

# Repo rate remains unchanged at 5%

The Reserve Bank's Monetary Policy Committee (MPC) has kept the repo rate unchanged at 5% in line with market expectations.



South African Reserve Bank

"The monetary policy stance remains accommodative and appropriate, with the real policy rate remaining slightly negative. Further accommodation at this stage is constrained by the upside risks to the inflation outlook.

"The MPC has therefore decided to keep the repurchase rate unchanged at 5%," Governor Gill Marcus said on Thursday.

There had been no discussion of a rate cut or rise during the meeting of the MPC, noted Marcus.

South Africa's growth was fragile as well as "below potential", noted the MPC.

The central bank has revised downwards its growth forecast for 2013 to 2.6% from a previous 2.9%.

Meanwhile, the bank expects inflation to average 5.8% this year and is likely to reach 6.1% in the third quarter. However, the forecasts do not yet incorporate the new CPI weights and rebasing recently announced by Statistics South Africa. These, said the governor, would be incorporated formally into the bank's next forecast.

Stats SA data on Wednesday showed that CPI rose to 5.7% in December from 5.6% in November.

"Having averaged 5.6% in 2012, inflation is now expected to average 5.8% in 2013, and 5.2% 2014 compared with the previous forecasts of 5.5% and 5% for the respective years," said Marcus.

Inflation is expected to moderate gradually to 5.1% in the final two quarters of 2014.

The deterioration, noted the bank, was largely due to higher than expected food price inflation, the lagged effects of the depreciation of the rand, and higher than expected unit labour costs.

The bank noted that the rand exchange rate continued to pose an upside risk to the inflation outlook.

"The exchange rate has been impacted by the widening deficit on the current account of the balance of payments during 2012 and changing global and domestic risk perceptions, particularly relating to the adverse developments in the South African labour market, and the downgrades by the various ratings agencies."

Since the previous meeting of the MPC in November 2012, the rand has been fairly volatile, having appreciated initially from R8.94 to the US Dollar, to current levels of around R9.

The currency is expected to remain sensitive to global and domestic developments.

The MPC noted that the outlook for parts of the mining sector was bleak due to the continuing labour disputes and the announcement of the possible closures of shafts and mines.

Following its first meeting of 2013, the MPC raised concern about the potential impact of higher level wage settlements on employment and inflation.

"There are indications that wage increases are trending higher. The MPC is mindful of the danger of a possible wage-price spiral and further employment losses should unaffordable real wage demands be granted while economic growth remains constrained," noted the governor.

The MPC had earlier raised this issue at its November meeting.

"Administered prices remain on average well in excess of the upper end of the target range, and there is as yet no clarity about the new Eskom tariffs to be implemented later this year," it had said.

This as Nersa is engaged in public hearings into the requested 16% tariff hike that the power parastatal is requesting.

Analysts had predicted that the repo rate would remain unchanged.

In a research note, Nedbank economists said they expected the bank to keep rates neutral for most of 2013 in order to balance weak growth prospects and rising inflationary pressures.

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