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South African Reserve Bank

1973

Report of the Fifty-Third Ordinary General Meeting

BOARD OF DIRECTORS

THEUNIS WILLEM DE JONGH	*Governor*
DANIËL GERHARDUS FRANZSEN	*Senior Deputy Governor*
HENRY OSWALD DE VILLIERS	*Deputy Governor*
GERHARDUS PETRUS CHRISTIAAN DE KOCK ..	*Deputy Governor*
	Representing:
CHRISTIAAN LEONARD DE BRUYN	*Government*
PIERRE ETIENNE ROUSSEAU	
EUGENE O'CONNELL MAGGS	*Commerce*
LAWRENCE STUART ROBINSON	*and*
JOHN BENEDICTUS DE KORTE WILMOT	*Finance*
JOHANNES FREDERIKUS VAN WYK	*Agriculture*
IAN GRANGER FLEMING	*Industry*
ANTHONY EDWARD RUPERT	

South African Reserve Bank

Fifty-Third Ordinary General Meeting of Stockholders

MINUTES OF PROCEEDINGS

The Fifty-Third Ordinary General Meeting of Stockholders was held at the Head Office of the Bank, Pretoria, on Tuesday, 21st August 1973 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 1973.

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

SURVEY OF ECONOMIC AND MONETARY DEVELOPMENTS

After a period of relatively slow economic growth during 1971 and 1972, a moderate revival in economic activity occurred from the fourth quarter of 1972 and continued during the first half of 1973. Although the rate of increase in the real gross domestic product for the year ended 30th June 1973 as a whole was not significantly different from that for the preceding year, amounting in both years to between 4 and $4\frac{1}{2}$ per cent, the real gross domestic product increased at a faster rate from the fourth quarter of 1972. Several sectors contributed to this faster real growth, namely the manufacturing sector, the non-gold mining sector and certain sections of commerce.

During the year under review there was also a more rapid increase in the prices of South African export products (including gold) than in the prices of imported goods. This favourable turn in the terms of trade meant that the real purchasing power of South African residents, and thus their command over goods and services for domestic consumption and investment purposes, increased at a faster rate than the growth in the real gross domestic product. The more rapid rise in export prices than in import prices, therefore, led to a larger increase in the economic welfare of South African residents than was indicated by the increase in domestic production. This development was reflected in the fact that the real *national* product increased at a higher rate than the real *domestic* product. The increase in the real gross national product was approximately 5 per cent in 1971/72 and about $5\frac{1}{2}$ per cent in 1972/73.

In addition to the contribution to a higher growth rate by the substantially larger export earnings, significant contributions were made by increases in the volume of manufacturing and non-gold mining production. Thus, during 1972/73 the average level of the index of the physical volume of manufacturing production was about 5 per cent higher than during the preceding year. Moreover, the upturn in the index was relatively sharp since the fourth quarter of 1972. The average for the first six months of 1973 showed an increase of 6,6 per cent over the corresponding figure for 1972. In the case of non-gold mining production, the index of the volume of production for the year ended June 1973 was on average 6,7 per cent higher than for the corresponding period a year ago, and that for the first six months of 1973 12,0 per cent higher than for the same months in 1972. It is also gratifying that the output per man-hour in both manufacturing and mining increased during the year under review.

The gold mining industry made a negative contribution to the real economic growth rate, as measured by an increase in the real gross domestic product, because the kilograms of gold produced declined by 6,6 per cent during the year 1972/73. However, the value of the gold output increased markedly as a result of the sharp increase in the price of gold on the private market. The average price of gold on the London market rose from R34,6 in 1971/72 to R57,5 per fine ounce in 1972/73 and this contributed materially to increases of about 70 and 44 per cent, respectively, in the profits of gold mining companies and their contribution to the gross domestic product at current market prices. The higher gold price also enabled the gold mines to increase salaries and wages, to pay out higher dividends, to make a substantially larger contribution to government finance through higher tax payments and still to retain undistributed profits of more than double the amount of the preceding year. These higher money flows are having significant stimulating effects on the economy as a whole. Notwithstanding the lower volume of gold production, the gold mining industry, therefore, made a significant contribution to a further stimulation of economic growth, in addition to assisting the improvement of the balance of payments.

Trading conditions in general have shown only a moderate improvement. Retail sales at constant prices increased at an annual rate of 3,8 per cent from the second half of 1972 to the first half of 1973. The motor trade, however, experienced exceptionally buoyant conditions during the year under review. Thus, the number of new motor vehicles sold during the first half of 1973 was 13 per cent higher than during the second half of 1972 and no less than 20 per cent higher than during the first half of 1972.

An important feature of the present revival in economic activity is that it originated largely from an increase in the value of the net gold output and merchandise exports, and to a much lesser extent from an expansion of aggregate domestic demand. Components of domestic demand which increased at relatively high rates were consumption expenditure on durable goods and capital outlays by public corporations, the South African Railways and the Post Office. Inventory investment was low and the ratio of inventories to sales dropped to a very low level during the year under review. Fixed investment by the private sector as a whole showed almost no change as a result of declines in capital outlays by commerce and manufacturing which were offset by increases in fixed investment by certain other sectors.

The low rate of increase in gross domestic expenditure during the year under review was reflected in a surplus on the balance of payments on current account amounting to R268 million. This represents a considerable change from a deficit of R432 million during the preceding year. Large increases in the net gold output and merchandise exports led to this improvement. Net gold output rose from R1 015 million in 1971/72 to R1 432 million in 1972/73, or by 41 per cent. Merchandise exports increased from R1 856 million to R2 467 million, or by 33 per cent, during the year under review. Although the volume of merchandise exports was also higher, the largest contribution to the rise in the value of merchandise exports was made by price increases. Merchandise imports rose by only 7 per cent during the past year. The downward tendency in imports from the beginning of 1971 changed to a moderate upturn as from the fourth quarter of 1972. Net invisible payments increased by 27 per cent during 1972/73, mainly owing to higher dividend and interest payments to foreigners, increased freight payments and higher tourist expenditure.

The total net capital flow to South Africa declined substantially during the past three years from over R750 million in 1970/71 to R235 million in 1972/73. Various factors contributed to the smaller inflow of capital, including the exchange control measures introduced by the United Kingdom, the favourable domestic capital market situation, large repayments of official loans and a switching from foreign to domestic financing of trade because of the much lower level of local interest rates.

Notwithstanding the reduced inflow of capital, the total gold and other foreign reserves continued to rise to a level of R1 341 million at the end of June 1973. During July the Reserve Bank's gold and other foreign reserves increased further by R72 million to R1 268 million.

In South Africa, as in most other countries, prices continued to rise at a relatively high rate during the past year. The consumer price index rose by 10,1 per cent from June 1972 to June 1973. The largest contribution to this rise was made by an exceptionally high rate of increase in food prices, namely 16,5 per cent. The cost of housing and other services also rose at the relatively high rate of 9,5 per cent. A closer look at the quarterly rates of change in the consumer price index reveals that a peak was reached in the first quarter of 1973 and that the rate of increase declined significantly during the second quarter of 1973. This tendency is not surprising because food prices could hardly have been expected to continue to rise at the abnormally high rate recorded during the first quarter, and, furthermore, the effects of exchange rate changes have recently become disinflationary.

The main features of the monetary and banking situation during the year under review were a considerable further easing of money market conditions, a sharp decline in interest rates and a rapid rise in the quantity of money and near-money largely owing to the sustained increase in the gold and other foreign reserves and a new upsurge in bank credit to the private sector. Only a relatively small part of the substantial increase in bank credit can be ascribed to increased hire-purchase credits associated with the higher consumption expenditure on durable goods. A large part of the bank credit extension was caused by a shift from foreign to domestic financing of international trade induced by the considerable interest rate advantage that could be gained locally, and probably also by a shift of financing from inter-company lending to certain types of bank lending at relatively low interest rates. Together with the very rapid increase of 24 per cent in the quantity of money and near-money from June 1972 to June 1973 (15 per cent if the monthly average for 1972/73 is compared with the comparable figure for 1971/72), prices also rose more rapidly, with the result that the ratio of money and near-money to the gross domestic product at current market prices showed only a moderate rise to a level which would still appear to be below its long-term trend.

The capital market situation during the year under review was also characterised by easier conditions, lower interest rate levels resulting from an increase in the supply of loanable funds and a low level of demand caused by a lower rate of increase in fixed investment. The increased supply of funds was also reflected in a substantial rise in the inflow of funds to building societies and banks, while the market for fixed-interest securities was well supported. Buoyant conditions prevailed on the Johannesburg Stock Exchange, particularly in the gold mining section, where exceptionally large price increases were recorded.

PRESENT ECONOMIC SITUATION AND SHORT-TERM PROSPECTS

The preceding survey of economic and monetary developments makes it clear that the year ended June 1973 was in most respects a good one for the South African economy. The one major blemish in an otherwise gratifying picture is, of course, the continuing high rate of inflation, a problem which South Africa shares with most other countries and to which I shall return later. But the persistence of the inflation, serious as it undoubtedly is, does not detract from the positive achievements of the South African economy during the past year. Nor can it alter the fact that the present situation provides a firm basis for a further overall improvement in the period ahead.

Of the several favourable developments during the past year, the considerable further strengthening of the balance of payments was of basic importance. Although the South African economy is accustomed to large fluctuations in its balance of payments, the improvement on this occasion was particularly sharp and sustained, and resulted in a rapid increase in the total official gold and other foreign reserves to new record levels. The initial recovery in the overall balance of payments and reserves after the middle of December 1971 was largely attributable to a reversal in the leads and lags in foreign payments and receipts and a considerable increase in the net inflow of private capital in general. But it is significant that the sustained balance of payments improvement during the past year occurred despite a substantial decline in the net inflow of private capital and largely because of the emergence of a surplus of R268 million on current account, following the current deficits during the preceding two years.

It is furthermore gratifying to note that this transformation of the current account was not merely a cyclical phenomenon, i.e. it was not entirely a reflection of the slowing down in the domestic economy and the accompanying downward tendency in imports which occurred between the early part of 1971 and the beginning of the fourth quarter of 1972. As always, this cyclical effect was very marked. But on this occasion the strengthening of the current account was also attributable to other developments. One of these was the policy of attaining an effective depreciation of the external value of the rand which amounted to about 15 per cent between December 1971 and October 1972. In addition to its more immediate favourable effects of reversing the payments leads and lags, stimulating the inflow of private capital and helping to counteract the slowing-down in economic activity, this policy in due course also played some part in encouraging exports and discouraging imports, i.e. in improving the current account. More important, however, was the considerable increase in export prices in relation to import prices and, particularly, in the private market price of gold.

The strengthening of South Africa's balance of payments on current account produced by these factors was well illustrated by the retention of a sizeable current surplus during the first two quarters of 1973, notwithstanding the new upward tendency in imports which naturally accompanied the revival in economic activity from about the beginning of the fourth quarter of 1972. This is not to suggest that as the present economic upswing gains further momentum South Africa will necessarily continue to run a current account surplus or, indeed, that such a continued surplus would be desirable. On the contrary, as the expected and desired increase in the rate of growth of production, fixed and inventory investment and consumption materialises, we would expect in due course to experience a moderate current account deficit. Such a state of affairs would be normal for a rapidly developing economy like that of South Africa, particularly in an upward cyclical phase. It is also possible that the net inflow of capital will continue to be adversely affected by the existing large discrepancy between domestic and foreign interest rates. A decline in the reserves from their present exceptionally high level would, however, not afford grounds for undue concern.

Closely linked to the improvement in the balance of payments during the year under review, was the further easing of money and capital market conditions. The increase during this period in the availability of virtually all kinds of loanable funds and the general decline in interest rates, represented a considerable improvement on the situation during the preceding two years, and served to provide a monetary and financial climate which not only provided ample scope for an acceleration of the real growth rate but positively encouraged it. Future developments in this regard will depend on various factors including not only any possible change in the balance of payments, but also the course of the Government's finances. During the first four months of the current fiscal year the Government has withdrawn a substantial net amount of funds from the private sector, but it is expected that this flow will be reversed during the coming months.

Another major favourable development during the past year was, of course, the new upward movement in real economic activity itself, as summarised in the first part of this Address and described more fully in the *Annual Economic Report.* In this regard I would underline as particularly gratifying the following developments:

(1) The faster rate of increase since the fourth quarter of 1972 in the real gross domestic product, and particularly in the real gross *national* product, which takes into account the favourable effect on real incomes of the improvement in export prices in relation to import prices.

(2) The large increase in the value of both the net gold output and merchandise exports, which directly and indirectly brought about additional income generation in the economy.

(3) The expanded capital outlays of public corporations, the South African Railways and the Post Office, which generated income while at the same time increasing productive capacity for the future.

(4) The increase in the volume of both manufacturing and non-gold mining production.

(5) The increase in output per man-hour in both manufacturing and mining.

In addition to these welcome developments, there are strong indications that the present upward movement in economic activity will gain further momentum in the period ahead. To begin with, both the level of the gold and other foreign reserves and the general monetary and financial situation provide ample scope and encouragement for a continuing economic upswing. Secondly, the full secondary expansionary effects of the large increase in the net gold output and merchandise exports have still to be felt. Thirdly, considerable additional income will be created by the increased expenditure of the Government provided for in the 1973/74 Budget, as well as by the large expansion programmes of other public authorities and public corporations. Fourthly, the fact that the increase in production in response to rising demand has reduced surplus productive capacity in many sectors during the past year, suggests that the anticipated increase in fixed capital outlays in the private sector may not be long delayed. Fifthly, following the decline in non-agricultural inventories to an historically low level in relation to gross domestic product, some rebuilding of inventories in the period ahead seems inevitable, which should provide a strong further stimulus to manufacturing production. Sixthly, most industrial countries are at present experiencing buoyant economic conditions and world trade and output are still rising at a relatively high rate.

This brings us back to the serious problem of inflation. Although aggregate demand has increased during the past year, it does not yet appear to be excessive. The inflation in South Africa at present is therefore still not of the demand-pull variety. It is also not the kind of cost-push inflation often experienced by the leading industrial countries in recent years, i.e. an inflation initiated and caused mainly by excessive wage increases forced upon employers by strong trade unions even at times of inadequate demand. Since the latter half of 1971 South Africa's inflation has been basically caused by four main factors, the relative importance of which has varied from time to time. The first of these has been rising import prices as a result of both world inflation and the effective depreciation of the rand between August 1971 and October 1972. The second cause has been domestic cost-push influences such as delayed upward adjustments of administered prices and wages and salaries, which were partly a legacy of the demand-pull inflation of the 1969-71 period. The third main cause has been the increase in food prices associated in part with unfavourable climatic conditions. And the fourth has been a continuing structural increase in the cost of housing and other services. Of more recent origin is the substantial increase in the wages of lower paid unskilled workers that was required in order to improve their standard of living, but which had to be effected without employers having the assurance that labour productivity could be increased in the short run. In some cases the higher labour costs have already been passed on in higher prices.

In view of all these considerations, the monetary authorities have not deemed it appropriate to attempt to counteract the inflation by means of restrictive monetary and fiscal measures. Nor has the Government considered it advisable to institute a temporary wage-price freeze or to expand its existing price controls into a comprehensive system of price, wage, dividend and/or profit controls. On the contrary, the broad economic policy throughout the past year has been designed to stimulate real economic growth. Various steps have, however, been taken to curb the rate of price increases and I shall comment on these in my concluding remarks.

MONETARY POLICY

In my Address last year I outlined a programme for gradually replacing the ceiling method of credit restraint with control in the form of liquid asset and cash reserve requirements. This programme was duly implemented and the credit ceilings for banking institutions were abolished as from 1st November 1972, while new liquid asset and cash reserve requirements were prescribed in terms of the amended Banks Act for all banking institutions as from the date of certification of their monthly statements for the month ended 31st October 1972. The requirements were fixed at a level which provided scope for further credit extension and, with the substantial additions to the liquidity of the banks during the course of the ensuing months, particularly as a result of the surplus on the balance of payments, the banks had no difficulty in meeting all reasonable requests for credit from their clients. Apart from a small reduction in the required supplementary cash reserves for banks in March of this year, the liquid asset and cash reserve requirements remained at the levels fixed in October 1972.

Despite the large increase in total bank credit extended to the private sector during the past year, it is not considered desirable at this stage to tighten the financial requirements for the banks or to apply other restrictive monetary measures. As already indicated, in the prevailing circumstances the ratio of money and near-money to gross domestic product is not yet unduly high and aggregate demand has not yet risen excessively. If domestic expenditure begins to exert undue pressure upon resources, adjustments in monetary and fiscal policies will, of course, be called for, but the authorities do not wish to restrain the increase in demand prematurely. The banks are, however, once again requested to be more selective in extending credit and, in particular, to give preference to credit for production and exports.

An important central banking function will shortly be more actively pursued with the object of making the Bank's monetary policy more effective. The Bank proposes, namely, to extend its existing operations in the open market by entering the market more actively as a buyer or seller of Government securities when it deems it desirable to influence market conditions.

The Bank is also introducing as from 1st September 1973 a new system of assisting the discount houses during periods of tight money market conditions. For several years the Bank has granted loans to the discount houses against the collateral of Government securities, but from the abovementioned date the Bank will, apart from overnight loans, discount Treasury bills on a buy-back basis for the discount houses at $\frac{1}{2}$ per cent above the latest Treasury bill tender rate or, if their holdings of these bills are insufficient, purchase short-dated Government stocks from them. These purchases will take place at competitive market rates or, when the Bank deems it necessary, at penal rates.

The objects of this new arrangement are, firstly, to ensure that the discount houses reduce their overall portfolios during tight money market conditions, whereas they will be able to expand their portfolios when this is justified by the availability of money, and, secondly, to reinstate the Treasury bill as the most important money market instrument.

EXCHANGE RATE AND GOLD POLICY

In a world situation of considerable currency instability the South African authorities have since December 1971 found it necessary to make increased use of exchange rate adjustments as an instrument of economic policy. In retrospect, the results thus far obtained afford grounds for satisfaction. As already indicated, the devaluation of December 1971 and the temporary downward float with sterling between June and October 1972 not only contributed to the improvement in the balance of payments but also played a part in countering and eventually reversing the slowing-down tendency in the domestic economy. These vital benefits were, of course, obtained at the cost of aggravating the already serious inflation. Therefore, once the improvement in the balance of payments and the new upswing in domestic economic activity were assured, the authorities, as part of their anti-inflationary action, followed a policy of attaining an effective appreciation of the rand in terms of other currencies generally.

As a first step, the floating with sterling was terminated on 25th October 1972 and fixed buying and selling rates for the U.S. dollar were quoted at a rate yielding an effective appreciation of about 3 per cent. Then, in February 1973, it was decided not to follow the 10 per cent dollar devaluation and the accompanying further depreciation of sterling, but to allow the rand to appreciate effectively by about 6 per cent. Subsequently, on 5th June, after the rand had shown a new depreciation with the dollar of about 3 per cent, the step was taken of unilaterally appreciating it by about 5 per cent by changing the fixed buying and selling rates for dollars accordingly. Thereafter the rand first depreciated moderately and then strengthened again with the dollar to a level somewhat higher than that of 5th June.

The net result of all these changes was an average effective appreciation of the rand since October 1972 of no less than 11 per cent. At present the average effective exchange rate of the rand is only about 4 per cent below its level in August 1971 and about 1 per cent above its level before the sterling devaluation of November 1967.

As regards gold, the major event of the past year certainly was the sharp rise in the price on the private market. The London fixing price fluctuated between 60 and 70 U.S. dollars per ounce for about seven months from July 1972 to January 1973. In February 1973, after the 10 per cent devaluation of the U.S. dollar, it moved upwards sharply and then remained between 80 and 90 dollars per ounce for the next three months. On 14th May the fixing price moved through the 100 dollar mark for the first time and then continued to increase to a record level of 127 dollars per ounce on 5th June. It subsequently fluctuated around a level somewhat below this for about two months, before declining sharply to 92,50 dollars per ounce on 15th August, and then recovering again to 107,25 dollars per ounce at the morning fixing on 20th August.

The recent decline in the private market price must be viewed in perspective. The exceptionally sharp rise in the price during May, June and July was partly a reflection of a decline in confidence in the dollar and in currencies generally, which in turn, was produced by the persistent deficit in the U.S. balance of payments, the high rate of inflation in virtually all countries and the general international monetary uncertainty. This resulted in a movement not only out of dollars into stronger currencies like German marks and Swiss francs but also out of currencies generally into gold and other commodities. In these circumstances the dollar, despite the fact that it had already devalued by 7,89 per cent in December 1971 and by another 10 per cent in February 1973, floated down a good deal further in relation to most European currencies. In due course, however, markets came to feel that the dollar was undervalued and that the hedging in gold and other commodities was being overdone. At the same time interest rates in the United States and in most European countries increased further to exceptionally high levels. Understandably, therefore, the dollar strengthened appreciably and the private market price of gold declined.

In assessing the present situation in the gold market, sight should not be lost of certain facts. Firstly, the present price is still about 55 per cent higher than that prevailing a year ago and more than double the present official price of 42,22 dollars per ounce. Secondly, given the continuing need to strengthen the U.S. balance of payments, it can be assumed that there is a limit to the extent to which the dollar is likely to appreciate in the foreseeable future. Thirdly, the exceptionally high interest rates existing in the major industrial countries at present will not prevail indefinitely. Fourthly, although there is normally a seasonal decline in gold purchases by industrial users at this time of the year, industrial demand remains strong. Finally, little real progress has thus far been made in reducing the rate of world inflation or in restoring confidence in currencies and in international monetary arrangements. For these various reasons, the outlook for the private market price of gold remains favourable.

Throughout the past year South Africa has again been selling considerably more of its current gold production on the private market than the minimum called for under its gold marketing agreement with the International Monetary Fund. Indeed, during the first half of 1973 the Reserve Bank took only about one million fine ounces into its reserves, notwithstanding the fact that the total gold and other foreign reserves increased by R267 million during this period.

With reference to the weekly sales of gold on the private market by the Reserve Bank as agent for the gold mines, I must draw attention to the wrong deductions often made from the figures of the Bank's gold holding as published in its weekly statements. Changes in the Bank's gold holding do not indicate whether more or less gold has been sold on the private market. The reason for this is that the production of gold varies considerably from week to week. If, therefore, the Bank's gold holding increases more during a given week than during the preceding week, it does not necessarily mean that a smaller amount of gold has been sold on the private market. In fact, more gold may have been sold due to an increase in production.

Deliberations are meanwhile continuing within the International Monetary Fund's Committee of Twenty and also in other forums on the future role and price of gold in the international monetary system. Various proposals to resolve the serious difficulties resulting from the wide discrepancy between the present unrealistic official gold price and the private market price are being debated. In this regard there appears to be growing support for the proposal to terminate the two-tier gold system and to permit monetary authorities not only to engage among themselves in gold transactions at a market-related price but probably also to buy and sell gold on the private market. Developments during the past year have reinforced my confidence in gold and I am convinced that, whatever reforms may be introduced in due course, gold will continue to play an important role in the international monetary system of the future.

CONCLUDING REMARKS

In conclusion, I wish to return again to the problem of inflation and to stress that this is a serious matter which requires the continuing attention of the authorities. In his Budget Speech in March 1972, the Minister of Finance referred to three principal economic objectives of the Government, namely an improvement in the balance of payments, a more rapid rate of growth and the curbing of inflation. It is clear now that the authorities have succeeded in attaining the first of these objectives and that considerable progress has been made towards the second. But the attempts to attain the objective of curbing inflation have thus far met with limited success. It is encouraging that, after rising sharply during the first quarter of this year owing to a substantial increase in food prices, the rate of inflation declined notably during the second quarter, but this affords no grounds for complacency.

It is, of course, true that inflation is at present a world-wide problem and that, in the absence of a concerted international effort to combat it, any individual country with a relatively open economy will find it difficult to succeed on its own in restraining undue price increases. Furthermore, since our inflation in recent years has not been of the demand-pull variety, any attempt to restrain it by means of restrictive monetary and fiscal measures would not only have met with little success but would also have conflicted with the objective of stimulating economic growth. In the short term the Government has therefore had little alternative but to rely on measures such as the reduction of sales duties and other indirect taxes, concessions to building societies with a view to reducing mortgage rates, the importation of certain foodstuffs in short supply, the relaxation of import control and the effective appreciation of the rand, i.e. in so far as the progressive attainment of the important balance of payments and growth objectives permitted steps of this kind.

Basic to the approach of the authorities has also been the premise that, under the prevailing conditions, an increased growth rate would lead to the fuller utilisation of existing plant and labour capacity, and therefore to an increase in output per man-hour and a resultant reduction in unit costs. As I pointed out earlier, there are signs that this premise is being fulfilled, and it is to be hoped that this process will continue. It is important, however, that consumers should share in the benefits flowing from this, i.e. that any decline in unit costs should to a large extent be reflected in a slowing down in the rate of price increases.

As far as long-term measures are concerned, increased attention is being given to training programmes and to the more productive use of available labour and other resources. In both the short and the long term, however, it remains important to practise restraint in wage and salary claims. In this regard, figures presented in the Bank's *Annual Economic Report* indicate the considerable extent to which the increase in the remuneration of employees has in recent years continued to exceed the increase in the level of consumer prices. It would greatly assist in restraining inflation and redound to the benefit of all sections of our population if increased emphasis were in future placed upon increasing productivity and if wage and salary adjustments could be related more closely to such increases. Under present conditions a joint effort against inflation by both the authorities and the private sector is called for. Excessive price increases can only be contained if official disinflationary measures are supplemented by a responsible attitude on the part of labour, management and all other sections of the community. To this end it is important that the efforts of the two committees recently appointed by the Government to keep inflation under constant surveillance and to promote productivity, should enjoy widespread support.

At the conclusion of his address the Chairman moved:

That the Accounts and Reports be adopted.

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

On the motion of the Chairman, seconded by Dr. C. B. Strauss, it was resolved:

That Dr. Ian G. Fleming and Mr. L. S. Robinson, whose periods of office expired on 30th June, be re-elected as stockholders' representatives on the Board of Directors.

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

1. That Messrs. Deloitte and Company of Johannesburg and Messrs. Whiteley Brothers be paid the sum of nineteen thousand rand each, in accordance with the recommendation of the Board, for auditing the accounts of the Bank for the year ended 31st March 1973.

2. That Messrs. Deloitte and Company of Johannesburg and Messrs. Whiteley Brothers be appointed auditors of the Bank's accounts for the current year.

Both motions were seconded by Mr. E. O'C. Maggs, and were carried.

After Mr. H. S. Morony had proposed a vote of thanks to the Chairman for presiding and for his address, the proceedings terminated.

1973

South African Reserve Bank

Report of the Board of Directors of the South African Reserve Bank for the year ended 31st March 1973, to be presented to stockholders at the Fifty-Third Ordinary General Meeting to be held in Pretoria on Tuesday, 21st August 1973.

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 1973, certified by the auditors as prescribed, is presented to stockholders.

CAPITAL

The Bank's capital of R2 000 000 was held by 853 stockholders, of whom 47,5 per cent held less than R1 000 each.

RESERVE FUND

In terms of section 16 (3) of the Act, R1 149 000 of the net profit for the year was allocated to the Reserve Fund, thus increasing it to R15 785 000.

NOTES IN CIRCULATION AND NOTES OF OTHER BANKS

The Bank's note issue amounted to R659 283 000 at 31st March 1973, representing an increase of R59 410 000 over the year. This increase reflects the normal rise in the demand for notes as a result of the further economic expansion in the country over the past year.

The liability of the Bank for notes issued by other banks decreased by less than R1 000 during the year and amounted to R374 000 at 31st March 1973.

DEPOSITS

The Reserve Bank's total deposit liabilities increased from R412 680 000 to R529 266 000 over the year, that is by R116 586 000. This increase was the net result of increases of R135 536 000 and R5 359 000 in Government current accounts and Other accounts respectively, and decreases of R21 314 000, R1 313 000 and R1 682 000 in Bankers' reserve accounts, Bankers' current accounts and Provincial current accounts, respectively.

Regarding the decrease of R21 314 000 in Bankers' reserve accounts, it should be pointed out that the cash reserve requirements for banking institutions changed slightly in November 1972 when the Financial Institutions Amendment Act (No. 91 of 1972) came into operation. In terms of this Amendment Act, various technical changes were made to the short-term liabilities of banking institutions as defined in the Banks Act (No. 23 of 1965), and *all* banking institutions are now required to maintain cash reserves with the Reserve Bank against their short-term liabilities, and not only those with outstanding short-term liabilities in excess of R500 000. The net result of these amendments to the Act was that the aggregate of the required minimum cash reserves with the Reserve Bank declined somewhat.

FOREIGN CURRENCY LOANS

As indicated in the Balance Sheet, the Bank owed an amount of R39 104 000 on loans in foreign currencies as at 31st March 1973, as compared with R100 916 000 at the end of the preceding year. The decrease amounting to R61 812 000 was the result of repayments on loans previously acquired in various foreign currencies.

OTHER LIABILITIES

The Bank's Other Liabilities increased by R102 029 000 to R243 975 000 over the year. This increase was made up mainly of increases in the Treasury Special Drawing Rights Deposit account as a result of an upward adjustment in the value of the Bank's SDR holdings to account for the devaluation of the Rand in October 1972, the Foreign Currency Adjustment account as a result of the flotation of various currencies and the S.A. Rand during the course of the year, and in the Stabilization Account which was established in terms of the General Loans Act (Act No. 16 of 1961 as amended).

GOLD COIN AND BULLION

The Bank's gold reserve increased by R226 605 000 from R328 254 000 to R554 859 000 over the year. This increase was the result of the Rand devaluation on 25th October 1972, when the statutory price of the Bank's gold holdings was changed from R28,30 to R29,55 per fine ounce and of the substantial surplus on South Africa's over-all balance of payments during the year which enabled the Bank to increase its gold reserves by retaining part of the current gold production for reserve purposes. The balance of the production for the year was sold on the private market.

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

These items, together with an amount of R16 868 000 held in investments domiciled abroad, represented the Bank's foreign reserves other than gold, and totalled R524 957 000 at 31st March 1973, compared with R234 183 000 at 31st March 1972.

The increase in the Bank's total gold and other foreign reserves during the year, which reflected the trend in the over-all balance of payments, amounted, therefore, to R517 379 000. This increase was the net result of increases of R226 605 000 in the gold reserve; R4 477 000 in its holdings of Special Drawing Rights and R286 297 000 in its foreign exchange holdings.

DOMESTIC BILLS

Domestic bills under discount with the Bank decreased by R60 900 000 to R7 380 000 as the result of decreases of R1 900 000 in the Bank's holdings of Treasury Bills and R59 000 000 in its holdings of Land Bank Bills.

LOANS AND ADVANCES

This item showed a decrease of R160 928 000 over the year to a total of R189 916 000. The decrease was accounted for by declines in the Bank's advances to Commercial Banks, Discount Houses and other institutions.

GOVERNMENT AND OTHER SECURITIES

The Bank's investments decreased during the year by R56 825 000 to R147 806 000, its net holdings of South African Government securities having decreased by R54 886 000, while its portfolio of other securities decreased by R1 939 000.

The Bank's holdings of Government securities domiciled abroad increased by R70 000, so that the decrease in Government securities domiciled in the Republic actually amounted to R54 956 000.

FURNITURE AND EQUIPMENT 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.

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 equipment and after providing a reserve for future expenditure on fixed property, the net profit for the year amounted to R11 694 000. Dividends to the stockholders absorbed R200 000 while R1 149 000, representing one-tenth of the balance, was allocated to the Reserve Fund, leaving R10 345 000 to be paid to the Government.

DIVIDENDS

The Board declared an interim dividend of 5 per cent for the half-year ended 30th September 1972, and a final dividend of the same amount for the half-year ended 31st March 1973.

DIRECTORS

Messrs. Ian G. Fleming and L. S. Robinson retire by rotation on 30th June 1973, but, being eligible, offer themselves for re-election.

AUDITORS

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

Messrs. Whiteley Brothers and Messrs. Deloitte and Company of Johannesburg offer themselves for re-election.

T. W. DE JONGH, *Governor*

H. O. DE VILLIERS
A. E. RUPERT } *Directors*
E. O'C. MAGGS

G. P. C. DE KOCK,
Secretary

30th June 1973

BALANCE SHEET 31st MARCH 1973

1972			
R2 000 000	CAPITAL		R2 000 000
14 636 000	RESERVE		15 785 393
599 873 363	NOTES IN CIRCULATION		659 282 972
374 004	NOTES OF OTHER BANKS IN CIRCULATION		373 617
	DEPOSITS—		
202 923 081	Banks' Reserve Accounts	R181 608 952	
2 853 091	Banks' Current Accounts	1 539 850	
109 377 022	Government Current Accounts	244 913 394	
78 739 326	Provincial Current Accounts	77 056 615	
18 787 488	Other Accounts	24 147 093	
412 680 008			529 265 904
100 916 125	FOREIGN CURRENCY LOANS		39 103 784
142 543 910	OTHER LIABILITIES		243 975 228
100 000	STOCKHOLDERS — FOR FINAL DIVIDEND		100 000
10 149 134	GOVERNMENT — FOR REMAINDER OF SURPLUS		10 344 539
R1 283 272 544			R1 500 231 437

1972		
R328 253 935	GOLD COIN AND BULLION — AT STATUTORY VALUE	R554 858 934
1 900 723	OTHER COIN	1 728 742
87 065 011	BALANCES WITH OVERSEAS BANKS	318 327 970
7 865 997	MONEY AT CALL IN LONDON	17 675 567
92 206 843	FOREIGN BILLS	139 599 005
28 008 724	SPECIAL DRAWING RIGHTS	32 486 441
68 280 000	DOMESTIC BILLS	7 380 000
350 844 482	LOANS AND ADVANCES	189 915 709
185 694 622	GOVERNMENT SECURITIES	130 808 533
18 936 261	OTHER SECURITIES	16 997 525
1	FURNITURE AND EQUIPMENT	1
1	FIXED PROPERTY	1
114 215 944	OTHER ASSETS	90 453 009
R1 283 272 544		R1 500 231 437

PROFIT and LOSS ACCOUNT

for the year ended 31st March 1973

1972				1972		
R7 283 008	GENERAL EXPENDITURE— Including cost of new bank notes, salaries, pension fund contributions, directors' fees and other charges		R7 557 372	R23 910 554	GROSS REVENUE— After making provisions for income tax, interest payable, rebate on bills not yet due, other liabilities and contingencies and after writing down securities	R23 345 524
	WRITTEN OFF—					
503 339	Fixed Property	R2 491 479				
147 391	Furniture and Equipment	102 741				
650 730			2 594 220			
4 500 000	RESERVE FOR FUTURE EXPENDITURE ON FIXED PROPERTY		1 500 000			
	PROFIT FOR THE YEAR— Allocated as follows: (Vide report of the Directors)					
200 000	Stockholders	200 000				
1 127 682	Reserve	1 149 393				
10 149 134	Government	10 344 539				
11 476 816			11 693 932			
R23 910 554			R23 345 524	R23 910 554		R23 345 524

G. P. C. DE KOCK, *Secretary*,

T. W. DE JONGH, *Governor*

H. O. DE VILLIERS
A. E. RUPERT
E. O'C. MAGGS
Directors

PRETORIA,
5th June, 1973.

To the Stockholders of the

SOUTH AFRICAN RESERVE BANK

We have examined the above balance sheet and report that, in our opinion it is a full and fair balance sheet and is properly drawn up so as to exhibit a true and correct view of the whole of the Bank's affairs, according to the best of our knowledge and the explanations given to us and as shown by the books of the Bank as at 31st March 1973. We also report that, in our opinion, the affairs of the Bank have been conducted in accordance with the provisions of the South African Reserve Bank Act, 1944, as amended, and the Regulations thereunder, so far as they affect the balance sheet and accounts.

DELOITTE AND CO.

WHITELEY BROTHERS

Auditors.

JOHANNESBURG, 5th June 1973

Hierdie verslag is ook op aanvraag in Afrikaans verkrygbaar

Hortors

SOUTH AFRICAN RESERVE BANK — HEAD OFFICE

Church Square — Pretoria

Senior Officers

Administration

General Manager	N. VAN DER WESTHUIZEN
Deputy General Manager	L. ORCHARD
Secretary	G. P. C. DE KOCK
Assistant General Manager	A. W. McDERMID
Assistant General Manager	J. C. SENEKAL

Economic Department

Head	B. VAN STADEN
Deputy Head	B. P. GROENEWALD
Deputy Head	C. J. DE SWARDT
Assistant Head	J. H. MEIJER

Other

Adviser	J. C. DU PLESSIS
Adviser	A. S. JACOBS
Assistant to the Governors	C. L. STALS
Adviser — Foreign	A. J. J. VAN VUUREN

Branches

BLOEMFONTEIN	*Manager*	A. VAN DER BURGH
CAPE TOWN ..	*Manager*	R. C. STEGMANN
DURBAN	*Manager*	D. R. DE W. STEYL
EAST LONDON ..	*Manager*	A. F. DE VILLIERS
JOHANNESBURG ..	*Manager*	P. H. DE C. DE KOCK
PIETERMARITZBURG	*Manager*	A. C. CASSELLS
PORT ELIZABETH ..	*Manager*	B. VAN NIEKERK
PRETORIA	*Manager*	S. H. DE KOCK
WINDHOEK	*Manager*	G. J. J. VAN RENSBURG