

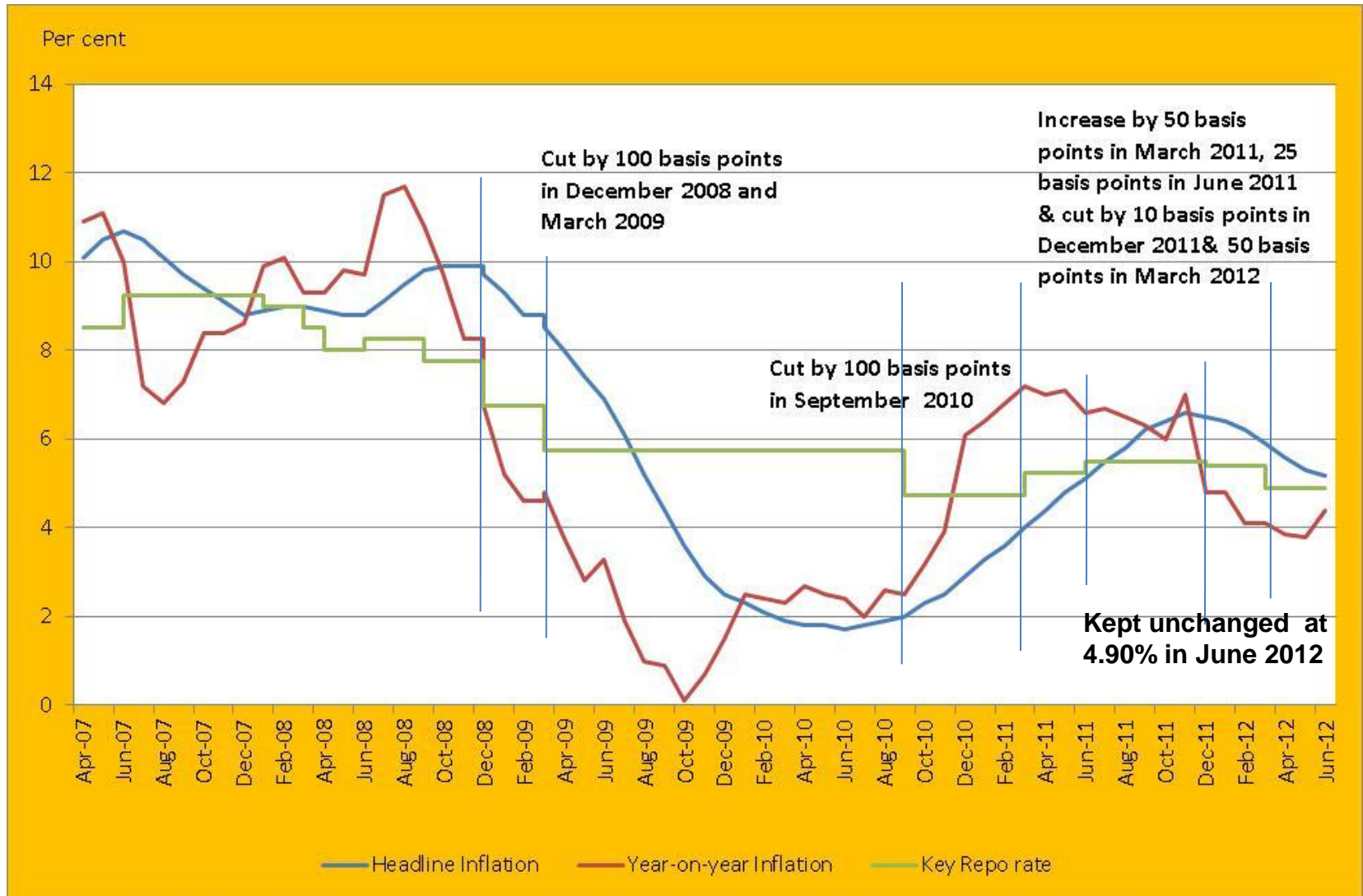


45 YEARS OF CENTRAL BANKING

# Post – MPC Press Conference

12<sup>th</sup> June 2012

# Changes in the Key Repo Rate



# Global Growth Outlook

- The global economy recovery is fragile, extremely uneven across different regions and could be derailed by the crisis in the euro area.
- Resurgence of Euro debt crisis in the wake of Greek elections and Spain's banking crisis.
- Evidence that post-financial crises recovery take much longer than normal.
- Risks for prolonged sub-par growth in Europe as balance sheets of households and companies which have been badly hit by the global financial crisis will take time to recover.
- Consumer and business sentiment weak and expected to remain subdued for some time.

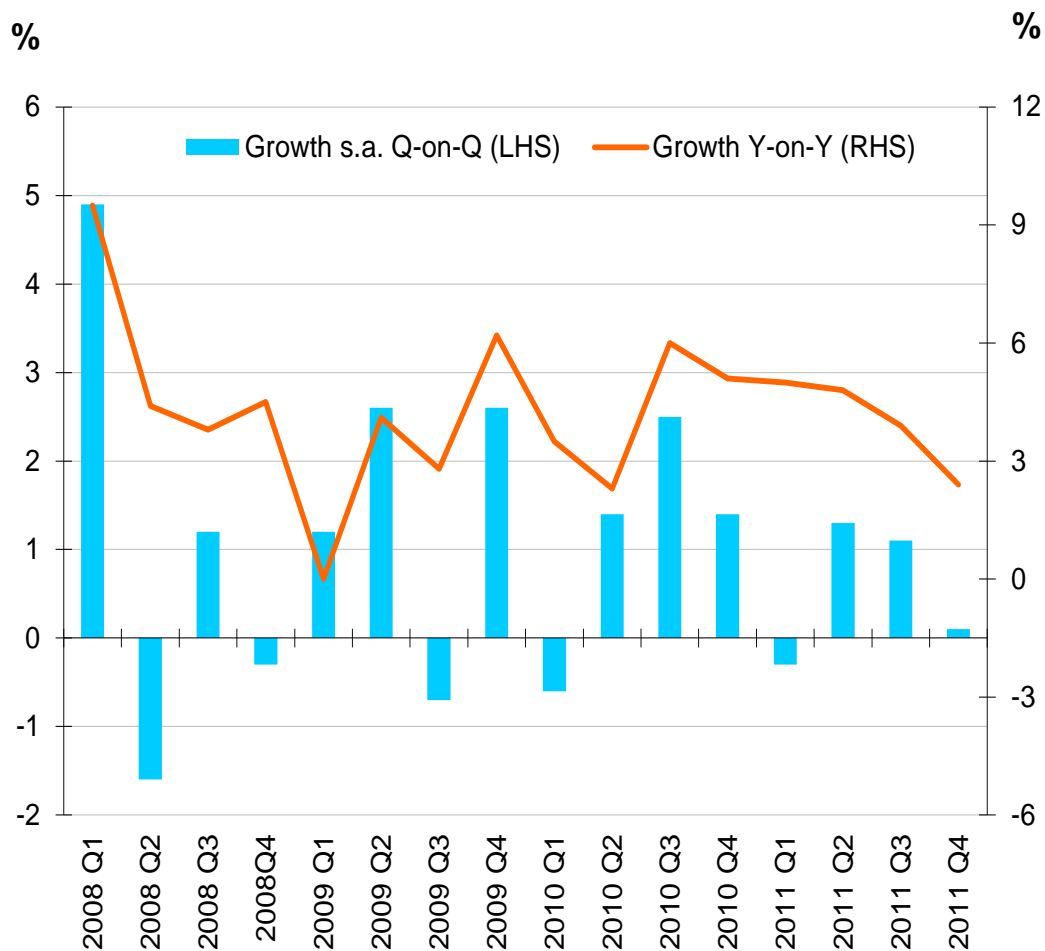
# Growth Projections

	US		Euro zone		UK	
	2012	2013	2012	2013	2012	2013
<b>IMF WEO January Update</b>	1.8	2.2	-0.5	0.8	0.6	2
<b>IMF April WEO</b>	2.1	2.4	-0.3	0.9	0.8	2
<b>OECD Forecast November 2011</b>	2.0	2.5	0.2	1.4	0.5	1.8
<b>OECD Forecast May 2012</b>	2.4	2.6	-0.1	0.9	0.5	1.9
<b>Reuters Poll March 2012</b>	2.2	2.4	-0.3	1.0	0.5	1.6
<b>Reuters Poll May 2012</b>	2.3	2.5	-0.3	0.9	0.3	1.6
<b>JP Morgan March 2012</b>	2.2	2.2	-0.4	0.3	0.8	1.9
<b>JP Morgan June 2012</b>	2.2	2.1	-0.5	0.2	-0.2	1.8

	March 2012 Forecast		June 2012 Forecast	
	2012	2013	2012	2013
<b>Brazil</b>	3.1	4.5	2.1	4.5
<b>Russia</b>	3.7	3.7	3.6	3.4
<b>India</b>	7.3	8.0	6.0	6.5
<b>China</b>	8.4	9.1	7.7	8.4
<b>South Africa</b>	2.7	3.6	2.5	3.6

Source: JP Morgan

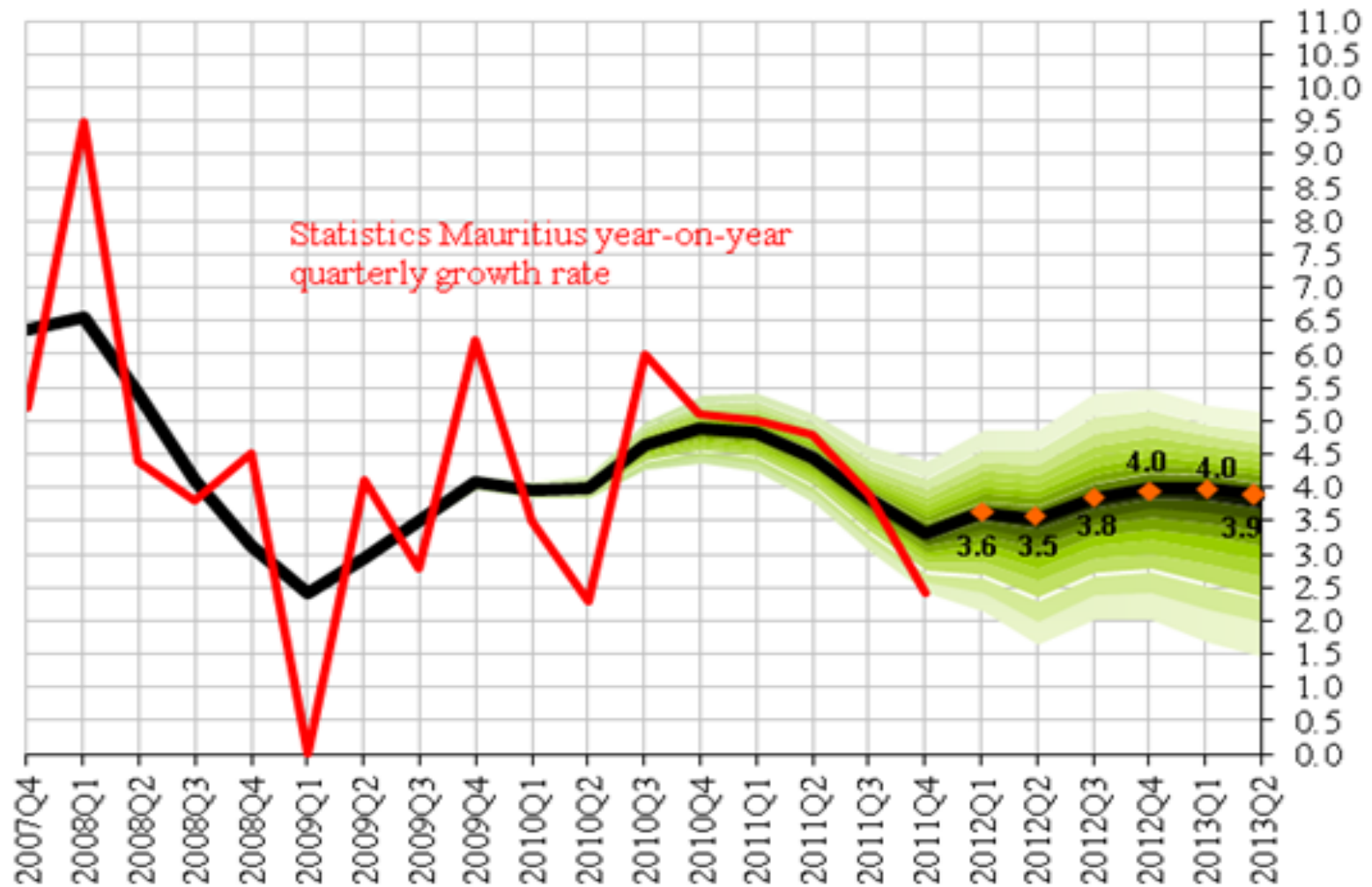
# Domestic Economic Developments



- 2011Q4 q/q s.a. growth of 0.1%
- 2011Q4 y/y growth of 2.4%
- GDP grew by 4.0% in 2011
- BoM's 2012 Growth forecast at 3.8%

# Real GDP Forecast

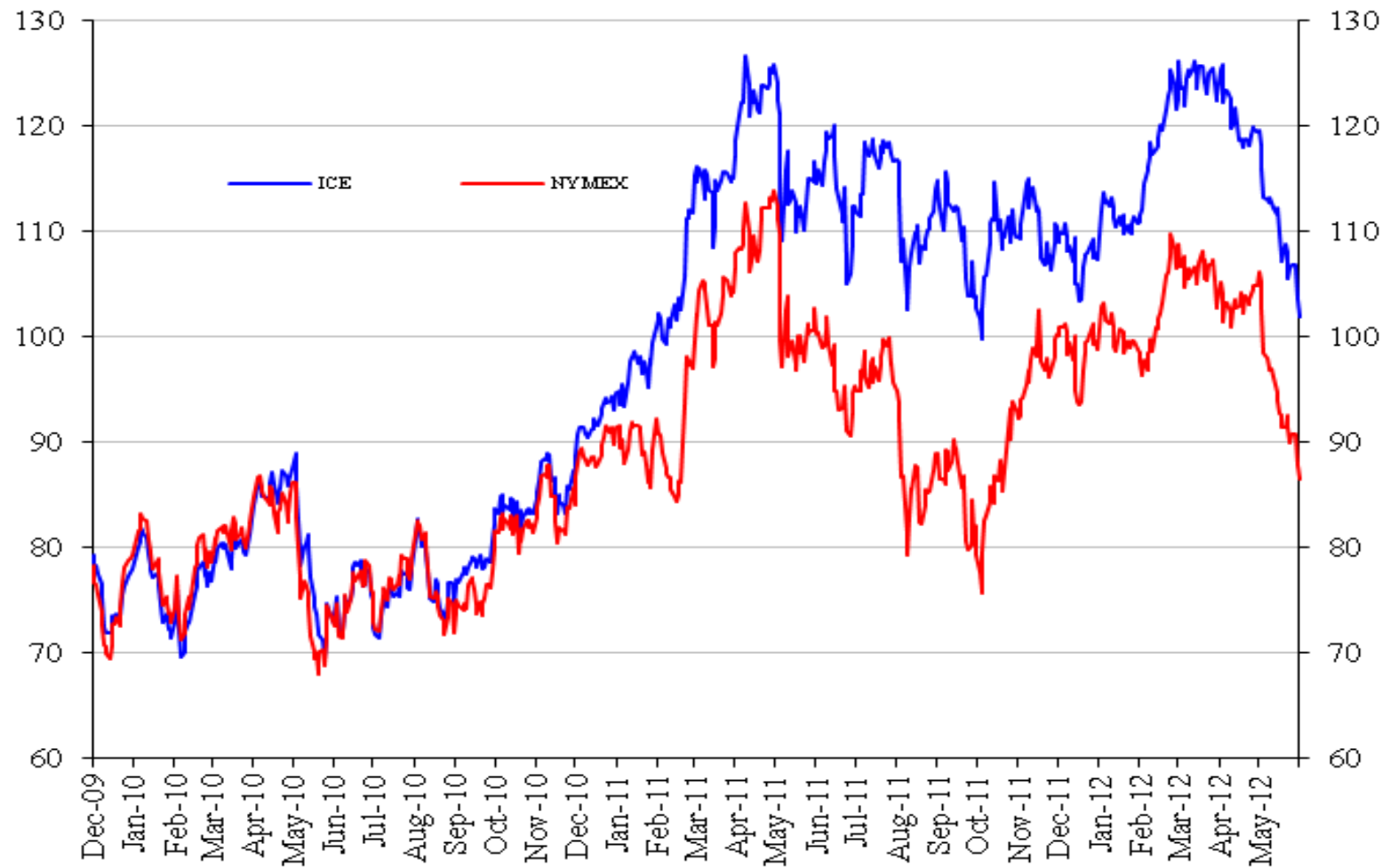
Per cent





# Oil Prices – Monthly Averages

US\$ per barrel



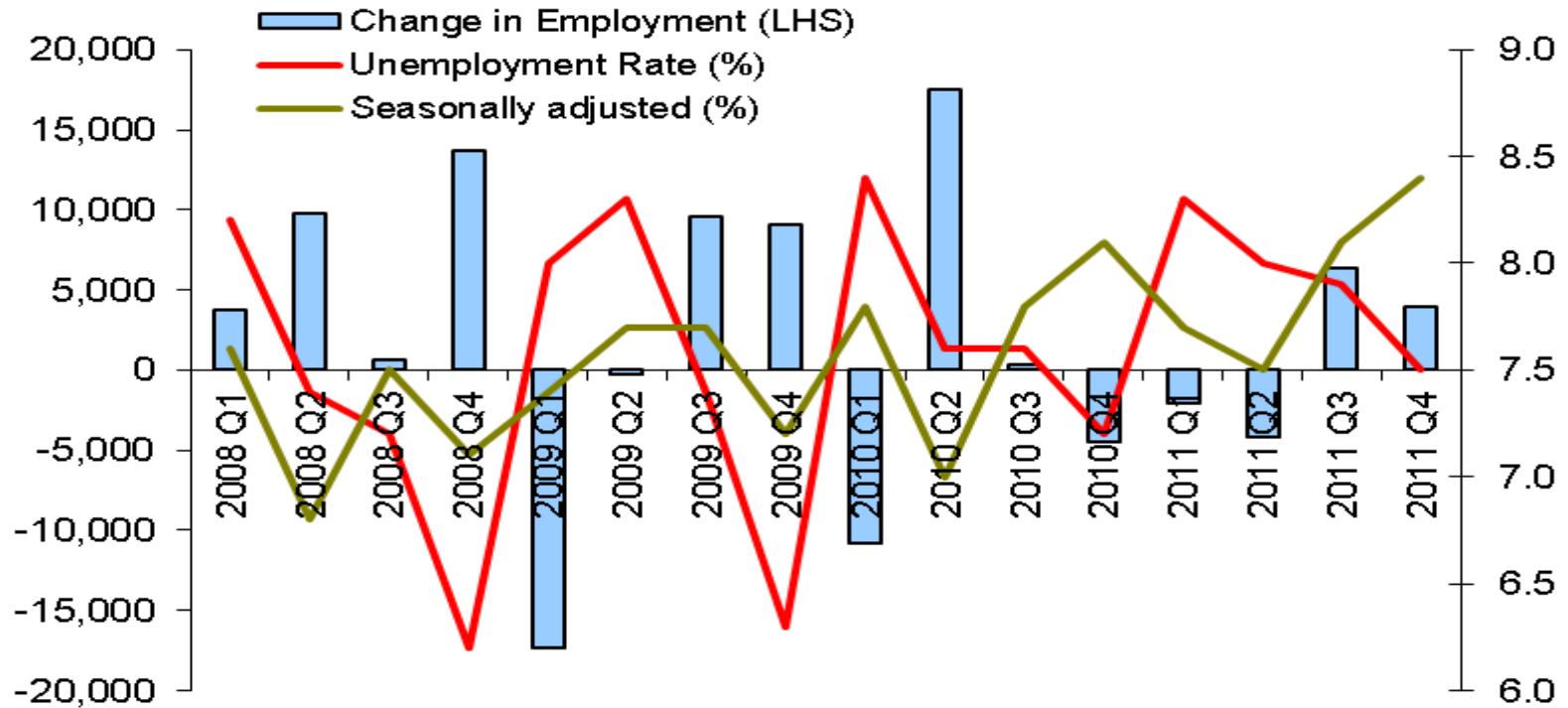


# Inflation Forecast



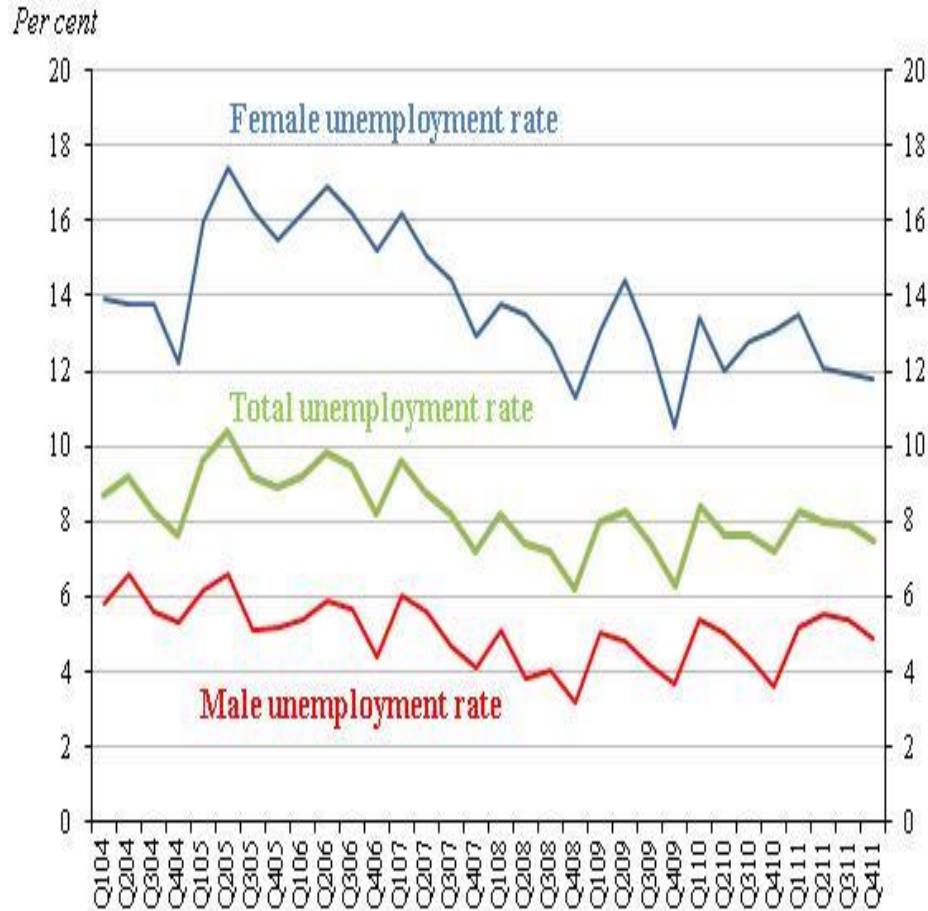
# Labour Market

## Unemployment Rate and Change in Employment

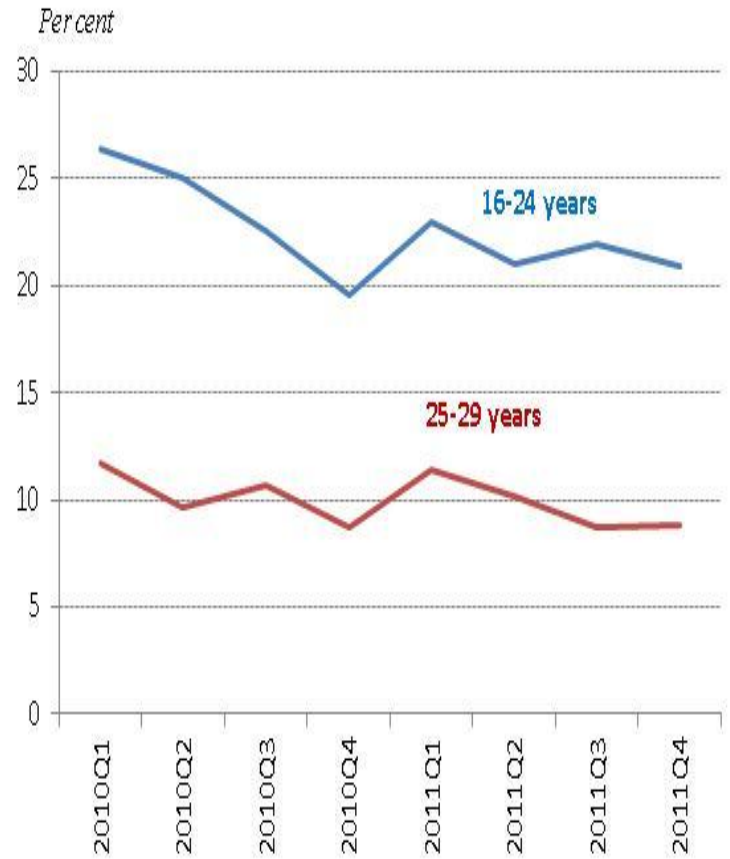


	2010Q4	2011Q3	2011Q4
<b>Unemployment rate (%)</b>	<b>7.2</b>	<b>7.9</b>	<b>7.5</b>
<b>Unemployment rate SA (%)</b>	<b>8.1</b>	<b>8.1</b>	<b>8.4</b>

# Unemployment rate by Gender

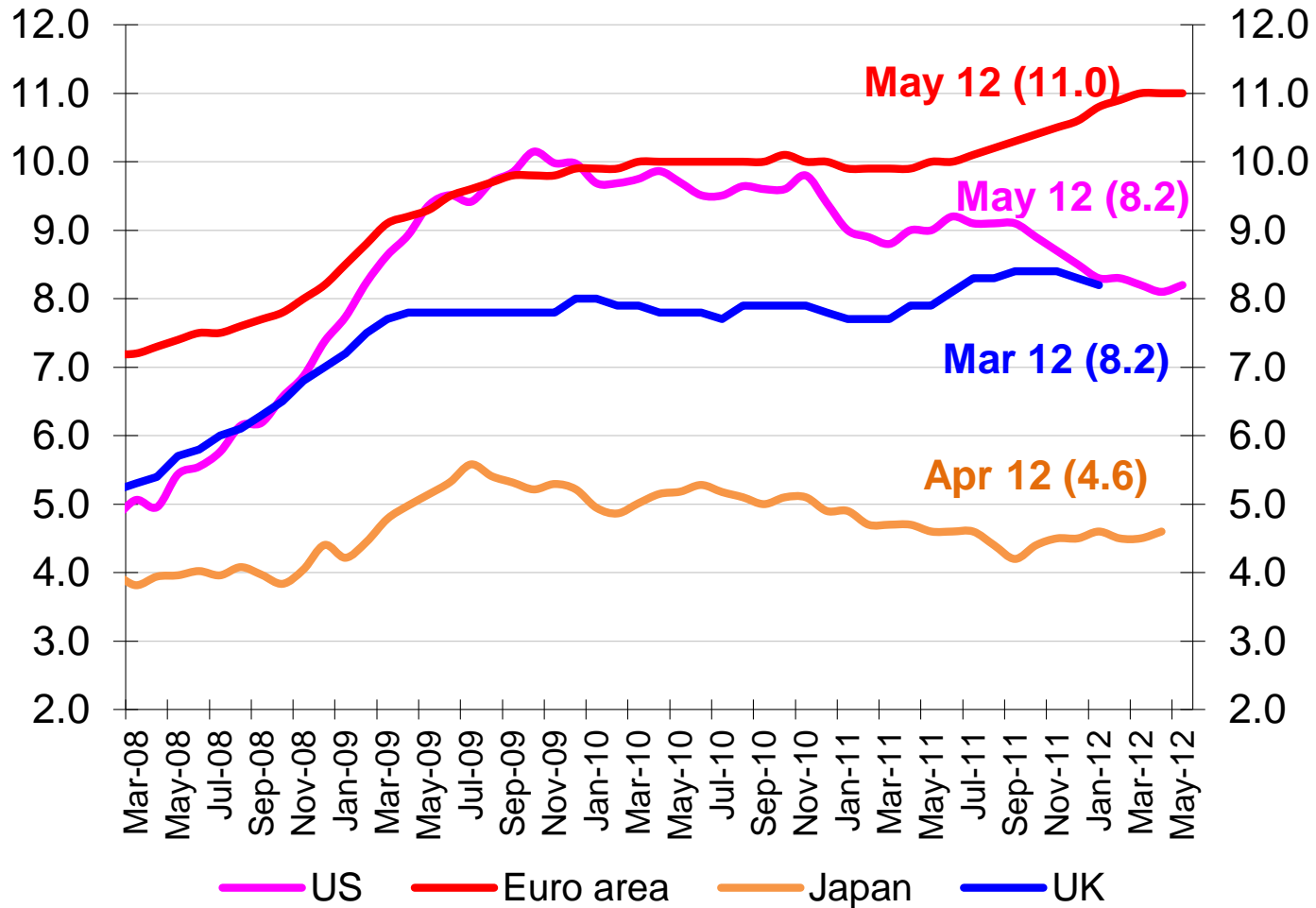


# Youth Unemployment rate



# Global Unemployment

Per cent



# Policy Measures – BoM

- In December 2009, BoM introduced foreign exchange swaps to help export and tourism sector operators.
- The target was set at USD100 million.
- The last transaction was done on 7 July 2010 and the total amount reached USD93.6 million representing Rs2.9 billion and 93% of the target.
- Eventually, banks started offering swaps.
- The Bank may offer these facilities again if required.

# Ratio of NPL to Credit

	March 2008	March 2009	March 2010	March 2011	March 2012
Manufacturing	8.9%	10.0%	11.9%	9.8%	8.7%
Tourism	0.9%	0.8%	1.3%	1.1%	1.7%
Construction	4.4%	4.6%	5.6%	5.7%	5.4%
Traders	8.0%	7.0%	5.6%	4.4%	5.0%
Personal & Professional of which	12.0%	10.5%	9.6%	13.0%	10.8%
<i>Credit Cards</i>	13.4%	17.5%	11.8%	6.4%	5.8%
<b>Total credit to private sector</b>	<b>4.6%</b>	<b>4.0%</b>	<b>4.3%</b>	<b>4.5%</b>	<b>4.6%</b>

# Annual Credit Growth

	April 2007	April 2008	April 2009	April 2010	April 2011	April 2012
Manufacturing	4.9%	10.7%	6.6%	-5.9%	2.1%	6.6%
Tourism	17.4%	26.6%	31.8%	12.2%	20.0%	3.7%
Construction	12.8%	33.9%	30.2%	11.7%	16.7%	22.4%
Traders	10.7%	1.0%	16.4%	-9.7%	17.0%	8.8%
Personal & Professional	15.5%	19.2%	6.1%	9.6%	11.0%	7.0%
<b>Total credit to private sector</b>	<b>9.9%</b>	<b>15.7%</b>	<b>24.7%</b>	<b>2.0%</b>	<b>14.0%</b>	<b>9.6%</b>



45 YEARS OF CENTRAL BANKING

# POLICY MEASURES



# Policy Measures – BoM

- In 2010, the Bank made available two Special Lines of Credit, one for the Small and Medium Planters and the other for Small and Medium Hotels. The Funds under the two lines were to be disbursed to banks for onward lending and the banks had to provide collaterals.
- The Special Line of Credit in respect of Small and Medium Planters has been a success and was renewed for crop 2011 and will also be renewed for Crop 2012.

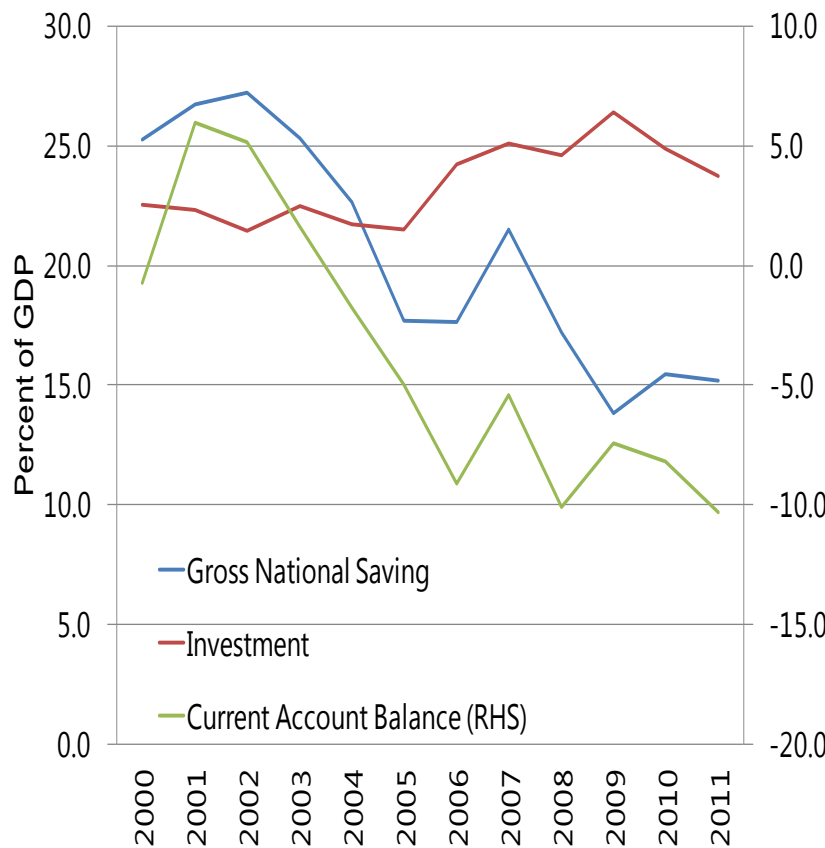
Sugar Crop	Amount Earmarked	Amount Disbursed
Crop 2010	Rs1.5 billion	Rs0.8 billion
Crop 2011	Rs1.5 billion	Rs1.0 billion

- For the Special Line of Credit for Small and Medium Hotels, an amount of Rs500 million was approved, but there has not been any disbursements as there had not been any demand submitted to the Bank.
- Section 6(1)(o) of the Bank of Mauritius Act 2004 which reads as follows “the Bank may in exceptional circumstances, grant advances to financial institutions and such other entities on such terms and conditions and against such security as the Board may determine”.

# Policy Measures – BoM

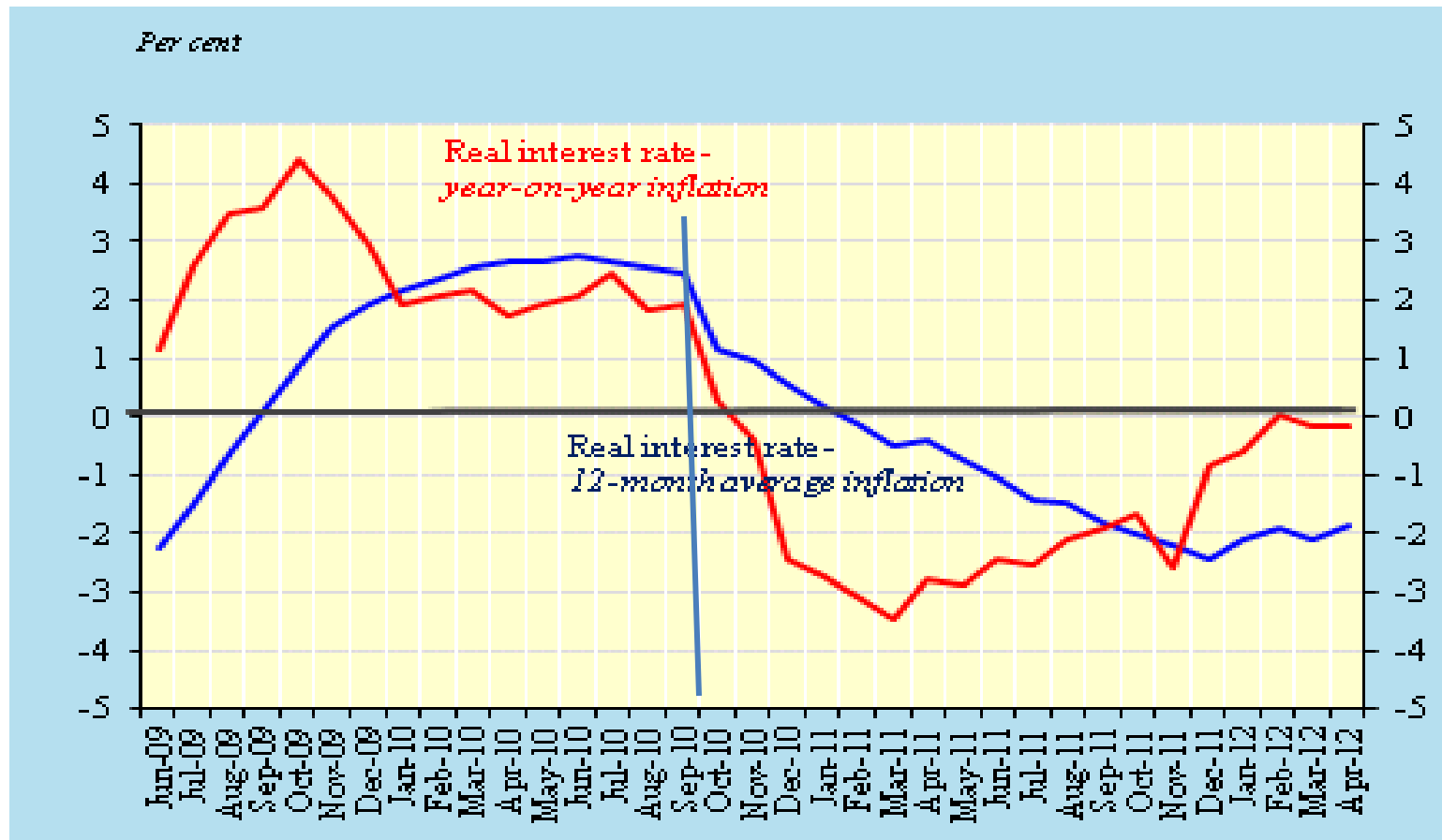
- Operation Reserves Reconstitution (ORR)–the Bank is embarking on ORR to increase its reserves so as to be better prepared for potential future risks.
  - \*The objective is to increase reserves to around 6 months of import cover.
  - \*The Government has agreed to share the costs of these operations.
  - \*Joint BoM/MOFED Committee to oversee implementation of ORR.
- BoM will offer a Special line of Credit (in Euro or US Dollar at the option of the borrower) through their respective banks so as to minimise exchange rate risks.

# Structural & Productivity Issues – Low Savings Rate



Deteriorating savings rate and current account balance.

# Real Interest Rates



Real Interest Rate has been negative since September 2010 after the MPC cut the KRR by 100 basis points to 4.75%.

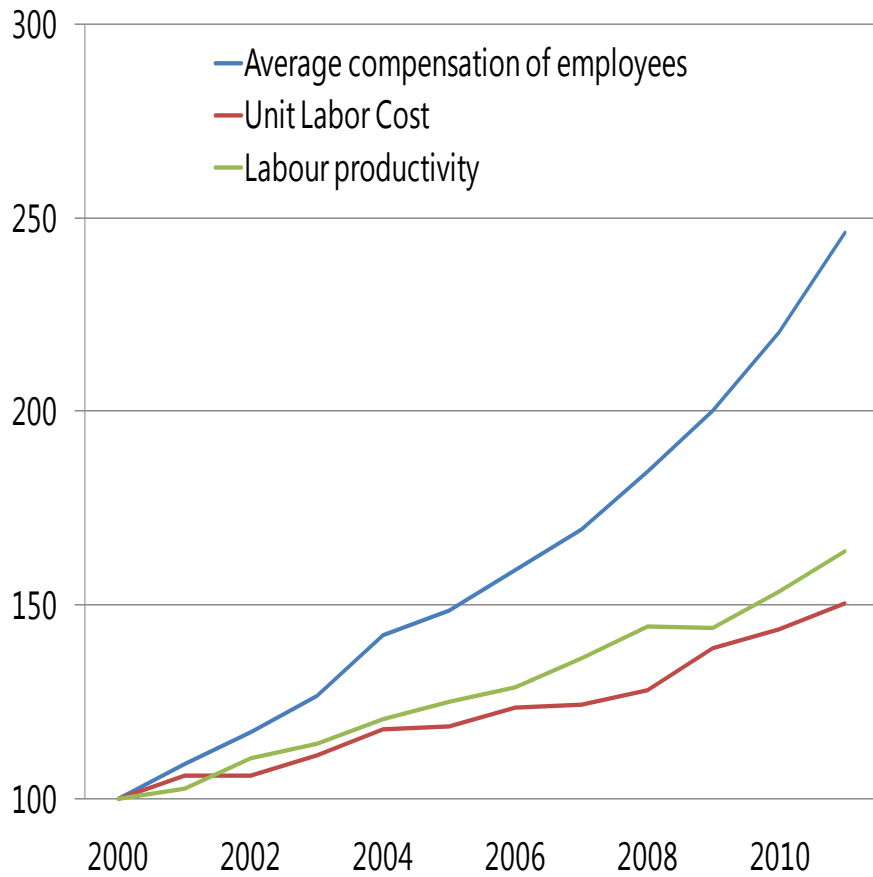
# IMF Recommendations

- 2012 Article IV Mission Report ... the REER is broadly in line with fundamentals. The flexible exchange rate system has served Mauritius well and that interventions in foreign exchange markets should be used primarily to limit exchange rate fluctuations in a relatively narrow market.
- The exchange rate is only one mechanism for reducing external imbalances, and not necessarily the most obvious one in the case of a floating exchange rate regime.
- Fiscal consolidation based on savings from the public enterprise and social protection sectors, and combined with structural reforms to enhance competitiveness should contribute towards external adjustment over the medium-term.

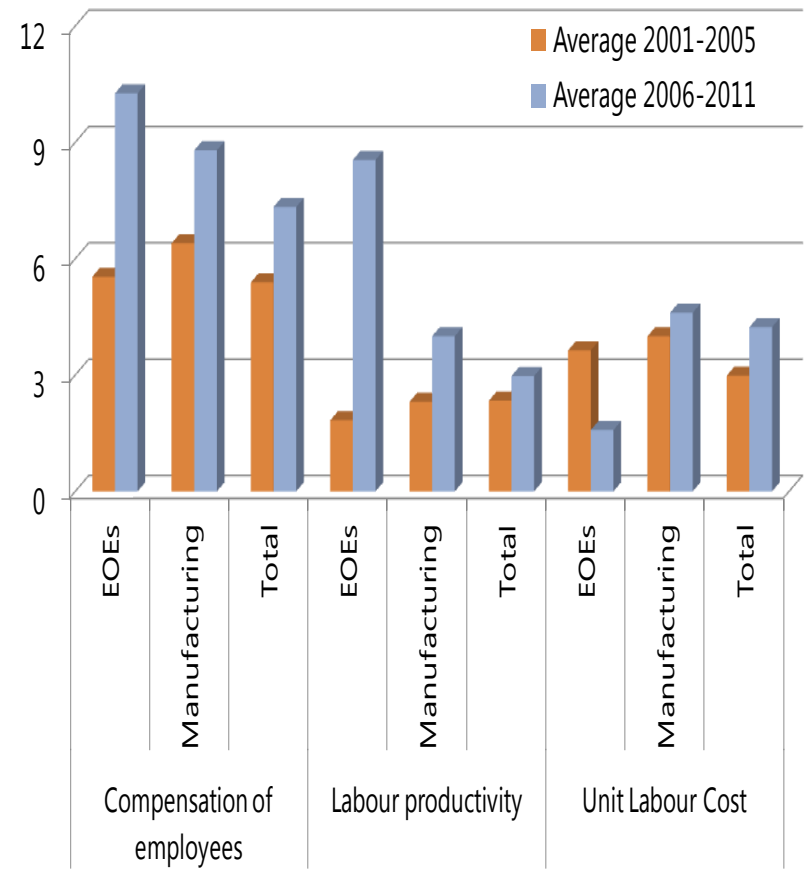
# IMF Recommendations

- Policies to promote national saving and to foster fundamental competitiveness. There is the need to build human and physical capital and to increase productivity by allocating resources towards the most productive areas.
- Fiscal policy should help to increase national saving through a reduction in deficits and a reorientation of spending towards human and capital investment.
- Structural reforms should increase factor productivity. Labor market reforms can increase the flexibility of the work force while maintaining social protection. The wage setting framework should be reviewed with the objective of aligning real wage increases closer with labor productivity improvements.

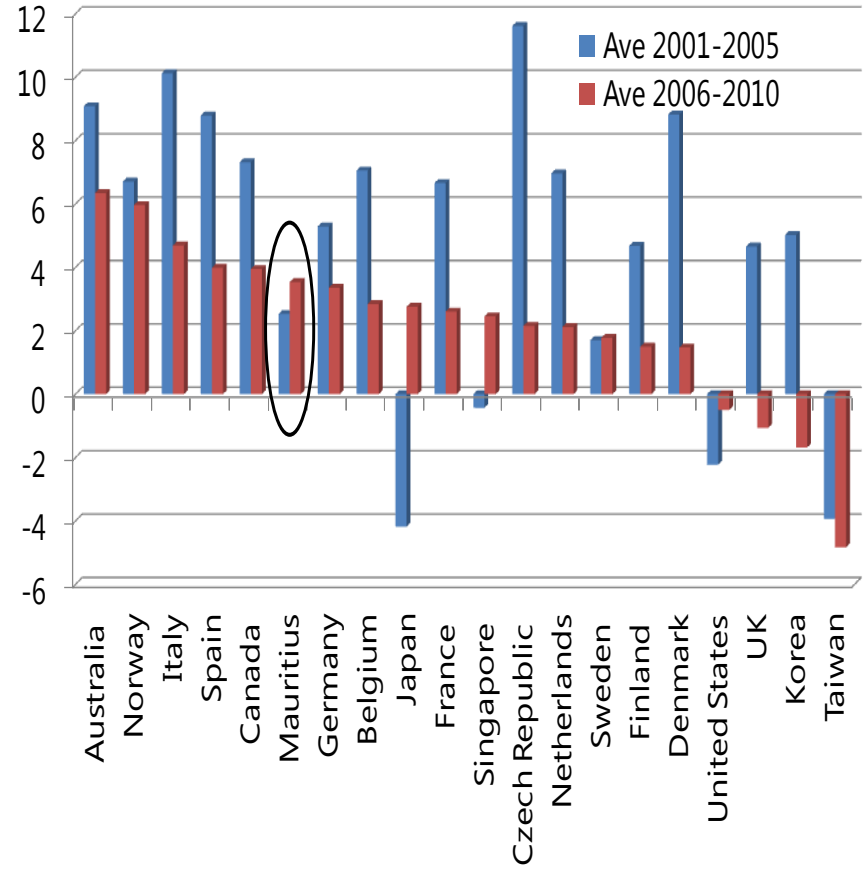
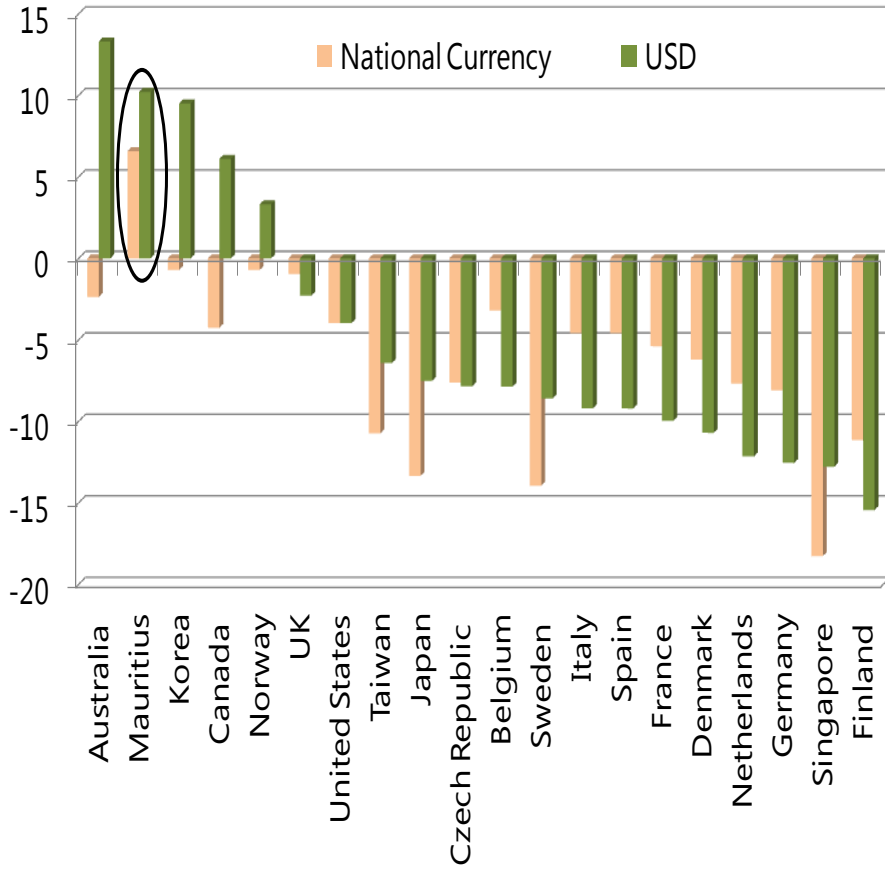
# Productivity



Labor cost and productivity in EOs, Manufacturing, and Total Economy

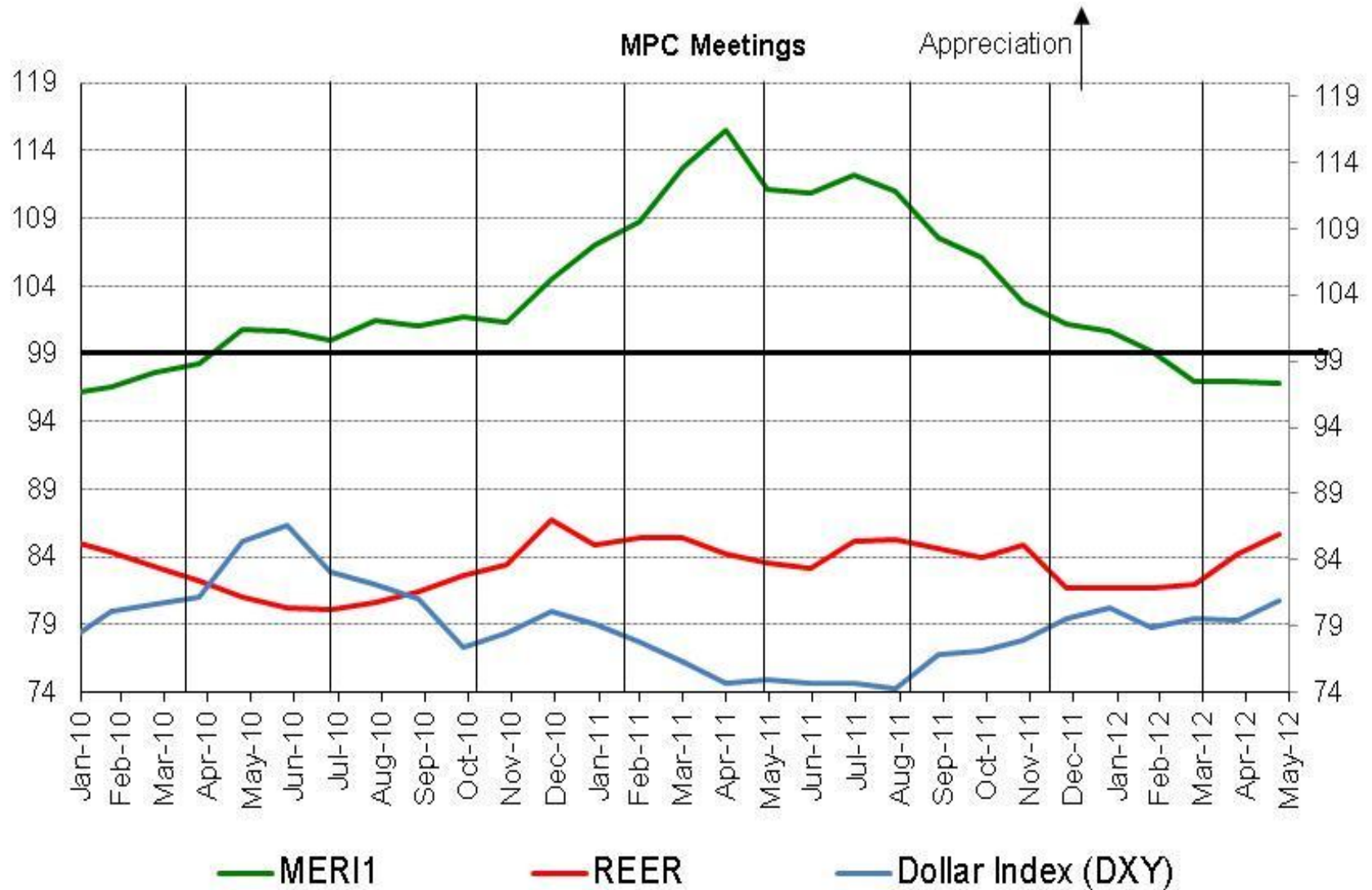


# Change in Unit Labour Cost in Manufacturing sector

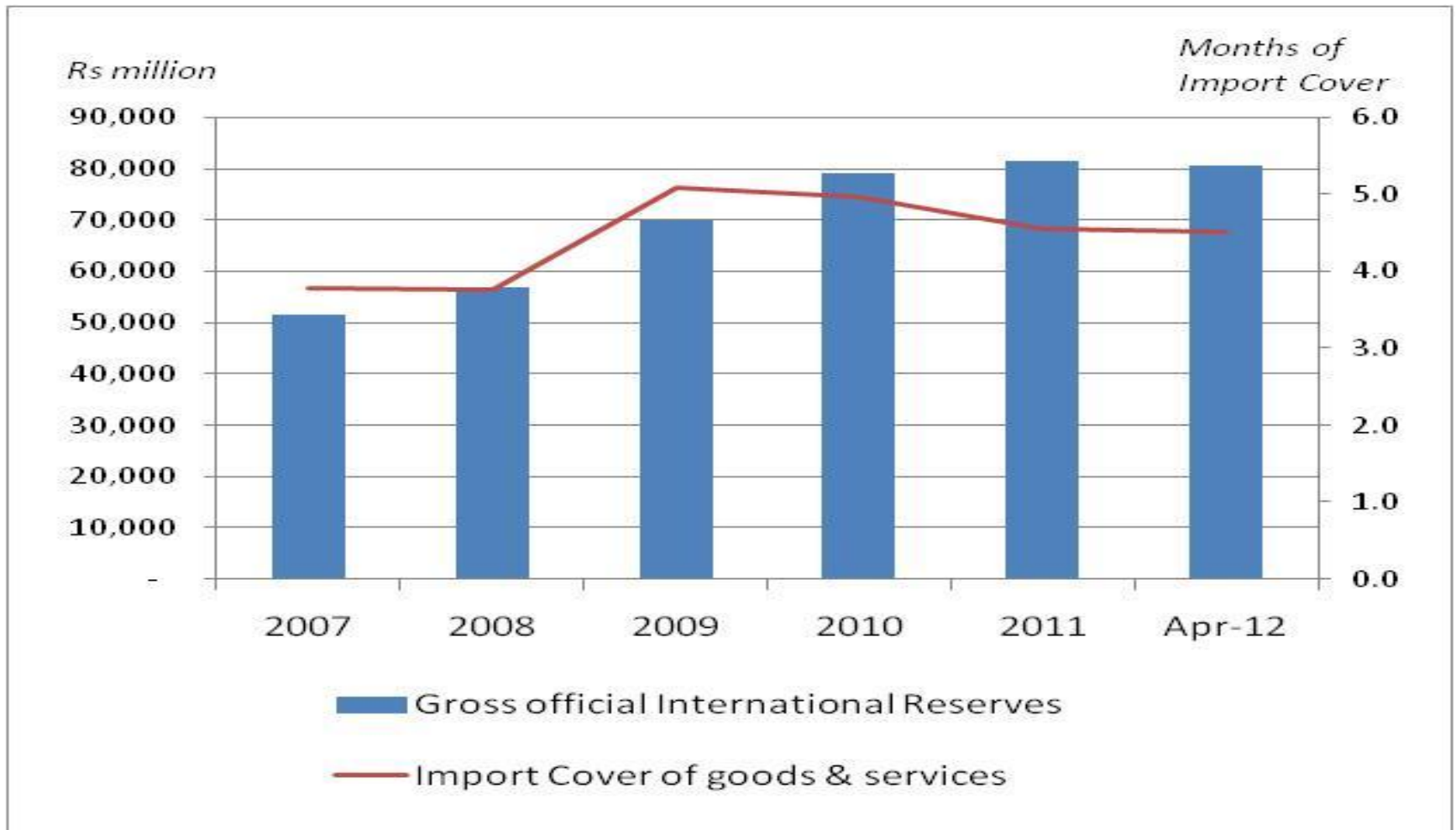




# MERI1, REER and DXY



# Gross Official International Reserves



Reserves fell from 4.6 months of import cover at end-March 2012 to 4.5 months at end-April 2012.

SADC Convergence criterion : 6 months.



45 YEARS OF CENTRAL BANKING

# STRUCTURAL ISSUES

# Policy Measures –Structural issues

- Wage increases in line with gains in productivity
- More flexibility in labour market
  - Addressing skill-mismatch
  - Work sharing arrangements
- Diversification of markets and products
- Addressing supply-chains bottlenecks
  - Efficiency in port, airport, road congestion, cost of energy and telecommunications
- Ease of doing business
  - Simplify customs and administrative procedures
  - Bureaucratic procedures for debt restructuring
- Role of banks
  - Review spreads and charges and commissions
  - Accompany vulnerable sectors in times of crisis
  - New instruments to deal with foreign exchange volatility
- Food and Energy Security



45 YEARS OF CENTRAL BANKING

# THANK YOU