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Economics

Don’t bank on the Bank for a boost

The Reserve Bank (SARB) made the decision we expected yesterday – interest rates remained stable at 5%. While many believe the SARB has remained fairly dovish at previous Monetary Policy Committee (MPC) meetings, the latest meeting yesterday wasn’t exactly hawkish, but it was clear that the SARB took this opportunity to convey a clearer stance on monetary policy.

Despite a significant downgrade in their economic growth outlook (see table below) the Bank decided to keep rates on hold. There has been a growing perception among market players that the Bank prioritises growth above price stability – at least we know now where they stand on this.

As we expected, inflation for April remained stable from March at 5.9%. Food price inflation once again cropped up to add pressure to inflation. The SARB’s inflation forecast surprised with a drop in their outlook for this year, be it marginal, with steady forecasts for the years that follow. They sighted slight changes in their assumptions about international commodity prices, including oil, and lower global inflation for the improved forecast.

Table: Economic outlook

		2013		2014		2015
GDP [a]	SARB	2.4%	2.7%*	3.5%	3.7%*	3.8%
	Efficient Group	2.4%		3.2%		3.5%
CPI [b]	SARB	5.8%	5.9%*	5.2%	5.3%*	5.0%
	Efficient Group	5.9%		5.5%		5.5%

a) Seasonally adjusted yearly change
b) Average yearly change
* Previous forecast

The MPC brought one crucial message to the table yesterday; interest rates cannot be used as a quick-fix for the country’s domestic problems. According to the MPC a number of key domestic issues must be addressed urgently as they are contributing to the vulnerability of the economy. These issues are:

- financing of the deficit on the current account of the balance of payments;
- the fractious labour relations environment and the associated risks of protracted work stoppages and excessive wage increases;
- electricity supply constraint;
- upside risks to inflation;
- downside risks to growth;
- employment creation in a context of high unemployment; and
- the declining domestic and foreign investor confidence which could impact directly on capital inflows

Once again the Bank brings to our attention the urgency for all parties – government, business, labour and civil society – to interact and address these issues and vulnerabilities at a national level. The SARB states that some challenges are beyond its role, scope and the effectiveness of monetary policy, in other words don’t bank on the Bank for a boost.

Economics Plus is written by Merina Willemse, Efficient Group Economist.merinawillemse@efgroup.co.za

Efficient Group Ltd - Reg. No.: 2006/036947/06
81 Dely Road, Hazelwood, Pretoria, South Africa - Tel: +27 (0)12 460-9580 - Fax: +27 (0)12 346-6135 - www.efgroup.co.za