

Inflation dives a significant 1.8%

The latest 1.8% drop in inflation figures could mean good news for cash-strapped South African and struggling home owners.

By [Michael Appel](#) 28 Jan 2009

Statistics South Africa (Stats SA) reported on Wednesday that the Consumer Price Index excluding interest on mortgage costs (CPIX) dropped significantly in December 2008 from 12.1% to 10.3% year-on-year (y/

The drop in inflation coincides with the massive drop in fuel prices at the beginning of this month as well as the 50 basis point or half a percent cut in interest rates announced by the Reserve Bank's Monetary Policy Committee (MPC) in December 2008.

The Reserve Bank's tightening of monetary policy that informed interest rate decisions for much of 2008, appears to have halted inflation.

An inflationary cycle beginning in June 2006 led to the MPC raising interest rates 10 times or a cumulative 5% until the repo rate was left unchanged at 12% in August 2008.

Inflation has been outside the Reserve Bank's inflation targeting band of 3 - 6% since June 2008.

The central bank's Monetary Policy Committee (MPC) lowered the repo rate by half a percent when it last met in December 2008, which was the first such drop in the interest rate following the consecutive rate hikes.

"We are likely to see steady interest rate cuts all the way through to the middle of this year ... but there are still possible inflation risks such as a weakening Rand which will make the Reserve Bank cautious," economist at Econometrix Treasury Management (ETM), Russell Lamberti told *BuaNews* recently.

Director at the Bureau for Economic Research (BER) Professor Benjamin Smit told *BuaNews* recently the official forecast is for a 250 basis point or 2.5% cut in the interest rate this year.

Investment Strategist at Investec Asset Management, Michael Power, similarly told *BuaNews* he believes there will be an interest rate cut of between 2 and 3% in 2009.

The repo rate, which is the rate at which the Reserve Bank lends money to commercial banks, is currently sitting at 11.5%, while the prime lending rate, which is the interest rate consumers are charged for lending from commercial banks, is presently 15%.

With inflation coming down quite substantially, all eyes will be on the MPC when they meet again on 4 and 11 February 2009, to see whether they cut interest rates aggressively by 100 basis points, or a mild 50 basis points.

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