

## No surprise in monetary policy

**Monetary authorities will keep the policy rate unchanged through the end of this year.**

The South African Reserve Bank will keep the repurchase rate unchanged at 5.5% for the time being. The key policy interest rate has been held at a 30-year low since the end of last year to support growth in Africa's biggest economy, which has shed jobs since the recession ended in 2009, pushing the unemployment rate to above 25%.

Moody's Analytics expects monetary authorities to hold the key policy interest rate throughout 2011; the weakening global and domestic economic recoveries will outweigh concerns of rising inflation pressures. Following a first quarter rise of 4.5%, GDP growth slowed to a two-year low of 1.3% in the second quarter. Steep declines in manufacturing and mining contributed to this slowdown. Mining production contracted at a year-on-year rate of 5.1% in July, and manufacturing production fell 6%. At 46.7, the purchasing managers' index remains below the neutral 50 level. The business confidence index has declined for two consecutive quarters and, at 39, is well below the neutral 50.

Fiscal problems in the U.S. and Europe further cloud South Africa's outlook. Europe's unresolved sovereign debt crisis could hurt South Africa; Europe is its primary trading partner and consumes a third of its manufacturing. Depending on how these risks play out, Moody's Analytics could be forced to lower its 3.5% forecast for South Africa's growth in 2011. The country's central bank has already lowered its forecast to 3.2% from 3.7%.

On the upside, price pressures seem to be contained for now. The year-on-year inflation rate as measured by the consumer price index for all urban areas stayed at 5.3% in August, and the CPI excluding food, petrol and electricity declined to 3.8%, from 3.9% in the previous month. However, prices are expected to accelerate in coming months, and inflation is expected to marginally breach the upper end of the target range of 3% to 6% by the end of the year. In the unlikely event of higher than expected price increases over a consistent period of time, the monetary policy committee may be forced into an early rate hike.

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