

Budget 2016: Stark reminder consumers must do more with less

Despite announcing personal income tax relief of R5.5bn for lower- and middle-income earners, the National Budget speech was a stark reminder that consumers need to get used to doing more with less, according to Ester Ochse, channel head at FNB Financial Advisory.

Ochse said financial discipline is crucial because consumers still have to deal with the rising cost of living. She pointed to the gradual rise in food prices, the fuel levy, electricity and interest rates.

"These are stressful financial times which require every individual to scrutinise their budgets a lot closer. Regardless of the positive message about attempts to boost our economy, the reality is that this will be a financially challenging year for a lot of people due to the consistent rise in the cost of living," said Ochse.

How to keep head above water

To keep head above the water, she said consumers have to cultivate good financial habits. These include reassessing your financial position; curbing impulsive spending; where possible, boosting cash reserves through savings or investments; improving your management of credit commitments and avoiding excessive debt.

"Currently, financial planning is a non-negotiable. Consumers need to consider using a qualified financial adviser to help them structure finances. It's important for individuals to realise that knee-jerk cost-cutting could have unintended consequences, therefore proper financial analysis is necessary," said Ochse.

The Consumer Goods Council of South Africa (CGCSA) has welcomed the broad thrust of the budget presented by Finance Minister Pravin Gordhan, in particular the commitment to fiscal prudence, improving the performance of state owned enterprises and the planned infrastructure spending over the next three years.

The CGCSA noted government's commitment to increase budgetary allocations for social grants, which continue to provide a significant safety net for the aged, poor and unemployed.

"At the same time, the tax proposals will help raise additional funding for government even though some of them may have a direct impact on consumer spending, which is already under pressure from rising food prices as a result of the impact of the drought," the council said on Wednesday.

The CGCSA has noted the proposed introduction of a tax on sweetened sugary drinks and plastic bags. It will seek further clarification from the Department of Health on the so-called "sugar tax".

The CGCSA also agrees with Gordhan on the need for regular and on-going consultation between the government and the business sector in order to find common solutions to ensure sustained economic growth and success. In particular, the council has been stressing the importance of policy certainty and regulatory impact assessments before policies become law.

"We look forward to further engagement with the relevant Government departments as we partner

to address policy issues needed to boost business confidence, attract investment and create jobs in line with the National Development Plan," the council said.

Who will feel it the most?

The announcement by Finance Minister Pravin Gordhan that the general fuel levy will be raised by 30c/litre to R2.85/l for petrol and R2.70/l for diesel, effective April 6 2016, is going to have a major impact on not just motorists but on the economy as a whole, according to Neil Roets, CEO of one of debt management company Debt Rescue.

This is because most goods in SA are transported by road.

"While budget increases announced by Gordhan were reasonably equitable, the immediate future for consumers looked dismal. Consumers with heavy debt loads are going to feel the increase in the fuel price the most," said Roets.

According the latest statistics released by the National Credit Regulator, just less than 50% of all credit-active consumers are over-indebted - being in arrears by three months or more on at least one of their accounts.

Roets said it was imperative for consumers to draft a budget - taking into account your income, deductions, expenses and monthly debt repayments - and stick to it.

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