

EMERGENCY PREPAREDNESS FOR SOUTH AFRICA

# FINANCIAL CRISIS READINESS

Economic warning signs, household pressure points, cash, debt, and how families can think more defensively.

## ECONOMIC WARNING SIGNS

- RISING INFLATION
- INTEREST RATE HIKES
- JOB LOSSES
- CURRENCY WEAKNESS
- SUPPLY CHAIN ISSUES
- HOUSING MARKET STRESS
- DEBT BUBBLES

## HOUSEHOLD PRESSURE POINTS

- INCOME DEPENDENCE
- HIGH DEBT PAYMENTS
- LACK OF SAVINGS
- RISING LIVING COSTS
- ONE INCOME ONLY
- UNPLANNED EXPENSES
- LIFESTYLE CREEP

## CASH IS FREEDOM

- HAVE CASH.
- HAVE OPTIONS.
- HAVE TIME.

## DEBT DANGERS

- CREDIT CARDS
- PAYDAY LOANS
- STORE ACCOUNTS
- CAR FINANCE
- OVER-BORROWING
- GUARANTEES
- LIFESTYLE DEBT

## FAMILY FINANCIAL PLAN

- EARN
- SAVE
- PROTECT
- INVEST WISELY
- GIVE
- PREPARE



## BUILD FINANCIAL RESILIENCE

- EMERGENCY FUND
- MULTIPLE INCOME STREAMS
- SKILL DEVELOPMENT
- REDUCE EXPENSES
- BUILD ASSETS

## PROTECT WHAT MATTERS

- INSURANCE (ESSENTIAL)
- WILL & BENEFICIARIES
- IDENTITY PROTECTION
- IMPORTANT DOCUMENTS
- LEGAL REVIEW

## THINK DEFENSIVELY

- PLAN FOR LESS INCOME
- STOCK ESSENTIALS
- REDUCE RISK EXPOSURE
- AVOID BAD DEBT
- STAY INFORMED
- BE PATIENT & DISCIPLINED

## PREPARE FOR DISRUPTION

- JOB LOSS
- BUSINESS FAILURE
- MARKET CRASH
- BANKING RESTRICTIONS
- SOCIAL UNREST

LIVE BELOW  
YOUR MEANS

EMERGENCY  
CASH

# 17 ECONOMICAL AND FINANCIAL CRISES

## FITCH MAINTAINS SA'S RATING AT BB+ WITH a STABLE OUTLOOK

Marlize van der Merwe | 06 December 2018 | News24

*Ratings agency Fitch on Thursday kept South Africa's sub-investment grade credit rating unchanged at BB+ with a stable outlook. SA's ratings are weighed down by low growth potential, sizable government debt and contingent liabilities, and the risk of rising social tensions due to extremely high inequality, Fitch said in a statement.*



*The ratings are supported by strong institutions, a favourable government debt structure, deep local capital markets and a healthy banking sector, Fitch added. "GDP growth was weaker than expected in 1H18, but Fitch expects a recovery of investment after a prolonged period of contraction to drive GDP growth to 2.1% in 2019 and 2020 from 0.6% in 2018," Fitch said.*

*"The president in September announced a package of measures to stimulate growth, focused on structural reforms as well as reprioritising expenditure. A revised mining charter has been approved, lowering uncertainty for the sector, but raising regulatory costs compared with the previous regime."*

*Fitch also praised measures to strengthen the telecoms sector, raise competition, reduce bulk transport costs and boost tourism by easing visa requirements. "However, in Fitch's view the measures will take time to implement and are not sufficiently far-reaching to raise medium-term potential growth significantly. As a result, potential growth is expected to remain just below 2%. This is well below the historical 'BB' category median of 3.4% and only just above population growth of 1.6%," the statement said.*

*S&P has also rated South Africa at sub-investment grade, while Moody's rating at Baa3, one notch above sub-investment grade."*

Our economic outlook has never looked worse with the lowering of South Africa's credit rating. South Africa has experienced very unfavourable economic growth conditions over the past 20 years. The extremely high levels of corruption and ignorance in the public service have hampered investor confidence and capital dearly needed for growth in South Africa now flows to other countries instead. But what if you start taking physical financial distress, perhaps losing your job? The following few guidelines can put you in a very advantageous position for such circumstances.

## 17.1 HOW COLLAPSE ACTUALLY HAPPENS — WHAT NOBODY TELLS YOU



Most people who worry about an economic collapse are picturing the wrong thing. They imagine a single catastrophic moment. A flash. An explosion. The grid goes down, the banks close, the shelves empty, and suddenly it is every person for themselves. It makes for a great movie.

But that is not how it actually works. Not historically, and not now.

A real collapse is not a light switch being turned off. It is a slow leak. It is the tap dripping for months until one day you realise the whole ceiling has rotted through. And the reason these matters — the reason it is worth understanding — is that most people do not recognise a collapse while it is happening. They adjust. They rationalise. They wait for the dramatic moment that never comes. And meanwhile, the ground beneath them has already shifted.

### 17.1.1 THE PATTERN THAT REPEATS ITSELF

Economic collapses follow a remarkably consistent pattern across different countries, different economies and different decades. Once you know the pattern, you can see the early signs. And if you can see the early signs, you can act while there is still time to act calmly.

### 17.1.1.1 PHASE 1 — SLOW EROSION

Prices creep up. Wages do not keep pace. Services you relied on become a little less reliable. The pharmacy is out of your medication for a few days. The petrol station down the road closes. Your insurance covers a little less than it used to. None of these things alone feel like a crisis. They feel like inconveniences. That is exactly the point.

### 17.1.1.2 PHASE 2 — ACCELERATION

The inconveniences start stacking. You notice your grocery bill has jumped and your salary has not. You hear about retrenchments at companies that seemed solid. Your local hospital closes a ward. Things feel tighter, but the official story is still that everything is under control. Experts go on television and say the fundamentals are strong, the numbers are manageable, this is just a temporary adjustment.

### 17.1.1.3 PHASE 3 — THE ACUTE PHASE

This is the part most people think of when they hear the word collapse. Banks restrict withdrawals. Store shelves have gaps. Medicine becomes hard to find. People who were comfortable six months ago are suddenly choosing between groceries and rent. But here is the hard truth — by the time you are in the acute phase, the window for easy preparation has mostly closed.

The people who come through these situations best are the ones who took small, steady steps during Phase 1 — the slow erosion — while things still seemed mostly normal.

## 17.1.2 THREE COUNTRIES. THREE WARNINGS

These are not theoretical scenarios. These are things that happened to real countries with real people who had jobs and mortgages and children in school — people very much like you and me.

### 17.1.2.1 ARGENTINA, 2001

Argentina had been in a recession for three years before the crisis hit its peak. The economy had been shrinking steadily since 1998. Unemployment climbed. Businesses closed. But the government kept reassuring people that the banking system was safe, that things would turn around. People believed it because they wanted to believe it. They went to work. They shopped for groceries. They put money in the bank. They followed the rules they had always been taught — save, be responsible, trust the institutions.



Then in December 2001, the government froze bank accounts. Overnight, people could only withdraw 250 pesos per week. Your life savings were sitting right there in the bank, and you could not touch them. Within weeks the peso was devalued and those savings were worth a fraction of what they had been. The poverty rate hit 50 percent. Unemployment reached 30 percent in some areas.

Two decades later, Argentinians still keep cash at home. The rumour of another account freeze can trigger a bank run within hours. That kind of institutional trauma does not fade easily.

### 17.1.2.2 GREECE, 2008–2015



Greece was not a developing country. It was a member of the European Union with modern infrastructure, a functioning healthcare system, universities and high-speed internet. And still, between 2008 and 2012, its economy contracted by more than 20 percent. Unemployment peaked at 28 percent. Youth unemployment climbed above 60 percent — an entire generation that could not find work.

But here is what really affected people on the ground. It was not the GDP numbers or the bond yields. It was the pharmacy running out of blood pressure medication. The government owed pharmacists hundreds of millions of euros through the insurance system. The pharmacists could not pay their suppliers. The suppliers stopped delivering. Patients showed up and were told they had to pay full price in cash — and even then, the drugs might not be available. Five

hundred commonly used medications were in short supply, including drugs for hypertension, cancer, kidney disease and epilepsy. Pharmacists across Athens started trading medications with each other to try to serve their patients.

That is what economic collapse looks like in a modern country. Not tanks in the streets. Pharmacists bartering with each other like medieval traders in a country with fibre optic internet and EU membership.

By 2015, banks closed for weeks. ATM withdrawals were capped at 60 euros per day. Nearly 20 percent of Greeks could not afford their daily food expenses. Twenty thousand people became homeless in a single year. The public hospital budget was cut by more than a quarter at the very moment more people needed hospitals, not fewer.

### 17.1.2.3 VENEZUELA — THE FULL ARC

Venezuela had the largest proven oil reserves on the planet. Within living memory, it was one of the wealthiest countries in South America. Then oil prices dropped. The government, which had built its entire budget around oil revenue, started running out of cash. Rather than cut spending, they printed more currency. Inflation exploded. Price controls made it unprofitable for domestic producers to grow food, so agricultural production collapsed.



By 2017 the average Venezuelan living in poverty had lost 19 kilograms in a single year simply because there was not enough food. By 2018 more than 30 percent of the population was eating only one meal a day. Inflation hit 63 000 percent. Medicine shortages reached 85 percent. Diseases that had been eradicated years earlier — malaria, measles, diphtheria — came roaring back.

In Caracas people gathered every evening searching through discarded food. These were not just the traditionally poor. Journalists described small business owners, college students and retirees joining the lines. The food existed. It was simply priced beyond what ordinary people could afford. That is one of the cruellest features of economic collapse — the stuff is there. You just cannot reach it.

### 17.1.3 THE FOUR WARNING SIGNS NOBODY TALKS ABOUT

If you look at Argentina, Greece and Venezuela side by side, the same early warning signs appear before things unravel. These are not conspiracy theories or doomsday predictions. They are patterns that historians and economists have consistently identified after studying what went wrong.

#### 17.1.3.1 SUSTAINED INFLATION THAT OUTPACES WAGES

Not a month or two of higher prices, but a persistent, ongoing gap between what things cost and what people earn. When that gap keeps widening and there is no clear mechanism to close it, pressure is building in the system. Sound familiar?

#### 17.1.3.2 INCREASING DIFFICULTY ACCESSING BASIC GOODS AND SERVICES.

Not a single shortage, but a pattern. Your pharmacy is out of something. The grocery store stopped carrying a product and did not replace it. Wait times at the doctor get longer. Your insurance costs more but covers less. None of this alone mean anything. But when they start clustering together, pay attention.

#### 17.1.3.3 EROSION OF INSTITUTIONAL TRUST

When people stop believing that the systems they depend on will function when they need them. In Argentina, people were quietly pulling money out of banks for months before the freeze. They could feel something was wrong even though every official statement said otherwise. The people who acted on that instinct before the freeze were the ones who still had cash when it mattered.

#### 17.1.3.4 NORMALISATION OF DECLINING CONDITIONS.

This is the subtlest and perhaps the most dangerous sign. It is when things that would have been unacceptable a few years ago become just how things are now. In Venezuela, waiting four hours for basic food became normal. In Greece, paying full cash price for medications your insurance was supposed to cover became normal. When we normalise declining conditions, we stop preparing for the possibility that they might get worse. We stop noticing. And that is when things accelerate.

Now look honestly at South Africa over the past decade. Load shedding was unacceptable. Then it became inconvenient. Then it became normal. Service delivery failures were shocking. Now they are expected. Corruption scandals that would have brought down governments elsewhere barely make the front page anymore. We have been living through Phase 1 for some time already.

## 17.2 PRACTICAL FINANCIAL PREPARATION — WHAT YOU CAN DO NOW

The purpose of understanding all of this is not to frighten you. Fear paralyzes. Awareness empowers. And those are very different things.

Fear makes you want to buy a bunker and distrust everyone around you. Awareness makes you want to stock an extra week of groceries, fill a prescription early, get to know your neighbours and keep some cash at home. The people who navigate hard times best are not the ones with the most gear or the biggest stockpile. They are the ones who saw reality clearly, made reasonable adjustments, and built some margin into their lives before they needed it.

Here is what people who have actually lived through economic collapse consistently say mattered most:

### 17.2.1.1 EXPLAIN TO YOUR FAMILY

Start preparing yourself psychologically for tough financial times. Discuss the possibility with your family and friends and make sure they understand this threat and start changing your mind-set. To expect 'something' is always better than to be caught off-guard in difficult conditions. Make sure that everyone understands that such circumstances will affect everyone (or many people) and that it will not only be limited to your family. If your family realises that the conditions in the country are the cause (something outside your family or close circle), the family will rather stand together and support each other, rather than raising accusations or reproaches.



### 17.2.1.2 KEEP CASH AT HOME

In almost every financial crisis there is a period where electronic payments become unreliable. Cards do not work. ATMs have limits or run dry entirely. Banks have restricted hours or simply close. In Argentina, when the account freeze hit, debit cards were useless because most businesses could not accept them. People who had cash at home could still eat, still pay for transport, still function. People who had trusted the banking system entirely could not.

You do not need a fortune. A few hundred rands in small denominations stored safely at home covers more scenarios than you think. Keep small notes — when systems are strained, making change becomes its own problem.

### 17.2.1.3 GET AN ADDITIONAL INCOME

Start increasing your disposable income by taking on more work or cutting business expenses. Every additional income stream reduces your vulnerability to the loss of any single one.

### 17.2.1.4 CUT EXPENDITURE

Start cutting household expenses now while it is a choice rather than a necessity. Buy groceries in bulk. Consider buying a whole sheep instead of a packet of meat at the Spar each day. Work together with family and friends,

pass on children's clothes, shower for shorter periods, cut back on entertainment. Clean your own home if necessary. Every rand saved now is a rand of resilience later.

#### **17.2.1.5 PAY YOUR DEBT**

Do not spend your bonus on a holiday or buy unnecessary items. Start tackling your debt aggressively. Pay off smaller debts first, then redirect those repayments to larger debts. Consider selling possessions you do not truly need — the boat, the extra car, the treadmill collecting dust. Debt is a chain. Break it while you still have the income to do so.

#### **17.2.1.6 REDUCE YOUR LIFESTYLE**

Could you rent out your house and move to a cheaper rental? Could you swap the luxury vehicle for something practical and economical? These are not comfortable questions. But they are far better to ask now voluntarily than to be forced into those decisions by circumstance.

#### **17.2.1.7 BUDGET**

If you do not have a budget, now is the right time to start. Checking your monthly spending creates awareness of where your money leaks unnecessarily. A budget is not a restriction — it is a map.

#### **17.2.1.8 BUILD A SAVINGS BUFFER**

Put away savings for difficult times. Usually, as soon as economic conditions worsen, the market floods with second-hand goods as people try to raise cash. That is not the time to be buying — it is the time to be selling. Position yourself on the right side of that equation.

#### **17.2.1.9 DIVERSIFY AND PROTECT YOUR INVESTMENTS**

Consider the possibility that the Rand's value might drop significantly or that access to bank accounts could be restricted in an extreme scenario. While very specific conditions are required for the latter, it is wise to think carefully about how your assets are structured and whether all your eggs are in one basket.

#### **17.2.1.10 FOCUS ON BASIC NEEDS FIRST**

In a genuine financial crisis, the priorities become very simple: food, water and shelter. As long as you can provide these things for your family, the rest of the financial mess can be sorted out at a later stage. Everything else is secondary.

#### **17.2.1.11 WATCH FOR DISCOUNTS AND SPECIALS**

Monitor grocery specials, coupons and discount offers carefully. Throw your brand loyalty away — a generic product that keeps your family fed is worth infinitely more than a branded product you cannot afford. In a financial crisis, pragmatism replaces pride.



#### **17.2.1.12 BUY IN BULK**

Learn from other people – they save more money by buying in bulk than buying individual products. Due to the constant rise in food prices, it is a positive way to buy supplies at the most economical price. It's also advisable to buy in bulk with others and divide groceries among yourselves. Buying in bulk can save a lot when getting emergency supplies together. Foods such as flour, sugar, oatmeal, and popcorn can be purchased in bulk quantities at discounted prices.

#### **17.2.1.13 BUILD BARTER CAPACITY**

Invest in negotiable commodities — things that do not lose value in times of need and may actually increase in value. Gold, non-perishable food, fuel and gas can be exchanged for other items or sold when paper currency is unreliable. In Argentina, Venezuela and Greece, barter economies sprung up in communities almost spontaneously when the formal economy faltered.

#### **17.2.1.14 MEDICATION SUPPLY**

If you or anyone in your family takes chronic medication regularly, having an extra 30-day supply is one of the most important preparations you can make. In Greece, patients with chronic conditions showed up at pharmacies that had nothing to give them — blood pressure medication, insulin, thyroid drugs, anti-seizure medications. Things people needed every single day to stay alive, and the shelves were empty. Talk to your doctor about keeping an extra month's supply. Most will work with you on this if you explain your reasoning.

#### **17.2.1.15 SKILLS OVER STUFF**

Every piece of equipment eventually runs out, breaks or becomes obsolete. But knowing how to cook from basic ingredients, how to do minor home repairs, how to grow even a small container garden — those skills do not expire and they do not break. In Venezuela, people who knew how to cook with basic staples could feed their families on almost nothing. The ability to turn basic dried beans and rice into a hot, filling meal is worth more in a crisis than any amount of expensive gear.

### 17.2.1.16 COMMUNITY CONNECTIONS

This may be the most important preparation of all, and it is the one least talked about — probably because it does not involve buying anything. In every economic collapse, the people who fared best were embedded in communities. Neighbours who shared resources, friends who helped each other, extended families who pooled what they had. In Argentina, neighbourhood groups organised to share food and childcare. In Greece, community kitchens sprang up to feed people who could no longer afford groceries.

The lone wolf survivalist fantasy is exactly that — a fantasy. Real resilience is relational. It is knowing the people around you and being known by them. This is not a new idea — it is the principle the early church lived by, and it is the spirit of Ubuntu that runs deep in the South African soul.

### 17.2.2 IN CLOSING

The Hemingway novel *The Sun Also Rises* contains a line that has become one of the most quoted descriptions of financial ruin. Asked how he went bankrupt, a character answers: "*Two ways. Gradually, then suddenly.*"

That is exactly how economic collapse works. The gradual part is long and boring and easy to ignore. The sudden part is short, sharp and impossible to prepare for once it starts. The entire strategy of preparedness is to use the gradual part wisely — to do the quiet work while things still look normal — because the window for calm, rational preparation does not announce when it is closing.

It is important to remember that collapse does not mean the end of the world. Argentina recovered. Its economy was growing again within two years. Greece eventually climbed back. Even Venezuela has seen some stabilisation. Countries go through these cycles. Societies bend, sometimes break, but they rebuild. Life continues afterwards.

The question is not whether things eventually get better. They do. The question is how you and your family get through the transition — that stretch of months or years when the old normal is gone and the new normal has not yet arrived. That is the gap you are preparing for. Not the apocalypse. The gap. And the gap is survivable, navigable and manageable with dignity if you have done a little quiet work beforehand.

It is important that we discuss these things with people we trust. The economic future may force many of us to take radical steps for survival. What sounds outrageous today can very quickly become reality tomorrow. Prepare yourself and your loved ones for it. You owe it to them.

**And above all** — keep your faith anchored. Not in banks, not in governments, not in economic forecasts. In the God who fed Israel in the wilderness, who sustained Elijah under the broom tree, and who promises in Philippians 4:19 that He will meet all your needs according to His glorious riches in Christ Jesus.

Prepare practically. Trust completely. And do not be afraid.