



Post – MPC Press Conference

34th Monetary Policy Committee

15 July 2014



MPC Decision

- No of interest-rate setting meetings: 33
 - KRR raised: 4 times
 - KRR cut: 10 times
 - KRR kept unchanged: 19 times
- KRR unchanged at 4.65% by consensus, but with Forward Guidance.
- Some members agreed to increase the KRR by at least 25 basis points at the first meeting of 2015, after Budget 2015.
- Majority of members agreed that it was time to normalise KRR.
- Forward Guidance approach is expected to reduce uncertainty among economic operators and provide them guidance on their savings, investment and consumption decisions.



Why the need for Forward Guidance? (i)

- Stability in global and domestic economic conditions
 - Subdued inflationary pressures globally and in Mauritius*
 - End of the bull commodity cycle

**Latest Bloomberg survey*

- KRR to be maintained at 4.65% till end-2014 subject to:
 - Headline inflation staying at or below 4% in 2014;
 - Y-on-Y inflation staying at or below 3.5% in 2014;
 - Growth outlook remaining broadly unchanged.
- Implicit Forward Guidance had been used at the September 2010 MPC meeting
 - 100 bps cut in the KRR from 5.75% to 4.75%;
 - KRR maintained at 4.75% over 6 months;
 - KRR raised by 50 bps in March 2011 to 5.25%.



Why the need for Forward Guidance? (ii)

- The global economic picture is improving and it is a good time for the private sector to accelerate its restructuring process.
- Exceptionally accommodative monetary policy stance has been maintained for 13 months in order to allow the private sector to reform and restructure balance sheets.
- The private sector has the rest of the year to restructure and repair their balance sheets.
- Savers cannot continue to subsidise structural weaknesses within the private sector.



The need for interest rate normalisation given the changing global setting

Many countries are concerned about the impact of persistent low interest rate on asset prices.

Emerging countries are adapting to the turnaround in monetary policy and preparing their exit and restoring currency stability.

US is proceeding with its QE tapering

UK has modified its QE and introduced macroprudential measures

Date of last increase	COUNTRY	Cumulative Rate Hikes (bps) since June 2013 (No. of hikes)	Policy Rate
	MAURITIUS	0(0)	4.65%
DEVELOPED ECONOMIES			
12-Jun-14	New Zealand	75 (3)	3.25%
24-Apr-14	Denmark	15 (1)	0.05%
EMERGING MARKET ECONOMIES			
10-Jul-14	Malaysia	25(1)	3.25%
25-Jun-14	Tunisia	75 (2)	4.75%
20-Jun-14	Columbia	75 (3)	4.00%
18-Jun-14	Namibia	25 (1)	5.75%
25-Apr-14	Russia	200 (2)	7.50%
02-Apr-14	Brazil	300 (7)	11.00%
29-Jan-14	South Africa	50 (1)	5.50%
28-Jan-14	Turkey	550 (1)	8.75%
28-Jan-14	India	75 (3)	8.00%
14-Nov-13	Indonesia	175 (5)	7.50%
13-Nov-13	Pakistan	100 (2)	10.00%
FRONTIER ECONOMIES			
09-Jul-14	Ghana	300 (2)	19.00%
14-Apr-14	Ukraine	300 (1)	9.50%

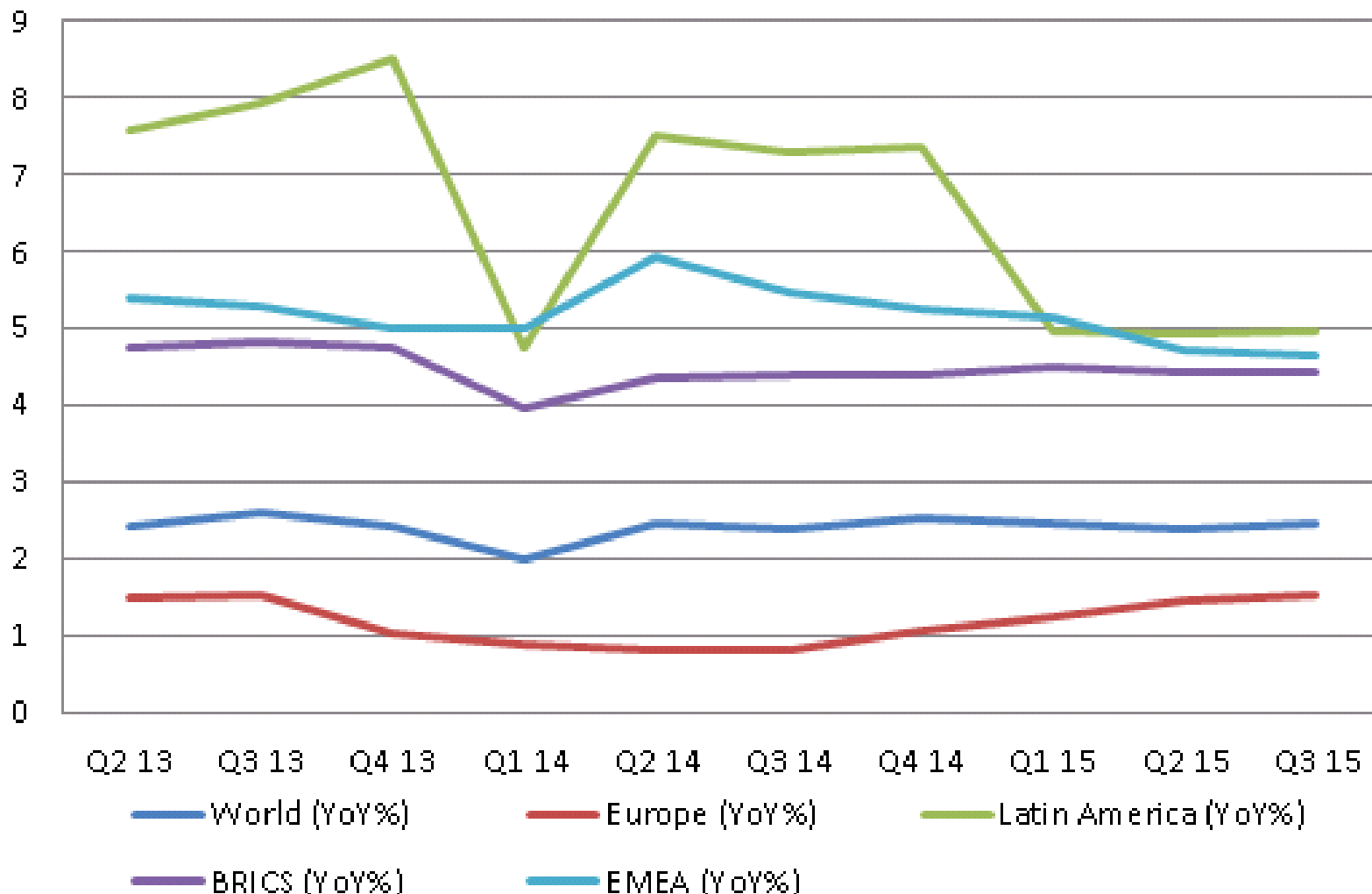
¹ Year-on-Year inflation rate.

Source: <http://www.tradingeconomics.com>; <http://www.cbrates.com>; The Economist.

Inflationary Pressures globally are expected to remain contained



Inflation YoY %

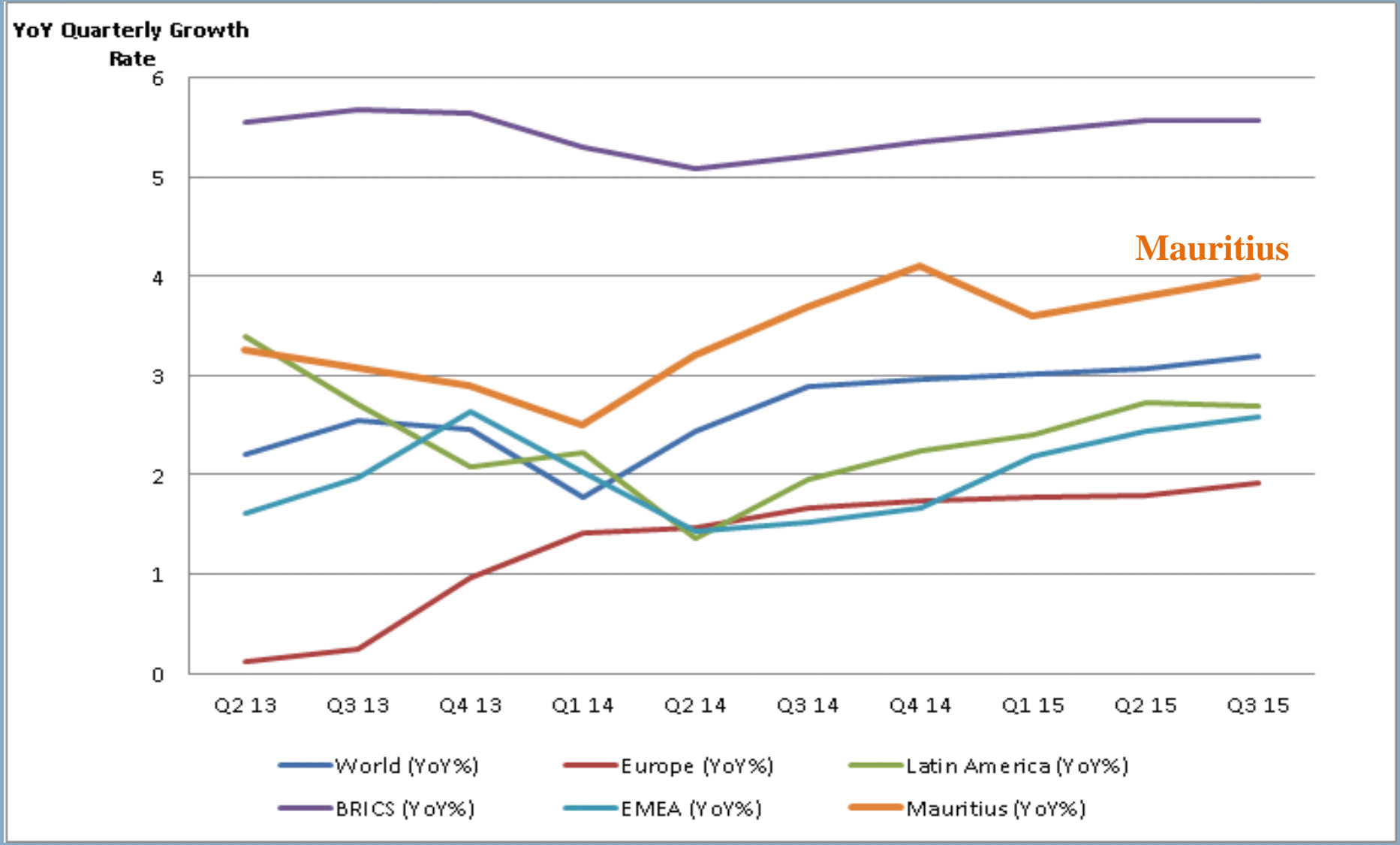




The need to normalise before it is too late ...

- Need for a smooth exit strategy from the current accommodative monetary policy given that the policy direction has considerable impact on expectations, economic behaviour and macroeconomic outcomes
- Need for a better balance in the trade-off between current and future outcomes
- Excess liquidity could, to some extent, be the repercussions of excessive cheap credit flowing into non-productive sectors
- Need to correct for emerging macroeconomic imbalance
- Need to incentivise savings to redress consumption pattern

Mauritius is expected to hold up relatively well





Comparison of Forecasts

	Growth Forecast	Inflation Forecast
Domestic Agency		
Bank of Mauritius	3.4 – 3.6	3.7 – 4.2
Statistics Mauritius	3.5	n.a
International Agencies		
IMF	3.7	4.5
World Bank	4.1	n.a
Economist Intelligence Unit	3.7	3.8
African Economic Outlook (AFDB, OECD & UNDP)	3.5	3.6
Private Sector (domestic)		
Pluriconseil	3.3 - 3.6	4.0 - 4.4
KPMG (Mauritius)	3.8 - 4.0	n.a
Mauritius Commercial Bank	3.3	3.9
BDO Mauritius	3.8	4.5
MCCI	3.4	4
Private Sector (foreign)		
Capital Economics	4.0	4.0
Range	3.3 - 4.1	3.3 - 4.5



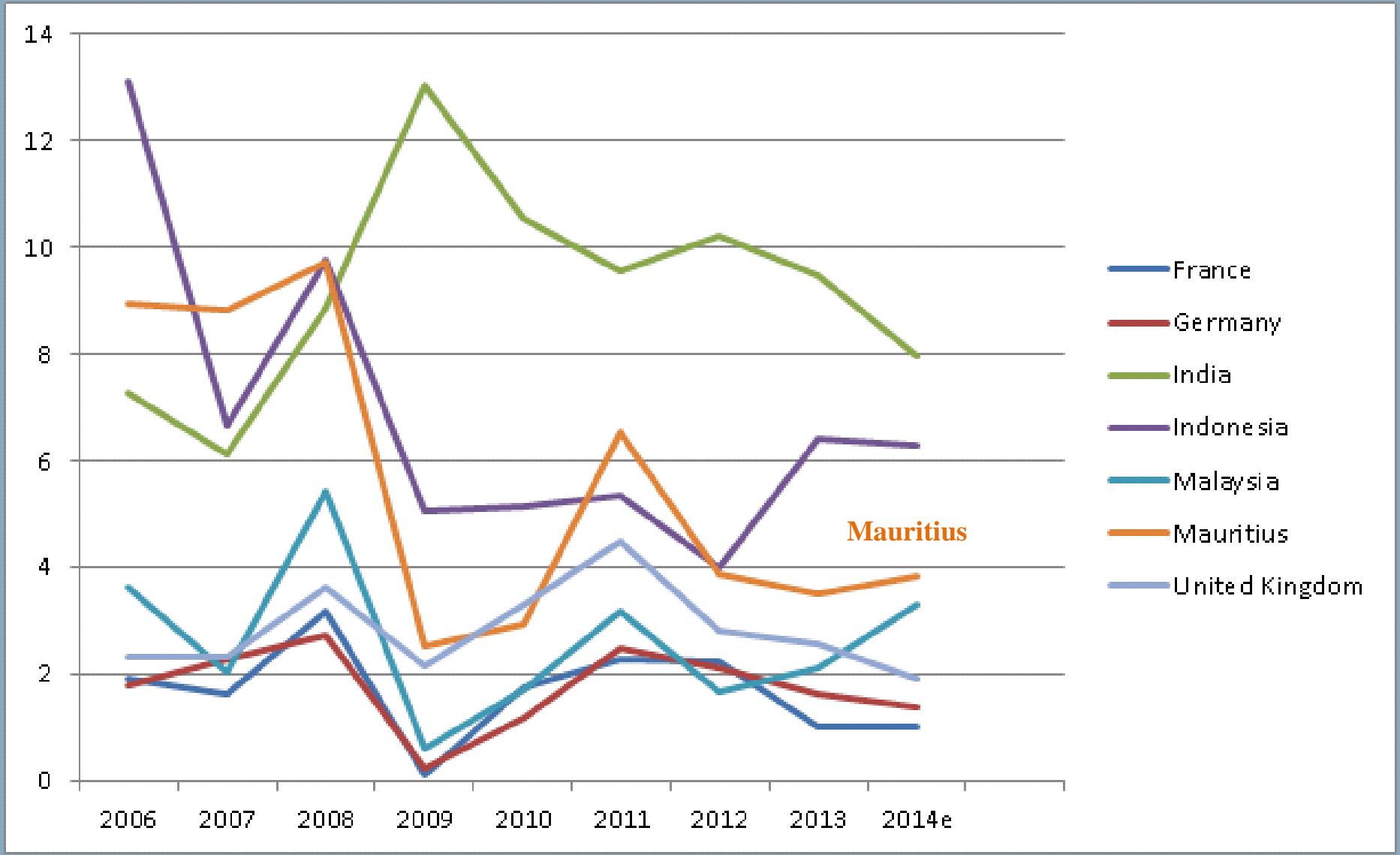
CPI Developments confirm benign inflationary pressures

Consumer Price Index

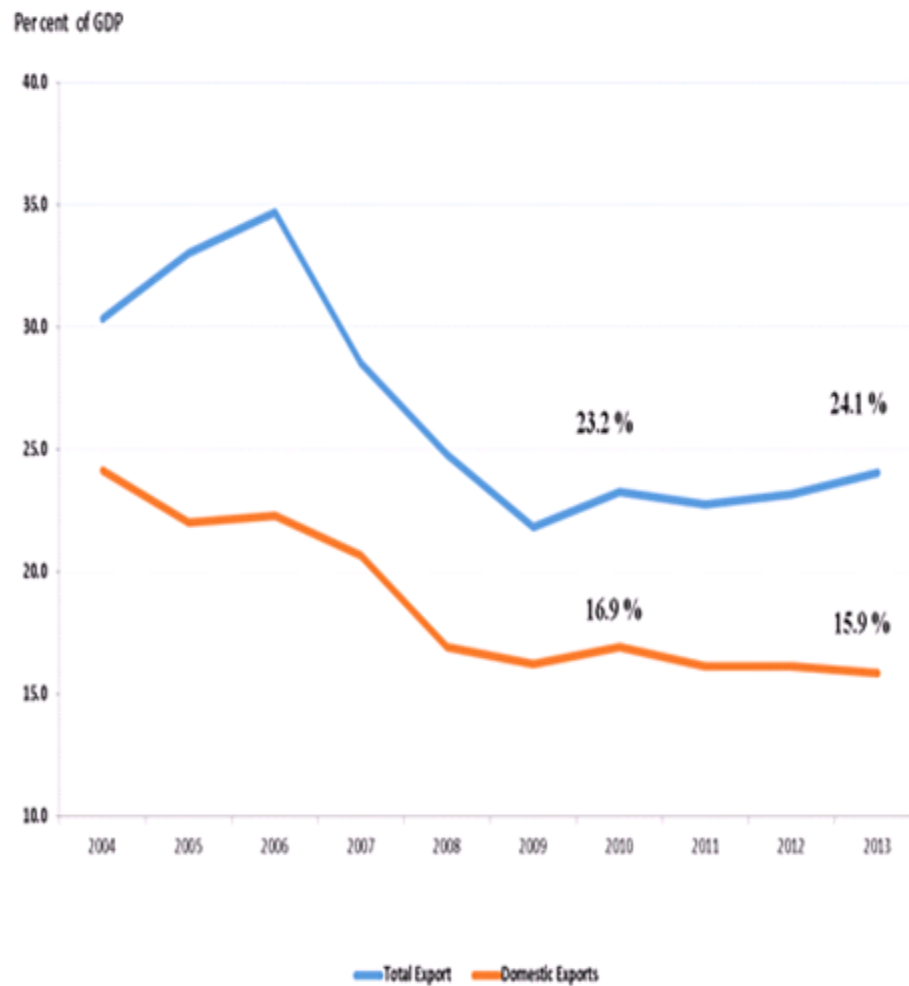
Weighted Contribution to inflation %

DIVISIONS	Weights	Weighted Contribution to inflation %	
		Mar-14 to Jun-14	Jun-13 to Jun-14
Food & Non Alcoholic Beverages	273	-0.8	1.1
<i>Fresh Vegetables</i>	39	-0.9	0.2
Alcoholic Beverages & Tobacco	96	0.0	0.6
Clothing & Footwear	45	0.0	0.3
Transport	151	0.0	0.2
Communication	39	-0.1	0.3
Education	45	0.0	0.3
Misc. Goods & Services	41	0.0	0.2

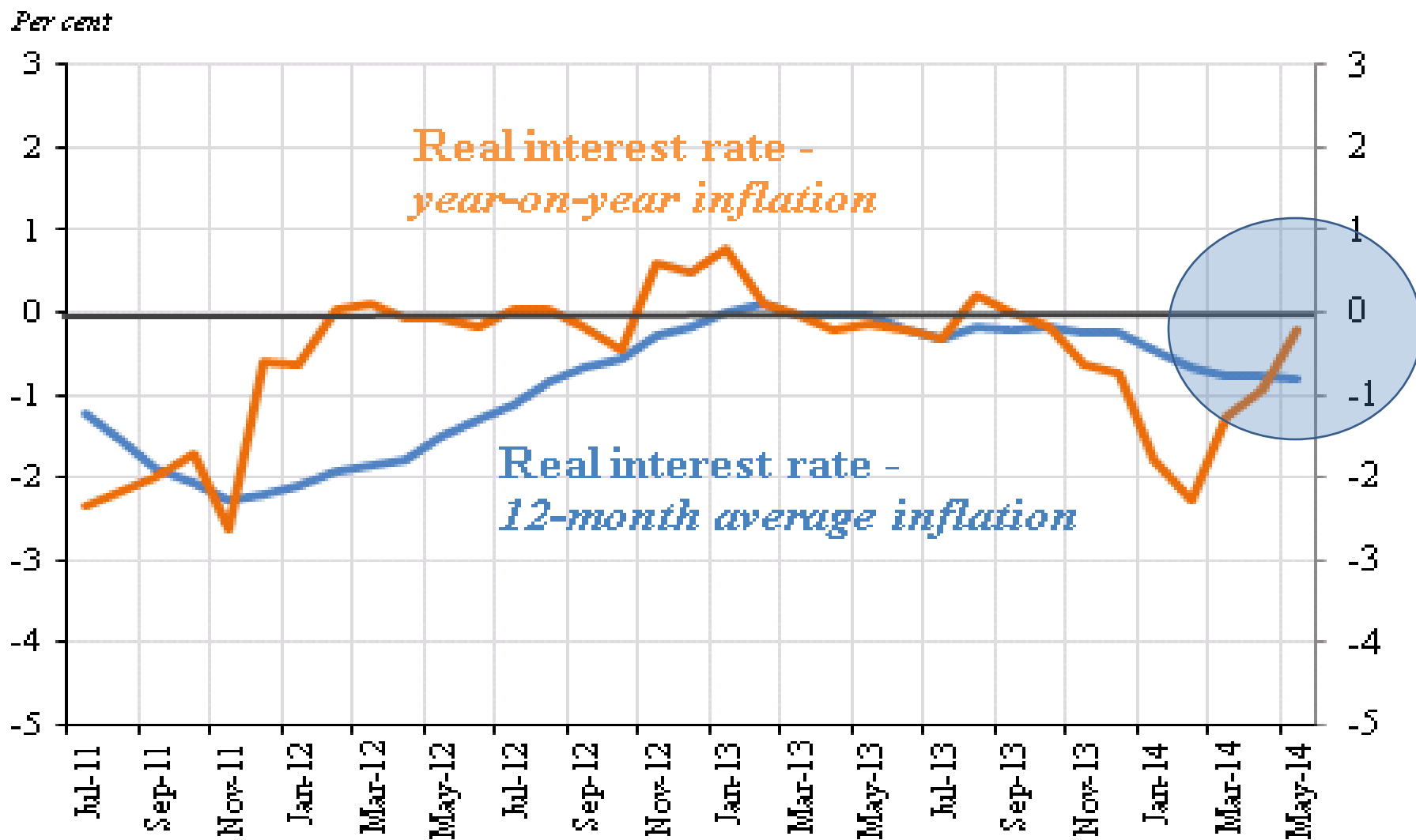
Do we need to be satisfied with the current inflation rate?



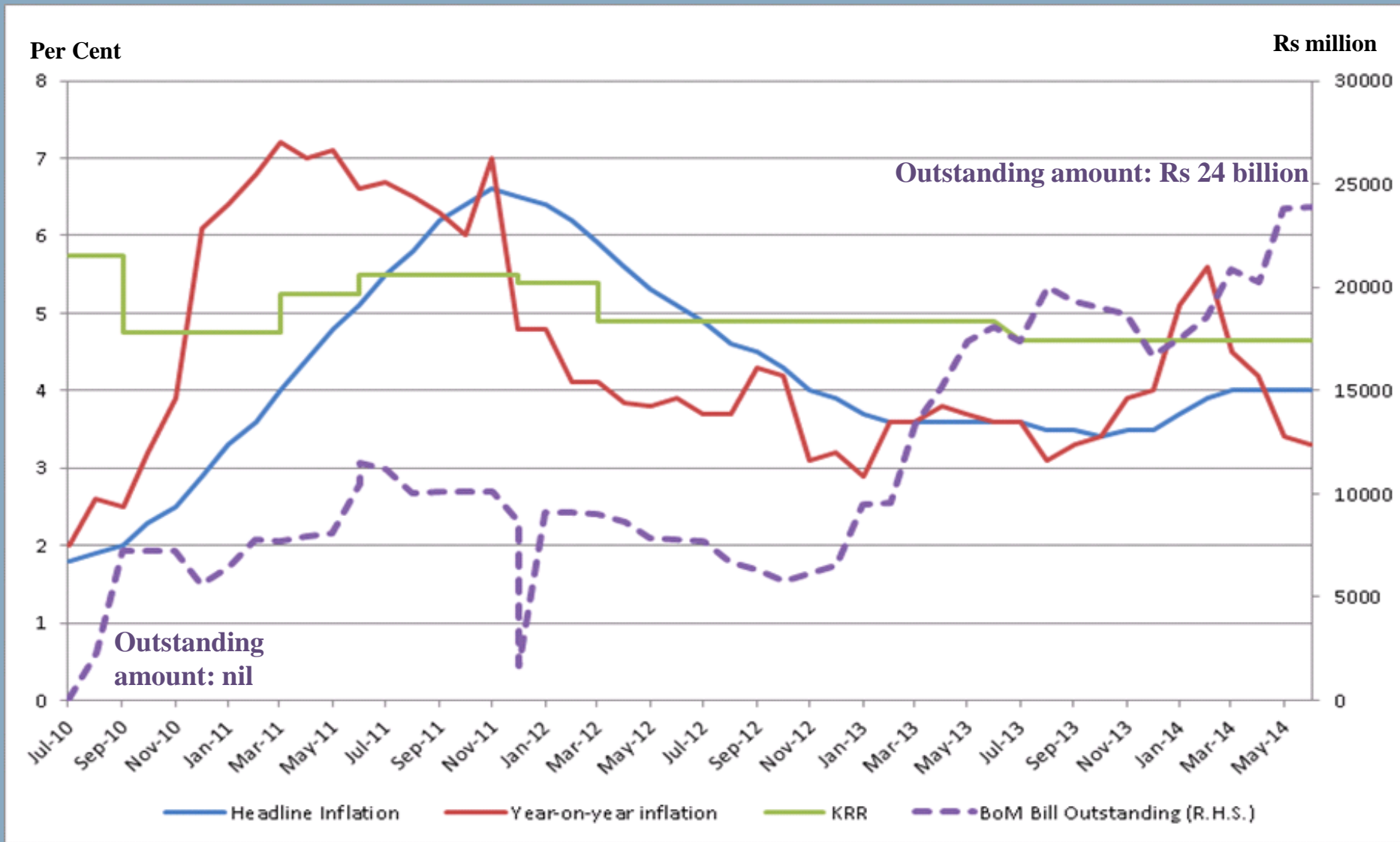
Low Productivity and Low Efficiency impacting on external competitiveness



Persistent negative real rates of interest on savings deposits continue to impact national savings ...



How has the Bank coped with excess liquidity?



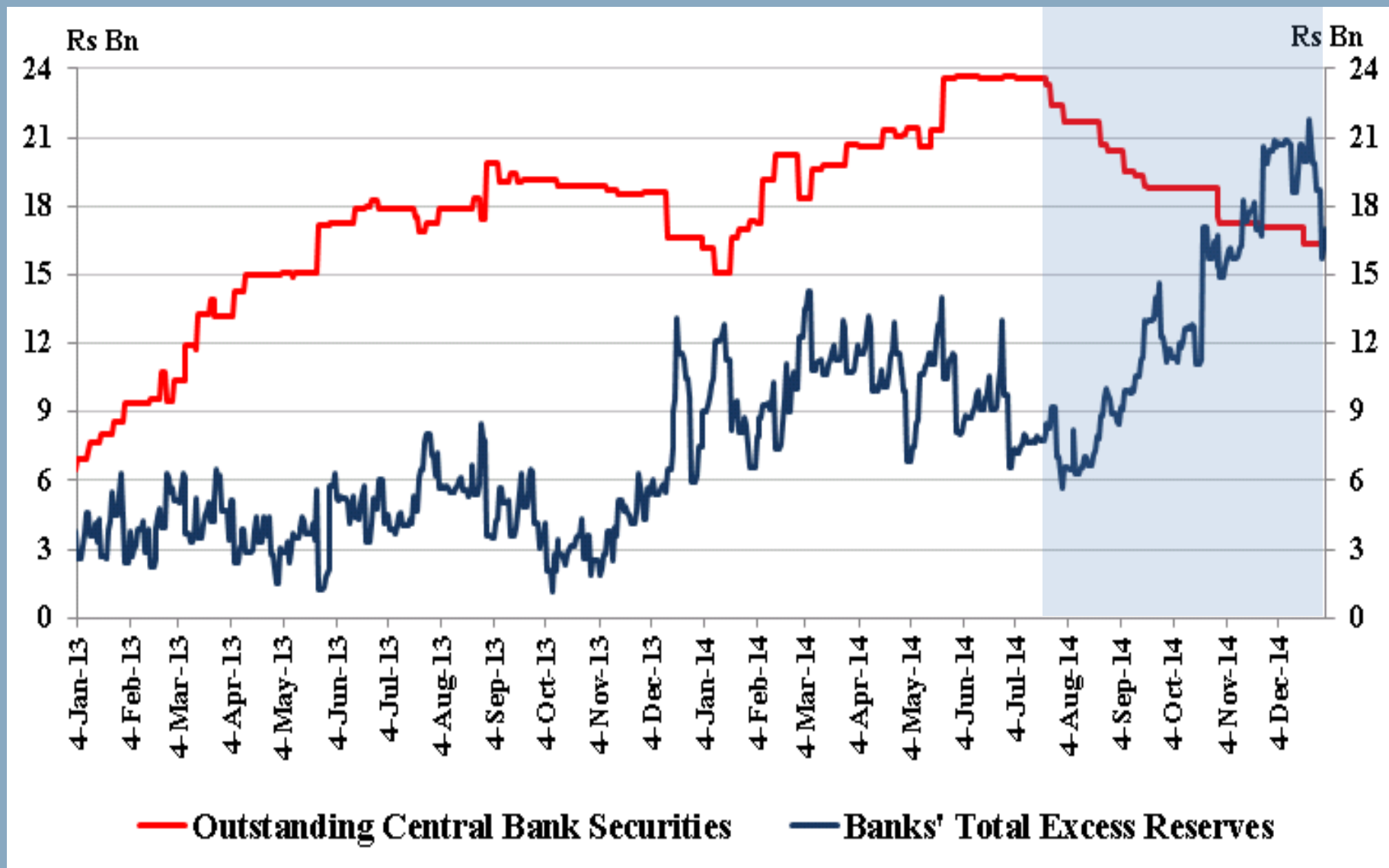
Outstanding amount: Rs 24 billion

Outstanding amount: nil

— Headline Inflation — Year-on-year inflation — KRR - - - BoM Bill Outstanding (R.H.S.)



Excess Liquidity concerns remain ...





Break down of the Monetary Policy Transmission Mechanism

- Following the April 2014 MPC Meeting, some banks adjusted their savings rates though the KRR had remained unchanged.
- The savings rate is currently well below the KRR.
- Two banks control more than 70% of Rupee savings deposits.
- January 2014: Introduction of Macroprudential Measures.
- Various options being studied by the Bank, under the basis of Section 50(1) of the BoM Act (2004)



Key Take Aways

- Management of expectations and financial stability are increasingly important for long-run price stability
- Need to give economic agents a direction of where future interest rate would most likely be to void out potential macroeconomic imbalance.
- Continuing work on modelling and forecasting
 - Appointment of Director, Economic Affairs and Head, Economic Research
- Sustained period of negative interest rate leading to unhealthy behaviour:
 - Savers saving less
 - Consumers consuming more
 - Concern over high corporate indebtedness
- Explicit inflation targeting requires change in legislation and independence of the MPC
- Other countries likely to normalise
- Forward Guidance



Thank You