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# South Africa falls short of national savings 'pass rate': first Savings Index launched

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In a first for South Africa (SA), a national Savings Index has been launched to measure the country's state of savings against international counterparts, providing the real facts about savings. The structural decline of SA's national savings rate over the last two decades has been no secret however, the importance of savings to fuel investment for sustained economic growth is less understood.

This is the impetus for the partnership of Investec and the Gordon Institute of Business Science (GIBS) to develop the Investec GIBS Savings Index, an aspirational national savings benchmark to support SA's economic growth objectives.

The Investec GIBS Savings Index assesses SA's savings performance based on three pillars, namely:

- The extent of SA's stock of savings or savings pool: to fund the economy's installed investment base;
- The savings rate, represented by the flow of savings into the savings pool; and
- The changes to environmental factors that influence savings.

"We decided to create a Savings Index because we recognised the importance of raising awareness of South Africa's current state of saving and stimulate the discussion on savings from a corporate, economic, academic and social perspective," says René Grobler, Head of Investec Cash Investments. "Only once we have the facts, can we begin to measure the performance of our economy in terms of its critical savings components," she adds.

Professor Nicola Kleyn, Dean of GIBS, states, "A dialogue between all stakeholders in the country regarding our economic standing where saving is concerned is much needed. It is our hope that the fresh macroeconomic research provided by the Investec GIBS Savings Index will facilitate this dialogue to elevate the country from the current low savings conundrum and steer us towards a path of sustained fiscal growth."

A score of 100 represents SA's pass mark for national savings measured against the country's structural high watermark or the average scores of 13 countries termed the "savings stars". These countries - namely Botswana, Brazil, China, Hong Kong, Indonesia, Japan, Malaysia, Malta, Oman, Singapore, South Korea, Taiwan and Thailand - have sustained an average economic growth rate of 7% per year for 25 uninterrupted years or more. These countries also have five common attributes: a high rate of investment, outward economic orientation, macroeconomic stability, market allocated resources and a competent government.

The Investec GIBS Savings Index for 2015 produces a score of 63.4.

"At below two-thirds of the way towards 'passing' the savings test, the results of the Investec GIBS Savings Index make it clear that South Africa is stuck in a low savings trap. If the South African economy is to achieve elevated and sustained growth that translates into social inclusion and development, it is a necessary condition that the country closes this gap," says Dr Adrian Saville, Professor in Economics and Competitive Strategy at GIBS and Chief Strategist at Citadel.

Among the key insights derived from the Investec GIBS Savings Index, are the following:

- SA's stock of savings (the extent of saving versus other dynamic economies) needs to expand permanently by about one-third.
- The research suggests that the South African economy's flow of savings needs to almost double to achieve its growth objectives.

- Environmental factors and forces are predominantly to blame for the inadequate savings result - an integral insight in the search for remedies to this poor savings performance. The three main obstacles to higher savings are sluggish growth in per capita income; slow growth in productivity; and a high rate of unemployment.

Savings behaviour in SA has regressed steadily over the last 26 years. The intention of the Investec GIBS Savings Index is to help facilitate a call to action for all sectors of SA's society to focus on the importance of savings and finally turn the tide.

"The Savings Index research indicates that there are at least three ways that South Africa can escape the 'savings trap' - by reducing consumption to bolster savings, attracting non-resident savings to promote portfolio investment and attracting foreign direct investment. The promotion of domestic savings - especially among households - holds the greatest prospect for the promotion of elevated economic growth. The Index also identifies a number of microeconomic examples that promote savings even in low income environments. These interventions and innovations include initiatives that promote financial education and incentives to save. This kind of insight is critical to exploring possible solutions and with ongoing measurement now possible, stakeholders have a place to start," concludes Grobler.

The results of the Investec GIBS Savings Index will be released on a quarterly basis.


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