

Box 2 Revisions to money supply data

With the release of the monetary aggregates for June 2016, the Bank refined its measurement of deposits included in the broadly defined money supply (M3). This box discusses the background to and nature of the revision and its impact on the monetary aggregates released by the Bank.

During the first half of 2016, the Money and Banking Division of the Economic Research and Statistics Department reviewed the financial instruments included in deposits with banks. This was done to ensure that the calculation of the monetary aggregates is firstly, aligned with international standards, secondly, is treated consistently across all reporting institutions and lastly, provides a fair reflection of monetary conditions.

Certain types of short-term debt instruments issued by banks, especially those that can be converted into currency or transferable deposits at short notice without incurring a significant loss on the amount initially invested, meet the internationally accepted definition of broad money. Examples include negotiable certificates of deposit (NCDs), negotiable promissory notes (NPNs) and floating and fixed rate notes (FRNs). The characteristics of certain short-term debt instruments exclude them from compliance with this definition.

Banks were therefore requested in their balance sheet reporting to move these instruments, such as structured and credit-linked notes, from deposit to debt securities as they fall outside the definition of M3.

The affected banks revised their balance sheet data from January to May 2016; it was assessed that further backward revision was not feasible. The reclassification resulted in a reduction in the level of M3 of approximately R40 billion (about 1,3 per cent of M3). In terms of the monetary analysis, it is the 'net other assets and liabilities' category that is affected as statistical counterpart of M3.

The impact of the revision on the level of the different monetary aggregate categories is presented in the table below. Analysed by maturity, all the deposit categories were influenced, with long-term deposits being the most affected category.

Impact of revision on monetary aggregates

R millions

	M1		M2		M3	
	Before revision	After revision	Before revision	After revision	Before revision	After revision
2016:						
Jan.....	1 447 146	1 445 289	2 424 559	2 420 841	2 982 664	2 939 393
Feb.....	1 419 057	1 416 194	2 417 003	2 411 088	2 991 454	2 945 963
Mar.....	1 492 421	1 490 172	2 458 235	2 459 285	3 066 328	3 023 076
Apr.....	1 451 919	1 449 869	2 439 000	2 446 136	3 070 402	3 021 453
May.....	1 439 352	1 436 987	2 437 093	2 431 670	3 078 284	3 031 641

The revision to the level of non-bank domestic private-sector deposits also affected the income velocity of circulation of M3. The revised value for the first quarter of 2016 is 1,41 against an original value of 1,39.