National financial account for South Africa 1992–2009

Supplement to the South African Reserve Bank Quarterly Bulletin December 2010

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1 Introduction

This supplement to the *Quarterly Bulletin* presents the revised national financial account[1] for South Africa from 1992 to 2009 – the period under review. The revised statistics for this period replace all relevant annual and quarterly national financial account matrices published earlier. The purpose of this supplement is to restate the national financial account data over the revision period in order to present a more accurate analysis of the economy.

1 Also known as 'flow of funds'.

This revision was necessitated by two main factors, namely (1) the technical improvement in the compilation of flow of funds in 2006 that revealed minor imbalances in all flow matrices finalised previously and (2) the recent revision of South Africa's national accounts data as a result of rebasing. The balance sheets of institutional sectors have remained largely unchanged over the revision period, resulting in broadly unchanged aggregate financial assets and liabilities at the sectoral level. The revised data indicate a decline of about R70,8 billion in total flows over the revision period – bringing total flows to R1,3 trillion in 2009 from R218 billion in 1992. The data also demonstrate that only 11 per cent of the sectoral net financing positions have changed signs during the revision period.

The approach followed in this supplement is to briefly outline the national financial account compilation methodology in section 2. The sectoral analysis, where each sector is discussed in brief over the period under review, is presented in section 3 and section 4 concludes this supplement. All the amounts mentioned in this supplement are flows, unless otherwise indicated.

2 National financial account compilation methodology in South Africa

The South African Reserve Bank (the Bank) compiles the national financial account using the balance-sheet approach. This approach computes flows from the items contained in the various institutions' individual balance sheets. This can be contrasted with the transaction approach which calculates flows from detailed transaction data. The Bank's compilation framework is aligned with the guidelines of the *System of National Accounts 1993*, and the International Monetary Fund's *Monetary and Financial Statistics Manual*.

The South African national financial account framework applies the double-entry accounting system in terms of sources and uses of funds for 21 individual institutional sectors. These institutional sectors are first balanced individually and then consolidated into 11 sectors for ease of analysis. The data for the 11 sectors are then processed in a semi-automatic macro-driven spreadsheet that matches two sectors per transaction data at a time, for compliance with the double-entry principle. Processing entails aligning data on the source side of a sector with data on the use side of the counterparty sector(s).

The Capital Market and Flow of Funds Division collects balance-sheet data from various internal sectoral divisions and external respondents. Although the data are collected in various formats, they are transformed into an Excel-compatible format to facilitate analysis.

The South African economy underwent a number of significant structural changes from 1992 to 2009, triggered by domestic and international events, such as the democratic elections in 1994, which led to a gradual review of the financial sector, regulatory overhaul and the ongoing economic transformation; several privatisation initiatives in the late 1990s; the Asian financial crisis in 1996/97; the emerging-market crisis in 2000/01; the terrorist attacks in the United States in 2001 and the sub-prime crisis in 2007.

Important intermediation instruments used in the South African national financial account were cash and deposits, credit extension, fixed-interest securities and ordinary shares which, collectively, averaged 51 per cent of total flows annually over the period. The following section discusses the main developments per sector:

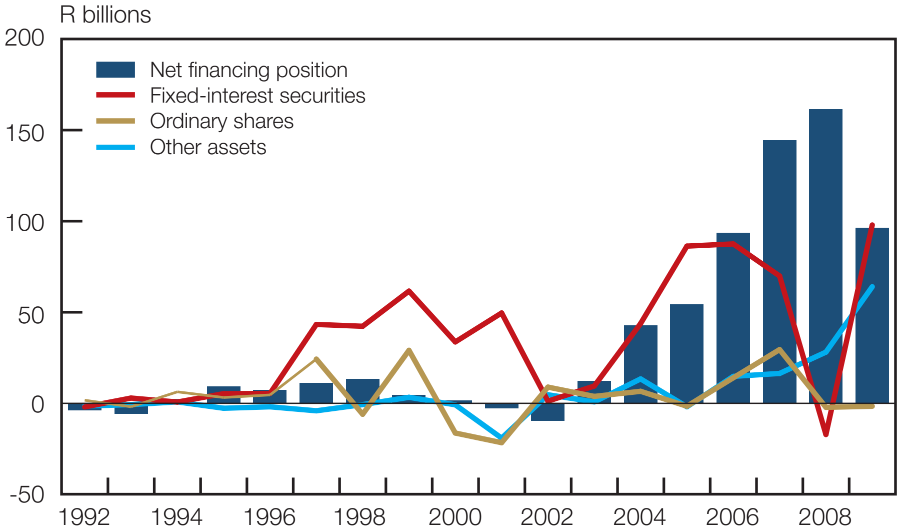
3 Sectoral analysis: 1992 to 2009

3.1 Foreign sector

2 Average percentage of total sectoral flows over the review period.

The foreign sector consists of all non-resident units that transact with South African residents, thus representing the counterparty to South Africa's international surplus or shortage. Over the period under review, this sector has consistently bridged the domestic saving–investment gap in line with the developmental stage of the country. The most important financial instruments[2] utilised by the foreign sector in bridging this gap during the period are ordinary shares (17 per cent) and loans (22 per cent). Derivative instruments also played an important role as contained in the other assets category shown in Figure 1.

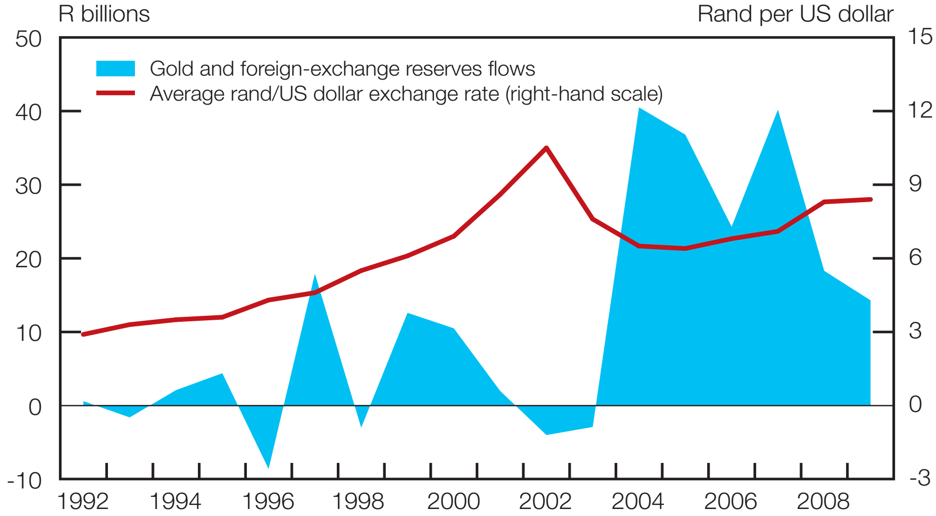
Figure 1 Net financing position by the foreign sector



3.2 Monetary authority

The monetary authority sector comprises the Bank and the Corporation for Public Deposits. Since 2003, the Bank no longer intervened in the foreign-exchange market to influence the exchange value of the rand, but only entered the market to buy foreign currency in order to facilitate operational requirements and to increase the level of the country's foreign reserves. Accordingly, the country's gold and foreign-exchange reserves increased by R1,1 billion in 1992 compared with R14,3 billion in 2009. The Bank augments foreign reserves by taking advantage of episodes of a stronger exchange value of the rand. The money-market effects of the foreign-exchange transactions are carefully sterilised through a combination of government deposits and securities such as the Bank's debentures and government bonds.

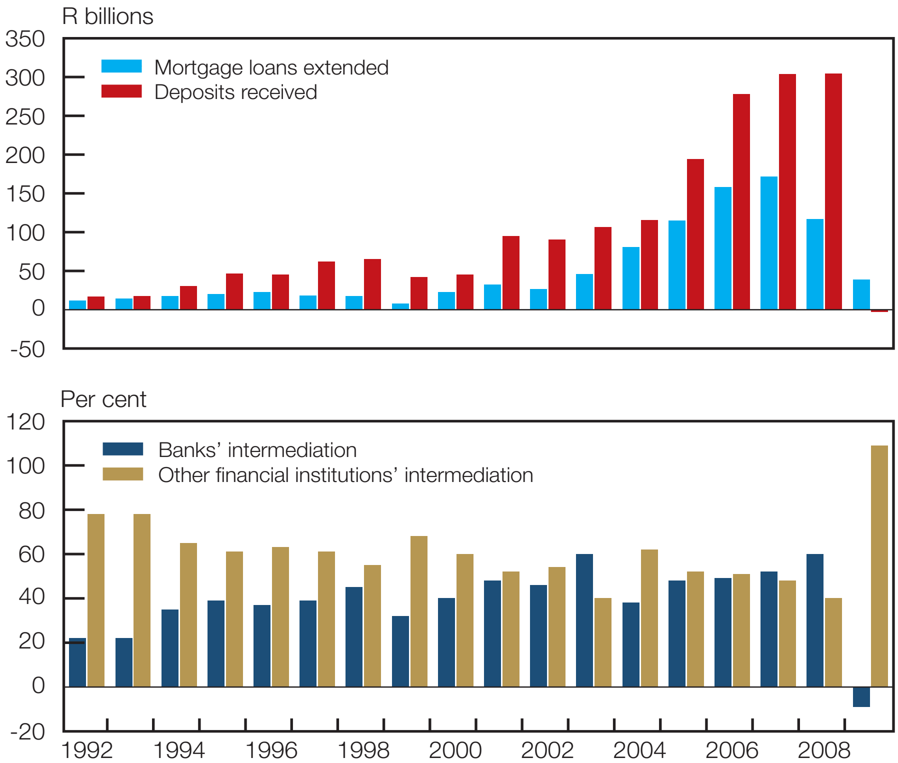
Figure 2 Gold and foreign-exchange reserves



3.3 Other monetary institutions

The other monetary institutions sector incorporates the accounts of banks, mutual banks, the Land Bank and the Postbank. From only 22 per cent of total financial intermediation in 1992, this sector has played an increasingly important intermediation role over the period to reach 60 per cent of total financial intermediation in 2008. Its intermediation role was then substantially reduced to a negative 9 per cent in 2009 as the financial crisis impacted negatively on credit extension. Both deposits received and credit extended first increased to high levels in the late 2000s before declining considerably as a result of the recent global financial crisis.

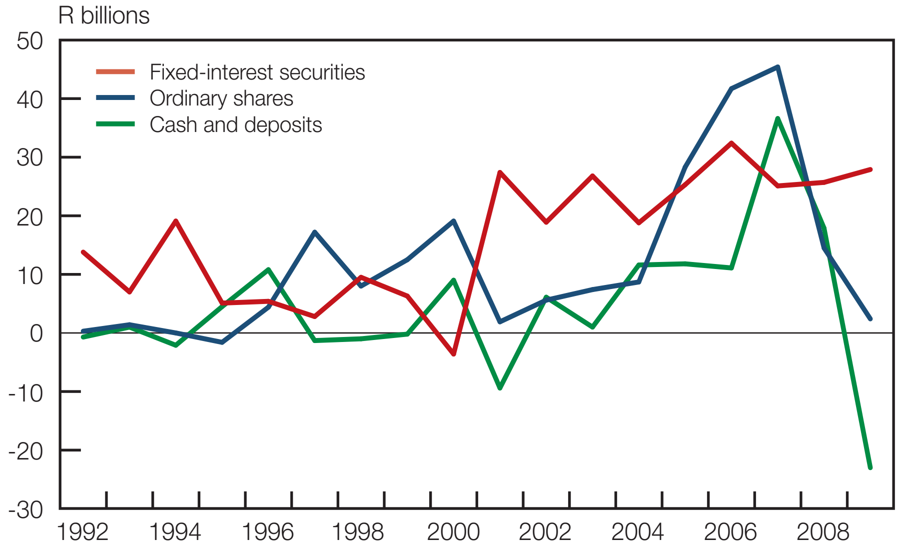
Figure 3 Financial intermediation and funding activities



3.4 Public Investment Corporation

The Public Investment Corporation (PIC) invests funds mainly on behalf of the Government Employees Pension Fund and other public entities. As a public investment manager, the PIC plays an important role in the domestic financial markets as it invests in bonds, shares, cash and cash equivalents. Whereas in earlier years the PIC relied heavily on external asset managers to invest its funds, it has been steadily strengthening its internal capacity to invest funds directly in the financial markets. For example, in the fourth quarter of 2009 it invested around 80 per cent of its total equity exposure using in-house investor teams.

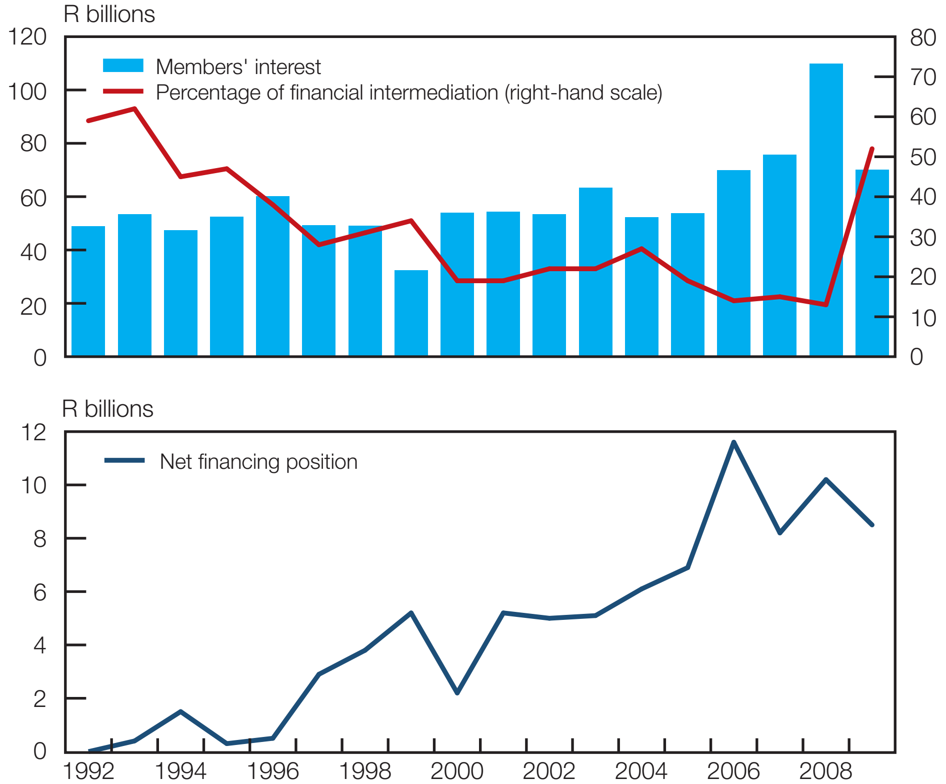
Figure 4 Public Investment Corporation: Main investment instruments



3.5 Insurers and retirement funds

As a custodian of contractual savings, the insurers and retirement funds sector maintained a financing surplus position throughout the period under review. For example, its financing position improved from R0,4 billion in 1993 to R12 billion in 2006, before receding to R9 billion in 2009. Members' interest, which comprises periodic premium contributions and represents members' claims on the sector, fluctuated around an upward trend over the period. Members' interest in insurers and pension funds increased by R48,8 billion in 1992 compared with R109,9 billion in 2008, before declining to R70,0 billion in 2009. Having last registered record total flows of 62 per cent of total financial-intermediary asset flows in 1993, this sector's intermediation role gradually declined to 13 per cent in 2008. However, in 2009 the sector registered 52 per cent of total financial intermediary asset flows when the banking sector's vulnerabilities following the 2007/08 financial crisis allowed the insurers and retirement funds sector to outperform in terms of intermediation.

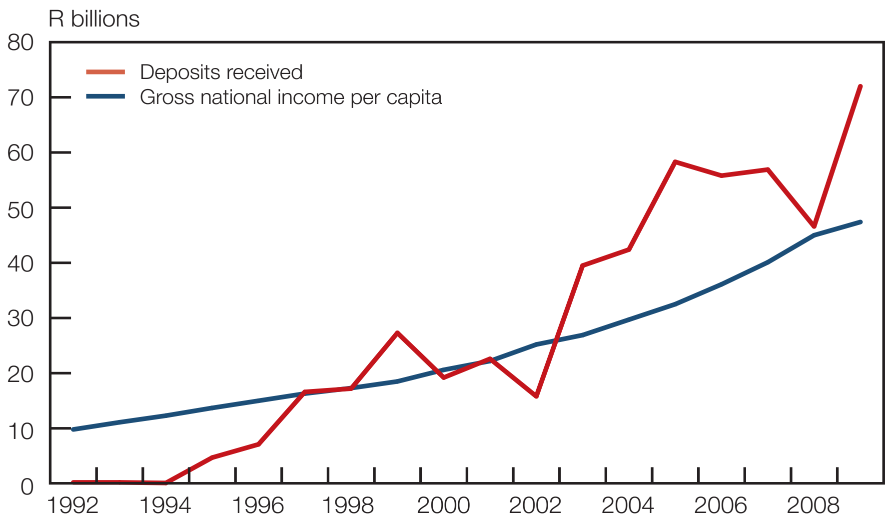
Figure 5 Members' interest and financing position of insurers and pension funds



3.6 Other financial institutions

'Other financial institutions' refers collectively to unit trusts, participation bond schemes, trust companies, finance companies and financial public companies. These intermediaries rely on different sources of funds such as deposits received,

Figure 6 Deposits received by other financial institutions

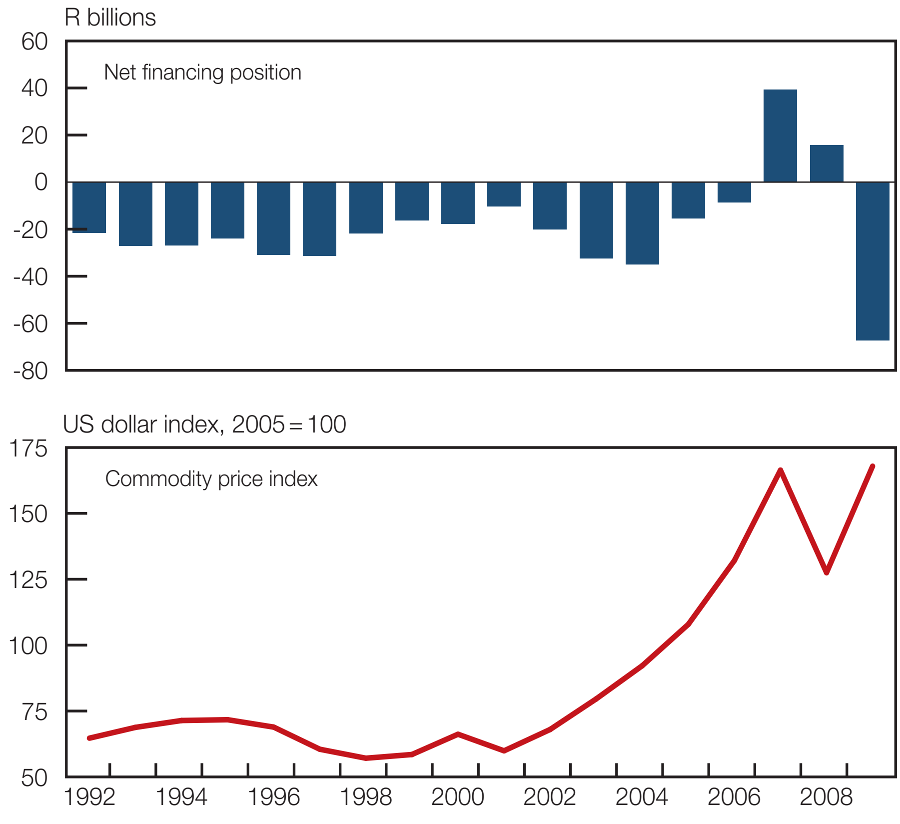


short-term loans, security issuance and equity capital. The sector is dominated by the activities of the unit trusts industry, which acquires funds by selling units and investing the funds received through the purchase of financial instruments and deposits. Funds received by this sector increased substantially over the review period due to rising national income levels. Households remained the leading investor group in this sector over the period. Similar to insurers and pension funds, the intermediation role of this sector grew considerably in 2009, accounting for a record-high 52 per cent of the total financial intermediary asset flows compared with an average of 12 per cent previously.

3.7 Central and provincial governments

In general, central and provincial governments have been a net financing deficit sector with the exception of 2007 and 2008. During these two years government revenues benefited from elevated corporate profits and record commodity prices before the situation turned around as a result of the impact of the financial crisis in 2009. The resultant effect was a significant decline in revenue collections and a record R67 billion deficit incurred by the government sector. The deficit was financed mainly through an increased issuance of both long-term government bonds and Treasury bills.

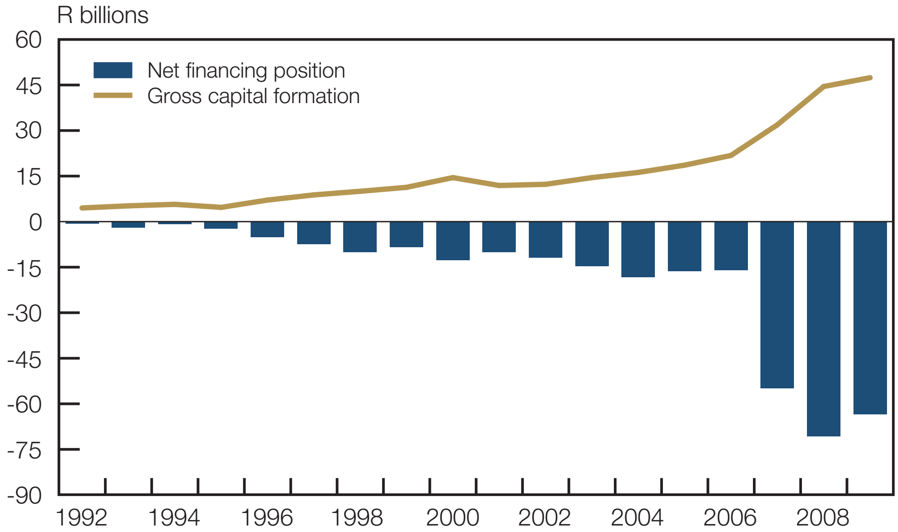
Figure 7 Central and provincial government financing position



3.8 Local governments

The deficit position of local governments worsened from R1 billion in 1992 to R16 billion in 2006 and accelerated to a record R71 billion in 2008, before slightly improving to R64 billion in 2009. This financing gap expanded as local government spending on infrastructure rose over time and in preparation for the 2010 FIFA World Cup™ tournament. The deficit was largely financed through a combination of incurring more loans and issuing debt instruments.

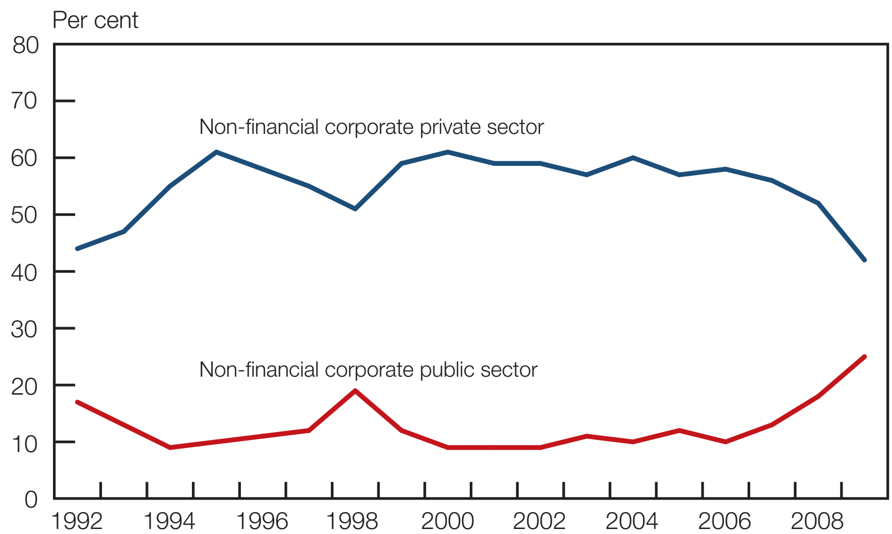
Figure 8 Local government financing position



3.9 Public non-financial corporate business enterprises

The public non-financial corporate business sector's financial position reflected a surplus from 2000 until 2006. However, since 2007 this sector has returned to deficit territory due to capital expansion activity in the build-up towards the 2010 FIFA World Cup™ tournament and other infrastructure projects such as the Gautrain and Eskom's Medupi power station. Public business enterprises partly financed the deficit of R71 billion recorded in 2009 through the issuance of securities. As a percentage of total gross fixed capital formation, this sector accounted for 25 per cent in 2009. The amount used for capital expansion, however, represented 82 per cent of the sector's total sources of funds during 2009.

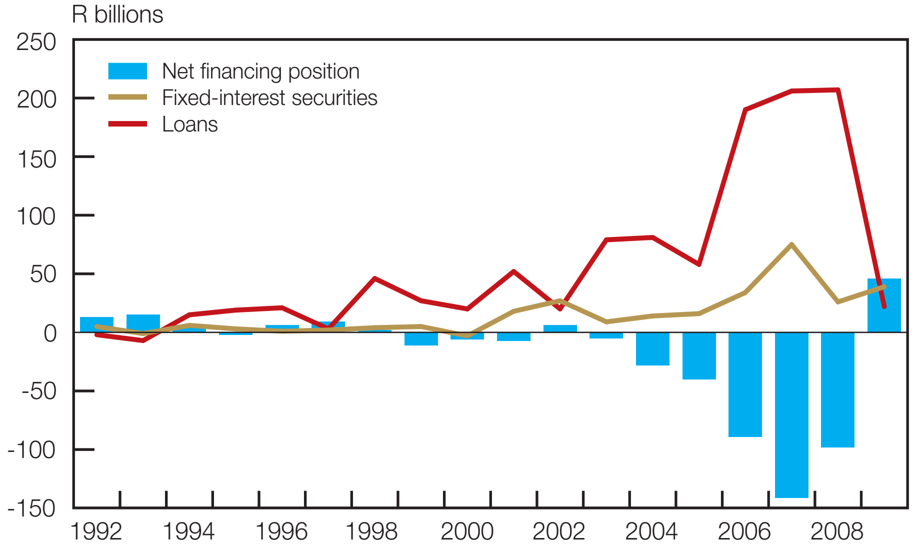
Figure 9 Share of gross capital formation



3.10 Private non-financial corporate business enterprises

After recording progressively larger financing deficits from 2004, an unusual surplus position of R46 billion was registered for private business enterprises in 2009. As a share of gross capital formation, these enterprises consistently contributed more than 40 per cent over the period. The sector largely financed its shortfall through incurring loans and issuing bonds. Private non-financial business enterprises accounted for an average of 26 per cent of total asset flows during the review period.

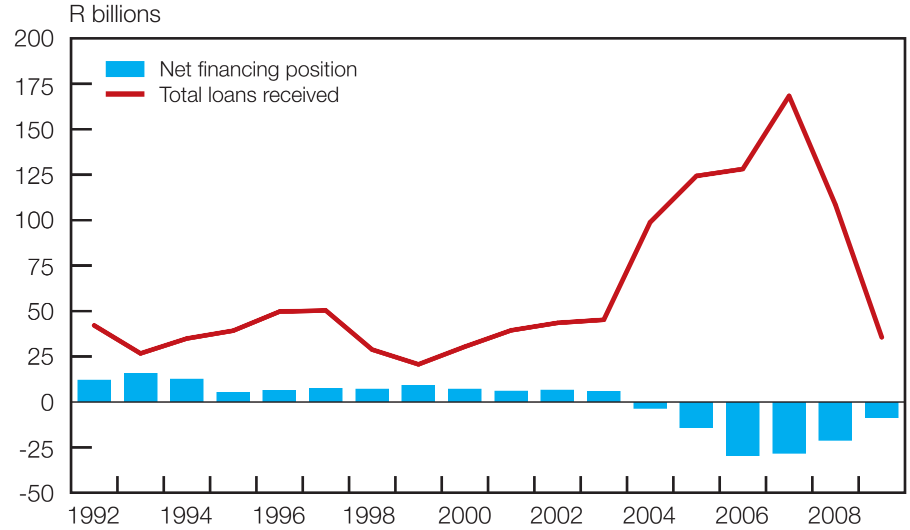
Figure 10 Financing of deficit by private corporate business enterprises



3.11 Households

Prior to 2004, the household sector was a net lender of funds. As economic conditions became more favourable, the sector became a net deficit sector and accumulated debt.

Figure 11 Financing position of households



While this provided a stimulus for household consumption, household indebtedness increased substantially. For example, loans incurred by households increased by R42,1 billion in 1992 and R108,5 billion in 2009. However, the sector reduced its incurrence of debt significantly and acquired only R35,6 billion's worth of loans in 2009. The total balance sheet of households rose over the period under review from a level of around R862 billion to about R6,4 trillion.

4 Conclusion

This supplement aimed to restate the national financial account data over the period under review in order to present a more accurate analysis of the economy. Through a combination of structural and economic developments, the South African economy experienced substantive growth during the revision period. The revised data indicate a decline in total flows over the revision period and a relatively unchanged institutional balance-sheet position compared with the previously published data. Important financial intermediation instruments included cash and deposits, credit extension, fixed-interest securities and ordinary shares.

5 Acknowledgements

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