

ECONOMIC REVIEW

Judging by the available statistical information, it would appear that, on the whole, internal economic conditions showed little change in the third quarter of 1961 compared with the second quarter, while a substantial improvement occurred in the country's balance of payments position.

Preliminary estimates indicate that the gross national product decreased seasonally in the third quarter, and this decrease was reflected on the expenditure side of the national accounts in a seasonal decline in consumption, as against a further increase in gross domestic saving, due primarily to a substantial further increase in personal saving.

As during the second quarter, the increase in gross domestic saving in the third quarter was considerably more than the corresponding improvement of R38 million in the country's net surplus on current account with the outside world, so that a further increase was also registered in gross domestic capital formation. This increase was largely the result of a fairly substantial increase in inventories, but also of an increase in fixed investment by public authorities, whereas private fixed investment showed a small decline. The increase in inventories, in turn, was mainly accounted for by increased commercial and agricultural stocks, reflecting the seasonal decline in consumption, while manufacturing stocks showed little change, and a decline was registered in mining inventories.

Turning to the indices shown in the table below, it will be seen that, excluding seasonal changes, bank debits increased slightly further in the third quarter, notwithstanding a substantial decline in stock exchange turnover. Small increases were also registered in discounts and advances of the commercial banks, gold production, and retail sales, while railway earnings remained relatively constant. On the other hand, imports declined fairly substantially, while building plans passed, property trans-

actions and, to a lesser extent, the value of exports, also decreased. The last-mentioned, however, showed a substantial increase in October.

As far as private manufacturing activity is concerned, the available index of employment indicates the continuation of a relatively stable trend. Judging by the manufacturing census results for recent years, however, it would appear that this index, which is based on sample statistics, understates the true increase in manufacturing employment. Moreover, it should be noted that these census results have always shown a substantially bigger increase in the net value of manufacturing output than in the number of persons employed.

BALANCE OF PAYMENTS

South Africa's official gold and foreign exchange reserves, which had increased by only R1 million during the first quarter of 1961, and then declined by R19 million during the second quarter, rose by as much as R36 million during the third quarter of the year. This substantial improvement in the third quarter compared with the second, was mainly due to a substantial increase in the net surplus on current account, but also to a decline in the net outflow of capital.

Following the intensification and extension of import control in May, 1961, the imports of merchandise declined more than seasonally from R267 million in the second quarter to about R228 million in the third quarter. As against this decline of R39 million in imports, merchandise exports decreased by only about R7 million, namely, from R222 million to approximately R215 million, with the result that the country's trade deficit with the outside world improved from R45 million in the second quarter to about R13 million in the third. Moreover, the high level of gold production was maintained in the third quarter, while net current invisible payments showed a decline, so that the total net current surplus is estimated to have increased to about R59 million in this quarter, compared with R21 million in the second quarter and R9 million in the first. The net current surplus for the first nine months of 1961, therefore, amounted to approximately R89 million, compared with R10 million during the corresponding period last year.

The net current surplus of R59 million during the third quarter of 1961, compared with the corresponding increase of R36 million in the official gold and foreign exchange reserves, indicates a further net outflow of capital of about R23 million during this period. Of this net outflow, R12 million was accounted for by official and banking institutions, representing mainly net repayments of foreign loans, and trade credits extended in connection with Government imports, while the balance of R11 million represents the net outflow of private capital, which compares favourably with the net outflows of R37 million and R19 million registered in the first and second quarters of the year, respectively. More-

*Indices — Excluding Seasonal Changes
(1953 = 100)*

	1960		1961		
	3rd Qtr.	4th Qtr.	1st Qtr.	2nd Qtr.	3rd Qtr.
Bank debits	193	198	189	200	201
Discounts and advances of commercial banks	184	190	188	187	188
Stock exchange turnover	155	189	204	189	155
Value of gold production	181	187	192	192	195
Value of imports	137	129	131	122	109
Value of exports	149	137	156	157	155
Railway earnings	161	158	158	161	161
Value of retail sales	117	115	118	114	116
Value of property transactions	100	99	98	84	78
Value of building plans passed*	123	118	105	95	82
Employment:					
Mining	121	123	125	123	124
Manufacturing (private)	121	120	121	120	120

* Eighteen principal metropolitan areas and 45 smaller towns.

over, this further net outflow of private capital during the third quarter was actually the result of a net inflow of foreign capital of about R1 million, as against a net outflow of South African resident-owned funds of about R12 million.

The reversal of the net movement of private foreign capital from a net outflow of R21 million in the first quarter of 1961, and R24 million in the second quarter, to a small net inflow of about R1 million in the third quarter, was partly due to the extension of exchange control during June, to dealings in South African securities between the Johannesburg Stock Exchange and the London and Bulawayo Stock Exchanges, whereby the outflow of capital on account of purchases of South African securities by residents from foreigners was stopped*. Partly, however, it was also due to the receipt during the third quarter of a substantial amount of foreign long-term loans by the private sector. Such identified loan receipts amounted to about R22 million, but was largely offset by a net outflow of about R9 million of other long-term funds, representing almost entirely repayments of uranium and other private loans, and by a net outflow of R12 million of short-term funds, which, however, was mainly accounted for by credits arising from foreign trade transactions.

As far as South African resident-owned capital is concerned, the reversal of the net inflow of R5 million which occurred in the second quarter, to a net outflow of about R12 million in the third quarter, was to a large extent due to an increase during the latter period in the amount of export proceeds retained overseas, as well as in funds transmitted abroad, in anticipation of dividend payments in the fourth quarter.

During the months of October and November, 1961, the gold and foreign exchange reserves held by the Reserve Bank rose further from R197.4 million to R250.3 million. During this period the Government received a loan of about R7 million from a group of Italian banks, but repaid I.B.R.D. and other foreign loans to the extent of about R9 million. Moreover, the Reserve Bank repaid R7 million of short-term foreign loans, while, judging from the October figures, the commercial bank's long-term foreign liabilities also showed

*. The following table shows the purchases and sales by South African residents from and to foreigners of securities listed on the Johannesburg Stock Exchange as reported by stockbrokers (unadjusted for nominee and direct transactions):

	Purchases	Sales	Net
	by S.A. residents	by S.A. residents	Net purchases
	R Mil.	R Mil.	R Mil.
1961—1st Qtr.	18.6	7.4	11.2
2nd Qtr.	13.2	3.7	9.5
July	1.8	1.5	0.3
August	2.4	2.1	0.3
September	1.5	1.1	0.4
October	1.9	2.2	— 0.3
November	2.3	2.2	0.1

a substantial decline. Thus, although information on the movement of private capital is not yet available at this stage, it would appear that the increase of about R53 million in the reserves during these two months, was mainly accounted for by a further substantial net surplus on current account, estimated at approximately R40 million for the month of October alone.

Towards the end of November, a loan of R18 million was granted by the I.B.R.D. to the Government and Escom, while early in December, the Government announced the receipt of a loan of about R7 million from a German bank. The latter will be drawn on 19th December, and the former over the next 15 months as and when payments are made for imports of the relevant capital equipment.

MONEY AND BANKING

Mainly as a result of the improved balance of payments position, the amount of liquid assets held by the private sector with the banking sector, which had declined by R60 million during the first quarter of 1961, and then increased by R48 million in the second quarter, rose further by R61 million during the third quarter.

Subsequently during October, these liquid assets increased further by about R8 million, reflecting mainly the continuation of a favourable balance of payments, although the effect of the latter was partly offset by a substantial increase in Government deposits, signifying the start of the seasonal shift of funds from the private to the Government sector.

In addition to the increase of R69 million in the liquid assets held by the private sector with the

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

	1961				
	1st Qtr.	2nd Qtr.	3rd Qtr.	Sep.	Oct.
Private Sector:					
Money	-35	+10	+29	+26	-18
Interest-bearing deposits	-24	+38	+32	+41	+26
Total	-60	+48	+61	+67	+ 8
Net gold and foreign exchange reserves*	-15	-13	+42	+30	+29
Claims on Central Government†	-27	-15	- 4	+14	- 4
Central Government deposits††	-26	+81	+ 6	+ 6	-19
Net claims on provincial administrations	-35	+15	+ 3	+ 3	- 3
Net claims on local authorities	+ 3	-12	+11	- 3	- 2
Claims on private sector	+23	-14	+22	+13	- 1
Long-term foreign liabilities††	- 3	- 2	+ 1	- 1	+ 8
Unclassified items	+20	+ 8	-20	+ 5	-
Total	-60	+48	+61	+67	+ 8

* Gold and foreign exchange reserves less short-term foreign liabilities.

† Excluding Government stock held by Reserve Bank i.r.o. external debt of the Government.

†† Increase - ; decrease +.

banking sector during the four months ended October, 1961, the private sector's liquid assets held with the Government sector in the form of treasury bills and tax redemption certificates rose by as much as R52 million. Thus the private sector's total liquid assets, which had declined by R9 million during the first half of the year, increased by R121 million during the subsequent four months. Similarly, a noticeable improvement occurred in the liquidity of the commercial banks, and their ratio of liquid assets to liabilities to the public, after declining from 43.2 per cent at the end of 1960 to 35.4 per cent at the end of June, 1961, increased to 46.9 per cent at the end of October.

In regard to bank credit, the net increase of R21 million in claims on the private sector during the four months ended October shown in the table above, actually includes an increase of R47 million in claims on the discount houses. Excluding the discount houses, there was, therefore, a decrease of R26 million, which was the result of a decline of R21 million in the Reserve Bank's claims on the private sector, mainly on the Land Bank, and a decrease of R5 million in such claims of the commercial banks, due mainly to a decline of R6 million in the banks' discounts and advances in the Republic. The latter decline was, however, substantially smaller than the usual seasonal decline during this period.

MONEY MARKET

After tightening during the second quarter of 1961, when the seasonal shift of funds from the Government sector was more than offset by an unfavourable balance

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

	1961				
	2nd Qtr.	3rd Qtr.	Sep.	Oct.	Nov.
<i>Changes in ease or tightness of money market:</i>					
A. THE SYMPTOMS:					
Increase (-) in net extent of recourse to Reserve Bank by:					
Commercial banks	- 5	+27	+ 8	- 8	+ 2
N.F.C.	+ 1	-10	+47	-26	+34
Discount houses	- 4	+14	+ 5	-	- 1
Total easing (+) or tightening (-) of money market	- 8	+31	+60	-34	+35
B. THE CAUSES:					
Net gold and foreign exchange	-31	+51	+33	+28	+30
Credit to Central Government	-	+15	+21	-11	-
Central Government deposits*	+37	+ 6	+ 6	-19	-31
Net credit to provincial administrations	+12	+ 3	+ 1	- 3	+ 8
Note liabilities*	- 9	-11	- 7	+ 7	- 3
Net credit to private sector	- 8	-17	+ 2	-38	+18
Sundry causes	- 9	-16	+ 4	+ 2	+13
Total	- 8	+31	+60	-34	+35

* Increase-; decrease+.

of payments as well as by other negative factors, the money market eased considerably during the third quarter, particularly during September, when the balance of payments took a favourable turn, and the seasonal shift of funds from the Government sector continued.

During October, the shift of funds from the Government sector was reversed, as reflected in the table above in an increase of R19 million in Central Government deposits and a reduction of R11 million in the Central Government's debt with the Reserve Bank. Moreover, a substantial reduction occurred in the Bank's net credit extension to the private sector, mainly to the Land Bank, so that the money market showed a considerable tightening notwithstanding the continuation of a favourable balance of payments. Subsequently during November, however, there was again a considerable easing of the market, when the further shift of funds to the Government sector was more than offset by the favourable balance of payments and other positive factors, particularly an increase of R18 million in the Bank's credit extension to the private sector.

As a result of the easing of the money market during the third quarter of 1961, the Treasury bill tender rate, which had increased from 3.90 to 4.68 per cent during the first half of the year, decreased to 4.20 per cent at the end of September. Subsequently it declined further to 4.03 per cent on October 13, but then increased to 4.14 per cent on October 27, reflecting the tightening of the market during the second half of that month. During November it once again declined, and stood at 4.07 per cent on December 1.

BANK RATE

Having regard to the developments described above, the Reserve Bank, after the customary consultation with the Treasury, decided to lower Bank Rate by $\frac{1}{2}$ per cent to $4\frac{1}{2}$ per cent with effect from December 7, 1961. In announcing this decision, the Governor of the Bank issued a statement which, inter alia, read as follows:

"... the Reserve Bank is lowering Bank Rate not only as a sign to the business community and the general public that the authorities are reasonably satisfied with the results of their financial and other measures and the significant improvement during recent months in both the balance of payments and the monetary and banking situation, but also to stimulate economic activity in so far as this can be done by reducing the cost of short-term financing.

As far as medium and long-term rates are concerned, however, the existing level appears to reflect a state of approximate balance between supply and demand in the capital market and the Reserve Bank does not propose at this juncture to take the lead in this field by lowering its pattern of rates for open-market operations in Government stocks".

T. W. de Jongh,

Head: Department of Economic Research and Statistics.