Statement on monetary policy

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

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During the first five months of 1992 the Reserve Bank's gold and foreign exchange reserves increased by about R2,5 billion. The net purchases of gold and foreign exchange by the Bank raised overall liquidity in the money market. Although the expansionary effect of these transactions on the money market was partly neutralised by sales of Treasury bills and Government stock for normal funding purposes of the Treasury, the overall market situation eased considerably, also because of a further decline in the demand for funds from the private sector.

Against this background, banks are at this stage in the position where they make only limited use of Reserve Bank accommodation. Some banks are indeed at times seeking additional investment outlets for very short-term surplus cash. The monetary authorities acquiesced in these developments and the Reserve Bank intervened in the market, mostly on a relatively short-term basis and mainly to smooth out undue fluctuations within the normal monthly pattern of liquidity movements.

As could have been expected, short-term interest rates moved downwards in these conditions. The rate for 91-day Treasury bills, for example, declined from 16,13 per cent at the end of December 1991 to 13,99 per cent on 5 June 1992. The rate on 91-day liquid bankers' acceptances similarly declined from 16,4 per cent at the end of December 1991 to 14,5 per cent on 4 June 1992. The Reserve Bank endorsed this movement by reducing the Bank rate from 17 to 16 per cent on 23 March 1992.

Projections indicate that there could be a further substantial addition of liquidity to the money market from now until the end of August this year. After that, when government revenue should hopefully catch up again with expenditure, the situation may be reversed. There is a danger that these temporary movements may provoke a decline of short-term interest rates to levels that will not be sustainable, for example to below the current rate of inflation. In order to accommodate these short-term fluctuations in money market conditions, which can lead to volatile fluctuations in money market interest rates, the Reserve Bank has decided, in consultation with the Minister of Finance, to provide various additional facilities to banking institutions for the investment of surplus short-term funds.

Firstly, the Bank will offer special Reserve Bank bills with a maturity of nine months to the market on tender. The bills will be issued to bearer and will therefore be fully tradeable. Offers will be made from time to time through public tenders on the same basis as Treasury bills are now being issued. The bills will only be rediscountable with the Reserve Bank if they have a remaining outstanding maturity of 91 days or less. Before such time, they will, however, qualify as liquid assets and will be accepted as collateral for overnight loans extended by the Reserve Bank.

Secondly, all authorised dealers in foreign exchange together are at present allowed to hold up to US $316 million in the form of working balances with correspondent banks abroad. The existing limits were fixed in 1983 and, taking account of the increasing volume of foreign trade and the rising demand for forward foreign exchange cover, an increase in the limits at this juncture can be justified. The Reserve Bank has therefore agreed with the banks earlier this week to double these limits with immediate effect to a total of $632 million.

In addition, as a *third* measure, the Reserve Bank has also decided to invoke the powers conferred upon it in terms of Section 71 of the Deposit-taking Institutions Act of 1990. In terms of the Act, the Governor of the Reserve Bank can at his discretion require of all registered deposit-taking institutions to maintain additional cash reserve balances with the Reserve Bank. At present, all deposit-taking institutions must hold a minimum cash reserve equal to 4 per cent of their short-term liabilities to the public. The required minimum cash reserve includes vault cash held by each institution.

As from the date of certification of the monthly statements DI 310 for the month of June 1992, that is, not later than 21 July 1992, each registered deposit-taking institution will be required to maintain in a special deposit account with the Reserve Bank an additional cash reserve equal to 1 per cent of its total short-term liabilities as determined in terms of Section 71 of the Act. In total, deposit-taking institutions will therefore until further notice have to hold as a compulsory minimum cash reserve an amount equal to 5 per cent of their total short-term liabilities to the public as determined from month to month. Interest at a rate of ½ per cent below the rate on the latest weekly tender issue of 91-day Treasury bills will be paid on the daily balances in the special deposit account, up to the limit of one per cent of each bank's latest applicable figure for outstanding short-term liabilities.

Banking institutions were also informed earlier this week that the Reserve Bank has arranged with the Minister of Finance that normal sales of government stock and Treasury bills in the current fiscal

year will not be limited to the figure of R18 billion provided for in the Budget for 1992/93 as presented to Parliament on 18 March 1992. Additional sales over and above this figure will be made as may be deemed necessary in the light of Treasury needs and general market liquidity conditions.

The Reserve Bank is of the opinion that these additional measures for the management of money market liquidity should enable the authorities to maintain orderly market conditions and also to continue to pursue the stated macro-economic policy objectives of the monetary authorities.