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### Growth in mortgage advances still strong

According to data released by the South African Reserve Bank, mortgage advances by the monetary sector increased by 30,1% year-on-year in January 2007. This brought the total amount of mortgage advances to R694,1 billion in January.

Taking into account the continued strong year-on-year growth, which has been around the 30% level since March 2006, the 200 basis points worth of interest rates hikes since June last year appear to have done little to curb mortgage advances growth. However, on a month-on-month basis, mortgage advances growth edged gradually lower from 2,5% in October last year to 1,4% in January this year. This could be an early indication that the higher interest rates are starting to take effect and that year-on-year growth in mortgage advances is set to move to lower levels in coming months.

CPIX inflation increased to 5,3% in January after remaining stable at 5% between October and December last year, while volatility international oil price and rand volatility continued. These developments, together with the still strong growth in domestic private sector credit extension, especially with regard to mortgage advances, will remain a cause of concern to the Reserve Bank. Total credit extended to the private sector, excluding the volatile components of investments and bills discounted, increased by 27,1% year-on-year in January compared with a growth rate of 27,6% recorded in December.

The implementation of the National Credit Act around mid-year, as well as the full effect of the higher interest rates still to work through to the economy and the property market, it is expected that mortgage advances growth will decline in the second half of the year, to reach a level of just below 20% year-on-year by the end of the year.

