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MEDIA STATEMENT

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Commenting on the decision today by the SARB's Monetary Policy Committee (MPC) to raise the repo rate by another 50 basis points (bps), NWU Business School economist Prof Raymond Parsons says:

'Contrary to the consensus view expressed by many economists that the repo rate would be raised by only 25 bps today, the MPC decided by a 3:2 vote to raise interest rates again by 50 bps. The MPC majority view sees the risks to inflation on the upside – shaped by both domestic and global factors. With the battle against inflation not yet seen as conclusively won, it was inevitable that the MPC would continue with its interest rate raising cycle for now. The extent of the increase in borrowing costs was nonetheless surprising given the crosscurrents and uncertainties that the MPC itself recognised in its statement.

Apart from the risks to the inflation outlook identified by the MPC the committee has also further reduced its growth forecast for 2023 from 0.3% to 0.2%. This compares with the recent growth forecast by the International Monetary Fund of only 0.1%. Bearing in mind that the interest rate raising cycle already commenced in November 2021, higher borrowing costs are already now beginning to take effect on many sectors of the economy. More importantly, the cumulative effects of previous interest rate rises now happen to coincide with an economy that is seen by many commentators to be on the brink of a possible "technical recession". This is mainly the outcome of the electricity crisis which the MPC statement emphasised.

It is therefore arguable whether the MPC is right to see the risks to the growth outlook as “balanced” and possibly too optimistic. The latest MPC statement offers no assessment of recession risks. The optics of yet much higher interest rates being imposed on an economy that may be on the brink of recession are not good. The question is whether ever higher interest rates are conducive to the growth South Africa needs to attract foreign direct investment.

It would have been helpful if the MPC statement had also outlined why two members of the committee, looking at the same data, opted for only a 25 bps rise. It seems as if the downside risks to economic growth are beginning to broadly coincide with the upside risks to inflation. The burden of proof for the MPC in current economic circumstances cannot be absolute certainty, and hence a cautious approach remains appropriate. A small mistake in monetary policy could now prove costly.’

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