STATEMENT BY THE MINISTER OF FINANCE IN REGARD TO CREDIT CONTROL ON 5th MARCH, 1965

For some time, both the Government and the Reserve Bank have been disturbed at the growing signs of inflationary pressure in the Republic. The best evidence of this trend is to be found in the growth of both capital outlays and consumption at a rate which cannot be sustained by the available supply of goods and services from domestic and foreign sources. This is in fact the underlying cause of the inflationary situation, but it is also evidenced by certain symptoms classically associated with the growth of inflationary pressures, such as a tendency to a rise in prices, shortages of skilled labour, a deterioration in the balance of payments position and pressures for a rise in wages and salaries.

At the present stage, the "over-heating" of the economy is still relatively mild, thanks largely to the operation of natural corrective factors and various policy measures which have been taken by the Government and the Reserve Bank. But the fact that inflationary pressures are tending to increase shows clearly enough that further measures have become desirable. The Republic has always been particularly vulnerable to inflation, having regard, *inter alia,* to its large gold mining industry and the relative importance of foreign trade in its economy. This country is in no position to rest in the comfortable belief that so long as inflation proceeds at a greater rate in other countries there is nothing to fear.

The growth of inflation in the Republic has been encouraged and facilitated through very appreciable credit extension by the various banking and certain other financial institutions. Some indication of the extent of this credit extension may be obtained from the fact that, during 1964, the commercial and the merchant banks alone have increased their credit to the private sector by some R400 million or by approximately 40 per cent. This excessively high rate of credit extension is also reflected in the fact that despite the declining tendency shown by the official gold and foreign exchange reserves during the past year, the total of money and near-money is still equivalent to roughly 35 per cent of the gross national product, which is excessive by any normal standard.

The greater part of this credit creation has probably been devoted directly or indirectly to development projects which are desirable in themselves and to essential consumption. But unfortunately, these development projects are being undertaken at a pace which, as I have indicated, is creating demands which the available physical and human resources cannot meet. In addition, a large amount of credit has been used to finance non-essential consumption which, of course, increases unnecessarily the pressure of funds upon real resources.

The Treasury and the Reserve Bank both feel, therefore, that the overal tempo of credit extension by all banking and certain other financial institutions must be substantially reduced if we are to preserve a reasonable degree of stability in the economy and ensure a growth rate commensurate with our capital and labour resources and sustainable without jeopardising our balance of payments. Some application of the credit brakes in other words has become necessary, and to this end a series of steps will be taken—

(a) In the first place, Bank rate will be increased to 5% with immediate effect.

(b) In the second place, the ratios of liquid assets to be held by the commercial banks against their short and medium term liabilities will be increased, initially, by four per cent, that is, to 34 and 24 per cent respectively. Further increases, if necessary up to the maximum of ten percent, will be made if actual developments necessitate such action.

(c) In the third place, the Reserve Bank will raise its pattern of rates for Government stock by 0.30 per cent effective from today. The yield, e.g., for stocks with maturities exceeding three years but not three and a half years will increase to $4\frac{1}{2}$ per cent, and that for maturities exceeding ten and a half years to $5\frac{1}{4}$ per cent.

(d) In the fourth place, the Reserve Bank may decline accommodation, whether sought directly or indirectly, or may charge penalty rates, to any institution which, in the Bank's view, has been extending credit to an excessive degree and/or for non-essential purposes. The penalty to be applied will obviously depend upon the circumstances of each case. This measure will, in particular, be applicable to institutions which are not as yet fully subject to the liquidity requirements of the Banking Act. The Bank may also refuse to purchase, or apply penalty rates to the purchase of, prescribed assets if, in its view, such purchases result from, or would encourage, excessive and/or undesirable credit extention.

During the past week, the Governor of the Reserve Bank has had discussions with the representatives of all the important types of credit-extending institutions which fall under the Banking Act. He has impressed upon them the need for a substantial reduction in the rate of increase in overall credit expansion, which should conform much more closely with the rate of growth in the real gross national product. He has also emphasised that this reduction in the tempo of credit extension should be selectively applied as far as practicable, the main stress falling on non-essential consumption credit, including credit for consumer durables, such as motor cars for private use and other articles of a luxury nature. These are largely financed by means of personal loans and hire-purchase operations or by means of various other related devices.

Many hire-purchase and related transactions are conducted by institutions not covered by the above-mentioned measures, and I would appeal now to such institutions to exercise restraint in the extension of credit of this nature.

It is further my earnest hope and strong recommendation that those banking institutions in particular which are not as yet fully subject to the liquidity requirements of the Banking Act will heed the Governor's request and, in so doing, will also voluntarily subject themselves to the higher liquidity requirements now being applied to the commercial banks.

In the event, however, that these warnings are disregarded, and the scramble for deposit funds, which is presently distorting interest rates (both borrowing and lending) and the flow of funds to various financial institutions, continues, certain powers are being given to the Reserve Bank under Section 9 of the Currency and Exchange Act which will enable the Bank to prescribe maximum deposit rates in respect of *any* institution which is registered or provisionally registered under the Banking Act or the Building Societies Act.

This step is intended to be essentially of a temporary nature, and the powers are being given to the Bank on a stand-by basis. This means that the Bank may apply them at any moment but, of course, will only do so if actual developments make such action desirable in the national economic interest. In short, the onus now rests upon the institutions themselves to co-operate fully, and I trust that they themselves will take immediate steps to ensure that the application of these powers, which are as distasteful to the authorities as to themselves, will not become necessary.

All the foregoing steps are designed primarily to restrain the excessive tempo of credit expansion to a rate which will not further stimulate inflationary pressure and will assist in maintaining reasonable stability in the economy. They will not be applied in a manner which will militate against the realisation of the maximum *sustainable rate* of real growth of which our economy is capable. On the contrary, they are intended to assist in ensuring that this growth rate is in fact realised without being prejudiced by inflation. It is far better to impose moderate restraints now than to be faced with the need for drastic measures at a later stage.

PROCLAMATION

By the State President of the Republic of South Africa.

No. 47.] [12 March 1965.

POWERS CONFERRED UPON THE SOUTH AFRICAN RESERVE BANK TO PRESCRIBE MAXIMUM RATES OF INTEREST ON CERTAIN DEPOSITS.

Under the powers vested in me by section *nine* of the Currency and Exchanges Act, 1933 (Act No. 9 of 1933), as amended, I hereby make the following regulations:—

1. The South African Reserve Bank may, subject to the approval of the Minister of Finance, prescribe by notice in the *Gazette* the maximum rates of interest which any institution registered or provisionally registered under the Banking Act 1942, or the Building Societies Act, 1934, may pay, directly or indirectly, on deposits of money received by the said institution from any person.

2. The term "interest" as used in paragraph 1 of these regulations means the total effective rate of return, expressed as a percentage per annum, paid by any institution concerned on deposits of money received by it, irrespective of whether the said rate of return is designated, in whole or in part, by the term interest or any other term.

3. The term "deposits" as used in paragraph 1 of these regulations means all sums of money received by an institution concerned, which serve to make the receiving institution a debtor of the person from whom the sums of money are received and, without prejudice to the generality hereof, includes shares or obligations, of whatever nature, which are issued by the said institution, whether such shares or obligations are transferable or not, and wich in the opinion of the Registrar of Financial Institutions are, or are tantamount to, deposits.

4. The prescribed maximum rates of interest referred to in paragraph 1 of these regulations shall become effective from a date to be specified in the notice published by the South African Reserve Bank in the *Gazette,* and shall apply to all interest-bearing deposits—

(a) received by an institution concerned after the said date; and

(b) held by an institution concerned at the said date—

(i) which have a fixed maturity date and which are not withdrawn by the depositor at maturity; or

(ii) which are repayable on demand or at call; or

(iii) which may be withdrawn after a specified period of notice has been given by the depositor and which are not withdrawn after the lapse of the said period of notice, provided that if the said notice of withdrawal has not been given prior to the date on which the prescribed maximum rates of interest become effective, it shall, for the purposes of this regulation be deemed to have been given on that date; or

(iv) which do not fall within the categories referred to in (i), (ii) and (iii) above and which are not withdrawn within a period of eighteen months of the date on which the prescribed maximum rates of interest become effective.

5. The South African Reserve Bank may, by a further notice in the *Gazette* and subject to the consent of the Minister of Finance, at any time amend, alter or withdraw any notice published in the *Gazette* in terms of paragraph 1 of these regulations, and the said amendment, alteration or withdrawal shall become effective from a date to be specified in the said further notice.

6. Any institution concerned which fails to comply with the provisions of any notice published in terms of these regulations shall be guilty of an offence and be liable on conviction to a fine which shall not be less than the total amount of interest paid and accrued, at rates representing the difference between the prescribed maximum rates and the rates actually paid, but shall not be more than twice the interest differential so calculated.

Given under my Hand and the Seal of the Republic of South Africa at Cape Town on this First day of March, One thousand Nine hundred and Sixty-five.

C. R. SWART,
State President.

By Order of the State President-in-Council.
T. E. DÖNGES.