



# Post – MPC Press Conference

31<sup>st</sup> Monetary Policy Committee

1 October 2013



# Bank of Mauritius Act (2004)

## 4. Objects of the Bank:

(1) The primary object of the Bank shall be to maintain price stability and to promote orderly and balanced economic development.

(2)(b) to ensure the stability and soundness of the financial system of Mauritius; and

## 55. Functions of Monetary Policy Committee

(1) The functions of the Committee shall be to formulate and determine the monetary policy to be conducted by the Bank ... and to maintain price stability, taking into account the orderly and balanced economic development of Mauritius.

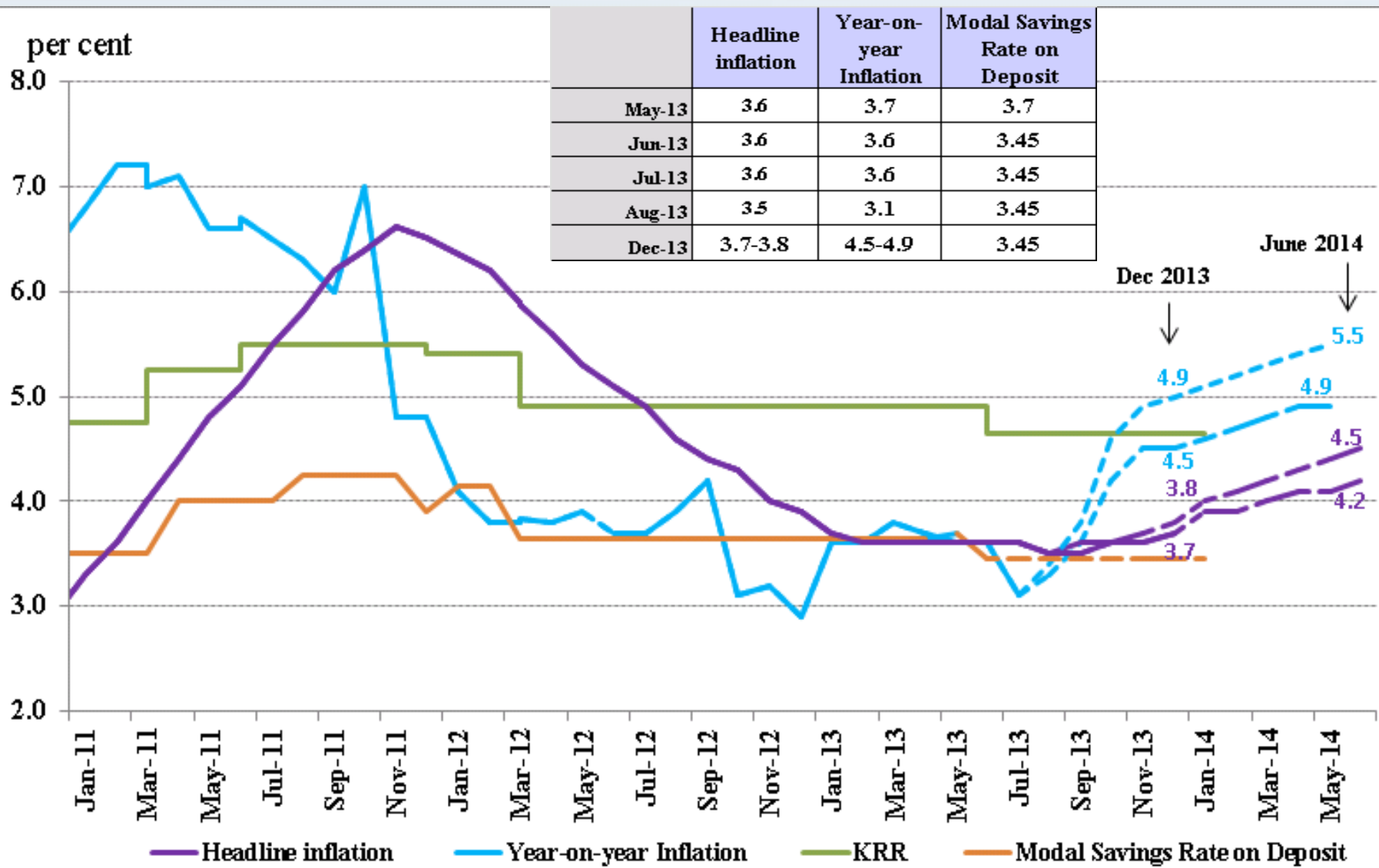


# MPC Decision

- KRR kept unchanged at 4.65% by a majority vote
- No of interest-rate setting meetings: 30
  - KRR raised: 4 times
  - KRR cut: 10 times
  - KRR kept unchanged: 16 times
- Views diverged – Two distinct schools of thought confirmed



# Inflation Outlook ...





# UNDERSTANDING RECENT PRICE DYNAMICS

|                       | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|------|
| Y-o-Y Inflation (Dec) | 3.9  | 5.6  | 3.9  | 11.9 | 8.7  | 6.7  | 1.5  | 6.1  | 4.8  | 3.2  |      |
| GDP Growth Rate       | 4.4  | 4.8  | 2.7  | 5.6  | 5.7  | 5.5  | 3.1  | 4.2  | 3.6  | 3.3  | 3.2  |

## Cumulative Monthly Changes in the CPI: May to August

|  | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|------|------|------|------|------|------|------|------|------|------|------|
| Food & Non-Alcoholic Beverages           | 2.3  | 0.5  | 0.8  | 6.7  | 4.1  | 6.4  | 1.4  | 1.1  | 1.1  | 1.6  | -1.2 |
| Alcoholic Beverages & Tobacco            | 3.7  | 6.5  | 3.1  | 20.8 | 9.0  | 1.7  | 0.4  | -0.2 | 0.4  | 0.0  | -0.2 |
| Clothing & Footwear                      | 2.1  | 0.3  | 0.3  | 2.3  | 2.0  | 0.8  | 4.4  | 2.5  | 2.4  | 1.8  | 0.9  |
| Housing, Water, Electricity, Gas & ..... | 1.8  | 2.4  | 1.1  | 4.4  | 0.9  | -0.3 | 0.2  | -0.1 | 0.5  | 0.0  | -0.6 |
| Furnishings, Household Equipment & ....  | 1.1  | 1.4  | 2.1  | 3.6  | 2.4  | 2.7  | 1.5  | 2.1  | 1.1  | 1.6  | -0.1 |
| Health                                   | 1.3  | 3.8  | 4.2  | 3.1  | 5.6  | 3.9  | 1.0  | 2.7  | 0.1  | 2.9  | 0.3  |
| Transport                                | -0.4 | 4.8  | -1.1 | 8.6  | 6.0  | 12.7 | 1.8  | 3.0  | 0.4  | -0.4 | 0.4  |
| Communication                            | -0.8 | -0.3 | -0.2 | -3.9 | 0.0  | -3.2 | 0.6  | 0.0  | -0.1 | 0.0  | 0.1  |
| Recreation & Culture                     | 0.8  | -0.8 | 0.0  | 3.2  | -0.9 | -0.3 | 0.6  | 0.5  | 1.0  | -0.4 | 3.4  |
| Education                                | 1.4  | 0.0  | 0.0  | 0.0  | 0.0  | 0.8  | 0.0  | 0.0  | 0.0  | 0.6  | 0.2  |
| Restaurants & Hotels                     | 1.3  | 5.0  | 1.9  | 14.3 | 4.7  | 5.2  | 1.0  | 2.6  | 0.6  | 0.6  | 0.3  |
| Miscellaneous G & S                      | 3.0  | 2.9  | -0.2 | 3.3  | 2.9  | 2.8  | 1.6  | 2.3  | 1.7  | 0.9  | -0.3 |



# Growth and Inflation in Mauritius

*per cent*

| <b>Real GDP Growth</b>          | <b>2009</b> | <b>2010</b> | <b>2011</b> | <b>2012</b> | <b>2013</b>    |
|---------------------------------|-------------|-------------|-------------|-------------|----------------|
| Statistics Mauritius            | 3.1         | 4.2         | 3.6         | 3.4*        | 3.3            |
| <i>latest forecast for 2013</i> |             |             |             |             | <b>3.2</b>     |
| Bank of Mauritius               |             |             |             |             | 3.2-3.7        |
| <i>latest forecast for 2013</i> |             |             |             |             | <b>3.1-3.5</b> |

*\*revised from 3.3% in June 2013*

# Tentative Signs of Stabilization in Advanced Economies...



|   | US          |             | Euro zone   |             | UK         |            |
|---|-------------|-------------|-------------|-------------|------------|------------|
|   | 2013        | 2014        | 2013        | 2014        | 2013       | 2014       |
| <b>IMF July 2013 WEO Update</b>                           | 1.7         | 2.7         | -0.6        | 0.9         | 0.9        | 1.5        |
| <i>Change in forecasts from April 2013</i>                | <b>-0.2</b> | <b>-0.2</b> | <b>-0.2</b> | <b>-0.1</b> | <b>0.3</b> | <b>0.0</b> |
| <i>Economic Projections, FOMC Minutes, September 2013</i> | <b>2.3</b>  | <b>3.1</b>  |             |             |            |            |
| <b>Reuters Poll September 2013</b>                        | 1.7         | 2.7         | -0.4        | 1.0         | 1.3        | 2.1        |
| <i>Change in forecasts from May 2013</i>                  | <b>-0.3</b> | <b>0.0</b>  | <b>-0.1</b> | <b>0.1</b>  | <b>0.5</b> | <b>0.6</b> |
| <b>JPMorgan September 2013</b>                            | 1.7         | 2.5         | -0.3        | 1.3         | 1.5        | 3.1        |
| <i>Change in forecasts from May 2013</i>                  | <b>-0.2</b> | <b>0.1</b>  | <b>0.4</b>  | <b>0.1</b>  | <b>0.5</b> | <b>1.2</b> |

Source: IMF, OECD, JPMorgan, Federal Reserve Bank & Reuters

\* Forecast for 3 largest euro area countries



# BRICS Growth revised downwards.....

|              | JP Morgan               |                                       |                         |                                       |
|--------------|-------------------------|---------------------------------------|-------------------------|---------------------------------------|
|              | September 2013 Forecast | Change between September and May 2013 | September 2013 Forecast | Change between September and May 2013 |
|              | 2013                    |                                       | 2014                    |                                       |
| Brazil       | 2.3                     | <b>-0.2</b>                           | 2.3                     | <b>-1.2</b>                           |
| Russia       | 1.6                     | <b>-0.9</b>                           | 2.5                     | <b>-0.9</b>                           |
| India        | 4.1                     | <b>-1.7</b>                           | 5.0                     | <b>-1.5</b>                           |
| China        | 7.6                     | <b>0.0</b>                            | 7.2                     | <b>-0.5</b>                           |
| South Africa | 2.1                     | <b>-0.2</b>                           | 3.3                     | <b>-0.3</b>                           |

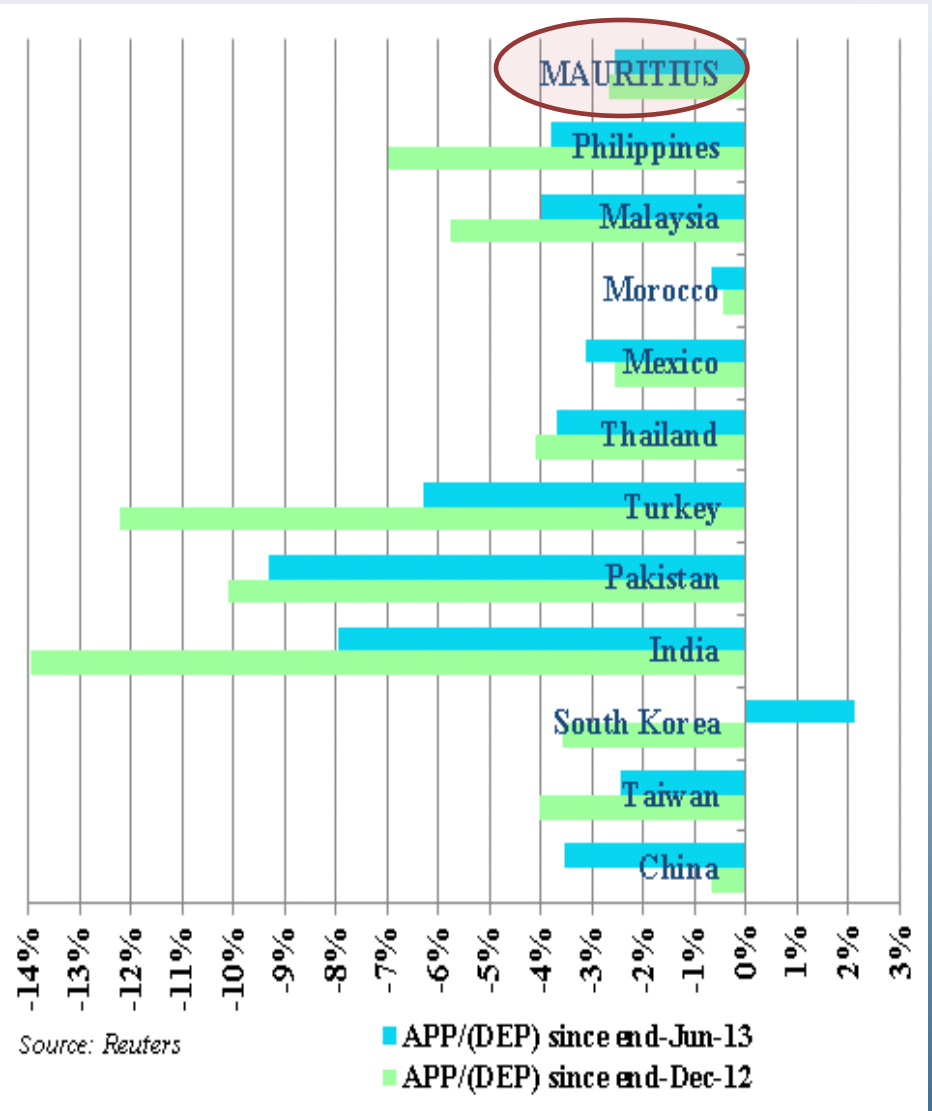
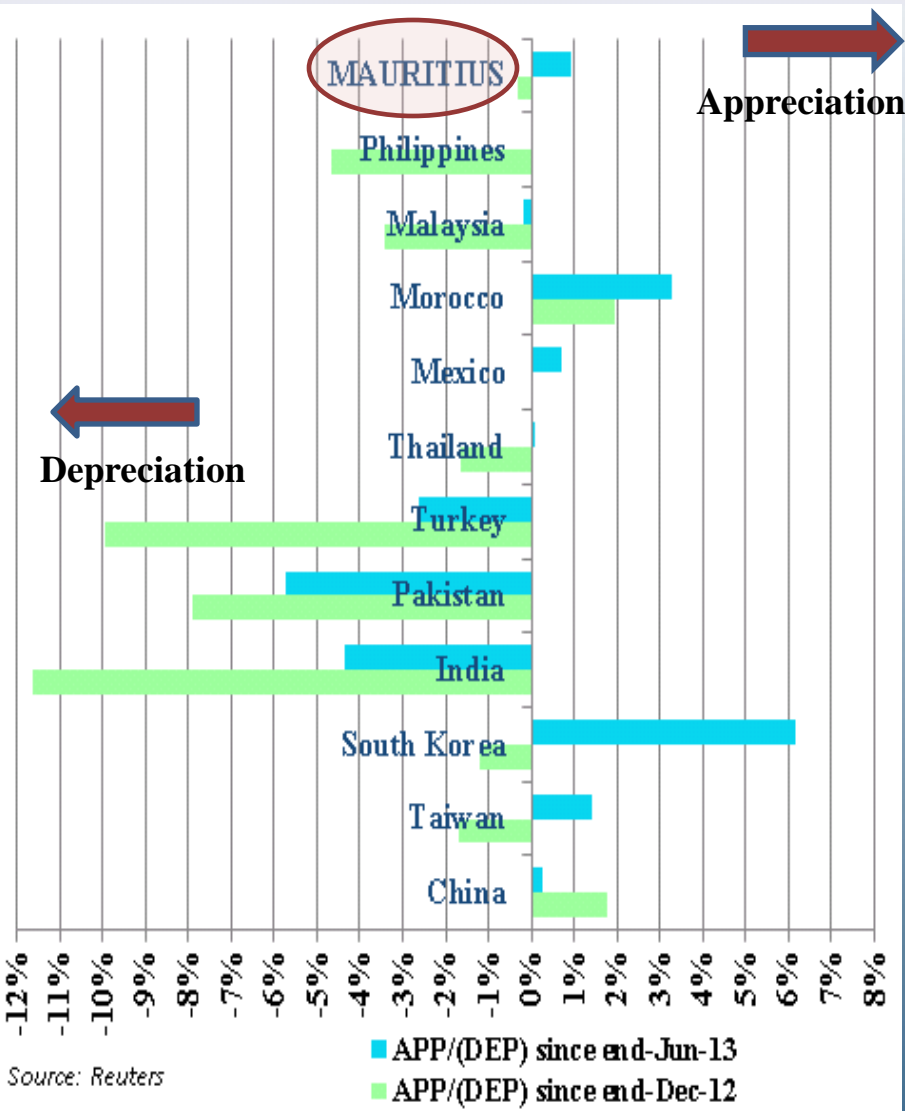
Source: JPMorgan





# Exchange Rate of Selected Currencies vis-à-vis the US Dollar

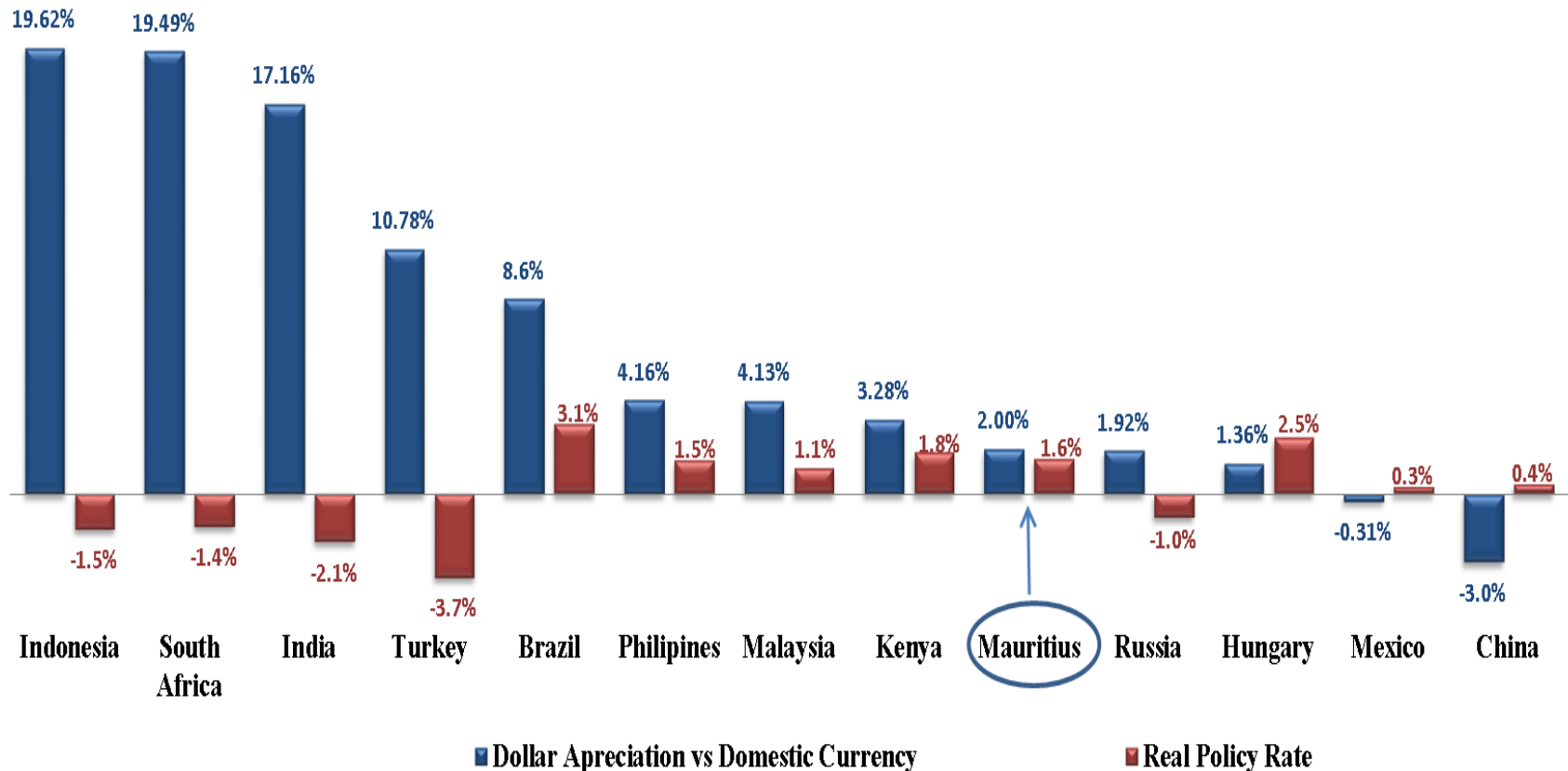
# Exchange Rate of Selected Currencies vis-à-vis the Euro





# Positive Real Policy Rates have led to greater foreign exchange rate stability ...

Last 12 Months

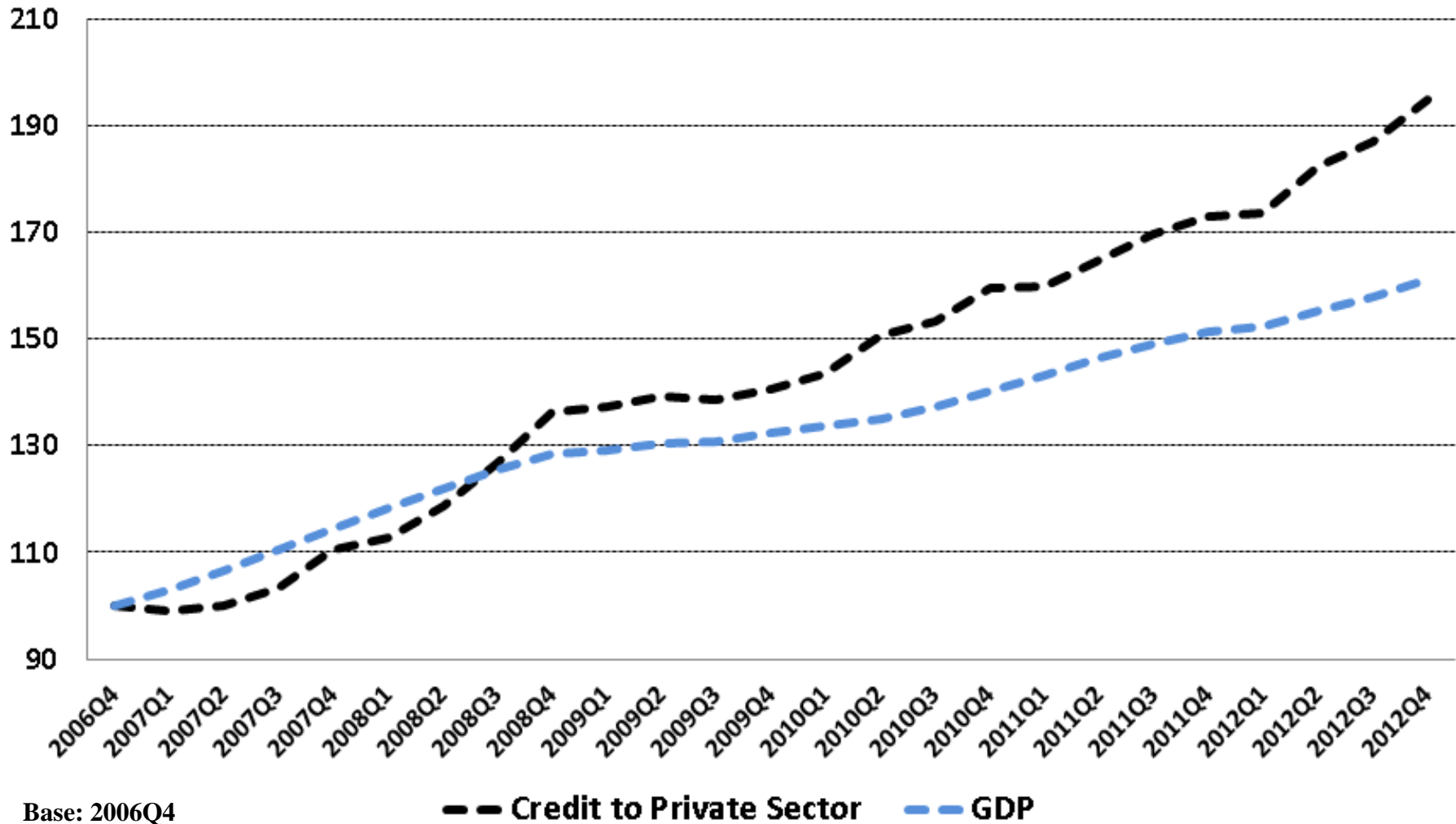


Source: Reuters

# Evolution of Private Sector Credit and Nominal GDP



## Index

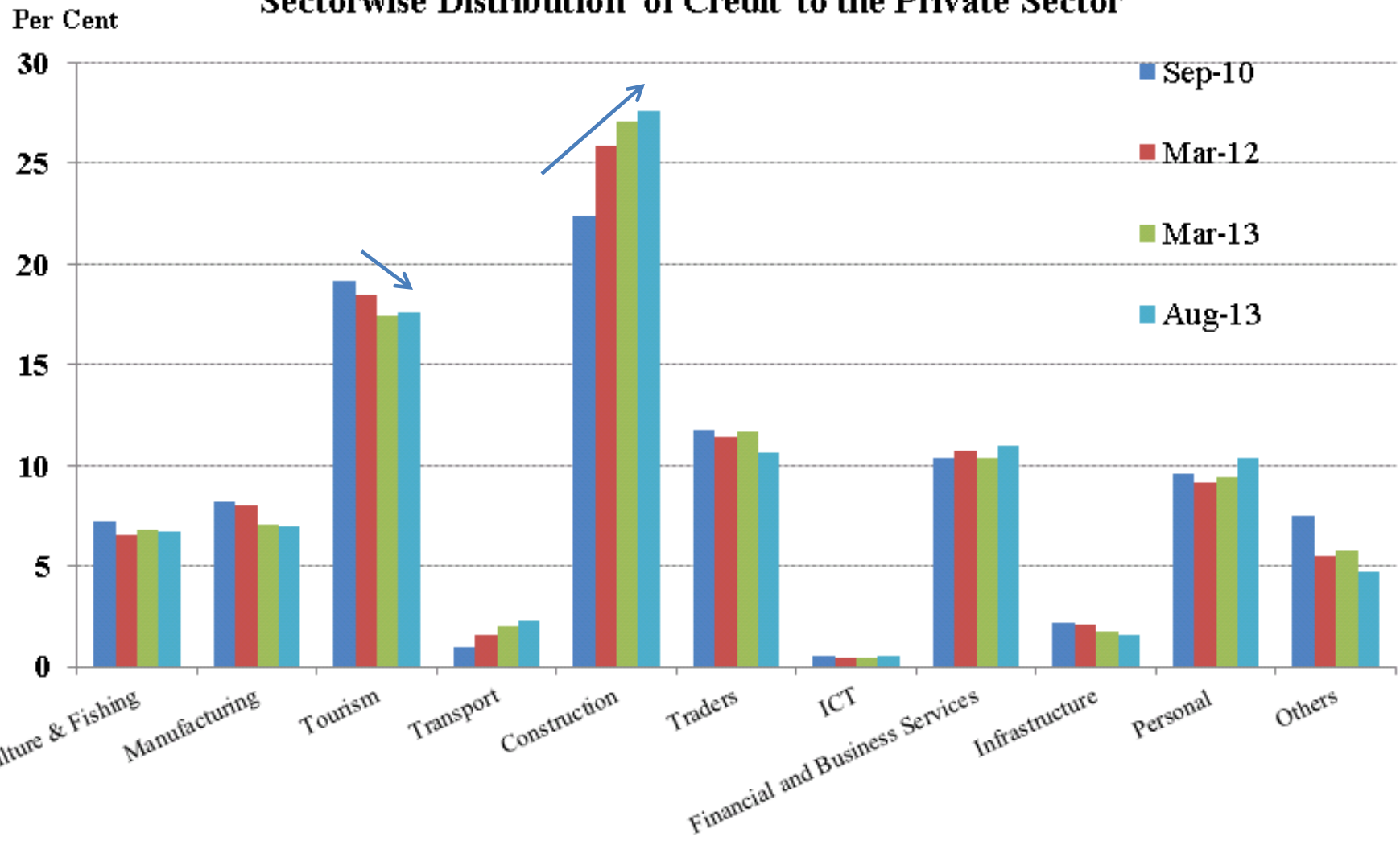


Source: Bank of Mauritius



# Share of Bank Credit in Construction sector continues to grow in Mauritius...

### Sectorwise Distribution of Credit to the Private Sector



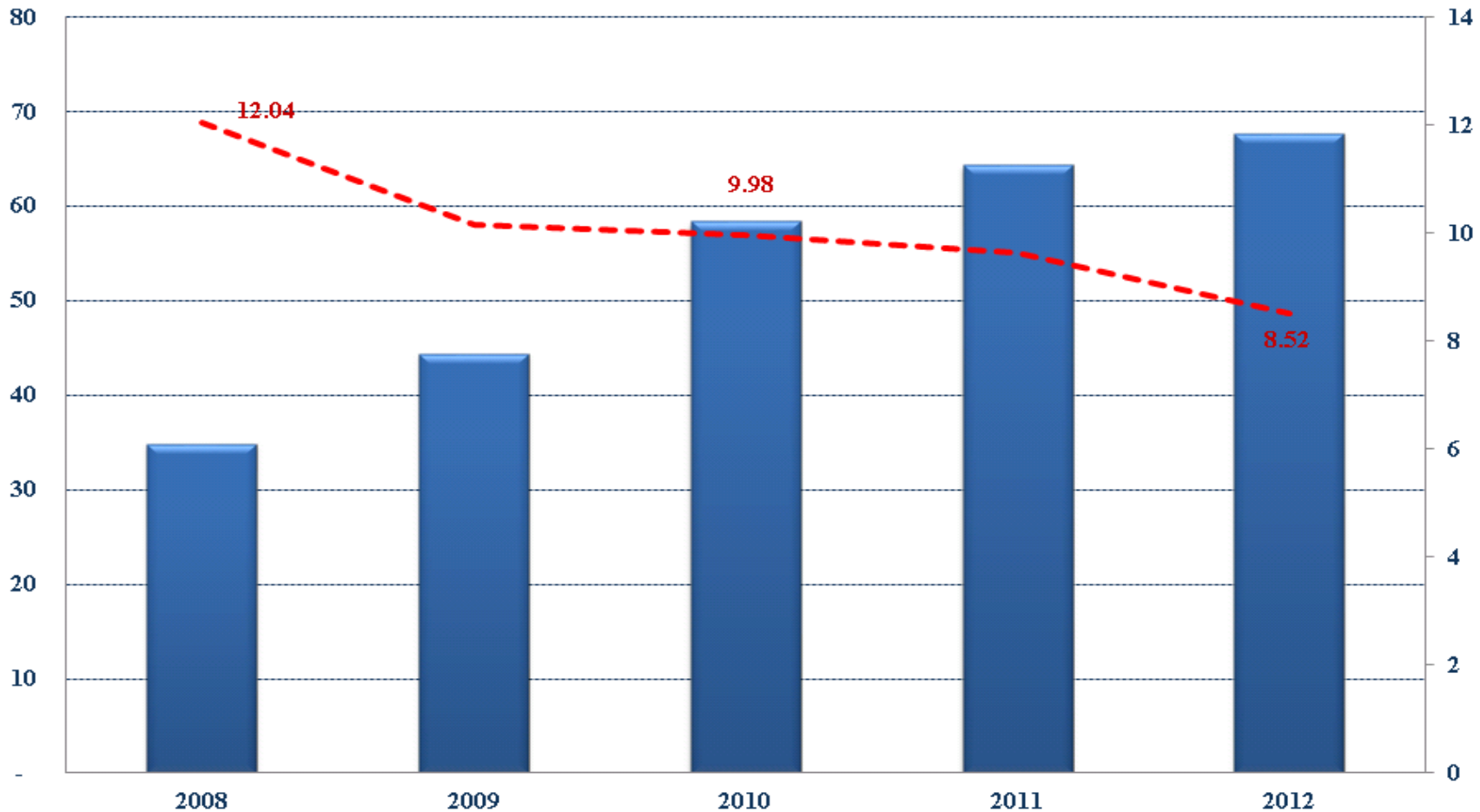
# Accommodative Monetary Stance adopted since 2009 has led to rising Corporate Indebtedness ...



Total Debt  
(MUR'Billions - Est.)

## Total Debt v/s Average PLR

Average Prime  
Lending Rate (Percent)



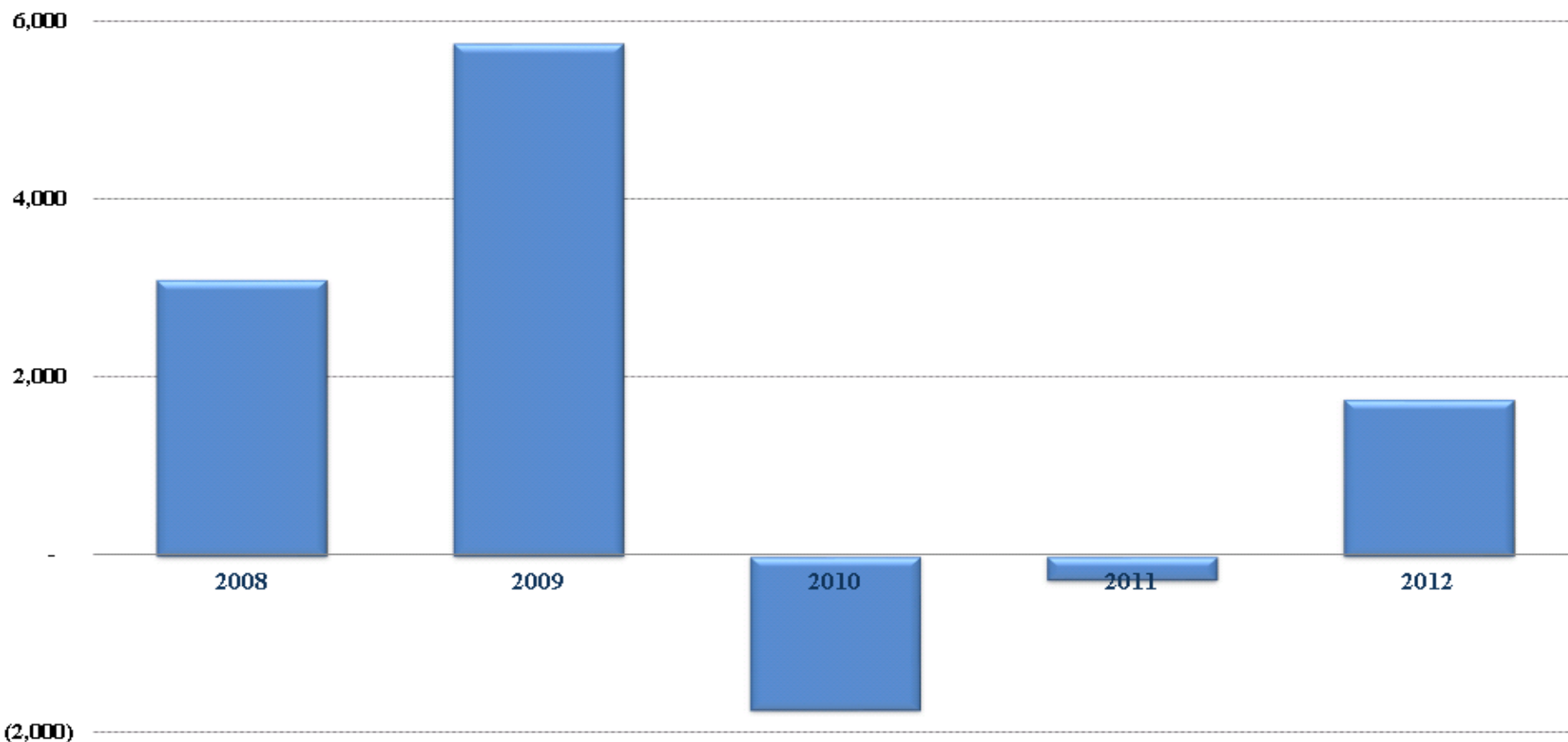
Source: 17 Largest Corporates' Annual Reports

# ... Falling levels of Free Cash Flow have hurt Corporate Balance Sheets



**Total Free Cash Flow:  
17 Largest Mauritian Conglomerates**

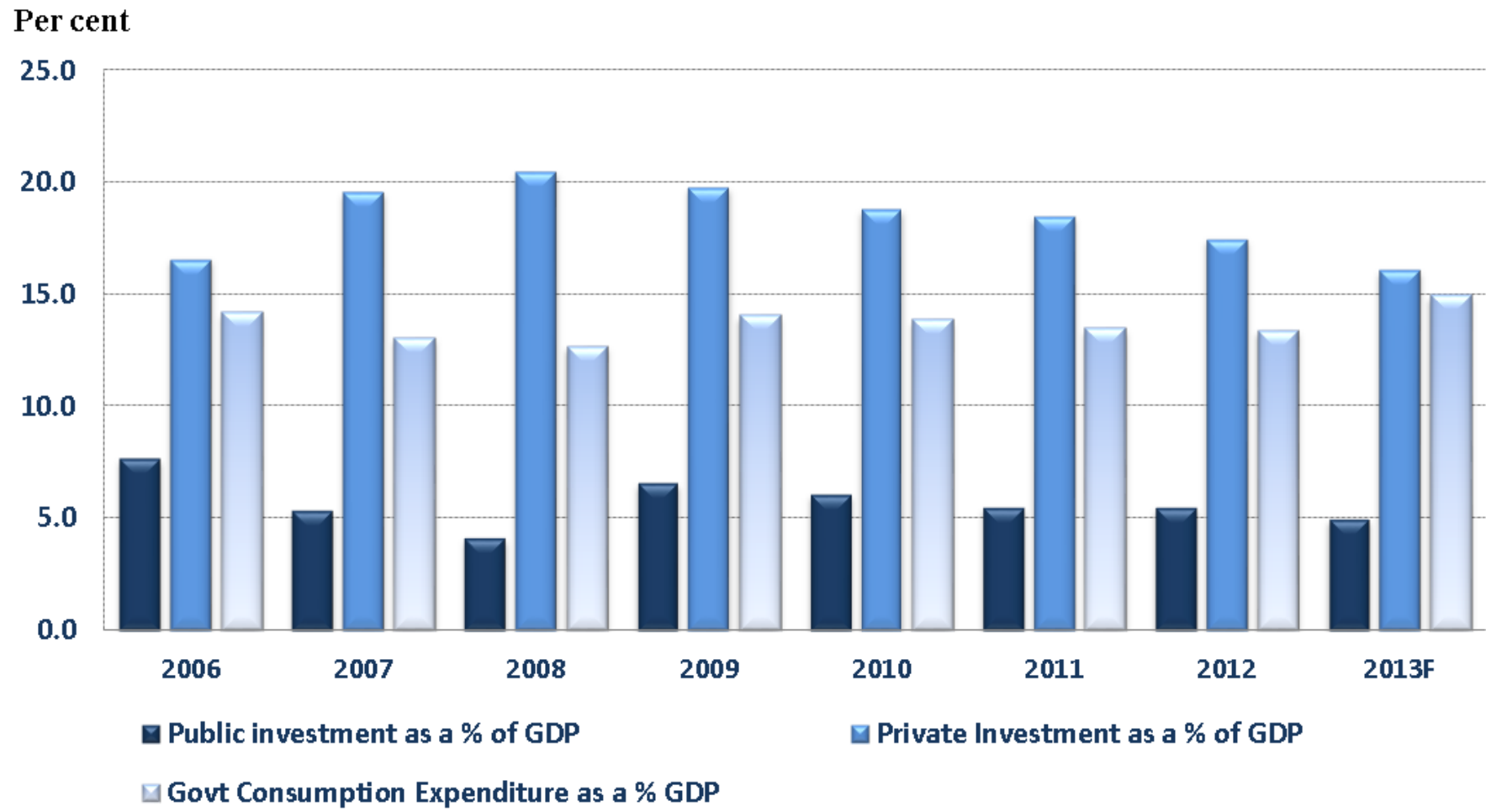
Rs Mn



Source: 17 Largest Corporates Annual Reports



# The Need to Avoid Coordinated Deleveraging



Source: Statistics Mauritius



# Concluding Remarks (1)

- Can Monetary Policy help improve structural problems in the private sector?
  - NO. Limits of Monetary Policy: Cannot resolve structural imbalances.
  - Implementation of macro-prudential measures by the Bank
- Have lower rates really been followed by companies getting their act together and working on deleveraging? NO
  - Free Cash Flow generation capacity of companies remains constrained.
- High need to start focusing on interest rate normalization.
- Will we be able to plug our Current Account deficit via real estate investments forever? NO





## Concluding Remarks (2)

### Interest Rate decisions v/s risks to Financial Stability

- Despite inflation being below 4% for now, one year ahead inflationary expectations remain close to 5%. *Stickiness!*
- Rotation of assets from deposits to alternatives.
- Need to enhance monetary and fiscal policy coordination



Thank you