notably an improved situation on both the current and the capital account of the balance of payments as reflected in the stronger exchange rate of the rand, fiscal moderation and the cumulative effects of two years of relatively restrictive monetary policy – which will almost certainly act to bring inflation down during 1990.

The pursuit of targets of 11 to 15 per cent for the increase in M3 in 1990 has important implications for the extension of credit to the private sector by all monetary institutions. Taking account of expected changes in the country's net gold and other foreign reserves and in government finances, it restricts the tolerable rate of growth in the overall amount of bank credit to be extended to the private sector on average to only about 1 per cent per month. The Reserve Bank therefore repeats the request it made to each banking institution in March 1989, namely to ensure that the monthly increase in each bank's credit extended to the private sector shall on average not exceed this 1 per cent limit. Not many banks complied with this request during the past year and discussions will be held with representatives of the banks shortly to explore ways and means for making this request more effective.

The Reserve Bank will continue to apply these guidelines with flexibility and a "low profile". In deciding on the monetary policy stance, the Reserve Bank will pay attention not only to the behaviour of M3, but also to developments in other variables. In particular changes in other monetary and credit aggregates, the exchange rate, the nominal and real gross domestic expenditure and product, prices and other general economic indicators will be monitored closely.

The lower guidelines for M3 growth in 1990 form part of a broader, co-ordinated medium-term economic strategy involving conventional monetary and fiscal measures as well as industrial and other structural policies. One of the major objectives of this medium-term strategy is to reduce the rate of inflation in order to improve the growth potential of the country. This implies, among other things, that positive real interest rates must be maintained. However, this obviously does not mean that nominal interest rates will not change; they may well move in accordance with changes in the rate of inflation. To ensure continuous downward pressure on the inflation rate, a further reduction of the guidelines for M3 growth may be called for in 1991.

Notes to tables

Monetary analysis – Table S-28

The format in which the monetary analysis is presented is revised as from this issue of the *Quarterly Bulletin*. Owing to recent amalgamations and takeovers involving banks and building societies, as well as the fading of demarcation lines between the business of the various classes of monetary institutions, the distinction between banking institutions and other monetary institutions in the calculation of the statistical counterparts to M3 is no longer meaningful. The analysis which will henceforth be published therefore comprises the consolidated assets and liabilities of all monetary institutions (banking institutions, building societies and the Post Office Savings Bank) without further subdivision. The table was also expanded to show the balances underlying the analysis, before and after seasonal adjustment, on a monthly basis.

Effective exchange rate – Table S-81

Revised information on the nominal effective exchange rate of the rand is published in Table S-81 of this issue of the *Quarterly Bulletin*. The new time series is based on changes in the exchange rates of the currencies of only *six* of South Africa's most important trading partner countries, instead of the twenty-four currencies used previously. This change was made to avoid distortions caused by substantial deviations from the base figures in certain minor currencies which have occurred from time to time. The base used in the calculations has also been changed from 24 January 1979 to the average for the calendar year 1979.

In addition, a new column has been added to this table providing information on the *real* effective exchange rate of the rand, i.e. the nominal effective rate adjusted for inflation differentials as based on the South African production price index and similar indices for the other countries included in the calculation of the index.