



# **Monetary Policy Committee**

## **Economic Developments and Outlook**

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# Main Points



- Pick-up in global growth in 2014
  - Widening regional differences
  - Low global inflation – subdued commodity prices
- International developments supportive of domestic growth
- Upside risks have increased but downside risks persist
  - External demand shocks
  - Domestic demand shocks



# External Environment

# World Economic Outlook: Faster growth

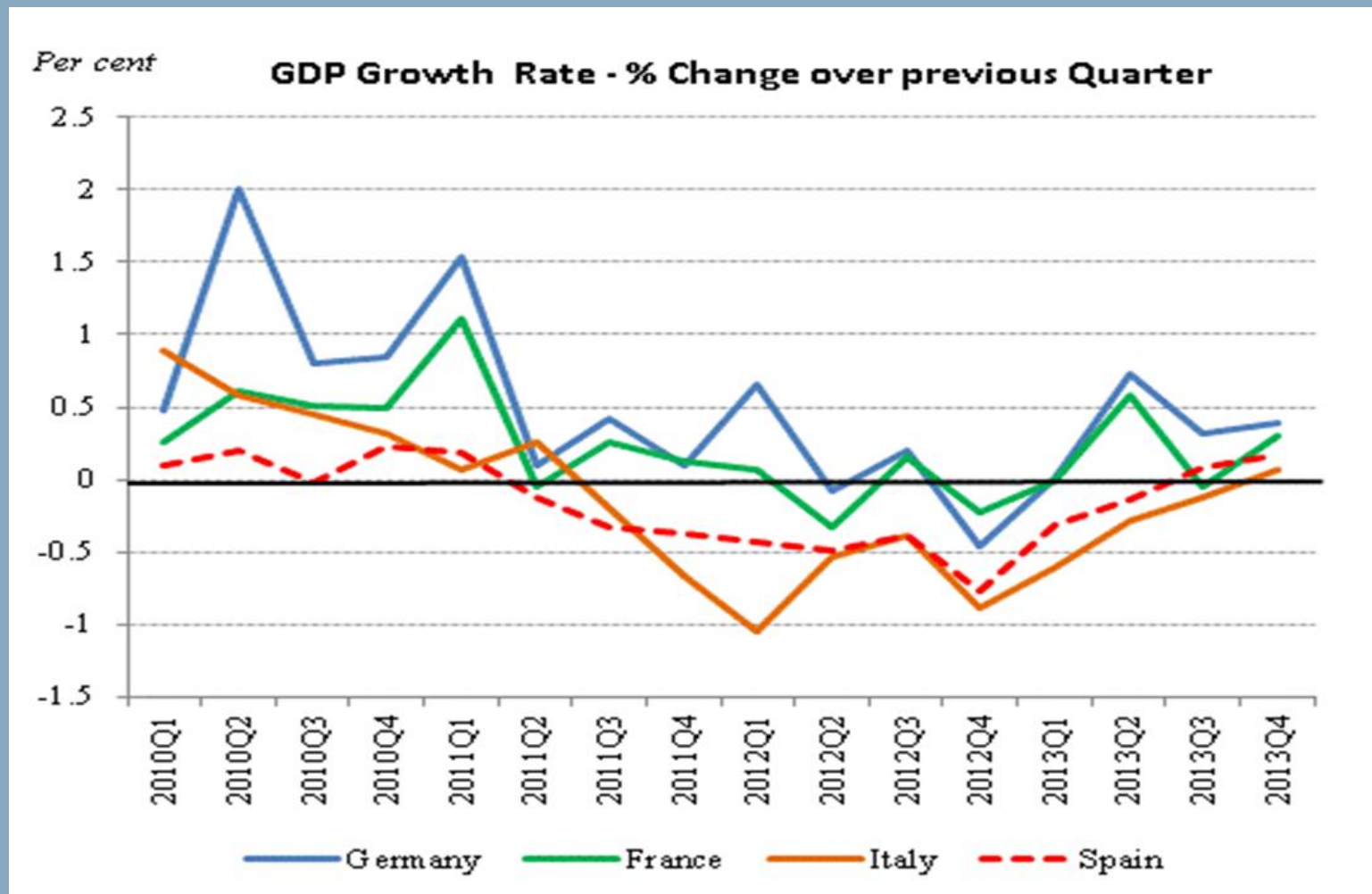


*Per cent*

			April 2014 WEO Projections		Difference January WEO Update Projections	
	2012	2013	2014	2015	2014	2015
<b>World output</b>	<b>3.2</b>	<b>3.0</b>	<b>3.6</b>	<b>3.9</b>	<b>-0.1</b>	<b>-0.1</b>
<b>Advanced economies</b>	<b>1.4</b>	<b>1.3</b>	<b>2.2</b>	<b>2.3</b>	<b>0.0</b>	<b>0.0</b>
<i>of which</i>						
United States	2.8	1.9	2.8	3.0	0.0	0.0
Euro Area	-0.7	-0.5	1.2	1.5	0.1	0.1
United Kingdom	0.3	1.8	2.9	2.5	0.4	0.3
Japan	1.4	1.5	1.4	1.0	-0.3	0.0
<b>Other</b>						
<b>Emerging market and developing economies</b>	<b>5.0</b>	<b>4.7</b>	<b>4.9</b>	<b>5.3</b>	<b>-0.2</b>	<b>-0.1</b>
Sub Saharan Africa	4.9	4.9	5.4	5.5	-0.7	-0.3
Developing Asia	6.7	6.5	6.7	6.8	0.0	0.0
<i>of which</i>						
China	7.7	7.7	7.5	7.3	0.0	0.0
India	4.7	4.4	5.4	6.4	0.0	0.0

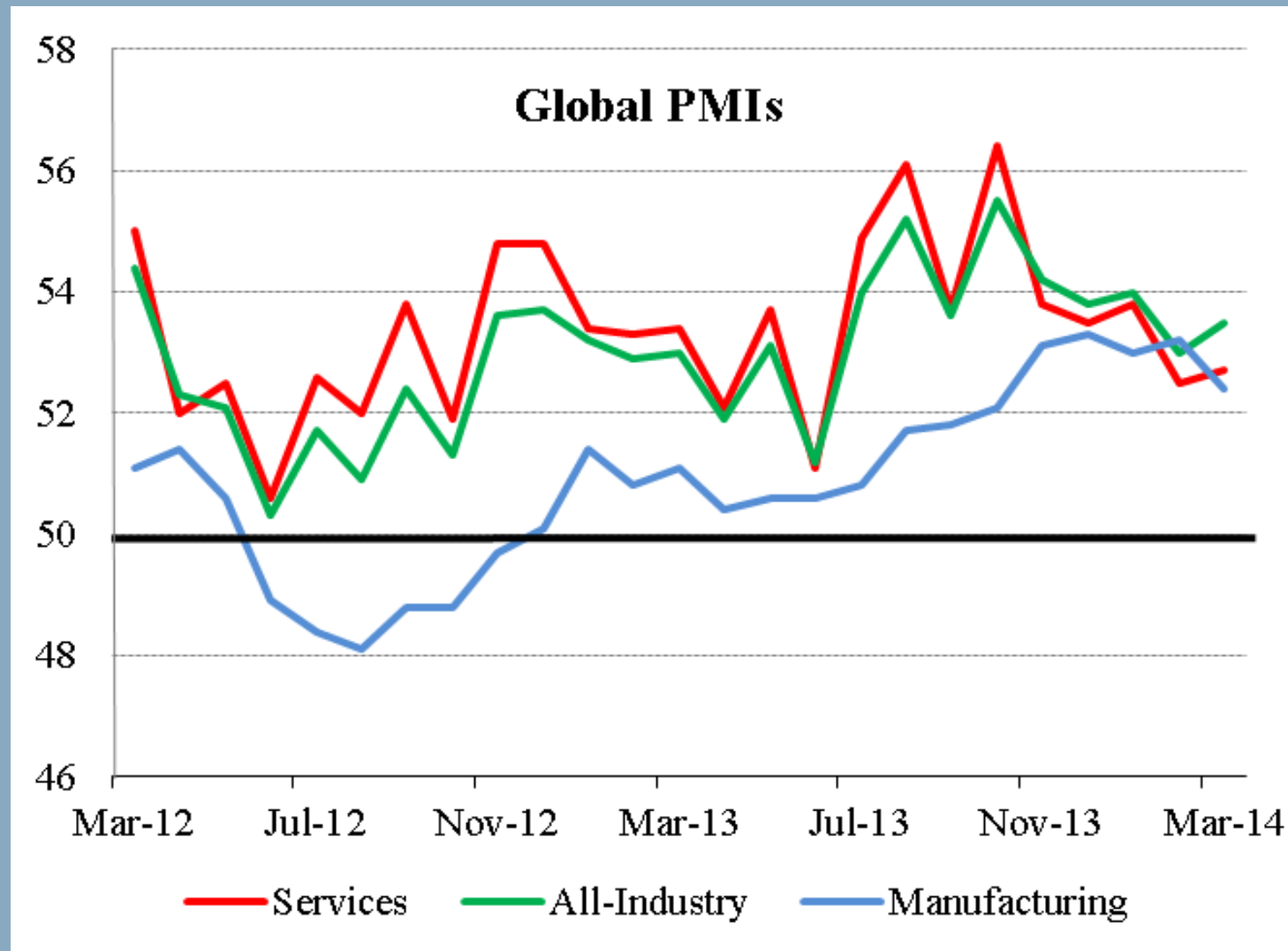
Source: International Monetary Fund's World Economic Outlook, April 2014.

# Pick-up in Eurozone



Source: Reuters.

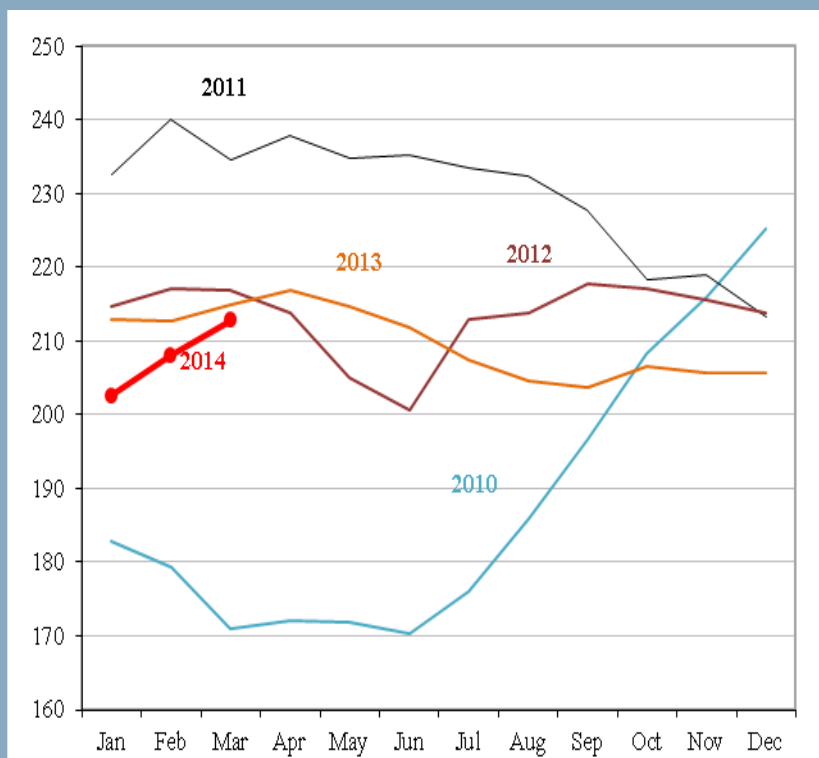
# Expansionary near-term outlook



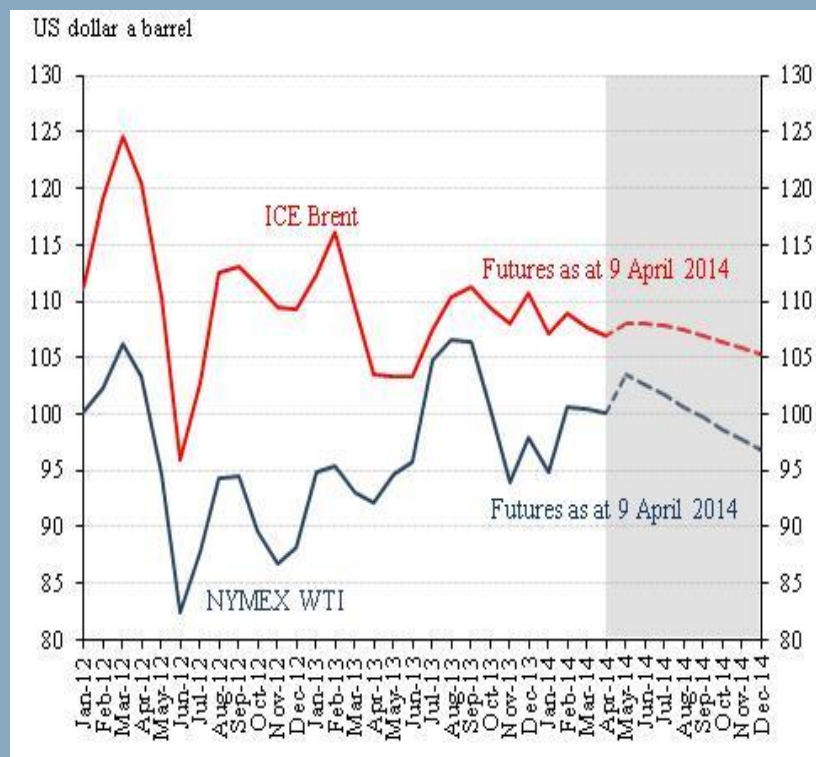
Source: JP Morgan..

# Food and Oil Prices

## FAO Food Price Index



## Oil Prices



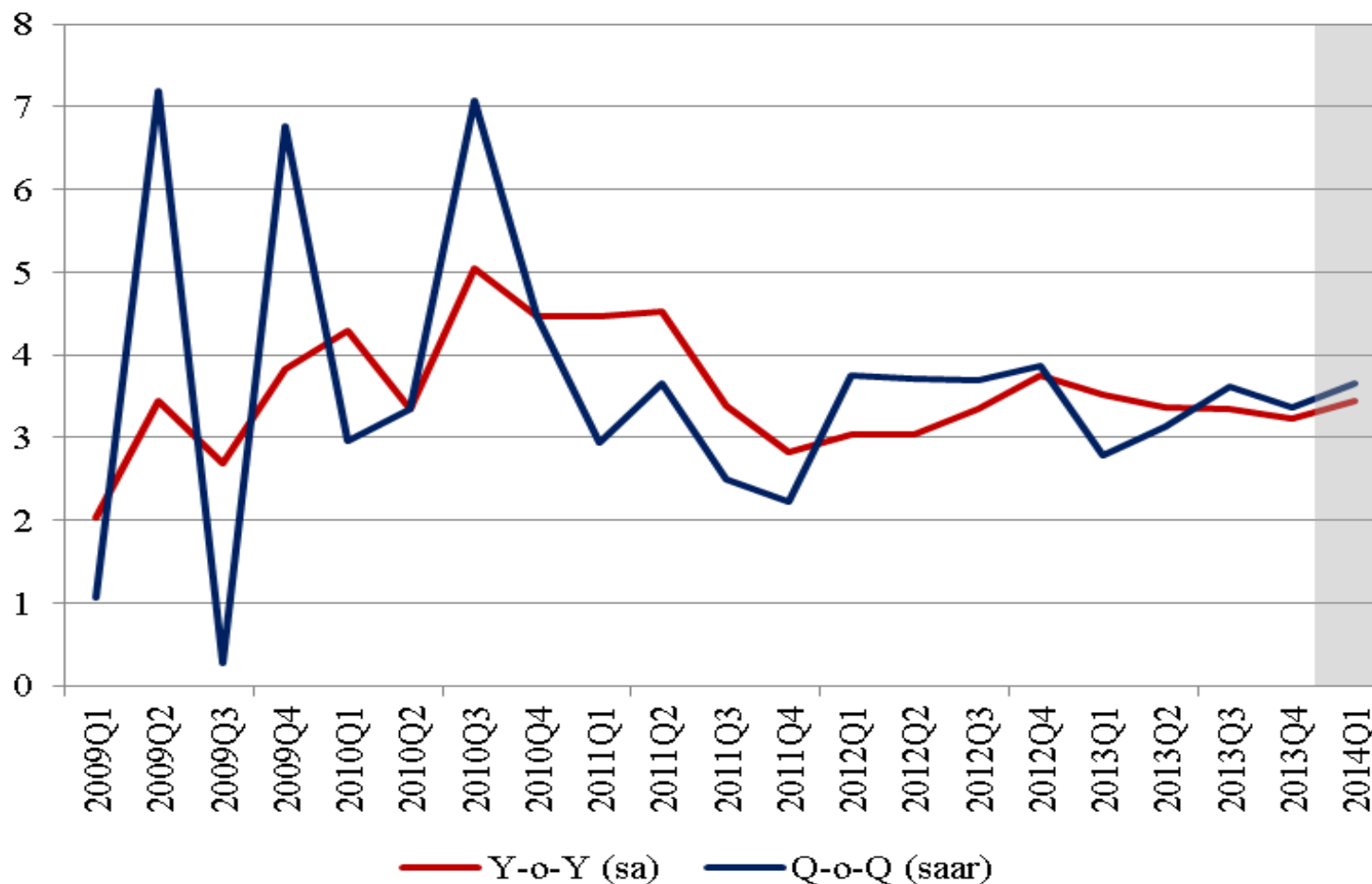
EIA Forecast for Brent crude oil prices:  
\$104.9 a barrel in 2014.

Sources: FAO and Reuters.

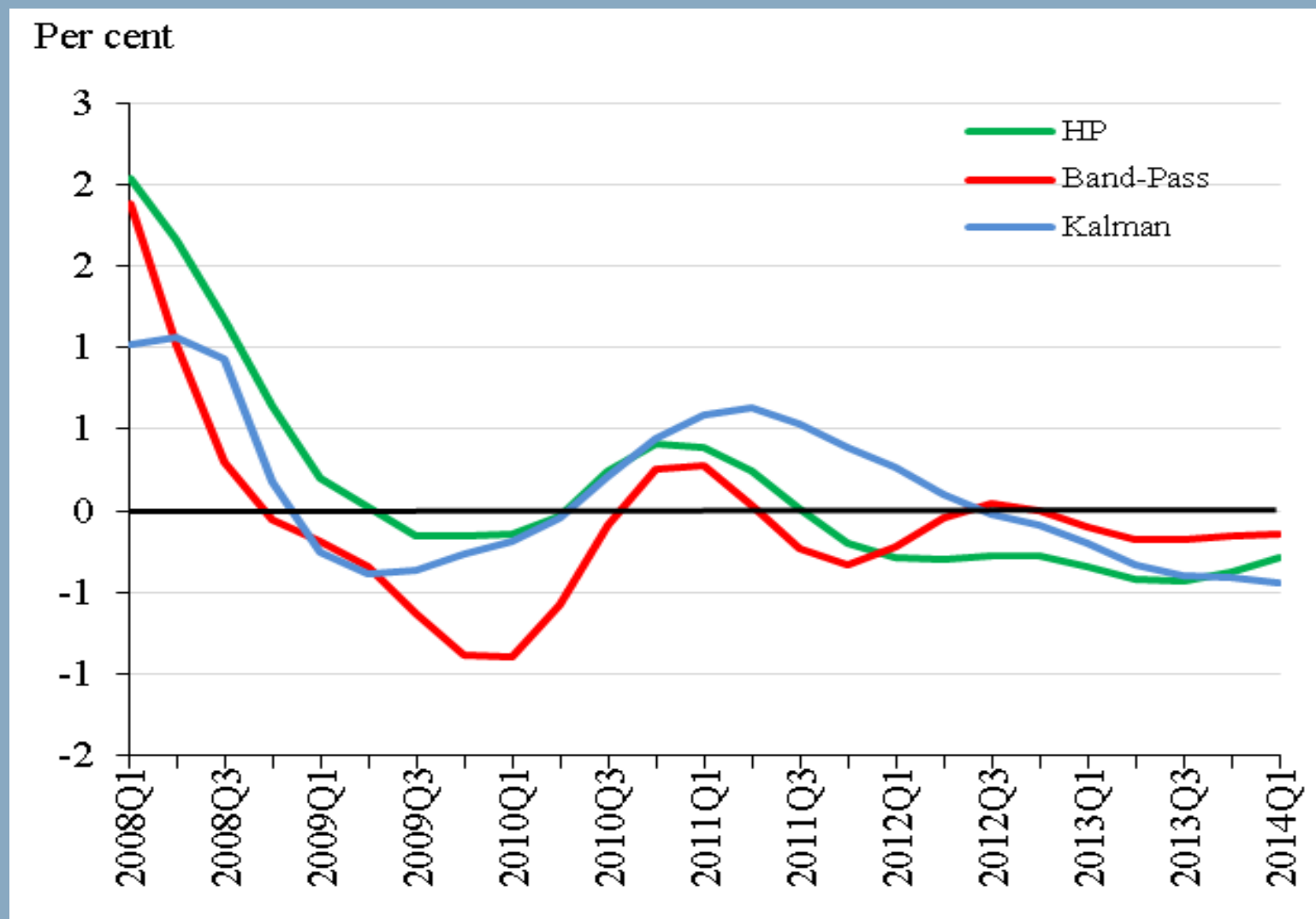
# Developments in the domestic economy since the last MPC meeting

# Slower growth in 2013Q4 but slight pick-up expected in 2014Q1

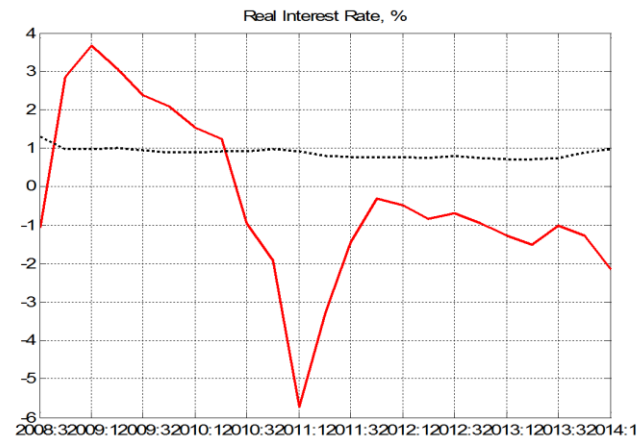
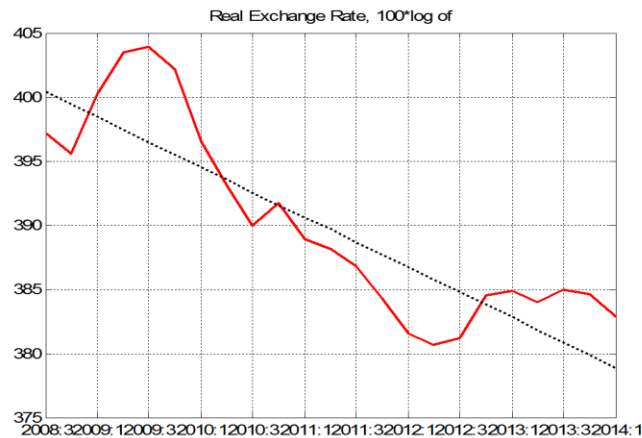
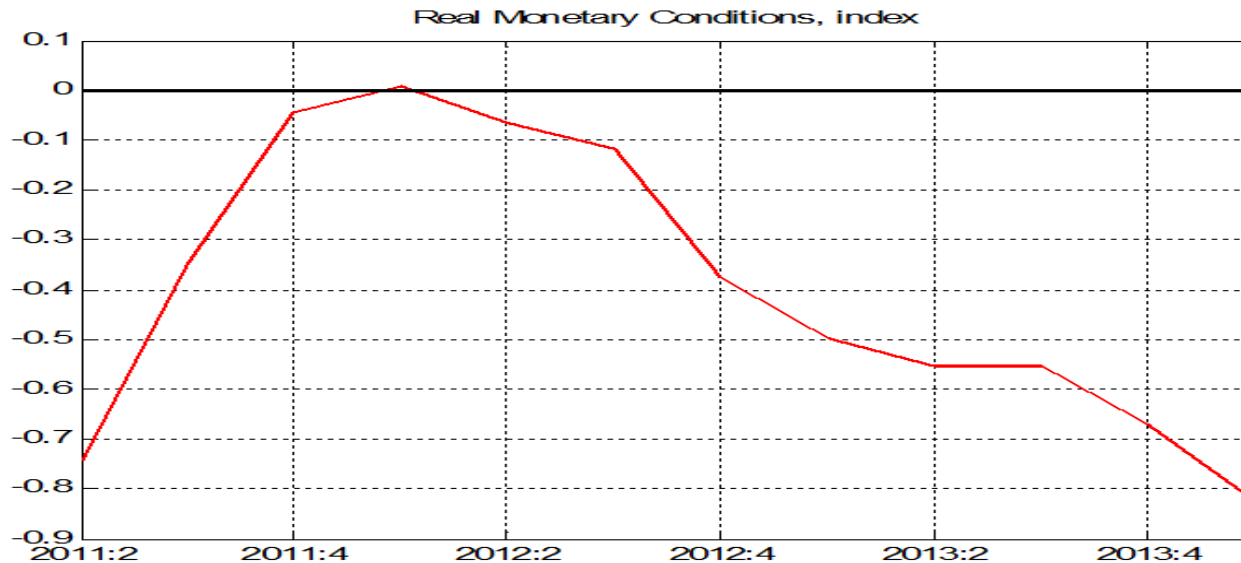
Per cent



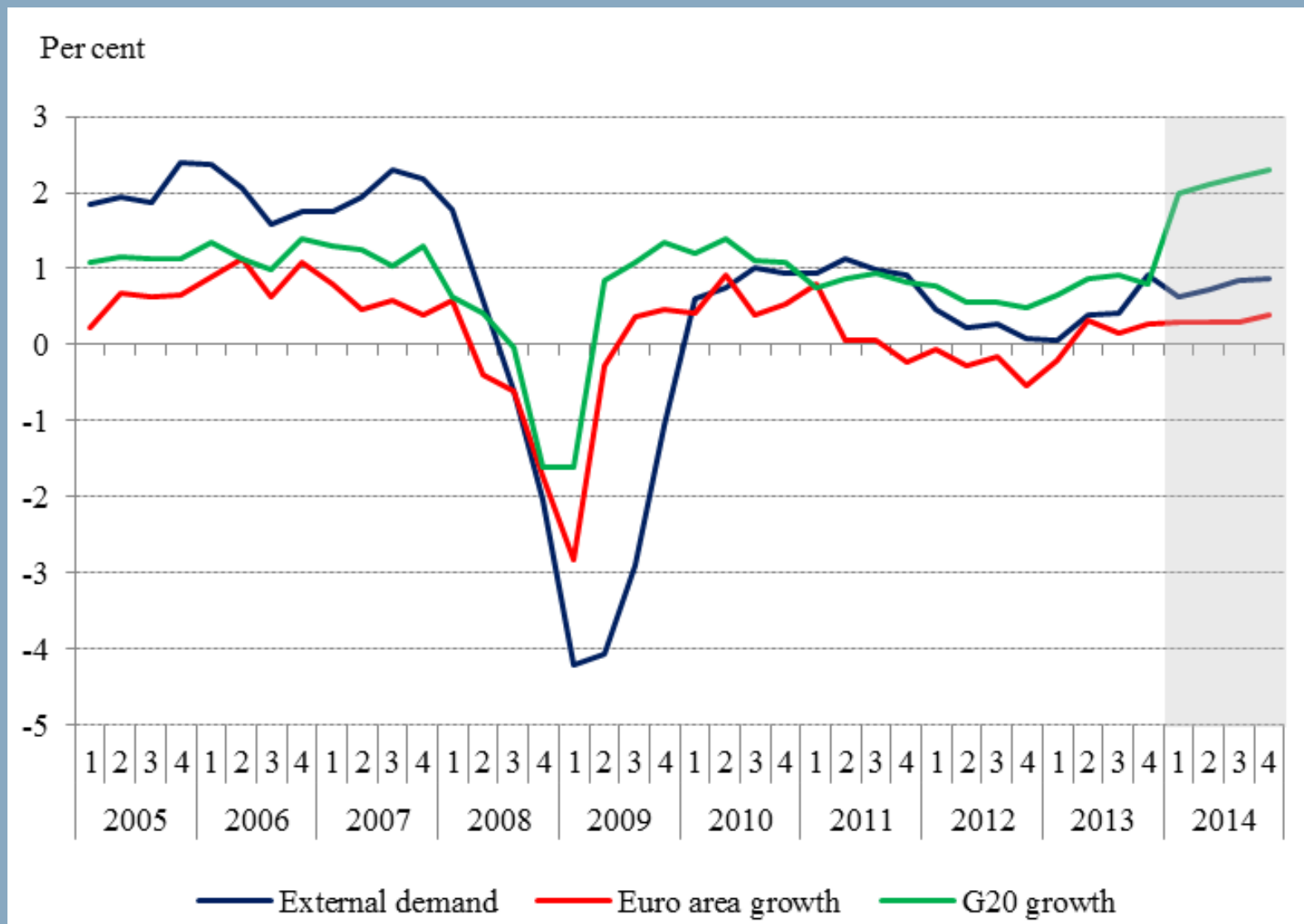
# Output gap close to zero, but still negative



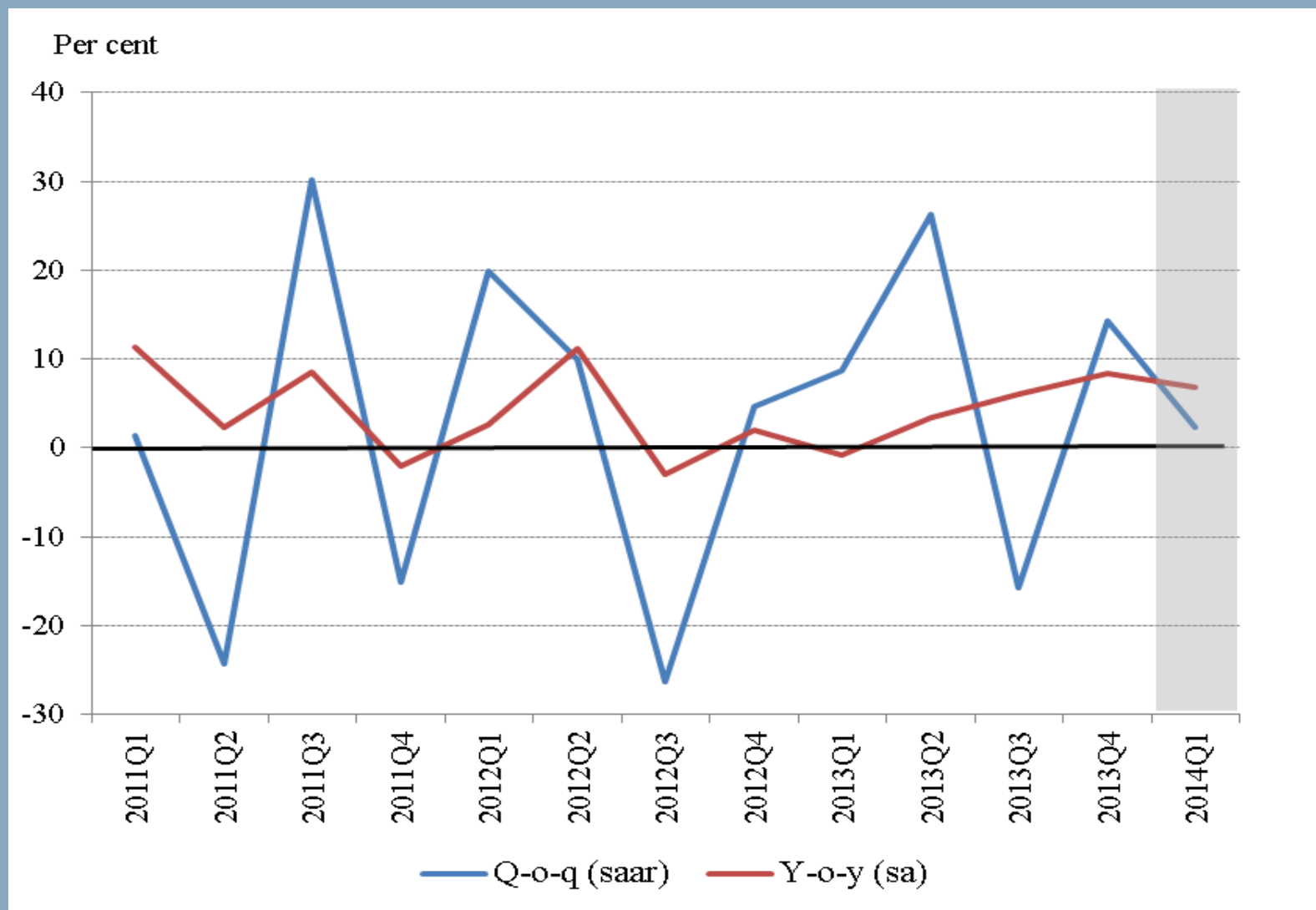
# Despite accommodative monetary conditions .....



# ..... output affected by subdued external demand



# Exports Growth rather moderate



# External Trade



## Exports

*Per cent*

	2011Q4	2012Q4	2013Q4
<b>Europe</b>	-9.9	-0.9	-1.5
<i>of which</i>			
<i>UK</i>	-8.9	-0.8	-14.9
<i>France</i>	-32.3	0.2	3.4
<i>Italy</i>	33.1	-8.7	-25.8
<b>South Africa</b>	11.1	51.2	-22.4
<b>USA</b>	4.2	11.9	19.1
<b>Asia</b>	-24.8	69.4	116.9

## Imports

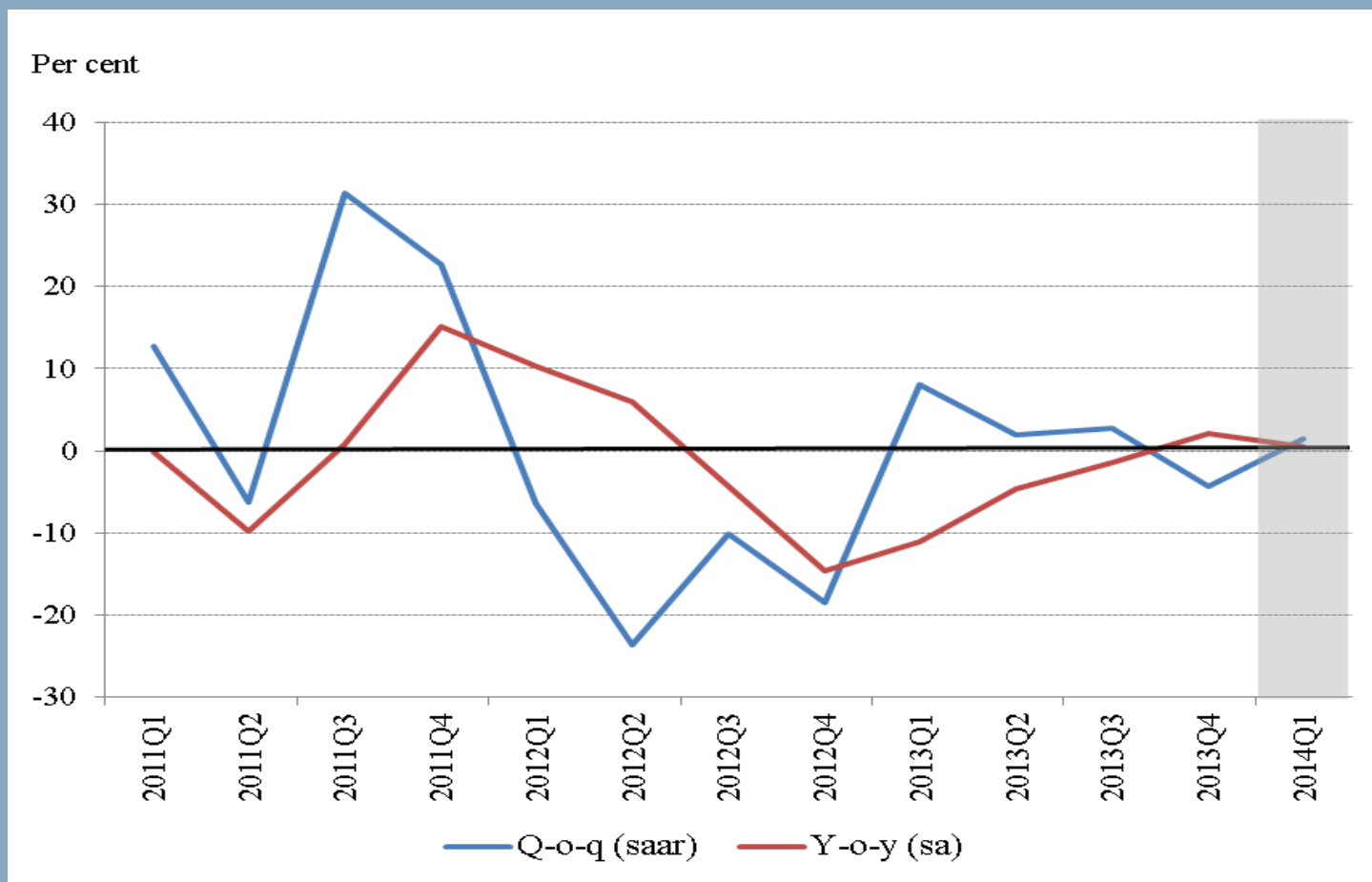
*Per cent*

	2011Q4	2012Q4	2013Q4
<b>India</b>	0.1	7.4	6.6
<b>China</b>	8.9	19.7	2.3
<b>France</b>	20.1	1.7	-6.4
<b>South Africa</b>	-22.6	29.0	-5.5
<b>Total imports</b>	22.4	6.2	5.5

*Per cent*

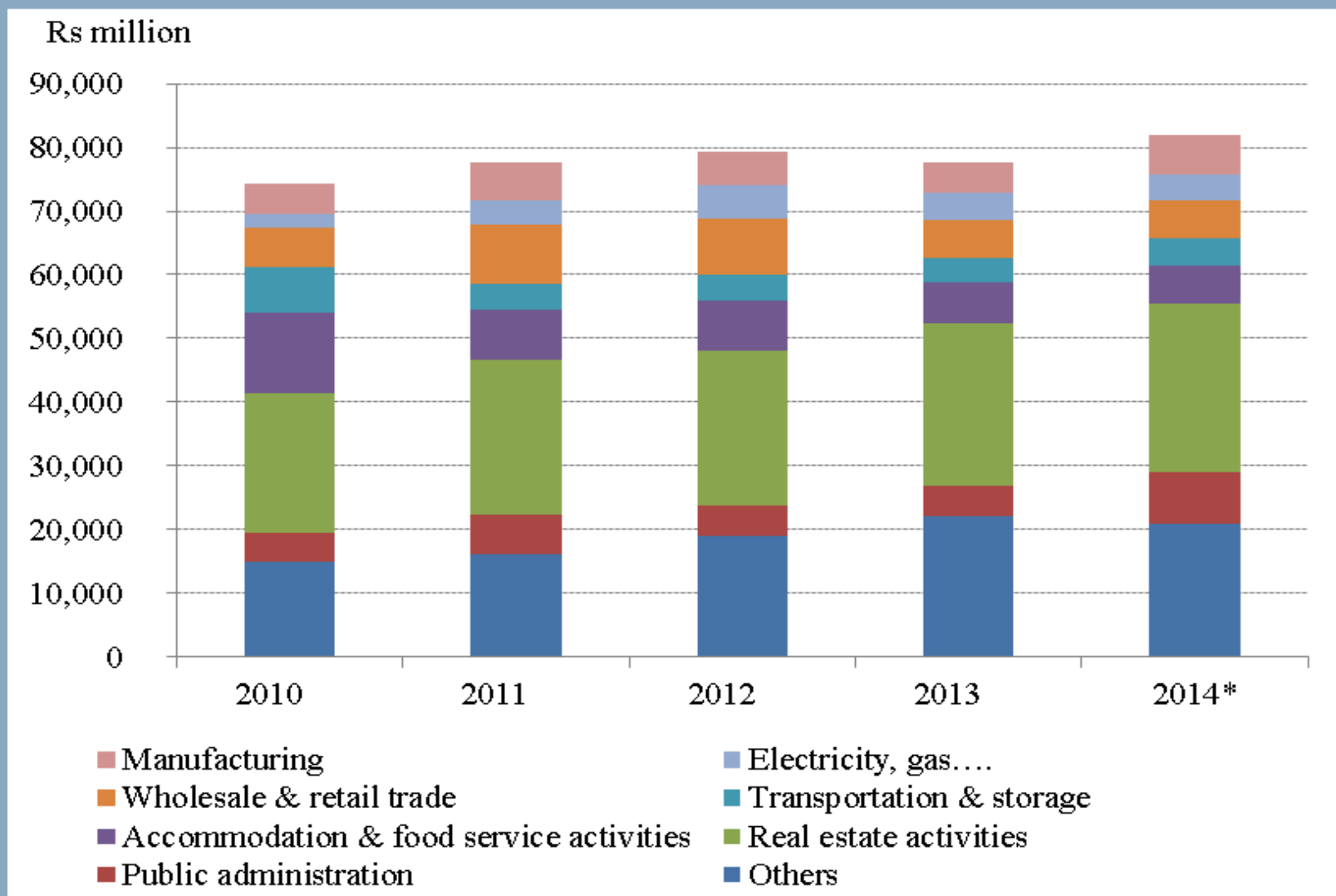
	2011Q4	2012Q4	2013Q4
<b>Total Exports</b>	-3.4	10.5	8.6
<i>excluding ships, stores &amp; bunkers</i>	-7.2	11.4	7.2
<b>Domestic Exports</b>	-4.8	9.1	-2.6
<b>Re-exports</b>	-18.6	23.4	53.6

# Low investment has also constrained growth

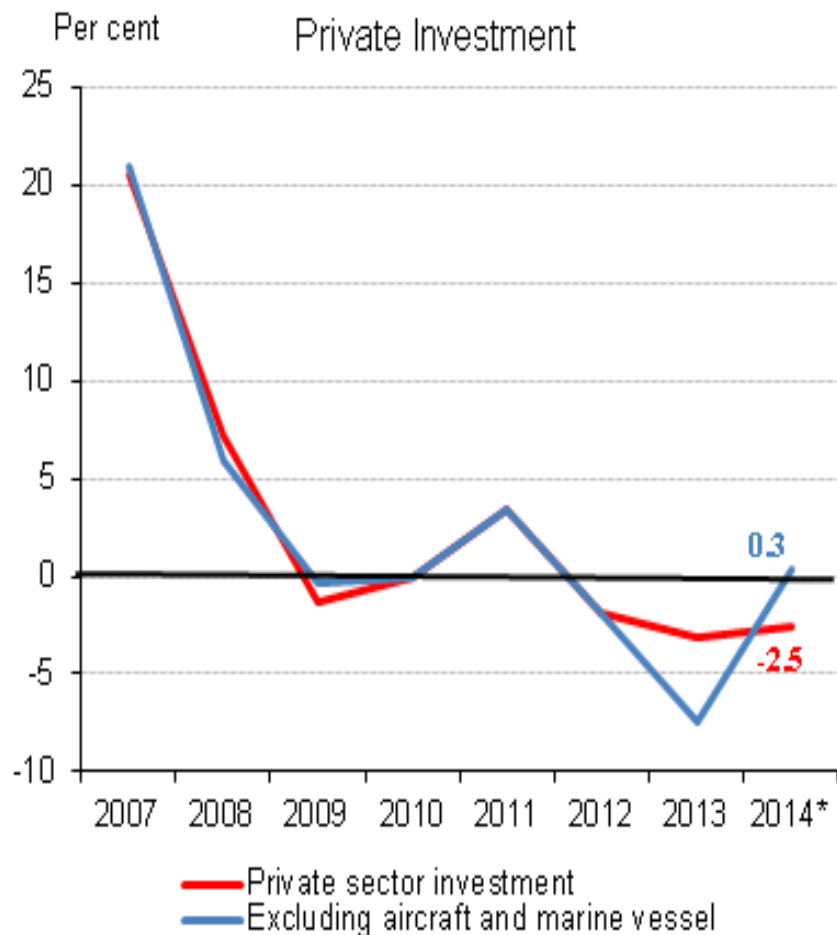


- Large contraction of 19.1% y-o-y in Building and Construction work in 2013Q4.
- Investment in Machinery and Equipment driven by purchase of marine vessels.
- GDFCF to grow by 1.2% in 2014, but to stagnate if aircraft and marine vessel excluded.

# Large share of investment in real estate

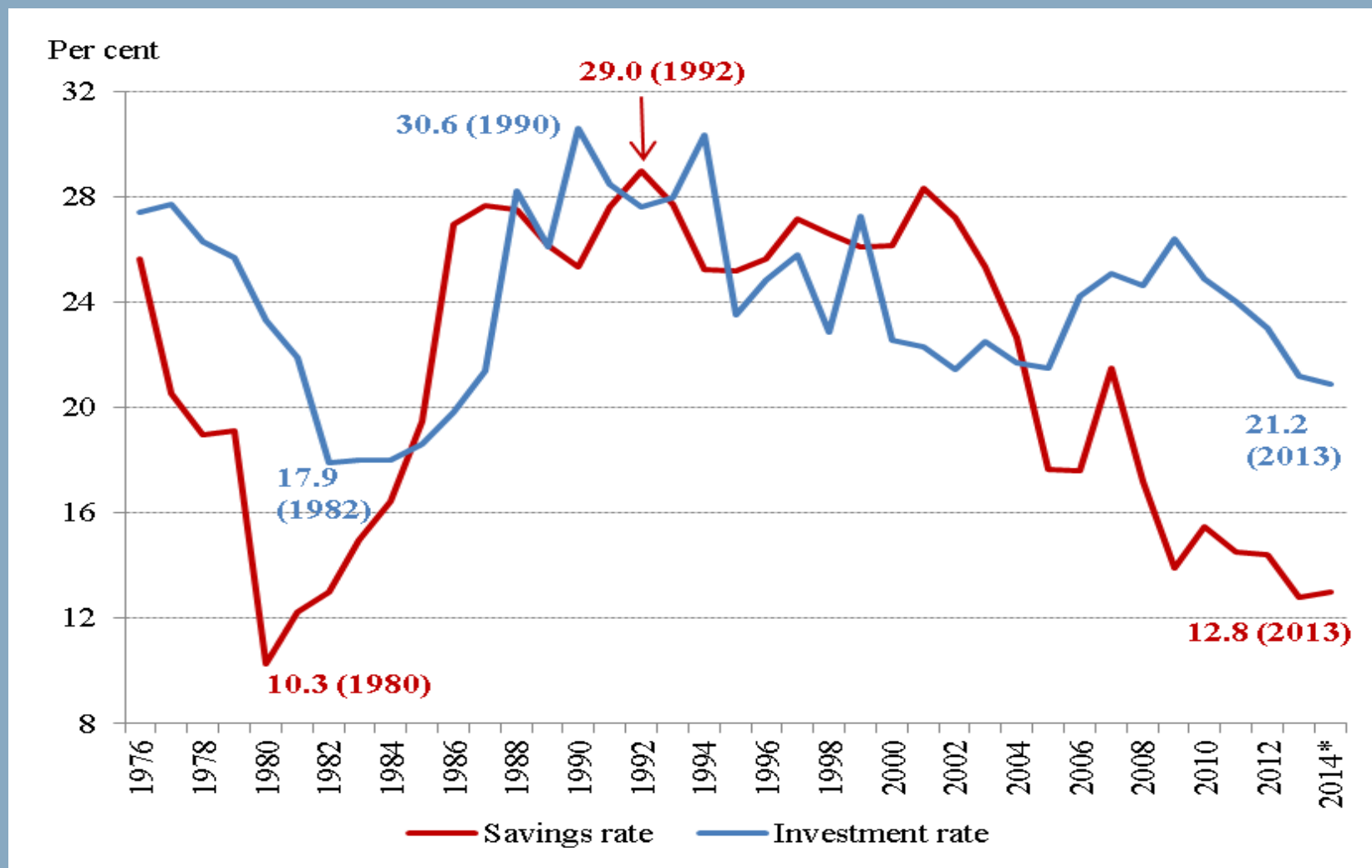


# Improvement in 2014 but no major lift to growth from public and private investment



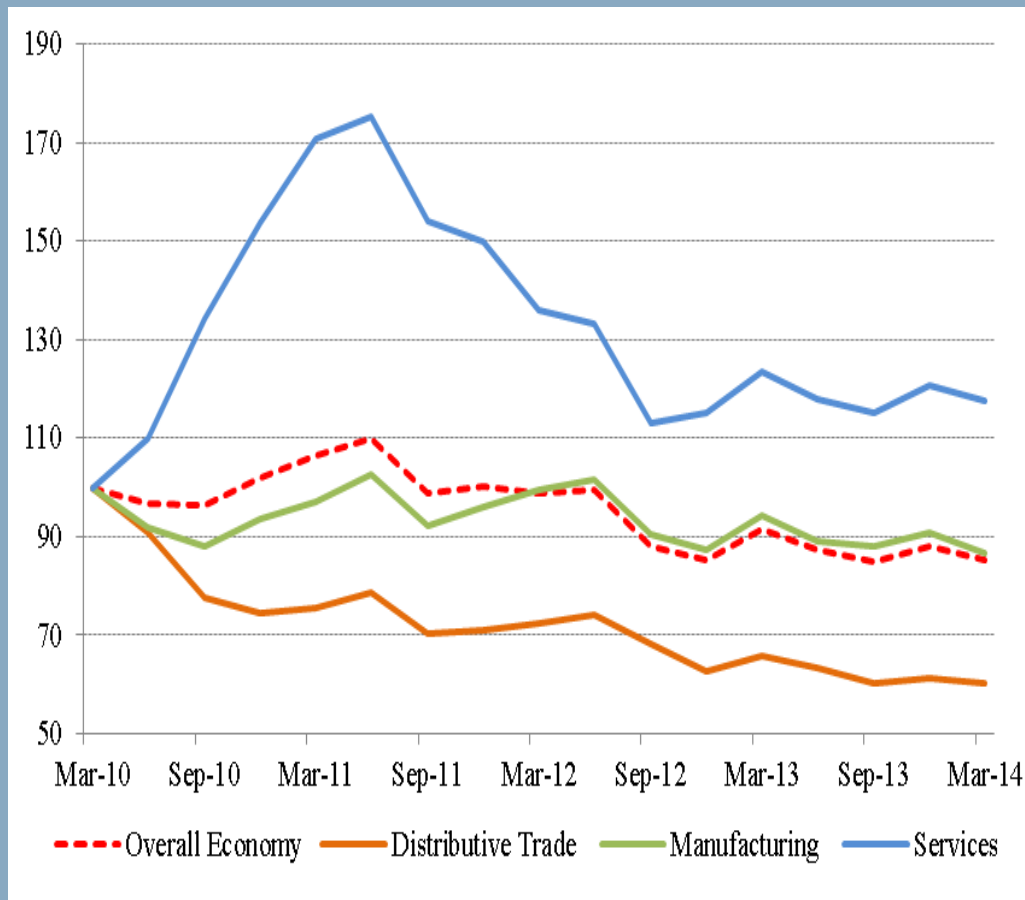
2014\* - Forecast.

# Declining savings and investment rates



2014\* - Forecast.

# MCCI Business Confidence Index (March 2014)



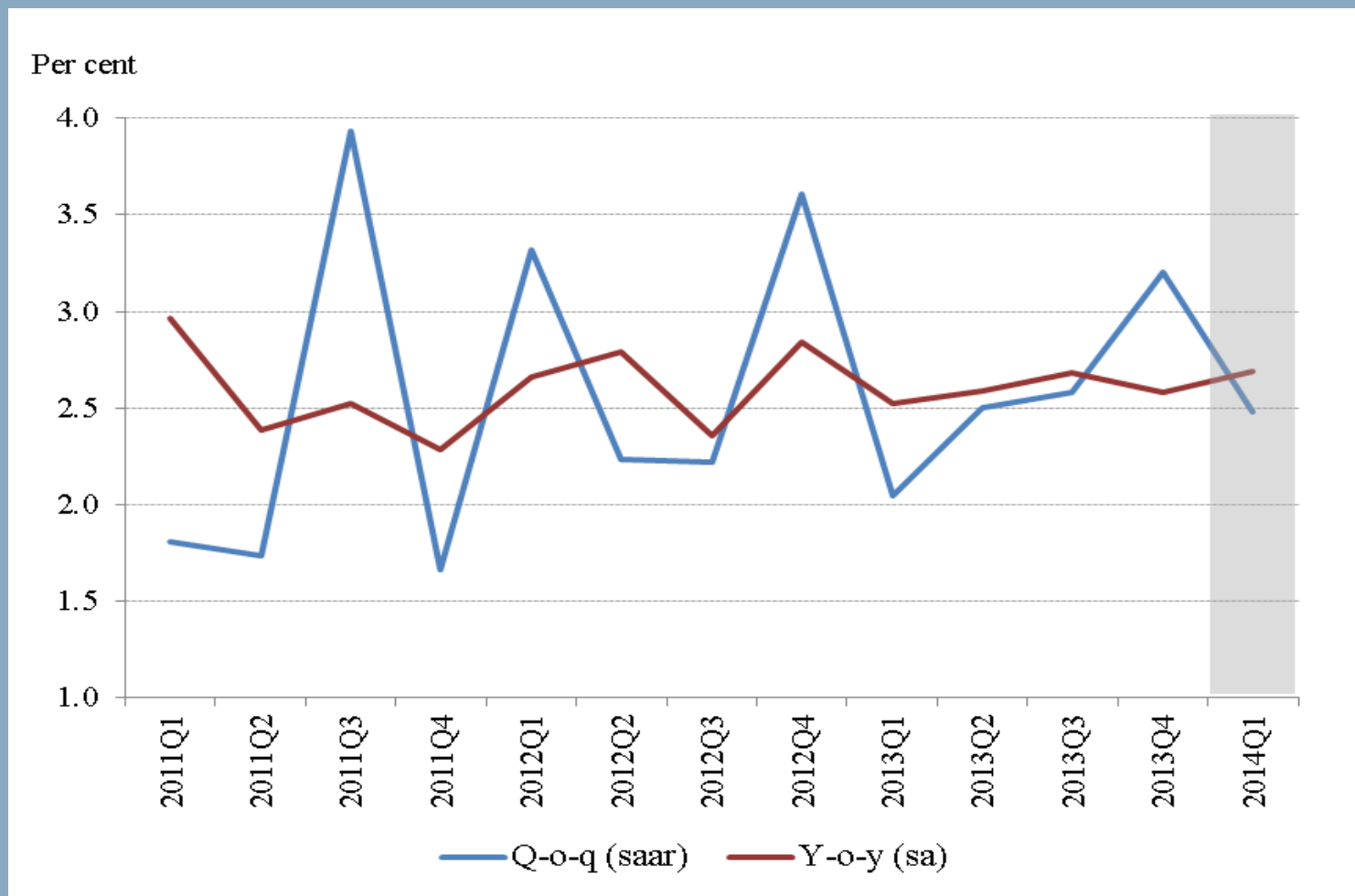
- Indicator fell to 85.3 points (-2.7 points), in the first quarter of 2014.
- All three sectors down.
- Underlying factors: cost of doing business, subdued domestic demand, cost of capital
- 23% planning to increase I over the next 12 months; 26% planning to decrease I
- 14% considering recruiting, while 15% likely to reduce their workforce
- Survey concluded that the economic cycle is in a downward phase. If this trend continues in future surveys, the economy may slow down in 2014.

# Pluriconseil Barometer

	January-14	February-14	April-14
➤ <b>Optimism about economic outlook (one year ahead)</b>	• 60% of respondents	• 50% of respondents	• 60% of respondents
➤ <b>Growth</b>	• 3.3%<Growth<3.6% in 2014 (70% of respondents)	• 3.3%<Growth<3.6% in 2014 (90% of respondents)	• n.a
➤ <b>Unemployment Rate</b>	• 8.1 – 8.2% in 2014 (53 % of respondents)	• ≥8.3% in 2014 (67 % of respondents)	• n.a
➤ <b>Inflation Rate</b>	• Up to 4.0% in 2014 (77% of respondents)	• Up to 4.0% in June 2014 (53% of respondents)	• Up to 4.2% in June 2014 (67% of respondents)
➤ <b>KRR</b>	• Unchanged (83% of respondents)	• n.a	• Unchanged (90% of respondents)

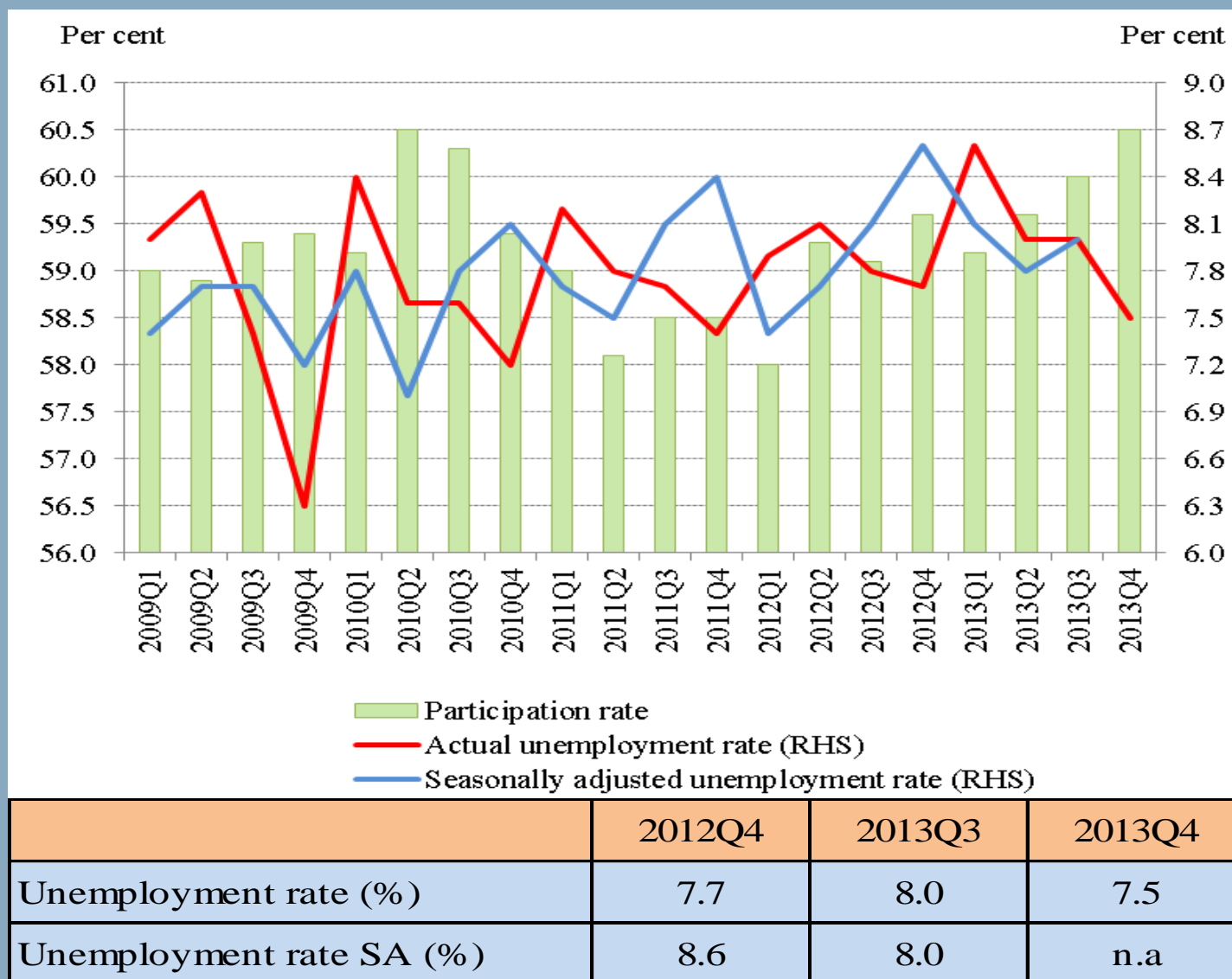
**March 2014 survey:** - Only 47% considered 3.7% growth rate as achievable;  
 - Rupee depreciation could increase growth by 0.4-0.9 pp;  
 - KRR cut of 25 bps: negligible impact on growth and I, but could affect savings.

# Private consumption remained moderate

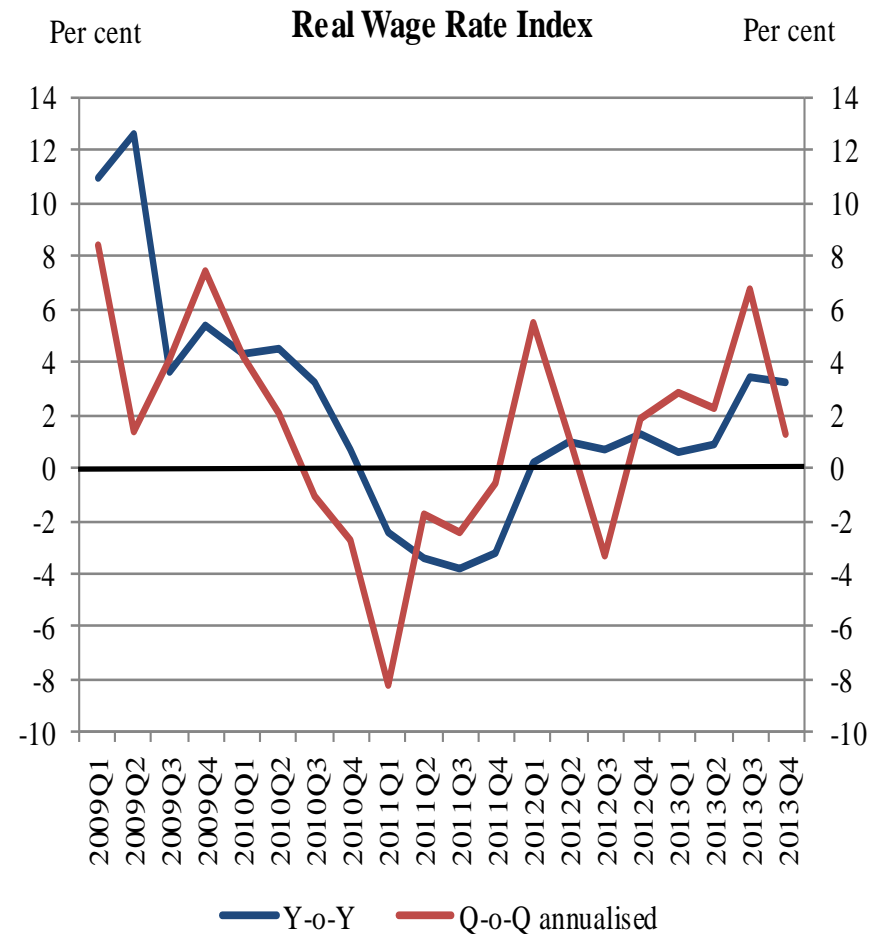
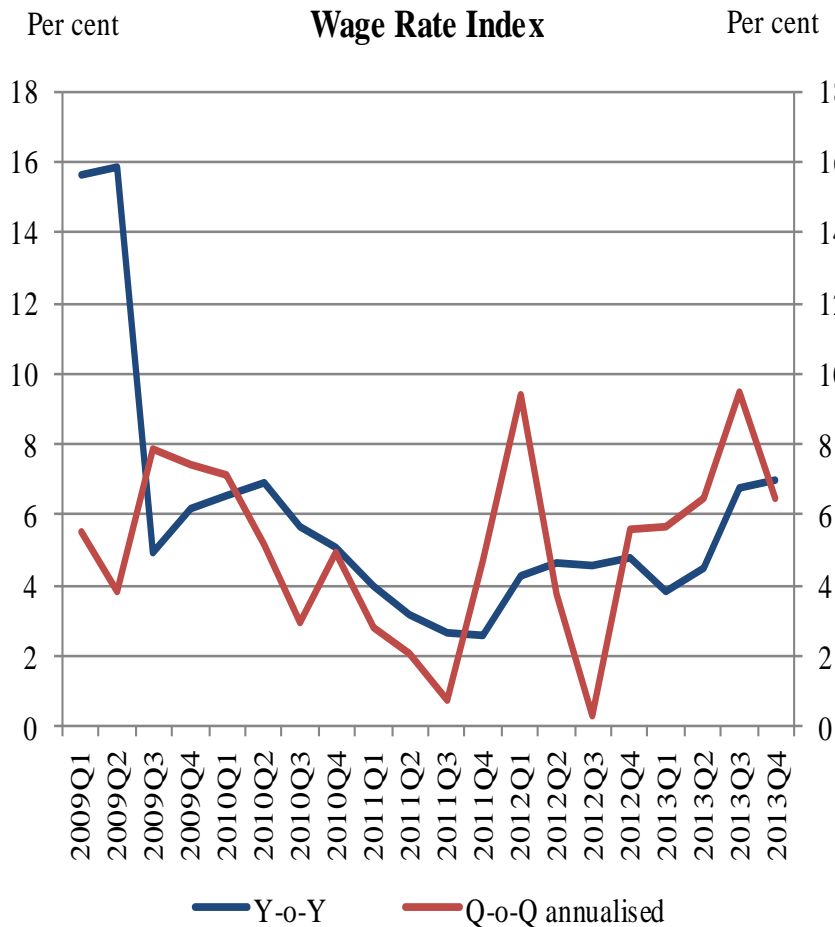


- Consumption growth projected at 2.7% y-o-y in 2014, from 2.6% in 2013.

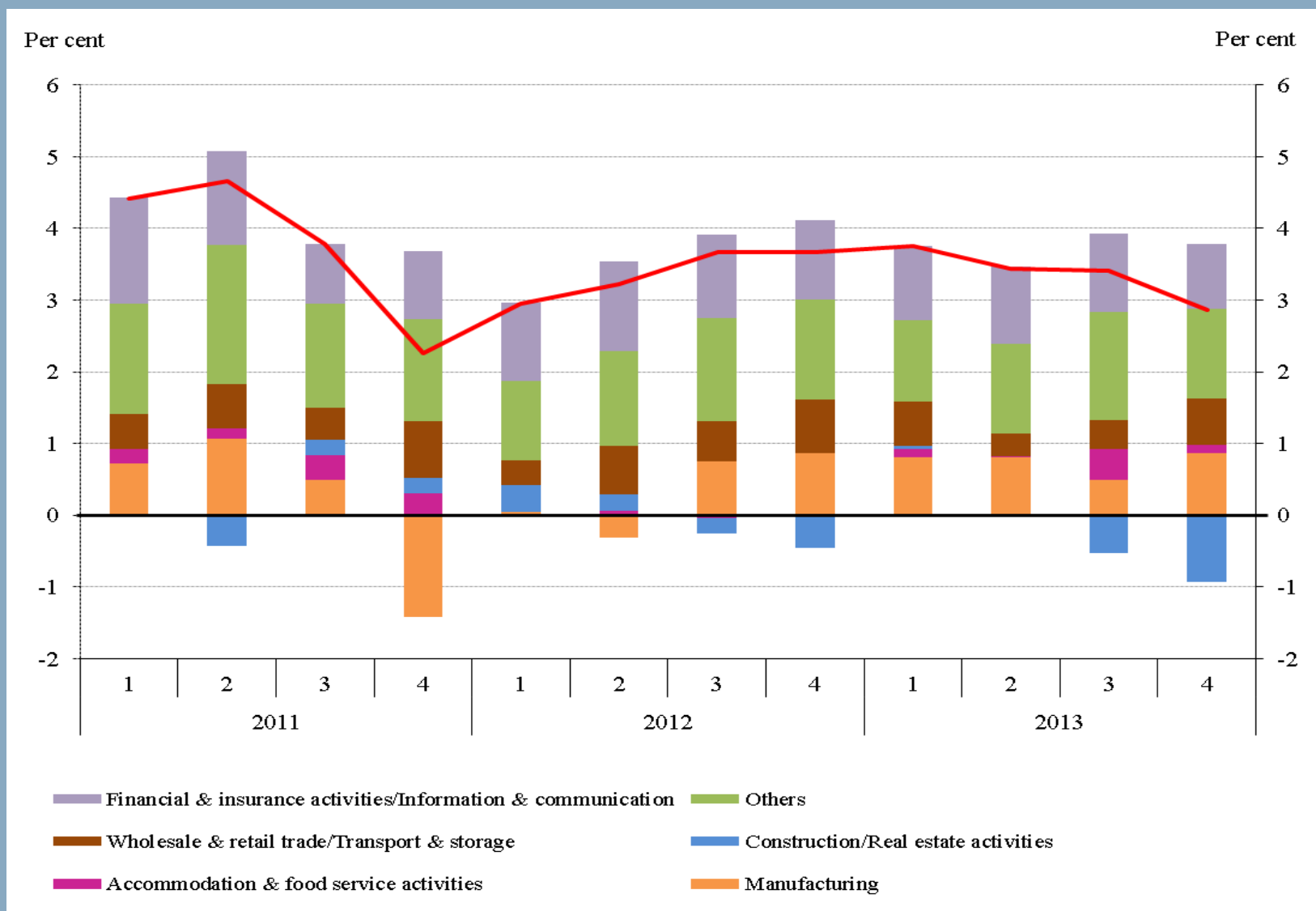
# Relatively stable labour market conditions



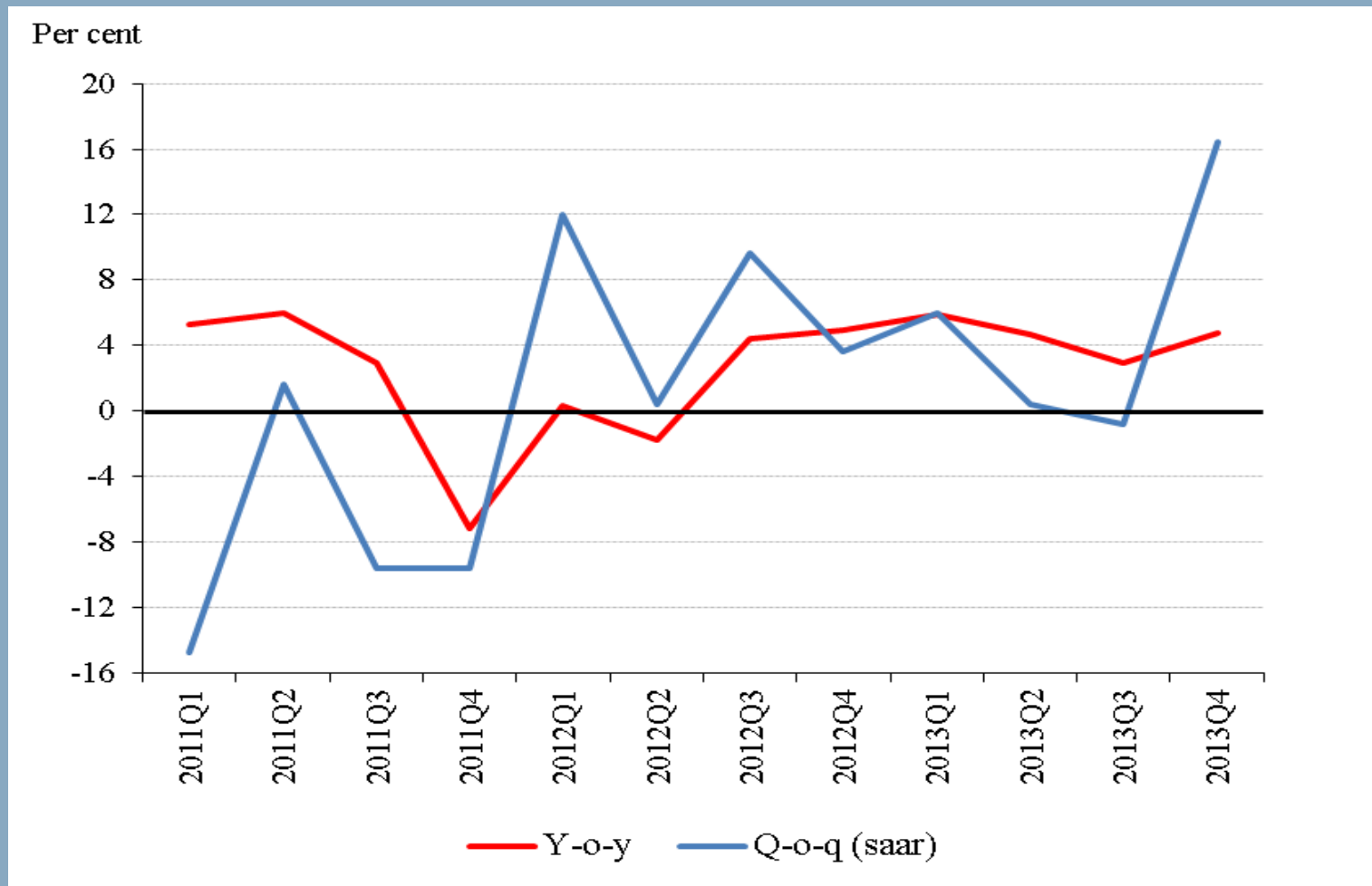
# Growth in nominal and real wages decreasing



# Sectoral Contribution to Growth

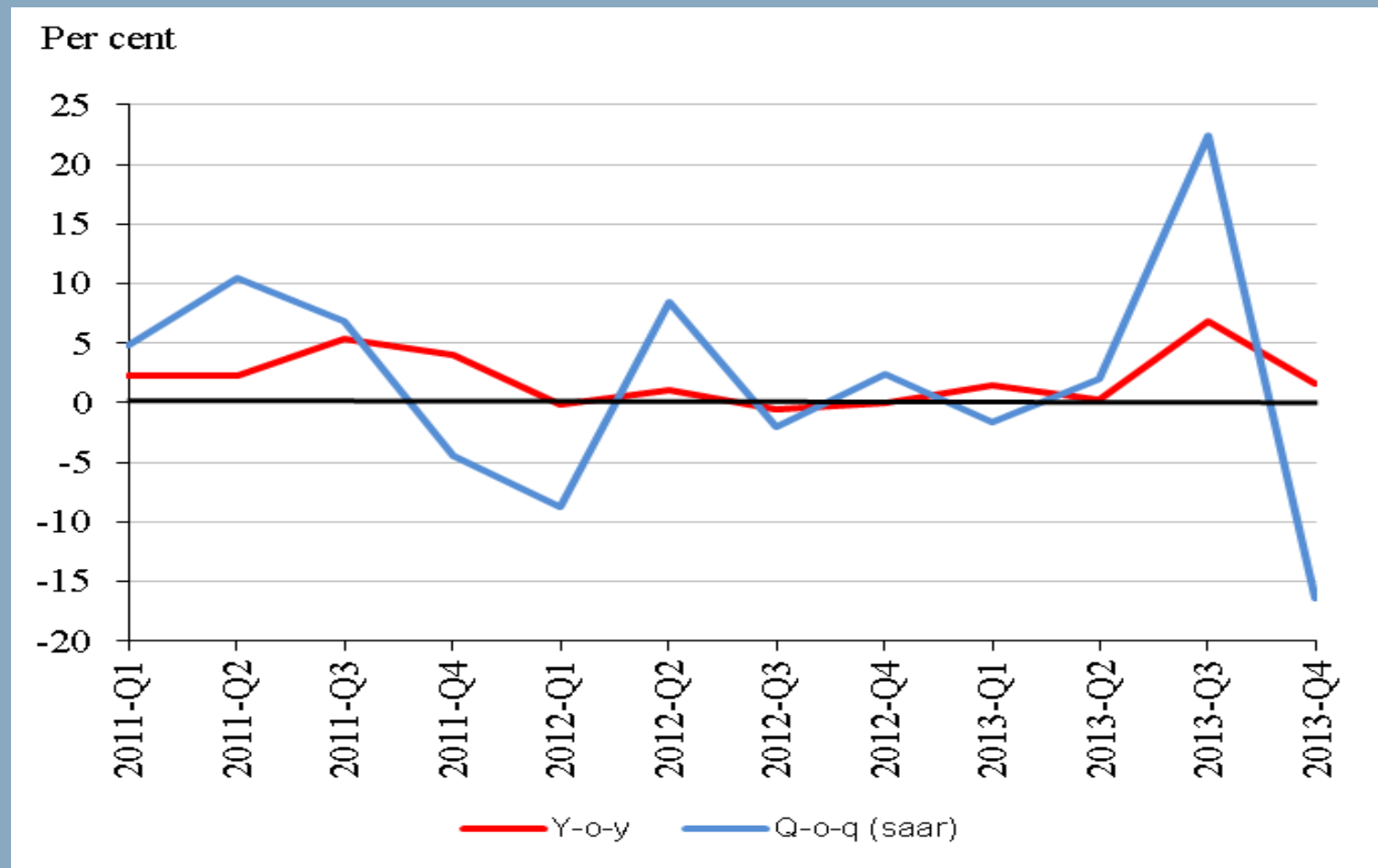


# Manufacturing: rise in momentum



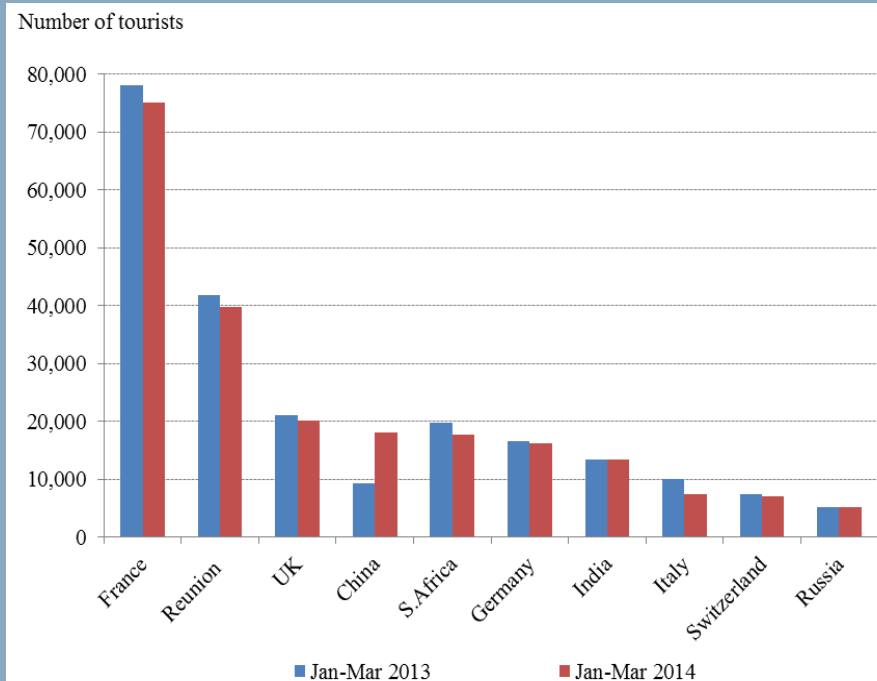
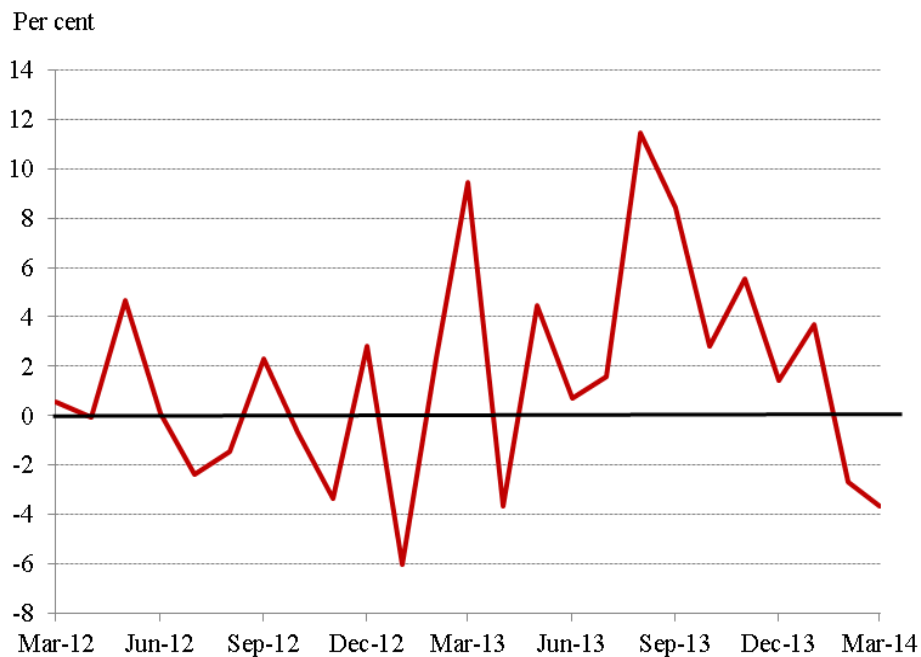
- Growth of 2.4% forecast for 2014, down from 4.5% in 2013.

# Accommodation & Food Service Activities: fall in momentum



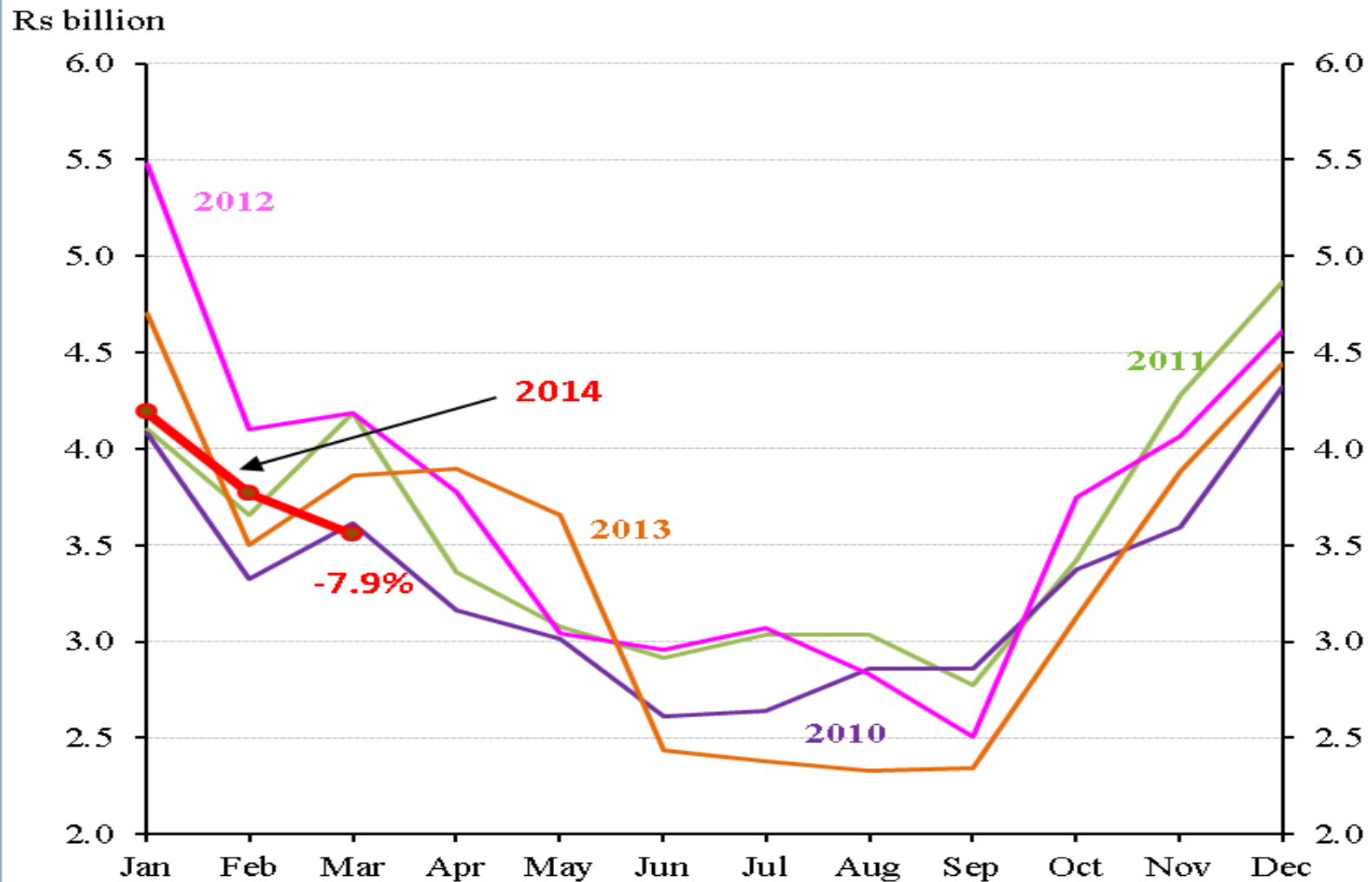
- Growth of 3.0% forecast for 2014 compared with 2.5% in 2013.

# Decline in tourist arrivals

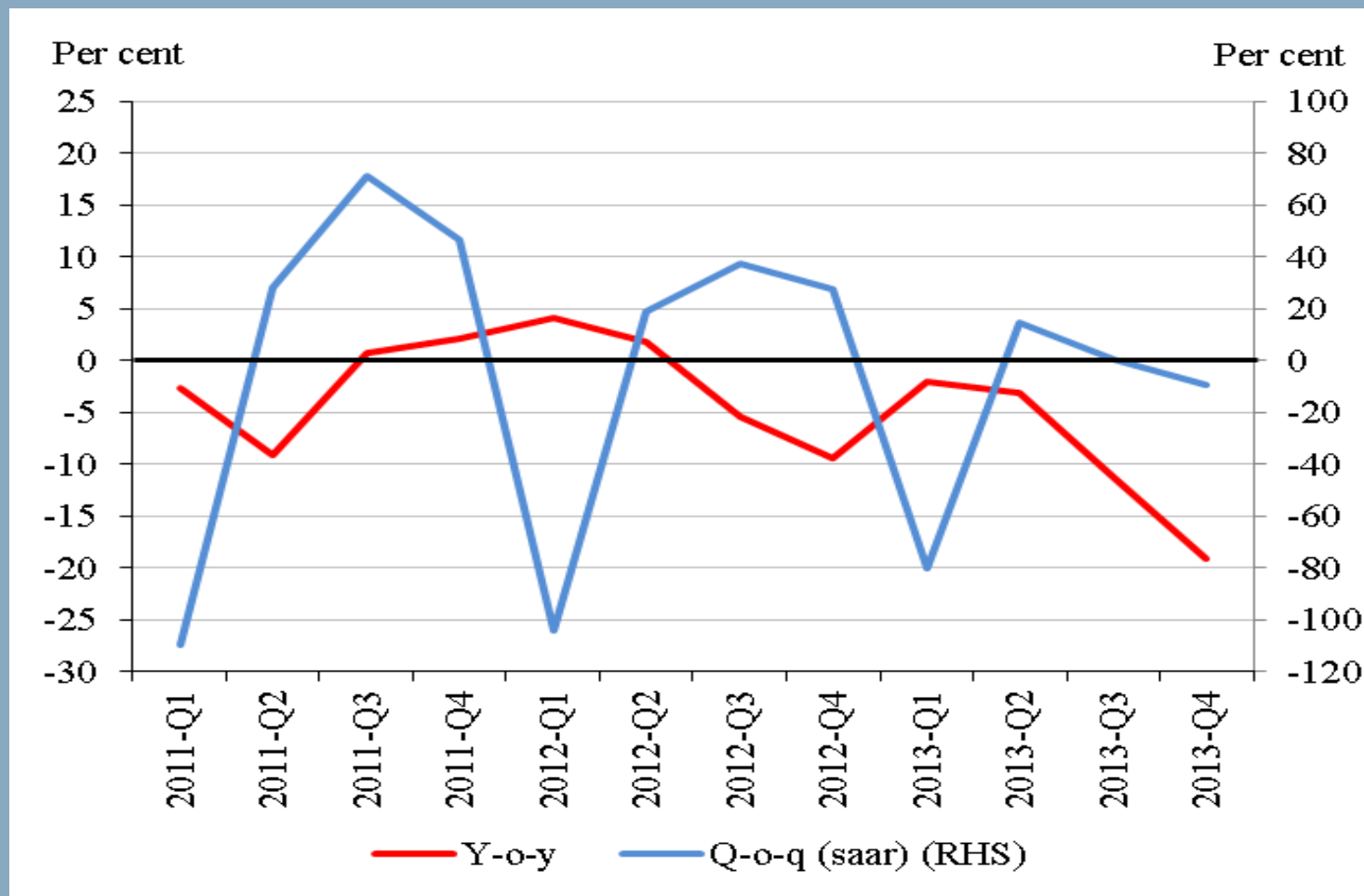


- Tourist arrivals declined by 3.7% y-o-y in March 2014.
- Y-o-y growth of 3.9% in 2014, from 2.1% in 2013.
- Forecast of 1,025,000 arrivals in 2014.

# Lower tourist earnings



# Construction



- Contraction of 3.0% projected in 2014, from negative growth of 9.4% in 2013.



# OUTLOOK

# Key Assumptions

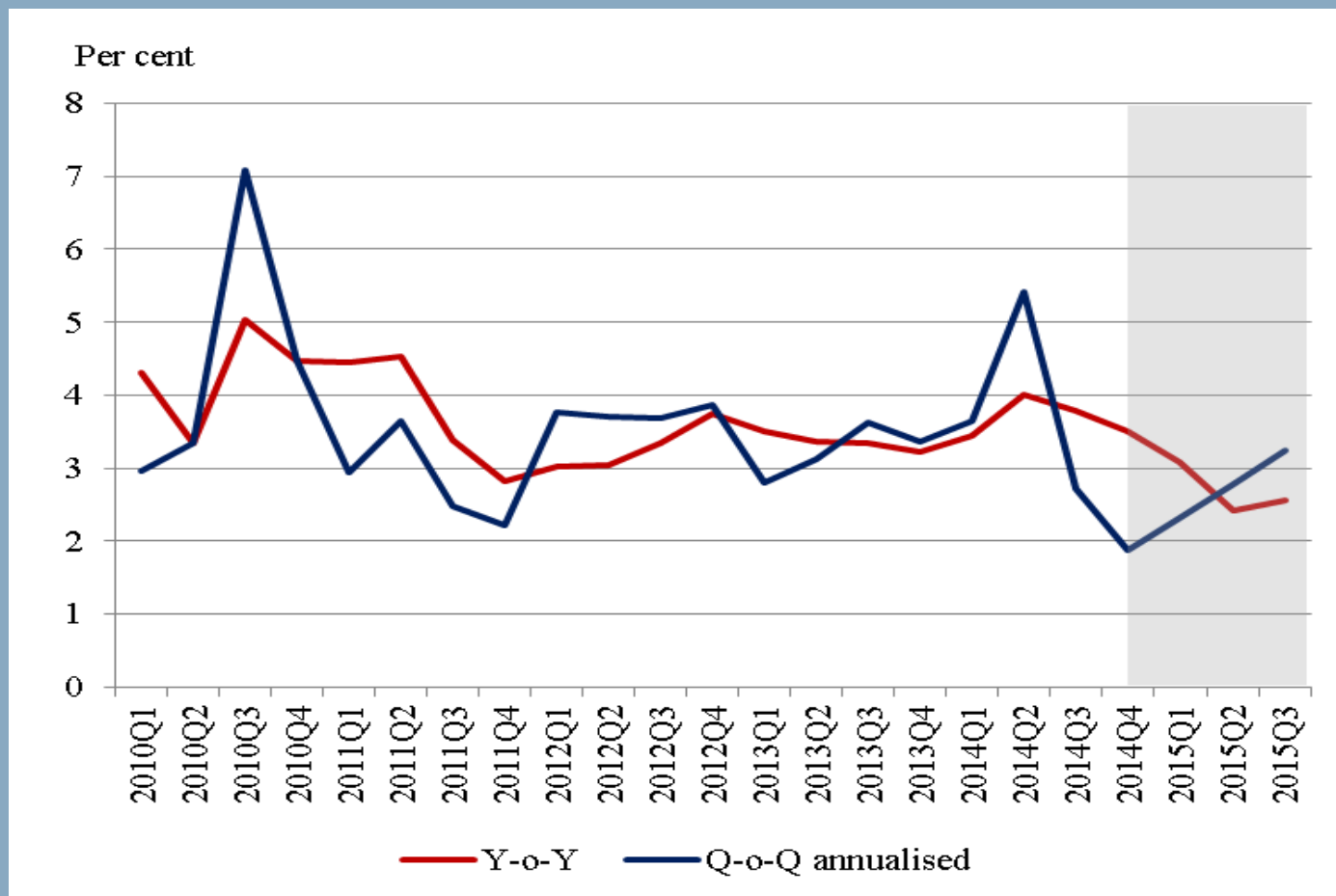
- **External demand:**

- Improving performance of advanced economies, including main trading partner countries, to boost external demand
  - Pick-up in tourism; manufacturing

- **Domestic demand:**

- Low investment expected amid subdued business confidence; significant corporate sector indebtedness
  - Private investment may take time to recover
  - Public investment growth affected by fiscal consolidation and implementation capacity
- Consumers expected to remain prudent in 2014, given weak labour demand and moderate real wage growth

# Improvement in growth in 2014



- Growth forecast of 3.7-4.0% for 2014 announced at last MPC meeting maintained.

# Comparison of Growth Forecasts



	2014 Growth Forecasts (%)
IMF WEO, April 2014	3.7 (↓)
Pluriconseil	3.3 - 3.6 (↔)
MCB Focus	3.6 (↔)
Statistics Mauritius	3.7 (↔)

# Risks to the growth outlook



- **Upside risks have emerged**
  - Trading-partner countries recover faster than currently expected;
    - Private investment to accelerate along with better business confidence
  - Better implementation capacity for public investment
- **But a number of downside risks persist**
  - Global developments could still derail growth outlook (low inflation in Eurozone, geopolitical tensions, spill-over of sluggish growth in emerging markets)
  - US Fed tapering – impact on financial markets, capital flows
  - Domestic structural constraints:
    - Relative market concentration despite recent diversification efforts
    - Air access policy
    - Relatively low productivity
    - Skills mismatch in labour market



Thank you