

Debt spiral – deal with it now or never



Money Matters

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Winston Churchill once said: “Never let a good crisis go to waste.”

Have you ever stood on a cliff and felt the way your mind and body respond to the threat of being one step away from sure death? It is a hypnotic experience, as fear and excitement draws one closer and closer to the edge and into the moment, until sanity prevails and one reluctantly steps back from the inevitable.

The opening paragraph epitomises South Africa Incorporated’s current financial

situation as we stand on the edge of a proverbial fiscal cliff, while our government appears to be in a hypnotic state of denial. The question is, will sanity prevail or is it already too late to step back and escape the inevitable debt spiral?

You are likely to hear a lot more about this in the next few weeks as we approach the Medium-term Budget Speech, when our Minister of Finance is expected to announce plans to stabilise our current unsustainable debt trajectory.

Frustratingly it is not coming up with the solution that is the problem, but government’s lack of willingness to deal with the issues that have everyone so concerned.

I would like to stress the problem of excessive debt is not unique to SA, with the entire world up to their necks in post-Covid-19 debt stimulus.

There are six known strategies for dealing with excessive debt. The most effective way to escape a debt trap is to grow the economy, which requires

difficult structural implementing reforms. The second strategy is austerity, cutting expenses, in SA, which is a euphemism for reduce the government salary bill. The third strategy is to increase taxes, which is likely to go down like a lead balloon given an already overtaxed populace.

The fourth strategy is not a solution for an emerging market country like ours and that is to print money, i.e. QE to fund government expenses, à la Zimbabwe here we come . . .

The fifth strategy is the much-talked-about prescribed assets where the domestic retirement savings pool is forced to finance government. And the final plan, which is more like the final straw, is when a government defaults on its debt forcing investors to take a “haircut”.

We are at a fork in the road, and I wonder if Covid-19 and its dire economic implications are actually a blessing, forcing government to deal with the fiscal crisis before it is too late.
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