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# Savings and Investment Dynamics in South Africa

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**Abstract:** This paper reviews savings and investment dynamics in South Africa in order to enhance the understanding of savings-investment gap in the country. This is achieved through an analysis of savings and investment trends, policy initiatives implemented and challenges faced. The study finds that saving rates in South Africa have been generally low, while investment rates have been erratic over time. Both variables display a rising trend from 1960 into the 1970s. However, by 2015 the savings rate had decreased significantly, while investment rates were relatively low and erratic when compared to the period between 1964 and 1984. The study recommends that polices that are aimed at strengthening corporate savings, while simultaneously bolstering household and public savings, should be implemented. The study recommends that polices that are likely to boost the cost of capital and returns on investment should be implemented to make the country more attractive to foreign direct investment.

**Keywords**: private savings; public savings; investment; South Africa

**JEL Classification***:* E21; E22

## 1. Introduction

Both savings and investment are essential for growth (Chakrabarti, 2006; Eyraud, 2009). The impact of these variables on growth has been extensively studied by a number of authors. A number of studies have shown that savings are essential for growth (Amusa & Moyo, 2014; Odhiambo, 2009; Singh, 2009). Similarly, a number of studies have shown that economic growth is also essential for savings (Sinha & Sinha, 2008; Narayan & Narayan, 2006; Agrawal, 2001). In a study of South Africa from 1950-2005, Odhiambo (2009) found a feedback relationship between savings and economic growth in the short run. The Harrod-Domar model and the subsequent model by Solow (1956) and Swan (1956) show that savings are essential for a capital output ratio, linking savings to investment (Sothan, 2014). Savings are also crucial for macroeconomic balance and maintaining financial and price stability (Prinsloo, 1994). Aron and Muellbauer (2000) state that corporate and household savings are inextricably linked to economic growth. They add that it is important to understand

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both personal and corporate saving behaviour in order to formulate policies that raise the domestic saving rate in line with the needs of economic growth. Eyraud (2009) found savings to be crucial for economic growth in South Africa. He links savings to growth and investment, stating that higher savings lead to an increase in investment and, thus, to economic growth. State institutions such as the National Treasury and Statistics South Africa (Stats SA) have also conceded that South Africa's low savings rate is problematic for the economy. Low savings result in low investment and, thus, in low economic growth, ultimately exacerbating unemployment (StatsSA, 2013; National Planning Commission, 2011; National Treasury, 2016a; 2016b).

Likewise, investment is also vital for economic growth. According to the Keynesian school of thought, an increase in investment leads to economic growth.[1] According to Rodrik (2000), investment is crucial for growth and is heavily dependent on savings. Similar to savings, investment is classified according to private and public (government) investment (Salahuddin & Islam, 2008).

Unfortunately, South Africa is heavily dependent on foreign savings and, thus, on foreign investment because domestic savings are low. This weakens the economy, making it more susceptible to international capital shifts (StatsSA, 2013; National Planning Commission, 2011; Prinsloo, 2000). The current study, therefore, intends to promote the understanding of savings and investment dynamics in South Africa. This is achieved through an analysis of savings and investment trends and a discussion of the challenges faced. The current policies that have been implemented to bolster savings and investment in the country are also discussed.

The research approach used in this study is largely exploratory in nature. A descriptive analysis of savings and investment data has been conducted in order to examine savings and investment trends in South Africa. The data used in this study has been obtained from the South African Reserve Bank's Online Statistical Query from 1960-2015. Gross domestic savings to GDP ratio (also termed here as the gross savings ratio) has been used to analyse savings trend. The analysis of savings has been further deepened by decomposing savings into private savings, household savings, and corporate savings. Conversely, gross domestic capital formation has been used as the proxy for investment. The data on nominal investment data (gross domestic capital formation) denoted in Rand and gross domestic capital formation to GDP ratio (investment rate) have also been obtained from the South African Reserve Bank's Online Statistical Query for the period, 1960-2015. As in the case of savings, the investment data has been decomposed into public and private investment. Public investment has been further split into general government investment and public corporation investment.

[1] See (Keynes, 1936).

The rest of the paper is organised as follows: Section 2 discusses the dynamics of savings in South Africa; Section 3 discusses the dynamics of investment in South Africa; and Section 4 concludes the paper.

## 2. Dynamics of Savings in South Africa

South Africa has been characterised by a low savings rate.[1] After the end of World War II, there was an increase in demand for consumer goods, especially durable consumer goods and depleted industrial and commercial inventories. This led to a decline in private savings that had accrued during the war. As a result, gross domestic savings fell to about 8% of GDP in 1947. There was also a massive deterioration in the country's balance of payments. By 1948, the authorities were forced to engage in contractionary policies such as import controls. These led to a gradual increase in personal savings, resulting in gross savings increasing to about 19% in 1950 (Prinsloo, 2000).

Figure 1 shows gross domestic savings trends in South Africa from 1960 to 2015. Savings is also disaggregated to household savings, private saving and public saving.

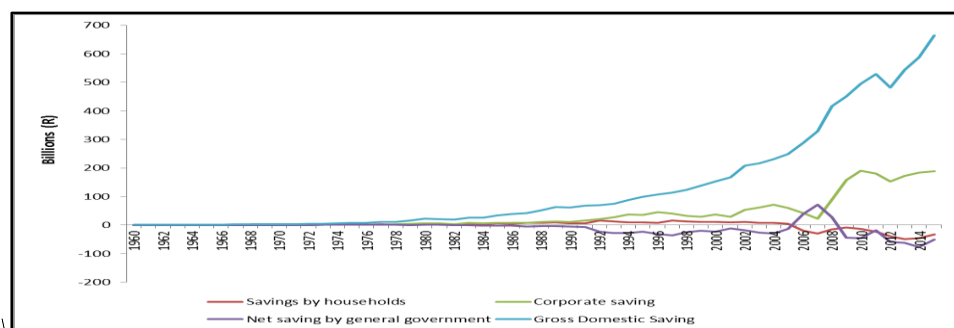


**Figure 1. Savings Trend in South Africa (1960-2015)**

*Source. SARB, 2018. Online Statistical Query*

Figure 2 shows savings ratios plotted over time from 1960 to 2015. Plotted on the same graph are South Africa's savings rates for the corporate sector, government, and households, which are significantly lower than the gross savings rate for the country.

[1] See (Aron & Muellbauer, 2000; Prinsloo, 2000).

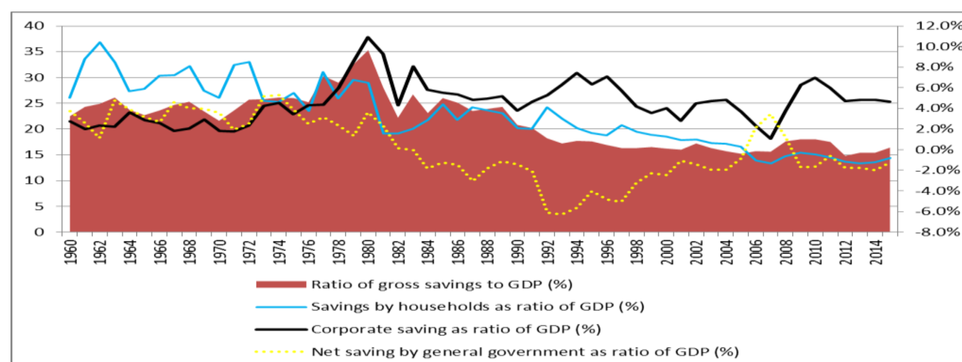


**Figure 2. South African Savings Ratios (1960-2015)**

*Source: SARB, 2018. Online Statistical Query*

*Gross Savings*

Figure 1 shows the gross national savings in Rand between 1960 and 2015. It also depicts that savings by households, corporate sector and net saving by general government. Generally, there has been an increase in gross national savings between 1960 and 2015.In 1960 the gross national savings was R1.2 billion. Gross national savings exceeded R100 billion in 1996. In 2002 gross savings was R209.1 billion. In 2008, gross savings was R417.3 billion. In 2010 it rose to R529.2 billion but plunged to R482.7 billion followed by an increase to R663.9 billion in 2015 (SARB, 2018).

Figure 2, using the primary axis, shows that the gross savings ratio to GDP fluctuated between 14% and 36% between 1960 and 2015. In 1960, the gross savings ratio was 22.5%. The gross domestic ratio peaked over 25% in 1963 (26.1%), 1968(25.3) and rose from 25.7% to 35.3% from 1972 and 1980. 35.3% is the highest gross savings ratio recorded from 1960 to 2015. Generally, between 1960 and 1988, the savings ratio to GDP was over 20%. A marked downward trajectory of the gross savings ratio commenced in 1989. The fall in the gross savings rate was due to the decline in the government savings rate in the early 1980s (Aron and Muellbauer, 2000). The gross savings ratio falls below 20% in 1992 where it was recorded at 18.2%. From 1992 to 2015, the ratio of savings to GDP ranges between 14% and 18%, averaging 16.5%. The lowest gross savings ratio is 14.8% in 2012. In 2015, the savings to GDP ratio was 16.4% (SARB, 2018).

Furthermore, since the 1990s, South Africa's savings to GDP ratio has been low compared with other emerging economies. In 2010, South Africa's gross savings as a percentage of gross domestic product was 16.5%, which is low compared to other emerging economies such as Brazil (18%), Mexico (23.6%), Russia (27.5%), Thailand (31.0%), India (35%), and China (52.4%). From 2001 to 2011, South Africa actually had the lowest level of savings (Duncan, 2012; StatsSA, 2013).

Amusa and Moyo (2014), Eyraud (2009), Prinsloo (2000), National Treasury (2016a) and StatsSA (2013) concur that savings in South Africa are undesirably low. This creates dependency on foreign investment (Aron and Muellbauer, 2000; StatsSA 2013; Erasmus, 2016). Furthermore, Aron and Muellbauer (2000) add that South Africa's low savings rate actually perpetuates a growth trap, since savings are crucial for investment and, ultimately, for economic growth.

*Public Savings*

Statistical data from the SARB (2017) shows that government (public) savings have declined from R202 million in 1960 to a negative R50.6 billion in 2015. Net savings by general government more than doubled from R202 million in 1960 to R454 million in 1967. It plummeted to R285 million in 1971. Public savings shot up to R1.3 billion in 1974. By 1980, there gross savings reached R2.3 billion, though preceded by much fluctuations. By 1982 public savings amounted R112 billion. These government savings first went sub-zero in 1983 (- R42 million). Since 1983, net government spending was positive for only three consecutive years, 2006-2008, peaking at R72.1 billion in 2007. Though still negative in 2015, public savings is on a rise (SARB, 2018).

In 1960, net government savings as a share of GDP was 3.7%. It peaked to 5.3% in 1974. Net government savings as a share of GDP averaged 3.3% between 1960 and 1980. In 1984, the ratio was negative for the first time at -1.8%, plummeting further to -6.3% in 1993. Since then, there has been an increase in public savings as a share of GDP to -1.24% in 2015 (SARB, 2018).

*Household Savings*

Household savings data from the South African Reserve Bank Online Statistical Query shows that from 1960 to 1992, the household savings trajectory gently increased, with minor fluctuations. In 1960, household savings was 272 million. It rose to R1.4 billion in 1971, 2.7 billion in 1977, R4.2 billion in 1980; R5.7 billion in 1985 and R15.7 billion in 1992. This was followed by a gradual declined to about R8.9 billion in 1996, which was almost half the 1992 value. In the following year, household savings almost doubled again, reaching R16.6 billion. From 1997 onwards, the level of savings followed a downward trajectory, reaching sub-zero in 2005 (SARB, 2018). In 2013, the savings level hit an all-time low of a negative R48.3 billion. From then on, household savings was on a rising trajectory, though still negative. By 2015, savings were a negative R33.3 billion. A negative savings rate means that consumers are spending more than they have, meaning that they are borrowing more (SARB, 2018).

The household savings to GDP ratio displays a rather volatile but declining trend from 1960 to 1998. The household savings to GDP ratio was 5% in 1960 and only peaked to a record high of 10.4% of GDP in 1962. Since then the household savings

to GDP ratio was on the decline, rising to 8.5%. The ratio then stagnated between zero and one percent from 2001 to 2005. From 2006, the savings to GDP ratio became negative, as was the total savings level. In 2015, the household savings to GDP ratio was again negative at 0.8% (SARB, 2018).

*Corporate Savings*

Corporate savings display an upward growth trend in South Africa since 1960, as shown in Figure 1. The increase in corporate savings was slow from 1960 to 1990. In 1960 corporate savings were R150 million. In 1977, corporate savings rose to R1.5 billion. In 1996, corporate savings reached R45 billion. From then onwards, there was a slump followed by a rapid increase to R71.7 billion in 2004. Corporate savings then declined sharply to R22.1 billion in 2007, due to the onset of the global financial crisis, but peaked significantly to R89.6 billion the following year. Corporate savings rose further to R191 billion, the highest-ever level, in 2010 but then began to decline. In 2015, corporate savings were recorded at R188.5 billion (SARB, 2018). Corporate savings are the biggest contributor to investment as they are always in the positive compared to the other types of savings (Aron and Muellbauer, 2000).

The ratio of corporate savings to GDP shows great volatility from 1960 to 2015. In 1960, the corporate savings to GDP ratio was 2.8%. The rise in the 1970s was attributed to an increase in the gold price (Aron and Muellbauer, 2000). The highest corporate savings to GDP ratio was in 1980, when it was 10.9%. The lowest ratio ever recorded was 1.0% in 2007. By 2015, the ratio of corporate savings to GDP was 4.7% (SARB, 2018).

However, unlike household savings and net government savings, total corporate savings and its ratio to GDP is always positive and higher than the two former categories of savings. This is consistent with the findings of Aron and Muellbauer (2000) and Prinsloo (2000).

Savings in South Africa endure a number of challenges. The South African Savings Institute (SASI) gives a number of reasons for the low savings rate. One is a lack of profitable investment opportunities. A high cost of capital is another factor negatively impacting savings. A high cost of capital kerbs savings as more would need to be spent to acquire additional capital. A decline in capital costs "… induces additional domestic investment, thus generating simultaneous increases in domestic saving…" (Zodrow, 2010, p. 875). Labour market inflexibility, particularly South Africa's stubborn unemployment rate has led to savings continually being curbed as people are unable to participate in the economy, especially with regard to savings. High corporate taxes reduce corporate savings and similarly high personal taxation reduces disposable income and ultimately lowers household savings (Erasmus, 2016). StatsSA (2013) also adds that inflationary pressures in the country have led to a lower savings. Despite targeting inflation, the inflation rate has risen above the

target range for a number of reasons, especially due to the global financial crisis. In addition, high levels of household debt dampen the ability of households to contribute to overall consumption and savings StatsSA (2013).

*Savings Mobilisation Strategies*

South African's policy framework identifies the importance of encouraging savings in order to realise economic growth. The increase in economic growth is usually linked to an increase in employment opportunities and a reduction in unemployment (StatsSA, 2013; National Treasury, 2016a). The Reconstruction and Development Programme (RDP) of 1994, initiated by the African National Congress (ANC), prioritised bolstering savings[1]. It spoke to the need for the democratic government to modify regulations and support innovative financial institutions and instruments that mobilised private domestic savings to help fund the RDP, without reducing incentives for personal savings (ANC, 1994). Not much ground was covered in terms of modifying regulations and enticing the private sector to assist with social investments. Another goal related to savings was for government to embark on a review of financial institution legislation, regulation, and supervision to ensure the protection of pension and provident funds and other forms of savings and investment (ANC, 1994). Again, not much was done in this regard. The RDP failed to achieve a number of outcomes, particularly the boosting of savings in the country (Ngubane, 2005; Visser, 2004; Corder, 1997).

The National Development Plan of 2011 (NDP), for instance, highlights the low overall savings rate as a key contributor to South Africa's reliance on volatile, foreign investment flows. This, in turn, causes volatility in the domestic market, affecting low-income households who are most vulnerable. The NDP also points to the need to raise savings to ensure better growth over the medium to long term. As a means for enhancing social protection, the NDP identifies the need to establish "…*a comprehensive system of social protection that includes social security grants, mandatory retirement savings, risk benefits (such as unemployment, death and disability benefits) and voluntary retirement savings* …" by 2030 (National Planning Commission, 2011, p. 53). According to the NDP, the problem was not only the low savings culture in the country, but also the limited mechanisms and incentives to encourage people to save. The NDP identifies the need for intervention both in the private and public sector. As part of the economic plan, the NDP also identifies the use of the fiscal policy to increase savings and investment and reduce consumption. The goal is to increase savings from about 16% to 25% by 2030 (National Planning Commission, 2011, p. 64).

The NDP also cites a number of interventions that would lead to an improvement in household savings. These include the use of the Unemployment Insurance Fund

[1] http://anc.org.za/content/reconstruction-and-development-programme-introduction-rdp.

(UIF) to help unemployed persons avoid the need to withdraw from their retirement funds. Households would also have to engage in both mandatory and voluntary retirement savings schemes. In addition, the private sector must promote savings by designing simple low-cost schemes for the poor (National Planning Commission, 2011, p. 370). This has been enacted. In order to encourage increased savings, National Treasury explored various savings vehicles and, in 2012, released proposals for potential tax incentives (StatsSA, 2013). In the 2013 National Budget speech, the Minister announced a tax relief of R7 billion in 2013. Such a policy stance leads to an increase in household disposable income that would either increase consumption and/or alternatively, increase savings. The increase in personal savings means more money is made available for borrowing by investors, culminating in increased investment and economic growth (Keynes, 1936). In addition, progressive reforms to the tax treatment of contributions to retirement savings were declared (StatsSA, 2013). This effectively increases retirement savings which are then availed to investors for borrowing by financial service providers (Prinsloo, 1994; 2000). Again this boosts personal savings.

In addition, the Minister announced that tax-preferred savings and investment accounts will be introduced in 2015. By 2016, about 150 000 accounts had been opened, with savings totalling R1 billion. Consequently, amendments to the Income Tax Act were concluded leading to the provision for new tax-free savings accounts legislation that came into effect on 1 March 2015 (National treasury, 2016a and 2016b). The accounts free households from tax on any interest income or dividends earned by the investment, regardless of how long households stay invested. The households also do not have to pay any capital gains tax when withdrawing from their investments (Du Preez, 2015). This Act thus has the direct impact of increasing the propensity of households to save, ultimately impacting investment.

The Minister also announced tax relief for small businesses (National treasury, 2016a and 2016b). The implication of this is an increase in profit margins (Aron and Muellbauer, 2000). Increased profits lead to an increase in investment when the profits are ploughed back into the business, ultimately leading to increased economic growth.

## 3. Dynamics of Investment in South Africa

The growth in South Africa's investment rate has been sluggish. Investment over the last decade has hindered the achievement of faster growth in South Africa, and the underinvestment is partly explained by limited savings. As a result, investment's contribution to economic growth in the country is low. If domestic savings were to grow, investment would also grow (Eyraud, 2009). The user capital cost has been observed rising trend in the following periods from 1963-1995 (Prinsloo & Smith,

1997). It continued to increase thereafter and only stated declining in steadily in 2007 (Goldman Sachs, 2013). Fedderke (2000) finds that in South Africa, high tax rates and therefore a high user cost of capital leads is a deterrent in investment. Both Eyraud (2009) and Fedderke (2000) concur that another challenge faced in the country is the low returns on investment kerbing investment. These make investment in the country less attractive relative to other countries. More recently, another challenge to investment is the global economic crisis that struck the country between 2007 and 2008. The economic crisis in South Africa was characterised by shrinkage in the economy and an increase in unemployment as companies downscaled. The economy has not yet fully recovered and still experiences stunted growth (National Treasury, 2016a; 2016b). Since economic growth is also a driver of investment, low economic growth ultimately affects investment negatively (National Treasury, 2016a).

Figure 3 shows the investment in South Africa over time, measured by gross capital formation denoted in billions of Rand and also gross capital formation as a percentage of GDP, from 1960 to 2015.

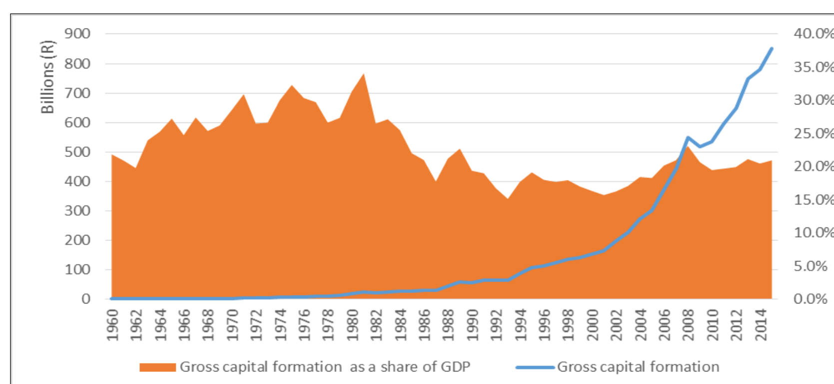


**Figure 3. Gross Investment Trends in South Africa (1960-2015)**

*Source: SARB, 2018. Online Statistical Query*

Figure 3 above shows that there has been exponential growth in gross capital formation in the period 1960-2015. Statistical data shows that total gross capital formation rose somewhat exponentially from 1960 to 2015, from R1.2 billion to R850.0 billion (SARB, 2018). In 2008 investment amounted to R548.4 million. It dipped slightly to R519.2 billion but increased steadily since then. In 2012 investment was R649.7 million.

In the period between 1960 and 1986, South Africa experienced the highest levels of investment (over 20% of GDP). This period shows an upward trend though characterised with fluctuations in gross capital as a share of GDP. In 1960, investment was recorded at 21.9% of GDP. It decreased to 19.8% in 1962. It peaked

to 34.1% in 1981, only to decline later to 17.8% in 1986. Thereafter, investment rose above 20% between 1988 and 1989; 2006 and 2009; and also between 2012 and 2015 (SARB, 2018). Between 2001 and 2008, investment increased from 14.8% of GDP in 2001 to 23.2% in 2008. However, from this point onwards, uncertainty resulting from the global financial crisis and slower domestic growth contributed to a sharp drop to 19.5% in 2010. Since then there has been an increase in the gross capital formation to GDP ratio (StatsSA, 2013). From 2012 it has been above 20% and is 21% by 2015.

Figure 4 shows the gross capital formation in millions of Rand from 1960-2015. The gross domestic capital formation is further disaggregated to gross capital formation by the public and private sector. Public sector investment is further disaggregated to investment by general government and public corporations.

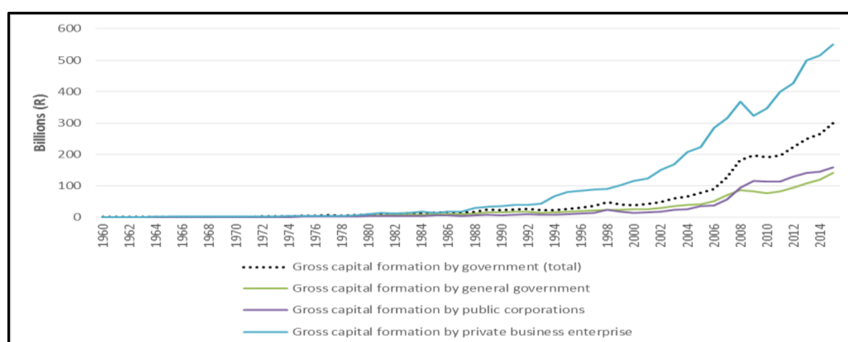


**Figure 4. Investment Trends in South Africa 1960-2015**

*Source: SARB, 2018. Online Statistical Query*

Figure 5 shows investment to GDP ratios - the gross capital formation to GDP ratio, gross capital formation by government (total) which is further split into gross capital formation by general government to GDP ratio and public corporations to GDP ratio. Also in Figure 5 is gross capital formation by private business enterprises to GDP ratio.

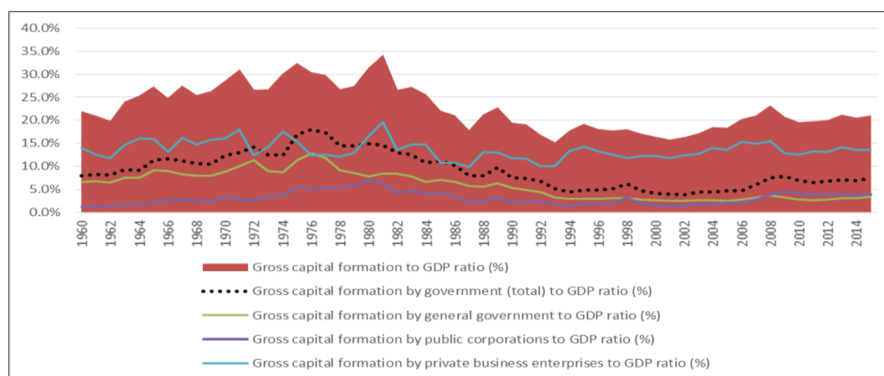


**Figure 5. South African Investment Ratios (1960-2015)**

*Source: SARB, 2018. Online Statistical Query*

*Private Investment*

Figure 4 shows that private business enterprise is the second largest source of investment that also displayed exponential growth, from R756.0 million to R549.9 billion, from 1960 to 2015. Private investment more than doubled the in 1968 to R 1.6 billion from 1960. It exceeded R10 billion in 1980. It grew to R35.4 billion by 1990. In 2000 private investment was over R115 billion and was more than double the value in 2000 to R345.7 billion.

Figure 5 shows that private investment was 14.0% of GDP in 1960. Ten years later it was 16.2% of GDP, and increased to 17.9% of GDP in 1971. It fell to 12.1% of GDP in 1978, but peaked to 19.6% in 1981. This is the highest ever private investment to GDP ratio between 1960 and 2015. The private investment to GDP ratio declined to 13.6% by 2015%.

*Public Investment*

Figure 4 also shows Total Public or government investment (the sum of gross capital formation by public corporations and general government) also increased over time. It was R428 million in 1960 and exceeded R1 billion in 1966, R10 billion in 1981 and R50 billion in 2003. In 2007 it is recorded at R127.0 billion. In 2015, total public investment was R300.1 billion.

In 1960 the gross capital formation by the public sector was only 7.9% of GDP as shown in Figure 5. In 1966 it was 11.6% of GDP. It peaked to 18.0% in 1976 and subsided to 14.6% by 1981. T continued dropping such that it was below 10% from 1987 to 2015. In 2003 the total public investment was only 4.5% of GDP. Since then there has been an upward trend in the public investment as a share of GDP to 7.4% in 2015.

*Public corporation investment*

Public corporation investment (Gross capital formation by public corporations) was R68.0 million in 1960 (see Figure 4). It rose to R459.0 million in 1970. It first exceeded a billion Rand in R1.6 billion in 1975. It more than trebled the 1975 value rose to R5.5 billion in 1985. In 1998 it rose to R24.3 billion only to fall to R13.8 billion and bounce back to over R24 billion in 2003. From then onwards there was an upward trend such that investment by public corporations was R1159.1 billion in 2015.

In 1960, investment by public corporations amounted to 1.3% of GDP as shown in Figure 5. This remained below 5% until 1975 where it rose to 5.6% from 3.7% of GDP in the previous year, 1974. Investment by public corporations was above 5% for seven consecutive years (1975-1981), with the highest investment ratio at 7.0% in 1980. From 1983-2015, investment by public corporations was once again below 5%. It declined to 1.4% in 1994, rose to 3.2% in 1998 and back to 1.4% in 2001 and 2002. It rose to 4.6% in 2009 and was 3.9% in 2015.

*General government investment*

Figure 4 depicts that general government investment was R360 million in 1960. It rose to R10.2 billion in 1986. This more than doubled to 21.8 billion in 1997. General government spending reached R108.0 billion in 2013 and rose further to R141 billion in 2015.

Figure 5 also shows that investment by general government was 6.7 in 2015. It rose steadily to 11.4% in 1972 and 12.8% in 1976. From then onwards there was a steady decline to below 5% for the first time in 1991, it was 4.9% of GDP. It plummeted further to 2.5% in 2001 and 2002, only to rise again. In 2015 investment by general government is recorded at 3.5% of GDP.

Figure 6 shows the composition of investment in the country from 1960-2015

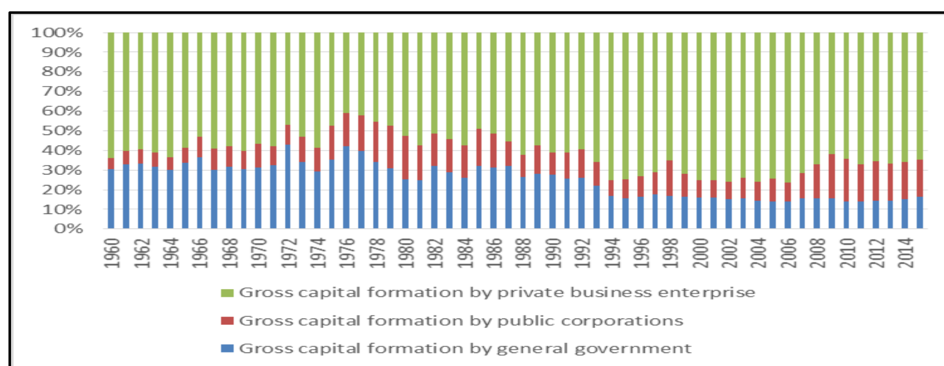


**Figure 6. Composition of investment in South Africa**

*Source: SARB, 2018. Online Statistical Query*

Figure 6 shows that the private sector (private business enterprises) is, more often than not, the largest contributor to gross capital formation (investment) between 1960 and 2015. This is true except in a few incidences where the total public sector investment (combination of investment by both public corporations and general government) surpasses private sector government.

In 1960, private investment accounted for 63.9% of total investment, whilst general government and public corporation investment accounted for 30.4% and 5.7% respectively. Between 1966 and 1972, both general government and public corporation investment rose relative to private investment. In 1966, private investment accounted for fell to 53.2% of total investment, whilst general government and public corporation investment accounted for 36.4% and 10.4% respectively. In 1972, total private sector investment was 46.9% to of total investment. In the same year, general government was at its highest level ever of 42.9% (between 1960 and 2015), whilst public corporation investment was 10.3% of total investment. The lowest private investment to total investment ratio was in 1976, 40.9% with general government to total investment ratio at 42.5% and public corporation investment at 16.9%. In 1980 public corporation was at its highest, 22.3%, with general government at 25.2% and private investment at 52.5%.

From 1993, it is clear that private business enterprises make the largest contribution (over 60%) to investment in South Africa. However, from 2008, public corporations surpassed general government to become the second largest contributor to gross investment after private investment. Furthermore, between 1960 and 1993, general government contributed over 20% of gross capital formation. This investment by general government shrunk below 20% from 1993 onwards. The share of public investment contributed by both general government and public entities was just below 30% from 2001 to 2007. This increased slightly above 30%, but below 40% from 2008 to 2015 (SARB, 2016).

In contrast, the share of investment contributed by private enterprise was above 70% from 2001 to 2007, after which it declined below 60%. It then rose steadily and was back above 60% in 2011 (SARB, 2016).

*Policies Impacting Investment*

A number of policies have been implemented by the government in order to promote investment in South Africa. These include, amongst others, the Reconstruction and Development Programme of 1994, the Growth, Employment and Redistribution Macroeconomic Strategy of 1996, the Accelerated and Shared Growth Initiative for South Africa of 2004 and the National Development Plan of 2011.

The Reconstruction and Development Programme of 1994 (RDP) policy, identified the decline in the investment levels over the past decade as a problem that needed to be addressed. This decline in investment led to a decline in growth and average real

incomes (ANC, 1994, p. 77). By 1994, the decline in investment within the public and private sectors, and capital flight, contributed to an ageing capital stock and contraction in the manufacturing sector (ANC, 1994, p. 77). Capacity utilisation of manufacturing plant and equipment was also at very low levels (ANC, 1994, p. 78). Moreover, speculative investment replaced productive investment, with a consequent decline in job creation and overall employment levels (ANC, 1994, p. 77). As a result, one stated necessity was to create a conducive environment for boosting investment by regulating liquid fuels (ANC, 1994, p. 36). One objective was for public sector investment to complement the role of the private sector and community participation in stimulating reconstruction and development (ANC, 1994, p. 85). Throughout the RDP, boosting investment is noted as an imperative to be spurred on by both private and public investment, with the ultimate goal of increasing growth, job opportunities and reducing unemployment.

The Growth, Employment and Redistribution a Macroeconomic Strategy of 1996 (GEAR), in order to ensure accelerated growth, identified the need to cut back government consumption expenditure, keep in check private and public sector wage increases, accelerate tariff reform to compensate for the depreciation and finally, improve domestic savings performance. The overall expected outcomes of this were to create a climate conducive for continued investor confidence, facilitate the financing of both private sector investment and accelerate development expenditure (Department of Finance, 1996, p. 5).

The overall goal of the Accelerated and Shared Growth Initiative for South Africa of 2004 (ASGISA) was to halve poverty and unemployment by 2014. This would be done by encouraging investment in the county, having noted limited new investment. It highlights volatility in the currency as a deterrent to investment outside the commodity sector. It recognised inadequacies in infrastructure and investment that had a negative impact on the transport sector leading to escalated transport costs. The approach to dealing with this was not through new economic policies, but rather, by a set of initiatives. For instance, one response would be by government ramping up public sector investment from 6% of GDP, then in 2004, to 8%. This would be achieved through a cash injection over the next three years. However, Areas of public investment would be electronic communications (e.g. broadband); stadia in preparation for the 2010 World Cup; and provincial infrastructure projects with major ASGISA impact ranging from the transport sector, agricultural and manufacturing sector.

Private-sector investment would be promoted through sector strategies. This would entail the broadening of the broader National Industrial Policy Framework; determination of priority sectors; and targeted educational responses to skills challenges. However, the ASGISA put more emphasis on public investment than private investment, (Republic of South Africa, 2004, pp. 6-8).

The National Development Plan of 2011 (NDP) specifies infrastructure development as a key strategy for boosting growth and addressing unemployment. The NDP specifically states: that:

*"Higher investment, supported by better public infrastructure and skills, will enable the economy to grow faster and become more productive. Rising employment and productivity will lead to rising incomes and living standards and less inequality. Shifting the economy towards more investment and lower consumption is necessary for long-term economic prosperity." (National Planning Commission, 2011, p. 39).*

Even the plans of provincial and municipal governments show a reverence for infrastructure-led growth as a solution for growing the economy and creating unemployment. This is evidenced in the Western Cape's Provincial Strategic Plan for 2014-2019[1] and the City of Cape Town's five-year Integrated Development Plan Review for 2016/2017[2].

## 4. Conclusion

The aim of this paper was to explore the dynamics of savings and investment in South Africa. This was achieved through an analysis of savings and investment trends from 1960-2015. The gross domestic savings trend shows that there has been an overall decrease in the gross domestic savings to GDP ratio. From 1992 to date, the gross domestic savings to GDP ratio has been below 20%. This is due to a decline in household savings, corporate savings, and public savings. Despite a downward trend in corporate savings during this period, corporate saving rates have never reached sub-zero as in the case of household and government savings. For instance, in 2015, public savings was -R50.6 billion, household savings was –R33.2 billion, whilst corporate savings was R188.5 billion. This shows that the household and public sector are spending more than they have through borrowing. It also shows that the corporate sector is the backbone of savings in the country. Corporate savings has seemingly withstood the cyclical fluctuations in the economy better than household and public savings. There is, therefore, a need to further strengthen corporate savings, while simultaneously bolstering household and public savings. There is also a need for the country to promote both domestic and foreign investment in order to reduce unemployment. Ideally, a reduction in unemployment will reduce poverty levels and, hence, the government's social burden, which will ultimately allow for increased public savings. Expansionary policies such as a reduction in personal taxes will also increase the disposable income of households, allowing them to save more. There is also a need for educational and awareness interventions that will enable households to deal better with their finances. This is because household debt

[1] Western Cape Government, 2014.
[2] City of Cape Town, 2016.

dampens household saving. Challenges highlighted need to be addressed such as high inflationary pressures which need to remain under control with inflation kept within the target bands in order to enable both private and public savings.

On the investment front, the study found that the overall investment in South Africa has been erratic. Between 1960 and 1986, South Africa experienced the highest levels of investment with the ratio of gross capital to GDP vacillating above 20% of GDP. A short period of growth in investment was observed between 2001 and 2008, with the gross domestic savings to GDP ratio rising from 14.8% to 21.6%, respectively. The average investment rate recorded during the period 1990-2014 was found to be relatively low when compared with the average rate recorded during the period, 1974-1984. In order to boost investment, there is need for the country to pursue policies that are likely to boost the cost of capital and returns on investment. This will make South Africa more attractive to foreign direct investment, relative to other countries. Investment in the country has been largely dependent on private business enterprises rather than the public sector (public corporations and general government), except for a few years in the 1970s when public sector investment exceeded private investment. There is need for the country to pursue policies to address the challenges highlighted, for example, there is need to boost the cost of capital and returns on investment, in order to make South Africa more attractive to foreign direct investment, relative to other countries. There is also a need for the country to strengthen interventions that promote domestic investment, in order to buffer itself better against global economic instability. This will ultimately lead to an increase in employment levels, aggregate demand, and economic growth, which, in turn, further stimulates investment.

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