Note on the state of household finances in South Africa

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Introduction

The Integrated Economic Accounts (IEA), as prescribed by the *System of National Accounts 2008 (2008 SNA)*, provide a complete picture of the accounts for the total economy, including balance sheets, in a way that permits the principal economic relations and the main aggregates to be shown over a given period. This framework consists of three unique macroeconomic accounts, namely the current and capital account (CURCAP), the non-financial balance sheet and accumulation account (NFBSAA) and the financial balance sheet and accumulation account (FBSAA). These accounts can also be arranged in four main domestic institutional sectors and the rest of the world (ROW).

The development and compilation of the IEA in South Africa commenced in 2015, and in 2022 the South African Reserve Bank (SARB) started publishing experimental IEA estimates. As one of the four domestic institutional sectors, the household sector plays a significant role in the South African economy, with households representing the largest share of consumption expenditure as well as significant investments in financial and non-financial assets, entrepreneurship, ownership of companies, and as net lenders or borrowers in the economy. To demonstrate the analytical capabilities of the IEA, this note explores and analyses the financial position of the household sector[2] over the past decade, focusing on the NFBSAA and the FBSAA.

The structure of the household balance sheet

The household sector's balance sheet and accumulation accounts dataset for South Africa is available from 2010, and the methodology is aligned with the Group of Twenty (G20) Data Gaps Initiative (DGI-II), in particular recommendation 8, which specifically focuses on sectoral balance sheets, flows, and a from-whom-to-whom analysis of stocks and transactions.

The non-financial assets of households are compiled independently through the NFBSAA. They consist of produced and non-produced assets. The produced non-financial assets comprise fixed assets used in production, inventories and valuables, while the non-produced non-financial assets consist of natural assets and assets created through legal agreement. The non-financial assets of households are compiled using a variety of sources, but the primary input data are sourced from authoritative institutions, including Statistics South Africa (Stats SA).

The household sector's financial balance sheet dataset for South Africa is available in granular stock positions on the financial assets and liabilities, broken down by counterparty sector and instrument. The stock of financial assets and liabilities of households is derived mainly from internal counterparty sector[3] information, as traditional survey data are not available for this sector and other input data do not provide for a split between households and non-profit institutions serving households (NPISHs). The hierarchy-of-sources matrix (HSM)[4] is utilised to balance the sector's stock positions relative to other sectors.

1 The views expressed in this note are those of the authors and do not necessarily reflect those of the South African Reserve Bank (SARB).

2 The household sector encompasses individuals and groups functioning as economic units, such as families, individuals living alone and unrelated individuals sharing living arrangements. The sector consists of households, unincorporated business enterprises and NPISHs.

3 These are debtor or creditor sectors with asset or liability positions against households.

4 The HSM includes financial assets and liabilities by type of instrument for each institutional sector vis-à-vis each counterparty sector. Each sector-by-sector financial asset and liability position is evaluated at an instrument level according to the quality of input data before the balanced outcome is generated.

Table 1 shows a snapshot of the household sector's balance sheet, detailing the stock of non-financial and financial assets as well as total liabilities at market value by main instruments between 2010 and 2023. The total assets of households consisted of non-financial and financial assets of R5.9 trillion and R15.2 trillion respectively at the end of December 2023, while households' total liabilities amounted to R2.9 trillion, largely consisting of loans, with minimal other accounts payable. The non-financial assets of households mainly comprised produced assets in the form of dwellings, while non-produced assets largely represented land. The financial assets mostly comprised cash and deposits, equity and investment fund shares/units holdings as well as insurance, pension and standardised guarantee schemes.

Table 1 Balance sheet of households at market value

R billions

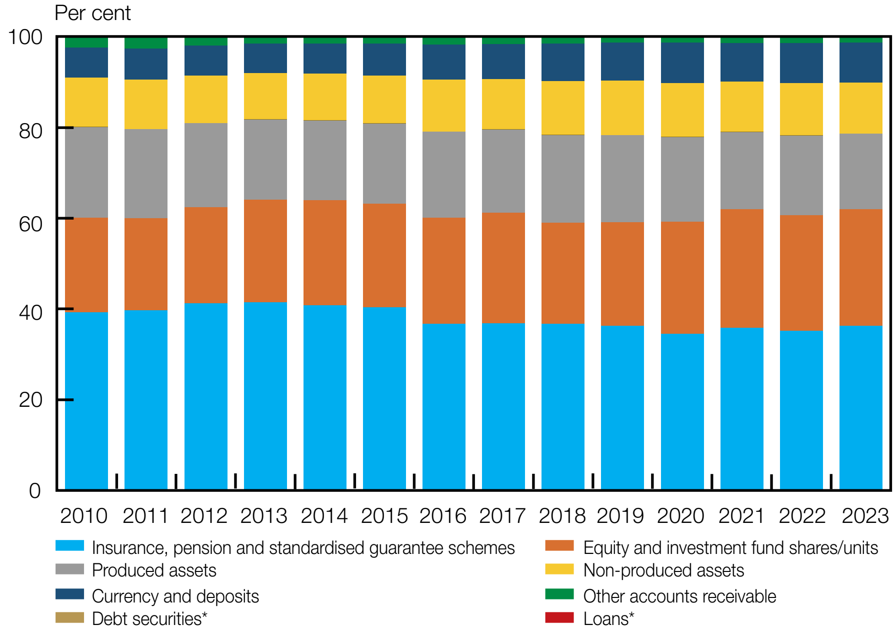
	2010	2015	2020	2023
Non-financial assets	**2 691**	**3 895**	**5 199**	**5 898**
Produced assets	1 745	2 450	3 180	3 533
Non-produced assets	946	1 445	2 019	2 365
Financial assets	**6 016**	**9 881**	**11 800**	**15 220**
Currency and deposits	573	966	1 514	1 866
Debt securities	13	19	32	53
Loans	-	2	3	-
Equity and investment fund shares/units	1 812	3 128	4 192	5 423
Insurance, pension and standardised guarantee schemes	3 418	5 562	5 867	7 651
Other accounts receivable	199	202	191	227
Total assets	**8 707**	**13 776**	**16 998**	**21 118**
Total liabilities	**1 365**	**1 904**	**2 362**	**2 852**
Of which: Loans	1 244	1 732	2 079	2 437
Other accounts payable	120	172	284	415

Source: SARB

The distribution of households' assets

The share of households' assets by instrument remained relatively stable between 2010 and 2023, with produced and non-produced non-financial assets accounting for, on average, 29.5% of total assets over this period, as shown in Figure 1. Households' financial assets were dominated by insurance, pension and standardised guarantee schemes, followed by equity and investment fund shares/units, accounting for, on average, 39.9% and 23.2% respectively of total assets between 2010 and 2023. However, as a percentage of households' total assets, the share of insurance, pension and standardised guarantee scheme receded somewhat from 39.3% at the end of December 2010 to 36.3% at the end of December 2023. By contrast, the share of currency and deposits to households' total assets, which was largely dominated by other deposits that have limited transferability, increased from 6.9% at the end of December 2010 to 8.8% at the end of December 2023, as households exercised greater caution during periods of severe uncertainty and economic downturns as well as external shocks such as the coronavirus disease 2019 (COVID-19) pandemic. The share of equity and investment fund shares/units to total assets increased from 20.8% to 25.7% over the same period.

Figure 1 Households' assets by instrument

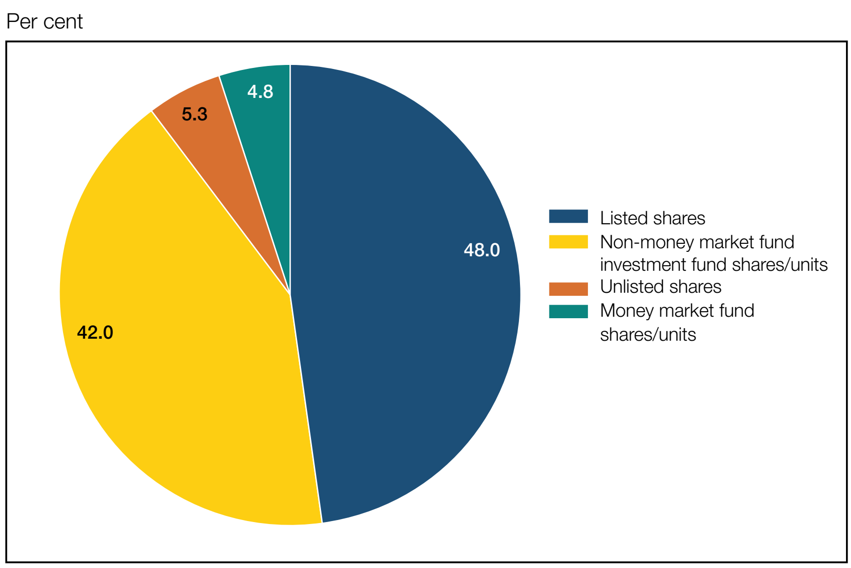


* Instrument not visible due to its small size relative to total

Source: SARB

The portfolio of households' equity and investment fund shares/units is subdivided into equity, namely listed and unlisted shares, and investment fund shares/units, namely money market fund shares/units and non-money market fund investment fund shares/units. Figure 2 shows that listed shares accounted for the largest share of 48.0% in equity and investment fund shares/units of households as at 31 December 2023. This was followed by non-money market fund investment fund shares/units at 42.0%, unlisted shares at 5.3% and money market fund shares/units at 4.8%.

Figure 2 Composition of households' equity and investment fund shares/units as at 31 December 2023

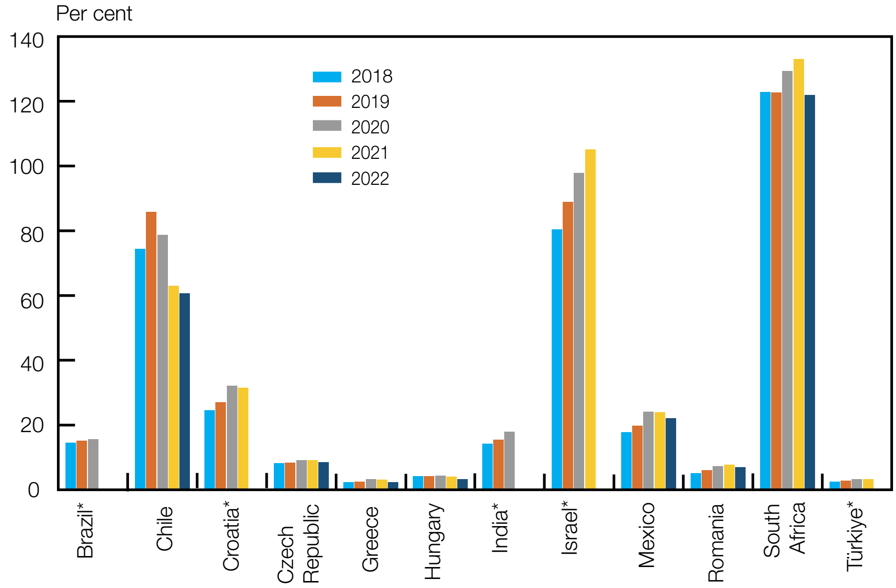


Source: SARB

Insurance, pension and standardised guarantee schemes is subdivided into non-life insurance technical reserves, life insurance and annuity entitlements, and retirement entitlements in the form of pension entitlements, claims of pension funds on the pension manager and provisions for calls under standardised guarantees. Households are relatively more exposed to pension entitlements than the other categories of insurance, pension and standardised guarantee schemes.

South African households' pension entitlements as a share of nominal gross domestic product (GDP) is one of the largest pension entitlement portfolios among selected emerging market countries, as shown in Figure 3. Households' pension entitlements as a share of nominal GDP for South Africa was 120%, on average, between 2018 and 2022 – almost double that of Chile and about 30 percentage points above that of Israel.

Figure 3 Households' pension entitlements to gross domestic product in selected countries



*Data not available for some periods

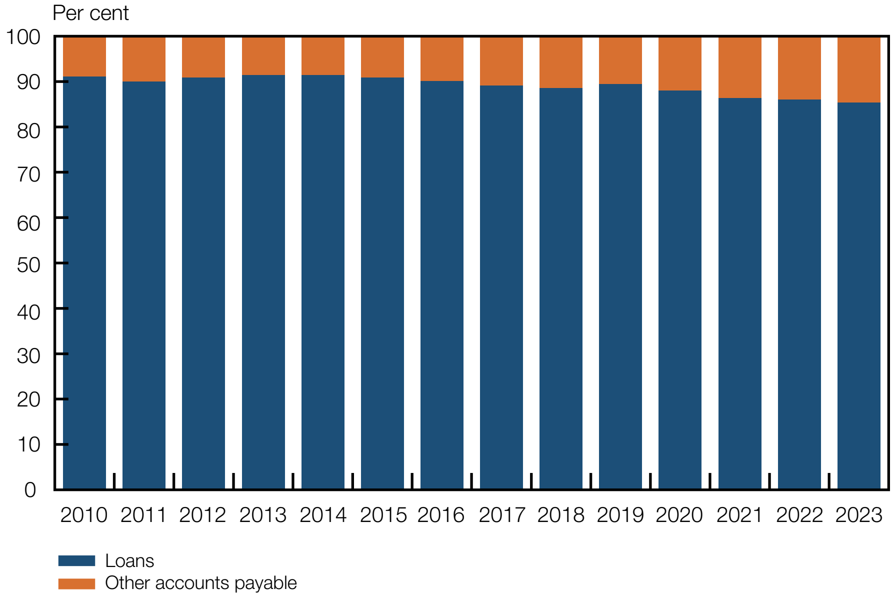
Sources: OECD and SARB

The distribution of households' liabilities

The distribution of households' liabilities by instrument between 2010 and 2023, as shown in Figure 4, reflects that households' liabilities are dominated by loans, with the balance comprising other accounts payable. Between 2010 and 2023, the contribution of loans to households' total liabilities declined from 91.2% to 85.4%, whereas that of other accounts payable increased from 8.8% to 14.6%. Within the category of loans extended to households, the contribution of short-term loans to total liabilities increased from 6.2% to 9.2%, whereas that of long-term loans declined from 85.9% to 75.9%. The shift in the relative shares of short- and long-term loans occurred against a backdrop of subdued growth in households' asset-backed credit, particularly mortgage advances, as residential property prices remained subdued for a prolonged period after they had increased substantially in the years preceding the 2008/09 global financial crisis. In addition, slower growth in disposable income[5] also contributed to the slowdown in the residential property market. The higher share of short-term loans over the period was supported by robust growth in unsecured credit, especially increased demand for general loans by households to supplement their income for consumption expenditure.

5 Disposable income implies nominal disposable income.

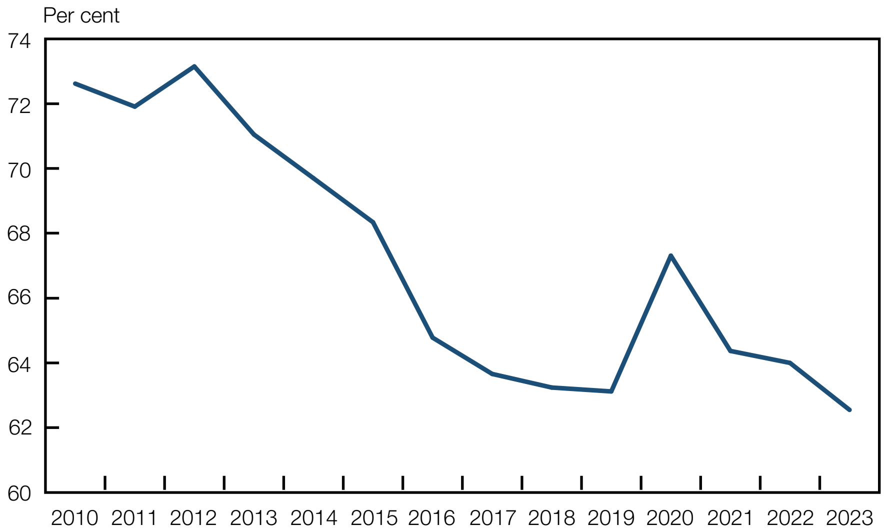
Figure 4 Households' liabilities by instrument



Source: SARB

Figure 5 displays the indebtedness of households in relation to their disposable income, with the ratio declining from 72.6% at the end of December 2010 to 63.1% at the end of December 2019. It subsequently increased notably to 67.3% at the end of December 2020, impacted by the COVID-19 pandemic, before decreasing to 62.6% at the end of December 2023. The decrease in the ratio of household debt to disposable income has been consistent with the slower growth in household debt.

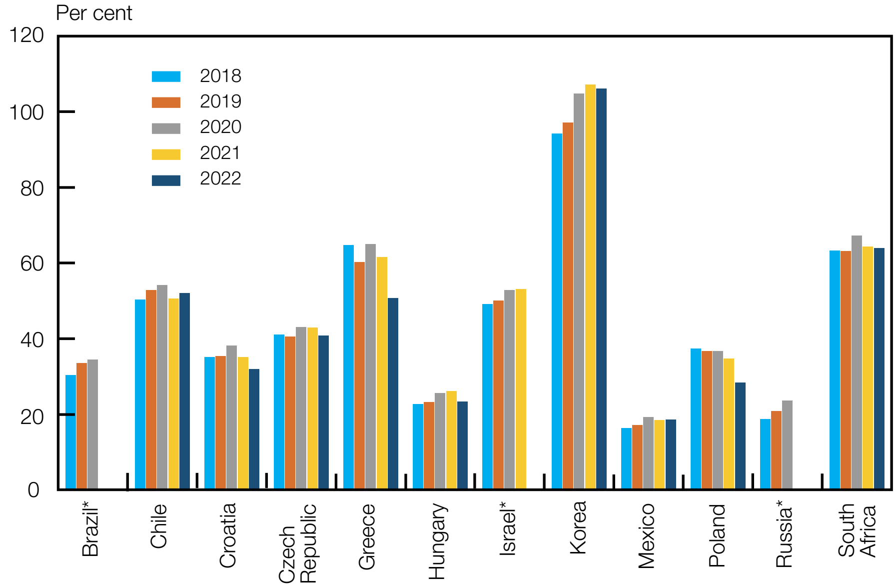
Figure 5 Household debt to disposable income



Source: SARB

Figure 6 compares the ratio of South Africa's household debt to disposable income with that of other selected emerging market countries. The level of South African households' indebtedness relative to their disposable income is closely aligned to its emerging market peers such as Chile, Greece and Israel. Korean households are highly indebted relative to other emerging market countries, while Hungarian and Mexican households are relatively less indebted.

Figure 6 Household debt to disposable income in selected countries



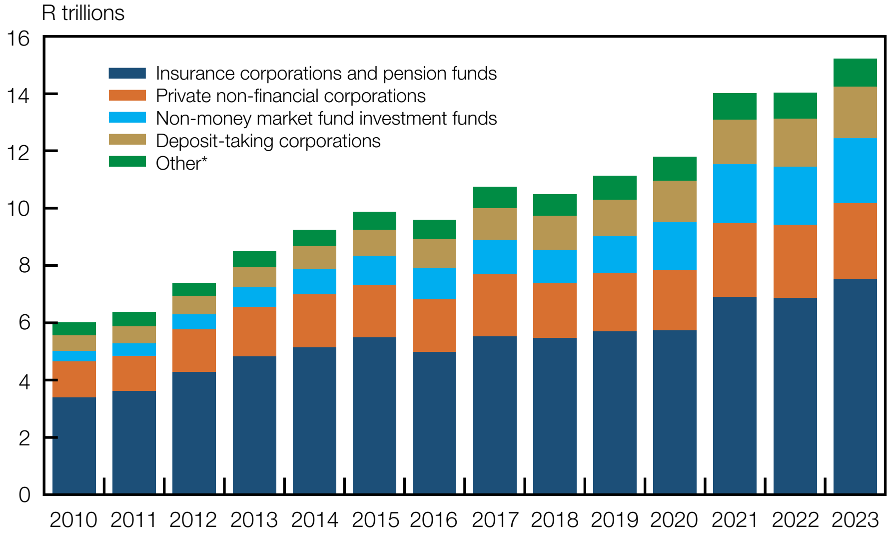
* Data not available for some periods

Sources: OECD and SARB

The institutional sector exposure of households' financial assets and liabilities

Households invest their savings across various domestic institutional sectors of the economy, namely non-financial corporations, financial corporations, general government, other households (in the form of households' administered trusts, for example) and the ROW sector. Households' largest counterparty exposure in terms of total financial assets is against insurance corporations and pension funds, with positions held mostly in insurance reserves and pension entitlements, as reflected in Figure 7. The market value of households' asset claims against insurance corporations and pension funds increased from R3.4 trillion at the end of December 2010 to R7.5 trillion at the end of December 2023. However, as a percentage of total financial assets, households' exposure to insurance corporations and pension funds declined, on average, from 58.2% to 48.7% over this period, while the share of non-money market fund investment funds more than doubled from 6.1% to 15.0%. Furthermore, households' total financial asset exposure to deposit-taking corporations (DTCs) increased, on average, from 8.3% to 12.2% between 2010 and 2023, while that to private non-financial corporations declined from 20.7% to 17.3% over this period.

Figure 7 Financial assets of households by counterparty

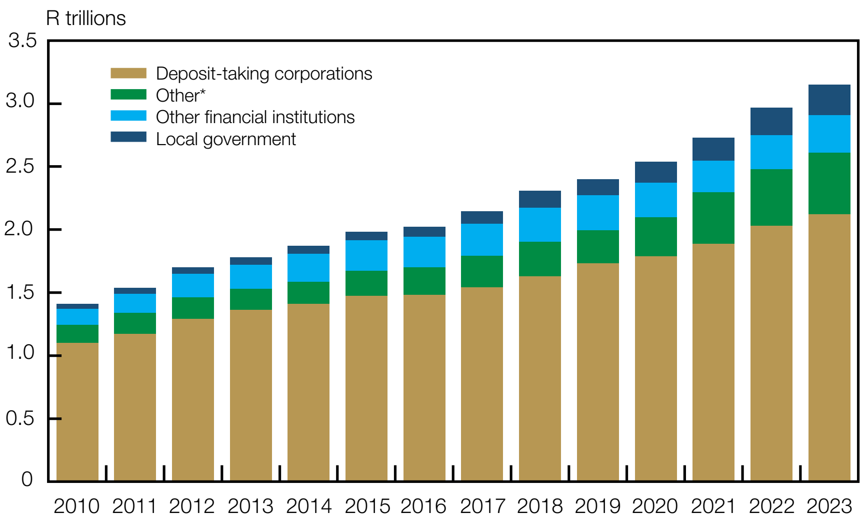


* Includes the central bank, public non-financial corporations, money market funds, other financial institutions, central and provincial government, local governments, households and the rest of the world

Source: SARB

Households finance their assets externally through funding sources such as DTCs and other non-monetary financial intermediaries, and internally by drawing funds from other households. The largest counterparty liability exposure of households is against DTCs, as shown in Figure 8. The market value of households' outstanding liability claims against DTCs increased from R1.1 trillion at the end of December 2010 to R2.1 trillion at the end of December 2023. However, as a percentage of total liabilities, households' exposure to DTCs declined, on average, from 80.7% to 75.4% between 2010 and 2023, as households tapped into other sources, such as non-monetary financial institutions, to augment their funding needs.

Figure 8 Liabilities of households by counterparty

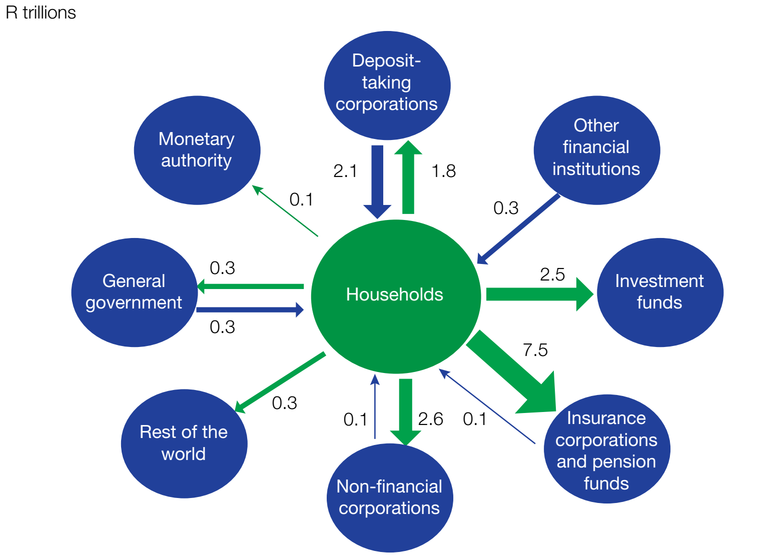


* Includes the central bank, public non-financial corporations, private non-financial corporations, insurance corporations, pension funds, central and provincial government, and households

Source: SARB

Figure 9 represents a graphical visualisation of households' financial asset and liability positions vis-à-vis the institutional sectors and the ROW sector, cross-classified by creditor sector and debtor sector as at the end of December 2023. Households are represented by green and the counterparty sectors by blue. The arrows show inter-sectoral stock positions, with the width of the arrow being proportional to the magnitude of the stock positions and the direction of the arrow indicating the direction of the claim. Households' largest financial asset claims were against insurance corporations and pension funds as well as DTCs, while their largest liability incurrence was with DTCs.

Figure 9 Network analysis of households' asset and liability stock positions by counterparty sector as at 31 December 2023



*Inbound arrows denote counterparty sector assets positions vis-à-vis households while outbound arrows denote households' assets positions vis-à-vis counterparty sectors. The width of an arrow is proportional to the magnitude of the stock position.

Source: SARB

Household wealth

The wealth of an economy's residents is referred to in the *2008 SNA* as being the difference between the value of an economy's assets and liabilities at a particular point of time. The wealth concept is treated as a net measure, by subtracting liabilities from assets (financial and non-financial). The net measure may be positive or negative, depending on individual households' specific circumstances. Being a net measure, wealth is often referred to as 'net worth'. However, the net measure resulting from only the financial assets and all the liabilities is referred to as 'net financial wealth'[6].

The net worth of households increased significantly from R7.3 trillion at the end of December 2010 to R18.3 trillion at the end of December 2023, as shown in Figure 10. Non-financial asset holdings contributed, on average, 34.4% to household net worth over this period, while net financial wealth contributed 65.6%. Growth in the market value of pension entitlements and listed shareholdings was the major source of households' wealth accumulation over this period, outpacing growth in the value of their liabilities. The increase in households' net financial wealth generally coincided with periods of strong growth in the in FTSE/JSE All-Share Index (Alsi).

6 Net financial wealth is calculated by subtracting all liabilities from financial assets.

Figure 11 shows that households' net worth as a percentage of disposable income initially peaked at 426.2% in 2015 and then fell to 382.9% in 2018. The ratio then increased again to 436.3% in 2021 before declining to 406.7% in 2023.

Figure 10 Households' net worth and asset prices

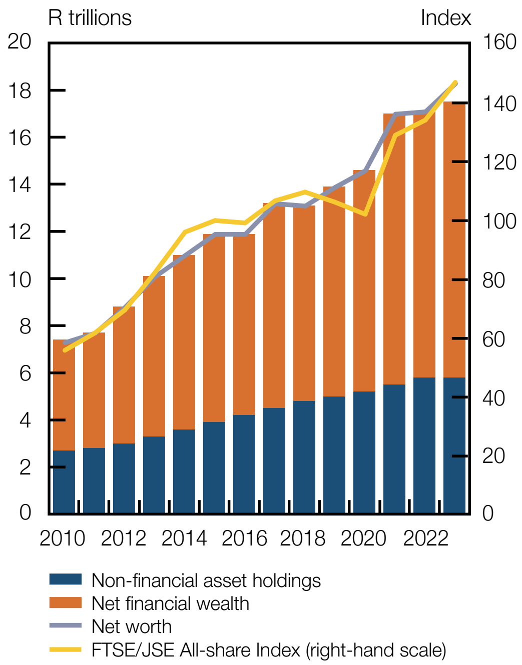
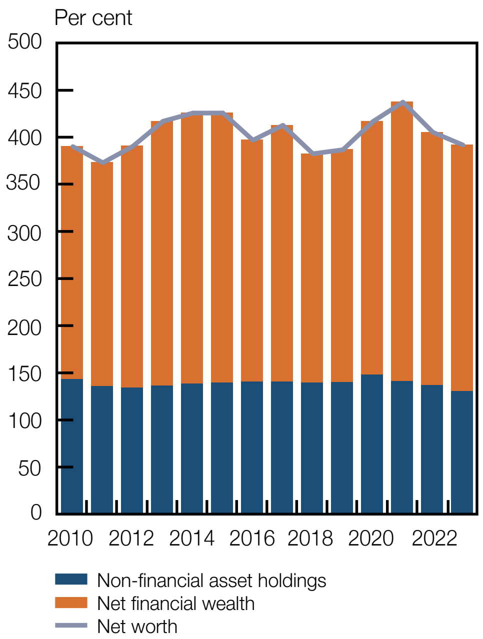


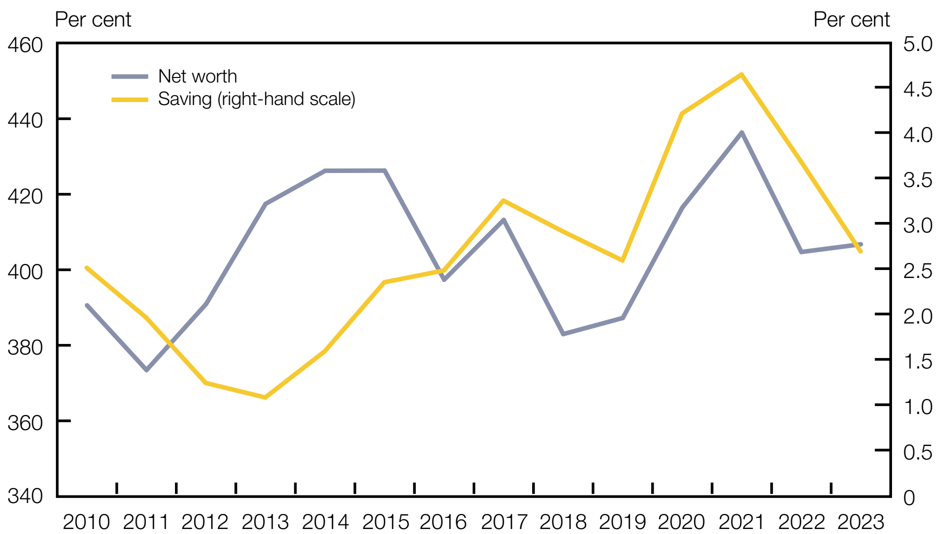
Figure 11 Households' net worth to disposable income



Source: SARB

Despite lower saving rates, household saving has remained an important anchor for household wealth accumulation, as shown by the correlation between the ratio of households' net worth to disposable income and the ratio of household saving to disposable income in Figure 12.

Figure 12 Households' net worth and saving to disposable income



Source: SARB

The composition and change in households' net worth

The change in households' net worth is influenced by two factors, namely the transactions related to the sale and purchase of financial assets and net investment[7] as well as revaluations due to changes in market prices and exchange rates. In addition, other volume changes, reflecting technical and classification changes, may also contribute to these flows,[8] albeit to a lesser degree.

Figures 13 and 14 reveal that the changes in households' net worth during the 2010 to 2023 period were mostly due to households' net acquisition of financial assets. Other changes in financial and non-financial assets, mostly due to asset revaluations, also contributed positively to the change in households' net worth over this period. Specifically, the increase in producer prices influenced the value of non-financial assets such as machinery and equipment, reflecting higher replacement costs and enhanced asset valuations. On the financial asset side, revaluations were closely aligned with the performance in equity markets, enhancing the market value of households' financial asset holdings.

Figure 13 Composition of change in households' net worth

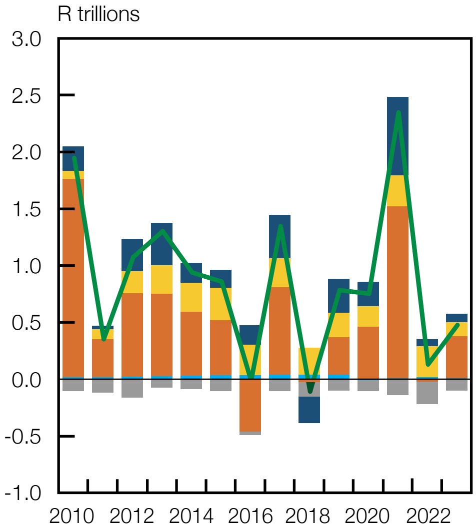
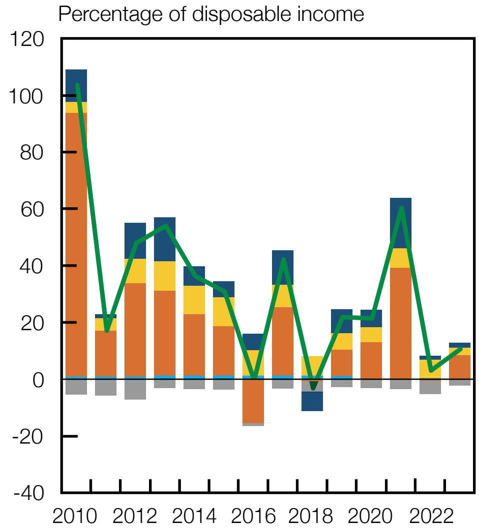


Figure 14 Composition of change in households' net worth



Net acquisition of non-financial assets
Net incurrence of liabilities (-)
Other changes in financial assets
Net acquisition of financial assets
Other changes in non-financial assets
Change in net worth

Source: SARB

The evolution of households' net lending/borrowing

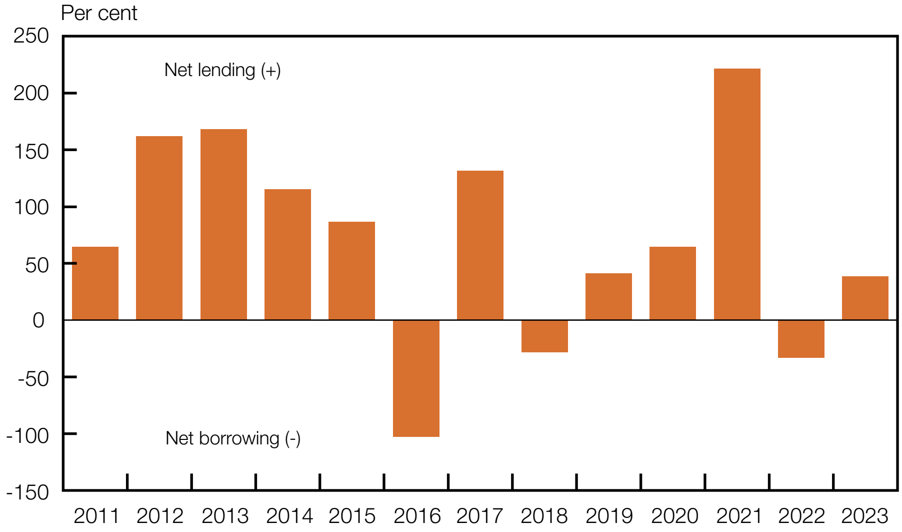
The difference between the net acquisition of financial assets and the net incurrence of liabilities is referred to as net financial investment (NFI), which reflects the change in net financial wealth as a result of transactions in a specific period. A positive NFI reflects surplus funds provided by a sector for the financing of other sectors (net lending) in the economy, while a negative NFI reflects the amount borrowed from other sectors (net borrowing) in a specific period.

7 Net investment is calculated as gross fixed capital formation *minus* the consumption of fixed assets.

8 Flows arising from the financial balance sheet are not directly measured but estimated, predominantly by utilising the approach described in international statistical manuals for deriving transactions and valuation changes using exchange rates and other prices.

Figure 15 illustrates that households maintained an overall net lending position in the economy between 2010 and 2023 as a result of continuously increasing levels of wealth accumulation. The only exceptions were in 2016, 2018 and 2022, when the sector switched to a net borrowing position as its financial position with financial corporations deteriorated somewhat. Financial corporations are the largest net borrower sector from households' financial savings, sourcing most of its shortfall through insurance reserves and pension entitlements, followed by currency and deposits.

Figure 15 Households' net lending/borrowing as a ratio of gross domestic product



Source: SARB

Conclusion

This note emphasises the importance of households in the South African economy, through an analysis of the household sector's balance sheet and accumulation accounts. Households' activities extend well beyond mere consumption, encompassing significant investments in both financial and non-financial assets as well as fulfilling the dual role as net lenders and borrowers in the economy. Key metrics such as asset and liability compositions, shifts in debt structures and trends in net worth provide further insights into the financial position of households. The activities of households do not only contribute to economic growth, but also shape the financial landscape by influencing market dynamics as well as monetary and financial stability policies.