

Statement on interest rates

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

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Since the middle of May 1996, the pressure on the Reserve Bank's foreign exchange reserves has subsided and the exchange rate of the rand has become more stable, fluctuating around the level of US \$1.00 = R4.35. Money market conditions also eased slightly and most market interest rates have started to decline recently, including the lending rates of some banks.

Although the latest available information on growth rates of monetary and credit aggregates does not warrant a reduction in the Bank rate from its present level of 16 per cent, the Bank is, however, prepared to lend some marginal support to the downward trend in short-term money market interest rates by reducing the rate at which the Bank provides "second-tier" loans to banking institutions at the discount window. The Bank rate of 16 per cent currently applies to overnight loans secured by government bonds and Treasury, Reserve Bank and Land Bank bills with an outstanding maturity of 91 days and less. Against collateral of the same securities with maturities of longer than 91 days but shorter than 3 years, overnight loans are available in the second-tier at Bank rate plus 1,50 per cent.

In view of the magnitude of the money market shortages, and the fact that only a limited amount of acceptable short-term collateral for discount window facilities is available in the market at this stage, the Reserve Bank has decided to reduce the margin for second-tier loans made available at the discount window from 1,50 to 0,75 per cent as from tomorrow, 26 June 1996. Accommodation from the Reserve Bank's discount window will therefore be available at a slightly reduced average rate should the money market shortage remain high or rise again.