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SOUTH AFRICAN
RESERVE BANK

1966

REPORT OF THE
FORTY-SIXTH
ORDINARY
GENERAL MEETING

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SOUTH AFRICAN RESERVE BANK

Forty-sixth Ordinary General Meeting of Stockholders

MINUTES OF PROCEEDINGS

The Forty-sixth Ordinary General Meeting of Stockholders was held at the Head Office of the Bank, Pretoria, on Tuesday, 23rd August, 1966, at 11.30 a.m.

The Governor, who presided, 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 Bank's Accounts for the year ended 31st March, 1966, together with the Reports of the Board and the Auditors were presented by the Chairman and taken as read.

The Chairman in addressing the Meeting said:

Gentlemen,

I have pleasure in formally presenting to you the Final Accounts of the Bank, and the Reports of the Board and the Auditors, for the year ended 31st March, 1966.

I also submit to you the Bank's Annual Economic Report and would like to draw your attention at the same time to our Quarterly Bulletin in its new and expanded form. I believe that the latter, in particular, will be welcomed by students and the general public alike as presenting an up-to-date statistical picture of the trends and developments in our

economy quarter by quarter, supplemented by a review of these developments and from time to time by other articles of special interest. Both these publications should be regarded as furnishing much of the factual background to my remarks today.

GENERAL ECONOMIC CONDITIONS

Developments in the internal economic situation and the balance of payments during the past year have been covered in detail in the Annual Economic Report while the Minister of Finance last week in his Budget Speech also reviewed and discussed recent economic trends. I shall, therefore, confine my remarks in this regard to a few observations to serve as background to what I have to say on the need for various policy measures introduced during the past year.

The rate of expansion during 1965, although lower than during the previous two years, still produced an increase of 8.3 per cent. in the gross domestic product or 5.0 per cent. after allowance for the increase in the price level. It would appear that during the first six months of this year a satisfactory rate of expansion was again attained but that the increase in the price level was somewhat higher. Although lower than in previous years, this rate of growth must nevertheless be considered as very satisfactory, bearing in mind the conditions of virtually full employment which obtained in the economy and the unfortunate climatic conditions with which the farming sector had to contend.

This rate of development, however, was not achieved without some cost to our economy in other respects. This is evident from the discrepancy between the real and the monetary rates of growth in the national product. It is also borne out by the expenditure items which point to inflationary over-spending from about the middle of 1964.

Fortunately, a significant improvement took place during the last quarter of 1965, when gross domestic expenditure actually declined and was accompanied by a similar trend in the deficit on current account. The available information for the first half of 1966 suggests that these improvements continued, the current account showing a modest surplus of R33 million. It is, however, important to bear in mind the manner in which the improvement in the current account was achieved, as well as the fact that there is an inevitable time lag before increases in administered prices and wages find their full reflection in the inflationary picture. I shall return to these matters later.

Certain features of the expenditure pattern are of interest. Fixed investment in the public as well as the private sector, although it declined somewhat during the first half of this year, continues to remain at a high level. Inventory investment has shown substantial increases in recent years and in 1965 the increase was no less than R349 million. Towards the end of the year, however, a sharp change of trend occurred and during the first half of 1966 inventories actually declined, largely as the combined result of stricter import control, credit restraint measures and some obvious over-stocking in the previous years.

Private consumption which rose by 9 per cent. in 1965, showed a further not insignificant increase during the first half of 1966, while the current expenditure of public authorities as yet shows little sign of flattening out.

In general, the developments in our national accounts point to some slowing down in the rate of growth of the economy, which nevertheless, continues to develop at a very satisfactory rate. There is certainly no evidence, in any meaningful sense, of recessionary tendencies. The tempo of growth, especially from about the middle of 1964 until late in 1965, was, in fact, quite unsustainable as evidenced by the inflationary pressure which developed and the balance of payments difficulties we experienced. The fact remains, however, that despite recent improvements, gross domestic expenditure may yet prove to be too high in relation to the gross national product.

BALANCE OF PAYMENTS

Changes in the country's gold and foreign exchange holdings, and particularly those of the Reserve Bank which happen to be published weekly, appear to be kept very much in the public eye. I am afraid that this frequently leads to false interpretations of developments in our economy and to false conclusions regarding future prospects. These points have been touched on so frequently, however, that I do not propose to go over the ground again.

I do naturally attach great significance to certain *trends* in the balance of payments. One of the most important of these is certainly the trend on the current account, and in this respect, a marked change, after allowing for seasonal movements, has recently taken place. From the third quarter of 1964 up to and including the second quarter of 1965, developments on this account became increasingly adverse, the deficit (on an annual basis and seasonally adjusted) rising from R132 million to R424

million. Thereafter, the trend became more favourable and, during the fourth quarter of 1965, the deficit fell to R24 million on an annual basis. The improvement continued into 1966 and during the second quarter of this year the current account, on this basis, actually showed a surplus of R148 million. This has naturally been a most welcome development, and was the outcome mainly of a decline in imports. Merchandise exports for 1965 were actually R10 million lower than in 1964, but the trend appears to have improved as the year progressed, and this has continued during the current year.

The decline in imports was mainly associated with a lower level of inventories. This development, of course, cannot—and should not—be regarded as a continuing one for, clearly, too great a reduction in stocks would be dangerous. Although the present level of stocks in the Republic appears in general to be quite adequate, cases have recently come to my notice where the reduction in stocks appears to have been overdone.

As far as merchandise exports are concerned, the decline in exports of farm products due to the drought has had a serious effect. Nevertheless, as indicated earlier, exports have kept up remarkably well thanks, very largely, to larger exports of manufactured goods. Our industrialists are to be complimented on their efforts in this direction. I feel too that the very heavy investment in secondary industry during recent years, which is now bearing fruit, and the continuation of this investment albeit at a somewhat reduced rate, taken in conjunction with the rather slower tempo of growth in domestic demand which may be anticipated, provides every incentive for the further development of export industries and the intensification of the export drive in this as in other sectors of the economy.

This point gains in importance by reason of the fact that gold production, while still increasing, is doing so at a considerably slower rate. This trend may continue for a time, but we must anticipate that, unless new gold resources are discovered and prove exploitable or the world price of the metal is substantially increased, the trend will be reversed in the not too distant future. If it is borne in mind that gold provides some 37 per cent. of our gross current exports and contributes, directly and indirectly, in a very substantial way to our gross domestic product, it will be realised that it is difficult to over-emphasise the cardinal importance of building up our export trade, and the major task in this field would appear to rest with our manufacturing industries.

This is not a task which can be tackled at some future date. It is already a matter of the highest priority.

From 1959 to 1964, the capital account of the balance of payments showed a net outflow each year, although official policies designed to further stability in the local money and capital markets were responsible for a part of this outflow, particularly in 1962 and 1963. In 1965, there was a large net inflow of capital amounting to R235 million, and, during the first six months of this year, there was a further net inflow of R92 million.

Over the eighteen months from January, 1965, to June, 1966, thus, the total net capital inflow amounted to no less than R327 million, and of this total, probably some R192 million represented shorter term funds, and R135 million long-term funds. There can be no doubt that this large inflow of short-term money fulfilled a very important bridging function while steps were being taken to reduce and eventually remove the deficit in the current account of the balance of payments. But there can equally be no doubt that it would be extremely unwise to regard too large a proportion of this capital as having any attributes of permanency. In short, we must be prepared to have to repay a large part of these short-term funds and the only appropriate way in which we can do so is by means of surpluses on the current account of the balance of payments with, it is hoped, some assistance from net long-term capital inflows, preferably for direct investment. Fortunately, I have no reason to believe that "hot money" in the accepted sense of that term represents any significant part of the short-term capital we have received.

A very welcome feature has been the relatively large amount of R127 million of private long-term capital received during the past eighteen months compared with net outflows experienced every year since 1958. As recently as 1963 the net outflow under this heading amounted to no less than R136 million. Coupled with the know-how and technical skills which usually accompany this type of capital, it represents an important growth factor for the future.

These developments in the balance of payments were reflected in the country's gold and exchange reserves which, after declining to a low point of R340 million at the end of September, 1965, increased consistently and rapidly to an estimated total of R612 million at the end of July, 1966.

MONETARY AND CREDIT SITUATION AND CORRECTIVE MEASURES

In my last Address, I surveyed in some detail the developments in the monetary and credit situation until about August, 1965. At that time, I expressed the view that with the *full* co-operation of the various financial institutions, and with that of the public and private sectors in reducing, postponing or stretching out investment and consumption outlays, the restraints already imposed might prove sufficient to restore a satisfactory degree of balance in the economy. I also stressed the need for reducing Reserve Bank credit to a minimum and took the opportunity of warning that the authorities would not hesitate to apply further restraints if they became necessary.

In the event, developments during the ensuing months indicated that the measures already taken, while undoubtedly having some effect, were unlikely to act with the necessary speed. The deficit on the current account of the balance of payments, as already mentioned, while responding slowly to the credit restraints, still remained far too large. The reserves, it is true, reached a lower turning point and started to increase again, but this, as I have explained, was primarily due to a net capital inflow largely of short-term funds. The increase in the reserves moreover had the further effect of adding to the spending power in the economy thereby facilitating over-spending for both investment and consumption purposes and adding to the inflationary pressures. The inevitable wage and salary increases which follow upon inflationary price increases took place and, together with other factors, added to the pressure on costs. Furthermore, Government expenditure showed every sign of being both heavy and likely to continue at a high level for some time, despite the drastic cuts which the Minister of Finance had already effected, and to which I shall refer later.

In the light of these conditions and prospects, the Bank, after consultation with the Treasury, announced further restraints on credit at the end of October, 1965. These took the form of a request to the monetary banks to ensure that the total of their discounts, loans and advances to the private sector (excluding the Land Bank) as at 31st March, 1966, would not be higher than the corresponding total at 31st March, 1965. At the same time, the monetary banks were furnished with certain broad guidelines covering the manner in which the reduction in credit should be effected. Details of these guidelines were made public in the Reserve Bank's announcement of 29th October and were printed

in the Bank's Quarterly Bulletin of December, 1965. In essence, they placed the emphasis upon reducing credit which directly or indirectly financed imports; which was used for carrying excessive inventories; which was intended for speculative activities of any kind; or which financed personal loans, hire-purchase or leasing transactions. The monetary banks were also asked to avoid any excessive reliance on domestic credit by foreign-controlled subsidiaries in the Republic. On the other hand, but subject to the overall credit limit and sound bank lending principles, credit to farmers and small traders in the drought-stricken areas was not to be reduced, and might be increased in deserving cases. In addition credit for the financing of exports on normal trade terms was to enjoy a high priority.

As may be readily imagined, this request created some problems for the monetary banks, the majority of which had relatively large outstanding commitments in the form of unused overdraft facilities and/or lines of credit. The Reserve Bank, moreover, had made it clear that these commitments did not automatically or *per se* provide an excuse for not complying with its request. The problems inherent in extensive commitments of this nature, particularly in circumstances where credit restraints which are designed to act rapidly and directly on the volume of credit have to be imposed in the face of large credit demands, have been apparent to the authorities for some time. These problems are not confined to the monetary banks, but also affect the credit control authorities and, indeed, the borrowers themselves. One wonders, therefore, whether the time is not approaching when the merits and demerits of the present system of extending banking credit in this country relative to other systems involving less in the way of outstanding commitments should not be carefully reviewed.

Despite these very real problems, the monetary banks made good progress in reducing their credit to the private sector as defined, and by 31st March, 1966, all of them had complied with the Reserve Bank's request. In many cases, in fact, credit outstanding to the private sector was appreciably lower than a year earlier. To some extent, of course, the process was facilitated by some decrease in the demand for credit stemming from the somewhat more subdued rate of growth in the economy and the reduction in stocks resulting from import control.

This development naturally had the effect of improving the liquidity position of many of the banks concerned. In addition, the favourable trend in the balance of payments and the continued high level of essential Government expenditure, both of which seemed likely to con-

tinue for some time, added further to the liquidity of the banking sector and the economy generally. Consequently, the improvement in the liquidity of the monetary banks was likely to be substantial while the channeling of substantial surplus funds into short-term Government paper in no way lessened the liquidity of the banking sector. To the extent, moreover, that the funds so received by the Government were expended locally rather than being sterilized in the Government's accounts or spent abroad, the liquidity of the banking sector was actually increased and spending power in the economy augmented. It was quite apparent thus that the disinflationary effect of the restraints imposed upon credit extended to the private sector would be offset to a significant extent through this transfer of funds from the monetary banks to the Government and their subsequent local disbursement and by the effects of the surplus in the balance of payments, quite apart from inflationary stimuli arising from other sources, such as wage and salary increases and other factors more particularly affecting costs.

It had become fairly clear by the end of February, 1966, in fact, that some inflationary pressure still existed in the economy, and there was little or no evidence to suggest that the *demand* for credit had declined to normal proportions. On the contrary, the available evidence indicated that business optimism remained at a high level. In the circumstances, it was felt that any significant relaxation of the existing credit restraints would be premature and would provide a suitable climate for the further development of inflationary pressure. It was decided, therefore, to continue the existing restrictions on the volume of credit which might be extended by the monetary banks to the private sector for a further six months after the end of March, 1966.

One concession, however, was made in view of the very difficult conditions in the farming industry resulting from the prolonged drought. Monetary banks were accordingly advised that they could increase credit to the private sector by $2\frac{1}{2}$ per cent. of the March, 1965 figure during the six months ending 30th September, 1966, subject, however, to certain conditions which had to be strictly observed. These conditions were that the additional credit might only be made available *directly* to certain categories of persons. These were, in the first place, genuine farmers who were dependent upon their farming activities for the whole or the greater part of their income, and then only for those essential living and farming requirements which the farmers in question could not finance by other means. In the second place, additional credit might be granted to persons and concerns which themselves supplied these essential requirements directly to the farmer and which

were in need of credit assistance because of the inability of their normally creditworthy farming customers to pay their debts. Thirdly, those persons and concerns which themselves purchased farm produce directly from the farmer as a normal and important part of their business, and which stored, moved, distributed, processed or sold farm produce, might also benefit from the concession.

This was the view taken in February of this year. But as the weeks and months passed, it became increasingly clear that due to several factors operating in the economy, the restrictive measures then in force would not act speedily enough to bring the adjustment process to completion within a reasonable time. These factors were, firstly, the steep and continued rise in the gold and foreign exchange reserves which apart from adding further to the liquidity of the banking system and exerting downward pressure on short-term interest rates, was wrongly interpreted in some quarters as a sign that the restrictive measures were soon to be relaxed; secondly, the continuing high level of expenditure by the public authorities on essential projects and services; and, thirdly, the continued large short-term borrowing by the Government from the banking sector to finance this essential expenditure.

After consultation between the Reserve Bank and the Treasury, therefore, the Minister of Finance on 8th July, 1966, announced certain further steps to counter the inflationary trends in the economy. The following measures were involved. Firstly, in order to assist in slowing down the excessive pace of capital and consumption expenditure, the Bank rate was raised from 5 to 6 per cent., while at the same time the request to the monetary banks to limit their discounts, loans and advances to the private sector to the total of these items as at 31st March, 1965 (plus the special increase of $2\frac{1}{2}$ per cent. for the agricultural sector referred to earlier), was extended for a further period of six months from 30th September, 1966. In addition, the restrictions on interest rates payable on deposits with financial institutions were lifted with immediate effect. Secondly, the Reserve Bank's pattern of rates for long-term Government securities was extended so as to raise the maximum rate for stocks that is, for maturities of 25 years and over, to $6\frac{1}{2}$ per cent. Thirdly, the Minister foreshadowed disinflationary fiscal measures in his pending Budget. Finally, import control would be relaxed on a selective basis as a further anti-inflationary step, and relaxations affecting inventories of raw materials, as well as capital goods and consumer goods were duly announced.

Against the background I have briefly described, and as further set out in the Minister's statement and in an accompanying statement issued

by the Department of Finance, the rationale behind these steps should be apparent. I feel, however, that some comment on developments in the field of money rates and certain related matters during the past year would be desirable.

MONEY RATES AND RELATED MATTERS

Prior to the rate changes announced on 8th July, to which I have just referred, interest rates over a wide field had shown relatively little variation for almost a year. Bank rate remained unchanged at 5 per cent., the Bank's pattern of rates for Government stock had not been changed since 16th August, 1965, while the maximum deposit rates payable by banking institutions and building societies had been subject to control since March, 1965. The Treasury bill tender rate and related short-term market rates did show some significant changes of trend. The tender rate, thus, after rising fairly steadily during 1964 and the first half of 1965, showed signs of levelling-off, and stood at 4.43 per cent. in January of this year. Thereafter a downward trend set in, and a low point of 3.71 per cent. was recorded early in July, 1966.

Various factors were responsible at various stages for the levelling-off and subsequent decline in the Treasury bill rate, but the main reason was the strongly favourable trend in the balance of payments which commenced in the second half of 1965. The decline in the Treasury bill and related rates, as well as the inflationary effects stemming from the balance of payments surplus, would have been more severe had the authorities not taken various counter measures. These steps included the holding of funds abroad by the commercial banks and the Public Debt Commissioners under so-called "swop" arrangements with the Reserve Bank, the total of which was quite substantial by the middle of this year, but has subsequently declined. In addition, the total of tender bills outstanding was increased substantially, and special "tap" Treasury bills were also issued to the commercial banks and discount houses, as more fully described in the Bank's Annual Economic Report. During the weeks following upon the recent increase in Bank rate to 6 per cent., the Treasury bill tender rate again moved upwards, and stood at 4.11 per cent. on the 12th August.

As I mentioned in my Address last year, both the Government and the Reserve Bank would have preferred not to impose deposit rate control, but for the reasons set out in that Address, it was felt that little or no option in the matter remained. On various occasions during

the past year, moreover, the authorities intimated that they had no desire to prolong the operation of this control unnecessarily and would remove it as soon as possible. By July, 1966, it was felt that the prevailing conditions, in conjunction with other measures to be taken at that time, made the removal of the deposit rate control possible and, indeed, desirable.

The limitation upon the amount of credit which monetary banks might extend to the private sector, for example, had placed a substantial restraint upon their ability to offer unduly high rates in order to attract deposits. Furthermore, it was felt that the 1 per cent. increase in Bank rate to the very high level of 6 per cent. ought to have some effect in restraining the demand for credit. The Minister of Finance, moreover, made it clear that the Bank rate would be lowered again as soon as circumstances permitted. It seemed probable, therefore, that the payment of unduly high rates of interest on deposits, and particularly longer-term deposits, would be regarded as a short-sighted policy to which responsible monetary banks and other banking and financial institutions would not readily subscribe. I feel, however, that I must again warn the banking community that the monetary authorities would find it very difficult to accept any commitment to pay unduly high rates of interest on deposits as an excuse for not following any downward adjustment of rates which may be deemed to be in the public interest.

So far, I am happy to say, these expectations have been reasonably justified.

But of course, if the position in the interest rate field shows signs of getting out of hand, it should be borne in mind that deposit rate control could, if necessary, be re-imposed at short notice, much as the authorities would regret such a step. It is hoped, therefore, that the more extended use now being made of the orthodox weapon of high interest rates which respond more freely to so-called market forces, will prevent the re-imposition of this, or the widespread or prolonged use, of any other artificial form of control.

Undoubtedly, the deposit rate control had some effect in encouraging a noticeable tendency among investors in loans and deposits to move towards the shorter maturities. More important in this respect, however, was the new banking legislation which placed restrictions upon the repayment of fixed deposits and certain types of shares before maturity. In addition, a very important reason for this tendency was the fact

that in times of business optimism and strong growth in the economy, which are often accompanied by inflationary pressure, the general tendency is to place temporarily idle funds in shorter-term investments. It is hoped, however, that with the removal of deposit rate control, the adoption of further anti-inflationary monetary and fiscal measures, and the increase in the yields of longer-term Government stocks, some of the pressure for short-term investment may disappear.

Various factors, including the removal of deposit rate control, caused the building societies to increase their mortgage rate to $8\frac{1}{2}$ per cent. This will undoubtedly be felt by many people who are acquiring or seek to acquire their own homes, and the Minister therefore appealed to the institutions providing such finance to extend the duration of mortgage loans rather than raise the payments on the loans. Similarly, the higher overdraft rates resulting from the increase in Bank rate will detrimentally affect certain sectors of the community, particularly the weaker businessmen and enterprises, but will benefit others such as savers. These are regarded, however, as short-term effects and, as the Department of Finance indicated in its statement of 8th July, sacrifices will definitely be required in order that the longer-term interests of these groups and of the country as a whole may be promoted. Very naturally, the higher rates of interest are intended to help in reducing the tempo of investment and consumption to sustainable levels, and the possibility of reducing rates to more normal levels must, therefore, depend to a substantial extent upon the attainment of this goal. Failure, thus, to slow down, stretch-out or postpone where possible expenditure programmes can only retard the necessary adjustment process in the economy and prolong the maintenance of high interest rates.

FISCAL AND OTHER GOVERNMENT MEASURES

While a large part of the burden in seeking to restore a greater degree of balance both internally and externally has necessarily, and rightly, had to be borne by monetary measures, various steps which the Government found it practicable to take have been of great assistance.

I made reference in my last Address to certain disinflationary steps which were taken in the Budget for 1965/66, and in September, 1965, the Minister of Finance announced further steps which would assist in curbing excessive monetary demand. These comprised the reduction of Government expenditure, particularly on capital works and the submission of important tenders for Government purchases to a special Cabinet Committee. Further, the Provincial authorities, the leading

municipalities and the important public corporations were approached for their co-operation in reducing their own expenditure and in ensuring that funds so saved be invested with the Government. Thirdly, essential Government expenditure which could not be postponed would be financed as far as possible in a non-inflationary manner. To this end, a 20-year 6 per cent. loan was issued which, it was hoped, would be supported by insurance companies, pension funds and other financial institutions. Large private organisations with substantial funds were also asked for the time being to subscribe to Government loans rather than use the funds for large-scale new capital projects.

Since then, there have been several very large conversions of maturing Government stocks, and the Government also decided to raise new money. Twenty-five and three year stocks were offered at 6 and 5 per cent., respectively, and it was pointed out that subscription to these would help in curbing inflation. The bulk of the conversions and new money raised was, however, in the three-year maturity and came mainly from monetary banks, which is understandable in the light of factors already mentioned but still undesirable.

As I also suggested in my last Address, encouragement has been given through the Department of Commerce and Industries to the obtaining of extended credit terms from abroad where large, expensive and *essential* capital goods had to be imported, with a view to bridging balance of payments difficulties, but the emphasis has been throughout on selectivity in making use of such facilities. With the same object in view, the Minister of Economic Affairs announced certain changes in import control during the latter part of 1965. In the main, emphasis was placed on the reduction of excessive inventories and capital goods imports and the avoidance of unnecessary consumer goods imports. As a precautionary measure, moreover, further changes were made in import control in May, 1966, which involved a modest tightening in respect of consumer goods imports and in allocations to merchants importing raw materials, although manufacturers would continue to obtain their requirements of imported raw materials on the basis of consumption. A slight relaxation, however, was made in respect of imports of office equipment including computers.

Subsequently, and with regard to the increase in the country's gold and exchange reserves to a reasonably satisfactory level and the achievement of approximate balance on the current account of the balance of payments, it became possible to relax import control as one of the anti-inflationary steps announced on 8th July. One of the most important

aspects of this relaxation was the return to a six-months basis in respect of stocks of raw materials held for manufacturing industries.

Last week, as you all know, the Minister of Finance introduced his Budget for 1966/67 which, as foreshadowed in his statement of 8th July, included fiscal measures to augment the attack on inflation. It shows, moreover, a determined effort to finance the very high level of essential State expenditure in as non-inflationary a manner as possible. Much as I would have liked to comment briefly on various aspects of the Budget, the short space of time which elapsed between the delivery of the Budget Speech and my own Address, in conjunction with the need to prepare the Address for publication, has made this impossible.

CONCLUSION

The major conclusion to which this review leads is that appreciable progress was made during the past year towards restoring a greater measure of balance in the economy without causing any undue setback in our growth. Towards the end of the period under review, however, additional steps were considered necessary to try and eradicate the inflationary danger more rapidly, not least because the improvement had in part been due to factors which did not, in themselves, remove the basic causes of disequilibrium.

Externally, the improvement in the current account of the balance of payments and in the reserve position, was marked. The improvement in the former was in part associated with monetary and fiscal restraint measures as well as the operation of normal stabilizing factors in the economy. But it was also attributable, in part, to tighter import control measures largely affecting the level of inventories, which in itself, did not necessarily constitute a basic remedy for the underlying cause of the disequilibrium, viz., excessive demand. It is, therefore, fortunate in this respect that the level of stocks *in general* does not appear to have been reduced beyond a point which can be considered normal, so that a general need for raising normal business stocks to higher levels need not put new pressure on the balance of payments. It is also fortunate, from this angle, that the heavy investment of past years is now making available a much larger supply of locally-produced articles and in an ever-increasing range.

As regards the improvement in the reserve position, the better trend on the current account of the balance of payments has naturally been

of assistance, but the major factor has undoubtedly been a strong net inflow of capital of which a substantial part was, however, of a short-term nature. The existence of this volume of short-term money is a somewhat doubtful factor in the reserve position. It consists largely of increased trade credits obtained from abroad, not because it was cheaper to borrow there, but mainly because the volume of local credit was restricted. In addition it includes short-term loans and credits obtained in foreign countries by the public and private sectors. Short-term loans and credits may possibly be renewed, but the probability of repayment at comparatively short notice cannot be overlooked. It is true that there may also be something of a "hard core" in trade credits, but a major determining factor is naturally the relative level of short-term borrowing rates here and in other countries with which we trade on a significant scale. Clearly, thus, there are certain elements of weakness on the external front which have to be kept in mind.

Internally, the authorities have certainly taken a number of basic monetary measures designed to restrain excessive monetary demand which was reflected in unduly high levels of investment and consumption spending, and these were supplemented by various fiscal and other Government measures to which I have made reference. Until quite recently, however, the major burden rested, quite rightly, upon monetary restraints, and these have undoubtedly had an important effect in reducing the domestic availability of credit. For various reasons which I have enumerated, however, the effect of these measures has been offset to a significant extent and liquidity in the banking sector and in the economy generally is still at too high a level for comfort and for the maintenance of stability. The money and near-money position, the persistence of a very keen demand for credit which, in part at least, is a reflection of a high level of business optimism, as well as the continued rise in prices and many other pointers all bear this out.

There is obviously no room, therefore, to relax our efforts to remove inflationary stimuli as far as possible. As a major gold producing country, and as one whose future progress will be determined to an important extent by the growth of its export markets (probably under highly competitive conditions), we are not able to look on inflation with any degree of complacency. Prevailing political conditions in the world, moreover, add even greater emphasis to the need for building up and maintaining the basic soundness and safety of our naturally rich and buoyant economy.

It is a well-established fact that credit restraint measures cannot, as a practical matter, be expected to reach—and to be effective—in all areas

from which inflationary and other forms of imbalance may, and frequently do, arise. During recent months, this fact had become increasingly apparent, and further assistance from fiscal and, possibly, other Government measures, was necessary. The recent Budget is, therefore, to be welcomed.

The Minister of Finance, in a speech delivered in April of this year very aptly summarized what I have been trying to convey to you. The aims he set out were that the current account of the balance of payments be brought at least into equilibrium; that total domestic expenditure be brought more or less into balance with the gross national product; and that the quantity of money and near-money be reduced to a reasonable level. In achieving the first two of these aims we have had reasonable success but I would prefer to see any artificial measures we have used in bringing this about reduced to a minimum. That, in itself, is one reason why the third aim is so vitally important, and here unfortunately we still have some way to go.

For the time being, thus, it seems to me that a policy of consolidation will have to be followed and, consequently, that we shall have to subject ourselves to a rather greater measure of economic and financial discipline than would normally be necessary. This does not mean that the economy must enter into a period of stagnation, for no country can get or keep strong without growth and development. But it does mean, however, that, for a time at least, we shall probably have to accept a rate of growth which is lower and perhaps appreciably lower, than the very satisfactory average rate of growth which we have achieved during the past four years and can look to achieve in the future.

Although there are naturally many uncertainties in the international situation which it would be foolish to ignore and which may, at times, have their effects upon our economic objectives, I am hopeful that the fiscal and monetary measures we have taken will serve so to supplement the natural stabilizing factors in the economy that this period of consolidation will be both reasonably short and result in a minimum of disturbance. I am sure, moreover, that our businessmen and our people generally are sufficiently realistic to appreciate that in our basically free-enterprise economy, as in others, such periods of adjustment are almost inevitable, even though the aim must always be to make them as few and far between as possible by doing our best to ensure that the maximum sustainable rate of growth is steadily maintained throughout. There is every reason, thus, to look towards the future with quiet con-

fidence and in the certain knowledge that there is no better basis for such confidence than an economy which rests on firm and solid foundations.

At the conclusion of his address the Chairman moved:

That the Accounts and Reports be adopted.

Mr. R. F. A. Louw seconded the motion which was carried.

The Chairman then moved:

That the appointment by the Board in terms of Section 5(i)(b) of the South African Reserve Bank Act, of Dr. T. P. Stratten as a stockholders' representative on the Board of Directors for the unexpired portion of the period of office of Dr. W. J. Busschau, from 1st January, 1966, to 30th June, 1966, be confirmed.

Dr. E. H. D. Arndt seconded the motion which was carried.

On the motion of the Chairman, seconded by Dr. E. H. D. Arndt, it was resolved:

That Messrs. E. O'C. Maggs and T. P. Stratten, whose periods of office expired on 30th June, be re-elected as stockholders' representatives on the Board of Directors.

The Chairman, on behalf of the Board, then moved:

1. That Messrs. Whiteley Brothers and Messrs. Deloitte, Plender, Griffiths, Annan and Company be paid the sum of Seven thousand five hundred rand each, in accordance with the recommendation of the Board, for auditing the accounts of the Bank for the year ended 31st March, 1966.
2. That Messrs. Whiteley Brothers and Messrs. Deloitte, Plender, Griffiths, Annan and Company be appointed auditors of the Bank's accounts for the current year.

Both motions were seconded by Mr. J. P. Kakebeeke and were carried.

After Mr. D. J. Band had proposed a vote of thanks to the Chairman for presiding and for his address, the proceedings terminated.

1966

South African Reserve Bank

Report of the Board of Directors of the South African Reserve Bank for the year ended 31st March, 1966, to be presented to Stockholders at the Forty-sixth Ordinary General Meeting to be held in Pretoria on Tuesday, 23rd August, 1966.

In accordance with the provisions of the South African Reserve Bank Act, 1944, and the Regulations framed thereunder, the accompanying Statement of the Bank's accounts for the year ended 31st March, 1966, certified by the auditors as prescribed, is presented to Stockholders.

CAPITAL.—The Bank's capital of R2,000,000 was held by 892 stockholders, of whom 46·6 per cent. held less than R1,000 each.

RESERVE FUND.—In terms of Section 16(3) of the Act, R358,000 of the net profit for the year was allocated to the Reserve Fund, thus increasing it to R10,836,000.

NOTES IN CIRCULATION AND NOTES OF OTHER BANKS.—The Bank's note issue amounted to R348,869,000 at 31st March, 1966, representing an increase of R24,413,000 over the year. The holdings of notes by banking institutions, apart from the Reserve Bank itself, decreased, however, by an estimated amount of R1,146,000 during the year, so that the notes held by parties other than banking institutions actually increased by about R25,561,000. For the most part, this increase reflects a high level of economic activity in the country which was accompanied by some measure of inflationary pressure on prices deriving from a number of sources.

The liability of the Bank for notes issued by other banks decreased by R24,000 during the year to a total of R413,000. The decrease was due to the steady withdrawal and cancellation of notes originally issued by the commercial banks in South West Africa.

DEPOSITS.—The Reserve Bank's total deposit liabilities decreased from R314,496,000 to R275,982,000, that is, by R38,514,000. The net decrease resulted from declines of R41,074,000 and R18,844,000 in Government and Bankers' current accounts respectively, which were partly offset by increases of R16,932,000, R2,849,000 and R1,623,000 in Bankers' reserve accounts, Other accounts and Provincial current accounts respectively.

Current account balances are naturally subject to considerable fluctuations, and changes in the balances on these accounts between particular dates, therefore, are not necessarily of any significance. The balances on Government current accounts, for example, showed several diverse trends during the year under the influence of seasonal, cyclical and accidental factors as well as borrowing and conversion operations. The net result was the decline of approximately R41,000,000 referred to above. In the case of Bankers' current accounts, the picture is influenced by the additional factor of adjustments in various asset items which usually take place at year ends. The increase in Bankers' reserve accounts, however, reflects the rising trend in the short-term liabilities of monetary banking institutions which are required by law to hold a percentage of these liabilities in the form of balances with the Reserve Bank.

FOREIGN CURRENCY LOANS.—During the year, the Bank borrowed at relatively short-term in various foreign currencies largely to supplement the country's foreign exchange reserves from time to time. Some of these loans which matured during the year were renewed for further short periods, and a few were repaid. The amount of approximately R7,143,000, representing an outstanding drawing under the revolving credit for \$40,000,000 granted to the Government by a group of American banks, and shown in last year's balance sheet under the heading "United States Dollar Liabilities incurred as Agent for the Government", was repaid during the year.

The net result of these operations was that the Bank owed an amount of R40,002,000 in foreign currencies at 31st March, 1966, as shown in the balance sheet.

GOLD COIN AND BULLION.—The Bank's gold reserve increased from R352,629,000 to R368,694,000 over the year that is, by R16,065,000.

Gold purchased by the Bank during the year, valued at the statutory price of R24·80 per fine ounce, amounted to R771,948,000, almost all

of which was acquired from gold producers in South Africa on the same basis as formerly. The total purchases were R24,878,000 higher than during the preceding year due mainly to an increase in the gold output.

Gold disposed of by the Bank, valued at the statutory price, amounted to R755,883,000, of which R748,784,000 was disposed of in London. The latter included an amount of R8,857,000, representing the gold payment to the International Monetary Fund in connection with the recent increase in the Republic's quota in that Organisation. The balance of R7,099,000 was sold outside that centre, the great bulk consisting of gold sold to the Government of Mozambique in connection with deferred wages of Bantu mineworkers from that Territory, and of gold sold to the South African Mint to meet local demands.

BALANCES WITH OVERSEAS BANKS: MONEY AT CALL IN LONDON; FOREIGN BILLS.—These items, together with an amount of R19,928,000 held in investments domiciled abroad, represented the Bank's foreign exchange reserves, and totalled R80,795,000 at the end of the year, as compared with R71,963,000 at 31st March, 1965. The total comprised R43,452,000 in U.S. dollars, R19,806,000 in D. marks and R13,934,000 in British sterling. The balance consisted of amounts held in various other foreign currencies.

The increase in the Bank's gold and exchange reserves during the year, which reflected the trend in the balance of payments, amounted, therefore, to R24,897,000. This figure was made up of increases of R16,065,000 and R8,832,000 in the Bank's gold reserve and in its foreign exchange holdings respectively.

DOMESTIC BILLS.—Domestic bills under discount with the Bank decreased by R67,160,000 to R770,000 over the year. To an important extent, this decline represented decreased accommodation granted to the National Finance Corporation and the Land Bank.

LOANS AND ADVANCES.—This item showed a decrease of R6,784,000 over the year to a total of R70,795,000. The total at the end of the year consisted mainly of advances to discount houses and semi-Government bodies.

GOVERNMENT AND OTHER SECURITIES.—The Bank's investments increased during the year by R23,562,000 to R124,726,000, its net holdings of South African Government securities having increased by R22,781,000 and its portfolio of other securities by R781,000.

The Bank's holdings of Government securities domiciled abroad decreased by R10,551,000, so that the increase in Government securities domiciled in the Republic actually amounted to R33,332,000. This increase was largely accounted for by certain temporary transactions of a special nature.

FURNITURE AND FITTINGS AND FIXED PROPERTY.—The balances on both these accounts stood at R1, all expenditure during the year under these heads having been written-off, as shown in the Profit and Loss Account.

PROFIT AND LOSS ACCOUNT.—After meeting all expenses and making provision for income tax, rebate on bills not yet due and other liabilities and contingencies, the net profit for the year amounted to R3,781,000, the corresponding figure for the previous year having been R3,824,000. Dividends to stockholders absorbed R200,000, while R358,000, representing one-tenth of the balance, was allocated to the Reserve Fund, leaving R3,223,000 to be paid to the Government.

DIVIDENDS.—The Board declared an interim dividend of 5 per cent. for the half-year ended 30th September, 1965, and a final dividend of the same amount for the half-year ended 31st March, 1966.

DIRECTORS.—Mr. C. H. Brink was appointed as a Government representative on the Board in the place of Professor C. G. W. Schumann who resigned.

In terms of Section 5(i)(b) of the South African Reserve Bank Act, Mr. T. P. Stratten was appointed by the Board as a stockholders' representative for the unexpired portion of the period of office of Dr. W. J. Busschau who resigned. Stockholders will be asked to confirm this appointment.

Messrs. E. O'C. Maggs and T. P. Stratten retire by rotation on 30th June, 1966, but, being eligible, offer themselves for re-election.

AUDITORS.—Stockholders will be requested to determine, upon the recommendation of the Board, the remuneration of the auditors for the past year's audit, and to appoint auditors for the current year.

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

G. RISSIK, *Governor.*

D. G. FRANZSEN	}	<i>Directors.</i>
T. P. STRATTEN		
C. H. BRINK		

H. O. DE VILLIERS,

Secretary,

9th June, 1966.

PROFIT and LOSS ACCOUNT for the year ended 31st March, 1966

1965	1965
R3,241,279 GENERAL EXPENDITURE— Including Rates, Salaries, Directors' Fees, etc. .. R3,782,621	GROSS REVENUE— After making provisions for income tax, interest payable, rebate on bills not yet due, other liabilities, contingencies and writing down securities.. .. R9,984,474
<div style="border: 1px solid black; padding: 5px;"> 657,069 68,366 725,435 WRITTEN OFF— Fixed Property R2,016,154 Furniture and Fittings 118,678 </div>	
248,500 PENSION FUND CONTRIBUTION 2,134,832	286,000
PROFIT FOR THE YEAR— Allocated as follows:— (Vide report of the Directors) Stockholders 200,000 Reserve 358,102 Government 3,222,919 <div style="border: 1px solid black; padding: 5px; margin-top: 5px;"> 200,000 362,446 3,262,013 3,824,459 </div>	
<div style="border-top: 1px solid black;"> R8,039,673 </div>	<div style="border-top: 1px solid black;"> R8,039,673 </div>
<div style="border-top: 1px solid black;"> R9,984,474 </div>	<div style="border-top: 1px solid black;"> R9,984,474 </div>

H. O. DE VILLIERS, *Secretary.*

PRETORIA

9th June, 1966.

G. RISSIK, *Governor.*

D. G. FRANZSEN
 T. P. STRATTEN
 C. H. BRINK

Directors.

To the Stockholders of the

SOUTH AFRICAN RESERVE BANK

We have audited the Balance Sheet dated 31st March, 1966, 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, 1966. 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 Account.

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

Auditors

JOHANNESBURG,

6th June, 1966

SENIOR OFFICERS

CHIEF CASHIER	E. MOORE
EXECUTIVE ASSISTANT	T. W. DE JONGH
ECONOMIC ADVISER	G. P. C. DE KOCK
SECRETARY	H. O. DE VILLIERS
DEPUTY CHIEF CASHIER	G. M. GROBLER
ASSISTANT CHIEF CASHIER	J. E. SPOTSWOOD
ASSISTANT CHIEF CASHIER	W. N. MAIN
ASSISTANT CHIEF CASHIER	N. VAN DER WESTHUIZEN
ASSISTANT TO THE GOVERNORS	A. J. J. VAN VUUREN
SPECIAL RESEARCH OFFICER	J. C. DU PLESSIS
DEPUTY HEAD OF ECONOMIC DEPARTMENT	J. J. D. WILLERS
ASSISTANT HEAD OF ECONOMIC DEPARTMENT	B. VAN STADEN
ASSISTANT SECRETARY	A. W. McDERMID
CHIEF ACCOUNTANT	B. D. BUCKE
INSPECTOR	B. VAN NIEKERK

BRANCHES

BLOEMFONTEIN	S. H. DE KOCK, <i>Manager</i>
CAPE TOWN	L. ORCHARD, <i>Manager</i>
	F. DE RIJK, <i>Sub-Manager</i>
DURBAN	R. E. SPENCE, <i>Manager</i>
EAST LONDON	A. P. McLoughlin, <i>Manager</i>
JOHANNESBURG	H. E. MCGCRIDGE, <i>Manager</i>
	C. E. MURRAY, <i>Asst. Manager</i>
PIETERMARITZBURG	F. OOSTERBROEK, <i>Manager</i>
PORT ELIZABETH	G. C. WOODWARD, <i>Manager</i>
PRETORIA	B. H. KAUFMANN, <i>Manager</i>
	W. R. PENTZ, <i>Sub-Manager</i>
WINDHOEK	R. C. STEGMANN, <i>Manager</i>

