

# No respite for farmers as debt servicing costs escalate following another 50-basis points hike

 By [Paul Makube](#)

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The South African Reserve Bank (Sarb) announced another 50-basis points interest rate hike thus bringing the repurchase rate to over a decade high of 8.25%. The prime rate thus moved higher by 0.50% effective from 26 May 2023.



Source: Barescar90 via [Pixabay](#)

Unrepentant inflationary pressures emanating from elevated geopolitical tensions (which complicates the rand outlook), the unending energy woes with seemingly no near-term solution, and logistics constraints raising cost levels, forced the Sarb to maintain the firmer hand on rates.

The Sarb's growth outlook has been nudged downwards to 0.2% this year dragged by energy and logistical constraints. However, subsequent years sees a modest growth of 1% spurred renewed investment in energy supply and the improved global environment.



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Elevated inflation expectations muddy the interest rates outlook, thus higher for longer. For farmers, mounting debt servicing costs means profit margins will thin out further and slow expansion plans. For example, agriculture machinery sales have slowed in 2023 as farmers proceed cautiously on their replacements and new additions.

Although yields are currently good with the May 2023 production estimates upgraded by 2% and 4% from April and the previous season respectively, commodity prices are now off the boil following two years of a strong rally.

Additionally, the heightened probabilities of El Niño weather patterns for the new summer crop season ahead may prompt farmers to be very cautious with financial commitments.

## ABOUT PAUL MAKUBE

Paul Makube is Senior Agricultural Economist at FNB.

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