Further relief for the agri sector after SARB's surprise repo rate cut

By Paul Makube

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In a surprise move, the South African Reserve Bank (SARB) cut its repurchase rate by 100 basis points to 4.25% which brought the prime lending rate to 7.75% effective from 15 April 2020.

Scott Goodwill via Unsplash

With growth expectations revised even lower for 2020 and bearish inflation outlook for the year ahead, the SARB indicated that it has room for further cuts through to 2021.

The move bears positive implications for producers in the agriculture sector whose total debt has been on a consistent upward trend, topping R169bn in 2018. Total agriculture debt in the five years to 2018 increased by 45% and was 6% higher from the 2017 level with the commercial banks and the Land Bank accounting for 60% and 29% respectively of the total. Much of the debt accumulated due to several drought periods that interrupted output and caused massive financial stress on producers.

The reduced debt servicing costs will go a long way in alleviating pressure on the agriculture sector. Lower interest rates will further provide some relief for consumers amid Covid-19 lockdown and economic downturn.

The agriculture outlook remains bullish with the 2019/20 summer crop harvest expected up 26% year-on-year to 16.8 million tonnes and country's largest staple, maize, seen at 14.8 million tonnes. This will help tame food inflation, with overall headline consumer price inflation expected to remain within the SARB's target range of 3% to 6% in the next two years.

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