

## Reserve Bank keeps rates unchanged

The Reserve Bank's Monetary Policy Committee (MPC) has decided to keep the repo rate steady at 6.5% much to market expectation.

"The MPC deems it appropriate to maintain the current stance of monetary policy. Accordingly the repurchase rate remain unchanged at 6.5% per annum," Reserve Bank Governor Gill Marcus announced on Thursday. The decision was made unanimously.

### Outlook still favourable

The governor said since the last meeting of the MPC the outlook for domestic inflation had remained favourable with inflation expected to remain within the target band over the forecast period.

Additionally domestic economic growth prospects have been revised upwards even if there was only a moderate recovery household consumption expenditure.

### Risks to global recovery

Risks to this growth outlook, she said, were the recent global developments, adding that the uncertainty that relate to the sustainability of fiscal deficits in several euro area countries have renewed fears of a possible contagion that could affect recovery of the economy.

The bank said these developments demonstrate the fragility of the global environment, and that the related uncertainties pose a downside risk to the global recovery. "The global inflation outlook, however, is expected to remain benign, and is not expected to pose an upside risk to domestic inflation," she said.

The bank said that the best defense against debt crisis is to stick to sensible policies.

### Fixed exchange rate

On the issue of having a fixed currency she said: "Issues lying behind the call for a fixed exchange rate... these are real concerns about what's happening in the economy. It does not mean that the issues that were raised do not need to be addressed. It's a combination of what the macro policy can do and what the micro policy needs to do. If we look at the situation in our country there are structural imbalances that need to be addressed," she said.

The bank's Consumer Price Index (CPI) forecast showed an improved outlook compared to the one presented at its previous meeting. Although CPI is expected to reach a low point in the third quarter, inflation is expected to remain within its band until the end of the forecast period (2010 and 2011) that has been extended to the end of 2012 where it is expected to come in at 5.3%.

### Rand a positive factor

Regarding the rand, the currency had remained relatively stable since the last MPC meeting at around R7.23 and R7.48 against the dollar.

"The turbulence in the global financial markets resulted in a brief but significant depreciation of the rand against the US dollar, as risk aversion returned to the markets. Following the announcement of the proposed government interventions in Europe, the rand appreciated to current rates of around R7.50 against the US dollar," she said.

The bank said that although the rand is a positive factor in the inflation outlook it is contingent on developments in the euro

area and general risk aversion.

## **Narrowing deficit**

"The deficit is expected to narrow over the next three years as the economy recovers, and to measure 4.7% in the 2012/13 fiscal year.

The overall government debt to GDP ratio is expected to peak at 43% in the medium term. This fiscal trajectory is consistent with fiscal sustainability and the MPC does not foresee a possible conflict with monetary policy objectives should this trend be maintained, she said.

## **Wage issue**

On the issue of wage increases the bank expressed concern.

"However, the MPC noted that a number of wage negotiations are at significantly higher levels, and well above the current and expected inflation rate. Should a general upward trend in wage settlement rates transpire, in the absence of compensating increases in productivity, it could pose an upside risk to the inflation outlook," she said.

## **No surprises**

To date the repo rate has been slashed by 550 basis points since December 2008. This was so as to pull the economy out of a recession of which it emerged from in the third quarter of 2009.

The decision does not come as a surprise as the governor last month said the scope for further easing of interest rates was limited and that the repurchase rate is likely to remain stable for some time.

Commenting on the decision, Nedbank economist Isaac Matshego said: "It is encouraging to see that the inflation outlook is more positive however it seems like the MPC is worried about risks emanating offshore. Because of that we expect the March cut to have been the last unless upcoming growth data states otherwise."

For more, visit: <https://www.bizcommunity.com>