New index launched to foster national savings culture

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28 Jan 2016

SA is stuck in a low savings trap and its economic growth will continue to hover at levels of about 2% if savings do not improve.

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Investec and Gordon Institute of Business Science (GIBS) executives, who launched a new savings index yesterday, estimate that a savings rate of 28% and above would see SA's economy grow by the more than the 5% aspired to in the National Development Plan. Currently, the rate is at 16%. Higher domestic savings give a country the finances to invest in and grow the economy, and help reduce the need for the government to borrow.

The index showed that SA produced a score of 63.4 points, an indication SA has work to do before passing the savings test - 100 represents high national savings. SA can reduce consumption to promote savings, attract foreign savings to promote portfolio investments and attract foreign direct investments to improve savings, and investment in the economy, GIBS professor and Citadel chief strategist Adrian Saville said.

The index assesses SA's savings performance based on three pillars: how much has been saved in the economy in previous years, incoming savings, and changes to environmental factors that influence savings, such as unemployment, interest rates, credit extension and productivity.

Savings culture not improving

The savings culture in SA was not improving, South African Savings Institute (SASI) acting CEO Gerald Mwandiambira said. A combination of incentivising and compelling people to save could work to change the culture, he said. Incentives could include tax-free saving schemes while employers could compel saving by deducting money from salaries and giving staff a 13th cheque.

Corporates saved the most, while household savings were low and the government did not save. With administered costs such as those for health, education and electricity rising, household savings could come under more pressure. But the index compilers are confident financial literacy and teaching people to develop a savings culture will improve the savings rate.

The government does not save as it has to spend to deliver services to people and pay the salaries of a ballooned public service. It was not unusual for an emerging-market economy to have a negative savings rate, Saville said.

"The question is not so much does government have a negative savings rate, but the way in which we are spending. Are we spending in the wisest possible way?" asked Saville.

Source: Business Day