SA to call it a wrap on current hikes with last 25 bps on 30 March

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South Africa's Reserve Bank will raise interest rates for the last time in this cycle by 25 basis points on 30 March, in anticipation of slower inflation and a weak economy due to power disruptions, a Reuters poll found on Monday, 20 March.

Source: Reuters.

A firm majority of 18 out of 20 economists polled on South Africa's repo rate said it would be hiked by one last time in this cycle to 7.50%. South Africa's central bank raised its main lending rate by 25 basis points to 7.25% in January.

The other two economists opted for no change.

"The Monetary Policy Committee's January voting patterns showed that although members remained cognisant of inflationary risks, the South African Reserve Bank has adopted a decidedly pessimistic economic outlook," said Jee-A van der Linde of Oxford Economics Africa.

"South Africa's economy is set to cool this year and, together with another 25 bps increase, should help to take the edge off inflation. Policy members will also be mindful of the recent spike in banking-sector stress in the US and elsewhere."

The European Central Bank sees no contagion for euro zone banks from recent turmoil, a source said on Friday, after US lenders threw First Republic Bank a $30bn lifeline and tapped record amounts from the Federal Reserve.

Global banking strife

Although the global banking strife has muddied monetary policy waters, the poll also found risks are skewed toward a higher than expected terminal policy rate for the Sarb, rather than lower.

The South African Reserve Bank struck a gloomy tone on the country's economic prospects in January, saying growth of just 0.3% was expected this year and 0.7% in 2024. The poll suggested growth would be 0.4% this year and 1.5% next.

State electricity utility Eskom is implementing the worst rolling blackouts on record, leaving households in the dark for up to 10 hours a day. The outages have hit businesses hard, forcing them to pay millions of rand for diesel to power generators.

Inflation is expected to slow markedly to 4.7% next year from an average of 5.8% this year.

"We expect only a further 25 bps rate hike in this cycle, and still-contained wage and services inflation support our long-standing view that aggressive tightening isn't required amid weak economic growth," said Standard Bank economist, Elna Moolman.

"If the rand remains weaker than we foresee, the inflation consequences and/or risks could impel the Sarb to hike more aggressively than we currently see as necessary," she added.