



ECONOMIC COMMENTARY

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YOUR WEEKLY
ECONOMIC UPDATE
20 October 2026

*For every one to attain
financial well-being*

YOUR GROCERY BILL IS LOWER, BUT ARE YOU ACTUALLY RICHER?

Imagine government announces tomorrow that your grocery bill will decrease by 10%. You would probably celebrate. Now, imagine government adds that it will collect that difference through your taxes, your pension fund, or a future bailout. Are you still feeling richer?

This is the uncomfortable question behind many promises to fix the cost of living. Politicians can change who pays a bill without reducing its cost. The relief is visible, but the invoice arrives somewhere else. For South Africa (SA), this distinction matters enormously. We risk becoming so absorbed in making poverty more bearable that we neglect the conditions that allow people to escape it.

Affordability has two sides: What things cost and what people earn. Political debate gravitates towards the first because prices are displayed on shelves. The investment that never happened, the business that never opened, and the salary that was never earned are much harder to photograph. Yet, those missing incomes belong in the affordability debate.

Governments increasingly respond to expensive essentials by suppressing prices. Such interventions can provide immediate relief. But, broad subsidies also benefit affluent households, absorb public money, and discourage consumers from adjusting to scarcity. The distinction is between lowering an underlying cost and moving it around.

A more efficient electricity system can make power genuinely cheaper to produce. A subsidy leaves the production cost intact and asks someone else to carry it. A binding price ceiling can leave suppliers unable or unwilling to meet demand. Targeted support remains necessary when vulnerable households cannot absorb a shock. But, emergency assistance needs a credible funding plan. Otherwise, today's relief competes with tomorrow's infrastructure, education, or tax capacity.

China illustrates another limit to apparently helpful interventions. Short-term consumer loans fell 8.3% year-on-year in September despite efforts to subsidise borrowing. Households face property losses and uncertainty; banks worry about repayments. Making debt cheaper does not make the borrower's future income more secure. A family worried about retrenchment may use lower repayments to reduce debt rather than buy furniture. A business facing unreliable services may decline an attractive loan because expanding production still looks unprofitable. Both decisions are rational, even when they frustrate policymakers.

The work of this year's Nobel laureates in Economics, Robert Hall and Michael Woodford, helps explain this: Expectations influence spending and investment. People respond to the future they believe they face, alongside the money available to them today.

SA should take this seriously. Confidence requires evidence: Orders arriving, approvals being processed, goods reaching customers, and employers willing to hire. This is why functioning ports, reliable electricity, competitive markets, and simpler business approvals belong at the centre of any affordability strategy. They can lower costs while creating opportunities to earn. The International Monetary Fund has identified infrastructure and regulatory reforms as priorities for South African growth. Higher incomes cannot simply be legislated into existence. They become sustainable when investment and productivity allow businesses to pay more while remaining competitive.

There is also a challenge here for our Reserve Bank. Unnecessarily restrictive interest rates impose real costs on households and businesses. But, cheaper money cannot compensate indefinitely for an economy that makes productive activity unnecessarily difficult. Government should, therefore, assess policy against a demanding question: Will this make it easier to produce, invest, and employ? A measure that protects existing interests while obstructing new entrants may offer security to insiders while leaving outsiders without an income. Their exclusion rarely appears on the price tag.

For households, lasting financial well-being requires room to save, manageable debt, and confidence that tomorrow's needs can be met. A larger credit limit is a poor substitute for a stronger earning capacity. We should, therefore, judge economic success by how many families can afford a decent life without needing another rescue. The most powerful affordability policy is an economy competing for your labour, your skills, and your business. That gives people something that no subsidised shopping basket can: Choices.

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