The Sarb's interest-rate decision amid mixed committee views

By Katja Hamilton

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South Africans can breathe a sigh of relief as The South African Reserve Bank's Monetary Policy Committee has decided to keep the repurchase rate at the current level of 8.25%.

Source: Pexels

This hits the nail on the head of economists' predictions that we would not see another repo-rate hike.

Three members of the committee preferred to keep the repo rate on hold and two preferred an increase of 25 basis points to the current repurchase rate level.

"The lack of GDP revision is based on the fact that load shedding has been less intense recently, and that the starting point for SA's growth forecast was higher because of the better outcomes that we've had," Lesetja Kganyago, Sarb governor said at today's meeting.

The 50bps hike to the repo rate that we saw in May locks in the current repo rate at 8.25%, the prime lending rate at 11.75% and the short-term interest rates at 4.75%.

"The high interest rates in South Africa have somewhat done their job in that inflation rates fell from 6.3% in May to 5.4% in June, which is now within Sarb's 3-6% mandate. This allowed the Sarb the luxury of not increasing the interest rates and leaving them unchanged, which is a much-needed break for South Africa's economy," says Harry Scherzer, chief executive officer of Future Forex.

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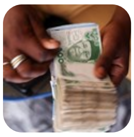
But we're not out of the woods yet. The long-term trajectory of inflation remains unpredictable, and SA has had 10 interest rate hikes since November 2021. Rising fuel-, food- and electricity prices continue to hit consumers' pockets hard.

Stats SA's report on an annual consumer price inflation of 5.4% in June 2023, down from 6.3% in May 2023 is, at best, a temporary reprieve. The 5.4% annual inflation rate was primarily driven by surges in food and non-alcoholic beverages (up by 11.0% YoY, contributing 1.9 percentage points); housing and utilities (up by 4.2% YoY, contributing 1.0 percentage point); and miscellaneous goods and services (up by 6.4% YoY, contributing 0.9 percentage point).

"It is possible that a future interest-rate hike is on the cards later in the year," Scherzer cautions.

Data dependent verdicts

"In light of recent risks, the committee remains vigilant and decisions will continue to be data dependent and sensitive to the balance of risks to the outlook," Kganyago said.



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"The policy stance aims to anchor inflation expectations more firmly around the midpoint of the target band and to increase confidence of attaining the inflation target sustainably over time. The MPC will seek to look through temporary price shocks and focus on potential second round effects and the risk of incurring inflation expectations.

"Guiding inflation back towards the midpoint of the target reduces the economic costs of high inflation and will achieve lower interest rates in the future."

The MPC has targeted a 4.5% level of inflation by the second quarter of 2025.

ABOUT KATJA HAMILTON

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