

## MONETARY AND BANKING REVIEW

During the third quarter of 1957, the Union experienced a strong upward movement in its monetary volume of economic activity. This is reflected in the increases registered in most of the economic indexes shown in the table below.

*Indexes — Excluding Seasonal Movements*  
(1948=100)

	1956		1957	
	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.
Bank Debits .....	209	212	248 <sup>222</sup>	242 <sup>231</sup>
Stock Exchange Turnover .....	51	66	63	58
Discounts and Advances of Commercial Banks .....	199	208	212	218
Value of Imports .....	144	143	152	162
Value of Exports (excluding gold) .....	304	321	346	353
Railway Earnings .....	198	203	205	208
Value of Retail Sales* .....	131	132	133	133
Value of Property Transac- tions .....	88	82	83	97
Value of Building Plans Passed† .....	135	112	119	129

Although stock exchange turnover, after correction for seasonal movements, showed a small decline from the second to the third quarter, bank debits rose sharply, while there was not only a substantial increase in the value of imports (following the relaxation of import control, particularly on motor vehicles), but also notable further increases in discounts and advances of the commercial banks, the value of exports, railway earnings, property transactions and building plans passed. Retail sales remained relatively stable.

With the addition of the third quarter figures, as well as those for the month of October, it now appears that the Union's monetary volume of economic activity increased at a higher rate during the first ten months of 1957, particularly since the end of March, than during the previous two years.

*Balance of Payments:* Apart from its effect on economic activity, the increase in imports also had an important bearing on the Union's balance of payments during the third quarter of 1957.

Whereas the exports of merchandise, excluding gold and ships' stores but including ships sold, increased from £101 million in the third quarter of 1956 to about £104 million in the third quarter of 1957, the imports of merchandise, including ships purchased, rose from £122 million to about £141 million. Thus the trade deficit increased by about £16 million, and the available preliminary estimates indicate that the Union had a net current deficit

with the outside world of about £5 million during the third quarter of 1957, compared with a net surplus of about £10 million during the same period a year ago.

During the first half of 1957, however, the Union showed a substantial improvement on both trading and current accounts compared with the first half of 1956, so that, taken over the first nine months of the year, there was only a very small increase in the trade deficit in 1957 compared with 1956, and, in fact, an improvement in the current deficit. While merchandise imports rose from £379 million in the first nine months of 1956 to about £413 million in the same period of 1957, the exports of merchandise increased from £290 million to about £323 million, so that the trade deficit increased only from £89 million to about £90 million. On the other hand, the Union's net gold output increased by about £11 million to £159 million between these two periods, while it would appear that net current invisible payments showed little change, as increased dividend, freight, insurance and other payments were more or less offset by higher current invisible receipts, notably under the heading "ships' stores". Thus the preliminary estimates indicate a net deficit on current account of about £4 million for the first nine months of 1957, compared with a deficit of about £13 million during the same period last year. In other words, there was an improvement of about £9 million on current account.

Compared with the estimated net current deficit of about £4 million during the first nine months of 1957, the Union's gold and foreign exchange holdings held by the Reserve Bank, the commercial banks and the Union Government, declined by about £28 million. This reflects a substantial net outflow of capital, which was largely accounted for by net repayments of official and private loans, net repatriation of South African securities, and net foreign investments by Union residents. During this period the Union drew £6.9 million under the I.B.R.D. loans, but repaid £2.4 million on this account as well as a Swiss loan of £2.5 million, while it also repatriated Union Government Stock to an amount of about £3.4 million from the United Kingdom. Furthermore, the Government paid its subscription of £0.4 million to the International Finance Corporation, while the banks' short-term foreign liabilities declined by about £1 million. Thus the foreign capital movements of the official and banking sector accounted for a net outflow of about £3 million.

As far as private capital movements are concerned, net repayments of uranium, municipal and other identified private loans amounted to about £6 million, while stockbroker returns indicate a net purchase

\* Six Urban Areas (revised figures).

† Eighteen Urban Areas.

by Union residents of £8 million of Union securities from foreigners. In addition, net identified foreign investments by Union residents amounted to about £2 million, leaving an unidentified net outflow of about £5 million. This net outflow would appear to have been largely accounted for by trade credits extended to foreign buyers of South African goods, particularly during the third quarter of the year.

During the month of October, 1957, the Reserve Bank's gold and foreign exchange reserves showed only a slight further decline from £106.8 million to £106.1 million, but then continued to decrease to £98.9 million by the middle of November. Thereafter the reserves increased to £102.4 million at the end of November. Judging by the exceptionally high import figure of nearly £49 million in October, compared with exports, excluding gold and ships' stores, of £40 million, it would appear that the slight further decline in the Bank's gold and foreign exchange reserves during that month was accounted for by a small net current deficit. In regard to the subsequent net decline of £3.7 million in the reserves during November, the required information on current transactions during that month is not yet available, but it is known that, as far as capital movements are concerned, the Union was granted a credit of £3.6 million by an overseas bank, while, on the other hand, net repayments under the I.B.R.D. loans amounted to about £1.3 million.

*Money in Circulation:* After declining from £462 million at the end of 1956 to £426 million by the end of July, 1957, the quantity of money in circulation in the Union increased again to £440 million at the end of October. While the decline during the first seven months of the year was largely accounted for by the seasonal decline in the gold and foreign exchange reserves and by a substantial

shift from demand to time deposits with the commercial banks, the increase from July to October occurred in spite of a further decline in the gold and foreign exchange reserves, as well as a further increase in the commercial banks' time deposits, and was mainly the result of an increase in bank credit.

Taken over the first ten months of 1957, the money supply showed a net decline of about £22 million. During this period the gold and foreign exchange reserves of the Reserve Bank and the commercial banks declined by about £29 million, while the further shift from demand to time deposits with the commercial banks amounted to about £32 million. On the other hand, bank credit increased by about £39 million, made up of increases of £9 million in Reserve Bank credit and £30 million in commercial bank credit. The last-mentioned, in turn, was the net result of increases of £27 million in the banks' discounts and advances and £5 million in their investments, as against a decline of £2 million in their balances with the National Finance Corporation.

*Commodity Prices:* Commodity prices continued to increase during the first ten months of 1957.

The index of wholesale prices, all goods (base: 1948=100), showed the same figure, namely, 159.6 in July, 1957 as in December, 1956, but then increased to 162.5 in October, largely as a result of an increase in the prices of Union goods. In the case of retail prices, there was a steady increase during the ten months, the index (base: 1948=100) standing at 146.6 in October, compared with 140.3 in December, 1956.

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