



### Box 1 Methodology underlying the compilation of the household sector balance sheet<sup>1</sup>

The methodology to compile the household sector<sup>2</sup> balance sheet within the framework of the *System of National Accounts (SNA)*<sup>3</sup>, as well as the derived statistics and ratios of households' financial position, are discussed and analysed in this box.

The household sector balance sheet is compiled mainly from counterpart statistics of all the other institutional sectors that households transact with, rather than from surveyed data, and renders the all-important aggregate household debt statistic. The accompanying table and notes provide a walk-through of the household sector balance sheet, and how net wealth/worth<sup>4</sup> and net financial wealth<sup>5</sup> are derived.

Households' holdings of non-financial assets accounted for 35% of total assets in 2019, with the remaining almost two-thirds in financial assets dominated by vested interest in pension funds and long-term insurers.

Other debt accounted for just more than half of households' total liabilities in 2019, and mortgage loans made up the balance, their share receding to below 50% from 2015 onwards.

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1 This box relates to the statistics of the household sector balance sheet on page S–136, credit extended by monetary institutions on page S–22, and the financial account on pages S–48 and S–49 in this edition of the *Quarterly Bulletin*. This box also follows the one on 'Household wage and income statistics' in the March 2020 *Quarterly Bulletin* and the one on the 'Methodology underlying the compilation of household saving and net lending/borrowing' in the December 2019 *Quarterly Bulletin*.

2 The household sector comprises an individual or a group of individuals, inclusive of unincorporated enterprises (i.e. not a separate legal entity from the owner) and non-profit institutions serving households (NPISHs), which are not predominantly financed or controlled by government and which provide goods or services to households free of charge or at prices that are not economically significant.

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>

4 Net wealth/worth is calculated as total assets (financial and non-financial) *minus* total liabilities.

5 Net financial wealth is calculated as total financial assets *minus* total liabilities.

## Household sector balance sheet

	2019 R billions	Percentage of total
Non-financial assets <sup>a</sup> .....	4 650	35
Residential buildings <sup>b</sup> .....	2 935	22
Other non-financial assets <sup>c</sup> .....	1 714	13
Financial assets.....	8 758	65
Assets with monetary institutions <sup>d</sup> .....	1 372	10
Interest in pension funds and long-term insurers <sup>e</sup> .....	4 596	34
Other financial assets <sup>f</sup> .....	2 790	21
Total assets.....	13 408	100
Total liabilities <sup>g</sup> .....	2 278	100
Mortgage advances <sup>h</sup> .....	1 072	47
Other debt <sup>i</sup> .....	1 206	53
Net wealth/worth.....	11 131	
Total liabilities and net wealth/worth.....	13 408	
<b>Memo items</b>		
Net financial wealth.....	6 480	
Net wealth, including durable consumer goods <sup>j</sup> .....	11 916	

### Notes to table

- a Produced assets (i.e. fixed assets, inventories and valuables) and non-produced assets (i.e. natural resources) at market value.
- b Residential buildings and low-cost housing (i.e. Reconstruction and Development Programme (RDP) houses). The capital stock of dwellings at constant prices is derived through the perpetual inventory method (PIM)<sup>1</sup> and adjusted with an average house price index<sup>2</sup>.
- c The market value of non-residential buildings is estimated using capital stock at constant prices and adjusted with a derived non-residential price index<sup>3</sup>. The value of other structures (construction works); transport equipment; information, computer and telecommunications equipment; machinery and equipment; computer software; and cultivated biological resources is calculated using the same method as for residential buildings and adjusted with appropriate price indices, while the book value of inventories of unincorporated business enterprises is sourced from Statistics South Africa (Stats SA). The value of agricultural land is obtained from the Department of Agriculture, Forestry and Fisheries. Land underlying buildings is measured as the average ratio of the book value of the land relative to the purchase price of buildings, excluding the value of the land, for the various industries.
- d Households' holdings of currency as well as deposits with banks, mutual banks, Postbank, and the Land and Agricultural Development Bank of South Africa. It is assumed that households hold 70% of notes and coin in circulation outside of the monetary sector.
- e Households' interest in the accumulated funds of official pension and private self-administered pension and provident funds, as well as the technical reserves of long-term insurers.<sup>4</sup>
- f The value of short- and long-term debt securities is derived from the flow-of-funds statistics<sup>5</sup> according to the methodology of Aron and Muellbauer (2006a).<sup>6</sup> The value of RSA retail saving bonds is obtained from National Treasury, while long-term foreign securities are sourced from the biannual *Coordinated Portfolio Investment Survey (CPIIS)*. The value of listed equity is derived from a flow-of-funds accumulation from a base value, with the FTSE/JSE All-Share Price Index (Als) used to derive market value. The holdings of unlisted shares are estimated as a ratio of listed shares. Foreign shareholding is sourced from the *CPIIS*. Investment fund shares/units in money market and non-money market funds include both unit trusts and participation bond schemes.
- g A liability is established when a household is obliged, under specific circumstances, to provide a payment to a creditor.
- h House and farm loans at monetary institutions, securitised mortgages, as well as mortgage loans at non-bank financial institutions.
- i Personal loans; credit card debt; instalment sale credit; leasing finance; overdrafts; student loans; open accounts at buy-aids; securitisation transactions on retail trade, motor trade and other loans; and other accounts, including debt at local authorities.
- j Consumer durables are classified as expenditure and not as assets. See the 2008 SNA, page 269, paragraph 13.93.

1 The PIM constructs estimates of capital stock and consumption of fixed capital from gross fixed capital formation.

2 The weighted quarterly average house price Index is derived from Standard Bank and First National Bank's house prices, and, prior to the third quarter of 2016, also from the Absa monthly average house price Index.

3 This Index is calculated from the rental values and capitalisation rates of Industrial buildings and offices, obtained from Rode and Associates, and of shopping centres, obtained from Morgan Stanley Capital International (MSCI).

4 See pages S-39 and S-43 in this edition of the *Quarterly Bulletin* for the related statistics.

5 The national financial account statistics can be found on page S-49 in this *Quarterly Bulletin*.

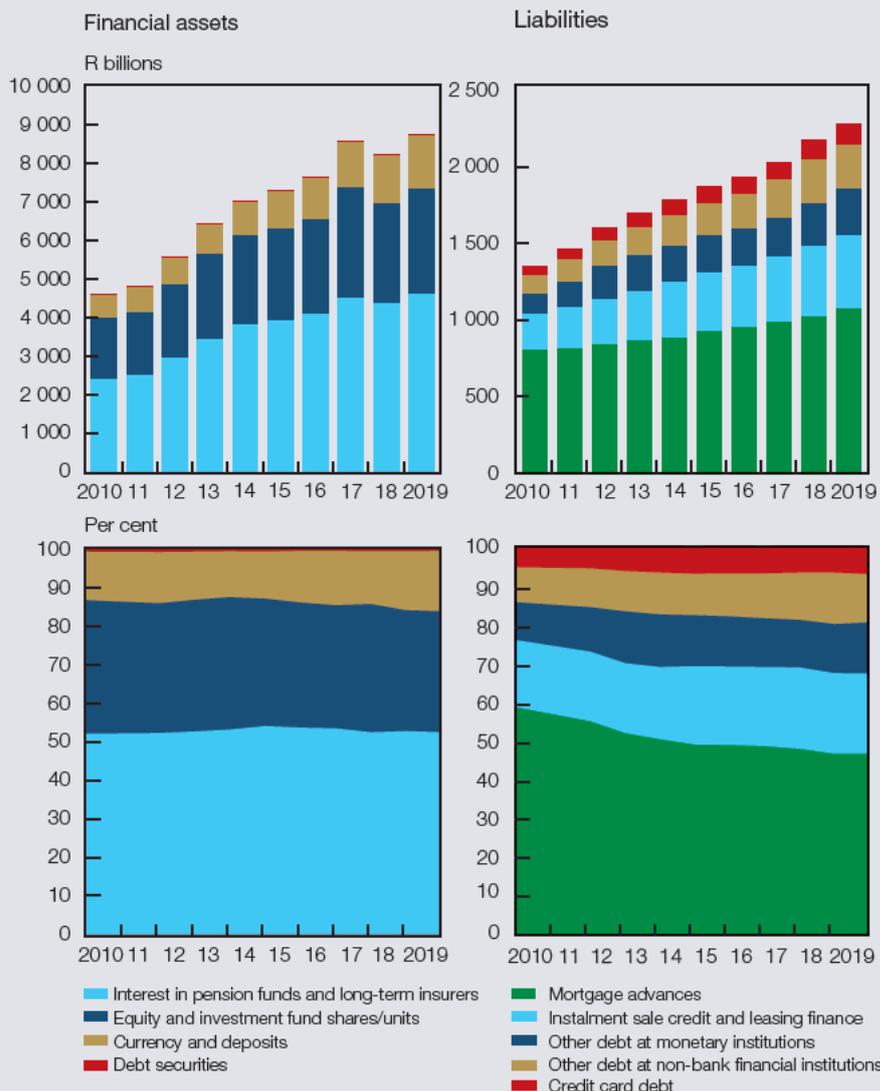
6 Aron, J and Muellbauer, J. 2006a. 'Estimates of household sector wealth for South Africa, 1970-2003'. *Review of Income and Wealth*, Vol. 52, No. 2: 285-308. International Association for Research In Income and Wealth, June.

Source: SARB





## Composition of financial assets and liabilities



Source: SARB

Over the past 10 years, households sourced about 78% of their funds, on average, from monetary institutions, but with a declining trend: from almost 82% in 2010 to 76% in 2019. In contrast, debt acquired from non-bank financial institutions, which accounted for the difference, increased over this period. Monetary institutions provided 94% of mortgage advances and 62% of other debt, on average, between 2010 and 2019. In 2019, these institutions provided 94% of mortgage advances, 62% of instalment sale credit and leasing finance, and 46% of other loans and open accounts to households.

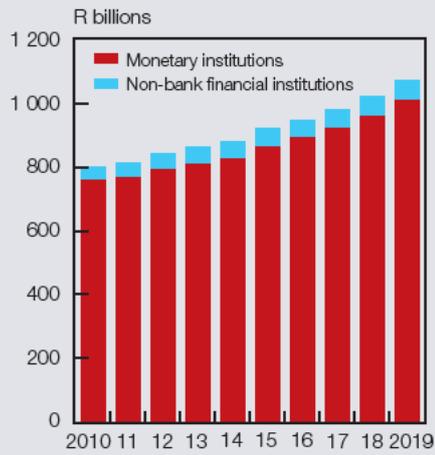
The financial position of the household sector can be assessed through various ratios, of which debt and net wealth/worth as a percentage of net disposable income<sup>6</sup> are the two most frequently used. The household debt-to-disposable income ratio<sup>7</sup> amalgamates debt in the balance sheet and income in the production, distribution and accumulation account as a measure of indebtedness, defined as the outstanding stock of debt relative to a year's income. The household net-wealth-to-disposable-income ratio<sup>8</sup> reflects the number of times that the value of total assets *minus* liabilities exceeds a year's total income.

6 Net disposable income is the total available household resources *minus* the imputed consumption of fixed capital (depreciation). Total available household resources are calculated as gross disposable income after adjustment for the change in pension entitlements and the residual. See 'Box 1: Household wage and income statistics' in the March 2020 edition of the *Quarterly Bulletin*. See also the production, distribution and accumulation account of households on page S-134 in this *Quarterly Bulletin*.

7 For the ratio of household debt to disposable income, see page S-156 in this *Quarterly Bulletin*.

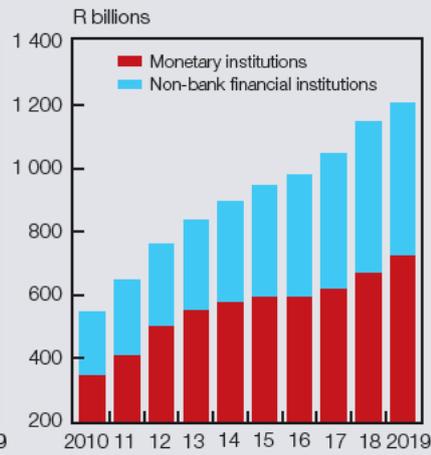
8 For the ratio of household net wealth to disposable income, see page S-156 in this *Quarterly Bulletin*.

### Mortgage advances

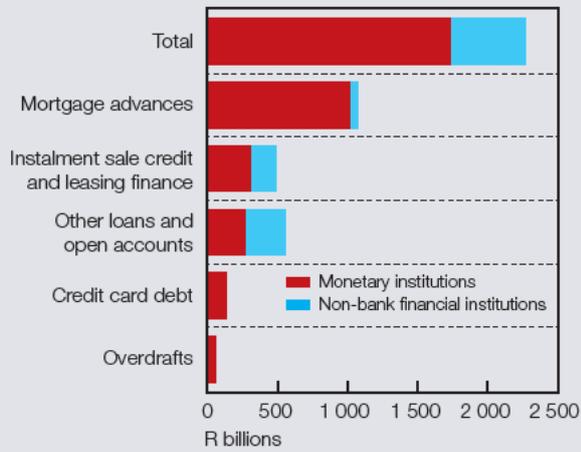


Composition of household debt in 2019

### Other debt



Ratio of household debt and net wealth to disposable income



Source: SARB

