

S.Africa to call it a wrap on current hikes, last 50 bps on 26 Jan

South Africa's Reserve Bank is expected to raise interest rates for the last time in this cycle in anticipation of slower inflation, adding 50 basis points on 26 January, a poll found on Thursday.



Source: [Fxabay](#)

However, economists were split on the size of the increase at next Thursday's decision with 11 of 20 economists expecting the Reserve Bank to hike rates by 50 basis points to 7.50%.

But eight predicted only a quarter of a percent rise and the remaining economist said rates would be kept steady at 7.00%.

The monetary policy committee has raised rates by 350 basis points since November 2021, hiking by 75 basis points in the last three meetings.

"The Sarb likely will down shift that pace of tightening from the 75 basis points increase in November with a split committee debating between a 25 basis points and 50 basis points increase in January," wrote Sonja Keller, economist at JPMorgan.

Most saw no further tightening after next week but that does not necessarily mean a series of cuts is around the corner as many economists only expect a slightly lower repo rate by the end of next year.

JPMorgan added that the key risks for South Africa's currency were electricity tariffs and developments in two core inflation components with significant weights in rents and health insurance.

South Africa's energy regulator last week granted beleaguered state power utility Eskom an average tariff increase for the 2023/24 financial year of 18.65%.

Still, in the longer-term, inflation is expected to ease to an average of 5.5% this year then slow to 4.7% in the next two years, just shy of the Sarb's 3% to 6% midpoint.

Inflation slowed to 7.2% in December bringing it to an average 6.9% last year, the highest average since 2009.

Core inflation, which excludes prices of food, non-alcoholic beverages, fuel and energy, was recorded at 4.9% in December, from 5.0% the previous month.

Goldman Sachs wrote in a note that it now sees more rapid disinflation this year, with headline and core inflation both falling to below the 4.5% target mid-point in Q3. The lowest expectation for this year's inflation average was projected by Capital Economics at 3.8%.

Economic growth in Africa's most industrialised economy has been anaemic due to chronic electricity shortages; it is expected to expand 1.2% this year and 1.8% for the next two years.

South Africa is developing new legislation to speed up energy projects to add generating capacity and help end power cuts, a presentation by the country's energy crisis committee showed.

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