Statement on Bank rate and monetary policy

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

14 December 1981

After consultation with the Treasury, the Reserve Bank has decided to increase its Bank rate from 12½ to 13½ per cent with effect from 15 December 1981. This step follows upon the recent further tightening of short-term financial markets and the accompanying increase in several key short-term interest rates. Between 11 September and 11 December, for example, the Treasury bill tender rate increased from 11,28 per cent to 12,72 per cent, the rate on three-year Government stock from 12,75 to 13,25 per cent, and the rate on three-months bank acceptances from 13,50 to 14,35 per cent. In terms of existing arrangements, the Bank rate increase announced today will enable the clearing banks to increase their prime overdraft rates from 16 to 17 per cent if they wish to do so.

The further increase in Bank rate forms an integral part of current official stabilisation policy. This policy has already resulted in a marked decline in the rate of increase of the broad money supply, namely from a seasonally adjusted annual rate of increase of 53 per cent during the first four months of 1981 to one of only about 11 per cent during the subsequent six months, i.e. the six months up to the end of October 1981. Given the normal time lags involved, the stabilising effects of this improved control of the money supply should increasingly be felt in the course of 1982.

In the meantime, however, the world economic situation has deteriorated noticeably and the gold price, which in 1980 amounted on average to $614 per fine ounce, has declined to an average of about $423 per fine ounce thus far during the second half of 1981. The inevitable result has been a marked decline in the total value of South Africa's net gold output and merchandise exports. Although this decline is bound to reinforce the anticipated downward cyclical tendency in the economy in the months ahead, the domestic economy has thus far remained extremely buoyant. Indeed, both investment and consumption have continued to rise at excessive rates and have continued to exert upward pressure not only on prices and costs but also on imports. Understandably this state of affairs has contributed to a deficit on the current account of the balance of payments which is expected to amount to about R4 billion for 1981 as a whole.

In these circumstances the Reserve Bank deems it desirable to permit short-term financial markets to tighten further in response to natural market forces and to accept the accompanying rise in short-term interest rates. This is essential if monetary policy is to play its part in promoting not only balance of payments *adjustment* but also appropriate balance of payments *financing* while the adjustment process takes its course.

The further increase in Bank rate is intended as a signal of the determination of the monetary authorities to defend both the external and the internal value of the rand notwithstanding the decline in the price of gold and the serious overseas recessionary tendencies.

Statement on Bank rate and prime overdraft rates

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

16 February 1982

After consultation with the Treasury and the Clearing Bankers' Association, the Reserve Bank has decided to abolish the present direct link between its Bank rate and the prime overdraft rates of the clearing banks, with effect from 16 February 1982. In terms of the previously existing understanding between the Reserve Bank and the clearing banks, prime overdraft rates had to be maintained within a range of between 2½ and 3½ per cent above Bank rate. In future, each bank will be free to determine its own prime overdraft rate in response to market forces, subject only to the influence of broad official monetary policy and the maximum rates of interest laid down under the Limitation and Disclosure of Finance Charges Act (Ladofca).

The present Bank rate of 13½ per cent and all the Ladofca rates, including the maximum rate of 20 per cent on all overdrafts of more than R5 000, will remain unchanged. It is expected, however, that the clearing banks will find it necessary in present circumstances to raise their prime overdraft rate from its present level of 17 per cent to 18 per cent or higher. This is indicated by the recent further tightening of short-term financial markets and the accompanying rise in short-term interest rates. For example, between 15 December 1981, when the last prime rate increase was announced, and 12 February 1982, the Treasury bill rate increased from 12,72 to 15,11 per cent and the bank acceptance rate from 14,85 to 16,35 per cent.

In addition, the expected seasonal tightening of the money market towards the end of February shows every indication of being particularly severe this year. Although the Reserve Bank stands ready to provide the required financial accommodation to the discount houses and, if necessary, also directly to the banks, it intends to do so at penalty rates of interest, in order to reinforce its present restrictive monetary policy. In these circumstances, an increase in prime overdraft rates to a more market-related level would be both logical and in full conformity with current official policy.

The Reserve Bank and the clearing banks have also agreed that the rate charged by the banks for advances to the Land Bank will be increased from 13 to 14 per cent, with effect from the beginning of March. New arrangements for Land Bank financing will be negotiated with the banks before the end of June 1982.

In regard to the determination of bank overdraft and deposit rates under the new arrangements, agreement was reached between the Reserve Bank and the clearing banks that, as in the recent past, no constraints would be placed on any bank by the clearing banks' Register of Co-operation. Subject only to the Ladofca ceilings, each bank will be free to determine its own rates as it sees fit, in competition with other participants in the relevant financial markets.

The new prime rate arrangements constitute another step in the transition to more market-oriented methods of monetary policy. They also imply a further diminution of the role of Bank rate and its replacement by more modern central banking techniques of money market intervention. This development follows closely upon the decision taken by the Reserve Bank in December 1981 to permit the Treasury bill rate to rise above Bank rate — a step which presented no problems since Bank rate had in any event not been used for years for discounting Treasury bills or other money market paper. The most appropriate future role for Bank rate under South African conditions is at present being considered by the Commission of Inquiry into the Monetary System and Monetary Policy in South Africa, and further changes in this regard can be expected after the Commission's final report has been submitted.

Notes to tables

New table on national financial accounts for South Africa — Table S-54/55

National financial accounts for South Africa for calendar year 1980 are shown in table S-54/55. This table is a continuation of the national financial accounts for South Africa for the years 1970 to 1979 published in the *Supplement* to the *Quarterly Bulletin* of September 1981.
In future these accounts will be published on a regular basis and the accounts for a specific year will appear in the *Quarterly Bulletin* of December of the following year. As these accounts are subject to revision, revised estimates will also be published from time to time. National financial accounts on a quarterly basis are also planned and will be published in due course.