# Repo rate remains unchanged

The South African Reserve Bank's Monetary Policy Committee (MPC) has unanimously decided to leave the repo rate unchanged at 3.5%.


South African Reserve Bank

This was widely expected as increasing inflation concerns have entered the global narrative and even though the most recent South African inflation rate printed below the target band at 2.9% year-on-year.

"I think the quarterly projection model (QPM) of 50bps of hikes this year and almost 100bps in 2022 is too aggressive. Economic output is not expected to reach 2019 levels for several years, and with unemployment above 30%, demand-pull inflation will be very low. Notwithstanding rising global rates, I continue to believe that bond returns will be more appealing for investors than cash in 2021," says Mokgatla Madisha, head of fixed interest at Sanlam Investments.

"The MPC statement reminds us that SA still has a long way to go restore national output and employment to their pre-pandemic levels, bearing in mind that the economy was already in recession even before Covid-19 hit the country a year ago. The improved short-term economic outlook is therefore what SA must now move into more sustainable job-rich growth territory in the period ahead by steadily implementing appropriate structural reforms," says Professor Raymond Parsons, North West University School of Business economist.

"Macroeconomic concerns were highlighted by the Reserve Bank governor, particularly the pace of the roll out of vaccines and the effect that renewed loadshedding is likely to have on economic growth. The MPC forecasted an improvement to global growth in 2021 to greater than that of the International Monetary Fund (5.8% vs 5.5%), but the forecast for 2022 was not as high (3.7% vs 4.2%). Locally, the MPC's South African GDP growth forecast for 2021 improved from 3.6% to 3.8% and was unchanged for 2022 and 2023 at 2.4% and 2.5% respectively," says Luigi Marinus, portfolio manager at PPS Investments.