



Post – MPC Press Conference

32nd Monetary Policy Committee

4 February 2014



Bank of Mauritius

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.

5. Functions of the Bank

(2) **The Bank shall -**

- (a) for the purposes of subsection (1)(a), determine, with the concurrence of the Minister, the accepted range of the rate of inflation during a given period consistent with the pursuit of the price stability objective;



MPC Decision

- KRR unchanged at 4.65% by majority vote
- No of interest-rate setting meetings: 31
 - KRR raised: 4 times
 - KRR cut: 10 times
 - KRR kept unchanged: 17 times
- Presentations

Views continue to diverge ...



MPC Date	11-Mar-13		17-Jun-13		30-Sep-13		03-Feb-14	
MPC Decision	unchanged at 4.9% pa.		reduced by 25 bps from 4.9% to 4.65p.a.		unchanged at 4.65% pa.		unchanged at 4.65% pa.	
Voting Pattern	5-3		5-3		5-3			
SM Economic Growth forecasts (%)								
for 2013	3.50		3.30		3.20			
for 2014							3.7 (Dec 2013 issue)	
Inflation Rates (Actual) (%)								
Headline	Feb: 3.6	Mar: 3.6	May: 3.6	June: 3.6	Aug: 3.5	Sep: 3.5	Nov: 3.5	Dec: 3.5
Y-on-Y	Feb: 3.6	Mar: 3.6	May: 3.7	June: 3.6	Aug: 3.1	Sep: 3.3	Nov: 3.9	Dec: 4

Source: Minutes of the Monetary Policy Committee and Statistics Mauritius



Uneven and moderate global recovery ...

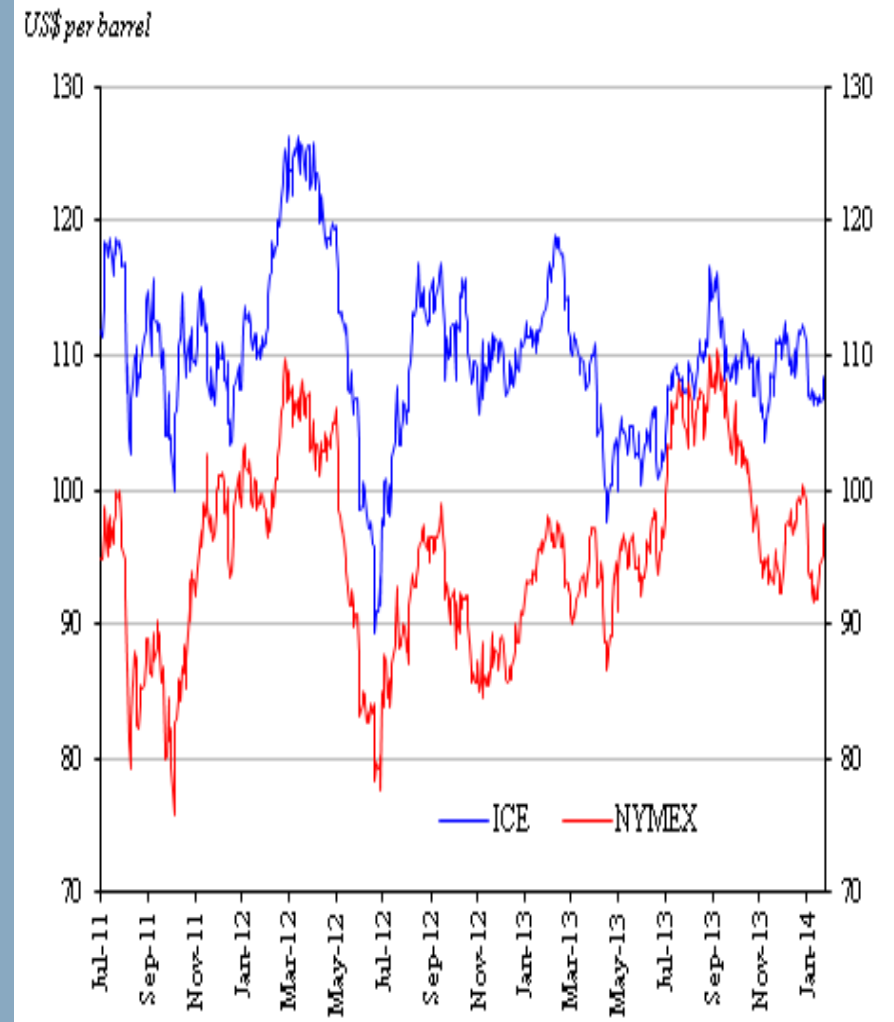
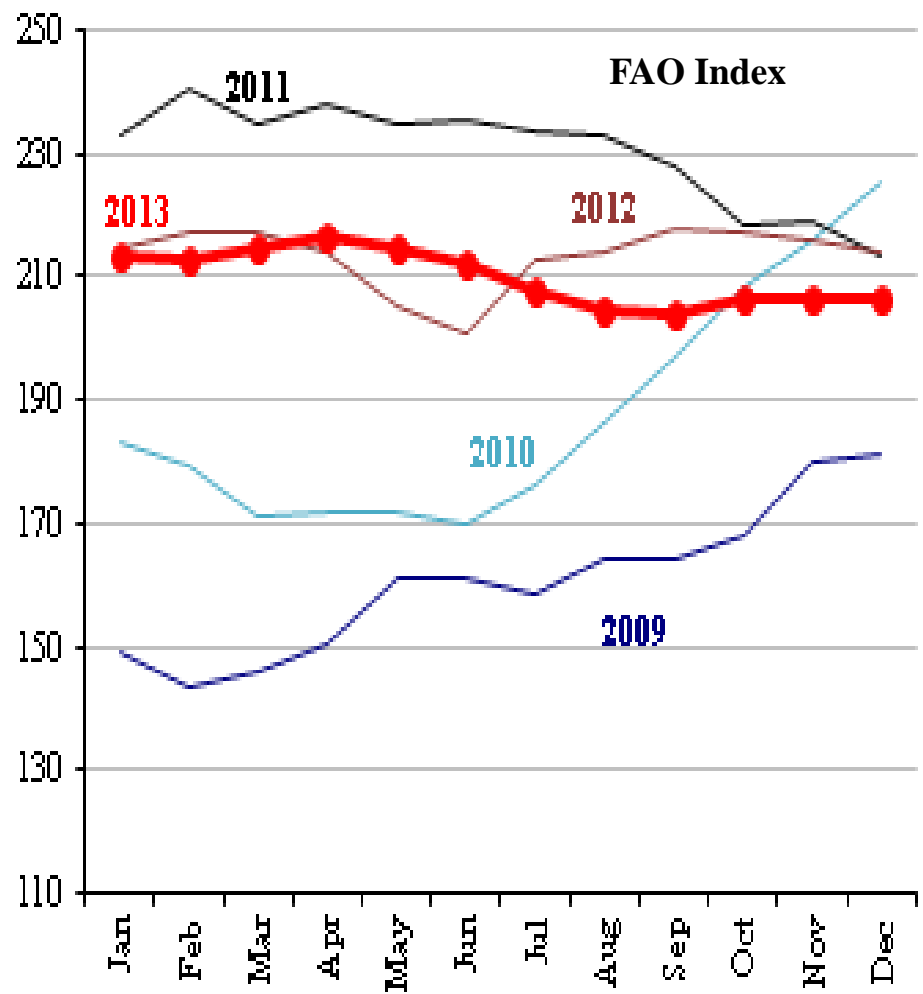
Per cent

	2013	January 2014 WEO Update Projections		Difference from October 2013 WEO Projections	
		2014	2015	2014	2015
World output	3.0	3.7	3.9	0.1	0.0
Advanced economies	1.3	2.2	2.3	0.2	-0.2
<i>of which</i>					
United States	1.9	2.8	3.0	0.2	-0.4
Euro Area	-0.4	1.0	1.4	0.1	0.1
United Kingdom	1.7	2.4	2.2	0.6	0.2
Japan	1.7	1.7	1.0	0.4	-0.2
Other					
Emerging market and developing economies	4.7	5.1	5.4	0.0	0.1
Sub Saharan Africa	5.1	6.1	5.8	0.1	0.1
Developing Asia	6.5	6.7	6.8	0.2	0.2
<i>of which</i>					
China	7.7	7.5	7.3	0.3	0.2
India	4.4	5.4	6.4	0.2	0.1

Source: International Monetary Fund's World Economic Outlook Update, January 2014.



Commodity price trends...



Source: FAO and Reuters



The end of an easing cycle...

	Monetary Policy Actions
Advanced Economies	
US	The Fed has started scaling down its quantitative easing since January 2014 by US\$10 billion monthly, as it had announced in December 2013.
Europe	ECB left its key refinancing rate unchanged at 0.25%.
UK	Bank of England left its policy rate unchanged at 0.50%.
Emerging Economies	
Brazil	Central Bank of Brazil has hiked its Selic rate for the seventh time by 50 basis points to 10.50%.
India	Reserve Bank of India has hiked its Repo rate for the third time by 25 basis points to 8.00%.
China	People's Bank of China left interest rate unchanged at 6.00%.
Turkey	Central Bank of Turkey has hiked its policy rate by 550 basis points to 10.00% .
South Africa	South African Reserve Bank has hiked its policy rate by 50 basis points to 5.50%.
Tunisia	Central Bank of Tunisia has hiked its policy rate by 50 basis points to 4.50%.
Other Developing Economies	Most of other developing countries' central bank left policy rate unchanged or have cut their policy rate.

Source: Central Bank websites



Forecast of Policy Interest Rates

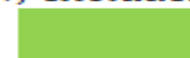
(per cent)

	Current Official Rate (%)	Inflation Rate (%)	JP Morgan forecast*			
			Mar-14	Jun-14	Sep-14	Dec-14
Global	2.25		2.25	2.25	2.25	2.26
Developed	0.32		0.34	0.34	0.33	0.33
Emerging	5.74		5.79	5.81	5.81	5.85
Advanced						
US	0.25	1.5	0.25	0.25	0.25	0.25
Euro area	0.25	0.7	0.25	0.25	0.25	0.25
UK	0.50	2.0	0.50	0.50	0.50	0.50
Japan	0.00	1.6	0.05	0.05	0.05	0.05
Canada	1.00	1.2	1.00	1.00	1.00	1.00
Australia	2.50	2.7	2.50	2.50	2.25	2.25
New Zealand	2.50	1.6	2.75	3.00	3.25	3.25
BRICS						
Brazil	10.50	5.9	10.75	11.00	11.00	11.00
Russia	5.50	6.5	5.50	5.25	5.00	5.00
India**	8.00	6.2	7.75	8.00	8.25	8.50
South Africa**	5.50	5.4	5.00	5.00	5.50	5.50
China	6.00	2.5	6.00	6.00	6.00	6.00
Other Emerging						
Indonesia	7.50	8.2	7.50	7.75	7.75	7.75
Malaysia	3.00	3.2	3.00	3.00	3.00	3.00
Thailand	2.25	1.9	2.00	2.00	2.00	2.00
Philippines	3.50	4.1	3.50	3.50	3.50	3.75
South Korea	2.50	1.1	2.50	2.50	2.50	2.50
Turkey**	10.00	7.5	8.50	8.00	7.50	7.75

* JP Morgan Global Data Watch issued on 24 January 2014, excludes recent changes in policy rates.



Cut



Hike

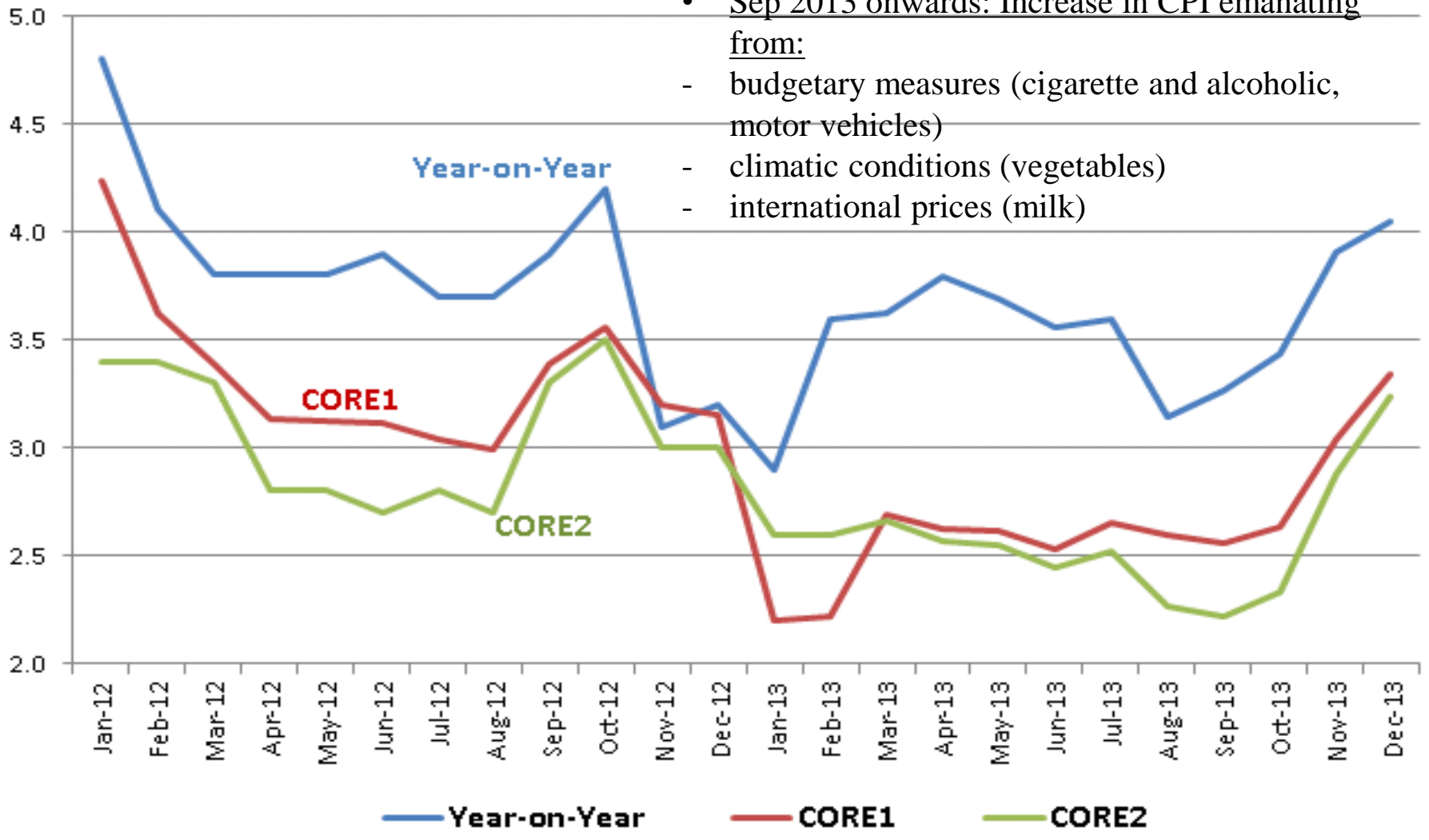
** Central Banks that have hiked after 24 January beating forecasts.



Domestic developments since last MPC Meeting, September 2013



Inflationary pressures – building up ...



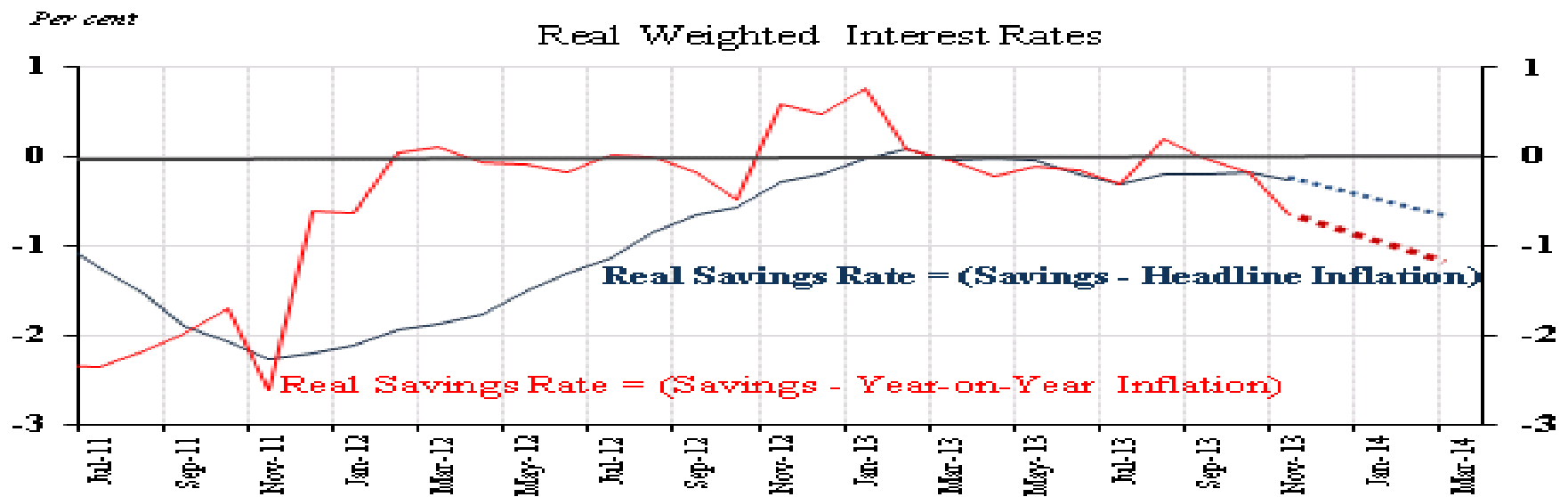
- Sep 2013 onwards: Increase in CPI emanating from:
 - budgetary measures (cigarette and alcoholic, motor vehicles)
 - climatic conditions (vegetables)
 - international prices (milk)

Consensus of pick-up in growth and inflation in 2014...

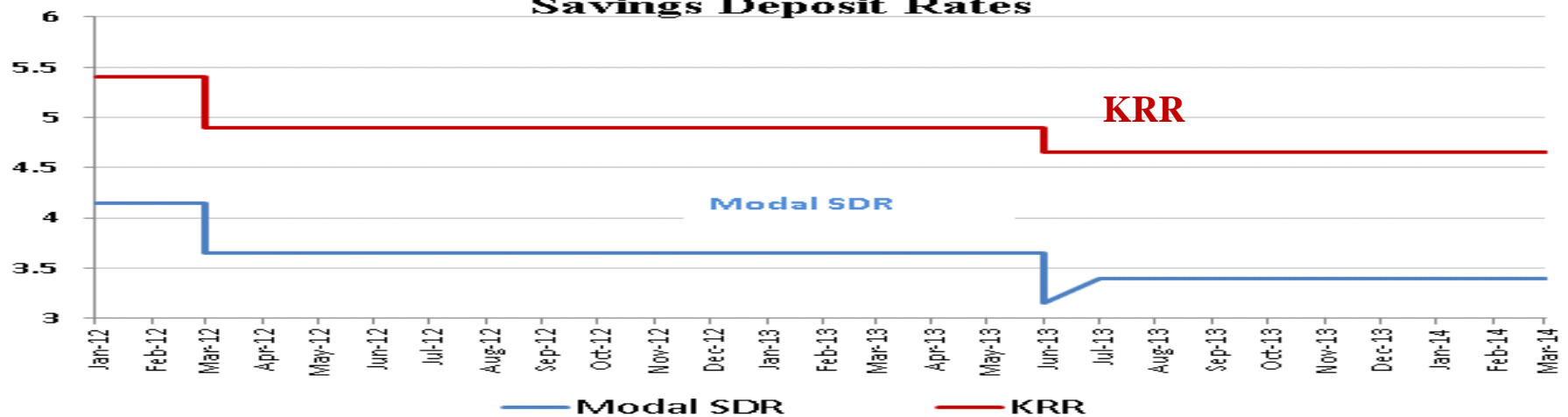


	Growth Forecasts (%)	Inflation Forecasts (%)
IMF WEO, Jan 2014	4.4	4.7
MCCI, Dec 2013	3.4	4.0
MCB Focus, Dec 2013	3.6	3.9
Pluriconseil, Jan 2014	3.5 - 3.7	4.5
Statistics Mauritius, Dec 2013	3.7	n.a.
Budget 2014, Nov 2013	3.8	4.5
Bank of Mauritius, Feb 2014	3.7 – 4.0	~ 4.0

Negative real interest rates are expected to worsen ...

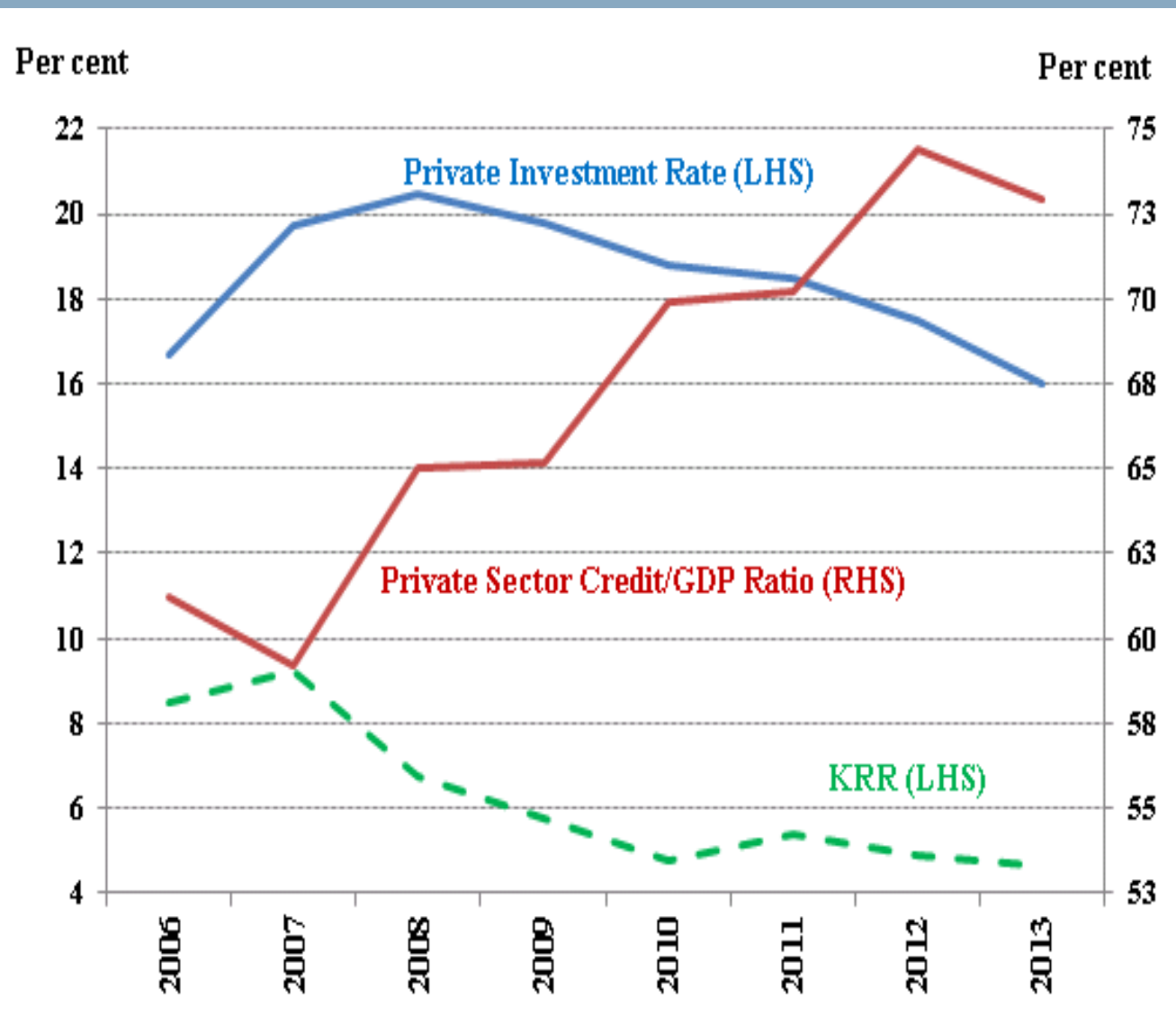


Transmission between Key Repo Rate and Modal Savings Deposit Rates





Low interest rate for a long time ...did it have the desired impact?



Post crisis phase: diverging trends between private investment to GDP and credit to GDP.

Where is the credit going, if not in investment?

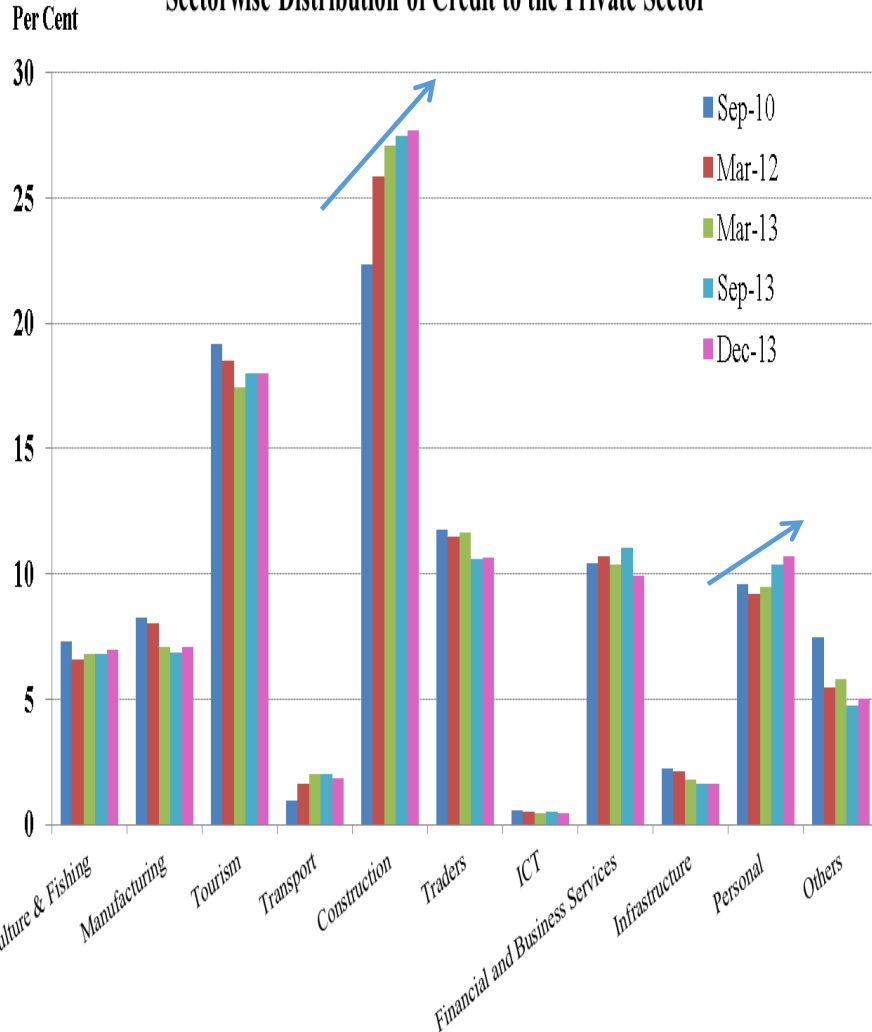


Main Challenges Ahead

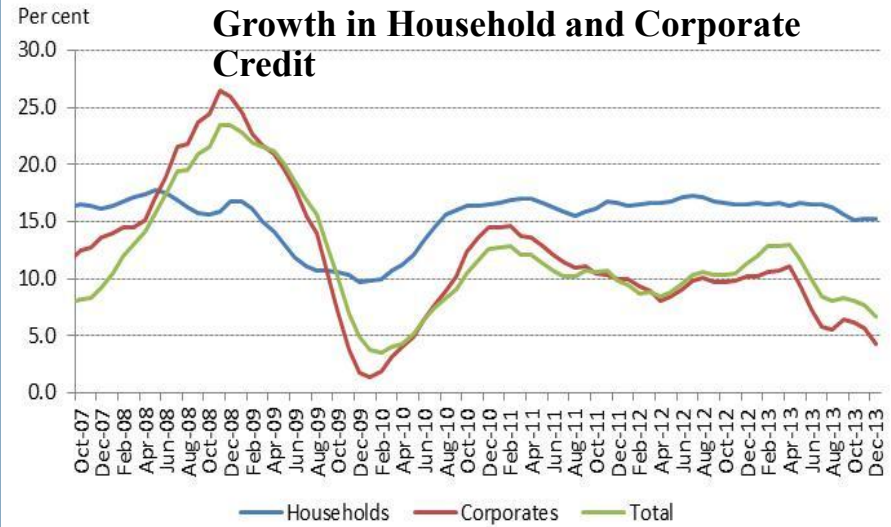
Unintended consequences which households may face ...



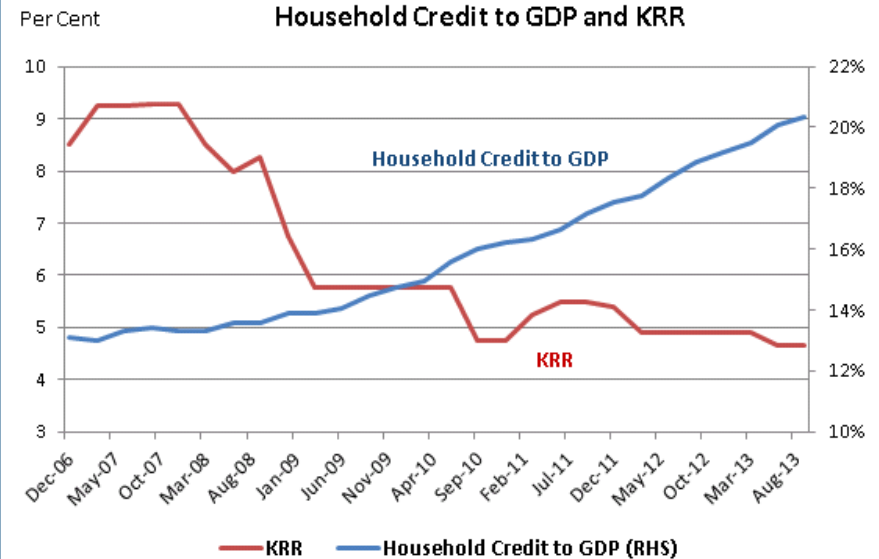
Sectorwise Distribution of Credit to the Private Sector



Growth in Household and Corporate Credit



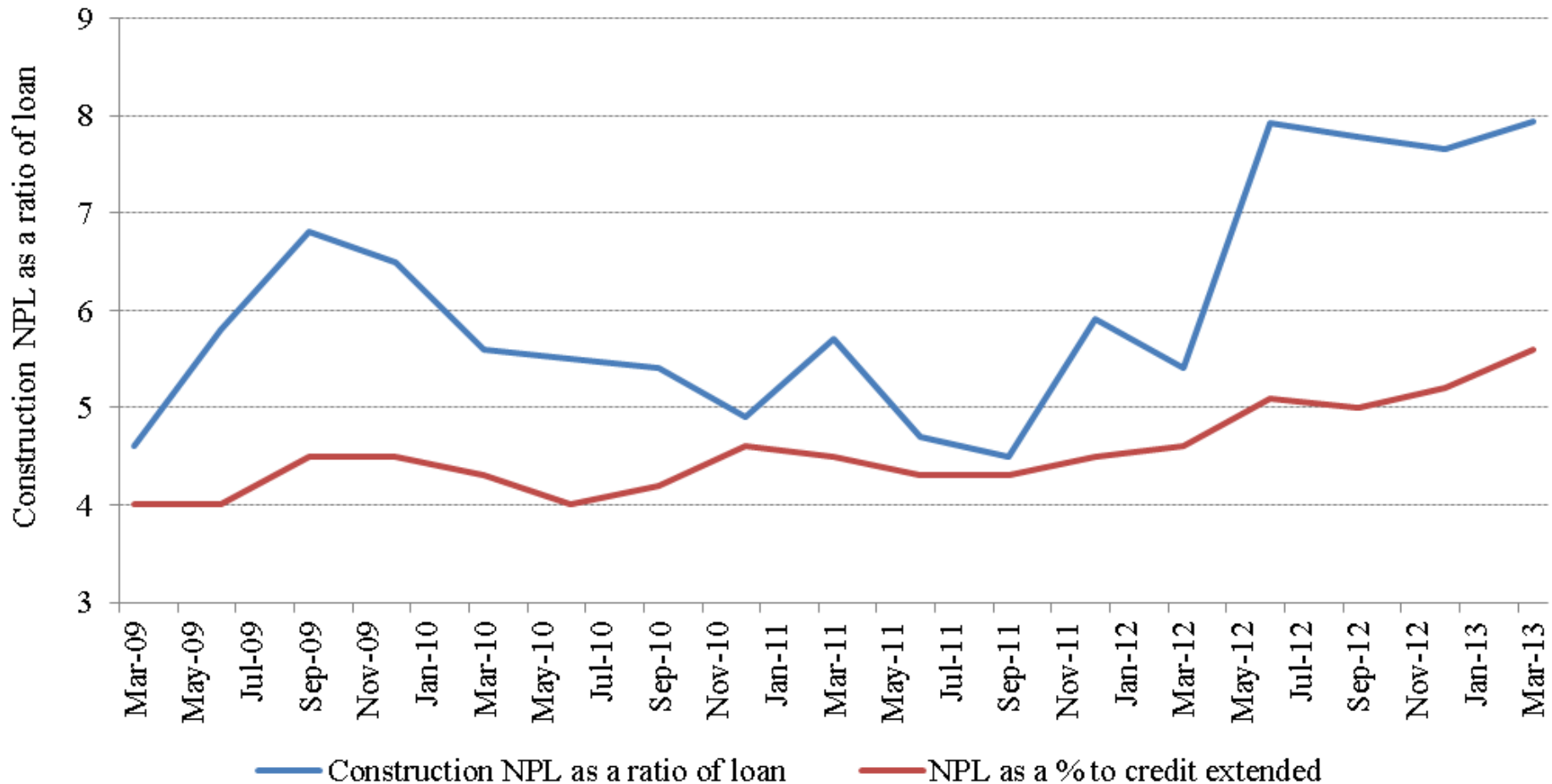
Household Credit to GDP and KRR



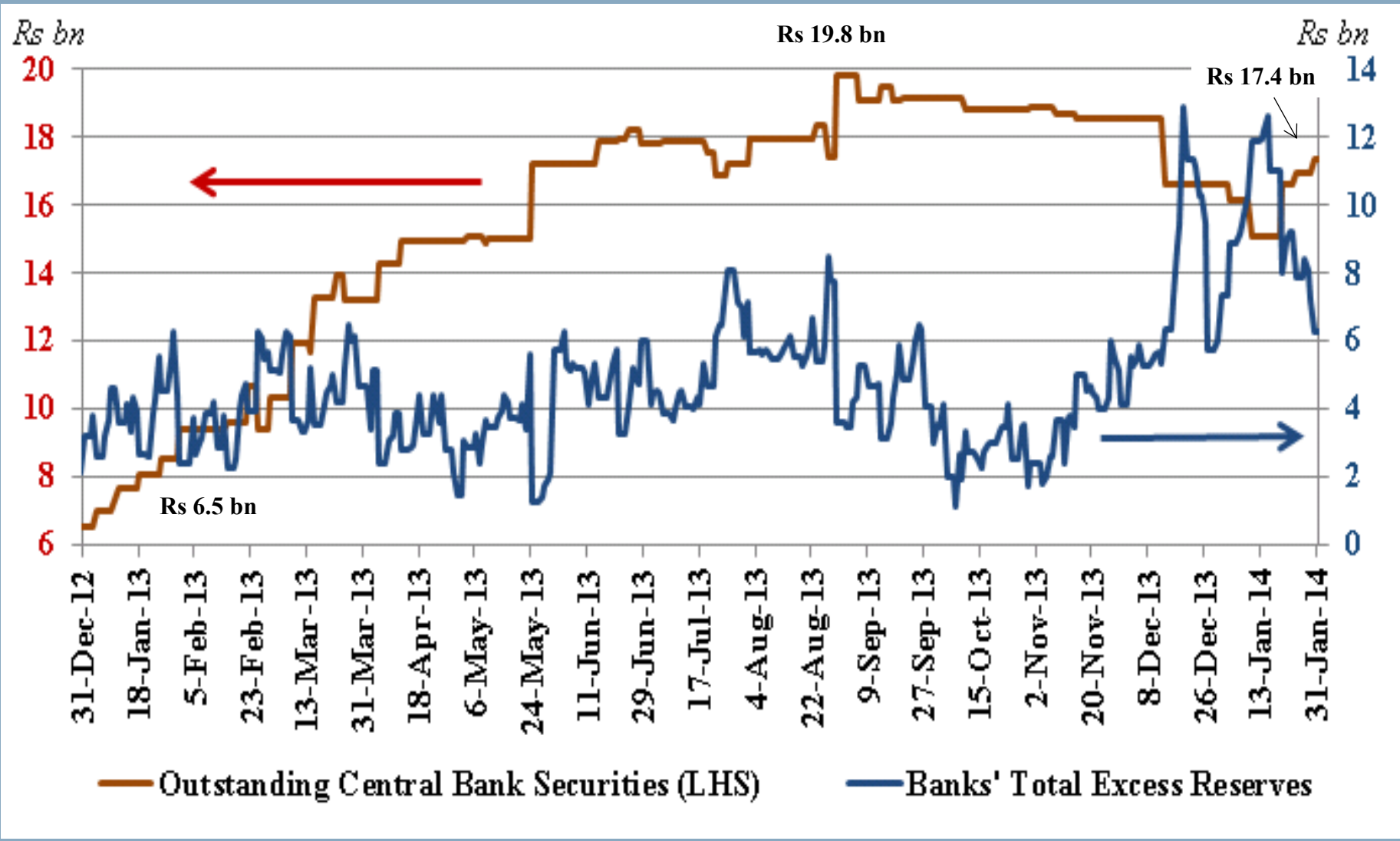
Unintended Consequences - Real Estate Price Boom and Risk to Financial Stability



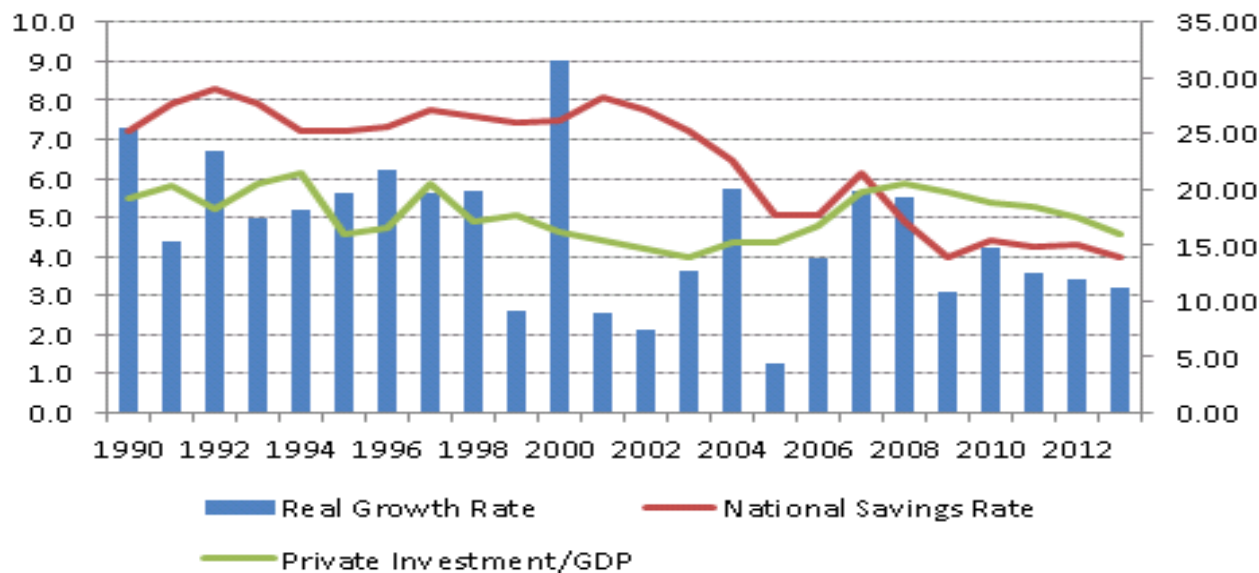
Rising Construction NPLs



Excess Reserves rising despite the Bank's efforts...and issuance of BOM papers



Faced with declining potential output...



Potential Output

Historical average: 4.1 per cent

Our economy in a transformational phase where some sectors have grown enough while other sectors are emerging.

New drivers of growth like ICT and Seafood to bring more value addition to the economy.

Need to reskill our labour, undertake structural reforms, raise more capital

Average growth rates (%)

	1980-89	1990-98	2000-10	2007-13
Agriculture, fishing and forestry	0.1	1.7	3.5	1.9
Manufacturing	8.3	5.9	2.0	2.3
Accomodation and Restaurant	8.3	10.0	4.5	2.9
Wholesale and Retail Trading	5.4	5.3	3.6	3.2
Financial Institutions	8.7	8.3	6.5	6.2
Banks imputed service charge	8.0	9.5	6.7	7.0
GDP growth	4.2	5.8	4.9	4.2

Source: Estimates computed based on Statistics Mauritius comparable figures.



Key take-aways

- Much improved global environment
- Domestic growth rate getting closer to potential output
- Unemployment at same level unless structural reforms are undertaken
- Investment on a declining trend unless public sector change in major approach
 - Private sector investment much lower.
 - No impact from interest rate thereof.
- Need to maintain financial and monetary stability
 - Excess liquidity issue
 - Need to offer positive real interest rate
- Address the issue of banks' margins
- Possible currency volatility as a result of US tapering being increased during the year



Thank You