QUARTERLY ECONOMIC REVIEW

SUMMARY AND CONCLUSIONS

(1) During the fourth quarter of 1964 and the first two months of 1965, the current economic upswing in South Africa showed such sustained vigour that the existing inflationary pressures in the economy became somewhat stronger and the deficit on the current account of the balance of payments increased substantially.

(2) The main causes of the further rapid rise in the real gross national product during the fourth quarter and the accompanying upward pressure on the general price and wage level were substantial further increases in private fixed capital outlays, inventory investment, private consumption and current Government expediture. Public fixed investment and gold output showed little change, while merchandise exports increased moderately after having declined during the third quarter. Gross domestic saving, which had also declined during the third quarter, recovered only slightly during the fourth quarter.

(3) In the prevailing conditions of virtually full employment of available resources, the physical volume of manufacturing output showed further signs of a temporary levelling off, while labour and other bottlenecks continued to exist. The construction industry, in particular, operated under considerable pressure.

(4) As a result of the substantial further rise in the total monetary demand for both capital and consumer goods, imports continued to increase strongly during the fourth quarter and remained at a relatively high level during January and February, 1965. Since the net gold output showed little change and merchandise exports increased only slightly, the substantial deficit which had emerged on the current account of the balance of payments during the third quarter, became even larger during the fourth quarter of 1964 and the first two months of 1965. Since the net movement of capital during this period was fairly negligible, the official gold and foreign exchange reserves accordingly declined considerably.

(5) Notwithstanding the overall balance of payments deficit, the seasonally adjusted ratio of money and near-money to gross national product remained virtually unchanged during the fourth quarter at the relatively high figure of 35 per cent, mainly owing to a substantial further expansion of commercial bank credit and a return of Government funds to the private sector. The tendency towards inflationary over-spending during this period was accordingly facilitated by an environment of relatively easy credit and abundant liquidity. There was also a further increase in credit extended to the private sector by merchant banks, discount houses, "general banks", "hire-purchase banks" and "savings banks".

(6) The Treasury bill and related money market rates, as well as most other deposit rates throughout the banking system, increased sharply during the fourth quarter of 1964 and the first two months of 1965. This largely reflected the abnormal increase in the demand for most forms of credit at a time when the deficit on the balance of payments was draining liquid assets from the banking system as a whole and personal saving was relatively low.

(7) Despite a relatively high level of new security issues, share prices remained high and, in many cases, tended to rise further during the fourth quarter of 1964 and January, 1965. At the same time, upward pressure was exerted on gilt-edged rates and the Reserve Bank increased its pattern of rates for Government stock by 0.25 per cent on the 8th December and by a further 0.30 per cent on the 5th March, 1965. The changed supply-demand situation in the capital market also affected the building societies, which experienced an inflated demand for their mortgage loans simultaneously with a reduced inflow of new funds.

(8) In order to assist in reducing the rate of increase of total monetary demand to a level more commensurate with the rate of increase of real output and income, the Minister of Finance announced a series of further disinflationary measures on the 5th March. These included an increase in Bank Rate from 4½ to 5 per cent; the increase in the pattern of rates for Government stock referred to above; the imposition of supplementary liquidity requirements on commercial banks; a request to other banking institutions also to comply with these requirements; and an even more restrictive attitude on the part of the Reserve Bank towards rediscounting for banking institutions. For various reasons, however, the authorities found it necessary to regulate the increase in deposit rates and, to this end, the Reserve Bank, with effect from the 22nd March, imposed a set of maximum deposit rates on all banking institutions and building societies.

NATIONAL ACCOUNTS[1]

Further Rise in Gross National Product

During the fourth quarter of 1964 the gross national product at current prices continued to rise rapidly. While this was partly attributable to a moderate degree of price inflation, the *real* gross national product also increased substantially, although its rate of increase tended to fall slightly below that of the preceding three quarters.

For the year 1964 as a whole the gross national product at current prices is provisionally estimated at R7,417 million, which is approximately 11 per cent above the figure for the previous year. After making allowance for price increases and changes in the terms of trade, the *real* gross national product is estimated to have risen by about 7½ per cent during 1964. This is the third year running in which the economy has achieved a real growth rate of roughly this order.[2]

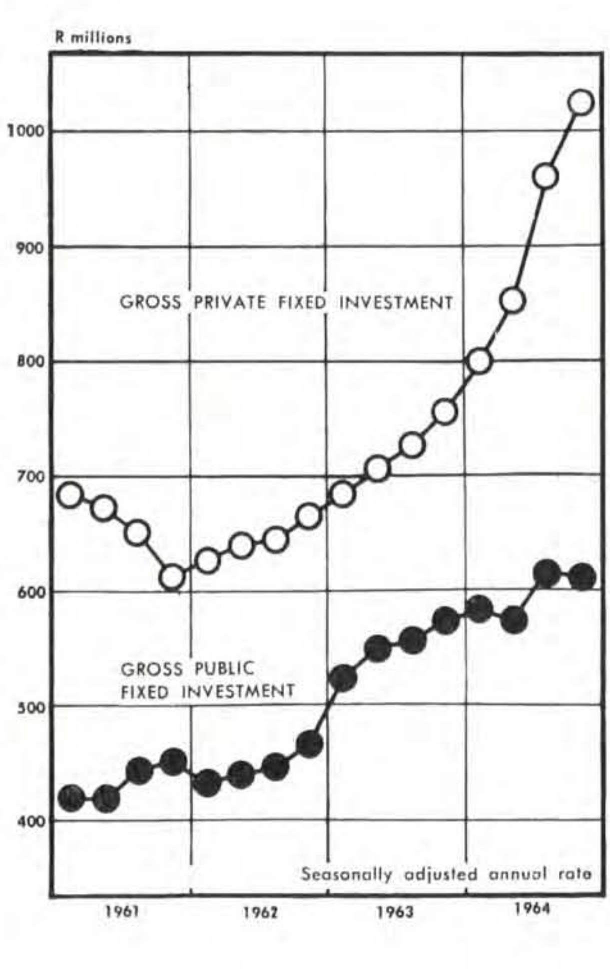
1) The analysis in this section of the review is largely based on the Reserve Bank's quarterly estimates of the national accounts, *after adjustment for seasonal tendencies*. Since these quarterly figures are not yet judged reliable enough for publication, the analysis is confined to pointing out broad tendencies.

2) The estimates of the real gross national product are significantly influenced by the terms of trade adjustment, which has the effect of *reducing* the real figure for 1963 and *increasing* that for 1964. Without the terms of trade adjustment, the real growth rates for 1962, 1963 and 1964 would have been 7½, 8½ and 6 per cent respectively. In other words, had it not been for a favourable turn in the terms of trade, the real rate of growth would have declined somewhat during 1964.

Continued Upsurge in Fixed Capital Outlays

One of the main causes of the continued rise in the real gross national product during the fourth quarter of 1964, as well as of the accompanying upward pressure on the general price level, was a further substantial increase in private capital outlays on plant, equipment and construction. In the public sector, a slight decline was registered in fixed investment by public authorities, but this was very nearly offset by an increase in the fixed capital outlays of public corporations.

For the year 1964 as a whole, *total* fixed investment amounted to about R1,500 million, which was no less than R233 million or 18½ per cent higher than the figure for 1963. *Private* fixed investment showed an increase of R190 million or 26 per cent. Of this latter rise, private manufacturing accounted for R92 million and residential construction for R40 million. Important increases were also registered in commerce, transport and mining.



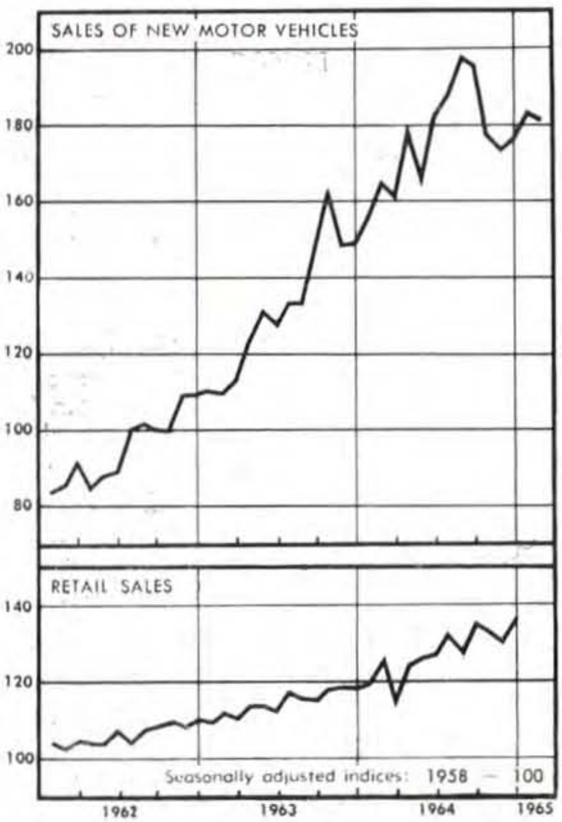
Inventory Investment

After declining during the third quarter of 1964, inventory investment, i.e. the net *addition* to stocks, increased sharply during the fourth quarter, mainly owing to a substantial rise in manufacturing inventories. Over the year as a whole, total stocks of goods increased substantially, although by a smaller percentage than the gross national product.

Further Sharp Rise in Private Consumption

The expansionary and even inflationary effect of the upsurge in capital spending during the fourth quarter was strongly reinforced by another sharp rise in private consumer outlays, although the rate of increase of this important component of total spending was somewhat lower than the abnormally high rate of the preceding quarters.

The seasonally adjusted index of retail sales, which had increased sharply during the first three quarters of 1964, increased by only 1.2 per cent during the fourth quarter as compared with the third quarter. Similarly, the seasonally adjusted index of motor vehicle sales, which had reached a peak in August, declined somewhat during September, October and November. It then increased again in December and January, but once more registered a slight decline in February. During the fourth quarter of 1964, this index was 9.4 per cent lower than during the peak third quarter.



During 1964 total private consumption amounted to R4,956 million, which was no less than 14 per cent higher than in 1963. Allowing for price increases, this represented an increase in real consumption of 11 per cent, compared with 7 and 9 per cent during 1962 and 1963, respectively. Expenditure on new motor cars showed the most pronounced rise compared with the previous year, namely an increase of 33 per cent.

Steady Increase in Current Government Expenditure

Although current expenditure by the Government and other public authorities increased at a somewhat slower rate during the last two quarters of 1964 than during the first two quarters, it still reached a total for the year which exceeded that of 1963 by nearly 13 per cent.

Merchandise Exports and Gold Output

After declining during the third quarter, merchandise exports recovered moderately during the fourth quarter, while the gold output showed little further change. For 1964 as a whole, merchandise exports and the gold output showed increases over the previous year of about 6½ and 7 per cent, respectively, which naturally also helped to stimulate income and the demand for locally produced and imported goods and services.

Saving

Following a decline during the third quarter, gross domestic saving would appear to have recovered slightly during the fourth quarter. For 1964 as a whole, however, it is estimated to have risen by only about 2 per cent, compared with 7 per cent during the previous year. This was largely the result of a decline in *personal* saving from about R415 million in 1963 to about R293 million in 1964, which, in turn, was mainly the counterpart of the excessive rise in consumption referred to above.

PRODUCTION AND EMPLOYMENT

Levelling-off in Manufacturing Output and Employment

With the economy up against the full employment ceiling, the seasonally adjusted index of the physical volume of manufacturing output, which had already tended to level off from May onwards, actually declined slightly during October and November, before rising again in December. Nevertheless, for the year 1964 as a whole, this index was still about 14½ per cent higher than during 1963. The branches of secondary industry responsible for the largest contributions to this increase were those producing metal products, products of petroleum and coal, non-metallic mineral products, chemicals and chemical products, basic metals and electrical machinery.

The seasonally adjusted index of employment in secondary industry, which had increased sharply during 1963 and the first three quarters of 1964, likewise tended to level off during the fourth quarter.

Construction Industry Under Pressure

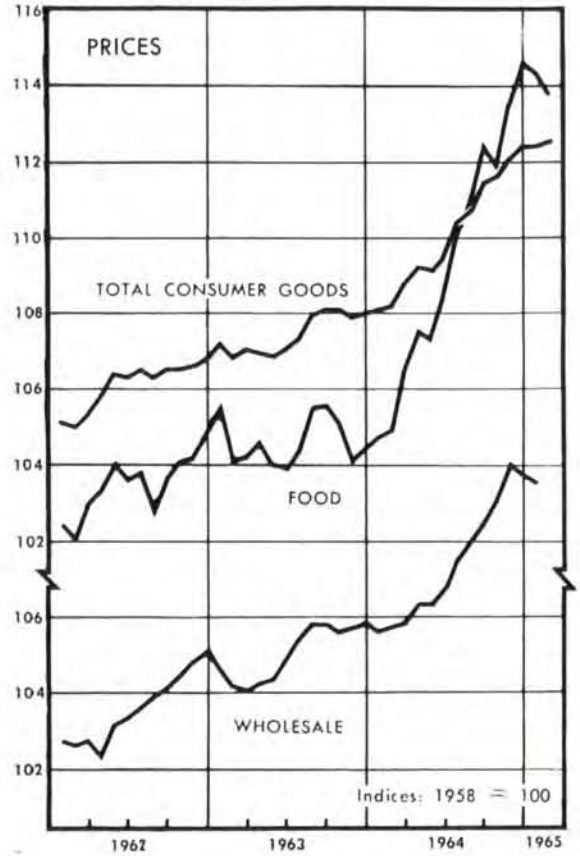
The construction industry continued to operate under considerable pressure during the fourth quarter, and the seasonally adjusted index of "building plans passed", which had tended to level off during the second and third quarters, increased by a further 3 per cent during the fourth quarter, mainly owing to an exceptionally high point in December. For 1964 as a whole, the value of "building plans passed" and "buildings completed" exceeded the previous year's figures by no less than 47 and 34 per cent, respectively.

Further Rise in Real Estate Transactions

The seasonally adjusted index of the value of real estate transactions (1958 = 100) which had moved persistently and strongly upwards for three years, increased further to 290 in December, compared with 87 in December, 1961.

Registered Unemployed

The registered number of unemployed Whites, Coloureds and Asiatics declined further to 9,615 in December, the lowest level for thirteen years, before rising seasonally to 12,824 in January, 1965.



PRICES

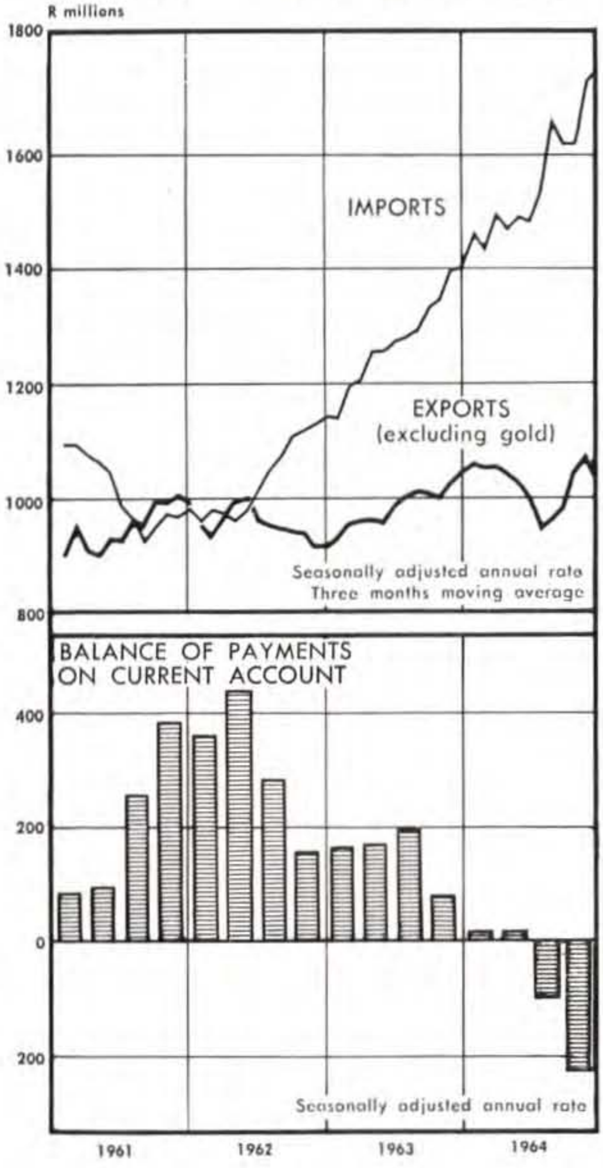
The sharp further increase during the fourth quarter in both capital and consumer outlays, coming as it did at a time when total demand was already tending to exert undue pressure upon available resources, would appear to have tipped the scales further in the direction of inflation. Although, as will be evident from the next section, the impact of this general over-spending was as yet mainly felt by the current account of the balance of payments, both wholesale and consumer prices showed noticeable further increases during the fourth quarter. The wholesale prices index (1958 = 100) moved upwards from 108.5 in September to 110.2 in November, before declining slightly to 109.8 in December and 109.5 in January, 1965, while the consumer price index (1958 = 100) increased steadily from 111.4 in September to 112.4 in December and 112.5 in February, 1965. As during the third quarter, the increase in the wholesale price index was largely a reflection of increases in the prices of agricultural products, while the further rise in the consumer price index was again mainly the result of a rise in food prices, which can, at least partly, be attributed to unfavourable weather conditions in certain agricultural regions.

Nevertheless, it is significant that during the second half of 1964, the *seasonally adjusted* wholesale and consumer price indices increased at annual rates of 3.5 and 5.3 per cent, respectively, compared with increases of only 1.6 and 2.3 per cent during the preceding twelve months.

BALANCE OF PAYMENTS

Growing Current Account Deficit a Reflection of Inflationary Over-Spending

As during the third quarter, the behaviour of the current account of the balance of payments during the fourth quarter again reflected the inflationary pressure in the internal economy. Thus imports continued to rise strongly to bring the total for the year to R1,589 million or about 23 per cent above the 1963 figure.



Merchandise exports, on the other hand, only increased slightly and for 1964 as a whole amounted to R1,082 million or 6½ per cent above the figure for the previous year.

The net gold output showed little change during the fourth quarter, but nevertheless attained a new record of R736 million for the year which, as mentioned earlier, represented a rise of 7 per cent over the previous year's figure. Although declining seasonally during the fourth quarter, total net invisible payments for the year increased by R46 million compared with 1963, mainly due to an increase in freight and insurance payments on the higher import bill.

The net result of all the above items was a current deficit of R33 million during the fourth quarter, which brought the total deficit for the year up to R78 million. Moreover, if adjusted for seasonal influences and taken at an annual rate, the current deficit actually amounted to as much as R228 million during the last quarter, which was the largest adjusted quarterly deficit since the first quarter of 1958.

Private Capital Movements

If net errors and omissions in the balance of payments estimates are included under private capital, a small net inflow of R4 million is obtained under this heading for the fourth quarter. As during the third quarter, net capital movements trough the Johannesburg Stock Exchange, which had dominated the private capital account of the balance of payments during the preceding eight quarters, had a negligible influence during the fourth quarter. This was largely owing to the fact that no further allocations of sterling were made under the "arbitrage" scheme for the repatriation of South African securities held by foreigners.[1]

For the year as a whole the net outflow of private capital amounted to only R22 million compared with R73 million during 1963 and an average of R90 million during the four years 1959-62. This was the result not only of the decline in the net outflow through the Stock Exchange mentioned above, but partly also of an increase in the inflow of funds for direct investment in the rapidly expanding South African economy.

Official and Banking Capital

No net inflow or outflow of official and banking capital was registered during the fourth quarter. The Government repaid about R16 million on long-term overseas loans and blocked rand bonds, but this was offset by various other capital movements, including a drawing of R7 million on the revolving credits made available to South Africa by American banks.

1) This scheme was finally abolished in February, 1965.

Further Decline in Gold and Foreign Exchange Reserves

As a result of the balance of payments tendencies referred to above, the total gold and foreign exchange reserves held by the Reserve Bank, the commercial banks and the Government declined by a further R29 million during the fourth quarter to bring the total decline over the year to R89 million. As the total reserves declined, the funds which had temporarily been transferred abroad by the commercial banks under special swop arrangements with the Reserve Bank continued to be repatriated and by the end of the year only R6 million was still held abroad under these arrangements. This remaining amount was finally repatriated during January.

Developments during January and February, 1965

Preliminary indications suggest that the current account of the balance of payments continued to show a substantial deficit during the first two months of 1965, even after allowing for seasonal variations. Mainly as a result of the strong internal demand for both capital and consumer goods, seasonally adjusted imports remained at a high level, while seasonally adjusted exports showed little change.

On capital account, net foreign borrowing by the Government during January and February amounted to about R14 million. But since the total gold and foreign exchange reserves declined by about R43 million during these two months, a net outflow of capital in other forms, for example short-term trade credits, is indicated.

By the end of February, the total gold and foreign exchange reserves held by the Reserve Bank, the commercial banks and the Government had declined to about R447 million, compared with R537 million at the end of October, 1964, and the peak of R583 million attained at the end of January, 1964.

MONETARY AND BANKING SITUATION

High Ratio of Money and Near-Money to G.N.P.

Despite the substantial decline in the gold and foreign exchange reserves referred to earlier, the supply of money and near-money in the hands of the private sector showed a further increase of R124 million during the fourth quarter of 1964. The main reasons for this were (1) a net return of about R68 million of Government tax and loan funds to the private sector and (2) a further extension of credit by the banking sector to the private sector of R81 million.

The result was that, notwithstanding the balance of payments deficit, the seasonally adjusted ratio of money and near-money to gross national product remained virtually unchanged at the relatively high figure of 35 per cent. This meant that the inflationary pressures which tended to develop in the economy at that stage were encouraged to do so by an environment of relatively easy credit and abundant liquidity.

During January, 1965, the banking sector extended a further R25 million of credit to the private sector, but the effect of this on the supply of money and near-money was more than offset by the contractionary influence of such other factors as the sharp decline in the banking sector's holdings of gold and foreign exchange and a moderate net movement of tax and loan funds from the private sector to the Government.

Sharp Further Rise in Commercial Banks' Discounts and Advances

The increase during the fourth quarter in credit extended to the private sector by the banking sector was largely accounted for by the activities of the commercial banks. During this period their discounts and advances showed a further rise of R104 million, which brought the total increase in these assets for the year up to R346 million or 40 per cent. This was followed in January, 1965, by yet another large increase, namely of R28 million.

Despite the fact that the increase in the commercial banks' discounts and advances during the fourth quarter occurred in the face of an overall balance of payments deficit, their liquidity ratio (old definition) only declined to 34.8 per cent in November and actually increased sharply to 37.3 per cent at the end of the year. This somewhat paradoxical development would appear to have been attributable to three main factors, namely (1) the return

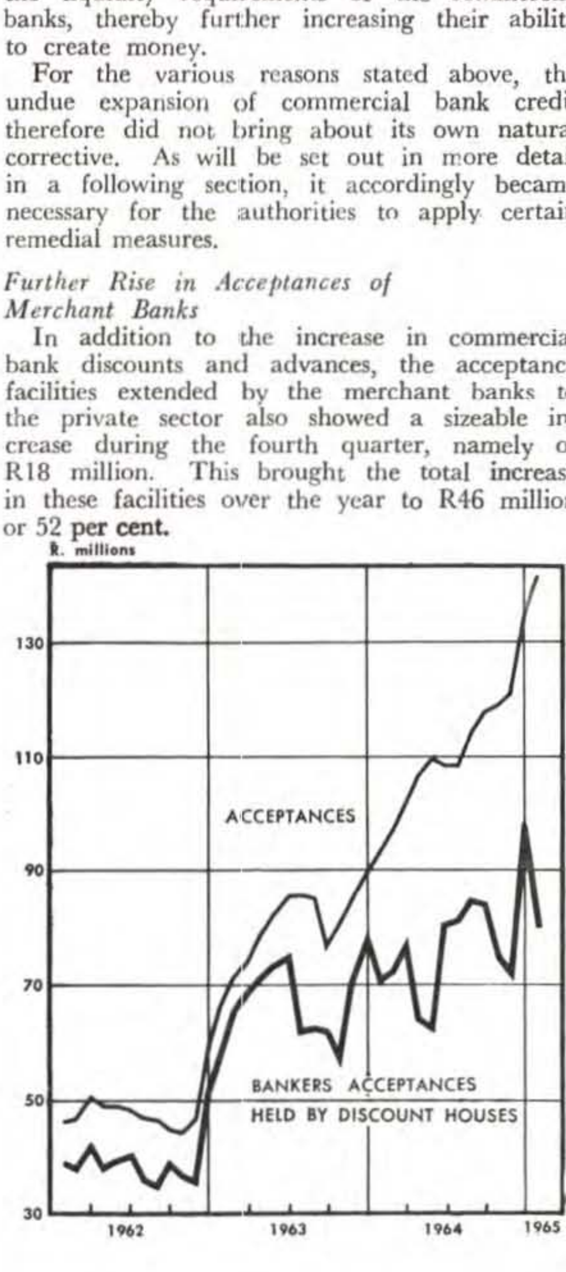
of Government funds to the private sector referred to earlier, (2) the conversion by the banks of overdrafts into trade bills and the inclusion of the latter under "liquid assets" and (3) the repatriation by the banks of funds, previously held abroad under the special swop arrangements with the Reserve Bank.

Since the ability of the commercial banks to extend credit to the private sector is largely based on their liquid asset ratio, this meant that the banks ended the year with considerable scope left for a further expansion of their discounts and advances. In addition, one of the effects of the Banking Amendment Act which came into operation in January, 1965, was to reduce the liquidity requirements of the commercial banks, thereby further increasing their ability to create money.

For the various reasons stated above, the undue expansion of commercial bank credit therefore did not bring about its own natural corrective. As will be set out in more detail in a following section, it accordingly became necessary for the authorities to apply certain remedial measures.

Further Rise in Acceptances of Merchant Banks

In addition to the increase in commercial bank discounts and advances, the acceptance facilities extended by the merchant banks to the private sector also showed a sizeable increase during the fourth quarter, namely of R18 million. This brought the total increase in these facilities over the year to R46 million or 52 per cent.



General, Hire-Purchase and Savings Banks

"General banks", "hire-purchase banks" and "savings banks", taken together, succeeded in attracting additional deposits of about R110 million during the fourth quarter. Roughly half of this amount, however, went to subsidiaries of commercial banks and was largely reinvested with the "parent" banks. Hire-purchase finance and "other loans" (including personal loans) provided by general, hire-purchase and savings banks accordingly increased by relatively modest amounts during this quarter, namely by R7 million and R30 million, respectively.

Discount Houses and National Finance Corporation

Total call money with the discount houses and the National Finance Corporation increased from R273 million at the end of September to R283 million at the end of both December and January, which was only moderately lower than the figure of R295 million recorded at the end of December, 1963. The houses' holdings of bankers' acceptances increased by R12 million during the last quarter to a level of R96 million, but then declined to R80 million at the end of January.

Increase in Reserve Bank Credit

The Reserve Bank's total discounts, advances and investments increased by only R9 million during the last quarter of 1964 to a figure of R132 million at the end of December, compared with R98 million at the end of 1963. The Bank's contribution to the large expansion of credit extended by the banking sector to the private sector during 1964 was, therefore, relatively small.

Towards the end of February, 1964, however, as the usual seasonal shift of tax funds to the Treasury occurred, the Bank's total credit increased sharply and amounted to R192 million at the end of that month. This was the highest month-end level reached since January, 1962.

Further Rise in Short-Term Interest Rates

The Treasury bill tender rate and related money market rates have during recent months continued the upward movement which began 16 months ago. Compared with the low point of 1.68 per cent reached in November, 1963, and 3.63 at the end of 1964, the Treasury bill rate amounted to 4.10 per cent on the 19th March, 1965. The main reasons for the further rise since the end of 1964 would appear to have been the following:

(1) A decline of some R44 million in the Reserve Bank's gold and foreign exchange reserves during this period;

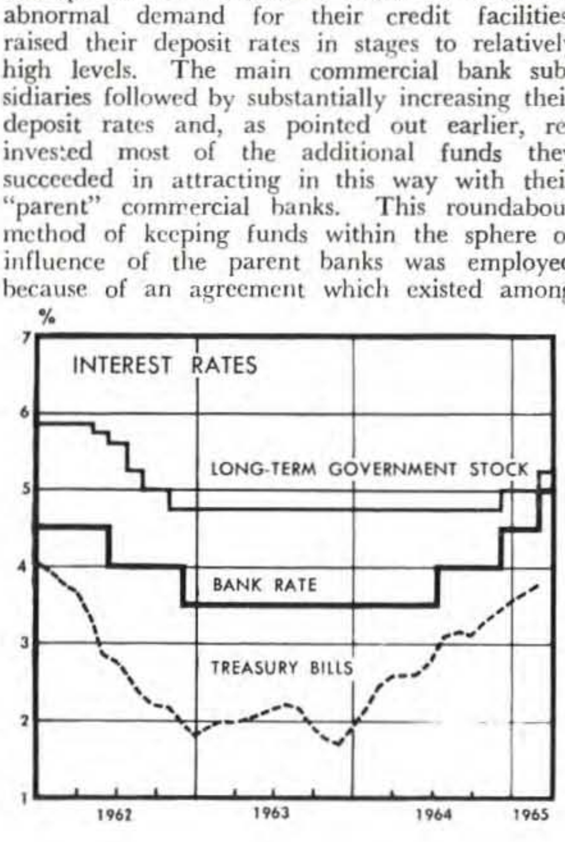
(2) an increase in Government deposits with the Reserve Bank from a low point of

R76 million on the 24th December, 1964, to R214 million on the 19th March; and

(3) an increase in the total amount of tender Treasury bills outstanding from R144 million at the end of December to R210 million on the 19th March, owing to increases in the amount of Treasury bills offered at the weekly tenders.

Call money rates and most other deposit rates throughout the banking system showed even larger increases than the Treasury bill rate during the course of 1964 and the first two months of 1965. This was the result of keen competition for funds among the various banking institutions which, in turn, was largely a natural reflection of the changes which occurred during this period in the underlying economic situation and, in particular, in the relationship between the demand for and supply of loanable funds. Thus, on the one hand, the inflationary over-spending on both capital and consumer goods was accompanied by an abnormal increase in the *demand* for virtually all forms of credit while, on the other hand, the *supply* of loanable funds was affected by both a substantial decline in personal saving and a large deficit on the overall balance of payments, which naturally tended to drain liquid assets from the banking system as a whole.

In these circumstances, certain "general", "hire-purchase" and "savings banks", in an attempt to draw sufficient funds to meet the abnormal demand for their credit facilities, raised their deposit rates in stages to relatively high levels. The main commercial bank subsidiaries followed by substantially increasing their deposit rates and, as pointed out earlier, re-invested most of the additional funds they succeeded in attracting in this way with their "parent" commercial banks. This roundabout method of keeping funds within the sphere of influence of the parent banks was employed because of an agreement which existed among



commercial banks to quote more or less uniform rates. Not all the commercial banks, however, had subsidiaries of this kind and eventually the deposit rate agreement was terminated, whereupon the commercial banks raised their own deposit rates. In the meantime, the merchant banks had also found it necessary to increase their various rates for funds, so that by the first quarter of 1965 virtually the entire structure of deposit rates had moved upwards. By February, for example, commercial banks were paying 6 per cent on fixed deposits of 12 to 18 months, while certain other individual banking institutions were quoting as much as 6¾ per cent for such funds. At the same time, as much as 4.20 per cent was being paid by some institutions on 30 days' notice deposits.

Under the existing conditions, lending rates in general also tended to rise, particularly as Bank Rate, which had been increased from 4 to 4½ per cent on the 8th December, 1964, was further raised to 5 per cent on the 5th March, 1965.

CAPITAL MARKET

New Issues of Marketable Securities

As a result of the further expansion of general economic activity, the demand for new capital remained at a relatively high level during the fourth quarter of 1964. Net new issues of marketable securities by the private sector, public corporations and local authorities, for example, increased slightly from R66 million during the third quarter to R71 million during the fourth quarter. For 1964 as a whole these new issues totalled R300 million, compared with R195 million during 1962 and R202 million during 1963. In addition, the Government was responsible for net new issues of R212 million during 1964, bringing the grand total for the year up to nearly R512 million.

During the first two months of 1965, net new issues by the private sector, public corporations and local authorities, according to preliminary data, amounted to about R28 million, while the Government raised a further net amount of about R30 million.

Further Rise in Share Prices

Despite the relatively high level of new issues, share prices remained high and in some cases tended to rise further during the fourth quarter of 1964 and January, 1965. The index (1953 = 100) of industrial and commercial share prices, for example, which had declined to 244 in July, following the attainment of a peak figure of 268 in April, continued to recover and in January, 1965, stood at 261. In the case of gold mining shares, the price index increased from 112 in September, 1964, to about 126 in January, 1965, while the average yield declined from 7.2 per cent to 6.7 per cent.

The reasons for these share price increases were varied, but included (1) optimistic expectations regarding the future course of the economic upswing in South Africa, (2) an increased foreign demand for South African gold mining shares and (3) the cessation, from August onwards, of allocations of sterling under the arbitrage scheme of exchange control relaxation, which substantially reduced the addition to the supply of scrip on the Johannesburg Stock Exchange through sales of South African securities by foreigners to South African residents.

Upward Pressure on Gilt-Edged Interest Rates

In the gilt-edged market, changes in the underlying demand-supply conditions exerted upward pressure on interest rates during the months October, 1964, to March, 1965. The Reserve Bank accordingly increased its pattern of rates for Government stock on two occasions during this period, namely by 0.25 per cent on the 8th December and by a further 0.30 per cent on the 5th March. Both these adjustments coincided with increases of ½ per cent in Bank Rate.

The margin between yields on Government stock and those on *newly issued* municipal and public corporation stock, which had risen to 0.87 per cent in August of last year, remained more or less at this level until it was reduced by the raising of the Reserve Bank pattern of rates for Government stock in December. The rates at which public corporation stock were issued during February, 1965, however, indicated that this margin had increased again. It is not yet clear at which level the margin will settle following the further increase in the Reserve Bank's pattern in March.

Abnormal Demand for Building Society Loans

As during the third quarter of 1964, the building societies experienced an exceptional increase in the demand for their mortgage loans during the period October, 1964, to January, 1965. But in contrast to the position during the third quarter, this increase in demand was not fully matched by the inflow of new funds. Thus, while mortgage and other loans increased by R52 million during this period, share capital and deposits increased by only R37 million. This served as another indication that domestic investment spending was tending to exceed domestic saving.

Insurance Organisations

The investment policy of insurance organisations likewise reflected the underlying changes in the economic situation in general and in the capital market in particular. During the fourth quarter of 1964 their net investments in securities of the private sector (excluding shares of subsidiary companies) increased by R12 million, compared with R5 million during the preceding quarter. At the same time, their investments in shares of subsidiary companies and loans (extended mainly to subsidiary companies) increased by R14 million, which was roughly equal to the increase during the third quarter.

The increasing demand in the economy for mortgage loans and the accompanying rise in mortgage rates furthermore led insurance organisations to invest a net amount of R8 million in such loans, compared with R6 million during the third quarter and an average of only R0.1 million during the six preceding quarters.

MONETARY POLICY

In view of the increasing internal inflationary pressure and the accompanying deterioration in the current account of the balance of payments, the Minister of Finance, on the 5th March, 1965, announced a series of further disinflationary steps.[1] These new measures were the following:

(1) Bank Rate was increased further to 5 per cent;

(2) the ratio of liquid assets to be held by the commercial banks against their short- and medium-term liabilities to the public were increased by four per cent, that is, to 34 and 24 per cent respectively;

(3) the Reserve Bank raised its pattern of rates for Government stock by 0.30 per cent, bringing the rate for stocks with maturities exceeding three years but not three-and-a-half years to 4½ per cent and that for maturities exceeding 10½ years to 5¼ per cent; and

(4) it was announced that the Reserve Bank might decline accommodation or charge penalty rates for any institution which in its view had been extending credit to an excessive degree and/or for non-essential purposes, and that it might also refuse to purchase, or apply penalty rates to the purchase of, prescribed assets, such as long-term Government or municipal stock, if, in its view, such purchases resulted from, or would encourage, excessive and/or undesirable credit extension.

During the week preceding this announcement the Governor of the Reserve Bank held discussions with the representatives of the main types of banking institutions and impressed upon them the need for a substantial reduction in the rate of increase of credit, particularly credit for non-essential consumption. In addition, he requested those banking institutions which have until the end of 1965 to comply with the more stringent liquidity requirements of the amended Banking Act, to subject themselves voluntarily to the higher liquidity requirements which were to be applied to the commercial banks.

1) The full statement made by the Minister is reprinted on page xv of this issue.

These measures were designed to increase the cost and restrict the rate of increase of credit, and to reduce the excessively high ratio of money and near-money to gross national product. The intention of this, in turn, was to assist in reducing the rate of increase of total monetary demand to a level more commensurate with the rate of increase of the real gross national product, thereby diminishing the inflationary pressure in the economy and relieving the strain on the balance of payments.

But while the monetary authorities, for the reasons mentioned above, in general welcomed the upward tendency in interest rates, they judged that the keen competition among banking institutions for deposits had brought about an excessive increase in certain deposit rates, which tended to distort the interest rate structure and to exert undue upward pressure upon certain lending rates, particularly the mortgage rates of building societies. In addition they felt that hire-purchase, general and savings banks might, by offering higher deposit rates than commercial banks and building societies, attract considerable additional funds which would enable them to expand their credit extension to the private sector still further and thus facilitate the inflationary over-spending. It was also feared that such a movement of deposits might leave the building societies unduly short of funds.

For these reasons, the Reserve Bank, in terms of powers given to it under the Currency and Exchanges Act of 1933 and with effect from the 22nd March, imposed the following set of maximum deposit rates on all commercial banks, merchant banks, discount houses and building societies with deposits exceeding R10 million and on all general, hire-purchase and savings banks with deposits exceeding R30 million:

Type of Deposit	*Maximum Rate of Interest Per Annum*[1]
Demand deposits withdrawable by cheque	Nil
Other demand deposits, including call loans; and deposits withdrawable within a period, or subject to notice of withdrawal, not exceeding 7 days	⅛ per cent below the current average tender rate for Treasury bills.
Saving deposits; and deposits withdrawable within a period, or subject to notice of withdrawal, exceeding 7 days but not exceeding 30 days	4 percent.
Deposits withdrawable within a period, or subject to notice of withdrawal,	
exceeding 30 days but not exceeding 90 days	4¼ per cent.
exceeding 90 days but not exceeding 6 months	4½ per cent.
exceeding 6 months but of less than 12 months	5¼ per cent.
of 12 months or more	5¾ per cent
Paid-up indefinite shares of building societies	6 per cent.

1) Excluding commission paid by building societies to agents for collection of deposits

In the case of all banking institutions and building societies with deposits not exceeding R10 million and all general, hire-purchase and savings banks with deposits not exceeding R30 million, an additional ¼ per cent was allowed on deposits other than cheque deposits, other demand deposits and deposits withdrawable within a period or subject to notice of withdrawal not exceeding 7 days.

In his statement on credit control of the 5th March, the Minister of Finance said that the step of prescribing maximum deposit rates was "intended to be essentially of a temporary nature".

Indices — Excluding Seasonal Changes (1958 = 100)

	1963		1964				1965
	3rd Qrt.	4th Qrt.	1st Qrt.	2nd Qrt.	3rd Qrt.	4th Qrt.	Jan.
Bank Debits	187	201	204	212	206	209	206
Discounts and Advances of Commercial Banks	132	135	139	152	166	183	189
Stock Exchange Turnover	295	255	408	396	281	215	234
Manufacturing Output (1956/7 = 100)	152	154	163	172	174	172	.....
Value of Gold Production	170	172	174	176	184	187	187
Value of Imports	115	125	128	133	148	154	136
Value of Exports	129	132	135	131	123	137	120
Railway Earnings	139	141	150	149	149	152	149
Value of Retail Sales	116	119	120	126	132	133	130
Value of Property Transactions	164	175	184	212	239	253	238
Value of Building Plans Passed	147	160	182	183	214	221	282
Employment:							
Private Manufacturing	109	111	114	118	121	123	.....
Private Construction	.....	.....	133	134	139	141	.....
Mining	108	108	110	112	112	111	.....
Unemployment	100	94	98	81	72	64	66