South Africa has once again experienced a year of high levels of employment and prosperous business conditions combined with a return to a relative stability of prices. I might add that this stability was achieved in spite of powerful influences beyond the control of the South African Government which, but for the vigilance of the South African authorities in applying appropriate measures, might easily have upset the country's internal equilibrium.

As members of the Committee will recall, particular emphasis was laid during the 1967 consultation on the monetary and fiscal measures that had been taken to bring inflationary tendencies under control.

On the whole, these measures proved to be effective. Price levels over the past year have risen only moderately; a surplus has emerged on the current account of the balance of payments; pressure on scarce resources, which was a feature of the inflationary uprising in 1966 and the early part of 1967, was relieved to some extent and apart from the excessive liquidity prevailing in the economy approximate balance was achieved between aggregate supply and demand.

These conditions of stability have, however, been threatened by various factors - chiefly speculation resulting from international currency uncertainties following the devaluation of sterling last November. This has led to a large and sustained capital inflow which, to the extent that it was invested in stocks and shares, has resulted in sharp increases in share prices and has also considerably increased the liquidity of the economy.

As far as the general economic situation is concerned, a very satisfactory real growth rate in the gross domestic product of 6 per cent was achieved for the year ended 30 June 1968. This high rate of increase was, however, largely due to an increase of no less than 23 per cent in the value added by agriculture which was, in turn, mainly a reflection of favourable weather conditions during the 1966/67 season.

Gross domestic expenditure continued its sharp upward trend in the third quarter of 1967, followed by a decline in the fourth quarter, relative stability in the first quarter of 1968, and a moderate rise in the second quarter. The slow rate of increase in the first half of 1968 can be ascribed mainly to a sharp decline in inventory investments.

Exports have continued to show an irregular upward trend, and have reached a record level in July 1968, after adjustment for seasonal fluctuations. The seasonally adjusted annual rate of exports for the first eight months of 1968 was R 1,570 million which was 21 per cent higher than for the corresponding period of 1967 mainly because of an increase in agricultural exports.
Net gold output, on the other hand, declined by about 3\% per cent between the first half of 1967 and the first half of 1968.

The level of imports, on a seasonally adjusted basis, was comparatively stable in the first half of 1967, but declined in the second half of the year and was followed by a modest recovery in the first half of 1968. For the first eight months of 1968 imports were at a seasonally adjusted annual rate of R 1,851 million, which was 8.7 per cent lower than for the corresponding period of 1967.

While service payments remained relatively stable, service receipts showed a marked increase from a seasonally adjusted annual rate of R 315 million to R 391 million. This increase was largely due to higher harbour receipts, including rising sales of bunker fuel and ships' stores as a result of the closure of the Suez Canal and the consequent diversion of shipping to the Cape route.

Recent trends in the balance of payments on current account provide mainly a reflection of the trends in exports, imports and service receipts to which I have already referred. This seasonally adjusted annual rate on current account improved from a deficit of R 386 million in the first half of 1967 to a surplus of R 15 million in the second half of 1967 and a surplus of R 198 million in the first half of 1968.

In the South African delegation's opening statement at the previous consultation reference was made to the strong inflow of private capital which had taken place during the preceding eighteen months. After the devaluation of sterling last November, the rate of this inflow increased sharply, as is evident from the fact that the net amount of private capital received in 1967 totalled R 235 million while the amount received in the first half of 1968 alone amounted to R 220 million. It is of some significance that a notable increase in the net inflow of private capital took place through the Johannesburg Stock Exchange during the first half of 1968. In fact, the South African Reserve Bank's index of prices of gold mining shares accordingly rose by 44 per cent between October 1967 and June 1968 while the official index of industrial and commercial shares increased by 39 per cent.

In the case of Government and banking capital, an outflow of R 66 million in 1967 was followed by an inflow of R 36 million in the first half of 1968.

As a result of the trends in the current account of the balance of payments and the capital movements to which I have referred, South Africa's gold and foreign exchange reserves rose at a moderate rate from a low point of R 462 million at the end of May 1967 to R 564 million at the end of 1967 but thereafter rose at a relatively sharp rate to R 1,020 million at the end of September 1968.

However, despite this sharp rise the reserves at the end of September were equivalent to only slightly more than six and a half months' imports on the basis of seasonally adjusted imports in the first eight months of 1968 and equal to no more than five months' total current payments.
The favourable balance of payments has also resulted in abnormally high levels of liquidity in the private sector as well as the banking sector. This excessive liquidity in the private sector has caused concern in view of the potential threat which it poses to the stability of the economy. It is felt that a renewed economic upsurge could well develop and that it would be very difficult for the monetary authorities to cope with the resultant inflationary pressures by means of monetary and fiscal measures.

For the present, however, the measures taken by the authorities to combat inflation appear to be adequate. The seasonally adjusted consumer price index rose at an annual rate of only 0.3 per cent from June to December 1967, and then increased at an annual rate of 2.4 per cent from January to July 1968. This change was largely attributable to the reversal of a downward trend in food prices. The seasonally adjusted wholesale price index on the other hand declined at an annual rate of 0.3 per cent in the latter half of 1967, whereafter it increased at an annual rate of 1 per cent during the first seven months of 1968.

The South African Government is aware of the rôle which adequate import facilities can play in dealing with the threat of inflation and, in this connexion, I should like to refer the members of the Committee to the relaxations of import control mentioned in the Basic Document.

An additional anti-inflationary measure, namely the further relaxation of exchange control has also been employed. On 31 July the Minister of Finance announced that more sympathetic consideration would be given to the following applications for foreign exchange: transfers abroad in foreign currency of the local proceeds of the sale of direct long-term investments in the equity of South African enterprises controlled by non-residents; direct investments abroad by South African residents; and redemptions prior to due date of loans owed to foreigners by South African residents. The Minister indicated that the possibility of further progress in this connexion would be considered if this should prove necessary.

The monetary and fiscal measures now being used to combat inflation are still mainly the same as those referred to during South Africa's consultations during the previous two years.

In his budget speech delivered on 27 March 1968, the Minister of Finance reiterated the Government's determination to continue the battle against inflation. The Minister budgeted for a surplus of R 5.1 million. With a view to reducing the liquidity of the private sector, the Treasury has persisted with and has even intensified its policy of sterilizing loan funds raised from the private sector by means of Government stock and Treasury bills issues in excess of its financing requirements.

During the nine months to the end of June 1968, the expansionary effects of the balance of payments were offset, to some extent, by a continued decline in the banking sector's net claims on the Government sector. On the other hand, despite
the ceiling on credit to the private sector, the total claims of the monetary banking sector on the private sector continued to rise until the end of March 1968. Since this rise has in part taken the form of an increase in investments, the South African Reserve Bank decided at the end of May 1968, to restrict the level of certain categories of these investments with the private sector to that obtaining at the end of March 1968.

The authorities were also concerned at the prospect of an inordinate easing of short-term interest rates. At the end of April 1968, the Reserve Bank accordingly instructed the monetary banks to maintain with it not only the normal minimum balance of 8 per cent of their short-term liabilities to the public, but also an additional amount equal to 12 per cent of the increase in these liabilities after the end of March 1968. A further 20 per cent of any increase in these liabilities has to be maintained with the National Finance Corporation. Further steps taken with the same end in view were the issue of Government stock and Treasury bills in excess of financing requirements, the sale of Land Bank bills to the discount houses and the placing of short-term funds abroad by the commercial banks under so-called "swop" arrangements.

In his annual address to stockholders on 27 August 1968, the Governor of the South African Reserve Bank stated that until the factors constituting a threat to the stability of the economy were effectively brought under control, there could be no question of a general relaxation of the Government's anti-inflationary fiscal and monetary policies. He added, however, that it was clear that the control of bank credit could not, without serious dislocation, play a major rôle during the coming year in combating inflation, and he accordingly announced the abolition, with effect from 1 September 1968, of the 7½ per cent reduction in the monetary banks' discounts and advances which was introduced last year, thus enabling the banks to extend additional credit up to the levels which prevailed at the end of March 1965. All the concessions in excess of the former ceiling previously granted had to be brought under the new ceiling. This abolition enables the monetary banks to create new credit to the extent of some R 40 million. However, the banks have been requested to ensure that preference is accorded to production credit for the agricultural and other sectors, and that credit is not extended purely for consumption or speculative purposes. As a special concession the monetary banks are additionally permitted to make available, in the form of discounts and advances to smaller business undertakings an amount equal to one per cent of their new ceiling. This could result in a further increase of R 20 million in their discounts and advances.

Furthermore, the Governor of the Reserve Bank announced a reduction of the Bank rate from 6 per cent to 5½ per cent, and explained that as long as the credit ceiling is maintained, a downward adjustment of ½ per cent in short-term interest rates under the present circumstances need not necessarily increase the potential danger of a new upsurge of inflationary pressures.
In conclusion, I should like to summarize that the principle being employed by the South African Government to avert the threat to the stability of the South African economy, posed by the existence of excessive liquidity, comprise both the full range of fiscal and monetary measures as well as relaxations in exchange and import controls. During the past twelve months no undue increases in price levels have occurred, although the potential danger of inflation still exists, and the authorities will not fail to take such further steps as may be necessary to avert this danger.