

MPC's decision to hold interest rates at current levels absolutely right

The South African business community and the property marketing and development sector in particular breathed a collective sigh of relief yesterday when the South African Reserve Bank's Monetary Policy Committee announced that it will be holding the interest rate at its current level.

By [Ram Sasihri](#) 28 Mar 2014



South African Reserve Bank

However, we have to accept that there is, as yet, no guarantee that this hold back stance will be continued for the remainder of the year.

The recent decision to increase the rates was, in my view (and that of eminent economists such as professor Brian Kanto and Annabel Bishop), probably not necessary but was possibly justifiable in the economic situation in which South Africa found itself, but I joined these high profile spokespeople in believing that South Africa's entire welfare depends on promoting growth by maintaining the interest rate at its present low level for as long as possible, certainly for most of this year.

Ancillary reasons for adopting this view

1. The first is that there is now widespread consensus that the decision to raise the rates last time was based on a forward rate agreement for inflation rates that was needlessly pessimistic: it saw cost price inflation running out of the 3% to 4% box for most of 2014 and into 2015.

The latest analyses show that the February inflation rate growth was held to 5,9% (just 0,1% up on the January inflation growth rate), and although the 6% barrier might be broken in the months ahead, we can now confidently anticipate inflation growth being contained below 6% in 2015 (5,7%) and 2016 (5,5%). It should be noted that already core inflation, i.e. discounting fuel, electric and food prices, which, through no fault of the consumer, rose by an incredible amount last year, is at 5.3%, indicating that South Africans, despite increasing their private debt by 20%, are now acting responsibly and not overspending as they possibly did before.

2. The second reason for maintaining the interest rate at its lowest possible level is that business confidence requires considerable boosting.

In the last 10 to 12 months there has been a well recorded, very serious decline in South African business confidence. This in turn stems from a 6% to 7% year-on-year lowering in South Africans' disposable income and in difficulties in acquiring loan finance. In all my experience it has seldom been more difficult to secure private finance. As property developers, we can sympathise with the rest of the South African business community in saying that this has been a major factor in holding back good, much needed projects.

Consumer spending accounts for 60% of South Africa's GDP. When, as now, we see car and retail sales reaching new low points, this is cause for concern.

Most worrying of all, said Rawson, is that mortgage lending for homes is now down to a 2.5% per annum growth rate

We all accept that the pre-recession growth of roughly 30% per annum in mortgage lending was excessive and inflationary and should have been reined in. However, a growth rate of only 2,5% in this type of financing is totally disastrous in a third world country in which some 20% of the population still live in informal or owner-built shacks and three million people or more still need housing.

3. A third reason for holding down the interest rate, said Rawson, is what economists describe as 'fiscal rectitude', which is still apparent in the Ministry of Finance.

It seems quite clear that the last budget was recognised by the IMF and the international credit rating agencies as being responsible: provision was made to reduce the current account deficit (which has already come down), while the trading deficit, although by no means pleasing, will, we are told, be kept in check despite slight rises in the coming year. There are also indications that wasteful government and excessive state employee expenditure will be better controlled after the election.

Many are now predicting a further 50 base point interest rate rise at the next MPC meeting in May. Nevertheless, I and those who think like me, will continue to campaign for a hold on this.

South Africa's main goal has to be growth and job creation. We were on the right path to achieve this before the global recession took hold. With that now ending, and even if China does cut back on its raw material spending, we can, like many of the African countries to our north, achieve significantly higher growth rates to the benefit of all our people.

ABOUT

Associate at Enzen Global Solutions Pvt Ltd
[View my profile and articles...](#)

For more, visit: <https://www.bizcommunity.com>