NWU Business School
North-West University
Private Bag x6001
Potchefstroom, 2520
http://commerce.nwu.ac.za/business-school

Prof Raymond Parsons
Cell: 083 225 6642

MEDIA STATEMENT – IMMEDIATE RELEASE

22 JULY 2021

Commenting on the MPC decision today to again leave interest rates unchanged NWU Business School Economist Prof Raymond Parsons says:

'The MPC decision to keep interest rates unchanged again was in line with market expectations and similar to its approach at its previous May 2021 meeting. Given the additional uncertainties recently injected into the economy by civil unrest, the Level 4 lockdown and the current trajectory of the pandemic the need to now keep borrowing costs low and stable is reinforced. This remains important for business and consumer confidence at this point in SA's business cycle.

The downside risks to growth listed by the MPC have now become paramount in the light of current developments. With core inflation contained for now the priority therefore is for monetary policy to remain supportive while SA seeks to absorb - and adjust to - the significant economic costs of the latest 'shocks' to the economy. Hence it is desirable that interest rate policy stays responsive to an unusual set of circumstances.

The MPC has not revised its previous May 2021 GDP growth forecast of 4.2% in 2021, which suggests that it does not see recent developments as having a lasting impact on SA's growth outlook this year. Other preliminary estimates of GDP loss this year have indeed already ranged widely: from -0.4% to -0.8%, but we still await definite figures. Yet whatever the ultimate outcome it is right that there should be no talk for now of hiking or 'normalizing' interest rates on a vulnerable economy. It is encouraging that MPC hopes to keep borrowing costs low for as long as circumstances permit.

More broadly, the latest MPC statement confirms that investor confidence has indeed been shaken by recent events. But it is already clear that the impact on long term investor sentiment depends not on the fact that widespread civil unrest has occurred, but on the degree of confidence displayed in how the situation will be managed from now on. The better SA is seen, both politically and economically, to be sensibly handling the aftermath of the recent violence and looting, the sooner investor confidence will recover.

What investors now need is reassurance that they will not be exposed to these risks again, because the right remedies and reforms will now be implemented that will keep SA investable. This challenge does not lie with the SARB or monetary policy, but elsewhere.'

Ends