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Media Release

Consumers cautioned about reckless spending during the Festive Season

Johannesburg, 06th November 2013

In credit-hungry South Africa, where household debt is at 75.4% of disposable income while the household savings level remains at a mere 1.7% of GDP, the South African Savings Institute (SASI) faces the momentous task of reminding consumers about the need to spend wisely and set aside a portion of their end of year earnings, in order to meet both new year requirements and future household financial demands. This is part of the SASI mission to develop a robust culture of saving in South Africa.

"South Africans spend more than they earn throughout the year, and this is compounded over the Festive Season when we are inundated by marketing and tempted by material goods we desire rather than need. People in all income brackets give in to debt just to make merry during the festive season," says Mrs Prem Govender, Chairperson of the Savings Institute. "We must remember that while the Festive Season creates celebration pressure, this is soon followed by household financial obligations in the New Year which people cannot avoid or delay, such as equipping children for school, getting to work, medical expenses as well as food costs."

SASI provides financial education and relevant financial information to consumers through various campaigns throughout the year. This year's Festive Season campaign, launched on 6 November 2013 under the theme, ***'Spend Wisely, New Year Ahead'***, aims to refocus consumers on wise spending, to guide consumers on how to avoid unnecessary consumption expenditure and to drive a culture of saving during the Festive Season. Campaign activities compliment ongoing campaigns by the Institute targeted at children (Teach Children to Save), university students, communities, the workforce and stokvels.

According to Govender, the steep rise in the cost of living has left little to save in 2013 and this will continue in 2014. "The Consumer Financial Vulnerability Index indicates that the pressure on consumers' cash flow remains high. Yet, the celebrations continue and many pay for annual holiday expenses out of long term savings, annual bonuses or increased credit card debt. Gifts are bought on store-cards or through the many credit options available. Responsible spending over the season –

without incurring debt – is a far healthier option for households' long-term financial wellbeing. We need to take heed in the message of the Finance Minister's Medium Term Expenditure Framework, that without savings and investment, our aspirations will remain unrealised," says Govender.

Govender points out that South African savings and investment rates, at below 20% of GDP, have remained low, particularly in comparison to the BRICS, and the forecast for the next couple of years is not positive. According to the World Economic Forum, savings in China are at 51%, India is at 32% while South Africa is at 16.5%.

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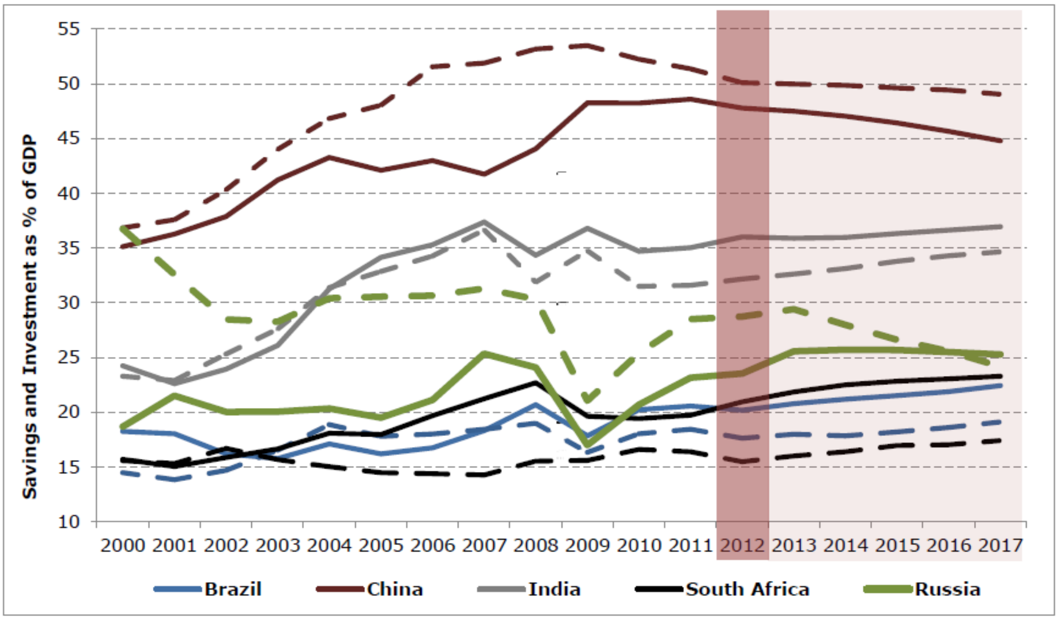
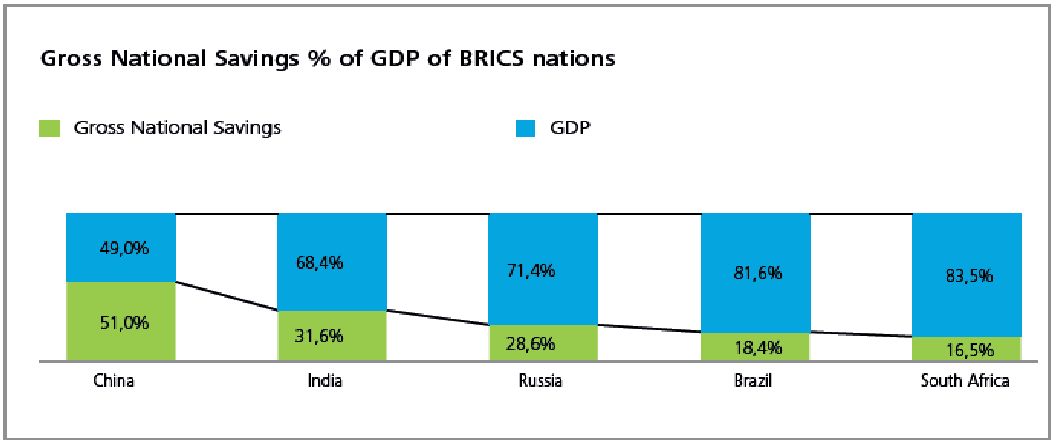


Source: IMF, 2013
Notes: Dashed lines indicate the savings and straight lines indicate investment
Indicates estimate and forecast



Source: World Economic Forum, Global Competitiveness Report 2012-13

While the 2013 Finscope study does show increased penetration of savings vehicles, such as provident funds and informal savings or investment groups, long-term savings still remain a challenge and by 2012, 83% of South Africans did not have any formal retirement product. 58% of adults admit not to have enough money to save after covering all their spending needs. What are the factors driving South Africa’s low savings rate?

“Our research interactions indicate that people are relying on government or their children to take care of their financial needs, while many lack knowledge and trust for savings vehicles and awareness of the appropriate options available’, says SASI CEO, Elizabeth Lwanga-Nanziri. “People are concerned about where and how they should save, resorting to informal mechanisms as a last resort. The big challenge is to get people not only to bank, but to meaningfully engage financially by transacting regularly and using savings vehicles, rather than withdrawing all their money at once.” The Finscope study, which shows that 34% of banked people would withdraw their full salary as soon as it is deposited, bears this out.

Recent survey results show that consumers are also turning to the financial sector to take advantage of unsecured borrowing, in part to pay for essential costs such as food and paying utility and medical bills. In an environment where incomes are not increasing in tandem with households requirements, this poses a threat to consumer’s welfare if they cannot service their debts in the required time.

The New Year brings new tax implications that consumers need to be aware of. “The Medium Term Expenditure Framework shows that our economy is challenged by slow growth, high unemployment and indebted households. Speaking in October 2013, Minister of Finance Pravin Gordhan stated that government expenditure substantially exceeds revenue and that South Africa’s level of savings is too low to finance the investment that we need,” says Lwanga-Nanziri. “Low levels of individual saving add to the burden on government to provide retirement assistance, increasing the need to raise taxes for this purpose. A rising tax burden reduces disposable income available to save, compounded by rising inflation.”

The National Treasury appointed a committee during 2013 to review tax policy, and any changes will be announced in the next budget. “While it is encouraging that the current tax reforms and policies incentivise savings and the creation of long term wealth, a potential tax increase to service the goals of the Medium Term Expenditure Framework would hit consumers hard, particularly the emerging middle class, in the New Year,” says Lwanga-Nanziri.

“Limited knowledge of retirement savings and credit continue to pose a threat to accumulation of household savings. We are however, encouraged by the reforms relating to preservation, tax incentives and credit amnesty,” says Lwanga-Nanziri. “Fundamentally, consumers need to have an improved understanding of credit, taxes and savings options to better take care of their financial futures and to not fall into the credit trap. We are advising consumers to avoid the stress and strain of January by taking ownership of their financial situation now. It is vital to budget for expenditure and avoid the use of easy credit which compounds debt, during the festive season and beyond.”

Tips to survive the festive season

1. Resist SALE, think SAVE! Clearly distinguish between needs and wants.
2. Make homemade Christmas gifts and only take holidays you can afford.
3. Have a clear budget for your requirements in the New Year. Create a budget using the SASI budget tool.
4. Use free online tools to track your spending and debt and know where every cent of your income goes.
5. Pay cash for all purposes and don't be trapped by easy credit – in fact, cut up those store credit cards!
6. Visualise what you want to save for and start saving more. Save your bonus and make it multiply.
7. Service your debt and stick to the payment terms. If you cannot service your monthly debts discuss your situation with your credit providers before it is too late. Consumers can seek assistance from a registered debt counsellor by contacting the NCR on 0860 627 627.

Avoiding the credit trap

The cost of buying on credit, even a short period such as two years, can result in a consumer paying the effective interest of double the quoted interest rate. The maximum interest rate allowed by the National Credit Act is 21% a year. Once initiation fees, monthly premiums for compulsory credit life insurance, service fees and VAT has been added, R5000 spent on credit today at a large retail store may cost between R6 200 and R9 000 by the time the debt is repaid over 24 months. It's better to pay cash, or even consider that if the instalments were paid into a saving vehicle, you can end up multiplying your cash.

Credit also needs to be carefully managed. According to the National Credit Regulator, almost half of all credit-active consumers have impaired credit records and 9.53 million consumers are in arrears by three or more months, or have a debt judgement or administration order to their names.

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