THE DETERMINANTS OF HOUSEHOLD SAVINGS IN SOUTH AFRICA

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Abstract

In South Africa, substantial government dissaving as well as poor household savings performance has caused a decline in aggregate savings. Whilst government dissaving has been successfully reversed, household savings continue to fall. Low domestic savings have required South Africa to attract large, volatile portfolio capital inflows to fund a structural current account deficit. Repeated reversals of such inflows have constrained domestic growth and hence an understanding of the factors that have caused this decline in savings is essential in order to formulate policies supportive of sustained higher rates of economic growth. Within the context of the existing literature, this article examines the various determinants of household savings using a vector error-correction model (VECM). The results suggest that interest rates, a wealth effect and upturns in the business cycle all contribute to explaining the decline in household savings. The presence of a partial offset between household savings and government savings also has important implications for the effectiveness of using the fiscal position of the South African government to boost savings.

1. Introduction

A severe decline in national savings, primarily concentrated in the household sector, has occurred in a large number of countries since the mid-1980s (Prinsloo, 2000:8). Since 1984, the national saving rate in South Africa has also deteriorated significantly reaching a mere 15.3% of GDP in 2009 (SARB, 2010:13). This decline was largely caused by substantial government dissaving for much of the period as well as poor household savings performance. Whilst government dissaving was successfully reversed in recent years, household savings continued to fall and uphold the trend of a declining aggregate savings rate (Aron & Muellbauer, 2000:509). In 2009, South African household savings were -0.3% of GDP. Total net savings after depreciation, i.e. savings available to fund investment in new capital stock, were just 1.6% of GDP (SARB, 2010).

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