J. Deay.

1928

SOUTH AFRICAN RESERVE BANK.

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APR 25 1933
WASHINGTON, D.C.

REPORT OF THE EIGHTH ORDINARY GENERAL MEETING.

May 15th, 1928.

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May 15th, 1928.

Dr. J. P. Day

SOUTH AFRICAN RESERVE BANK.

Established under the Currency and Banking Act, 1920.

BOARD OF DIRECTORS.

WILLIAM HENRY CLEGG	Governor.
JOHANNES POSTMUS	Deputy-Governor.
WILLIAM DUNCAN BAXTER	Commercial, Agricultural & Industrial Representatives.
SIR ERNEST CHAPPELL, C.B.E. ...	
MATHYS GUSTAF DE JAGER	
ROBERT HAMILTON	
HENDRIK CHRISTIAAN JORISSEN	
JOHN PYOTT	
KARL GUNDELFINGER	Government Representatives.
GEORGE AUGUSTUS KOLBE	
ROBERT NIVEN	

HEAD OFFICE—PRETORIA.

Chief Cashier—E. W. Cattell.

Secretary and Chief Accountant—G. G. Messum.

Branches.	Agents.
Cape Town	E. Maxwell Brawn.
Durban	T. C. Chaloner.
East London	Walter Cottrell.
Johannesburg	Alexander Burns.
Port Elizabeth	L. André de la Porte.

South African Reserve Bank.

Eighth Ordinary General Meeting of Stockholders.

Minutes of Proceedings.

The Eighth Ordinary General Meeting of Stockholders was held in the Head Office of the Bank, Pretoria, on Tuesday, 15th May 1928, at noon, the Governor presiding.

The Governor declared the Meeting duly convened in terms of the Regulations framed under the Currency and Banking Act, 1920.

The Minutes of the previous Meeting were read and confirmed.

The Reports of the Board and of the Auditors for the year ended 31st March, 1928, were presented and taken as read.

The Governor, in addressing the Meeting, said:

Before moving the adoption of the Reports and Accounts I will as usual go through the various items of our Balance Sheet and Profit and Loss Account—the seventh which I have had the honour and pleasure of bringing before you. I take the Liabilities first.

Capital Account: This remains at £1,000,000.

Reserve: This at 31st March, 1928, was £422,912, and was higher than the previous year's figure by £83,704, that being the amount carried to Reserve out of the profit for the year ended 31st March, 1927.

It is, you will agree, worthy of remark that with the amount transferred out of profits for the year ended 31st March, 1928, our Reserve is at the present date over half a million: to be exact £509,407.15.8.

Notes in Circulation: £8,952,814 against £8,358,666 the previous year, an increase of £594,148. In considering the currency circulation of the country as compared with the previous year, several factors have to be noticed. First, the circulation of Reserve Bank notes. Second, the amount outstanding of notes of other banks. Third, the amount of Reserve Bank notes held in the tills of the other banks, and fourth the issue and withdrawal of coin during the year, and fifth the leakage of gold coin through various avenues.

The first four factors are easy enough to give, but the fifth is difficult, because it is impossible to say how much of the gold coin issued has remained in this country, and how much has dribbled out of it in the pockets of travellers and in other ways.

The following calculation may however be interesting:

	£
Increase in Reserve Bank Note Circulation:	594,148
Add decrease in notes held in tills of other banks:	265,917
Total increase of *Reserve Bank notes* in the hands of the public:	860,065
Deduct notes of other banks paid during the year:	18,536
Leaving an additional *note circulation* to be accounted for of	841,529
Deduct from this the decrease of half-sovereigns in circulation:	151,806
	689,723
The net amount of increase of gold coin put into circulation during the year ended 31st March, 1928, after adding to the stock at 1st April, 1927, the amount coined and the amount imported, and deducting from that total the amount exported and the amount of old coins returned to the Mint was	1,129,650
making ...	1,819,373
Add additional silver in hands of public about ...	150,000

which gives an amount of roughly £2,000,000 to be accounted for.

As I have already said the fifth factor is a very difficult one to estimate. There is no doubt a big aggregate of small parcels of gold sent to India by Indian traders: there is a certain amount of hoarding by natives in the Transkei and elsewhere: and there is of course the continual leakage of gold in the pockets of travellers to England and the Continent generally. I think that these 3 or 4 items taken together would account for a large part of the £2,000,000 we are considering, but I admit that I am only guessing. On the other hand one might perhaps fairly assume that the amount of sovereigns in circulation remains fairly constant and that the £689,723 increase in note issue (after deducting the portion which we know to have replaced half-sovereigns) is an actual increase in the circulation of currency. This explanation would agree with banking and commercial figures which seem to point to a considerable increase in trade activity.

Notes of other Banks in circulation: £189,678 against £208,214: a decrease of £18,536, representing the amount of other banks notes paid by the Reserve Bank during the year.

Deposits: Our deposits amounted to £9,268,412 against £9,378,538 the previous year.

Rebate on Bills not yet due is practically the same as last year.

Pension Fund: This year £61,837: last year £29,715: an increase of £32,122. This increase is made up of £15,000 placed to the account from Profits last year, £15,000 placed there from Profits this year, and interest on investments.

Last year I explained that we had a liability of £30,000, of which we were meeting £15,000 then, leaving £15,000 to be met this year. This explains the entry this year. The Bank's actuaries have, since the close of the Bank's year, re-estimated the Bank's liabilities, and on their figures we carry forward a liability of £7,000 to be dealt with next year. After that I hope we shall have done with these special heavy payments.

Widows' and Orphans' Fund: Similar reasons account for the increase in this Fund (£7,310), and a similar final remark may be appended.

Staff Guarantee Fund: The increase (£6,024) represents the amount allocated from Profits this year and last, plus interest on investments.

Other Liabilities: This account includes mail transfers, dividends outstanding and other accruing liabilities. The total is 50% less than last year's total, but there is no significance in this as the amount of mail transfers, which is by far the largest item in the account, necessarily fluctuates widely from day to day.

Profit and Loss: I deal with this in the Profit and Loss Account.

Let us now look at the Assets.

Gold Coin and Bullion and other Coin: The amount held this year is £8,589,254 against £9,610,549 last year, a decrease of £1,021,295.

Owing to the size of our transactions in gold our total of gold holding is constantly varying within a range of $\frac{3}{4}$ of a million to $1\frac{1}{2}$ millions. As we buy or sell so of course our holding is increased or decreased. Then, also, our liabilities fluctuate very largely owing to large Government transactions, and sometimes, as on the occasion of the 31st March, we have to ask the Bank of England to put aside sovereigns on our behalf, in order to adjust our position. This process, known as "earmarking," has been the subject of a good deal of enquiry during the past year and I shall have something to say about it later.

Balance with Bank of England: The amount £250,000 (odd) is much the same as in last year's balance sheet. Naturally we have to keep a good working balance with our Agents in London.

Balance with Bank of England employed under that Bank's guarantee: £1,493,500 as against £375,000 in the previous year's balance sheet. This balance represents the amount we held at the moment in the London Short Money Market. It was swollen on the 31st March, as I have already hinted, by some large amounts we received in London on that day from the Government, which were credited to the Government's account in this country. The Government had some large payments to make here in the first few days of April. This money therefore left us and went on to the accounts of the other banks, who used the money to buy sterling exchange from us, and thus reduced this large balance of "short money" to its normal figure of £200,000 or £300,000 within a week. I give this detail as an illustration of the way in which money, or rather credit balances, circulate through the Central Bank between the Government, the other banks and the public.

Balance with Federal Reserve Bank of New York: This small amount represents a new item in our balance sheet. We found it convenient this year to have a small amount of funds in New York to meet the demand for drafts on that centre which occasionally is made upon us.

Bills Discounted: £8,931,475 this year against £8,931,871 last year, a difference in itself negligible. The balance sheet however gives an analysis shewing the amounts of the different kinds of bills held. From this it appears that our domestic bills, mostly re-discounts from banks, are higher by about £520,000: our foreign bills, nearly all prime London bills, are about £120,000 lower: our British Treasury Bills are about £140,000 lower: and our Union Treasury Bills about £255,000 lower than last year.

I think I should say this about the total of domestic bills shewn in the balance sheet that it does not, in its relation to the totals of the other bills, do itself justice. Our annual turnover of domestic bills from the other banks is very much larger than would be gathered from the balance at any particular moment, because their currency is generally very short.

For instance this year we discounted commercial (domestic) bills to a total amount of £13,000,000 as against £8,000,000 during last year. Again, this £13,000,000 of internal bills compares with £26,000,000 of Foreign Trade Bills, and £5,400,000 Treasury Bills (South African and British).

Another point I would make when dealing with this matter is that South Africa's Central Bank is not alone in finding more foreign than native bills in its portfolio. I see, for instance, from a recent return of the Bank of the Netherlands that it held nearly four times as many foreign bills (mostly London bills) as it held of domestic bills.

Investments are about £43,000 higher.

Loans and Advances stand at £138,575 as against *nil* last year.

Fixed Property stands at £43,050 as against £64,756 last year—a decrease of £21,706. The reason of the decrease is that we have written off £15,000 out of this year's profit, and have sold at a slight profit the land at the corner of Vermeulen Street and Market Street, which we bought originally as a site for the Bank's Head Office.

Furniture and Fittings: This stands at £3,600 lower than last year, after writing off £10,000, which means of course that we have written off all we have spent this year, and £3,600 as well.

Other Assets: £534,059 this year against £627,924 last year—a difference of about £94,000. There is however no significance in this difference, as the bulk of the total consists in Remittances in transit.

This concludes the items in the Balance Sheet, the totals of which are about the same as last year.

Profit and Loss Account: The gross profits were £385,400 as against £349,000 last year: an increase of £36,000. Against this increase, however, must be set an increase of expenditure of about £32,000, so that we end with only £4,000 to the good. This is the real state of affairs, although it would appear from the total of Profit carried into the balance sheet that we were about £16,000 to the bad. The reason for this, as is apparent from a comparative examination of the Profit and Loss Accounts for the two years, is that this year, before striking our balance of Profit and Loss, we have written off the items for the Pension Fund, Widows' and Orphans' Fund and Staff Guarantee Fund, amounting to £20,000, whereas last year the amounts applied to these funds were not written off Profit and Loss Account until after approval by the Annual General Meeting.

It remains for me to say something in explanation of the very large increase in expenditure, viz. £32,000. The largest item was in connection with the Government Accounts. We have only 6 offices in the whole of the Union, including Head Office, whereas the business of the Government has to be done all over the country. Our good friends, the commercial banks, help us with the machinery of their far-flung branches, and we are very grateful for their help so ably and willingly given, but of course we have to meet their charges for this service—charges which, so far as they can be accurately estimated, do not amount to much more, if any more, than their out-of-pocket expenses. To this amount must be added additional expenses which the Reserve Bank itself has had to incur partly in connection with the Government Accounts, and partly because of the ordinary increment of staff salaries. Together these items amount to about £22,000. Of the remaining £10,000, £9,000 is accounted for by the additional cost of Bank Notes. Owing to our having replenished our stock of notes rather more fully we have spent this year £14,000 as against £5,000 last year.

It cannot have failed to engage your notice that the Board has this year followed a different course from that of previous years, in writing off from Profit and Loss the amounts necessary for Pension Fund, Widows' and Orphans' Fund and Staff Guarantee Fund before arriving at the amount of the net profit, instead of leaving the amounts in the Profit and Loss Account and abstaining from writing them off until the approval of the Stockholders had been obtained in General Meeting. Under the Regulations drawn up under the Act the Directors have full power to make all necessary provisions out of Profit and Loss on their own authority, and as the amounts in question are written off, not as a mere matter of opinion, but as a matter of actuarial calculation of liability there seems to be good reason why they should exercise their authority. On this occasion, therefore, I have nothing to put before you in the way of a recommendation as to the appropriation of profits, but the Board of course have under the Act to obtain your approval of their Report and the Accounts of the Bank, and I now therefore move "That the Reports and Accounts be adopted."

Mr. E. H. Lewis seconded the motion which was put to the meeting and carried unanimously.

The Governor then continued his address and said:

It has been my custom to take advantage of our Annual Meeting to comment upon current matters and questions so far as they bear upon the Reserve Bank, or upon banks in general, or upon the general financial conditions of the country. But before I do so I should like to deal with one or two domestic matters.

First then I would speak about the *Branches* and the *General business of the Bank*: and when I begin to think of what I have to say on this subject I find there is little I can say that will not be a repetition of what I said last year. Our Branches are useful auxiliaries to the Head Office—in fact I may say that, now that we have the accounts of the Government, including the Railways, they are indispensable helps to the Head Office. They also do the things which central banks usually do in looking after the currency—withdrawing from circulation all old notes and coin which are no longer fit for service—and providing a source of supply in notes and gold for the other banks.

We do not at our Branches (nor indeed at Head Office) transact much business with the general public. In fact, as I have often pointed out before, our constitution under the Act renders this impossible. Nor should we, so far as I can see, even if our powers were enlarged, ever want to do a general banking business in competition with the other banks. Let me say once more, what I have said before at least a score of times, that a central bank, like the Bank of England, or the Federal Reserve Banks of the United States, or the South African Reserve Bank, holding the reserve balances of the other banks, whether voluntarily or compulsorily, ought never to do a general banking business in competition with the other banks. There are central banks in Europe which do a good deal of ordinary commercial business, but I think you will find that these banks do not hold the reserve balances of the other banks to any large extent, and that their "centralness" consists rather in the possession of the power of note issue and in a close connection with the State, than in that intimate interlinking of each bank with the central bank and through the central bank with each other, which takes place in countries where the banks keep their main reserves with the central bank, and the central bank takes upon itself the general regulation of credit and the maintenance of the gold reserve of the country.

But, although, according to the doctrine I have laid down, a central bank holding the reserve balances of the other banks, should not do a general banking business in competition with them, it should be able to get into touch, and remain in touch, with commercial and industrial finance in some way other than through the other banks. The main exit from the fortress of the Reserve Bank to the outside world should be, and generally would be, by way of the other banks, but the Reserve Bank should have a side door, or emergency exit, or whatever you like to call it, by which it could reach the outside world otherwise than by way of the other banks. No one would like to live in a house with only one way out. If the front door was blocked one would not like to feel a prisoner. In the same way the Reserve Bank wants another means of exit into the outside world of commerce.

This is the reason why I have so continually urged the enlargement of the Reserve Bank's powers. There are several lines of business in which the Bank could operate without any serious interference with the general business of the other banks, and it is the Board's opinion that the Bank ought to have a free hand, subject to certain definite restrictions, so that it could do such business. Professor Plant in a recent article entitled "The Future of Central Banking in South Africa" has expressed so succinctly the views I hold on this matter that I should like to quote his words. He says "There is much to be said for legislat-
"ing on either the positive but ultra-cautious policy of defining
"simply what the bank may do, or the negative but more cour-
"ageous plan of prohibiting such operations as are inconsistent
"with the responsibilities of a central bank and then leaving to
"the Governor and his board freedom to act as circumstances
"demand. A middle position is hardly defensible even as a
"temporary expedient."

Board of Directors: Since we last met the Governor-General has appointed Mr. Robert Niven as a Government Representative on the Board in the place of the Hon. Mr. H. C. Hull whose retirement was the subject of our expressed regret at our last meeting.

I should like to say how much we welcomed Mr. Niven's advent to our counsels, and how much we have already appreciated his advice and help.

New Banking Premises: I have not much to tell you about this matter. Sir Herbert Baker duly came out and drew us a very beautiful design for our Head Office which was accepted by the Board. The hundred and one details connected with a building of this sort and size have had to be considered and settled, but I hope that before long we shall be asking for tenders and may soon be able to make a start. Mr. Fleming, the well-known Johannesburg architect, is the Bank's architect in this country.

As for Cape Town, Mr. Morris' beautiful design will soon I hope begin to take substantial form.

Currency and Banking Act: One of the amendments made by the Act of 1923 expires on the 30th June next. I refer to the Clause which enabled the Bank to hold Treasury Bills (British and South African) as partial cover for its note issue. It was admittedly a temporary device for special circumstances which have since become normal. There is therefore no need for its continuance.

I now want to turn to another matter. There have been some articles written during the past year concerning the Reserve Bank. One I have already partly referred to, that by Professor Plant. He writes sympathetically and with a good deal of insight into our general position, but he seems to have fallen into a popular error, (I hope he will pardon me if I have misunderstood him) when he says "The only control of bank credit in South "Africa by the Reserve Bank is achieved by manipulation of the "note circulation." This seems to imply that the Bank can issue or withdraw notes at will, which is entirely incorrect. The Bank cannot issue notes unless someone wants them and can pay for them, and it cannot withdraw them unless some one presents them and wants cash for them. Indirectly of course the Bank can encourage the issue of notes by creating credit, or in other words by making advances or discounting bills: but this credit might be used in one of three ways. It might remain as a credit in the Bank's books: or it might be withdrawn in gold: or as a third alternative it might be withdrawn in notes.

The idea that the bank can control credit by manipulation of the note circulation is therefore incorrect.

Professor Plant is rather fond of the word "manipulate"—one of whose dictionary meanings is "to manage artfully or fraudulently"—for in another passage he says "Although general discount "rates have been forced down the Reserve Bank has been unable "to influence general credit conditions, either by manipulating its "discount rate or by the purchase or sale of securities." To me the first part of the passage seems to contradict the second. Taking the word "manipulating" to have an entirely innocent meaning of altering from time to time as circumstances may require, it seems obvious that if (as is the fact) the forcing down of general discount rates to which he refers has been brought about by the Reserve Bank having first fixed upon 6% as its discount rate for first-class bills, and then having reduced it to 5½%, then it is incorrect to say that the Reserve Bank has been unable to influence general credit conditions by its discount rate.

The fact of the matter is, as any of the banks or mercantile houses could tell you, the Reserve Bank and its branches have very decidedly influenced discount rates in a downward direction.

A recommendation by Professor Plant that the clause in the Act compelling the banks to keep certain reserve balances should be abolished calls for the reminder that private capital invited by a publicly issued prospectus is invested in the Bank, and that experiments of this kind at the expense of the stockholders should not be indulged in.

I now turn to an address delivered some months ago by Dr. Bruwer, Chairman of the Board of Trade and Industries, on "Certain Aspects of Central Banking in South Africa." If it were not for the position he holds I should not refer to this address as I cannot consider it an important contribution to the subject, but as certain inaccurate views about the Reserve Bank have been promulgated on his authority I feel it my duty to correct them.

First of all I would deal with certain remarks of his about the creation of the Reserve Bank. He attributes to the Treasury and their "policy of drift" the serious banking and currency troubles which arose in the year 1920. As these troubles were world-wide the attribution seems a little prejudiced. Another circumstance of those agitated times annoys him. He says "There "was the meteoric rise of a certain Mr. Henry Strakosch, up till "then unknown in the field of banking and economics, and now "retired to the degree of authority which he originally held." Sir Henry Strakosch, who must be the "certain Mr. Henry Strakosch" mentioned, needs no defence from me, and if this description of a man who has played a very large part in the financial reconstruction accomplished by the League of Nations makes us smile a little, our amusement is certainly not at Sir Henry's expense.

I, however, take no pleasure in these personalities, and do not wish to dwell further on them. I therefore proceed to deal with the main error which underlies the lecture, viz. the notion that the Bank has sent huge sums of money to London and invested it there because it could not find investment for it in the Union, and that somehow a great wrong is being done to South Africa because of this action on the part of the Bank. The lecturer several times recurs to this theme. "It makes painful reading" he says "to the man who knows the capital needs of "this country to see how much of our central institution's resources "are invested in the London market." In another place he says "Our own orthodox Central Bank, because it has to rely on an "undeveloped bill market in South Africa has, in order to keep "the funds at its disposal properly occupied, to invest large "amounts in London. This is nothing less than a tragedy to my "mind."

But this painful reading, this tragedy, is based upon an entire misapprehension of the facts.

Let me in explaining this matter first of all state emphatically that the Reserve Bank does not send its resources to London to be invested in that market.

It obtains balances in London in the same way that any bank ordinarily obtains funds in another centre, viz. by financing exports to that centre.

The imports of South Africa, like those of other countries, are in the ordinary course paid for by her exports. The money for the exports is received in London and the money for the imports is paid in London, as the chief banking centre of the world.

To make this quite clear let us look at the Union's figures of imports and exports for the year 1927.

The imports, visible (i.e. for actual goods purchased and brought into the country) and invisible (i.e. for services bought, freight, interest, etc.) may be taken at something over £90,000,000. These imports had to be paid for in London with London money. How did the South African banks obtain the London money to pay for them? Obviously with the money they received from the sale of the exports. Of these exports about £45,000,000 consisted of gold (bullion and specie.) This gold was for the most part bought by the Reserve Bank from the Gold Producers, paid for in South Africa, shipped by it to London and there sold in the market.

Up to this point I imagine that it would be difficult for anyone to say that any harm had been done to South Africa. I presume everyone will agree that the object of mining the gold was to sell it for money, and that so far as I have described the process this purpose has been carried out in as efficient a way as possible. The Reserve Bank in performing this operation has not been investing a "huge amount of its resources in London." It has bought and paid for in South Africa a certain product of the country: it has sold that product in London, and consequently has balances in London with its Agent the Bank of England. Now what can it do with these balances? It is a South African bank and obviously it can't go on piling up balances in London. It must use them in performing some South African service.

There are only three ways of using those balances in South Africa's service. One is to draw sovereigns and to ship the gold back to South Africa in that form: which would be a perfectly absurd proceeding as South Africa can turn out as many sovereigns as she wants by her own Mint out of her own gold. The second is to buy goods and ship them: which of course neither the Reserve Bank nor any other bank can properly do, as they are not trading concerns. The third is to exchange the London balances for South African money with some merchant or bank who requires London money with which to pay for imports. And this is exactly what the Reserve Bank does. It buys between £30 and £40 millions worth of bullion each year and obtains balances in London when it sells the bullion. The greater part of these balances it sells to the other banks who require it for financing imports, but there is generally a floating balance of £6 to £8 millions which varies according to the demand made by the other banks for sterling exchange, and these are the balances whose temporary investment in London Bills Dr. Bruwer objects to.

It will be instructive and interesting to look for a moment at the South African end of this business.

The result of the Reserve Bank buying about £750,000 worth of gold from the Mines each week is that credit for that amount is created, and this credit goes to the account of the other banks with the Reserve Bank. The other banks have therefore that amount of credit to make use of. It is just as much use to them as if each week they had between them a fresh stock of 750,000 sovereigns. This credit is available to the banks for any purpose they may require. On that basis of gold they could, if they wanted, create credit to five, six, seven, up to ten times its amount, and still maintain their customary proportion of cash (or Reserve Bank balance) to liabilities. The fact that they do not do this shews that they want the credit for another purpose, which is to buy sterling exchange.

So we move round in a circle. The Reserve Bank by buying gold in South Africa creates credit in South Africa which enables the other South African banks to buy from it the London balances which it has obtained by selling gold in London. When the other banks have used the credit in this way the circle of transactions is finished. But you will see from this, if you think it out, that the amount of invested funds which the Reserve Bank holds in London is the balance of sterling which the other banks have not yet bought from it with the credit created by it in South Africa: and the paradox emerges that the higher the amount of Reserve Bank funds held in London the bigger is the balance of credit created by the Bank still remaining alive and active in South Africa.

To shew the truth of this by taking extreme cases, let us imagine that the Reserve Bank has bought £30 millions of gold during any given year: has credited the accounts of the mines with the other banks with this amount: that the other banks instead of using the credit for buying sterling exchange have used it for their South African business. In such a case the Reserve Bank would have increased its liabilities in South Africa by £30 millions, and it would therefore, for the purpose of maintaining its ratio, have retained in South Africa about £15 millions of the gold bought. But the other £15 millions would have been sent to and sold in London and would have been invested in bills: and I suppose that in those circumstances we should have Dr. Bruwer in a still more lachrymose state, bewailing the tragedy revealed in these painful figures. Or we might take the other extreme case of supposing that the other banks always bought all the sterling exchange acquired by the Reserve Bank by the sale of gold. Then the credit created in South Africa would be at once extinguished, and the Reserve Bank would hold no balances in London. Dr. Bruwer, according to his theory, would rejoice. But he would have little reason to do so, for the banks here would have just so much less credit to use in this country.

The fact of the matter is, as I hope I have shewn beyond question, that the criticism made on the bank in this matter, though plausible on the surface, is not only entirely unjustified, but is positively misleading. It tends to make the ordinary citizen, unversed in such matters, believe that money which rightly belongs to South Africa is being taken from her to be used in London, whereas the fact is that all South Africa's money is being strictly and economically used in her service.

I should not detain you so long on the matter of this lecture if the points dealt with were not themselves important; and as a certain amount of publicity has been given to the wrong views I want an equal field for the right ones. Therefore I must bring to your notice a remark made about the Bank's exchange policy. Dr. Bruwer says "I do not agree with the foreign exchange policy "of the Central Bank: it should take a much more active part in "the determination of foreign exchange rates. The past and "present policy of our banks of keeping our foreign exchange "rates "posted" for months and years at a time is arbitrary, un-"scientific and undesirable."

After all he has said about the painfulness and the tragedy of the Reserve Bank having big London balances I must say that this exhortation gives me a shock of surprise. Apparently we are to reduce our London balances and at the same time are to increase our activities in the exchange market! These contradictory recommendations, revealing an astonishing lack of grasp of the subject, are indeed "painful reading." And what are we to say about the last obiter dictum as to the policy of our banks of keeping our foreign exchange rates "posted" for months and years being arbitrary, unscientific and undesirable—what are we to say about this except that the banks have no such policy? The exchange rates vary very little because there is little need for their variation. And it would surely be a very arbitrary, unscientific and undesirable policy to alter the rates simply because they had not been altered for months. A year or two ago the cry was all for stability in exchange rates, and now that we have it, we are asked to introduce a little instability apparently just for the sake of a change.

When he says that the Bank should take a much more active part in the determination of foreign exchange rates, Dr. Bruwer evidently does not realize that the Bank, owing to its holding throughout the year such a large amount of sterling for sale, is the most powerful influence in determining the sterling rate of exchange with South Africa, and consequently all the other rates of exchange, for they are all based on sterling. If we did not have this large amount of sterling for sale we could not take an active part in the determination of the exchange rates. And yet our holding large London balances is objected to!

One word more: Dr. Bruwer in his recommendations suggests that the Reserve Bank should be given power to underwrite the issues of securities—not only Government but also industrial securities. Any proposal more incongruous with the functions of a Reserve Bank it is impossible for me to conceive. It is entirely opposed to the idea of liquidity which is the very essence of the qualities of a Central Bank's assets, and there I must leave it.

Exchange: On the general subject of exchange I have little to say. We sold on balance rather less exchange last year than the year before, because there was a great demand for sovereigns for Brazil and the Argentine. These countries absorbed between them 11½ millions in South African sovereigns. At one time of the year the demand was so great that the Reserve Bank had to alter its buying rate for sterling from 5/- premium to 2/6d. The other banks followed suit. The object was of course to discourage the conversion of sterling into South African pounds for the purpose of withdrawing sovereigns. When the demand had slackened sufficiently to give us breathing time the rate was restored to its normal position.

Whilst speaking of exchange I should like to remark that although the word sterling means exclusively the money of Great Britain, it is often wrongly applied in official documents and otherwise in this country to South African money.

I said in an earlier part of my address that I would say something about the "earmarking" of gold at the Bank of England. Sometimes you will find in the newspapers a paragraph like this: "The Bank of England announces that it has earmarked £500,000 "gold on South African account." Or like this: "The Bank of "England announces that it has released £500,000 on South "African account." And in the newspaper comments on this matter there has been a good deal of mystification, and many conjectures as to what it really means.

The meaning is perfectly simple. Under the Currency and Banking Act the Bank must keep 40% of its liabilities in gold of which a certain percentage may be held abroad. As a matter of fact it aims at keeping a proportion of about 50%. But with its large purchases of gold and the turning of them, as they are sold in London, into a cash balance with the Bank of England its holding of gold is apt to vary very considerably from time to time. Government deposits in this country also vary very considerably from time to time, and sometimes very rapidly. So that the two factors upon which the Bank's proportion of gold to liabilities depend are both apt to vary greatly and rapidly. This being so it is necessary that it should have at hand a means whereby it can equally rapidly adjust its proportion of gold to liabilities, should the former suddenly decline or the latter suddenly rise. One means it generally has of increasing its gold is by the purchase of the weekly production from the Mines: another way is by asking the Bank of England to put aside or "earmark" on its account the requisite amount of gold, for which of course they debit our banking account. The mistake generally made by those who write on this subject is to confuse a balance on our banking account at the Bank of England with an amount of sovereigns actually set aside for us. The first is not available as cover for our liabilities, being only a liability of the Bank of England. The second is actual cash and is available as cover.

Short Money Market: You will perhaps remember that at our last Annual General Meeting I spoke of an arrangement which had been made in conjunction with the Treasury whereby the Treasury issued 3 months Treasury Bills through the Bank to parties wishing to employ surplus funds, and the Bank undertook to re-discount the bills for the said parties should they require the money, after the bills had been running for not less than 14 days, at ⅛% above the rate at which they had been issued.

Though this arrangement undoubtedly met a want it had very decided drawbacks from the Reserve Bank's point of view; one of which was that the Bank by this method was giving options to certain persons to sell back to it, at any time they chose, large amounts of Treasury Bills at fixed rates. This in times of stress might be a great disadvantage: and it was the realization of this possibility from the very inception of the business which caused me always to describe it as an experiment. It served its purpose in drawing the attention of the other banks in a rather pointed manner to the need for giving better facilities for the employment of temporarily uninvested funds in South Africa, and when in the latter part of 1927 they announced their intention of giving better rates for short money we decided that we would, at all events for the time being, discontinue our experiment. Nevertheless I would say that the Bank is always prepared to consider the discounting of Treasury Bills at reasonable current rates, though not at rates fixed in advance, nor at rates based on the price originally paid for the bills.

General Remarks: I gather from correspondents in various parts of the country that on the whole there is good ground for optimism about the immediate future prospects. Last year the unprecedented drought in the Cape Province made business very difficult there, and suppliers of goods had to give a great deal of consideration to many of their retail clients in order to tide them over their troubles. But the recent rains have done a great deal to improve matters. Besides that the good wool season, and the high prices ruling for wool, have, looking at things from a broad point of view, done much to replace the country's wealth diminished by the drought. There is no doubt that more and more attention is being paid to the extension of wool production in parts of the country suitable for sheep.

The Sugar Industry also added largely to the wealth of the country and established another record. The current season promises as well or better.

The mealie crop was again a very bounteous one, and though its exchange value is low, owing to its being so easily grown here and elsewhere, its food value for stock as well as human purposes makes it a very substantial asset of the country.

The exports for the year ended 31st December were about £10,000,000 in value more than the previous year. The imports were about £1,000,000 more. These figures relate of course only to visible imports and exports. The Deposits in the commercial banks (for the year ended 31st December) inside the Union shew an increase of over £4 millions. The Advances and Discounts as classified in the published statement shew the same figures as last year, though if the banks included export bills purchased among their discounts we should doubtless find an increase in discounts which would account for the increase in deposits and correspond with the increased exports. As it is, the quarterly bank statements rendered under the Banks Act of 1917 shew bills discounted in the Union on places outside the Union among assets outside the Union, and bills discounted outside the Union on places in the Union as assets in the Union. For the purpose of shewing where the assets of the banks are held this is an excellent plan, but it entirely foils anyone attempting to follow the amount of credit created within the Union. For this reason I am unable to make any satisfactory calculation on the figures I have given above.

The figures of insolvencies for the year shew a slight increase over those for the previous year, being 1,308 against 1,227. This rise in figures already far too high is a little disturbing. I ascribe the reason to drought and faulty credit arrangements. As to the latter I should like to quote the words of a Natal correspondent of mine to whose opinion I attach weight. He writes: "The financing of trade and credit conditions in Natal leave much "room for improvement. The benefits of the Bill system as be- "tween Merchant and Storekeeper are perhaps less appreciated "in Natal than in the inland provinces. As a result of the open "credit system largely prevailing the average storekeeper carries "stocks far above his legitimate trade requirements, thus locking- "up a considerable amount of capital with no compensating ad- "vantages. But the worst feature of this open credit system is "undoubtedly the tendency it creates in the storekeeper of granting "in return unduly lengthy credit to his clients—the farmers as "well as the regular wage-earners in the towns and villages. There "were 132 insolvencies recorded in Natal of which no less than "61 fell under the heading of merchants and storekeepers, whilst "the actual deficiency in these estates constituted a record if the "after-war crisis year 1922 is omitted. Undoubtedly the pre- "vailing credit system merits the closest investigation."

This statement of my correspondent confirms the view I have so often expressed, and though he writes particularly about Natal I am afraid that his words apply more or less to the whole of the Union.

The gold industry has achieved a new record of production and may be congratulated on its wonderful vigour in spite of adversities. Should its labour troubles be solved, I think that we should certainly have good ground for regarding the prospects for this current year as distinctly hopeful. There is no doubt that the country is going ahead, despite droughts and other difficulties. Given good weather the energy increasingly put into the ground should result in a continual series of expanding figures of crop returns for many years to come; and even if nature will not always be as kind as we wish, it seems that the country on the average of groups of years has definitely got on to a higher level of production, so that a bad year now corresponds to a good year not so very long ago.

I conclude on this hopeful note.

On the motion of the Governor, seconded by Mr. C. W. Pearsall, it was unanimously resolved:

> "That Sir Ernest Chappell, C.B.E. and Mr. John Pyott "be re-elected as Class 'A' Directors."

The Governor moved:

1. That Messrs. Alex. Aiken and Carter, and Messrs. Dougall, Lance and Hewitt be paid the sum of two hundred and twenty-five guineas each, in accordance with the recommendation of the Board, for auditing the accounts for the year ended 31st March, 1928, with a further fee of twenty-five guineas each for each Branch audited, in addition to out-of-pocket expenses;

2. That these firms be appointed Auditors of the Bank's accounts for the coming year.

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

On the motion of the Deputy Governor, seconded by Mr. Robert Hamilton, a cordial vote of thanks was passed to the Officials and Staff of the Bank for the excellent services rendered during the year.

Mr. Robert Niven moved a hearty vote of thanks to the Governor for his able and interesting address which was passed with acclamation.

The proceedings then terminated.

N.B.—A copy of the reports of the Governor and Directors and of the Auditors for the year ended 31st March, 1928, is annexed.

Reports and Annual Accounts

31st March, 1928.

SOUTH AFRICAN RESERVE BANK.

REPORT OF THE GOVERNOR AND DIRECTORS PRESENTED TO STOCKHOLDERS AT THE EIGHTH ORDINARY GENERAL MEETING HELD AT PRETORIA, ON THE 15th MAY, 1928.

The accompanying copies of the Annual Accounts of the Bank and of the Auditors' Report are presented to the Stockholders in compliance with Sections 97 and 98 of the Regulations framed under Section 29 of the Currency and Banking Act, 1920.

After all expenses had been paid and provision had been made for Income Tax and other liabilities and contingencies, and after the following amounts had been written off: viz.

	£	£	s.	d.
from Fixed Property Account:	15,000			
from Furniture and Fittings Account:	10,000			
and after amounts had been appropriated as follows:—				
To Pension Fund:	15,000			
,, Widows' and Orphans' Fund	2,500			
,, Staff Guarantee Fund: ...	2,500			
	£45,000			
there was left for distribution under Section 11 (1) of the Currency and Banking Act		232,991	1	7
Under that Section the first charge on the net profits is a dividend to Stockholders at the rate of 6% per annum. This amounts to		60,000	0	0
The "surplus" therefore amounts to		£172,991	1	7

Under the same section of the Act, the "surplus" must be dealt with in the following way:—

	£ s. d.	£ s. d.
Half must be allocated to Reserve Fund:		86,495 10 9
One quarter is payable to Government:	43,247 15 5	
Up to one-quarter but not exceeding 4% of the Bank's capital is payable to the Stockholders: ...		40,000 0 0
Leaving a balance payable to the Government of	3,247 15 5	
Making a total payable to Government of		46,495 10 10
		£172,991 1 7

FIXED PROPERTY ACCOUNT.—After application of the provision of £15,000 shewn above, the Bank's Fixed Property Account stands at £43,050 4s. 7d. against which it holds fixed property in Cape Town, East London and Pretoria costing over £90,000.

FURNITURE AND FITTINGS ACCOUNT.—After application of the provision of £10,000 shewn above, this account is written down to £7,847 1s. 0d. against which is held all the furniture and fittings of the Bank, including Strong Rooms and safes.

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

(1) an interim dividend of 4% for the half-year ended 30th September, 1927.

(2) a final dividend of 6% for the half-year ended 31st March, 1928.

making a total dividend of 10% for the year ended 31st March, 1928.

CAPITAL STOCK.—Holders of the Capital Stock of the Bank at the 31st March, 1928, numbered 1,102, of whom 50% held less than £500 stock each.

DIRECTORS.—In accordance with the Act, Sir Ernest Chappell, C.B.E. and Mr. John Pyott retire by rotation, but, being eligible, offer themselves for re-election.

To fill the vacancy caused by the resignation of the Hon. Mr. H. C. Hull, the Governor-General appointed Mr. Robert Niven as a Government Representative under the terms of subsection (2) of Section 9 of the Act.

AUDITORS.—Messrs. Alex Aiken & Carter and Messrs. Dougall, Lance & Hewitt were appointed at the last Ordinary General Meeting to examine the accounts of the Bank for the past year. The Stockholders will be requested at the forthcoming Ordinary General Meeting to determine, upon the recommendation of the Board, the remuneration of the Auditors for the recent audit, and to appoint Auditors for the current year.

Messrs. Alex. Aiken & Carter and Messrs. Dougall, Lance & Hewitt offer themselves for re-election.

BALANCE SHEET at 31st MARCH, 1928.

LIABILITIES.

	£	s.	d.	£	s.	d.
Capital				1,000,000	0	0
Reserve				422,912	4	11
Notes in Circulation				8,952,814	10	0
Notes of Other Banks in Circulation				189,678	5	0
Deposits:—						
Bankers Reserve Accounts	4,508,615	0	0			
Bankers Current Accounts	1,078,351	16	0			
Government Current Accounts	3,576,058	18	10			
Other Accounts	105,387	9	1			
				9,268,413	3	11
Rebate on Bills not yet due				51,233	12	3
Pension Fund				61,837	5	7
Widows' and Orphans' Fund				19,835	15	11
Staff Guarantee Fund				13,843	14	11
Other Liabilities				411,525	13	6
Profit and Loss Account	£232,991	1	7			
Less Interim Dividend for half-year to 30.9.27.	40,000	0	0			
				192,991	1	7
				£20,585,085	7	7

ASSETS.

	£	s.	d.	£	s.	d.
Gold Coin and Bullion				8,419,439	14	7
Other Coin				169,814	7	6
Balance with Bank of England				250,448	6	8
Balance employed under the Guarantee of the Bank of England				1,493,500	0	0
Balance with Federal Reserve Bank of New York				4,938	1	4
Bills Discounted:—						
Domestic	798,314	10	0			
Foreign	6,408,273	0	2			
British Treasury Bills	1,684,787	10	0			
Union Treasury Bills	40,100	0	0			
				8,931,475	0	2
Investments (at below market value)				591,937	13	7
Loans and Advances				138,575	17	4
Fixed Property				43,050	4	7
Furniture and Fittings				7,847	1	0
Other Assets				534,059	0	10
				£20,585,085	7	7

N.B.—All sterling holdings have been converted into South African pounds at £100¼ South African for £100 sterling.

The balance with the Federal Reserve Bank of New York has been converted into sterling at the current rate and treated as such.

PROFIT AND LOSS ACCOUNT for the year ended 31st March, 1928.

DR.	£	s.	d.
To **General Expenditure,** including Rents, Rates and Salaries	104,124	14	6
„ **Directors' and Auditors' Fees**	3,285	0	0
„ **Written Off:—**			
Fixed Property	15,000	0	0
Furniture and Fittings	10,000	0	0
„ **Pension Fund**	15,000	0	0
„ **Widows' and Orphans' Fund**	2,500	0	0
„ **Staff Guarantee Fund**	2,500	0	0
	152,409	14	6
„ **Profit for year**	232,991	1	7
	£385,400	16	1

CR.	£	s.	d.
By **Gross Profit,** after making provision for Income Tax, Companies Tax, Rebate on Bills not yet due, Sundry Liabilities, etc.	385,400	16	1
	£385,400	16	1

W. H. CLEGG, Governor.

J. POSTMUS,
H. C. JORISSEN,
ROBT. HAMILTON, } Directors.

G. G. MESSUM, Secretary.

Pretoria, 27th April, 1928.

To the Stockholders,

The South African Reserve Bank.

We report that we have examined the above Balance Sheet and Profit and Loss Account with the books and records of the Bank and found the same in order. Our requirements as auditors have been complied with. We have verified the Cash, Investments and Securities of the Bank.

In our opinion the Balance Sheet is a full and fair Balance Sheet containing the particulars required by the Currency and Banking Act, 1920, and the Currency and Banking Act Amendment Act, 1923, and the Regulations thereunder, and is properly drawn up so as to exhibit a true and correct view of the whole of the Bank's affairs at the 31st March, 1928.

ALEX. AIKEN & CARTER,
DOUGALL, LANCE & HEWITT,
Auditors.

27th April, 1928.