

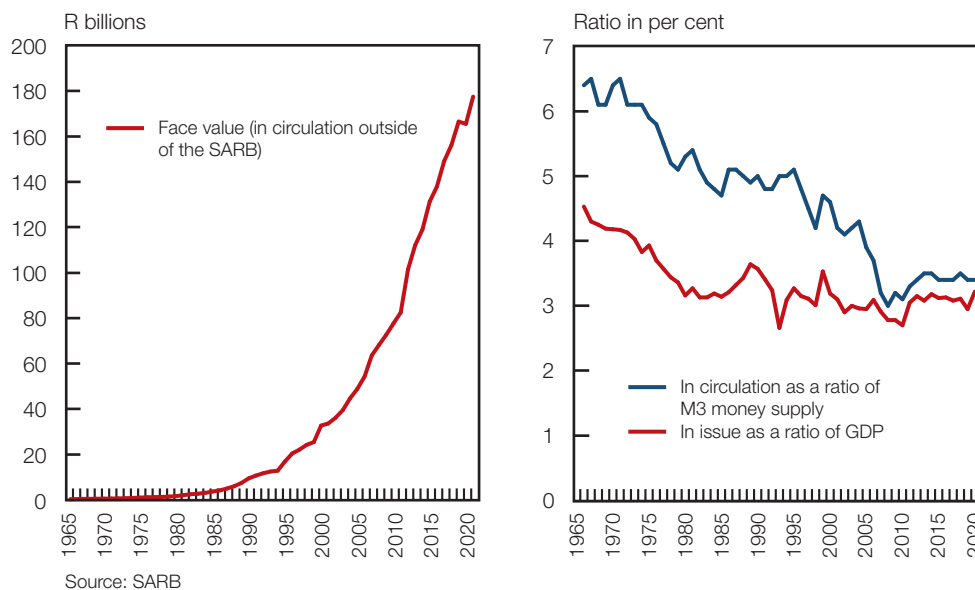
Note on banknotes and coin in South Africa¹

By L de Beer and J Shikwane

Introduction

The South African Reserve Bank (SARB)² is the sole issuer of banknotes and coin in South Africa and ensures the integrity as well as the availability of the currency. From a macroeconomic perspective, the face value of the rand in issue and in circulation in South Africa, outside of the SARB, has increased 695 times since the introduction of the rand in 1961.³ The currency in issue has broadly maintained its relative volume in relation to the level of nominal gross domestic product. The increased prevalence of electronic payments is also evident from the decline in the ratio of the currency in circulation outside of the monetary sector⁴ to total money supply (M3).⁵

Figure 1 Banknotes and coin



The purpose of this note is to explain the different concepts of banknotes and coin, its flow through the economy given its central role in paying for goods and services, its links to both the monetary base^{6,7} and broadly defined money supply (M3), as well as the currency denomination composition and how demand has changed since the onset of the coronavirus disease 2019 (COVID-19) pandemic.

The flow of banknotes and coin through the economy

Banknotes and coin are produced and stored by the South African Bank Note Company (RF) Proprietary Limited and the South African Mint Company (RF) Proprietary Limited respectively. At issue, the currency is recorded as a liability on the balance sheet of the SARB. This amount in issue and in circulation outside of the SARB includes all currency denominated in rand issued by the SARB as the central bank and monetary authority of South Africa, less any amounts removed from circulation and destroyed. These banknotes and coin in issue and in circulation outside of the SARB are then placed into circulation through industry cash centres, and from there to the public through a variety of channels, such as bank branches, automated teller machines (ATMs) and retailers, until soiled banknotes find their way back to the SARB for destruction.

A small portion of the banknotes and coin in issue and in circulation outside of the SARB is held as an asset on the balance sheet of the private banking sector as vault cash for operational purposes, and the rest is in circulation outside of the monetary sector as an asset in the hands of the public. It is the latter, namely the public's demand for banknotes and coin, which reflects visible weekly and monthly seasonality. Likewise, this portion – also referred to as currency in

1 This note relates to the statistics of banknotes and coin on pages S–2, S–8, S–14, S–18 and S–23 in this edition of the *Quarterly Bulletin*.

2 The amended South African Reserve Bank Act 90 of 1989 (SARB Act) provides the enabling framework for the SARB's operations.

3 South Africa's currency system was initially modelled on the British currency system until 1961. On 14 February 1961 the rand replaced the pound as the generally accepted means of payment.

4 The monetary sector comprises the monetary authority (the SARB and the Corporation for Public Deposits) and the private sector banks, inclusive of mutual banks, the Postbank and the Land Bank.

5 The M3 money supply includes banknotes and coin in circulation plus the domestic private sector's cheque and transmission deposits, demand deposits, short- and medium-term deposits as well as long-term deposits with the monetary sector.

6 The monetary base is defined as currency in circulation and banks' deposit holdings at the central bank as well as those deposits of money holding sectors at the central bank that are also included in broad money. See pages 197 to 200 of the *Monetary and Financial Statistics Manual and Compilation Guide 2019* published by the International Monetary Fund (IMF) in 2019.

7 For a discussion on the monetary base, see the 'Note on recent developments in money creation in South Africa' in the September 2020 edition of the *Quarterly Bulletin*, available at <https://www.resbank.co.za/en/home/publications/publication-detail-pages/quarterly-bulletins/articles-and-notes/2020/10269>



circulation outside of the monetary sector – is the only part of banknotes and coin in issue and in circulation outside of the SARB that is part of M3.

The link between banknotes and coin, the monetary base and money supply

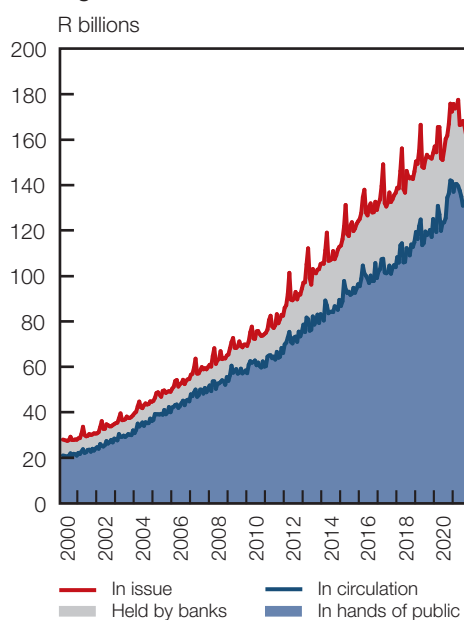
Banknotes and coin in circulation outside of the monetary sector is a small component of money supply, whereas banknotes and coin in circulation outside of the SARB is a major component of the monetary base. The monetary base (M0) is the total of banknotes and coin in issue and in circulation outside of the SARB, net of issuance and removal from circulation, plus both banks' required reserve deposits as well as excess cash reserves and other deposits at the SARB in rand, as shown in the shaded areas in Table 1.

Table 1 Contribution of main components of the South African Reserve Bank balance sheet as at 30 June 2021

Assets		Liabilities	
Total gold and foreign exchange reserves	87.8	Other liabilities	37.9
Securities	5.2	Required reserves, excess cash reserves and other deposits of private banks	32.4
Accommodation to banks	4.8	Banknotes and coin issued (in circulation outside of the SARB)	18.4
Domestic fixed assets and loans	1.9	Foreign loans and deposits	11.2
Other assets	0.2	Share capital and reserve fund	0.1
	100		100

Source: SARB

Figure 2 Banknotes and coin



Source: SARB

Contribution to money supply

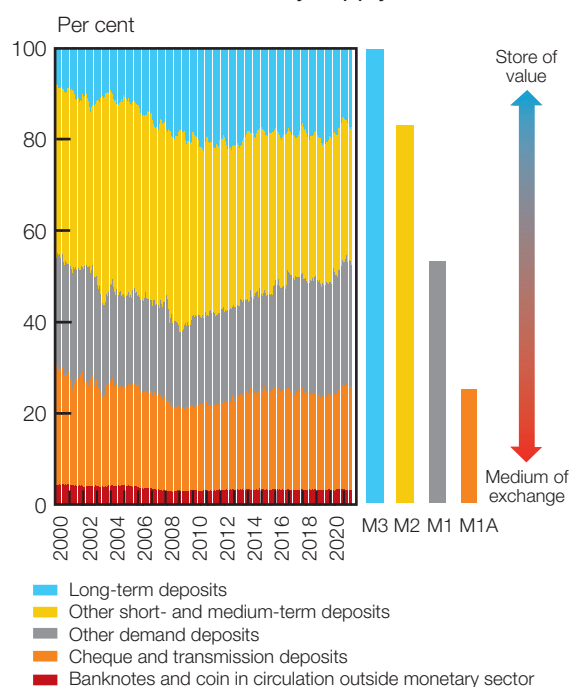
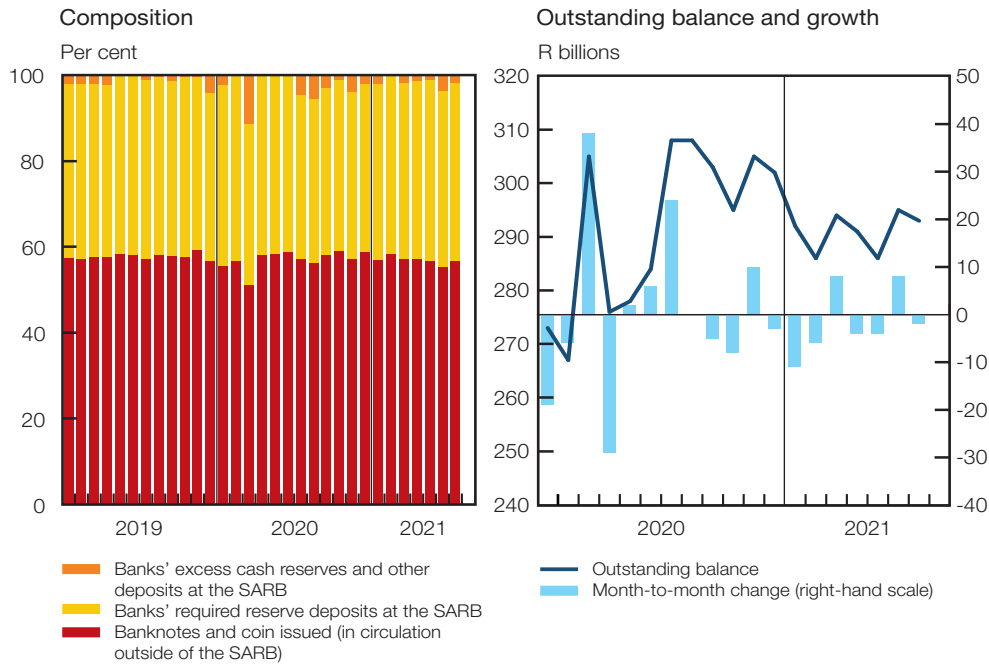
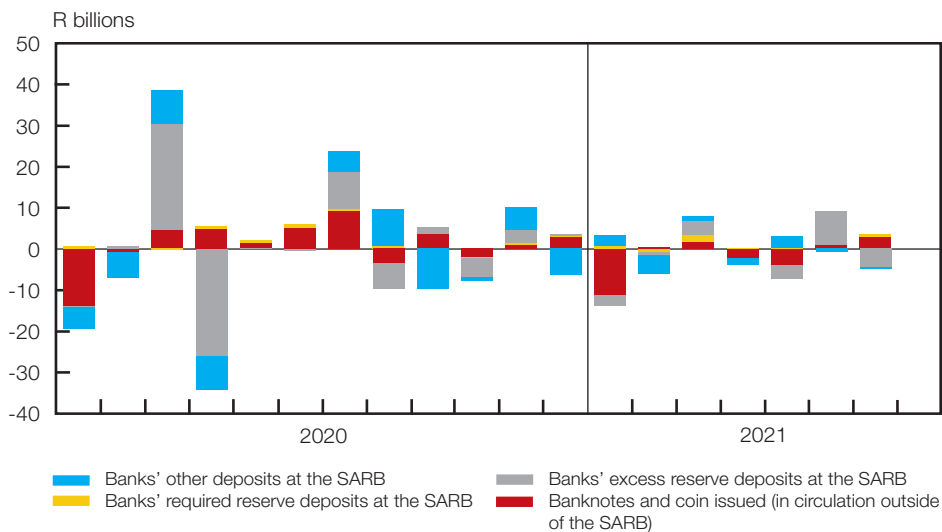


Figure 3 Monetary base



Source: SARB

Figure 4 Contribution to month-to-month change in monetary base



Source: SARB

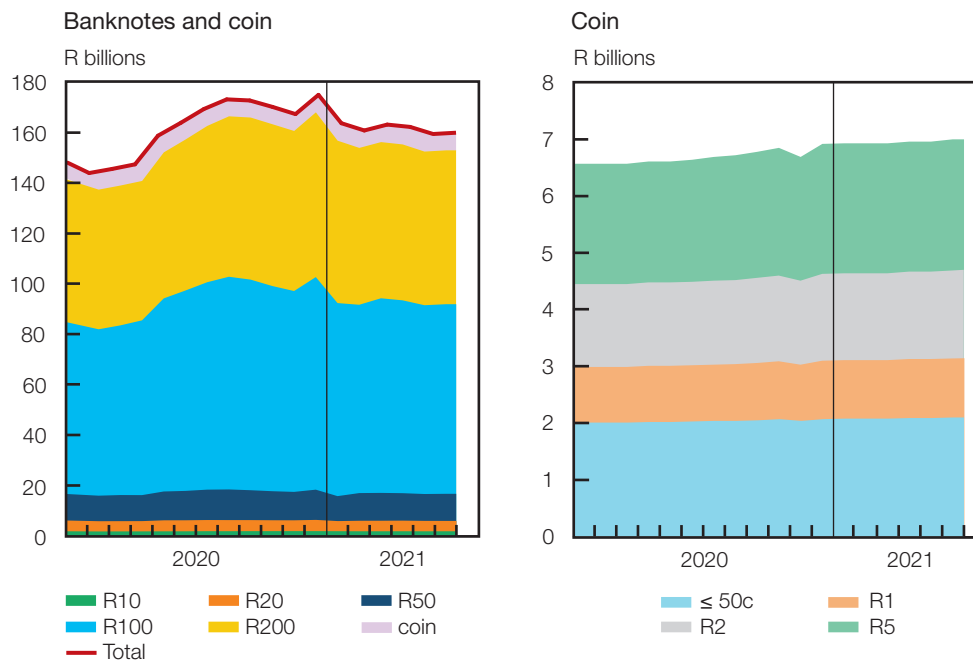
Since the onset of the COVID-19 pandemic, the increase in banknotes and coin in issue and in circulation outside of the SARB to provide for heightened demand during times of uncertainty, in particular for larger denomination banknotes, contributed to an increase in the monetary base. In March 2020, the monetary base increased as private sector banks increased their reserve balances at the SARB in the wake of the introduction of the special liquidity measures introduced by the SARB to alleviate potential liquidity shortfalls during the pandemic. In the next month, this was reversed when banks decreased their reserve balances at the SARB. At the time, banks showed a preference for cash for the special social grant pay-outs initiated by government as well as for uncertain day-to-day demand by the public. Monthly fluctuations in the monetary base reflected the impact of the pandemic on economic activity, which has become less pronounced since August 2020.



Denominations of banknotes and coin

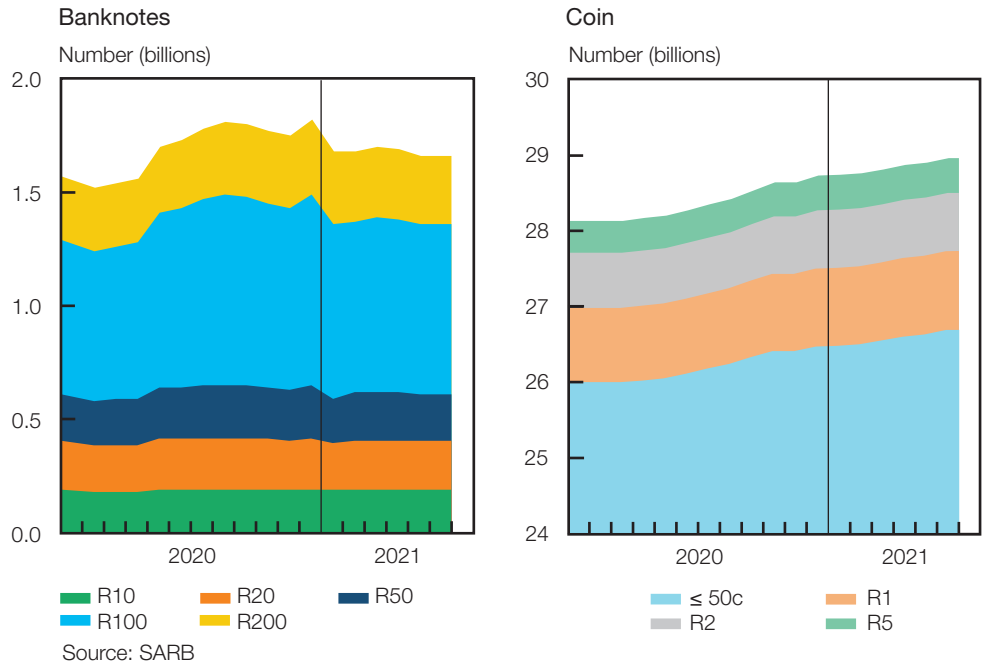
The SARB provides for the public's demand for cash and aims to ensure an optimal currency mix. Although the public uses all denominations as a means of payment to facilitate transactions for goods and services, the lower-value denominations are used more frequently for this purpose and the higher-value denominations are sometimes held on to for longer periods due to them being considered as a more convenient store of value, thereby requiring less frequent replacement than the smaller banknote denominations.

Figure 5 Value of banknotes and coin in issue and in circulation outside of the SARB



Since the onset of the COVID-19 pandemic, the SARB has responded to the public's increased demand for higher-value banknotes. The SARB increased the total value of banknotes and coin in issue and in circulation outside of the SARB by 14.2% from March 2020 to December 2020, with the higher-value R100 and R200 banknotes increasing by 25.3% and 17.8% respectively. However, as the pandemic-related lockdown restrictions became less severe, the banknotes and coin liability of the SARB contracted by 8.1% from December 2020 to June 2021, with the R100 and R200 banknotes decreasing by 10.8% and 6.6% respectively.

Figure 6 Volume of banknotes and coin in issue and in circulation outside of the SARB



In terms of volume, the R100 denomination is the most popular, with an average of 776.6 million physical banknotes in circulation outside of the SARB between March 2020 and June 2021. This was followed by the R200 denomination, with an average of 307.3 million banknotes circulating during the same period. Most of the other denominations of banknotes in issue remained relatively stable during this period, while the number of coins in circulation outside of the SARB by far exceeded those of banknotes, owing to the range of small denominations.