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Stock

1941—1950

SOUTH AFRICAN RESERVE BANK

REPORTS OF THE ORDINARY GENERAL MEETINGS FOR 1941 to 1950

WALLACHS' PRETORIA—6133—18/4/52

1941

SOUTH AFRICAN RESERVE BANK

REPORT OF THE

TWENTY-FIRST

ORDINARY GENERAL MEETING

9th July, 1941

SOUTH AFRICAN RESERVE BANK.

Established under the Currency and Banking Act, 1920.

BOARD OF DIRECTORS:

JOHANNES POSTMUS	GOVERNOR.
MICHIEL HENDRIK DE KOCK	DEPUTY-GOVERNOR.
WILLIAM DUNCAN BAXTER SIR ERNEST CHAPPELL, C.B.E. MATHYS GUSTAV DE JAGER HENDRIK CHRISTIAAN JORISSEN REGINALD HEINRICH PARKER JOHN PYOTT	COMMERCIAL, AGRICULTURAL AND INDUSTRIAL REPRESENTATIVES.
GEORGE AUGUSTUS KOLBE GERRIT PETRUS JOHANNES LOTZ ROBERT NIVEN	GOVERNMENT REPRESENTATIVES.

HEAD OFFICE — PRETORIA

CHIEF CASHIER — E. W. CATTELL

SECRETARY AND CHIEF ACCOUNTANT — G. G. MESSUM

BRANCHES:	AGENTS:
BLOEMFONTEIN	A. F. CELLIERS.
CAPE TOWN	T. S. BURNS.
DURBAN	W. W. BROWN.
EAST LONDON	C. H. PARKE.
JOHANNESBURG	A. S. LITTLE.
PORT ELIZABETH	G. SIEMELINK.
PRETORIA—OFFICER-IN-CHARGE	H. J. ALSTON.

SOUTH AFRICAN RESERVE BANK

Twenty-First Ordinary General Meeting of Stockholders

MINUTES OF PROCEEDINGS

The Twenty-first Ordinary General Meeting of Stockholders was held at the Head Office of the Bank, Pretoria, on Wednesday, 9th July, 1941, at noon, the Governor presiding.

The Governor declared the Meeting duly convened in terms of the Regulations framed under the Currency and Banking Act, as amended.

The Minutes of the previous Meeting were taken as read and confirmed.

The Reports of the Board and of the Auditors for the year ended 31st March, 1941, were presented and taken as read.

The Governor then addressed the Meeting and said:—

In presenting to you the Balance Sheet and Accounts and the Reports of the Board and the Auditors, I shall explain, as usual, the various items appearing therein.

The CAPITAL of the Bank remains at the figure of £1,000,000.

The RESERVE FUND also shows no alteration.

NOTES IN CIRCULATION: £24,574,196 10s. 0d.

The total of our notes in circulation increased during the past year by a little over four million pounds. Although the figures at the end of the month are substantially higher than say at the middle of the month, and although the commercial banks and other money-institutions as well as private firms on account of their easy cash position may carry more notes in their tills than usual, there can be no doubt that the active note circulation is on the increase.

The large increase since I addressed you last time need not cause any fear of inflation. The greater part of the increase occurred during May and June of 1940 and must be attributed to a temporary hoarding of bank notes after the occupation of the Low Countries and northern France. There is evidence, however, that many of these notes soon returned to circulation and further issues became necessary to meet legitimate demands due to the largely increased money-work to be done as a result of active business conditions in the Union and the large expenditure of the Government for war purposes.

It will be reassuring to you to hear that our supply of new notes comes forward uninterruptedly and that our stocks are adequate. Worn and dirty notes are promptly replaced, but I appeal to you and through you and the press to every person in South Africa to handle our notes with greater care so as to save not only unnecessary expense but more particularly valuable shipping space in having to replace these notes.

NOTES OF OTHER BANKS IN CIRCULATION: £131,784 10s. 0d.

The amount redeemed is smaller this year than usual.

DEPOSITS : £57,389,219 10s. 8d.

Like last year this heading again reflects the easy monetary conditions in our country. The banks see deposits with them increasing, and true to their policy of maintaining a balanced position they keep these increased amounts available to the country in the form of deposits with the Reserve Bank. This, I think, is as it should be. By making the Reserve Bank the ultimate receptacle for the time being of surplus moneys, its function as the lender of last resort becomes easier and more logical should sooner or later reverse conditions apply.

Compared with the increase in Bankers' Reserve Accounts of roughly £2,400,000 and of £17,000,000 in Current Accounts, the reduction of £2,700,000 in Government and Provincial accounts and an increase of £1,500,000 in other accounts are of lesser importance. They fluctuate considerably from day to day.

REBATE ON BILLS NOT YET DUE:
£63 11s. 11d.

As will be explained later on the Bank held a smaller amount of bills than last year and consequently the amount of discount belonging to the next book year was much smaller than last year.

OTHER LIABILITIES: £2,687,051 13s. 11d.

This is an omnibus item mainly made up of mail transfers, provision for taxes, sundry contingencies and accruing liabilities, the total of which fluctuates from day to day.

PROFIT AND LOSS ACCOUNT:
£439,010 10s. 1d.

As usual I will again refer to this item a little later.

I now turn to the Assets side of the Balance Sheet.

GOLD COIN AND BULLION: £48,020,049 9s. 1d.

The increase of a little over £15,000,000 in our gold holding is, as last year, a clear indication that South Africa is not only paying its way but is able to create a reserve fund from which it can pay for extra imports to be expected in connection with Government demands for war purposes and replenishment of commercial stocks after the war.

I am not at liberty yet to give you particulars of our gold movements but I think you have a right to know that whatever I should be able to tell you but for the prohibition, would be of a satisfactory nature.

OTHER COIN: £169,354 4s. 6d.

Contrary to last year's experience our holdings of silver and bronze coin have increased by about £11,000 and nothwithstanding some heavy demands made on the Bank, we have been able, in co-operation with the Mint, to meet them all.

It is noteworthy that the demand for pennies and half-pennies is very much on the increase.

During the year the Mint issued subsidiary coin amounting to £891,500, and the commercial banks' holdings rose by £219,112. The amount in the hands of the public, therefore, increased by about £660,000.

Although a certain amount of hoarding of silver coin took place here as in other countries, this appears to have ceased, and the fresh issues now being made are to meet the demand resulting from increased business activity.

BALANCES WITH OVERSEAS CENTRAL BANKS: £1,420,923 3s. 4d.

We have found it necessary during the past year to look to the United States for supplies of certain essential goods previously obtained from Europe, and the increase under this head is mainly due to the larger balance which, in consequence, we considered it desirable to maintain with the Federal Reserve Bank of New York.

BALANCE EMPLOYED UNDER GUARANTEE OF THE BANK OF ENGLAND: £828,093 15s. 0d.

One might call this part of our till money held in London. As you know the amount fluctuates often and widely.

BILLS DISCOUNTED: £722,369 12s. 0d.

Of this amount domestic bills represent only £3,080 2s. 4d. As the commercial banks maintain large free balances with the Bank they do not require discount facilities. And so long as the other banks accommodate the general public on reasonable terms, it is not the Bank's policy to compete with them.

During the year under discussion a Union Government Loan of £7,900,000 fell due in London and for various reasons repayment of this amount appeared to be desirable. When the Treasury applied for this extraordinary amount of sterling we realised a similar amount of our oversea bills. Hence the large reduction in this account.

INVESTMENTS: £1,680,960 2s. 7d.

The half million Treasury Bills referred to in my last address, which were repaid in the course of the year account for the reduction under this heading.

As a matter of interest I may mention here that the Bank sometimes buys a fairly large amount of Government stock and sells it to the Trustees of the Pension Fund piecemeal when they have to invest moneys on behalf of the Fund.

All our investments appear in our books at or below cost and in every instance at less than the market value.

FIXED PROPERTY: £233,072 11s. 4d.

The work of building our new Branch at Pietermaritzburg is progressing satisfactorily, but as regards our proposed new building at Port Elizabeth we have been handicapped through various circumstances, mostly connected with the war, to such an extent that only recently were we able to call for tenders. However, this delay will not cause us inconvenience in so far as we have been able to arrange to continue in occupation of our present offices.

That portion of the Bank's property at Port Elizabeth known as the Phoenix Hotel site which is not required by us for the new building has been sold to the Government.

Seeing that we have still to meet heavy expenditure under this heading, an item which should be eliminated as quickly as possible from the balance sheet of a central bank, we have again written off £100,000.

FURNITURE AND FITTINGS: £1.

Against an exceptionally small amount of £642 7s. 0d. last year we had to write off this year £7,490 1s. 10d. mostly on account of the new strong room doors for our new buildings.

OTHER ASSETS: £34,146,502 8s. 9d.

Show an increase of a little over £15,000,000 compared with last year. After the full explanations given on so many occasions, you will readily understand that an increase of about £15,000,000 in our gold holdings would cause an almost similar increase in the 'Gold Premium Account' which is the most important item in the accounts which make up 'Other Assets'. 'Remittances in Transit' and 'Uncleared Effects' are two of the other important items falling under this heading.

PROFIT AND LOSS ACCOUNT:

A reduction of about £210,000 in our gross profits may at first sight look a little disturbing, but you may remember that during the former book year the Bank derived exceptional profits through earmarking arrangements with other central banks. These gradually lost importance and although we may expect that the relations now established with other central banks will not be interrupted, our transactions with them have of late not materially added to our profits.

Our expenditure remained substantially the same as last year and the net result allowed us to pay in addition to the usual 10% dividend to stockholders an amount of £379,000 to the Union Government. It is interesting to note that the Bank will pay by way of income and provincial tax a further amount of approximately £180,000.

GENERAL REMARKS:

Last year I referred in no uncertain terms to the strong position of our three commercial banks. If anything this position has been further strengthened albeit fortuitously. The value of our gold production added to the value of our general exports is in excess of the value of our imports and this favourable balance, which formerly was just sufficient to meet the Union's liability for interest, freight, insurance, dividends, commission, etc. is now more than sufficient and this surplus is reflected either in increased deposits with commercial banks or in a decrease of their loans and discounts. Having deposited their surplus cash reserves with the Reserve Bank, their cash position which I detailed last year as:

Cash and cash assets in the Union	52%	of their deposit liabilities.
Advances	47%	
Buildings and other assets in the Union	4%	

has now further improved to:

Cash and cash assets in the Union	71%	of their deposit liabilities.
Advances	29%	
Buildings and other assets in the Union	4%	

Although this exceptionally strong and liquid position for the country as a whole may be very reassuring, for the banks it is a mixed blessing on account of the reduction in profits they are bound to suffer on the smaller amounts invested in advances, which carry a higher rate of interest than their investments in government or municipal stocks which have wholly or partially replaced the repaid advances.

I have dwelt longer on this phase of our banking position than is usual, but recent developments in this country prompt me to do so.

Certain financial institutions continue drawing public attention to their deposit facilities and to their fairly high rates of interest even on current account. They pride themselves on an extensive branch system which is still extending at a somewhat surprising rate, and which their only hope of maintaining is by making profits on advances or discount facilities to be granted to the public. The investment of the fairly large amounts entrusted to them in gilt-edged securities would not leave them a margin of profit nor would it satisfy their ambition to give better facilities than can be got from the ordinary banks.

How can these financial institutions hope to find opportunities for safe investment in advances and discounts while the older, well established institutions get their advances, etc. repaid at the rate of roughly a million pounds a month?

I have no doubt that our Government is watching the position and that the Banks Bill presented last Session to the House of Parliament sounds a note of warning.

I said just now that the exceptionally strong and liquid position of the country is very reassuring, and I have no doubt that the Treasury will experience the truth of this statement should they sooner or later again call upon investors. I even want to go a step further and ask the leaders of our mining houses, when considering development of new mines or extension of existing mines, whether they, instead of waiting for the London market to be open to them again, would not explore the possibility of finding local support for their plans. They need have no qualms about the Reserve Bank's ability to buy their present or future gold outputs.

Although we come into little direct contact with agricultural activities, I understand from institutions which do that our farming community as a whole are enjoying fairly prosperous times. I am pleased to be informed that in the majority of cases the opportunity is being taken for reducing liabilities. I am sure that as soon as the war is over, this will prove to have been a wise policy.

As to our secondary industries I can only repeat what I said last year: they should keep in mind that their present extension is due largely to fortuitous circumstances. Is it expecting too much to express the hope that our industrialists under the able leadership of our iron and steel industry and supported by an unlimited and cheap power supply, will clasp hands with the leaders of our mining industries and make provision for a continuity of industrial activity as soon as war orders come to an end?

I say once more that although the country's resources have to a certain extent been strengthened by the retransfer to South Africa of the foreign investments of some of our own nationals, the main strength is derived from natural causes, which thanks to the country's well founded currency, will not suddenly come to an end. With this strong foundation I think the time is opportune for a careful but at the same time courageous planning for the future. May the recently established Industrial Development Corporation become a guiding light.

I referred just now to the retransfer of foreign investments to the Union. As you know this is part of the Government's policy of Exchange Control. I am glad to say that this control works smoothly and as time goes on the regulations are better understood by the public. In some isolated cases delay in giving a decision in unavoidable, but I think as a whole the commercial community are pleased with the expeditious way in which their applications for exchange are being dealt with.

Knowing how the Exchange Control Department had to be built up from the start, I wish to express my thanks to all and every one of the staff concerned who acquitted themselves so well in this difficult task and with such good results in so short a time.

And as to the staff generally, I am proud to say that without exception the year's work has been done in that spirit of co-operation and attention to detail which "delivers the goods." Long hours have had to be worked. Free afternoons and even Sundays have had to be sacrificed. And it has all been done without blame or boast. I am sure they have derived as much satisfaction from their work as they have given me in the manner in which they have carried out their duties.

I now move—"That the Report and Accounts be adopted."

The motion was seconded by Mr. L. L. French and having been put to the Meeting was carried unanimously.

On the motion of the Governor, seconded by Mr. W. J. Geerling, it was unanimously resolved—

That Mr. M. G. de Jager and Mr. R. H. Parker whose period of office expired on the 1st July, 1941, in accordance with the terms of the Currency and

Banking Act, be re-elected as Class 'A' Directors. The Governor moved—

(1) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be paid the sum of one thousand, two hundred guineas each, in accordance with the recommendation of the Board, for auditing the accounts of the Bank for the year ended 31st March, 1941.

(2) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be appointed Auditors of the Bank's Accounts for the coming year.

The resolutions were seconded by Mr. W. J. Geerling and having been put to the Meeting separately were carried unanimously.

Mr. M. G. de Jager, in proposing a vote of thanks to the Governor for presiding, said that the Bank was fortunate in having Mr. Postmus to guide its fortunes in these critical times.

The Governor thanked the meeting and the proceedings then terminated.

REPORT AND

ANNUAL ACCOUNTS.

31st March, 1941.

South African Reserve Bank.

REPORT OF THE GOVERNOR AND DIRECTORS TO BE PRESENTED TO STOCKHOLDERS AT THE TWENTY-FIRST ORDINARY GENERAL MEETING TO BE HELD AT PRETORIA ON THE 9th JULY, 1941.

The accompanying copies of the Annual Accounts of the Bank and of the Auditors' Report are presented to Stockholders in compliance with the Regulations framed under Section 29 of the Currency and Banking Act.

After all expenses had been paid and full provision had been made for Income Tax, and all other liabilities and contingencies, and after the following amounts had been written off, as shown in Profit and Loss Account, viz.:

	£	s.	d.
From Fixed Property Account	100,000	0	0
From Furniture and Fittings Account	7,490	1	10
and after contributing to the Pension Fund	18,500	0	0
	£125,990	1	10

	£	s.	d.
there were left net profits of	479,010	10	1

which have to be allocated in terms of Section 11(1) of the Currency and Banking Act, as follows:—

	£	s.	d.	£	s.	d.
Dividend to Stockholders of 10% per annum	100,000	0	0			
Balance payable to the Government	379,010	10	1			
				£479,010	10	1

FIXED PROPERTY ACCOUNT.—After application of the provision of £100,000 shown above, the Bank's Fixed Property Account stands at £233,072 11s. 4d. against which it holds fixed property in Bloemfontein, Cape Town, Durban, East London, Johannesburg, Pietermaritzburg, Port Elizabeth and Pretoria.

FURNITURE AND FITTINGS ACCOUNT.—After application of the provision of £7,490 1s. 10d. shown above, this account is written down to £1 0s. 0d. against which is held all the furniture and fittings of the Bank, including Strong Room Equipment and Safes.

DIVIDENDS.—The Directors have declared the following dividends for the past year:

(1) an interim dividend of 4% for the half-year ended 30th September, 1940:

(2) a final dividend of 6% for the half-year ended 31st March, 1941:

making a total dividend of 10% for the year ended 31st March, 1941.

CAPITAL STOCK.—Holders of the Capital Stock of the Bank at the 31st March, 1941, numbered 972 of whom 49.7% held less than £500 stock each.

DIRECTORS.—In accordance with the Act, Mr. M. G. de Jager and Mr. R. H. Parker retire by rotation, but, being eligible, offer themselves for re-election.

AUDITORS.—Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers were appointed at the last Ordinary General Meeting to examine the accounts of the Bank for the past year. The Stockholders will be requested at the forthcoming Ordinary General Meeting to determine, upon the recommendation of the Board, the remuneration of the Auditors for the recent audit, and to appoint Auditors for the current year.

Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers offer themselves for re-election.

J. POSTMUS, Governor.

M. H. DE KOCK,
ROBERT NIVEN, } Directors.
G. A. KOLBE,

G. G. MESSUM, Secretary.

PRETORIA,

28th May, 1941.

BALANCE SHEET 31st MARCH, 1941.

LIABILITIES.

	£	s.	d.	£	s.	d.
Capital				1,000,000	0	0
Reserve				1,000,000	0	0
Notes in Circulation				24,574,196	10	0
Notes of Other Banks in Circulation				131,784	10	0
Deposits:—						
Bankers' Reserve Accounts	11,600,946	16	1			
Bankers' Current Accounts	32,918,882	8	11			
Government and Provincial Current Accounts	7,861,067	15	1			
Other Accounts	5,008,322	10	7			
				57,389,219	10	8
Rebate on Bills not yet due				63	11	11
Other Liabilities				2,687,051	13	11
Profit and Loss Account	479,010	10	1			
Less Interim Dividend for half year to the 30th September, 1940	40,000	0	0			
				439,010	10	1
				£87,221,326	6	7

ASSETS.

	£	s.	d.	£	s.	d.
Gold Coin and Bullion				48,020,049	9	1
Other Coin				169,354	4	6
Balances with Overseas Central Banks				1,420,923	3	4
Balance employed under the Guarantee of the Bank of England				828,093	15	0
Bills Discounted:—						
Domestic	3,080	2	4			
Foreign	719,289	9	8			
				722,369	12	0
Investments				1,680,960	2	7
Fixed Property				233,072	11	4
Furniture and Fittings				1	0	0
Other Assets				34,146,502	8	9
				£87,221,326	6	7

N.B.—All British Sterling Holdings have been converted into South African pounds at £100 7s. 6d. South African for £100 British Sterling. Other Foreign Currency Holdings have been converted into South African pounds at the rates ruling on 31st March, 1941.

PROFIT AND LOSS ACCOUNT for the year ended 31st MARCH, 1941.

DR.

	£	s.	d.	£	s.	d.
To **General Expenditure**— Including Rent, Rates, Salaries and Directors' Fees				167,577	1	2
,, **Written off:**—						
Fixed Property	100,000	0	0			
Furniture and Fittings	7,490	1	10			
				107,490	1	10
,, **Pension Fund**				18,500	0	0
				£293,567	3	0
,, **Profit for the Year**—allocated as under: (Vide Report of Governor and Directors)						
To Stockholders	100,000	0	0			
To Government	379,010	10	1			
				479,010	10	1
				£772,577	13	1

CR.

	£	s.	d.
By **Gross Revenue,** after making provision for Income Tax, Rebate on Bills not yet due, Sundry Liabilities, etc.	772,577	13	1
	£772,577	13	1

G. G. MESSUM, Secretary.

J. POSTMUS, Governor.

M. H. DE KOCK,
ROBERT NIVEN,
G. A. KOLBE, } Directors.

Pretoria, 28th May, 1941.

To the Stockholders of

The South African Reserve Bank.

We have audited the Balance Sheet dated 31st March, 1941, above set forth and have obtained all the information and explanations we have required. We have verified the Cash, Investments, Securities and Other Assets. In our opinion the Balance Sheet is a full and fair Balance Sheet containing the particulars required by the Currency and Banking Act 1920, and subsequent amending Acts, and the Regulations thereunder, and is properly drawn up so as to exhibit a true and correct view of the whole of the Bank's affairs at 31st March, 1941, according to the best of our information and the explanations given to us and as shown by the books of the Bank.

DELOITTE, PLENDER, GRIFFITHS, ANNAN & CO.,
WHITELEY BROTHERS,

Auditors.

Johannesburg, 27th May, 1941.

1942

SOUTH AFRICAN RESERVE BANK

REPORT OF THE

TWENTY-SECOND

ORDINARY GENERAL MEETING

10th July, 1942

SOUTH AFRICAN RESERVE BANK.

Established under the Currency and Banking Act, 1920.

Board of Directors:

JOHANNES POSTMUS	Governor.
MICHIEL HENDRIK DE KOCK	Deputy-Governor.
WILLIAM DUNCAN BAXTER MATHYS GUSTAV DE JAGER DAVID HUNT HEPBURN HENDRIK CHRISTIAAN JORISSEN REGINALD HEINRICH PARKER ROBERT PYOTT	Commercial, Agricultural and Industrial Representatives.
GEORGE AUGUSTUS KOLBE GERRIT PETRUS JOHANNES LOTZ ROBERT NIVEN	Government Representatives.

HEAD OFFICE — PRETORIA

Chief Cashier — E. W. Cattell

Secretary and Chief Accountant — G. G. Messum

Branches:	Agents:
Bloemfontein	A. F. Celliers.
Cape Town	G. Siemelink.
Durban	W. W. Brown.
East London	C. N. Meek.
Johannesburg	A. S. Little.
Port Elizabeth	C. H. Parke.
Pretoria—Officer-in-Charge	H. J. Alston.

SOUTH AFRICAN RESERVE BANK

Twenty-Second Ordinary General Meeting of Stockholders

MINUTES OF PROCEEDINGS

The Twenty-Second Ordinary General Meeting of Stockholders was held at the Head Office of the Bank, Pretoria, on Friday, 10th July, 1942 at noon, the Governor presiding.

The Governor declared the Meeting duly convened in terms of the Regulations framed under the Currency and Banking Act, as amended.

The Minutes of the previous Meeting were taken as read and confirmed.

The Reports of the Board and of the Auditors for the year ended 31st March, 1942, were presented and taken as read.

The Governor then addressed the Meeting and said:—

In presenting to you the Balance Sheet and Accounts and the Reports of the Board and the Auditors I shall explain, as usual, the various items appearing therein.

The CAPITAL of the Bank remains at the figure of £1,000,000.

The RESERVE FUND of £1,000,000 also shows no alteration.

NOTES IN CIRCULATION: £30,737,642 10s. 0d.

In common with all other central banks we see our note circulation increasing at a quicker pace than the normal development of the country justifies. The reason is, of course, the heavy Government payments on account of the war made in notes to a great many people, who have no banking accounts.

There is a definite relation between the Bank's turnover and the amount of notes in circulation as is borne out by the following figures: In the Year 31.3.'39-31.3.'40 our turnover amounted to £2,878,600,000. In the year 31.3.'41-31.3.'42 our turnover amounted to £4,129,600,000. The former turnover required an average note circulation of £18,400,000. The latter turnover required an average note circulation of £26,000,000.

In other words, when our turnover increased by about 43%, our note circulation increased by about 41%.

Although our supplies of new notes are coming forward regularly, the increased circulation, added to war conditions, makes it incumbent on us to keep the notes in active circulation as long as possible.

NOTES OF OTHER BANKS IN CIRCULATION: £131,408.

Few notes come up for redemption.

DEPOSITS: £74,382,284 8s. 1d.

The main feature about this account is again its substantial increase over last year's figures.

As long as our balance of payments remains as favourable as it has been for the last few years, deposits are bound to go up. As no statistics are being published about our imports and exports I cannot give you much detail as to what extent the increase in commercial banks' deposits (which are reflected in their deposits with us) is due to the Union's own exertions on the one hand and the investment of foreign monies in our country on the other hand. I can only say that the latter amounts are not as big as some press reports may have led you to believe. All the same it must be reassuring for you to know that the Bank tries to distinguish between the two factors I have mentioned and follows a policy which will allow our country to repay to the foreign investors whatever amounts they want to withdraw at whatever moment they may wish to do so.

REBATE ON BILLS NOT YET DUE:
£4,690 1s. 11d.

The increase in this amount compared with last year's is explained by the larger amount we had invested in foreign bills discounted.

OTHER LIABILITIES: £2,109,379 19s. 9d.

This account is made up of mail transfers in transit, provision for taxes, sundry liabilities and contingencies, house accounts, etc., and calls for no comment.

PROFIT AND LOSS ACCOUNT:
£571,557 14s. 7d.

I will again refer to this item after having dealt with the assets side of our Balance Sheet.

GOLD COIN AND BULLION:
£47,898,137 12s. 8d.

This amount is practically the same as that appearing in last year's Balance Sheet. But for the reasons which I will explain under "Investments" it would have been much higher. The absence of an increase in our gold holding is a ready answer to those doubting Thomases who sometimes approach us with such questions as: "Is there still a demand for gold?" or "Can you really still dispose of your gold?" Although I would like to give them full chapter and verse, for the time being I can only repeat what I said last year: "that everything I should be able to tell you, but for the prohibition placed on the Bank by the Union Government's declaration of the 6th September, 1939, would be of a satisfactory nature."

OTHER COIN: £256,341 1s. 3d.

Against a small increase of about £11,000 last year, this year shows an increase of nearly £90,000 in our holding of silver and bronze coin, notwithstanding the heavy demands made upon us for the greater part of the year. In addition to pennies and half-pennies a demand for farthings may be expected with the fixing of prices involving the use of the farthing in the case of certain commodities.

During the year a total of £571,300 coin was issued by the Mint against withdrawals of small amounts of British and obsolete coins so that the amount in the hands of the public and the commercial banks increased by approximately £434.000.

BALANCES WITH OVERSEAS CENTRAL BANKS: £1,394,056 14s. 3d.

BALANCE EMPLOYED UNDER GUARANTEE OF THE BANK OF ENGLAND: £928,468 15s. 0d.

The differences in these accounts compared with last year's figures do not call for any comment. The balances of these accounts represent our overseas till money.

BILLS DISCOUNTED: £6,042,792 11s. 4d.

The large increase in this amount over last year's figures is explained by a transfer towards the end of our bookyear by the United Kingdom Authorities to meet war expenditure in the Union. We temporarily invested the amount paid in in British Treasury Bills.

UNION GOVERNMENT TREASURY BILLS: £25,000.

Although a fairly large amount of Treasury Bills is held by banks, mining houses, building societies and the public generally, we are seldom approached for facilities against such bills, which is another way of saying that the country enjoys a satisfactory supply of money.

It is perhaps not sufficiently known to the general public that in case they may wish to invest their idle bank balances or part thereof in a very liquid form, not subject to market fluctuations, the 6 months' or 12 months' Union Treasury Bill affords such an opportunity. The rates of interest (¾% and 1¼% p.a. at present ruling) is not very high but the relieving factor apart from there being no risk of capital loss is that in case the money should be wanted again before due date of the bills, the banks will accommodate customers at a rate of interest ¾% higher than the rate the Treasury Bill carries.

I am grateful to the commercial banks for their assistance in carrying out our policy in this respect. They will gladly assist their customers in applying for such bills in amounts of £500 to £5,000.

INVESTMENTS: £18,566,021 0s. 6d.

In the 1941 Balance Sheet our investments appeared at a figure of £1,680,960 2s. 7d. For reasons mentioned in my former address this figure may fluctuate from time to time due to the purchase of stock which is sold as required to the Trustees of the Pension Fund.

Our ordinary investments now amount to £1,731,111 11s. 9d. and appear in our books at or below cost and in every instance at less than the market value.

Other investments making up the balance of this account are represented by Union Government stocks purchased in connection with the repatriation scheme to which the Minister of Finance referred in Parliament on the 25th of February last.

I would like here to supplement the Minister's remarks. As you know the various loans issued by the Treasury have found a ready response without interrupting the flow of money or unduly affecting the Bank's gold stocks' and even after providing for the big finances required for the Union's war effort, there still remained a fair amount of money awaiting investment.

It was at this juncture that the Treasury approached the Bank. From correspondence passing between the Governments of the United Kingdom and the Union it had become apparent that the former was not averse to exercising its powers under the United Kingdom Defence Regulations by calling upon holders in the United Kingdom of certain Union stocks registered in London to sell their holdings to the Bank of England for re-sale to the South African Reserve Bank.

This would be done under what is called a vesting order at pre-arranged prices based on the ruling stock exchange prices, paid in cash, i.e. gold. Could the Bank spare the gold and, if so, would the Bank be prepared to meet the Union Treasury as to the terms on which the plan could be brought to fruition.

On consideration that the plan had few disadvantages but some very important advantages, the Bank agreed to co-operate. The main features of the scheme, leaving alone the minor details of spacing the transactions, passing entries, final accounting, etc. are as follows:

1. The Bank laid down the sterling required to make these purchases by selling gold to the value of a little over £32,000,000.

2. The United Kingdom Government issued a vesting order for

   a. Cape 3% Stock 1933/43 at £101 2s. 3d.

   b. Natal 3% Stock 1929/49 at £100 7s. 2d.

   c. Union 4% Stock 1943/63 at £102 2s. 3d.

   d. Union 5% Stock 1945/75 at £107 5s. 2d.

3. The Bank took over so much of these stocks at the prices quoted as the Bank of England purchased from residents of the United Kingdom, and the stocks were thereupon transferred to the Reserve Bank on the South African Register.

4. The Union Treasury issued a loan at 3% rate of interest, the proceeds of which were to be earmarked for buying from the Bank the Union stocks acquired by it in London. (I mention here in passing that the $3\frac{1}{4}$% loan which was issued at the same time is meant to meet the requirements of a particular class of investor to whom the $\frac{1}{4}$% difference would be a deciding factor between investing in Government stock or in other securities. Such holdings are limited to £5,000. Although the proceeds of this loan were not earmarked for redeeming the stock bought by the Bank, the greater portion has been used for this purpose.)

5. The Bank charges the Union Government $1\frac{1}{2}$% p.a. interest on the amount involved in these operations from day to day and recovers exchange.

6. The interest received on the stocks is being used, after deducting the Bank's charges, to redeem further stock.

The plan has worked like clock-work. Up to 31st March last we had purchased stock of an amount

of £31,152,500 bought for		£32,505,955 5 6
of which the Treasury had retired	£15,494,500 0 0	
and out of the balance of interest received there had been redeemed	176,545 16 9	
together amounting to	£15,671,045 16 9	15,671,045 16 9
reducing our holdings to		£16,834,909 8 9
which added to our other stocks appearing in our books as before stated at		1,731,111 11 9
make up the figure appearing in the Balance Sheet, viz.:		£18,566,921 0 6

Since the 31st of March more "ex London" stock has been redeemed, reducing the amount on our hands to roughly £9 million.

FIXED PROPERTY: £223,588 7s. 8d.

Thanks to the assistance of the authorities concerned the progress of our new buildings at Pietermaritzburg and Port Elizabeth has not been interrupted.

FURNITURE AND FITTINGS: £1.

Under this heading there is nothing to report.

OTHER ASSETS: £34,602,555 11s. 8d.

The gold premium account is by far the most important item of "Other Assets"; stamp account the smallest.

PROFIT AND LOSS ACCOUNT.

After my full explanation of the Bank's share in the repatriation of Union stock the increase in the Bank's profits of about £155,000 will cause no surprise.

An increase of about £27,000 in expenditure or 16% over last year's figure, taking war conditions and our increased note circulation into account, calls for no comment.

After paying a dividend of 10% for the year to stockholders, we paid well over half a million pounds to the Union Government.

GENERAL REMARKS.

From my observations under "Investments" it will be clear to you that the monetary conditions in our country continued to remain easy — in fact so easy that the Bank on the 2nd June 1941 decided to reduce its discount rate from $3\frac{1}{2}\%$ to 3%. This easiness, as explained in former reports, is a reflection of South Africa's favourable balance of payments, in other words, it is attributable to natural causes. When I speak of natural causes I, of course, assume that the present price of gold has come to stay.

The repatriation of part of the Union's external debt has "mopped up" the bulk of our favourable balance of payments for the year, and as the Union may remain in this happy position for a long while, I hope the Government, Municipalities, Public Bodies or private firms will follow up last year's example and use local funds to redeem South African liabilities oversea. While creating opportunities for sound investment, repatriation of stock helps to curb speculation, it creates a reserve fund for the future, it reduces our interest charges abroad and it enhances confidence in our financial stability. This last consideration is a very important one. You may remember that I, on former occasions, have referred to our growing connections with foreign central banks, and it is gratifying to notice their increasing interest and confidence in South Africa and its central institution. It is up to all of us to show ourselves worthy of that trust.

The banking legislation, which was held over in 1941, was proceeded with during last session of Parliament and the "Act to consolidate and amend the laws relating to banks and certain similar institutions" was placed on the statute book. The Registrar of Banks, to be appointed under that Act, cannot be expected to satisfy himself as to the safety and desirableness of each individual advance, but I do trust that he will be able from returns and statements to be submitted to him, to draw his conclusions as to the direction in which each individual bank or similar institution may be moving. Satisfying the requirements of the Act will not be enough. Our bankers will have to watch advances and underlying securities with a keen eye, bearing in mind that high prices during a war have invariably been followed by lower prices in times of peace. And although the position of our banks as a whole is as strong as a year ago, instances have come to my notice which justify my otherwise somewhat academic warning. Especially our farming community should not be led away by the high prices of many of their products but should rather continue repaying liabilities than incur fresh ones. And our townspeople can do worse than follow the same advice not only because recent legislation has made speculation in fixed property less attractive than ever, but mainly because the uncertainty of the near future compels us to be all out for stability.

From these remarks it should not be concluded that I am pessimistic about the future of South Africa. On the contrary: the dislocation caused by the war is not going to last for ever and the burden of war expenditure, heavy as it is, will not upset the credit of the State. While an external debt of £64 million and an internal debt of some £317 million for our small white population must be considered a heavy one, the fact must not be lost sight of that it is represented by assets 80% of which are interest earning (railways, post, telegraph and telephone services, Landbank, etc.). There are very few countries in the world which can claim a similar sound position.

Our national earning capacity, as stated before, is more than sufficient to pay for all our requirements. There is a balance which enables us to repatriate our overseas indebtedness.

The main sources of our national income are gold production and agricultural activities. The stability of the latter I need not emphasise; the future of gold, still doubted by some, is in my opinion better assured than ever before.

Some newly developed industries may have to face initial difficulties, some even may not be able to maintain themselves after the war, but many more will yield permanent additions to our national income.

Our financial institutions are in a position to meet any emergency and seem to be determined to remain in that position, and should there be at any time a sudden shock to public confidence, let it be said once more, very modestly but nevertheless very emphatically that the lending power of the country's central institution is equal to fulfilling every and any demand on it as lender of last resort.

I emphasise this point as from the records of proceedings of the Select Committee on the Banking Bill it would appear that even at this date this part of the Bank's functions is not properly understood.

For all these reasons we can face the future with confidence without, I hope, becoming over-confident. I do not agree with those people who predict an easier or better life after this war, nor do I subscribe to the pessimistic opinions which now and again disturb the peace of mind of many; all I have tried to do is to underline the sound financial position our country is in and will remain in so long as we remain sober in our spirit of enterprise and planning for the future.

After having listened to my opinion about the soundness of the Union's currency and credit you will not be surprised to hear that the exchange control caused us even less trouble than last year. The control is general and extensive but causes no friction or delay. As a result of comparing notes with other central banks, it appears that the control is comprehensive and thorough.

It has, of course, entailed an enormous amount of administrative work. The commercial banks, along with us, in the exercise of the control, have to handle an equally large amount of work for which — by the way — they do not receive any payment whatsoever. They deserve a hearty word of thanks for the way they have assisted us and the country as a whole in carrying out their duties as authorised exchange dealers.

In conclusion I want to say a few words about the way the work of the Bank has been carried out. Notwithstanding the big increase in our turnover, to which must be added exchange control, a 50% increase in the registration of bank notes and manifold special duties thrown on us by the war, we have allowed 32% of our men to proceed on active service. Although juniors and women clerks, all of whom had to be trained in the Bank's work before becoming useful, have been taken on to replace these men, we have now arrived at the position that the remaining staff cannot be further depleted without sacrificing efficient control of the large values in the charge of the Bank.

I mention these facts first of all because I want to impress upon you that, when I thank all members of the staff very heartily indeed, I am not performing this duty in the ordinary routine way but that I am doing so as the Bank is sincerely appreciative of what the staff has done under the difficult circumstances prevaling at present. I also want to use this opportunity to repeat publicly what I have told the remaining members of the staff; that they are performing essential service to their country by remaining at their posts until we find it possible to let them join their colleagues under arms who are serving their country in a different form, entitling them to the thanks of us all.

I now move—"That the Report and Accounts be adopted."

The motion was seconded by Mr. R. H. Parker and having been put to the Meeting was carried unanimously.

On the motion of the Governor, seconded by Mr. L. L. French, it was unanimously resolved—

That Mr. W. Duncan Baxter and Mr. H. C. Jorissen, whose period of office expired on the 1st July, 1942, in accordance with the terms of the Currency and Banking Act, be re-elected as Class 'A' Directors.

The Governor said that as mentioned in the Director's Report on the Accounts of the Bank, Sir Ernest Chappell and Mr. J. Pyott had resigned from the Board owing to ill-health. These gentlemen had rendered very long and valuable services to the Board and he here wished to record a further expression of the Board's appreciation of the assistance they had given.

In terms of the Act these vacancies had been filled by the appointment by the Board of Mr. D. H. Hepburn and Mr. R. Pyott for the unexpired periods respectively of Sir Ernest Chappell's and Mr. J. Pyott's terms of office. These appointments were also in terms of the Act subject to confirmation of Stockholders and he therefore moved—

That the appointments in terms of Section 9 sub-section 6 of the Currency and Banking Act, as amended, of Mr. D. H. Hepburn and Mr. R. Pyott to fill the vacancies on the Board caused by the resignations, owing to ill-health, of Sir Ernest Chappell and Mr. J. Pyott be and are hereby confirmed.

The motion was seconded by Mr. L. L. French and having been put to the Meeting was carried unanimously.

The Governor moved—

(1) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be paid the sum of One Thousand, Two hundred guineas each in accordance with the recommendation of the Board, for auditing the accounts of the Bank for the year ended 31st March, 1942.

(2) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be appointed auditors of the Bank's Accounts for the coming year.

The Resolutions were seconded by Mr. W. J. Geerling and having been put to the Meeting separately were carried unanimously.

Mr. G. A. Kolbe expressed the thanks of the Meeting to the Governor for presiding after which the proceedings terminated.

1942

SOUTH AFRICAN RESERVE BANK

REPORT OF THE GOVERNOR AND DIRECTORS TO BE PRESENTED TO STOCKHOLDERS AT THE TWENTY-SECOND ORDINARY GENERAL MEETING TO BE HELD AT PRETORIA ON THE 10th JULY, 1942.

The accompanying copies of the Annual Accounts of the Bank and of the Auditors' Report are presented to Stockholders in compliance with the Regulations framed under Section 29 of the Currency and Banking Act.

After all expanses had been paid and full provision had been made for Income Tax, and all other liabilities and contingencies, and after the following amounts had been written off, as shown in Profit and Loss Account, viz.:

	£	s.	d.
From Fixed Property Account	100,000	0	0
From Furniture and Fittings Account	1,732	17	8
and after contributing to the Pension Fund	19,500	0	0
	£121,232	17	8

	£	s.	d.
there were left net profits of	611,557	14	7

which have to be allocated in terms of Section 11(1) of the Currency and Banking Act, as follows:—

	£ s. d.	
Dividend to Stockholders of 10% per annum	100,000 0 0	
Balance payable to the Government	511,557 14 7	
		£611,557 14 7

Fixed Property Account.—After application of the provision of £100,000 shown above, the Bank's Fixed Property Account stands at £223,588 7s. 8d. against which it holds fixed property in Bloemfontein, Cape Town, Durban, East London, Johannesburg, Pietermaritzburg, Port Elizabeth and Pretoria.

Furniture and Fittings Account.—After application of the provision of £1,732 17s. 8d. shown above, this account is written down to £1 0s. 0d. against which is held all the furniture and fittings of the Bank, including Strong Room Equipment and Safes.

Dividends.—The Directors have declared the following dividends for the past year:

(1) an interim dividend of 4% for the half-year ended 30th September, 1941:

(2) a final dividend of 6% for the half-year ended 31st March, 1942:

making a total dividend of 10% for the year ended 31st March, 1942.

Capital Stock.—Holders of the Capital Stock of the Bank at the 31st March, 1942, numbered 977 of whom 50.46% held less than £500 stock each.

Directors.—In accordance with the Act, Mr. W. Duncan Baxter and Mr. H. C. Jorissen retire by rotation, but, being eligible, offer themselves for re-election.

Directors much regret to report the resignations, owing to ill-health, of Sir Ernest Chappell and Mr. J.

Pyott. The vacancies thus caused were filled in the manner prescribed in Section 9 sub-section (6) of the Currency and Banking Act as amended, by the appointments of Mr. D. H. Hepburn and Mr. R. Pyott, for the unexpired periods of Sir Ernest's and Mr. J. Pyott's terms of office. Stockholders will be requested at the General Meeting to confirm these appointments.

Directors desire to place on record their appreciation of the services rendered by Sir Ernest Chappell and Mr. J. Pyott.

Auditors.—Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs Whiteley Brothers were appointed at the last Ordinary General Meeting to examine the accounts of the Bank for the past year. The Stockholders will be requested at the forthcoming Ordinary General Meeting to determine, upon the recommendation of the Board, the remuneration of the Auditors for the recent audit, and to appoint Auditors for the current year.

Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers offer themselves for re-election.

J. POSTMUS, Governor.

M. H. DE KOCK,
G. A. KOLBE, Directors.
G. P. J. LOTZ,

G. G. MESSUM, Secretary.

PRETORIA,
10th June, 1942.

BALANCE SHEET 31st MARCH, 1942.

LIABILITIES.

	£	s.	d.	£	s.	d.
Capital				1,000,000	0	0
Reserve				1,000,000	0	0
Notes in Circulation				30,737,642	10	0
Nots of Other Banks in Circulation				131,408	0	0
Deposits:—						
Bankers' Reserve Accounts	13,980,187	18	10			
Bankers' Current Accounts	36,197,215	11	0			
Government and Provincial Current Accounts	18,178,239	13	7			
Other Accounts	6,026,641	4	8			
				74,382,284	8	1
Rebate on Bills not yet due				4,690	1	11
Other Liabilities				2,109,379	19	9
Profit and Loss Account	611,557	14	7			
Less: Interim Dividend for the half year to 30th September, 1941	40,000	0	0			
				571,557	14	7
				£109,936,962	14	4

ASSETS.

	£	s.	d.	£	s.	d.
Gold Coin and Bullion				47,898,137	12	8
Other Coin				256,341	1	3
Balances with Overseas Central Banks				1,394,056	14	3
Balance Employed under the Guarantee of the Bank of England				928,468	15	0
Bills Discounted:—						
Foreign	6,042,792	11	4			
Union Government Treasury Bills	25,000	0	0			
				6,067,792	11	4
Investments				18,566,021	0	6
Fixed Property				223,588	7	8
Furniture and Fittings				1	0	0
Other Assets				34,602,555	11	8
				£109,936,962	14	0

N.B.—All British Sterling Holdings have been converted into South African pounds at £100 7s. 6d. South African for £100 British Sterling.

Other Foreign Currency Holdings have been converted into South African pounds at the rates ruling on 31st March, 1942.

PROFIT AND LOSS ACCOUNT for the year ended 31st MARCH, 1942.

DR.	£	s.	d.	£	s.	d.	CR.	£	s.	d.
To **General Expenditure, including** Rent, Rates, Salaries and Directors' Fees				194,652	10	3	By **Gross Revenue,** after making provision for Income Tax, Rebate on Bills not yet due, Sundry Liabilities, etc.	927,443	2	6
,, **Written off:—**	£	s.	d.							
Fixed Property	100,000	0	0							
Furniture and Fittings	1,732	17	8							
				101,732	17	8				
,, **Pension Fund**				19,500	0	0				
,, **Profit for the Year** — allocated as under: (Vide Report of Governor and Directors):										
To Stockholders	100,000	0	0							
,, Government	511,557	14	7							
				611,557	14	7				
				£927,443	2	6		£927,443	2	6

G. G. MESSUM, Secretary.

Pretoria, 10 June, 1942.

J. POSTMUS, Governor.

M. H. DE KOCK,
G. A. KOLBE,
G. P. J. LOTZ, } Directors.

To the Stockholders of

The South African Reserve Bank,

We have audited the Balance Sheet dated 31st March, 1942, above set forth and have obtained all the information and explanations we have required. We have verified the Cash, Investments, Securities and Other Assets. In our opinion the Balance Sheet is a full and fair Balance Sheet containing the particulars requested by the Currency and Banking Act 1920, and subsequent amending Acts, and the Regulations thereunder, and is properly drawn up so as to exhibit a true and correct view of the whole of the Bank's affairs at 31st March, 1942, according to the best of our information and the explanations given to us and as shown by the books of the Bank.

DELOITTE, PLENDER, GRIFFITHS, ANNAN & CO.,
WHITELEY BROTHERS,

Auditors.

Johannesburg, 5th June, 1942.

1943

SOUTH AFRICAN RESERVE BANK

REPORT OF THE

TWENTY-THIRD

ORDINARY GENERAL MEETING

23rd July, 1943

SOUTH AFRICAN RESERVE BANK.

Established under the Currency and Banking Act, 1920.

Board of Directors:

JOHANNES POSTMUS	Governor.
MICHIEL HENDRIK DE KOCK	Deputy-Governor.
WILLIAM DUNCAN BAXTER MATHYS GUSTAV DE JAGER DAVID HUNT HEPBURN HENDRIK CHRISTIAAN JORISSEN REGINALD HEINRICH PARKER ROBERT PYOTT	Commercial, Agricultural and Industrial Representatives.
GEORGE AUGUSTUS KOLBE GERRIT PETRUS JOHANNES LOTZ ROBERT NIVEN	Government Representatives.

HEAD OFFICE — PRETORIA

Chief Cashier — E. W. Cattell

Secretary and Chief Accountant — G. Rissik

Branches:	Agents:
Bloemfontein	A. F. Celliers.
Cape Town	G. Siemelink.
Durban	W. W. Brown.
East London	C. N. Meek.
Johannesburg	A. S. Little.
Pietermaritzburg	A. F. Halliday.
Port Elizabeth	C. H. Parke.
Pretoria	H. J. Alston.

SOUTH AFRICAN RESERVE BANK

Twenty-Third Ordinary General Meeting of Stockholders

MINUTES OF PROCEEDINGS

The Twenty-Third Ordinary General Meeting of Stockholders was held at the Head Office of the Bank, Pretoria, on Friday, 23rd July, 1943, at noon, the Governor presiding.

The Governor declared the Meeting duly convened in terms of the Regulations framed under the Currency and Banking Act, as amended.

The Minutes of the previous Meeting were taken as read and confirmed.

The Reports of the Board and of the Auditors for the year ended 31st March, 1943, were presented and taken as read.

The Governor then addressed the Meeting and said:—

In presenting to you the Balance Sheet and Accounts and the Reports of the Board and the Auditors I shall explain, as usual, the various items appearing therein.

The CAPITAL and RESERVE FUND remained unaltered.

NOTES IN CIRCULATION: £41,432,336 0s. 0d.

Although the circulation of bank notes at the end of the month is much greater than the average over the whole month, the increase compared with last year is larger than can be explained by the increase in the Bank's turnover.

Even after allowing for a fairly substantial increase in the amount of notes circulating outside the Union of South Africa, there remains an amount of several million pounds which cannot be accounted for in the normal way. One is driven to the conclusion that Reserve Bank notes are being hoarded. More money is coming into the hands of people who do not have banking accounts or other deposit accounts, and notes are probably used also in increasing amounts for unauthorised transactions.

Whatever the causes of the increased circulation may be, notes are legal tender and the Bank must meet the demand for them. As our larger denominations of £100 and £20 have never been popular we are going to introduce one of these days a new £10 note so as to try and reduce the heavy demands on our stock of £5 notes.

NOTES OF OTHER BANKS IN CIRCULATION: £131,171 0s. 0d.

Few notes were offered for redemption.

DEPOSITS: £110,731,659 0s. 0d.

The increase in this account is again considerable. On comparing the figures in detail with those of last year it appears that practically speaking the whole of this increase is due to an increase in the balances of the commercial banks. The credit balances of their customers have increased, as a result of which the banks have had to increase their reserve balances from nearly £14 million to just over £19 million, whereas their increased liabilities are to a large extent reflected in an increase in their free balances with us from £36 million to nearly £72 million.

These figures indicate better than anything else that our balance of payments is still a very favourable one. The only unknown factor is in how far the depletion of local trading stocks is responsible for the increased balances. But as the Bank follows the same policy with regard to these balances as explained in my last address vis à vis the foreign monies invested in our country, i.e. that all such amounts are being kept in the form of gold or easily realisable bills and securities, the holders of such balances can avail themselves thereof at any time they like and in a form which will be acceptable all the world over.

REBATE ON BILLS NOT YET DUE: £9,903 2s. 6d.

As a result of some special gold and exchange transactions which the Bank carried out at the request and for account of the Union Treasury, our investment in British Treasury bills was somewhat larger than usual. This caused the increase in the amount of interest belonging to the following book-year.

OTHER LIABILITIES: £3,783,079 16s. 7d.

This is an omnibus item mainly made up of mail transfers, provision for taxes, sundry liabilities and contingencies. The amount fluctuates largely from day to day.

PROFIT AND LOSS ACCOUNT: £510,608 2s. 7d.

As usual I will refer to this item a little later and now turn to the assets side of the Balance Sheet.

GOLD COIN AND BULLION: £65,467,289 19s. 4d.

Our stock of gold, compared with last year's figures, increased by about 17½ million pounds. This increase will not cause surprise when compared with our greatly increased liabilities.

As you know I have always maintained the fullest confidence in gold, and would not again have referred to this subject at this stage if it had not been for the many press reports dealing with the so-called Keynes and White plans. Although the time has not yet arrived to say more about these plans, many people who were dubious about the future of gold generally and of our gold mines in particular, have taken heart again. But even if these plans should not crystallise into immediately workable results, people should not again waver in their newly regained confidence.

OTHER COIN: £512,451 17s. 11d.

Under the heading "Bank Notes in Circulation" I referred to circumstances which cannot be accounted for in the normal way. Here we have a similar experience. We can measure with almost complete accuracy the amount of silver and bronze absorbed by the South African population but it is not so easy to say why this should amount to:

£ 69,800	in the year ending	31 March	1940
£ 891,500	,, ,, ,, ,,	31 ,,	1941
£ 571,300	,, ,, ,, ,,	31 ,,	1942
£1,319,800	,, ,, ,, ,,	31 ,,	1943

The increase in bronze coin is no doubt due to war circumstances, i.e. the decisions of the Price Controller, but we are at a loss to understand the large increase in the silver circulation.

However, the main thing is to have the coin ready for issue and the Mint has been able to cope with the demand; for farthings, however, the demand at one time outran the supply in the hands of the commercial banks. As a matter of interest I will mention here that farthings, once issued, are not again paid in to their bankers by the public.

BALANCES WITH OVERSEAS CENTRAL BANKS: £295,053 14s. 10d.

BALANCE EMPLOYED UNDER THE GUARANTEE OF THE BANK OF ENGLAND: £1,907,125.

As explained on previous occasions these amounts represent our overseas till money.

FOREIGN BILLS DISCOUNTED:
£9,240,980 14s. 8d.

For reasons explained under the heading "Rebate on Bills not yet due" this amount, which represents British Treasury bills, is higher than usual. As in the case of the two previous accounts the balance varies from day to day and to a large extent as a result of our sales and purchases of exchange.

INVESTMENTS: £27,409,864 0s. 11d.

Ordinary investments now amount to £1,722,488 7s. 9d. and appear in our books at or below cost, and in every instance at less than market value.

Other investments, which have increased from £16,834,909 8s. 9d. to £25,687,375 13s. 2d., consist of Union Government Stocks purchased in connection with the repatriation scheme to which I alluded in my last report and a further scheme which formed the subject of an official announcement by the Treasury on the 19th December last.

Under the latter scheme the Bank laid down the sterling required for the repatriation of stock by selling gold to the value of £40,000,000, in addition to the amount of over £33,500,000 sold in connection with the first scheme.

The cost of the stocks actually repatriated (it is, of course, impossible to arrive at an exact figure beforehand of the amount which will fall under the relative Vesting Order which can apply only to residents of the United Kingdom) was £37,424,144 3s. 4d. of which £17,000,000 had been redeemed by the Treasury at 31st March.

Of the outstanding amount of £16,834,909 8s. 9d. of stocks repatriated under the first scheme shewn in last year's Balance Sheet over £11,000,000 has been redeemed.

At 31st March the outstanding amounts of stock were as follows:

	£	s.	d.
1st Repatriation Scheme	5,263,231	9	10
2nd ,, ,, ...	20,424,144	3	4
	25,687,375	13	2
Bank's Ordinary Investments	1,722,488	7	9
Total Investments	27,409,864	0	11

FIXED PROPERTY: £195,654 0s. 3d.

We took over our new building in Pietermaritzburg in August 1942 and opened for business on the 1st October following. The Bank was very fortunate in securing a dignified building, which suits our requirements very well.

Our new building at Port Elizabeth will soon be completed; the contractors have been very fortunate in having had little delay in the delivery of material ordered from oversea.

FURNITURE AND FITTINGS: £1.

Mostly in connection with our new buildings we had to spend close on £5,000 on strong-room doors, etc., which amount has been written off in toto.

LOANS AND ADVANCES: £387,293 12s. 0d.

These advances have been made to various semi-government concerns for the importation of essential products and raw materials and are secured by guarantees of the Union Government.

OTHER ASSETS: £53,183,043 1s. 9d.

The increase of about £18.6 million in this account compared with last year is explained by the increase of about £17.7 million in our gold holdings.

The other accounts falling under this heading "Remittances in Transit," "Uncleared Effects," etc. do not call for comment.

PROFIT AND LOSS ACCOUNT.

Gross Profits showed a reduction, compared with last year's figures, of about £36,000, which would have been much larger but for the enhanced income from interest and discount.

At the same time our "General Expenditure" went up by roughly £18,000 which under war conditions is not surprising. Cost of living allowances, cost of larger bank note circulation, increased municipal taxation and the like account for the total increase.

Compared with the last normal year before the outbreak of war, 1st April 1938 to 31st March 1939, the general expenditure of the Bank has risen by £45,000, which increase, on close examination, is fully accounted for by the cost of operating our new branch at Pietermaritzburg, cost of living allowances, larger note issue, and last but not least the enormous increase in government work on account of the war, including the exchange control.

After paying a dividend of 10%, the maximum under the Act, we paid £450,608 2s. 7d. to the Union Government.

EXCHANGE CONTROL.

The control of exchange continues to run smoothly, notwithstanding the greater difficulties presented by shipping shortage and other conditions which tend to become accentuated the longer the war lasts.

STAFF.

Before passing on to my general remarks I want to say a word of appreciation to the staff who have dealt with a still increasing volume of work in an expeditious manner. Again many unusual transactions went through our hands, some of them at very short notice, but so far we have been able to carry them out successfully, and, knowing my staff as I do, I have no doubt that they will stick to their guns as in the past.

GENERAL REMARKS.

From the explanation I have given you of the various balance-sheet items you will no doubt have drawn the conclusion that the position of your central bank is strong and liquid. Indeed so strong and liquid that from responsible quarters the suggestion was made that the Bank should part with its gold, or in any case a great part thereof, and invest the proceeds in Sterling Treasure Bills. I take this opportunity of pointing out that the Reserve Bank is the custodian of the commercial banks' money and they in turn are the custodians of the public's money. Their duty and our duty is to keep that money at the disposal of the owners in the form it was entrusted to them and us, i.e. in South African currency. In any case, every depositor has the right to transfer his money and to invest it in British Treasury Bills, without any exchange control putting any question to him.

The transfer of funds from other countries to the Union appears to be continuing but not on a large enough scale to account for the easy monetary conditions which this country enjoys. I have heard it said that "the full banks are caused by the empty shops and stores." To a certain extent this is true, but the main cause has been and still is, as I explained earlier, our favourable balance of payments.

And when we are able to import freely again, I have no doubt whatever that "filling the shops and stores will not empty our banks." On the contrary: from statistics which we keep in the Bank the conclusion is irresistible that the Union for a very long time to come will have more capital at its disposal than its present needs demand, even after allowing for heavy demands on the banks for restocking and re-equipment purposes.

Formerly there was competition amongst borrowers, to-day the competition is amongst lenders, and interest rates have already come down to such an extent that one is reminded of the slogan heard half a century ago that "Lombard Street cannot stand 2%"; meaning of course that when money becomes very cheap for any length of time, speculation will rear its head. Here and there we see signs of it in our country, and this causes me to repeat what I said two years ago: "I ask the leaders of our mining houses, when considering development of new mines or extension of existing mines, whether they, instead of waiting for the London market to be open to them again, would not explore the possibility of finding local support for their plans." To-day I even feel justified in extending this request to all other concerns which can put before the public new undertakings, which are both economically justified and sound financially. I am sure the Treasury will raise no objection to sound flotation of capital knowing as it does that its requirements under all circumstances will be easily met.

As observed under "Investments," the Union Government made use of the easy monetary conditions to repatriate a further amount of government debt, so that our external debt was reduced during the year 1st April 1942—31st March 1943 by £39 million to roughly £20 million. This £39 million had to be borrowed in South Africa in addition to such portion of our war expenditure as remained uncovered by taxation or voluntary savings of the public in the form of savings certificates and Post Office savings bank deposits, the final result being that the Union Government's total indebtedness increased by roughly £50 million to £430 million at the 31st March last.

The increase in national debts, throughout the world, is becoming a real menace. When we compare the percentage increase in the Union's debt to the much bigger increases of a similar nature in other countries we may justifiably congratulate ourselves on three points, viz.:

1. a very large proportion of our debt is represented by interest earning and productive assets (railways, etc.);

2. the total of our unproductive debt is still manageable;

3. by far the largest part of our exportable production will neither now nor after the war have to fear a lower price; on the contrary it will be in demand by an ever growing circle of producers of consumable goods.

Reassuring as these thoughts may be to us, they remain overshadowed by the further consideration that the world at large is not in that happy position, and we in this country should not run away with the idea that we, on account of our better situation, need not be concerned about what will happen elsewhere of which we shall feel the repercussions in no uncertain way. But again I venture to say that we will not be rushed off our feet so long as we have the courage

1. to stick to sound and stable currency;

2. to submit to such taxation as circumstances may demand;

3. to do our share in carrying out the Atlantic Charter;

4. to keep faith with those who have trusted us;

5. to interfere as little as possible with personal liberty and initiative.

I am sure it did not come as a surprise to you that I put sound currency first and in my position I need not give you in many words the reason why. Let it be sufficient to repeat what has been said so many times before, that "business wants a basis to build upon." It was lack of confidence in the currency of their country that brought disaster to numerous nations of the world, not only in recent times, but throughout all periods of history, even back to the remotest history of Rome and Greece.

I am thankful that our Government appears to realise fully the blessing of sound currency and sound financial conditions generally as was evidenced by the introduction of legislation affecting banks and kindred institutions and building societies. The Banking Act, which came into operation on the 1st July, prescribes, without interfering with the individual views of the banker, such general rules for banks, etc. and insists on such relation between capital, reserves, immediately available assets, etc. that "safety for savings" seems to be as well assured as can be expected.

The Act came into operation at a moment when the banking position of the country was a very strong one. As I referred to this subject at some length on two previous occasions, I shall not say much about it this time, except to express the hope that our bankers will constantly bear in mind that the soundness or otherwise of our banking practice will only after the war be put to the real test.

I now move—"That the Report and Accounts be adopted".

The motion was seconded by Mr. L. L. French and having been put to the Meeting was carried unanimously.

On the motion of the Governor, seconded by Mr. R. H. Parker, it was unanimously resolved—

That Mr. R. Pyott and Mr. D. H. Hepburn whose period of office expired on the 1st July, 1943, in accordance with the terms of the Currency and Banking Act, be re-elected as Class 'A' Directors.

The Governor moved—

(1) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be paid the sum of One Thousand, Two Hundred guineas each in accordance with the recommendation of the board, for auditing the accounts of the Bank for the year ended 31st March, 1943.

(2) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be appointed auditors of the Bank's Accounts for the coming year.

The Resolutions were seconded by Mr. S. R. Barnes and having been put to the Meeting separately were carried unanimously.

Mr. Robert Niven moved a resolution of thanks to the Governor for his address. Although, he said, such a motion was customary and a courtesy he felt that stockholders were indebted to the Governor for far more than his address. His difficulties and responsibilities, many without precedent, had increased and there had been many problems to face but the Governor had met them with courage and wisdom.

Mr. W. S. F. Cameron, in seconding the motion, thanked the Governor for his address and expressed satisfaction at the excellent position in which the Bank found itself. He hoped that the Bank would continue closely to watch financial developments in the country and that it would be able to play a big part in the reconstruction after the war.

After the Governor had suitably replied to the remarks of both speakers the proceedings terminated.

1943

SOUTH AFRICAN RESERVE BANK

REPORT OF THE GOVERNOR AND DIRECTORS TO BE PRESENTED TO STOCKHOLDERS AT THE TWENTY-THIRD ORDINARY GENERAL MEETING TO BE HELD AT PRETORIA ON THE 23rd JULY, 1943.

The accompanying copies of the Annual Accounts of the Bank and of the Auditors' Report are presented to Stockholders in compliance with the Regulations framed under Section 29 of the Currency and Banking Act.

After all expenses had been paid and full provision had been made for Income Tax and all other liabilities and contingencies, and after the following amounts had been written off, as shown in Profit and Loss Account, viz.:

	£	s.	d.
From Fixed Property Account	100,000	0	0
From Furniture and Fittings Account	4,939	5	9
and after contributing to the Pension Fund	24,000	0	0
	£128,939	5	9
there were left net profits of	550,608	2	7

which have to be allocated in terms of Section 11 (1) of the Currency and Banking Act, as follows:—

	£	s.	d.			
Dividend to Stockholders of 10% per annum	100,000	0	0			
Balance payable to the Government	450,608	2	7			
				£550,608	2	7

Fixed Property Account.—After application of the provision of £100,000 shown above, the Bank's Fixed Property Account stands at £195,654 0s. 3d. against which it holds fixed property in Bloemfontein, Cape Town, Durban, East London, Johannesburg, Pietermaritzburg, Port Elizabeth and Pretoria.

Furniture and Fittings Account.—After application of the provision of £4,939 5s. 9d. shown above, this account is written down to £1 0s. 0d. against which is held all the furniture and fittings of the Bank, including Strong Room Equipment and Safes.

Dividends.—The Directors have declared the following dividends for the past year:

(1) an interim dividend of 4% for the half-year ended 30th September, 1942:

(2) a final dividend of 6% for the half-year ended 31st March, 1943:

making a total dividend of 10% for the year ended 31st March, 1943.

Capital Stock.—Holders of the Capital Stock of the Bank at the 31st March, 1943, numbered 968 of whom 50.67% held less than £500 stock each.

Directors.—In accordance with the Act. Mr. D. H. Hepburn and Mr. R. Pyott retire by rotation, but, being eligible, offer themselves for re-election.

Auditors.—Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers were appointed at the last Ordinary General Meeting to examine the accounts of the Bank for the past year. The Stockholders will be requested at the forthcoming Ordinary General Meeting to determine, upon the recommendation of the Board, the remuneration of the Auditors for the recent audit, and to appoint Auditors for the current year.

Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers offer themselves for re-election.

J. POSTMUS, Governor.

M. H. DE KOCK,
D. H. HEPBURN, Directors.
G. A. KOLBE,

G. RISSIK, Secretary.

PRETORIA,
16th June, 1943.

BALANCE SHEET 31st MARCH, 1943.

LIABILITIES.

	£	s.	d.	£	s.	d.
Capital				1,000,000	0	0
Reserve				1,000,000	0	0
Notes in Circulation				41,432,336	0	0
Notes of other Banks in Circulation				131,171	0	0
Deposits:—						
Bankers' Reserve Accounts	19,049,657	1	10			
Bankers' Current Accounts	71,677,976	16	3			
Government and Provincial Current Accounts	14,343,264	5	6			
Other Accounts	5,660,760	16	5			
				110,731,659	0	0
Rebate on Bills not yet due				9,903	2	6
Other Liabilities				3,783,079	16	7
Profit and Loss Account	550,608	2	7			
Less Interim Dividend for the half year to 30th September, 1942	40,000	0	0			
				510,608	2	7
				£158,598,757	1	8

ASSETS.

	£	s.	d.
Gold Coin and Bullion	65,467,289	19	4
Other Coin	512,451	17	11
Balances with Overseas Central Banks	295,053	14	10
Balance Employed under the Guarantee of the Bank of England	1,907,125	0	0
Foreign Bills Discounted	9,240,980	14	8
Investments	27,409,864	0	11
Fixed Property	195,654	0	3
Furniture and Fittings	1	0	0
Loans and Advances	387,293	12	0
Other Assets	53,183,043	1	9
	£158,598,757	1	8

N.B.—All British Sterling Holdings have been converted into South African pounds at £100 7s. 6d. South African for £100 British Sterling.

Other Foreign Currency Holdings have been converted into South African pounds at the rates ruling on 31st March, 1943.

R. Bank 3—5.

PROFIT AND LOSS ACCOUNT for the year ended 31st MARCH, 1943.

DR.

	£	s.	d.	£	s.	d.
To **General Expenditure,** including Rent, Rates, Salaries and Directors' Fees				212,289	8	8
,, **Written off:—**						
Fixed Property	100,000	0	0			
Furniture and Fittings	4,939	5	9			
				104,939	5	9
,, **Pension Fund**				24,000	0	0
,, **Profit for the Year**—allocated as under:— (Vide Report of Governor and Directors).						
To Stockholders	100,000	0	0			
,, Government	450,608	2	7			
				550,608	2	7
				£891,836	17	0

CR.

	£	s.	d.
By **Gross Revenue** — after making provision for Income Tax, Rebate on Bills not yet due, Sundry Liabilities, etc.	891,836	17	0
	£891,836	17	0

G. RISSIK, Secretary.

J. POSTMUS, Governor.

M. H. DE KOCK,
D. H. HEPBURN,
G. A. KOLBE,
Directors.

Pretoria, 16th June, 1943.

To the Stockholders of

The South African Reserve Bank.

We have audited the Balance Sheet dated 31st March, 1943, above set forth and have obtained all the information and explanations we have required. We have verified the Cash, Investments, Securities and Other Assets. In our opinion the Balance Sheet is a full and fair Balance Sheet containing the particulars required by the Currency and Banking Act 1920, and subsequent amending Acts, and the Regulations thereunder, and is properly drawn up so as to exhibit a true and correct view of the whole of the Bank's affairs at 31st March, 1943, according to the best of our information and the explanations given to us and as shown by the books of the Bank.

DELOITTE, PLENDER, GRIFFITHS, ANNAN & CO.,
WHITELEY BROTHERS,

Auditors.

14th June, 1943.

1944

SOUTH AFRICAN RESERVE BANK

REPORT OF THE

TWENTY-FOURTH

ORDINARY GENERAL MEETING

28th July, 1944

SOUTH AFRICAN RESERVE BANK.

Established under the Currency and Banking Act, 1920.

BOARD OF DIRECTORS:

JOHANNES POSTMUS	GOVERNOR.
MICHIEL HENDRIK DE KOCK	DEPUTY-GOVERNOR.
WILLIAM DUNCAN BAXTER MATHYS GUSTAV DE JAGER DAVID HUNT HEPBURN HENDRIK CHRISTIAAN JORISSEN REGINALD HEINRICH PARKER ROBERT PYOTT	COMMERCIAL, AGRICULTURAL AND INDUSTRIAL REPRESENTATIVES.
GEORGE AUGUSTUS KOLBE GERRIT PETRUS JOHANNES LOTZ ROBERT NIVEN	GOVERNMENT REPRESENTATIVES.

HEAD OFFICE — PRETORIA

CHIEF CASHIER — E. W. CATTELL

SECRETARY AND CHIEF ACCOUNTANT — G. RISSIK

BRANCHES:	AGENTS:
BLOEMFONTEIN	A. F. CELLIERS.
CAPE TOWN	G. SIEMELINK.
DURBAN	W. W. BROWN.
EAST LONDON	C. N. MEEK.
JOHANNESBURG	A. S. LITTLE.
PIETERMARITZBURG	A. F. HALLIDAY.
PORT ELIZABETH	C. H. PARKE.
PRETORIA	H. J. ALSTON.

SOUTH AFRICAN RESERVE BANK

Twenty-Fourth Ordinary General Meeting of Stockholders

MINUTES OF PROCEEDINGS

The Twenty-Fourth Ordinary General Meeting of Stockholders was held at the Head Office of the Bank, Pretoria, on Friday, 28th July, 1944, at noon, the Governor presiding.

The Governor declared the Meeting duly convened in terms of the Regulations framed under the Currency and Banking Act, as amended.

The Minutes of the previous Meeting were taken as read and confirmed.

The Reports of the Board and of the Auditors for the year ended 31st March, 1944, were presented and taken as read.

The Governor then addressed the Meeting and said:

In presenting to you the Balance Sheet and Accounts and the Reports of the Board and the Auditors I shall explain, as usual, the various items appearing therein.

The CAPITAL of the Bank remains unaltered at £1,000,000.

The RESERVE FUND also remained at the former figure of £1,000,000.

NOTES IN CIRCULATION: £51,169,010 10s. 0d.

Our bank-note circulation still continues to rise. The increase throughout the year was not higher than in the previous year but is still much larger than can be explained by any increase in the Bank's turnover or by any other normal factor. In round figures 1941 showed an increase over 1940 of £4 million. The following year the increase was £6 million, the year after £10 million while 1944 again showed an increase over 1943 of £10 million. (Every year taken as at the 31st of March).

This greatly increased circulation requires a larger staff to handle it, not to mention the increased printers' bill. We have found some relief in the excellent reception our new £10 notes have had in so far as the number of £5 notes has been proportionately decreased.

NOTES OF OTHER BANKS IN CIRCULATION: £153,611 15s. 0d.

Instead of showing a reduction on account of notes outstanding being repaid by us, this account shows a substantial increase. When the Bank in 1924 took over the liability of the commercial banks for their notes still in circulation, it was held by the Court that the provision of the Act as worded did not cover the issues of amalgamated banks. Under mutual arrangement with Barclays Bank (D.C. & O.) who were liable for these notes, we assumed liability as from 31st December, 1943,

As a result all South African bank-notes still legally in circulation are now a liability of the South African Reserve Bank.

DEPOSITS: £142,316,415 5s. 2d.

My statement that this account again shows a marked increase is getting monotonous. Monotonous it may be, but satisfactory it remains because the figures reflect a favourable balance of payments.

Bankers' current account balances with us increased from £72 million to £102 million, while the further increase in their deposit liabilities caused the banks to increase their Reserve Accounts with us by well over £3 million.

Government, Provincial and other accounts showed no marked differences.

We have reason to believe that foreign monies seeking investment in South Africa are steadily increasing. The Reserve Bank (through the commercial banks) must be prepared to meet a withdrawal of such funds at any moment, and in order to be more fully informed on this very important aspect of the country's monetary position, we have asked the authorised exchange dealers to supplement the exchange statistics which they render to the Bank so as to enable us to gauge with what commitments we will be faced in course of time.

REBATE ON BILLS NOT YET DUE:
£37,312 2s. 11d.

As large payments for the Union Government on account of Defence commitments are anticipated, we had a much larger amount invested in foreign bills than usual. The discount earned on these bill belongs partly to the next financial year, and the increased amount of bills explains the larger amount of rebate.

OTHER LIABILITIES: £2,065,946 5s. 11d.

An omnibus account; the largest item is "Mail Transfers in Transit" £760,298 11s. 8d., the smallest "Credits in Suspense" £0 9s. 5d.

PROFIT AND LOSS ACCOUNT:
£472,997 17s. 3d.

As usual I will again refer to this item a little later, and I now turn to the assets side of the Balance Sheet.

GOLD COIN AND BULLION:
£88,348,770 1s. 1d.

Alongside our increasing liabilities we have built up our gold reserve.

Judging by what has been said and written on the subject of gold during the preceding six months, a lot could be said under this heading, but all I could say would not make the Bank's Balance Sheet any clearer than it is.

OTHER COIN: £226,125 4s. 1d.

The large decrease in our holding of subsidiary coin compared with last year, is more apparent than real.

Towards the end of last year we took delivery from the Mint of a quarter of a million pounds of silver, which coin was really connected with our requirements for the next year.

Supplies are regularly coming forward, and at no time did we experience any difficulty in meeting the public demand.

BALANCES WITH OVERSEAS CENTRAL BANKS: £510,320 8s. 2d.

BALANCE EMPLOYED UNDER GUARANTEE OF THE BANK OF ENGLAND: Nil.

The smallness of these balances has no particular meaning. The amounts vary from day to day as explained in various previous reports.

FOREIGN BILLS DISCOUNTED:
£22,531,153 11s. 1d.

I explained under "Rebate on Bills not yet due" why the Bank held a larger amount than usual in British Treasury Bills.

On previous occasions such temporary investments had on the date of signing our Balance Sheet and Profit and Loss account already been sold, and the resultant sterling had been used to pay for telegraphic transfers in favour of our customers. For that reason we have for years taken such investments into our Balance Sheet at the rate of £100 7s. 6d. This time, however, the amount being so much larger than usual, we did not feel at liberty to follow the same procedure as we wished to adhere to the principle that no profits shall be relied on before they have been realised, and we have accordingly valued these and all other sterling holdings at par.

As all the financial institutions in our country are well provided with funds, the Bank has not been approached by them for discount facilities.

LOANS AND ADVANCES: £1,839,946 8s. 0d.

The list of raw materials which other countries will sell only to allied governments is growing. These advances have been made to the bodies which import such goods and are against Treasury guarantee.

INVESTMENTS: £9,469,967 18s. 8d.

The large reduction in this account compared with last year is, of course, accounted for by the Union Government having taken over from the Bank a further amount of the loans redeemed in London. We now carry only the balance of the 1950/70 5% stock, which together with the premium account, amounts to

	£7,733,797 4s. 2d.
while the balance of	£1,736,170 14s. 6d.
	£9,469,967 18s. 8d.

represents the book value of the Bank's ordinary investments, which in every instance is below cost price and the market price.

FURNITURE AND FITTINGS: £1.

Mainly on account of our new building at Port Elizabeth we had to spend close on £6,000 on new furniture and strong-room equipment.

FIXED PROPERTY: £145,795 0s. 7d.

As foreshadowed in my last report we took over our new building at Port Elizabeth during the course of the year, and on the 1st September, 1943, opened it to the public.

On account of the large strong-room the new building is a very welcome addition to our gold storage capacity.

Opinion is unanimous as regards the beauty of the architecture and workmanship of the building.

The usual amount has been written off under this heading.

OTHER ASSETS: £75,143,214 4s. 7d.

During the year our gold holding increased by roughly £22.9 million and our Gold Premium Account by roughly £22.4 million to £72,128,666 12s. 11d. Amongst the other items of which this omnibus account is composed, Remittances in Transit, amounting to £2,991,086 3s. 7d., is the largest, and Stamps Account, with a debit balance of £63 0s. 5d., is the smallest account.

PROFIT AND LOSS ACCOUNT.

There is not much to be said under this heading. There was a relatively small increase in general expenditure and a heavy increase in the expenses connected with our bank-note circulation. Our income from Interest and Discount was very much larger than last year, but our exchange profits (which this year did not benefit from large remittances in connection with the repatriation of Government stock from oversea) showed a decline. The final result was reflected in the smaller share in profits which we could hand to the Treasury, i.e. £412,997 17s. 3d. as against £450,608 2s. 7d. last year.

EXCHANGE CONTROL.

There is little fresh to be reported under this heading which means that the exchange control is still running smoothly.

STAFF.

Notwithstanding that our staff position remained difficult, we have been able to keep things going, but we had to refuse some new accounts which might have overtaxed our human and mechanical resources.

Yet our turnover has increased by 10% and the work connected with the note circulation by nearly 25% during the year.

At this late hour there are still people, within and outside the Bank, who do not realise that the Bank's work is essential. Not only on account of the numerous and large military accounts we keep, but even more on account of the final clearing of the whole country's financial transactions. Some 30 years ago in my native country the Post Office Cheque and Giro system broke down with serious effects for the business community and big losses for the State.

The general public does not realise what thanks are due to the staffs of the Banks, and I would like our staff to know that the Board knows how essential their services in particular are and appreciates what they are doing. They are, just as assuredly as the munition worker, assisting the front line we are all out to aid.

ACT NO. 29 OF 1944.

Although not belonging to the financial year 1943—44, I should mention here that a new charter was granted to the Bank by Parliament during the past year. As the Bank's right to issue bank-notes would have come to an end in December 1945, the Minister of Finance agreed with us that matters should not be left till the last moment and we accordingly drafted a bill which also embodied the amendments which had been made from time to time. Although in principle the new Act does not materially differ from the former one, on the whole a simplification has been arrived at and Parliament, so to say, has acknowledged that the Bank has successfully passed its trial period and should no longer be confined to a limited period in exercising its duties and privileges.

GENERAL REMARKS.

When in 1935 I paid official visits to a dozen central banks, it so happened that during my visit to one of the largest I received my South African mail and was reading it when interrupted by the Governor. He remarked: "Judging by your face you received satisfactory news." I told him what it was, and I was only too pleased, at his request, to explain to him briefly every item of the Reserve Bank's balance sheet as I have done to you just now. His reaction was noteworthy: "It took you five minutes to give me a clear and complete insight into the financial position of your country. I am sorry I cannot return the compliment. It would take me five hours to explain to you my balance sheet, and even then you would not understand what it all means."

At the time I was uncertain how he intended his remark to be taken but subsequent events convinced me that the words had been spoken in dead earnest.

It is too much to expect that you will remember what I said to you from this place on previous occasions, but I would be greatly disappointed if during all these years I should not have succeeded in impressing upon you my honest conviction that a central bank's first and most important duty is to assist the Government of its country in maintaining or restoring financial stability. If this conviction required any practical confirmation, I got it during my trip of 1935!

You do not expect me to take you back through the years between the two world wars, through all the trials and errors of governments and individuals. You know as well as I do that with the best of intentions mistakes were made. If each country had been self-contained, it is feasible that some of them would have been able to avoid most of these mistakes or to have ploughed a lonely furrow long enough to lead back to a balanced budget and sound conditions generally.

But as the world grows more and more into one large unit, so it becomes more and more difficult for any country to isolate itself. No wonder that the leading countries are comparing notes about what can be done to avoid former mistakes when the present war comes to an end.

Although this "comparing notes" is still being done by technical men and not by the various governments, in other words although there is no cause yet to refer to any plan in particular, I venture to remark that as far as I can see, South Africa should not get concerned about any difference of opinion that may arise between nations on plans for the regulation of international trade. Not that we should be indifferent to what happens in other countries but merely because we can bide our time. Our articles of export are readily saleable and there appears to be no further doubt that our main product, gold, will be accepted as a means of international payment, if not in preference to, then surely as readily as any international paper currency.

This observation leads me to another important subject which I at first had no intention to refer to: inflation. The very high prices paid for fixed property and even for movables of all sorts can only find their origin in people's fear of inflation. I have discussed this subject with people who come into daily contact with our business community, and there is no doubt in my mind that a far greater number of people misunderstand the meaning of inflation than I thought possible.

As the Minister of Finance has repeatedly explained, the present increase in price of many necessities of life is mainly caused by the following circumstances, to memtion the most important only:

The belligerent countries are our greatest suppliers, they produce less civilian goods than usual and the fewer goods which we receive from them have to be paid for at enhanced prices on account of higher production costs, much higher freight and very much higher costs of insurance;

these fewer goods find a much bigger market than before the war because tens of thousands of men and women employed in the army or on war-work receive salaries and wages far in excess of their normal income;

and this increased number of would-be buyers competes for a smaller amount of commodities.

To make the position even more difficult, South Africa is called upon to supply an unusually large number of ships calling at our ports with stores of all kinds.

But this increase in prices is not caused by inflation! As soon as more goods reach the country from abroad, as soon as local production increases and becomes less costly and as soon as purchasing power gets back to a more normal level, the increase in prices will stop and the cost of living will come down.

Inflation, however, never stops until it burns itself out. If the Union Government, instead of levying fairly heavy taxation and borrowing from the general public, would let us off lightly in taxation and borrow from the Reserve Bank any shortfall on revenue account and, on top of it, all that it required on loan account, then the country would soon be heading for inflation for the simple reason that the purchasing power in the hands of the public would be increased by the total of its borrowings from the Central Bank. The easy way of government borrowing would have caused easy spending and this easy spending combined with the greater spending power of the public would have sent prices up independent of the natural causes mentioned before. That would have been the beginning of inflation and, once started, the movement might soon get out of control; higher cost of living, claims for increased salaries and wages, enlarged budgets and deficits, enlarged borrowings from the Reserve Bank, enlarged purchasing power in the hands of the public, etc., etc. With such a spiral inflationary process in being any such system of price control as has been applied with a reasonable amount of success in the Union would be totally ineffective.

This is what happened in the recent past in many countries but it is not happening in South Africa. Here we have been able to produce and export more than we consumed and imported. The difference in our favour was, and still is, considerable and this surplus is not only being used to carry on the war but a substantial balance will be available for use outside South Africa as soon as there is an opportunity of replenishing stocks. This means, of course, that the surplus money in the banks and the notes in the pockets of the people are sound money.

Usually on these occasions I refer to the banking position as a whole. Having detained you so long I will confine my remarks to saying that it is as sound as ever.

We bankers are being accused of all sorts of things as you may have noticed when the new South African Reserve Bank bill went through Parliamant. I will mention a few.

It has been said the banks do not properly regulate credit. Being off the gold standard it is a difficult task to do so but the worst part is that to-day most customers need not consult their bankers, let alone follow their advice. These customers have credit balances in their bank or a pocketful of Reserve Bank notes. They can follow their own fancy, and if they want to pay high prices, nobody — not even their bankers — can say to them, No!

Institutions which might do some good in this respect are the building societies, boards of executors, etc. But here again, the competition between lenders is so great that in many instances the would-be buyer plays one lender off against another and succeeds in getting such a large advance as will enable him to pay the price which in many instances that have come to my notice, is certainly not based on the net return of the acquired property.

Another misapprehension concerns the much debated point of credit creation. I need not enumerate the pros and cons; let it suffice to say that the bulk of the increase in the total of current accounts in the commercial banks did not result from their creating credit but from the creation of credit by the Reserve Bank through buying the output of the gold mines. Whatever credit the banks created when buying bills against produce, diamonds, etc. (or receiving remittances to pay for them) was cancelled again by their customers withdrawing credit balances or part thereof when paying for imports, etc. The commercial banks' advances and discounts show hardly any increase for years.

A third wrong impression is that which makes the banks responsible for booms and slumps. At the risk of flogging a dead horse I will remind the critics that slumps have caused our banks to lose millions in the past, which losses were borne by the shareholders and not by the depositors. Bankers prefer normal times, but as I have remarked before they are powerless to curb the optimism of people who use their own money in business. Optimism is contagious and business becomes brisk. Brisk business soon develops into a boom. The wise businessman remembers his banker's warnings and pulls in his horns. Being known as a wise man, others follow his example, at first singly, soon in numbers. But pessimism also gets the best of people and pessimism being as contagious as optimism, the slump is there in no time. Nervous people withdraw money from the bank and the banks have to insist on advances being reduced. These are the trade cycles which are being so widely studied and discussed. Men being what they are, we must expect these ups and downs as the ebb and flow of the tide.

Still worse is the opinion held by many that gold is a commodity, the price of which can be changed as one changes the price of wheat or timber. They hear about the price of gold in other countries and compare those prices with the price in their own country, forgetting all the time that a difference in price only indicates the greater or smaller confidence the nationals of various countries have in the paper currencies of their respective countries. Not before the exchanges right through the world have become unpegged again and defined in terms of certain quantities of gold, will it be possible again to speak of comparable prices of gold.

While I know that there are certain qualifications, nevertheless I venture to say that gold is not an ordinary commodity as some people are pleased to assert — it is the measure of value established by Act of Parliament, like the yard and the gallon determined by law. Nobody can visualise trade being carried on if a yard might be 3 feet to-day and 2 feet to-morrow or a gallon being equal to 8 pints to-day and to 10 pints to-morrow, but this does not prevent many people from hoping that the problems which the world will have to solve very soon can be greatly met by chopping and changing the exchange value of the units of paper currencies.

Just as the timber merchants would benefit unduly on the day that the foot measure would be reduced to 6 inches, so may some people and some countries benefit for the time being by the alteration in the value of the currency, but such benefits would be at the expense of others and the resultant uncertainty would add new problems to the existing ones instead of solving them.

People do not seem to realise that stable business built on stable currency is one of the strongest pillars of social security!

I now move — "That the Report and Accounts be adopted."

The motion was seconded by Mr. L. L. French and having been put to the Meeting was carried unanimously.

On the motion of the Governor, seconded by Mr. D. H. Hepburn, it was unanimously resolved—

That Mr. M. G. de Jager and Mr. R. H. Parker whose period of office expired on the 1st July, 1944, in accordance with the terms of the Currency and Banking Act, be re-elected as Class 'A' Directors.

The Governor moved—

(1) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be paid the sum of One Thousand Two Hundred guineas each in accordance with the recommendation of the board, for auditing the accounts of the Bank for the year ended 31st March, 1944.

(2) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be appointed auditors of the Bank's Accounts for the coming year.

The Resolutions were seconded by Mr. W. J. Geerling and having been put to the Meeting separately were carried unanimously.

Mr. G. A. Kolbe proposed a vote of thanks to the Governor for his address, and, after the Governor had suitably replied, the proceedings terminated.

1944

SOUTH AFRICAN RESERVE BANK

REPORT OF THE GOVERNOR AND DIRECTORS TO BE PRESENTED TO STOCKHOLDERS AT THE TWENTY-FOURTH ORDINARY GENERAL MEETING TO BE HELD AT PRETORIA ON THE 28th JULY, 1944.

The accompanying copies of the Annual Accounts of the Bank and of the Auditors' Report are presented to Stockholders in compliance with the Regulations framed under Section 29 of the Currency and Banking Act.

After all expenses had been paid and full provision had been made for Income Tax and all other liabilities and contingencies, and after the following amounts had been written off, as shown in Profit and Loss Account, viz.:

	£	s.	d.
From Fixed Property Account	100,000	0	0
From Furniture and Fittings Account	5,884	18	7
and after contributing to the Pension Fund	28,000	0	0
	£133,884	18	7
there were left net profits of	£512,997	17	3

which have to be allocated in terms of Section 11 (1) of the Currency and Banking Act, as follows:—

	£ s. d.	
Dividend to Stockholders of 10% per annum	100,000 0 0	
Balance payable to the Government	412,997 17 3	
		£512,997 17 3

FIXED PROPERTY ACCOUNT.—After application of the provision of £100,000 shown above, the Bank's Fixed Property Account stands at £145,795 0s. 7d. against which it holds fixed property in Bloemfontein, Cape Town, Durban, East London, Johannesburg, Pietermaritzburg, Port Elizabeth and Pretoria.

FURNITURE AND FITTINGS ACCOUNT.—After application of the provision of £5,884 18s. 7d. shown above, this account is written down to £1 0s. 0d. against which is held all the furniture and fittings of the Bank, including Strong Room Equipment and Safes.

DIVIDENDS.—The Directors have declared the following dividends for the past year:

(1) an interim dividend of 4% for the half-year ended 30th September, 1943:

(2) a final dividend of 6% for the half-year ended 31st March, 1944:

making a total dividend of 10% for the year ended 31st March, 1944.

CAPITAL STOCK.—Holders of the Capital Stock of the Bank at the 31st March, 1944, numbered 975 of whom 50.76% held less than £500 stock each.

DIRECTORS.—In accordance with the Act. Mr. M. G. de Jager and Mr. R. H. Parker retire by rotation, but, being eligible, offer themselves for re-election.

AUDITORS.—Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers were appointed at the last Ordinary General Meeting to examine the accounts of the Bank for the past year. The Stockholders will be requested at the forthcoming Ordinary General Meeting to determine, upon the recommendation of the Board, the remuneration of the Auditors for the recent audit, and to appoint Auditors for the current year.

Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers offer themselves for re-election.

J. POSTMUS, Governor.

M. H. DE KOCK,
D. H. HEPBURN, Directors.
G. P. J. LOTZ,

G. RISSIK, Secretary.

PRETORIA, 16th June, 1944.

BALANCE SHEET 31st MARCH, 1944.

LIABILITIES.

	£	s.	d.	£	s.	d.
Capital				1,000,000	0	0
Reserve				1,000,000	0	0
Notes in Circulation				51,169,010	10	0
Notes of other Banks in Circulation				153,611	15	0
Deposits:—						
Bankers' Reserve Accounts	22,855,217	10	7			
Bankers' Current Accounts	101,949,260	3	2			
Government and Provincial Current Accounts	13,120,757	6	11			
Other Accounts	4,391,180	4	6			
				142,316,415	5	2
Rebate on Bills not yet due				37,312	2	11
Other Liabilities				2,065,946	5	11
Profit and Loss Account	512,997	17	3			
Less Interim Dividend for the half year to 30th September, 1943	40,000	0	0			
				472,997	17	3
				£198,215,293	16	3

ASSETS.

	£	s.	d.
Gold Coin and Bullion	88,348,770	1	1
Other Coin	226,125	4	1
Balances with Overseas Central Banks	510,320	8	2
Foreign Bils Discounted	22,531,153	11	1
Loans and Advances	1,839,946	8	0
Investments	9,469,967	18	8
Furniture and Fittings	1	0	0
Fixed Property	145,795	0	7
Other Assets	75,143,214	4	7
	£198,215,293	16	3

PROFIT AND LOSS ACCOUNT for the year ended 31st MARCH, 1944.

DR.	£	s.	d.	£	s.	d.	CR.	£	s.	d.
To **General Expenditure**, including Rent, Rates, Salaries and Directors' Fees				249,914	16	5	By **Gross Revenue** — after making provision for Income Tax, Rebate on Bills not yet due, Sundry Liabilities, etc.	896,797	12	3
„ **Written of:—**										
Fixed Property	100,000	0	0							
Furniture and Fittings	5,884	18	7							
				105,884	18	7				
„ **Pension Fund**				28,000	0	0				
„ **Profit for the Year** — allocated as under:— (Vide Report of Governor and Directors).										
To Stockholders	100,000	0	0							
„ Government	412,997	17	3							
				512,997	17	3				
				£896,797	12	3		£896,797	12	3

G. RISSIK, Secretary.

J. POSTMUS, Governor.

M. H. DE KOCK,
D. H. HEPBURN,
G. P. J. LOTZ, Directors.

Pretoria, 16th June, 1944.

To the Stockholders of

The South African Reserve Bank.

We have audited the Balance Sheet dated 31st March, 1944, above set forth and have obtained all the information and explanations we have required. We have verified the Cash, Investments, Securities and Other Assets. In our opinion the Balance Sheet is a full and fair Balance Sheet containing the particulars required by the Currency and Banking Act 1920, and subsequent amending Acts, and the Regulations thereunder, and is properly drawn up so as to exhibit a true and correct view of the whole of the Bank's affairs at 31st March, 1944, according to the best of our information and the explanations given to us and as shown by the books of the Bank.

DELOITTE, PLENDER, GRIFFITHS, ANNAN & CO.,
WHITELEY BROTHERS,

Auditors.

Pretoria, 9th June, 1944.

1945

SOUTH AFRICAN RESERVE BANK

REPORT OF THE
TWENTY-FIFTH
ORDINARY GENERAL MEETING

27th July, 1945

SOUTH AFRICAN RESERVE BANK.

Established under the Currency and Banking Act, 1920.

HEAD OFFICE — PRETORIA

CHIEF CASHIER

L. J. COCKHEAD

SECRETARY AND CHIEF ACCOUNTANT

G. RISSIK.

INSPECTOR

C. T. VORSTER

DEPUTY CHIEF CASHIERS

R. F. A. LOUW

S. F. T. GREAVES

ASSISTANT CHIEF ACCOUNTANT

J. K. MCL. ROBERTSON

ASSISTANT TO THE GOVERNORS

J. B. DE K. WILMOT.

SOUTH AFRICAN RESERVE BANK

Twenty-Fifth Ordinary General Meeting of Stockholders

MINUTES OF PROCEEDINGS

The Twenty-Fifth Ordinary General Meeting of Stockholders was held at the Head Office of the Bank, Pretoria, on Friday, 27th July, 1945, at noon, the Governor presiding.

The Governor declared the Meeting duly convened in terms of the Regulations framed under the South African Reserve Bank Act.

The Minutes of the previous Meeting were taken as read and confirmed.

The Reports of the Board and of the Auditors for the year ended 31st March, 1945, were presented and taken as read.

The Governor then addressed the Meeting and said:

In presenting to you the Balance Sheet and Accounts and the Reports of the Board and the Auditors, I have pleasure in explaining the items which call for comment.

RESERVE FUND: £1,048,516.

In terms of Section 11 (1) of the Currency and Banking Act of 1920, the amount of the reserve fund was limited to £1,000,000, namely, the amount of the capital of the Bank; and this limit was reached in 1935. Under Section 16 (3) of the Reserve Bank Act of 1944, however, it is provided that, "if at the end of the financial year the reserve fund of the bank is equal to or exceeds the paid-up capital of the bank, one-tenth of the surplus remaining after payment to the stockholders, out of net profits, of a dividend at the rate of 10 per cent. per annum on the said capital, shall be allocated to that fund." The addition of £48,516 to the reserve fund represents one-tenth of such surplus for the past year.

NOTES IN CIRCULATION: £60,221,842.

There was a further increase of £9,053,000 in our note circulation during the year. Although the continued large increase is difficult to explain on general economic grounds, it is more or less in keeping with the growth of bank deposits in the Union and also reflects the world-wide trend under war conditions. For example, in 1944 the note circulation of the Union increased by about 18 per cent. compared with over 24 per cent. in the United States, Argentina and Australia, 18½ per cent. in Sweden, 17 per cent. in Canada, 16 per cent. in Switzerland and 10½ per cent. in Great Britain. Over the whole period from the end of 1938 to the end of 1944 the increase was 212 per cent. in the Union, as against 393 per cent. in the United States, 316 per cent. in Australia, 296 per cent. in Canada, 135 per cent. in Sweden, 133 per cent. in Great Britain, 110 per cent. in Argentina and 103 per cent. in Switzerland. Thus there was a considerable increase in neutral as well as in belligerent countries.

The reasons variously given for this universal increase in the note circulation are the following: larger holdings of notes by the banks and the business community because of possible emergencies, increased turnover and ample funds; heavy cash payments to members of the armed forces and their dependants; increases in wage rates, working hours and number of workers employed; payment of cost-of-living allowances; larger amounts of currency coming into the hands of people who do not have deposit accounts or do not consider interest rates sufficiently attractive; restricted opportunities for the purchase of commodities; the increased requirements of currency on account of higher prices;

and the increased use of currency for purposes of "black market" dealings and evasion of taxation. It is possible that, in one way or another, all these factors have been operating in the Union, and that our note issue will tend to contract according as such factors diminish in scope and effect.

DEPOSITS: £168,042,561.

This item showed a further increase of £25,726,000, which along with the rise of £9,000,000 in the note circulation represented the counterpart of the increase in the Bank's gold and exchange holdings which, in turn, is to be attributed to a continuation of a net favourable balance of payments for the Union.

Bankers' reserve accounts increased by £3,330,000 due to the further expansion of their deposit liabilities in the Union, while their current account balances with the Bank showed an increase of £11,583,000. On Government and Provincial accounts there was an increase of £9,238,000, and on other accounts £1,575,000.

GOLD COIN AND BULLION: £102,936,419.

The gold coin and bullion account increased by £14,588,000, while the gold premium account under "other assets" showed an increase of £14,266,000, i.e. £28,854,000 altogether. This amount of £28,854,000 represented the actual cost to the Bank of the additional gold acquired by it during the year, namely, at 168s. per fine ounce which was the ruling price throughout that period.

After the end of our financial year, however, the gold price was raised to 172s. 3d. with retrospective effect from the 1st January, 1945. The Bank had, therefore, to pay to the gold producers the increase in the price on all gold bought from them between the 1st January and the 9th June, 1945, when the higher price was announced, and to recover the additional amount due to it on all gold sold to the Bank of England during that period. These settlements have since been effected but the consequential adjustments were only made in our books after the Balance Sheet was signed.

OTHER COIN: £301,434.

There was an increase of £75,300 in our holdings of silver and bronze coin. The net issues of the Mint amounted to £534,000 during the year, while the holdings of the Reserve Bank and the commercial banks increased by £133,000, leaving £401,000 as a net addition to the amount of coin in the hands of the public. As in the case of notes, therefore, the coin circulation has continued to increase in the Union.

FOREIGN BILLS DISCOUNTED: £32,366,019.

Our holdings of foreign bills, which consisted almost entirely of British Treasury bills, increased by £9,835,000. This item shows appreciable fluctuations during the course of a year, depending upon the actual or anticipated demand for foreign exchange from the banks, the Government and the mines, on the one hand, and our sales of gold, on the other. At the end of the year the amount was larger than usual in anticipation of large remittances by the Government on account of defence and other commitments.

LOANS AND ADVANCES: £4,005,308.

The whole of this amount, which showed an increase of £2,165,000, consisted of advances made against Treasury guarantees to various Government or quasi-Government bodies, primarily for the importation of essential commodities.

INVESTMENTS: £2,723,542.

This item represented the Bank's ordinary investments in Union Government securities. The remainder of the repatriated Government stocks, including a further amount of £314,000 acquired during the year from the United Kingdom, was redeemed by the Government before the end of our financial year. The total nominal amount of Union Government stocks obtained by the Reserve Bank from London under the repatriation arrangements up to the 31st March, 1945, was £70,290,000 acquired at a cost of £73,490,000 i.e including premium and accrued interest.

FIXED PROPERTY: £55,224.

This amount was arrived at after a further £100,000 had been written off out of profits.

OTHER ASSETS: £89,962,831.

Of this amount £86,394,930 is accounted for by the gold premium account, referred to above, and the bulk of the remainder by remittances in transit.

PROFIT AND LOSS ACCOUNT.

There was an increase of £62,693 in our gross revenue, after making provision for income tax, rebate on bills discounted, sundry liabilities, etc. This was due mainly to an increase in exchange profits as a result of a larger exchange turnover. General expenditure showed a small reduction, and a smaller amount had to be written off on account of furniture and fittings acquired during the year. Thus, our net profits increased from £512,998 to £585,162, which, after the payment of a dividend of 10 per cent. to stockholders and the allocation of £48,516 to the reserve fund, left £436,646 to be paid to the Government, as compared with £412,998 in the previous year.

DIVIDEND.

Hitherto it has been the practice of the Bank to declare an interim dividend of 4 per cent. and a final dividend of 6 per cent. whenever the net profits permitted of the payment of the maximum dividend of 10 per cent. The Board has now decided, when distributing maximum dividends in future, to do so at the rate of 5 per cent. each half-year.

GENERAL REMARKS.

With the termination of hostilities in Europe, we are confronted with the problems not only of transition from a wartime to a peacetime economy but also of fundamental changes in local and world conditions. It is fitting, therefore, that we should now take stock of the local financial situation with a view to a better appreciation of the extent to which the Union itself can provide the financial resources required for reconversion, readjustment and potential new development.

INCREASE IN MONEY SUPPLY.

Since the end of 1932, the Union has experienced a tremendous and continuous increase in the available supply of money (i.e. coin and notes in the hands of the public and bank deposits payable on demand, whether in active circulation or kept idle in one way or another). This increase is shown in the following table, which also reflects the decline in the volume of money during the depression of 1930-32.

At End of	*Amount of Money.*
	£
1939	47,500,000
1932	36,600,000
1935	83,700,000
1938	99,500,000
1941	177,900,000
1944	294,600,000

Of the total increase of £247,100,000 between 1929 and 1944, no less than £191,400,000 was covered by an increase of £172,100,000 in the gold reserves of the Reserve Bank (the gold being taken at cost) and of £19,300,000 in its exchange holdings. Thus, the bulk of the increase in the volume of money in the Union is to be attributed directly to what may be called the "retained gold output", i.e. that part of the local gold output which was not sold because it was not required to balance the Union's international accounts. Apart from the retained gold output, there was a substantial increase in the Reserve Bank's holdings of foreign exchange. The customary way of explaining this increase in our gold and exchange reserves would be to say that the Union enjoyed large and continuous favourable balances of payments during the period under review.

The phenomenal strengthening of the Union's financial position in recent years is brought out still more clearly if account is also taken of the fact that, between 1933 and 1944, the net external debt of the Union Government was reduced by over £120,000,000. During the war an appreciable repatriation of South African gold shares likewise took place, but against this must be set the substantial influx of capital into the Union for mining and industrial purposes during the years 1933-39.

The main causes of the phenomenal increase in the country's gold and exchange reserves and in its supply of money may be summed up as follows: firstly, the considerable rise in the price of gold in terms of dollars, sterling and other currencies which, owing to the fact that commodity prices did not rise to the same extent, gave the Union a net benefit in the sense that an ounce of gold had a greater international purchasing power than before and that less gold had to be sold to pay for a given quantity of goods; secondly, the depreciation of Union currency in terms of gold, as a result of which a much larger amount of money was automatically brought into circulation against the retained gold output than would otherwise have been the case, e.g. at a price ranging from 125s. in the beginning of 1933 to 168s. per ounce since September, 1939, in contrast to the former price of 85s.; thirdly, the increase in mining development and in the gold output as well as in mining profits which followed on the net rise in the world price of gold and which in turn provided a powerful stimulus to general economic development in the Union; fourthly, the "involuntary saving" which resulted from war conditions and our inability to obtain the desired quantity of overseas consumers' and producers' goods; and fifthly, heavy disbursements in the Union during the war by the British and other overseas Governments and by ships, troops and evacuees.

PRESENT MONETARY SITUATION.

At the end of 1944, the available supply of money in the Union amounted to £294,605,000, which was constituted as follows:

(1) Estimated Amount of Silver and Bronze Coin in Circulation (i.e. outside the Mint and the banks)	£7,350,000
(2) Notes in Circulation (i.e. outside the banks)	£52,960,000
(3) Demand Deposits with Commercial Banks in Union	£222,830,000
(4) Government and Other Deposits with Reserve Bank (i.e. excluding bankers' deposits)	£11,465,000

Of the total of £287,255,000 in notes and demand deposits, £206,539,000 (or 71.9 per cent.) was backed by gold (taken at cost) and foreign exchange, almost all of which was held by the Reserve Bank as the custodian of the Union's reserves of international currency. The remainder could, for the purposes of this analysis, be regarded as covered by the banks' holdings of silver and bronze coin in the Union to the amount of £1,130,000, and by £79,586,000 of their advances, discounts and investments in the Union.

The advances and discounts of the banks, in turn, are covered by productive assets or based on earning power. As regards their investments in the Union, the bulk consists of Union Government securities; and although the unproductive debt of the Union has increased considerably as a result of war expenditure from loans, a substantial proportion of the debt is still covered by "productive assets", such as the railways and harbours; post offices, telegraphs and telephones; irrigation works, land settlements and forests; shares in South African Iron and Steel Industrial Corporation and Industrial Development Corporation; loans to Land Bank; loans by the Farmers' Assistance Board and the Lands Department; disposable war stores, etc.

No better illustration than the above analysis is required to show that the Union enjoys a sound currency position, in spite of evidence from various points of view that the supply of money has for some years been much in excess of the country's requirements of media of exchange and customary cash balances, whether in the form of cash in hand or working balances on current account. For example, as compared with an increase of over 190 per cent. in the amount of bank deposits between 1938 and 1944, there was an increase of only 73 per cent. in the total annual amount of bank debits to individual accounts in the Union.

Although the country has a superabundance of means of payment, its money is sound in the strict sense of the term, not only because the money is backed by a large amount of gold and foreign exchange in excess of the legal minimum reserve and thus freely available for settling overseas payments as fast as our requirements of consumers' and producers' goods can be met by overseas suppliers, but also because, in contrast to many countries, little of such money has come into existence through the creation of bank credit for meeting Government or private expenditure on war or other unproductive purposes.

In connection with the latter, if allowance were made for the fact that the proceeds of Government loans raised locally during World War II were partly devoted to the redemption of the bulk of Union Government securities still domiciled overseas and also to productive purposes, it could be said that the total war expenditure was defrayed from tax revenue and loans representing the savings of the people. Thus, between the end of 1938 and that of 1944 there was an increase of less than £60,000,000 in the total holdings by the banks of Union Government securities domiciled in the Union (i.e. including Reserve Bank advances to the Government), as compared with the net redemption of external Government debt to the amount of £75,000,000 (i.e. £80,000,000 less £5,000,000 raised in London in 1939).

A corollary to the statement that the supply of money is much in excess of the real need for internal media of exchange and cash balances, is the deduction that a considerable proportion of the demand deposits with the commercial banks, which amounted to about £223,000,000 at the end of 1944, consists of accumulated idle capital. Of this idle capital a portion represents the liquid capital of commercial, mining and industrial concerns awaiting opportunities for replenishment of depleted stocks and replacement of worn-out or obsolete plant. Another portion consists of what may be called "consumers' capital" in the sense that it is available for the purchase of relatively durable consumers' goods which can be classed as "capital goods", while the remainder is capital awaiting opportunities for suitable new investment.

It is particularly the accumulated purchasing power of consumers, whether in the form of bank deposits or notes and coin and whether available for the purchase of durable or of non-durable consumers' goods, which is feared by many as constituting a real danger of serious price inflation so long as the supply of such goods from local or overseas sources falls far below the pent-up demand. The danger is, in the main, only a potential one, for it is not until consumers lose their heads and decide, and are allowed, to complete freely for whatever supply of goods is available from time to time, that the excess purchasing power will have a real inflationary effect on the general level of commodity prices.

In this connection it is important to note that the Union does not suffer from "credit inflation". All the glaring historical examples of price inflation and currency depreciation, including those which have already arisen out of World War II, were associated with credit inflation, whether through the medium of the printing press or the creation of bank deposits, for the purpose of financing war or other unproductive expenditures. In the case of the Union, however, the superabundance of money was, as previously explained, brought about primarily through the passive accumulation of gold and exchange reserves and the high price of gold instead of through the active creation of bank credit. Moreover, price control and certain physical controls as well as voluntary abstention have served to hold in check the rise in prices in the Union which was inevitable under war conditions.

As matters stand at present, therefore, it cannot be said that the Union is in any way faced with an actual or potential danger of price inflation of the run-away or uncontrollable type. With the continuance of such price and physical controls as are essential for as long as they are necessary, and with the pursuit of sound and sane financial polices by the Government and the banks as well as other financial institutions, there is no reason why the Union should not be able to maintain the existing situation of an inherently sound currency and to avoid the price and cost structure getting out of hand.

MONETARY POLICY.

In the Union, as in other countries, the broad monetary policy is laid down from time to time by the Government in consultation with the central bank, and the central bank is charged with the duty and responsibility of carrying out such policy to the best of its ability and of maintaining the monetary situation, generally, on as sound a level as the circumstances of the country permit. For the effective performance of some of its functions, the central bank is in turn dependent on the wholehearted and intelligent co-operation of the commercial banks. In the Union the requisite understanding and co-operation between the Government, the Reserve Bank and the commercial banks has been firmly established, as is also reflected in the smooth and efficient carrying out of the Emergency Finance Regulations. The country is thus provided with satisfactory machinery for the implementing of the Government's monetary policy, which at present is broadly that of maintaining parity with sterling, on the one hand, and stability in the domestic money market, on the other.

Too much significance should not, however, be attached to monetary policy by itself. While it is admittedly an important factor in the economic and social life of a nation, it cannot work miracles, and it cannot absolve us from our political and economic sins. At any one particular point of time, monetary policy may have a vital bearing on economic activity, but in the long run the level of economic activity, in terms of volume, is determined by the available physical, human and capital resources of a country and by the best possible use being made of such resources, and is only to a subordinate extent conditioned by credit adjustment and regulation of interest and exchange rates. Monetary management is a complementary and not an independent factor in economic development and can, in general, aim only at lubricating the productive and distributive machinery. Thus, an appropriate monetary policy, by providing a better lubrication of the productive and distributive machinery, will produce better results than an inappropriate monetary policy, but it cannot make up for defects in the machinery itself or for a lack of motive power.

Great advances have been made in monetary science and practice, and a much finer distinction can now be drawn between sound and unsound monetary expansion. Much can also be done by means of monetary measures and compensatory Government action to reduce cyclical fluctuations in business activity and employment. We have, however, not yet become so clever that we can really make something out of nothing or that we can destroy wealth and still have it; that as individuals or nations we can live beyond our means indefinitely; that we can wage a war or introduce social reforms without having to pay in one way or another; that we can take a short cut to prosperity and not have to work for it; that we can permanently substitute bank credit for saving as the source of capital; or that we can arbitrarily increase the volume of purchasing power through the continuous creation of so-called "costless credit" by or for the State without price inflation and currency depreciation.

With regard to future monetary policy, the world trend is strongly in the direction of a policy aiming deliberately at the maintenance of a high and stable level of production and employment. It is being increasingly appreciated, however, that there are serious difficulties in the way of carrying out such a policy without close international monetary co-operation and mutual help. It is also widely recognised that exchange stability and a high level of international trade are essential to national and international economic stability. The recognition of these facts, in conjunction with the need to face the economic and social dislocations caused by the war, gave rise to the holding of the United Nations' Monetary Conference at Bretton Woods last year and to the emergence of concrete plans for the establishment of an International Monetary Fund and an International Bank for Reconstruction and Development, whose primary objectives can be summarised as "the maintenance of economic stability at a high level". The Fund and Bank Agreements have now been accepted by the United States Congress as well as the Union Parliament and are likely to be implemented in the near future. It will be the sincere hope of a disrupted world that the provisions and purposes of the new plans for international financial co-operation and mutual help will be carried out in the right spirit and in the most beneficial manner by the member countries, individually and collectively.

BANKING POSITION.

For the same reasons given in explanation of the increase in the gold and exchange holdings of the Reserve Bank, there has been a tremendous increase in the cash reserves of the commercial banks. At the end of 1944 their cash reserves in the Union amounted to

£161,750,000, consisting of £1,329,000 in coin and bullion, £6,276,000 in Reserve Bank notes and £154,145,000 in credit balances with the Reserve Bank. These bankers' balances, in turn, constitute the pricipal liabilities of the Reserve Bank and demonstrate the completeness with which the latter functions as the custodian of the cash reserves of the commercial banks.

The commercial banks' cash reserves in the Union now represent almost 60 per cent. of their total demand and time liabilities in the Union. This reflects the extraordinarily liquid position of the banks, and their operations generally show that, in spite of exceptional liquidity, they have continued throughout to follow their customary conservative policy. From the point of view of a sound monetary situation, this maintenance of conservative banking policy in the face of a rapidly rising cash ratio has been of great importance. By going out of their way to increase their advances and investments on account of their strong cash position, they could only have further increased the volume of money and the pressure of pent-up purchasing power against the general price structure of the Union.

Thus, although the banks have ample means available for the replenishment of stocks and the provision of working capital for the legitimate expansion of trade, industry and agriculture, they cannot, in the interests of their depositors as well as of the country generally, create credit without regard to the soundness of the purposes for which the credit facilities are sought or of the actual or potential security on which the credit is to be based. The banking system which does not follow these principles will sooner or later bring itself and the country as a whole into difficulties, as has frequently happened in the past all over the world.

Our banks have frequently been criticised on the ground that they are too conservative and hide-bound for the requirements of a young and developing country like the Union. That may have been the case at times, but not because they were wilfully opposed to contributing toward the more rapid development of the country. It is an indisputable fact that the welfare of the banks is integrally bound up with the national welfare. As institutions, however, which are entrusted with the custody and management of the people's money, the banks must be conservative and prudent, and particularly so in the prevailing circumstances of a superabundance of money and high prices of commodities and fixed property. With regard to the future, the banks can be relied upon to adapt their ideas, methods and operations to fundamental changes in local and world conditions if such adjustments are considered to be in the national economic interest.

CAPITAL MARKET.

No statistics are available concerning the total amount of money capital available for new investment. Judging, however, by the large and continuous accumulation of gold reserves, which is a visible and tangible counterpart of national saving, there is strong *prima facie* evidence that a substantial proportion of the existing huge total of bank deposits represents idle capital awaiting investment in one form or another. Material evidence of this has, in fact, been afforded by the recent heavy subscriptions to public and private capital issues of all kinds in the Union.

The rapid formation of money capital in the Union since 1933 is to be attributed to the considerable net increase in the national income under the impetus primarily of the higher world price for gold and, since the outbreak of war, also as a result mainly of heavy war expenditures, on the one hand, and involuntary saving caused by restricted supplies, on the other. With regard to the future, the voluntary supply of capital from current domestic savings will continue to be large at least as long as the gold output is maintained at a high level and the Union enjoys a net benefit through the increased purchasing power of gold at the prevailing price compared with the position at 85s. per ounce.

In common with the trend in many countries, a considerable proportion of the Union's capital, representing largely the savings of people who save in small amounts at a time and who do not in any case have the requisite knowledge and facilities for direct investments, comes into the hands of the commercial banks, savings banks, building societies, insurance companies, trust companies and other financial institutions. These institutions must, according to law and the dictates of financial prudence, invest a portion of their funds in Government securities and other "liquid assets"; and traditional conservatism as well as a paucity of diversified safe investments causes them to invest the remainder of their funds mainly in mortgage bonds. On the other hand, high and progressive taxation on incomes and estates has tended to hold the formation of "risk" or "venture" capital in check.

Thus, while sufficient local capital may not be forthcoming for all the projected plans of new mining development and for industrial enterprises which entail appreciable risk, there should be ample capital available for the purposes of the Government, municipalities, public utilities and private enterprises which afford a substantial measure of safety for investment, as well as for the purpose of mortgage loans on rural or urban property.

INTEREST RATES.

The rate for long-term Government securities has remained stable for some time at 3 per cent., and during the latter part of the war in Europe it was only prevented from declining below 3 per cent. by the Government's policy of raising more funds through local loans than were required for war or other expenditures and applying the excess to the redemption of repatriated Government stocks. As far as one can gauge the supply of and the demand for domestic capital for Government and other public purposes during the next few years, there is no good reason why the present level of interest rates for gilt-edged securities should be raised. This also applies, in the main, to rates for mortgage loans.

The opportunities for private investment, purchase of commodities, building of houses, etc., will, in any case, be restricted for some time to come, as a result of a world shortage of certain materials and finished goods generally and of limited shipping facilities for civilian purposes. During the period of reconversion and re-stocking the process of saving from current income, although at a slower tempo, will continue and will thus provide further capital for investment. While, on the one hand, the existing supply of money will be reduced according as our depleted stocks of producers' and consumers' goods can be replenished from overseas and our new requirements of capital equipment can be met, it must, on the other hand, be borne in mind that a constant stream of money will be coming into circulation out of the Reserve Bank's purchases of the gold output at the rate of £100,000,000 or more per annum, all of which will not be required to pay the balance of the Union's current exchange needs not covered by exports of merchandise and invisible exports. Thus, provided the anticipated inflow of some overseas capital for mining and industrial development is not more than offset by an outflow of local capital for investment abroad, it is possible that the amount of money in the Union at the end of the transitional period will not be much less, if at all, than at present.

Moreover, the local position is not likely to be adversely affected by money-market conditions in London, as the British Government has repeatedly declared it to be its determined policy to maintain cheap money. This would also appear to be the logical requirement of many other countries for some years at least.

In view of all these facts, the Reserve Bank sees no reason for contemplating any change in its discount and interest rates. Its discount rate has been maintained at 3 per cent. since June, 1941, and constitutes the basis for many other rates of discount and interest. In this connection it may be emphasised that the rate quoted by the Reserve Bank and the commercial banks for loans against Government or other gilt-edged securities, is ½ per cent. above Bank rate, i.e. 3½ per cent. at present. Such loan facilities are of great advantage to holders of gilt-edged securities who are in need of funds for only a short period and who prefer not to disturb their investments. If, for example, financial institutions have to meet excess withdrawals of deposits at any time but anticipate soon to have surplus funds again out of loan repayments or new deposits, they can borrow from the banks in the meantime against part of their holdings of securities.

GOLD PRICE.

As announced by the Minister of Finance in Parliament on the 9th June, the wartime agreement between the Reserve Bank and the Bank of England, under which gold was sold at a fixed price ex Cape Town or Durban, has been extended; but the price has been adjusted in anticipation of a return to more normal conditions of freight and insurance charges. The new price for our gold, which has retrospective effect as from the 1st January, 1945, and which will prevail for the remainder of 1945 and thereafter until notice from either side, has been fixed at 172s. 3d. sterling per fine ounce as compared with the previous price of 168s. In accordance with the statements of the British Treasury and the Union Minister of Finance, this adjustment of the gold price has no bearing on any questions of monetary policy.

The price of 172s. 3d. sterling per fine ounce ex Cape Town or Durban is based on the existing price of gold in the United States (i.e. \$35 per ounce less ¼ per cent. for assay, handling, etc.), and on pre-war costs of shipment to New York. Like the former price under the sales agreement, the new price in the Union is the same as the official buying price for gold in London and represents, in the opinion of both the Government and the Reserve Bank, the best average price obtainable in the prevailing circumstances on our total sales of gold, while relieving us of the difficulties still involved in making satisfactory arrangements for shipping and insurance in respect of such large gold shipments as those of the Union.

EXCHANGE RATES.

On account of the changed circumstances, as compared with not only the war but also the pre-war situation, and with a view to contributing towards the return of more settled financial and commercial conditions in the Union, the Reserve Bank has, after consultation with the Treasury and the commercial banks which are authorised exchange dealers, decided to quote the following exchange rates on London and New York for amounts of £100 and over as from tomorrow:

	T.T. Buying Rate	*T.T. Selling Rate*
South Africa on London	£100 0 0	£100 10 0
South Africa on New York	\$4.03½	\$4.00½

The exchange rates on London are hereby changed in two respects. In the first place, the margin between the buying and selling rates for telegraphic transfers is reduced from $\frac{3}{4}$ to $\frac{1}{2}$ per cent.; and, secondly, the buying rate is quoted at par with sterling as against £100 5s. S.A. per £100 sterling. Thus, the selling rate is reduced altogether from £101 to £100 10s. S.A. per £100 sterling.

The new margin of $\frac{1}{2}$ per cent. represents a return to that which had prevailed from May, 1925, until the abandonment of the gold standard by Great Britain in September, 1931, and which had been fixed by the Reserve Bank at the time as being an appropriate margin between buying and selling rates for sterling under conditions of general exchange stability. Owing to substantial fluctuations in the sterling-dollar rate and in certain other rates of importance to the Union, following upon Great Britain's departure from the gold standard, the margin was raised as a precautionary and protective measure and was maintained at about $1\frac{1}{4}$ per cent. from October, 1931, to the end of 1932 when the Union also left the gold standard and re-established the link with sterling. It was then fixed at 1 per cent. since a relatively wide margin was still considered necessary in the circumstances as a deterrent to speculation in exchange, and also with a view to discouraging the influx of "hot money" which might be withdrawn at any moment and disturb the internal financial situation. With signs of improvement in the international financial sphere, the margin was reduced to $\frac{7}{8}$ per cent. in the beginning of July, 1934, and to $\frac{3}{4}$ per cent. soon thereafter. Because of the continued danger of an influx of "hot money", it was kept at $\frac{3}{4}$ per cent. and subsequently retained as a wartime measure. Now, however, with the limited opportunities for international movements of short-term capital as a result of exchange control over a large part of the world, it has been found possible to revert to the old margin of $\frac{1}{2}$ per cent.

The quotation of the buying rate at par with sterling has been rendered possible by the fact that the mines are paid on the basis of the price received by the Reserve Bank ex Cape Town under the agreement with the Bank of England, and that the costs of shipment of gold overseas have no longer to be recovered through the exchange rates, as was the case before the war.

This new procedure for sales of South African gold was initiated during the war, but as a wartime measure it was decided not to change the South African exchange rates.

With regard to the exchange rates on New York, adjustments have been made following upon the changes in the rates on London. The margin between the buying and the selling rate has been cut as fine as the business relationships between the Union and the United States permit, owing to the importance of dollar rates of exchange in world trade and finance and of New York as an international financial centre. Provision has, however, been made for a wider margin than in the case of our sterling rates, namely $\frac{3}{4}$ per cent. compared with $\frac{1}{2}$ per cent. This is necessitated by the fact that our exchange transactions with New York represent mainly a oneway traffic due to the large excess of imports from the United States into the Union over our exports to that country, and that dollar cover for this excess is obtained in a round-about manner. It is the banks' selling rate on New York, therefore, which is the really effective rate and to which the whole benefit of the change has been applied.

The effect of these changes in our exchange rates on London and New York will be, on the one hand, a saving of at least $\frac{1}{2}$ per cent. on the cost of imports and on other payments made to or through those centres, and, on the other hand, a reduction of $\frac{1}{4}$ per cent. in the proceeds in Union currency of merchandise exports to the United Kingdom or of capital imports from the United Kingdom, as well as a substantial decline in the exchange profits of the Reserve Bank and the commercial banks.

The changes in the T.T. rates on London and New York automatically necessitate corresponding adjustments in the sight and usance rates on those centres as well as in all the exchange rates quoted on other centres by the commercial banks. In making these adjustments, the commercial banks have further decided, as a measure of relief to exporters, to allow for reductions of $\frac{1}{2}$ and 1 per cent. in the rates incorporated in their sight and usance buying rates respectively on London as well as other centres.

CONCLUSION.

I wish to take advantage of this opportunity to pay formal tribute to the valuable services rendered to the Bank by Mr. J. Postmus, who retired from the Governorship at the end of last month after holding that position for 13½ years. For the whole of that period I was associated with him as Deputy Governor, and this association has been a very happy and profitable one. Mr. Postmus had the great satisfaction of leaving behind him a strong and fully recognised central bank and a sound local currency as symbols of his long period of office. I also wish to refer to the valuable services rendered to the Bank by Mr. R. Niven, who resigned from the Board last month for health reasons after having been a director for 18 years.

On the other hand, I have great pleasure in welcoming Mr. J. T. Jurgens as our new Deputy Governor and Mr. E. W. Cattell as a Government representative on the Board in the place of Mr. Niven. Mr. Jurgens was for some years an Assistant General Manager of the Standard Bank in Pretoria, and in this capacity he frequently came into contact with the Reserve Bank. Mr. Cattell was Chief Cashier of the Reserve Bank since its inception in 1921, and his appointment to the Board on retirement from that position is a fitting recognition of his services to the Bank.

In conclusion, I wish to add a word of thanks and appreciation to our staff for the efficient and expeditious manner in which they continued to handle the increasing volume of work in difficult circumstances.

After the conclusion of the address a stockholder, Mr. J. J. I. Middleton, asked several questions to which the Governor replied.

He then moved "That the Report and Accounts be adopted".

The motion was seconded by Mr. L. L. French and having been put to the Meeting was carried unanimously.

On the motion of the Governor, seconded by Mr. A. M. Sturdy, it was unanimously resolved—

That Mr. W. Duncan Bexter and Mr. H. C. Jorissen whose period of office expired on the 1st July, 1945, in accordance with the terms of the South African Reserve Bank Act, be re-elected as Stockholders' Representatives on the Board of Directors.

The Governor moved—

(1) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be paid the sum of One Thousand Two Hundred guineas each in accordance with the recommendation of the board, for auditing the accounts of the Bank for the year ended 31st March, 1945.

(2) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be appointed auditors of the Bank's Accounts for the current year.

The Resolutions were seconded by Mr. J. A. Macphail and having been put to the Meeting separately were carried unanimously.

Mr. R. H. Parker proposed that the meeting accord the Governor a vote of thanks for presiding and for his interesting and instructive address. This, he said, was an exceptional meeting as it was the first at which Dr. de Kock had presided as Governor, and he was proud to think that South Africa is producing men able to hold such positions. He looked forward to serving under Dr. de Kock and felt sure that this was the view of all the members of the Board. Referring to Mr. Jurgens' appointment Mr. Parker said that he came to the Reserve Bank with a high reputation, and he was sure that the Government's selection was a sound one. Mr. Parker also wished to be associated with the Governor's remarks regarding Mr. Postmus and Mr. Niven, both of whom had served the Bank and the country with great distinction.

In seconding the proposal, Mr. Milton Clough said that he was happy to be associated with the remarks of Mr. Parker and referred with appreciation to the great value of the services of Mr. Postmus and Mr. Niven. He was glad that the central bank was now in the capable hands of Dr. de Kock and Mr. Jurgens. He appreciated the Governor's remarks regarding the commercial banks and promised their continued co-operation.

After the Governor had thanked Messrs. Parker and Clough for their kind remarks the proceedings terminated.

1945

SOUTH AFRICAN RESERVE BANK

REPORT OF THE GOVERNOR AND DIRECTORS TO BE PRESENTED TO STOCKHOLDERS AT THE TWENTY-FIFTH ORDINARY GENERAL MEETING TO BE HELD AT PRETORIA ON THE 27th JULY, 1945.

The accompanying copies of the Annual Accounts of the Bank and of the Auditors' Report are presented to Stockholders in compliance with the Regulations framed under Section 23 of the South African Reserve Bank Act.

After all expenses had been paid and full provision had been made for Income Tax and other liabilities and contingencies, and after the following amounts had been written off, as shown in Profit and Loss Account, viz.:

	£	s.	d.
From Fixed Property Account	100,000	0	0
From Furniture and Fittings Account	659	7	2
and after contributing to the Pension Fund	29,000	0	0
	£129,659	7	2
there were left net profits of	£585,161	16	9

which have to be allocated in terms of Section 16 of the South African Reserve Bank Act, 1944, as follows:—

	£	s.	d.	
Dividend to Stockholders of 10% per annum	100,000	0	0	
Reserve Fund — 1/10th of remaining surplus	48,516	3	8	
Balance payable to the Government	436,645	13	1	
				£585,161 16 9

Fixed Property Account.—After application of the provision of £100,000 shown above, the Bank's Fixed Property Account stands at £55,224 10s. 11d. against which it holds fixed property in Bloemfontein, Cape Town, Durban, East London, Johannesburg, Pietermaritzburg, Port Elizabeth and Pretoria.

Furniture and Fittings Account.—After application of the provision of £659 7s. 2d. shown above, this account is written down to £1 0s. 0d. against which is held all the furniture and fittings of the Bank, including Strong Room Equipment and Safes.

Dividends.—The Directors have declared the following dividends for the past year:

(1) an interim dividend of 4% for the half-year ended 30th September, 1944:

(2) a final dividend of 6% for the half-year ended 31st March, 1945:

making a total dividend of 10% for the year ended 31st March, 1945.

Capital Stock.—Holders of the Capital Stock of the Bank at the 31st March, 1945, numbered 987 of whom 50.66% held less than £500 stock each.

Directors.—In accordance with the Act, Mr. W. Duncan Baxter and Mr. H. C. Jorissen retire by rotation, but, being eligible, offer themselves for re-election.

AUDITORS.—Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers were appointed at the last Ordinary General Meeting to examine the accounts of the Bank for the past year. The Stockholders will be requested at the forthcoming Ordinary General Meeting to determine, upon the recommendation of the Board, the remuneration of the Auditors for the recent audit, and to appoint Auditors for the current year.

Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers offer themselves for re-election.

J. POSTMUS, Governor.

M. H. DE KOCK,
H. C. JORISSEN, Directors.
G. A. KOLBE,

G. RISSIK, Secretary.

Pretoria, 15th June, 1945.

BALANCE SHEET 31st MARCH, 1945.

LIABILITIES.

	£	s.	d.	£	s.	d.
Capital				1,000,000	0	0
Reserve				1,048,516	3	8
Notes in Circulation				60,221,842	0	0
Notes of Other Banks in Circulation				153,294	5	0
Deposits:—						
Bankers' Reserve Accounts	26,185,279	2	0			
Bankers' Current Accounts	113,532,295	1	7			
Government and Provincial Current Accounts	22,358,300	11	5			
Other Accounts	5,966,686	11	10			
				168,042,561	6	10
Rebate on Bills not yet due				52,030	2	5
Other Liabilities				1,852,390	17	7
Profit and Loss Account	585,161	16	9			
Less Interim Dividend for the half year to 30th September 1944	40,000	0	0			
	545,161	16	9			
Less Transferred to Reserve	48,516	3	8			
				496,645	13	1
				£232,867,280	8	7

ASSETS.

	£	s.	d.
Gold Coin and Bullion	102,936,419	6	2
Other Coin	301,433	17	11
Balances with Overseas Central Banks	516,501	19	10
Foreign Bills Discounted	32,366,018	15	5
Loans and Advances	4,005,308	1	7
Investments	2,723,541	18	0
Furniture and Fittings	1	0	0
Fixed Property	55,224	10	11
Other Assets	89,962,830	18	9
	£232,867,280	8	7

No account has been taken of the higher price of gold fixed on 9th June, 1945, with retrospective effect from 1st January, 1945.

PROFIT AND LOSS ACCOUNT for the year ended 31st MARCH, 1945.

DR.	£	s.	d.	£	s.	d.	CR.	£	s.	d.
To **General Expenditure,** including Rent, Rates, Salaries and Directors' Fees, etc.				244,669	7	3	By **Gross Revenue** — after making provision for Income Tax, Rebate on Bills not yet due, Sundry Liabilities, etc.	959,490	11	2
,, **Written of:—**										
Fixed Property	100,000	0	0							
Furniture and Fittings	659	7	2							
				100,659	7	2				
,, **Pension Fund Contribution**				29,000	0	0				
,, **Profit for the Year** — allocated as under:— (Vide Report of Governor and Directors)										
To Stockholders	100,000	0	0							
,, Reserve	48,516	3	8							
,, Government	436,645	13	1							
				585,161	16	9				
				£959,490	11	2		£959,490	11	2

G. RISSIK, Secretary.

Pretoria, 15th June, 1945.

J. POSTMUS, Governor.

H. C. JORISSEN,
M. H. DE KOCK,
G. A. KOLBE, } Directors.

To the Stockholders of

the South African Reserve Bank.

We have audited the Balance Sheet dated 31st March, 1945, above set forth and report that, in our opinion, the Balance Sheet is a full and fair Balance Sheet and is properly drawn up so as to exhibit a true and correct view of the whole of the Bank's affairs according to the best of our knowledge and the explanations given to us and as shown by the books of the Bank as at 31st March, 1945. We also report that, in our opinion, the affairs of the Bank have been conducted in accordance with the provisions of the South African Reserve Bank Act, 1944, and the Regulations thereunder, so far as they affect the Balance Sheet and Accounts.

WHITELEY BROTHERS,

DELOITTE, PLENDER, GRIFFITHS, ANNAN & CO.,

Auditors.

Johannesburg, 12th June, 1945.

BRANCH OFFICES.

Branches:	Agents:
Bloemfontein	A. F. Celliers.
Cape Town	G. Siemelink.
Sub Agent	F. R. McCallum.
Durban	W. W. Brown.
East London	C. N. Meek.
Johannesburg	A. S. Little.
Sub Agent	E. Moore.
Pietermaritzburg	A. F. Halliday.
Port Elizabeth	C. H. Parke.
Pretoria	H. J. Alston.
Sub Agent	A. J. van Zyl.

1946

SOUTH AFRICAN RESERVE BANK

REPORT OF THE

TWENTY-SIXTH

ORDINARY GENERAL MEETING

9th August, 1946

SOUTH AFRICAN RESERVE BANK.

Established under the Currency and Banking Act, 1920.

BOARD OF DIRECTORS:

MICHIEL HENDRIK DE KOCK	GOVERNOR.
JOHN TOBIAS JURGENS	DEPUTY-GOVERNOR.
WILLIAM DUNCAN BAXTER .... MATHYS GUSTAV DE JAGER .... CHARLES EDWARD JAMES .... HENDRIK CHRISTIAAN JORISSEN ...... REGINALD HEINRICH PARKER .... ROBERT PYOTT	COMMERCIAL, AGRICULTURAL AND INDUSTRIAL REPRESENTATIVES.
EDWIN WINTER CATTELL .... GEORGE AUGUSTUS KOLBE .... GERRIT PETRUS JOHANNES LOTZ .	GOVERNMENT REPRESENTATIVES.

HEAD OFFICE — PRETORIA

CHIEF CASHIER L. J. COCKHEAD	SECRETARY AND CHIEF ACCOUNTANT G. RISSIK
DEPUTY CHIEF CASHIERS R. F. A. LOUW S. F. T. GREAVES	INSPECTOR C. T. VORSTER STATISTICIAN T. W. DE JONGH
ASSISTANT TO THE GOVERNORS J. B. DE K. WILMOT.	ASSISTANT CHIEF ACCOUNTANT J. K. MCL. ROBERTSON

SOUTH AFRICAN RESERVE BANK

Twenty Sixth Ordinary General Meeting of Stockholders

MINUTES OF PROCEEDINGS

The Twenty-Sixth Ordinary General Meeting of Stockholders was held at the Head Office of the Bank, Pretoria, on Friday, 9th August, 1946, at 11 a.m., the Governor presiding.

The Governor declared the Meeting duly convened in terms of the Regulations framed under the South African Reserve Bank Act.

The Minutes of the previous Meeting were taken as read and confirmed.

The Reports of the Board and of the Auditors for the year ended 31st March, 1946, were presented and taken as read.

The Governor then addressed the Meeting and said:

In presenting to you the Balance Sheet and Accounts and the Reports of the Board and the Auditors, I have pleasure in explaining the items which call for comment.

RESERVE FUND: £1,087,382.

An amount of £38,866, representing one-tenth of the surplus profit for the past year, was added to the Reserve Fund in terms of Section 16 (3) of the Reserve Bank Act of 1944.

NOTES IN CIRCULATION: £66,298,350.

Our note issue showed a further increase of £6,000,000 during the year.

The high point of £67,878,000 for our note circulation was reached at the end of last December, and since that time the month-end figure has remained comparatively stable in the vicinity of £66,000,000. We have, therefore, reason to believe that the peak has been passed, and that for some time our note circulation will tend to decline as more goods become available to those who have hoarded notes in anticipation thereof, and as the opportunity or scope for black-market operations and evasion of taxation is lessened. In general, however, we anticipate that, on account of the huge increase in bank deposits and the rise in all monetary values much of which will probably remain, the level of our note circulation will continue to be much higher than before the war, and that, in view of the prospective expansion of mining and industry in the Union, our note issue may resume a rising tendency in due course.

As I pointed out in my address last year, the large and rapid increase in our note issue in recent years has been more or less in keeping with a world-wide trend under the prevailing abnormal conditions; and in every country it has been closely related to the growth of bank deposits, whether such deposits have arisen from the acquisition by the central bank and the commercial banks of additional gold and foreign exchange or from an increase in their investments and advances.

DEPOSITS: £221,125,067.

There was a further increase of £53,000,000 in our total deposits, which along with the rise of £6,000,000 in our note issue represented the counterpart of the increase in the Bank's gold and exchange holdings which, in turn, is to be attributed to a continuation of a net favourable balance of payments for the Union.

Bankers' reserve accounts increased by £5,613,000 due to the further expansion of their deposit liabilities in the Union, while their current account balances with the Bank increased by £38,670,000. On Government and Provincial Accounts there was an increase of £10,550,000, and on other accounts a decrease of £1,751,000.

GOLD COIN AND BULLION: £123,071,016.

Gold coin and bullion (at the old statutory price of 84s. 11.45d. per fine ounce) increased by £20,135,000, while the gold premium account under "other assets" showed an increase of £21,004,000, i.e. £41,139,000 altogether. This amount of £41,139,000 represented the actual cost to the Bank of the additional gold acquired by it during the year, namely, at 172s. 3d. per fine ounce.

After the end of our financial year, for reasons which I will explain later, the price for gold produced in the Union was fixed at 172s. 6d. with retrospective effect from the 1st January, 1946. The Bank had, therefore, to pay to the gold producers in the Union an additional 3d. per fine ounce on all gold bought from them between the 1st January and the 16th July, 1946, when the new arrangement was announced. Moreover, the Finance Act of 1946 provided that the gold reserves held by the Bank as at the 30th June, 1946, were to be revalued at the new statutory price of 172s. per fine ounce. All the consequential adjustments have been made in our books and are reflected in our recent weekly statements.

OTHER COIN: £367,698.

There was an increase of £66,300 in our holdings of silver and bronze coin.

The net issues of Union silver and bronze coin by the Mint amounted to £217,000 during the year, and there were reported to be net imports of £15,000 coin into the Union. The holdings of the Reserve Bank and the commercial banks, however, increased by £285,000, indicating a net decrease of £53,000 in the amount of coin in the hands of the public. As in the case of notes, therefore, the coin circulation has revealed a tendency to decline for the first time in many years.

FOREIGN BILLS DISCOUNTED: £46,678,122.

Our holdings of foreign bills, which consisted almost entirely of British Treasury bills, showed an increase of £14,312,000. This amount, plus an increase of £1,400,000 in our credit balances with overseas central banks, represented the difference between our sales of gold and purchases of exchange, on the one hand, and our sales of exchange, on the other. The net increase in our holdings of foreign exchange was the direct and indirect consequence of a considerable inflow of British capital into the Union during the year. This inflow had, of course, the effect of increasing our purchases of sterling and/or reducing our sales of sterling to the banks.

LOANS AND ADVANCES: £4,826,559.

There was a further increase of £821,000 in this item, which again consisted entirely of advances made to various Government or quasi-Government bodies, primarily for the importation of essential commodities. During the past year the commodities concerned came to comprise mainly foodstuffs in short supply, whereas in previous years they included other commodities essential to the war effort.

INVESTMENTS: £2,653,470.

The whole of this amount, which showed a small decrease of £70,000, consisted of Union Government securities. During the year the Bank acquired a further £132,000 (nominal value) of Union Government stocks domiciled in London, which were surrendered under the Vesting Orders issued in 1941-42, but in terms of the existing arrangement with the Union Treasury, the latter redeemed all these stocks as they were acquired by the Bank.

FIXED PROPERTY: £1.

This amount was arrived at after £56,380 had been written off out of profits. Thus, we have at last realised the hope, which was expressed by our first Governor at the general meeting of stockholders held in 1930, that the day will come "when the South African Reserve Bank, like other central banks of renown, will have written its fixed property down to £1." The reasons which he gave at the time were that "one of the first aims or duties of a central bank is to be strong and unhampered," and that "the greatest possible percentage of its resources should be in a liquid form." The item "Furniture and Fittings" has been standing in our books at £1 since 1929, and now that we also have "Fixed Property" written down to £1, we shall endeavour to keep it there.

OTHER ASSETS: £113,313,329.

Of this amount, £107,399,000 was accounted for by the gold premium account, referred to above, and the bulk of the remainder by remittances in transit.

PROFIT AND LOSS ACCOUNT.

There was a decrease of £140,000 in our gross revenue, after making provision for income tax, rebate on bills discounted, sundry liabilities, etc. This decrease was due entirely to the decline in our exchange profits, consequent upon the reduction of the profit margin in our selling rates for sterling and dollars as well as a smaller exchange turnover for the year. General expenditure showed a small reduction, and a lesser amount had to be written off on account of fixed property. Thus, our net profits declined from £585,162 to £488,659, which, after the payment of a dividend of 10 per cent. to stockholders and the allocation of £38,866 to the reserve fund, left £349,793 to be paid to the Government as against £436,646 in the previous year.

REVALUATION OF GOLD RESERVES.

In terms of Section 26 of the Finance Act of 1946, the gold reserves held by the Bank as at the 30th June, 1946, were revalued at 172s. per fine ounce, which now constitutes the new statutory price of gold in the Union. The item "Gold Coin and Bullion", which stood in our books at £126,945,000 on that day, was accordingly written up to £257,014,000, while the liquidation of the Gold Premium Account caused the item "Other Assets" to be reduced from £116,524,000 to £5,097,000.

The profit of £18,642,000 resulting from such revaluation was, in accordance with the provisions of the above legislation, allocated as follows:

(1) £1,000,000 was credited to our Reserve Fund;

(2) £6,700,000 was paid into the Exchequer Account to be utilised by the Treasury for the purpose of meeting the Union's gold subscriptions to the International Monetary Fund and the International Bank for Reconstruction and Development; and

(3) the balance of £10,942,000 was paid to the Public Debt Commissioners to be applied to the redemption of debt.

Thus, our Reserve Fund was raised from £1,087,382 to £2,087,382, and the credit balances on Government Accounts were increased by £17,642,000 at the date of revaluation. In short, our assets were written up £18,642,000 and our liabilities to the public were enlarged by £17,642,000. As a result of the valuation of our gold reserves at a much higher statutory price, the reserve ratio rose from 45.8 to 87.2 per cent. of our total note and deposit liabilities. Our weekly statements now reflect the exceptional strength and liquidity of the Bank's position more clearly and accurately. In fact, if our sterling and dollar holdings of about £33,000,000 were also taken into account, our reserves of international currency would represent almost 100 per cent. of our total liabilities to the public.

The new statutory price of gold was fixed at 172s. per fine ounce, i.e. 6d. lower than the present market price in the Union, in order to play safe and provide a small margin against any possible increase in the cost of realising gold abroad. It is purely a price laid down by law for accounting purposes and is, therefore, not to be confused with any concept of a "standard price" or a "gold parity price". As mentioned above, it is even lower than the present net currency price of gold in the Union. If the par value of the Union pound were fixed at $4.03, i.e. the middle sterling-dollar rate of exchange, the parity price of gold in the Union would, at the current dollar price of gold, be 173s. 8d. per fine ounce. Any difference between the gold parity price and the market price of gold in the Union would represent the actual or estimated average cost of realising South African gold in the available overseas markets.

The legislation referred to above provides that all the gold acquired by the Bank after the 30th June, 1946, as well as the gold held by it on that date, shall be valued in its Gold Coin and Bullion Account at the new statutory price, and that any difference between this price and the price at which it buys or sells gold after that date shall be accounted for in a Gold Price Adjustment Account. Any debit balance on the latter account, whether as a result of an excess of purchases over sales at an average price higher than the statutory price or on account of an excess of sales over purchases at an average price lower than the statutory price, will be a charge against the Consolidated Revenue Fund; and, conversely, any credit balance will be held for the benefit of the Consolidated Revenue Fund. Any such debit or credit balance will be carried forward until such times as either the Treasury or the Bank deems it desirable that a settlement of the outstanding balance shall be effected. The Bank has, moreover, to render to the Treasury, at such times as the Treasury may direct, a statement of the potential profit or loss on its total gold holdings at the current market price in the Union as compared with the statutory price; but settlement of any such profit or loss shall only be effected as and when the statutory price of gold is altered by Act of Parliament.

The aforesaid Section 26 of the Finance Act of 1946 provides that not only all gold held by the Bank after the 30th June, 1946, but also all foreign assets held by the Bank at the commencement of that Act or acquired thereafter shall, apart from the discount or interest earned thereon and the proceeds of the usual margin on sales of foreign exchange, be for the profit or loss of the Union Government. These provisions were enacted in substitution of Section 8 of the Currency and Exchange Act of 1933, which had authorised the Bank, in the manner and to the extent which it considered best calculated to prevent undue fluctuations in the exchange value of Union currency in relation to sterling, to buy and sell gold and bills or securities expressed in currencies other than that of the Union, and which had provided that any loss suffered by the Bank as a result of depreciation, or any profit earned by it as a result of appreciation, in any gold or bills or securities so acquired by it, was to be for account of the Government. The new legislation, therefore, specifically covers *all* gold and *all* foreign assets acquired by the Bank in whatever manner and for whatever purpose, and not only such gold or foreign assets as could be held to have been acquired after a certain date for the purpose of maintaining Union currency approximately at par with sterling. It affords the Bank a wider range of legal protection against losses on its gold and exchange holdings, while it safeguards to the State the whole of the profits from any appreciation of such holdings in terms of Union currency. Settlement of any such losses or profits in respect of the Bank's foreign assets is to be effected as soon as possible after the close of the financial year to which they relate.

When it was finally decided to revalue the gold reserves, the Board of Directors represented to the Government, as the Minister of Finance stated in his last Budget Speech, that "in view of the considerable and continued expansion of the Bank's functions and activities, and in order to protect public confidence in its ability to carry out its duties and responsibilities in the nation's economic interest, advantage should be taken of this unique opportunity to strengthen the Bank's reserves." The Government accepted this view and agreed to allocate £1,000,000 out of the revaluation profit to our Reserve Fund. This considerable addition to the Reserve Fund places it in a highly satisfactory position, particularly if account is taken of the following facts: firstly, under the Reserve Bank Act of 1944 one-tenth of the Bank's annual surplus profit is to be paid into the Reserve Fund, without any maximum limit being laid down, whereas formerly it was limited to a total of £1,000,000; secondly, as explained above, the Bank is specifically covered against exchange losses on any of its foreign assets; and thirdly, the Bank's fixed property, which cost over £1,000,000, now stands in its books at £1.

NEW GOLD SALES AGREEMENT.

As announced by the Minister of Finance recently, a new two-year gold sales agreement has been concluded between the Governments of the Union and the United Kingdom. The main features of this agreement are the following:

(1) The Reserve Bank will sell to the Bank of England not less than £80,000,000 gold per annum in 1946 and 1947.

(2) The price for such gold *ex* Cape Town, Durban or Port Elizabeth will be 172s. 6d. sterling per fine ounce, subject to adjustment on account of any change in the middle sterling-dollar rate of exchange or in the net United States buying price for gold or in the event of the International Monetary Fund fixing its handling charge for gold at a lower rate than the existing United States charge of ¼%, the adjustment to be made as from the date any such occurence comes into effect.

(3) The Bank of England will provide against sterling all the Union's requirements of foreign currencies in 1946 and 1947, subject to the prosions of (4) hereunder.

(4) The Union reserves the right itself to provide, by direct gold shipments to New York, so much of its current dollar requirements as it finds advan-

tageous or desirable to do, and to deduct, from the amount of gold to be sold to the United Kingdom under (1) above, the gold equivalent of its current sales of dollars from such gold shipments, provided that the amount so deducted would not exceed £10,000,000 in any one of the two years concerned.

(5) The Union reserves the right to sell gold in countries where the market price substantially exceeds exchange parity, in order to pay for imports from such countries.

The increase in the price for South African gold to 172s. 6d. sterling per fine ounce at Union ports has no bearing on any questions of monetary policy. It was agreed last year that the price to be paid for our gold by the Bank of England was to be based on the price of gold in the United States (at present $35 per ounce less a handling charge of ¼%), and on the costs of shipment from the Union to New York; and the price of 172s. 3d., which was offered for 1945 and thereafter until notice from either side, was accepted by the Union as highly satisfactory under the shipping and insurance conditions prevailing at the time. The recent increase of 3d. per ounce was obtained by us partly in view of our claim that lower freight rates should be taken into account for such large and regular gold shipments as the Union has to offer; and partly in view of the undertaking by the Union to sell to the United Kingdom an agreed minimum amount of gold per annum for two years. The adjustment was thus purely a business arrangement between the Union and the United Kingdom in the light of the special circumstances of the case, and the official buying price for gold in London remains unchanged.

The present price of 172s 6d. per ounce represents, in the opinion of both the Government and the Bank, the best average price obtainable in the existing circumstances on such large sales of gold as we will have to make during 1946 and 1947 in order to meet the Union's growing exchange requirements, due to increasing imports at relatively high prices as well as other overseas commitments. The agreement, moreover, provides for immediate adjustment of the price to be paid by the Bank of England in the event of any one or more of certain contingencies arising during that period. As provided for in the agreement, we are now also selling gold direct to the United States, and in spite of our having exerted ourselves to secure the lowest freight and insurance rates available, we have succeeded only in acquiring United States dollars at a slightly lower cost than by selling gold for sterling at the above price and converting sterling into dollars at the official rate. We are not able, for example, to realise a better sterling price for gold by converting the dollar proceeds of gold sales in New York into sterling.

Apart from the United States Treasury and the Bank of England, there are at present no regular channels through which we can realise large amounts of gold advantageously. Gold is our principal export, and normally we sell gold only to obtain the currencies which we require for the purpose of settling the balance of international claims against the Union on account of visible and invisible imports. Sterling and U.S. dollars are the main currencies which we require for our settlements abroad, and under the prevailing conditions of restrictions on sterling and scarcity of dollars neither of these currencies can be obtained in any appreciable amounts, if at all, by selling gold to other countries. The most we can do, if an advantageous price for gold can be realised in such countries, is to sell gold there to the extent that we can use their currencies for the purpose of settling any unfavourable balance of trade with them. The scope available for our employment of the latter currencies is relatively small, however, particularly as a large portion of our imports from such countries is, in any case, payable in sterling.

While India appears at first sight to offer the best opportunity for large sales of gold at a price much higher than the currency price, there are formidable obstacles in the way: a licence must be obtained for the import of gold; an adjustable import duty of up to 25 rupees per tola (£5 per ounce) is levied on such gold as is allowed to be imported; and gold is sold in the Indian market for rupees whose use is restricted. As matters stand at present, the Union will not even be able to procure the necessary licence. Moreover, the sale of gold in India by the United Kingdom and the United States, which was effected in limited quantities for the purpose of defraying part of the military expenditure incurred by them at an exorbitant rupee cost and in which the Union participated, was stopped last year in the interests of the international monetary situation.

Nevertheless, in spite of the limitations, the Union has reserved the right to sell gold in countries where the market price substantially exceeds exchange parity, in order to pay for imports from such countries. It must, however, be borne in mind that the monetary position of gold may be undermined in the long run by feeding free or black markets in those countries, and that under the Bretton Woods Agreements the members of the International Monetary Fund will in due course have to comply with the obligation to keep gold transactions within a margin, still to be prescribed by the Fund, above and below the par value of their currencies.

Finally with a view to removing certain misconceptions revealed in local and overseas press comments, I wish to emphasise, firstly, that by virtue of its special position the Union is not, and has not been, subject to any restrictions directly associated with the sterling-area dollar pool, and that it is free to determine its own requirements of foreign currencies; and secondly, that we do not anticipate any increase in our sterling balances as a result of undertaking to sell to the United Kingdom the minimum amount of gold agreed to for 1946 and 1947, but that on the contrary a reduction is expected in view of our large exchange requirements.

MONETARY AND BANKING REVIEW.

In my address last year, I gave some details of the tremendous and continuous increase in the Union's available supply of money between 1932 and 1944, and of the underlying causes thereof. The year 1945 witnessed a further increase of about £55,000,000 in the volume of money, namely, from £294,600,000 to £349,200,000.

The latter amount was made up as follows:

Estimated Amount of Silver and Bronze Coin in Circulation (i.e. outside the Mint and the banks)	£7,400,000
Notes in Circulation (i.e. outside the banks)	£59,521,000
Demand Deposits with Commercial Banks in Union	£264,265,000
Government and Other Deposits with Reserve Bank (i.e. excluding bankers' deposits	£18,028,000

The whole of the increase of £55,000,000 in the Union's money supply during 1945 was accounted for by the expansion of the Reserve Bank's gold and exchange holdings, i.e. by the favourable balance of payments which the Union continued to enjoy and which was swollen by an appreciable net inflow of capital during the last four months of the year. During the first half of 1946 there was a further increase in the volume of money, on account of a small favourable balance of payments and an increase in the advances and discounts of the commercial banks, while on the 30th June, 1946, a substantial addition thereto resulted, at least temporarily, from the revaluation profit of £17,600,000 which was credited to Government Accounts.

As far as we can judge, the turning point in our balance of payments has now arrived. For a time at any rate, i.e. until our depleted stocks of durable and non-durable consumers' goods have been replenished and an appreciable portion of our requirements of new capital equipment has been met, we anticipate that, provided there is not an abnormal inflow of money capital, our net sales of exchange will exceed the current gold output, in other words, that the Union will have an adverse balance of payments. The bulk of the increase in the money supply since 1932 was derived from favourable balances of payments, and the only factor which can now bring about a decrease in the volume of money will be an adverse balance of payments, as the anticipated expansion of trade, mining and industry would leave no scope for reduction of bank credit in respect of bank advances, discounts and investments taken as a whole. An adverse balance of payments can be expected, for perhaps two or three years, due to a heavy increase in imports of all kinds of goods, which has already begun, and to such special overseas commitments as the lend-lease settlement with the United States and the payment of accumulated dividends to shareholders in France and other countries formerly occupied by the enemy; and such an adverse balance will have the effect of reducing the supply of money.

We still adhere, however, to the view which I expressed in July last year, namely, that the amount of money in the Union at the end of the transitional period will probably not be much less, if at all, than it was at that time. Since then there has been an addition of over £70,000,000 to the money supply, and it does not appear likely that more than this amount will be required to work off the present backlog of demand in the Union, provided that the gold output is maintained at approximately the current rate and also that there is no net outflow of capital. If our anticipation is substantiated by the future course of events, the Union will continue to be automatically supplied with a volume of money more than sufficient for all its requirements of media of exchange, cash in hand and working balances on current banking accounts; and money rates will accordingly continue to be relatively low.

During the past year there have been some further reductions in money rates in the Union. The rates on Treasury Bills were reduced in November, 1945, from $\frac{3}{4}$ to $\frac{5}{8}$ per cent. per annum in the case of six-months' bills, and from $1\frac{1}{4}$ to 1 per cent. per annum on twelve-months' bills; the commercial banks lowered their minimum overdraft rate and their rates for twelve-months' deposits and savingsaccount deposits by $\frac{1}{2}$ per cent. per annum, in January, 1946; the Treasury reduced, as from the 1st July, 1946, the rate of interest on loans and advances to the Land Bank from $3\frac{3}{4}$ to $3\frac{1}{2}$ per cent., and from 4 to $3\frac{1}{2}$ per cent. in the case of loans to provincial administrations, universities and colleges, economic housing loans, and loans to individuals by the National Housing and Planning Commission; the municipalities and other public bodies which had occasion to float loans during the last twelve months, have been able to do so at somewhat lower net rates than before; and the market prices of gilt-edged securities have shown a firmer tendency in recent months. The Union Government, moreover, raised £45,500,000, between March and November, 1945, by way of a 15-25 year 'tap' loan at its previous rate of 3 per cent., and £11,000,000 from the Public Debt Commission last month at $2\frac{7}{8}$ per cent. Finally, the Government is not likely to require to make a new public issue until next year.

It is probable that interest rates in our money market have now reached rock-bottom, and that there may be a firming of some rates due to special circumstances affecting the relation between supply and demand in particular spheres of financial operations. In general, however, it is likely that money rates will tend to remain stable in the vicinity of the present low level for some time to come. For this reason, the Reserve Bank does not contemplate either raising or lowering its discount and interest rates.

With regard to the banking situation, there is little to add to what I said last year. As in the case of the Reserve Bank and for the same reasons, the commercial banks have retained their position of exceptional liquidity. The ratio of their cash reserves to their total liabilities to the public in the Union stood at 54.76 per cent. on the 30th June, 1946, and that of their liquid assets at 82.07 per cent. In spite of their extraordinarily liquid position, their operations generally show that they are continuing to follow their customary conservative policy. Their advances and discounts rose from £42,900,000 at the end of 1944 to £46,800,000 at the end of 1945 and £66,633,000 in June, 1946, but this was to be expected in view of the recent considerable increase in imports. In September, 1939, the amount concerned had been £52,800,000, and if account is taken of the appreciable rise in prices since that time, the present level of their advances and discounts cannot be regarded as excessive in the prevailing circumstances.

As regards exchange rates, our telegraphic buying and selling rates for sterling and U.S. dollars have remained unchanged since the adjustments which were made toward the end of July, 1945, and which were dealt with in some detail in my address last year. The telegraphic rates on London and New York, which are fixed and quoted by the Reserve Bank, constitute the basis for the sight and usance rates on those centres, and those on London for all the exchange rates on other centres, quoted by the commercial banks. As the basic rates remained unchanged, the only changes in South African exchange rates during the past twelve months have been those which were necessitated by the appreciation of the Canadian dollar and the Swedish krona in terms of the U.S. dollar and sterling, or by the depreciation of the French franc, or which resulted from the lowering of the interest rate incorporated in the London and New York on South Africa sight and usance buying rates or from the reduction in the transit period allowed for in the ordinary rates as well as in the airmail rates which were re-introduced during the year.

The stability of our telegraphic rates on London and New York is, of course, based on the stability of the sterling-dollar rate, which has been a factor of great significance to world economy and whose continuance will probably remain an essential requisite of international monetary relationships and international economic co-operation. While countries of smaller economic importance can appreciate or depreciate their currencies relative to the U.S. dollar and sterling, in order to assist in attaining or maintaining a position of domestic economic equilibrium, the United States and Great Britain, as the two key countries in international finance and commerce, cannot change the relationship which has been established between their currencies for seven years, except at the cost of far-reaching repercussions. In short, the continued stability of the sterling-dollar rate is necessary to provide at least some stability in an economically disrupted world.

INFLATION AND SPECULATION.

The twin dangers of further inflation and over-speculation, and their association with the existing plethora of money, are being widely discussed in the Union and call for serious consideration and sober judgment of the principal issues involved. While there has undoubtedly been a substantial decline in the domestic and foreign purchasing power of money, due to circumstances inevitably connected with the war and the aftermath thereof and while there is some danger of further price inflation, it must be emphasised that the fear of such inflation presents the greatest danger in the prevailing circumstances. Such fear, by causing the public to get out of money into commodities or real estate or equity securities, accelerates the general process of inflation and brings about the particular situation which they fear. It is necessary, therefore, to consider both sides of the case and to avoid a possible overestimate of the dangers.

It is true that we have most of the requisite phenomena of a highly inflationary situation, namely, the pressure of a superabundance of money against an insufficient supply of goods; the continuation, although at a much reduced tempo, of the process of rising prices, and of increasing cost-of-living allowances (if not also basic wages and salaries) to compensate for the continued rise in the cost of living; appreciable wage increases and price rises in a country which is a leading supplier of many goods urgently required by the Union; an abnormal general increase in market values of real estate; overspeculation in gambling counters on the stock exchange; overactivity in flotations and amalgamations; and fear of further depreciation in the purchasing power of money. We have, therefore, to contend with the dangers not only of the vicious circle of wages following prices and prices following wages, and of the importation of additional inflation, but also of the ultimate repercussions of overspeculation and widespread gambling.

On the other hand, it must be borne in mind that, although a superabundant supply of money is an inflationary factor, money operates as an active instrument in the determination of commodity prices only to the extent to which it is actually spent on commodities, and that from the monetary angle, therefore, consumers have some say in the matter of prices, at least in the degree in which they can dispense with, or economise on, the consumption of the commodities whose prices are unduly inflated. As the President of the Federal Reserve Bank of New York said in a recent address, "the existence of a large supply of money in relation to the supply of goods and services is not, of itself, inflation even though it may give you the feeling of wandering through a powder magazine, striking matches to light the way". In the Union, moreover, it is important to note that about 80 per cent. of the total money supply is covered by gold and foreign exchange, which automatically means not only that we have freely available sufficient international currency to pay for our requirements of consumers' and producers' goods as fast as they can be met by overseas suppliers, but also that, in contrast to many countries, little of the money in circulation in the Union can have had its origin in the creation of bank credit for meeting Government or private expenditure on war or other unproductive purposes.

Furthermore, the Union has been able to maintain the price and physical controls which are considered by the authorities to be essential for the purpose of keeping inflation in check. While these controls offer scope for improvement in the face of rising costs of imported goods, they have at least served to exercise a beneficial restraining influence on inflationary factors. Labour has, with some exceptions, shown restraint in their demands for increased wages, and there have been few disturbances to production in the Union. Our consuming public has, in general, also shown restraint and discrimination under difficult conditions, but in respect of goods in short supply many consumers can, with advantage to the community as a whole, exercise a much greater degree of restraint and economy.

Our problem at present, therefore, is not that of price inflation of primarily local origin, but a possible danger of varying degrees and kinds of imported inflation depending upon the overseas sources, the types of goods involved and the part which such goods play in the make-up of the local price and cost structure as a whole. We have already suffered from imported inflation in no small measure, and it is now feared by many that we will have to contend with further doses of such inflation, particularly from the United States for the reasons previously referred to. It does not, however, appear to be likely that the price and cost situation in the United States will get out of hand. Various counteracting factors have to be taken into consideration, such as the continuance of the Office of Price Administration, although it has a narrower range and fewer teeth than the minimum considered necessary for the task; the tremendous available and potential productive capacity of the United States and the rapidly increasing rate of production, particularly of consumers' goods; the need for manufacturers dependent upon export in the long run to maintain their markets abroad; the decline in effective demand, domestic and foreign, consequent upon any undue rises in prices; the probability of an extension of the buyers' strike movement; and the adoption, if needed, of a deflationary monetary and fiscal policy with the object of contracting credit and purchasing power generally. In any case, if inflation were to get out of hand in the United States, it woud probably be of relatively short duration, since the resultant decline in demand in conjunction with a rapid increase in production would accelerate the equation of supply and demand, with its automatic check on prices.

From the Union's side, consumers can at least protect themselves to the extent that they can restrict their purchases from high-price countries to essentials urgently required and not procurable elsewhere, and to the extent that our price control can be readjusted to avoid the full consequences of the fixed mark-up system. Our merchants could also exercise care in making their purchases and should avoid, as far as possible, placing orders based on prices ruling at the date of delivery.

To conclude this brief discussion of inflation, I wish to recall the fact that all the major cases of inflation and currency depreciation, past or present, have been associated with credit inflation, chronic budget deficits, distrust of the national currency and widespread fear of inflation. The Union does not suffer from credit inflation or budget deficits, and there is no doubt, either inside or outside the Union, as to the inherent soundness of our currency. There has indeed been a substantial decline in the purchasing power of the Union pound, as has inevitably been the case in varying degrees with every other currency; and, as after every big war, a return to pre-war price levels cannot be expected anywhere, except perhaps in the event of revolutionary discoveries. There is, however, every reason to believe that prices and costs in the Union, even if they should go higher in the meantime, will ultimately settle down at a lower level than to-day, and that the purchasing power of Union currency vis-a-vis the principal currencies will at least be maintained. In short, there is no real ground for fear of inflation getting out of hand in the Union.

With regard to speculation, it is clear that the Union has for some time been in the grip of overspeculation and excessive activity in the promotion of new companies and amalgamations. Several warnings have been uttered at recent meetings of investment companies, and some financial editors have off and on advised caution. There has indeed been a marked slowing-down of activity on the stock exchange during the past few weeks, but although I realise that it is a delicate and unpopular matter to discuss at this stage, I still feel that I cannot evade the rsponsibility of also sounding a note of caution.

Speculation and company promotion have a legitimate place in the financial structure and constitute an essential element in the conversion of potentialities into realities. In fact, without these phenomena the economic development of the Union and its general standard of living could not have advanced to its present stage, nor can we hope without them to make full use of our available resources. When, however, they are carried to great excess, forces are set in motion which have obviously harmful repercussions on the economic and social structure as a whole, not to speak of the individual losses which must be suffered sooner or later.

In discussing the present speculative situation in the Union, one must be careful to avoid generalisations. It must be recognised, for example, that all monetary values have risen on account of a common factor and that, as stated previously, there seems to be little likelihood of pre-war levels ever being restored; and that the discoveries of payable gold over an appreciable area of the Orange Free State and the highly favourable developments on the Far West Rand have introduced new material values and opened up a new vista of general economic expansion in the Union. It does not follow, therefore, that all prevailing share and real estate values are excessive merely because they are considerably higher than pre-war values.

The trouble is, however, that a mass speculative fever has developed which causes too large a proportion of the public to neglect discretion and discrimination. It appears, for example, that far too little distinction is made between what is investment and what is speculation, or between high-risk and low-risk speculative ventures, or between speculative and purely gambling propositions. This applies as much to dealings in, and subscriptions for, shares in industrial and commercial companies as to shares in mining companies. In fact, it seems as if company promotion in the industrial and commercial spheres has reached more dangerous proportions than in the field of mining.

One redeeming feature of the present condition of overspeculation in the Union is that, as far as we can judge, it is not based on a considerable volume of credit, either bank credit or other credit. It is associated with the plethora of money which, as explained previously, has not ment, purchase of commodities, building of houses, etc. been brought about by the creation of bank credit for unproductive and speculative purposes. It is also associated with the still restricted opportunities for investment, purchase of commodities, building of houses, etc. While there is much less danger from speculation with savings than with credit, it will be in the interests of the community and the individuals concerned if more caution and discretion were exercised in the employemtn of their savings.

GENERAL OUTLOOK.

There is still much that is uncertain about the international political and economic relationships of the future, and about the degree and the spirit in which the declared economic policies of Governments will be carried out in practice. It is, however, gratifying to note the recent growth of international financial co-operation, as reflected in the conclusion of various inter-governmental credit agreements and the establishment of the International Monetary Fund and the International Bank by about 40 countries as original members. The least that can be said of these complementary financial institutions is that they provide the necessary machinery for regular international collaboration and mutual help, and that their primary objectives are the promotion of exchange stability and orderly exchange arrangements, the expansion of world production and trade, and the maintenance generally of international economic stability at a high level. Steps are being taken, moreover, to convene a World Trade Conference with a view to widening the field of international co-operation, *inter alia,* through the establishment of an International Trade Organisation.

With regard to the Union in particular, there are good grounds for an optimistic outlook and a courageous approach to plans for new economic development.

In the first place, we must take due account of the potential increase in the relative economic importance of the Union, as a result both of its particular industrial and other achievements during the war and of the general shift from the older to the newer countries which has in the past derived a great impetus from every big war in Europe. Our farming, manufacturing and base-mineral industries were called upon during the war not only to supply a greater quantity and variety of goods for domestic requirements, but also to augment the war and other supplies of the United Nations. The continued development of many of these new phases and contacts is within our grasp if we exert ourselves thereto and improve our facilities for the exploitation of such possibilities.

Secondly, the extensive discoveries of payable gold in the Orange Free State and the highly favourable mining developments on the Far West Rand have, as mentioned previously, opened up a new vista of general economic expansion in the Union. Exploratory work already appears to have offered good prospects of 10 or 12 large gold mines being opened up in the Orange Free State and of at least six additional producers being established on the Far West Rand, while it is not unlikely that the West and the East Rand still have a few new mines to contribute, and that ultra deep-level mining on the Central Rand may prove to be worth while for some of the mines concerned. The gold-mining industry has thus been given a new lease of life, and there is a fair prospect of its serving once again as the pacemaker or mainspring of new economic activity in the Union for many years to come.

Thirdly, there is a considerable amount of local and foreign capital seeking investment in mining and industrial enterprises, and through its large gold reserves and gold output the country has the means for securing the necessary capital equipment from abroad.

Fourthly, there are favourable opportunities for immigration of skilled labour. Apart from the need of additional skilled labour for mining and industrial expansion, our economy with its relatively high costs of production and distribution requires a larger effective population. Our effective population can be increased by uplifting the poor whites and raising the living standard and productivity of the non-Europeans, but these objectives can only be achieved through the adoption of various measures of rehabilitation, reorganisation and rationalisation, which will take a lot of time and tact under the prevailing circumstances in the Union. Immigration of economically suitable types, as soon as they can be absorbed, will at least prove to be a valuable supplement to such measures.

The possibilities of economic expansion in the Union now call for wise and courageous planning by the State and private enterprise alike. A bold economic policy generally appears to be justified by the surrounding circumstances. Recent gratifying examples of boldness and faith in our future are the plans for large-scale expansion of the steel and engineering industries and for the extensive development of proved gold-bearing areas in the Orange Free State, as well as the projected plans for the extension and improvement of railway, harbour and other public services. Another encouraging step which deserves commendation is the Government's White Paper on Agricultural Policy, whose main objectives are to promote conservation farming and to increase agricultural productivity. If such long-range plans are carried out with determination and vision, and if our industrialists generally take advantage of every opportunity to increase the efficiency of plant and labour, our rightful place in the world of the future will be assured. We must expect to have occasional setbacks and to suffer from an economic depression whenever one prevails in the rest of the world, but it is largely within our power to ensure that the general trend will show a strong upward movement, and that cyclical fluctuations in economic activity will be reduced to a minimum by the timely application of compensatory monetary and fiscal policies.

CONCLUSION.

I wish to take this opportunity of referring to the fact that the Bank reached its Silver Jubilee on the 29th June, 1946, and that we still have the pleasure of the active participation on our Board of one of the original directors of the Bank, namely, Mr. H. C. Jorissen, whose valuable advice we hope to retain for many years more.

I would also like to express our high appreciation of the services rendered to the Bank by Mr. D. H. Hepburn, who resigned from the Board on the 31st March, 1946, owing to his pending departure from the Union for some years. On the other hand, we are glad to have obtained the services of Mr. C. E. James, also of Durban, who was appointed by the Board in terms of our Act for the unexpired portion of Mr. Hepburn's term of office.

In conclusion, I wish again to add a word of thanks and appreciation to our staff for the efficient and expeditious manner in which they continued to handle the increasing volume of work in difficult circumstances.

After the conclusion of the address a stockholder, Mr. J. J. I. Middleton, asked questions and made certain proposals regarding the implications of Section 25 (2) of the South African Reserve Bank Act, 1944, and Section 26 of the Finance Act, 1946. The Governor replied to his questions and said that the suggestions would be submitted to the Board of Directors at their next meeting.

Another stockholder, Mr. W. S. F. Cameron raised the question of the extension of the Bank's activities to other parts of the African continent, to which the Governor replied.

He then moved "That the Report and Accounts be adopted".

In seconding the motion Mr. L. L. French said that, as the Bank had now reached its Silver Jubilee, he would like to say a few words.

He briefly traced the development of the Bank over the period of 25 years and said that, although its establishment had not been welcomed by all, it had without doubt filled a definite need. After paying tribute to Mr. Clegg and Mr. Postmus who had guided the Bank so efficiently in its earlier stages, as well as to those who had assisted them, he, on behalf of the stockholders, congratulated the present Governor, Directors and staff on the progress and stability of the Bank and expressed the hope that the Bank's next twenty-five years would be equally succesful.

The motion that the report and accounts be adopted was then put to the meeting, and carried unanimously.

The Governor then moved—

(1) That the appointment, in terms of Section 5 (1) (*b*) of the South African Reserbe Bank Act, of Mr. C. E. James as a Stockholders' Representative for the unexpired portion of the period of office of Mr. D. H. Hepburn, with effect from the 1st June, 1946, be confirmed.

(2) That Mr. R. Pyott and Mr. C. E. James whose period of office expired on the 1st July, 1946, in accordance with the terms of the South African Reserve Bank Act, be re-elected as Stockholders' Representatives on the Board of Directors.

The Resolutions were seconded by Mr. A. M. Sturdy, put to the Meeting separately and passed unanimously.

The Governor then moved—

(1) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be paid the sum of one thousand five hundred guineas each in accordance with the recommendation of the board, for auditing the accounts of the Bank for the year ended 31st March, 1946.

(2) That Messrs Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be appointed auditors of the Bank's Accounts for the current year.

The Resolutions were seconded by Mr. J. J. I. Middleton and having been put to the Meeting separately were carried unanimously.

Mr. W. Duncan Baxter proposed that the Meeting accord the Governor a vote of thanks for presiding and for his comprehensive and interesting survey.

After the Governor had thanked Mr. Baxter and the Meeting for the vote of thanks the preceedings terminated.

1946

SOUTH AFRICAN RESERVE BANK

REPORT OF THE GOVERNOR AND DIRECTORS TO BE PRESENTED TO STOCKHOLDERS AT THE TWENTY-SIXTH ORDINARY GENERAL MEETING TO BE HELD AT PRETORIA ON THE 9th AUGUST, 1946.

The accompanying copies of the Annual Accounts of the Bank and of the Auditors' Report are presented to Stockholders in compliance with the Regulations framed under Section 23 of the South African Reserve Bank Act.

After all expenses had been paid and full provision had been made for Income Tax and other liabilities and contingencies, and after the following amounts had been written off, as shown in Profit and Loss Account, viz.:

	£	s.	d.
From Fixed Property Account	56,379	11	1
From Furniture and Fittings Account	3,789	4	6
and after contributing to the Pension Fund	31,500	0	0
	£91,668	15	7
there were left net profits of	£488,658	14	5

which have to be allocated in terms of Section 16 of the South African Reserve Bank Act, 1944, as follows:

	£	s.	d.
Dividend to Stockholders of 10% per annum	100,000	0	0

Reserve Fund—1/10th of of remaining surplus	38,865 17 5	
Balance payable to the Government	349,792 17 0	
		£488,658 14 5

FIXED PROPERTY ACCOUNT.—After application of the provision of £56,379 11s. 1d. shown above, the Bank's Fixed Property Account stands at £1 0s. 0d. against which it holds fixed property in Bloemfontein, Cape Town, Durban, East London, Johannesburg, Pietermaritzburg, Port Elizabeth and Pretoria.

FURNITURE AND FITTINGS ACCOUNT.—After application of the provision of £3,789 4s. 6d. shown above, this account is written down to £1 0s. 0d. against which is held all the furniture and fittings of the Bank, including Strong Room Equipment and Safes.

DIVIDENDS.—The Directors have declared the following dividends for the past year:

(1) an interim dividend of 5% for the half-year ended 30th September, 1945;

(2) a final dividend of 5% for the half-year ended 31st March, 1946;

making a total dividend of 10% for the year ended 31st March, 1946.

CAPITAL STOCK.—Holders of the Capital Stock of the Bank at the 31st March, 1946, numbered 996 of whom 49.5% held less than £500 stock each.

DIRECTORS.—The directors regret having to record the resignation of Mr. David Hunt Hepburn on the 31st March, 1946, owing to his pending departure from the Union of South Africa for some years. The vacancy on the Board thus caused has been filled in the manner prescribed in Section 5, sub-section 1 (*b*) of the South African Reserve Bank Act, by the appointment of Mr. Charles Edward James for the unexpired portion of Mr. Hepburn's term of office, vix.: till 1st July, 1946. Stockholders will be requested at the General Meeting to confirm this appointment.

In accordance with the Act, Mr. Robert Pyott and Mr. C. E. James retire by rotation, but, being eligible, offer themselves for re-election.

Auditors.—Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers were appointed at the last Ordinary General Meeting to examine the accounts of the Bank for the past year. The Stockholders will be requested at the forthcoming Ordinary General Meeting to determine, upon the recommendation of the Board, the remuneration of the Auditors for the recent audit, and to appoint Auditors for the current year.

Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers offer themselves for re-election.

M. H. DE KOCK, Governor.

J. T. JURGENS,
H. C. JORISSEN, } Directors.
E. W. CATTELL,

G. RISSIK, Secretary.

Pretoria, 7th June, 1946.

BALANCE SHEET 31st MARCH, 1946.

LIABILITIES.	£	s.	d.	£	s.	d.
Capital				1,000,000	0	0
Reserve				1,087,382	1	1
Notes in Circulation				66,298,350	0	0
Notes of Other Banks in Circulation				152,833	15	0
Deposits:—						
Bankers' Reserve Accounts	31,798,732	3	7			
Bankers' Current Accounts	152,202,434	17	0			
Government and Provincial Current Accounts	32,908,611	2	5			
Other Accounts	4,215,288	11	10			
				221,125,066	14	10
Rebate on Bills not yet due				39,822	12	3
Other Liabilities				2,722,962	7	7
Profit and Loss Account	488,658	14	5			
Less: Interim Dividend for the half year to 30th Sept. 1945	50,000	0	0			
	438,658	14	5			
Less: Transferred to Reserve	38,865	17	5			
				399,792	17	0
				£292,826,210	7	9

ASSETS.	£	s.	d.
Gold Coin and Bullion	123,071,015	13	4
Other Coin	367,698	7	0
Balances with Overseas Central Banks	1,541,015	3	5
Balance Employed under the Guarantee of the Bank of England	375,000	0	0
Foreign Bills Discounted	46,678,121	17	6
Loans and Advances	4,826,558	10	9
Investments	2,653,470	4	10
Furniture and Fittings	1	0	0
Fixed Property	1	0	0
Other Assets	113,313,328	10	11
	£292,826,210	7	9

PROFIT AND LOSS ACCOUNT for the year ended 31st MARCH, 1946.

DR.

	£	s.	d.	£	s.	d.
To **General Expenditure,** including Rent, Rates, Salaries, Directors' Fees, etc.				238,876	19	8
,, **Written off—**						
Fixed Property	56,379	11	1			
Furniture and Fittings	3,789	4	6			
				60,168	15	7
,, **Pension Fund Contribution**				31,500	0	0
,, **Profit for the Year, allocated as under:** (Vide Report of Governor and Directors						
To Stockholders	100,000	0	0			
,, Reserve	38,865	17	5			
,, Government	349,792	17	0			
				488,658	14	5
				£819,204	9	8

CR.

	£	s.	d.
By **Gross Revenue, after making** provision for Income Tax, Rebate on Bills not yet due, Sundry Liabilities, etc.	819,204	9	8
	£819,204	9	8

G. RISSIK, Secretary.

M. H. DE KOCK, Governor.

J. T. JURGENS,
H. C. JORISSEN,
E. W. CATTELL, } Directors.

Pretoria, 7th June, 1946.

To the Stockholders of the

South African Reserve Bank.

We have audited the Balance Sheet dated 31st March, 1946, above set forth and report that, in our opinion, the Balance Sheet is a full and fair Balance Sheet and is properly drawn up so as to exhibit a true and correct view of the whole of the Bank's affairs according to the best of our knowledge and the explanations given to us and as shown by the books of the Bank as at 31st March, 1946. We also report that, in our opinion, the affairs of the Bank have been conducted in accordance with the provisions of the South African Reserve Bank Act, 1944, and the Regulations thereunder, so far as they affect the Balance Sheet and Accounts.

WHITELEY BROTHERS,

DELOITTE, PLENDER, GRIFFITHS, ANNAN & CO.,

Auditors.

Pretoria, 3rd June, 1946.

BRANCH OFFICES.

BRANCHES:	AGENTS:
BLOEMFONTEIN	E. MOORE.
CAPE TOWN	W. W. BROWN.
SUB AGENT	C. J. G. VAN HOOGSTRATEN
DURBAN	C. H. PARKE.
EAST LONDON	A. J. VAN ZYL.
JOHANNESBURG	A. F. CELLIERS.
SUB AGENT	R. H. MILLS
PIETERMARITZBURG	A. F. HALLIDAY.
PORT ELIZABETH	F. R. MCCALLUM.
PRETORIA	H. J. ALSTON.
SUB AGENT	N. K. SPRADBURY

1947

SOUTH AFRICAN RESERVE BANK

REPORT OF THE

TWENTY-SEVENTH

ORDINARY GENERAL MEETING

1st August, 1947

SOUTH AFRICAN RESERVE BANK.

Established under the Currency and Banking Act, 1920.

BOARD OF DIRECTORS:

MICHIEL HENDRIK DE KOCK	GOVERNOR.
JOHN TOBIAS JURGENS	DEPUTY-GOVERNOR.
WILLIAM DUNCAN BAXTER MATHYS GUSTAV DE JAGER CHARLES EDWARD JAMES HENDRIK CHRISTIAAN JORISSEN REGINALD HEINRICH PARKER ROBERT PYOTT	COMMERCIAL, AGRICULTURAL AND INDUSTRIAL REPRESENTATIVES.
EDWIN WINTER CATTELL GERRIT PETRUS JOHANNES LOTZ EUGENE O'CONNELL MAGGS	GOVERNMENT REPRESENTATIVES.

HEAD OFFICE — PRETORIA

CHIEF CASHIER
L. J. COCKHEAD

DEPUTY CHIEF CASHIERS
R. F. A. LOUW
S. F. T. GREAVES

SECRETARY AND CHIEF ACCOUNTANT
G. RISSIK

INSPECTOR
C. T. VORSTER

STATISTICIAN
T. W. DE JONGH

ASSISTANT CHIEF ACCOUNTANT
J. K. McL. ROBERTSON

SOUTH AFRICAN RESERVE BANK

Twenty-Seventh Ordinary General Meeting of Stockholders

MINUTES OF PROCEEDINGS

The Twenty-seventh Ordinary General Meeting of Stockholders was held at the Head Office of the Bank, Pretoria, on Friday, 1st August, 1947, at 11 a.m., the Governor presiding.

The Governor declared the Meeting duly convened in terms of the Regulations framed under the South African Reserve Bank Act.

The Minutes of the previous Meeting were taken as read and confirmed.

The Reports of the Board and of the Auditors for the year ended 31st March, 1947, were presented and taken as read.

The Governor then addressed the Meeting and said:

In presenting to you the Balance Sheet and Accounts as at the 31st March, 1947, and the Report of the Board of Directors, I have pleasure in explaining the items which call for comment.

RESERVE FUND: £2,121,690.

There was an increase of £1,034,308 over the amount shown in the previous balance sheet. Under the Finance Act of 1946, a sum of £1,000,000 was allocated to the Bank's Reserve Fund out of the profit on the revaluation of its gold reserves as at the 30th June, 1946; and a further sum of £34,308, representing one-tenth of the surplus profit for the year 1946-47, was paid into the Reserve Fund in accordance with Section 16 (3) of the Reserve Bank Act.

NOTES IN CIRCULATION: £63,136,714.

Our note issue showed a decline of £3,162,000 during the past year—the first year for which a decrease has been reported since 1932.

The peak of £67,878,000 for our note circulation was reached at the end of December, 1945, since when the month-end figure has gradually and steadily declined. Even after allowing for the appreciable rise in the price level and in the national income and for the increase of £3,500,000 in the amount of notes held as till money by the commercial banks, the present month-end figure of £63,000,000 for our note issue, as compared with £19,200,000 in August, 1939, would appear to be considerably more than is required in the Union for the normal purposes of circulating currency and ready cash in hand. There is good reason, therefore, to expect a further decline as more goods become available and a lower level of prices is reached.

DEPOSITS: £155,928,535.

There was a net decrease of £65,197,000 in our total deposits, in conjunction with a large reduction in our gold and exchange holdings as a result of an unfavourable balance of payments for the Union during the year, which will be discussed later.

Bankers' reserve accounts showed an increase of £1,516,000, reflecting the further increase in the commercial banks' deposit liabilities in the Union, and thus in the minimum reserve balances which they were required by law to keep with the Reserve Bank. Their current account balances with the Bank, on the other hand, decreased by £54,720,000.

On Government and Provincial accounts there was a decline of £15,336,000, namely, from £32,909,000 to £17,573,000. For various reasons, Government and Provincial deposits with the Bank stood at an unusually high level throughout 1946, the average month-end figure for that year being about £30,000,000. The decrease during the first quarter of 1947 was associated with the settlement of the bulk of the Lend-Lease commitment to the United States.

On other accounts, however, there was an increase of £3,343,000, mainly due to the new accounts which were opened for the International Monetary Fund and the International Bank for Reconstruction and Development in connection with the cash subscriptions made in local currency by the Union Government as a member of those institutions. The deposits on account of the Fund and the Bank amounted to £2,482,000 and £45,000 respectively, at the 31st March, 1947.

GOLD COIN AND BULLION: £197,397,981.

In the previous balance sheet the Bank's gold reserve was shown as £123,071,000, valued at the old statutory price of 84s. 11.45d. per fine ounce. If calculated at the new statutory price of 172s. per fine ounce, as in the case of this year's figure, our holding of gold coin and bullion at the 31st March, 1946, would have amounted to £249,171,000. Our gold reserve, therefore, showed a decrease of £51,773,000 during the year, due to a variety of causes which will be dealt with later.

SUBSIDIARY COIN: £386,951.

There was an increase of £19,000 in our holdings of silver and bronze coin. The total holdings of such coin by the commercial banks also increased by £76,000.

The coin circulation of the Union has remained relatively stable during the past three years. According to our estimates, the amount of coin in the hands of the public, which had increased from £4,000,000 in September, 1939, to £7,400,000 in September, 1944, dropped slightly to £7,200,000 in March, 1946, and again stood at that figure in March, 1947.

BALANCES WITH OVERSEAS CENTRAL BANKS: £4,695,047.

BALANCE EMPLOYED UNDER GUARANTEE OF THE BANK OF ENGLAND: £1,475,000.

Our credit balances on current account with overseas central banks, primarily the Bank of England and the Federal Reserve Bank of New York, showed an increase of £3,154,000, while there was also an increase of £1,100,000 in the amount of money employed in the London market. These balances fluctuate considerably from day to day according to the nature and extent of our overseas transactions.

FOREIGN BILLS DISCOUNTED: £9,952,367.

Our holdings of foreign bills decreased by £36,726,000, which was partly counterbalanced by the increase of £4,254,000 in our other exchange resources. This net decrease of £32,472,000, which will be discussed later in conjunction with the reduction in our gold reserves, represented the excess of our sales of exchange over our sales of gold and purchases of exchange during the year.

The foreign bills held by the Bank at the 31st March, 1947, consisted mainly of British Treasury Bills and United States certificates of indebtedness.

DOMESTIC BILLS DISCOUNTED: £500,000.

This amount represented rediscounts of Union Treasury bills as temporary accommodation.

LOANS AND ADVANCES: £3,591,924.

There was a decrease of £1,235,000 in this item, which still consisted entirely of advances made to Government or quasi-Government bodies, primarily for the importation of essential commodities.

GOVERNMENT SECURITIES: £2,898,019.

OTHER SECURITIES: £133,474.

Our holdings of Union Government securities showed a net increase of £245,000, while we also acquired £133,000 Union Municipal securities for the first time.

During the past year we purchased such of the remaining Union Government and Municipal sterling stocks as were obtainable at ruling prices on the London market. Altogether the cost of the stocks so obtained amounted to about £450,000, including a total premium of £42,000 which was written off at the end of the year because we intend to keep these stocks as an investment until maturity when we will only receive par value. The stocks concerned have been transferred to the South African registers wherever possible.

Our object in deciding to purchase Union Government and Municipal stocks domiciled in London was, firstly, to convert a part of our then surplus sterling investments into securities giving an appreciably higher yield, and, secondly, by transferring such securities to the South African registers, to increase our local investment portfolio without any corresponding creation of credit in the Union. The offerings of Union sterling securities were, however, on such a small scale and at such high prices that we have suspended our purchases on the London market. We were also influenced by the fact that in the meantime our surplus sterling holdings had been absorbed by heavy sales of exchange.

FIXED PROPERTY: £1.

During the past year we spent £43,663 on fixed property, which has been written off out of profits, thus leaving this item again at £1 as in the previous balance sheet.

PROFIT AND LOSS ACCOUNT.

There was an increase of £41,000 in our gross revenue, after making provision for income tax, rebate on bills discounted, premium written off investments, and sundry liabilities. The revenue from discounts showed a substantial decrease, due to the big decline in our holdings of foreign bills; but this was more than counterbalanced by the increase in our exchange profits, as a result of a much larger exchange turnover for the year.

General expenditure is shown at £91,000 more than in the previous year. Of this increase, however, £60,000 represented a provision for bank note expenses which was not included under general expenditure during the last few years owing to irregular deliveries of note forms under the abnormal conditions, but was treated as a contingent liability in respect of notes on order at the end of the year and as such deducted from gross revenue. The remaining increase of £30,000 arose mainly out of a general rise in salary scales and cost of living allowances.

Thus, the net profit declined from £488,659 to £443,080, which, after the payment of 10 per cent. to stockholders and the allocation of £34,308 to the Reserve Fund, left £308,772 to be paid to the Government as against £349,793 in the previous year.

GOLD TRANSACTIONS.

During the year ended 31st March, 1947, the Bank purchased gold to the amount of £97,986,000, of which £97,494,000 was obtained from gold producers in the Union. The latter amount was substantially smaller than last year, mainly due to the strike on the mines during the early part of 1947 which caused a loss of about £5,000,000 in the gold output.

Our total gold sales amounted to £149,759,000, which was distributed as follows:

£86,016,000 to the Bank of England;

54,934,000 to the United States Assay Office in New York;

6,631,000 to the Union Treasury for the purpose of its gold subscriptions to the International Monetary Fund and the International Bank for Reconstruction and Development;

982,000 to the "People of Britain Fund";

823,000 to the Government of Mozambique in respect of deferred pay due to Mozambique natives employed on the mines in the Union; and

373,000 to jewellers, dentists, etc., in the Union.

All the figures mentioned above are based on the new statutory gold price of 172s. per fine ounce. Under the Finance Act of 1946, all gold acquired by the Bank after the 30th June, 1946, as well as the gold held by it on that date, was to be valued in its Gold Coin and Bullion Account at 172s. per fine ounce, while any difference between this price and the price at which it bought or sold gold after that date was to be accounted for in a Gold Price Adjustment Account for the profit or loss of the Government. As more gold was sold than bought by the Bank during the year, and as the net price realised in the Union exceeded the statutory price, there was a credit balance of £154,000 in the Gold Price Adjustment Account at the 31st March, 1947. In terms of the Act concerned, any credit or debit balance in this account is to be carried forward until such time as either the Treasury or the Bank deems it desirable that a settlement of the outstanding balance shall be effected.

The sales of gold to the Bank of England were made in terms of the existing gold agreement, under which that Bank undertook to buy all gold offered to it by the Reserve Bank at 172s. 6d. per fine ounce delivered at Cape Town, Durban or Port Elizabeth, subject to a net minimum of £70,000,000 per annum and to adjustment of the price in the event of certain occurrences. In accordance with the agreement, the Bank of England also provided against sterling all our requirements of foreign currencies except such U.S. dollars as we acquired by direct gold shipments to New York. The current agreement covers the calendar years 1946 and 1947 and thus expires at the end of December, 1947.

The gold shipped to the United States was realised at the official price of $35 per fine ounce, less the handling charge of ¼ per cent. and assay, melting and delivery charges in New York, and also less the costs of shipment from the Union to New York. The net price realised in U.S. dollars was slightly higher than the sterling price converted into dollars at the selling rate of the Bank of

England. The difference, however, is so small that if the net dollar price were in turn converted into sterling at the buying rate of the Bank of England, the resultant sterling price would be somewhat less than that which we now receive from the Bank of England. Nevertheless, on account of the slight advantage in obtaining dollars by direct shipment, the whole of the Union's net requirements of U.S. dollars for trade or other purposes, including the total Lend-Lease settlement, has since August, 1946, been met from the proceeds of gold sales in New York.

The remainder of our gold sales during the year, namely £8,800,000, was made against Union currency for the special purposes mentioned above. Thus, the whole of our sales of gold for the normal purpose of acquiring foreign exchange passed through the two main official channels at the net monetary price for gold.

The Union has refrained from selling gold at the considerable premiums prevailing on the free or black markets in various parts of the world, not only because these markets are relatively narrow and cannot in any case furnish us with dollars or sterling in appreciable amounts, if at all, but also because both the Government and ourselves consider that the monetary position of gold, which has once more been safeguarded under the Bretton Woods Agreements, will be undermined in the long run by sales of gold at prices far above monetary parity. In fact, owing to the growing menace of gold sales at varying premiums, the International Monetary Fund recently recommended to all member countries that they take effective action to prevent international gold transactions at prices above monetary parity, on the grounds that "exchange stability may be undermined by continued and increasing external purchases and sales of gold at prices which directly or indirectly produce exchange transactions at depreciated rates", and that "these transactions involve a loss to monetary reserves, since much of the gold goes into private hoards rather than into central holdings".

Our primary interest as the principal gold-producing country lies in helping to maintain the monetary position of gold. In common with gold producers elsewhere, our gold industry has suffered severely from the world-wide inflation of prices and costs under the impact of war and post-war conditions. It cannot, however, look for salvation to a free-market premium which will in any event be a temporary gain, at the expense of disruption and instability in exchange relationships. Its salvation depends mainly on a lowering of its cost structure which should automatically come in due course with a downward readjustment of the present abnormally high level of world prices, and which the Government as well as the mines themselves should facilitate in every way possible. The Reserve Bank, on its part, will continue to work in the direction of securing the best net price obtainable through the official channels.

As far as a higher world price for gold is concerned, we must not, on account of self-interest, lose sight of the fact that there are other important factors besides the present predicament of gold producers to be considered, and that a rise in the gold price can now only be attained by international agreement through the International Monetary Fund and in the form of a uniform change in the gold parities of currencies of member countries. While it is true that, as compared with pre-war levels, the monetary price of gold has got out of alignment with commodity prices and with national debts and bank liabilities, it must also be borne in mind that, from the viewpoint of the countries with whom the decision mainly rests, a rise in the gold price now will exert an inflationary influence at a time when inflation has still to be combated over a large part of the world. In short, we must reckon with the probability that an upward readjustment of the monetary price of gold would only be seriously considered in international circles as an anti-deflationary measure and an instrument towards counteracting a sharp decline in world purchasing power, if and when undue deflationary pressure again asserted itself and other measures failed to stem the tide.

Before leaving the subject of gold transactions, I feel that I should refer to the extensive earmarking operations which the Bank has undertaken for various central banks. This earmarking of gold by the Bank, which dates back to 1938 and was at first made available also to commercial banks and other parties oversea, assumed considerable proportions during the war due to shipping difficulties. Under war conditions, and for some time after the war, we sold gold only in the Union, and such gold was earmarked in the first instance for account of the buyer, who was to ship the gold abroad as suitable opportunities offered themselves. Some big shipments were made by warships during the war, and since the end of the war a large amount of gold has been shipped by the owners thereof to London, New York and elsewhere. At the 31st March, 1947, we still held earmarked gold to the amount of £378,000,000, the bulk of which represented gold previously sold by us to the parties concerned or swapped by us for gold abroad, while the remainder consisted of gold produced in other territories and delivered to the Bank for safe custody after being refined at the Rand Refinery, or of gold reserves transferred here from a few countries during the war for safekeeping. By the end of June last the amount of earmarked gold had been reduced to £323,000,000, and this amount will be further reduced from time to time as shipments of such gold are effected in excess of new earmarkings.

EXCHANGE TRANSACTIONS.

During the past year the Bank had a record exchange turnover. Our sales of foreign exchange amounted to £180,607,000, of which £141,745,000 was met out of the sterling and dollar proceeds of gold sales and £6,390,000 out of other receipts of foreign exchange during the year, while the remaining £32,472,000 was settled by drawing on our existing exchange holdings as at the 31st March, 1946.

The total sales of foreign exchange by the South African banks, which give a better indication of the Union's external requirements for all purposes, after eliminating duplication between the Reserve Bank and the commercial banks, amounted to £366,000,000 during the year ended 31st March, 1947, as compared with an annual average of about £170,000,000 for the calendar years 1943-45. Of the amount of £366,000,000 for the past year, sterling accounted for £252,000,000, U.S. dollars £97,000,000, Canadian dollars £12,000,000 and other currencies £5,000,000.

As a result of these exceptionally large sales of exchange, the Bank's exchange holdings, which had in the previous year risen from £32,883,000 to £48,594,000, dropped to £16,122,000 at the 31st March, 1947. This amount consisted of £6,305,000 sterling, £9,815,000 dollars and £2,000 other currencies. In addition to the reduction of £32,472,000 in our exchange holdings, there was a decline of £51,773,000 in our gold reserves, as mentioned previously. Thus, there was a total decrease of £84,245,000 in our gold and exchange holdings during the year, which clearly shows the extent of the tremendous change which took place in the Union's balance of payments after a long and unbroken series of favourable balances.

The main reason for the large decrease in our gold and exchange holdings, which constitute almost the whole of the Union's reserves of international currency, was the net increase in the country's imports of merchandise. The preliminary trade figures for 1946 show imports of over £210,000,000, as against £112,000,000 in 1945, and exports (other than gold) of £97,000,000 and £77,000,000 respectively. Thus, there was an approximate net increase of £78,000,000 in our imports over our exports of merchandise in 1946. While the net figure for the year ended 31st March, 1947, might be found to differ from that for the calendar year 1946, it would probably not be much less, if any, than the amount of £78,000,000 for the latter period. The abnormally high level of imports during the past 18 months is, of course, associated with the tremendous backlog of demand for consumers' and producers' goods which had to be met, and also with the inflated price levels in the countries which are our principal suppliers. The full extent of the increase in the value of our imports can only be gauged by comparing the figure of £210,000,000 for 1946 with that of £102,000,000 for 1920, when more or less similar conditions prevailed, and £103,000,000 for 1937 which represented the peak of our imports before the last war.

The other principal factors which contributed toward the decline in our gold and exchange holdings during the past year, were the following: the payment of about $86,000,000 out of the Lend-Lease commitment of $100,000,000; the payment of accumulated dividends to shareholders of South African companies in France and other countries formerly occupied by the enemy; the gold subscriptions of over £6,600,000 to the International Monetary Fund and the International Bank; and the reduction of over £5,000,000 in the gold output, due mainly to the strike on the mines during the first quarter of 1947.

On the other hand, there were certain countervailing factors, such as the net inflow of capital, the smaller overseas payments in connection with the maintenance or repatriation of our troops, and the reduced remittances of current dividends to overseas shareholders owing principally to the lower profits earned by the mines.

The inflow of capital played an important part in reducing the impact of the net increase in imports and other factors on our gold and exchange holdings. It is not yet possible to give any accurate estimate of the amount of capital which flows in or out of the Union during any period, as it takes place in various forms all of which cannot be controlled for statistical purposes. Apart from straight inward and outward transfers, in respect of which the banks assist us in keeping a record of substantial amounts, there are numerous two-way transactions between the London and Johannesburg stock exchanges; there are various married or partly married tranactions of a general nature, due to the close commercial and financial relations between the Union and Great Britain; and part of the capital raised abroad is frequently retained there in anticipation of commitments. During the year ended 31st March, 1947, there was, as far as we can judge from our records of exchange transactions, an appreciable net inflow of capital, largely during the first quarter of 1947. The amount, however, is not nearly as large as is believed in certain circles, probably because no account is taken of the outflow that also takes place much of the time. We consider that the net amount could not have been much more than £20,000,000 during the year concerned.

In spite of this substantial net inflow of capital, the Union's balance of payments has experienced a severe turn, as reflected in a reduction of £84,000,000 in our gold and exchange reserves during the past year. At our meeting a year ago I pointed out that an adverse balance of payments could be expected, for perhaps two or three years, due to a heavy increase in imports of all kinds of goods and to the special overseas commitments which had then still to be settled and which were previously referred to.

The accumulated demand for ordinary consumers' goods now appears to have been largely met, and the overseas commitments arising out of the war have been settled. There is, however, still an appreciable backlog of producers' goods to be worked off; and there is also the considerable amount of capital equipment and building materials which will be required in connection with the opening of the new gold mines in the Orange Free State and on the Far West Rand, the expansion of the steel and allied industries, and the provision of the various facilities and services associated therewith. In due course the increased output of gold and steel or other products should relieve our balance of payments position and ultimately produce favourable balances again; but in the meantime we anticipate that, in the absence of an abnormal inflow of capital, our net sales of exchange will continue to exceed the current gold output, which will, of course, further reduce our gold and exchange reserves. The rate of decrease could, however, be expected to proceed at a much slower tempo than during the past year and might show an appreciable drop as soon as a substantial decline in overseas price level takes place.

Notwithstanding the large decrease in our reserves, we still held, at the 31st March, 1947, £197,000,000 gold which represented 91 per cent. of our total note and deposit liabilities, and in addition we had £16,000,000 foreign exchange. While, for the reasons mentioned above, we anticipate a further decline, we are confident that our gold and exchange holdings will continue to be more than adequate for all the purposes of external and internal reserves, and that our currency will remain one of the soundest currencies in the world.

With regard to exchange rates, our telegraphic and selling rates for sterling have remained unchanged. Consequent, however, upon the narrowing of the margin in the London rates for United States and Canadian dollars, we also reduced the margin in our rates for those currencies on the 20th January, 1947, when the following changes became effective:

	T.T. Buying Rate		*T.T. Selling Rate*	
	Old	*New*	*Old*	*New*
South Africa on New York	4.03½	4.03¼	4.00½	4.00¾
South Africa on Canada	4.04⅝	4.03¾	3.99½	4.00¼

MONETARY AND BANKING REVIEW.

There was a further increase in the volume of money in circulation in the Union during 1946, the year-end figure being £394,000,000 as compared with £349,000,000 at the end of 1945. The peak of £402,000,000 was reached in June, 1946, and was touched again in August, 1946, since when there has been a declining tendency. At the 31st March, 1947, the amount stood at £376,000,000, which was only £1,000,000 more than in March, 1946. Between these two dates, notes and coin in the hands of the public dropped by about £4,000,000, while the demand deposits of the commercial banks and the Reserve Bank showed an increase of £5,000,000. At the 31st March, 1947, the available supply of money consisted of £7,200,000 silver and bronze coin, £56,600,000 notes and £312,300,000 bank deposits.

Up to March, 1946, the primary cause of the continuous increase in the monetary circulation had been the large favourable balances of payments (i.e. excess of receipts over outgoings in the Union's international accounts), while a secondary cause had been the considerable increase in the commercial banks' investments in the Union, which was partly counteracted by the decrease in their advances and discounts in the Union. In the year ended 31st March, 1947, however, as explained previously, there was a large adverse balance of payments, which was reflected in a reduction of £84,000,000 in our gold and exchange holdings and which should, other things being equal, also have been reflected in a decrease in the volume of money in circulation. Yet, as mentioned above, there was actually an increase of £1,000,000 in the money supply during that year. The principal factor which served to counteract the effect of the adverce balance of payments was the increase of £63,000,000 in the commercial banks' advances, discounts and investments in the Union, while a further factor was the profit on the revaluation of the Bank's gold reserves and the resultant increase of £17,600,000 in Government deposits with the Bank on the 30th June, 1946, the date of revaluation.

The creation of additional commercial bank credit to the extent of £63,000,000 during the past year took place mainly in the form of increased advances and discounts, which rose from £54,600,000 in March, 1946, to £104,100,000 in March, 1947. Their investments also increased from £82,500,000 to £96,100,000. The increase in their advances and discounts was related not only to the tremendous increase in imports during that period, but also to increased activity in other directions; while the expansion of their investments was evidently the result of opportunities for acquiring additional gilt-edged securities, on the one hand, and their relatively strong cash position, on the other.

The fact that the commercial banks' advances and discounts in the Union were almost doubled within a year calls for further analysis of the underlying situation. As compared with £104,000,000 in March, 1947, the average figure for 1937-39 was about £55,000,000. It is true that there has been a considerable increase in the price level, the index numbers of wholesale prices for March, 1947, showing rises of 52 and 71 per cent. for local and imported goods, respectively, over those for 1938. It is also true that merchants had to replenish their depleted stocks and that there was a large accumulated consumers' demand to meet after the war. Against that, however, has to be set the huge increase in the quantity of money in circulation, namely, from £100,000,000 in September, 1939, to £375,000,000 in March, 1946, a large part of which was attributed to the unsatisfied demand for goods. In view of this, the rapid and continuous rise in bank advances and discounts during the past year gives one the impression of prima facie evidence that a considerable amount of bank credit is involved in the financing of goods in transit and in the holding of stocks, whether by wholesalers, retailers or manufacturers, which may in turn be due to many orders having been more promptly executed than was expected as well as to the public having bought less than anticipated on account of prices of many goods being considered to be too high. These probabilities derive a large measure of support from reports of overstocking in some lines and of unemployment in a few industries; the reappearance of clearance sales here and there; the excessive amount of notes which continues to remain in the hands of the public; and the comparatively low rate of turnover of bank deposits as measured in terms of bank debits to individual accounts. Under these circumstances, and in the light of reports of price uncertainty in America, the situation demands caution on the part of merchants in regard to overseas indents of consumers' goods, particularly those which have moved or show sings of moving out of the category of short supply.

A gratifying feature, however, of the banking situation in the Union is that, notwithstanding the considerable reduction in the commercial banks' cash reserves (as a result of the adverse balance of payments) and the tremendous increase in their advances and discounts, their cash position remains very strong. At the 31st March, 1947, the ratio of their cash reserves to their liabilities to the public in the Union stood at 41 per cent., and their liquid-asset ratio at 72 per cent. Although their cash ratio dropped from the peak of 60 per cent. in January, 1946, to 41 per cent. in March, 1947, the latter still far exceeds the accepted standard for adequate cash reserves in commercial banking. There is, therefore, a wide margin left for meeting further inroads on their cash reserves on account of adverse balances of payments and providing working capital for legitimate expansion of business associated with the development of new mines and industries.

As stated previously, the quantity of money in circulation in the Union at the 31st March, 1947, amounted to £376,000,000. Although a substantial part of this amount has been temporarily immobilised due to the many new flotations which have taken place, and for other reasons, and although the total volume of money may in the next year or two show an appreciable decline from its present high level, as a result of lower prices and/or adverse balances of payments, we are still confident that the Union will continue to have an available supply of money more than sufficient for all its requirements of media of exchange, cash in hand and working balances on current banking accounts.

During the past year there has been a further reduction in gilt-edged rates. The Government, for example, successfully issued a 15-year conversion loan in October, 1946, at $2\frac{3}{4}$ per cent., and a $6\frac{1}{2}$-year conversion loan in June last at 2 per cent.; and those municipalities which had occasion to float loans were able to do so at somewhat lower net rates than before. On the other hand, there has been, as I anticipated last year, "a firming of some rates due to special circumstances affecting the relation between supply and demand in particular spheres of financial operations". In general, on account of the ample supply of money and the continued inflow of capital, it is likely that money rates will tend to remain in the vicinity of the present low level for some time to come.

GENERAL OUTLOOK.

Last year I found it necessary to deal at some length with the twin dangers of further inflation and overspeculation in the Union. Since that time further rises in prices and wages have taken place in the Union, as elsewhere; but owing to the large expansion of production, particularly in the United States, and the tremendous increase in our imports, the fear of a continuation of the inflationary process in the Union has practically disappeared. The rate and extent of speculative activity have also declined appreciably, bringing about a sounder and healthier position.

The present economic situation in the Union, as in many countries, represents a mixed pattern. While there is overstocking and price-cutting in some lines and a condition approaching saturation in others, there are still various classes of durable and non-durable consumers' goods in short supply, with a consequent tendency towards at least the maintenance of the present high prices. With regard to producers' goods, there is a considerable backlog of demand yet to be met in the case of capital equipment, building materials, and metal products of all kinds. Thus, while there are signs of unemployment in some industries, there is a shortage of labour in others.

Beside the continuation of world shortages in many lines, there is a large volume of domestic purchasing power available everywhere, although an appreciable part of it was created against unproductive Government debt; and in spite of the recent depletion of gold reserves, mainly in payment of goods from the United States, many countries still have left a substantial amount of gold or other international currency. There is, moreover, a strong probability of international purchasing power being kept up by further international credits, whether from the World Fund and Bank or from the United States and other Governments or their agencies, for purposes of world rehabilitation and reconstruction. Apart from this, many Governments are openly committed to doing everything possible to maintain a high and stable level of employment in their respective countries.

Thus, in the absence of a serious disturbance in international political and economic relationships, there does not appear to be any real likelihood of a general economic depression in the world in the near future. What is, however, probable is the occurrence of varying degrees of recession in those branches of trade and industry in which supply has overtaken demand or is about to do so, accompanied by a downward re-adjustment of prices. If such re-adjustment is allowed to take place over a wide field, it should have a beneficial effect on the whole, not only because the general price and cost levels have been unduly inflated but also because the various maladjustments in price and cost relationships caused by the war require to be ironed out before the world can settle down on a new normal basis. In short, the extent and duration of such a recession may depend largely on the degree and range of price readjustment and the effect thereof on aggregate demand. The maintenance of demand will also depend on the degree and spirit in which the declared economic policies of Governments will be carried out in practice, individually and collectively.

While on account of human instability and the complex nature of the modern economic organisation I do not believe that cyclical fluctuations in business activity can be eliminated entirely, I do consider that the combined application of appropriate monetary and fiscal policies can achieve a great deal in reducing the emplitude of such fluctuations and avoiding at least the extremes of booms and depressions. Now that the war-induced inflation appears to have reached its peak and world production is increasing at a rapid rate to catch up with the pent-up demand, the next problem will be to obviate the recurrence in due course of unwarranted deflationary pressure, as happened in 1920-22 and again in 1930-22. In the light of experience, this problem cannot be handled satisfactorily by nations acting individually and leaving the door open to confusion, overlapping and conflicting measures. What is required is the close international co-operation of Governments and central banks, not only in the field of monetary action but also in respect of general economic policy. The co-operation of the monetary authorities of a large and growing number of countries is now facilitated by the existence of the International Monetary Fund; and steps are also being taken to convene a World Trade Conference with a view to widening the field of international co-operation through the establishment of an International Trade Organisation.

As far as the Union in particular is concerned, there are several factors which can be expected to work in the direction of counteracting any tendency towards a recession of business activity. In the first place, a downward readjustment of world prices and costs will relieve the gold producers and reverse the declining trend in their output and margin of profit. It is for this reason that the gold-mining industry has always been a stabilising influence in our economy. Secondly, the development of the new mines in the Orange Free State and on the Far West Rand, and the various activities associated therewith, will provide new avenues of employment and sources of income. Thirdly, the plans already in hand for the establishment of new industries and the expansion of many industrial concerns, as well as the large backlog in respect of housing, public works and building requirements generally, will further help to maintain employment and demand, taken as a whole. Finally, the Government and other public authorities are better equipped and prepared to-day to cope with any unfavourable turn in the economic situation, while the banking structure is much stronger and more liquid, thus ensuring the availability of funds for all sound and legitimate needs.

CONCLUSION.

We deeply regret having to record the death recently of our former Governor, Mr. J. Postmus, and of our colleague, Mr. G. A. Kolbe, who was a Government representative on the Board. Both of them were members of the Bank's first Board of Directors appointed in May, 1921, and we take this opportunity to express our high appreciation of the valuable services rendered by them to the Bank. The vacancy on the Board caused by the death of Mr. Kolbe has been filled by the Government through the appointment of Mr. Eugene Maggs, to whom we extend a hearty welcome and whose services we are pleased to obtain.

Finally, we wish to express our gratitude and appreciation to the staff for the loyal and efficient manner in which they performed their duties during the past year.

At the conclusion of his address the Governor moved "That the Report and Accounts be adopted".

In seconding the adoption of the report and accounts Mr. A. B. Herold added that the interesting and comprehensive report would serve as an excellent guide especially to the commercial community. The motion was then put to the meeting and was carried unanimously.

On the motion of the Governor, seconded by Mr. A. M. Sturdy, it was unanimously resolved—

That Mr. M. G. de Jager and Mr. R. H. Parker, whose period of office expired on the 1st of July, in accordance with the terms of the South African Reserve Bank Act, be re-elected as Stockholders' Representatives on the Board of Directors.

The Governor then moved—

(1) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be paid the sum of One Thousand Five Hundred guineas each, in accordance with the recommendation of the Board, for auditing the accounts of the Bank for the year ended 31st March, 1947.

(2) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be appointed Auditors of the Bank's accounts for the current year.

The Resolutions were seconded by Mr. S. R. Barnes and having been put to the Meeting separately were carried unanimously.

Before the conclusion of the Meeting Mr. H. C. Jorissen thanked the Governor for his most instructive and illuminating address and for the painstaking manner in which it had been prepared.

After the Governor had suitably replied the proceedings terminated.

1947

SOUTH AFRICAN RESERVE BANK

REPORT OF THE GOVERNOR AND DIRECTORS TO BE PRESENTED TO STOCKHOLDERS AT THE TWENTY-SEVENTH ORDINARY GENERAL MEETING TO BE HELD AT PRETORIA ON THE 1st AUGUST, 1947.

The accompanying copies of the Annual Accounts of the Bank and of the Auditors' Report are presented to Stockholders in compliance with the Regulations framed under Section 23 of the South African Reserve Bank Act.

After all expenses had been paid and full provision had been made for Income Tax and other liabilities and contingencies, and after the following amounts had been written off, as shown in Profit and Loss Account, viz.:

	£	s.	d.
From Fixed Property Account	43,662	18	8
From Furniture and Fittings Account	10,797	10	5
and after contributing to the Pension Fund	32,500	0	0
	£86,960	9	1
there were left net profits of	£443,080	1	10

which have to be allocated in terms of Section 16 of the South African Reserve Bank Act, 1944, as follows:—

	£	s.	d.			
Dividend to Stockholders of 10% per annum	100,000	0	0			
Reserve Fund — 1/10th of remaining surplus	34,308	0	2			
Balance payable to the Government	308,772	1	8			
				£443,080	1	10

Fixed Property Account.—After application of the provision of £43,662 18s. 8d. shown above, the Bank's Fixed Property Account stands at £1 0s. 0d. against which it holds fixed property in Bloemfontein, Cape Town, Durban, East London, Johannesburg, Pietermaritzburg, Port Elizabeth and Pretoria.

Furniture and Fittings Account.—After application of the provision of £10,797 10s. 5d. shown above, this account is written down to £1 0s. 0d. against which is held all the furniture and fittings of the Bank, including Strong Room Equipment and Safes.

Dividends.—The Directors have declared the following dividends for the past year:

(1) an interim dividend of 5% for the half-year ended 30th September, 1946;

(2) a final dividend of 5% for the half-year ended 31st March, 1947;

making a total dividend of 10% for the year ended 31st March, 1947.

Capital Stock.—Holders of the Capital Stock of the Bank at the 31st March, 1947, numbered 976 of whom 49.1% held less than £500 stock each.

Directors.—The Directors deeply regret having to record the death of their colleague, Mr. George Augustus Kolbe, a Government representative on the Board. The vacancy on the Board thus caused has been filled in the manner prescribed in sub-section (1) (*a*) of Section 5 of the South African Reserve Bank Act, 1944, by the appointment of Mr. Eugene O'Connell Maggs for the unexpired portion of the late Mr. Kolbe's term of office, viz. till 1st July, 1949.

In accordance with the Act, Mr. M. G. de Jager and Mr. R. H. Parker retire by rotation, but, being eligible, offer themselves for re-election.

Auditors.—Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers were appointed at the last Ordinary General Meeting to examine the accounts of the Bank for the past year. The Stockholders will be requested at the forthcoming Ordinary General Meeting to determine, upon the recommendation of the Board, the remuneration of the Auditors for the recent audit, and to appoint Auditors for the current year.

Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers offer themselves for re-election.

M. H. DE KOCK, Governor.

J. T. JURGENS,
R. H. PARKER, Directors.
G. P. J. LOTZ,

C. THEO. VORSTER, Acting Secretary.

Pretoria, 6th June, 1947.

BALANCE SHEET 31st MARCH, 1947.

LIABILITIES.

	£	s.	d.	£	s.	d.
Capital				1,000,000		
Reserve				2,121,690	1	3
Notes in Circulation				63,136,714	5	0
Notes of Other Banks in Circulation				152,723	15	0
Deposits—						
Bankers' Reserve Accounts	33,315,000	0	0			
Bankers' Current Accounts	97,482,480	5	5			
Government and Provincial Current Accounts	17,572,877	10	10			
Other Accounts	7,558,177	6	8			
				155,928,535	2	11
Rebate on Bills not yet Due				5,262	14	11
Other Liabilities				2,271,847	18	8
Profit and Loss Account	443,080	1	10			
Less: Interim Dividend for the half year to 30th September, 1946	50,000	0	0			
	393,080	1	10			
Less: Transferred to Reserve	34,308	0	2			
				358,772	1	8
				£224,975,545	19	5

ASSETS.

	£	s.	d.	£	s.	d.
Gold Coin and Bullion				197,397,980	10	8
Other Coin				386,951	6	7
Balances with Overseas Central Banks				4,695,047	1	5
Balance Employed under the Guarantee of the Bank of England				1,475,000	0	0
Bills Discounted—						
Domestic	500,000	0	0			
Foreign	9,952,366	12	11			
				10,452,366	12	11
Loans and Advances				3,591,923	18	6
Government Securities				2,898,019	3	9
Other Securities				133,474	0	0
Furniture and Fittings				1	0	0
Fixed Property				1	0	0
Other Assets				3,944,781	5	7
				£224,975,545	19	5

PROFIT AND LOSS ACCOUNT for the year ended 31st MARCH, 1947.

DR.	£ s. d.	£ s. d.		CR. £ s. d.
To **General Expenditure,** including Rent, Rates, Salaries, Directors' Fees, etc.		329,748 5 10	By **Gross Revenue** — after making provision for Income Tax, Rebate on Bills not yet due, Sundry Liabilities Premium writen off Securities, etc.	859,788 16 9
„ **Written Off—**				
Fixed Property	43,662 18 8			
Furniture and Fittings	10,797 10 5			
		54,460 9 1		
„ **Pension Fund Contribution**		32,500 0 0		
„ **Profit for the Year** — Allocated as under: (Vide Report of Governor and Directors)				
To Stockholders	100,000 0 0			
„ Reserve	34,308 0 2			
„ Government	308,772 1 8			
		443,080 1 10		
		£859,788 16 9		£859,788 16 9

C. THEO. VORSTER, Acting Secretary.

M. H. DE KOCK, Governor.

J. T. JURGENS,
R. H. PARKER,
G. P. J. LOTZ, Directors.

Pretoria, 6th June, 1947.

To the Stockholders of the

South African Reserve Bank.

We have audited the Balance Sheet dated 31st March 1947, above set forth and report that, in our opinion, the Balance Sheet is a full and fair Balance Sheet and is properly drawn up so as to exhibit a true and correct view of the whole of the Bank's affairs according to the best of our knowledge and the explanations given to us and as shown by the books of the Bank as at 31st March, 1947. We also report that, in our opinion, the affairs of the Bank have been conducted in accordance with the provisions of the South African Reserve Bank Act, 1944, and the Regulations thereunder, so far as they affect the Balance Sheet and Accounts.

DELOITTE, PLENDER, GRIFFITHS, ANNAN & CO.,

WHITELEY BROTHERS,

Auditors.

Pretoria, 30th May, 1947.

BRANCH OFFICES.

Branches:	Agents:
Bloemfontein	E. Moore.
Cape Town	W. W. Brown.
Sub Agent	C. J. G. van Hoogstraten
Durban	C. H. Parke.
East London	R. H. Mills
Johannesburg	A. F. Celliers.
Sub Agent	R. E. Spence.
Pietermaritzburg	A. F. Halliday.
Port Elizabeth	A. J. van Zyl.
Pretoria	H. J. Alston.
Sub Agent	N. K. Spradbury

1948

SOUTH AFRICAN RESERVE BANK

REPORT OF THE

TWENTY-EIGHTH

ORDINARY GENERAL MEETING

28th July, 1948

SOUTH AFRICAN RESERVE BANK.

Established under the Currency and Banking Act, 1920.

Board of Directors:

MICHIEL HENDRIK DE KOCK	Governor.
JOHN TOBIAS JURGENS	Deputy-Governor.
WILLIAM DUNCAN BAXTER MATHYS GUSTAV DE JAGER CHARLES EDWARD JAMES HENDRIK CHRISTIAAN JORISSEN REGINALD HEINRICH PARKER ROBERT PYOTT	Commercial, Agricultural and Industrial Representatives.
EDWIN WINTER CATTELL GERRIT PETRUS JOHANNES LOTZ EUGENE O'CONNELL MAGGS	Government Representatives.

HEAD OFFICE—PRETORIA.

Chief Cashier

L. J. Cockhead

Deputy Chief Cashiers

R. F. A. Louw
S. F. T. Greaves

Secretary and Chief Accountant
G. Rissik

Inspector
J. K. McL. Robertson

Statistician
T. W. de Jongh

Assistant Chief Accountant
B. C. J. Richards

SOUTH AFRICAN RESERVE BANK

Twenty-Eighth Ordinary General Meeting of Stockholders

MINUTES OF PROCEEDINGS

The Twenty-eighth Ordinary General Meeting of Stockholders was held at the Head Office of the Bank, Pretoria, on Wednesday, 28th July, 1948, at 11.30 a.m., the Governor presiding.

The Governor declared the Meeting duly convened in terms of the Regulations framed under the South African Reserve Bank Act.

The Minutes of the previous Meeting were taken as read and confirmed.

The Reports of the Board and of the Auditors for the year ended 31st March, 1948, were presented and taken as read.

The Governor then addressed the Meeting and said:

In presenting to you the Balance Sheet and Accounts and the Reports of the Board and the Auditors, I have pleasure in explaining the items which call for comment.

RESERVE FUND: £2,157,056.

A further amount of £35,366, representing one-tenth of the surplus profit for the past year, was added to the Reserve Fund in terms of Section 16 (3) of the Reserve Bank Act.

NOTES IN CIRCULATION: £63,682,253.

After a decline of £3,162,000 during the previous year, our note issue remained relatively stable, taking into account the usual monthly and seasonal fluctuations. There was, in fact, a difference of only £545,000 between the figures at the 31st March, 1947, and the 31st March, 1948.

We still find it difficult to explain on purely economic grounds the maintenance of our note circulation at a level more than three times higher than that prevailing immediately before the war. We fully realise that a much larger amount of circulating currency has been rendered necessary by the considerable increase in prices as well as by the growth of population and economic activity in the Union since 1939. We also appreciate that our notes are used as a store of value to a greater extent when consumers' goods are in short supply than when they are readily available. During the past two years, however, there have been not only tremendous imports of merchandise but also increased supplies of local products, and there are now few lines of consumers' goods which are not freely obtainable in the Union. The fact, therefore, that our note circulation continues to be maintained at such a high level gives us some reason to conclude that an appreciable amount of our notes is still being hoarded for one reason or another. In this connection it should also be mentioned that notes of the higher denominations (i.e. £5 and upwards) now constitute 56 per cent. of our total notes in circulation compared with 40 per cent. in 1939.

DEPOSITS: £213,951,957.

There was an increase of £58,023,000 in our total deposits as the counterpart of a large increase in our exchange holdings which, in turn, was the result of a considerable inflow of capital during the year.

Bankers' reserve accounts showed an increase of £5,875,000, due to the further increase in the commercial banks' deposit liabilities in the Union and thus in the minimum reserve balances which they were required by law to keep with the Reserve Bank, while their current account balances with the Bank increased by £47,483,000. On Government and Provincial Accounts there was also an increase of £1,611,000, and on other accounts £3,054,000.

GOLD COIN AND BULLION: £107,695,386.

Our gold reserve, valued at the statutory price of 172s. per fine ounce, decreased by £89,703,000 during the year, of which about £80,000,000 was accounted for by the gold loan to the United Kingdom. The remainder of the decrease was the result of our gold sales having exceeded the gold output by about £10,000,000, primarily on account of an abnormal deficit in the Union's balance of payments with the dollar area.

OTHER COIN: £550,647.

There was an increase of £164,000 in our holdings of silver and bronze coin, which was connected mainly with preparations for the renewed issue of crowns by the Mint.

According to our estimates of the amount of coin in the hands of the public, there was, as in the case of notes, a small decline during the past year, namely, from £7,200,000 to £7,100,000.

BALANCES WITH OVERSEAS CENTRAL BANKS: £6,722,613.

BALANCE EMPLOYED UNDER THE GUARANTEE OF THE BANK OF ENGLAND: £750,000.

Our credit balances on current account with overseas central banks increased by £2,028,000, while there was a decrease of £725,000 in the amount of money employed in the London market, i.e. a net increase of £1,303,000.

FOREIGN BILLS: £74,193,203.

Our holdings of foreign bills increased by £64,241,000. Together with the net increase of £1,303,000 referred to above, our exchange resources thus showed a total increase of £65,544,000 for the year. This increase, which took place almost entirely in our sterling holdings, indicates the extent to which our purchases of exchange, plus sales of gold, exceeded our sales of exchange during the year.

GOVERNMENT GUARANTEED GOLD LOAN: £79,996,875.

This item represents the equivalent of the loan of 9,275,000 ounces of fine gold, valued at 172s. 6d. per ounce, which was made by the Bank on behalf of the Union Government to the Government of the United Kingdom in terms of the agreement concluded between the two Governments and ratified by the Union Parliament in the Gold Loan Act, with effect from the 14th February, 1948. As provided for in this Act, the Minister of Finance has given the Bank a guarantee of repayment of the loan and payment of interest thereon at the rate stipulated in the agreement, namely ½ per cent. per annum on the amount of the loan outstanding from time to time.

The loan has been made for a period of three years from the date of the original transfer of the gold, i.e. until the 14th February, 1951. The Government of the United Kingdom has, however, the right at any time to repay the loan in whole or in part by a transfer of gold from the Bank of England to the Reserve Bank, while the Union Government has the right to call for such repayments of the loan in sterling as may be found necessary from time to time to meet the sterling requirements of the Reserve Bank, provided its gold reserve at the time does not exceed £100,000,000. The latter provision was intended to obviate the Reserve Bank having to sell gold to the Bank of England in order to obtain sterling when its gold reserve would thereby be reduced below £100,000,000. As matters stand at present, the gold reserve has already dropped below £100,000,000, and the Bank's sterling balances are being rapidly reduced now that the inflow of capital from the United Kingdom has declined. As the Union is expected to have a large deficit with the sterling area during the nex few years, it is likely that the loan will have been mainly, if not entirely, repaid in sterling when the agreement expires in 2½ years' time. To the extent that such repayment in sterling actually takes place within that period, the gold loan would be tantamount to having given the United Kingdom in advance the gold which it would in any case have acquired in exchange for its goods and services.

The gold loan is valued at 172s. 6d. per fine ounce in our books because that is the equivalent in Union currency of the sterling price stipulated in the agreement for such purposes as the payment of interest on the loan and repayments in sterling. The price of 172s. 6d. sterling per fine ounce ex Union ports is, however, subject to immediate adjustment in the event of any change in the sterling-dollar rate or in the net United States buying price for gold. In fact, the principle underlying the idea of a gold loan was to ensure the retention by the Union of any advantage which might accrue from a rise in the monetary price of gold in terms of sterling and/or dollars during the period of the loan.

OTHER LOANS AND ADVANCES: £6,724,038.

There was an increase of £3,132,000 in this item, which still consisted entirely of advances made to Government or quasi-Government bodies, primarily for the importation of bags, foodstuffs and other essential commodities.

GOVERNMENT SECURITIES: £2,827,192.

OTHER SECURITIES: £182,274.

Our portfolio of Union Government securities showed a decrease of £71,000 during the year due to the sale of certain stocks to the Bank's pension funds, while our holding of Union Municipal securities purchased in the London market during the previous year was reduced by £5,000 as the result of the redemption of debentures by the Municipality of Cape Town.

PROFIT AND LOSS ACCOUNT:

Our gross revenue, after provision had been made for income tax, rebate on bills discounted and sundry liabilities, was about £30,000 lower than in the previous year. There was a substantial increase in our revenue from interest and discounts, due to the increase in our loans and advances and in our holdings of foreign bills respectively. On the other hand, there was an appreciable decline in our exchange profits on account of a decrease in our sales of exchange.

General expenditure showed an increase of only £4,000. Owing, however, to the fact that nothing had to be written off out of profits in respect of fixed property, the net profit increased from £443,080 to £453,663, which, after the payment of a 10 per cent. dividend to stockholders and the allocation of £35,366 to the Reserve Fund, left £318,297 to be paid to the Government as against £308,772 in the previous year.

GOLD TRANSACTIONS:

During the year ended 31st March, 1948, the Bank purchased gold to the amount of £101,602,000, almost all of which was obtained from gold producers in the Union.

Our total gold sales amounted to £111,569,000, which was distributed as follows:—

£54,014,000	to the Bank of England;
55,245,000	to the United States Assay Office in New York;
1,143,000	to the Riksbank of Sweden in respect of timber and other essential commodities obtained from Sweden;
897,000	to the Government of Mozambique in respect of deferred pay due to Mozambique natives employed on the mines in the Union;
270,000	to jewellers, dentists, etc. in the Union.

The sales of gold to the Bank of England, amounting to £54,000,000 for the whole of our financial year, were effected during the period from the 1st April to the 31st December, 1947, and represented the balance of the net minimum of £70,000,000 which had to be sold in the year 1947 under the previous gold sales agreement with the United Kingdom and in return for which the Bank of England had to provide against sterling the Union's requirements of foreign currencies except such United States dollars as we acquired by direct gold shipments to New York. The new financial agreement between the Union and the United Kingdom makes no provision for the sale of a minimum annual amount of gold to the Bank of England, but instead the Reserve Bank now has to settle in gold with the Bank of England for any net payments made by residents of the Union, through the United Kingdom, to countries outside the sterling area. All that is implied in this provision is that the Reserve Bank has to compensate the Bank of England for whatever gold or foreign exchange the latter has surrendered, directly or indirectly, in order to make such payments on behalf of the Union. It was arranged that the settlements were to take place on the basis of monthly data agreed between the two banks. Owing, however, to the time taken to compile the necessary statistics, the gold settlements in respect of the first three months of 1948 were only made in May and June. Thus, although an amount of about £12,500,000 gold had accrued to the Bank of England for non-sterling expenditure on the Union's behalf during the first quarter of 1948, no gold was actually sold to them in that period.

Our sales of gold to the Assay Office in New York amounted to £55,200,000, which represented a large part of the Union's net requirements of United States dollars during the year. Since January, 1948, we have arranged with the South African banks to provide all their requirements of United States dollars in respect of transactions handled by them and not covered by receipts of dollars from direct exports to the United States or from other sources. We have also extended this arrangement to transactions in Canadian dollars which we in turn obtain by selling United States dollars to the Bank of Canada against Canadian dollars at par. There are, however, still some net payments in United States and Canadian dollars which are for special reasons made from London on South African account, and for which we must settle in gold with the Bank of England.

The other sales of gold during the year, namely £2,310,000, were made for the special purposes mentioned above. The amount of £1,143,000 gold sold to the Riksbank of Sweden under an agreement relating only to the year 1946-47, was paid for in sterling at parity price, and the remaining £1,167,000 was sold against Union currency.

Thus, the whole of our sales of gold for the normal purpose of acquiring foreign exchange again passed through the two main official channels at the net monetary price for gold.

EXCHANGE TRANSACTIONS:

The total sales of foreign exchange by the South African banks, after eliminating duplication between the Reserve Bank and the commercial banks, amounted to £389,000,000 during the year ended 31st March, 1948. On the basis of returns furnished by our banks, and also by the Bank of England in respect of payments made through London on South African account to countries outside the sterling area, it has been possible to allocate the sales of £389,000,000 exchange as follows: £173,000,000 for expenditure in the sterling area and £216,000,000 outside the sterling area, namely, £149,000,000 in United States dollars, £15,000,000 in Canadian dollars and £52,000,000 in other currencies. The expenditure in the sterling area included purchases of South African securities in the London market, although, as will be pointed out later, sales of South African securities to London far exceeded purchases during the past year. As far as payments outside the sterling area were concerned, a large proportion of the remittances from South Africa was made in sterling in the first instance for settlement through London with the countries concerned. Moreover, the expenditure of £149,000,000 in United States dollars included not only payments for imports from the United States and for freight, insurance, etc., but also other payments which had to be made in dollars, such as for petrol and oil from American-controlled sources in other parts of the world and, to a smaller extent, for certain essential commodities obtained by the Union from countries outside the sterling and dollar areas.

With regard to exchange receipts, the proceeds of gold sales accounted for £111,000,000 while purchases of exchange by the South African banks amounted to £345,000,000, i.e. £456,000,000 altogether. Of this amount, £336,000,000 was received from the sterling area and £120,000,000 from the remainder of the world, namely, £86,000,000 in United States dollars (including over £55,000,000 proceeds of direct gold sales), £2,000,000 in Canadian dollars and £32,000,000 in other currencies. Thus, the total receipts exceeded the total payments by £67,000,000, which explains the increase of approximately that amount in our exchange holdings during the year.

The amount of £336,000,000 received from the sterling area included large amounts of capital transfers, primarily from the United Kingdom. These transfers of capital took place in various forms and for various purposes which can be roughly classified as follows: (1) capital for investment (i.e. to be actively employed in one way or another and including remittances by immigrants); (2) "hot money" (seeking only a safer refuge and lying on deposit with the banks or other institutions); and (3) repatriation or reduction of sterling balances held by South African concerns as working balances or in anticipation of overseas commitments. Although there were many cases of genuine investment to take advantage of the opportunities for expansion and new development available in the Union, a large proportion of the total transfers was apparently associated with fears of an early depreciation of sterling relative to the dollar and Union currency or of a capital levy in the United Kingdom or of restrictions on capital movements from the United Kingdom to the Union. As far as we have been able to judge, the greater part of the capital inflow has come to be invested in due course, mainly in securities purchased on local stock exchanges, subscriptions to new capital issues, real estate (office buildings, blocks of flats, hotels, farms, etc.) and branch or subsidiary factories. As regards South African securities there are always numerous two-way transactions between the Johannesburg and London stock exchanges; but throughout the past year there was no doubt that purchases by London from Johannesburg far exceeded sales to Johannesburg.

From the statistics available it has not been possible to determine accurately the extent of the net capital inflow during any period. All we have been able to do hitherto is, firstly, to deduct from the total receipts of exchange the proceeds of exports as declared by the Customs Department and all other identifiable current receipts which can be computed with varying degrees of accuracy; secondly, to apply the same process in respect of the total payments made abroad; and finally, to deduct the residual sum on the payments side from the residual sum on the receipts side. On this basis we arrived at a net residual figure of £150,000,000 for 1947, as compared with £20,000,000 for 1946.

The figure of £150,000,000 for 1947, should, however, not be taken as a reliable indication of the actual net inflow of new overseas capital during that year, since several qualifications have to be made. In the first place, it includes an appreciable amount of funds belonging to South African concerns who transferred all or most of their sterling balances to the Union during the year, either because they preferred to avoid any exchange risk or because they could employ the funds in the Union; and in some cases the sterling balances represented the accumulated proceeds of exports from the Union. Secondly, as a residual figure it may include current items which we have not been able to identify. Thirdly, there may be substantial errors and omissions in the items which have been identified, and in any case payments for imports are not always made in the period for which they are declared.

Notwithstanding the qualifications mentioned above in respect of the year 1947, we consider that the *net* inflow of *new* capital from the sterling area during that period must have been about £120,000,000, the major portion of which entered the Union in the second half of the year. The Union's deficit on current account with the sterling area (including the net amount paid for freight, insurance, dividends, interest, etc., but excluding exports of gold) has been estimated at £80,000,000 for 1947, and thus the inflow of capital alone was much more than sufficient to cover the whole of the deficit in that year.

With regard to countries outside the sterling area, the deficit on current account for 1947 (excluding exports of gold) has been estimated at £140,000,000 of which at least £100,000,000 must have been in respect of United States dollars. Against this large deficit there was only a relative small influx of capital. The remainder of the deficit, plus the Lend-Lease settlement of £25,000,000, had therefore to be met from gold sales to the United States amounting to £65,000,000, and from purchases of dollars or other currencies and sterling transfers to non-resident accounts in London which the Union was entitled to do under the gold sales agreement at the time, in return for the sale of a minimum annual amount of gold to the Bank of England.

After taking into account the gold output, the Union's current deficit with all countries amounted to £120,000,000 in 1947 as compared with £65,000,000 in 1946. Last year I explained that there was still an appreciable backlog of producers' goods and durable consumers' goods to be worked off, in addition to the considerable amount of capital equipment and building materials which would be required in connection with the opening of the new gold mines, the expansion of the steel and allied industries, and the provision of the various facilities and services connected therewith and that for these reasons a substantial adverse balance of payments, even after allowing for capital from abroad, could also be expected for another two years or so. We had, however, not anticipated either such a large deficit on current account or such a large inflow of capital as actually took place in 1947.

The main causes of the big increase in the current deficit for 1947 were, firstly, the increase in imports from £214,000,000 to £290,000,000 (estimated) which was the result of both a larger volume of goods and higher prices abroad; secondly, a decrease of about £7,000,000 in the value of the gold output due to a strike on the mines in the early part of 1947, on the one hand, and the fixed monetary price for gold, on the other; and thirdly, the fact that the amount of exports (other than gold) remained practically stable. A contributory factor, therefore, was a further deterioration in our terms of trade with the principal suppliers of our requirements.

To sum up, the Union had a record deficit on current account and also had to make the Lend-Lease settlement in 1947. Notwithstanding this, the combined gold and exchange holdings of the Reserve Bank showed practically no change during that year. In short, the record deficit was offset by a record influx of capital. During the first quarter of 1948 there was a decrease of £58,500,000 in our gold and exchange holdings, but if allowance were made for the gold loan of £80,000,000 to the United Kingdom, there would have been an increase of £21,500,000. In other words, the capital inflow continued to exceed the current deficit in spite of the fact that the latter was maintained on at least the same level as in 1947. During the second quarter of 1948, however, the situation began to change. An appreciable decline has taken place in both our gold and exchange holdings, which will be referred to again later.

MONETARY AND BANKING REVIEW:

After dropping from £394,000,000 at the end of 1946 to £374,000,000 in June, 1947, the available supply of money in the Union increased to £421,000,000 at the end of 1947 and further to £455,000,000 on the 31st March, 1948. The principal cause of this large increase was a net favourable balance of payments for the Union during the period concerned, and a secondary cause was an expansion of commercial bank credit. The quantity of money dropped £20,000,000 in the first half of 1947 because the inflow of capital was not sufficient to offset the deficit on current account, while the increase in bank credit was neutralised by the Lend-Lease settlement. Thereafter the influx of capital substantially exceeded the current deficit, and there was also a further increase in bank credit. Thus, during the nine months from July, 1947, to March, 1948, the money supply increased by over £81,000,000.

The increase of £24,000,000 in commercial bank credit during the past year was associated with a further expansion of general economic activity in the Union, on the one hand, and with an increase in the cash reserves of the commercial banks, on the other. Due to the large inflow of capital, their cash reserves in the Union increased from £138,000,000 in March, 1947, to over £192,000,000 in March, 1948, and the ratio of cash reserves to liabilities to the public in the Union also rose from 41 to 46 per cent.

There was, however, a considerable decline in the gold reserve ratio of the Reserve Bank, namely, from 91 per cent. in March, 1947, to 39 per cent. in March, 1948. As stated previously, the gold reserve was reduced by almost £90,000,000 during the year, while there was also an increase of £58,500,000 in our liabilities to the public. The reserve ratio was thus detrimentally affected by both factors and stood at only 9 per cent. above the minimum legal reserve of 30 per cent.

Money rates remained relatively stable in the Union during the year under review. Contrary to the hardening tendency in other countries, the low levels established in the previous year were maintained in respect of the rates for Government and other public loans, Treasury bills, bank advances, discounts and deposits, and deposits of the Post Office Savings Bank. Since the close of the year, however, there has been evidence of a firming of rates in various directions.

GENERAL REVIEW OF LOCAL FINANCIAL SITUATION:

I have considered it necessary in the circumstances to set out and analyse the available statistical data concerning gold and exchange transactions during the past year in order to show not only the volume and variety of such transactions, but also the nature and extent of the complications which arose in connection with the Union's balance of payments and which were, of course, reflected in the local financial situation generally.

The principal sources of these complications were, firstly, the excessive inflow of capital from the sterling area, and secondly, the excessive expenditure in countries outside the sterling area, particularly in the United States. While neither of these movements was entirely unexpected, both of them developed much further than we had reason to anticipate last year.

The transfer of capital from the United Kingdom to the Union, which had first looked like becoming an abnormal movement about the middle of 1947, was viewed with concern by both sides during the discussions last September, in connection with the gold loan; but as it was felt at the time that there was some prospect of the movement soon slowing down to appropriate dimensions, and that interference with the traditional free flow of funds between the two countries should be avoided if at all possible, it was decided to wait and to watch the situation. The influx of capital did slow down appreciably toward the end of 1947, but it revived again early in February of this year, after the devaluation of the franc. Thus, when in March it showed clear signs of being a sustained flight of capital, steps were taken under the Union's Emergency Finance Regulations to impose restrictions on capital transfers from the sterling area to the Union. These restrictions, which were aimed particularly at prohibiting the inflow of "hot" money and further funds for investment in real estate and "uneconomic" activities, served immediately to reduce the flow of sterling into the Union. For a time the freedom to purchase South African securities still afforded too wide a scope for capital transfers from the sterling area, but since May there has been no evidence of any abnormal inflow through that channel. While new capital transfers are still being made for purposes and in amounts approved by our Exchange Control, there also appears to have been some repatriation of British funds still lying idle in the Union.

The unprecedented net influx of capital from the sterling area which must have been about £180,000,000 for 1947 and the first half of 1948, has distorted the whole financial picture in the Union. It has brought about an appreciable net increase in the cash reserves and the deposit liabilities of the commercial banks and thus in the quantity of money in circulation, notwithstanding the record deficit in the Union's balance of payments on current account which should otherwise have operated in the opposite direction and reduced the available supply of money and the credit creating capacity of the banks. It has, in fact, served to obscure the underlying adverse trends and to introduce additional inflationary pressure at a time when anti-inflationary influences were required in order to counteract the growing disequilibrium.

This inflationary pressure has manifested itself in various ways. It has caused lower money rates and higher prices for real estate, gilt-edged securities and dividend-paying shares than could otherwise be justified or maintained, with all the present and prospective repercussions associated with exaggerated price movements. It has led directly and indirectly to an undue demand for local and imported goods of all kinds which has made it necessary to retain rigid price control over a wide field. What is particularly disturbing in present circumstances is that it has revealed itself in excessive expenditure in the dollar area. While much of the capital from the sterling area has certainly been instrumental in bringing about useful and welcome industrial development, there has also been ample evidence of the establishment of non-essential or uneconomic industries in the Union whose requirements of both plant and raw or semi- manufactured materials have been obtained mainly from hard-currency countries, but whose exports, if any, have found their way to the sterling area. In this connection, therefore, we have had to sell hard currencies against a receipt of sterling which cannot be used to replenish our supply of hard currencies. The undue stimulation of secondary industries has also caused a greatly increased demand for labour and relatively high wages, thereby diverting labour and materials from the gold-mining industry which under its present cost-price relationship cannot compete effectively with other industries but which nevertheless is our principal source for acquiring hard currencies.

There is no doubt that capital from abroad is absolutely essential to enable us to take advantage of our legitimate opportunities for expansion and new development, but to the extent that it has actually entered the Union far in excess of the genuinely exploitable opportunities or of the available physical capacity and labour resources, it has led to the use of funds for uneconomic purposes and to an undue drain on our gold and hard-currency resources. While the excessive inflow from the sterling area has now stopped and permitted automatic disinflationary influences to operate again, it has left in its wake various unsound features in our economy which it will take some time to correct.

With regard to the question of excessive expenditure in countries outside the sterling area, the Union's total net deficit on current account with such countries (excluding exports of gold) exceeded the gold output by about

£40,000,000 in 1947. During the first half of 1948 this deficit continued at an even higher rate, namely, at an average of over £5,000,000 per month in excess of the gold output. Thus, our gold reserve which had dropped to £110,000,000 in February, 1948, when the gold loan to the United Kingdom was effected, declined further to £88,000,000 on the 16th July, 1948, while our dollar balance fell from about £10,000,000 to £2,000,000, i.e. a decrease of £30,000,000 altogether. At that date the gold-reserve ratio stood at only 7½ per cent. above the minimum of 30 per cent. required by law to be held against the Reserve Bank's note and deposit liabilities.

The sales of dollars by the South African banks, which under the Emergency Finance Regulations may only be made against evidence of actual purchases of goods or other approved expenditure in the dollar area, reached a record high level during the second quarter of 1948 and indicated gross merchandise imports from the United States and Canada at the rate of over £150,000,000 per annum. These abnormal sales of dollars apparently included heavy purchases of goods in anticipation of import control, but even after making some allowance for such additional purchases it would appear that the level of our expenditure in countries outside the sterling area, mainly in the United States, was still substantially above what could be maintained or justified in the circumstances. In view of the difficulty of obtaining producers' goods at short notice, it must be assumed that the anticipatory purchases were primarily in respect of consumers' goods.

The Union also continued to have a large deficit on current account with the sterling area, and this deficit would appear to be running at about the same rate as in 1947 for which year it was estimated at £80,000,000. Owing however, to the large inflow of British capital in the meantime, our sterling balances were still £10,000,000 higher in the middle of July than at the end of 1947 notwithstanding the fact that no gold had been sold to the United Kingdom except for the settlement of non-sterling expenditure, and that a sterling payment of £14,500,000 had been made to the Victoria Falls and Transvaal Power Company as the purchase price of their electricity interests in the Union.

Our sterling resources (present sterling balances plus the sterling equivalent of the gold loan, namely, £140,000,000) should be sufficient to cover the Union's net payments to the sterling area (including possible withdrawals of liquid funds) until 1950. The whole of the gold output for the next two years should, therefore, be available to meet our deficit with countries outside the sterling area, but, as stated above, this deficit has for some time been considerably in excess of the current gold output.

BASIC CAUSES OF DISEQUILIBRIUM IN BALANCE OF PAYMENTS:

The basic causes of the serious disequilibrium in the Union's balance of payments are, firstly, the growing deterioration in our terms of trade with other countries due primarily to the fact that the price of our principal export product in terms of the currencies of our principal suppliers has remained practically unaltered since the beginning of the last war, while the prices of the commodities and services required by us from them have risen very considerably and have in many cases not yet ceased to rise; secondly, the abnormal requirements of imported goods in connection with the opening of the new goldfields, the establishment of new industries and the expansion of existing industries and associated activities; and thirdly, the undue increase in the supply of money in the Union which has been caused mainly by the tremendous influx of capital and, to a smaller extent, by the increase in bank credit, and which has helped to accentuate the effective demand for goods from abroad.

It was hoped that the surplus gold reserve which had been accumulated during the war, plus the new gold output and the inflow of capital, would be sufficient to meet not only the backlog of demand for producers' and consumers' goods but also the requirements for expansion and new development until relief could be obtained from increased mining and industrial production. So far, however, the gold has had a smaller exchange value abroad than we had anticipated, while the inflow of capital, although more than sufficient as a total entity, has come almost entirely from the sterling area and the surplus receipts of sterling have directly and indirectly contributed towards increasing the current deficit with the dollar area without being available for helping to meet that deficit. The result has been, on the one hand, that our gold and dollar reserves have shown an appreciable decline since 1946, quite apart from the gold loan, and, on the other hand, that there has been a large increase in our sterling balances.

PROSPECTS OF RELIEF:

It is possible that there might be a substantial decline in imports from the dollar area in the near future, firstly, on account of the increased anticipatory purchases by Union importers and evidence of overstocking in many lines of consumers' goods; secondly, because the sterling area might be able to supply a larger proportion of our requirements; and, thirdly, because the continuation of total imports at the recent high level should bring about a considerable decrease in the supply of money in the Union now that there has been a severe contraction of the capital inflow. The third factor has already begun to have its effect, and a continuous decrease in the quantity of money should have a disinflationary influence on the South African economy. With the gold reserve at its present low ebb, however, it might be dangerous to rely too much on such an automatic and prompt reduction in our dollar imports. In any case there is the possibility that, for a time, a decrease in imports of consumers' goods might be offset by an increase in imports of producers' goods, particularly in view of the many developments which are taking place in the Union and because there is still an appreciable backlog of such goods to be worked off.

With regard to the basic factor of the present unfavourable relationship between the monetary price of gold and the prices of commodities generally, there does not appear to be much hope of any early relief of a substantial character. We had relied on at least some decline this year from the highly inflated level of commodity prices in the dollar area but this has now been rendered unlikely by the extensive United States programmes for European recovery and for rearmament as well as by the reduction in taxation, all of which will contribute toward the maintenance of effective demand. There is also the possibility that, when the decline does come in due course, the new level might not, at least for some time, be low enough alone to provide adequate relief for the Union as a whole, and the goldmining industry in particular. Furthermore, there does not seem to be much likelihood of a rise in the world price of gold in the near future. As I said last year, we must not, on account of self-interest, lose sight of the fact that, from the viewpoint of the countries with whom the decision mainly rests, a rise in the gold price under prevailing conditions might exert an inflationary influence at a time when inflation still has to be combated over a large part of the world; and we must, therefore, reckon with the probability that an upward adjustment of the monetary price of gold might only be seriously considered in international circles if and when deflationary pressure again asserted itself.

There is, moreover, not much prospect of any significant increase in gold production being achieved soon. The difficulty with which the gold mines have had to contend is not just one of rising costs and a contracting margin of profit, however critical that has become for several mines, but also that of a shortage of European and native labour and certain essential materials due mainly to the competing demands of other activities in a rapidly expanding economy. For this reason the mines have for some years been able to work only at from 80 to 85 per cent. of their milling capacity. Thus, in view of the paramount importance to the Union of an increased gold production, and to the mines of lower costs per ounce of gold with a larger output, all the public authorities concerned should regard it as a matter of the highest priority to assist the mines wherever possible to work nearer to full capacity.

There is the further possibility of seeking to obtain larger amounts of capital from hard-currency countries. Recently the United States and Switzerland have shown signs of growing interest in industrial and mining investments in the Union, and there is reason to believe that considerable scope still exists for attracting capital from those sources for both private and public investments in the Union. In the prevailing circumstances the Union could legitimately approach the United States for new capital in view of the fact that the funds were required for purposes which would directly or indirectly increase the productivity of the Union, and would also enable the Union as a whole to maintain its purchases in the United States on a higher level than would otherwise be the case. Owing to the growing scarcity of investible funds in the United States, however, it is doubtful whether capital could be raised there in adequate amounts to cover the Union's net expenditure in the dollar area during the next few years, (i.e. after allowing for the gold which would be available for that purpose), unless such expenditure showed a substantial decline from the present level.

In the light of all these facts, therefore, we have to face the unpleasant probability that the drain on our gold reserve might continue for a longer time than we could safelv afford. Under the present statutory requirements our "free" gold reserve amounted only to about £18,000,000 at the 16th July. A further amount of gold could, of course, be released from our reserve if the minimum reserve ratio were reduced from 30 to 25 per cent., as was done in the United States in 1944, and/or if it were provided that all the foreign assets held by the Reserve Bank could be deducted from its liabilities to the public before calculating the reserve ratio. The latter measure would be a logical one in the circumstances, because our present large holding of sterling, and also that of dollars, represent the counterpart of an equivalent amount of our liabilities and can be used at any time for making payments in the currencies concerned, whether on account of withdrawals of funds or settlements for goods and services.

Surplus gold and exchange reserves are accumulated in times of favourable balances of payments and should be used unflinchingly to meet deficits as and when they arise, provided that there are good prospects of correcting the disequilibrium, by automatic or official action, before such reserves are exhausted. Moreover, while we still believe in the maintenance of a minimum gold reserve in the Union, we consider that the reserve requirements could with advantage be relaxed in a time like the present when the country is engaged in expanding its capacity to produce and export, and when we have large sterling resources which, although inconvertible into hard currencies, can be freely used in the sterling area. The question is, however, whether steps should not be taken to obviate the possibility of the continuation of excessive imports of consumers' goods to the ultimate detriment of much-needed capital equipment and materials for the expansion of our mining, manufacturing, building and agricultural activities.

One of the measures which may yet be found to be unavoidable, if adequate relief is not obtained soon from one source or another, is the re-imposition of some form of import control. Otherwise restrictive credit and fiscal policies may have to be followed deliberately in order to reduce the volume of purchasing power in the Union and thus to contract the demand for imported goods. We have already asked the banks, since last October, as a matter of public policy not to increase credit facilities for the purpose of financing imports of consumers' goods or enabling local subsidiaries of overseas concerns to remit funds to the parent companies in anticipation of local cash receipts. In view, however, of the expansion of bank credit in other directions, it may become necessary, in the absence of import control, to apply the contraction of bank credit generally. With regard to such restrictive action, the danger at this stage would be that, while it would be designed as a purely disinflationary measure, it might have undue deflationary effects on the general business situation due to adverse psychological reactions. Import control, on the other hand, would at least limit the general effects.

CONCLUSION:

In conclusion, we would like to emphasise that, although there has been a serious deterioration in the terms of trade with our principal suppliers and a disquieting trend in our balance of payments and in the general financial situation here and abroad, we do not see any cause for undue alarm or fears of a general economic depression in the Union in the near future. What we will, however, have to face is, as I already had occasion to say in last year's address, the occurence of varying degrees of recession in certain branches of trade and industry, accompanied by a downward readjustment of prices.

One of the main causes of the disequilibrium in our balance of payments has been the wide scope for expansion and new development afforded by a concurrence of circumstances, namely, the discovery of extensive new goldfields; the stimulation of industrial development under the influence of world shortages and bottlenecks, on the one hand, and new local prospects, on the other; and the attraction of large amounts of overseas capital of which the bulk, however, came from the sterling area. The outcome has been that expansion has proceeded at too rapid a rate and that abnormal capital expenditure has been and still is being incurred, much of it in the dollar area, which will ultimately increase our supply of foreign exchange or reduce the demand for foreign exchange but which in the meantime is using up an appreciable portion of our gold and exchange resources. Another cause has been an excessive volume of purchasing power in the Union (due to various factors of which the excessive inflow of capital is one), and too high a rate of consumption at a time when great developments necessitating heavy capital expenditure are being undertaken.

The obvious remedies for these maladjustments are (1) to slow down the tempo of expansion and consolidate first the significant gains in many directions which we have made in recent years before launching out again on big expansion programmes: and (2) to accept a lower standard of living until the capital expenditure on new mines and industries is bearing fruit on a substantial scale. There is a growing shortage of capital all over the world, and we cannot expect to continue to receive from oversea all the "risk" capital that we could usefully employ in the exploitation of our available opportunities during the next few years. We shall thus have to rely more on our own capital resources and consume a smaller portion of our national income during the process of necessary or desirable capital creation which will ultimately enable us to enjoy a higher standard of living again.

We are still in a strong position compared with most countries. After having paid for over £600,000,000 imports during the past $2\frac{1}{2}$ years we still had, at the 16th July, a gold and dollar reserve of about £90,000,000, sterling balances of almost £60,000,000 (more than enough to cover possible withdrawals of liquid funds) and a gold loan of £80,000,000 repayable in sterling as and when required or in gold early in 1951 in respect of any remaining balance. We also have the advantage of a regular gold output which should, in one way or another, be maintained at the rate of about £100,000,000 per annum until the new goldfields reach the production stage. Our banking system, moreover, is in a relatively sound and liquid position. The gold and exchange resources of the Reserve Bank (including the gold loan) represent 95 per cent. of its note and deposit liabilities and over 50 per cent. of the total quantity of money in circulation in the Union; and while a large proportion of these resources is not convertible into hard currencies, they are nevertheless freely available for use over a considerable area in terms of international trade.

Thus, if we husband our resources and make the best use of them for the development of the country, and if the business community co-operates wholeheartedly in the long-run national interest, we should be able to maintain a sound financial position and strengthen in the meantime our capacity to mitigate the effects of whatever disturbances may take place in the world economic situation.

At the conclusion of his address the Governor moved "That the Report and Accounts be adopted."

Mr. L. L. French seconded the motion which was then put to the meeting and was carried unanimously.

On the motion of the Governor, seconded by Mr. W. J. Gyde, it was unanimously resolved—

That Mr. W. Duncan Baxter and Mr. H. C. Jorissen, whose period of office expired on the 1st of July, in accordance with the terms of the South African Reserve Bank Act, be re-elected as Stockholders' Representatives on the Board of Directors.

The Governor then moved—

(1) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be paid the sum of One Thousand Five Hundred guineas each, in accordance with the recommendation of the Board, for auditing the accounts of the Bank for the year ended 31st March, 1948.

(2) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be appointed Auditors of the Bank's accounts for the current year.

The Resolutions were seconded by Mr. S. R. Barnes and having been put to the Meeting separately were carried unanimously.

Before the conclusion of the Meeting Mr. E. O'C. Maggs thanked the Governor for his most instructive address which he said was well up to the high standard of his previous speeches.

After the Governor had suitably replied the proceedings terminated.

1948

SOUTH AFRICAN RESERVE BANK

REPORT OF THE GOVERNOR AND DIRECTORS TO BE PRESENTED TO STOCKHOLDERS AT THE TWENTY-EIGHTH ORDINARY GENERAL MEETING TO BE HELD AT PRETORIA ON THE 28th JULY, 1948.

The accompanying copies of the Annual Accounts of the Bank and of the Auditors' Report are presented to Stockholders in compliance with the Regulations framed under Section 23 of the South African Reserve Bank Act.

After all expenses had been paid and full provision had been made for Income Tax and other liabilities and contingencies, and after the following amount had been written off, as shown in Profit and Loss Account, viz.:

	£	s.	d.
From Furniture and Fittings Account	9,263	5	1
and after contributing to the Pension Fund	33,500	0	0
	£42,763	5	1
there were left net profits of	£453,663	2	4

which were allocated in terms of Section 16 of the South African Reserve Bank Act, 1944, as follows:

	£	s.	d.	£	s.	d.
Dividend to Stockholders of 10% per annum	100,000	0	0			
Reserve Fund — 1/10th of remaining surplus	35,366	6	3			
Balance payable to the Government	318,296	16	1			
				£453,663	2	4

R. Bank 3—14.

Furniture and Fittings Account.—After application of the provision of £9,263 5s. 1d. shown above, this account is written down to £1 0s. 0d. against which is held all the furniture and fittings of the Bank, including Strong Room Equipment and Safes.

Dividends.—The Directors have declared the following dividends for the past year:

(1) an interim dividend of 5% for the half year ended 30th September, 1947:

(2) a final dividend of 5% for the half year ended 31st March, 1948:

Making a total dividend of 10% for the year ended 31st March, 1948.

Capital Stock.—Holders of the Capital Stock of the Bank at the 31st March, 1948, numbered 979 of whom 49.1% held less than £500 stock each.

Directors.—In accordance with the Act, Mr. W. Duncan Baxter and Mr. H. C. Jorissen retire by rotation, but, being eligible, offer themselves for re-election.

Auditors.—Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers were appointed at the last Ordinary General Meeting to examine the accounts of the Bank for the past year. The Stockholders will be requested at the forthcoming Ordinary General Meeting to determine, upon the recommendation of the Board, the remuneration of the Auditors for the recent audit, and to appoint Auditors for the current year.

Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers offer themselves for re-election.

M. H. DE KOCK, Governor.

J. T. JURGENS,
H. C. JORISSEN, Directors.
E. O'C. MAGGS,

G. RISSIK, Secretary.

Pretoria, 25th June, 1948.

BALANCE SHEET 31st MARCH, 1948.

	£	s.	d.	£	s.	d.
Capital				1,000,000	0	0
Reserve				2,157,056	7	6
Notes in Circulation				63,682,253	0	0
Notes of other Banks in Circulation				152,296	15	0
Deposits—						
Bankers' Reserve **Accounts**	39,190,000	0	0			
Bankers' Current Accounts	144,965,588	8	9			
Government and Provincial Current Accounts	19,183,846	9	5			
Other Accounts	10,612,521	19	5			
				213,951,956	17	7
Rebate on Bills not yet due				42,281	11	9
Other Liabilities				3,067,666	12	8
Stockholders—for Final Dividend				50,000	0	0
Government—for remainder of Surplus				318,296	16	1
				£284,421,808	0	7

	£	s.	d.
Gold Coin and Bullion	107,695,386	1	6
Other Coin	550,647	9	10
Balances with Overseas Central Banks	6,722,613	10	3
Balance Employed under the Guarantee of the Bank of England	750,000	0	0
Foreign Bills	74,193,202	12	7
Government Guaranteed Gold Loan of 9,275,000 fine ounces of gold to the United Kingdom valued at 172s. 6d. sterling per fine ounce	79,996,875	0	0
Other Loans and Advances	6,724,038	2	10
Government Securities	2,827,192	2	4
Other Securities	128,274	0	0
Furniture and Fittings	1	0	0
Fixed Property	1	0	0
Other Assets	4,833,577	1	3
	£284,421,808	0	7

PROFIT AND LOSS ACCOUNT for the year ended 31st MARCH, 1948.

	£	s.	d.			£	s.	d.
General Expenditure— including Rates, Salaries, Directors' Fees, etc.	333,792	16	11		**Gross Revenue—** after making provision for Income Tax, Rebate on Bills not yet due, Sundry Liabilities, etc.	830,219	4	4
Written off Furniture and Fittings	9,263	5	1					
Pension Fund Contribution	33,500	0	0					
Profit for the Year— allocated as under: (vide Report of Governor and Directors)								
Stockholders £100,000 0s. 0d.								
Reserve £35,366 6s. 3d.								
Government £318,296 16s. 1d.	453,663	2	4					
	£830,219	4	4			£830,219	4	4

G. RISSIK, Secretary.

M. H. DE KOCK, Governor.

J. T. JURGENS,
H. C. JORISSEN,
E. O'C. MAGGS, } Directors.

Pretoria, 25th June, 1948.

To the Stockholders of the

South African Reserve Bank.

We have audited the Balance Sheet dated 31st March, 1948, above set forth and report that, in our opinion, the Balance Sheet is a full and fair Balance Sheet and is properly drawn up so as to exhibit a true and correct view of the whole of the Bank's affairs according to the best of our knowledge and the explanations given to us and as shown by the books of the Bank as at 31st March, 1948. We also report that, in our opinion, the affairs of the Bank have been conducted in accordance with the provisions of the South African Reserve Bank Act, 1944, and the Regulations thereunder, so far as they affect the Balance Sheet and Accounts.

DELOITTE, PLENDER, GRIFFITHS, ANNAN & CO.,

WHITELEY BROTHERS,

Auditors.

Johannesburg, 14th June, 1948.

BRANCH OFFICES.

Branches:	Agents:
Bloemfontein	E. Moore.
Cape Town	H. J. Alston.
Sub Agent	C. J. G. van Hoogstraten
Durban	A. F. Halliday.
East London	R. H. Mills
Johannesburg	A. F. Celliers.
Sub Agent	R. E. Spence.
Pietermaritzburg	N. K. Spradbury
Port Elizabeth	A. J. van Zyl.
Pretoria	C. T. Vorster.
Sub Agent	R. B. Scallan.

1949

SOUTH AFRICAN RESERVE BANK

REPORT OF THE
TWENTY-NINTH
ORDINARY GENERAL MEETING

27th July, 1949

SOUTH AFRICAN RESERVE BANK.
Established under the Currency and Banking Act, 1920.

BOARD OF DIRECTORS:

MICHIEL HENDRIK DE KOCK	GOVERNOR.
JOHN TOBIAS JURGENS	DEPUTY-GOVERNOR.
WILLIAM DUNCAN BAXTER .... MATHYS GUSTAV DE JAGER .... CHARLES EDWARD JAMES .... WILLIAM HENRY ARTHUR LAWRENCE REGINALD HEINRICH PARKER .... ROBERT PYOTT	COMMERCIAL, AGRICULTURAL AND INDUSTRIAL REPRESENTATIVES.
EDWIN WINTER CATTELL .... GERRIT PETRUS JOHANNES LOTZ . EUGENE O'CONNELL MAGGS	GOVERNMENT REPRESENTATIVES

HEAD OFFICE — PRETORIA

CHIEF CASHIER
L. J. COCKHEAD

SECRETARY AND CHIEF ACCOUNTANT
G. RISSIK

DEPUTY CHIEF CASHIERS
R. F. A. LOUW
S. F. T. GREAVES

INSPECTOR
J. K. McL. ROBERTSON

PRO. DEPUTY CHIEF CASHIERS
B. C. J. RICHARDS
J. E. SPOTSWOOD

ASSISTANT TO THE GOVERNORS
J. B. DE K. WILMOT.

STATISTICIAN
T. W. DE JONGH

ASSISTANT CHIEF ACCOUNTANT
E. W. WARREN

PRO. SECRETARY.
H. E. MOGGRIDGE.

SOUTH AFRICAN RESERVE BANK

Twenty-Ninth Ordinary General Meeting of Stockholders

MINUTES OF PROCEEDINGS

The Twenty-ninth Ordinary General Meeting of Stockholders was held at the Head Office of the Bank, Pretoria, on Wednesday, 27th July, 1949, at 11 a.m., the Governor presiding.

The Governor declared the Meeting duly convened in terms of the Regulations framed under the South African Reserve Bank Act.

The Minutes of the previous Meeting were taken as read and confirmed.

The Reports of the Board and of the Auditors for the year ended 31st March, 1949, were presented and taken as read.

The Governor then addressed the Meeting and said:

In presenting to you the Balance Sheet and Accounts and the Reports of the Board and the Auditors, I have pleasure in explaining the items which call for comment.

RESERVE FUND: £2,245,589.

A further amount of £88,533, representing one-tenth of the surplus profit for the past year, was added to the Reserve Fund in terms of Section 16 (3) of the Reserve Bank Act.

NOTES IN CIRCULATION: £65,482,881.

Our note issue showed an increase of £1,801,000 between the 31st March, 1948, and the 31st March, 1949. Of this amount, about £1,000,000 was reflected in larger holdings of our notes as till money by the commercial banks. Thus, there was a net increase of £800,000 in the amount of notes actually in the hands of the public.

The renewal of the upward trend in our note circulation, in spite of a substantial decrease in bank deposits, was apparently associated with the further rise in prices and cost-of-living allowances as well as the higher level of employment during the year under review. It is anticipated, however, that a declining tendency will manifest itself again as the recent drastic restriction of imports and the contraction of the total money supply exert their inevitable effects on the local economy.

DEPOSITS: £81,927,358.

There was a decrease of £132,024,000 in our total deposits as the counterpart of the drain on our gold and exchange reserves caused by the tremendous deficit in the Union's net balance of payments during the year.

Bankers' reserve accounts decreased by £4,645,000 as a result of the decline in the commercial banks' deposit liabilities in the Union and consequentlv in the minimum reserve balances which they were required by law to keep with the Reserve Bank, while their current account balances with the Bank showed a decrease of £115,862,000. On Government and Provincial accounts there was also a reduction of £9,519,000, and on other accounts £1,998,000.

GOLD COIN AND BULLION: £40,785,853.

Our gold reserve, valued at the statutory price of 172s. per fine ounce, suffered a decline of £66,910,000 during the year. This amount represented the extent to which our sales of gold exceeded the current gold output in order to meet the deficit in our balance of payments with countries outside the sterling area.

The reserve ratio dropped from 39.2 to 30.3 per cent., but the latter figure was not fully comparable with the former as the method of calculation had been altered in the meantime. Under an amendment of Section 17 of the Reserve Bank Act, which came into effect in October, 1948, the Bank was permitted to deduct from its liabilities to the public, for the purpose of calculating the reserve ratio, an amount equal to the book value in Union currency of its assets held outside the Union. At the 31st March, 1949, the Bank held foreign assets to the value of £10,000,000 which were deducted for that purpose. On the old basis, therefore, the ratio would have been 28.2 per cent. instead of 30.3 per cent.

The amendment referred to above also provided for a reduction of the minimum gold reserve to be maintained by the Bank, namely, from 30 to 25 per cent. of its liabilities to the public. The reserve ratio as at the end of the year was thus 5.3 per cent. above the new minimum.

BALANCES WITH OVERSEAS CENTRAL BANKS: £2,549,764.

BALANCE EMPLOYED UNDER GUARANTEE OF THE BANK OF ENGLAND: £1,975,000.

The decrease of £4,173,000 in our current account balances with overseas central banks was offset to the extent of £1,225,000 by an increase in the amount of money employed in the London market. The net decrease in these two items for the year was, therefore, £2,948,000.

FOREIGN BILLS: £5,430,682.

Our holdings of foreign bills decreased by £68,763,000. Taking into account the decrease of £2,948,000 referred to above, our exchange resources thus showed a total decline of £71,711,000 during the year, namely £63,122,000 in sterling and £8,589,000 in dollars. The reduction in our dollar assets, as in the case of the gold reserve, was connected with the deficit in the balance of payments with the dollar area, while the decrease in sterling assets resulted from the deficit with the sterling area.

DOMESTIC BILLS DISCOUNTED: £520,000.

This item consisted of Union Treasury bills discounted by the Bank and still outstanding at the end of the year.

GOVERNMENT GUARANTEED GOLD LOAN: £69,991,875.

This item refers to the gold loan made by the Bank on behalf of the Union Government to the Government of the United Kingdom for a period of 3 years, with effect from the 14th February, 1948. The original amount of £79,996,875 (i.e. the equivalent of 9,275,000 ounces of fine gold valued at 172s. 6d. per ounce) was reduced by £10,005,000 during the past year.

In the course of my remarks on the gold loan agreement last year, I mentioned that the Bank's sterling balances were being rapidly reduced as a result of the decline in the inflow of capital from the United Kingdom, and I anticipated that, as the Union was expected to continue to have a large deficit with the sterling area for some time, the loan would be mainly, if not entirely, repaid in sterling by February, 1951, when the period of 3 years expired. The course of events in this direction, however, developed faster than I had anticipated, as will be explained later. Thus, by the beginning of March, 1949, our sterling balances had dropped to such a low level that it became necessary for the Union Government to exercise its right under the agreement to call for repayments of the loan in sterling as and when needed to meet the sterling requirements of the Bank. By the end of March two such repayments of £5,002,500 each had already been made.

LOANS AND ADVANCES TO THE GOVERNMENT: £10,800,000.

The Bank was called upon to make substantial advances to the Government during the latter half of the year. These advances were subject to considerable fluctuations depending upon the needs of the Government. The highest amount reached during that period was £17,300,000 on the 6th December, 1948, and the lowest thereafter was £2,600,000 on the 15th February, 1949.

OTHER LOANS AND ADVANCES: £9,408,375.

There was an increase of £2,684,000 in this item, which consisted entirely of advances to Government or quasi-Government bodies, mainly for the importation of essential commodities.

GOVERNMENT SECURITIES: £7,774,896.

Our portfolio of Union Government securities showed a net increase of £4,948,000 during the year. Subscriptions to Government loans and open-market purchases of Government stocks accounted for £4,997,000, the difference of £49,000 representing sales of Government stocks to the Bank's pension funds.

PROFIT AND LOSS ACCOUNT.

Our gross revenue, after making provision for income tax, rebate on bills not yet due and sundry liabilities, and after writing down securities, was £606,000 higher than in the previous year. There was a considerable increase in our exchange profits, on account of a much larger exchange turnover, as well as in our revenue from interest, due mainly to the fact that interest was received on the gold loan to the United Kingdom for the whole year as against a period of less than two months in the previous year. Revenue from discounts also showed a substantial increase, as our average holding of foreign bills during the year was appreciably higher than in the preceding financial year.

General expenditure was £76,000 higher than last year, owing mainly to an increase of £30,000 in the provision for bank note expenses consequent upon the issue of the new series of notes, and to increases in expenditure over a wide range of items, such as rates and taxes, maintenace and repairs, commercial banks' agency fees, salaries and cost-of-living allowances.

The net profit, therefore, increased from £453,663 to £985,326 which, after the payment of a 10 per cent. dividend to stockholders and the allocation of £88,533 to the Reserve Fund, left £796,793 to be paid to the Government as compared with £318,297 in the previous year.

GOLD TRANSACTIONS.

The gold purchased by the Bank during the year amounted to £98,933,000, i.e. almost £2,700,000 less than in the previous year due to a further decline in the local gold output.

Our sales of gold amounted to £166,037,000, and were distributed as follows:—

£118,708,000	to the United States Assay Office in New York;
44,300,000	to the Bank of England;
997,000	to the Banque du Congo Belge under an agreement whereby the Union undertook to settle, in gold or dollars, the excess of its payments over its receipts in respects of transactions with the Belgian Congo;
933,000	to the Mozambique Government to cover deferred pay due to Mozambique natives employed on the mines in the Union;
754,000	to Messrs. Mocatta and Goldsmid bullion brokers of London;
306,000	to jewellers, dentists, etc. in the Union; and
39,000	for miscellaneous purposes.

The Bank's sales of gold to the Assay Office in New York were more than twice as high as in the preceding year. To some extent this increase was due to larger payments in respect of net imports from the dollar area, and to the fact that during the past year the Bank acquired dollars only through the sale of gold in New York, except for $10,000,000 drawn from the International Monetary Fund and $3,000,000 received from the sale of semi-processed gold to Messrs. Mocatta and Goldsmid, whereas in the previous year it had obtained $65,000,000 against sterling under the gold sales agreement with the United Kingdom for 1947. The main reason, however, was the effect of the arrangement which we made with the South African commercial banks, in January, 1948, to provide all their direct cover requirements of United States dollars, and subsequently also of Canadian dollars which were obtained by the sale of United States dollars to the Bank of Canada at par. Thus, the Bank came to supply the bulk of the

Union's net requirements of United States and Canadian dollars, the only exceptions being those transactions in dollars by South African residents which were, for special reasons, settled through London.

The sales of gold to the Bank of England, amounting to £44,300,000, were effected under the existing financial agreement between the Union and the United Kingdom, in terms of which the Reserve Bank has to settle in gold with the Bank of England for any net payments made by residents of the Union, through the United Kingdom, to countries outside the sterling area. The amount of £44,300,000 so sold to the Bank of England during our financial year represented the settlements due in respect of the calendar year 1948, as such settlements are made approximately three months in arrear owing to the time taken to compile the necessary statistics. The actual amount relating to our financial year was about £34,000,000, since a settlement of £2,300,000 had to be made in respect of the first quarter of 1949 compared with £12,500,000 for the first quarter of 1948.

The sale of £754,000 gold to Messrs. Mocatta and Goldsmid represented the greater part of the 100,000 fine ounces of gold which, as the Minister of Finance announced on the 7th February, 1949, were to be made available to them, over a period of eight weeks, in semi-processed form for use in industry, the arts and the professions. The terms of the contract provided for a price of $38.20 per fine ounce payable in United States dollars, and for the cost of alloying the gold to twenty-two carat fineness to be borne by the Treasury, all other expenses being for account of the purchaser. The transaction was of an experimental nature and was subject to an undertaking by the firm of bullion brokers to whom the gold was sold and by the parties to whom they in turn might sell it, that such gold would be used only for industrial, artistic and professional purposes.

The other sales of gold during the year, amounting to £2,275,000, were effected against Union currency for the purposes indicated.

Apart, therefore, from the transaction with the firm of bullion brokers, all our sales of gold for the normal purpose of acquiring foreign exchange were effected through official channels at the net monetary price for gold.

BALANCE OF PAYMENTS.

According to our revised estimates of the Union's balance of payments, the current deficit (after taking into account the gold output) had amounted to £149,000,000 in 1947 as compared with £64,000,000 in 1946. The deficit continued to increase after 1947 and established a new record of £167,000,000 for the year 1948.

In 1947 there was an estimated net capital inflow of £175,000,000 to be set off against the current deficit of £149,000,000 plus the amount of £31,000,000 for the Lend-Lease settlement and the gold subscription to the International Monetary Fund which had to be effected during that year. Thus, there was left a net deficit of only £5,000,000. In 1948, however, there was an estimated net capital inflow of £84,000,000 against a current deficit of £167,000,000 leaving a net deficit of £83,000,000.

The net deficit of £5,000,000 in 1947 resulted in a decline of £500,000 in the combined gold and exchange holdings of the Reserve Bank, the remainder being accounted for by a net decrease in other claims abroad; but the significant feature was that this decline of £500,000 in the Bank's gold and exchange holdings was derived from a decrease of £44,000,000 in its gold reserve against an increase of £43,500,000 in its sterling balances. These changes in opposite directions were due, on the one hand, to the fact that the capital inflow from the United Kingdom far exceeded the current deficit with the sterling area in that year, while on the other hand the deficit with non-sterling countries, owing primarily to a tremendous increase in imports from the dollar area, was much larger than the whole of the gold output.

With regard to 1948, the net deficit of £83,000,000 was reflected in a decrease of £62,000,000 in the Bank's gold reserve (i.e. apart from the gold loan to the United Kingdom) and £8,000,000 in its dollar balances, as well as a reduction of £17,000,000 in its sterling balances. Thus, the deficit with non-sterling countries was once more far in excess of the gold output, but the inflow of capital from the United Kingdom was not again sufficient to meet the deficit with the sterling area.

Excluding exports of gold, the estimated deficit on current account amounted to £265,000,000 in 1948, namely,

£85,000,000 with the sterling area and £180,000,000 with non-sterling countries. This deficit exceeded that of the previous year by £19,000,000, due primarily to the net increase of £17,000,000 in the adverse trade balance, i.e. an increase of £52,000,000 in imports against an increase of £35,000,000 in exports other than gold. The imports from the sterling area amounted to £145,000,000 against £207,000,000 from non-sterling countries, while exports to the sterling area amounted to £77,000,000 against £58,000,000 to non-sterling countries.

As regards the first quarter of 1949, preliminary estimates indicate that the current deficit (excluding exports of gold) amounted to £59,000,000, compared with £68,000,000 during the last quarter of 1948. In the case of non-sterling countries the deficit was reduced from £43,000,000 to £21,000,000, while that in respect of the sterling area was increased from £25,000,000 to £38,000,000. Thus, the net reduction of £22,000,000 in non-sterling expenditure during the quarter, which resulted from the introduction in November, 1948, of exchange rationing for imports of goods from non-sterling countries, was offset to the amount of £13,000,000 by a net increase in sterling expenditure. This increase in sterling expenditure reflected the extent to which the exchange restrictions on goods from non-sterling countries, in conjunction with the greater availability in the United Kingdom of goods for export, served to divert imports to the sterling area during that period.

After taking into account the gold output, the current deficit for the first quarter of 1949 was reduced to £35,000,000, but as a result of an estimated net capital outflow of £5,000,000 the actual deficit during that period amounted to £40,000,000. This deficit was reflected in a reduction of £26,000,000 in the Reserve Bank's sterling balances, £4,000,000 in the gold reserve and £10,000,000 in the gold loan.

MONETARY AND BANKING SITUATION.

Apart from the decrease of almost £150,000,000 in the Reserve Bank's gold and exchange resources during the year ended 31st March, 1949, the natural consequences of the huge net deficit in the balance of payments have been a severe contraction of the commercial banks' cash reserves as well as a considerable reduction in their deposits and in the total supply of money in the Union.

The commercial banks' cash reserves in the Union dropped from £192,500,000 in March, 1948, to £73,400,000 in March, 1949, while the ratio of their cash reserves to their liabilities to the public in the Union fell from 46.3 per cent. to 21.8 per cent. respectively. In contrast to the decrease of £119,000,000 in their cash reserves, there was a decline of only £78,000,000 in their total deposits in the Union due to a net increase of about £42,000,000 in their discounts, advances and investments in the Union during that period.

With regard to the available money supply, there was a decrease of £76,000,000 during the year under review, namely, a decrease of £65,500,000 in the commercial banks' demand deposits and £11,500,000 in the Government and "other" deposits of the Reserve Bank against an increase of £1,000,000 in the amount of notes and coin in the hands of the public. After having risen from £374,000,000 in June, 1947, to the high point of £455,700,000 in March, 1948, as a result of both the large inflow of capital and the expansion of bank credit during that period, the quantity of money in circulation fell to £418,700,000 in December, 1948, and £379,500,000 in March, 1949. In view of the deficit of almost £150,000,000 in the balance of payments during the past financial year, the decline in the money supply would have been much larger than £76,000,000 if it had not been counteracted by an appreciable expansion of both commercial bank and central bank credit and by a shift of over £12,000,000 from the fixed and savings deposits of the commercial banks to their demand deposits.

The commercial banks' discounts and advances in the Union rose from £120,000,000 in March, 1948, to £156,000,000 in December, 1948, and then dropped to £146,000,000 in March, 1949, thus showing an increase of £26,000,000 for the year. Their investments, moreover, increased by £16,000,000, making a total increase of £42,000,000 in commercial bank credit during the year. There was also an increase of £19,000,000 in Reserve Bank credit.

The increase in the Reserve Bank's advances and investments, and also that in the commercial banks' investments, were connected primarily with the Government's borrowing requirements for the financing of its heavy programme of capital expenditure. A part of the increase in the Reserve Bank's investments, however, was the result of open-market transactions with the object of maintaining stable and orderly conditions in the market for Government securities as the basis of the whole gilt-edged market. The increase in the commercial banks' discounts and advances, on the other hand, was associated with the further rise in the price level, the increase in imports and exports, and the maintenance of general economic activity during the year under review.

As regards money rates in the Union, the contraction of the money supply has been reflected in a definite firming of rates in most sectors of the money market. The last Government loan, for example, was issued in January, 1949, at a rate of $3\frac{1}{4}$ per cent. for a period of 16 to 21 years, compared with rates of $2\frac{3}{4}$ and $2\frac{7}{8}$ per cent. for the two previous issues. The rates for Union Treasury bills, moreover, were raised in December, 1948, from $\frac{5}{8}$ per cent. for six months' bills and 1 per cent. for twelve months' bills to $\frac{3}{4}$ per cent. and $1\frac{1}{4}$ per cent. respectively. The only rates which have so far remained unchanged are the minimum rates quoted by the Reserve Bank and the commercial banks for discounts and advances, and the deposit rates offered by the commercial banks as well as the rate on savings accounts with the Post Office Savings Bank.

CAUSES OF DISEQUILIBRIUM, AND REMEDIAL MEASURES.

In last year's address I had occasion to utter an emphatic warning about the underlying adverse trend in our balance of payments, which had begun to manifest itself in 1946 and had assumed alarming proportions in 1947, but which had been obscured by the unprecedented inflow of capital from the sterling area. Thus, although the Union had a current deficit of £149,000,000 in 1947 (after taking into account the gold output), it had a net deficit of only £5,000,000 for the year. The adverse trend did reveal itself in a reduction of £44,000,000 in the gold holding of the Reserve Bank, but this was almost entirely counteracted by an increase in its sterling balances. This phenomenon continued to prevail until April, 1948, when the influx of capital began to subside. Thereafter the underlying disequilibrium in the balance of payments, which had been gathering momentum in the meantime, was reflected in a considerable shrinkage of both the gold and dollar reserves and the sterling balances of the Reserve Bank.

I had also taken the opportunity last year to analyse the basic causes of such disequilibrium, which may be repeated for the sake of clarifying recent developments as they have continued to operate in varying degrees. Briefly stated, these causes are, firstly, the sharp deterioration in our terms of trade with other countries due to the decline in the exchange value of our principal export product (gold); secondly, our abnormal requirements of producers' goods in connection with the opening of the new goldfields, the establishment of new industries and the expansion of existing industries and associated activities; and thirdly, the monetary inflation which had taken place in the Union and which had helped to accentuate the effective demand for consumers' as well as producers' goods from abroad.

The Union could not on its own initiative reverse the unfavourable trend in its terms of trade, the matter being beyond its control both in respect of the world monetary price of gold and overseas inflation of commodity prices. In recent months, however, there has been a declining tendency over a wide range of commodity prices abroad, which should serve to bring about some improvement in our terms of trade. Furthermore, the Union Government has succeeded in making arrangements to secure a higher price for at least a part of our gold exports in a semi-processed or fabricated form.

With regard to the second and third causes of disequilibrium, various measures have been adopted as counteracting factors in one form or another, e.g. restriction of imports, stimulation of local production and exports, contraction of bank credit, limitation of public capital expenditures, and encouragement of foreign capital. The steps which have already been taken in these directions will now be briefly set out.

Import Restrictions.—In view of the continued excessive level of imports from non-sterling countries and the resultant further drain on the gold and dollar reserves, amounting to £58,000,000 during the first ten months of 1948, it was finally decided in November, 1948, to introduce a system of rationing foreign exchange for imports from non-sterling countries, in the form of quotas to importers based on their purchases of non-sterling exchange during 1947. While this method of exchange rationing had obvious defects, it did at any rate offer the advantage of permitting the desired restrictions to be introduced promptly and to be applied retrospectively. At the same time the importation of certain non-essential commodities was prohibited altogether, whether from sterling or non-sterling countries.

These initial measures proved to be insufficient to stop the drain on the gold reserve, but they did succeed in slowing down the rate of decline considerably. Thus, during the first half of 1949 the gold and dollar holdings of the Reserve Bank showed a decline of only £8,000,000.

In the meantime an appreciable diversion of imports from non-sterling countries to the sterling area had taken place. In conjunction with a small net capital outflow, the sudden increase in imports from the sterling area caused a drop of £23,000,000 in the sterling balances of the Reserve Bank during January and February, 1949. Towards the end of February, therefore, the Minister of Finance found it necessary to announce not only that the list of prohibited imports from all countries would be considerably extended, but also that general control would be imposed on imports from the sterling area as soon as possible, in the form of import licences rather than exchange quotas because the latter method could not in the circumstances be satisfactorily applied to the sterling area. It was, furthermore, announced that the system of commodity control would likewise be imposed on imports from non-sterling countries after the expiration of the first quota year on the 30th June, 1949.

Owing, however, to the difficulties experienced in setting up the requisite administrative machinery for an effective system of import licensing, it was not found possible to bring the control over imports from the sterling area into operation until the end of June. This delay of four months unfortunately led to abnormal anticipatory imports from the sterling area, the result of which was that the sterling resources of the Reserve Bank were depleted by £59,600,000 during that period, namely, a reduction of £9,600,000 in its sterling balances and £50,000,000 in the sterling equivalent of the gold loan.

Under the new system of control the general aim of the Government will be to limit permits for imports from sterling and non-sterling countries to the amount of foreign exchange available for such purposes from current earnings and capital receipts. The full effects of the new control will, however, not be felt for some time as there is still a substantial carry-over of supplementary exchange quotas for imports from non-sterling countries allocated under the previous rationing scheme, and as some of the goods from the sterling area which had been shipped or had entered the Union prior to the respective zero dates still have to be paid for in sterling.

With regard to allocations of exchange, the amount available from time to time will be distributed amongst broad categories of commodities according to the degree of essentiality of the various categories. In short, the principal objective will be to restrict imports of consumers' goods generally and also the less essential producers' goods in order to ensure, as far as possible, the continued supply of the equipment and materials required directly or indirectly by the producing and developing gold mines as well as all essential or desirable industries and services.

Stimulation of Local Production and Exports.—A logical counterpart of the need to impose restrictions on imports is a determined effort to stimulate the production of goods which can be exported and thus earn foreign exchange, or which can take the place of imported goods and thus save foreign exchange.

For various reasons the prevailing circumstances in the Union have limited the scope for a rapid increase in exports. In the first place, the inflationary situation has served to keep exports in check through causing either a decrease in production, as in the case of the gold mining industry, or an increase in consumption, as in the case of agricultural and pastoral products. Secondly, while the potentialities for the exploitation of exportable base minerals such as coal, manganese, chrome, asbestos and vermiculite, are known to be considerable, the export of these products has been hampered by a shortage of railway trucks.

More attention is now being paid to the necessity for expanding the gold output, which has suffered not only from a contracting profit margin but also a shortage of labour and certain essential materials, and for expediting the supply of railway trucks for the export of base minerals. The situation clearly calls for a more concentrated and concerted effort on the part of the Government and all interested bodies and persons, in view of the fact that the country is in dire need of all the foreign exchange which it can possibly earn.

More emphasis is also being laid on the necessity for saving foreign exchange wherever possible by stimulating the production of goods which can be made wholly or largely from local materials, thereby leaving more exchange available for industries which are dependent mainly on imported materials. A greater effort in this direction is likewise demanded by the circumstances.

Contraction of Bank Credit.—As mentioned previously, there was a considerable further increase in bank credit during 1948. This expansion of bank credit aggravated the underlying adverse trend in the balance of payments by helping in one way or another to increase imports and reduce the scope for exports.

The Reserve Bank had openly shown concern about the undue increase in bank credit and imports, as far back as the 1st August, 1947, when in the course of my annual address I remarked that the rapid and continuous rise in bank advances and discounts during the year 1946-47 gave one the impression of prima facie evidence that a considerable amount of bank credit was involved in the financing of goods in transit and in the holding of stocks. This statement was followed up in October, 1947, with a specific request to the banks, at a conference convened for the purpose, not to increase credit facilities for the purpose of financing imports of consumers' goods. In February, 1948, it was also decided, as a further deterrent, to discontinue the sale of forward exchange to cover imports of consumers' goods.

The advances and discounts of the banks, however, continued to expand rapidly in other directions, and showed an increase of almost £40,000,000 during 1948. To some extent this increase was undoubtedly associated with the expansion of local production and with the further rises in prices and wages, but a substantial part thereof, as well as of the capital received from abroad, must have gone directly or indirectly into the buying and holding of imported commodities and the extension of credit to the general public.

In the meantime, the persistent drop in the gold reserve had left the Government no alternative but to start with the imposition of import restrictions. Although there were large stocks of consumers' goods on hand or in transit as a result of excessive purchases abroad, the fact had to be faced that import restrictions would serve in due course to reduce the available quantity of goods, and that, if too much credit was allowed to remain in circulation, price control would be made more difficult and black markets might flourish again. Furthermore, the large deficit in the balance of payments had caused the cash reserves of the banks to shrink by £71,000,000 during 1948, with a consequent reduction in their cash ratio from 45.4 to 28.3 per cent. While the latter would represent a relatively high ratio in normal circumstances, it was feared that the anticipated continuance of a deficit in the balance of payments would bring about a considerable further drop in their cash reserves before equilibrium could finally be restored.

It was imperative, therefore, not only to reduce the inflationary pressure in the Union with a view to bringing the available purchasing power at least nearer to an appropriate alignment with the legitimate requirements of the country and its ability to supply foreign exchange, but also to safeguard the capacity of the banks to extend credit for essential productive and developmental purposes. Accordingly, in December, 1948, the banks were asked, as a matter of positive public policy, to contract credit facilities for non-productive purposes generally, and also to restrict advances in the case of the less essential and overdeveloped industries, with due regard to the obvious need for exercising discretion and avoiding unnecessary disturbances.

During the first five months of 1949 the banks were able to reduce their discounts and advances by £13,000,000. In the same period their cash reserves suffered a further decline of over £52,000,000, due to the continued deficit in the balance of payments which, in the absence of net credit creation, also caused a decrease of £55,000,000 in the quantity of money in circulation. Furthermore, the contraction of the money supply and of the credit base of both the Reserve Bank and the commercial banks is expected to continue until the full effect of the import restrictions against both sterling and non-sterling countries is felt.

The sharp decline in the cash reserves of the banks was one of the principal reasons for the policy of contraction of bank credit for consumption and speculation, and also non-essential production, in order to ensure the financial requirements of essential production and new development. Together with the contraction of the money supply on account of the balance of payments deficit, it was also an important factor in the Government's decision to establish the National Finance Corporation, to be owned and operated by financial institutions in the Union, with the declared object of promoting the establishment of an active money market and the utilisation of idle capital in the national economic interest. In short, it was feared that the decline in the money supply might prove to be unduly sharp and that it might engender more deflationary pressure than would actually be warranted under the prevailing conditions if it were not counteracted to some extent by a legitimate increase in the velocity of circulation.

Limitation of Public Capital Expenditures.—The situation in the Union obviously called for the limitation of public capital expenditures as far as possible, not only because of the necessity to economise with foreign echange but also because of the anticipated internal financial stringency.

Accordingly, in August, 1948, the Treasury issued a warning to all Government departments, municipalities and other public bodies to the effect that there would not be sufficient capital available in the Union to meet the demand from all sources, and that it would be in the interest of all parties concerned to curtail capital expenditure on projects which could be postponed without causing undue hardship to the community. The need for such curtailment was also stressed in Parliament by the Minister of Finance on several occasions during the past session.

It must, however, be borne in mind that the Government, municipalities and public utility undertakings still have a backlog to make up in respect of the basic services and facilities demanded by the considerable expansion of general economic activity which has taken place in recent years, while they also have to provide their share of the minimum requirements for the development of the new goldfields. The Government, for example, has had to allocate no less than £30,000,000 in the current year for capital expenditure on the railways and harbours, and in addition has to provide a further £11,000,000 in connection with the expansion programme of Iscor which should by next year be able to show an appreciable increase in the output of steel and steel products. The Electricity Supply Commission also has a big programme on hand in order to meet the anticipated demand for power from the new golfields, the new steelworks and allied industries, etc.

It is obvious, therefore, that the minimum requirements of public capital expenditure must be met in one way or another.

Foreign Capital.—There is no doubt that the Union will need large amounts of foreign capital during the next few years if it is to avoid a serious dislocation of its economy and the disruption of its plans for new development already under way. It is also likely that sufficient capital may not be obtainable from our traditional source, the United Kingdom, and that we shall have to tap other sources, such as the United States and Switzerland, to a greater extent than has been done in the past. In view, therefore, of our large capital requirements, on the one hand, and the growing shortage of investible funds in the world, on the other, it is clear that we shall have to exert ourselves to attract the requisite amount of capital from all available sources.

Emphasis should be laid on the fact that genuine investment capital, as distinguished from "hot money", is sincerely welcome in the Union from any country and that foreign capital is not subject to discriminatory or restrictive action in the Union. Greater publicity abroad should, for example, be given to the following statement made by the Minister of Finance in his Budget Speech in March of this year: "The Union has always kept the door open to foreign capital—open in both directions. It has treated foreign capital on the same footing as indigenous capital . . . It has accorded foreign companies the same freedom and the same legal protection as it accords its own citizens."

In my statement to the Press last December on the financial situation in the Union, I took the opportunity to stress the need for supplementing our resources with capital from hard-currency countries, and for exerting ourselves in various ways to get it. I pointed out that, due to the widespread demand for capital in the United States and Switzerland for domestic and foreign purposes, we shall have to be prepared to offer sufficiently attractive terms, and that, as far as American capital in particular is concerned, we shall have to adapt our methods of raising capital to those which prevail in the United States.

Some progress has recently been made in this direction. The most notable example to date is the agreement concluded last month between the Middle Witwatersrand Company and the Kennecott Copper Corporation, under which the latter has guaranteed the provision of £2,562,500 working capital for a new mining enterprise in the Orange Free State, namely, £562,500 in shares at par representing one-quarter of the issued share capital, and £2,000,000 in the form of debentures. The Government fully recognised the importance of this pioneering arrangement to obtain a considerable participation of American capital in the development of a new gold mine, by agreeing to a special reduction in the lease formula under which the mining company concerned will operate. It is to be hoped that this arrangement, which represents a successful adaptation of our method of mining finance to the requirements of American mining corporations, will lead to further participation of American capital in mining development in the Union, and that the shareholders of vendor companies will be prepared to sacrifice such part of their subscription rights as may be necessary to secure substantial amounts of American or other foreign capital for mining purposes, in their own long-run interest as well as that of the country in general.

The Union Government is also negotiating with the United States Export-Import Bank for dollar credits in respect of approved capital expenditure in the United States. Furthermore, one of the objects of the new National Finance Corporation will be to facilitate the participation of foreign capital in the development of the country's resources by issuing debentures abroad and thus offering foreign investors a semi-gilt-edged investment at an attractive rate. Any capital so obtained from abroad by the Corporation would augment the funds at its disposal for investment in redeemable mining debentures, and, where considered desirable or advantageous by the Corporation, also in debentures of big manufacturing enterprises. As a special corporation set up under an Act of Parliament, with the active participation of all classes of financial institutions including the central bank, it should at least have a better chance of attracting foreign gilt-edged capital for such purposes than the individual companies can have, and in view of the shortage of risk capital in the world, it will probably be necessary in any case to tap as much gilt-edged capital as possible for the financing of mining and industrial development in the Union.

With particular reference to the United Kingdom, there is reason to believe that, in spite of the necessarily strict control over capital issues, British investors will continue to be permitted, wherever possible, to participate in the development of the mineral and other resources of the Union, and that they will take the opportunity to do so as they have done in the past. The latter will also apply to any loan issues by our Government or other public bodies in the London market for which permission may in due course be granted by the United Kingdom Treasury.

CONCLUSIONS.

The foregoing survey has indicated not only the nature and extent of the disequilibrium in the Union's balance of payments during the past three years, but also the aims and purposes of the several measures which have been taken towards correcting such disequilibrium. For various reasons, difficulties have been encountered in implementing some of these measures, as a result of which our reserve position has deteriorated faster than we had anticipated. At the 15th July, the total gold and exchange resources of the Reserve Bank amounted to only £60,000,000 (including the remaining £15,000,000 of the gold loan). Furthermore, while sufficient measures have now been brought into operation to give us a large degree of control over our external and internal position, their full effect will not be felt for some time. In the meanwhile, therefore, we can expect a further decline in our gold and exchange resources unless it is counteracted by a substantial inflow of capital.

A year ago, when our monetary reserves still stood at the high figure of £230,000,000 (including the £80,000,000 gold loan), I had found it necessary to point out that we were indulging in too high a rate of consumption concurrently with too rapid a rate of expansion, and that the obvious remedies for the consequent maladjustments in our balance of payments were both to slow down the tempo of expansion and to accept a lower standard of living until such time as the heavy capital expenditure on new mines, industries and services began to bear fruit on a substantial scale. After the loss of about three-quarters of those reserves within a year and the imposition of drastic import restrictions as a result thereof, it should now be clear to the great majority of our people that we cannot avoid the necessity of readjustment from an inflated level of money incomes and economic activity to one which is not only demanded by the prevailing circumstances, but which can also be approximtely maintained until we obtain adequate relief from an improvement in the terms of trade with our principal overseas suppliers, or from an increase in our gold output or in our industrial and agricultural production.

A process of levelling down of prices has already made some headway in the United States and is likely to spread further in that country and elsewhere. Although there is reason to believe that this process is of the nature of a healthy reaction after a prolonged orgy of inflation and will not develop into a serious world economic depression, it should be apparent that the sooner we tackle the problem of readjustment in the various forms and degrees required by local as well as world conditions, the better will it be for the country in the long run. A fortunate coincidence for us is that the otherwise painful process of disinflation will relieve the strained position of the gold-mining industry which is our principal source of hard currencies, and by contributing towards the more prompt expansion of the gold output it will serve to soften its own impact on the economy as a whole.

Capital from abroad will certainly help us to make the appropriate readjustments more smoothly than would otherwise be the case; and that is why we should exert ourselves to get it. We must not, however, allow the possibility of obtaining additional capital in the near future to slacken our efforts in respect of corrective measures, as there is little likelihood of our getting sufficient capital to permit of this. Moreover, whatever capital we succeed in getting will have to be repaid in one manner or another in due course, and should thus be employed only in such ways as will lead, directly or indirectly, to the expansion of our productive activities.

We should also not allow any possibility of a higher monetary price for gold over the whole or a large part of the world to deflect us from our purpose. Apart from a rise in the gold price being uncertain, it would in any case not be enough to solve our basic financial problems, although it would contribute to the solution thereof and would provide a welcome source of relief. Furthermore, a process of readjustment in the meantime would better enable us to reap the full benefit of a higher price for gold if and when it did come.

Since the end of the war extensive programmes of expansion and development have been launched in all directions, without due regard to the limitations imposed by the actual and potential resources of the country and the consequent need for the determination of priorities. The problem now is to carry through as many of these programmes as are essential or desirable, and to avoid serious bottlenecks anywhere along the line. To achieve this, we shall not only have to exert ourselves in order to make the most of whatever financial and material resources we have in hand or can obtain from abroad during the next few years, but we shall also have to accept a substantial measure of austerity in the meantime and consume a smaller portion of our national income with a view to increasing our own contribution to the capital requirements of the country. The available economic opportunities in the Union should enable us to reap a prompt and liberal reward for whatever exertion and sacrifice we ourselves can make towards the exploitation thereof.

At the conclusion of his address the Governor moved "That the Report and Accounts be adopted".

Mr. L. L. French seconded the motion which was then put to the meeting and was carried unanimously.

The Governor said that he and his fellow Directors deeply regretted having to record the death in December last of Mr. H. C. Jorissen, a Stockholders' Representative on the Board. The late Mr. Jorissen had been associated with the Bank for nearly twenty-eight years. He was its first Deputy Governor, and, after he had laid down that office, had been elected a Director, a position which he had held continuously until the date of his death. He felt sure that all stockholders as well as the Board of Directors, would wish to place on record their sincere appreciation of the services rendered to the Bank by the late Mr. Jorissen.

Mr. W. H. A. Lawrence, he continued, had been appointed to fill the vacancy created by Mr. Jorissen's death and the Board felt that the Bank was fortunate in obtaining his services.

He then moved that the appointment, in terms of Section 5 (1) (*b*) of the South African Reserve Bank Act, of Mr. W. H. A. Lawrence as a Stockholders' Representative for the unexpired portion of the period of office of the late Mr. H. C. Jorissen, be confirmed.

Colonel H. B. George seconded the motion which was then put to the meeting and carried unanimously.

On the motion of the Governor, seconded by Colonel H. B. George, it was unanimously resolved—

That Mr. R. Pyott and Mr. C. E. James whose period of office expired on the 1st July, in accordance with the terms of the South African Reserve Bank Act, be re-elected as Stockholders' Representatives on the Board of Directors.

The Governor then moved—

(1) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be paid the sum of One Thousand Six Hundred and Fifty guineas each, in accordance with the recommendation of the Board, for auditing the accounts of the Bank for the year ended 31st March, 1949.

(2) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be appointed Auditors of the Bank's accounts for the current year.

The Resolutions were seconded by Mr. S. R. Barnes and having been put to the Meeting separately were carried unanimously.

Mr. R. H. Parker in moving a vote of thanks to the Governor for his address said that both as a stockholder and as a member of the public he looked forward to the Governor's annual speech which was always a lucid and objective review of economic conditions in the Union. Besides thanking him for his interesting and illuminating review he also congratulated him on the part he had played in the establishment of the National Finance Corporation of South Africa, an Institution, which, he felt, would ultimately prove of great benefit to the country.

After the Governor had suitably replied the proceedings terminated.

1949

SOUTH AFRICAN RESERVE BANK

REPORT OF THE GOVERNOR AND DIRECTORS TO BE PRESENTED TO STOCKHOLDERS AT THE TWENTY-NINTH ORDINARY GENERAL MEETING TO BE HELD AT PRETORIA ON THE 27th JULY, 1949.

The accompanying copies of the Annual Accounts of the Bank and the Auditors' Report are presented to Stockholders in compliance with the Regulations framed under Section 23 of the South African Reserve Bank Act.

After all expenses had been paid and full provision had been made for Income Tax and other liabilities and contingencies and after the following amount had been written off, as shown in Profit and Loss Account, viz.:—

	£	s.	d.
From Furniture and Fittings Account	8,447	1	3
and after contributing to the Pension Fund	33,500	0	0
	£41,947	1	3
there was left a net profit of	£985,325	18	8

which was allocated in terms of Section 16 of the South African Reserve Bank Act, 1944, as follows:—

	£	s.	d.	£	s.	d.
Dividend to Stockholders of 10% per annum	100,000	0	0			
Reserve Fund — 1/10th of remaining surplus	88,532	11	10			
Balance payable to the Government	796,793	6	10			
				£985,325	18	8

Furniture and Fittings Account.—After application of the provision of £8,447 1s. 3d. shown above this account is written down to £1 0s. 0d. against which is held all the furniture and fittings of the Bank, including Strong Room Equipment and Safes.

Dividends.—The Directors have declared the following dividends for the past year:—

(1) an interim dividend of 5% for the half-year ended 30th September, 1948;

(2) a final dividend of 5% for the half-year ended 31st March, 1949;

making a total dividend of 10% for the year ended 31st March, 1949.

Capital Stock.—Holders of the Capital Stock of the Bank at the 31st March, 1949, numbered 955 of whom 49.3% held less than £500 stock each.

Directors.—The Directors deeply regret having to record the death of their colleague, Mr. H. C. Jorissen, a stockholders' representative on the Board. The vacancy thus caused has been filled in the manner prescribed in sub-section (1) (*b*) of Section 5 of the South African Reserve Bank Act, 1944, by the appointment of Mr. W. H. A. Lawrence for the unexpired portion of the late Mr. Jorissen's term of office, viz. till July, 1951. Stockholders will be asked at the forthcoming General Meeting to confirm this appointment.

In accordance with the Act, Mr. C. E. James and Mr. R. Pyott retire by rotation, but, being eligible, offer themselves for re-election.

Auditors.—Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers were appointed at the last Ordinary General Meeting to examine the accounts of the Bank for the past year. The Stockholders will be requested at the forthcoming Ordinary General Meeting to determine, upon the recommendation of the Board, the remuneration of the Auditors for the recent audit, and to appoint Auditors for the current year.

Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers offer themselves for re-election.

M. H. DE KOCK, Governor.

J. T. JURGENS,
E. W. CATTELL,
EUGENE O'C. MAGGS,
Directors.

G. RISSIK, Secretary.

Pretoria, 8th June, 1949.

R. Bank 3—16.

BALANCE SHEET 31st MARCH, 1949.

	£	s.	d.	£	s.	d.
Capital				1,000,000	0	0
Reserve				2,245,588	19	4
Notes in Circulation				65,482,881	0	0
Notes of other Banks in Circulation				151,854	5	0
Deposits:—						
Bankers' Reserve Accounts	34,545,000	0	0			
Bankers' Current Accounts	29,103,231	14	7			
Government and Provincial Current Accounts	9,664,913	16	7			
Other Accounts	8,614,212	0	6			
				81,927,357	11	8
Rebate on Bills not yet due				4,311	3	3
Other Liabilities				3,927,292	1	9
Stockholders—for **Final Dividend**				50,000	0	0
Government—for **remainder of Surplus**				796,793	6	10
				£155,586,078	7	10

	£	s.	d.
Gold Coin and Bullion	40,785,852	13	7
Other Coin	386,205	15	0
Balances with Overseas Central Banks	2,549,763	14	10
Balance Employed under the Guarantee of the Bank of England	1,975,000	0	0
Foreign Bills	5,430,682	0	3
Domestic Bills Discounted	520,000	0	0
Government Guaranteed Gold Loan of 8,115,000 fine ounces of gold to the United Kingdom valued at 172s. 6d. sterling per fine ounce	69,991,875	0	0
Loans and Advances to the Government	10,800,000	0	0
Other Loans and Advances	9,408,374	11	7
Government Securities	7,774,895	13	0
Other Securities	128,274	0	0
Furniture and Fittings	1	0	0
Fixed Property	1	0	0
Other Assets	5,835,152	19	7
	£155,586,078	7	10

PROFIT AND LOSS ACCOUNT for the year ended 31st MARCH, 1949.

		£	s.	d.		£	s.	d.
General Expenditure— (including Rates, Salaries, Directors' Fees, etc.)		409,445	6	3	**Gross Revenue—** after making provision for Income Tax, Rebate on Bills not yet due, Sundry Liabilities, Writing down Securities, etc.	1,436,718	6	2
Written off Furniture and Fittings		8,447	1	3				
Pension Fund Contribution		33,500	0	0				
Profit for the Year— allocated as under: (vide Report of Government and Directors)	£ s. d.							
Stockholders	100,000 0 0							
Reserve	88,532 11 10							
Government	796,793 6 10							
		985,325	18	8				
		£1,436,718	6	2		£1,436,718	6	2

G. RISSIK, Secretary.

M. H. DE KOCK, Governor.

J. T. JURGENS,
F. W. CATTELL,
EUGENE O'C. MAGGS, } Directors.

Pretoria, 8th June, 1949.

To the Stockholders of the

South African Reserve Bank.

We have audited the Balance Sheet dated 31st March, 1949, above set forth and report that, in our opinion, the Balance Sheet is a full and fair Balance Sheet and is properly drawn up so as to exhibit a true and correct view of the whole of the Bank's affairs according to the best of our knowledge and the explanations given to us and as shown by the books of the Bank as at 31st March, 1949. We also report that, in our opinion, the affairs of the Bank have been conducted in accordance with the provisions of the South African Reserve Bank Act, 1944, and the Regulations thereunder, so far as they affect the Balance Sheet and Accounts.

DELOITTE, PLENDER, GRIFFITHS, ANNAN & CO.,

WHITELEY BROTHERS,

Auditors.

Pretoria, 8th June, 1949.

BRANCH OFFICES.

BRANCHES:	AGENTS:
BLOEMFONTEIN	E. MOORE.
CAPE TOWN	H. J. ALSTON.
SUB AGENT	C. J. G. VAN HOOGSTRATEN
DURBAN	A. F. HALLIDAY.
EAST LONDON	R. H. MILLS
JOHANNESBURG	A. F. CELLIERS.
SUB AGENT	R. E. SPENCE.
PIETERMARITZBURG	N. K. SPRADBURY
PORT ELIZABETH	A. J. VAN ZYL.
PRETORIA	C. T. VORSTER.
SUB AGENT	G. LUSCOMBE.

1950

SOUTH AFRICAN RESERVE BANK

REPORT OF THE
THIRTIETH ORDINARY GENERAL
MEETING

26th July, 1950

SOUTH AFRICAN RESERVE BANK

Established under the Currency and Banking Act, 1920.

BOARD OF DIRECTORS

HEAD OFFICE — PRETORIA

CHIEF CASHIER
L. J. COCKHEAD

SECRETARY AND CHIEF ACCOUNTANT
G. RISSIK

INSPECTOR
J. K. MCL. ROBERTSON

DEPUTY CHIEF CASHIERS
R. F. A. LOUW
S. F. T. GREAVES

ASSISTANT TO THE GOVERNORS
J. B. DE K. WILMOT

STATISTICAN
T. W. DE JONGH

PRO. DEPUTY CHIEF CASHIERS
B. C. J. RICHARDS
J. E. SPOTSWOOD

ASSISTANT CHIEF ACCOUNTANT
E. W. WARREN

ASSISTANT SECRETARY
H. E. MOGGRIDGE

SOUTH AFRICAN RESERVE BANK

Thirtieth Ordinary General Meeting of Stockholders

MINUTES OF PROCEEDINGS

The Thirtieth Ordinary General Meeting of Stockholders was held at the Head Office of the Bank, Pretoria, on Wednesday, 26th July, 1950, at 11 a.m., the Governor presiding.

The Governor declared the Meeting duly convened in terms of the Regulations framed under the South African Reserve Bank Act.

The Minutes of the previous Meeting were taken as read and confirmed.

The Reports of the Board and of the Auditors for the year ended 31st March, 1950, were presented and taken as read.

The Governor then addressed the Meeting and said:

In presenting to you the Balance Sheet and Accounts and the Reports of the Board and the Auditors, I have pleasure in explaining the changes which have taken place during the year.

RESERVE FUND: £2,335,264.

In terms of the Reserve Bank Act the Reserve Fund was increased by £89,675, representing one-tenth of the surplus profit for the past year.

NOTES IN CIRCULATION: £66,370,449.

Our note issue remained relatively stable throughout the year, after allowing for the usual monthly and seasonal fluctuations. The net result was an increase of £887,000 for the year. Taking into account, however, the fact that the commercial banks held £2,200,000 less of our notes on the 31st March, 1950, than at the end of the previous year, the amount of notes actually in the hands of the public showed an increase of over £3,000,000. This expansion of the note circulation was also accompanied by an increase of £400,000 in the coin circulation.

DEPOSITS: £96,342,183.

After the decrease of £132,000,000 in the previous year, our total deposits suffered a further decline due to the continuation of the deficit in the Union's balance of payments, and amounted to only £55,947,000 by the end of August, 1949. Thereafter a favourable turn took place in the balance of payments which, inter alia, caused our deposits to rise to £96,342,000 at the 31st March, 1950, representing a net increase of £14,415,000 for the year.

Bankers' accounts reflected a net increase of £2,251,000, namely, a decrease of £2,124,000 in their reserve balances as a result of a further decline in their deposit liabilities in the Union, and an increase of £4,375,000 in their current account balances with the Bank. On Government and Provincial accounts there was an increase of £14,576,000, while other accounts showed a decrease of £2,412,000.

FOREIGN CURRENCY LIABILITIES INCURRED AS AGENT FOR UNION GOVERNMENT:

United States Dollars	£3,571,429
Swiss Francs	£2,993,033

These items refer to the revolving credit of $20,000,000 and the loan of 36,500,000 Swiss francs granted to the Union Government by groups of American and Swiss banks respectively.

An arrangement was concluded between the Government and the Bank under which the latter was to act as the Government's agent, receiving the foreign currencies concerned and disposing thereof in the ordinary course of its exchange operations. The Bank was to pay the Government the equivalent in Union currency of the proceeds of the Swiss loan (namely £2,993,033), and of the total line of credit granted by the American banks (namely, £7,142,857); and in exchange the Bank was to receive special stock certificates from the Government for the same amounts and with maturities and interest rates corresponding to those laid down in the respective agreements with the Swiss and American banks. The agreement with the latter came into effect on the 6th January, and with the former on the 20th January, 1950.

The difference between the amount of £3,571,400 shown in the Balance Sheet as due by the Bank to the American banks and the amount of £7,142,800 mentioned above as that actually paid to the Government by the Bank in respect of the American credit, was accounted for by the fact that only half of the credit had been drawn as at the 31st March, 1950.

GOLD COIN AND BULLION: £58,768,389.

There was an increase of almost £18,000,000 in the book value of the gold reserve, but in quantity there was a decrease of 3,155 fine ounces. The increase in value was due to the fact that, by regulation issued under Section 9 of the Currency and Exchanges Act, the statutory price of gold for the purposes of the Bank's Gold Coin and Bullion Account had been raised from 172s. to 248s. per fine ounce as from the 31st December, 1949.

While in quantity the gold reserve was virtually the same at the 31st March, 1950, as at the end of the previous financial year, there had been a considerable decline during the first half of the intervening period as a result of the deficit in the Union's balance of payments with countries outside the sterling area continuing to exceed the local gold output. Oud gold holding, valued at the former statutory price, fell from £40,786,000 at the 31st March, 1949, to £29,747,000 on the 30th September, and £29,358,000 on the 31st October, 1949. Then the situation vis-á-vis the hard currency countries began to improve. On the 31st December, 1949, the gold reserve stood at £31,494,000 before revaluation, and at £45,410,000 thereafter. By the 31st March, 1950, the amount had risen to £58,768,000.

Due to the higher value of the gold reserve consequent upon the revaluation thereof as well as to a considerable decrease in our *net* liabilities to the public, i.e. after deducting our foreign assets, the reserve ratio rose from 30.4 to 69.1% during the year.

BALANCES WITH OVERSEAS BANKS: £1,557,492.

BALANCE EMPLOYED IN LONDON MARKET: £1,625,000.

FOREIGN BILLS: £77,996,794.

Our total holdings of foreign exchange amounted to £81,179,000, as compared with £9,955,000 at the end of the previous year, i.e. an increase of £71,224,000. If, however, account is taken of the fact that at the 31st March, 1949, there was still an amount of £69,992,000 outstanding in respect of the gold loan to the United Kingdom, and that the whole of this amount was repaid in sterling during the year, there was an increase of only £1,232,000 in our total exchange resources expressed in terms of Union currency.

Our foreign assets at the end of the year consisted of £76,208,000 sterling, £4,322,000 U.S. dollars, £110,000 Canadian dollars, and £539,000 Swiss francs. If allowance is made for the devaluation of Union currency in terms of the three last-mentioned currencies, there was actually a small decrease in our exchange resources.

As in the case of the gold reserve, however, our exchange resources suffered a considerable decline in the first part of the year before being restored to their former level. They fell from almost £80,000,000 on the 31st March, 1949, to £20,856,000 on the 31st August, 1949, due primarily to the huge deficit in the Union's balance of payments with the sterling area during that period. Thereafter the effects of both devaluation and import control brought about a sudden and substantial improvement in the balance of payments, which was reflected in the increase of our exchange holdings to £58,910,000 by the 31st December, 1949, and £81,179,000 by the 31st March, 1950.

LOANS AND ADVANCES TO THE GOVERNMENT: Nil.

At the end of the previous year an amount of £10,800,000 was shown in respect of loans and advances by the Bank to the Government. This amount increased to £29,400,000 on the 30th June, and £51,000,000 on the 16th September, 1949. Thereafter it fell to £14,700,000 by the 31st December, 1949, and finally liquidated during the following month. This dramatic change was the result not only of the loans raised by the Government in London, New York and Switzerland but also of the coming into operation of the National Finance Corporation, which received large deposits of call money and invested the bulk of them in Union Treasury bills, thereby enabling the Government to repay the advances it had received from the Bank. At the 31st March, 1950, the Corporation held £42,600,000 Treasury bills.

OTHER LOANS AND ADVANCES: £9,771,875.

There was an increase of only £363,000 in this item, which consisted almost entirely of advances made to Government or quasi-Government bodies for the importation and storage of bags and essential foodstuffs.

GOVERNMENT SECURITIES: £24,003,196.

Our holding of Union Government securities showed an increase of £16,228,000 during the year. Of this increase £10,136,000 was accounted for by the special stock certificates which were issued to the Bank by the Government in respect of the credit facilities obtained by it from American and Swiss banks and transferred to the Bank as its agent.

The remaining increase of £6,000,000 represented the net result of our open-market operations, i.e. the excess of purchases over sales of Government securities by the Bank during the year, after adequate provision had been made for depreciation in the market value of our portfolio.

OTHER SECURITIES: £225,074.

This item included our holding of £100,000 stock of the capital of the National Finance Corporation which we had acquired at par out of the initial issue of £1,000,000 made in August, 1949, while the remaining £125,074 represented the book value of the outstanding amount of Union Municipal securities which we had purchased in the London market during the year 1946-47.

PROFIT AND LOSS ACCOUNT.

Our gross revenue, after making provision for income tax, rebate on bills not yet due and sundry liabilities, and after writing down securities, was £25,000 higher than in the previous year, as compared with an increase of £19,000 in our general expenditure and a reduction of £5,500 in other charges against revenue.

The net profit, therefore, increased from £985,326 to £996,753, which, after payment of a 10% dividend to stockholders and the allocation of £89,675 to the Reserve Fund, left £807,078 to be paid to the Government compared with £796,793 in the previous year.

DEVALUATION OF UNION CURRENCY AND CONSEQUENTIAL MEASURES.

With the approval of the International Monetary Fund, the South African pound was devalued on the 18th September, 1949, simultaneously with the devaluation of sterling and in the same degree, namely, from a par value of 55.26857 grains of fine gold to one of 38.4 grains equivalent to 2.80 U.S. dollars.

Our exchange rates with the United Kingdom and other countries which had devalued to the same extent were accordingly left unchanged, while our rate of exchange with the United States was lowered from the former parity of $4.03 to the new parity of $2.80. Suitable adjustments were also made in the exchange rates with other countries which had not devalued their currencies or which had done so in a lesser degree than sterling. On the new basis, moreover, the parity price of gold amounted to 250s. per fine ounce, but the price to be paid to the gold producers in the Union, after taking into account the cost of shipping gold to New York and the handling and other charges involved in the conversion of gold into dollars, was fixed at 248s. 3d. per ounce. This was also the price which the Bank of England agreed to pay in sterling for gold to be sold to them ex Union ports.

By regulation issued under Section 9 of the Currency and Exchanges Act the statutory price of gold was raised to 248s. per fine ounce as from the 31st December, 1949, for the purposes of the Bank's Gold Coin and Bullion Account and the Gold Price Adjustment Account, but not for the purpose of distributing the net profit on the revaluation of the gold reserve because under sub-section 5) of Section 8 *bis* of the aforementioned Act the settlement of any such profit was only to be effected as and when the statutory price was altered by Act of Parliament. Accordingly, provision was made in the Finance Act of 1950 for the formal fixing of the statutory price at 248s. per fine ounce as from the 30th June, 1950, and for the distribution of the net revaluation profit which amounted to £6,458,000 and had in the meantime been carried by the Bank in a suspense account.

The revaluation profit would, of course, have been much larger if it had not been for the fact that, for some time after devaluation, gold settlements for net non-sterling expenditure through London on South African account prior to the 18th September, 1949, had still to be made at the pre-devaluation price. A quantity of 2,112,000 ounces of fine gold, equivalent to more than half the gold reserve held by the Bank at the 18th September, 1949, was required to meet all pre-devaluation claims.

While the Bank showed a substantial profit on its gold reserve as a result of the devaluation of Union currency, it suffered, from the same cause, an appreciable loss on its outstanding forward exchange contracts in U.S. and Canadian dollars. Under the Currency and Exchanges Act, any profit or loss on foreign *assets* held by the Bank was to be for account of the Government, but no such provision was made in respect of foreign *liabilities* of the Bank, firstly, because the Bank had no power to borrow abroad, and secondly, because it had regularly followed the practice, in connection with forward exchange transactions, of holding sufficient balances in the foreign currencies concerned to cover its net liabilities in such currencies. When, however, its gold and dollar reserves came to be depleted by excessive imports of merchandise from the dollar aera in 1947-48, the Bank arranged with the Government that, in order to maintain the legal minimum gold reserve, it would hold only working balances in dollars and leave the remainder of the forward dollar commitments uncovered. This action was taken on the ground that, if devaluation of Union currency did take place, the profit from the revaluation of the gold reserve should exceed the net loss on the forward exchange contracts, and that provision could then be made for the Bank to recoup such loss from the revaluation profit.

This arrangement was duly implemented under Section 1 of the Finance Act of 1950; and in accordance with the provisions thereof £4,673,000 of the revaluation profit was applied by the Bank to meeting the net loss on its outstanding forward exchange contracts as at the date of devaluation, while the balance of £1,785,000 was paid to the Public Debt Commissioners for the redemption of debt. Under Section 2 of the Act the credit balance of £628,000 in the Gold Price Adjustment Account on the 30th June, 1950, was similarly paid over to the Public Debt Commissioners.

At the same time the opportunity was taken, through the addition of a new Section *eight quarter* to the Currency and Exchanges Act, to make specific legal provision that any profit or loss on forward exchange contracts entered into by the Bank after the Date of devaluation would be for account of the Government. Similar provision was made in respect of foreign borrowings by the Bank, as it has now been empowered, through an appropriate amendment of Section *eight* of the Reserve Bank Act, to "make arrangements or enter into agreements, subject to the concent of the Minister, with any bank or financial institution in a foreign country to borrow . . . any foreign currency which the Bank may consider it expedient to acquire". Foreign currencies so borrowed by the bank may either be re-lent to the Government or any other body approved by the Government or be used to meet the general foreign exchange requirements of the country at any time.

GOLD TRANSACTIONS.

During the year ended 31st March, 1950, the Bank purchased gold to the amount of £108,358,000, of which £108,281,000 was acquired from producers in the Union at a price in Union currency of 172s. 6d. per fine ounce prior to the 18th September, 1949, and at 248s. 3d. thereafter.

The latter amount, however, did not represent the whole of the current gold output, as the Chamber of Mines was permitted, subject to the requirements laid down by the International Monetary Fund, to sell gold at a premium directly to overseas and local manufacturers of gold products. The producers realised £17,850,000 from these direct sales during the year, the net premium amounting to about £1,800,000, i.e. an average of 11% over the officially monetary price. In accordance with the conditions stipulated by the Union Government, the producers had to recover hard currencies from the purchasers to at least the extent of the monetary price of $35 per fine ounce.

The Bank's own sales of gold amounted to £96,744,000, distributed as follows:

£60,205,000 to the Bank of England;

£34,610,000 to the United States Assay Office in New York; and

£1,929,000 for miscellaneous purposes.

Of the sales to the Bank of England, £34,073,000 represented the gold settlements which had to be effected in respect of the net payments made through London on South African account to countries outside the sterling area prior to the 1st September, 1949, and to hard-currency countries only after that date. A further £17,132,000 was accounted for by sales to the Bank of England against dollars on terms which were more favourable at the time than the net cost of acquiring dollars by direct gold shipments to New York. The remaining £9,000,000 was sold to the Bank of England under the new arrangement between the Governments of the Union and the United Kingdom, which came into effect on the 1st January, 1950.

In terms of this arrangement, which was described in Parliament by the Minister of Finance as a "friendly arrangement rather than a formal agreement" and which was not concluded for any fixed period but "will last as long as it is in the interest of both countries", the Union undertook to sell to the United Kingdom against sterling so much of the current gold output as was not required either for the purpose of defraying the Union's total net expenditure in hard-currency countries or for the purpose of maintaining its gold reserve at a defined level, after allowing for the addition thereto of any hard-currency capital receipts not taken into account in the allocations of foreign exchange for imports of merchandise or for other expenditure abroad. The United Kingdom, on the other hand, not only permitted the Union Government to raise loans in the London market up to a total of £20,000,000, but also undertook to allow, within the limits of its available resources, the continuance of the free flow of capital to the Union for purposes of useful economic development. During the first quarter of 1950 our sales of gold to the Bank of England under the aforementioned arrangement amounted to £9,000,000 at the new agreed price of 248s. 3d. sterling per fine ounce delivered at Union ports. In the second quarter, however, we sold them £23,100,000 gold, i.e. £32,100,000 for the first half of 1950 equivalent to about 44% of the gold output during that period.)

Our direct sales of gold in New York were much smaller than in the previous year, due to the considerable reduction in imports from the dollar area and the sales of some gold to the Bank of England against dollars, as well as to the dollar proceeds of premium sales of gold by the producers themselves and the substantial capital receipts in dollars, including the $10,000,000 received from the group of American banks under the credit previously referred to and the proceeds obtained from the conversion into dollars at a favourable rate of the bulk of the Swiss loan.

With regard to the remainder of our gold sales, an amount of £918,000 was sold to the Mozambique Government against Union currency to cover deferred pay due to Mozambique natives employed on the mines in the Union; £187,000 to jewellers, dentists, etc. in the Union; and £824,000 to other parties as special transactions which were settled in dollars.

BALANCE OF PAYMENTS.

Excluding exports of gold or gold products, the estimated deficit in the Union's balance of payments on current account amounted to £225,000,000 in 1949 as compared with £266,000,000 in 1948 and £251,000,000 in 1947. The decline of £41,000,000 in the deficit between 1948 and 1949 was accounted for by a decrease of £39,000,000 in imports and an increase of £7,000,000 in exports other than gold, less a net increase of £5,000,000 in respect of "invisible" current claims against the Union which resulted from larger payments abroad on account of dividends, interest and profits earned on the increased amount of foreign capital invested in the Union.

The deficit with the sterling area increased from £85,000,000 in 1948 to £112,000,000 in 1949, while that with non-sterling countries declined from £181,000,000 to £113,000,000 respectively. The considerable decrease in the latter deficit was due to the sharp drop in imports from non-sterling countries consequent upon the rationing of foreign exchange for imports from such countries which was introduced in November, 1948. The increase in the deficit with the sterling area, on the other hand, was the result of the large-scale diversion of trade to the sterling area during the first half of the year, not only because of the exchange restrictions already in force on imports from non-sterling countries but also because of the unavoidable delay in establishing the machinery for applying the new system of commodity control, which had in the meantime been decided upon, to imports from the sterling area as well as non-sterling countries.

After taking into account the net gold output, the estimated current deficit amounted to £111,000,000 in 1949 compared with £167,000,000 in 1948. In 1949, moreover, there was an estimated net capital inflow of £48,000,000 against £82,000,000 in 1948, leaving net deficits of £63,000,000 and £85,000,000 respectively. The net deficit of £63,000,000 in 1949 was, however, not spread over the whole year. The first half showed a deficit of £94,000,000, owing not only to the heavy anticipatory imports of merchandise but also to some net outflow of capital. In the third quarter the launching of the more comprehensive and drastic system of import control caused a sharp decline in the deficit, namely, to £12,000,000 against an average of £47,000,000 for the first two quarters; while the last quarter actually yielded a surplus of £43,000,000, as a result both of the full effect of the new import control measures and the beneficial impact of devaluation on the inflow of capital and the value of our exports.

The improvement continued during the first half of 1950. The first quarter, for example, produced an estimated net surplus of £35,000,000, due to a further inflow of capital as well as a small favourable balance on current account, and although the detailed balance of payments statistics for the second quarter are not yet available, another surplus was reflected in the further increase of £13,000,000 in the Bank's gold and exchange holdings.

IMPACT OF DEVALUATION ON BALANCE OF PAYMENTS.

Devaluation over a large part of the world has benefited our balance of payments position in various ways. In the first place, it has improved our terms of trade by increasing the relative purchasing power of our principal export (gold) in all the countries which have devalued their currencies, and it may also bring us some advantage in this respect in countries which have not devalued but which may be compelled to lower their export prices in certain lines in order to retain at least an appreciable part of their existing markets in the Union and other countries which have devalued. Secondly, it has so far also tended to have this effect in respect of several of our other important exports, such as wool, diamonds and base minerals. Thirdly, it has enhanced the opportunities for the profitable investment of foreign capital in the Union, not only in the gold-mining industry but also in other directions where the direct or indirect benefits of prosperity in the gold-mining industry and in export industries generally are being felt.

In addition, there were some non-recurrent factors which contributed to the increase in our foreign exchange receipts. For example, for some time prior to devaluation and in anticipation thereof, there had been a noticeable tendency to repatriate capital to hard-currency countries wherever it had been possible to do so and prospective capital from such countries had also been temporarily withheld from the Union, while our own nationals had for the same reason an incentive to hold on to hard currencies derived from exports or other earnings as long as possible or to meet their hard-currency liabilities as soon as possible. Furthermore, in some cases sterling balances held by South African concerns were transferred to the Union soon after devaluation, when the National Finance Corporation commenced operations and offered a more profitable outlet for idle funds than the London money market; but it is also possible that the withholding of these sterling balances had to some extent been connected with a fear of unilateral devaluation of the South African pound.

MONETARY AND BANKING SITUATION.

Like the Reserve Bank's gold and exchange holdings and for the same reasons, the commercial banks' cash reserves and the money supply in the Union continued to decrease sharply after the 31st March, 1949. This declining trend was, however, similarly reversed after August, 1949, and by March, 1950, the relevant figures already exceeded those at the end of the previous financial year.

The commercial banks' cash reserves in the Union, which had dropped from £192,500,000 in March, 1948, to £73,400,000 in March, 1949, fell further to a low point of £45,000,000 in July, 1949, before rising to £87,700,000 by March, 1950, i.e. a net increase of £14,300,000 over the past year which caused a strengthening of the cash ratio from 21.8 to 26.5%. In spite of this increase in their cash reserves, their total deposit liabilties in the Union showed a decline of £6,500,000 over the year, due mainly to a net decrease in their advances, discounts and investments.

The money supply, moreover, declined from £455,700,000 in March, 1948, to £379,500,000 in March, 1949, and £348,100,000 in September, 1949, after which it rose steadily to £393,700,000 by March, 1950, i.e. a net increase of £14,200,000 over the past year. Of this increase in the money supply, £12,800,000 represented the counterpart of the increase in the Reserve Bank's gold and exchange resources. There was also further shift of £5,000,000 from the fixed and savings deposits of the commercial banks to their demand deposits, while on the other hand there was a net decrease of £1,800,000 in Reserve Bank and commercial bank credit as well as a decrease of £1,800,000 in other items.

After having risen steadily to £156,000,000 in December, 1948, the commercial banks' advances and discounts in the Union dropped to £146,000,000 in March, 1949, and

£110,600,000 in March, 1950, i.e. a net decrease of £35,400,000 over the past year which is to be attributed both to the net reduction in the foreign trade turnover of the Union and to the policy of credit restriction for non-productive purposes which was explained in my statement to the press in December, 1948, and in my address at the previous annual meeting of stockholders in July, 1949. On the other hand, there was an increase of £13,700,000 in their investments in the Union, while on the 31st March, 1950, they also had deposits with the newly-established National Finance Corporation amounting to £14,500,000, which must be regarded as a source of credit creation in the same manner as the increase in their investments, in contrast to non-banking deposits with the Corporation which come out of the existing supply of money. Thus, there was in fact a net decrease of only £7,200,000 in commercial bank credit during the year.

The Reserve Bank, on the contrary, showed a net increase of £5,400,000 in its discounts, advances and investments in the Union, namely, a decrease of £11,000,000 in its advances and discounts against the increase of £16,400,000 in its holdings of Government and other securities which has already been explained. The final result, therefore, was a net contraction of only £1,800,000 in bank credit taken as a whole.

Notwithstanding the increase in the money supply since September, 1949, the firming of local money rates, which was referred to in my address last year, has continued and also been extended to those sectors of the money market which had previously remained unchanged. This is to be attributed not only to the persistent local demand for large amounts of capital for both public and private commitments in connection with the extensive programmes of expansion and development which are in various stages of progress, but also to the firming of medium and long-term rates in the London market and to the growing belief that higher money rates were desirable under the economic conditions prevailing in the Union.

As a matter of policy, for example, the discount rate of the Reserve Bank was raised from 3 to 3½% in October, 1949, and the commercial banks followed soon after with a rise of ½% in their rates for advances, discounts and deposits, while the rates for Treasury bills were further raised from ¾ to 1% and from 1¼ to 1½% for 6 and 12 months' bills respectively. Furthermore, the last Government loan (primarily for conversion of a maturing loan) was issued in January, 1950, with a rate of $3\frac{1}{2}\%$ at 98 for a period of 12 to 15 years, compared with a rate of $3\frac{1}{4}\%$ at par for 16 to 21 years in respect of the previous issue in January, 1949. An alternative loan with a rate of 3% at par for five years was issued simultaneously in order to comply with the current preference in certain quarters for securities with a maturity not exceeding five years. The rates at which municipalities and public-utility corporations raised loans during the year, as well as the market yields of interest-bearing securities generally, were more or less correspondingly adjusted.

Thus, while the Reserve Bank continued to conduct open-market operations in Government securities, its principal objective was not the maintenance of stability in the sense of rigid pegging of rates and prices, but rather that of ensuring an orderly upward adjustment of market rates and establishing a more appropriate pattern of rates for varying maturities. In this manner, and with a minimum of intermediate disturbances, a new level of rates has now been reached which offers a prospect of relative stability being maintained for some time.

In the meantime the National Finance Corporation has begun to operate and to provide an extensive market, on the one hand, for call money at a current rate of $\frac{7}{8}\%$ per annum (i.e. $\frac{1}{8}\%$ below the rate for 6 months' Treasury bills), and, on the other hand, for Union Treasury bills and Government securities with a maturity not exceeding five years. The operations of the Corporation have served not only to widen the money market but also to introduce greater flexibility into the financial structure as a whole.

GENERAL REVIEW.

The foregoing survey demonstrates clearly that the past year has been a period of significant changes and fluctuations in both the external and the internal financial position of the Union.

After a rapid decline in the Reserve Bank's gold and exchange resources from £269,300,000 in March, 1948, to £120,700,000 in March, 1949, a further deterioration took place until a low point of £52,200,000 was reached on the 16th September, 1949. Then, primarily due to the combined effect of the devaluation of Union currency and the full operation of general import control, a spectacular improvement in the Union's balance of payments began to manifest itself, as a result of which our gold and exchange reserves were increased to £104,300,000 by the end of 1949, £139,900,000 on the 31st March, 1950, and about

£147,000,000 on the 21st July, 1950. Even if the last-mentioned amount were adjusted by the full extent of the devaluation, namely, by 30.5%, it would still be possible to record a doubling of our monetary reserves from the low level of September, 1949, i.e. within a period of ten months. The actual increase, however, was appreciably more than 100% when measured in terms of purchasing power over the large part of the world where currencies had been devalued since that time.

Our present monetary reserves of £147,000,000 provide us with a substantial margin of safety and a valuable buffer, in the event of any sudden adverse movement in the balance of payments position arising either out of an acceleration of merchandise imports or a shrinkage in the value of our exports or in the inflow of capital. The Reserve Bank's gold and exchange holdings, moreover, now represent almost 85% of its total liabilities to the public and about 37% of the total money supply in the Union. Teh former ratio indicates the capacity of the Reserve Bank to meet the potential demand for foreign or domestic currency, while the latter reflects the relationship between the available supply of international currency, on the one hand, and the existing domestic purchasing power, on the other hand.

Furthermore, the relationship between the external reserves and the internal supply of money, which has fortunately been restored to a sound level again, is not so exposed at present to the danger of sudden and severe deterioration as it was in 1948 and during the first half of 1949. It now enjoys a large measure of protection due not only to the present system of import and exchange control which broadly aims at limiting the country's demand for foreign exchange to its available supply and safeguarding the importation of all essential producer goods, but also to the restriction of bank credit for non-productive purposes with a view to preventing an unwarranted increase in the volume of money from purely local sources, in contrast to an increase caused by an inflow of capital or an increase in exports.

To retain this protection in the face of the country's huge remaining reuirements of capital goods and to avoid excessive expenditure on consumption in the meantime, it should be worth our while to resist the temptation in the present improved circumstances towards an early removal of all restrictions on imports and bank credit. The Government has already relaxed import control in several respects, and further relaxations could be made from time to time to the extent that they were fully justified by current or prospective condition, but it would appear to be advisable in any case to maintain the existing machinery and a minimum of effective control in order to be able promptly to tighten up the import restrictions again if at any time this course was found to be necessary. Together with the benefits of devaluation, import control has helped us to reverse the unfavourable trend in our balance of payments and to build up substantial reserves; and in order to continue to attract the large amounts of capital which we still require, we shall have to assure investors oversea that in one way or another we shall be able to balance our international accounts during the following two or three difficult years.

As in the case of the external reserves, there has also been a considerable easing of the internal monetary situation, as reflected in the large increase in the commercial banks' cash reserves and in the money supply since September, 1949. Furthermore, the large amount of deposits with the National Finance Corporation, namely, £67,700,000 on the 30th June, indicates the extent of the accumulation of idle funds in the Union.

Devaluation has served to increase the money supply both through the substantial inflow of capital and the appreciably higher prices for gold and several other export products in terms of Union currency; and while such increase in the quantity of money is less dangerous than one derived from an expansion of bank credit, as it is counterbalanced by an equivalent amount of gold or foreign exchange, it can nevertheless act as an independent source of inflation if the additional funds available are used for uneconomic purposes. This danger should, moreover, be considered in relation not only to the gradual reduction in stocks of consumer goods consequent upon import restrictions, but also to the increases in costs of imported goods which have automatically resulted from devaluation.

In fact, all the indices of prices in the Union have continued to show a steady rise. The cost of living index, for exmaple, rose from 154.7 in June, 1949, to 161 in June, 1950, while the index of wholesale prices advanced from 185.3 to 198.8 over the same period. Although it is true that the increases in our prices and costs since 1938 have, directely or indirectly, derived their principal impetus from imported inflation, and that recently devaluation has inevitably resulted in additional upward pressure on prices, we must nevertheless face the fact that our general cost structure has for various reasons been subject to a persistent tendency towards a relatively high and burdensome level for a developing country.

The existence of potential inflationary influences associated with devaluation, in conjunction with the fact that our economic potentialities are now better appreciated both here and abroad, demands that we now tackle in earnest the problem of securing a downward readjustment of production costs in every way possible. In this connection it is gratifying to note, inter alia, that a Government expert has been specially assigned to investigate ways and means of reducing production and distribution costs; that serious attention is now being directed towards encouraging and facilitating the adoption of incentive wage schemes with a view to increasing productivity; and that the recently-established National Development Foundation has been actively pursuing the question of promoting efficiency in management and methods of production.

In the meantime we should try our utmost to hold the line as far as prices and costs are concerned in order to retain the appreciable net gain which our country, as the principal gold producer, has already derived from devaluation. Devaluation has stimulated economic activity in the Union as a whole and has been the principal source of the increase in our monetary reserves, but these results have been achieved primarily through the beneficial impact of devaluation on our gold-mining industry and can only be maintained if that industry continues to enjoy a relationship between production costs and the price of its product which permits ore of a relatively low grade being mined at a profit. Apart from its direct benefit to various sectors of our economy, an adequate margin of profit for the gold-mining industry also helps to attract the necessary capital from abroad for the expansion not only of that industry, but also of other activities which are promoted by such expansion in one way or another.

The present net rise in the price of gold, for example, has enabled the industry to mill a lower average grade of ore which will lengthen the lives of most of the producing mines and improve the prospects of the new goldfields. From the country's point of view, moreover, it is fortunate that, as a result of the mines being able to mill a bigger tonnage, the lowering of the grade has not had the effect of reducing the volume of the gold output. In fact, for the first six months of 1950 there was actually an increase of over 100,000 ounces of fine gold compared with the corresponding period of last year, in spite of a decrease of nearly a quarter of a pennyweight in the average recovery of gold per ton of ore milled.

Furthermore, there are good prospects for a steady and material increase in gold production during the next decade. At present there are ten new mines in the Orange Free State and three in the Western Transvaal in various stages of shaft-sinking and development. Two of these are expected to commence production next year, while the remainder should reach the producing stage during the following four years. Preparations are now also being made for the opening of several other mines in areas where boreholes have given encouraging results.

The new mining enterprises have already succeeded directly or indirectly in securing the whole or a large part of the capital required to reach initial production, and should, in the event of an ultimate shortage of new capital, be able to finance their expansion largely out of profits, although this would, of course, entail a slower rate of expansion than if the requisite capital were promptly available. The labour position, however, may yet present serious difficulties. An appreciable improvement has taken place during the past year and is likely to continue, as the rise in the gold price has enabled the mines to compete more effectively for labour than had been the case for some years prior to devaluation. Nevertheless, it is certain that the mining industry will have to strain itself in various ways if both the old and the new mines are to be worked at approximately full capacity. As the achievement of this objective, particularly during the next few years, will be of the greatest importance to the country, the mines should be assisted in every way possible to solve their labour problems.

It is true that several economic activities have suffered a decline due to the necessity for import control and restriction of bank credit for non-essential purposes, but on the other hand a significant expansion has taken place in essential manufacturing industries and in the mining of coal and base minerals generally. In fact, much of the capital which has entered the Union in recent years has manifested itself in the establishment of new factories or the expansion of existing ones, and this process has, moreover, been stimulated by import control to the extent that such industries have been able to make extensive use of local materials, or to convert imported raw or semi-finished materials into finished goods which belong to the more or less essential categories. The expansion of these industries has been important as a means of saving foreign exchange and relieving the unemployment caused by the decline in certain other activities. It has also, for example, had the effect of making our mining industry less dependent on overseas supplies of both equipment and materials. In order, however, not to complicate the labour position for the developing gold mines, we should be on our guard against any undue acceleration of industrial development.

With regard to foreign capital, reference has already been made to the resumption after devaluation of the capital inflow on a substantial scale. As far as we have been able to judge, there is no evidence of any influx of "hot money" on this occasion. The recent inflow of capital appears to have been mainly for mining and industrial purposes, and much of it still lies on deposit with the banks and the National Finance Corporation, to be drawn upon from time to time as it is required.

In last year's address I took the opportunity of stressing the point that sufficient capital might not be obtainable from our traditional source, the United Kingdom, and that we would have to tap other sources, such as the United States and Switzerland, to a greater extent than had been done in the past, for wich purpose we would have to adapt our methods of raising capital to those which suited such countries. I am glad to be able to record that appreciable progress has already been made in this direction. The Kennecott Copper Corporation, for example, recently subscribed in dollar the equivalent of £2,200,000 working capital for the new Virginia Mine in the Orange Free State, namely, £562,500 in shares at par and £1,640,000 in debentures; and it has now also entered into a similar arrangement to guarantee the provision of £2,562,500 capital for the new Merriespruit Mine as soon as the formalities for the flotation can be concluded. Furthermore, the Anglo-American Corporation of South Africa last month raised a 50,000,000 Swiss Franc loan for a period of 12 years, in order to assist the financing of its new mining enterprises. The loan facilities obtained by the Union Government from groups of American and Swiss banks represent, of course, another instance of successful adaptation. In addition, the new Stilfontein Mine in the Western Transvaal recently raised £2,000,000 in the London market in the form of unsecured loan stock convertible into shares of the Company at a considerable premium. Sales of large blocks of shares in mining finance companies at or near the current market price have also been successfully negotiated with financial institutions in London. All these examples of considerable amounts of capital having been obtained from new sources in the United Kingdom, United States and Switzerland are highly gratifying in view of the urgent need and wide scope for the employment of foreign capital in the Union.

CONCLUSIONS.

The spectacular improvement in the general financial position of the Union during the past twelve months has afforded us sufficient evidence and reason for re-adjusting our attitude towards questions of economic policy and economic development.

At our two previous annual meetings I had found it necessary to draw attention to the serious adverse trend in our balance of payments and the alarming depletion of our monetary reserves, with the attendant danger of severe dislocation in various sectors of our economy. This time, however, while I still have to refer to some disquieting features such as the continued rise in the cost of living and the latent danger of further inflation, I am at least able to record that the tide has turned strongly in our favour during the past ten months and that our monetary reserves have been considerably strengthened in the meantime.

During the past year, moreover, great progress has been made not only in the exploitation of the new gold-fields in the Orange Free State, which should begin next year to yield the first return on the huge capital investment there and provide a new source of foreign exchange, but also in the expansion and development of essential industries which are based wholly or largely on the use of local materials and which should save the country a considerable amount of foreign exchange.

Last year I still had some misgivings about the Union's ability to obtain foreign capital and capital goods as fast as it required them for carrying through without interruption the formidable private and public programmes of capital expenditure which had already been started or were about to be launched as necessary concomitants of expansion. This time I am no longer so concerned about the question of finance or equipment. The element of doubt in my mind has now shifted back to the manpower problem which has reappeared on the scene because new avenues have been opened up and the necessary finance has become more readily available. While there has been a contraction in certain economic activities, the expansion of mining and essential industrial enterprises has been taking place at such a rapid rate that a shortage of skilled and unskilled labour is likely to be felt in the near future. This probability would now appear to call for more energetic action with a view to making better use of our own human resources and supplementing them, where necessary, with immigration of economically suitable types. In this connection, however, the lack of adequate housing accommodation is a limiting factor which should simultaneously receive earnest attention.

The rapid mining and industrial development has also thrown into bold relief the urgent need to take better care of our soil and increase agricultural production, and to conserve our limited water supplies for agriculture as well as mining and industry. Much is already being done in these directions, but the improved economic outlook now calls for a more concerted effort.

We have recently had appreciable success in attracting the active interest and participation of new types of investors form a larger number and variety of countries in the exploitation of our mineral resources and other economic potentialities; and there is reason to believe that this interest will grow if we can demonstrate that we have both the will and the capacity to employ their capital and technical knowledge for our mutual benefit. The onus has now been squarely placed upon us to make the best use of our opportunities and to contribute our appropriate share of capital and energy to the development of our resources. To achieve this end we must exert ourselves through more intensive effort, greater efficiency in management and labour, austerity in consumption, elimination of waste, concentration on essentials, and wholehearted co-operation amongst the various sections of the business community.

In conclusion, while there has undoubtedly been a considerable improvement in the financial position and the economic prospects of the Union, certain limitations existing here and abroad nevertheless demand that we continue to recognise the need for due caution and discretion in the adoption of new programmes of development and expansion, particularly those involving unproductive expenditure or an outlay of capital which is not likely to yield a relatively quick return.

At the conclusion of his address the Governor moved "That the Report and Accounts be adopted".

Mr. L. L. French seconded the motion which was then put to the meeting and was carried unanimously.

The Governor said that he and his fellow Directors regretted having to report the resignation due to ill-health of Mr. M. G. de Jager, a Stockholders' Representative on the Board. Mr. de Jager had been associated with the

Bank for twenty-five years and he felt sure that stockholders as well as the Board of Directors would wish to place on record their appreciation of his services.

Mr. G. J. Rossouw, he continued, had been appointed to fill the vacancy created by Mr. de Jager's resignation, and the Board felt that the Bank was fortunate in obtaining his services.

He then moved that the appointment, in terms of Section 5(1)(b) of the South African Reserve Bank Act, of Mr. G. J. Rossouw as a Stockholders' Representative for the unexpired portion of the period of office of Mr. M. G. de Jager be confirmed.

Colonel H. B. George seconded the motion which was then put to the meeting and carried unanimously.

On the motion of the Governor, seconded by Colonel H. B. George, it was unanimously resolved—

That Mr. R. H. Parker and Mr. G. J. Rossouw whose period of office expired on the 1st July, in accordance with the terms of the South African Reserve Bank Act, be re-elected as Stockholders' Representatives on the Board of Directors.

The Governor then moved—

(1) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be paid the sum of One Thousand Six Hundred and Fifty guineas each, in accordance with the recommendation of the Board, for auditing the accounts of the Bank for the year ended 31st March, 1950.

(2) That Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers be appointed Auditors of the Bank's accounts for the current year.

The Resolutions were seconded by Mr. W. B. Coetzer and having been put to the Meeting separately were carried unanimously.

Mr. Eugene O'C. Maggs, in moving a vote of thanks to the Governor for his address, said that he had with his usual clearness set out the great changes which had taken place during the year in the Union's financial position and had, in doing so, displayed the realistic attitude towards the prevailing tendencies in the country's economy which the public had begun to expect from him.

He congratulated the Governor and Deputy Governor on their re-appointment and said that he felt that he was expressing the feelings of stockholders generally in saying that the Bank was fortunate in retaining their services.

After the Governor had suitably replied, the proceedings terminated.

1950

SOUTH AFRICAN RESERVE BANK

REPORT OF THE GOVERNOR AND DIRECTORS TO BE PRESENTED TO STOCKHOLDERS AT THE THIRTIETH ORDINARY GENERAL MEETING TO BE HELD AT PRETORIA ON THE 26th JULY, 1950.

The accompanying copies of the Annual Accounts of the Bank and of the Auditors Report are presented to Stockholders in compliance with the Regulations framed under Section 23 of the South African Reserve Bank Act.

After all expenses had been paid and full provision had been made for Income Tax and other liabilities and contingencies and after the following amount had been written off, as shown in Profit and Loss Account, viz.:—

	£	s.	d.
From Furniture and Fittings Account	1,902	3	4
and after contributing to the Pension Fund	34,500	0	0
	£36,402	3	4
there was left a net profit of	£996,753	12	11

which was allocated in terms of Section 16 of the South African Reserve Bank Act, 1944, as follows:—

	£	s.	d.	£	s.	d.
Dividend to Stockholders ......of 10% per annum	100,000	0	0			
Reserve Fund—1/10th of remaining surplus	89,675	7	3			
Balance payable to the Government	807,078	5	8			
				£996,753	12	11

Furniture and Fittings Account.—After application of the provision of £1,902 3s. 4d. shown above, this account is written down to £1 0s. 0d. against which is held all the furniture and fittings of the Bank, including Strong Room Equipment and Safes.

Dividends.—The Directors have declared the following dividends for the past year:—

(1) an interim dividend of 5% for the half-year ended 30th September, 1949,

(2) a final dividend of 5% for the half-year ended 31st March, 1950: making a total dividend of %10 for the year ended 31st March, 1950.

Capital Stock.—Holders of the Capital Stock of the Bank at the 31st March, 1950, numbered 977 of whom 49.2% held less than £500 stock each.

Directors.—The Directors regret having to record the resignation due to ill-health of their colleague, Mr. M. G. de Jager, a stockholders' representative on the Board. The vacancy thus caused has been filled in the manner prescribed in sub-section (1)(b) of Section 5 of the South African Reserve Bank Act, 1944, by the appointment of Mr. G. J. Rossouw for the unexpired portion of Mr. de Jager's term of office, viz. till 1st July, 1950. Stockholders will be asked at the forthcoming General Meeting to confirm this appointment.

In accordance with the Act, Mr. R. H. Parker and Mr. G. J. Rossouw retire by rotation, but, being eligible, offer themselves for re-election.

Auditors.—Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers were appointed at the last Ordinary General Meeting to examine the accounts of the Bank for the past year. The Stockholders will be requested at the forthcoming Ordinary General Meeting to determine, upon the recommendation of the Board, the remuneration of the Auditors for the recent audit, and to appoint Auditors for the current year.

Messrs. Deloitte, Plender, Griffiths, Annan and Company and Messrs. Whiteley Brothers offer themselves for re-election.

M. H. DE KOCK, Governor.
J. T. JURGENS
EUGENE O'C MAGGS
W. H. A. LAWRENCE
Directors.

G. RISSIK, Secretary.

Pretoria, 13th June, 1950.

BALANCE SHEET 31st MARCH, 1950.

	£	s.	d.	£	s.	d.
Capital				1,000,000	0	0
Reserve				2,335,264	6	7
Notes in Circulation				66,370,449	10	0
Notes of other Banks in Circulation				151,460	15	0
Deposits—						
Bankers' Reserve Accounts	32,420,907	0	0			
Bankers' Current Accounts	33,477,579	16	8			
Government and Provincial Current Accounts	24,241,088	7	1			
Other Accounts	6,202,607	18	7			
				96,342,183	2	4
Rebate on Bills not yet due				52,764	7	9
Foreign Currency Liabilities incurred as agent for the Union Government:						
United States Dollars	3,571,428	11	5			
Swiss Francs	2,993,033	4	8			
				6,564,461	16	1
Other Liabilities				9,793,822	11	2
Stockholders—for **Final Dividend**				50,000	0	0
Government —**for remainder of Surplus**				807,078	5	8
				£183,467,484	14	7

	£	s.	d.
Gold Coin and Bullion	58,768,389	0	1
Other Coin	461,661	4	8
Balances with Overseas Banks	1,557,492	7	0
Balance Employed under the Guarantee of the Bank of England	1,625,000	0	0
Foreign Bills	77,996,793	13	3
Loans and Advances	.9,771,875	5	7
Government Securities	24,003,195	10	6
Other Securities	225,074	0	0
Furniture and Fittings	1	0	0
Fixed Property	1	0	0
Other Assets	9,058,001	13	6
	£183,467,484	14	7

PROFIT AND LOSS ACCOUNT for the year ended 31st MARCH, 1950.

	£	s.	d.	£	s.	d.		£	s.	d.
General Expenditure— (including Rates, Salaries, Directors' Fees, etc.)				428,490	5	8	**Gross Revenue** after making provision for Income Tax, Rebate on Bills not yet due, Sundry Liabilities, Writing down Securities, etc.	1,461,646	1	11
Written off Furniture and Fittings				1,902	3	4				
Pension Fund Contribution				34,500	0	0				
Profit for the Year— allocated as under: (*vide* Report of Governor and Directors)										
Stockholders	100,000	0	0							
Reserve	89,675	7	3							
Government	807,078	5	8							
				996,753	12	11				
				£1,461,646	1	11		£1,461,646	1	11

G. RISSIK, Secretary.

M. H. DE KOCK, Governor.

J. T. JURGENS
EUGENE O'C MAGGS
W. H. A. LAWRENCE
Directors

PRETORIA,
13th June, 1950.

To the Stockholders of the
South African Reserve Bank.

We have audited the Balance Sheet dated 31st March, 1950, above set forth and report that, in our opinion, the Balance Sheet is a full and fair Balance Sheet and is properly drawn up so at to exhibit a true and correct view of the whole of the Bank's affairs according to the best of our knowledge and the explanations given to us and as shown by the books of the Bank as at 31st March, 1950. We also report that, in our opinion, the affairs of the Bank have been conducted in accordance with the provisions of the South African Reserve Bank Act, 1944, and the Regulations thereunder, so far as they affect the Balance Sheet and Accounts.

WHITELEY BROTHERS.
DELOITTE, PLENDER, GRIFFITHS, ANNAN & CO.,
Auditors.

Pretoria, 7th June, 1950.

BRANCH OFFICES.

Branch:	Agent:
Bloemfontein	E. Moore
Cape Town	H. J. Alston
Sub Agent	C. J. G. van Hoogstraten
Durban	A. F. Halliday
East London	R. H. Mills
Johannesburg	A. F. Celliers
Sub Agent	R. E. Spence
Pietermaritzburg	N. K. Spradbury
Port Elizabeth	A. J. van Zyl
Pretoria	C. T. Vorster
Sub Agent	G. Luscombe