Opening statement at the Monetary Policy Committee

13 October 1999

Issued by Mr T T Mboweni, Governor of the South African Reserve Bank, at the inaugural meeting of the Monetary Policy Committee (MPC) in Pretoria

I would like to welcome the Deputy Governors and senior members of the staff of the South African Reserve Bank, who are gathered here today at this first meeting of the Monetary Policy Committee. The significance of this first meeting is who will be with us for this first session, now that we have created a formal decision-making process for monetary policy in South Africa, as was announced in my address to the shareholders of the Bank on 24 August 1999.

I would also like to welcome representatives of the news media. We have decided to open the start of this meeting to the media, so that the members of the committee can be introduced to the public, and further that the public can gain a better understanding of the monetary policy decision making process. Monetary policy decisions affect the lives of each and every citizen of South Africa, and we are certain that it is correct that people should have a good insight into how we arrive at these decisions.

Let me start off by introducing the members of the committee, other than myself. Some of them will be familiar to you; others may be complete strangers. The members of the committee are: Senior Deputy Governor James Cross, who is on official duty in Europe, Deputy Governor Timothy Thahane, Deputy Governor Gill Marcus, Chief Economist and Head of Research Dr Ernie van der Merwe, Head of Bank Supervision Mr Christo Wiese, Head of International Banking Mr Bertus van Zyl, Head of Money and Capital Markets Dr Roelf du Plooy, Dr X P Guma (international economic research), Dr Daleen Smal (econometric modelling), Dr Monde Mnyande (national economy), Dr Johan van den Heever (financial analysis and public finance), Mr Bernie de Jager (economic reviews and statistics), Head of Organisation Development and Transformation Thelma Ngcobo, Brian Kahn (monetary policy research), and we also have in attendance, the Secretary of the Bank, Mr Jannie Rossouw.

I would have loved to tell you more about each and every one of them, but unfortunately we do not have the time. The curricula vitae of the unfamiliar committee members will be made available to you at the end of this session.

There has understandably been some attention in the markets and in the financial media on this first meeting. People expect us to provide them with some idea of what factors are taken into account when monetary policy decision makers decide on monetary policy. At the end of today, after our deliberations, we will release a statement which will put across the monetary policy stance which has been decided upon by this MPC.

The last time we communicated formally with the markets about the monetary policy stance was on 7 September 1999. At the time, the Reserve Bank decided to give a signal to the market for a quicker reduction in the repo rate for the following reasons: the inflation outlook for next year was favourable; the growth in the money supply and credit extension had moved within the guideline range of 6 – 10 per cent, the overall balance of payments situation had been healthy and the net gold and other foreign reserves had risen strongly, and the rate of growth in nominal unit labour costs had slowed down.

The market responded to the signal as expected, and banks announced a 100 basis point reduction in their prime overdraft rates to 15,5 per cent on 23 September 1999.

Since sending the signal, the Reserve Bank has endorsed the trend in the repo rate by meeting the full daily liquidity requirement in the money market. In other words, the

Bank has maintained a neutral monetary policy stance. In our deliberations today, we have to decide whether it is appropriate to continue with a neutral stance, or whether circumstances have changed sufficiently to require a change in the stance.

Since the banks announced a cut in their prime overdraft rates last month, the repo rate has dropped by 43 basis points to 12,32 per cent yesterday, bringing the gap between the prime overdraft rate and the repo rate to 318 basis points. The trend in the repo rate forms one of the factors for our discussions today, as do other developments in the financial markets, the real economy and on the international front.

Since 7 September, when we last communicated formally with the market, bond yields have remained high, although the yield on the R150 bond has declined from 14,68 per cent to 14,34 per cent yesterday afternoon. Over the same period, the rand exchange rate weakened slightly from R6,0460 to the US dollar to R6,07 yesterday afternoon.

The gold price has risen sharply, from a London afternoon fix of US$255,60 per fine ounce on 7 September to a morning fix of US$323,50 yesterday. The rise reflects the agreement by 15 European central banks that gold will remain an important element of global monetary reserves. These central banks, which included the Bank of England, have decided to cap annual gold sales at 400 tons per year over the next five years.

Share prices on the Johannesburg Stock Exchange have firmed, with the all-share index rising from 6 898 to yesterday's close of 7 390.

On the international front, interest rates in the major industrialised economies are trending higher. The Bank of England tightened policy last month, following in the footsteps of the US Federal Reserve. The European Central Bank may also be moving towards tightening policy to pre-empt a pick-up in inflation. In addition, concerns about Y2K computer problems in the run-up to the new millennium could affect liquidity in the financial markets.

In the real economy in South Africa, signs of a recovery have emerged, and economic growth has picked up to 1,7 per cent in the second quarter of this year. The economic recovery has been accompanied by a slowdown in headline consumer inflation, which has fallen from an annual rate of 9,4 per cent in November last year to 3,2 per cent in August this year. Core inflation, which excludes mortgage bond rates, increased from 6,9 per cent in March 1998 to 8,2 per cent in July this year before falling back to 7,9 per cent in August 1999.

Money supply and private-sector credit growth are below the Reserve Bank's guideline for growth of 10 per cent. Money supply growth has fallen significantly, to 5,3 per cent in August from almost 19 per cent in the same month last year. Private-sector credit growth has fallen to 9,8 per cent in August, compared with 17,5 per cent in August 1998. Although private-sector credit growth rose in August from the level of 9,5 per cent in July, consumer credit demand remained weak.

It is against this backdrop that we will today consider detailed developments in the real economy and in the financial markets, with a view to looking ahead to the future path of inflation.

That concludes my opening statement and the part of the meeting which is open to the media.

I thank you for you attendance.