

Low rates continue to spur confidence in agriculture

By [Paul Makube](#)

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After cutting the repo rate by 300 basis points so far this year, the South African Reserve Bank (Sarb) kept the rate unchanged at a record low of 3.5% in September 2020. The Sarb considered risks to both growth and inflation as balanced, and signalled no intention to make further cuts for the remainder of 2020. However, in the second half of 2021 we may see the first round of hikes.



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While the decision does not have an immediate impact on agriculture, the lower interest rates for 2020 have benefited the sector whose overall debt is over R170bn and rising. This has further boosted confidence in the sector with the Agribusiness Confidence Index (ACI) rebounding and edged slightly above the 50-point mark in the first third quarter of 2020 to 51 points from 39 in the second quarter.

The capital investments confidence sub-index improved by six points from the second quarter to 44 in the third quarter as the huge 2020 agriculture output and better prices boosted farming profits. This is evident in progress with agriculture machinery sales for January to August 2020 with combine harvesters increasing by 18% relative to the same period in 2019 although tractors slowed a bit.

The favourable interest rate environment is particularly welcome as we head into the new planting season and will afford producers to expand their operations and do the necessary replacements of various machinery and equipment employed in agriculture. This will lead to another year of huge agriculture harvests which will help tame food inflation in the year ahead.

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