cent while R200 million was allotted in respect of stock with a maturity of 22 years and an average yield of 16,56 per cent. In addition, during October and November the Reserve Bank sold a fairly substantial amount of government stock obtained on tap from the Treasury. It would appear, therefore, that the government's borrowing requirement for the 1984/85 fiscal year has already largely been met.

Notes to tables

South Africa's foreign liabilities and assets – Tables S-70 to S-73

Information on South Africa's foreign liabilities and assets as at 31 December 1983, together with comparable figures from the end of 1977, is published in this issue of the *Quarterly Bulletin*. These figures are based on data obtained from censuses of foreign transactions, liabilities and assets for 1973 and 1980, which were updated by means of sample surveys for subsequent years.

Foreign liabilities

South Africa's foreign liabilities increased by about 14 per cent to R45,4 billion at the end of 1983, compared with 27 and 23 per cent in 1981 and 1982, respectively. For the third successive year an increase in short-term foreign liabilities made the main contribution to the rise in total foreign liabilities. In 1983 short-term foreign liabilities increased by 23 per cent. Contrary to 1982, when this increase was mainly the result of foreign trade financing obtained by the private sector, short-term foreign liabilities of the central government and banking sector also increased materially in 1983. The latter increase amounted to 35 per cent, compared with 19 per cent of the private sector.

After South Africa's long-term foreign liabilities had increased by 16½ per cent in 1982, it rose further by 9½ per cent in 1983. Foreign loans obtained abroad by the Treasury, South African Transport Services, Department of Posts and Telecommunications and public corporations again contributed mainly to the increase in total long-term foreign liabilities. The long-term foreign liabilities of the private sector increased by only 5 per cent in 1983, which was considerably below the average annual rate of 11 per cent from 1977 to 1982. This smaller rate of increase was mainly caused by the abolition of exchange control on non-residents in early 1983, which led to a substantial outflow of share capital through the Johannesburg Stock Exchange. Non-direct foreign investment in share capital, therefore, actually declined in 1983. However, direct investment in share capital showed a small increase despite sales of foreign direct investment in certain large South African enterprises.

As a result of the large increase in the total foreign liabilities of the public sector in 1983, its liabilities as a percentage of total foreign liabilities increased from 33 per cent at the end of 1982 to 36 per cent at the end of 1983. Over the same period a corresponding decline occurred in direct investment as a ratio of total foreign liabilities, namely from 43½ per cent to 42 per cent.

The investment of EEC countries as a ratio of South Africa's total foreign liabilities continued to decline, namely from 54 per cent at the end of 1982 to 50½ per cent at the end of 1983. This decrease occurred mainly as a result of increases in the percentage shares of North and South America and the rest of Europe, while the shares of the other regions remained at about the same level.

Foreign assets

South Africa's foreign assets increased by 9½ per cent during 1983 to R16,9 billion at the end of the year, compared with an increase of just more than 14 per cent in 1982. Excluding gold reserves, South Africa's other foreign assets increased by 12½ per cent in 1983, compared with 17½ per cent in 1982.

The increase in the total foreign assets of South Africa in 1983 was divided about equally between the central government and banking sector and the private sector. The foreign assets of public corporations and local authorities declined somewhat during the year. South Africa's investment in foreign shares also declined for the second consecutive year, but this decline was neutralised by an increase in the share of South African residents in the undistributed earnings of foreign organisations and in long-term loans granted to foreigners. Owing to the smaller increase in the foreign assets of the private sector, direct investment as a ratio of total foreign assets, excluding the gold reserves, declined from 56½ per cent in 1982 to 55½ per cent in 1983.

The EEC countries remained the most important region for foreign investment by South African residents. However, investments in North and South America continued to increase fairly sharply, with the result that this region's share in South Africa's foreign assets increased at the expense of mainly the African countries.

Notes on national financial accounts

Financial flows for the year 1983 are published in Table S-48-49 of this *Bulletin*. The table shows that the "general government" sector and the sector "public enterprises" recorded financing deficits during 1983. These deficits were mainly covered by the financing surpluses recorded by the sectors "private corporate enterprises" and "households, etc."

The transfer of funds from sectors with a financing surplus to sectors with a financing deficit may either be "direct", i.e. between primary savers and ultimate users, or "indirect", i.e. through financial intermediation. Financial intermediaries which issue their own securities to primary investors and, in turn, acquire primary securities from ultimate users, act as both borrowers and lenders in the indirect financing process. Thus, indirect financing involves the creation of more financial flows than in the case of direct financing. Usually the more varied the instruments by which savings can flow from primary savers to the ultimate users of funds, the more efficient the financial markets of the economy. A financial system reflects and has its counterpart in real economic activity. Therefore, it can be expected that a developing economy will be reflected in an evolving financial system.

Changes in the relative importance of the financial intermediaries operating in the South African economy can best be illustrated by a comparison of the total assets of the various financial intermediaries with the gross domestic product at market prices. Data for the period 1971 to 1983 are shown in Table 1.

Table 1 clearly shows that the growth in the assets of financial intermediaries broadly correlated with the growth in gross domestic product over the period concerned. The simple aggregation of the assets (or liabilities) of financial institutions could, however, overestimate the growth in claims of the non-financial sector on these intermediaries because many financial transactions are between financial institutions themselves. A further consideration that should be kept in mind when analysing annual flow of funds data in respect of financial intermediaries, is that the published flow of funds accounts only record data on the basis of changes in assets and liabilities on an annual basis, i.e. from one year-end to another. The flows, therefore, do not record those borrowing and lending transactions which have an original maturity of less than 12 months, which in turn may lead to an underestimation of the flows concerned.

Table 1: Ratio of total assets of financial intermediaries to gross domestic product

1971	1,8
1972	1,8
1973	1,7
1974	1,6
1975	1,6
1976	1,6
1977	1,6
1978	1,5
1979	1,5
1980	1,5
1981	1,6
1982	1,6
1983	1,7

The kinds of financial assets sought by surplus units and financial intermediaries depend on the preferred features of their asset portfolios. These features include such elements as the degree of liquidity of financial assets, the term and conditions of repayments, the degree of risk of default by borrowers, the yields on financial assets, and the probability of capital gains or losses. Investors' preferences may also show changes over time. All these factors, together with general economic changes, may result in changes in the rates of growth in the assets of the different types of financial intermediaries. As can be seen from Table 2, commercial banks increased their share in the total assets of the financial institutions shown in the table from 16,2 per cent at the end of 1971 to 20,0 per cent at the end of 1983, whereas the building societies' share declined from 13,5 per cent in 1971 to 12,2 per cent in 1983. This tendency mainly reflected the societies' inability to compete with the more comprehensive range of financial services offered by the commercial banks.

The share of both long-term insurers and pension and provident funds in the total assets of financial institutions showed an almost uninterrupted increase during the relative period, namely, from 11,4 and 15,8 per cent at the end of 1971 to 15,4 and 17,7 per cent, respectively, at the end of 1983.

The household sector as well as the private corporate sector showed financing surpluses during most of the years from 1971-1983. These surpluses represented net savings which had been generated in these sectors and were made available through the process of intersectoral flows of funds to the sectors with financing deficits or savings shortfalls. Extensive use was made of the sophisticated financial system in transferring funds from surplus units to deficit units.

Although a specific sector as a whole may show a financing surplus, many individual entities within that sector may have financing deficits. An example is the household sector. This sector as a whole almost always shows a financing surplus, but it nevertheless includes many net borrowers, especially for the purpose of financing housing and consumer durables. Accordingly the constituent entities of this sector have an important influence in the financial markets both as lenders and borrowers. The same principle is illustrated by personal saving which only reflects a net position and therefore usually understates the influence of the household sector in the financial markets. The net financing surplus (i.e. gross saving less gross investment) of the household sector, for example, only averaged about 4 per cent of

Table 2: Financial institutions: Total assets and share of total assts

	1971		1977		1983	
	Assets	Share of total assets	Assets	Share of total assets	Assets	Share of total assets
	Rm	%	Rm	%	Rm	%
S A Reserve Bank and NFC	1 588	6,3	4 378	8,2	8 872	5,9
Commercial banks	4 077	16,2	9 795	18,2	30 376	20,0
Other banks	2 636	10,4	6 014	11,2	16 260	10,7
Building societies	3 394	13,5	7 334	13,6	18 470	12,2
Long-term insurers	2 867	11,4	6 551	12,2	23 286	15,4
Pension and provident funds	3 991	15,8	8 621	16,0	26 829	17,7
Public Debt Commissioners	3 364	13,3	4 987	9,3	13 767	9,1
Other	3 296	13,1	6 053	11,3	13 714	9,0
Total	25 213	100,0	53 733	100,0	151 574	100,0

personal disposable income over the period 1971-1983, whereas this sector's gross acquisition of financial assets and liabilities (i.e. before offsetting intra-sectoral borrowing and lending) amounted to the substantially higher proportions of about 20 per cent and 16 per cent, respectively, of personal disposable income during this period.

Table 3 shows that the household sector recorded a net financial investment deficit in 1981 and a relatively low surplus in 1982. These resulted from substantial rises in financial investments and even sharper increases in borrowings by this sector in these years, reflecting the sharp increase in consumer spending financed by credit. The household sector's financing surplus increased from R327 million in 1982 to R1 878 million in 1983, owing mainly to a sharp decline in gross investment by this sector namely from R3 368 million in 1982 to R2 266 million in 1983. This larger surplus enabled the household sector to increase its financial investments by R14 042 million in 1983 compared with R12 028 million in 1982. Borrowings increased by R12 164 million in 1983, compared with R11 701 million in 1982.

The household sector mainly acquired financial assets through the intermediation of financial institutions and in this way contributed considerably to the growth of some of the major groups of institutions. This can be seen in Table 4 which shows the annual increase in the household sector's financial assets with commercial banks, general banks, building societies, participation mortgage bond schemes, long-term insurers, pension and provident funds and the Post Office Savings Bank as a percentage of the increase in the above-mentioned institutions' total liabilities over the same period. It is clear that although the household sector still makes the largest contribution to the growth in the relevant financial institutions' total liabilities, the rate of increase in households' holdings of

Table 3: Annual change in financial assets and liabilities of the household sector as ratio of personal disposable income

	Personal disposable income	Change in financial assets		Change in financial liabilities		Net financial investment surplus	
	Rm	Rm	% of personal disposable income	Rm	% of personal disposable income	Rm	% of personal disposable income
1971	9 975	1 559	15,6	1 069	10,7	490	4,9
1972	11 189	1 928	17,2	1 099	9,8	829	7,4
1973	12 673	2 344	18,5	2 016	15,9	328	2,6
1974	14 655	2 651	18,1	2 485	17,0	166	1,1
1975	17 556	3 386	19,3	2 614	14,9	772	4,4
1976	19 111	3 214	16,8	2 525	13,2	689	3,6
1977	22 369	3 790	16,9	1 890	8,4	1 900	8,5
1978	23 872	4 452	18,6	2 796	11,7	1 656	6,9
1979	28 434	5 447	19,2	2 790	9,8	2 657	9,3
1980	35 020	8 699	24,8	6 242	17,8	2 457	7,0
1981	39 902	9 985	25,0	10 363	26,0	-378	-0,9
1982	45 936	12 028	26,2	11 701	25,5	327	0,7
1983	51 522	14 042	27,3	12 164	23,6	1 878	3,6

Table 4: Annual increase in household sector's holdings of financial assets with a selected group of financial institutions[1] as a percentage of the increase in the institutions' total liabilities

	Increase in institutions' liabilities	Increase in household sector's financial asset holdings with institutions	Increase in households' assets as percentage of increase in institutions' liabilities
	Rm	Rm	%
1971	1 643	1 341	81,6
1972	2 075	1 640	79,0
1973	3 492	2 454	70,3
1974	3 204	2 665	83,2
1975	4 331	3 286	75,9
1976	4 032	3 027	75,1
1977	4 011	3 204	79,9
1978	5 616	4 041	72,0
1979	8 689	5 003	57,6
1980	12 777	8 197	64,2
1981	15 570	9 989	64,2
1982	15 785	11 434	72,4
1983	18 730	12 701	67,8

[1] Commercial banks, general banks, building societies, participation mortgage bond schemes, long-term insurers, pension and provident funds and Port Office Savings Bank.

financial assets with these financial institutions in general has slowed down relative to the rate of increase in these institutions' total liabilities. Exceptionally large regressions in the household sector's relative position as a supplier of funds to financial institutions were recorded in 1973 and 1979. In the accompanying graph the annual increase in the household sector's holdings of financial assets with the financial institutions concerned are depicted together with the annual increase in these institutions' total liabilities over the same period. The graph illustrates even more clearly the growing importance of the contribution of other sectors in the flow of funds through these financial intermediaries during the period 1970-1983. In this regard the private corporate enterprise sector has become an increasingly important supplier of funds in the financial markets.

Annual increase in total liabilities of selected group of financial institutions and household sector's holdings of financial assets with financial institutions