

Cut to interest rates a welcome relief for SA agriculture

As agriculture is a capital-intensive industry with a national agricultural debt in excess of R160m, the reduction of the interest rate by 25 basis points is a welcome relief to farmers, according to Paul Makube, senior agricultural economist at FNB Business.



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Farmers and producers are still recovering from the aftermath of the drought of two years ago.

During a drought, producers have less or nothing to take to the market and derive some income from, however, they still have to carry the cost of holding farm assets and are thus unable to meet their debt repayment obligations. It may lead to further indebtedness as they are forced to borrow more to maintain their living and operational requirements.

The reduced cost of borrowing will incentivise farmers to review their investment decisions in terms of purchasing new machinery, equipment or restart deferred projects such as the expansion of orchards.

This will also improve the profitability of enterprises with high capital outlays such as in poultry, feedlots and pork. The combination of falling inflation and lower interest rates positively affects the expenditure on farm inputs in terms of reduced production costs, thus improving profit margins.

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