Representation of the Association des Consommateurs de l'ile Maurice (ACIM) to the Monetary Policy Committee (MPC) presented on Monday 3rd February 2014-02-02

Representatives: Jayen Chellum (Gen. Secretary).

ACIM hereby makes the request to the Monetary Policy Committee to raise the Repo rate by 25 points.

The reasons for supporting this request rest on the following points:

1. **<u>Reversing serious trend of savings rate losses.</u>**

   The savings rate, which is an economic fundamental, has been diminishing over the years. According to national accounts, savings have diminished in absolute terms by Rs 532 m in 2013. This has been discouraging potential savers, specially small earners to put their savings in the bank since the savings rate, that varies from 2.5 to 3%, were lower than the inflation rate, which had a year-on inflation of 4% by Dec. 2013. This has had a significant impact on many savers. Some have removed their money from the banks to "invest" in dubious schemes – *Ponzi,* whereby they have lost large amount of money. Some *Ponzi* victims went even to the extent of borrowing from the banks to invest in the scheme and lost all their "investment" at the end of the day. One such victim reported this at ACIM. It has been reported that nearly two billion rupees were thus "invested".

   An increase in higher interest rate might encourage more savers to put their money in saving schemes of banks.

   1.1 Need to attract Foreign Direct Investment through higher savings rate.

   An increase in interest rate will attract foreigners to invest in Mauritius as a result of higher return through the higher interest.

2. **<u>Looming inflation threat.</u>**

   Inflation is expected to be higher this year. We cannot wait for an increase and act after. In fact we have to tackle the problem before.

   According to 4th quarter Consumer Price Index from Statistics Mauritius, Consumer Price Index reached 105.3 by Dec. 2013. Increases have been registered in milk, vegetables, cigarettes, alcoholic drinks, readymade clothing, footwear, higher Drs fees, motor vehicles and air-tickets. Although some increases like cigarettes and alcoholic drinks, have increased through increase in Excise Duty, others such as milk, readymade clothing, footwear, motor vehicles depend are linked with imported inflation. Doctors' fee increase could be an indication of general increases affecting private doctors as well as expected increases. Tendency of increase of inflation this year as well will crop up towards the beginning of March when prices of certain imported food, such as rice and some grains might increase in the local market.

   Furthermore according to the 21st Inflation Expectations Survey of the Bank of Mauritius, more than 50% of stakeholders expect inflation to be between 4.5- 6% this year.

Excess liquidity threatening to increase inflationary pressures loom the market.

As a result of the excess liquidity, over Rs 8 billion, in the market, the potential risk of inflationary pressures is very high, if nothing is done. One such decision to avert inflation would be an increase in the Interest Rate. But that cannot be the only mechanism by which the risk of inflation will be averted. There need to be coordination between the Bank of Mauritius and the Ministry of Finance to bring a solution to this problem.

Need for more transparency.

Are members of the MPC satisfied, through hard evidence that your past decisions have born expected results? For transparency's sake, the public would be enlightened to learn that this committee has given results based on its past decisions, whether on growth rate, job creation or losses, competitiveness gains and losses in exporting sectors etc.

Reduction of spread between savings and lending rate

The spread between the savings and lending rate has been very wide spread in the local context. It has been around 7-8 %. Is such a spread according to international best practices? If not then what make Mauritius banks so special as to be exercising such a wide spread, specially and carrying it from year to year for several years. When we look at the profitability of Banks, it is clear that the spread plays a major role therein.

As such should not the banks BE PART OF THE BURDEN SHARING PROCESS BY KEEPING the lending rate fix if the repo rate is increased. This would be one clear way to help their major clients who are borrowing for their investment. Furthermore, the issue of reduction in the spread needs be addressed forthwith.

Conclusion

ACIM hereby requests for an increase in interest rate by increasing the Repo rate by 25 %.