

No interest rate change predicted

 By [Tendani Mantshimuli](#)

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The SARB MPC meeting started on Tuesday afternoon (27 March 2012) and the results are expected this afternoon. A week or so ago, the governor created a stir in the market with some remarks that she made regarding inflation.



She indicated that the bank was quite concerned with inflation pressures becoming more generalised, which means that there's evidence that inflation is being passed on to more consumer goods. The result is that some analysts are now expecting an increase in the repo rate later this year, instead of rates remaining flat for the year.

However, our outlook for rates remains unchanged for now for the following reasons:

- While inflation might be a concern to the bank it is not more so now than any other time. It was proper for the governor to continue to put out the message that inflation matters a lot to the bank, because it causes more economic misery - particularly to poor people - than higher interest rates would. However, inflation is forecast to come back within target by the second half of the year, so there's no need to change the monetary policy stance.
- The bank's primary mandate is inflation targeting they would not pursue that at the expense of growth and employment. Raising interest rates now, or in the coming months, would put the fragile growth prospects at risk. Consumer spending will not be sustained at 2011 levels as disposable income will slow down alongside lower economic growth. Debt levels for consumers are coming down, but slowly, so higher interest rates would not put more pressure on them: both the high inflation rate and the potentially higher interest rates would erode disposable income and leave little discretionary income to spend. That would not be good for economic growth as household consumption expenditure forms a substantial part of GDP.

My view is that interest rate will remain unchanged and I'm also not looking for a change in interest rates this year.

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Tendani Mantshimuli is consumer economist of Liberty Life.

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