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Mortgage advances growth ended 2006 on a high note

According to data released by the South African Reserve Bank, mortgage advances by the monetary sector increased by 30% year-on-year last month after growth rates of 30,9% and 30,4% respectively were recorded in October and November. The total amount of mortgage advances by the monetary sector came to R684,6 billion at the end of 2006.

The 200 basis points worth of interest rates hikes since June last year did little to curb the strong growth in mortgage advances growth, which has been around 30% year-on-year since March 2006. However, growth edged slightly lower over the past two months, which could be an early indication that the higher interest rates are starting to take effect.

CPIX inflation remained stable at 5% between October and December, while PPI inflation was slightly lower at year-end. However, the MPC will probably remain concerned about volatility in international oil prices and the rand exchange, as well as credit demand, especially with regard to mortgage advances, which continued to grow at 30% year-on-year, easing only slightly over the past two months. Total credit extended to the domestic private sector, excluding the volatile components of investments and bills discounted, increased by 27,6% year-on-year in December compared with 27,4% in November.

Against this background, interest rates are forecast to be hiked by another 50 basis at the MPC meeting next month. Thereafter, rates are expected to remain stable until early 2008. As a result, commercial banks' prime and variable mortgage interest rates are set to peak at a level of 13% in the current cycle.

Mortgage advances growth is expected to slow to 18,5% year-on-year by the end of 2007. The implementation of the National Credit Act around mid-year is expected to contribute to lower growth in mortgage advances in the second half of the year.

