BIZCOMMUNITY

Another repo rate cut predicted, but economists disagree on how much

Eighty percent of the economists on *Finder's Repo Rate Forecast Report* panel agree the rate will go down next week, but there's no consensus on how many bps the rate will move.

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Four panellists, including Investec's chief Eeonomist, Annabel Bishop, think the rate will fall by 25bps.

She said the MPC may choose to cut interest rates again to assist debt servicing. "It has however already put considerable measures in place to provide monetary support, and markets have since stabilised, the yield curve has lowered and steepened and the dislocation that was occurring in the bond market has resolved."

Associate professor at the University of Cape Town Graduate School of Business, Sean Gossel, also forecast a 25bp decrease, but thinks the MPC should cut the rate by 50bps.

"The South African Reserve Bank (Sarb) has to balance setting interest rates that will attract foreign capital but at the same time must ease interest rates to stimulate domestic economic activity. Historically, the Sarb has favoured a high interest rate differential to keep the economy moving using international capital flows but these are not normal times," he said

The other four panellists predicted rate cuts of 50-100bps, with the panel average coming in at around 50bps.

Wits Business School interim head, Jannie Rossouw and Alexander Forbes chief economist, Isaah Mhlanga, are the only two panellists who think the MPC will and should hold the rate arguing previous rate cuts and liquidity has not yet filtered through the economy.

“The SA Reserve Bank has recently announced sharp declines in the repo rate and should first assess the full impact of these decisions,” Rossouw said.

Economic outlook

Finder’s panellists expect the South Africa economy to contract anywhere from 4.8% to 12% in 2020, with an average forecast contraction of 7.6%.

However there’s some positive news – 78% of panellists think the economy will see some recovery in Q3, although many did note that the speed and strength of economic recovery is dependent on the success of eased lockdown restrictions.

BNP Paribas economist, Jeff Schultz said: “This is on the assumption that the severe lockdown of Level 5 will be lowered to something between level 2-3 by Q3 which should open up approximately 70% of the economy compared with Q2 where roughly 80% of the economy was shut down,” he said.

However neither professor of economics at the University of Western Cape, Matthew Kofi Ocran or Gossel are as optimistic, with neither forecasting a recovery in Q3. Ocran went as far as to rebuff the idea of a V-shaped recovery.

“The Covid-19 shock came through at a time when the economy was already weak. And with the unreasonable lockdown regime that has shut down almost all economic activity including those that pose a very little public health risk, we can only expect a U-shaped recovery,” he said.

Gossel noted that the very structure of South Africa’s economy is weak, delaying any recovery.

“The global and domestic Covid economic shocks are both supply and demand shocks and will take a long time to ripple through the economy. In South Africa, these effects will be long-lasting because of the weak structure of our economy - overly corporatist, still overly informal, and missing SMMEs.

“Corporates are reliant on the global recovery (which is still a way off), informal economy is reliant on survivalist income (which has been destroyed by the lockdown), and SMMEs are failing due to years of onerous regulations and a lack of capital (all of these problems have been heightened now).”