



**Presentation for the
Monetary Policy Committee
Meeting
03 February 2014**

Ministry of Finance and Economic Development



Global Economy: What has changed since last MPC meeting? Improved Prospects ...

IMF WEO January 2014 Update:

- **Global Growth projections – 3.7% against 3.6%**
 - **US economy – 2.8% against 2.6%**
 - **UK economy – 2.4% against 1.9%**
 - **China and India – 7.5% & 5.4% respectively**
 - **Euro area – 1% but France still near zero growth**
- **Global Inflation projections – deceleration to 3.8% (2014) and 3.6% (2015), helped by stabilised commodity (food and oil) prices**



Global Economy ... but downside risks remain

Global growth – still in the low gear, fragile and uneven

- **Downside risks**
 - **Likelihood of deflation in advanced economies**
 - **Vulnerability of the banking sector to shocks**
 - **Premature withdrawal of monetary policy accommodation in advanced economies**
- **IMF Advice:**
 - **Advanced economies: monetary policy to stay accommodative while fiscal consolidation continues**
 - **Developing countries: to use the emerging economic space to build fiscal buffers**



Domestic Economy: better performance but strong downside risks

- **Economic growth:**
 - 3.2% in 2013, below initial projections
 - 3.8-4% in 2014 on basis of expected recovery of Euro area economy and 2014 Budget measures
- **Unemployment:**
 - At high rate of 8.2% and Rising
 - Area of concern - Youth unemployment
- **Downside risks**
 - Tepid recovery in Europe
 - France falls back into recession
 - Slow implementation of budget measures

... need for continued supportive monetary policy



Structural Policies: 2014 Budget

- **Reforms to boost investment, productivity and growth**
 - **Facilitating implementation of major private sector projects - Investment Projects Fast Track Committee**
 - **More effective application of the Silent Agreement Principle at local government level for speeding up delivery of Building and Land Use Permit**
 - **Major transformation of Mauritius into an Ocean Economy and Developing the Green Economy**
 - **Further broadening the economic base - aviation hub, bunkering hub and location for film making**



Structural Policies: 2014 Budget ... cont'd

- **Reforms to boost investment, productivity and growth**
 - **Putting in place new Research and Innovation environment to improve Productivity**
 - **Major education and training reform programme through review of CPE System**
 - **Building on the Africa Strategy**
 - **Significant public investment to remove infrastructure bottlenecks, as part of the Build Mauritius Plan**



Structural Policies: 2014 Budget ... cont'd

- **Reforms to boost investment, productivity and growth**
 - **Improving air connectivity to emerging markets**
 - **Supporting equipment modernisation of enterprises (LEMS)**
 - **Enhancing support to SMEs**
 - ❖ **Extension of the SME Financing Guarantee Scheme**
 - ❖ **New loan guarantee scheme for small enterprises**
 - ❖ **Reviewing procurement system to increase Government procurement from SMEs**
 - **Continuing Public Enterprise Reform**



Protecting and Enhancing Purchasing Power

- **Inflation on downward trend to 3.5% in 2013**
- **Public sector pay increases (PRB /EOAC Reports) had minimal impact on inflation**
- **Inflationary pressures remain subdued in 2014**
- **Protect and enhance the purchasing power of consumers**
 - **Full implementation of PRB & EOAC Reports**
 - **Salary compensation higher than inflation rate**
 - **Social transfer payments adjusted by more than inflation rate**



Protecting and Enhancing Purchasing Power ... cont'd

- **Protect and enhance the purchasing power of consumers**
 - **Introduction of Home Ownership Programme for lower and middle income households**
 - **New Income Support Programme covering some 8,000 vulnerable families**

Protect and enhance the purchasing power of thousands of households who have to service their mortgages and other loans



Fiscal Policy Stance

- **Budget deficit of 3.5% of GDP in 2013 against initial estimates of 2.2%**
- **Discounted public sector debt of around 55% of GDP**
- **Need to consolidate public finances, pursue fiscal adjustment and bring back public debt on a downward path to statutory target of 50% of GDP by 2018**
- **Limited scope for fiscal policy to stimulate growth**
- **Essential that monetary policy remains supportive**



Excess Liquidity

- **MOFED always concerned with the excess liquidity situation and its implication for financial stability and for effectiveness of monetary policy**
- **Joint Working Committee on Liquidity set up - to examine, in a comprehensive way, issues relating to liquidity, in particular excess liquidity, and to come up with coordinated approach between MOFED and BOM to minimise any adverse impacts thereof on the economy**
- **For effective coordination, any matter on excess liquidity should be taken up only at level of Joint Working Committee on Liquidity.**



Excess Liquidity ... cont'd

- **MOFED has taken measures to avoid aggravation of the excess liquidity situation:**
 - **Raised additional funds of around Rs 2.3 billion from the market to finance higher government borrowing requirements instead of using own unremunerated cash balances with BOM**
 - **At request of BOM, a further Rs 1 billion deposited at BOM by MOFED on behalf of a statutory body**
- **To further support BOM in its management of excess liquidity, MOFED is committing an initial amount of Rs 100 million from the budget to meet cost of open market operations during 2014.**



Global trend in Policy Interest Rate

- **Most of the central banks around the world, including the US Federal Reserve, the Bank of England, the European Central Bank and the Bank of Japan, have kept their policy interest rates unchanged**
- **Reasons: to help households to afford their mortgages and businesses to finance new spending, support the prices of many other assets, and assist the gradual economic recovery.**



Conclusion

- **Growth prospects for 2014 have improved, particularly for advanced economies, with inflation contained at low levels.**
- **In line with the expected recovery in major trading partner countries, the Mauritian economy is projected to grow by a higher rate in the range of 3.8-4%.**
- **Appropriate structural measures are being taken to unlock investment and boost growth.**
- **Inflationary pressures in the domestic economy will remain subdued as a result of both declining international prices and also measures taken in the 2014 Budget to protect and enhance the purchasing power of consumers.**



Conclusion ...cont'd

- **Fiscal policy is constrained as Government will have to bring back public debt on the downward path.**
- **There are other challenges such as low investment rate, particularly private investment, and high unemployment. In addition to the structural reforms, the business sector needs **supportive monetary policy** to increase their capacity to invest and grow, and create jobs.**
- **There is absolutely no case for raising the interest rate.**
- **Accordingly, our recommendation to the MPC is to keep the key repo rate unchanged at 4.65%.**



THANK YOU