Statement on relaxation of liquid asset requirements for banking institutions

Issued by Dr Gerhard de Kock, Governor of the South African Reserve Bank

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As part of the continuing process of implementing the recommendations of the Commission of Inquiry into the Monetary System and Monetary Policy in South Africa, the liquid asset requirements for banking institutions will be reduced, with immediate effect, from 48 to 40 per cent of short-term liabilities to the public and from 28 to 20 per cent of medium-term liabilities.

This reduction represents another step in the transition from a liquid asset to a cash reserve system of credit control. By itself, it does not signify a relaxation of monetary policy. However, as in the case of the previous reduction of the liquid asset requirements in July 1983, the *timing* of the new move has been influenced by the recent tightening of money market conditions and the resultant upward pressure on interest rates.

The reduction of the requirements should serve to reduce the upward pressure on interest rates in two main ways: Firstly, it should reduce the *effective* cost of funds to the banks. And, secondly, it should free around R1 500 million of liquid assets for use by the banks to meet pressure on their cash resources. In this way it should assist both the banks and the monetary authorities in smoothing out undue short-term fluctuations in money market conditions in the weeks ahead. The precise effect it will have on interest rates will, of course, depend in large measure on the nature and extent of the Reserve Bank's open-market operations, including its repurchase transactions, and on the extent and cost of the Bank's accommodation to the discount houses.

It remains the policy of the monetary authorities to reduce the rate of increase of the money supply as an essential part of the official strategy against inflation.