A note on flows of funds in South Africa's national financial accounts for the year 2000

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Introduction

South Africa's national financial accounts for 2000 are published on pages S-44 to S-53 of this issue of the *Quarterly Bulletin*. This note highlights some of the important observations which can be made on the basis of the information presented. The note's coverage is illustrative rather than comprehensive.

The national financial accounts form part of the broadly defined System of National Accounts. The national financial accounts summarise the process of financial intermediation in the economy, and the flow-of-funds accounting system facilitates intersectoral and macroeconomic analyses. This set of accounts presents the macroeconomic interrelationships between the national income and product accounts, the balance of payments, government finance statistics, the monetary survey and financial statistics[2].

Financing balance

The sectoral financing balances of the five major institutional groupings and four subsectors for the calendar year 2000 are presented in Table 1.

1 The views expressed are those of the authors and do not necessarily reflect the views of the South African Reserve Bank. The Reserve Bank wishes to express its sincere appreciation for the co-operation of all the reporting organisations – government departments, financial market and other public and private-sector institutions – for furnishing the data used for the compilation of South Africa's financial accounts.

2 For a more comprehensive discussion on the technical aspects of South Africa's national financial accounts refer to: A note on flows of funds in South Africa's national financial accounts for the year 1999 by M A Kock and D H Meyer. Quarterly Bulletin, No 219. March 2001.

Table 1 Financing balances[1,2] 1999 and 2000
Surplus units (+) / deficit units (-)

R millions

		Foreign sector[3]	Financial inter-mediaries	General government		Non-financial corporate business enterprises		House-holds[4]
				Central and provincial govern-ments	Local authorities	Public sector	Private sector	
1999:	Year	3 398	17 466	-19 746	-5 619	646	-2 585	6 440
2000:	1st qr	994	4 743	-8 270	-678	4 029	-4 707	3 889
	2nd qr	815	5 000	-7 399	-1 793	1 840	-6 274	7 811
	3rd qr	5 396	5 221	-10 042	-171	2 589	-6 660	3 667
	4th qr	-3 192	4 456	1 843	-936	2 515	1 760	-6 446
	Year	4 013	19 420	-23 868	-3 578	10 973	-15 881	8 921

1 Gross saving plus capital transfers less gross capital formation. Gross capital formation consists of total fixed-capital formation and total changes in inventories, before providing for consumption of fixed capital.
2 A positive amount reflects a net lending position and by implication a net acquisition of financial assets, whereas a negative amount reflects a net borrowing position and by implication a net incurrence of financial liabilities.
3 A positive amount reflects a surplus for the rest of the world and therefore a deficit on South Africa's balance on current account of the balance of payments. A negative amount represents a deficit for the rest of the world and a surplus on South Africa's balance on current account of the balance of payments.
4 Including unincorporated business enterprises and non-profit institutions serving households.

An analysis of the financing balances indicates which sectors were surplus or deficit sectors in 2000. As shown in Table 1, the general government and the non-financial private corporate business enterprises sectors were financing-deficit sectors that had to borrow extensively from financing-surplus sectors in order, primarily, to fund investment programmes. Financial intermediaries had a relatively large financing surplus, followed by non-financial public corporate business enterprises and households. In 2000 an inflow of capital from the rest of the world was nonetheless needed to augment domestic saving.

The financing balances of a number of sectors changed from a surplus to a deficit and vice versa in the fourth quarter of 2000. The foreign sector, which had provided inflows of funds to South Africa during the first three quarters, reverted to being a deficit unit in the fourth quarter as South African residents diversified asset portfolios into other markets and as portfolio investment into South Africa fell on account of mounting aversion towards emerging-market economies, fuelled by the perceived riskiness of investing in these markets.

Central and provincial governments switched from a financing-deficit sector in the first three quarters of 2000 to a surplus sector in the fourth quarter, as government consolidated its fiscal position and became a contributor to gross national saving. Non-financial private corporate business enterprises also recorded a small surplus in the fourth quarter. By contrast, the household sector recorded a fairly substantial deficit in the last quarter of 2000 on account of dissaving by households, unincorporated business enterprises and non-profit institutions serving households.

Sectoral analysis

Beyond the financing balances and net financial investment of the various sectors, the flows underlying net financial investment are classified by *financial instrument* in the national financial accounts, and the financial transactions of economic sectors can be analysed from a wide variety of vantage points.

Foreign sector

The foreign sector captures all transactions between South Africa and the rest of the world. This sector has a role similar to that of the domestic institutional sectors and, within the financial account framework, its primary function is to balance the domestic saving-investment gap – i.e. through imbalances on the current account of the balance of payments of South Africa.

The total net acquisition of financial assets equals the total net incurrence of liabilities, with transactions with the rest of the world as the balancing item. In 2000, as noted in Table 2, the net accrual of financial assets by the domestic institutional sectors amounted to R313 billion and their net incurrence of financial liabilities amounted to R317 billion. The difference of R4 billion represents net borrowing from the rest of the world [3].

3 "Borrowing" in this context should be interpreted in the widest sense, including new share investment.

The foreign sector's net contribution to saving in the South African economy was mainly effected through non-residents' increased holdings of ordinary shares, while monetary deposits and long-term loans also increased. In response to a global reassessment of risk in emerging markets, there were net sales of government bonds by non-residents. This dampened the total inflows from the rest of the world.

Table 2 Flow of funds: foreign sector, 2000
R millions

	Domestic institutional sectors	Rest of the world	Total
Net incurrence of financial liabilities	316 761	20 396	337 157
Net lending (+)/net borrowing (-)	-4 013	4 013	0
Net acquisition of financial assets	312 748	24 409	337 157

Financial intermediaries

Financial intermediaries convert the funds they receive from surplus entities (lenders) into a variety of financial instruments structured to suit the requirements of deficit entities (borrowers). The financial intermediaries sector identified in South Africa's national financial accounts consists of five subsectors, namely the monetary authority, other monetary institutions, Public Investment Commissioners, insurers and retirement funds, and other financial institutions. These will be discussed individually below.

Monetary authority

The monetary authority, consisting of the South African Reserve Bank and the Corporation for Public Deposits, interact mostly with other monetary institutions, the central government and the foreign sector. The bulk of transactions in 2000 was focussed around loans and advances made to and received from other monetary institutions, the issuance of Reserve Bank securities and an increase in foreign assets – i.e. gold and other foreign reserves.

Other monetary institutions

The other monetary institutions sector, by definition, includes banks, mutual banks, the Land Bank and Postbank and is usually a financing-surplus sector, as reflected by its positive financing balance in the abbreviated flow of funds presented in Table 3.

Other monetary institutions recorded gross saving of R12,9 billion in 2000 which, together with the accrual of additional liabilities to the amount of R74,1 billion, was utilised to finance gross capital formation of R2,1 billion and the acquisition of financial assets to the amount of R84,9 billion. As can be expected, monetary deposits of R45,6 billion were the major source of funds, and intermediation to financing-deficit sectors was effected through bank loans and advances amounting to R39,1 billion, mortgage loans of R22,8 billion and gold and foreign reserves of R3,1 billion. Mainly reflecting derivatives, other assets nearly equalled other liabilities. In 2000, the other monetary institutions sector invested 97,6 per cent of their total resources in financial assets and this sector's asset flows accounted for 39,1 per cent of financial intermediary asset flows and 18,0 per cent of total asset flows.

Table 3 Flow of funds: other monetary institutions, 2000

Transaction items	Sources/ liabilities R millions	Uses/ assets R millions
Gross saving	12 887	
Gross capital formation		2 065
Net lending (+)/net borrowing (-)	10 812	
Net financial investment (+/-)		10 812
Net incurrence of financial liabilities	74 098	
Net acquisition of financial assets		84 910
Gold and other foreign reserves	-	3 137
Monetary deposits	45 578	1 431
Bank loans and advances	6 469	39 091
Bills, bonds and loan stock	-373	-2 707
Mortgage loans	-	22 767
Other assets/liabilities	22 424	21 191
Total sources/liabilities and uses/assets	86 975	86 975
	Per cent	
Percentage of total sources used for gross capital formation	2,4	
Percentage of total sources used to acquire financial assets	97,6	
Percentage of total asset flows	18,0	
Percentage of total financial-intermediary asset flows	39,1	

Public Investment Commissioners

The Public Investment Commissioners received funds from the government's official pension and provident funds and, to a lesser extent, social security funds, other government funds and trust accounts of households to the amount of R24,7 billion in 2000. The Public Investment Commissioners, on balance, reduced their exposure to fixed-interest securities and reinvested the proceeds, together with net new receipts, allocating a third to monetary deposits and two-thirds to investment in equities.

Insurers and retirement funds

Insurers and retirement funds accounted for 20,8 per cent of financial intermediary asset flows and 9,6 per cent of total asset flows in 2000. As indicated in Table 4, the financing-surplus, together with the accrual of financial liabilities amounting to R40,1 billion, indirectly financed gross capital formation through the acquisition of financial assets to the amount of R46,0 billion. However, this exposure to financial assets increased their vulnerability to market fluctuations.

Table 4 Flow of funds: insurers and retirement funds, 2000

	R millions
Financing balance	5 915
Net incurrence of financial liabilities	40 128
Members' interest in the reserves of retirement and insurance funds	53 959
Other liabilities	-13 831
Net acquisition of financial assets	46 043
Monetary deposits	-5 782
Other deposits	23 353
Public Investment Commissioners	24 736
Foreign deposits	-476
Other	-907
Bills and bonds	17 115
Short-term government bonds	-11 178
Long-term government bonds	21 421
Other	6 872
Other loan stock and preference shares	8 791
Domestic	-2 215
Foreign	11 006
Shares	-19 233
Domestic	-28 542
Foreign	9 309
Other assets	21 799
	Per cent
Percentage of total asset flows	9,6
Percentage of total financial-intermediary asset flows	20,8

Member contributions accounted for the bulk of the amount available for investment in financial assets by insurers and retirement funds. The official pension and provident funds increased their investment portfolio at the Public Investment Commissioners by R24,7 billion, while the rest of the insurer and retirement fund industry increased their exposure to the international markets. Domestic shareholding was reduced in favour of foreign equities and, similarly, the holding of foreign loan stock and preference shares increased – this is indicative of the general acceleration in portfolio outflows to the rest of the world during 2000. However, insurers and retirement funds not only increased their foreign exposure but also acquired domestic government bonds in a period when global risk aversion led to net sales of bonds by non-residents.

Other financial institutions

In 2000, other financial institutions, among others unit trusts, participation mortgage bond schemes, finance companies and financial public enterprises, recorded, as a group, the third largest increase in the net acquisition of financial assets, surpassed only by other monetary institutions and the household sector. Financial activity in this sector resulted mainly from inflows to unit trusts. The spread of assets, which covers nearly all asset categories ranging from deposits with monetary institutions, trade credit and short-term loans, bills, fixed-interest securities, ordinary shares and long-term loans to other assets, reflects the diversity of this sector's investments.

General government: central government and provincial governments

The central government and provincial government sector recorded a financing deficit of R23,9 billion for the calendar year 2000. As shown in Table 5, the financing deficit was funded through the net accrual of financial liabilities amounting to R23,0 billion.

Table 5 Flow of funds: central government and provincial governments, 2000

	R millions
Financing balance	**-23 868**
Net acquisition of financial assets	-839
Net incurrence of financial liabilities	23 029
Net incurrence of financial liabilities by financial instrument	**23 029**
Treasury bills	8 900
Short-term government bonds	-13 700
Long-term government bonds	24 988
Non-marketable government bonds	1 293
Other	1 548
Financing by sector	**23 029**
Foreign sector	-11 755
Public Investment Commissioners	6 174
Insurers and retirement funds	9 997
Other financial institutions	5 296
Other domestic sectors	13 317

A substantial portion of the financing needs for 2000 was funded through the issuance of government bonds to the amount of R11,3 billion – long-term government bonds issued more than offset the redemption of short-term government bonds. Declining interest rates boosted the issuance of Treasury bills which, together with non-marketable government bonds and long-term loans, financed the outstanding deficit. The increase in holdings of government bonds by insurers and retirement funds, other financial institutions and the Public Investment Commissioners, more than filled the void left by non-resident net sales of government fixed-interest securities.

General government: local authorities

Local authorities, on a net basis, reduced their long-term loans and redeemed a small portion of their outstanding fixed-interest securities in 2000. However, their short-term loans and outstanding balances with other creditors increased markedly. The increase in their asset transactions was biased towards deposits at monetary institutions and other assets or claims against the private sector.

Non-financial public corporate business enterprises

Non-financial public-sector enterprises recorded an overall financing surplus in 2000. This surplus, together with net sales of financial assets, financed the reduction in financial liabilities, such as bills.

Non-financial private corporate business enterprises

As indicated in Table 6, gross capital formation of non-financial private corporate business enterprises exceeded gross saving. The financing deficit of R15,9 billion for the year 2000 was funded in the financial markets through share issues, bank loans and advances, long-term and mortgage loans and an increase in other financial liabilities. The acquired funding in excess of the financing deficit, was channelled to trade credit, short and long-term loans, other assets and deposits with monetary institutions.

Table 6 Flow of funds: non-financial private corporate business enterprises, 2000

Transaction items	Sources/ liabilities R millions	Uses/ assets R millions
Gross saving	71 063	
Capital transfers	648	
Gross capital formation		87 592
Net lending (+)/net borrowing (-)	-15 881	
Net financial investment (+/-)		-15 881
Net incurrence of financial liabilities	54 238	
Net acquisition of financial assets		38 357
Monetary deposits	-	8 141
Other deposits	1 549	-4 428
Bank loans and advances	12 075	-
Trade credit and short-term loans	-1 110	15 585
Bills, bonds and loan stock	-3 065	-2 095
Shares	13 564	-860
Domestic	-18 725	-3 589
Foreign	32 289	2 729
Long-term and mortgage loans	10 014	7 264
Other assets/liabilities	21 211	14 750
Total sources/liabilities and uses/assets	125 949	125 949
	Per cent	
Percentage of total sources used for gross capital formation	69,5	
Percentage of total sources used to acquire financial assets	43,1	
Percentage of total asset flows	26,0	

Households

Households, with gross saving exceeding gross capital formation were, on balance, a net provider of funds to deficit sectors in 2000. Access to funding through bank loans and advances, mortgage loans and trade credit enabled them to increase their gross financial claims or financial assets in 2000. Households mainly increased their interest in retirement and life funds and their deposits with banks and other financial institutions, such as unit trusts.

Summary and conclusion

South Africa's national financial accounts, or flow-of-funds accounting system, describes transaction flows in the macroeconomic accounts and financial transactions between economic sectors through financial instruments.

Noteworthy developments and observations regarding the financial flows in 2000 include:
- the foreign sector's net contribution to saving in the South African economy;
- the indirect funding of non-financial private corporate business enterprises' investment through non-resident net purchases of shares;
- the demand for government bonds by insurers and retirement funds, other financial institutions and the Public Investment Commissioners, which more than filled the void left by non-resident's net sales in response to a global reassessment of risk in emerging markets;
- the offshore diversification of asset portfolios;
- the shift of the Public Investment Commissioners' investments towards equities;
- the consolidation of government's fiscal position; and
- the continued positive contribution of households to saving.

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