

African Bank's failure affects every citizen

The failure of African Bank actually affects every citizen in the country. It is always useful to wait for a period of time before commenting on an incident. Like history, it allows commentators a better perspective of the likely fallout of the event. The dust has not yet settled on the African Bank saga but positive action has now been taken.

By Rob Jeffrey 17 Sep 2014



© Dreaming Andy – za.fotolia.com

There is no doubt that the Reserve Bank's action has prevented more serious damage being done to the South African economy and financial system. Despite this, there has, and will be, economic and social costs to the country. This needs to be counted and attributed. As has been set out in a recent report on over indebtedness in South Africa, written by Econometrix, the slow payment and non-payment of debt regularly costs South Africa possibly up to R10bn per annum in GDP and up to 72,000 jobs.

Certainly, the losses at African Bank would increase these figures. Some commentators imply that the losses are now borne by financial institutions or by the government. As the report points out in fact these costs are distributed on to others. The high costs of slow payments and bad debts are automatically passed on via higher interest rates or other charges to other customers by banking institutions.

Losses of pensioners

The moneys lost by pension funds and other savings institutions are actually the direct losses of pensioners and other savers concerned. Government recovers any money lost by higher taxes. One way or another the productive citizens of South Africa ultimately pay the price for the losses. The knee jerk reaction is to immediately ask for further controls on credit providers thereby passing responsibility for bad debts from borrowers to credit providers.

The Econometrix report makes it clear that proper controls regarding reckless lending need to be in place. It also however makes it clear that at the end of the day final responsibility for reckless borrowing must ultimately remain with the borrower concerned. If borrowers get the impression that they bear little or no responsibility for the debts they incur, or that they need not repay them, then this could lead to even slower growth in the economy, further reductions in employment, an increase in risks in financial credit market and even higher costs for others.

Unscrupulous lenders

This does not mean that those responsible for reckless and unscrupulous lending should not be held to account. They must be. An investigation will no doubt be held and the causes will in due course be identified. Improvements in regulation and oversight will doubtless follow. Those responsible should be held to account. However, as the article by Econometrix points out, there is a real danger when borrowers perceive they are being relieved of their ultimate responsibility both for incurring the debt and for also having to repay their indebtedness.

Unfortunately, this has already occurred possibly even to an excessive extent. If this perception were to be increased then this will further encourage the slow payment and non-repayment of debt. This cost will be an additional burden borne by all the citizens of South Africa. In summary, citizens of good standing pay for those who default.

ABOUT THE AUTHOR

Rob Jeffrey is managing director and senior economist at Econometrix.

For more, visit: <https://www.bizcommunity.com>