



Promoting and Developing
Social Security Worldwide.

Case Study: South Africa

Seminar on Social Security in Times of Crisis:
Impact, Challenges and Responses

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ALLEVIATING THE EFFECTS OF THE ECONOMIC CRISIS

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Objective

- **Aim of this presentation:**
 - Give perspective on how the global economic meltdown has impacted on South Africa and explain measures by South Africa to mitigate the effects of the meltdown

Introduction.....

- What caused of the global financial crisis?
 - Sub-prime mortgage lending in US
 - Reversal of the housing boom in other industrialized economies
 - Poor regulation of financial markets
- Other factors which have compounded the crisis
 - High food prices
 - High oil prices
- Impact of the crisis was not limited to financial markets but spilled over to real sectors of the global economy with some industrialized countries experiencing deep recessions

Impact On S.A Economy

- Economic growth declined from 5.1% in 2007 to 3.1% in 2008 and expected to further drop to 1.2% in 2009
- Due to slowdown in global economy, a source for S.A exports, there was decline in exports and hence fall in prices of export commodities
- Job losses in many sectors are on the increase as firms adjust their workforce to changed demand for commodities
- Plummet of shares in JSE is leading to wealth erosion for many
- Decline in Government tax revenue driven by reduced consumption spending and hence less VAT revenue
- Tight credit market – strict lending criteria by finance institutions which makes financing scarce and expensive
- Negative growth in value private pension funds (DC funds) which holds most of their investment portfolio in equities
- Government pension fund (DB funds) achieved a modest growth of 7% in 2007 compared to growth of 21% in the preceding year

Implications For Social Security

- **Social Assistance**
 - Decline in Government tax revenue limits the capacity to expand social assistance
 - High retrenchments will translate into more people being eligible for social grants thus exerting even more pressure on the fiscus
- **Social Insurance**
 - Rise in unemployment insurance benefit claims due to retrenchments
 - Decline in contributions towards unemployment insurance due to retrenchments
 - Net effect is that the UIF reserves starting to drop as a result
- **Pensions**
 - Government pension fund (DB) are by far less adversely affected than private pension funds (DC) due to conservative investment policy of Government pension funds
 - The Pensions debate which has been ongoing may very well now take the direction of social solidarity.

Interventions Are Fortuitous

- Following many years of prudent fiscal and monetary policies, SA in 2006 posted a budget surplus
- This improve macroeconomic situation however coincided with a breakdown in supply of electricity and infrastructure.
- This in turn constraint economic growth and the SA government started planning to invest in infrastructure
- This therefore happened just as the financial crises kicked in and as a result the current measures outlined below are more fortuitous than as a response to the economic meltdown

Interventions Are Fortuitous

- SA has been making significant investments in Public Infrastructure.
- In addition to commitments made to host the World Football CUP in 2010, and additional R787 billion was allocated over 3 years to 2012)
- In fact in the midst of the slowdown, construction seems to be the only industry generating job opportunities.
- The Fiscal and monetary stance has become expansionary. The lowering of interest rates
 - Is hoped to increase or maintain disposable income and stimulate consumption spending
 - Lowers cost of capital and thus cost of doing business in South Africa
- Tax relief was provided in the recent SA budget of 2009/10 for low and middle income earners which also assist to stimulate consumption spending
- An automotive production and development programme which includes a production subsidy has been established which is tempering the impact could help the automotive industry

Social Security Interventions

- Other interventions which were primarily aimed at poverty reduction also fortuitously assist to mitigate the effects of the crisis
 - Social Relief of Distress to provide temporary relief to families and individuals in distress
 - Raising of means-test to allow more individuals into social assistance programme
 - Extension of CSG to children under 15years to deal with child poverty, will continue to age 18 years
 - Age equalization for men to 60 years to qualify for SOAP
 - Previously men could only qualify for SOAP at the age of 65 which excluded many men who were destitute

Conclusion

- A lot has been done by the S.A Government but much can still be done to mitigate the effects of this meltdown particularly on the poor who are badly affected
- There is a need to move towards a DB regime in pension funds to ensure that interests of contributors are protected where Government could act as final guarantor of benefits
- Key lessons are to be learnt from this global crisis to ensure that proper systems are put in place which promotes
 - Effective regulation of financial markets
 - Good corporate governance in financial institutions
 - Transparency by financial institutions in trading procedures and balance sheet positions

THANK YOU!!