

Repo rate remains unchanged

The South African Reserve Bank (Sarb) has kept the repurchase (repo) rate unchanged at 3.5% per annum. This is the first time the Sarb has not decreased the repo rate since the advent of Covid-19 in the country in March. In that month, the central bank's Monetary Policy Committee cut the repo rate by 100 basis. A second 100 basis points cut was announced in April. This was followed by two 25 basis point decrease in May and a further 25 basis point cut in July.



SA Reserve Bank

The pandemic has had major health, social and economic impacts, presenting challenges in forecasting domestic economic activity.

Sarb Governor, Lesetja Kganyago, said despite a higher than expected inflation outcome in July and elevated levels of country financing risk, the committee noted that the economic contraction and slow recovery will keep inflation below the midpoint of the target range for this year.

“Barring risks outlined earlier, inflation is expected to be well contained over the medium-term, remaining below but close to the midpoint in 2021 and 2022,” he said.

The governor said two members of the committee preferred a 25 basis point cut while three preferred to hold rates at the current level.

No further cuts

The Sarb anticipates no further repo rate cuts in the near term, and two rate increases in the third and fourth quarters of 2021.

Kganyago said the SARB had anticipated that the annualised quarterly gross domestic product (GDP) would contract by 50%. This comes after Statistics SA earlier this month said it expected the contraction to be at 51% in its estimate of second quarter growth.

The bank now forecasts a GDP contraction of 8.2% in 2020, compared to the 7.3% contraction forecast in July.

“The lower second quarter is followed by revised projections of a stronger expansion in the third and fourth quarters of 2020,” said Kganyago.

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