MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

LAUNCH OF THE 2014 SAVINGS MONTH

Deputy Minister of Finance

Mr Mcebisi Hubert Jonas

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Introduction

Programme director - Ms Elizabeth Lwanga-Nanziri, Chairperson of the South African Savings Institute (SASI) - Ms Prem Govender, the SASI Board of Directors and Partners, Media, Industry, Ladies and Gentlemen, good morning and thank you for inviting the National Treasury to another Savings Month Launch.

The importance of saving in our lives and country

There are few things in life which are worth repeating every day, and one of those is the importance of saving. Saving, at a household level, protects us from income and spending shocks. It does this by providing us with income in retirement when we need to rest our bodies and minds; it enables us to undertake large expenditure like a deposit for a house or paying for our children’s education.

The low savings rate

Savings are disturbingly low in South Africa and relative to our peers. As of 2013, our national gross savings rate, as a percentage of GDP, stood at 13.5 percent, an unfortunate decline from 14.2 percent in 2012. Households contributed a meagre 1.7 percent to the gross savings rate, although the number has remained stable in the recent years, which is a positive sign.

Saving is important not only for households, but for Government and companies. The Global Financial Crisis of 2008 and its aftermath showed how vulnerable Governments can be when they excessively spend, especially for consumption, and use excessive borrowing for such spending. Our thriftiness as Government during the years prior to the financial crisis enabled us to stabilise the economy and avoid a deeper economic recession. However, these justified countercyclical measures resulted in us dissaving, as our saving rate declined from late 2008 and stood at -2.2 percent in 2013. Corporate South Africa, though, fared better by being the largest contributor to our savings rate, at 14.1 percent in 2013, a slight decline from the 14.7% in 2012.

International comparison

In comparison with our BRICS peers, South Africa ranks the lowest in gross savings. According to the World Bank data, in 2012 China's gross saving rate was 51 percent, India and Russia 30 percent, Brazil 15 percent and South Africa 14.2 percent. It is interesting, though not surprising, to observe that countries with higher savings rates tend to have higher growth rates as well. This can be explained; growth can be driven by spending by Government, households and corporates. However, such consumption driven growth backed by excessive borrowing can easily trap countries and individuals in debt.

The good news is that growth does not have to always be driven by excessive consumption. Instead, it can also be spurred by higher investments. But higher investments require higher savings rate. Growth driven by higher investments in infrastructure and productive capabilities is arguably more sustainable and robust for a country like South Africa.

Higher savings rates also do not imply that what is saved remains idle – it gets invested elsewhere in the economy to create the necessary infrastructure, growth and employment that we so much need.

Tax Free Individual Savings Account and Treating Customers Fairly

Government has embarked on a retirement reform process to enable workers to retire comfortably and that they are offered cost effective retirement saving products. One of the challenges with our retirement system is that the lack of savings beyond retirement has forced households to prematurely rely only on retirement savings to meet their unexpected and expected large spending or investments. It is important to stress that retirement savings should, as much as possible, be left for one’s retirement.

However, realising the income challenges and realties faced by many South Africans, and to enhance the saving culture, Government is still proceeding with the non-retirement Tax Free Individual Savings Accounts announced in the last two Budget Speeches by the Minister of Finance. These accounts are meant to encourage South Africans to save beyond just for retirement. These accounts will carry no tax on capital gains, interest or dividend income. I would like to encourage South Africans to take advantage of these accounts once they become publicly available by next year.

To protect savers, the financial industry will have to ensure that these saving accounts adhere to principles of simplicity and transparency, and that they are cost effective and easily accessible to the wider public. As part of the reforms on the financial sector, the Financial Services Board continues to roll out its Treating Customers Fairly initiative, to ensure that savers and investors, are protected from any abuse by the financial institutions who, I should say, play a critical role in enabling us to formally save and put saved money into good use in the economy.

Household Indebtedness

We must not forget that the opposite side of saving is indebtedness - excessive debt, especially for consumption, leads us to being abused and depressed. Debt to disposable income in South Africa has almost doubled from 1980 to 2013, from 41.9% to 75.2%. As the savings rate fell in the same period, indebtedness rose significantly.

With no savings, households are likely to borrow more to deal with shocks to their income and expenditure. The danger is that excessive debt tends to linger and negatively affect our self-esteem. Let us save, even if it is little money from the various grants we get, rather than get into debt. Here, the role of informal savings like stokvels comes in handy as they pool savings for purposes like meeting burial expenses, Christmas spending, and education.

Informal savings

Some commentators have actually argued that it is not entirely true to state that South Africans are not saving at all, since there is an existing robust informal sector in the country in the form of stokvels.

The challenge with the informal sector is that it seems to have been largely un-researched. However, the National Stokvel Association of South Africa estimates that there are a total of 800 000 stokvels, burial societies and savings, and credit associations in South Africa, with about 8.25 million members. It is estimated that the value of savings in the sector is between R25 to 44 billion. This informal sector has survived for decades largely due to the embedded trust between members of the informal savers.

The question that may be asked is: should they be formalised as savings schemes? Further research needs to take place to answer this question. Formalisation can offer some advantages, but challenges too. For example, the current formal industry has some challenges around certain fees and practices on certain products and services. People still perceive bank fees as high. Formalisation, on the positive side, can enable enhanced consumer protection and better returns on savings.

Rather let us solve the problems that the informal savers currently have. For example, some informal saving schemes in the rural areas might not have immediate banking facilities and are therefore subjected to robberies. How can they be banked?

In 2007 government introduced the Co-operative Banks Act to encourage the formation of financial co-operatives as one avenue toward the formalisation of stokvels. There are similarities between a stokvel and a financial co-operative, and we should investigate how we can better facilitate a formalisation continuum for stokvels that want to formalise and provide banking products to their members and communities.

The Co-operative Banks Development Agency (CBDA) was established in 2009 and assists with the capacity building of financial co-operatives and their nurturing into potential fully fledged co-operative banks or viable financial co-operatives. It also provides a light-touch supervisory framework to incubate financial co-operatives towards growing into Co-operative Banks.

There are also stokvels that invest in the JSE or in commercial properties. Investments in equities, although risky, are a good way for creating long term wealth. How can we, therefore, encourage most informal savers to invest what is not immediately needed into longer term investments, and within their communities?

RSA Retail Bonds

A little bit of positive marketing from our side. On May 2014, it was exactly 10 years ago that RSA Retail Savings Bonds were introduced by the National Treasury. Their popularity is illustrated by the R9.1 billion invested in them as at 30 June 2014.

Due to public demand and as mentioned in the Minister of Finance's 2014 Budget Speech, a Top Up Bond will be introduced towards the end of 2014. Potential investors will be able to invest from as little as R500 and top it up from as little as R100 at any time. This should attract younger and smaller savers. Informal groups, such as stokvels, clubs and other community structures will also be allowed to invest in the Top-Up Bond.

Conclusion

To conclude, I would like to also take this opportunity to thank SASI for the sterling work they are doing in bringing saving awareness to the public. I would also like to thank the IDC, and other industry sponsors, for their financial and logistical support to SASI. SASI is now an established brand which is trusted by ordinary South Africans. I would also like to thank the financial industry for actively participating in the various savings programmes and researches in the country, and bringing awareness to the public about the importance of saving and managing finances.

Thank you.