

#### Box 4 Delineation of the other financial intermediaries subsector in the current and capital account

The higher-for-longer interest rate environment supported the income metrics of the 'other financial intermediaries' (OFIs)<sup>1</sup> subsector in the South African economy, particularly through a notable increase in interest received by the OFIs. This box describes the recent trends in the balancing items of the OFIs subsector, including the gross primary income, gross saving and net lending/borrowing position as compiled in the current and capital account.

OFIs are classified as a subsector within the financial corporation sector and interact with other economic sectors through transactions such as hire purchase as well as the provision of personal or commercial finance, unsecured lending, securitisation, central clearing and factoring. The *System of National Accounts 2008* (2008 SNA) delineates economic activity flows into five sectors, namely non-financial corporations, financial corporations, general government, households (including non-profit institutions serving households) and the rest of the world. The financial corporations sector is further classified into three categories, of which OFIs form part of the 'financial corporations except monetary financial institutions as well as insurance corporations and pension funds' category.

##### Classification of the financial corporations sector according to the *System of National Accounts 2008*

Financial corporations	Sector and subsector		2008 SNA code
			S12
Monetary financial Institutions	Central bank		S121
	Other monetary financial Institutions	Deposit-taking corporations except the central bank	S122
		Money market funds	S123
Financial corporations except monetary financial Institutions as well as Insurance corporations and pension funds	Non-money market fund Investment funds		S124
	<b>Other financial intermediaries, except insurance corporations and pension funds</b>		<b>S125</b>
	Financial auxiliaries		S126
	Captive financial Institutions and money lenders		S127
Insurance corporations and pension funds	Insurance corporations		S128
	Pension funds		S129

The activities of OFIs are captured in the analytical construct of the current and capital account as provided in the 2008 SNA framework. This framework encapsulates these activities in a sequence of accounts with their balancing items, as illustrated by the accompanying table for 2023.

1 Other financial intermediaries include financial corporations (except insurance corporations and pension funds) that provide financial services by incurring liabilities in forms other than currency, deposits or close substitutes for deposits on their own account for the purpose of acquiring financial assets by engaging in financial transactions in the market.



## Other financial intermediaries' sequence of accounts for 2023

Accounts <sup>1</sup>		Balancing Items <sup>2</sup>	Nominal value (R millions)
Current <sup>3</sup>	Production		Output at basic prices <sup>5</sup>
			<i>minus</i> Intermediate consumption <sup>6</sup>
		Gross value added at basic prices	16 489
	Generation of income		<i>minus</i> Compensation of employees
			<i>minus</i> Other taxes on production
		Gross operating surplus	7 901
		Net property income	12 878
	Allocation of primary income		Interest received <sup>7</sup>
			Distributed Income of corporations received (dividends)
			Property Income attributed to Insurance policy holders
			<i>minus</i> Interest paid <sup>8</sup>
		Gross primary income	20 779
	Secondary distribution of income		<i>minus</i> Current taxes on Income, wealth
			<i>minus</i> Net non-life Insurance premiums paid <sup>9</sup>
			Non-life Insurance claims received <sup>10</sup>
		Gross disposable income <sup>11</sup>	18 646
		Gross saving <sup>12</sup>	18 646
Capital <sup>4</sup>			<i>minus</i> Gross fixed capital formation <sup>13</sup>
			<i>minus</i> Change in Inventories
		Net lending (+)/ borrowing (-) <sup>14, 15, 16</sup>	18 397

1 According to the sequence of accounts in the 2008 SNA accounting framework.

2 'Balancing Items' is an accounting concept 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 Output consists of those goods and services that are produced within an establishment that become available for use outside the establishment *plus* any goods and services produced for own final use.

6 The value of goods and services consumed as inputs, excluding depreciation.

7 The interest recorded in the allocation of the primary Income account represents interest as defined in the 2008 SNA rather than bank interest. According to the 2008 SNA, interest received can be divided into actual interest received and financial intermediation services indirectly measured (FISIM).

8 Actual interest paid on loans from other financial intermediaries, adjusted for FISIM.

9 Net non-life Insurance premiums comprise both the actual premiums payable by policyholders to obtain insurance cover during the accounting period (premiums earned) and the premium supplements payable out of the Investment Income attributed to Insurance policyholders *less* the service charges payable to the Insurance corporation.

10 Non-life Insurance claims are the amounts payable in the settlement of damages that result from an event covered by a non-life Insurance policy during the current accounting period.

11 Gross disposable Income excludes holding gains and losses.

12 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).

13 Gross fixed capital formation is the value of acquisitions *less* disposals of fixed assets (non-financial assets).

14 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.

15 Net borrowing is the amount of resources required from surplus units in the economy through the incurrence of liabilities in the financial account.

16 Net lending/borrowing means that what is borrowed by one unit must be lent by another unit, and vice versa.

The current account begins with the calculation of the gross value added through the production account. For OFIs, this entails the calculation of output with the recording of the production of services, which includes output made up of the value of explicit fees and financial intermediation services indirectly measured (FISIM),<sup>2</sup> *minus* intermediate consumption, to derive the gross value added. The gross operating surplus is derived by deducting the compensation of employees and other taxes on production from the gross value added, rendering the second balancing item. Extending the sequence of accounts, OFIs receive net property income (interest, dividends and property income attributed to insurance policyholders) that, together with their gross operating surplus, constitutes their gross primary income. Adjusting the gross primary income for tax payments and net current transfers (net non-life insurance premiums paid and claims received) yields the gross disposable income, which is available to facilitate saving, and completes the current account.

The capital account, which flows from the last balancing item (gross saving) of the current account, records the change in non-financial assets (net of disposals and acquisitions) and the change in inventories to derive

2 FISIM is the implicit financial services provided, which are calculated as  $(r_L - r_r) \times Y_L$ , where  $r_L$ ,  $r_r$  and  $Y_L$  represent the lending rate, reference rate and average stock of loans respectively.

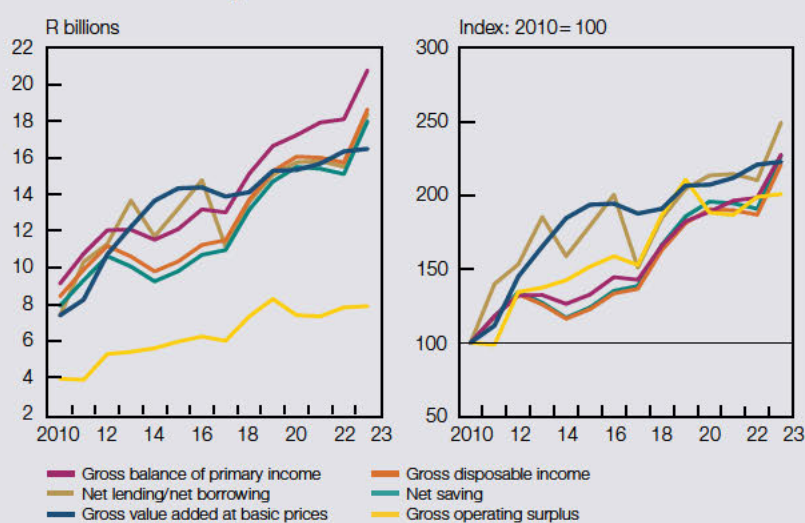


the net lending/borrowing of OFIs. The OFIs' balancing items have all generally displayed an upward trend since 2010, with a notable increase in 2023. This trend was driven largely by the gross primary income balance following a significant increase in net property income, especially in interest received, while the gross value added and the operating surplus increased only marginally.

#### Selected balancing items of other financial intermediaries

	R billions				
	Gross value added	Gross balance of the primary income	Gross disposable income	Gross saving	Net lending/borrowing
2010	7.4	9.1	8.4	8.4	7.4
2011	8.3	10.8	9.9	9.9	10.3
2012	10.7	12.0	11.2	11.2	11.3
2013	12.2	12.1	10.6	10.6	13.7
2014	13.7	11.5	9.8	9.8	11.7
2015	14.3	12.1	10.3	10.3	13.2
2016	14.4	13.2	11.2	11.2	14.8
2017	13.9	13.0	11.5	11.5	11.1
2018	14.1	15.1	13.7	13.7	13.6
2019	15.3	16.6	15.3	15.3	15.1
2020	15.3	17.2	16.1	16.1	15.8
2021	15.7	17.9	16.0	16.0	15.8
2022	16.3	18.1	15.7	15.7	15.5
2023	16.5	20.8	18.6	18.6	18.4

#### Selected balancing items of other financial intermediaries



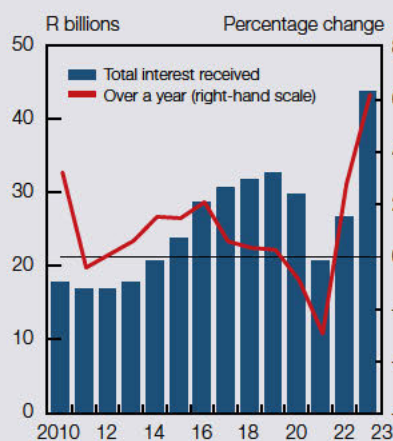
Source: SARB

The gross value added of OFIs as a ratio of the total financial corporation sector's gross value added, and that of the total economy, remained broadly the same between 2010 and 2023 at around 3.8% and 0.3% respectively. Although the ratio of the OFIs' balancing items as a percentage of the total financial corporations sector generally did not increase, their gross primary income received rose significantly in 2023, which lifted the subsector's gross saving and net lending.

### Other financial intermediaries' contribution of selected items to the financial corporations sector and the total economy

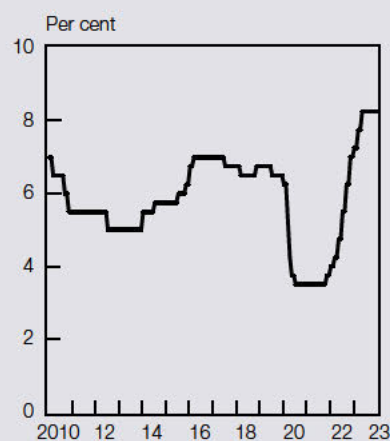
	As a percentage of the financial corporations sector		As a percentage of the total economy	
	2010	2023	2010	2023
Output at basic prices	3.8	3.7	0.2	0.2
Intermediate consumption	3.7	3.6	0.2	0.2
<b>Gross value added at basic prices</b>	<b>3.9</b>	<b>3.8</b>	<b>0.3</b>	<b>0.3</b>
Compensation of employees	4.4	3.5	0.3	0.3
Other taxes on production	2.5	1.2	0.0	0.0
<b>Gross operating surplus</b>	<b>4.3</b>	<b>4.2</b>	<b>0.3</b>	<b>0.3</b>
Interest received	5.8	5.1	2.9	2.7
Distributed income of corporations received (dividends)	4.5	5.2	0.7	0.8
Interest paid	7.4	7.0	2.3	2.3
<b>Gross primary income</b>	<b>10.0</b>	<b>7.3</b>	<b>0.3</b>	<b>0.3</b>
Current taxes on income, wealth, and so forth	3.5	4.9	0.2	0.2
<b>Gross disposable income</b>	<b>6.2</b>	<b>6.8</b>	<b>0.3</b>	<b>0.3</b>
<b>Gross saving</b>	<b>13.2</b>	<b>8.2</b>	<b>1.7</b>	<b>1.9</b>
Gross capital formation	6.0	1.0	0.2	0.0

Interest received by other financial intermediaries



Source: SARB

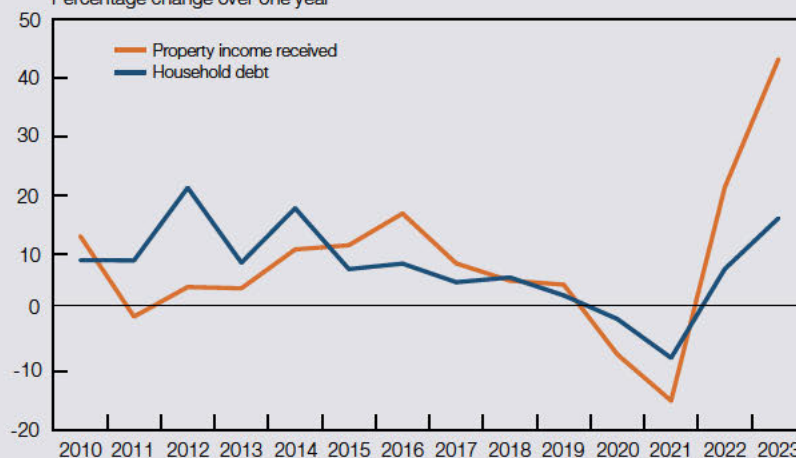
Repurchase rate



Interest received by OFIs increased to a record high of R44.1 billion in 2023, reflecting the higher interest rate environment and, to a lesser extent, higher household debt levels. As OFIs generally provide unsecured debt to households, the interest rates charged in this subsector can vary and are generally elevated, which likely contributed to the significant increase in interest income received.

### Household debt from other financial intermediaries and property income received

Percentage change over one year



Source: SARB

Household debt from OFIs rose steadily after declining in 2021 and increased by 16.1% in 2023. Furthermore, the ratio of household debt from OFIs as a percentage of total household debt increased gradually from 8.9% in 2010 to 10.9% in 2023. Despite the steady increase in the household sector's reliance on credit from OFIs for various types of expenditure – including education, housing and consumption – OFIs remain a relatively small yet important source of funding for households, especially during periods of economic hardship.

