



## Classic FM Business with John Fraser, 18/02/2009

### “Post Budget discussion,”

with Mike Estment, CEO Director NFB Financial Services Group

**JOHN FRASER:** You may remember just under a week ago we had Trevor Manuel addressing Parliament with possibly his last budget speech, but many are hoping that he'll be along there again this time next year. What actually happened in the budget in the sense of the individual, the ordinary Joe Public - are we better off, are we worse off? We've had a bit of time to digest it, and our next guest this evening will be taking us through some of the issues affecting the individual and maybe giving some advice on whether there's any way in which one should be reacting to the budget to minimise the damage or to maximise the pleasure. He is Mike Estment, the CEO of NFB, and when we open up the debate a bit further, we're also delighted to welcome back to Classic Business two of our top economists, Christ Hart from Investments Solutions and Roger Baxter from the Chamber of Mines.

Mike, we saw in the budget that there was a quite a lot of money, billions and billions, given out, but for somebody who's reasonably successful, who's stable enough to be planning for their retirement, to be investing a bit, somebody of reasonable net worth, my impression is that Trevor Manuel gave a little bit with one hand but he'll be clawing back quite a bit with the other. Am I right on that?

**MIKE ESTMENT:** Yes, at best one would call it neutral. He didn't have much room to move, and our economist colleagues will probably vouch for that.

Fiscal drag was protected in the lower ends but couldn't be dealt with effectively at the top end.

**JOHN FRASER:** That's basically accounting for inflation, for increases in income and your tax.

**MIKE ESTMENT:** Moving into the next bracket and trying to soften the blow by lowering effective rates. That wasn't possible given the constraints on cash flow which all things being equal, are going to get worse, not better. So having been at the Old Mutual board lunch after the Old Mutual board meeting this morning, the same sort of feedback was given by the local and international CEOs, and the position overseas seems absolutely shocking - so unfortunately some of that is going to wash ashore. It's a "belts and brace" type of environment we find ourselves in right now.

**JOHN FRASER:** Mike, the ordinary tax payer has very little in way of allowances - it's not like some countries where if you're paying a mortgage bond on your house, the interest can be tax deductible. Basically you've got your car and you've got your medical aid, and what they've said is they're moving to a more rigid system in terms of travel allowances from the end of next year, and also they're going to play around with the medical allowances as well. One has to suspect that this is not going to be to the ultimate benefit of many taxpayers.

**MIKE ESTMENT:** Yes, you are right. Unfortunately the truth is historically that the individual and certain tax planners would probably try and push the envelope, take advantage of that which is available, and the more sophisticated these tricks and processes are, the more inclined revenue is to thicken the annexures to the original Act which was intended to be quite clear and succinct and so forth. One of the benefits that probably you didn't mention but is of major and material benefit is that of pension deduction. That's something that does remain attractive. There was no messing in a negative sense with the tax efficiency of those assets and therefore that remains something, which in the long-term interests of individuals and of the country at large is very material.

**JOHN FRASER:** In general terms, should people be adjusting their portfolios or adjusting their lifestyles or cutting down on that tot of whiskey at the end of the day? Is there anything that this budget should be prompting in terms of the reaction of the individual?

**MIKE ESTMENT:** I think more so than the budget - the market at large and the various assets classes that people have understood that will give them inflation plus returns, inflation is going to be moving back strongly towards the band, and my guess which is an out lie is maybe even south of the band. It's not there to stay and yet the world's going into a very low yield environment and it's an environment which is going to be quite interesting and quite challenging for pension managers, pension fund advisors, and investment advisors to deal with because expectations from the last five years are for high double digit returns in any sort of growth asset. We're probably going to revert to space where return on equity is going to be the sum, and most importantly the dividend or interest flow, income stream, and then a bit of capital growth if we're lucky, but I don't think we're going to be rushing back into those heavy sort of growth zones.

**JOHN FRASER:** Mike, to what extent are you worried that there wasn't enough in the budget to get people saving?

**MIKE ESTMENT:** I think pragmatically he just couldn't cut us any slack, to use a colloquialism. The tremendous revenue lines and streams and the extremely efficient collection by Revenue and the very appropriate policy coming through South African Reserve Bank Treasury and the Ministry have in a sense actually caused us to have a double whammy - it was too good, and there's little room for successful maneuvering. It is always important, and he has made some moderate changes in the tax breaks for folk in retirement and beyond certain key ages, but there just wasn't anything in the mainstream, I don't think there was room to move there.

**JOHN FRASER:** Mike, to what extent are you worried that maybe government is spending a lot of money but not actually getting value? We're spending a lot on education yet our education results don't appear that wonderful, we're spending a lot on health but public hospitals are not pleasant places to visit, there's defense - do we have a real enemy? Obviously helping the very poor with social grants, you can't fault that, but you have to make sure that the administration of that sort of payment is good, and corruption is a word that

has reared its ugly head quite strongly in recent weeks. For the ordinary taxpayer looking at the way in which their money, which is taken off their salaries every month, is dispensed, aren't there grounds for concern?

**MIKE ESTMENT:** One of the big issues in the world at the moment is velocity of money where enormous amounts of money and support and refinancing are happening, but it's sticking typically in financial institutions, namely banks. The same always can be said of any administration, any bureaucracy does have that risk - it's kind of trying to get it down a 2.5-inch pipe. The risk that you have is a lot of finger pointing and no action. The implication for the man in the street and the investor out there is what can you trust? If one looks at the covenants that had been breached in the world where people have changed mandates, they've gone out on a limb - I was watching a programme on CNBC the last evening and it was all about what they call "the pack of cards" which is the whole story behind the meltdown in the States, and the collusion and the lack of integrity at all levels was absolutely alarming. The man in the street is probably inclined to blame others or to want to blame others. In many instances, greed is a factor - people chase yield or return and when the chickens come home to hatch you're in trouble, and then it's too late.

**JOHN FRASER:** Mike, finally a word from you - we've had our budget and we've been told by Trevor Manuel the economy is growing at 1.2% this year, and that may be optimistic - who knows what further assaults are going to batter South Africa from the outside. Presumably it's a time for the individual to look very carefully at their portfolio, all their assets, their retirement planning, and not to be too extravagant, to be a little bit cautious until the Tsunami dies down a bit.

**MIKE ESTMENT:** You asked the question earlier about where to go for returns or where to go should one cut one's cloth, and the latter statement holds true now more than probably ever before. There are many South Africans that have done a whole lot of hard work and we get asked questions quite regularly from fairly senior management even in organizations, as to, shall I just extend my tenure a year or two because of the incredible damage that has been done to my retirement savings. People tend to bank the big number - the biggest value that they have, they bank, and that's their departure point. So cutting the cloth, being cautious, probably diversification, which is an old adage, is very relevant right now.

