MARCH 2018

In the previous edition we highlighted how well the year had begun, citing reduced inflation and a reduction in the interest rate being the reasons, from a personal finance point of view. Subsequently the Minister of Finance delivered the budget speech, a contrast indeed to the highlights. The Budget Speech will most definitely bring about immediate shocks in the short term and perhaps stabilising over the long term. The budget speech is generally a broad statement touching on key economic areas and areas that will affect ordinary people, and it is those that we draw close attention to. It is important to appreciate the implications from a personal finance view and people should be encouraged to gradually adjust financial positions in order to accommodate shocks. Below are three key areas from the speech that need to be given thought.

Increase in taxes and user fees

There are proposals on tax increases such as graded tax, income tax and Value Added Tax. Further to these proposals is to increase user fees, fees the government collects to provide services, which have remained constant for a long time. The delivery of the budget speech does not translate to immediate implementation as there are processes such proposals if approved have to undergo. While that may be the case it is certain that a majority will be implemented. The earliest date for implementation will be 1 April 2018 with the notable being the VAT increase from 14% to 15%. This buys time for planning on how to cope under such circumstances. These increases will certainly have an impact on personal finances more so because we know that while expenditure increases there will be no immediate adjustments to current income. As a result from a monthly budget point of view, it will be possible to establish whether going forward there will be any shortfalls. Such shortfalls will have to be funded either through debt or investments and savings. A lot of non-essential expenditure items will most likely be suspended for a while as part adjustment plans in order to cope with situation.

Local investments

Members of retirement funds will note that amendments will be made to legislation to increase the requirement of local assets from 30% to 50% and also reduce the amount of cash that can be held in a bank account. The impact here is that in comparison to the South African market where most of the retirement funds have their assets invested, the returns will differ by being lesser in the short term. However this should be looked at in context in that, there are long term benefits for the country and economy and returns would certainly normalize to generally accepted levels for the Swazi economy.

Bonds and Treasury Bills

The bonds and treasury bills remain a key source for government to raise money to fund various projects. Bonds are long term investments which can be held from a minimum of 1 year to 10 years whilst earning interest either annually or semiannually. Treasury bills are short term investments which can be held generally for a period of 3 months, 6 months and 9 months with interest earned at the end of each period. The government aims is to inculcate a savings culture through such asset classes and to also create a viable secondary market for these assets, where they be traded across different investors. Generally with minimal risk to capital invested, the interest earned by the bonds and treasury bills provides a good source of income for investors. Though the interest may be pre-determined it may fluctuate in the secondary market depending on prevailing market conditions. There is a notion that such assets are suitable for institutional investors, that is not the case individuals have an opportunity to invest directly in as well.

Tough as the conditions may be, it will help to plan and make necessary adjustments where needed in order to have such shocks have a minimal impact on overall financial objectives and financial plans a set out in the beginning of the year.

Key Market Indicators

Inflation[1]	4.6%
Interest Rate (Bank Rate)[1]	7.00%
Prime Rate[2]	10.5%

1. Source: Central Bank of Swaziland
2. Source: FNB, Nedbank, Standard Bank, Swazi Bank, Swaziland Building Society

Glossary

1. Inflation – the general increase in prices and the fall in purchasing value of money.
2. Interest Rate – amount paid by borrowers for use of money borrowed from lenders.
3. Prime Rate – the rate used as a benchmark by banks for lending rates.