7 Endnotes

1. Note that although this facility can be in place for decades, we regard it as a short-term loan from a bank that is rolled over frequently in the case of creditworthy, non-delinquent borrowers. It is therefore a loan that can be withdrawn. It also carries a floating rate benchmarked on the prime overdraft rate.
2. We regard them as NCDs. Examples are South African Reserve Bank debentures, Reserve Bank of Malawi bills, Bank of Botswana certificates.
3. This is only one of the functions of money, but it is the main one; the others are *store of value*, *unit of account* and *standard of deferred payment*.
4. A yield curve presents the relationship between interest rates and term to maturity at a point in time. It is generally constructed from the rates of comparable securities, specifically one issuer such as government and zero-coupon securities. This gives us the zero-coupon yield curve (ZCYC). This issue is discussed in detail in the bond market course.
5. Risk-free in the sense that government is able to tax and borrow in order to pay interest and repay holders when they mature.
6. In many countries central bank accommodation to the banks is granted on an overnight basis (i.e. 1 day). In the repo system adopted in many other countries 1-week auctions are usually held for the majority of the liquidity required, and overnight repos are executed for "fine-tuning" at the end of the final interbank clearing.

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7. Note that this style on monetary policy execution is followed by many countries, including the ECB, the Bank of England, the Bank of Canada, the South African Reserve Bank, and so on. Not all countries follow this style. Some countries follow a policy of not having a liquidity shortage or surplus, while others allow liquidity surpluses. The latter policy is deeply flawed.
8. It is also apparent that the most significant price in the economy (the interest rate) is "controlled" by decree (by the Monetary Policy Committee of the central bank), refuting the notion of a free market economy.
9. Discussed in more detail later.
10. This is so because the public accepts deposit money as a means of payment; discussed in more detail later.
11. Except "self-imposed": creditworthiness-assessment in the case of individuals and scrutiny of viability in the case of the corporate sector.
12. Contractual intermediaries.
13. Collective investment schemes.
14. Certain forms of borrowings, for example the utilised overdraft facility, are not represented by the issue of an actual security. Rather, the bank overdraft is denoted by a debit balance on a bank statement. In law this is a debt obligation; we regard debt obligations as debt securities.
15. In South Africa a bond exchange (Bond Exchange of South Africa – BESA) exists and some money market securities are listed on BESA.
16. Note the absence of an arrow between the ultimate lenders and the contractual intermediaries (CI) and the collective investment schemes (CIS) in Figure 8. This is because lenders do not hold "money" with these institutions but "investments".
17. In South Africa, for example, the Land Bank issues Land Bank bills and PNs; the Development Bank of Southern Africa (DBSA) issues Development Bank bridging bonds (under the relevant statutes that created these institutions).
18. Or primary dealers if the they are officially appointed. The best example is the market makers appointed by the central bank / government to tender for primary issues of government bonds. The market makers / primary dealers are usually the large local and international banks.
19. In most countries.
20. he reason the second "proviso" is even mentioned is because there are some central banks (which were visited by the author) that still believe that they are not responsible for destroying cash reserves if they sell assets or increase liabilities (such as notes issues); bizarrely, they believe that the banks are the cause and should therefore be penalised. Conversely some central bankers believe that a money market surplus (i.e. positive balances on the banks' settlement accounts with the central bank) is caused by the banks and not by their own purchasing of assets or decreasing liabilities (such as the sale by the banks of bank notes back to the central bank).
21. LCC ("local country currency") is a fictitious currency.
22. Where does the new deposit come from is the question that needs to be asked. It is likely to come from a bank loan (the starting point of money creation).
23. In most countries, for good reasons.
24. Because the central bank does not pay interest on balances on these accounts.
25. Except for bank trading in existing NCDs.
26. There are some countries that do not have a cash reserve requirement.

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27. Note that in some countries bank notes and coins rank as cash reserves. Here we assume that they do not – for the sake of simplicity.
28. Equity / other assets / other liabilities are ignored for the sake of simplicity.
29. LCC = currency ('corona") of fictitious country, Local Country.
30. In reality banks are permitted in many countries to hold less than the required amount on a daily basis, but must comply on average for the month.
31. Electronic funds transfer.
32. Interbank clearing house.
33. Different central banks have different requirements / policies in this regard, but this one is used here because it demonstrates the principal well.
34. They are actually repos from the point of view of the banks and resale agreements from the point of view of the central bank.
35. The official statistics of most countries allows for this calculation to be made on a monthly basis (including the statistical "causes" of changes in NER).
36. The rate on overdrafts for prime customers; other lending rates are benchmarked on this rate. Most bank assets are related to the prime rate.
37. For a particular country as at month-ends, for a period of over 50 years.
38. Note than every central bank has a different view on the MTPM. Their views can be found on the various websites. This is a personal view, and is adapted from the Bank of England view.
39. And create their own deposits by making loans.
40. Note that the terms *marketable* and *negotiable* are synonymous.

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41. Electronic funds transfer (such as by internet banking transfer).
42. Recall our view: although this facility can be in place for decades, we regard it as a short-term loan from a bank that is rolled over frequently in the case of creditworthy, non-delinquent borrowers. It is therefore a loan that can be withdrawn. It also carries a floating rate benchmarked on the prime overdraft rate
43. Keep in mind that banks' balance sheets also include other items such as central bank money, interbank loans, marketable debt securities, other investments, and so on.
44. Note that in most markets securities certificates are rare, because of electronic settlement, which leads to dematerialisation or immobilisation.
45. Mentioned in many historical accounts; the original source is unknown.
46. From the South African Bills of Exchange Act.
47. When the Bank of England put in place conditions for the issue of commercial paper
48. Note that there are many risk-free rates – as many as there are government securities in issue.
49. In many countries the TB is now an electronic accounting entry / record as it is dematerialised. In some countries it is immobilised in a central securities depository. This also applies to other money market securities.
50. Based on the" arbitrage principle", i.e. if this were not the rate, arbitrage could take place.
51. The term "institutions" is used loosely in the financial markets to apply to the large investors, i.e. the retirement funds, insurers and securities unit trusts.
52. Note that not all scholars of the derivatives markets will regard the repo as a derivative. We do because it "derives" from other spot market instruments, and takes its rate from the spot money market. It can also be described as a spot sale coupled with a simultaneous forward purchase.
53. Created by the International Securities Dealers Association, and accepted worldwide.
54. Certain banks act as market makers in FRAs.
55. We assume that an "Interbank Agreed Rate" (an averaged rate) sourced from 10 banks by an independent party (such as a derivatives exchange) exists.