Joint policy statement

Issued by Dr. the Honourable D.J. de Villiers, Minister of Industries, Commerce and Tourism,
the Honourable B.J. du Plessis, Minister of Finance, and
Dr. Gerhard de Kock, Governor of the South African Reserve Bank

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The South African economy has for some time now been adversely affected by the combination of a strong United States dollar, a low gold price, a weak recovery in world commodity markets and a persistent drought. The position has been exacerbated by the unexpected and sustained further appreciation of the dollar during the past four weeks and the resultant sharp decline in the gold price from an average of about $380 per fine ounce during the first half of 1984 to levels around $340.

In these circumstances, South Africa inevitably faces a difficult period of further belt-tightening and adjustment in order to ensure that, as a nation, it lives within its means and that the economy as a whole suffers no permanent damage.

The problem is *not* that the economy has remained in a recession phase of the business cycle since an upper turning point was reached in August 1981. On the contrary, the economy reached a lower turning point round about March 1983 and subsequently moved into a distinct new cyclical upswing. This upturn has been characterised by a positive rate of real economic growth, rising government and private sector spending, and rising production, employment, profits, wages and salaries, imports, share prices and real estate values. These increases were supported by a larger than anticipated Budget "deficit before borrowing" and by excessive money creation through the banking system, accompanied during the first half of 1983 by a decline in interest rates.

This economic upswing was welcome up to a point. However, in view of the persistent drought, the falling gold price and the other adverse external developments, the domestic spending in due course reached levels that the country could not afford or sustain and contributed to increased inflationary pressure and a weakening of the balance of payments. This helped to bring about an effective depreciation of the rand against a weighted "basket" of currencies of about 26 per cent since September 1983.

The depreciation of the rand itself will contribute towards the required balance of payments adjustment. By maintaining the rand value of exports, the depreciation has also had favourable expansionary effects on the mining industry and certain sectors of agriculture, as well as on both the stock exchange and the real estate market. Many domestic manufacturers have also benefited from the additional protection provided by rising import prices. The problem with the depreciation of the rand is that, unless counteracted by appropriate monetary and fiscal policies, it is bound to lead in due course to a further acceleration of the rate of inflation.

In these circumstances, the authorities have deemed it essential to tighten the existing fiscal and market-related monetary policies, and to supplement them with tighter hire-purchase restrictions.

Fiscal policy

No further tax increases are envisaged at present. Instead, the Government for its part is determined to curtail public sector spending and has launched a new effort to this end.

Taking into account the increase in general sales tax from 1 July 1984, the effect of this exercise should be to prevent the "deficit before borrowing" in the Government's accounts from becoming excessive.

Upon the completion of current investigations and deliberations in this regard, a further announcement will be made.

Monetary policy

With effect from Friday, 3 August 1984, the Reserve Bank will raise its rediscount rates for discount houses for Treasury bills from 18,75 to 21,75 per cent, for Land Bank bills from 19,00 to 22,00 per cent, and for bankers' acceptances from 19,50 to 22,25 per cent. Broadly corresponding increases will be effected in the Bank's rates on its overnight lending to discount houses and other banking institutions.

For the Reserve Bank to close its "discount window" completely, i.e. to refuse to extend credit to the discount houses and banks, in order to starve the banks of cash reserves and thereby to control the monetary aggregates more effectively, would cause excessive and disruptive increases in interest rates. In present circumstances, however, the Bank deems it essential to discourage excessive use of its credit facilities by raising the *cost* of such assistance, as indicated.

It is assumed that these steps will probably be followed by an increase in the prime overdraft rate of commercial banks from 22 to between 24 and 25 per cent. As in the past, however, each bank will be free to determine its own rate.

To achieve an appropriate alignment of interest rates, the various LADOFCA-rates (maximum finance charges), which have not been fully adjusted to the increases in market-determined rates during the past year, will be raised by 5 per cent. The new set of maximum rates will accordingly be as follows:

		Rate (%)
A.	*Money loans*	
	R 0 – R 2 000	32
	over R 2 000 – R 5 000	30
	over R 5 000 – R100 000	28
B	*Credit and leasing transactions*	
	R 0 – R 10 000	32
	over R10 000 – R100 000	30

These rates come into effect on 3 August 1984 and the required notice in this regard will be published in the *Government Gazette* as soon as possible.

Hire-purchase restrictions

The Government in the present economic conditions is obliged to take further steps in order to encourage saving and to discourage excessive consumer expenditure, particularly on luxury goods. The Government has accordingly decided also to effect certain changes in respect of minimum deposits and maximum repayment periods, which are regulated by the Credit Agreements Act, 1980, as they apply to certain durable consumer goods that are covered by the provisions of this Act. Full particulars, which will be published in the *Government Gazette* tomorrow, will be announced by the Minister of Industries, Commerce and Tourism.

Conclusion

The measures announced today represent strong remedial action. They are aimed at slowing down the rate of increase of the money supply and total spending in order to prevent an undue depreciation of the rand and a further acceleration of the rate of inflation.

By their very nature these measures will take time to exert their full corrective influence. In the meantime, sacrifices will be required on the part of the public sector, the business community and consumers. In due course, however, the policies now in operation should assist the economy to make the adjustments necessitated by present economic realities. They should also serve to spread the burden of adjustment equitably over the different sectors of the economy and, in particular, to protect the interests of the man in the street by counteracting the erosion of the purchasing power of the rand.