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## MEDIA STATEMENT - IMMEDIATE RELEASE

28 JANUARY 2016

### RISING INTEREST RATE CYCLE WILL HARM GROWTH AND EMPLOYMENT, SAYS NWU ECONOMIST RAYMOND PARSONS

Commenting on the decision by the Monetary Policy Committee (MPC) of the SA Reserve Bank (SARB) to raise interest rates by a further 50 basis points today Professor Raymond Parsons, of the NWU School of Business and Governance says:

'The expected further rise of 50 basis points announced by the SARB today, together with the Bank's sober economic analysis, sends a worrisome message about SA's economic prospects. Whilst recognizing the acute policy dilemma faced by the SARB of weighing higher inflation against weaker growth, a rising interest rate cycle nevertheless will inevitably come at a cost in growth and jobs. The inflationary concerns which have driven the SARB's latest decision will not prevent these negative outcomes.

As the SARB itself acknowledges, inflation in SA is cost-induced, not driven by excess demand. It is therefore the consequence of forces not responsive to interest rate discipline. Much higher borrowing costs are not the best medicine in these economic circumstances. The SARB has now again reduced its growth forecasts, with downside risks. The substantial 50 basis points rise in rates will unavoidably further dent business and consumer confidence, which is already at low levels.

To address the combined impact of the weak rand, the drought and higher electricity costs through ever-increasing interest rates and higher borrowing costs also heightens the risks of a technical recession emerging during the year. We do not want higher interest rates to become a 'tipping point' for recession. A rising interest rate cycle makes it more difficult for SA to break out of its present 'low growth trap'.

The SARB is right to say that an excessive burden should not be placed on monetary policy to rebalance the economy. What needs to be urgently provided are the structural reforms and policy certainty required to rebuild confidence and put the economy on a higher growth path. The main task of strengthening long term economic growth in SA lies elsewhere.'