

Experts divided on whether repo rate will hold or fall

Experts are divided on whether the South Africa Reserve Bank (Sarb) Monetary Policy Committee (MPC) will hold or decrease the repo rate later this month, with 55% saying the rate will hold and the remaining 45% think we're in for a rate cut.



South African Reserve Bank

“The MPC is faced with a tough trade-off between providing a domestic environment more conducive to stimulating economic activity on the one hand and encouraging foreign investment and a more stable currency through relatively higher interest rate differentials on the other,” Dr Johan Coetzee, senior lecturer and researcher in the Department of Economics and Finance at the University of the Free State, said.

Hold

Chief economist at Investec, Annabel Bishop, and independent economist at Carpe Diem Research Services, Elize Kruger, are both forecast a rate hold, with each noting that the rate is either at or close to the bottom of the cycle. Bishop put it this way: “Interest rates are at historical lows, and the MPC has cut rates very substantially this year already. Further cuts, if they occur, are likely to wait until there is a compelling reason to drive them.”

Cut

On the other hand, Ilse Botha, professor at the University of Johannesburg, is expecting a rate cut of 25bps given the current economic climate, debt levels are rising and a rate cut will be beneficial. “Inflation is also currently within target and expansionary monetary policy makes sense, although a rate cut will not necessarily result in higher spending currently.”

Economist at BNP Paribas Jeff Schultz expects the most aggressive rate cut of 50bps on the back of materialising downside risks to both its inflation and growth forecasts. “Our expectation for the Sarb to miss its inflation target over the following 12 m, with CPI likely to average below the floor of its 3-6% target range means that the bank probably has a bit more room to help support the economy, indebted consumers and struggling companies.”

Is the Sarb doing enough?

When asked whether or not the central bank should pursue a full-scale quantitative easing programme, 82% said the

current programme of bond-purchasing is sufficient. The majority (73%) also say Sarb is doing enough to support the economy during the pandemic.

Schultz, who was in the majority, said a QE programme would be a dangerous path to go down and could risk the bank's extremely well-entrenched credibility as an inflation target by markets.

CEO and chief economist at Antswisa Transaction Advisory Services, Miyelani Mkhabela, was the only panellist to say the Sarb is not doing enough. "The Sarb must purchase National Treasury bonds and I believe nationalisation of the reserve bank will add more value to the South African developmental state approach and expand the economy to be more inclusive to the previously disadvantaged and have at least two black banks to operate nationally in both retail and corporate investment banking."

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