

ECONOMIC REVIEW

While the Union's gold and foreign exchange reserves continued to decline during the third quarter of 1960, due mainly to an unfavourable balance on capital account with the outside world, the internal economy showed signs of a further expansion, although at a relatively slow rate.

Preliminary national accounts estimates based on quarterly returns submitted to the Reserve Bank, indicate that the gross national product, which had decreased less than seasonally during the first quarter of 1960, and then increased more than seasonally during the second quarter, again declined less than seasonally during the third quarter. Excluding seasonal changes, therefore, the available evidence points towards a gradual upward movement during the first nine months of the year.

The less-than-seasonal decline in the gross national product during the third quarter was reflected on the expenditure side of the accounts in a seasonal decrease in consumption, as against a slightly smaller increase in gross domestic saving, which, in turn, was largely accounted for by a considerable increase in personal saving, compared with a decline in corporate saving. Moreover, as the Union's net current deficit with the outside world showed only a relatively small improvement in the third quarter, it would appear that the increase in gross domestic saving during this period was largely reflected in a further increase in gross domestic capital formation. As during the second quarter, the latter increase was mainly due to an increase in investment in inventories, although fixed investment by the South African Railways and Harbours, which had declined in the second quarter, also showed an increase. Private fixed investment, after increasing in the second quarter, showed little change in the third quarter.

As far as developments in the several sectors of the economy are concerned, the seasonally adjusted figures shown in the table below, indicate that bank debits decreased somewhat during the third quarter, reflecting, *inter alia*, a sharp decline in stock exchange turnover, while decreases were also registered in exports, property transactions and building plans passed. On the other hand, gold production remained at the same level, while further increases occurred in the commercial banks' discounts and advances, imports, and retail sales. In addition, railway earnings showed a substantial increase, following a decline in the second quarter. As far as employment is concerned, the index for manufacturing continued its gradual upward movement, while the indices for mining and construction,

which had decreased in the second quarter, also showed increases in the third quarter.

Indices — Excluding Seasonal Changes (1948=100)

	1959		1960		
	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.
Bank Debits	272	286	293	304	298
Discounts and Advances of					
Commercial Banks	231	230	243	257	274
Stock Exchange Turnover	152	146	157	133	73
Value of Gold Production	254	261	264	266	266
Value of Imports	136	150	150	161	166
Value of Exports*	320	323	326	334	325
Railway Earnings	230	232	250	244	251
Value of Retail Sales	135	136	137	138	139
Value of Property Transactions	86	87	99	92	89
Value of Building Plans Passed	156	164	153	161	151
Employment: Mining	136	138	136	135	137
Manufacturing (private)	166	169	170	171	172
Construction (private)	136	135	135	131	137

BALANCE OF PAYMENTS

Following decreases of £7 million and £32 million during the first and second quarters of 1960, respectively, the Union's gold and foreign exchange reserves declined further by about £20 million during the third quarter, due largely to a continued net outflow of capital, but also to a small net deficit on current account.

Imports showed a somewhat less than seasonal decline from £149 million in the second quarter of 1960 to £146 million in the third quarter, partly due to the importation of Boeing aircraft during the latter period, while exports declined more than seasonally from £114 million to £105 million. On the other hand, the net gold output increased from £63 million to £72 million, while net current invisible payments showed little change. The net deficit on current account, therefore, amounted to about £2 million in the third quarter, compared with £7 million in the second quarter, and a net surplus of £15 million in the first quarter.

The net deficit of about £2 million in the third quarter, compared with the decline of £20 million in the gold and foreign exchange reserves, indicates a net outflow of capital in all forms of about £18 million during this period. Official and banking institutions, however, accounted for a net inflow of capital of £11 million (of which £9½ million was received in the form of foreign loans), leaving a net outflow of private capital of about £29 million, compared with £26 million in each of the first two quarters. Of this total net outflow of £29 million of private

* Excluding gold.

capital funds (including omissions and errors in the estimates) during the third quarter of the year, £25 million is identifiable from the quarterly returns submitted to the Reserve Bank, as follows:

(1) Foreign capital funds accounted for a net outflow of about £20 million, of which £8 million represented net purchases of Union securities by Union residents from foreigners, as reported by stockbrokers and after adjustment for nominee and direct transactions.* The balance of the net outflow consisted of £6 million of other long-term funds (including repayments on uranium loans of £2 million), and £6 million of short-term capital.

(2) The net outflow of Union-resident funds, mainly to the Federation of Rhodesia and Nyasaland, amounted to about £5 million, of which long-term funds accounted for £3 million and short-term funds for £2 million.

From £96.5 million at the end of September, 1960, the gold and foreign exchange reserves held by the Reserve Bank decreased further to £84.0 million at the end of November. The usual seasonal increase in the reserves during these two months, therefore, did not occur, and, judging by the balance of payments figures available for October, this phenomenon is to be associated principally with a further net outflow of capital. It would also appear, however, that the improvement in the net current account during this period was somewhat less than seasonal, due to the continuation of a relatively high level of imports, a smaller-than-seasonal increase in the value of wool exports, and a decline in the net gold output, reflecting smaller deliveries of gold to the Reserve Bank.

MONEY AND BANKING

Although credit extended by the banking sector to the private sector increased further by £31 million in the third quarter of 1960, and Government deposits declined seasonally by about £22 million, the public's liquid assets with the banking sector increased by only £19 million, i.e. by an amount substantially smaller than the usual seasonal increase during this period. As will be seen from the table below, this phenomenon was mainly accounted for by a further decline of £26 million in the banking sector's net gold and foreign exchange reserves (reflecting the unfavourable balance

of payments), but also by the fact that the banking sector's claims on the Government did not show the usual seasonal increase. While the Government did have a substantial seasonal deficit of about £45 million in the quarter under review, it financed this deficit, apart from drawing down its deposits, nearly entirely through borrowing from sources outside the banking sector, mainly from the Public Debt Commissioners.

Changes in Liabilities and Assets of the Banking Sector

(£ millions)

	1959		1960		
	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.
Domestic Money Supply	+11	+14	-19	+7	+6
Domestic Interest-bearing deposits	+7	-4	-15	+3	+13
Total	+18	+10	-34	+10	+19
Net gold and foreign exchange reserves ¹	+11	+19	-7	-30	-26
Claims on Government ²	+17	-11	-16	-17	+1
Government Deposits ³	-13	-18	-18	+19	+22
Claims on local governments	-1	+9	-8	—	—
Claims on private sector	+8	+8	+26	+22	+31
Long-term foreign liabilities ³	—	+3	-12	+7	-3
Unclassified items	-4	—	+1	+9	-6
Total	+18	+10	-34	+10	+19

The further rise of £31 million in credit extended to the private sector during this period, occurred mainly in July and August, when increases of £18 million and £11 million, respectively, were registered, as against an increase of only £2 million in September. In this connection it is interesting to note that the commercial banks' discounts and advances in the Union, which had increased by £42 million during the first six months of the year, rose further by £10 million in July, but then showed no change in August, followed by a contra-seasonal increase of £2 million in September. During October, there was actually a decline of about £2 million, which was in line with the usual seasonal movement.

Apart from this decrease in discounts and advances during October, there was also a further decline in the banking sector's net gold and foreign exchange reserves, as well as a seasonal net increase in Government deposits, so that the public's liquid assets with the banking sector decreased by about £13 million to £731 million at the end of that month. At the same date the public's liquid assets with the Government sector, in the form of

* The unadjusted figures reported by stockbrokers are as follows (£ millions):

	Purchases by Union Residents	Sales by Union Residents	Net Purchases
1960 — 1st half	30.4	11.0	19.4
Jul.	3.0	0.9	2.1
Aug.	3.1	0.8	2.3
Sept.	3.2	1.4	1.8
Oct. (preliminary)	4.6	1.6	3.0

Nov.

— 3.0

1. Gold and foreign exchange reserves less short-term foreign liabilities.
2. Excluding Government stock held by Reserve Bank i.r.o. external debt of the Government.
3. Increase —; decrease +.

Treasury bills and tax redemption certificates, stood at £46 million, giving a figure of £777 million for the public's total liquid assets, compared with £792 million at the beginning of the year. Excluding seasonal changes, these liquid assets remained relatively constant during the first five months of the year, but showed a declining tendency during the subsequent five months.

MONEY MARKET

Principally as a result of the unfavourable balance of payments, but also because the Reserve Bank was not called upon to extend credit to the Government, as is usual during the second and third quarters of the year, the contra-seasonal tightening of the money market during the second quarter of 1960, continued into July and August. As will be seen from the table below, this further tightening was reflected in the net extent, namely £15 million, to which the Reserve Bank had to create credit for the money market, mainly for the National Finance Corporation and the commercial banks.

During the second half of August, the Reserve Bank's net gold and foreign exchange reserves began to show a slower rate of decrease, and during September the actual decline amounted to only £2 million. At the same time Government deposits continued to decline, so that money market conditions tended to ease during that month. Subsequently, however, with the start of the seasonal flow of funds to the Government in the form of tax collections, the market once again showed a substantial tightening during October.

In order to relieve this seasonal pressure, the Government again, as during the first quarter of the year, invested part of its surplus funds with the commercial banks in the form of short-term interest-bearing deposits during November, namely, an amount of £15 million. This step contributed substantially towards the fact that the money market eased to the extent of £6 million during that month.

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

Changes in ease or tightness of money market:	1960				
	2nd Qtr.	Jul.	Aug.	Sept.	Oct. Nov.
A. THE SYMPTOMS:					
Increase (-) in net extent of recourse to Reserve Bank by:					
Commercial banks	-11	-4	+6	-6	+3
N.F.C.	+8	-14	-1	+1	+4
Discount houses	+1	+3	—	-6	-1
	—	—	—	—	—
Total easing (+) or tightening (-) of money market	-2	-15	+5	-11	+6
	—	—	—	—	—
B. THE CAUSES:					
Net gold and foreign exchange	-35	-19	-2	-7	-5
Credit to Government	—	—	-1	—	—
Government deposits*	+14	+2	+10	-12	+3
Net claims on local governments	+7	—	+1	+1	+3
Note liabilities*	-3	—	-3	+3	—
Net claims on private sector	+9	—	—	+4	—
Sundry causes	+6	+2	—	—	+5
	—	—	—	—	—
Total	-2	-15	+5	-11	+6
	—	—	—	—	—

Under the conditions described above, money-market interest rates tended to fluctuate during the past five months. The Treasury bill tender rate, for example, increased from 3.604 per cent on June 24 to a peak of 3.813 per cent in the second week of August, when the local Bank rate was increased from 4 to 4½ per cent. Thereafter, it declined to 3.513 per cent on October 7, and then increased to 3.771 on November 4, only to decline again to 3.692 per cent on November 18, after the Government had begun to invest part of its funds with the commercial banks. During the subsequent two weeks the rate again increased to stand at 3.779 per cent on December 2.

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* Increase -; decrease +.