

MONETARY POLICY MEETING

# Sarb likely to raise repo rate as economic pressures mount

*A 25-basis percentage point (bps) increase would see the repo rate increase to 7.25%*

ASHLEY LECHMAN

AS THE South African Reserve Bank (Sarb) prepares for its monetary policy meeting (MPC) on Wednesday, expectations are mounting for a potential increase in the repurchase rate (repo rate).

This anticipation comes in the wake of the United States (US) Federal Reserve's (Fed) recent decision to raise its interest rate by 25 basis points (bps), a move that, while not directly mirrored by the Sarb, significantly impacts South Africa's economic landscape.

August inflation data will be released by Stats SA on September 23, with the Reserve Bank set to announce its interest rate decision later that day in the afternoon.

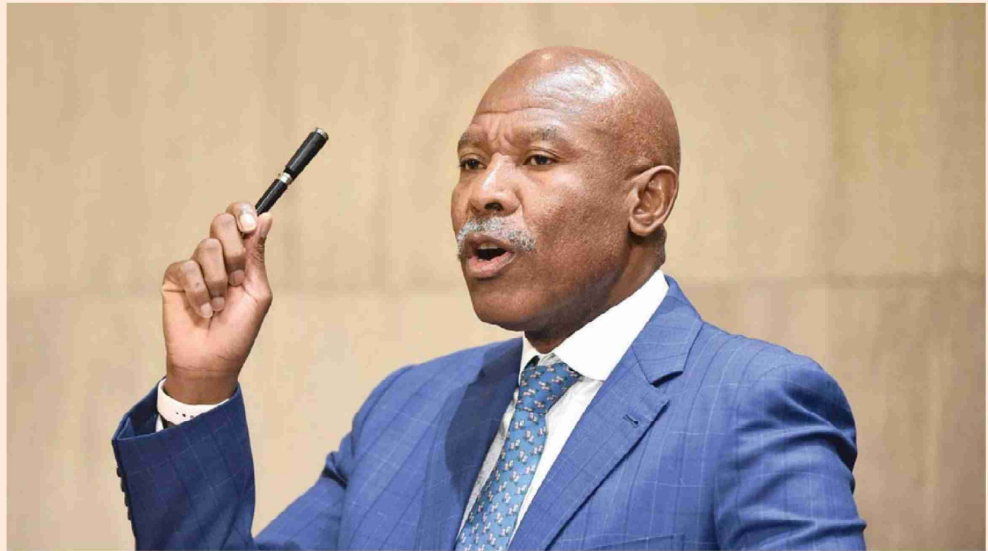
The current repo rate in South Africa is 7.00%, which puts the prime lending rate at 10.50%.

A 25-basis percentage point (bps) increase would see the repo rate increase to 7.25% and the prime lending rate increase to 10.75%.

Neil Roets, CEO of Debt Rescue said that while the Sarb does not automatically follow the Fed's decisions, it still is significant for South Africa because it changes the external conditions that the central bank must consider ahead of its own interest-rate decision that will be announced later this week on Wednesday. "We at Debt Rescue are particularly concerned about how these international and domestic pressures could ultimately translate into higher borrowing costs for already stretched South African households. Higher US interest rates can place pressure on emerging-market currencies such as the rand and increase the risk of imported inflation. This becomes particularly important when South Africa is already facing renewed fuel-price pressure," Roets said.

Locally, headline consumer inflation eased to 4.3% in July, but expectations are that it could move higher again.

"Current fuel-price recoveries are also pointing to potentially steep petrol and diesel increases in October, adding



SOUTH African Reserve Bank Governor Lesetja Kganyago will announce the bank's latest decision on interest rates later this week. | THOBILE MATHONSI ANA Studio

another inflation risk through transport, distribution and broader living costs. Recent market expectations have consequently shifted towards the possibility of another 25 bps increase by the Sarb. The critical issue is the balance between containing renewed inflation risks and the condition of the domestic consumer," Roets added. He said that South Africa's unemployment rate remains extremely high at 33.6%, while household budgets remain under sustained pressure.

"If the Sarb does increase rates, consumers with variable-rate debt would face higher repayments at the same time as fuel and other essential living costs remain elevated. For financially stretched households, that combination could materially worsen monthly affordability," Roets said.

Philip Short, a fund manager at Flag-

ship said that with the Fed raising rates, it does lean on the Sarb to counter with its own rate hike if it is concerned about foreign exchange rates. "Oil and refined petroleum are South Africa's largest imports, accounting for approximately 20% of all imports. With significantly higher oil and refined petroleum prices in US dollars, due to the war in the Middle East, and strikes on oil refining capacity in Russia by Ukraine, a weaker rand could have an exaggerated effect on South African petrol and diesel prices.

As it stands, petrol and diesel prices are expected to rise by 6-10% in October. Inflation in South Africa is currently not demand-driven but rather supply-driven, so raising rates will not affect the higher price of oil," Short said.

"However, a weaker rand would amplify the higher import prices for

oil and refined petroleum as they land in South Africa. The counter to raising rates is the already-struggling consumer. According to the DebtBuster annual survey, the debt repayment pressure on South Africans has intensified sharply, with 53% of respondents now spending more than 40% of their take-home pay on debt repayments (up from 48% last year)," Short added.

Frank Blackmore, lead economist at KPMG said he thinks we can expect a similar decision to the Fed's made by Sarb, when its MPC meets.

Blackmore said, "My expectation is that Sarb will increase rates by 25bps. If current conditions persist, particularly elevated transport costs and ongoing instability in the Middle East, this could be followed by a further 25 basis point increase at the November meeting."

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