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A TOUGH CALL ON THE EVE OF THE SOUTH AFRICAN RESERVE BANK MONETARY POLICY COMMITTEE DECISION AS INFLATIONARY PRESSURES PERSIST IN A WEAK ECONOMY, SAYS CHIEF ECONOMIST OF DCG.

JOHANNESBURG, 17th NOVEMBER 2021 – The Don Consultancy Group (DCG) Chief Economist Mr Chifi Mhango says: “it’s a tough call for the South African Reserve Bank Monetary Policy Committee on interest rate as inflationary pressures persist in a weak economic environment. This is the last Monetary Policy Committee (MPC) meeting for 2021, as consumers look forward to the December holiday season. We hold our hopes for unchanged repo rate for now considering that we are still under Covid-19 lockdown regulations, in an economy still operating below bench-mark capacity with high unemployment and high consumer debt to income levels.”

According to data from Statistics South Africa (StatsSA) released today, annual consumer price inflation was unchanged at 5.0% in October 2021, from September 2021. The consumer price index increased by 0.2% month-on-month in October 2021.This is attributed to food and non-alcoholic beverages (6.1%); housing and utilities (4%); transport (10.9%); and miscellaneous goods and services (4.3%).

DCG Chief Economist, Mr Chifi Mhango said: “In the September 2021 MPC meeting, the South African Reserve Bank unanimously kept the repo rate unchanged at 3.5%. The decision came amid uncertainty around the Covid-19 pandemic, and was also aimed at supporting South Africa's fragile economic recovery against the backdrop of a relatively contained inflation outlook. Headline CPI forecast was revised slightly higher to 4.4% in 2021 from 4.3% in July, with the GDP growth rate projections raised to 5.3% in 2021 from 4.2%.”

Mr Mhango added that: “the SARB’s GDP growth rate projections for 2021 at 5.3% is, however, under threat from realisation due to disruptions in the economy caused by the electricity load-shedding and a prolonged three week strike in the metals and engineering sector that constitute 29% of manufacturing production share.”

"South African economy also continues to face massive challenges of unemployment at 34.4%, which is being caused by the de-industrialisation of the economy as a result of weak investment that is attributed to rising energy costs and its unreliable supply, weak domestic demand, rising logistical costs among others. Under such an environment, policy decisions regarding interest rates hikes have to take a balancing act on the overall economy and SARB has indeed been very cautious in its approach." Mr Mhango added

Mr Mhango further said that "while we have observed a piling up of inflationary pressures in the South African economy attributed to rising food prices, fuel prices, electricity prices, and depreciation of the exchange rate, there has to be a gradual approach towards normalisation after a period of almost 300 basis points cut in interest rate in an overall weak economic environment under Covid-19 pandemic lockdown restrictions."

"The globally picture of major economies shows rising annual inflation rate. According to the US Bureau of Statistics, the annual inflation rate in the USA surged to 6.2% in October of 2021, the highest since November of 1990. Upward pressure was broad-based, with energy costs recording the biggest gain. In Euro Area inflation rate moved up to 4.1% in October of 2021 from 3.4% in September. This is the highest reading since July of 2008, as the region battles surging energy costs while supply shortages persist." Mr Mhango said.

"In reaction to the inflationary pressures, the USA Fed noted the elevated inflation rate, and supply and demand imbalances related to the pandemic and the reopening of the economy; that have contributed to sizable price increases in some sectors; with a warning that the central bank can be patient on rate hikes but will not hesitate to act if inflation continues to remain elevated. In the Euro area, in its latest monetary policy meeting, the European Central Bank left monetary policy unchanged and pledged once again to keep interest rates at record-low levels until inflation rises back to the ECB's 2% target by the middle of its projection horizon and holds there on a durable basis. Analysing these statements in relation to current data and projection, the likely moves going forward are hikes in interest rates" concluded Mr Mhango.

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