

Statement of the Monetary Policy Committee

16 October 2000

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

A special meeting of the Monetary Policy Committee was convened today to review the effect of recent developments on the outlook for inflation in South Africa.

At the end of its previous meeting (21 September 2000), the committee expressed concern about the second-round price effects of the depreciation in the exchange rate of the rand and the continued high prices of petroleum. Trade statistics that have been released since the last meeting indicate that the surplus on the current account of the balance of payments in the second quarter of 2000 could have changed to a deficit in the third quarter. At the same time, non-residents again became net sellers of South African bonds, signalling a possible shortfall on the financial account. As a result of these changes and the continued strength of the US dollar, downward pressure was exerted on the rand with concomitant import price increases, raising the risk of higher inflation. These tendencies were aggravated by continued high levels of international petroleum prices.

In view of the likely effects of these changes on future price developments and expectations, the Monetary Policy Committee (MPC) decided to revise its monetary policy stance. It was concluded that a modest increase in interest rates at this stage may avoid later steep increases in rates in order to meet the inflation target. Consequently, the committee decided to marginally under-provide in the liquidity requirement of the banks at the daily auction of repurchase transactions tomorrow, 17 October 2000. The committee is of the opinion that these steps may lead to an increase of approximately 25 basis points in the repurchase rate, but the actual increase will be determined at the repo auctions. The outcome of this position will be evaluated at the next scheduled meeting of the MPC.