in recent months and interest rates have risen to realistic market-determined levels. Moreover, during the four months to July 1982, the broad money supply (M2) increased at a seasonally adjusted annual rate of only 2 per cent, which brought the annual rate for the first seven months of the year to 17 per cent. This has to be compared with increases of 27 per cent in 1980 and 25 per cent in 1981. One of the main reasons for this progress in bringing the money supply under control has been the success achieved by the authorities in issuing marketable Government stock at market-determined interest rates, both through the new tender system and through sales by the Reserve Bank of new Government stock obtained on tap from the Treasury.

In these circumstances, and given the large extent to which the discount houses at present have to resort to Reserve Bank accommodation for lengthy periods and at penalty rates, the degree of monetary restraint now achieved appears to be adequate. For the present, therefore, neither a relaxation nor a further tightening of monetary policy is called for.