

Statement on gold swaps

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

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There are encouraging signs that the deficit on the current account of the balance of payments is now declining. A fairly large current deficit will none the less still have to be financed during the months ahead. In part, this deficit is being covered by a normal inflow of capital to the public and private sectors. In addition, the Reserve Bank has encouraged banking institutions and the non-bank private sector to borrow more overseas by quoting relatively favourable rates on forward exchange transactions. However, in order to prevent the cash reserves and other liquid assets of the banks, and therefore their credit-creating ability, from being increased unduly, it is desirable that the Reserve Bank itself should continue to finance at least a part of the current deficit. After the usual consultation with the Treasury, the Bank has therefore entered into further gold swap agreements with foreign financial institutions during July 1982. In terms of these agreements it has sold gold to these institutions at market-related prices for cash and simultaneously repurchased it on a forward basis. As a result, the Bank's gold holdings have temporarily declined while its foreign exchange reserves have increased. The full effect on the reserves of these transactions is not, however, reflected in the Bank's Statement at the end of July, as a portion of the additional foreign exchange was used to make early repayments of drawings under existing foreign credit facilities — facilities which can be utilised again as and when required.