Ministry of Finance and Economic Development

Monetary Policy Committee Meeting
28 April 2014

Presented by Mr Patrick Yip Wang Wing,
Ag. Deputy Financial Secretary

The Current Monetary Stance

- ✓ MPC recent decisions generally welcomed by economic observers
- ✓ IMF Executive Board Assessment on 2014 Article IV Consultations:

"Directors agreed that the current monetary stance is broadly appropriate, … ".

Focus of MOFED Policies: Structural Reforms

- Broaden the economic space:

  a new economic architecture
- Remove infrastructure and other bottlenecks
- Reform public sector institutions
- Improve purchasing power
- Build a better social protection system
- Achieve greater social coherence
- … while consolidating public finance

Structural Reforms and Other Policies

Specific policies to:

- deal with youth and female unemployment
- reform education and training
- address structural issues on the labour market

Encouraging Results

- YEP – employability of 5,200 youths enhanced through on-the-job training
- Youth Unemployment (23.2% in 2013 against 24.7% in 2012)
- Female Unemployment (12.2% against 12.7%)
- Overall unemployment stabilised – 8%

Schemes to Lower Cost of Finance

MSMEs

- Loans under the SME Financing Guarantee Scheme [KRR+3%] to 2,300 micro-enterprises/SMEs (Rs 3 bn)
- The Scheme extended for another 3 years (Rs 2 bn)
- Concessionary finance:
  - Mauritius Business Growth Scheme: 200 businesses
  - Leasing Equipment Modernisation Schemes (LEMS): 833 enterprises of which 550 SMEs

Middle-Income Households

- New Housing Empowerment Scheme [KRR+2.5%]

Fiscal Consolidation

Tighter control over spending

- Line Ministries/Departments and other public sector bodies to strictly observe set expenditure ceilings

- Any expenditure for cost overruns or new unplanned projects to be met by savings on operating costs and existing activities or reprioritisation of projects

First Quarter Budget Review:

- Confirms good progress on fiscal consolidation plan

Public debt on a downward path to achieve the statutory target of 50% of GDP by 2018

Some other MOFED Actions for Investment and Growth

- Private Investment: 13 major private projects (Rs 39 bn) unlocked by Fast Track Committee
- Infrastructure projects: 9.2% increase in 2014 to reach Rs 20 bn
- Port and marine services: new business plan and investment financing package for CHC and MPA finalised
- Restructuring of DBM Ltd into a MSMEs bank with foreign strategic partners: plan approved and under implementation

Institutional Reforms

- MOFED conscious that some public sector institutions and SOEs are seriously underperforming
- Need for undertaking urgent reengineering such as in the case of DBM
- MOFED will work with other Ministries and Bodies to carry through the necessary institutional reforms

Current Monetary & Fiscal Policy Stance

- Such actions and the current economic trends at both the global and the domestic level indicate **no need to deviate** from the present monetary and fiscal policy stance.
- Most particularly, a tightening of monetary policy would be most inappropriate.

Global Economy

IMF WEO April 2014 forecasts :

- **2014 Global Growth – 3.6% against 3.7% in January 2014**
- **Trailing Emerging Economies**
  - **Russia (1.3% against 2%)**
  - **Brazil (1.8% against 2.3%)**
  - **South Africa (2.3% against 2.8%)**
- **Improved prospects in Advanced Economies**
  - **UK (2.9% against 2.4%)**
  - **Euro area (1.2% against 1.1%)**
    - **Germany (1.7% against 1.5%)**
    - **Spain (0.9% against 0.6%)**

Global Economy

IMF WEO April 2014 :

- Growth globally continue to be fragile and uneven, with downside risks
- France & Italy growth still sluggish – serious downside risk for our tourism industry and export sectors
- Advanced countries - downside risks from low inflation and possibility of protracted low growth
- Emerging economies - risks of capital reversal

IMF Recommendation: Accommodative Monetary Policy where inflation is not a major threat

Domestic Economy: Growth and Unemployment

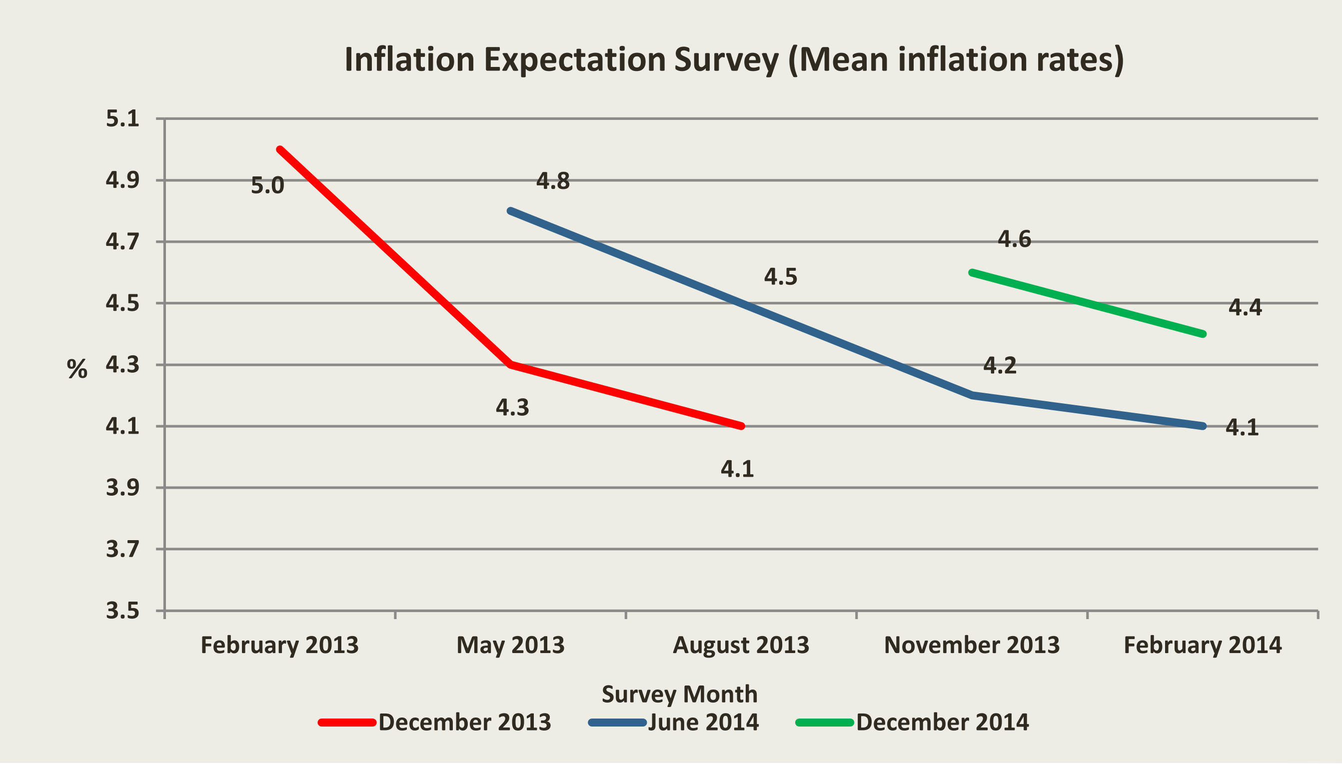
- Statistics Mauritius: growth rate for 2014 at 3.7%
- First quarter 2014: tourist arrivals (-0.8%)
  - France (-4%), UK (-4.9%), Italy (-26.6%) and Reunion (-4.8%)
- Private investment continue to be sluggish, especially if cost of investment were to rise
- Construction sector expected to contract by 3%
- Downside risks on tourism, exports, investment and growth
- Unemployment rate stabilised at 8% but STILL TOO HIGH

Domestic Economy: Inflation

- On the domestic front, pressures on prices are expected to be subdued
  - Total consumption growing at a slower pace
  - Wages in 2014 expected to grow at a lower rate (5.6% against 11.1% in 2013)
  - Economy continues to operate below potential
  - Stable exchange rate
  - Upward movement in administrative prices unlikely
- On the international front, inflation generally projected to remain subdued in 2014 with falling commodity prices

Subsiding Inflationary Pressures

- SM: headline inflation rate for 2014: 4%-4.5%
- Expectations of lower inflation remain well anchored
- Inflationary pressures certainly NOT intensifying



Global Trend in Policy Interest Rate

- Monetary policy stance around the world reflects subdued pressures on inflation
  - ✓ Bank of England, European Central Bank, Bank of Japan, Bank of Canada, South African Reserve Bank, Reserve Bank of India:
    - policy interest rates kept unchanged and at low levels
  - ✓ US Federal Reserve kept Federal Funds rate unchanged and reduced quantitative easing programme by another US$ 10 billion, as planned
    - The expected date of the first rise in rate moved forward by 2 months to the late summer of 2015, i.e. 18 months from now.

Excess Liquidity

- 7 meetings of the Joint Working Committee on Liquidity
- Actions already taken to address excess liquidity:
    - Frontloaded Rs 3.6 bn of Govt local borrowing (cost to Government - Rs 85 m)
    - Cancelled the African Development Bank Budget Support Loan
    - Higher recourse to local financing for government operations
    - New private investments unlocked by Fast Track Committee will increase credit demand from private sector
- Additional measures to be finalised:
    - Frontloading of an additional Rs 2.4 billion, including retail issues of Government Savings Bonds
    - Private financing of infrastructure projects (road projects, MLRT)
- BOM/MOFED collaboration on excess liquidity and other issues to continue

Conclusion

- **MOFED sees NO CASE for raising the Key Repo Rate**
- **Rise in KRR would:**
  - undermine efforts to boost investment and growth, create jobs for our youth and support our MSMEs
  - even push many companies into insolvency and lay-off
  - affect considerably 100,000's of households who are indebted
  - frustrate current government efforts to shift from external to local borrowing
  - push corporates to turn to loans from abroad rather than from domestic market
  - make monetary policy transmission mechanism more ineffective
  - result in banks widening the already too wide spread between lending and borrowing rates

<u>Conclusion</u>

- **MOFED believes that a slight reduction in the rate would help growth, investment and employment creation**

- **But, it also sees a case for maintaining the KRR above the inflation rate to ensure positive real interest rate**

- **MOFED is therefore strongly of the view that the <u>current level of the Key Repo Rate is most appropriate</u>.**

THANK YOU