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Governments Under Pressure - A Fiscal Wake-Up Call

Governments worldwide are increasingly coming under scrutiny for their tax collection, spending and fiscal deficits. Last week, we noted that this could be one of the drivers behind the rising gold price, which has once again reached new highs. From Washington to Pretoria, the pressure of high debt, fiscal deficits and questionable spending is forcing tough conversations.

In South Africa, the highly anticipated Budget Speech was delayed this week due to last minute disagreements, over the proposed 2% VAT hike. This unprecedented delay raises questions about whether it reflects a properly functioning coalition government, or complete disunity. More concerning is the government's struggle to generate much-needed revenue to sustain high levels of expenditure in an underperforming economy. Rather than cutting back on unnecessary spending, the focus on squeezing more from already heavily taxed corporations and individuals is proving to be deeply unpopular.

Across the Atlantic, the US isn't exactly a model of fiscal health either. The tax deficit for fiscal 2024, ending in September, reached a staggering $1.8 trillion, while the deficit for the first three months of fiscal 2025 has already hit $711 billion. The US government interest bill is also ballooning and crowding out more productive expenditures.

This is where the Department of Government Efficiency (DOGE) is supposedly stepping in. Led by Elon Musk and established by executive order, through the reorganising of the previously little-known United States Digital Service. While the stated purpose is to update technology in order to maximise government efficiency and productivity, the department started with a "Big Bang", targeting and effectively shutting down the US Agency for International Development.

So, what's the bigger picture? Governments are running out of easy fixes. The long-favoured approach of increasing spending and raising taxes is becoming less viable as fiscal pressures near breaking point.

The more politically challenging, but necessary approach - implementing much needed austerity measures to eliminate waste, fraud and inefficiencies, as DOGE is attempting in the US – faces strong resistance from entrenched interests.

Government finances are critical issues that all investors must understand. The sooner governments acknowledge that they **operate within real constraints**, the better the investment environment will be for everyone.

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If you have any questions, Ian and our team would love to hear from you on global@seedinvestments.co.za.

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