ministry of finance

Department:
The National Treasury
REPUBLIC OF SOUTH AFRICA

KEYNOTE ADDRESS BY THE DEPUTY MINISTER OF FINANCE,

MR J MOLEKETI, MP, AT THE SOUTH AFRICAN SAVINGS INSTITUTE

MEDIA LAUNCH OF THE "PUT ON YOUR SAVINGS SHOES" CAMPAIGN

29 JUNE 2006

Ladies and Gentlemen,

It is indeed a privilege for me to address this gathering this morning. As we all know the month of July is national savings month. Although this may not signify a specific event in our past, savings are most certainly crucial to our future.

The importance of savings for growth has often been mentioned in academic literature. As with most things academic, there are arguments and counterarguments. Some may argue that the empirical evidence is ambiguous as to whether savings leads to growth or vice versa.

Arguments about causality aside however, what cannot be disputed is that savings are an integral part of promoting growth and development, and that without savings, wealth and capital investment are likely to be compromised.

It is with these considerations in mind, that we must view South Africa's declining gross savings ratio with some concern. Though Government has done well to reduce its dissaving, and corporate savings remain reasonable, household saving has shown significant decline over the past two decades.

In aggregate terms, South Africa's savings ratio peaked at 26,7% of GDP in the early 1980s. The latest estimates of gross savings put the figure at 13% of GDP; which lags other emerging markets such as China where the savings rate is in excess of 40% of GDP. Of particular concern is the low household saving rate which is at a record low of approximately 0,2% of disposable income.

Of course, complexities underlie these simple statistics, but they do cast a powerful picture. The level of household debt as a percentage of household disposable income now stands at 68%. The access and usage of credit continues to grow, despite warnings by the Reserve Bank Governor that households should use the opportunity of a low interest rate environment to pay off debt.

It may be a natural consequence that household saving in South Africa would fall since democracy, given that a large proportion of the population was previously excluded in terms of access to credit, housing finance, job opportunities have increasingly gained access to these. However, this is not the entire picture, as the vast majority of the South African population still struggles against absolute poverty. This implies that disposable incomes and therefore those individuals' ability to save are low.

Yet even amongst low income households, *mashonisas* and micro-lenders thrive. Surely, if one has the ability to repay a micro-loan, then one also has the ability to save when not paying such a loan.

It is also encouraging to see that some banks have launched savings schemes and products that take on board the collective savings of burial societies and stokvels. The uptake in Mzansi accounts, which now stands at approximately 3,3 million, indicates that even though peoples' incomes may be low, they are still willing to save. Of course, the increase in Mzansi usage also shows that consumer confidence in the banking sector is increasing, especially for those previously unbanked.

I am also of the view that the investigation launched by the Competition Commission to look into the costs structure of banks will lead to some relief to consumers. Initiatives to introduce further competition into the domestic banking sector will, I am sure, inevitably lead to a reduction in bank fees.

It is this willingness to save that should be nurtured, and where a culture of savings does not exist, it needs to be fostered. Naturally, people should save for different reasons, including:

- to smooth consumption patterns over their lifetime
- to provide for their retirement and old age
- to finance expected, large expenditures, like the purchase of a house, or the financing of their children’s education
- and to finance unexpected losses of income.

Unfortunately, often the importance of saving for some or all of these motives only arises when the actual *need* arises. Adequate and prudent savings however takes dedication and should be viewed as a medium or long term activity.

From the point of view of Government, policy should assist in the achievement of these objectives, given the broader social and economic advantages to increasing savings. Initiatives such as the RSA retail bond are a positive step by Government to increase access to a cost efficient savings vehicle which provides a decent return for the capital invested. At the moment, the total investment in retail bonds is approximately R1,8billion.

Initiatives such as these and recent developments in the retirement annuity industry have begun to address some of the inefficiencies and opaque business practices built up in the financial sector over decades of apartheid and economic isolation.

The introduction by Government of the retail bond saw interest rates on medium and long term bank deposits increase almost immediately, as banks realised they had to be more competitive in order to attract savers. With regards to retirement annuities, poor disclosure and the high cost of products has focused attention on the need to revamp the industry in order to restore confidence to the long term contractual savings market.

The debate surrounding the reform of our retirement funding system also places the issue of long term savings firmly in the spot-light. The need to adequately provide for retirement is fundamental to the individual and from a macro-economic point of view, to the economy. In a move to spur retirement savings, Government announced in February's budget a reduction in retirement fund tax from 18% to 9%.

But it is not merely Government and the financial sector industry which need to recognise the importance of increasing domestic saving. Individuals themselves need to take responsibility for planning their own future. This means empowering oneself with financial knowledge and demanding explanations from service and product providers where one is unsure or does not fully understand.

Financial education and financial literacy at a basic level needs to begin in schools. We have to start building and changing mindsets now, because making consumer education truly effective will not occur overnight and is in fact a multigenerational project. It is in this space that South African Savings Institute makes an important contribution to promoting a culture and an awareness of the need to save.

The month of July should not merely be the month of savings, but the start of a habit of savings for those who are not currently doing so. It should begin with ourselves, our family and our friends. Let savings be the diamonds on the soles of our shoes. One way to lose our savings blues … and certainly we have nothing to lose.

Thank you.