Statement on interest rates

Issued by Dr C.L. Stals, Governor of the South African Reserve Bank

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.Since the Reserve Bank's interest rate for the rediscounting of Treasury bills was reduced from 16 to 15 per cent on 30 June 1992, further progress was made towards establishing greater financial stability in South Africa. In particular:

- the growth rate in the M3 money supply, measured over twelve months, remained below the level of 10 per cent in July, August and September 1992;

- the growth rate in bank credit extended to the private sector by monetary institutions fluctuated on a relatively stable basis around the level of 10 per cent;

- the total production price index rose persistently at a rate of less than 10 per cent, measured over twelve months periods; and

- the rate of increase in the consumer price index gradually moved downwards, from 15,1 per cent in June 1992 to 13,5 per cent in September 1992.

These favourable developments in the financial aggregates were anticipated by the reduction in Bank rate in June, and contributed to a further decline in money market interest rates, for example:

- the average tender rate for Treasury bills with a maturity of 91 days which declined from 13,38 per cent on 3 July to 12,16 per cent on 13 November 1992; and

- the interbank call money rate of the clearing banks which declined from 14,5 per cent on 3 July to 12,5 per cent on 13 November 1992.

Furthermore, the latest national accounts statistics recently released by the Central Statistical Service, confirmed that real economic activities weakened further in the third quarter of 1992. Indications are that both gross domestic production and gross domestic expenditure declined further in the third quarter.

Circumstances are therefore at present rather conducive to a further decline in the rate of inflation, although there are a few adverse factors which cannot be ignored in deciding on monetary policy at this juncture, for example:

- a deterioration in the balance of payments with a substantial decline in the surplus on the current account recently, partly because of the adverse effects of the serious drought, but also because of weak international economic conditions. The net capital outflow also increased again after the first quarter of 1992;
- a growing deficit in Central Government finances, mainly because of government revenue being lower than what was expected for the current fiscal year; and

- the fact that the latest available information indicates a continued rise in average salaries and wages in the first half of 1992 at a rate in excess of the rate of inflation, despite the increases in unemployment.

South Africa will have to tackle these economic problems in deadly earnest, before the country can embark again on a path of sustainable and durable economic growth at a higher rate, with financial stability. We now have a wonderful opportunity to bring inflation under control — an opportunity that we must not let slip.

Against the background of the more stable financial situation in general and in the expectation that the rate of inflation will decline further in the near future, the Reserve Bank decided to reduce its Bank rate as from tomorrow, 18 November 1992, from 15 to 14 per cent. This represents the fourth reduction of one per cent in the Bank rate since March 1991 and should lend support to similar reductions in certain market interest rates, and in particular to the prime and other lending rates of deposittaking institutions.

Deposit-taking institutions are at the same time requested to exercise caution in the further reduction of their deposit rates, and to maintain a sound and competitive margin between their deposit and lending rates. The Reserve Bank recently received many complaints from savers, and particularly elderly people who are dependent on interest income for their living. They find it increasingly difficult to come by on the present relatively low deposit rates that are in some cases even lower than the current rate of inflation.