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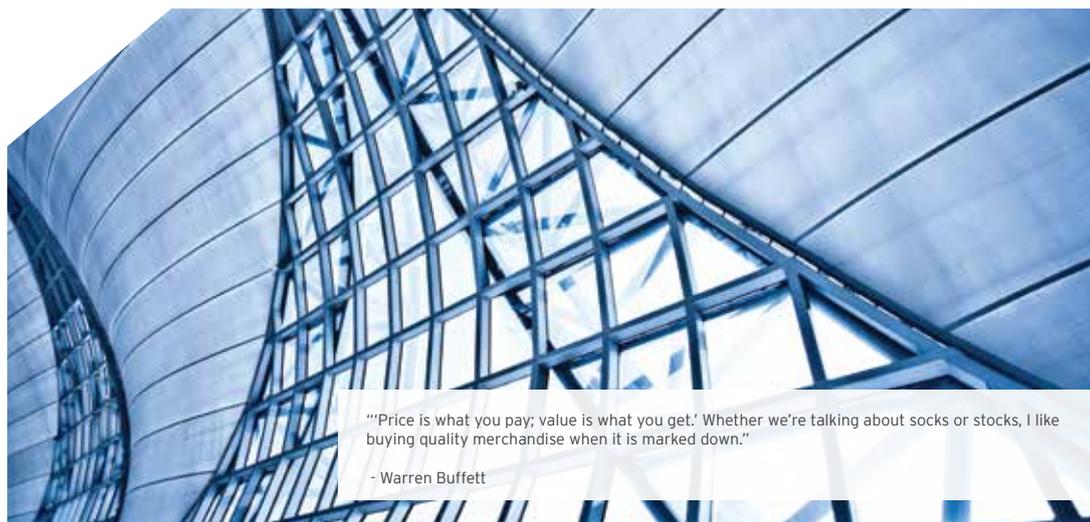
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## ECONOMIC COMMENTARY - By Francois Stofberg

This week is budget week! And what an important one it will be. Since I last mentioned that South Africa’s economy was hanging on a knife’s edge, the government has been tiptoeing around sentiment and serious issues (#feesmustfall, #zumamustfall, #paybackthemoney, #whyfirenene, and the like), and in the process have been able to put up an impressive smoke-screen that can fool even the most observant individual.

They have truly mastered the art of skiing on thin ice; from the president’s decision not to attend the panel discussion in DAVOS (reading is usually not allowed in the open-forum discussions), to meetings held with business and union leaders before SONA, a strong fence-sitting SONA address, all the way to delaying the implementation of some of the new tax laws (to ensure COSATO’s members vote for government later this year). And now, the National Budget!

All of government’s attempts have in fact had a positive impact on sentiment and ultimately our markets, albeit marginal. Aiding their attempts however, was the strong move by the SARB to increase interest rates again; although it will hurt South Africans, in real terms our returns are now well above our peers, which should attract the capital we need to fill our deficits. Globally, the news from the US Fed that they will not hike rates as aggressively as initially anticipated, and might not hike at all again this year, was the final nudge the Rand needed to strengthen to its current level of R 15.39 (something we haven’t seen in quite some time).

Now some of the nitty-gritty. Don’t expect a VAT hike this year (these are vote-killers), expect an increase in the marginal rates (even for the middle class), expect an increase in the fuel levy, sin taxes, and other wealth related taxes. And then, government spending, the two major items to keep your eye on are interest payments and civil servant wage increases (the other suggestions don’t really make a difference to sentiment, downgrades, or the size of government spending).