MINISTRY OF FINANCE

REPUBLIC OF SOUTH AFRICA

ADDRESS BY TREVOR MANUEL, MINISTER OF FINANCE

TO

THE SOUTH AFRICAN SAVINGS INSTITUTE/METROPOLITAN

EXCELLENCE RESEARCH AWARDS,

AT THE SOUTH AFRICAN RESERVE BANK CONFERENCE CENTRE

18 OCTOBER 2004

We are here today to recognise the efforts of men and women who take the well being of South African's to heart.

You may wonder why I make this grand declaration.

What is so special about these research awards you may ask?

It is, of course, the subject matter.

Research done on saving is important, vitally important to all South Africans.

I base my statement not only on cold, economic theories but also on the express knowledge of life experience, seeing what saving can do for the individual household, the insurance that it provides for individuals and the suffering that people go through, if they do not enjoy this kind of insurance.

The intellectual rigor displayed by all of you today is encouraging. I have heard it said that higher savings are South Africa's recipe for higher growth. Your research constructs the kitchen in which this recipe will be tested.

Savings and growth go together like port and heat in the making of a flambé.
The swoosh of the flame transports the dish to another level.
And in this way savings and growth will raise South Africa to a higher level, they will raise South African households to higher levels of independence and security.
The evidence is ambiguous as to whether savings lead to growth or whether growth leads to savings. Who of you here can tell me if it is the port or the heat that creates the flame? It is this ambiguity that provides the challenge for academics, researchers and policy makers to invest energies in the pursuit to find an answer. It is for this reason that we are here so early today.

This ambiguity notwithstanding, what I do know is that savings are an integral ingredient in the recipe for a greater South Africa with wealth and opportunity for all. We must however, understand that savings are only one part of a larger set of conditions associated with sustained growth. People may ask the question, Why are savings a part of this recipe?

High growth countries tend to grow in ways, which require investment in plant and machinery. For these investments, we need savings. Necessarily, if a country cannot raise enough savings to meet investment demand, it has to attract these from the rest of the world. This does not come cheap - it comes at a premium.

But why then are savings only **one** ingredient of the recipe?

Investment in inappropriate assets will not necessarily increase domestic output. This would depend on the nature and quality of the investment. Inappropriate investment strategies may even have the opposite effect as seen in the East Asian crisis. More needs to be done to direct investment into **productive** assets in the economy. This therefore, means that as we strive to raise savings to fund higher investment, we need to be cognizant of the potential pitfalls of poor intermediation.

Saving is only one part of the recipe because South Africa is an open economy and with all the benefits that come with this, there are also some obligations.

Our challenge remains to ensure competitive returns in the South African economy and to build a winning society and to ensure that we are able to attract capital to supplement our needs.

We have built a solid platform of macroeconomic, fiscal and monetary policy on which to raise the economy's growth potential and continue to attract foreign capital.

You all know or have heard that South Africa is starved of savings. Our savings level as a percentage of GDP has fallen to 14,5 per cent in the second quarter of this year from highs of over 20 per cent during the 1980's.

Within this context the government has done a lot to decrease dissaving. Interest on public debt has fallen from 6,4 per cent of GDP in 1996 to 4,7 per cent in 2003. We have brought the deficit to GDP ratio down to international norms from highs of almost 7 per cent in 1993 to current levels around 3 per cent and we have embarked on much needed investment by the public corporations. The challenge we remain with, is to further improve the quality of the deficit. This is a huge challenge given the wide social deficit that South Africa is faced with. Whilst there is a strong consciousness towards increasing capital expenditure, this is met with real competing needs for consumption expenditure. Cognizant of this difficult balance, we are determined to stay the course to improved quality deficits.

We have improved the kitchen in which we cook up this recipe for higher growth in South Africa. We are increasing education, increasing access to medical services and improving nutrition. We are working within a stable, low inflation macro-economic environment to lower unemployment and we are continuously reviewing the unintended consequences of the policy framework. Inflation has been within the target range of 3-6 per cent for a year now. Inflation for August declined to 3,7 per cent y-o-y.

As you all know, the corporate sector contributes the most to gross saving in the South African economy and as such is the staple ingredient in the recipe for higher growth in South Africa. In the second quarter this savings figure stood at 11,5 per cent, although down from 12 per cent in the first quarter. Rightly so.

Our development challenge will only be overcome in partnership. It is incumbent on business and government to work together to secure the success of our economy.
Government can and will provide the space and environment for business to thrive.
Business must remain true to the vision of a prosperous future, driving innovation, creativity and growth.

But what about households?

We know saving is good for the economy as a whole, which is always good for the citizens of such an economy. But do savings matter for the individual, who is scraping together a living, with barely enough money to feed herself, let alone nher family and keep a roof over their head – if as much?

Household savings as a percentage of GDP have averaged only 3 per cent in the last couple of quarters, and, if we take into account the fact that there was an improvement in real disposable income, shows an alarming trend for households. Savings as a percentage of disposable household income averaged a mere 0,5 per cent in the second quarter against 54,8 per cent household debt to disposable income. The debt ratio has, however, not yet reached the highs of the late nineties and seems sustainable in view of the declining trend displayed by banks' non-performing loans.

The worsening savings picture for households can be explained by a number of factors, principal of which are growing dependency ratios. It is important that we arrest this trend. The only way in which we can achieve this in a sustainable manner, is to increase the participation rates in the economy. The two ways of realising this is through higher employment creation and speeding up of the broad based empowerment programme.

So why do household savings contribute only partially to the flavour of our recipe for a greater South Africa? And not a more substantial, meaty ingredient?

The first argument that usually comes to mind is that there cannot be money left after taking care of basic needs in the lowest income groups. But we have seen a proliferation of micro loans to this segment. Repaying debt implies potential ability to save!

We have seen innovative credit products developed by financial institutions. And we have seen very little innovation in the way of access for the poor and marginalised to savings products. And I mean savings products that will not erode the real value of savings over time with charges eating away at the little surplus these people are storing away for lean times.

We applaud the financial sector reform initiative, which has shown awareness and displayed sensitivity to this issue. The launching of u-Mzansi account on the 25^{th} of this month, is huge leap in the way in which we increase access for the South African poor.

The evidence of strong savings into informal structures like stokvels and burial societies have prompted us to identify greater access to savings products for the poor and marginalised in our society.

And for our part in building the kitchen in which this recipe will be tested we have recently focused on:

Pension fund reform with a reduction in leakages within private pension schemes;

The launch of a retail bond, which has stimulated competition with banks;

Increasing access to saving services with legislation for second and third tier banks as well as support for informal savings institutions like stokvels and burial societies.

Reduction of consumption driven debt with new legislation protecting the rights of the borrower.

And, very importantly, building a culture of savings with various initiatives.

And here I must pause to give thanks to SASI for the tremendous work they have been doing in this regard. But, refocusing our people on saving and creating a proud culture of saving is not only the work of government, or of the intellectual work seen here, but it is the work of every parent, every friend and every family member that hears our message and has to pass it on.

And today, we are awarding the excellent contributions of our fellow chefs. In this case, I am sure ‘ Too many cooks will NOT spoil the broth.” Your excellent research will help make our country grow and prosper in the next decade, both in financial wealth and intellect. Your contributions will further shape the policies of tomorrow to feed a nation hungry for growth.

I thank you.