

# STAGFLATION

## have you told your client yet?

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Various economists have indicated that South Africa is heading for stagflation. Stagflation is a combination of rising inflation and slow economic growth. We are currently seeing rising food and fuel costs, increased municipal rates and on top of that a possible substantial increase in electricity costs. As if this is not enough, there are continuous interest rate hikes, of which it seems we have not seen the end yet. This will further reduce the spending power of individuals across all income levels, and has an effect on most businesses.

All of this means that individuals as well as business will have to brace themselves for a rough ride. If we knew how long this would last it would be easier, but seeing that we don't, we have to assume that it could take a couple of years before it will get better. A large number of people may lose their cars and houses. This situation, apart from the fact that it will probably affect you personally, also calls on us to assist clients in getting through this challenging period.

### What you should be doing and forcing your clients to do:

1. Prepare a monthly budget. For many individuals this will be a new experience, but this will have to be the starting

point of preparing yourself. The idea is not to get bogged down in minor detail but rather to ensure expense categories are at least all covered and indicated fairly accurately. This could easily be done by taking the previous three months' bank and credit card statements and summarising these and then making provision for anticipated increases in expenditure such as food, petrol and electricity. See the free MS Excel template for personal budget purpose on [www.chartered.co.za](http://www.chartered.co.za)

2. Prepare for the worst. Once you have a budget, you can calculate in advance what the implication will be of further hikes in interest rates, fuel and electricity costs. This will already help to make you feel in control of your own financial future despite variables beyond your control.

3. Evaluate your financial position. Once you have a budget you can determine if you are, or will be, under financial pressure on a monthly basis. Once you have done this you need to look at various options and solutions in order to plan ahead. The critical aspect is not to leave it too long but rather start planning in advance to ensure that reserves are built up where possible.



### Action plan

Depending on the seriousness of your situation there are various options:

1. Work out an action plan to reduce short-term debt over a period. This should include credit cards and overdraft facilities. Decide which expenses can be reduced or totally eliminated. Make the whole family aware of a concerted effort to improve the overall financial position. There needs to be a mind shift and commitment to live within your monthly income. Don't try and keep up with the Joneses because they might not make it through these tough times.

2. Get rid of car debt. If your car is nearly settled do not consider buying another car. Three years without car debt can change your life forever. Take this example: If you have a bond of R1 million, and instead of paying off a car you put, let's say, R4 000 per month into your bond for a three-year period. This small decision will save you R1 million in interest and let you pay off your house in 12 years! Now let's say you continue to pay the full amount you would have paid on your bond for the remaining eight years into an investment and only earn 10%, you would have an investment of R1.7 million at the end of the period. Now if that is not a wake-up call, I don't know what is!

3. Start saving. Make it a goal to have at least two month's expenditure as a reserve. The ideal is six months, but at least

start somewhere. Also note that this does not mean being able to carry two month's expenses by way of credit cards, but rather that the cash reserves have been built up, even if it is in the form of additional monthly payments into your bond.

4. Restructure your debt. Now is a good time to shop around for good interest rates and payback periods. Some banks offer to have you pay off your house over 30 years instead of risking that you might default. Even if you are able to arrange this, make sure you pay more than what is required on a monthly basis in order to reduce total interest expenditure and build up a reserve within your bond.

5. If your efforts to reduce expenses are not materialising and your position worsens, consider selling a car and buying a cheaper one or, if required, selling your house and buying a cheaper home. You have to realise that this is not something that can be left until the last moment; with the current conditions you will probably wait a few months before the house is sold.

6. Don't fall into the trap of cancelling annuities and investments or life insurance policies during this period. Revisit your overall financial plan with the assistance of a certified financial planner and ensure that the priorities of spending are clear. You do not want to leave your family in dire straights if something happens to you.

The rewards are clearly worth the financial discipline; don't delay, start today.



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