Statement regarding the Reserve Bank's conditions for accommodation to banks and discount houses and the Bank's operations in the foreign exchange market

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

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1. Accommodation to the money market

The Reserve Bank has reached agreement with the discount houses and banking institutions to change the method according to which the Bank grants accommodation to these institutions. In the past the Bank provided temporary accommodation to discount houses and banking institutions primarily by discounting money market assets, such as Treasury bills, Land Bank bills and liquid bankers' acceptances, or by granting to the discount houses overnight loans against the security of money market assets, including short-term government stock. It was therefore normally not necessary for individual banking institutions to approach the Reserve Bank directly for such accommodation.

Under the new arrangements, the Reserve Bank will in future limit its accommodation to discount houses to the discounting of assets *owned* by them, and overnight loans to these institutions will only be granted against the collateral of assets *owned* by them. Banking institutions wishing to make use of temporary Reserve Bank credit will therefore have to come directly to the Reserve Bank for such assistance.

At this stage the Reserve Bank will not change its basic discount rates for the discount houses or its interest rates for overnight loans. Banking institutions approaching the Reserve Bank directly for their normal financial requirements, will be able to rediscount money market paper with the Bank at approximately the same rates at which they currently obtain accommodation from the Reserve Bank through the intermediation of the discount houses. Overnight loans will be granted to all institutions at the same rates that currently apply to discount houses.

The new arrangements will in future enable the Reserve Bank to penalise institutions which, in its opinion, expand their credit excessively and then need abnormally large amounts of Reserve Bank credit, by applying higher rediscount and interest rates, without compelling the Bank to raise all its rediscount rates.

Until further notice the Reserve Bank's rediscount and interest rates for overnight loans will be as follows:

Discount rates:

		Discount houses	Banks
For:	Treasury bills	21,75%	21,85%
	Land Bank bills	22,00%	22,10%
	Liquid bankers' acceptances (with maturities of up to 91 days)	22,25%	22,35%

Interest rates for overnight loans:

	Discount houses and banks
Against security of	
Treasury bills and short-term government stock	23,25%
Land Bank bills and Land Bank debentures	23,50%
Liquid bankers' acceptances and long-term government stock	24,00%

2. The forward exchange market

Authorised exchange dealers (banking institutions) may currently purchase US dollars from or sell US dollars within set limits to the Reserve Bank for future delivery. These forward exchange transactions are effected by means of so-called "swap" transactions, and a banking institution wishing, for example, to purchase dollars in future, can conclude the deal by selling dollars spot to the Reserve Bank and entering into a contract with the Bank to repurchase the dollars from the Bank at a set future date at an agreed rate. Thus, a banking institution wishing to buy dollars forward from the Reserve Bank will have to buy dollars in the spot market first in order to conclude the exchange transaction with the Reserve Bank.

In order to reduce the pressure exerted on the spot exchange rate of the rand in the foreign exchange market, the Bank has decided to make available a facility to the banks, with effect from 30 January 1985, to buy US dollars for future delivery from the Reserve Bank without engaging in the usual "swap" transactions with the Bank. In other words, banking institutions will be able to enter into a direct forward exchange purchase contract with the Reserve Bank without simultaneously having to sell any spot dollars to the Bank and without having to purchase dollars in the spot foreign exchange market. Such deals, which can only be concluded for the purhcase of US dollars from the Reserve Bank, can be done for minimum amounts of US $10 million per deal and must have a minimum maturity of one month at a time. The normal facility for "swap" or exchange transactions will still be available to banking institutions.

3. Payments to gold mines

In September 1983 the Reserve Bank made an arrangement with the gold mines in South Africa to pay them in US dollars for the gold sold by them to the Reserve Bank. Until now this arrangement has worked well and, in the Bank's opinion, has made an important contribution to the development of the foreign exchange market in South Africa.

In the light of the abnormal conditions presently prevailing in the world's foreign exchange markets, it has now been decided as an interim arrangement to pay the gold mines in US dollars for only fifty per cent of their production and the balance in rand. As before, gold mines will receive the full market price for their production, based on the price fixings in the London gold market and calculated in US dollars. Half of the computed value of the gold production delivered to the Reserve Bank, however, will be converted into rand at the current market exchange rate and will be paid out in rand to the mines in South Africa, while the other half will still be paid abroad into the US dollar accounts of the mining houses. The mines must, of course, sell these dollars to authorised exchange dealers in South Africa within seven days of receipt. The Reserve Bank will sell the dollar proceeds of the other half of the gold production either in the spot or in the forward foreign exchange market in South Africa.

This temporary change of the existing procedure will not, of course, by itself increase the total supply of dollars in the South African foreign exchange market, but will enable the Reserve Bank to exercise greater influence on the exchange market on a continuous basis and especially to smooth out short-term fluctuations in the exchange rate of the rand more effectively.

The above steps should strengthen the Reserve Bank's influence over its accommodation to the banking system and over the exchange rate of the rand. Of overriding importance, however, remains the need to curb total spending and money creation by means of a restrictive monetary and fiscal policy. The success which monetary policy has already achieved by slowing down total spending and transforming the deficit on the current account of the balance of payments into a surplus in the fourth quarter of 1984, is most encouraging and has already begun to exert a positive influence on the exchange rate. But this policy will be continued until the further objective of reducing inflation as a prelude to more rapid real growth has also been attained.