

G E N E R A L N O T I C E

NOTICE 1264 OF 2000

DEPARTMENT OF FINANCE

(on behalf of the South African Reserve Bank)

1. SUBJECT

**PROPOSED SOUTH AFRICAN RESERVE BANK AMENDMENT BILL, 2000
("THE BILL")**

2. PURPOSE

The purpose of this publication is to invite comments on the proposed Bill. Any comments must please be forwarded for attention of Mr P H Bartleet at the South African Reserve Bank, P O Box 427, Pretoria, 0001 or at fax no. (012) 313-4090, to reach him not later than 5 April 2000.

3. SUMMARY

The Bill amends section 10A(2) of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), so as to empower the Governor of the South African Reserve Bank to determine what percentage of banks' holdings of Reserve Bank notes and subsidiary coin may be taken into account for the purpose of calculating the minimum reserve balances required to be maintained by banks in accounts with the Reserve Bank.

4. DISCUSSION

4.1 The provision requiring banks to maintain minimum reserve balances in accounts with the Reserve Bank was originally contained in the Banks Act, 1990 (Act No. 94 of 1990- "the Banks Act"). At the time of the enactment of the Banks Act (which came into operation on 1 February 1991 under the title of the "Deposit-taking Institutions Act") this provision was regarded as an element of the prudential requirements that banks should comply with.

4.2 However, with the passage of time the prescription regarding the maintenance by banks of minimum reserve balances with the Reserve Bank manifested itself as a measure whereby the flow of cash in the Republic of South Africa could be influenced and controlled and, therefore, primarily as an instrument of monetary policy. In consequence hereof, the relevant provision was deleted from the Banks Act and, by means of section 4 of Act 10 of 1993, transferred to the South African Reserve Bank Act as section 10A thereof.

4.3 Although this section 10A of the South African Reserve Bank Act has thus far been applied with reasonable effectiveness as an instrument of monetary policy, the recent difficulties relating to liquidity experienced by certain banks (while other banks were at the same time experiencing a surfeit of cash) brought to the fore certain limitations attaching to section 10A as an effective instrument of monetary policy.

These limitations revolve around the fact that, as presently worded, section 10A allows banks to take the total amount of their holdings of Reserve Bank notes and coin into account in the calculation of their minimum reserve balance requirements.

During the course of dealing with the above-mentioned liquidity problems experienced by certain banks, it became clear that if the Reserve Bank were to be enabled to exercise a measure of control over the extent to which banks' holdings of Reserve Bank notes and coin could be taken into account for purposes of the calculation of their required minimum reserve balances, the Reserve Bank would be better equipped to contribute towards the smoothing out of imbalances in the liquidity situation in the banking sector,

- 4.4 The amendment proposed in the Bill has as its objective the enhancement of section 10A of the South African Reserve Bank Act as an effective tool of monetary policy. In terms of the amendment the Governor of the Reserve Bank is empowered to, having regard to the national economic interest, determine from time to time a ~~percentage~~ of the total amount of a bank's holdings of Reserve Bank notes and subsidiary coin that may be taken into account for purposes of the calculation of the minimum reserve balance the bank is required to maintain in an account with the Reserve Bank.

GENERAL EXPLANATORY NOTE :

[] Words in bold type in square brackets indicate omissions from existing enactments.

_____ Words underlined with a solid line indicate insertions in existing enactments.

BILL

To amend the South African Reserve Bank Act, 1989, so as to empower the Governor of the South African Reserve Bank to, having regard to the national economic interest, determine from time to time a percentage of the total amount of a bank's holdings of Reserve Bank notes and subsidiary coin that may be taken into account for purposes of the calculation of the minimum reserve balance the bank is required to maintain in an account with the South African Reserve Bank; and to provide for matters connected therewith.

BE IT ENACTED by the Parliament of the Republic of South Africa, as follows:-

Amendment of section 10A of Act 90 of 1989, as inserted by section 4 of Act 10 of 1993

1. Section 10A of the South African Reserve Bank Act, 1989, is hereby amended by the substitution for subsection (2) of the following subsection :

“(2) The credit balance in an account maintained in terms of section(1) by a bank, together with ~~such percentage as may be determined in accordance with the provisions of subsection (4) by the Governor~~ **of the average daily amount of that bank's Reserve Bank notes and subsidiary coin, calculated according to the total amounts of those assets held by the bank on all the days of the latest month in respect of which it furnished a return in terms of subsection (11) to the Registrar of Banks designated under section 4 of the Banks Act, 1990 (Act No. 94 of 1990), may at no time during any month amount to less than an amount equal to the sum of amounts representing the percentages, determined in accordance with the provisions of subsection (4) by the Governor, of the amounts of such different categories of the bank's liabilities as maybe specified by the Governor by notice in, the Gazette with reference to the time when such liabilities fall due or with reference to any other aspect**

pertaining to such liabilities.”.

Short title

2. This Act shall be rolled the South African Reserve Bank Amendment Act, 2000.