

## Box 6 Are corporates hoarding deposits?

Corporate sector deposits, specifically of *private non-financial corporate business enterprises* (i.e. excluding financial institutions), have been the focus of interest lately. The perception is that these corporates are deliberately refraining from engaging in fixed investment activities in favour of the accumulation of deposit holdings, within an environment of low business confidence. This box looks at one aspect of firms' balance sheet – that is, deposits. If firms were hoarding cash, one would have seen an unusual increase in corporate deposits although this is not the only financial instrument through which they can channel funds.

Corporate deposits form part of M3 money supply, and facilitate economic transactions in goods and services as well as financial intermediation among borrowers and lenders. These deposits provide liquidity to banks which then lend to agents who require credit.

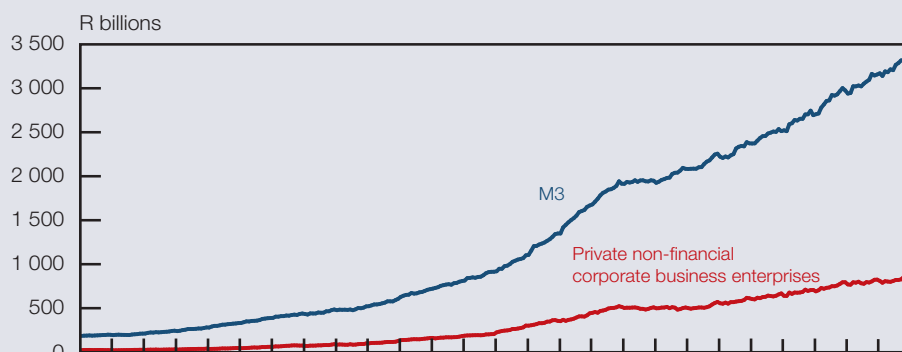
There are several ways in which growth in corporate deposits can be interpreted. The first is simply to analyse M3 growth and whether the contribution of corporate deposits has increased significantly.

The contribution of corporates to M3 deposits in the economy was only R0.867 trillion out of R3.359 trillion in December 2017. The relative share of corporate deposits to M3 has, however, increased moderately from around 20% in 2000 to 25% in 2017. It should also be noted that transactions among corporates, whether for gross fixed capital formation or other purposes, predominantly only shift deposits between corporates, leaving their overall balance unchanged.

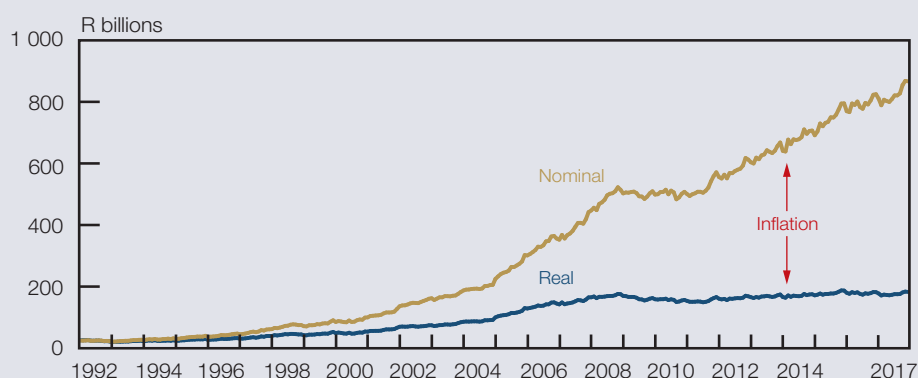
Another way of analysing growth in corporate deposits is to adjust it for the effects of inflation. Real corporate deposits only increased by 4.0% in the nine years since 2008 to only R182.5 billion in December 2017, compared to a more than three-fold increase during the long upward phase in the business cycle that lasted from 2000 to 2007.

This analysis shows that private non-financial corporate business enterprises as a whole have not been hoarding deposits, contrary to general perceptions, and have not been depriving other sectors in the economy from funding as banks lend their deposits to other borrowers. Also, from a balance sheet perspective, corporates could draw down deposits to fund investment, but given the size of such deposits it is relatively immaterial.

### Nominal deposit holdings



### Deposit holdings of private non-financial corporate business enterprises



Source: SARB