TUESDAY, 10 AUGUST 2021

irfa dispatch

THE RETIREMENT INDUSTRY NEWSLETTER

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LOCAL NEWS

Tax Bills propose additional exit tax on emigrating South Africans

National Treasury published the latest Draft Tax Bills on July 28.

National Treasury published the latest Draft Tax Bills on 28 July 2021, which incorporate the tax proposals made in the 2021 Budget. The Draft Taxation Laws Amendment Bill (TLAB) contains a particularly jarring amendment which proposes to tax retirement fund interests of individuals when they cease South African tax residency.

Existing exit tax

It is important to note that the Income Tax Act No. 58 of 1962 (the Act) already makes provisions for an exit tax where a person ceases their South African tax residency. The Act creates a fiction whereby a person who ceases residency is treated as having disposed of their assets (other than immovable property situated in South Africa) at market value, triggering a tax liability. But this section does not apply to interests in retirement funds.

Proposed amendment

The TLAB proposes, in addition to the existing exit charge, to tax the value of the interest in a pension fund, pension preservation fund, provident fund, provident preservation fund or retirement annuity fund. It is proposed to create a similar fiction under a new section in the Act where an individual will be deemed to have withdrawn from their retirement fund on the day before they cease residency. However, payment of the tax will be deferred until the amount is actually receivable from the fund.

The tax will be levied on the value of the interest on the day prior to ceasing residency and will be calculated in terms of the lump sum tax tables prevailing at the time of payment. In other words, the tax is triggered when the person ceases residency but only becomes payable when the amount is actually withdrawn. It seems Government recognises that this measure of relief is necessary, as it would have been burdensome to pay both exit charges concurrently.

Reason for change

Since retirement interests are not subject to the existing exit charge, Sars might lose the right to tax retirement interests when they are withdrawn after a person ceases residency but prior to retirement. If a person becomes resident of a country with which South Africa has concluded a double tax treaty, generally, such treaty will give the sole taxing right to that country. By the time the amount is withdrawn, South Africa will no longer have the right to tax that amount. In other words, the discrepancy between the date of cessation of residency and the date of withdrawal means Sars loses out on the right to tax the retirement interest. This mismatch is exacerbated by the law change that phased out the concept of emigration for exchange control purposes (commonly referred to as “financial emigration”).

Previously, individuals could withdraw their retirement interest immediately upon completing the financial emigration process. This date would generally align with the date of cessation of residency, thereby avoiding the anomaly. Under the new dispensation, a person will only be allowed to withdraw their retirement interest after being non-resident for three consecutive years. The amendment effectively legislated the mismatch in timing, resulting in the prevalence of these cases and necessitating a further law change.

Closing comment

This interesting development would, in effect, constitute a treaty override measure put in place by South Africa to avoid the further loss of tax revenue as a result of the large number of individuals ceasing their tax residency in South Africa. This is just one of the cascading effects of the widely opposed decision to dispense with the financial emigration process.

Moneyweb | 1 August 2021

Pension-backed lending: The good, the bad, and the ugly

LAST week the Finance Minister, Tito Mboweni, expressed a desire to allow South Africans to make a withdrawal from their pension funds to provide relief for those whose finances are under pressure during these trying times. Mboweni said this was proving to be a complex problem to solve if we are to ensure preservation of savings. Earlier this year the Democratic Alliance proposed the Pension Funds Amendment Bill, 2020 that would amend Section 19 of the Pension Funds Act to allow for South Africans to use up to 75 percent of their pension fund as security against a bank loan to alleviate financial pressure due to Covid-19 or other similar emergencies; currently the Act allows this use exclusively for home loans. This amendment was not supported by Treasury.

Trade union Cosatu suggested amendments to the Bill to limit the use to 30 percent and/or R30 000 of one’s pension fund. They also recommended that a straight cash withdrawal be an option for pension fund members, and for this withdrawal not to be taxed. Let’s explore some of the challenges and opportunities that these proposals may offer.

Risks:

South Africans are already in a retirement crisis where the majority of individuals do not save adequately for retirement. So much so that retirement reforms have had to step in to dissuade early withdrawals from retirement funds. This ability to cash out funds prematurely (as Cosatu suggests) can lead to unintentional misuse and even intentional abuse; the cap does work to limit this. The recommendations for these withdrawals to be tax-free do create an unintended incentive for everyone to make their maximum withdrawal and then simply reinvest the money, gaining another tax deduction on those funds.

Monitoring the use of funds would become a burden that may not be efficient to maintain. Any early withdrawal of funds simply exacerbates the retirement problem for that individual. The reduction in retirement assets is not just what is taken now, but also the future growth that those funds would obtain, which for younger individuals can be a substantial amount.

Opportunities:

If structured diligently, these changes can offer solutions to much needed problems. The obvious first one is that of cash flow relief for those dealing with the devastation of Covid and general economic pressures. However, this comes at the cost of retirement strain (as noted above). One can argue that this short-term cash injection can provide enough liquidity to speed up the re-employment process, provide sufficient cushion to prepare financially, and prevent negative externalities that come with poverty. Simply put, this can be enough of a lifejacket for the vulnerable.

This amendment may also offer access to lower-interest debt for the broader population. Average South Africans could look to consolidate their most expensive debt into a pension-backed loan; this could reduce their monthly payments, and multiple charges associated with various loans. Since the loan would have a pension as security, lending institutions would be willing to offer more competitive rates than for ordinary personal loans or student loans. Many members have made early withdrawals from their pension funds to cover cash shortfalls between jobs, pay off their home loan, or start new business ventures; all the while triggering hefty taxes in the process.

These are a few examples where a low-cost pension-backed loan could be a more useful tool.

Not all pension funds currently provide for pension-backed home loans in their rules; this is largely due to the administrative burden it places on the trustees. The administration would be immense if a large number of members applied for Covid relief simultaneously and the systems may not be adequately set up to manage this. This would trickle down to delayed processing and backlogs for multiple members requiring this money hastily. This would also impact regular operations of pension fund administrators, hindering other members.

It would be foolish to suppose that the consequences of a lack of retirement savings of an individual fall solely on their shoulders. Unfortunately, the costs are borne by their family members and the state – ultimately the rest of society. Pension-backed lending or early withdrawals may present some advantages for South Africans to leverage off one of their largest assets; their retirement savings. However, it comes with a host of challenges that would need to be thoroughly considered before execution.

It also should not be considered in a vacuum, as there are other potential solutions to solving cash flow crises that may be preferable. Ultimately, government should be mindful not to cause unintentional harm to the very people it is looking to support with these changes. It is those individuals who are already financially stretched who stand to benefit the most from the successful implementation of such a plan, but also who would suffer the most

Business Report | 2 August 2021

Covid-19 threatens to create a lost generation of retirees

Who may not be able to enjoy their 'golden years'.

South Africa's tough economic climate over several years, coupled with the financial pressure put on households by the Covid-19 pandemic, is threatening to create a lost generation in the country who will not be able to retire because they simply could not save enough during this period. With the protracted recovery from the pandemic, and the fact that most of those who are saving for retirement find themselves part of the sandwich generation (where they must financially support children as well as ageing parents), is there a focus on survival at the expense of saving for a period that is 30 to 40 years in the future?

The current reality

The 2020 Sanlam Benchmarks Survey, which presents a snapshot of retirement vehicles across the country, paints a worrisome picture when it comes to current saving towards retirement. It indicates that eight out of every 10 local retirement fund members have experienced a reduction in their annual salary increase and/or their net income. In addition, some of these people took a forced sabbatical or went through a retrenchment process during the pandemic. The survey adds that up to 41% of employers who offer umbrella funds offered financial respite to fund members by suspending employees' retirement savings contributions in 2020. It notes that both standalone retirement funds and employers in umbrella funds remained committed to meeting their risk cover premiums during the pandemic.

The survey referenced statistics from Statistics SA which point out that:

- 8% of working South Africans lost their jobs during the pandemic;
- 26% of employees experienced a reduction in income during lockdown;
- there was a 10% increase in employees reporting no income during lockdown; and
- 19% of respondents indicated that the lockdowns will have a major impact on their ability to meet their financial obligations.

There is, however, a glimmer of hope within the pressures the pandemic is exerting on those saving for retirement. The survey points out that millennials are well versed in managing the balancing act of spending money on education and making their children's needs a priority as well as saving for retirement.

Discretionary spending

With discretionary spending under significant pressure, is there a focus on short-term survival over long-term preservation, especially for an event that most South Africans won't be able to successfully navigate? Moneyweb asked Kobus Kleyn, a certified financial planner at Kainos, if the public really is compromising on saving towards retirement. "With disposal income dwindling [and in some cases, non-existent] retirement saving is an expense that has been shifted to the sidelines for the time being, and possibly for at least three to five years while our economy takes time to recover," he says.

"It is indeed an unaffordable luxury for those not on company retirement funds with compulsory retirement contributions." He adds: "Even with company retirement funds, employees on structured packages and funds are changing to lower percentage contributions and lower pensionable income structures." He points out that with the risk of Covid-19, many a financial consumer would rather stay invested in risk protection and maintain premiums or take out more risk protection and drop their retirement contributions, as they feel they may not live long enough to enjoy retirement. "Somewhere the budget must compromise on something to make ends meet. The objective with the lowest risk and longest-term will always be compromised," he explains.

Lost generation?

It is becoming clear that we may inadvertently be heading towards the creation of a lost generation of South Africans who simply will not be able to retire comfortably. "With an extended pandemic that has already lasted over 18 months, there is every indication that surviving the direct impacts of the pandemic will take at least 30 months. **Full Report:*Covid-19 threatens to create a lost generation of retirees - Moneyweb***

Moneyweb | 3 August 2021

Make your Covid savings work for your future

Covid and lockdown has up-ended our lives on many fronts. However, for some of us that have been fortunate enough to avoid a heavy financial hit, there could also be some positives - such as reduced household costs because we're still going out less, travel is complicated and remote work continues for many of us, which means reduced spend on petrol and car maintenance. As July national savings month comes to an end, Ncumisa Madinda, Executive for Member Solutions at Momentum Corporate, says it's the perfect time to tally up your monthly Covid-related savings. It may be a lot more than you think. Rather than splurge on online purchases or take-aways, put it to work for your dreams and future.

"The sad reality is that most of us are only saving enough to reach a much lower income replacement ratio," says Madinda. "This means our retirement income will be a lot lower than our salary and we may need to make some big lifestyle adjustments, or risk running out of money during retirement." Madinda says that a smart move is to put those Covid savings to work for your future and channel them towards your retirement savings. "Let's say you count up your Covid savings and they come to R500 a month, or R16 a day. A 35-year old who is due to retire at 65 will find that this relatively small additional investment can increase to a much larger amount of R1,031,422 by retirement, thanks to compound interest (10% per annum)," says Madinda

Did your employer take a contribution holiday recently?

Madinda explains that Covid-19 has created cash flow pressure for many employers. "This is why the FundsAtWork Umbrella Funds from Momentum Corporate allowed employers who applied for contribution relief to put retirement contributions on hold for an agreed period. Many other retirement funds followed a similar route. However this pause in contributions could impact on members' already low income replacement ratio, unless they catch-up on the missed contributions by making additional voluntary contributions.

For example, a 35-year old due to retire at 65, who was on track to achieve an income replacement ratio of 50%, will find that a 12-month contribution holiday has reduced their income replacement ratio to 48.6%. But if they increase their monthly contribution by just 2%, and keep it at this level until they retire, their retirement income ratio increases to nearly 54%," says Madinda. If your contributions were put on hold for any period due to the pandemic, it would be a good idea to seriously consider using some of your Covid savings to catch up by ramping up your retirement contribution.

Less for the tax man, more for your retirement

Madinda says it's important to remember that the contributions you pay to your retirement fund are tax deductible, which means the contributions are deducted from your income before calculating the tax due. So increasing your contributions not only helps you save for more retirement, but also means you pay less tax every month. She continues, "Those who are fortunate to belong to a retirement fund that pays them financial rewards based on their health status can use the rewards to boost retirement savings.

Plus, if you speak to a retirement benefit counsellor or financial adviser, and feel confident that your retirement savings are on track, you could consider a shorter-term savings goal, like taking the family on a holiday when lockdown is over. Some retirement funds like the FundsAtWork Umbrella Fund give their members access to rewards programmes, and offer seamless ways to channel their rewards to attractive short-term savings options." Madinda concludes, "As South Africans, we have the knack and grit to rise above challenging situations, and Covid has certainly been challenging. Let's look at how we rise above our current set of difficulties and make them work for us, by using our Covid savings to bring our future dreams to life."

Personal Finances | 2 August 2021

Women are less ready for retirement. Here's how to close the gap

How ready are you for retirement? Whatever your answer is, there's a good chance it's less ready than the average man. Unfortunately, there's a retirement readiness gap between the sexes. Here's why, and what you can do to close it. It's common knowledge that South Africans, both men and women at all levels of income, are poor at planning for retirement. According to estimates by the National Treasury, only 6% of South Africans have planned enough to ensure a comfortable retirement. And within the small group of people who feel prepared, women lag.

"According to a study called *Perceptions of Retirement Adequacy: Evidence from South Africa*, employment inequalities can result in females being less confident about retirement adequacy than males," says Jennifer Arendse, Head of Marketing at Discovery Invest. "Having a thought-out and tailored investment plan for retirement is a priority that South African women can't afford to ignore." It's noteworthy that this gender retirement gap is not exclusive to South Africa, but is a global phenomenon. But why does it exist in the first place? There are a number of nuanced and correlating reasons. Here are the two main ones:

Why there's a gender retirement gap

1. **Women generally earn less than men, so have less to save for retirement**

On average, women earn less than males across all educational levels. According to the latest data from StatsSA, South African females with no education earned 54,4% of the income earned by their male counterparts, while females with high school or tertiary educations earned 68,2% and 63,1%, respectively, of their male counterparts average income. Women are also more likely to take leave to care for an ailing family member, Arendse adds. While these are vital and valuable contributions towards the wellbeing of her family, it's estimated that such 'interruptions' amount to 10 fewer years in the workforce, and so 10 fewer years of potential retirement savings from the loss of income.

2. **Women generally live longer than men do, so need more in total to retire**

The retirement gap is made tougher by the fact that women in countries with established socio-economic order live on average four to seven years longer than men do. Since they have a higher life expectancy at retirement age, they need a relatively bigger stash of retirement savings than their male counterparts.

5 steps women can take to close the retirement readiness gap

According to Joseph Thompson, Co-founder and CEO, Aid:Tech, 55% of the unbanked population in the world (that is, those who have no access to financial products) are women.

"Everyone wants financial security when they stop working – and for most women, that means taking steps to plan more deliberately, and without delay," says Arendse. Here are her five steps for women to help them better prepare for retirement:

Own your financial future: It's easy to rely on partners, parents or even children to 'sort out the admin', but every woman needs to take ownership of her own financial future. Too many women don't engage because they are "terrified of getting it wrong," notes Ann Wilson, the Wealth Chef, but these days, there is plenty of high-quality information available, as well as handy retirement planning tools to help you make informed decisions. It all starts with making your finances a personal priority, and taking steps to become more informed. (Learn more on this Your Money Matters podcast, *Can saving for retirement be sexier than it sounds*?)

Get professional advice: Researching and even completing a financial education course are great steps to take for general education, but a certified financial planner can help tailor a financial plan for your specific circumstances, taking your needs and family into account. It's also great to have someone you can count on for objective money advice. This can help you avoid common and costly financial errors (like cashing out your retirement savings instead of preserving them when you change jobs).

Start saving and investing – earlier and more: "Industry reports reveal that significantly fewer women save and invest than men," says Arendse. "To reverse the downward trend and beat inflation, women need to start investing more, over a longer term. This is what's needed to generate enough income to live off in retirement."

Look after your health. It makes sense that what's good for your health is also good for your wealth. By following a healthier lifestyle, like exercising regularly, eating nutritious food, and reducing tobacco and alcohol use, you can manage and even prevent lifestyle-related diseases like cardiovascular disease, cancer, chronic respiratory disease, and diabetes. Over time, good health can save you thousands in medical expenses and increase your productivity, boosting your discretionary savings. This is clear from Discovery Vitality's data, which shows that, when compared to non-Vitality members, highly engaged Vitality members have an almost 60% lower risk of death, 14% lower healthcare costs, and are 99% less likely to be in arrears.

Invest for growth: Arendse also notes that "although women tend to save more in cash, they are much less likely to invest their money for growth." She stresses that investing in "a well-diversified, high-equity portfolio is the most effective and reliable way to grow your capital over the long term – so it's worth doing what it takes to optimise your returns. This is what will help women achieve financial independence and close the retirement readiness gap." Now that's a goal worthy of Women's Day!

FA News | 9 August 2021

Will retirement fund pay a lump sum of husband's annuity if we agree to it in our divorce?

It is paramount that you understand your rights at divorce and be aware of certain legislation that is applicable to your particular situation.

We are married out of community of property and are in the process of divorcing. We both have retirement annuities, but both were made paid up about two years ago when my husband was retrenched. My question is: as part of our divorce agreement, my husband is suggesting that a lump sum of his annuity be paid to me because he is working on a commission-only basis and then the kids' monthly expenses will be for my account and no maintenance will be paid. Is this allowed and will the annuity pay the amount over if we agree to these terms?

To answer your question, it is paramount that you understand your rights at divorce and be aware of certain legislation that is applicable to your particular situation. When it comes to your divorce order, it's prudent to understand Section 7(7) & (8) of the Divorce Act, 1979 (Act no. 70 of 1979) read together with section 37D(4)(a) of the Pension Funds Act, which provides that a divorce order may grant part of a member's pension interest in a retirement fund to a non-member spouse. To start, it is important to look at what "pension interest" means in relation to a retirement annuity fund.

The Divorce Act defines "pension interest" in relation to a party to a divorce action who:
(a) is a member of a pension fund (excluding a retirement annuity fund), means the benefits to which that party as such a member would have been entitled in terms of the rules of that fund if [their] membership of the fund would have been terminated on the date of the divorce on account of his resignation from his office;

(b) is a member of a retirement annuity fund which was bona fide established for the purpose of providing life annuities for the members of the fund, and which is a pension fund, means the total amount of that party's contributions to the fund up to the date of the divorce, together with a total amount of annual simple interest on those contributions up to that date, calculated at the same rate as the rate prescribed as at that date by the Minister of Justice in terms of section 1 (2) of the Prescribed Rate of Interest Act, 1975 (Act No. 55 of 1975), for the purposes of that Act.

In your case, part (b) of the definition is applicable, meaning the total of the contributions to the fund by a member of a retirement annuity fund up to the date of the divorce, together with the total amount of annual simple interest on those contributions up to that date, calculated at the same rate as the rate prescribed as at the date by the Minister of Justice in terms of Section 1(2) of the Prescribed Rate of Interest Act of 55 of 1975. Once is it clear what is meant by "pensionable interest", it is important to look at Section 7(7) of the Divorce Act which provides for the deemed inclusion of a member's pensionable interest in the assets when determining the patrimonial benefits to which the parties to a divorce action may be entitled.

It is important to note that this section does not apply to a divorce action in respect of a marriage out of community of property entered into on or after 1 November 1984. The effect of this exclusion is that a claim cannot be made against the "pension interest" of a member if the parties were married out of community of property without the accrual system on or after 1 November 1984. Parties married out of community of property without the accrual system before this date can still lay a claim to the "pension interest". Lastly, Section 7(8) of the Divorce Act, read together with section 37D(4)(a) of the Pension Funds Act, sets out certain criteria with which a divorce order must comply in order for the retirement annuity fund to give effect to a non-member spouse's claim.

The criteria can be summarised as follows:

1. The order must specifically provide for the non-member spouse's entitlement to a "pension interest" as defined in the Divorce Act;
2. The relevant fund which has to deduct the "pension interest" must be named or identifiable;
3. The order must set out a percentage (%) of the member's "pension interest" or a specific amount; and
4. The fund must be expressly ordered to endorse its records and make payment of the "pension interest".

If the divorce order does not meet the above requirements, it will not be enforceable against the retirement annuity fund. When it comes to maintenance, bear in mind, if either of you can adequately support your children, this does not mean that either parent can avoid contributing to the maintenance of your children. A divorce order/settlement claim will be seen as invalid if a clause states that only one parent needs to maintain the children. Therefore, your husband cannot by law put the onus on you to financially support your children.

If there are minor children involved, it is advisable to have a family advocate help with the wording and approve the statement of agreement before going to court. An order regarding maintenance is also not fixed forever. If circumstances change, an application for an increase or reduction in maintenance can be made. A basic principle of child maintenance is that the obligation is based on the standard of living, income and means of the person obliged to pay. This means that one of the parties who has greater means may be required to contribute a larger portion of the maintenance, but it does not absolve the other party of also contributing within their means.

It is always advisable to get legal advice before making any decisions around the division of assets in a divorce and the agreement towards the payment of maintenance. Spending time on getting this right at the start will avoid you having to go back to court to amend the Divorce Order at a later stage, thereby incurring unnecessary costs. It will also ensure that your rights are protected during this difficult time.

Moneyweb | 4 August 2021

INTERNATIONAL NEWS

Pension funds urged to join investment big bang

Boris Johnson and Rishi Sunak have urged pension schemes to put more of savers' cash into UK assets to fuel the economy's post-pandemic recovery. In a letter to the UK's institutional investors, published yesterday (August 4), the prime minister and chancellor said the country needs an 'investment big bang' to unlock the hundreds of billions of pounds sat in schemes and use it to drive the UK's recovery. The letter stated: "It's time we recognised the quality that other countries see in the UK, and back ourselves by investing more money into the companies and infrastructure that will drive growth and prosperity across our country."

The pair pointed out that some of the world's largest pension funds, including from Canada and Australia, have benefited from the opportunities that UK long term investments afford, while UK investors are under-represented in owning these assets. The letter stated: "For example, over 80 per cent of UK defined contribution pension funds' investments are in mostly listed securities, which represent only twenty percent of the UK's assets. "While we are glad that international investors prize UK assets, and are working hard to attract even more inward investment, we also want to see UK pension savers benefitting from the fruits of UK ingenuity and enterprise, being given the opportunity to back British success stories, and secure higher returns and better retirements."

To make this possible, the government said it is trying to remove obstacles and costs when making long-term, illiquid investments in the UK in order to encourage a change in behaviour. For example, the Department for Work and Pensions is reforming the cap on fees that defined contribution schemes are charged so that savers can invest in higher risk sectors, where bigger performance fees are often common.

The letter stated: "Whether you are a trustee or manager of a DC or DB pension fund, running an insurance company or advising investors on their investment strategy, we are challenging you this summer to begin to invest more in long-term UK assets, giving pension savers access to better returns and enabling them to see their funds support an innovative, healthier, greener future for their country. "We know that this will require a change in mind set for many investors that won't happen overnight, but that is why this change needs to start now."

Financial Times| 5 August 2021

U.S. Treasury suspends government retirement, health fund payments as debt limit resets

Department is projected to exhaust its borrowing authority in October or November, the Congressional Budget Office said on Wednesday, as a partisan fight over raising the nation's debt ceiling erupted in Congress. "If that occurred, the government would be unable to pay its obligations fully, and it would delay making payments for its activities, default on its debt obligations, or both," the non-partisan CBO said in a statement. A failure to work out differences over whether government spending cuts should accompany an increase in the statutory debt limit, currently set at $28.5 trillion, could lead to a federal government shutdown - as has happened three times in the past decade - or even a debt default.

The White House urged Congress to resolve partisan differences, even as Republicans seized upon the debt limit issue to attack Democrats for pushing legislation that they say has led to inflation and escalating public debt. "We expect Congress to act in a timely manner to raise or suspend the debt ceiling as they did three times on a broad bipartisan basis during the last administration," White House spokeswoman Jen Psaki told reporters. President Joe Biden's fellow Democrats narrowly control both the Senate and House of Representatives. No senior Republicans have threatened a shutdown in recent public statements. Democrats are insisting on a "clean" debt limit increase unfettered by a fight over spending reductions.

The top Senate Republican, Mitch McConnell, said on Wednesday that members of his party would be unlikely to support a debt limit increase given the current Democratic drive for a multi-trillion-dollar infrastructure investment bill. "I can't imagine there will be a single Republican voting to raise the debt ceiling after what we've been experiencing," McConnell told the Congress-focused Punchbowl News. But Republican Senator Mike Rounds, for one, noted he has voted for debt ceiling increases in the past and said, "My personal opinion is that once we have acquired the debt, we are responsible for the debt and you need to address the debt."

A family's stimulus check from the U.S. Treasury for the coronavirus disease (COVID-19) aid arrived in the mail in Milton, Massachusetts, U.S., March 25, 2021. REUTERS/Brian Snyder McConnell suggested Democrats handle a debt limit increase in a second spending measure they are expecting to pass without Republican votes in a maneuver called reconciliation. Senate Majority Leader Chuck Schumer called McConnell's remarks "shameless, cynical and totally political." Schumer said Republicans did not raise such concerns during the presidency of Republican Donald Trump and that some of the debt is related to emergency aid for the COVID-19 pandemic.

Reuters | 21 July 2021

OUT OF INTEREST

July 2021 economic update

European stocks have been a mixed bag, as fears return over more Covid-19 restrictions following a breakout of the Delta variant.

July was a rough month for Global & Local as several of our staff members tested positive for Covid-19. We are happy to report that all have recovered, and life is back to normal at the office. We appreciate your patience with us during this time.

- July saw a watershed moment for our government with widespread looting in Kwa-Zulu Natal and Gauteng, all under the guise of support for former president Jacob Zuma following his incarceration. The looting lasted for a week and eventually 25 000 army soldiers were deployed, but not before several malls, businesses and factories were completely ransacked. These businesses are expected to take years to rebuild, and economists are estimating that the cost to the national economy from the destruction is well in excess of R50 billion!
- The South African Reserve Bank Monetary Policy Committee has decided to keep the repo rate unchanged at 3.50% and the prime rate therefore also remains at 7%.
- This is unfortunately countered by steep petrol prices hikes that have kicked in in August.
- South Africa had another month of record trade, supported by the strong demand for commodities at the moment. While very welcome – the tax revenue will even assist to pay for the damages – this cannot last forever and is not a long-term solution to our economic woes.
- Katherine Tai, the US trade chief plans to have a meeting with the African ministers before the end of the year to strengthen the partnerships between them and discuss a law that will provide duty-free access to the US for goods from sub-Saharan nations.
- The US economy is slowly progressing but has not yet fully recovered. The central bank advised that risks to the economic view remains the same and will monitor the economic progress. With a goal of returning to full employment and keeping inflation above 2% over the longer period, it was no surprise that Federal Reserve Bank decided to hold interest rates.
- The US economy grew at a disappointing rate in the second quarter as GDP accelerated at 6.5% during the April to June period. That was slightly better than the 6.3% gain in the first quarter. While that would have been strong prior to the pandemic, the gain is considerably less than the 8.40% Dow Jones estimate.
- The eurozone economy grew by 2% in the second quarter of the year, officially taking the region out of recession. However, it remains 3% down from its pre-pandemic level in late 2019.

The growth is thanks to a 3.40% bounce in the services sector as pubs and non-essential retailers welcomed customers back.

- The UK markets saw a mediocre month despite encouraging earnings numbers and enormous dividends declared by some of the larger corporates. While this will drive sentiment in the right direction, it seems there is still a lot to be done.
- European stocks have been a mixed bag, as fears return over more Covid-19 restrictions following a breakout of the Delta variant. Even so, some normality resumed as the European Championship final was hosted in London with over 60 000 people in attendance.
- The Euro Stoxx 50 has held up well despite slower economic growth and revised ECB inflation targets.
- The rand saw massive moves during the month due to the social unrest, reaching a high of R15 to the dollar at its peak. It has since recovered slightly again, but the unrest did nothing for the risk sentiment of the rand. It closed the month up 1.82% at R14.56 to the dollar.
- One month index movements:

    - JSE All Share Index: 4.11%
    - S&P 500 (US): 2.27%
    - FTSE (UK): -0.07%

Moneyweb | 4 August 2021

Switchboard: 011 450 1670 / 081 445 8722
Fax: 011 450 1579
Email: reception@irfa.org.za
Website: www.irf.org.za

3 Williams Road
Bedfordview
Johannesburg 2008