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FINANCIAL DEREGULATION DYNAMICS IN SOUTH AFRICA: KEY ISSUES AND CHALLENGES

In this study, we trace the dynamics of financial deregulation in South Africa. The financial liberalisation policy was first implemented in the 1980s following the De Kock Commission Reports (De Kock, 1978; 1985). Before the implementation of the financial liberalisation policy, interest rates in South Africa were largely controlled. The South African Reserve Bank was responsible for determining maximum and minimum deposit and lending rates. The study begins with an overview of the trends of interest rates before and after financial deregulation. The study proceeds with the review of some post-financial liberalisation challenges that have been experienced by the country. Some of these challenges include high interest rates, inflationary challenges, as well as the spreads between deposit and interest rates. Finally, the study reviews the pre- and post-financial liberalisation policies in a chronological order. Overall, the study generally finds that the effects of financial liberalisation in South Africa, as in other developing countries, are rather mixed.

Keywords: *financial liberalisation, financial deregulation, interest rates, South Africa.*

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ДИНАМІКА ФІНАНСОВОГО ДЕРЕГУЛЮВАННЯ В ПАР: КЛЮЧОВІ ПИТАННЯ І ПРОБЛЕМИ

У статті відстежено динаміку фінансового дерегулювання в ПАР. Фінансова політика лібералізації вперше була реалізована в 1980-х рр. як результат звітів комісії Де Кока (1978; 1985). Перед здійсненням фінансової політики лібералізації процентні ставки в Південній Африці значною мірою контролювалися. Південноафриканський резервний банк був відповідальним за визначення максимальних і мінімальних депозитних і кредитних ставок. Наведено огляд процентних ставок до і після фінансового дерегулювання і деяких проблем, пов'язаних із фінансовою лібералізацією в країні, таких як високі процентні ставки, інфляційні проблеми, а також спреди між ставками за депозитами і процентними ставками. Розглянуто фінансову політику до і після лібералізації в хронологічному порядку.

Ключові слова: *фінансова лібералізація, фінансове дерегулювання, процентні ставки, ПАР.*
Табл. 3. Літ. 26.

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ДИНАМИКА ФИНАНСОВОГО ДЕРЕГУЛИРОВАНИЯ В ЮАР: КЛЮЧЕВЫЕ ВОПРОСЫ И ПРОБЛЕМЫ

В статье отслежена динамика финансового дерегулирования в ЮАР. Финансовая политика либерализации впервые была реализована в 1980-х гг. как результат отчетов комиссии Де Кока (1978; 1985). Перед осуществлением финансовой политики либерализации процентные ставки в Южной Африке в значительной степени контролировались. Южноафриканский резервный банк был ответственным за определение максимальных и минимальных депозитных и кредитных ставок. Приведен обзор процентных ставок до и после финансового дерегулирования и некоторых проблем, связанных с финансовой либерализацией в стране, таких как высокие процентные ставки, инфляционные проблемы, а также спреды между ставками по депозитам и процентными ставками. Рассмотрена финансовая политика до и после либерализации в хронологическом порядке.

Ключевые слова: *финансовая либерализация, финансовое дерегулирование, процентные ставки, ЮАР.*

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1. Introduction.

According to developing countries' standards, South Africa has a well-established and sophisticated financial sector. South African financial sector is, therefore, more developed than financial sectors in many emerging economies. The South African Reserve Bank can be considered to be independent, even though there is some degree of consultation between the bank and the government. According to the Constitution (Act, No. 108 of 1996), "The South African Reserve Bank in pursuit of its primary objectives, must perform its functions independently and without fear, favour or prejudice; but there must be regular consultation between the bank and the cabinet member responsible for national financial matters". The South African Reserve Bank relies entirely on indirect instruments of monetary policy, namely open-market operations, reserve requirements, and credit facilities, among others.

In terms of the sequencing of financial liberalisation, South Africa adopted a more or less general approach prescribed for developing countries. The country first pursued internal financial liberalisation before proceeding with external financial liberalisation. However, like some developing countries, the country adopted a rather rapid approach to financial liberalisation – with reversal in some instances. For example, the credit ceilings were abolished in 1972; but these were later re-introduced in 1976.

Between 1977 and 1979, the ceilings were further tightened – before being abolished in 1980. The controls on interest rates were also withdrawn in 1980. In the same year, constraints on mortgage rates were also removed. More reforms were undertaken in the financial sector in 1982; and a substantial number of new banks were allowed to start operations in South Africa. In 1985, however, capital controls were tightened in response to capital flight following the worldwide imposition of economic sanctions. In 1995, the dual-exchange rates were finally unified in a "managed float". Regulations affecting the transactions of non-residents were abolished; while those of residents were relaxed in 1995. During the same year, the "Big Bang" on the Johannesburg Stock Exchange (JSE) took place; and the requirement that all stockbrokers on the JSE be South African citizens was abolished.

Although South Africa is considered to have one of the most developed and sophisticated financial systems in the sub-Saharan Africa, its market share is still dominated by only a few financial institutions. By the mid-1990s, for example, more than 95% of banks' total assets were held by only 4 banking groups; while the remaining 5% were spread among 27 local banks, 9 foreign-controlled banks, and a few branches of foreign banks, as well as some mutual banks.

South African experience of financial liberalisation is, as in many developing countries, mixed, and whether financial liberalisation leads to increased savings, financial deepening, investment efficiency and economic growth still remains an empirical issue (Odhiambo, 2010 a, b). The current study aims to trace the dynamics of financial deregulation in South Africa. The study is organised as follows. Following the introduction (Section 1), Section 2 gives an overview of the trends of interest rates before and after financial liberalisation. In Section 3, some post-financial liberalisation challenges experienced by South Africa have been highlighted. Some of these challenges include high interest rates, inflationary challenges, as well as the spreads between deposit and interest rates. In Section 4, some of the pre- and post-financial liberalisation policies have been highlighted in the chronological order. Finally, section 5 concludes the study.

2. Interest Rate Trends before and After Financial Liberalisation.

During the period between the 1960s and the1980s, interest rates in South Africa were largely controlled (Odhiambo, 2011). The South African Reserve Bank was responsible for determining the maximum and minimum deposit and lending rates, respectively. Between 1967 and 1975, the minimum deposit rate and the prime overdraft lending rates were set at 2% and 2.5%, respectively above the bank rate. Since 1975, banks were allowed to set their lowest overdraft rates within the margins 2.5—3.5% above the bank rate. This continued until 1980, when interest rate controls were dropped altogether. The deposit rate, on the other hand, had its first upper limits imposed in 1965. Although this restriction was dropped in 1970, it was re-introduced in 1972. It was maintained until 1980, when deposit rates were fully liberalised. Table 1 shows the trends of selected interest rates in South Africa during the period 1967—1980.

Table 1. **Trends of Selected Interest Rates in South Africa (1969–80)**

Year	Discount Rate	Treasury Bill Rate	Deposit Rate	Lending Rate
1969	5.50	4.61	-	8.00
1970	5.50	4.39	-	8.17
1971	6.50	5.38	-	8.83
1972	6.00	5.30	-	8.79
1973	3.78	3.18	-	8.00
1974	6.48	5.43	-	10.17
1975	7.42	6.12	-	11.79
1976	8.28	7.44	-	12.25
1977	8.41	7.87	8.00	12.50
1978	7.87	7.81	7.67	12.13
1979	4.70	5.26	6.00	10.00
1980	6.54	4.65	5.54	9.50

Source: Author's own computations from IFS Yearbook (1999).
– Data Not Available

As may be seen in Table 1, the interest rate policies for the period 1969—1980 were virtually passive. The government maintained a policy of fixing interest rates, which often resulted in negative real interest rates. For example, the nominal Treasury bill rate was increased between 1970 and 1971, and then again between 1973 and 1977. The highest nominal Treasury bill rate recorded was 7.87% in 1977; while the lowest rate was 3.18%; and this was recorded in 1973. As in the case of the Treasury bill rate, the nominal discount rate remained constant at 5.50% in 1969 and 1970 — before being increased by 1% to 6.50% in 1971.

However, the rate was later systematically adjusted downwards, from 6.50% in 1971 to 6.00% in 1972, and then to 3.78% in 1973 — before being increased again to 6.48% in 1974, and to 7.42% in 1975. By 1977, the nominal discount rate stood at 8.41%. Although the rate was lowered to 7.87% in 1978, and to 4.70% in 1979, it was later adjusted up to 6.54% in 1980. Like the Treasury bill and the discount rates, the nominal lending rates in South Africa were also kept fixed during this period by means of periodic adjustments.

For example, the lending rate was adjusted upwards from 8.00% in 1969 to 8.17% in 1970, and again to 8.83% in 1971, before being lowered to 8.79% in 1972, and to 8.00% in 1973. Between 1973 and 1977, the rate was increased substantially — with the highest level being recorded at 12.50% in 1977. However, between 1977 and 1980, the nominal lending rate was systematically lowered. By 1980, the nominal lending rate was 9.50%. Unfortunately, the data on the deposit rate only dates as far back as 1977. However, its general trend did not deviate substantially from that of the lending rate.

Between 1977 and 1980, the deposit rate was fixed, and then adjusted downwards. The nominal rate was adjusted from 8.00% in 1977 to 6.00% in 1979; and finally to 5.54% in 1980. It is also worth noting that the period between 1970 and 1980 recorded mainly a double-digit inflation rate, with the highest rate of about 14.5% in 1980. Given this high inflation rate, the maintenance of low and fixed interest rates with minimal adjustments rendered real interest rates, negative in most cases.

However, following the liberalisation of the financial sector in 1980, the nominal rate of all interest rates increased rapidly. For example, the discount rate has been maintained at a double-digit interest since 1981, except for the periods 1986–1987, 2003–2006, and 2009–2011, as well as in 2001. The Treasury Bill rate has also been in double-digit figures since 1981, except for the periods 2004–2007, 2009–2011, as well as in 2001 and 2004. As in the case of the discount rate and Treasury bill rate, the deposit rate also increased following the liberalisation of interest rates in 1980.

The double-digit deposit rate was recorded during the periods 1982–1986, 1988–1999, as well as in 2002 and 2008. A single-digit deposit rate, on the other hand, was recorded during the periods 2000–2001, 2003–2007, 2009–2011, as well as in 1981 and 1987. Unlike other interest rates, the lending rate was maintained at a steady double-digit rate throughout the post-liberalisation era, except in 2010 and 2011, when the lending declined significantly to 9.83 and 9.0, respectively during those years. Table 2 shows the trends of the selected interest rates in South Africa during the period from 1980 to 2011.

3. Post-Financial Liberalisation Challenges.

South Africa has witnessed many changes since the implementation of financial liberalisation in 1980. Unfortunately, the experience of South Africa with financial liberalisation has been at best indeterminate, and at other times disappointing. Apart from high interest rates, South Africa has, like other SSA countries, to some extent suffered from high inflation rates, unstable exchange rates, wide interest rate spreads, as well as low savings – following liberalisation. This section will attempt to assess the effects of financial liberalisation on the inflation trends, as well as on the spreads between lending rates and deposit rates.

3.1. Post-Financial Liberalisation Inflation Trends. Since 1980, the inflation rate in South Africa has remained at a double digit figure. Single-digit inflation was only in 1993. Immediately after the interest rate liberalization in 1980, the inflation rate increased from about 14.5% in 1980 to 14.67% in 1981. Although the rate systematically declined between 1981 and 1984, with the lowest rate of 11.71% being recorded in 1984, the rate later increased to 16.13% in 1985 and 18.40% in 1986, before decreasing once again to 16.13% in 1987, and 12.88% in 1988.

The rate later increased to 14.77% in 1989, and later decreased to 14.42% in 1990, before increasing again to 15.16%. However, between 1993 and 2001, the inflation rate showed a more or less declining trend. In 1993, for example, South Africa recorded a single-digit inflation for the first time after about 20 years. Since then, a single-digit inflation rate has been maintained in South Africa, with the lowest rate

5.22% being recorded in 1999. Following the depreciation of the value of the rand — towards the end of 2001 — and steep increases in food and fuel prices, the inflation rate increased dramatically in 2002. For example, in November 2002 the inflation reached the recent highest rate of 12.7%. However, in 2003 the situation was contained; and the inflation rate declined dramatically, following the appreciation of the value of the rand against other major currencies, on the one hand, and SARB's monetary policy stance on fighting inflation, on the other hand.

Table 2. **Trends of selected interest rates in South Africa, 1980–2011**

Year	Discount Rate	Treasury Bill Rate	Deposit Rate	Lending Rate
1969	5.50	4.61		8.00
1970	5.50	4.39		8.17
1971	6.50	5.38		8.83
1972	6.00	5.30		8.79
1973	3.78	3.18		8.00
1974	6.48	5.43		10.17
1975*	7.42	6.12		11.79
1976	8.28	7.44		12.25
1977	8.41	7.87	8.00	12.50
1978	7.87	7.81	7.67	12.13
1979	4.70	5.26	6.00	10.00
1980	6.54	4.65	5.54	9.50
1981	14.54	9.80	8.19	14.00
1982	14.35	15.59	13.00	19.33
1983	17.75	13.45	13.71	16.67
1984	20.75	19.33	18.29	22.33
1985	13.00	17.56	17.02	21.50
1986	9.50	10.43	10.98	14.33
1987	9.50	8.71	8.70	12.50
1988	14.50	12.03	13.54	15.33
1989	18.00	16.84	18.13	19.83
1990	18.00	17.80	18.86	21.00
1991	17.00	16.68	17.30	20.31
1992	14.00	13.77	13.78	18.91
1993	12.00	11.31	11.50	16.16
1994	13.00	10.93	11.11	15.58
1995	15.00	13.53	13.54	17.90
1996	17.00	15.04	14.91	19.52
1997	16.00	15.26	15.38	20.00
1998	19.32	16.53	16.50	21.79
1999	12.00	12.85	12.24	18.00
2000	12.00	10.11	9.20	14.50
2001	9.50	9.68	9.37	13.77
2002	13.50	11.16	10.77	15.75
2003	8.0	10.67	9.76	14.96
2004	7.50	7.53	6.55	11.29
2005	7.0	6.91	6.04	10.63
2006	9.0	7.34	7.14	11.17
2007	11.0	9.16	9.15	13.17
2008	11.50	10.81	11.61	15.13
2009	7.00	7.85	8.54	11.71
2010	5.50	6.42	6.47	9.83
2011	5.50	5.49	5.67	9.00

Source: Author's own computations from IFS Yearbook (2002; 2011).

Between 2005 and 2008, the inflation rate increased significantly with the double-digit inflation of 12% being recorded in 2008. In 2009, the inflation rate decreased again significantly to 7%. Although the rate further decreased to 4% in 2010, it later increased slightly to 5% in 2011. Figure 1 shows the inflation-rate trend between 1999 and 2011, as compared with what it was in 1980.

3.2. Spreads between Deposit and Loan Rates. Apart from high and increasing interest rates following financial liberalisation, many SSA countries have over the years suffered from wide and increasing spreads between loan rates and deposit rates. Although the South African interest rate spread is modest by comparison with other SSA countries, the spread between lending and deposit rates widened considerably between 1992 and 2007, when compared with the rates in 1980. For example, in 1980, the interest rate spread between the lending and deposit rate was about 3.96%. Following the liberalisation of interest rates, the spread increased to about 5.81% in 1981 and 6.33% in 1982.

Although the spread decreased to about 2.96% in 1983, it later increased to about 4.04% and 4.48% in 1984 and 1985, respectively. However, between 1987 and 1989, the interest rate spread declined dramatically, with the lowest figure of 1.7% being recorded in 1989. But in 1990, the spread increased again. The spread systematically increased from 2.14% in 1990 to 5.13% in 1992, before decreasing once again to 4.66% in 1993, to 4.47% in 1994, and to 4.36% in 1995.

In 1996, the rate increased again to 4.61%; and since then, interest rate spread has shown an increasing trend up until 1999. By 1999, the interest-rate spread reached 5.76% – the highest since 1982. However, the spread later decreased significantly in 2000 and 2001. In 2000, the spread was about 5.3%; and in 2001, it decreased further to about 4.4%. Although the interest rate spread increased steadily between 2001 and 2003, it later decreased significantly between 2003 and 2009. By 2009, for example, the interest rate recorded was 3.17%, which was the lowest spread since 1991. Although the spread increased slightly to 3.36% in 2010, it later decreased to 3.33% in 2011. Figure 2 shows the spread between lending and deposit rates in South Africa during the period 1999–2011, as compared with 1980.

4. A Chronological Overview of Pre- and Post-financial Liberalisation Policies.

Between the 1960s and the 1970s, South African financial sector was severely repressed. Specifically, ceilings were imposed on bank interest rates; credit was allocated by administrative decisions, rather than by market criteria; and the flows of capital were strictly controlled. However, following the liberalisation of the financial sector in 1980, a number of financial reforms were implemented almost simultaneously.

For example, the controls on interest rates were removed in March 1980. In August 1980, credit controls were also removed. Between 1983 and 1985, banks' liquidity ratios were reduced substantially. Table 3 shows the chronology of some of the financial policies, implemented before financial liberalisation (1965–1979), and after it (1980–2001). In the first part (part A), some of the financial repressive policies, implemented between 1965 and 1979, are highlighted.

In this analysis, emphasis is given to policies, such as interest rate ceilings, credit rationing, exchange rate policies, foreign exchange controls, reserve requirements, and other restrictive banking policies. In the second part (part B), the financial sector reforms, which were implemented in South Africa after the onset of liberalisation in

1980, are highlighted. Although the main emphasis here is on the domestic financial liberalisation process, efforts have been made to extend this analysis to cover other forms of external financial liberalisation, including capital account liberalisation.

Table 3. **Pre- and Post-financial Liberalisation Policies**

Part A: Financial Repression Regime in South Africa (1965–1979)	
Year	Financial Policies
1965	– (March) The first upper limits on deposit rates payable on banks and building society was imposed.
1966	– (December) A directed credit ceiling was reduced to 92.5%. – Minimum and prime overdraft lending rates were set by agreement with the SARB at 1.5% and 2% above bank rate.
1967	– Minimum and prime overdraft lending rates were set at 2% and 2.5% above the bank rate. – (August) "Voluntary" credit control was made mandatory by proclamation.
1968	– (May) Credit ceilings were extended to cover bank investment in private sector securities. – Minimum and prime overdraft lending rates remained at 2% and 2.5% above the bank rate.
1970	– (August) The upper limit imposed on deposit rate payable on bank and building society deposits was dropped. The government later decided to subsidise certain interest rates. – (August) Credit ceilings were extended to non-monetary banks to curb competition. – Minimum and prime overdraft lending rates continue at 2% and 2.5% respectively above bank rate.
1972	– (March) Upper limits on deposit rates payable on bank and building society deposits were reintroduced. – (September) Intention was announced to phase out credit ceilings. – (November) Credit ceilings were abolished. – (November) 25% interest-bearing deposit with the National Finance Corporation (NFC) was abolished and replaced with the supplementary cash requirement, amounting to 10% of all short-term liabilities, to be held with the NFC.
1973	– (April) Interest bearing-deposit with the National Finance Corporation was lowered to 7%.
1975	– (July) Newly defined prime rate (the lowest rate at which a clearing bank lends on overdraft) was set by individual banks with the margins 2.5-3.5% above bank rate, but changes to these rates were to be discussed first with SARB.
1976	– Credit ceilings were re-imposed on bank credit to the private sector.
1977	– Further credit ceilings were tightened at various points.
1979	– Credit ceilings were further tightened at various points.
Part B: Sequencing of Financial Liberalisation in South Africa (1980 To Date)	
Year	Financial Reforms
1980	– Rapid financial liberalisation was adopted. – (March) Deposit interest rate controls were dropped. – (April) The basic cash reserve requirement of 8% of short-term liabilities, interest-free with SARB, was maintained. Together with the basic requirement, the additional requirements for banks were based on the following classification: Class A (total assets exceeding R800 mln.): 7% of short-term liabilities, interest-free with the Reserve Bank; 5% of medium-term liabilities, interest-bearing with the National Finance Corporation (NFC). Class B (total assets less than R800 mln.): 7% of short-term liabilities, interest-free with SARB; 3% of medium-term liabilities, interest-bearing with NFC. – (August) Credit ceilings were abolished. – (September) Additional reserve requirements were increased as follows: Class A: 10% of short-term liabilities, interest-free with SARB; 3% of medium-term liabilities, interest-free with SARB; 2% of medium-term liabilities, interest-bearing with NFC. Class B: 7% of short-term liabilities, interest-free with SARB; 3% of medium-term liabilities, interest-free with SARB; 3% of medium-term liabilities, interest-bearing with NFC.
1981	– The Unit Trusts Control Act, 1981 (Act, No. 54 of 1981) was passed.

Continuation of Table 3

1982	– (March) Banks were released from the obligation of keeping prime rate within specific limits, although they still had to inform SARB of intended prime rate changes. – (March) Additional cash reserve requirements were reduced as follows: Class A: 4% of short-term liabilities, interest-free with SARB; 3% of medium-term liabilities, interest-free with SARB; 2% of medium-term liabilities, interest-bearing with NFC. Class B: 4% short-term liabilities, interest-free with SARB; 3% of medium-term liabilities, interest-free SARB; 3% medium-term liabilities, interest-bearing with NFC. – (September) Additional reserve requirements decreased as follows: – All banks: 2% medium-term liabilities, interest-free with SARB; 2% of medium-term liabilities, interest-bearing with NFC. – (September) All banks were treated equally. – A substantial number of new banks were allowed to commence business. – (September) Additional reserve requirements changed to basic requirements: Basic Requirements: 8% of short-term liabilities, interest-free with SARB; 2% of medium-term liabilities, interest-free with SARB; – 2% of medium-term liabilities, interest-bearing with NFC.
1984	– (March) The requirement for holding 2% of medium-term liabilities with the NFC was abolished.
1985	– (July) Banks' vault cash was included as part of required cash reserves.
1986	– The Building Society Act of 1986 was phased out. The Act had some tax benefits and other advantages, which gave building societies a monopoly in the mortgage market. – (April) The basic cash reserve requirements decreased as follows: 5% of short-term liabilities, interest-free; 2% of medium-term liabilities, interest-free.
1987	– The responsibility for banking supervision was transferred from the Department of Finance (National Treasury) to SARB.
1988	– Banking and Building Societies Amendment Acts were enacted in 1988, making the cash reserve and liquid asset requirements the same for both banks and building societies previously.
1989	– Financial Services Board was established.
1990	– Deposit-taking Institutions Act was passed; banks and building societies were brought under the same legislation.
1991	– (January) Building societies, commercial banks, discount houses, general banks and merchant banks were grouped together to form banking institutions. – (February) The basic reserve requirement against short-term liabilities was lowered to 4%. – (February) The basic reserve requirement of 2% of medium-term liabilities, interest-free was abolished. – Risk-based capital requirements, in line with BIS directives, were introduced for banks.
1992	– Cash reserve requirement for all banks was set at 4% (short-term liabilities, interest-free). – (July) An additional requirement of 1% against short-term liabilities, kept in an interest-bearing account with SARB was introduced. – Usury Act, 1992 passed.
1993	– (April) The basic reserve requirement against short-term liabilities was lowered from 4% to 3%. – (April) 1% additional requirement against short-term liabilities, interest bearing with SARB was maintained. – (August) The reserve requirement was lowered from 1.5% to 1.0%.
1995	– (March) The minimum reserve requirement was doubled to 2%.
1998	– (April) The Reserve Bank introduced one ratio of 2.5% on the total liabilities of banks. – The phasing-out of the tax privileges on building societies 'shares' began. During this period, building societies were immediately forced to start competing on a level playing field for deposit funding.
2000	– The consolidated accounting rules for financial conglomerates were made mandatory for banking groups in 2000. – SARB empowered to determine what percentage of bank's holdings of SARB 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 their reserve accounts with SARB.

Source: SARB Quarterly Bulletin (various issues); South Africa Yearbook (various issues); Nel, H.F (2000); Aron and Muellbauer (2000); Bandieri et al (2000); De Kock Commission (1985).

5. Conclusion.

The theory of financial liberalisation was popularised by Ronald McKinnon and Edward Shaw in 1973. According to McKinnon (1973), potential investors must accumulate money balances before investing; and the more attractive the process of accumulating money is, the greater is the incentive to invest. In other words, the aggregate demand for money in this case would be greater the larger the proportion of investment in total expenditure (McKinnon, 1973; Fry, 1978, 1982; Arrieta, 1988; Mohlo, 1986; and Clarke, 1996). In general, the benefit of financial liberalisation has been that it fosters development and increases long-run growth (Levine, 1997; Demirguc-Kunt and Detragiache, 1998). Through financial liberalisation, developing countries can stimulate domestic savings and growth, and reduce excessive dependence on foreign capital flows (Demirguc-Kunt and Detragiache, 1998).

Although, by all accounts, this policy had good intentions, it was either misunderstood, or oversold to many developing countries. In particular, the preconditions necessary for the successful implementation of this policy and the pace at which the policy should be implemented, were never adequately explained when implementing the policy. Following the rapid implementation of the policy, many countries suffered sharp increases in interest rates, worsening inflation, unstable exchange rates and declining savings and investment rates.

In South Africa, the financial liberalisation policy was first implemented in the 1980s following the De Kock Commission Reports (De Kock, 1978; 1985). Before the implementation of the financial liberalisation policy, interest rates in South Africa were largely controlled. The South African Reserve Bank was responsible for determining maximum and minimum deposit and lending rates, respectively. Unlike some other developing countries, South Africa is believed to have adopted a relatively rapid approach to financial liberalisation. This study aims to assess the dynamics of financial liberalisation in South Africa. The study begins with an overview of the trends of interest rates before and after financial deregulation. It then proceeds with the review of some of the post-financial liberalisation challenges that have been experienced by the country. Some of these challenges include high interest rates, inflation, as well as the spreads between deposit and interest rates. Finally, the study reviews the pre- and post-financial liberalisation policies in the chronological order. Overall, the study generally finds that the effects of financial liberalisation in South Africa, as in other developing countries, are rather mixed.

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