

# Repo rate unchanged at 5%

The repo rate is to remain unchanged at 5%, Reserve Bank Governor Gill Marcus said on Thursday following the Monetary Policy Committee's last meeting of the year.



"The MPC is of the view that the current accommodative stance remains appropriate and has therefore decided to keep the repurchase rate unchanged at 5% per annum.

"As always, the MPC will monitor developments closely and will not hesitate to act in a manner consistent with its mandate," said the governor, adding that the decision had been unanimous.

Market expectation was that the repo rate would remain unchanged.

According to an Absa Capital research note, the bank has previously been focused on growth but that developments on the inflation side since the last MPC meeting in September have been decidedly negative.

"We now believe that there is a material risk that inflation could print above the top end of the target range in early 2013. The SARB is now caught between a rock and a hard place, with the inflation trajectory deteriorating even as the outlook for growth remains fragile.

"We expect that the SARB will take the middle of the road scenario, keeping the emphasis on growth," said Absa earlier on Thursday.

The October Consumer Price Index (CPI), released by Stats SA on Wednesday, showed that inflation rose slightly more than it was anticipated at 5.6% up from 5.5% in September. The bank targets inflation between 3% and 6%. The October number had edged up closer to the upper limit of the target.

By edging up closer to the target, the number reduced the central bank's ability to cut interest rates to incentivise economic activity in an environment of slow growth.

The MPC said the balance of risks to the inflation outlook to be on the upside, given the continued pressure of food prices, uncertainty of the exchange rate movements and the reweighting and rebasing of the CPI. Stats SA has recently announced the reweighting of the CPI.

"The inflation forecast of the Bank reflects a deterioration in the inflation outlook for 2013 compared with the previous forecast," Marcus said, adding that inflation was now expected to average 5.6% in the last quarter of 2012 and 5.6% the year.

It is expected to peak at 5% in 2014, with a peak of 5.7% in the first quarter of 2013.

"This near-term deterioration is mainly due to higher expected food price inflation as well as the recent depreciation of the rand," said the Governor. These forecasts do not incorporate the new CPI weights and rebasing

Higher wage increases could exert upward pressure on inflation, while it could also have a negative effect on employment.

The bank expressed concern at recent wage settlements.

"The MPC is concerned about the recent trend in wage settlements and the potential negative impact on the economy, particularly on growth and investment. These developments could also result in lower growth in employment creation or an absolute decline in employment.

"Although the reported headline increases granted in some of the settlements are higher than the actual average increases, there is no doubt that the increases granted are well above inflation."

Meanwhile, the rand is expected to "remain sensitive" to unfolding domestic economic and political developments, in addition to global risk perceptions.

At the MPC meeting in September, the central bank cut its 2012 growth forecast to 2.6% from 2.7% due to the weak global growth.

Domestic economic growth, said the MPC on Thursday, has deteriorated largely due to the continued global slowdown and domestic events, including labour unrest.

The Bank's forecast of GDP growth has been revised downward from 2.6% cent to 2.5% in 2012.

Growth in 2013 is now expected to average 2.9 % 3.4% previously.

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