MONETARY AND BANKING REVIEW

THE Union's overall monetary volume of economic activity increased further from the second to the third quarter of 1959, although at a slower rate than from the first to the second quarter.

Indices — Excluding Seasonal Changes
(1948 = 100)

	1958	1959			
	3rd Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.	Oct.
Bank Debits	244	257	270	272	289
Discounts and Advances of Commercial Banks	235	225	228	231	227
Stock Exchange Turnover	77	106	133	154	133
Value of Gold Production	220	237	249	254	260
Value of Imports	149	129	139	136	147
Value of Exports*	277	284	318	320	323
Railway Earnings	222	220	228	230	—
Value of Retail Sales	133	132	131	134	—
Value of Property Transactions	80	73	82	87	—
Value of Building Plans Passed	129	128	149	156	—
Employment: Mining	126	131	133	136	—
Manufacturing	172	170	168	167	—

Of the value indices shown in the table above, only imports declined in the third quarter, while, judging from the index of employment, little change occurred in the case of manufacturing activity. On the other hand, the index of retail sales, which had declined during the previous four quarters, showed an increase, while further increases were registered, at respectively lower rates than in the second quarter, in bank debits, discounts and advances of the commercial banks, stock exchange turnover, gold production, exports, railway earnings, property transactions and building plans passed.

Compared with the average figures for the third quarter, there was a substantial increase in bank debits in October, which occurred notwithstanding a strong decline in stock exchange turnover. In addition, the available figures indicate a notable increase in imports during that month, as well as further increases in the gold production and in exports.

BALANCE OF PAYMENTS

Following an increase of £10 million during the second quarter of 1959, the Union's total gold and foreign exchange reserves rose by a further £10 million during the third quarter, as a net result of an increase of £16 million in the holdings of the Reserve Bank, and a decline of £6 million in those of the commercial banks and the Government. This further net increase of £10 million in the reserves, was again largely the result of a substantial surplus on current account.

* Excluding gold.

Imports decreased from £127 million in the second quarter to £119 million in the third quarter, i.e. by £8 million, compared with a decline of only £3 million in exports, namely, from £108 million to £105 million. In addition, the net gold output increased by £6 million, but, on the other hand, there was an increase of about the same magnitude in net current invisible payments (largely due to increased dividend remittances), so that the net current surplus with the outside world increased by about £5 million, namely, from £15 million to about £20 million.

The net current surplus of £20 million in the third quarter, compared with the rise of £10 million in the gold and foreign exchange reserves, indicates a net outflow of private capital of about £10 million, since, on official and banking account, the net foreign borrowing of about £5 million by the Government was offset by the payment to the International Monetary Fund of the gold portion of the Union's increased quota. Of the net outflow of private capital of £10 million, which includes errors and omissions in the estimates, about £8 million was accounted for by net purchases through stockbrokers of Union securities by Union residents from foreigners, and £2 million by repayments on uranium loans.

During October and November the Reserve Bank's gold and foreign exchange reserves increased further from £134.7 million to £144.5 million, notwithstanding the repayment by the Union Government during that period of £4.5 million of its remaining debt of £9 million to the International Monetary Fund. Judging by the available trade figures for October, this further increase in the reserves reflects the continuation of a substantial net current surplus.

MONEY AND BANKING

In the absence of a pay-as-you-earn system of tax collection in the Union, the Government, as a rule, not only borrows extensively from the banking sector, particularly from the Reserve Bank, during the second and third quarters of the year when income tax collections are relatively small, but, at the same time, also draws down the funds it has available in the form of deposits with the Reserve Bank. Thus net claims of the banking sector on the Government usually show a substantial increase during these quarters, thereby causing the public's liquid assets with the banking sector to show a seasonal increase, unless, of course, this effect is counterbalanced by changes in other causal factors. During the third quarter of 1959, however, a significant change occurred in this general pattern as will be seen from the relevant figures in the table below.

Changes in Liabilities and Assets of the Banking Sector
(£ millions)

	1958 3rd Qtr.	1959 1st Qtr.	1959 2nd Qtr.	1959 3rd Qtr.	1959 Oct.
Money supply	+ 3	−15	+11	+11	+10
Interest-bearing deposits	+ 9	−10	+31	+ 6	− 2
Total	+12	−25	+42	+17	+ 8
Net gold and foreign exchange reserves[1]	+ 8	+ 7	+ 9	+11	+13
Claims on Government	+23	−13	+ 5	+17	+ 1
Government deposits[2]	+ 9	−14	+19	−12	− 2
Claims on local governments	—	− 6	+ 1	− 1	+ 2
Claims on private sector	−21	− 2	+ 1	+ 7	− 4
Unclassified items	− 7	+ 3	+ 7	− 5	− 2
Total	+12	−25	+42	+17	+ 8

While the banking sector's claims on the Government again rose by about £17 million during the third quarter of this year, Government deposits actually increased by over £12 million. This increase in Government deposits was largely the result of substantial net borrowings by the Government, not only from the banking sector (in this instance from the commercial banks), but also from the private non-bank sector, and this was possible due to the increased liquidity of the commercial banks and the private sector generally. The net claims of the banking sector on the Goverment, therefore, increased by only £5 million during this quarter, compared with increases of £24 million in the second quarter of this year, and £32 million in the third quarter of last year. Nevertheless, largely as a result of a further increase of £11 million in the banking sector's net gold and foreign exchange reserves, and an increase of £7 million in its claims on the private sector, the public's total liquid assets with the banking sector showed a further increase during the third quarter of this year, namely, of £17 million, of which the money supply accounted for £11 million and interest-bearing deposits for £6 million. During the second quarter of the year the increase amounted to £42 million, but during the third quarter of last year to only £12 million, when the banking sector's claims on the private sector showed a sharp decline of £21 million.

While the increase in the public's liquid assets with the banking sector in the third quarter of this year was, therefore, reduced by the net borrowing of the Government from the private non-bank sector, it should be noted that this net borrowing occurred largely in the form of treasury bill issues, so that the public's liquid assets with the Government sector showed a corresponding increase. Holdings of treasury bills and tax redemption certificates by the private non-bank sector increased, namely, by about £13 million, compared with a decline of £1 million in the second quarter of this year, and an increase of only £1 million during the third quarter of last year.[3] Thus, the total of the public's liquid resources with the banking and Government sectors increased by £30 million during the third quarter of this year, as against £41 million in the second quarter, and £13 million during the third quarter of last year.

During October, 1959, the public's liquid assets with the banking sector increased further by about £8 million, but, on the other hand, their liquid assets with the Government sector declined by about £6 million, so that the net increase amounted to about £2 million. At the end of October, their total liquid assets with the banking and Government sectors stood at about £796 million (compared with this year's lowest figure of about £723 million at the end of March),[3] while, at the same date, the commercial banks also continued to show a very liquid position with a ratio of liquid assets to liabilities to the public of 51 per cent.

MONEY MARKET

The above-mentioned seasonal pattern in the Government's borrowing from the Reserve Bank and in its deposits held with the Bank, i.e. in the net amount of credit created by the Bank for the Government, usually causes a considerable easing of the money market during the second and third quarters of the year, and a tightening during the fourth and first quarters.

From the table below it will be seen that this was more or less again the pattern during the first and second quarters of this year, but that during the third quarter there was a tightening of the market to the extent of about £9 million, as reflected in the net increase in the extent of recourse by the money-market institutions to the Reserve Bank. This tightening occurred in spite of an increase of £16 million in the Reserve Bank's gold and foreign exchange reserves, and was largely due to the contra-seasonal decline of £18 million in net credit extended by the Reserve Bank to the Government. The increased liquidity of the commercial banks and the private sector, referred to earlier, allowed the Government to borrow from internal sources outside the Government and the Reserve Bank a net amount of about £40 million during this quarter (compared with about £18 million during the same quarter of last year), while its net foreign borrowing amounted to about £5 million. The excess of these borrowings over all other net

1. Gold and foreign exchange reserves less short-term foreign liabilities owed to foreign banks and governments.

2. Increase −; decrease +.

3. These calculations exclude treasury bills held by the Public Debt Commissioners on behalf of the private non-bank sector.

expenditures enabled the Government to increase its deposits with the Reserve Bank by over £12 million and also reduce its debt to the Bank by an amount of about £6 million. Other factors which tightened the money market in the third quarter were an increase of £2 million in the Reserve Bank's note circulation, and a net decline of £5 million in "sundry causes", of which £3 million was accounted for by an increase in the commercial banks' obligatory reserves with the Reserve Bank, due to an increase in their liabilities to the public.

Changes in Liabilities and Assets of the Reserve Bank
(£ millions)

Changes in ease or tightness of money market:	*1958* *3rd Qtr.*	*1959* *1st Qtr.*	*2nd Qtr.*	*3rd Qtr.*	*Oct./Nov.*
A. THE SYMPTOMS:					
Increase (+) in banks' excess deposits with Reserve Bank*	—	− 3	—	+ 2	− 2
Increase (+) in N.F.C. deposits with Reserve Bank	—	—	—	—	—
Decrease (+) in extent of recourse to Reserve Bank by:					
Commercial banks	+17	− 1	+ 2	+ 1	+ 3
N.F.C.	+14	− 6	+22	−12	+ 8
Discount and accepting houses	—	− 1	+ 1	—	+ 1
Total easing (+) or tightening (−) of money market	+31	−11	+25	− 9	+10
B. THE CAUSES:					
Gold and foreign exchange	+12	+ 5	+ 2	+16	+10
Note circulation†	− 1	+ 5	—	− 2	—
Government deposits†	+ 9	−14	+19	−12	− 5
Credit to Government	+17	+ 4	− 1	− 6	—
Net claims on local governments	+ 1	−14	+ 6	—	+ 5
Sundry causes	− 7	+ 3	− 1	− 5	—
Total	+31	−11	+25	− 9	+10

* i.e. commercial bank deposits with the Reserve Bank in excess of the minimum reserve requirements.

† Increase −, decrease +.

During the two months October and November, 1959, there was a considerable easing of the money market as a result of the further increase of £10 million in the Reserve Bank's gold and foreign exchange reserves, associated with the favourable balance of payments.

The increase in the liquidity of the commercial banks and the private sector which accompanied the favourable balance of payments during the first eleven months of 1959, caused a strong demand for assets in which to invest funds, and this in turn caused a decline in money market interest rates. Thus the Treasury bill tender rate decreased from 3.679 to 3.258 per cent during this period, and the National Finance Corporation's rate on call deposits from 3.500 to 3.000 per cent, while the call money rate of the Discount House of South Africa, for example, declined from 3.625 to 3.150 per cent.

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