

Repo rate increases to 5.5%

PRETORIA: The Reserve Bank has hiked up the repo rate to 5.5%.



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"The MPC [Monetary Policy Committee] has decided to increase the repurchase rate by 50 basis points to 5.5 % per annum as of 30 January 2014," Reserve Bank Governor Gill Marcus said following the first MPC meeting of the year.

The repo rate - which is the scale at which the bank lends money to commercial banks - has up until today been unchanged at 5% since July 2012.

Market expectation was for the repo rate to remain unchanged.

"While we would admit that the outcome of the MPC meeting today has become a closer call, our base case remains for the bank to stay on hold. There can be little doubt that pressure on the rand, since the central bank's November MPC meeting, has in isolation increased the risk of tightening from the Reserve Bank," said Standard Bank earlier today in a research note.

It was the view of the MPC that withstanding the increase in the repo rate, monetary policy remained accommodative.

The exchange rate, said Marcus, has resulted in a market increase in the upside risk to the inflation forecast.

Since the last MPC meeting in November 2013, the rand has depreciated by about 7.4% against the US dollar. Year to date, the rand/dollar depreciation has been about 3.5%.

Though the recent rand weakness is part of a general emerging market phenomenon, it has been reinforced by factors including declining terms of trade, on-going labour disputes, and the higher-than-expected current account deficit in the third quarter.

The central bank's forecast for growth in 2014 and 2015 has been revised to 2.8% and 3.3% respectively, down from 3% and 3.4% in the previous forecast.

Inflation forecast indicated the possibility of inflation falling out of the bank's target range (of between 3% and 6%) for an extended period, largely due to the impact of the depreciating currency.

"The risks to the inflation forecast are seen to be significantly on the upside. Large adjustments to the exchange rate will inevitably impact on inflation, even in conditions of relatively low pass-through such as we have been experiencing," noted the central bank.

Inflation is expected breach the upper end of the target range in the second quarter of 2014, reaching a 6.6% peak in the fourth quarter of 2014.

Additionally, the bank expects the petrol price to increase in February.

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