BIZCOMMUNITY

Could a rate hike be around the corner? Finder panel shares predictions

Results from a vote by 25 economists on Finder's repo rate forecast report were unanimous - the South African Reserve Bank (SARB) will hold the repo rate at the upcoming March meeting.

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Nedbank chief economist Nicola Weimar thinks the bank has achieved the goldilocks of monetary policy and it's now a matter of waiting for previously set policies to take effect. “Hiking now would not make sense since inflation is well contained and the economy is still operating well below potential. Cutting would also not be wise as the SARB has already done enough, the actual rate is below the neutral rate.

“So monetary policy is stimulatory enough. It is now just a case of waiting for the policy to impact on the economy - become a stimulus rather than a cushion against tough times.”

While the majority of panellists (88%) think the bank will and should hold the rate, a small minority (12%) think the bank should actually cut the rate.

IQBusiness chief economist Sifiso Skenjana thinks the bank should cut the interest rate by 25 basis points. “While we are reporting a better than expected revenue shortfall, the contribution was largely on the back of a mining earnings growth and not a stabilising economic growth context. The declining corporate income tax base is a clear sign of the economic pressure points and relief through an interest rate decrease is needed at this point in time,” he said.

Rate increase not far off?

However a rate increase might not be too far off, with 28% expecting to see a rate hike this year and over half (56%) say the rate will increase next year.

Stellenbosch University chief operating officer Stan du Plessis says South Africa could depart from the low repo rate regime as soon as the tail end of 2021. “I expect the economy to recover sufficiently by the second half of the year to require an exit from the abnormally low repo rate level. The expected rise in long term bond yields will add to the pressure on the short term of the curve,” he said.

A small minority of panellists (16%), including Department of Economics and Finance, University of the Free State senior researcher Dr Johan Coetzee, don’t expect the rate to increase until at least 2023. “The SARB has to ensure that it continues to support the poor economic environment facing South Africa. Lower interest rates will be part of the macroeconomic policy mix for a time yet,” he said.

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Is South Africa on the verge of a sovereign debt crisis?

South Africa is at some level of risk of a sovereign debt crisis, according to the overwhelming majority (92%) of panellists. Over a third (36%) say the risk is high and two in five (40%) say the risk is moderate. 16% say there’s a small risk while just 8% say there’s no risk of this occurring.

Antswisa Transaction Advisory Services CEO and chief economist Miyelani Mkhabela believes there’s a high risk of a debt crisis, noting the situation will only worsen as the Covid-19 pandemic continues. “By the end of 2021/22, gross loan debt is expected to be at a range of 84% and 90% of GDP, which is highly riskier as the Covid-19 crisis continues and in the future, we forecast environmental consequences. The situation is bad for a developing economy.”

Those who say the risk is moderate say South Africa will deflate much of the debt away, given most of the debt is rand-denominated.

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Unemployment rate to rise, slightly

The unemployment rate is expected to increase slightly to 32.8% by July this year, according to the panel average.

Investec chief economist Annabel Bishop, EFConsult lead economist Frank Blackmore, and BNP Paribas chief economist Jeff Schultz, who all predict that around a third of South Africans will be unemployed by July, say that structural reforms are necessary to curb unemployment.

“Rapidly introduce free market structural reforms and reduce the size of the state and the suppressing effect [of] the high regulatory burden (high state control) on the state to increase the ease of doing business,” said Bishop.

Stanlib economist Ndivhuho Netshitenzhe gave an above average forecast of 33.4% and emphasises the importance of prioritising the vaccine roll out in order to boost employment levels.

“This will ease the high level of uncertainty in the economy around the constant re-introduction of lockdown measures and give businesses some confidence to start making more permanent investment and hiring decisions.”

Access the full report here.