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Speech at the Launch of Savings Month
SA Savings Institute Breakfast
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Thank you for this opportunity to address you this morning.

Since the motto for this year's savings month is 'Tighten Your Savings Belt', I thought it appropriate to share a joke with you. '*What did the zero say to the eight? Your belt's a little tight, isn't it?*'

The present downturn has meant considerable belt tightening. There are clear signs that economic realities have prompted businesses and households to address their balance sheets, by reducing consumption and increasing their saving. South Africa's gross saving[1] rate as a proportion of GDP rose to 17.1 per cent in the first quarter of this year, up from an average of 15.4 per cent in 2008.

But even with the recent rise in South Africa's saving rate, our savings performance remains disappointing. Our saving rate is low by international standards and compares especially poorly to those developing countries with high rates of economic growth. In China, for example, the gross saving rate is over 40 per cent.

Recent events remind us to expect reversals of fortune. The crisis has highlighted the danger of being overly dependent on others and the importance of making responsible decisions for the future, as individuals, representatives of firms and as an economy.

[1] Gross national saving is net national saving plus provision for the consumption of fixed capital.

This morning I will examine recent trends in South African saving and discuss the importance of raising our national saving rate. I will argue our future prosperity is dependent on our willingness to re-discover the virtue of thrift. I will then outline some of the things that Government is doing to inculcate a savings culture.

South Africa's aggregate saving has been on a declining trend because of the decline in corporate and household savings. Saving by the corporate sector represents the bulk of total saving, but the corporate savings ratio has fallen in net terms from 6.6 per cent of GDP in the 1980s, to 5.6 per cent in the 1990s and to only 3 per cent between 2000 and 2008.

Household saving as a percentage of GDP has also declined sharply over the last 15 years, from 3.2 per cent during the 1980s to 0.2 per cent between 2000 and 2008. As a percentage of disposable income, household saving has fallen from around 5.4 per cent in the 1980s to 0.28 per cent between 2000 and 2008. As a consequence, household debt has risen steadily in recent years, and currently stands at 76.7 per cent of disposable income.

So why has the household saving rate declined? A number of factors could account for the decline:

- Slow economic growth during the 1980s and 1990s that constrained household's ability to save;
- The declining trend in inflation since the 1990s, and particularly after the introduction of inflation targeting in 2000, reduced uncertainty about future purchasing power and therefore also reduced the incentive for households to save for precautionary reasons;
- Liberalisation of South Africa's financial sector increased the availability of credit to households and companies, financing higher levels of consumption and investment and reducing savings;
- Historically low interest rates and higher housing and equity prices raised households' creditworthiness, resulting in more rapid credit growth;
- Together with easy credit, higher household wealth induced higher consumer spending and less savings;
- Greater social transfers reduced the need for households to save;

- Growth of the black middle class possibly also reduced the average saving rate, given this group's high propensity for debt-funded consumption of durable goods to eliminate their 'asset deficit'.

South Africa is not alone in having experienced a declining household saving rate. Household saving rates have steadily declined in a number of OECD countries where government benefits are high, the volatility of inflation and interest rates has declined, and financial innovation has increased access to credit. Household saving rates tend to be higher in developing countries such as China because of limited social security nets and limited access to retail credit.

Fiscal prudence and strong growth in tax collections post-1994 contributed to a marked improvement in the government's saving performance. After dissaving on a net basis for 23 years, gross government saving as a percentage of GDP turned positive in 2001. However, the global financial crisis and subsequent slowdown in domestic economic growth has seen government saving decline as revenue fell below budget estimates.

South Africa's low rate of saving is worrying for several reasons. Inadequate savings leave households vulnerable to shocks to income and prices. They also constrain individuals' ability to put down the deposits for large assets such as a house, affecting wealth accumulation. Likewise, low levels of individual saving add to the burden on government to provide retirement assistance, increasing the need to raise taxes for this purpose.

Saving supports capital accumulation and economic growth, as investment tends to raise productivity and thus global competitiveness. A higher saving rate can also help smooth the business cycle because firms and individuals have a buffer during difficult times.

The more a country saves, the more investment can be funded from internal sources without requiring foreign capital inflows. Shortfalls between domestic savings and investment lead to current account deficits and the need for foreign capital inflows to finance the gap. Persistently high current account deficits can lead to macroeconomic instability if foreign liabilities rise too much and foreign capital inflows dry up. By reducing a country's dependence foreign capital inflows, higher domestic saving therefore makes an economy less vulnerable to sudden reversals in capital flows.

On the other hand, a higher saving rate and reduced spending is presently putting a brake on already sluggish aggregate demand. Fortunately, fiscal policy has, over the last number of years, created space for increased spending by saving the windfall gains from above-potential growth. In the coming years, countercyclical fiscal policy will compensate for lower demand and provide assistance to those who have become unemployed as a result of the downturn. Likewise, the effects of monetary policy easing will begin to feed-through to demand in the coming quarters. Continued de-leveraging will also improve the ability of firms and individuals to save once the economy begins to recover.

The severity of present circumstance has compelled thriftier behaviour. But a more permanent shift requires policies that foster a savings culture. Government is contributing to this culture shift in several important ways.

Firstly, prudent macroeconomic policy creates an environment conducive to saving. Inflation targeting, for example, protects the purchasing power of savers and implies that savings are able to attract competitive real rates of interest. It must be noted, however, that low inflation itself may be a disincentive to save since households may be less inclined to hedge against future inflation by saving more. Policy must therefore create conditions conducive to higher investment, economic growth and job creation because it is ultimately these factors that enhance the ability of both corporates and individuals to save.

Government is committed to supporting economic growth and job creation in several ways, notably through its infrastructure development programme, labour-intensive employment programmes and through education and skills development. Income tax reform that has also provided relief for saving through higher limits for interest earned on savings. An interdepartmental task team is evaluating policy options for raising savings and contributory social security in partnership with the financial services sector.

Creating an enabling environment also requires addressing barriers to saving, particularly those that are binding for poorer individuals. The first of these barriers is affordable access to savings and transaction services. Several initiatives deserve mention:

- The ‘Mzansi’ bank account, which was launched collaboratively by the four largest commercial banks together with the state-owned Postbank. By reducing access barriers, Mzansi has drawn in many first time users of financial services. Uptake now exceeds 6 million. The success of Mzansi demonstrates that even low income individuals exhibit a willingness to save.
- The Retail Savings Bond initiative has attracted almost 33 000 investments, representing a total investment amount of over R4.2 billion.
- The National Credit Act has played an important role in reducing consumption-driven debt and ensures that the credit market is accessible, efficient and non-discriminatory.

A second important barrier to saving is a lack of financial literacy. The Finscope (2008) survey revealed the extent of misunderstanding of financial terms and the lack of financial knowledge among South Africans. The need for financial education and education more generally, is clear. Without adequate knowledge of the available financial instruments, appreciation of the risks involved with different types of investments, and recognition of the benefits of long-term saving, behaviour in South Africa will remain sub-optimal.

Fostering a savings culture also requires making saving a ‘cool’ and intelligent choice. The South African Savings Institute makes an important contribution in this regard, by promoting a culture and an awareness of the importance of saving.

To conclude, South Africa’s low savings rate puts the economy’s ability to grow in a sustainable manner at risk. It is crucial to raise the level of our national saving in support of both short-term economic stability and long-term productivity growth and prosperity.

Building a culture of savings in South Africa is vital in ensuring that higher economic growth is sustainable and all of us in this room have a role to play in ensuring that.

Thank you