Statement on the liquid asset requirements for banking institutions and building societies

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

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It has been decided to make the following further adjustments to the liquid asset requirements of banking institutions and building societies:

1(a) The requirement in respect of the short-term liabilities to the public of banking institutions is reduced from 25 to 22 per cent.

(b) The requirement in respect of the medium-term liabilities to the public of banking institutions is reduced from 18 to 16 per cent.

An amount of approximately R510 million in liquid assets will be released to banking institutions by these reductions.

2. The liquid asset requirement against building societies' liabilities in respect of transmission deposits is reduced from 25 to 22 per cent.

These changes are made with immediate effect.

The further reduction in the liquid asset requirements is not intended as a relaxation of monetary policy but 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. The precise effects of this step on interest rates and general monetary conditions will, of course, depend in large measure on the Reserve Bank's discount policy and open-market operations, including its repurchase transactions. These policies, in turn, will continue to be governed by the need to curb total monetary expansion and spending in accordance with the present official financial strategy.

Statements on monetary policy

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

3 May 1985

With effect from Monday, 6 May 1985, the Reserve Bank will reduce its rediscount rates for discount houses for Treasury bills from 21,75 to 20,75 per cent, for Land Bank bills from 22,00 to 21,00 per cent, and for bankers' acceptances from 22,25 to 21,25 per cent. Broadly corresponding decreases will be effected in the Reserve Bank's rediscount rates for banks and in its interest rates on overnight loans to discount houses and banks. The refinancing procedures announced by the Reserve Bank on 29 January 1985 remain in operation.

It is assumed that this reduction in the Reserve Bank's refinancing rates will be followed by a similar reduction in the prime overdraft rate of commercial banks from its present level of 25 per cent. As in the past, however, each bank is free to determine its own rate.

The Reserve Bank has taken this step for the following main reasons:

(1) The reduction in both the rate of increase of government spending and the "deficit before borrowing" announced in the Budget of March 1985 has greatly improved the "mix" of monetary and fiscal policy and paved the way for both short and long-term interest rates to decline.

(2) The restrictive monetary policy applied since August 1984 has succeeded in its initial aim of curbing total spending, i.e. the money supply multiplied by its velocity of circulation. Indeed, at a seasonally adjusted annual rate, real gross domestic expenditure actually *declined* by 5½ per cent and its main component – real private consumption spending – by 9 per cent during the second half of 1984. Preliminary indications are that these downward tendencies continued during the first quarter of 1985. It would appear, therefore, that excess aggregate demand has now been virtually eliminated. This does not, of course, mean that the rate of inflation will decline immediately. It is still anticipated that the rate of increase in the consumer price index will accelerate somewhat further before it begins to decline. Such a temporary acceleration would be a logical consequence of the depreciation of the rand between September 1983 and January 1985 and recent increases in administered prices. But as these delayed effects peter out, the reduced demand for goods and services should bring about a marked lowering of the inflation rate.

(3) The second main objective of monetary policy, namely the transformation of the deficit on the current account of the balance of payments into a surplus, has also been achieved. Preliminary indications are that, taken at a seasonally adjusted *annual* rate, the current account showed a surplus approaching R4 billion during the first quarter of 1985, compared with a deficit of R2,8 billion during the first quarter of 1984. This represents a favourable "turnaround" or "swing" of between R6 and R7 billion between the first quarter of 1984 and the first

quarter of 1985. It now seems probable that the earlier estimates of a current account surplus of between R1 billion and R2 billion for 1985 will be greatly exceeded. Two of the main reasons for this favourable turnaround have been the effective curbing of total spending and the depreciation of the rand, which have both served to encourage exports and discourage imports.

(4) To date, much of the large current account surplus attained since September 1984 has, in effect, been used by private companies and the banking sector to repay short-term foreign loans and credits. Statistically, this shows up as a net outflow of short-term capital and a decline in South Africa's short-term foreign liabilities. This helps to explain why interest rates have not yet declined further and why the rand has not yet appreciated more since January 1985. The substantial repayment of short-term debt nevertheless represents a marked strengthening of South Africa's external financial position.

(5) During April 1985 the Reserve Bank's *gross* gold and other foreign reserves increased by R399 million. Since the Bank used the opportunity to repay certain short-term credits, its *net* gold and other foreign reserves (i.e. net of short-term foreign liabilities) increased by the larger amount of about R675 million during the month.

(6) Both short and long-term interest rates have in recent weeks showed a clear downward tendency, culminating in the decline in today's Treasury bill tender rate to 20,47 per cent, compared with a peak of 21,80 per cent on 15 March 1985.

(7) In its open-market operations the Reserve Bank has already sold a net amount of R1 360 million of "tap" Government stock for the 1985/86 financial year, as well as special tax anticipation Treasury bills of R400 million.

Taken together, these various favourable developments fully justify a moderate relaxation of monetary policy at this stage. Indeed, in the absence of unforeseen external setbacks, they would appear to hold out the prospect of further downward adjustments in interest rates in the months ahead. In this regard, it will in future be the Reserve Bank's policy to make more frequent, and possibly smaller, adjustments (upwards or downwards) in its various rediscount rates in response to changing conditions.

The moderate relaxation of monetary policy announced today does not, of course, mean that South Africa's short-term economic problems have now been solved. On the contrary, a long road still lies ahead in the quest for internal and external economic stability. Any undue or premature relaxation of monetary policy could result in the dissipation of the hard-won gains of the past ten months. It is nevertheless gratifying to note the progress made in preparing the ground for the resumption of more rapid and sustainable economic growth in South Africa.

20 May 1985

With effect from Tuesday, 21 May 1985, the Reserve Bank will reduce its rediscount rates for discount houses for Treasury bills from 20,75 to 19,75 per cent, for Land Bank bills from 21,00 to 20,00 per cent, and for bankers' acceptances from 21,25 to 20,25 per cent. Broadly corresponding decreases will be effected in the Reserve Bank's rediscount rates for banks and in its interest rates on overnight loans to discount houses and banks.

This step, which was decided upon following a meeting held today between the Reserve Bank and the Clearing Bankers' Association, is in accordance with the approach outlined in the Reserve Bank's policy statement of 3 May 1985.

Despite substantial further sales by the Reserve Bank of Treasury bills and government stock on the open market, both short and long-term interest rates have continued to decline in recent weeks. The Treasury bill tender rate, for example, declined to 19,54 per cent on 17 May, compared with a peak of 21,80 per cent on 15 March 1985. In addition, the latest available statistical indicators confirm that the economy has cooled down further during the first quarter of 1985. Real gross domestic expenditure has continued to decline, excess demand appears to have been eliminated, the balance of payments on current account is showing a larger than anticipated surplus, and substantial amounts of short-term foreign loans and credits have been repaid. At the same time, the rates of increase of bank credit and the broad money supply have declined and the velocity of circulation of money has decreased further.

Against the background of the new emphasis placed on fiscal discipline in the March 1985 Budget, it is the Reserve Bank's judgement that the developments outlined above fully justify a moderate further relaxation of monetary policy in the form of another reduction in rediscount rates.

The need for restraint in monetary policy remains, but the favourable results achieved thus far call for a further course adjustment at this stage.