OLD MUTUAL

SAVINGS MONITOR®

The Role of Savings in the Economy

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The role of savings in the economy - 1

- Who saves?
  - *Households* – for future big expenses & retirement
  - *Companies* – retain part of profit to finance replacement & expansion
  - *Government* – when it uses *surplus* of tax income over current spending to finance social & physical infrastructure investment
- Trouble of saving too little
  - *Households* - financial stress during retirement
  - *Companies* - resultant underinvestment will harm efficiency & growth
  - *Government* – underinvestment in human & physical infrastructure
  - **No quick fixes**: savings behaviour is interlinked
- In practice:
  - Savings short entities access savings from surplus entities' savings
  - Via financial intermediaries & capital market
  - Trouble comes when savings pool is insufficient to meet demands

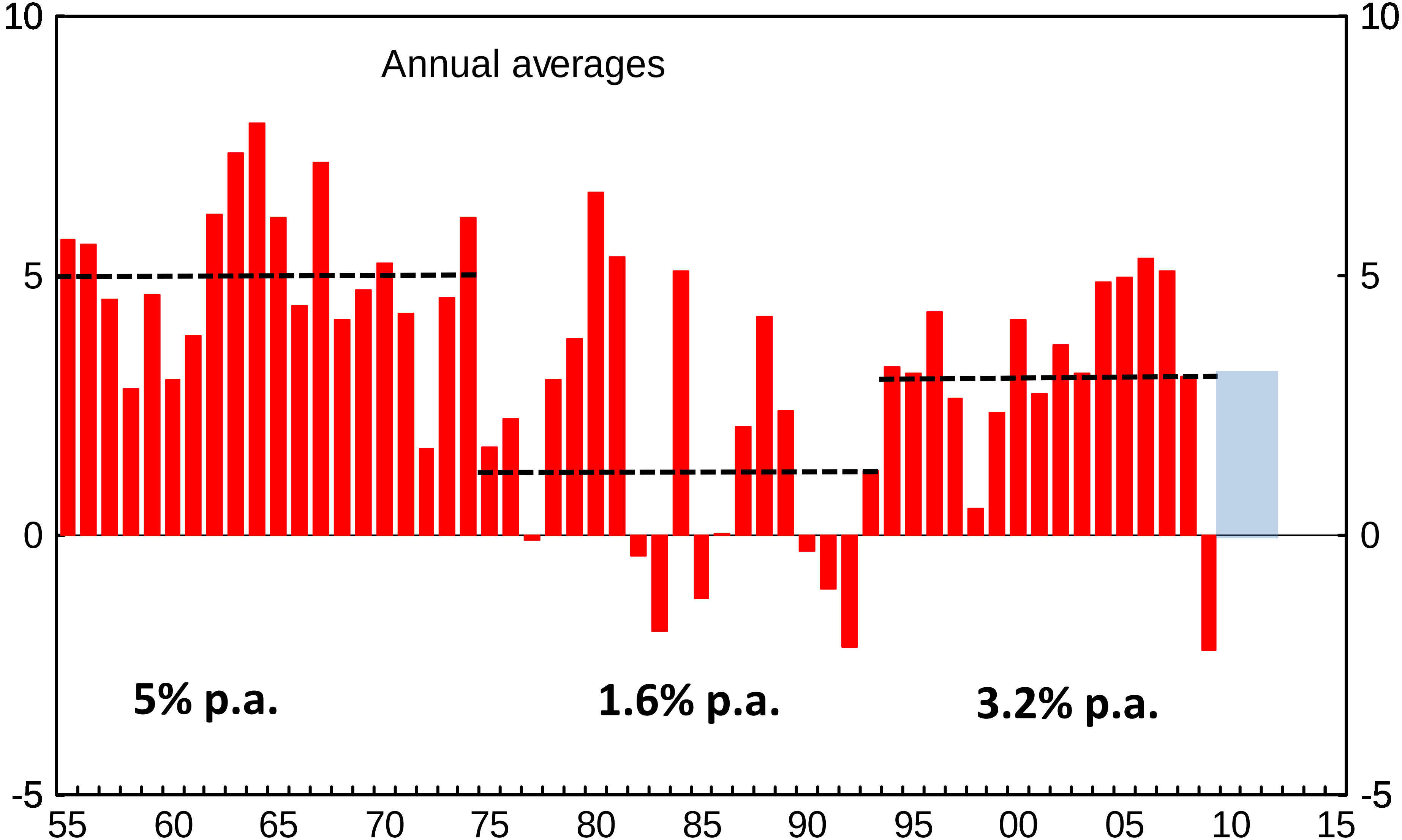
The role of savings in the economy - 2

- What happens if we save too little *as a nation*?
  - Investment in productive capacity of the economy will suffer (factories, roads, bridges, ports, power stations, etc)
  - Investment in social infrastructure will suffer (schools, hospitals, etc)

- Foreign savings (capital inflows) to the rescue?
  - Big inflows over the past decade have eased our savings shortage
  - But, inflows are fickle and can leave at the drop of a hat – often leaves you with a painful adjustment process, involving investment & job cuts
  - Bottom line: we can only rely on foreign capital to a limited extent

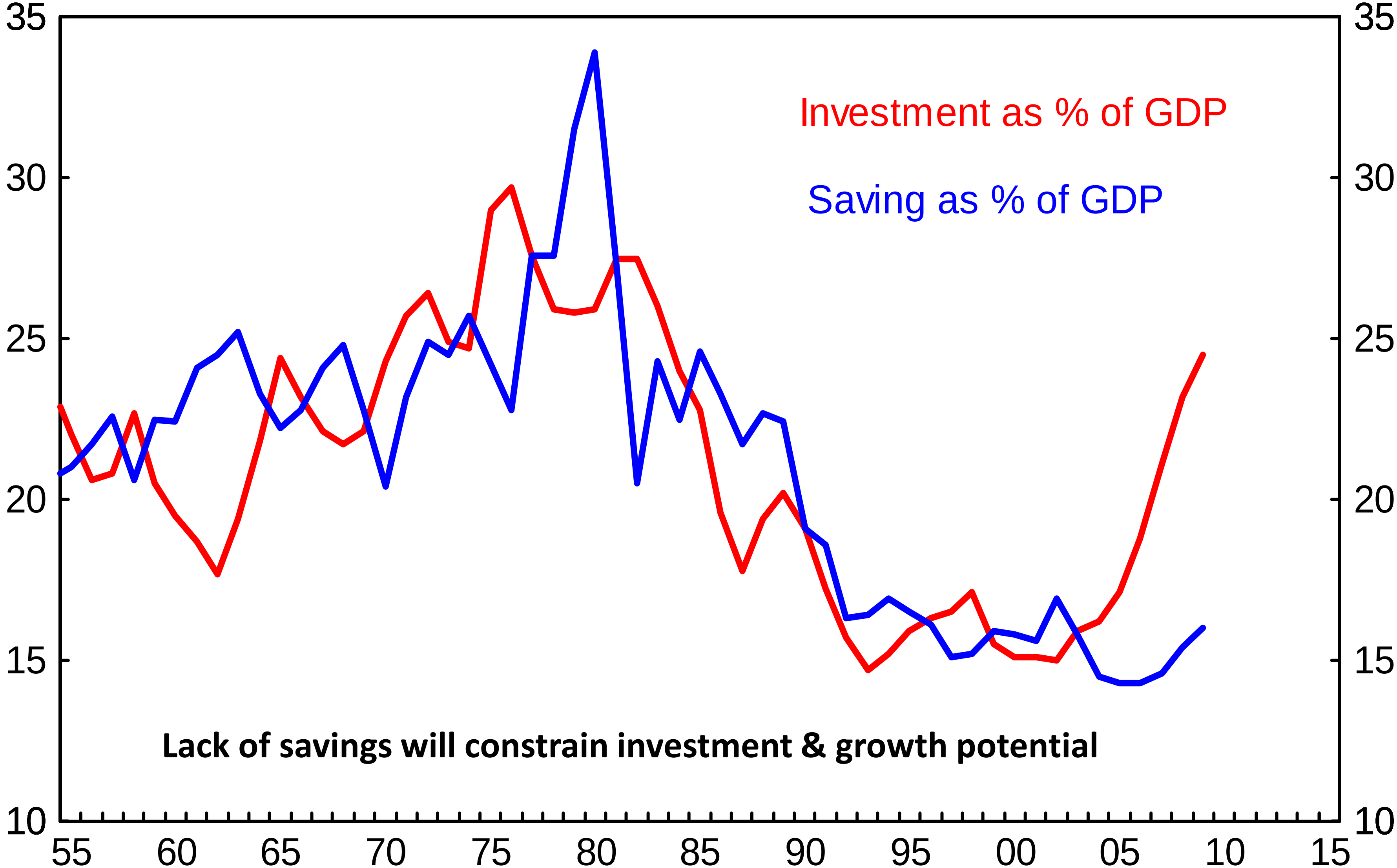
- Only real solution: *we have to save more as a nation*
  - High savings rates typically associated with high growth & employment
  - High savings also associated with less severe cyclical volatility
  - High savings a necessary, but not sufficient, prerequisite for high growth
  - Other requirements also need to be in place: sound policies, political stability, rule of law, property rights, etc

SA GDP growth

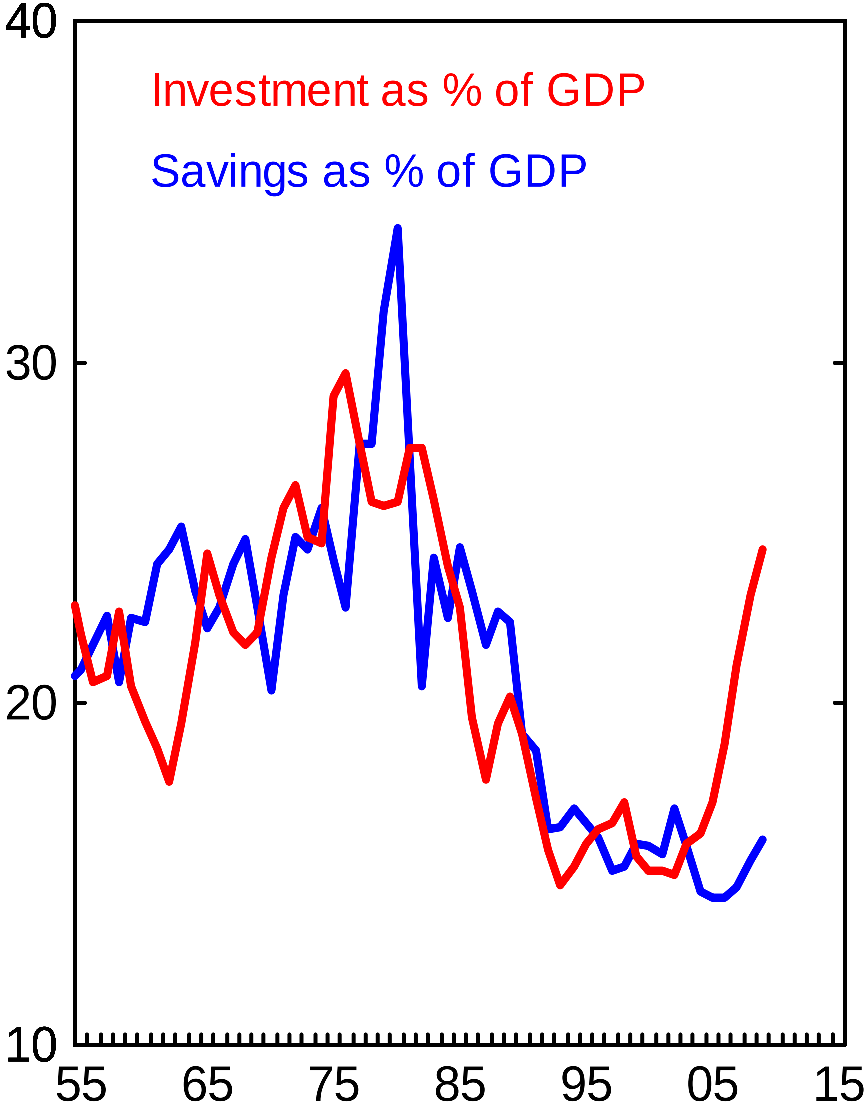


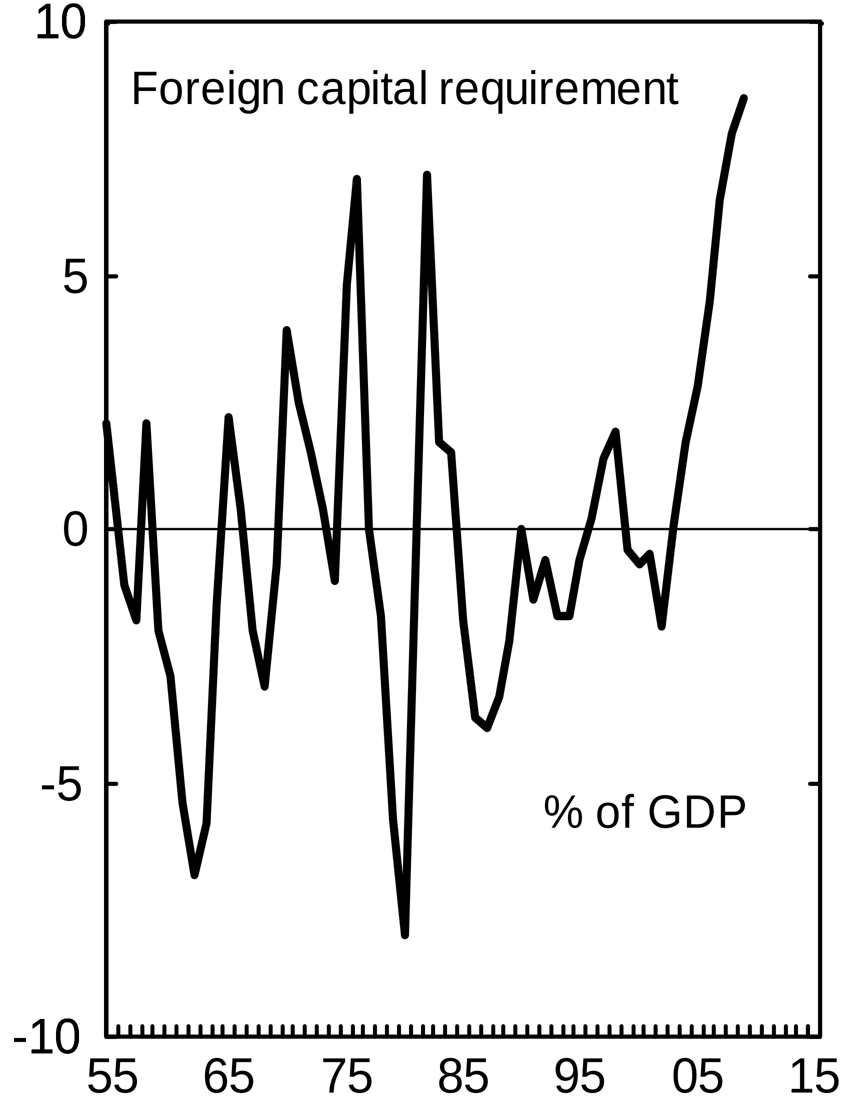
SA Savings constraint on Investment

Both investment and saving needs to rise back to 1950's & 1960's levels



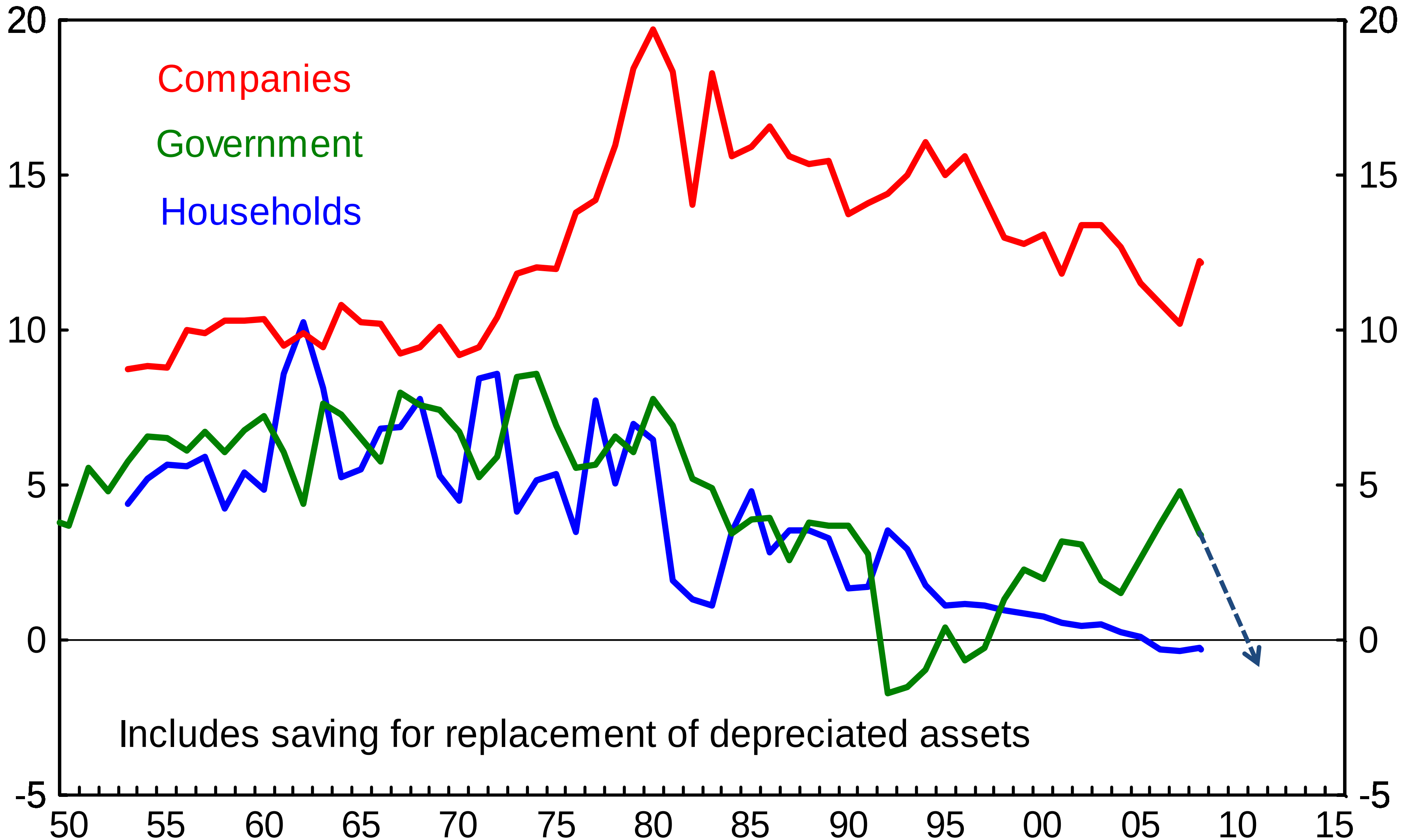
Relying so heavily on capital inflows is dangerous





Saving split: Who is saving?

Saving as % of GDP



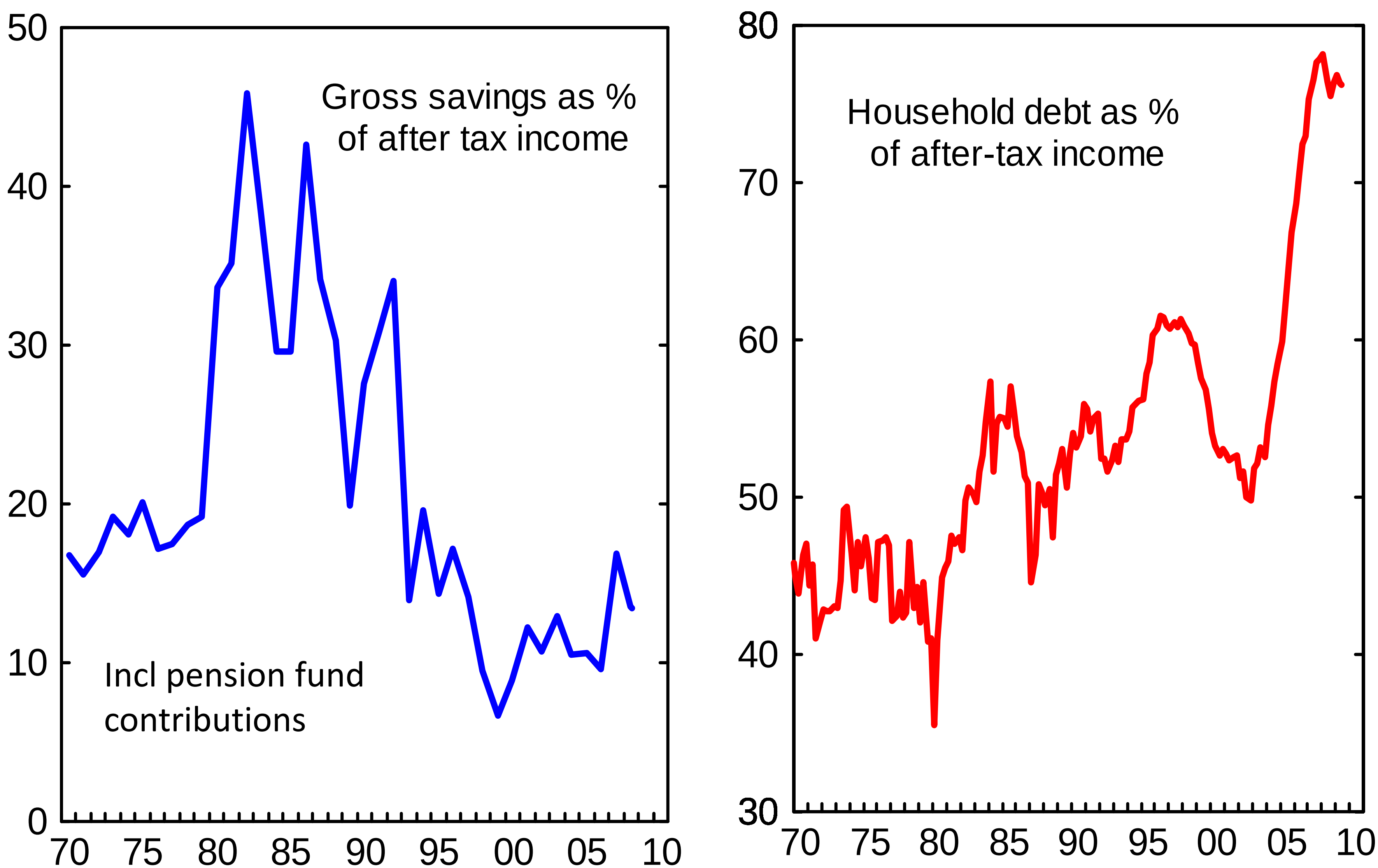
Too little savings is, unfortunately, not our only problem

- Hindsight suggests that the 2003/7 growth boom (averaging 5% p.a.) was largely cyclical, with little structural support :
  - Driven by cyclical global boom and domestic debt driven consumption boom
- SA's growth potential constrained by a number of issues:
  - Structurally slower global growth in the years ahead
  - Inevitable fiscal tightening to constrain the budget deficit
  - SA remains fundamentally uncompetitive in a global context (effective cost of labour, inefficient & costly infrastructure, inefficient bureaucracy, high levels of crime & corruption, etc, etc)
  - Effective cost of the ongoing disaster in Zimbabwe
  - Lack of savings
- What is required?
  - An acknowledgement of the fact that there are no quick fixes
  - A government driven *simultaneous* strategy on all fronts

A word to households

- South African households save way too little:
  - For future liabilities: kids' education, depreciation of residence, etc
  - For retirement
- A few very common financial errors made by households
  - Underestimate future liabilities, relating to kids *and* retirement
  - Have no idea about whether their retirement provision is sufficient
  - Have no idea of the implicit risks they are taking
- A few words of advice
  - The greatest present you can ever give your children is to never become dependent on them
  - Fully understand your future financial liabilities
  - Start saving early – time is your best friend
  - ***Never*** use past retirement savings (pension money at job change)
  - Beware of 'get-rich-quick schemes' – they seldom work
  - Entrust your money to reliable institutions with proven track records

Households save too little & borrow too much



THANK YOU

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