Statement on monetary policy

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

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Following the Prime Minister's Anti-Inflation Conference in Pretoria on 28 November 1983, the Reserve Bank yesterday held discussions with senior representatives of the clearing banks on a number of monetary policy issues. Particular attention was paid to the implications for bank credit, money supply, interest rates and exchange rates of the persistent weakness of the gold price in recent months, the larger than anticipated deficit before borrowing in the Budget and the impending Sasol rights issue. The latter transaction is expected to result in the transfer of about R900 million from the private to the government sector.

Unless comprehensive offsetting action is taken by the Reserve Bank, these developments are likely to exert upward pressure on interest rates. As in the recent past, the Reserve Bank will continue to moderate the upward tendency of interest rates by such means as repurchase agreements, outright purchases of bankers' acceptances or other forms of central bank accommodation. The Bank is not, however, prepared to do so without limit at the rates of interest now prevailing. Such a course of action would be inflationary and in conflict with the present official monetary policy of curbing excessive money creation. In these circumstances, increases in short-term interest rates, including a modest further upward adjustment in the prime overdraft rate, might become necessary and, indeed, desirable if inflation is to be combatted effectively. As usual, the decision whether or not to change prime rate is being left to each individual bank.

In view, however, of the probability that lending rates will tend to decline during the course of 1984, the Reserve Bank deems it necessary to caution all banking institutions and building societies against committing themselves at this stage to the payment of unduly high fixed rates of interest on medium and long-term deposits, as this practice could make it difficult for them to cope with any sharp decline in lending rates in the period ahead.

Following the discussion with the clearing banks, it has also been decided to reduce, with immediate effect, the minimum liquid asset ratio which banking institutions are required to maintain against their *short-term* liabilities to the public from 40 to 30 per cent. This means that all *supplementary* liquid asset requirements have now been phased out and that banking institutions are required to maintain only the minimum *basic* liquid assets ratios of 30, 20 and 5 per cent of their short, medium and long-term liabilities to the public, respectively, as provided for in the Banks Act. The minimum cash reserve requirements remain unchanged.

The further reduction in the liquid asset requirements represents a continuation of the process of implementing the recommendations of the Commission of Inquiry into the Monetary System and Monetary Policy in South Africa. By itself, this step is neither likely nor intended to have an expansionary effect on bank credit or money supply. However, by reducing the effective cost of funds to the banks and by freeing around R800 million of liquid assets for use by the banks to meet pressure on their cash resources, it should assist both the banks and the monetary authorities in moderating any upward pressure on interest rates.

The precise effect this step will have on interest rates will, of course, depend in large measure on the Reserve Bank's discount policy and open-market operations, including its repurchase transactions. And these policies, in turn, will continue to be governed by the need to reduce the rate of increase of the money supply as an essential part of the present official anti-inflationary strategy.