

Prof Raymond Parsons

Cell: 083 225 6642

MEDIA STATEMENT - IMMEDIATE RELEASE

19 MARCH 2020

'MONETARY POLICY COMMITTEE (MPC) DECISION TO CUT INTEREST RATES BY 100 BASIS POINTS IS THE RIGHT ONE TO HELP MITIGATE THE RISKS OF COVID-19 TO THE SA ECONOMY', SAYS NWU BUSINESS SCHOOL ECONOMIST PROF RAYMOND PARSONS

'The decision by the MPC today to cut the repo rate by 100 basis points is the right one to help mitigate the risks of Covid-19 to the SA economy. The MPC has now followed about 50 central banks around the world that have so far already reduced interest rates and also taken other steps to offset the impact of Covid-19 on their economies. While monetary policy is not a magic wand to eliminate the economic damage being caused by the pandemic, the SARB's preparedness to take positive steps on this front is welcome.

The MPC's latest message is therefore supportive. A tangible cut in borrowing costs for business and consumers is a positive factor for the economy and helps to underpin confidence at a critical stage. The SARB's confidence in the stability of the banking system is also welcome but it will remain essential to monitor any liquidity stresses that may still emerge. For there are going to be serious cash flow problems for many businesses in the months ahead. To successfully manage these demands will require banks and creditors to be accommodative in very challenging economic circumstances.

The fact that the MPC has drastically reduced its growth forecast for 2020 to -0.2% underscores the challenge which the pandemic poses for the SA economy, and which seems too optimistic. The problem now in SA is not inflation but to focus on what it is necessary to do to sustain economic and business activity. The fact that space exists in monetary policy to respond more fully in the future, if necessary, underscores the commitment that policy will remain flexible in volatile economic conditions.

The onus now shifts to the government's fiscal and other economic responses recently announced to cope with Covid-19 and which needs to be invested with the required urgency. This again highlights existing initiatives and plans to put the economy on a higher growth path. To turn the SA economy around now, with Covid-19 as an additional challenge, will more than ever before still also need heroic efforts by government, business and labour to expedite the necessary pro-growth reforms to build economic resilience.

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