THE STAR - BUSINESS REPORT 2015/09/25 Page: 17

AVE: 24120.00 (ZAR)

Reserve Bank MPC changes its stance

Wiseman Khuzwayo

THE MONETARY policy committee (MPC) of the Reserve Bank reversed its policy tightening cycle, after saying the outlook for domestic economic growth had deteriorated.

On Wednesday, it kept the repo rate unchanged at 6 percent, after hiking it by 25 basis points in July in a move interpreted as an attempt to front run the US Federal Reserve.

US Fed

However, the Fed last week again kept US rates unchanged, after almost a decade of low rates, in a nod to concerns about a weak world economy, but left the possibility of a modest policy tightening later in the year.

This forced the hand of the SA Reserve Bank, although its governor Lesetja Kganyago was adamant at a press conference on Wednesday that it had hiked without reference to the Fed.

He said the global economic outlook had become more uncertain since the July meeting of the MPC, driven in part by the strong financial market reactions to the deteriorating outlook of the Chinese economy.

Kganyago said these developments had had an adverse effect on the outlook for commodity producers particularly in the emerging market economies like South Africa. However, Asian economies with close trade links with China had also been affected.

Commenting before the rate announcement, Annabel Bishop, the chief economist at Investec, said South Africa was experiencing a number of adverse economic effects, with the downturn in the global commodity cycle weakening commodity currencies markedly, while domestically higher interest rates and taxes had suppressed consumer spending, along with job losses and falling real disposable income growth.

"The majority of commodity exporters cut interest rates to support their economies, but South Africa has bucked the trend, tightening interest rates in the face of potential recession due to a rigid fixation on inflation targeting."

Bishop said with a recession threatening South Africa, it would behove the Reserve Bank to instill confidence with a dovish tone on Wednesday.

Timeline

July 16, 2014: The Reserve Bank announces a repo rate hike of 25 basis points to 5.75 percent. It says the moderate increase strikes a fair balance between its concerns about weak economic growth and those over rising inflation.

July 22, 2015: The bank hikes the repo rate by 25 basis points to 6 percent on the back of inflationary risks.

September 17: The Federal reserve keeps interest rates unchanged, saying they could go up later this year.

September 23: The Reserve Bank somersaults on tightening cycle and keeps the repo rate unchanged at 6 percent.

Inflation

Kganyago said the domestic economic growth outlook deteriorated compared with the Reserve Bank's previous forecast. This followed the surprise annualised contraction of 1.3 percent in the second quarter.

The central bank's forecast for growth has been revised down by half a percentage point in each year of the forecast to 1.5 percent in 2015, and to 1.6 percent and 2.1 percent in the subsequent two years.

"The risks to the growth outlook are now seen to be more or less balanced," Kganyago said. He said the inflation outlook remained a concern for the MPC.