Analysis | Debate continues on the pace at which borrowing costs should again increase

By Raymond Parsons

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As expected, the MPC continued with its interest-raising cycle with an increase of 25 bps, instead of the higher 50 bps option which had also been widely canvassed.

Source: Supplied.

This is the right decision in present stressful economic circumstances. In managing the various risks facing the economy now there is room for legitimate differences of interpretation regarding the pace at which borrowing costs should again increase. The MPC itself was divided on the extent of the rise by a 3-2 vote.

The MPC has further reduced its 2023 GDP growth forecast to as low as 0.3%, attributed mainly to the negative impact of load-shedding. Serious headwinds for the economy this year not only include intensified load-shedding but also higher input costs, weak confidence levels, elevated uncertainty, squeezed profit margins and potential layoffs.

The global economy is also less supportive of domestic economic growth. Although the rate of inflation is flattening out the MPC remains concerned about inflationary expectations. Lower growth expectations in 2023 may nonetheless help to ease pressure on costs and prices.

Given the normal time-lag of 12 to 18 months in the impact of monetary policy on the economy the cumulative effect of previous borrowing cost increases therefore now also coincides with a much lower growth performance in 2023. The danger does exist of ‘overkill’ in monetary policy if interest rate rises are too aggressive, even if interest rates are close to their peak. Monetary policy might then be tripped up by the time-lags.

The MPC therefore made the right judgement call in limiting its pace of interest rate increase for now.

ABOUT THE AUTHOR

Raymond Parsons is an economist at the North West University (NWU) business school.