



## THE SOUTH AFRICAN SAVINGS INSTITUTE

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### SASI CHAIRMAN'S STATEMENT

#### AT THE OCCASION OF THE LAUNCH OF SAVINGS MONTH 2009

06 July 2009

IDC Auditorium  
19 Fredman Drive, Sandton

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*Elias Masilela, SASI Chairman*

This year's Savings Month finds us in the middle of South Africa's first recession since 1992 and the worst global recession in 70 years. It is understandable and perhaps even logical, that many commentators are questioning whether it makes sense to encourage savings under such dire circumstances. Indeed, this question was asked even last year, a time when economic agents were already under significant pressure. The answer last year was 'yes'. And the answer this year remains 'yes'. Despite the depressed economic climate, promoting savings remains a relevant and critical agenda.

We acknowledge that for many South Africans, saving is impossible given the job losses and rising dependency ratios that have rocked the economy. For these members of our society, significant fiscal policy interventions are required. We acknowledge the State's efforts to increase economic and social infrastructure, to extend the expanded public works programme, to create job opportunities during the remainder of 2009, and to introduce a skills retraining programme as a means of reducing retrenchments. We also note the administrative improvements made to the Unemployment Insurance Fund (UIF) and the continued commitment to the social grants programme, making government more capable in responding to the current challenge. Above all, we acknowledge the need for a collective effort across the different sectors of our country to mitigate the worst of this crisis.

The theme for Savings Month 2009 is 'Tighten Your Savings Belt'. This theme acknowledges the sobering economic and financial environment – an environment that requires all of us to tighten our financial belts. The theme also communicates the negative relationship between consumption and saving. We understand that you can only save what you have not consumed – a trade off few, if any, of us would dispute. This inverse relationship between consumption, on the one hand, and saving, on the other, has played itself out very convincingly in recent years. Rising debt levels have been accompanied by dis-saving at the household level. SASI is asking South Africans to take a sober assessment of their expenditure with a view to increase their savings.

Our appeal is not only that we apply basic economic principles to our daily lives. Our appeal is also to our human nature, which often demonstrates our frailty. Students of First Year Economics are taught that human wants are insatiable – they can not be satisfied. It is this aspect of our humanity that poses one of the biggest challenges to a culture of saving. The anthem of our time appears to be 'I want it all and I want it now'. To 'Tighten Your Savings Belt' will require a different anthem: 'I don't need to have it all and I don't need to have it now'.

Learning gratitude for what we have and saving towards the things we don't have must be part of a holistic approach to building a financially robust South African society.

Ladies and gentlemen, the global financial crisis is to a large extent a debt crisis. The crisis can be traced to the collapse of the complex, yet opaque structured securitisation market in the United States, with spill-over effects into the United Kingdom and other developed countries. This collapse was rooted in the area of mortgage backed securities. Cheap credit, borrowers with poor paying ability, a housing price bubble and weak regulation all contributed to the crisis. While poor borrower quality has been less severe in South Africa than in advanced economies, it nevertheless has been a significant contributor to the stress currently faced by consumers. Many South Africans have lost their homes and vehicles over the last year. One of the lessons from the crisis is that true long-term sustainability at the macro and household level cannot be attained through excessive lending and borrowing.

Indeed sustainable growth must be driven by investment based on accumulated savings. The savings to GDP ratio in China is close to 50% and in India it is in the region of 30%. This is much higher than the 15% in South Africa. These rapidly growing economies have clearly benefitted from a robust savings environment. You may also be interested to hear that the United States, the source of the global crisis, has the lowest saving rate of any major country – roughly 10% of GDP.

In this context, we at SASI believe that our mandate to promote a culture of savings in South Africa is as relevant now as it has ever been. Building a prosperous South Africa in the long-term will require that savings are pursued even during seasons of economic down-turn. The Board of SASI and its partners believe that the little contribution made by SASI is not immaterial for

improving savings. We thank our partners for their support and restate our commitment towards the pursuit of our mandate.

Despite the depressed environment there have been some positive developments that make saving an attainable goal for South Africans. First, interest rates have fallen by 4% since the beginning of the year. This provides significant relief to consumers. Second, there has been a decline in the year-on-year inflation rate. A particularly sharp decline has been registered in Producer Price Inflation which has fallen from 16.4% in May last year to -3% in May this year. Third, an improved framework to assist individuals facing difficulties with debt now exists. For instance, the National Credit Regulator and the newly formed National Debt Mediation Association provide essential services to assist consumers in effectively tackling their debt.

It is encouraging to see some signs of improved saving coming through. In the first quarter of 2008 the gross saving to GDP ratio was 14.3%. This rose nearly 3 percentage points to 17.1% in the first quarter of this year. In the first quarter of 2008 the ratio of household debt to disposable income was 78.2%. It was lower at 76.7% in the first quarter of 2009. Furthermore, although still negative, the saving to disposable income ratio for households is at its best level since the second quarter of 2006. It is particularly heartening to see these improvements in the midst of the current crisis. May I take this opportunity to encourage this emerging trend of higher saving and lower debt.

Ladies and gentlemen, SASI's savings campaign targets both the young and the old. 2008 saw the launch of the Teach Children to Save Campaign. The Banking Association of South Africa partnered with SASI to reach 228 schools and 50,857 learners countrywide, significantly exceeding the target of 90 schools and 10,000 learners. This year we build on the success and lessons learnt from the pilot year to continue fostering a culture of saving among the younger generation. It remains essential that financial literacy is promoted among our young people as a means of laying a firm foundation for a strong culture of saving into the future. As with 2008, the focus on our children remains central to the partnerships this year. As the motto went last year, it continues this year... "Logotshwa lisase manzi!"

In this regard, it is essential at this point to recognise our partners in this important undertaking:

The Banking Association of South Africa  
Citi Bank  
The Industrial Development Corporation  
Operation Hope  
The Association for Savings and Investment SA  
The Financial Planning Institute  
The National Treasury  
The Department of Trade and Industry  
The South African Reserve Bank  
Financial Sector Regulators  
The South African Post Office

At the other end of the demographic spectrum, evidence continues to support the need for improving the savings environment in South Africa. Labour force data shows that only 45.7% of the labour force contributed towards a pension in the first quarter of 2009. This is down from 51.8% in the second quarter of 2008. Although, higher income earners are more likely to contribute towards a pension, their participation is less than anticipated. At the same time participation by low income earners is extremely low. Pension reform remains an important policy issue for the savings dispensation in South Africa and we at SASI are fully supportive of the government's efforts. SASI in partnership with Economic Research Southern Africa (ERSA) will be hosting a Savings Workshop in August where the issue of pension savings will be addressed by academics, policymakers and members of the pension industry.

## **Conclusion**

Today would not have been possible had it not been for the SASI and ERSA teams that have worked tirelessly over the last 2 months. Their efforts have not only focused on putting together the launch, but also on ensuring that a set of well coordinated activities are in place for Savings Month. Working with them has been a team of dedicated people from our partner organisations, who have worked hard to bring various initiatives under the Umbrella of Savings Month. At this juncture I would like to recognise the following individuals:

1. Elizabeth Lwanga-Nanziri
2. Fikile Kuhlase
3. Gloria Halland
4. Kesebone Maema
5. Khensani Mageza
6. Lydia Chimalilo
7. Seipate Tshabalala
8. Sindiso Malaku
9. Tebogo Molefe

I want to thank them, and encourage us all in the task that lies ahead – the task of working collectively to foster a robust culture of saving in South Africa.

Finally, I would like to sincerely thank our sponsors. The IDC remains the Anchor Sponsor of SASI's operations. Thank you IDC for supporting the work of the Savings Institute. Our heartfelt gratitude also goes out to the following institutions which have contributed generously to this year's Savings Month activities. These are: African Bank, the Consumer Protection Forum, Economic Research South Africa (ERSA), Financial Services Board, Magalies Water, National Treasury, Old Mutual, Post Bank, Reserve Bank and Sanlam Group. This resource base is indicative of the important role SASI plays in South Africa. I invite the rest of you to also consider extending financial support to SASI.

I thank you.