

National development: pension saving as a source of funding

Should pension fund saving be considered a source of finance for national development? The short answer is simple: they are. But funds exist to provide for their members. Subject to this priority, soundly invested fund assets contribute naturally to the development of a country. The longer answer is more complex: elected leaders typically would like pension funds to contribute to their development objectives, but the price for forcing them to do so is likely to be high.

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17 APR 2026

The Impumelelo Economic Growth Lab of the Bureau for Economic Research has released some excellent research by formal National Treasury economist Andrew Donaldson. (In lieu of a full academic reference, allow me to indicate that the paper is available at this web page: <https://www.ber.ac.za/Documents/Index/Impumelelo-Economic-Growth-Lab>.)

The opening paragraph of the abstract soundly synthesises the issue (p 3):

There has been substantial growth in the assets under management of South Africa's contractual savings institutions over the past forty years, but their relative contribution to meeting public sector financing requirements has declined.

In recent years, banks and foreign investors have dominated net purchases of government bonds, while savings institutions have shifted their investments to equities and foreign assets.

That banks hold a high concentration of government debt has been identified by the South African Reserve Bank for some time. It describes this concentration as a *risk nexus*, pointing out the dangers of the closely tied fortunes of the banks and the fiscus. Andrew has assessed a range of sources to establish that this increase coincides with a decrease in the corresponding allocation to government debt by retirement funds. He is careful not to suggest that pension funds should be allocating more to government debt but expresses the view that their position has consequences (p 35):

Though their role in financing private sector capital formation should not be downplayed, if growth and broad-based development are to be boosted over the years ahead there will need to be a rise in the share of contractual savings allocated to public investment.

Reasons for the decrease

Why might this have occurred? Retirement funds of all types are autonomous vehicles that make their own

decisions regarding the allocation of their assets, essentially members' assets, to best meet their goals.

Decision-makers at these funds may have deemed equity markets a better bet than their bond counterparts. Such an approach is supported by historical returns, but it is not without risk. The rising incidence of income drawdown in preference to lifetime annuities may have contributed to a rational preference for equity markets. The allowable allocation to offshore markets has increased: retirement funds have taken advantage of this.

Notwithstanding these arguments, it is hard to avoid the possibility that government is not seen as a safe bet, that confidence in the institution has decreased and that either return prospects are poor or the corresponding risk is too high. Or both.

Restrained policy

Politicians the world over can be quick to blame the financial markets for harsh judgement. The markets themselves, and the parties that make asset-allocation decisions concerning these markets, are giant voting machines. I'm not suggesting that elected officials should pander to the market, or that their bonuses should be payable in government bonds, but the fact is that markets matter. They are excellent indicators of sentiment.

To the sceptic, I add that South Africa's policymakers have shown admirable restraint in the nearly 32 years since the birth of democracy. Yes, we've had posturing, for example on the possibility of incentivised allocation to infrastructure investment. But this has fallen well short of the actions of their counterparts in other countries, where the savings of citizens have effectively been stolen by fiat, typically and simply through a minimum allocation of assets to government bonds.

Here, in contrast, the voting machine has sent strong messages of disapproval. Yet funds with low allocations to government bonds missed out on the returns associated with falling yields in the year to February 2026. Markets can be temperamental.

Andrew expresses the view that growth and development rest on a greater allocation to public investment. Markets respond to confidence. If positive conditions are established and upheld, the money will follow. In the meantime, however, funds can contribute to grass-roots development in other ways. We'll look at that next week. [Rob Rusconi](#)