



# **Monetary Policy Committee**

**Economic Developments and Outlook**

**30 September 2013**



# External Environment

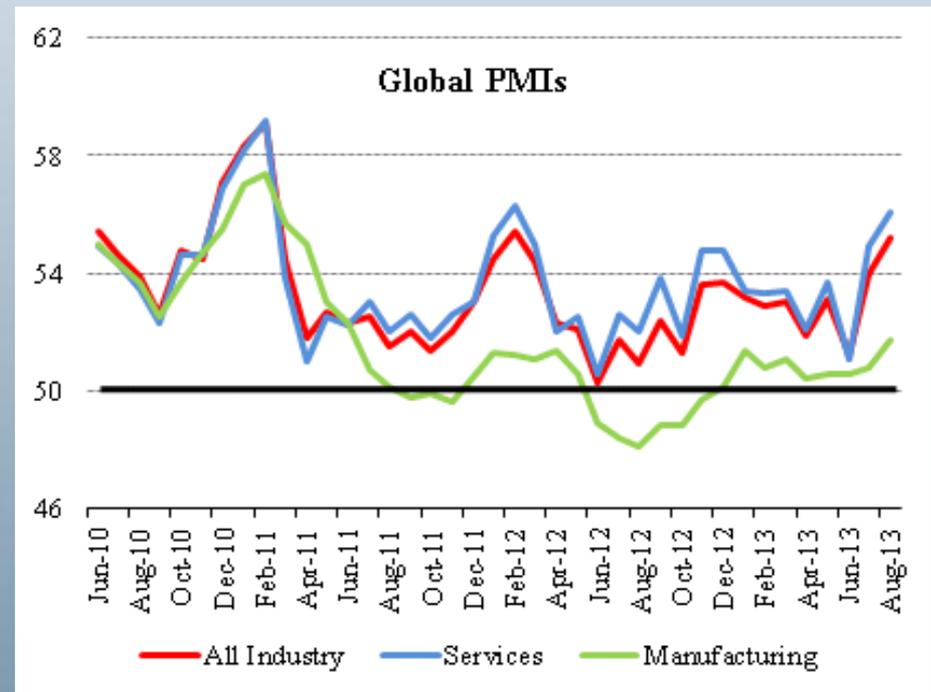
# External Environment

## ➤ Global Lift

- Slight pick-up in global growth, led by advanced economies
  - *Shift from recession to recovery in the euro area*
- Leading indicators suggest better outlook

## ➤ Emerging economies

- Slower momentum
- Downside risk from external financing constraints
  - Brazil, India, Turkey





# External Environment: US

- Consistent improvement in data - growth of 2.5% in 2013Q2; 1.1% in 2013Q1
  - *Led by inventories and exports*
  - *Domestic demand somewhat muted*
- Consumer sentiment affected by tighter lending conditions due to tapering expectations
- Business surveys mixed for September
- Labour market: continued fall in unemployment rate, down to 7.3% in August
- **Upside Risks**
  - Higher domestic demand than expected
  - A faster-than expected recovery in the labour market
- **Downside Risks**
  - Uncertainty associated with debates on debt-ceiling and fiscal cutbacks
  - Tighter financial conditions
  - Global recovery does not take hold

# External Environment: Eurozone



- Exited recession - GDP up by 0.3% in 2013Q2 following 6 consecutive quarters of contraction.
  - *Led by both net exports and domestic demand*
- Better activity indicators
  - *September PMI level signalling sustained momentum in the economy*
- BUT, growth momentum remains very moderate
  - *record unemployment (12.1%) persisting*

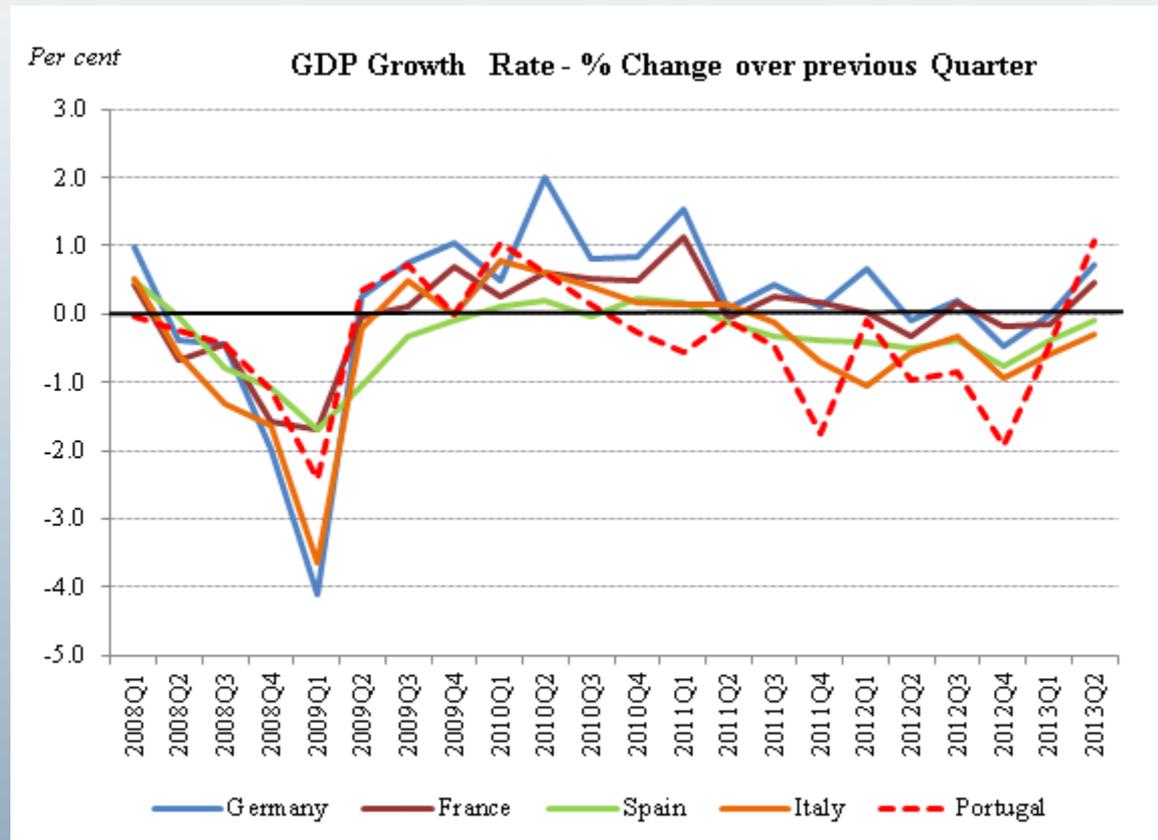
## ➤ **Upside Risks**

- Larger acceleration in activity than currently expected
- Higher domestic demand

## ➤ **Downside Risks**

- Tight lending conditions in some countries
- Business and consumer sentiment remain muted
- Fiscal consolidation

# External Environment: Eurozone



- Germany and France: Growth of 0.7 per cent and 0.5 per cent, respectively
- Narrowing divergences but Germany likely to outperform



# UK Economy

- Economy gathering momentum. Growth of 0.7% in 2013Q2; 0.3% in 2013Q1
  - *Pick up in exports and investment*
  - *Improvement in business surveys*
- BUT the recovery is tepid:
  - *Level of activity still subdued*
  - *Weak household spending*
  - *High unemployment rate: currently at 7.8%*

## ➤ **Upside Risk**

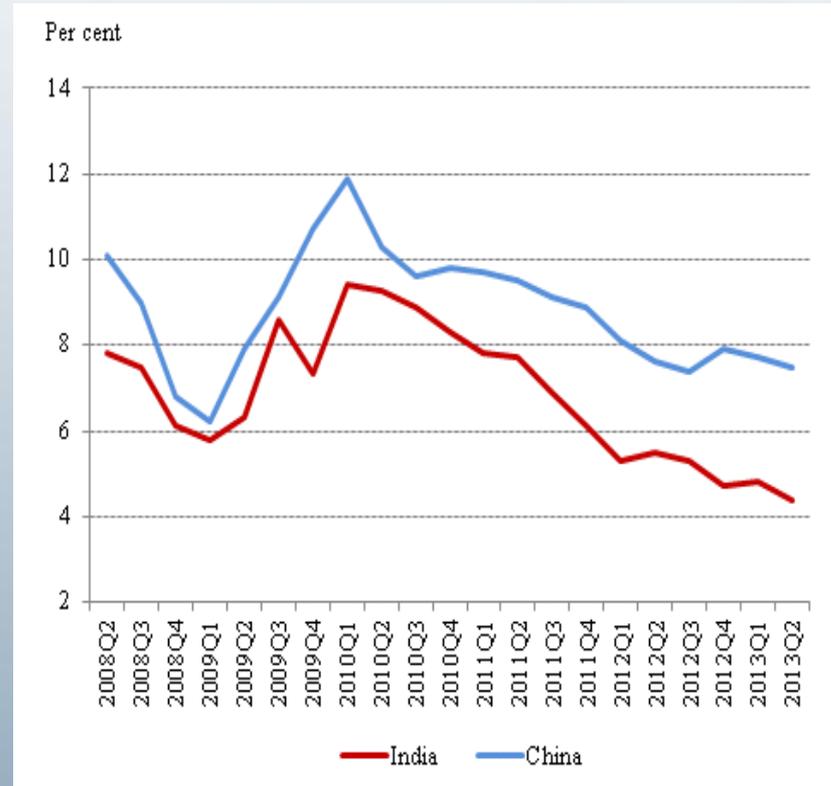
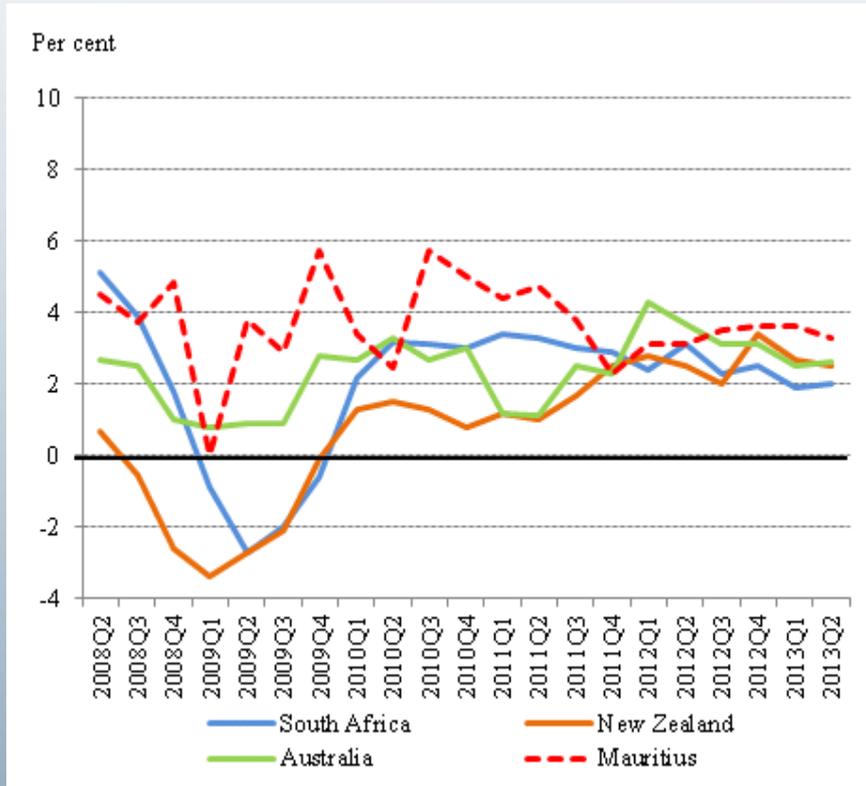
- A faster decline in unemployment than expected

## ➤ **Downside Risks**

- Lower than expected recovery in consumption expenditure
- Cuts in Government spending

# External Environment:

## Some Emerging Economies and Commodity Producers





# Growth Projections

Change in Forecasts since last MPC	US		Euro zone		UK	
	2013	2014	2013	2014	2013	2014
IMF April 2013 WEO	1.9	3.0	-0.3	1.1	0.7	1.5
IMF July 2013 WEO Update	1.7	2.7	-0.6	0.9	0.9	1.5
Reuters Poll May 2013	2.0	2.7	-0.5	0.9	0.8	1.5
Reuters Poll September 2013	1.7	2.7	-0.4	1.0	1.3	2.1
JP Morgan May 2013	1.9	2.4	-0.7	1.2	1.0	1.9
JP Morgan September 2013	1.7	2.5	-0.3	1.3	1.5	3.1
OECD May 2013	1.9	2.8	-0.6	1.1	0.8	1.5
OECD September 2013	1.7	-	-0.1	-	1.5	-
US Federal Reserve June 2013	2.5	3.3	-	-	-	-
US Federal Reserve September 2013	2.0 - 2.3	2.9 - 3.1	-	-	-	-
ECB - Eurosystem staff June 2013	-	-	-0.6	1.1	-	-
ECB - Eurosystem staff September 2013	-	-	-0.4	1.0	-	-
BOE September 2013	-	-	-	-	1.5	2.7

Sources: JP Morgan; Reuters; IMF; World Bank; OECD; US Fed; BoE and European Commission

# Growth Projections



	JP Morgan				Reuters			
	May 2013 Forecast		September 2013 Forecast		April/May 2013 Poll		July/August 2013 Poll	
	2013	2014	2013	2014	2013	2014	2013	2014
<b>Brazil</b>	2.5	3.5	2.3	2.3	3.0	3.5	2.1	2.5
<b>Russia</b>	2.5	3.4	1.6	2.5	2.6	:	2.1	:
<b>India</b>	5.8	6.5	4.1	5.0	5.0	6.0	5.7	6.3
<b>China</b>	7.6	7.7	7.6	7.2	8.1	8.0	7.6	7.4
<b>South Africa</b>	2.3	3.6	2.1	3.3	2.3	3.1	2.1	3.0

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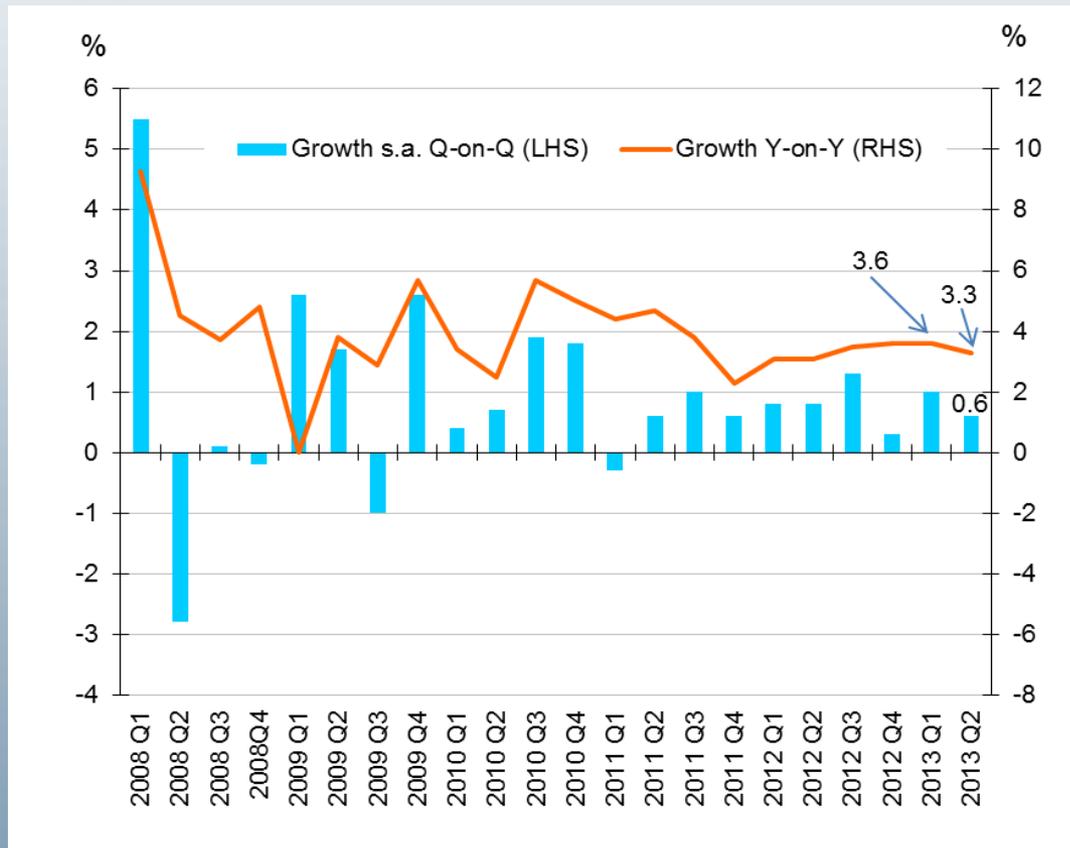
Sources: JP Morgan and Reuters



# Developments in the domestic economy since the previous MPC meeting

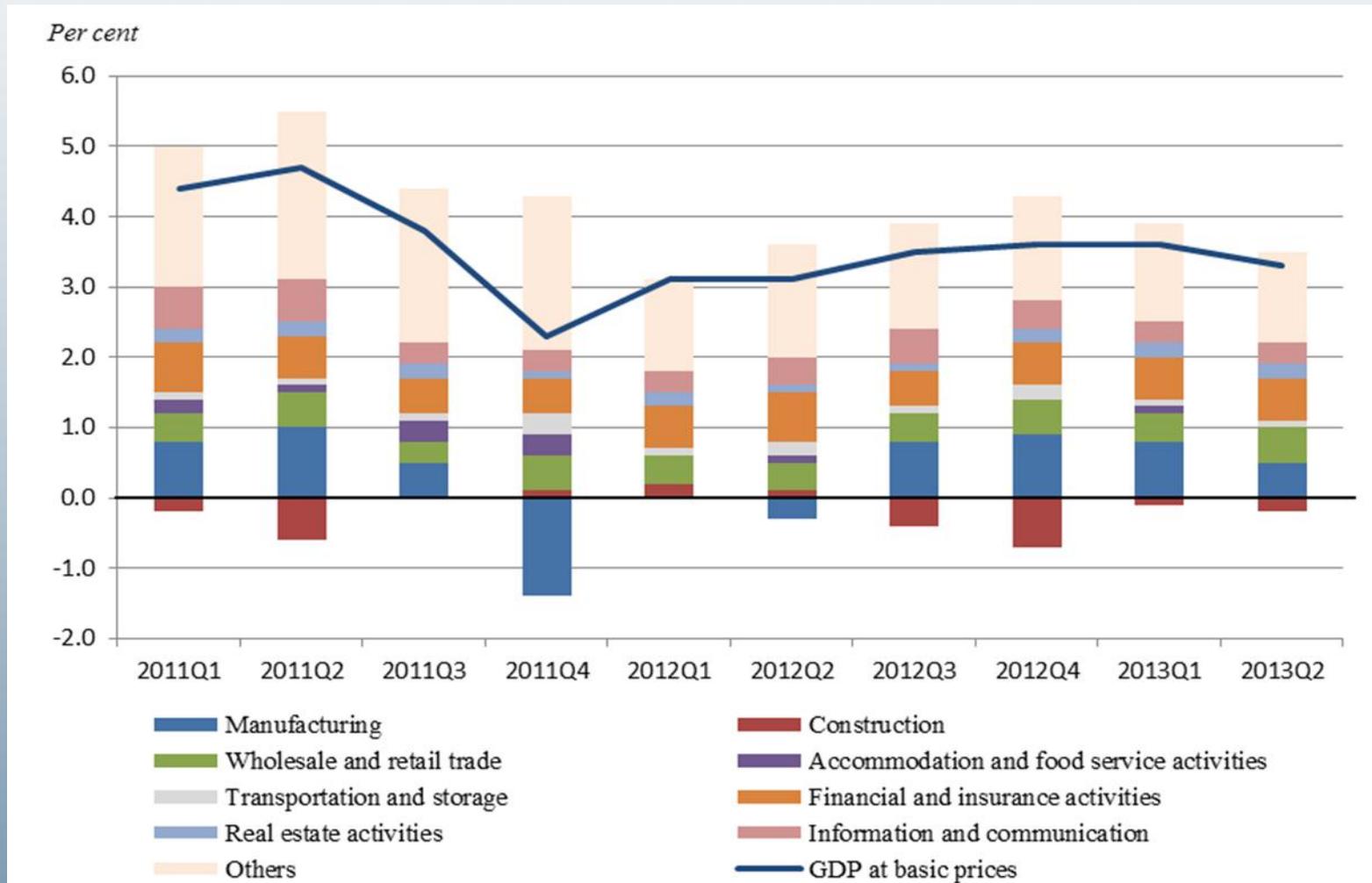
# GDP Growth

- The Mauritian economy declined both in y-o-y and q-o-q terms in 2013Q2



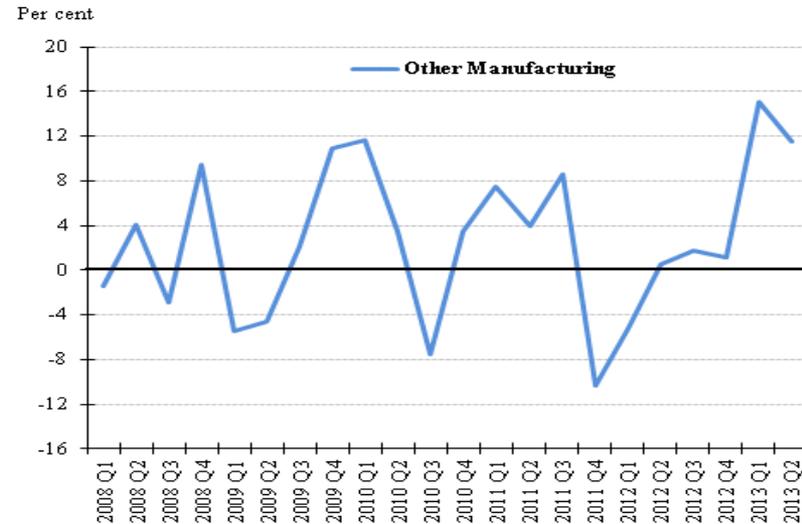
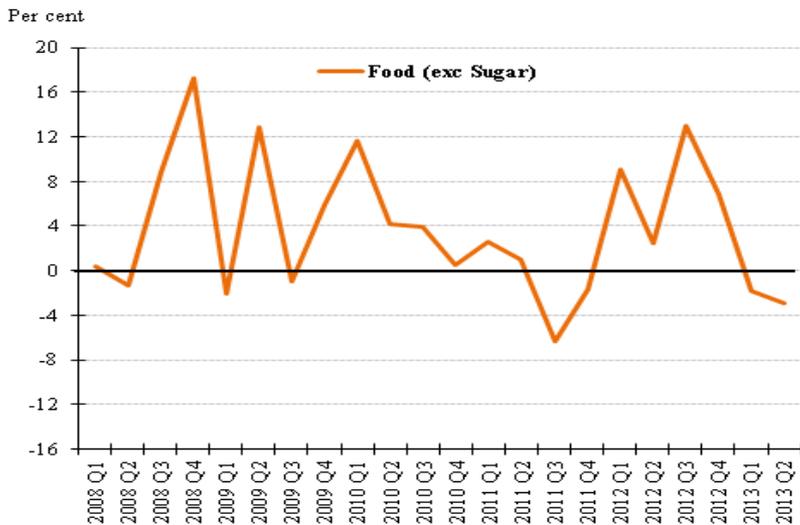
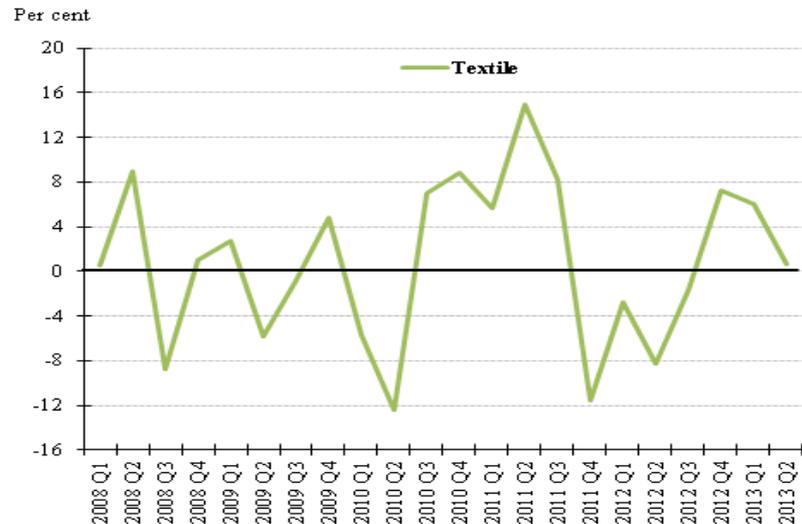
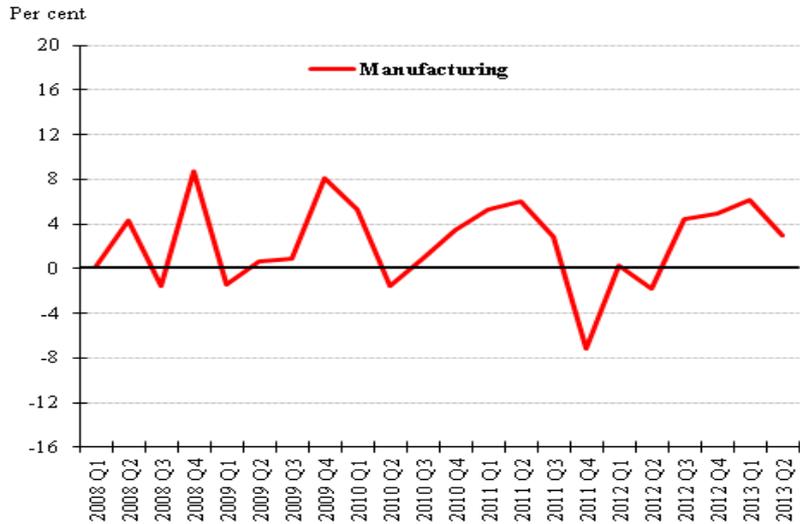
- Growth for 2013 slightly revised down to 3.2%
- Third downward revision by Statistics Mauritius

# Sector-wise Contribution to Growth



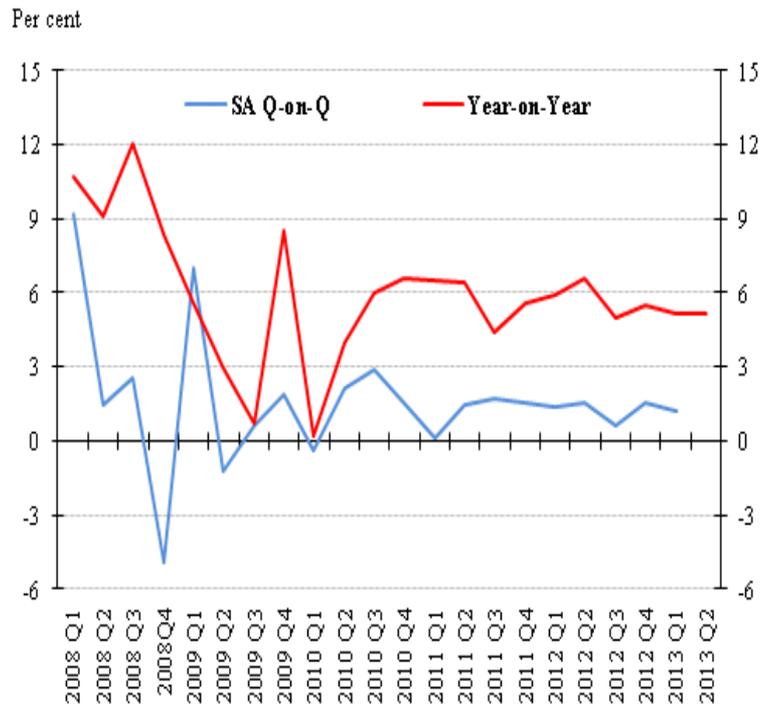


# Manufacturing (Y-o-Y)



# GDP Growth

## Financial & Insurance Activities

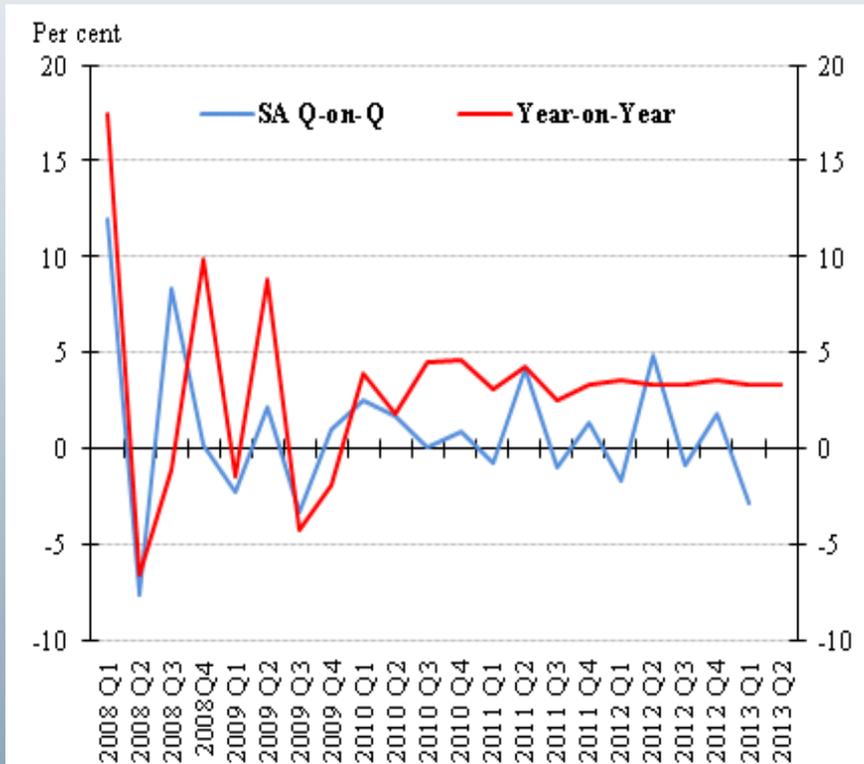


## Information and Communication

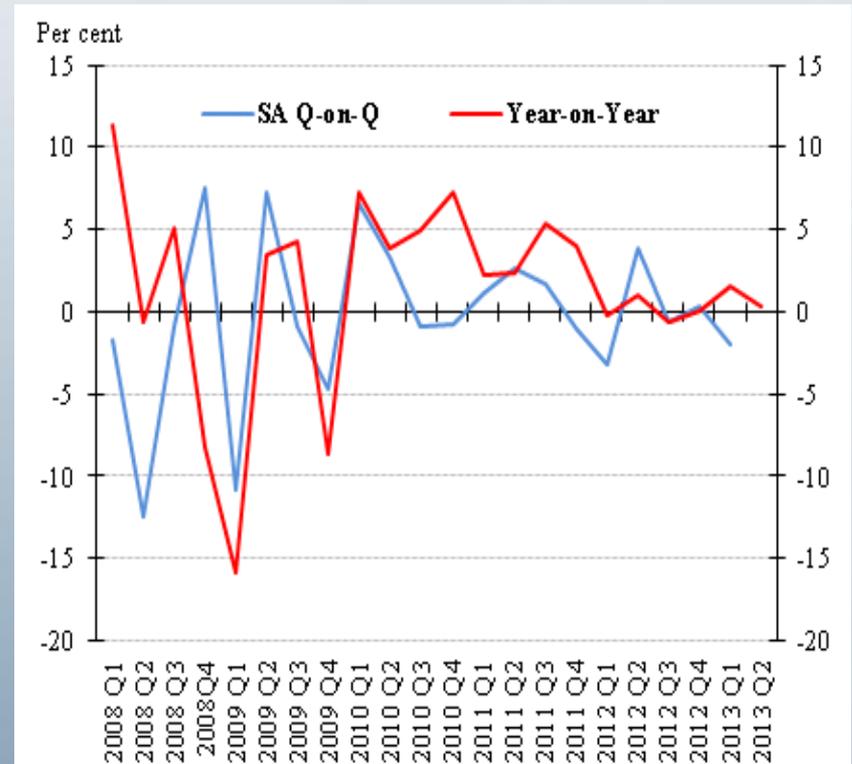


# GDP Growth

## Wholesale and Retail Trade

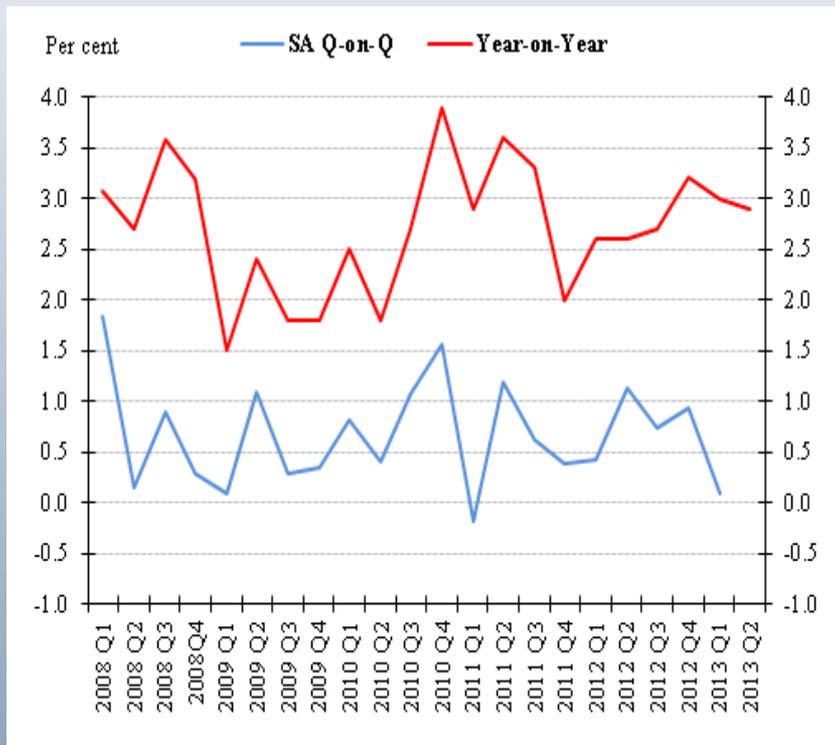


## Accommodation & Food Service Activities

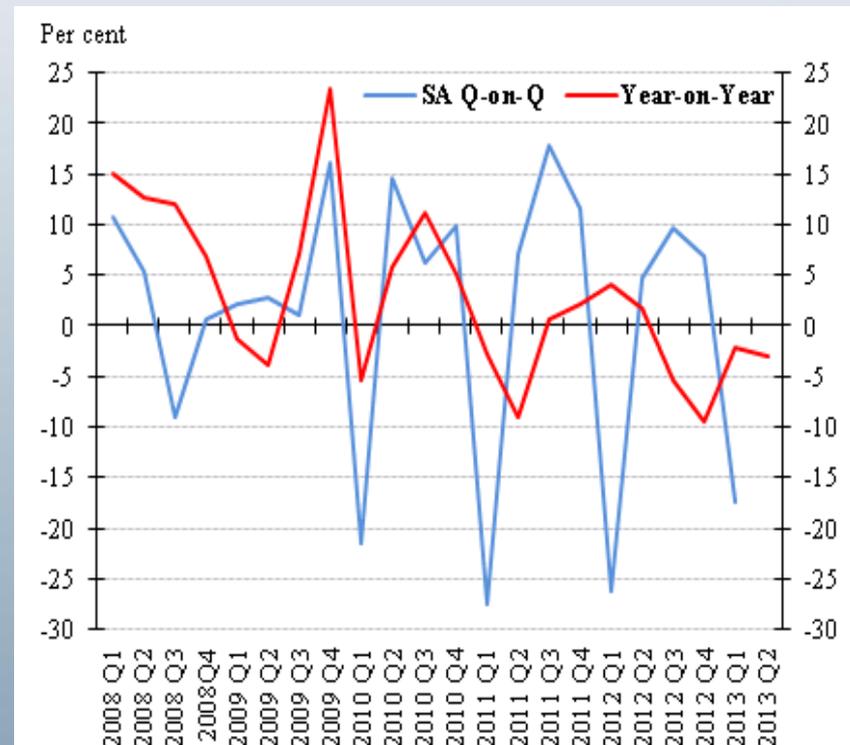


# GDP Growth

## Real Estate Activities



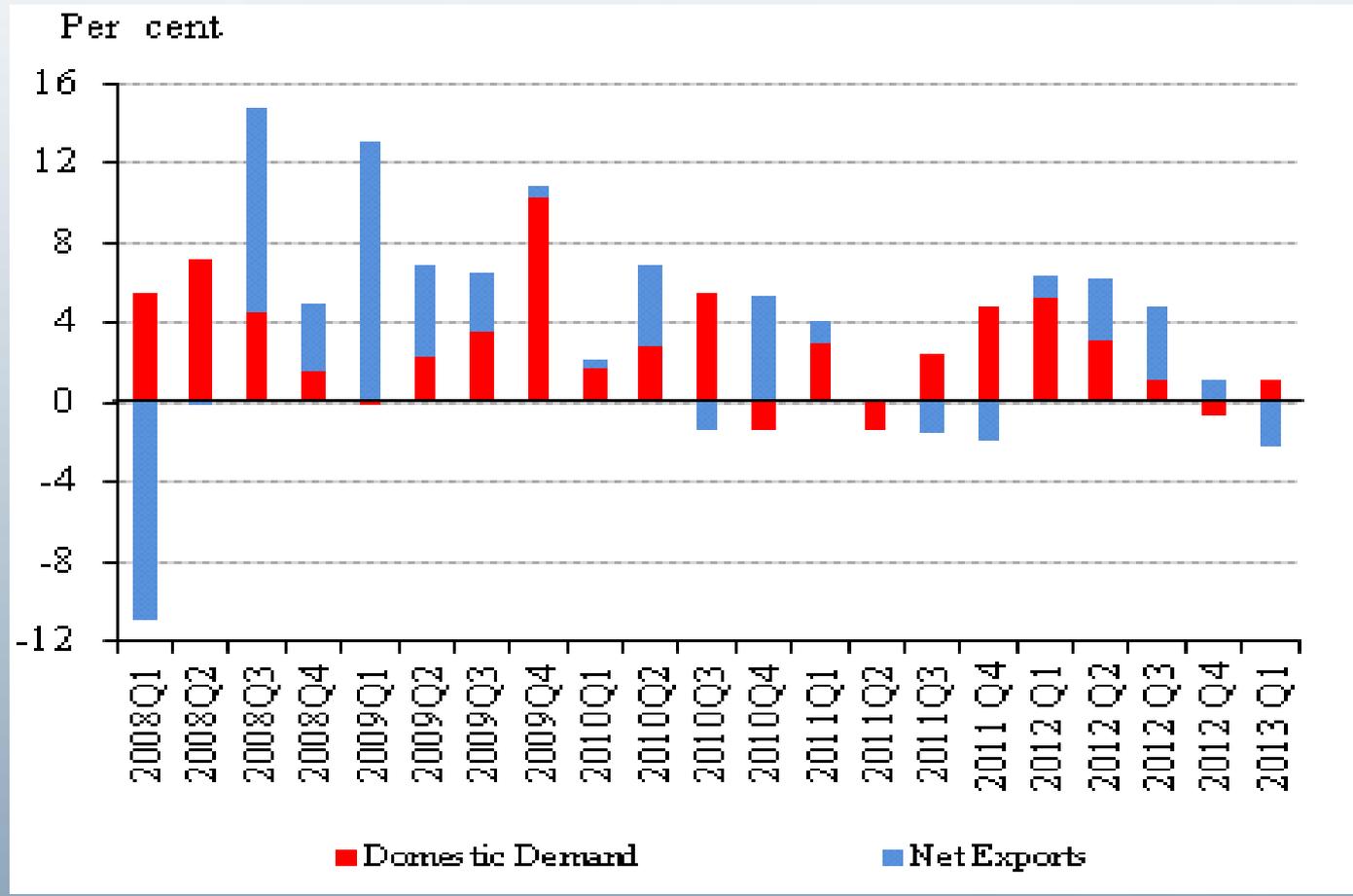
## Construction





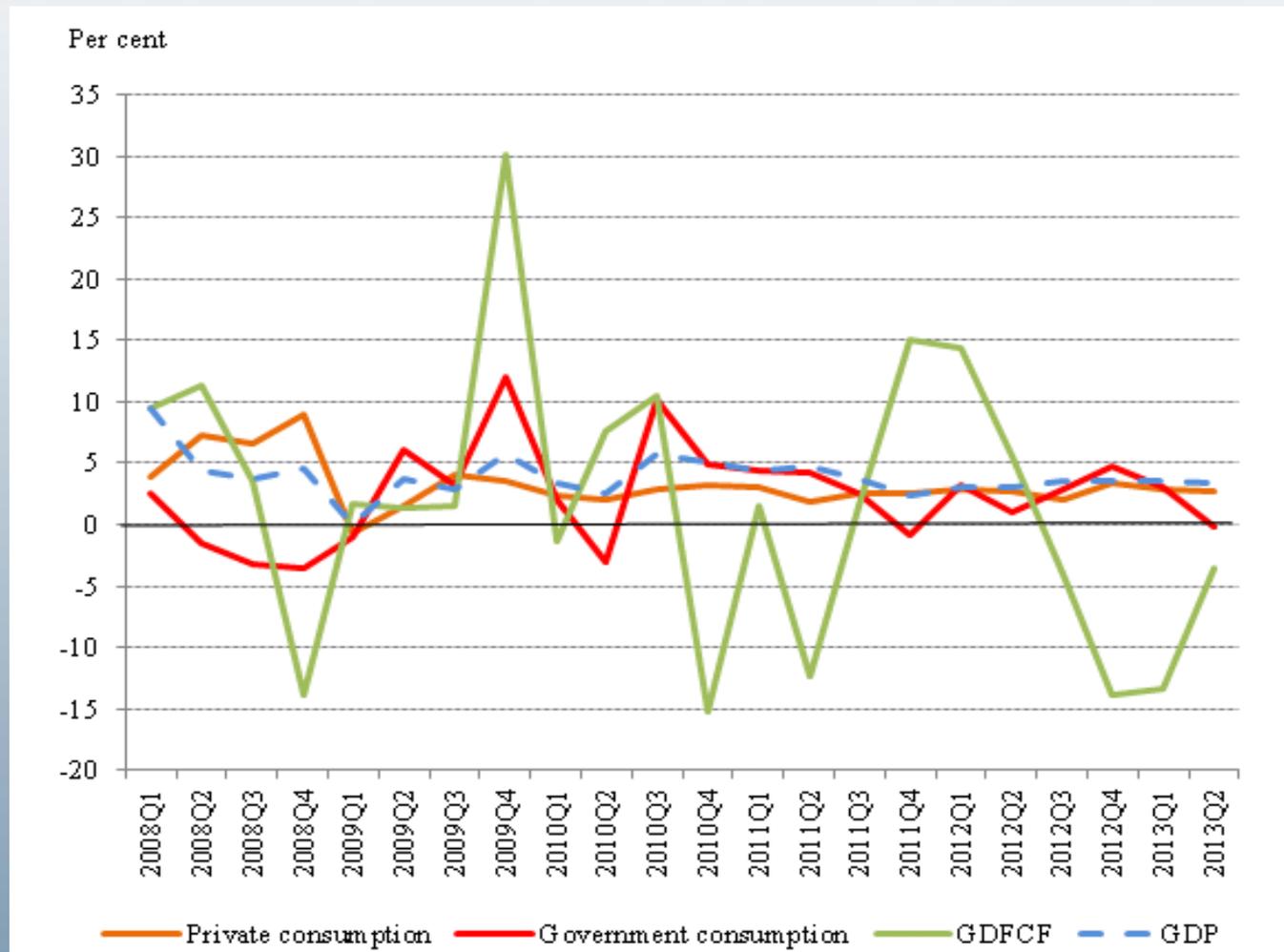
# Demand

## Contribution to GDP Growth

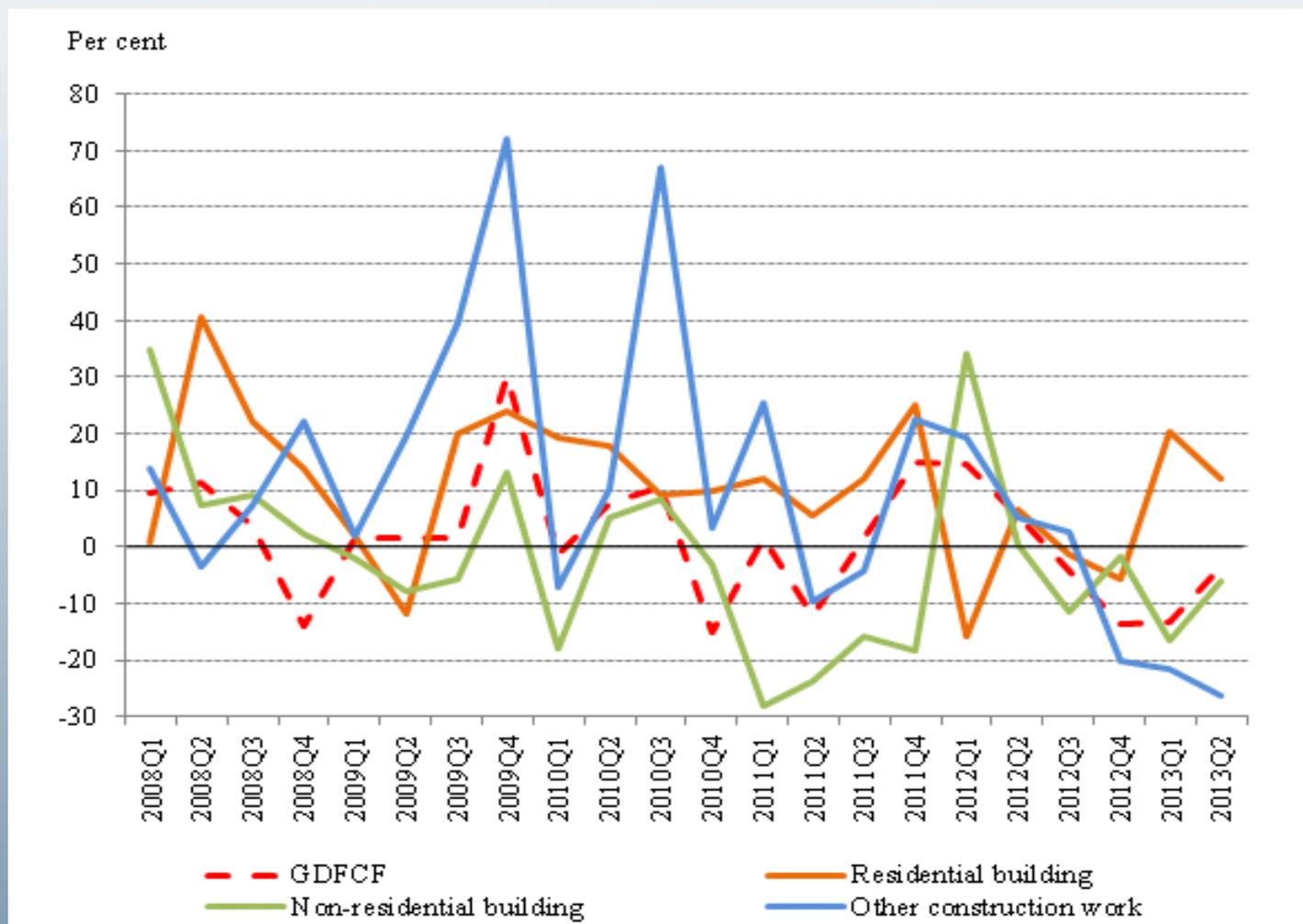


Note: Based on National Accounts estimates released in June 2013

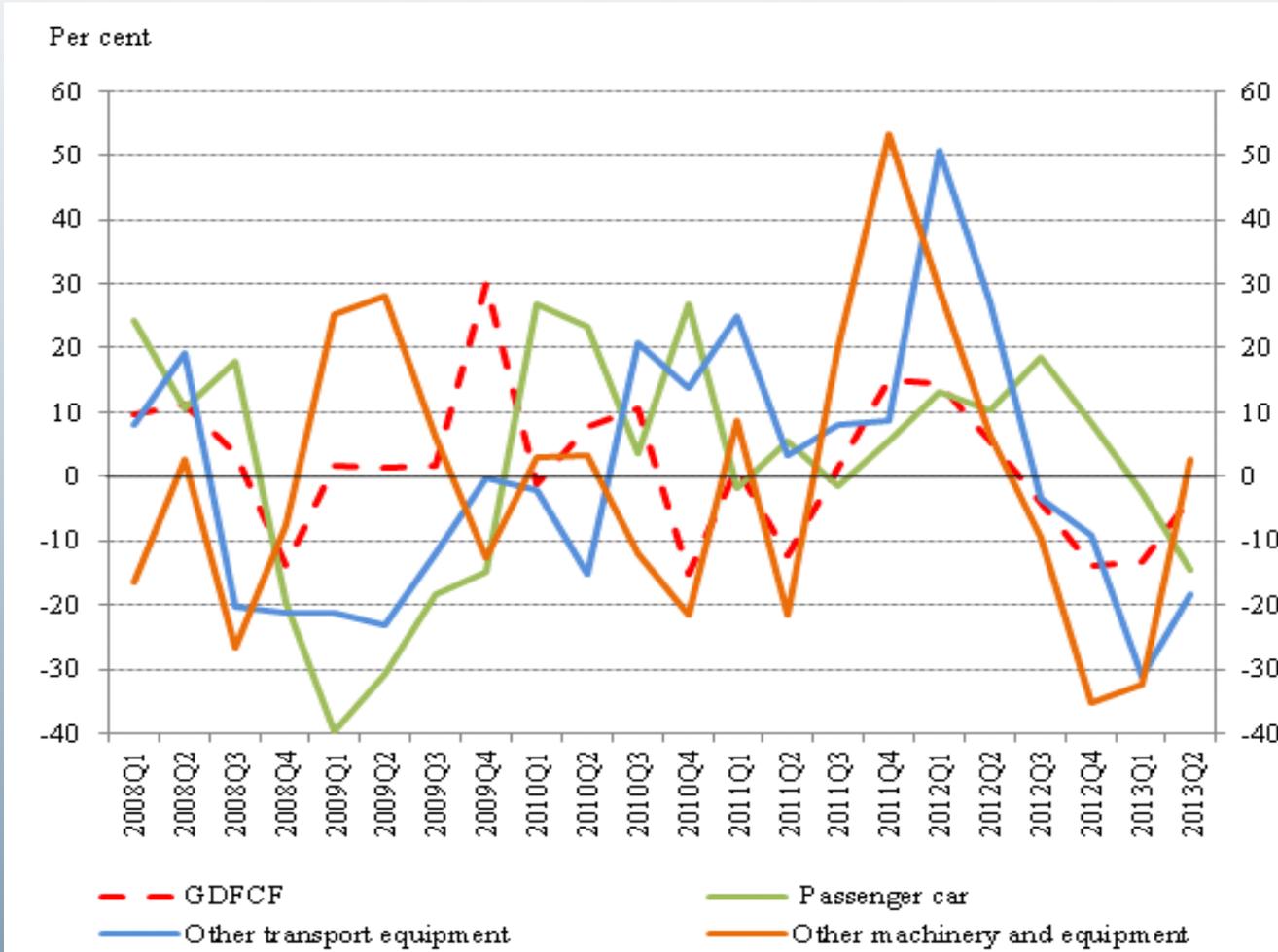
# Domestic Demand



# Investment

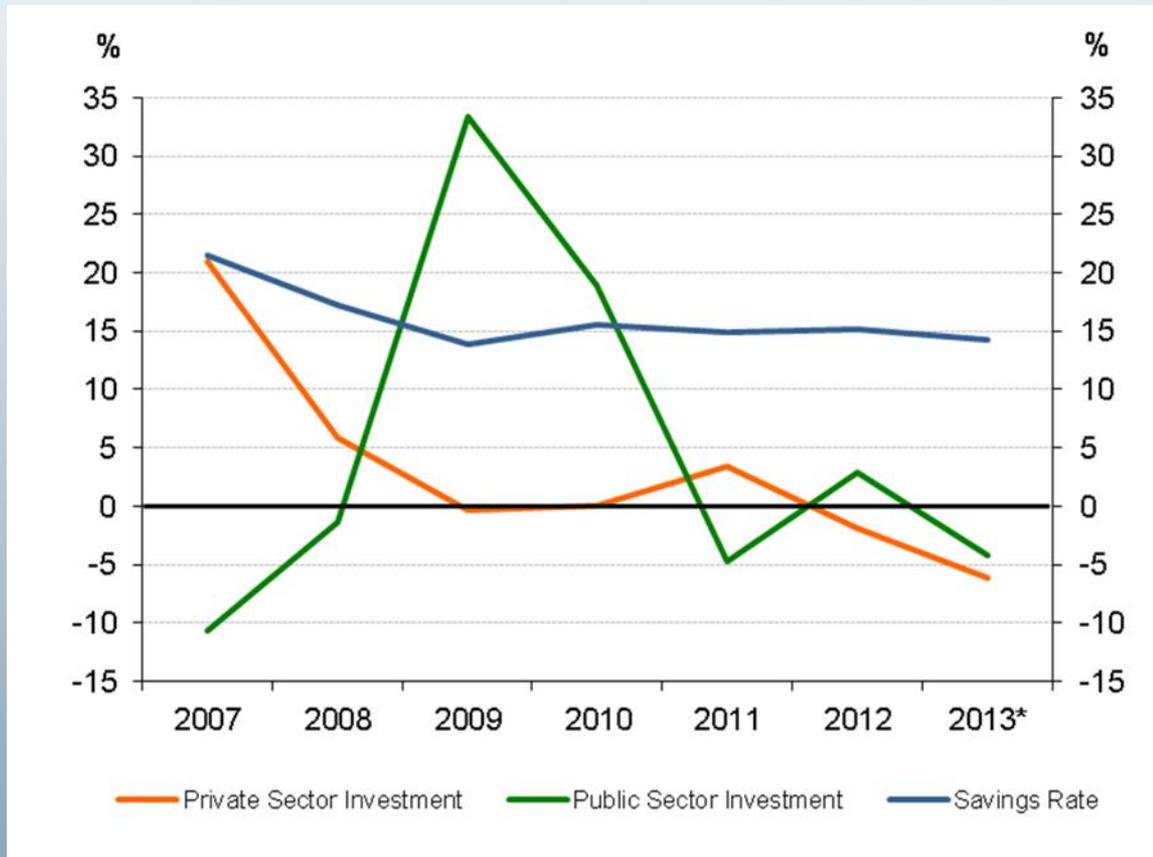


# Investment



# GDFCF

(exclusive of aircraft and marine vessel)

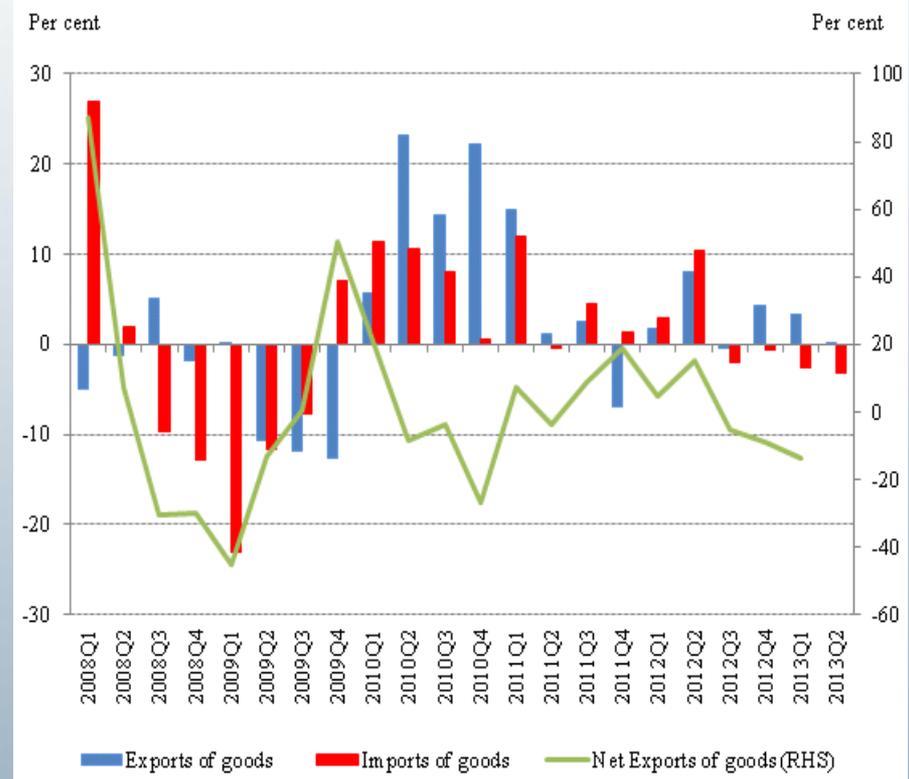
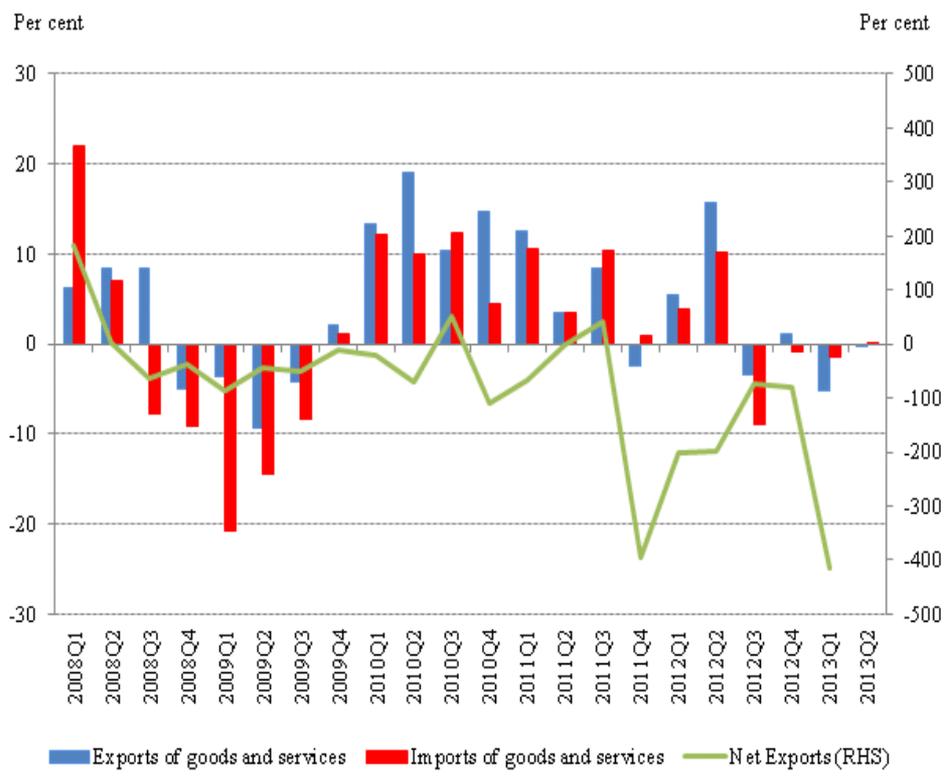


- Private sector investment revised lower for 2013: contraction of 6.1% expected compared to earlier estimate of 1.3% decline.
- Public sector investment forecast to contract by 4.2% compared to earlier estimate of 8.8% decline.
- Savings rate projected lower at 14.2%, from 14.8% earlier

2013\* – Forecast



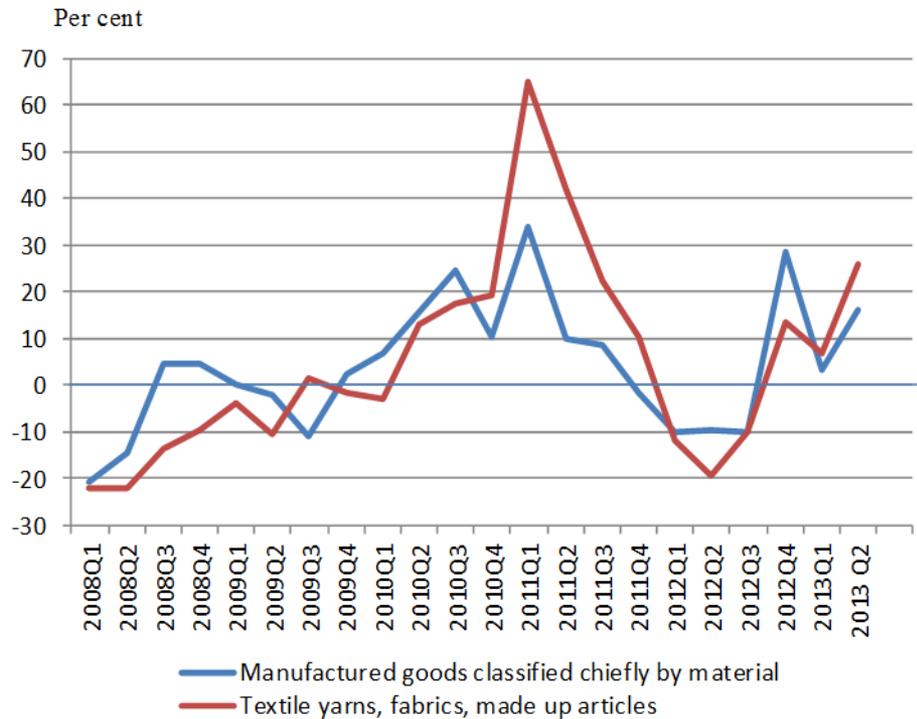
# External Trade



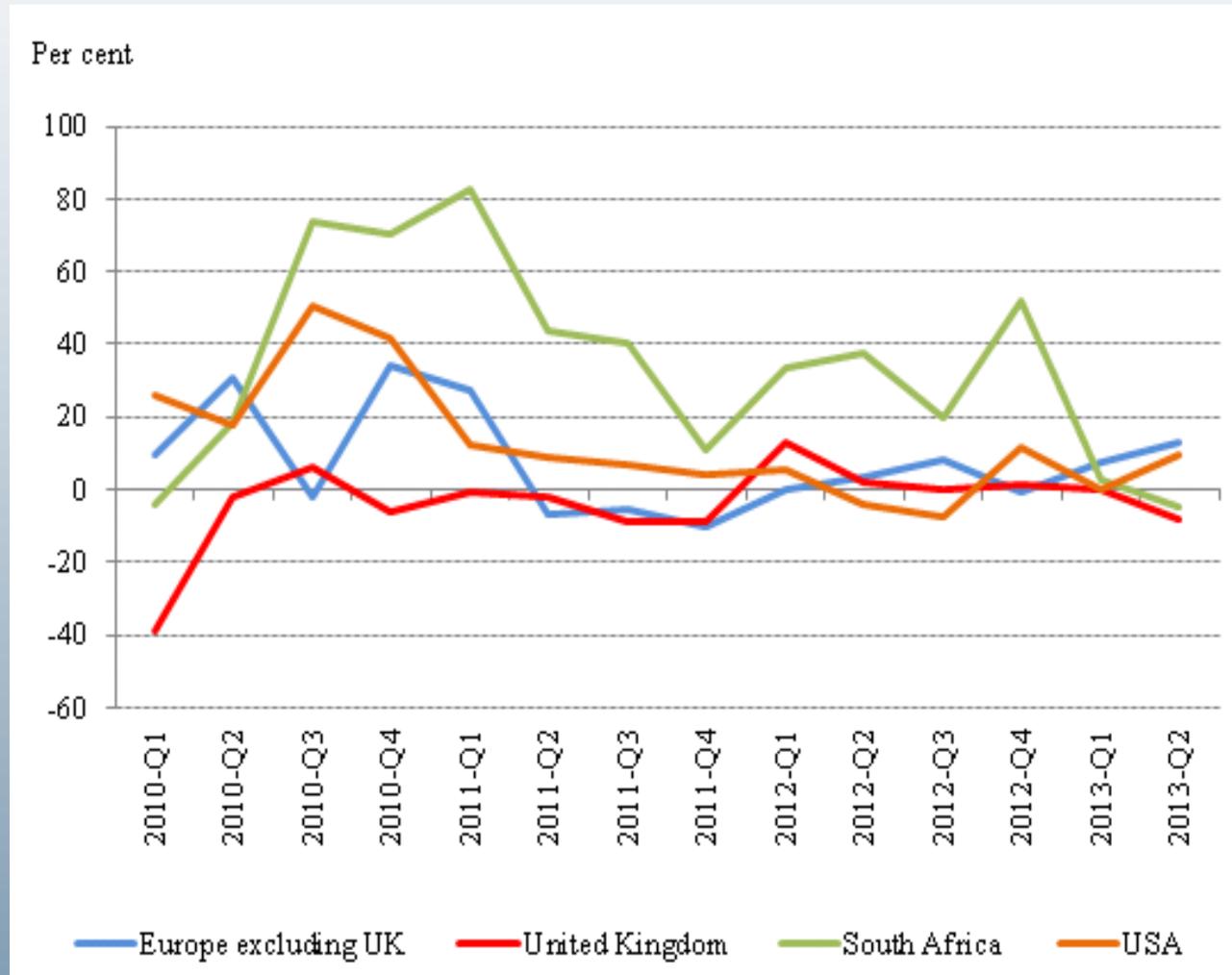
Year-on-year Nominal Growth Rate						(Per cent)
	2009	2010	2011	2012	2013	2013H1
<b>Exports<sup>^</sup></b>	-4.8	10.4	0.6	9.2	8.7	4.4
<b>Imports</b>	-10.4	13.9	9.6	8.9	8.7	-1.8

<sup>^</sup> Excluding ships' stores and bunkers

# External Trade: Exports

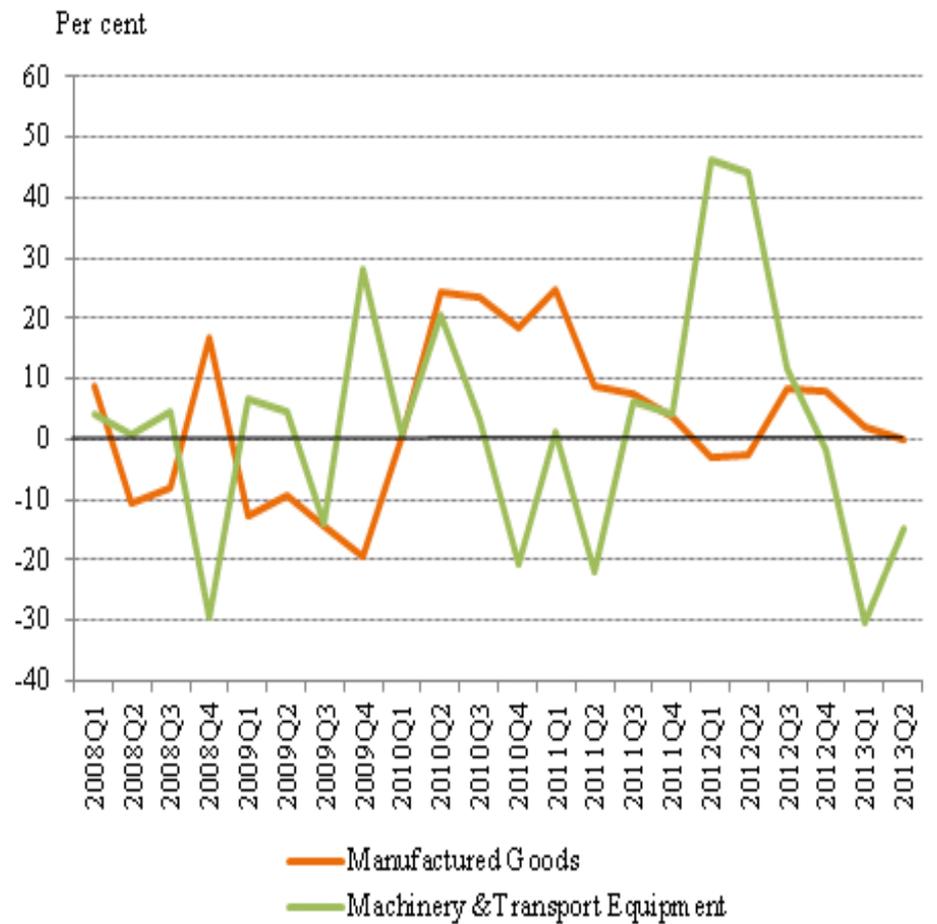
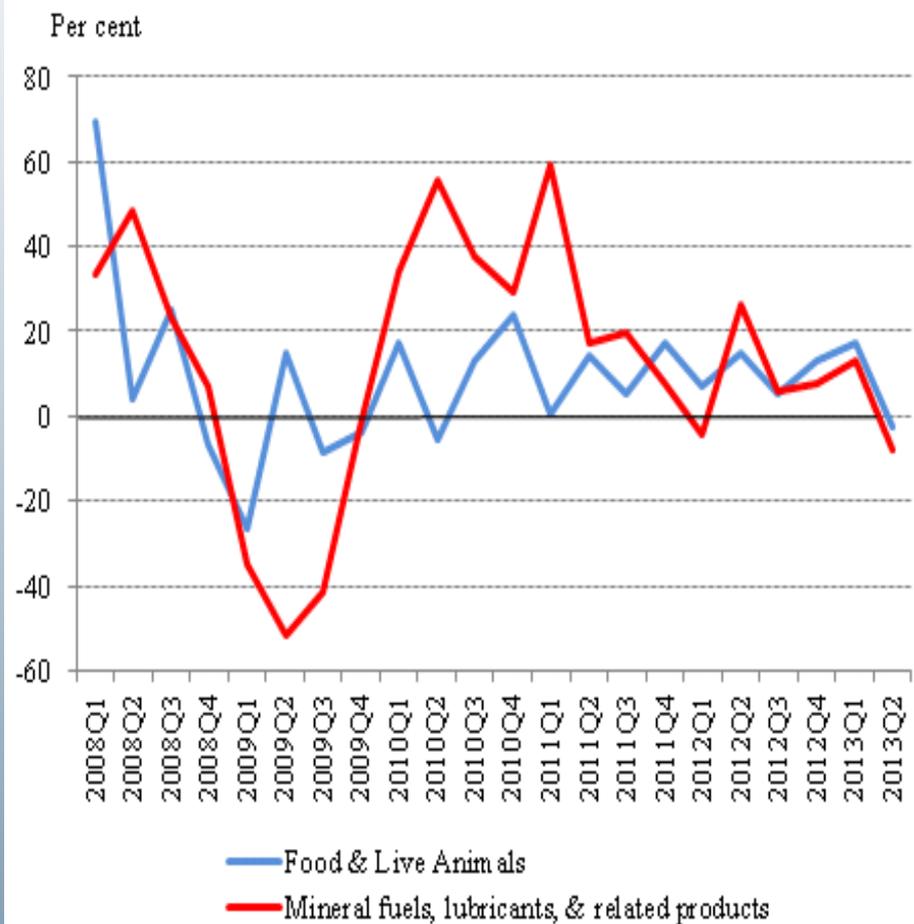


# External Trade: Exports





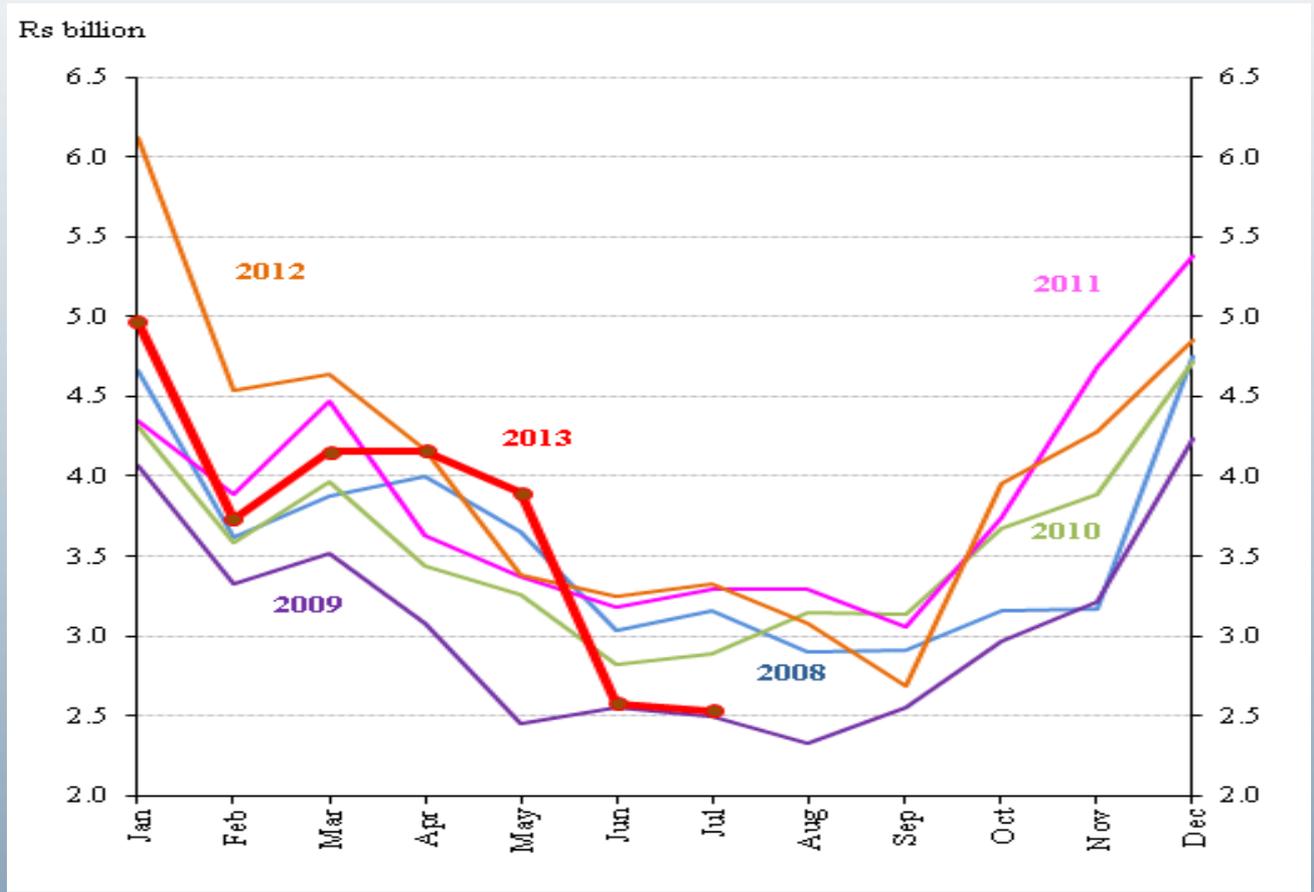
# External Trade: Imports



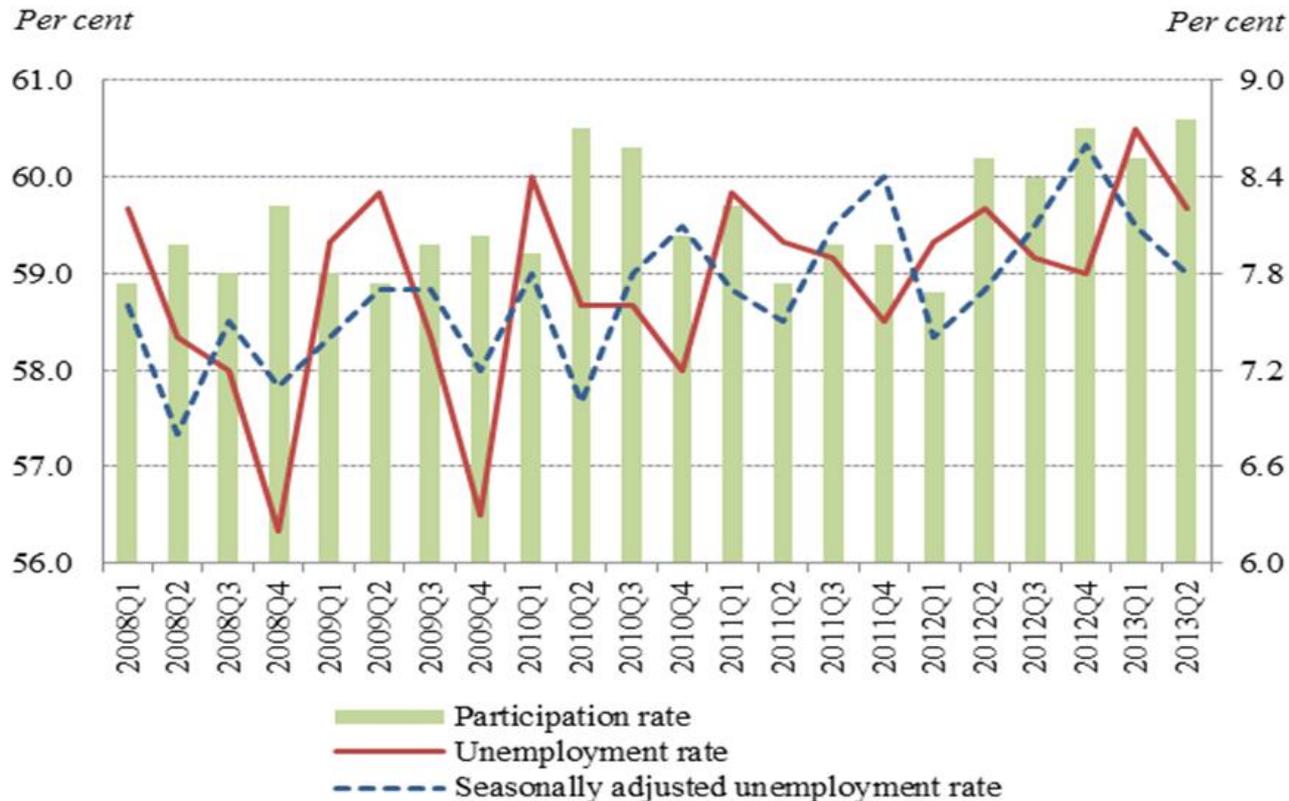




# Tourist Earnings



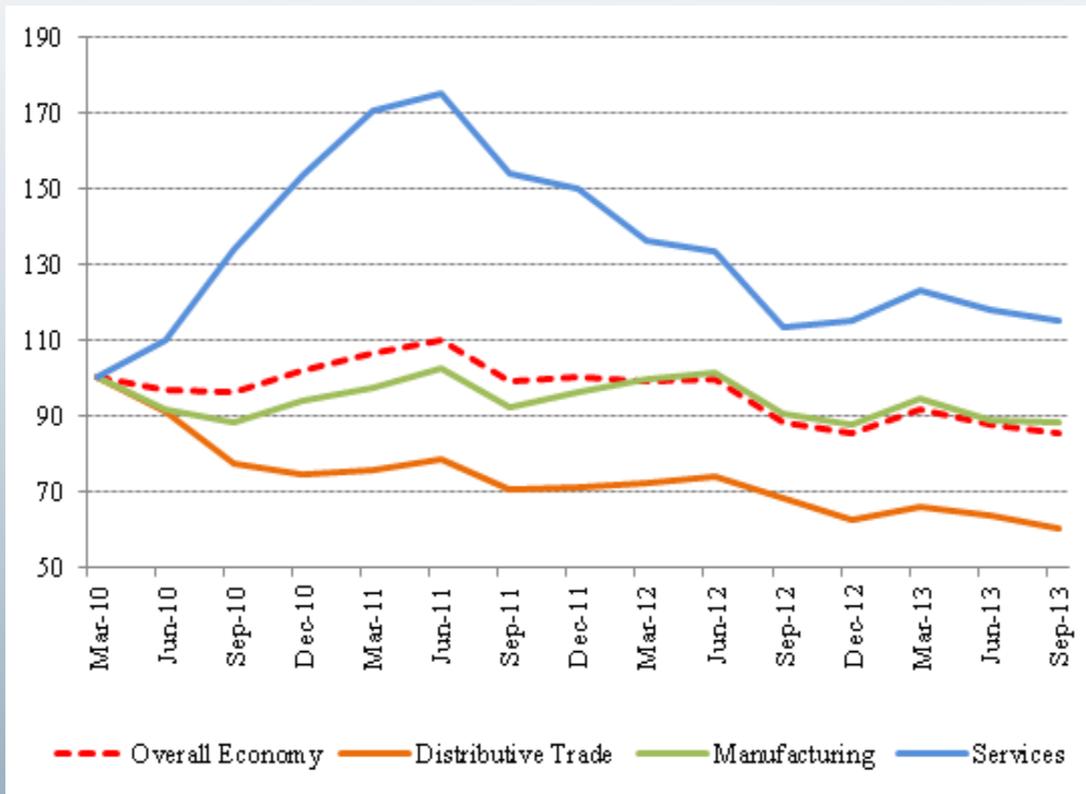
# Labour Market



	2012Q2	2013Q1	2013Q2
Unemployment rate (%)	8.2	8.7	8.2
Unemployment rate SA (%)	7.7	8.1	7.8

# MCCI Business Confidence Index

(September 2013)



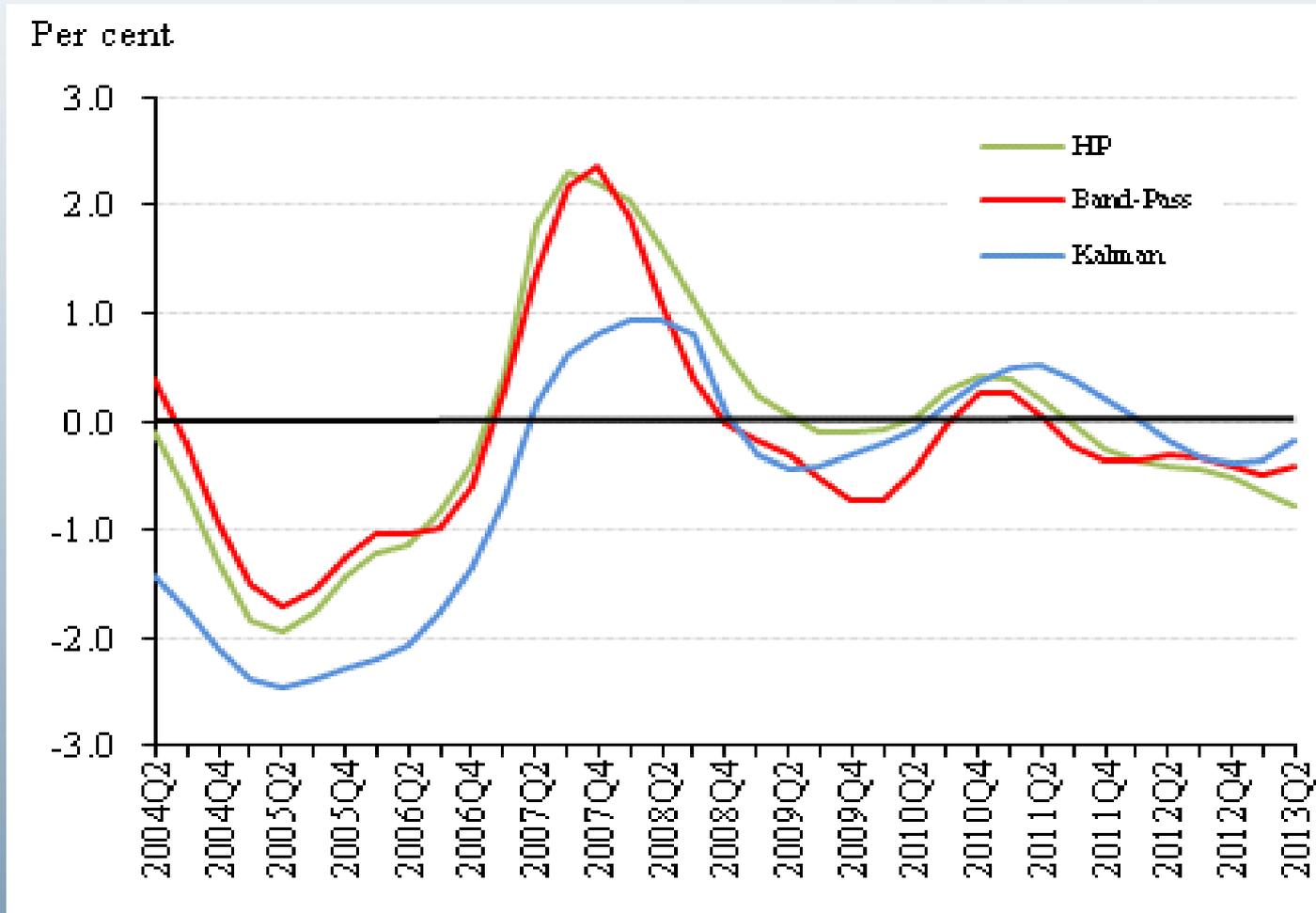
- Decline for 2<sup>nd</sup> consecutive quarter to 85.1 (↓ 2.4 points)
  - All three sectors down
  - Main factors: instability in the global environment and fierce competition on the local market
  - 12% planning to increase their investment level over the next twelve months
  - 11% considering recruiting whereas 13% contemplating to lay off workers
- 
- Despite two successive quarters of decline, a reversal in economic conditions still possible and prospects of the Mauritian economy could be brighter in 2013Q4.

# PluriConseil Barometer



May-13	September-13
<ul style="list-style-type: none"> <li>• <b>Increased pessimism compared to April 2013 (70% in May 2013)</b> <ul style="list-style-type: none"> <li>➢ <b>Investment not very promising</b></li> <li>➢ <b>Tourism not looking up</b></li> <li>➢ <b>Demand low for other sectors</b></li> </ul> </li> <li>• <b>47% believed growth in 2013 in the range 3.3 – 3.4%; 47% believed growth at 3.2% or below.</b></li> <li>• <b>57% believed unemployment rate will increase in the range 8.2-8.3% in 2013; 40% believed it would be 8.4% or more; 3% believed it would be 8.1% or less.</b></li> <li>• <b>60% expected the dollar to appreciate. 47% expected the euro to stay rather stable while 63% expected the Pound sterling to stay rather stable.</b></li> <li>• <b>73% believed that inflation will not rise above 4.5% for the year ending December 2013.</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>Increased pessimism (67% in September 2013 against 63% in August 2013)</b> <ul style="list-style-type: none"> <li>➢ <b>The absence of clear and comprehensive signals that will indicate a wide-ranging reform of the Mauritian economy in view of its intrinsic structural inefficiencies</b></li> <li>➢ <b>Fear that the new budget measures will focus on poverty alleviation and less on economic strategies</b></li> </ul> </li> <li>• <b>70% believed growth in 2013 in the range 3.1 – 3.2%; 20% believed growth at 3.0% or below.</b></li> <li>• <b>57% believed unemployment rate will increase in the range 8.4-8.5% in 2013; 27% believed it would be 8.6% or more; 17% believed it would be 8.3% or less.</b></li> <li>• <b>57% expected the dollar to appreciate. 40% expected the euro to stay rather stable while 67% expected the Pound sterling to stay rather stable.</b></li> <li>• <b>50% believed that inflation will not rise above 4.0% for the year ending December 2013.</b></li> </ul>

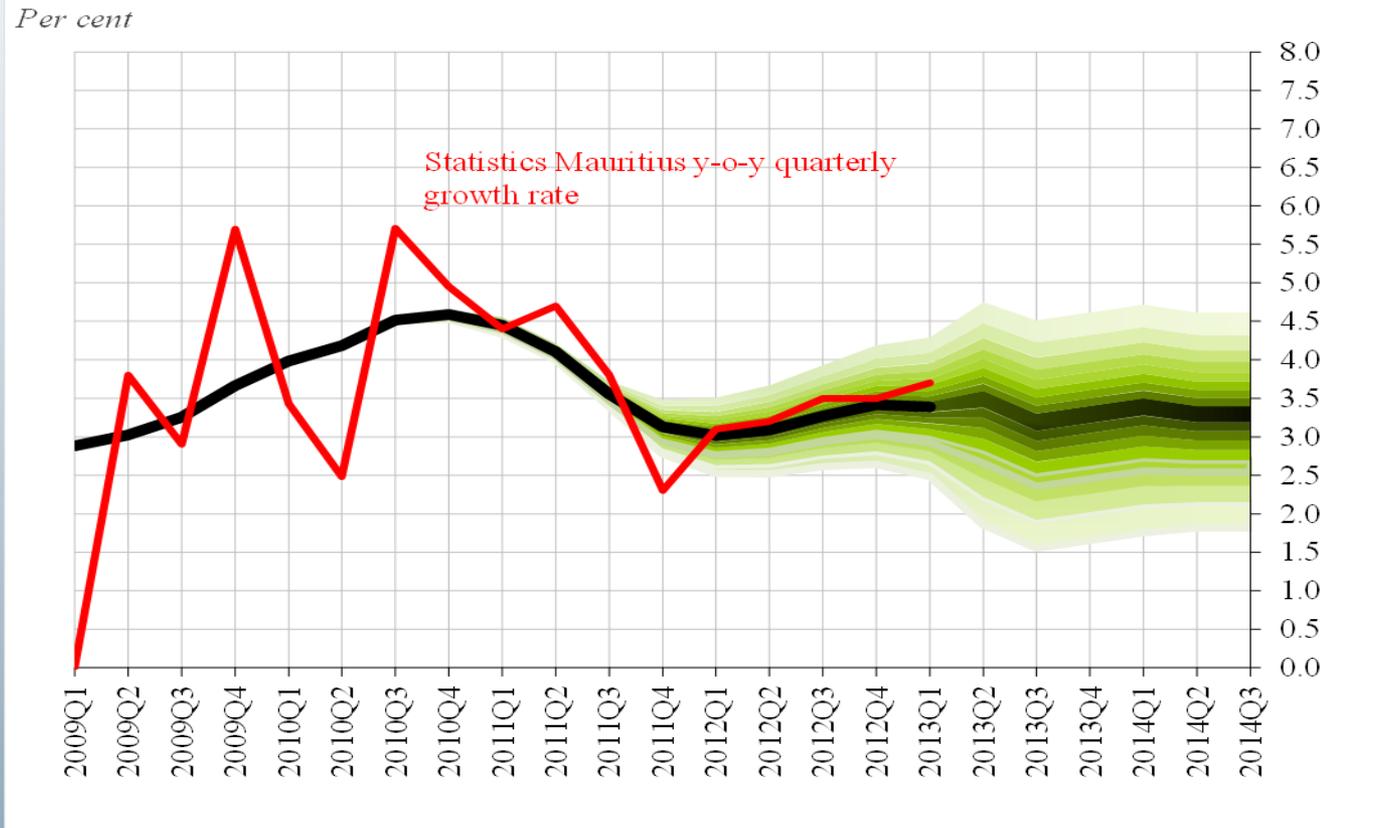
# Output Gap





# OUTLOOK

# Growth Forecast



- Growth forecast for 2013: 3.1-3.5%
- Preliminary estimate for 2014: same range but slight upward potential

# Risks to Growth



## ➤ Upside Risks

- Acceleration of activity in main trading partners
  - *Higher external demand*
  - *Return of business confidence domestically*
  - *Higher private investment*

## ➤ Downside Risks

- Renewed weakness in global growth
  - *Recent recovery in Eurozone not sustained*
  - *Emerging markets slowdown pulls down global economy more than expected*
- Tight fiscal policy – cutbacks in Government spending



Thank you