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**SOUTH AFRICAN
RESERVE BANK**

1969

**REPORT OF THE
FORTY-NINTH
ORDINARY
GENERAL MEETING**

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BOARD OF DIRECTORS

THEUNIS WILLEM DE JONGH	<i>Governor</i>
DANIEL GERHARDUS FRANZSEN	<i>Deputy Governor</i>
JOHN BENEDICTUS DE KORTE WILMOT	<i>Deputy Governor</i>
		<i>Representing:</i>
CHRISTIAAN LEONARD DE BRUYN	<i>Government</i>
PIERRE ETIENNE ROUSSEAU	
MICHEL HENDRIK DE KOCK	<i>Commerce and Finance</i>
EUGENE O'CONNELL MAGGS	
LAWRENCE STUART ROBINSON	
JOHANNES FREDERIKUS VAN WYK	<i>Agriculture</i>
IAN GRANGER FLEMING	<i>Industry</i>
THOMAS PRICE STRATTEN	

SOUTH AFRICAN RESERVE BANK

Forty-Ninth Ordinary General Meeting of Stockholders

MINUTES OF PROCEEDINGS

The Forty-ninth Ordinary General Meeting of Stockholders was held at the Head Office of the Bank, Pretoria, on Tuesday, 26th August 1969 at 10.30 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 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 1969.

I also submit to you the Bank's Annual Economic Report, which describes in some detail the economic and monetary developments in South Africa during the year ended June 1969 and which in general serves as a background to my remarks today. As is customary, however, I will survey these developments very briefly before discussing the present situation and the prospects for the near future.

SURVEY OF ECONOMIC AND MONETARY DEVELOPMENTS

On the occasion of our last Annual General Meeting, I indicated that the prospects for further growth in the South African economy were basically favourable, but that the surplus liquidity in the country was a matter of concern and that it would remain a major policy aim of the authorities to reduce liquidity. While the measures employed to this end met with some degree of success, the problem of excess liquidity in the private sector has, for various reasons, not been solved to the extent contemplated. Nevertheless, the economy grew at a satisfactory rate without undue price rises

For the year ended June 1969 gross domestic product increased by about 8 per cent, compared with 9 per cent during the preceding year. In real terms, i.e. after correction for price changes, the increase was about 5 per cent, as against 7 per cent during the preceding year. However, if the contribution of agriculture, which declined substantially during the past year, is excluded, the gross domestic product originating in the other sectors of the economy actually increased by approximately 7 per cent in real terms, compared with 5 per cent during the preceding year. Thus, if allowance is made for the irregular fluctuations in agricultural production, the quarterly estimates of the gross domestic product indicate that the somewhat slower tempo in economic activity during the second half of 1967 was followed by a revival which slowly but progressively gained momentum during 1968 and the first half of 1969.

The welcome acceleration in economic activity was not accompanied by excess monetary demand and thus by an overheating of the economy. If quarterly fluctuations are disregarded, gross domestic expenditure did not deviate significantly from gross national product during the past year, and an approximate balance was, therefore, attained between the domestic demand for and the supply of goods and services. This was also reflected in the current account of the balance of payments, which showed only a small surplus. The main expansionary forces behind the increase in total monetary demand which did occur, were private consumption expenditure, current government expenditure and capital outlays by public authorities, which showed increases of 11, 13 and 19 per cent, respectively, during the year ended June 1969. Although private fixed investment showed only a moderate

rise during the year, the clear downward trend therein since the fourth quarter of 1967, was reversed from the fourth quarter of 1968. Fixed investment in commerce and finance was mainly responsible for this change in trend although fixed investment in manufacturing, which had declined for some time, levelled out from the fourth quarter of 1968 and tended to increase during the second quarter of 1969.

The upward movement in total private fixed investment, together with the increases in private consumption expenditure and current and capital expenditure of public authorities, increased total monetary demand sufficiently to cause an increase in imports which was at the same time also facilitated by further relaxations in import control. The increase in imports, coupled with the adverse influence of lower agricultural exports, caused a substantial deficit to appear in the current account of the balance of payments during the second quarter of 1969 but, as indicated before, the current account for the year 1968/69 as a whole still showed a small surplus. Although the total net inflow of capital amounted to approximately R255 million for the year 1968/69, significant changes occurred in the volume thereof during the course of the year. Thus, for the second half of 1968, the total net inflow amounted to R185 million but then declined to R70 million during the first half of 1969. This followed upon net inflows of R77 million during the second half of 1967 and R261 million during the first half of 1968. A major factor contributing to this declining trend was the general tightening of credit and monetary conditions abroad, which was reflected in upward adjustments of interest rates to levels well above those ruling in South Africa, and which contributed to the emergence of a significant discount in the London prices of South African shares as compared with those in Johannesburg.

As a result of the small current surplus and the substantial net capital inflow, the country's total gold and foreign exchange reserves increased by R260 million over the past year. However, the overall balance of payments position changed towards the middle of 1969, due not only to the appearance of a deficit in the current account during the second quarter of 1969, but also to a marked decline in the net capital inflow. The total gold and foreign exchange reserves thus declined by R41 million from the end of March to the end of June 1969.

Although there was little evidence of general demand inflation during the past eighteen months, price levels nevertheless increased slightly. Thus, the seasonally adjusted index

of consumer prices rose by 2.7 per cent during 1968 and at an annual rate of 2.9 per cent during the first six months of 1969. However, if food prices, which actually declined during the first six months of 1969, are excluded, the index increased at an annual rate of 5.0 per cent during the first half of 1969, compared with 2.3 per cent during 1968. The first-mentioned increase, however, was mainly due to upward adjustments in the prices of certain service items, such as medical services, recreation, amusement and sport, and also to the introduction of a sales duty in March 1969, and, as noted earlier, apparently did not reflect general conditions of excess demand.

Contrary to the approximate balance between the demand for and the supply of goods and services, the financial scene was characterised by a considerable degree of imbalance as reflected in excessive liquidity and an exceptionally high level of activity on the property and share markets. After increasing by about 13 per cent during the year ended June 1968, money and near-money rose by R468 million or nearly 15½ per cent during the year ended June 1969. Consequently, the ratio of money and near-money to gross domestic product stood at no less than 31 per cent for the second quarter of 1969, compared with an average of between 26 and 27 per cent for the years 1956 to 1968.

Although the increase in the country's gold and foreign exchange reserves contributed to the rapid rise in money and near-money during the year 1968/69, this was very largely offset by the disinflationary effect of the Government's financial operations. The major factor responsible for the increase in money and near-money was the large expansion in bank credit to the private sector which amounted to over R400 million, or 16 per cent. The fact that bank credit increased so much during the year under review is explained in part by the raising of the ceiling on discounts and advances from 92½ per cent to 100 per cent of the March 1965 level and by the concession granted to smaller business undertakings as announced in my Address last year. A concession of 2 per cent of the ceiling in respect of credit granted for agricultural purposes was also announced in March 1969. In addition, certain special concessions above the ceiling had to be made for strategic purposes during the course of the year, while investment commitments entered into before control over the investments of the banks was introduced could not be cancelled. Moreover, certain of the banks' discounts and advances as well as their investments in public corporation and municipal

stock and their remittances in transit remained exempt from control. However, these factors in themselves do not account fully for the increase in bank credit, and there is evidence that a considerable amount of such credit was involved in speculative transactions on the Stock Exchange and in the property markets. It was not surprising, therefore, that some monetary banks found it difficult to adhere to their ceilings.

The large increase in the extension of bank credit during the year ended June 1969 did not significantly reduce the liquidity of the banks as the substantial surplus in the balance of payments increased their cash and liquid resources. Nevertheless, their excess liquid assets declined markedly from the beginning of 1969 as a result mainly of further increases in the liquid asset requirements and the decline from the middle of April 1969 in the Reserve Bank's net gold and foreign exchange reserves. A further factor, however, was the successful borrowing and sterilisation operations of the Government. The surplus liquid assets of the monetary banks which amounted to 12.8 per cent of their liabilities to the public at the end of June 1968, had declined, therefore to 4.4 per cent by the end of June 1969. In these circumstances, money market conditions tightened noticeably and some upward pressure occurred on short-term interest rates.

During the year in question much of the liquidity in the private sector found its way into the share and property markets. The undue demand for equities and property, however, led to an exceptionally high level of activity and rising prices on these markets, accompanied by a general atmosphere of speculation, while dividend yields fell to unrealistically low levels. The average monthly rate of turnover on the Stock Exchange during the first five months of 1969 was, e.g. about five times as great as that of the year 1967, and the prices of shares other than gold shares more than doubled between October 1967 and May 1969. These increases occurred notwithstanding the fact that new issues of ordinary shares amounted to almost R400 million during the year ended June 1969. In these conditions, unit trusts showed spectacular growth and their net asset value increased from R209 million at the end of June 1968 to R850 million at the end of June 1969. Insurers and private pension funds, which, until the third quarter of 1968 had generally refrained from investing substantially in equities, also entered the market on a relatively large scale during the fourth quarter of 1968 and the first quarter of 1969.

The extraordinary conditions which developed on the share and property markets caused various distortions, not only in savings flows, but also in the production sphere of the economy. The flow of funds to the security and property markets was so great, for example, that considerable difficulty was experienced by the building societies in meeting the strong demand for housing loans, and other savings institutions suffered in a similar fashion.

The speculative climate resulted in a reverse yield gap which reached about 3 per cent and acted as a disincentive to productive investment. During the past eighteen months, large amounts of new capital were raised through issues at high premiums. This capital would normally have been used to finance real investment but was attracted at least temporarily to the financial and property markets by the prospect of capital gains and by the high interest rate on relatively liquid financial claims. Moreover, bank overdrafts, which should have been employed in more productive directions, were utilised in substantial amounts to finance the share dealings and take-overs.

Towards the middle of 1969, however, the capital market scene changed markedly. Stock Exchange prices and turnover dropped substantially and the speculative pressure abated.

PRESENT SITUATION AND PROSPECTS FOR THE NEAR FUTURE.

Developments during the past year which have just been outlined, indicate that the South African economy is fundamentally sound and the prospects for solving some of the major remaining problems now seem to be more favourable. Basically, the economy would appear to be in reasonable balance and the rate of real economic growth to be satisfactory. It is true that developments during the second quarter of 1969 indicate that total domestic demand exceeded supply but the relatively high level of South Africa's gold and foreign exchange reserves leaves scope for imports to increase so that a temporary excess of domestic demand over supply need not give rise to inflationary pressure.

There are, however, still some features in the present economic situation which continue to require the special attention of the authorities. One of these is the position in the labour market which has tightened even further during the past

year. Thus, although there was little evidence of general demand inflation, wages and salaries nevertheless increased considerably and significant upward adjustments were made to the prices of certain services.

In addition to the labour problem, the country is still faced with the problem of excess liquidity in the private sector. While, as mentioned earlier, the authorities were largely successful in reducing the surplus liquidity of the banking system through the use of various measures, the liquidity of the private sector, as reflected in the total quantity of money and near-money, increased sharply during the year ended June 1969. Although the liquidity of the private sector increased at a slower rate during the second quarter of 1969 and may even have decreased slightly after the end of June, it is still abnormally high. It is evident, therefore, that the authorities must still keep this factor in mind. This naturally involves continuing attention to such factors as the balance of payments, net bank credit to the government sector and bank credit to the private sector which, of course, must be considered in the light of the prospects for the near future.

As far as the balance of payments is concerned, there is still not complete clarity on the gold marketing question, while uncertainty continues to exist regarding the stability of certain foreign currencies, particularly after the recent devaluation of the French franc. As on various occasions during the past few years, this could again lead to speculation against these currencies which in turn could result in large capital inflows into this country. Barring such developments, however, it is not unlikely that the declining tendency in the net capital inflow over the past eighteen months may continue during the coming months in view of the higher level of interest rates abroad and the relaxation of exchange control. Moreover, the deficit on the current account of the balance of payments which developed recently may continue for some time and may increase if domestic monetary demand should rise rapidly.

Another factor regarding which there is not absolute clarity, is the further course of developments in the finances of the public sector. In the first place, it is practically impossible accurately to estimate the net effect on the Government's income of the structural changes which have been effected in the tax system.

Secondly, although the Minister of Finance expected the overall deficit (excluding borrowing) in the 1969/70 Budget to be financed mainly by raising funds from the non-bank private sector and the Public Debt Commissioners, and not by drawing down Government deposits or by borrowing from the banks, conditions on the capital market have changed considerably since the introduction of the Budget and may affect the success of the Government's borrowing operations. Moreover, private pension funds and unit trusts have now almost complied with their minimum prescribed investments in gilt-edged and semi-gilt-edged securities and new investment in such stocks by these institutions may decline. Furthermore, if success is achieved in reducing the existing excess liquidity of the private sector, support for the public sector's borrowing operations may to a certain extent be adversely affected. On the other hand, the recent downward reaction on the Stock Exchange may induce investors to divert some of their funds to fixed interest-bearing securities on which relatively high interest rates can be earned. Thus it is not entirely clear whether the capital needs of the public sector, i.e. the central and provincial governments, municipalities and public corporations, can be met in a non-inflationary manner.

As indicated previously, the abnormal conditions which existed until recently in the share and property markets, not only led to a marked decline in the flow of funds to the various forms of fixed-interest investments, but also, to some extent, delayed the use in productive investment of funds which had originally been raised for that purpose. It is not yet clear whether the recent reaction on the Stock Exchange has removed this delaying factor.

It would be regrettable and decidedly short-sighted, however, were the abovementioned reaction to lead to a postponement of productive investment plans, or were it otherwise to affect business confidence adversely. The prospects for economic growth in South Africa are very favourable and the economy is inherently sound. This, in itself, justifies confidence, and certainly provides no grounds for pessimism. Furthermore, it is necessary that private fixed investment, particularly in manufacturing, should increase sufficiently to sustain the growth of the economy. Such investment would be hampered, however, if the essential capital and credit which are needed continue to be diverted to speculative activities.

My reference to some uncertain elements which relate purely to the movement of funds in the immediate future, should not be

liquidity. In this respect, it has also been pointed out that during the past year the increase in bank credit once again played the leading rôle in expanding private sector liquidity to an abnormally high level.

The gradual raising of the liquidity requirements for banking institutions has now brought us to the stage where the banks' excess liquid assets have been considerably reduced. Nevertheless, the fact remains that, in the light of the present situation and, more particularly, of the aforementioned uncertain elements in the short-term outlook as far as the movement of funds is concerned, it would be unwise at this stage suddenly to discard the ceiling method of credit control in its entirety. Its removal remains the aim of the authorities, and how soon that can happen will depend upon future developments. However, what would be justifiable at the present time, having regard to the changed circumstances, and especially to the declining tendency in the gold and foreign exchange reserves, is to make certain further adjustments in the existing credit control measures and, in this connection, the Reserve Bank, after the usual consultation with the Treasury, has made the following decisions:

In the first place, it has been decided to raise the present ceiling which applies to certain of the discounts and advances of the monetary banks by 10 per cent with effect from 1st September 1969. All existing concessions outside the present ceiling will still be regarded as falling outside the new ceiling, while a further concession outside the new ceiling equal to one per cent thereof is made in respect of new credit extended to smaller business undertakings for the coming year.

As far as the existing ceiling on certain investments of the monetary banks is concerned, no change is being made at the present stage in view of the fact that the unused portion of the concessions which had necessarily to be granted outside the ceiling at the time the control was imposed, is still large and thus involves considerable further potential credit creation.

While the abovementioned adjustment to the ceiling on discounts and advances in itself gives more than enough scope to the banks for credit expansion, the actual extent to which they can expand credit will naturally depend not only upon the present level of their relevant discounts and advances, but also upon the effect of the existing requirements in regard to liquid assets. These requirements, as previously mentioned, contributed to the fact that, at the end of June, the excess liquid assets

of the banking institutions, and thus their capacity to expand loans and advances, had been considerably reduced. From about the middle of July, however, Government deposits began to decline rapidly — in fact, by R140 million during the past six weeks — while the Reserve Bank had to extend further large amounts of credit to the Land Bank. Notwithstanding the decrease in the Reserve Bank's gold and foreign exchange reserves these developments so eased the money market that the tender rate for Treasury bills declined from 4.77 to 4.68 per cent during the past two weeks. It is also found, for example, that those banks in respect of which the relevant data are presently available, expanded their discounts and advances by no less than R40 million during July.

In the light of these tendencies, it has been decided to leave the liquid asset requirements unaltered for the present, but the effect thereof will be carefully watched and adjustments therein can be speedily made if it appears that the credit expansion which may be required is being hindered thereby. In this connection, it will be in the banking institutions' own interest to ensure that the statistical returns which they must render to the Reserve Bank and the Registrar of Banks are made available regularly and punctually.

The expansion of bank credit which the country can afford during the coming year must naturally be related to the rôle played by the other factors which also influence the liquidity of the private sector. The fact is, however, that it is definitely not only a matter of the credit expansion which may be required. The channelling of bank credit in the directions where the real needs exist will be of the greatest importance and, in this connection, we simply cannot afford a repetition of what happened during the past year. In spite of the guidelines, to which the attention of the banks was drawn last year, and regular requests by the Reserve Bank, credit creation for speculative purposes increased very sharply in the case of some banks, and much of this credit can be re-directed and made available where the country's interest demands. Banking institutions, therefore, are again requested to ensure that preference is given to production credit for the agricultural and other sectors, and to bridging credit which may be required in promoting private fixed investment.

In the second place, it has been decided to grant a concession to monetary banking institutions in respect of the special reserve balances which they must maintain with the Reserve

Bank. In addition to the basic reserve requirement of 8 per cent prescribed by the Banks Act, monetary banking institutions must at present keep with the Reserve Bank an additional reserve balance equal to 12 per cent of the increase in their short-term liabilities to the public since 31st March 1968, as well as a balance, equal to 20 per cent of that increase, with the National Finance Corporation. It has now been decided to reduce the additional requirement of 12 per cent with the Reserve Bank to 7 per cent, and to raise that of 20 per cent with the National Finance Corporation to 25 per cent.

This change, which comes into force immediately, will naturally have no effect upon the amount of liquid assets which must be held by the monetary banks as it merely represents a movement from non-interest bearing to interest-bearing liquid assets. It is made with the object of relieving pressure on their lending rates.

As far as interest rates are concerned, it has been decided not to make an upward adjustment in the Bank rate or in the Reserve Bank's pattern of rates for Government stock. This decision was taken despite signs of pressure on certain interest rates, which recently made their appearance. The fact that interest rates abroad had risen strongly in recent months and, in the case of some money and capital markets such as the Euro-dollar market, had reached unprecedented heights, was also, of course, taken into account as these tendencies to a greater or lesser degree exert an influence upon the South African balance of payments and upon domestic interest rates.

When, however, regard is had to the existing economic situation, there are various good reasons why interest rates in South Africa should not move upwards at this time. In the first place, there is still concern regarding the failure of private fixed investment, particularly in manufacturing, to attain the level required for the continuing growth of the economy. Higher interest rates will certainly not encourage expansion in this sector. Secondly, South Africa's balance of payments position is still basically sound, and its gold and foreign exchange reserves are at a high level. In the circumstances, therefore, it is not necessary to raise domestic interest rates in order to prevent a net outflow of funds due to the high level of interest rates abroad. Thirdly, as mentioned earlier, significant changes are taking place in the domestic money and capital markets, and it is possible that fixed interest investments may become more attractive.

It is expected of the banking institutions, therefore, that their lending rates will not be increased — a step which is not considered to be in the country's interest at this time, and which will certainly further the arrangement of loans outside the banking system in the so-called "grey market". The maintenance of their present lending rates also means, of course, that it would be undesirable for the banks to become involved in an interest rate war in respect of their deposits and, in this connection, the co-operation of the building societies is important. The latter, after recently receiving further concessions from the Treasury in regard to their tax-free shares and their savings deposits, have made it known that they do not intend to raise their mortgage rates.

GENERAL REMARKS

From the viewpoint of the monetary authorities, the past year has indeed been a difficult one, mainly because they have had to contend with the gold marketing problem. For this reason, they were hampered for the greater part of the year, as already mentioned, in their attempts to reduce the excessive liquidity of the private sector until, in April of this year, more buyers of gold came forward and, since then, South Africa has succeeded in disposing of larger quantities of gold. This led, of course, to the further relaxation of exchange control in June, which greatly strengthened the prospects of sounder domestic economic development.

Having regard to the problems which were associated with the marketing of gold, it came as a great disappointment to the authorities to find that a number of banking institutions had made themselves guilty of extending large amounts of credit for speculative purposes, at a time, moreover, when it must have been obvious that speculation was getting out of hand. It was even more of a disappointment to learn that a few banks were not able, apparently, to keep some of their clients within their overdraft limits. This simply does not conform with the fundamental principles of our banking system, and it is to be hoped that, by this time, action has been taken against clients who do not mind placing their bankers in an embarrassing position. In general, however, banking institutions must be careful that, in competing for deposits, they do not discard certain basic principles in order to retain customers or to gain new ones. Reliance will again be placed upon the wholehearted co-operation of all banking institutions during the year ahead.

In regard to the country's economic development during the coming year, the necessity for an increase in private fixed investment, particularly in manufacturing, has already been pointed out. It must be added, however, that if this desirable development is to proceed undisturbed, the other components of domestic expenditure, namely, private consumption spending and the current and capital outlays of the public authorities, will have to be very carefully watched. These expenditures all increased rapidly during the past year, and a measure of continued increase will not only be unavoidable but also essential. It is of great importance, however, that their growth rate during the coming year should not be such that private fixed investment has to be restrained in order to prevent the development of inflationary pressure. To this end, the co-operation of the general public and of all Government departments and other public authorities will be essential.

Finally, a word about the gold marketing problem to which only passing reference has been made. I am certain that by far the larger part of the international financial community would welcome a solution of this issue in that it only contributes to international monetary and currency uncertainties.

The Minister of Finance has recently disclosed that certain preliminary exchanges of opinion have taken place in regard to this matter between South Africa and the United States of America. South Africa still continues to adhere to its belief in the principle that newly-mined gold should at all times have free access to the monetary reserves of all countries on the basis of the official price, irrespective of the price which may obtain in the free market. We hold the view, therefore, that any monetary authority which may so desire should be completely free to buy gold from any source at the official price to augment its gold reserves. This view is based mainly on the belief that gold is the one remaining international reserve asset which can be used unconditionally and which at the same time strengthens confidence in currencies and still exercises a measure of discipline.

Not only this country, but many others regard this matter as being of fundamental importance to the smooth working of the international monetary system, and it is hoped, therefore, that an agreement satisfactory to all concerned can be reached. South Africa, which had no part in the Washington discussions of March 1968, has been, and still is, prepared to discuss the matter with those who may hold different views.

At the conclusion of his address the Chairman moved :

That the Accounts and Reports be adopted.

Mr. H. D. Waiting seconded the motion which was carried.

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

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

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

1. That Messrs. Whiteley Brothers and Messrs. Deloitte, Plender, Griffiths, Annan and Company of Johannesburg be paid the sum of twelve thousand five hundred rand each, in accordance with the recommendation of the Board, for auditing the accounts of the Bank for the year ended 31st March 1969.
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 Dr. P. E. Rousseau and were carried.

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

1969

South African Reserve Bank

Report of the Board of Directors of the South African Reserve Bank for the year ended 31st March 1969, to be presented to Stockholders at the Forty-ninth Ordinary General Meeting to be held in Pretoria on Tuesday, 26th August, 1969.

In accordance with the provisions of the South African Reserve Bank Act, 1944, and the Regulations framed thereunder, the accompanying statement of the Bank's accounts for the year ended 31st March 1969, certified by the auditors as prescribed, is presented to Stockholders.

CAPITAL

The Bank's capital of R2,000,000 was held by 909 stockholders, of whom 48.6 per cent held less than R1,000 each.

RESERVE FUND

In terms of section 16(3) of the Act, R463,000 of the net profit for the year was allocated to the Reserve Fund, thus increasing it to R12,179,000.

NOTES IN CIRCULATION AND NOTES OF OTHER BANKS

The Bank's note issue amounted to R433,653,000 at 31st March 1969, representing an increase of R36,031,000 over the year. This increase reflects the normal increase in the demand for notes as a result of the sustained economic expansion in the country.

The liability of the Bank for notes issued by other banks decreased by R7,000 during the year to a total of R379,000. 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 R333,571,000 to R676,678,000 over the year, that is, by R343,107,000. This substantial increase was due to increases of R84,606,000 in Bankers' reserve accounts, R7,441,000 in Bankers' current accounts, R219,437,000 in Government current accounts, R553,000 in Provincial current accounts and R31,070,000 in Other accounts.

The increase in Bankers' reserve accounts partly reflects the rising trend in the short-term liabilities of monetary banking institutions which in terms of the Banks Act (Act No. 23 of 1965) are required to hold 8 per cent of these liabilities in the form of reserve balances with the Reserve Bank. It was, however, also due to the additional reserve balances which monetary banking institutions were required to maintain with the Reserve Bank in terms of Government Notice No. 1,004 of 7th June 1968, issued under Proclamation No. R.184 of 1967. In terms of this Notice, monetary banking institutions are required to hold, in addition to the normal 8 per cent of their short-term liabilities, a further 12 per cent of the increase in such liabilities since 31st March 1968, in the form of a cash reserve with the Reserve Bank, and 20 per cent of this increase in the form of special deposits with the National Finance Corporation of South Africa. The increase in Government deposits reflects a part of the money which the Government, during the past year, withdrew on a net basis from the economy as an anti-inflationary measure, while the increase in Other deposits resulted mainly from an increase in the Rand holdings of the International Monetary Fund. The increase in these holdings was the net result of the conversion by South Africa of its Super Gold Tranche position in the Fund into foreign currencies and drawings in Rand made by other members of the Fund.

FOREIGN CURRENCY LOANS

The Bank owed an amount of R55,446,000 in foreign currencies as at 31st March 1969, as compared with R23,303,000 at the end of the preceding year. The increase amounting to R32,143,000 was the net result of repayments and drawings on loans acquired on a relatively short-term basis in various foreign currencies.

OTHER LIABILITIES

The Bank's Other Liabilities increased by R130,649,000 to R233,515,000 over the year, as shown in the Balance Sheet,

mainly as a result of an increase in the Stabilisation Account which was established in terms of the General Loans Act (Act No. 16 of 1961, as amended) and of which only the net unemployed balance has been shown under Other Liabilities.

GOLD COIN AND BULLION

The Bank's gold reserve increased from R525,419,000 to R968,273,000 over the year. Gold purchased by the Bank during the year, valued at the statutory price of R24.80 per fine ounce, amounted to R593,462,000 while the gold disposed of by the Bank, also valued at the statutory price, amounted to R150,608,000. The difference of R442,854,000 was, of course, added to the Bank's gold holdings.

BALANCES WITH OVERSEAS BANKS; MONEY AT CALL IN LONDON; FOREIGN BILLS

These items, together with an amount of R13,353,000 held in investments domiciled abroad, represented the Bank's foreign exchange reserves, and totalled R160,282,000 at the end of the year, as compared with R89,790,000 at 31st March 1968. The total included R88,201,000 in U.S. dollars, R25,024,000 in British sterling, R5,796,000 in Swiss francs and R35,994,000 in German marks. 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 R513,346,000. This figure was made up of increases of R442,854,000 and R70,492,000 in the Bank's gold reserve and in its foreign exchange holdings respectively.

DOMESTIC BILLS

Domestic bills under discount with the Bank increased by R5,090,000 to R6,510,000 as the net result of a decrease of R1,410,000 in the Bank's holdings of Treasury Bills and an increase of R6,500,000 in its holdings of Land Bank Bills.

LOANS AND ADVANCES

This item showed an increase of R83,441,000 over the year to a total of R95,241,000, mainly as a result of increases in the Bank's advances to discount houses and semi-Government bodies.

GOVERNMENT AND OTHER SECURITIES

The Bank's investments decreased during the year by R4,429,000 to R110,705,000, its net holdings of South African Government securities having decreased by R8,843,000 while its portfolio of other securities increased by R4,414,000.

The Bank's holdings of Government securities domiciled abroad increased by R8,392,000, so that the decrease in Government securities domiciled in the Republic actually amounted to a net amount of R17,235,000.

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.

OTHER ASSETS

The Bank's Other Assets decreased by R42,056,000 over the year as shown in the Balance Sheet. This decrease resulted mainly from a new method of showing only the net difference on the Government's Stabilisation Account under the item Other Liabilities.

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 contributions to the Bank's pension fund and after writing down securities, fixed property and furniture and fittings and transferring R1,000,000 to the fixed property reserve, the net profit for the year amounted to R4,830,000. Dividends to stockholders absorbed R200,000 while R463,000, representing one-tenth of the balance, was allocated to the Reserve Fund, leaving R4,167,000 to be paid to the Government.

DIVIDENDS

The Board declared an interim dividend of 5 per cent for the half-year ended 30th September 1968, and a final dividend of the same amount for the half-year ended 31st March 1969.

