

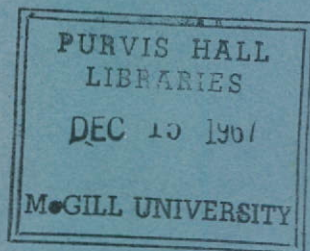
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SOUTH AFRICAN
RESERVE BANK

1967

REPORT OF THE
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FORTY-SEVENTH
ORDINARY
GENERAL MEETING



BOARD OF DIRECTORS

THEUNIS WILLEM DE JONGH	GOVERNOR
DANIËL GERHARDUS FRANZSEN	..	..	..	DEPUTY GOVERNOR
JOHN BENEDICTUS DE KORTE WILMOT	..	..	..	DEPUTY GOVERNOR
				REPRESENTING:
CHRISTOPH HENDRIK BRINK	..	..	..
PIERRE ETIENNE ROUSSEAU	..	..	..	GOVERNMENT
DANIEL HENDRIK STEYN	..	..	..
MICHIEL HENDRIK DE KOCK	..	..	..
EUGENE O'CONNELL MAGGS	..	..	..	COMMERCE AND FINANCE
LAWRENCE STUART ROBINSON	..	..	..
JOHANNES FREDERIKUS VAN WYK	..	..	..	AGRICULTURE
IAN GRANGER FLEMING	..	..	..
THOMAS PRICE STRATTEN	..	..	..	INDUSTRY

SOUTH AFRICAN RESERVE BANK

Forty-Seventh Ordinary General Meeting of Stockholders

MINUTES OF PROCEEDINGS

The Forty-seventh Ordinary General Meeting of Stockholders was held at the Head Office of the Bank, Pretoria, on Tuesday, 22nd August, 1967, 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, 1967, 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, 1967.

I also submit to you the Bank's Annual Economic Report which should be regarded as furnishing a background to my remarks today.

SURVEY OF ECONOMIC AND MONETARY DEVELOPMENTS

The past year and a half was indeed an eventful period for the monetary authorities in South Africa. When this period began, there was ample evidence to show that the economic upswing which had started from a low point in 1961, had levelled off from about the middle of 1965 and that the inflationary pressure, although still present, was tending to subside. During the course of 1966, however, a vigorous new upswing in exports, fixed investment, inventory investment and total spending developed, which was accompanied by an upward movement in a wide variety of economic activities and transactions. The statistical details of this upswing are set out in the Reserve Bank's Annual Economic Report and need not, therefore, be repeated here. The essential point is that, in the existing conditions of overfull employment, this new upturn in spending was not a welcome phenomenon, as it threatened to set in motion a fresh spiral of inflation. The authorities therefore found it necessary to apply fairly drastic remedial measures.

The official campaign against inflation consisted largely of a relaxation of import control and a tightening of fiscal and monetary policy. The relaxation of import control, which was effected in three main stages, namely in July and December 1966, and in May, 1967, was rendered desirable and feasible not only by the emergence of large surpluses in the current account of the balance of payments during the first three quarters of 1966, but also by an unexpectedly large and sustained inflow of private foreign capital from the second quarter of 1965 onwards. These developments had the effect of transforming the downward tendency in the gold and foreign exchange reserves, which had been a source of concern during the first three quarters of 1965, into the most rapid increase in any period of ten months in our history, namely from R340 million at the end of September, 1965, to R604 million at the end of July, 1966, an increase of R264 million.

From the viewpoint of combating inflation, this sudden and drastic transformation of the balance of payments position was a complicating factor, as it not only contributed materially to the rapid rise in the quantity of money and near-money in the hands of the private sector but, through shifting the demand for imports to some extent to locally produced goods and services, also stimulated internal fixed investment and consumer spending directly. The relaxation of import control was therefore aimed at increasing both the availability of goods and the degree of competition in

the economy and assisting the monetary authorities in their attempts to reduce the excessive liquidity of monetary banks and the non-bank private sector.

On the fiscal front, two Budgets were introduced during the past year, in both of which the need to co-ordinate fiscal with monetary policy and, in particular, to avoid increasing the Exchequer's net indebtedness to the banking sector, was taken into account. In the August, 1966 Budget, the main anti-inflationary moves were an increase in various taxes, the introduction of new tax-exempt savings bonds and the announcement of legislation requiring insurance companies, pension funds and unit trusts to hold more government stock. Previously, in July, the interest rate on long-term government stock had been raised from 6 to 6½ per cent. This was followed in the March 1967 Budget by a substantial increase in company tax and customs and excise duty on motor cars, and an increase in the loan levy on individuals as well as companies.

Finally, in the field of monetary policy, the measures taken during the past year include an increase in Bank Rate from 5 to 6 per cent and the lifting of deposit rate control in July 1966, upward adjustments in the Reserve Bank's pattern of rates for government stock, the extension and tightening of direct control over bank discounts, loans and advances to the private sector, a policy of issuing additional Treasury bills to banks as well as ordinary business concerns with a view to sterilising the proceeds with the Reserve Bank, and the imposition of additional liquidity requirements upon merchant, hire-purchase, general and savings banks.

These various disinflationary steps, taken together, had an important effect on developments in the economy during the past year. Following the relaxation of import control, for example, imports increased sharply during the second half of 1966, to a peak in January 1967, before tending to move horizontally at a very high level during the first half of this year. Mainly as a result of this increase, quarterly deficits re-emerged in the balance of payments on current account from the fourth quarter of 1966 onwards and, although these current deficits were partly offset by a continued inflow of both long- and short-term private capital into the country throughout the past year, the total gold and foreign exchange reserves nevertheless declined from a peak of R604 million at the end of July 1966, to R455 million at the end of May 1967, before rising to about R475 million at the end of July.

As was the intention, these balance of payments developments helped to reduce the liquid assets of monetary banks, but unfortunately the ac-

companying effect on the liquidity of private businesses and individuals was more than offset by a considerable expansion of bank credit to the private sector during this period.

However, during the year ended June 1967, the fiscal measures did succeed in their aim of financing Exchequer expenditure without recourse to additional bank credit, so that government finance did not, as during the previous year, have the effect of increasing both the liquidity ratios of monetary banks and the liquidity of the private non-bank sector.

Nevertheless, although their surplus liquid assets declined considerably, the banks still remained very liquid throughout the past year. The Reserve Bank, therefore, maintained the ceiling on credit extended by the monetary banks to the private sector, excluding the Land Bank, at the level of March 1965, apart from a $2\frac{1}{2}$ per cent concession to the agricultural sector. Early in December 1966, however, the Bank found it necessary to tighten its policy in this regard by requesting the monetary banks to ensure that their discounts, loans and advances to the private sector, excluding the Land Bank, would be at least $7\frac{1}{2}$ per cent lower at the end of September 1967, than at the end of March 1965, with the qualification that this limit might be exceeded by $2\frac{1}{2}$ per cent in respect of credit extended by them for agricultural purposes.

Although the monetary bank's discounts, loans and advances to the private sector were only slightly above the new reduced limit when this request was made, they were given nearly ten months within which to observe the new limit. The reasons were, firstly, to afford the banks sufficient time to adjust their lending activities to the new requirements and, secondly, to make allowance for the usual seasonal increase in bank credit during the first quarter of the year. In actual fact, however, the total discounts, loans and advances to the private sector of commercial banks and monetary hire-purchase, general and savings banks increased by an amount considerably in excess of the normal seasonal requirements during the first four months of 1967. Indeed, by April they had risen to about R138 million above the ceiling set for September, although this figure included various special credits which had been authorised above the ceiling. Only during May, June and July did these banks succeed in reducing their "controlled" credit. Although final figures for the end of July are not yet available, it would appear that at that stage, the bank's discounts, loans and advances to the private sector, excluding the Land Bank, were still about R100 million above the limit, of which a part, however, represented specific exemptions of the kind referred to above.

Mainly owing to the upward movement in these discounts, loans and advances, the total claims of the banking sector on the private sector increased by as much as R198 million during the first half of 1967, following a rise of R147 million during the second half of 1966. This, in turn, was the main reason why, despite a decline in the net gold and foreign exchange reserves of R109 million and a decline of R15 million in the banking sector's net claims on the government sector during the first half of 1967, the quantity of money and near-money still showed an increase of R37 million during this period.

Nevertheless, despite the rise in bank credit, conditions in virtually all financial markets tightened progressively during the course of the past year. Confronted as they were by a continuing strong and rising demand for their credit, financial institutions of all kinds competed vigorously for funds, and both short and long-term interest rates moved further upwards in response thereto.

This general tightening of the monetary and financial situation was not without some effect on the aggregate monetary demand for goods and services. As set out in more detail in the Annual Economic Report, gross domestic expenditure increased at a slower rate during the first half of 1967 than during the second half of 1966, mainly owing to a downturn in private fixed capital outlays after the end of 1966. This decline was particularly evident in manufacturing, commerce, non-residential construction and residential building. Unfortunately, fixed investment by public authorities and public corporations, which had risen substantially during the course of 1966, remained at a very high level during the first half of 1967, so that *total* fixed investment showed only a moderate downward tendency.

Inventory investment, i.e. the net addition to stocks of goods, which had increased during the course of 1966, also remained exceptionally high throughout the first half of 1967. This was, however, not only attributable to optimistic business expectations but also to the official programme of stockpiling strategic imported commodities. The behaviour of inventory investment during this period was therefore, to some extent, abnormal and has to be interpreted with care. In the absence of this special factor, the underlying monetary demand for goods and services would naturally have been less during the first half of 1967.

It is disturbing, however, that private consumer spending should have continued to rise at the relatively high annual rate of $8\frac{1}{2}$ per cent during this period. Motor car sales, for example, increased sharply throughout 1966,

and the first quarter of 1967 and only levelled off during the second quarter. Personal saving, on the other hand, declined substantially during the past year.

In these circumstances, it is not surprising to find that, after rising by 3·8 per cent between December 1965 and December 1966, the seasonally adjusted consumer price index increased further at an annual rate of 3·3 per cent between December 1966 and June 1967, while the seasonally adjusted wholesale price index, which had risen by 4·5 per cent between December 1965 and December 1966, only slowed down to an annual rate of increase of 3·3 per cent between the latter date and June, 1967.

It seems reasonable to conclude that during the past year the official disinflationary measures reduced the threat of a marked acceleration of the rate of inflation and even succeeded to some extent in slowing down the rate of increase of total monetary demand. It is evident, however, that this slowing down has not gone far enough, in that capital outlays and consumption expenditures in both the public and private sector have continued to exert strong upward pressure upon costs and prices.

SOME OBSERVATIONS ON MONETARY AND FISCAL POLICY

Before discussing the present economic situation and the prospects for the near future, I would like briefly to express a few views on monetary and fiscal policy. I feel that this would be expected of me on my first appearance as Chairman at the Bank's Annual General Meeting especially as we are still involved in the struggle against inflation.

Firstly, I wish to say that I believe basically in the use of the so-called traditional monetary and fiscal measures for combating economic evils such as inflation or balance of payments disequilibrium, although there sometimes appear to be differences of opinion in regard to the measures actually involved. I believe in these measures because, as frequently stated, they are intended to treat the causes of the "illness" from which we suffer and not the symptoms as may be the case should the more direct forms of control be employed. Were I to content myself with this bare statement, however, the impression might be gained that, in my view, the application of direct measures could not be justified under any circumstances. To leave any such impression would justifiably expose me to the accusation of ignoring my own experience as well as the practical facts of present-day economic life. In other words, the cause and symptom analogy must be carried further.

Even if we assume that the causes of the "illness" can always be correctly diagnosed and that the correct remedies are known and can be applied, the painful symptoms which the patient is experiencing, may sometimes call for immediate relief. To relieve pain, treatment may, under these circumstances, temporarily be directed to the symptoms. Such cases arise particularly where the treatment of the causes is inevitably a slow and time-consuming process. The important point, however, is that the treatment of symptoms in such cases must not replace the application of basic remedies.

While I believe, therefore, in our traditional monetary and fiscal measures, I also believe that in view of our country's position in the world today, we may at times in the future, as in the past, experience conditions which demand great flexibility in economic policy. Conditions may arise, for example, which call for quick and drastic action in the form of direct measures of control to provide time for the more traditional methods, which are also applied, to exercise their effect. Circumstances may, of course, exceptionally arise where there is no choice but to use a direct measure for a longer period than envisaged. An instance was the imposition of direct control over the repatriation of foreign capital which we were forced to institute in 1961 in order to stop a large-scale capital outflow. Many of us were upset at the time by the detraction from our excellent record in this respect. Experience of the past six years, however, has proved that this measure can make an important contribution towards greater stability in South Africa's balance of payments and in its money and capital markets without demanding any undue sacrifices from foreigners, and there are few of us who would suggest that the stage has been reached when it should be abolished.

Should we desire to avoid direct measures as far as possible, it is, of course, of the utmost importance that the more traditional controls should be applied not only timeously but also in the correct combination. In this connection the necessary co-ordination and synchronisation of monetary policy on the one hand and fiscal policy on the other are particularly important. In practice this is no easy task and it becomes much more difficult if legislation necessary for the effective application of policy does not exist. Experience has made it clear that we can today rely far less on moral suasion largely because of expansion and diversification of our economy since the last World War and the increased competition which accompanied it. The greater competition in the banking sphere is from certain points of view desirable, but it certainly reduces the likelihood of speedy and effective compliance with requests from the authorities.

Monetary policy, which is formulated by the Reserve Bank in consultation with the Treasury, is essentially of a short-term nature as, indeed, the ills it is designed to rectify should be. If monetary policy, for example, is aimed at curbing inflation, it is of the utmost importance that the policy should be made effective in the short run. In this connection I feel that attention will have to be given to the present Bank's Act. During 1965 we did not succeed in controlling the extension of commercial bank credit to the private sector through the application of the higher liquidity requirements provided for in this Act. This may have been partly due to the absence of co-ordinated fiscal and other measures. On the other hand, the fact remains that the commercial banks were able to increase their credit to the private sector substantially by investing in those liquid assets prescribed in the Act which represented credit to the private sector. This matter obviously calls for attention if only for the reason that we could not, at a very critical stage in our struggle against inflation, ensure success through the application of this traditional measure, and had to supplement it with a direct and more drastic form of control, viz. the placing of a limit on the banks' credit to the private sector.

The application of credit control during the recent past has again focused attention on the overdraft system which has been customary with our commercial banks for many years. Old traditions are not easily swept away and I do not want to make hasty proposals in this regard. What I feel, however, is that the commercial banks should again review this practice in the light of their recent experience under conditions when the curtailment of credit to the private sector, regardless of the existence of substantial unused overdraft facilities, became essential. The pros and cons of replacing or partly replacing this system with short, and/or term loans of fixed amount and having definite maturity or repayment schedules, is something which deserves further investigation. In this connection it should also be borne in mind that the negotiation of loans between institutions outside the banking system, i.e. inter-business loans, are substantially facilitated if the receiver of such a loan can fall back on unused overdraft facilities should the loan be called up. This fact has been brought home during the past year and has impeded the commercial banks in their efforts to curtail credit.

While adjustments in banking legislation may contribute towards a more effective monetary policy, it alone can accomplish little unless accompanied by a complementary fiscal policy, as mentioned earlier. That the authorities are well aware of this fact was again evident from the positive effort in the latest Budget to co-ordinate the attack against inflation. A question which arises, however, is whether we should continue with the practice of making adjustments to our fiscal policy only once a year in the Budget. Experience

has shown that economic conditions may change drastically in our fast-developing country during the course of a year and there is, therefore, a need for the adjustment of fiscal policy in the light of short-term changes in the economic situation. I therefore support the idea expressed by the Minister of Finance in his latest Budget Speech, viz. that the Government should be granted the power to alter certain tax or loan levy rates between Budgets, but within prescribed limits and subject to ratification by Parliament at the first opportunity. This would undoubtedly place us in a better position to make short-term policy effective in the short-term, for I believe that the value of fiscal measures as a means of alleviating the burden on monetary policy in controlling credit is often underrated. The traditional monetary measures usually affect the assets of the banks and therefore only have an indirect influence on their liabilities. Fiscal measures on the other hand, can be used to mount a direct attack on their liabilities, that is, their desposits, and thus on the liquidity of the private sector. This restriction on the liquidity of the private sector has an even more marked effect on bank liquidity, thereby making the control of bank credit a much simpler task. The direct removal of private sector liquidity is, of course, itself a disinflationary step and could, *inter alia*, constitute a further discouragement to inter-business loans in times when the latter, by reason of their influence on the velocity of circulation of money, may be regarded as undesirable and contrary to official policy.

Implicit in the success of monetary and fiscal policy, particularly if it is restrictive in nature, is the requirement that there should be no major deviation therefrom. It is, moreover, a natural corollary to the pressure exerted on the economy by an effective restrictive policy, that the parties affected should seek concessions which, in essence, undermine the policy. I realise, of course, that particular circumstances may warrant certain departures from the set course. What I would like to emphasise, however, is that the more the concessions that are made, the less likely is the policy to be successful so that more drastic measures may become necessary at a later stage. In this regard it should also be kept in mind that if concessions must be made to certain sectors of the economy, such as agriculture and housing, they should logically be offset by greater pressure on other sectors, so that the total impact remains more or less the same. This procedure, however, can be carried too far in that a distorted and unbalanced economy may result. The question arises, moreover, whether it would often not be preferable for government finance or subsidies to replace exceptional concessions in monetary policy as far as possible.

Finally, I would like to add a few words on inflation in general. In this field I certainly sympathise with the school of thought which regards it as

an evil and a danger, especially for South Africa. It is well-known that inflation redistributes wealth and income in a way that is, generally speaking, detrimental to the consumer, the creditor and the low and fixed income groups, while providing temporary advantages to the businessman, the debtor and the owner of real assets. In the short-term therefore, one group benefits at the expense of another but, in the long-term, inflation can have dangerous implications for the stability of the economy and therefore for all groups.

If inflation is not prevented or restrained in time, the rapid decrease in the purchasing power of money may so affect consumption and investment that a drastic recession or even a serious depression becomes inevitable. In fact, the view has merit that relatively temporary and small deviations below the full employment level of a country's productive resources may be more conducive to stable long-term economic growth than continuous adherence to full employment. In the case of South Africa, inflation holds particularly serious implications for the balance of payments as a whole and pre-eminently for the gold mining industry which is in no position to increase the price of its product. It inevitably shortens the lives of our gold mines and reduces our ability to establish export markets for other products. Such markets can only be won if our prices are competitive, and to secure them becomes daily more important in that we cannot depend upon the gold mining industry for an unlimited time. Nor can we overlook the encouragement to imports stemming from inflationary pressure on domestic prices, so that the final outcome may be serious imbalance in our international accounts. I cannot, therefore, associate myself with the view that inflation may be permitted to continue provided the gold mines are subsidised. Eventually this can only lead us over the precipice and to a drastic devaluation of the Rand.

It does not follow from this, however, that the country's gold and foreign exchange reserves, and even foreign borrowing, should not be used in the short-term to offset the injurious consequences of excess domestic demand—partly for imports—while the necessary measures are taken to eradicate the causes of that demand. Indeed, a country like South Africa needs substantial gold and foreign exchange reserves to serve *inter alia* as this kind of shock-absorber. It should be borne in mind, however, that this cushion has limits and can provide only temporary relief to the symptoms of a more basic problem. The level of our gold and foreign exchange reserves cannot be permitted to decline too far for we should maintain a position of economic strength on the external front. On the other hand, we should keep in the forefront of our minds the thought that an uncontrolled domestic inflation is assuredly the enemy within the gates.

PRESENT SITUATION AND PROSPECTS FOR THE NEAR FUTURE

Any assessment of the present and prospective economic situation in South Africa must take into account that there are divergent factors at work in our economy. On the one hand, it is clear that progress has been made in the battle against inflation and that, from the point of view of restoring a greater degree of economic stability, there are some encouraging signs in both the present situation and the outlook for the immediate future. On the other hand, one cannot ignore the fact that there are also several signs pointing to the possibility of further inflationary pressure. Among the more encouraging developments are the following:

Firstly, fixed capital outlays in the private sector have shown a downward tendency since the end of 1966, and may decline further as many companies now face the prospect of increased foreign competition (following the relaxation of import control), rising costs, higher company taxation, a reduction in their bank overdrafts and, for the time being, a continuation of the present high level of interest rates in both the money and capital markets. Moreover, any such further decline in private fixed capital outlays is likely to have secondary contractionary effects and may therefore be the forerunner of a slowing down in the rate of increase of personal income and consumer spending.

Secondly, the exceptionally high level of inventory investment during the past year suggests that the economy is now, in general, well stocked with goods, and that inventory investment may therefore decline in the not too distant future, particularly if business expectations become less optimistic.

Thirdly, although there has not yet been any evidence of an actual downturn in the available general economic indicators, some of these indicators, including manufacturing output, the number of new motor cars sold and real estate transactions, have in fact levelled off during recent months, as set out in more detail in the Annual Economic Report. It would appear to be particularly significant that, despite the combined effect of the relaxation of import control in December 1966 and May 1967 and the official stockpiling programme, imports tended to move horizontally after reaching a peak in January 1967.

Fourthly, despite the large increase in bank credit to the private sector during the past year, monetary and financial conditions have tightened to some extent, so that the general financial environment is, at least, less conducive to inflation than it was a year ago.

Against these favourable factors, however, have to be set the following:

In the first place, both the level and the rate of increase of gross domestic expenditure are still too high, with the result that the demand not only for goods and services but also for labour, credit and capital remains excessive. One important reason for this is the fact that fixed capital outlays by both public authorities and public corporations have remained at the exceptionally high level to which they increased during the course of 1966.

Secondly, in the existing tight labour market conditions, wages and salaries of many classes of skilled and technical labour are constantly being bid up further, while accumulated demands for higher remuneration by employees in the public sector as well as in various parts of the private sector are also a potentially inflationary factor.

Thirdly, as a result of the widespread rainfall since December last year, agricultural incomes and exports have started to rise rapidly and will probably continue to do so in the months ahead. The maize crop, for example, is a record one. Welcome as this is after the difficulties experienced by many farmers during the drought period, the fact remains that it introduces a potentially new inflationary element into the economy, particularly since a large part of the finance required involves bank credit.

Fourthly, despite the tightening of monetary and financial conditions referred to earlier, both the banking system and the non-bank private sector are still highly liquid. At the end of June 1967, for example, the excess liquid asset ratio of commercial banks amounted to 6.9 per cent, while during the second quarter of 1967 the ratio of money and near-money to gross domestic product was still in the vicinity of 28 per cent, compared with an average of 27 per cent during the ten years 1955 to 1964.

Fifthly, it is possible that the liquidity of the private sector may rise again during the coming year. It is true that the three main factors influencing the quantity of money and near-money, namely the balance of payments, bank credit to the government sector and bank credit to the private sector, are now being directed towards the reduction of private sector liquidity. Certain possibilities must, however, not be overlooked. It is hoped, for example, that the policy of allowing freer imports will result in a large deficit in the current account of the balance of payments as long as total expenditure remains excessive. But there is always the possibility that this deficit will be more than offset by a net inflow of foreign capital.

This, in fact, is exactly what happened during June and July of this year, when our total gold and foreign exchange reserves increased by R20 million.

Similarly, while the indications at present are that the co-ordinated tightening of fiscal and monetary policy during the past year will probably prevent the Exchequer's net indebtedness to the banking sector from rising to any significant extent during the current financial year, the public sector as a whole may well have to resort to additional bank credit, which will mean the creation of extra liquidity in the hands of the private sector.

Finally, although the Reserve Bank's policy of placing a ceiling on part of the monetary banks' discounts, loans and advances to the private sector has recently begun to bear fruit, *total bank credit* to the private sector has continued to rise and may well rise further during the coming months. The banking sector, including the Reserve Bank itself, for example, is being called upon to extend a much larger amount of credit than usual to the Land Bank, mainly to enable it to finance the huge maize crop, and, in addition, it has been found necessary to grant certain exemptions from the restrictions of bank lending, for example, to some of the public corporations and in respect of strategic imports.

From all of this it is clear that there is little likelihood at this stage of any relaxation of the present restrictive monetary and fiscal policy. On the contrary, the existing measures may well have to be tightened further and certain loopholes closed. As mentioned earlier, progress has been made in the battle against inflation. But the objectives achieved so far have been mainly intermediate ones—the final aim of eliminating or, at the very least, significantly reducing the inflationary pressure has not yet been realised.

Essentially, it must remain our short-term objective to reduce fixed capital outlays and inventory investment in both the public and private sectors, and to slow down the rate of increase of consumer and current government spending.

In this regard, it is often suggested that the answer to the problem of inflation lies in raising productivity rather than in curbing demand. Undoubtedly, an increase in productivity would be of great assistance not only in reducing the inflationary pressure but also in promoting the welfare of the economy in other respects. The increasing of productivity, however, is more in the nature of a long-term than a short-term solution to the problem of inflation. It does not obviate the need to reduce demand in a situation like

the present. On the contrary, recent evidence in South Africa suggests that when excess demand produces a situation of over-full employment in the labour market, productivity tends to decline.

In attempting to slow down total expenditure, it remains important to persist with our efforts to reduce both the excess liquid assets of monetary banks and the liquidity of private businesses and individuals. As announced, the policy of allowing freer imports will be continued with a view to preventing internal liquidity from rising unduly as a result of an increase in exports or a net inflow of foreign capital. The use of foreign loans is also being discouraged by means of Exchange Control. Furthermore, now that the Exchequer appears to be financing its expenditures without recourse to bank credit, every effort should be made also to limit the use of bank credit by the rest of the public sector to the absolute minimum.

As far as bank credit to the private sector is concerned, and in the light *inter alia* of the further possible increase therein mentioned earlier, the Reserve Bank, after the usual consultation with the Treasury, has decided to give legal force to the request which it made to the monetary banks in December 1966, and, for the time being, to extend it beyond September 1967. A Notice shortly to be published in the Gazette, therefore, will require the monetary banks to observe by 30th September 1967, and *as at the end of each subsequent calendar month*, unless otherwise authorised, a maximum limit on credit extended by them to the private sector (as defined in that Notice) of 92½ per cent of the same credit as at 31st March 1965.

FURTHER GENERAL REMARKS

Apart from the urgent need to reduce fixed capital outlays and inventory investment and to slow down the rate of increase of consumer and current government spending, there is also the need, I believe, to accept a slower *real* rate of growth in the short run than the abnormally high average of 7.8 per cent attained during the years 1961 to 1964. In 1965 and 1966 this rate did in fact, slow down to about 5½ and 6 per cent, respectively, and it may well have to slow down further for a while, if our current economic problems are to be solved.

In our opinion, the general outlook and expectations regarding the immediate future are still too optimistic in the light of the prevailing conditions. In the case of our younger businessmen, this may be due to the fact that their business experience is largely limited to that of the past few, exceptionally prosperous, years. In general, however, there also appears to

be some misconception regarding our annual growth rate. There is, namely, a tendency to think only in terms of the long-term growth rate; as if the business cycle, which reflects the short-term growth rate, no longer exists in this country. It is true that the development of our economic resources has now brought us to the stage where the long-term trend in economic activity is strongly upwards. But this by no means implies that the rate of expansion indicated by this trend can apply from year to year. The Economic Advisory Council has similarly stressed that the target-rate set by them applies to a period of five years taken as a whole, and must, therefore, be regarded as an average annual rate.

The past few years have been a period of exceptional expansion because the short-term growth rate was greater than the underlying rate of long-term growth, but as we have seen, we cannot expect this to continue without the creation of serious economic problems. It must be expected in our economic system that if we wish to solve these problems, a period must follow during which the short-term growth rate is lower than that indicated for the longer-term, and considerably lower than that experienced during the preceding boom years.

Although many of the present official measures continue to be aimed at a reduction of private sector liquidity so as to assist in bringing about the necessary slowing down in the growth rate of total expenditure, it should not be inferred that high liquidity is the only fly in the ointment. Another very important matter is the action or lack of action by the various sectors of the economy. If the financial authorities do not receive the co-operation of all the Central Government departments, the Provincial Administrations, the municipalities, the public corporations and the whole of the private sector, including the individual, the monetary and fiscal measures will have less chance of success, for these measures cannot be regarded as water-tight by themselves. Recent favourable signs can simply disappear again, as was the case last year, and we feel it desirable, therefore, to draw attention to certain matters.

The first point to be mentioned is that this is not the time for undertaking large development schemes if they can in any way be postponed. This applies to all new projects and expansions, such as the erection or enlargement of luxury and prestige buildings, which I mention here particularly because we have to contend with a shortage of housing for the lower and middle income groups and the available labour and capital in the building field should therefore rather be employed in this area.

Still less is this the time to plan new projects and, as frequently happens, to enter into contracts in this connection, and only to give attention to the financing thereof at a later stage, in the belief that the acquisition of the necessary funds will create no problem and that, if necessary, the authorities will just have to make concessions. This is possibly one of the reasons for the noticeable tendency towards seeking the use of bank credit on an increasing scale for the financing of long-term capital projects or, as another example, to issue debentures which the authorities are requested to approve as liquid assets for banking institutions. Furthermore, this outlook can lead to the conclusion of inter-business loans which may involve a circumvention of the credit control. In this respect, indeed, we would in the prevailing circumstances appeal to those concerns which have surplus funds available for lending to non-associated parties or for use by their associates and which, for that reason, are little affected by the present monetary control measures, to place more of these funds at the disposal of the Government sector. The employment of such surplus funds in a non-inflationary manner is, of course, of the utmost importance at present.

It is, furthermore, not the time for injudicious expenditure by the general public, particularly if it involves the incurring of debt. On the contrary, this is a time for saving and for the discharge of debt where possible. There is a noticeable tendency, especially among some of the younger generation, to acquire everything they think they need immediately and to maintain a standard of living which they cannot afford, and this outlook is often encouraged by the offer of easy and attractive hire-purchase and other credit terms. Under present circumstances, there is much to be said for a tightening of the existing hire-purchase conditions.

In the case of the agricultural sector, I would like—as one who grew up in a farming community and who can, therefore, appreciate the farmer's problems in general—to make a special appeal. It is understandable that this sector had to receive special assistance during the years of drought, and it is also clear that special provision had to be made for the financing of the larger crops following upon the good rains. This was done, and indeed, on such a scale that more than 20 per cent of all bank credit presently extended to the private sector represents credit for agriculture, whereas this sector contributes only about 10 per cent to the gross domestic product. Moreover, the maize farmer, for example, receives the full price for his product immediately, even though approximately half of the total crop will only be exported over a period of about two years and, possibly, at a loss. In particular, the fact should be borne in mind that the special concessions which were granted in connection with credit extended to the agricultural sector did, in fact, conflict with the general disinflationary policy of the authorities and

undoubtedly made it more difficult to carry out this policy. In consequence, a responsibility now rests upon the farming community, and particularly upon those farmers whose crops have done well, to repay their debt out of the proceeds of their larger crops. Not only will this reduce their interest burden, but it will also help to curb inflation and, in so doing, bring nearer the time when interest rates can be reduced and other restrictions lessened.

Finally, in again appealing for co-operation from all sectors, it should be emphasised that success in the present campaign against inflation must be achieved within a measurable space of time, because the longer inflation continues, the greater does the problem become and the stronger grows the possibility of having to apply more drastic measures. Let us not, therefore, permit our high standard of living and our short-term behaviour to cause serious damage to our long-term prospects.

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.

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

That Messrs. I. G. Fleming and L. S. Robinson, 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 of Johannesburg be paid the sum of Ten thousand rand each, in accordance with the recommendation of the Board, for auditing the accounts of the Bank for the year ended 31st March, 1967.
2. That Messrs. Whiteley Brothers and Messrs. Deloitte, Plender, Griffiths, Annan and Company of Johannesburg be appointed auditors of the Bank's accounts for the current year.

Both motions were seconded by Mr. L. S. Robinson and were carried.

After Dr. F. J. C. Cronje had proposed a vote of thanks to the Chairman for presiding and for his address, the proceedings terminated.

South African Reserve Bank

Report of the Board of Directors of the South African Reserve Bank for the year ended 31st March, 1967, to be presented to Stockholders at the Forty-seventh Ordinary General Meeting to be held in Pretoria on Tuesday, 22nd August, 1967.

In accordance with the provisions of the 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, 1967, certified by the auditors as prescribed, is presented to Stockholders.

CAPITAL.—The Bank's capital of R2,000,000 was held by 893 stockholders, of whom 47·9 per cent held less than R1,000 each.

RESERVE FUND.—In terms of section 16(3) of the Act, R412,000 of the net profit for the year was allocated to the Reserve Fund, thus increasing it to R11,248,000.

NOTES IN CIRCULATION AND NOTES OF OTHER BANKS.—The Bank's note issue amounted to R381,109,000 at 31st March, 1967, representing an increase of R32,240,000 over the year. For the most part, this increase reflects a continuing high level of economic expansion in the country which was accompanied by inflationary pressure deriving from a number of sources.

The liability of the Bank for notes issued by other banks decreased by R19,000 during the year to a total of R394,000. The decrease was due to the withdrawal and cancellation of notes originally issued by the commercial banks in South West Africa.

DEPOSITS.—The Reserve Bank's total deposit liabilities increased from R275,982,000 to R284,423,000, that is, by R8,441,000. The net increase resulted from increases of R5,006,000, R2,588,000, R3,174,000 and R6,962,000 in Bankers' reserve, Bankers' current, Provincial and Other accounts respectively, which were partly offset by a decrease of R9,289,000 in Government current accounts.

Current account balances are naturally subject to considerable fluctuations, and changes in the balances on these accounts between particular dates are not necessarily of any significance. The increase in Bankers' reserve accounts 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 acquired on a relatively short-term basis loans in various foreign currencies, largely to supplement the country's foreign exchange reserves from time to time. Some of these loans and certain other short-term loans were repaid by the Bank during the year, while some were renewed for further short periods. The net result of these operations was that the Bank owed an amount of R33,909,000 in foreign currencies at 31st March, 1967, as shown in the balance sheet. This represents a decrease of R6,093,000 as compared with the figure at the end of the preceding year.

GOLD COIN AND BULLION.—The Bank's gold reserve increased from R368,695,000 to R382,418,000 over the year, that is, by R13,723,000.

Gold purchased by the Bank during the year, valued at the statutory price of R24.80 per fine ounce, amounted to R756,390,000, all of which was acquired from gold producers in South Africa on the same basis as formerly. The total purchases were R15,558,000 lower than during the preceding year due mainly to certain technical factors.

Gold disposed of by the Bank, valued at the statutory price, amounted to R742,667,000, of which R727,786,000 was disposed of in London. The balance of R14,881,000 was sold outside that centre, the greater part 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 R21,312,000 held in investments domiciled abroad, represented the Bank's foreign exchange reserves, and totalled R85,984,000 at the end of the year, as compared with R80,795,000 at 31st March, 1966. The total comprised R43,071,000 in U.S. dollars, R20,123,000 in British sterling and R17,216,000 in Swiss francs. 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 R18,912,000. This figure was made up of increases of R13,723,000 and R5,189,000 in the Bank's gold reserve and in its foreign exchange holdings respectively.

DOMESTIC BILLS.—Domestic bills under discount with the Bank increased by R28,340,000 to R29,110,000 over the year. The greater part of the increase was accounted for by accommodation granted to the Land Bank and the commercial banks.

LOANS AND ADVANCES.—This item showed an increase of R4,656,000 over the year to a total of R75,451,000. 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 decreased during the year by R14,134,000 to R110,592,000, its net holdings of South African Government securities having decreased by R16,659,000, while its portfolio of other securities increased by R2,525,000.

The Bank's holdings of Government securities domiciled abroad increased by R2,906,000, so that the decrease in Government securities domiciled in the Republic actually amounted to R19,565,000. This decrease was accounted for by the reversal of certain temporary transactions of a special nature referred to in last year's Report.

FURNITURE AND FITTINGS AND FIXED PROPERTY.—The balances on both these accounts stood at R1, all expenditure during the year under this head having been written-off, as shown in the Profit and Loss Account. An amount of R1,000,000 in respect of certain anticipated future expenditures on fixed property was transferred to a special reserve account as reflected in the Profit and Loss Account.

PROFIT AND LOSS ACCOUNT.—After meeting all expenses, and making provision for income tax, interest payable, rebate on bills not yet due, other liabilities and contingencies and writing down securities, the net profit for the year amounted to R4,321,000. Dividends to stockholders absorbed R200,000, while R412,000, representing one-tenth of the balance, was allocated to the Reserve Fund, leaving R3,709,000 to be paid to the Government.

DIVIDENDS.—The Board declared an interim dividend of 5 per cent for the half-year ended 30th September, 1966, and a final dividend of the same amount for the half-year ended 31st March, 1967.

DIRECTORS.—Dr. G. Rissik will retire from the Governorship of the Bank at the expiration of his present term of office on 30th June, 1967. He will be succeeded as Governor by Dr. T. W. de Jongh.

Messrs. I. G. Fleming and L. S. Robinson retire by rotation on 30th June, 1967 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.*

J. B. DE K. WILMOT	}	<i>Directors.</i>
D. H. STEYN		
I. G. FLEMING		

H. O. DE VILLIERS,
Secretary,

7th June, 1967.

BALANCE SHEET 31st MARCH, 1967

1966				1966			
R2,000,000	CAPITAL	..	..	R2,000,000	GOLD COIN AND BUILLION—AT VALUE	..	R382,417,755
10,835,610	RESERVE	..	..	11,247,701	OTHER COIN	..	1,183,521
348,868,838	NOTES IN CIRCULATION	..	..	381,109,257	BALANCES WITH OVERSEAS BANKS	..	46,462,222
412,566	NOTES OF OTHER BANKS IN CIRCULATION	..	..	393,553	MONEY AT CALL IN LONDON	..	11,350,000
	DEPOSITS—				FOREIGN BILLS	..	6,859,220
113,277,540	Banks' Reserve Accounts	..	R118,284,025	9,003,999	DOMESTIC BILLS	..	29,110,000
7,602,718	Banks' Current Accounts	..	10,190,954	770,000	LOANS AND ADVANCES	..	75,450,744
100,776,406	Government Current Accounts	..	91,486,993	70,795,111	GOVERNMENT SECURITIES	..	88,559,285
41,755,049	Provincial Current Accounts	..	44,928,808	105,218,651	OTHER SECURITIES	..	22,032,948
9,861,472	Other Accounts	..	19,532,038	19,507,533	FURNITURE AND FITTINGS	..	1
273,273,185			284,422,818	1	FIXED PROPERTY	..	1
9,772	REBATE ON BILLS NOT YET DUE	..	25,662	64,922,845	OTHER ASSETS	..	65,997,757
40,001,758	FOREIGN CURRENCY LOANS	..	33,908,819				
12,965,873	OTHER LIABILITIES	..	12,506,828				
100,000	STOCKHOLDERS—FOR FINAL DIVIDEND	..	100,000				
3,222,919	GOVERNMENT—FOR REMAINDER OF SURPLUS	..	3,708,816				
R691,690,521			R729,423,454	R691,690,521			R729,423,454

PROFIT and LOSS ACCOUNT for the year ended 31st March, 1967

1966	1966
GENERAL EXPENDITURE	GROSS REVENUE—
Including cost of new bank notes, salaries, Directors' fees, etc.	After making provisions for income tax, interest payable, rebate on bills not yet due, other liabilities, contingencies and writing down securities
R3,781,082	R4,185,330
WRITTEN OFF	
Fixed Property	R111,251
Furniture and Fittings	125,787
2,016,154	
118,678	R9,982,935
2,134,832	
PENSION FUND CONTRIBUTION	237,038
286,000	343,500
—	
RESERVE FOR FUTURE EXPENDITURE ON FIXED PROPERTY	1,000,000
PROFIT FOR THE YEAR—	
Allocated as follows:—	
(Vide report of the Directors)	
Stockholders	200,000
Reserve	412,091
Government	3,708,816
3,781,021	4,320,907
R9,982,935	R10,086,775
	R9,982,935
	R10,086,775

H. O. DE VILLIERS, *Secretary*,
PRETORIA,

7th June, 1967.

G. RISSIK, *Governor*,
J. B. DE K. WILMOT
D. H. STEYN
I. G. FLEMING } *Directors*.

To the Stockholders of the

SOUTH AFRICAN RESERVE BANK

We have audited the Balance Sheet dated 31st March, 1967, above set forth and report that, in our opinion, it 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, 1967. 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 & C.O.,
Auditors

JOHANNESBURG,

7th June, 1967.

SENIOR OFFICERS

CHIEF CASHIER	E. MOORE
ECONOMIC ADVISER	G. P. C. DE KOCK
SECRETARY	H. O. DE VILLIERS
DEPUTY CHIEF CASHIER	G. M. GROBLER
ADVISER: FOREIGN INTELLIGENCE DIVISION	J. C. DU PLESSIS
ASSISTANT CHIEF CASHIER	J. E. SPOTSWOOD
ASSISTANT CHIEF CASHIER	W. N. MAIN
ASSISTANT CHIEF CASHIER	N. VAN DER WESTHUIZEN
DEPUTY HEAD OF ECONOMIC DEPARTMENT	J. J. D. WILLERS
DEPUTY HEAD OF ECONOMIC DEPARTMENT	B. VAN STADEN
ADVISER: FOREIGN INTELLIGENCE DIVISION	A. J. J. VAN VUUREN
ASSISTANT TO THE GOVERNORS	C. L. STALS

BRANCHES

BLOEMFONTEIN . . .	S. H. DE KOCK, <i>Manager</i>
CAPE TOWN . . .	L. ORCHARD, <i>Manager</i>
	A. F. DE VILLIERS, <i>Sub-Manager</i>
DURBAN . . .	R. E. SPENCE, <i>Manager</i>
EAST LONDON . . .	A. P. McLoughlin, <i>Manager</i>
JOHANNESBURG . . .	H. E. MOGGRIDGE, <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>

