Statement on the Bank rate

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

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For some time now, the Reserve Bank has been looking for an opportunity to reduce the Bank rate, that is the rate at which the Bank is prepared to make accommodation available to banks.

The following recent developments support a decline in interest rates in general:

- the further slow-down in the rates of increase in both the producer price index (to 5,9 per cent over the twelve months up to August 1993) and in the consumer price index (to 9,1 per cent over the twelve months up to September 1992);

- the relatively low rate of increase of only 4,3 per cent in the M3 money supply over the twelve months up to August 1993. During the first eight months of 1993, M3 increased at a seasonally adjusted annual rate of only 3,03 per cent, compared with the average level of the money supply in the fourth quarter of 1992;

- the low demand for credit, as reflected in an increase of only 8,7 per cent in the total amount of bank credit extended to the private sector over the twelve months up to August 1993;

- a decline from R3,1 billion of the average daily amount of accommodation made available to banks at the Reserve Bank's discount window during September 1993, to R2,3 billion during the first twenty six days of October 1993;

- some easing of the pressure on the Reserve Bank's net gold and foreign exchange reserves, which even increased during some weeks recently. In the past few days, as the United States dollar appreciated rather strongly against other currencies and month-end payments to foreign countries increased, gains in the reserves have again been converted into losses. The low level of the foreign reserves continues to call for caution; and

- the reduction in interest rates in a number of countries in Europe recently, which makes real rates of interest in South Africa rather high compared with similar rates in the industrial countries.

These trends in the markets have already been reflected in some declines in certain interest rates, for example in the rate for interbank funds which declined from 11,60 per cent on 1 September 1993 to 10,50 per cent yesterday. A decline of 0,6 percentage points in the yield on long-term government stock from 13,81 per cent on 4 September 1993 to 13,22 per cent on 26 October 1993 lends further support to the notion that a lower rate of inflation on a more permanent basis is now being accepted by the markets.

Although the Reserve Bank remains concerned about the low level of the foreign reserves, it has nevertheless decided to reduce the Bank rate as from tomorrow, 28 October 1993, from 13 per cent to 12 per cent per annum. This step is taken in the hope that South Africa's relations with the International Monetary Fund will be fully normalised in the near future, and that the Reserve Bank will again have access to those IMF balance of payments facilities which the country may be entitled to from time to time.

No other interest rates in the market-place are automatically linked to the Bank rate, but the lower cost of central bank accommodation for banks should pave the way for a reduction in most of their lending rates. Each bank will, however, be free to take its own decision in this regard.