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MEDIA STATEMENT - IMMEDIATE RELEASE

22 NOVEMBER 2018

'MPC DECISION TO RAISE INTEREST RATES SENDS A NEGATIVE SIGNAL TO ECONOMY AT THIS STAGE', SAYS NWU BUSINESS SCHOOL ECONOMIST PROF RAYMOND PARSONS

'The decision by the Monetary Policy Committee (MPC) to raise interest rates by 25 basis sends a negative signal to the economy at this stage. Recent economic data convincingly indicates that the SA economy is still struggling to emerge from the H1 2018 'technical recession' and in wanting to break out of its 'low growth trap'. It is difficult to reconcile the MPC reducing its growth forecast for 2018 yet again from its previous 0.7% to 0.6%, with its decision to now raise interest rates. Monetary policy should have continued to give the economic recovery, about which the IMF recently said confidence was being lost, the benefit of the doubt.

It would therefore have been better to have left interest rates unchanged for longer. With a weak demand, and inflation outside of cost-push factors as low as it, the logic of further curbing demand through higher interest rates must therefore be questioned. Household spending is particularly vulnerable to higher rates and the MPC confirms that demand pressure is not a problem. Consumer and business confidence are likely to reflect the negative impact of the prospect of rising interest rates.

The MPC analysis also shows there is no clear and present danger of inflation getting out of hand. Core inflation remains below mid-point of the inflation target. This outlook is now reinforced by recent lower international oil prices and a better rand which help to keep the inflation risk manageable. The fact the MPC was evenly divided on whether interest rates should be raised at this stage of the business cycle in SA therefore emphasizes why policy must steer a middle course - there are whirlpools on both sides, not on one only'.

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