Print this page

Analysts predict another rate cut

Nov 11, 2010 11:13 PM| By

The Bureau for Economic Research expects the South African Reserve Bank's monetary policy committee to lower the policy setting repo rate to a record low of 5.5% next week.

Reserve Bank Governor Gill Marcus. File Picture.
Photograph by: SIPHIWE SIBEKO

" Recent events have tilted the scales towards a reduction "

The BER, which is based at Stellenbosch University and which conducts important research for the SARB, released its latest forecasts at a conference yesterday.

The bureau said last month that the Bank was likely to hold its policy rate at the 6% level to which it was cut on October 10.

But senior economist Hugo Pienaar said recent data had led to a revision of its outlook: "More recent events - including further job losses in the third quarter of 2010, the continued rand strength versus the US dollar and the explicit focus on accommodative monetary policy in government's new growth path initiative - have tilted the scales towards another 50 basis points reduction."

A cut would bring the prime rate charged by banks down to 9%.

Pienaar said the BER expected the rate to stay low through next year before a tightening cycle forecast to peak at 150 basis points towards the end of 2012.

The BER also adjusted its outlook for the rand, citing the trend reported by the National Treasury towards long-term foreign investment by pension funds and the likelihood that emerging markets will outperform the traditional economic powerhouses of the West.

"In light of (these) trends, we have made a large adjustment to the currency forecast and now see the rand averaging around R7.50 to the US dollar in the fourth quarter of 2011 and just above R8 to the dollar in the final quarter of 2012," said Pienaar.

The BER's previous forecast was for the rand to weaken to R8.45/$ in the final three months of this year.

The bureau said economic growth could be slightly better than it had previously forecast in 2010 at around 3.4% and could rise to 4% of GDP in 2012.

Pienaar said that after stalling for several months, food prices were likely to start increasing again.

He said inflation would remain muted for the rest of 2010, but could start to accelerate next year. But he said the BER had cut its July forecast of 5.7% average inflation next year to 4.7%.

Speaking at the same conference, Chris Loewald, deputy director for economic policy in the National Treasury, said there was still no formal estimate of the likely cost of the national health insurance scheme proposed by the ANC.

"It's not in the numbers now," he said, adding that the real cost was likely to be a lot lower than some of the figures circulating in public discussion.

Treasury committees were running models to test the likely cost of various designs for a national health insurance scheme, Loewald said, but these numbers had not been finalised.

Olive Shisana of the Human Sciences Research Council, who is leading a team working on an NHI design, has estimated that the NHI would cost an additional R11-billion on top of the existing health budget in the first year, which is currently scheduled to be 2012.