

## ECONOMIC COMMENTARY

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### YOUR MONTHLY ECONOMIC UPDATE

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#### SA'S INVESTMENT PUZZLE: NAVIGATING TAXES AND OPPORTUNITIES

In today's investment landscape, investors must trust their financial advisors for guidance. Despite its historical significance, the South African equity market has seen a decline in global attention over the past decade. Many experts have extensively discussed this trend and retail investors have responded by hesitating to deploy capital within South Africa, often opting to invest abroad owing to concerns about local governance.

While criticism of leadership and political circumstances abounds, it is noteworthy that Treasury recently proposed tapping into central reserves to alleviate debt, a move reminiscent of past discussions regarding prescribed assets. The African National Congress' manifesto signals a potential shift towards using prescribed assets under Regulation 28 of the Pension Funds Act to address mounting state debt, which can be disguised as mandatory infrastructure investments. This strategy aims to generate revenue rather than to implement disciplined spending cuts. Such measures could, however, have adverse effects, as evidenced by the local financial sector that is already absorbing unsold government bonds owing to decreased international investor interest. Furthermore, recent credit downgrades have exacerbated credit spreads, indicating underlying economic strain.

Fortunately, the South African government is mindful of public opinion and often rushes policy changes without thorough consideration. For instance, the impending implementation of the two-pot retirement system reflects a hurried attempt to appease voters. While this system may grant individuals more flexibility in accessing their retirement funds, it risks undermining long-term financial security by encouraging premature withdrawals for short-term consumption. Despite these challenges, there are opportunities for savvy investors: For those over 55, restructuring retirement funds has become common practice, often involving offshore investments to diversify portfolios and to mitigate risk. The introduction of a savings pot concept provides an opportunity for annual capital redeployment, albeit on a smaller scale. This strategy allows investors to withdraw a portion of their savings pot for reinvestment elsewhere, potentially optimising returns, after considering the impact of taxes. Unfortunately, cash can also be withdrawn and consumed, which will be good for short-term economic growth and the government's tax coffers. But, it will most likely have a negative impact on the ability of individuals to retire in the long term, which can weigh on long-term economic performance.

Ultimately, investors must navigate the complex South African tax and investment landscape while seeking avenues for growth amidst economic challenges. While tax planning should not overshadow investment decisions, it is a crucial consideration in a context where local growth prospects are limited, and regulatory changes may impact capital mobility.

In conclusion, the South African investment landscape presents both challenges and opportunities. By staying informed and consulting with financial experts, like your financial advisor, investors can navigate uncertainties and make informed decisions to achieve their long-term financial objectives.

