

Wealth, Credit Conditions and Consumption in South Africa

Janine Aron, CSAE, Department of Economics and Institute for Economic Modelling,
Oxford Martin School, University of Oxford, UK

John Muellbauer, Nuffield College and Institute for Economic Modelling, Oxford
Martin School, University of Oxford, UK

Abstract

This paper exploits liquid and illiquid wealth measures from household balance sheet data for South Africa, previously constructed by the authors and now published by the Reserve Bank, to explain fluctuations in the ratios of consumption and household debt to income in South Africa, from 1971 to 2005. The paper emphasizes the role of substantial financial liberalization, treating credit conditions as a latent variable with key interactions with drivers of consumption and debt. Credit conditions are proxied by a spline function entering jointly estimated consumption and debt equations. The controversial issue of the size of a housing collateral or wealth effect on consumption is addressed. The empirical results corroborate the theory in the paper, confirming the roles of financial liberalization in accounting for the rise in consumption relative to income and of fluctuations in a range of asset values and asset accumulation, and of income expectations. The paper also throws important light on the monetary policy transmission mechanism in South Africa.

Keywords: consumption, credit conditions, housing collateral and housing wealth

JEL Codes: E21, E32, E44, E51