ments in these various prices and quantities. Indeed, that is the whole object of the exercise. I confidently expect, however, that after some initial uncertainty, these prices and quantities will settle down to their new relative positions, and that the net outcome will represent a fundamentally sounder underlying situation for the South African economy than that which would otherwise have prevailed.

We are taking this bold forward step from a position of underlying strength and in the confident expectation that it will yield important benefits to the South African economy in the years ahead.

Statement on prime rate reduction

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

3 March 1983

I welcome the reduction from 16 to 14 per cent in the prime overdraft rate announced by the commercial banks today. This step is in accordance with the Reserve Bank's present monetary policy and provides welcome evidence of the sound working of market forces in a competitive banking system. Prime rate is now more appropriately aligned with other short-term rates.

In recognition of the rapid improvement in both the current and capital accounts of the balance of payments, the further slowing-down in the domestic economy and the substantial decline in overseas interest rates, the monetary authorities have, as a matter of conscious policy, permitted domestic interest rates to decline substantially in response to market forces in recent months. To that extent, there has been an easing of monetary policy as a deliberate contra-cyclical measure.

However, in view of the urgent need to combat inflation and to continue strengthening South Africa's external financial position, monetary policy remains directed at preventing any excessive rise in the money supply or undue decline in interest rates. To this end, developments in the balance of payments and in the financial markets will continue to be closely monitored and every effort will be made to counteract any inflationary build-up of domestic liquidity.

Statement regarding foreign balances held by South African banking institutions

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

4 March 1983

In terms of the existing Exchange Control Regulations, the total balances South African authorised foreign exchange dealers are permitted to hold abroad are limited to about R300 million. It has now been decided to increase this limit to R600 million. Each banking institution involved will be informed by the Reserve Bank of the details regarding its own individual limit. This step represents a further relaxation of exchange control over residents and is also designed to promote the further development of South Africa's spot and forward foreign exchange markets along the lines recommended by the Commission of Inquiry into the Monetary System and Monetary Policy.

The Reserve Bank is also prepared to enter into new short-term currency swap transactions with South African banking institutions in terms of which it will sell US dollars to the banks against cash payment in rand, while at the same time concluding repurchase agreements with them in respect of these dollars for periods of one, two or three months. These repurchase transactions will be concluded at the spot sale price plus or minus an interest rate factor based on the prevailing rate differentials between the South African and United States money markets for the period in question. The balances held abroad by the banks under these special swap transactions will not be included in the limit of R600 million mentioned above.

From Monday, 7 March 1983, the Reserve Bank will indicate on the Reuters Monitor screen (page SARB) the rates at which it is prepared to enter into such swap arrangements. Banks wishing to engage in such swaps are invited to make telephonic offers directly to the Reserve Bank.

These steps form part of the Reserve Bank's policy of preventing new inflationary pressure from being created by an undue easing of the domestic money market and banking situation, following the rapid improvement in South Africa's balance of payments during recent months.