Box 1 Methodology underlying the compilation of household saving and net lending/borrowing[1]

Household[2] activity in the South African economy is captured in the analytical construct of the System of National Accounts (SNA).[3] This box explains how households' gross saving and net lending/borrowing position is derived. The link between these aggregates, as well as the nexus between real economic activity and financial intermediation, is also discussed.

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1 This box relates to the statistics in the production, distribution and accumulation accounts of South Africa for households and non-profit institutions serving households on page S–134 of this *Quarterly Bulletin* and the National Financial Account statistics on page S–49 of the June 2019 *Quarterly Bulletin*.

2 Households consist of either one or a group of individuals, and include household unincorporated enterprises as well as non-profit institutions which are not government-controlled and render non-market services to households.

3 The compilation of South Africa's national accounts adheres to the guidelines of the System of National Accounts 2008 (2008 SNA) as the international standard for the measurement of economic activity. See https://unstats.un.org/unsd/nationalaccount/docs/SNA2008.pdf

Firstly, the accompanying table provides a walk-through of how household gross saving is derived in the context of the current account, its subaccounts, and the balancing items within the SNA framework.

Household saving and net lending/borrowing in the national accounts framework

			Accounts[1]	Balancing items[2]	High-level items	2018 R millions[22]
Real economic activity	Current[3]		Production[7]		Output at basic prices[8]	1 373 311
					Intermediate consumption[9]	-560 156
				Gross value added at basic prices		813 155
			Generation of income		Compensation of employees[10]	-160 109
					Net taxes on production	-32 253
				Gross operating surplus/mixed income		620 793
		Distribution[6]	Allocation of primary income		Compensation of employees	2 317 919
					Net property income received/paid	286 097
				Gross primary income		3 224 809
			Secondary distribution of income		Current taxes on income and wealth	-502 916
					Net social benefits/contributions	152 862
					Net current transfers received/paid[11]	55 147
				Gross disposable income[12]		2 929 902
			Use of disposable income		Adjustment for change in pension entitlements[13]	63 871
					Final consumption expenditure by households	-2 920 994
				Gross saving[14]		67 099
	Capital[4]				Net capital transfers received/paid[15]	15 053
					Gross fixed capital formation[16]	-97 792
					Change in inventories	-227
Financial intermediation				Net lending and borrowing[17,18,19]		-15 867
	Financial[5]				Net acquisition of financial assets[20]	101 363
					Net incurrence of financial liabilities[21]	117 229

1. These are according to the accounting framework of the sequence of accounts in the SNA.
2. Balancing items are an accounting construct carried forward from one account to the next.
3. The current account records the production of goods and services, the generation of income by production, the subsequent distribution and redistribution of income, as well as the use of income for consumption and saving.
4. The capital account records the acquisition and disposal of non-financial assets and capital transfers.
5. The financial account records transactions in financial assets and liabilities.
6. This refers to the distribution of income between labour and capital.
7. The production account is the starting point and records the use of inputs to produce output and imputed rental of owner-occupied dwellings. Household production includes goods for own use but excludes services for own consumption, except paid domestic staff and own-account housing services by owner-occupiers.
8. Output at basic prices is the amount receivable for output *minus* tax payable and subsidies receivable.
9. This is the value of goods and services consumed as inputs, excluding depreciation.
10. This refers to the compensation of paid employees of household unincorporated enterprises.
11. This means the current transfer of goods or services without receiving anything in return.
12. Gross disposable income excludes holding gains and losses.
13. As individuals accrue pension entitlements, they become their assets.
14. Gross saving is the balancing item of the current account and is carried forward to the capital account. The difference between gross and net saving is imputed consumption of fixed capital (depreciation).
15. Capital transfers are unrequired transfers where the party making the transfer realises the funds by disposing of a non-financial asset (other than inventories) or by relinquishing a financial claim, while the party receiving the transfer is obliged to acquire a non-financial asset.
16. Gross fixed capital formation is the value of acquisitions *less* disposals of fixed assets (non-financial assets).
17. Net lending is the amount of resources available to lend to deficit units in the economy through the financial account, even if they are retained in a bank deposit.
18. Net borrowing is the amount of resources required from surplus units in the economy through incurring liabilities in the financial account.
19. Net lending/borrowing means that what is borrowed by one unit must be lent by another unit, and vice versa.

20 and 21. The statistics referred to here are published on page S–49 of the June 2019 *Quarterly Bulletin*.

22. The statistics referred to in this table are published on page S–134 of this *Quarterly Bulletin*.

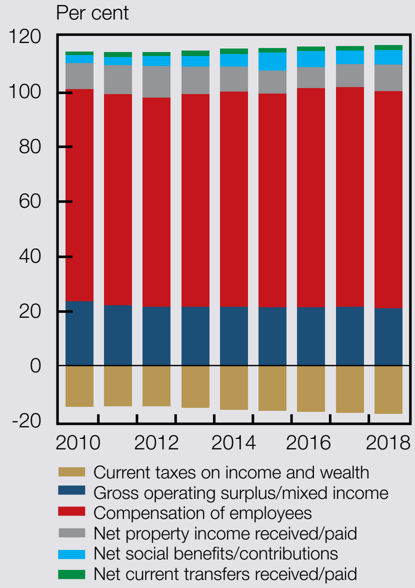
The production of goods and services by unincorporated enterprises owned by households is recorded in the production account and includes imputed rental for owner-occupied dwellings minus intermediate consumption, inclusive of the maintenance of dwellings. This renders gross value added, from which both compensation paid to employees of household unincorporated enterprises and net taxes on production[4] are deducted, to derive mixed income. Employed members of households earn income from other sectors in the economy, which, together with property income received/paid (interest, dividends and rent on land and subsoil assets), constitutes gross primary income. Households then pay tax on income received and make social contributions, such as those paid by employers on their behalf, while also receiving social benefits such as social security. This, combined with net current transfers received/paid (goods and services without quid pro quo), leaves households with gross disposable income, which is then adjusted for accrued pension entitlements. This income is then available to facilitate both final consumption expenditure and saving. For gross saving to be negative, households' final consumption expenditure must be in excess of income received, or vice versa.

The capital account records the change in non-financial assets and shows how to advance from household gross saving to net lending/borrowing. Gross saving is adjusted for unrequired capital transfers received/paid, the disposal and acquisition of assets, as well as the change in inventories.

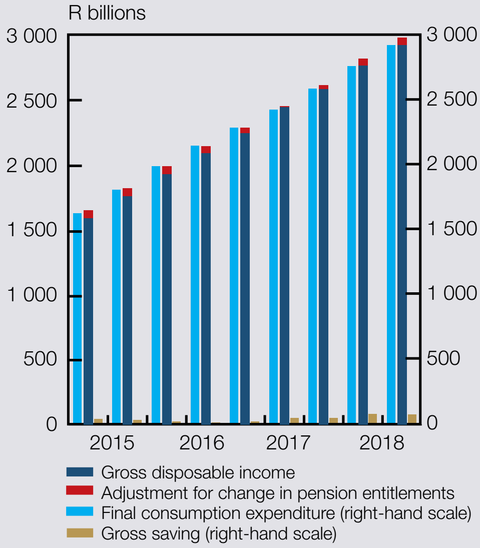
Next, the implications of the nexus between real economic activity (as captured in the current and capital accounts) and financial intermediation (as recorded in the financial account) are discussed. Negative gross saving outcomes (dissaving) require financing through a combination of the disposal of non-financial assets (as recorded in the capital account) and net borrowing in the financial account through the depletion of financial assets and/or the incurrence of liabilities. In this instance, if net acquisitions of non-financial assets occurred, this would result in an even larger net borrowing requirement. Positive, but insufficient, gross saving to fund the net acquisition of non-financial assets results in a net borrowing requirement and the depletion of financial assets and/or the incurrence of liabilities. By contrast, positive and sufficient gross saving to fund the acquisition of non-financial assets results in a net lending position and the acquisition of financial assets and/or the repayment of liabilities.

The compensation of employees dominates the composition of gross disposable income. Gross saving is positive when gross disposable income plus the adjustment for the change in pension entitlements exceeds final consumption expenditure, and vice versa.

Composition of gross disposable income



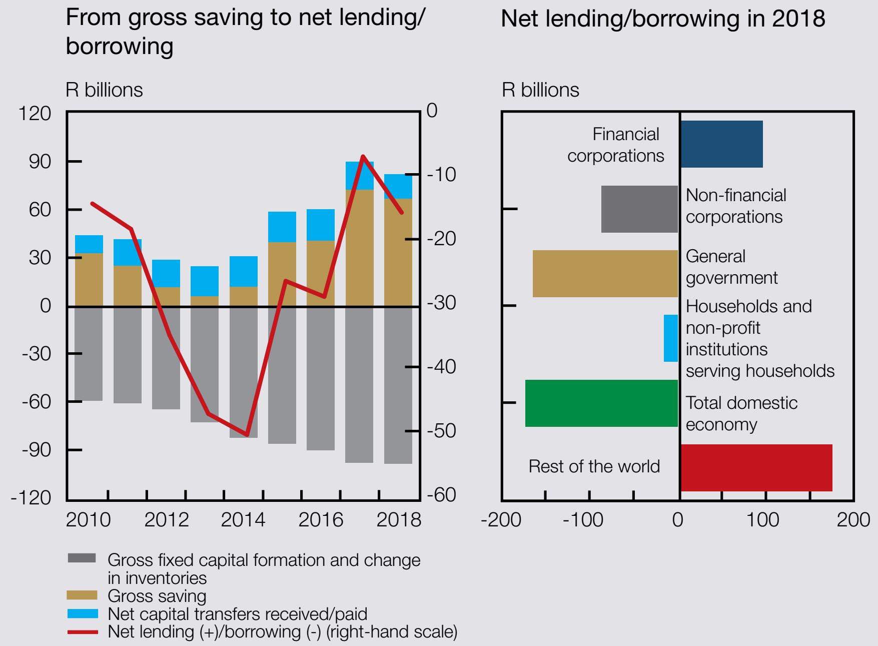
From gross disposable income to gross saving



Source: SARB

4 Net taxes on production are derived as taxes *less* subsidies.

Households were in a persistent net borrowing position as gross saving and net capital transfers received were insufficient to finance gross fixed capital formation. In 2018, only financial corporations recorded a surplus position and the South African economy required funding from the rest of the world to finance the deficit on the current account of the balance of payments.[5]



Source: SARB

5 See pages S–82 and S–131 to S–136 of this *Quarterly Bulletin* for the statistics underlying this analysis.