MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

YOU AND YOUR MONEY FUNDRAISING DINNER

ADDRESS BY

TREVOR A MANUEL, MINISTER OF FINANCE

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ARABELLA SHERATON GRAND HOTEL - CAPE TOWN

Good evening ladies and gentlemen,

It is my pleasure to be with you this evening and to support such a worthy initiative. It is never easy to come to such glamorous surroundings, be surrounded by such enthusiastic company, and to talk about depressing things such as debt!

I would rather we talk about the debt we owe Danny Jordaan for securing the 2010 Fifa World Cup.

Or the debt we owe Ernie Els for ensuring our flag flies high in international sport.

Or the debt we owe Professor Wangari Maathai for showing us that a simple idea can plant a seed, building democracy and sustainable development.

That our children and our grandchildren can bask in the glory of African sunsets. That Africa can lead the way in finding solutions to modern challenges.

Tonight we recognise and pay tribute to the hard work that the people at **You and your Money** are doing to slacken the noose of debt that is choking too many South African families. Like all things in South Africa, talking about debt and sustainable development is not black and white.

In the aggregate, the debt levels in South Africa are not a cause of great alarm. At a macroeconomic level, household debt is a reasonable 55 per cent of disposable income. This is up from just over 50 per cent at the end of 2002.

However, it has come down from the peak of over 61 per cent at the end of 1997. When prime interest rates were increased to over

25 per cent in 1998 the pressure of this burden on households was tremendous.

Even more encouraging is the fact that overdue loans as a percentage of total loans in the banking system have fallen from around 5 per cent in 2002 to 3 per cent currently.

Debt in and of itself is not a bad thing. It allows us to fund our ideas for the future. To leverage today's productivity. And to borrow from tomorrow's energy. Credit provides the essential fuel to smooth the dynamics of the economy. That said, this fuel can be explosive if not handled carefully.

All of us are well aware of the grim trauma that over indebtedness exacts on a family.

All of us have seen the hollow stare in the eyes of a family as the insidious shadows of the omashonisa loom.

We have seen too, the agonising anguish of a father left with R70 to support his family after the sharks wreak havoc with his financial stability. But, we do know that there is brightness on the horizon.

Things are improving. Both the aggregate numbers and the household information shows it – households are generally managing their debt levels and general finances in a much more prudent way.

As always, more can and must be done.

I have stressed before and I stress again. Meeting South Africa’s developmental challenges requires strong partnerships between government, business and civil society.

Government can provide a regulatory framework to guide behaviour. But government is not ubiquitous. We cannot educate every household. We cannot oversee every loan granted or taken.

Business and civil society must play an equal role in this chain to secure the financial foundation of our society.

The Micro Finance Regulatory Council’s ‘reckless lending investigations’ reveal that retail debt and micro loans are the two biggest categories of reckless lending, accounting for 38 per cent and 36 per cent, respectively.

The MFRC inspections also found that some lenders will advance loans when the borrower’s debt commitments already exceed the borrower’s income. This simply cannot continue. Certainly, a part of this is pure greed and unethical behaviour on the part of some.

But, I cannot believe that it applies to all lenders in the South African economy. It is simply in no one’s interest to place households in this kind of financial and ultimately emotional stress!

So, the sharks exist, but we would like to think that such predatory behaviour is both in the minority and on the decline.

However, even responsible businesses need to do more to ensure that their customers are not getting themselves into unsustainable positions.

Let me pause and reflect on what government can do?

The way we manage our finances reflects both directly and indirectly on the behaviour of our citizens. At the time of taking office in 1994, all the talk was of South Africa being in a debt-trap. Well, as a nation, we have managed to turn that around by both raising our contribution to the stability of our revenue streams and managing our expenditure in a prudent manner.

Our annual deficit has come down from over 7 per cent in the early 1990s to around 3 per cent today.

At a micro level, we need to reflect on the progress being made in the financial services industry.

Government's approach in handling the financial sector charter process has been to emphasise 'access'. Not access to credit, as some thought; and others feared.

The challenge we presented to stakeholders was to harness the same ferocious intellectual energy that is applied to developing new credit products toward ensuring, among others, that:

- Every South African has a bank account. The launch of the u-Mzansi account marks a significant milestone in this process.
- Financial institutions understand risk in Gugulethu as well as they understand the risk dynamics in Bishops Court.
- Households can understand the products being sold to them; and
- Consumer financial literacy reaches levels that proscribe reckless lending.

We are encouraged as government at the fervour with which the industry, in partnership with key roleplayers, has embraced this challenge.

In maintaining a sound regulatory framework, industry is encouraged to engage on the draft Consumer Credit Bill, which, as you know will put in place a broad range of protections for consumers.

We are confident that this additional piece in the regulatory puzzle can further promote sound governance of lending practices.

Legislation alone and all the best intention in the world is never enough.

We need the dedication and hard work of organisations such as **You And Your Money** to ensure:

- That people have someone to turn to when clouds of over indebtedness burst.
- That employers support education and awareness programmes to raise the financial literacy of their employees.
- That we monitor the effectiveness of our regulatory framework – the ethically-challenged will find ways around it and we all need to keep a constant vigil.

In conclusion, I wish to thank you for giving me the opportunity to share this evening with you. Your spirit and passion seems to know few bounds. The more we are able to tap into this energy, the faster our developmental challenges will go.

In partnership, we can ensure that no poor family ever suffers the indignity and entrapment of over indebtedness.

I thank you…