Interest rate hike will hurt cash-strapped SA

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Cash-strapped consumers are expected to be in for more of a hiding when the SA Reserve Bank's (SARB) monetary policy committee meets for the first time after the elections next month.

The inflation rate rose to 6% prompting fears of an interest rate hike after the May elections. Image: Fipi Fotolia

This is because inflation figures released by Statistics SA show an annual increase of 6% in the inflation rate for March.

Though the figure might not raise many eyebrows as inflation for February stood at 5.9%, SARB governor Gill Marcus would have taken a keen interest as this is the first time it touched the bank's target range of between 3% and 6%.

Marcus in January baffled many when she raised the rate despite inflation not having touched 6%, resulting in many analysts praising the bank's decision prior to the elections.

However, when the MPC met last month, Marcus left the interest rates unchanged, resulting in analysts claiming that this was due to the elections. The analysts warned that she would increase the interest rates after the elections.

An economist at The Economist, Vuledzani Ndou, predicted that inflation would increase to 7% by the end of the year.

Inflation likely to stay high

"I don't think inflation will go down any time soon because of the strain on the economy, which includes the strike at the platinum mines and a weaker rand," said Ndou.

She said Marcus needed to raise the interest rate to bring balance to the economy.

"If the interest rates are raised, consumers won't be tempted to spend as they are when interest rates are lower. When interest rates are low, people are tempted to buy new houses and cars," she said.

Ndou said that small businesses, already struggling because of the weak economy, would be bashed about more as demand for their goods was bound to shrink.

Econometrix's Economist, Azar Jammine, said most of the high-profile components posted significant increases in inflation, including food, clothing and footwear, furniture, appliances and vehicles, while on the services' side there were further increases in inflation of restaurants, hotels, personal care and public transport.

"Had it not been for a sharp decline in petrol inflation for statistical reasons related to comparison against a very sharp increase in the petrol price in March last year, the overall CPI inflation rate would have shown a much bigger rate of increase than just the 0.1% reflected in the headline number.

"It is on account of this almost certain breach of the inflation target over the next two months that one anticipates that the Reserve Bank will feel inclined to raise the repo rate again by 0.5%, if not at the May MPC meeting, then at the July meeting," he said.

Source: Sowetan via I-Net Bridge