Unchanged repo rate may flatten festive sales

The South African Reserve Bank's (SARB) decision to keep the bank repo rate unchanged at 6.5% would appear to be in response to Moody's latest downgrading and an attempt by the SARB to prevent further decline in the country's credit rating.


Jithendra Maharaj, finance and economics lecturer at Mancosa.

This is the view of Jithendra Maharaj, an economics academic at Mancosa private higher education institution, who said the repo rate should have rather been decreased so that it would have stimulated consumer spending, especially during the coming festive season.

The repo rate informs the Central Bank in terms of the rate of lending to commercial banks and this, in turn, impacts the rate at which commercial banks lend to their clients. An unchanged rate means that South Africans will not experience any changes in their monthly debt repayments. Lesetja Kganyago, the Reserve Bank’s Governor, announced that the inflation rate is at the lowest level in eight years at 3.7%.

“This augurs well for consumers, yet, given the increasing rate of unemployment in South Africa, the lower inflation rate is to be expected. What would have better served the economy is to have decreased the repo rate which would have impacted positively in terms of South Africans paying less on loans and mortgages which would, in all likelihood, increase consumer spending.

“Increased consumer spending improves and stimulates the economy in both the service and manufacturing sectors and would improve Gross Domestic Product (GDP). The Reserve Bank has indicated that GDP forecast will drop 0.1% to 0.5% and this is in keeping with lower public and private consumption of goods and services,” said Maharaj.

Careful budgeting

He said the impact on consumers, particularly during the festive season, is that there will be fewer big-ticket items than usual in shopping trolleys. Spending, he said, will remain fairly flat with the man-in-the-street having no incentive to use that credit card or credit financing facility.

“Further, monthly repayments on existing debt remain the same and consumers will probably be ambivalent about personal budgets.

“However, the positive in all of this is that the consumer is not being fooled into a spending frenzy this December. Had the interest rate dropped, it would necessarily have to increase in the future (due to Government’s weakening fiscal position) making all the repayments on purchases more expensive.

“Once again, consumers are urged to budget with care and diligence and spend accordingly,” said Maharaj.

He added that for manufacturers, retailers and service providers, the future looks bleaker.

“Decreased consumerism, increased unemployment and an unpromising exchange rate means that meeting day-to-day expenses is going to be more challenging. As most economists would agree, it may have been wiser to decrease the repo rate rather than keep it constant,” said Maharaj.