

# Association for the Protection of the Environment & Consumers

MONETARY POLICY COMMITTEE



Striking the right balance  
between consumer spending and  
savings

# Inflationary Pressure

- One of the basic philosophies of Monetary Policy is to keep inflation under control
- Year-on-year inflation has been constantly rising
  - Year-on-year inflation rate for December 2012/2013 - 4%

- 
- Inflationary Pressure is building up in the economy

Year-on-year inflation rate of 4.5% is expected by  
December 2014

- Recent rise in price of retail food on local market is already leading to an increase in inflation in the short term.

<b>Commodities</b>	<b>Selling Price in Jan 2013</b>	<b>Selling Price in Jan 2014</b>	<b>% change in price</b>
Gros Pois Orient	20.50	29.90	45.9
Sunquick	125.00	155.00	24.0
Glenrick	55.60	63.75	14.7
Red cow	194.50	227.00	16.7
Poulet Chantecler	137.00	145.50	6.2
Thon	48.25	49.75	3.1
Basmati Fatima	275.00	305.00	10.9
Tomato Belinda	22.00	24.00	9.1

# Bank credit to private sector

- Increase in the bank credit to the private sector
- Credit has grown much faster than the real economy could sustain
- Too much credit leads to excess liquidity in the economy

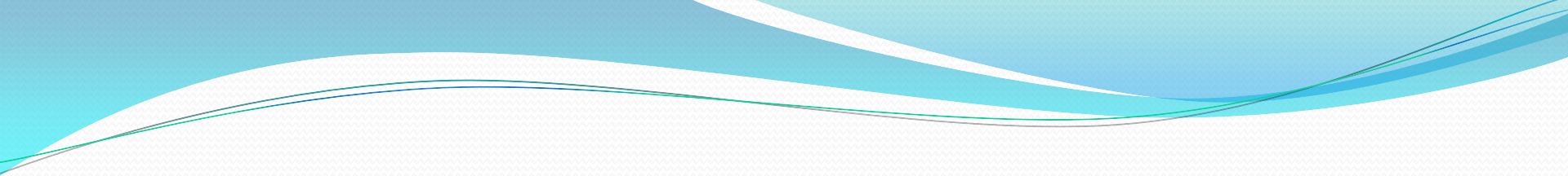
# Excess Liquidity

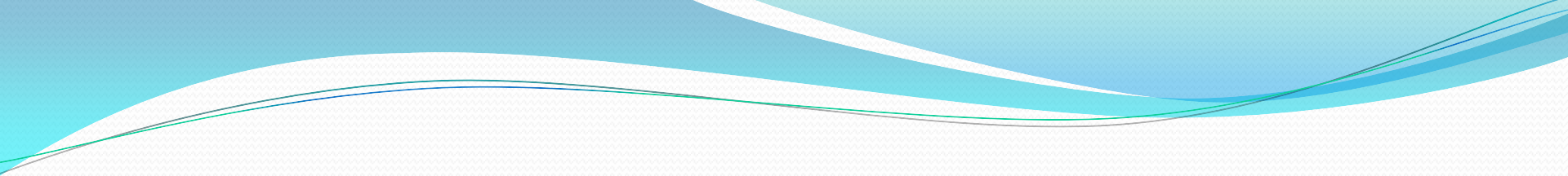
- Main cause of excess liquidity
  - Multiplying effect of credit
  - Credit supply exceeds demand
  - And this happens when interest rate is lowered

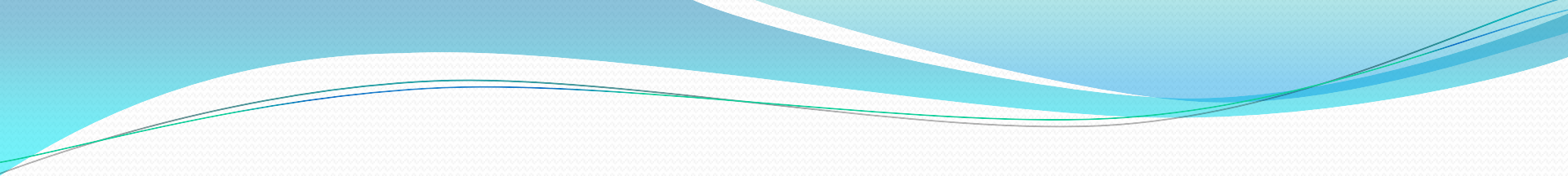
# Savings trend

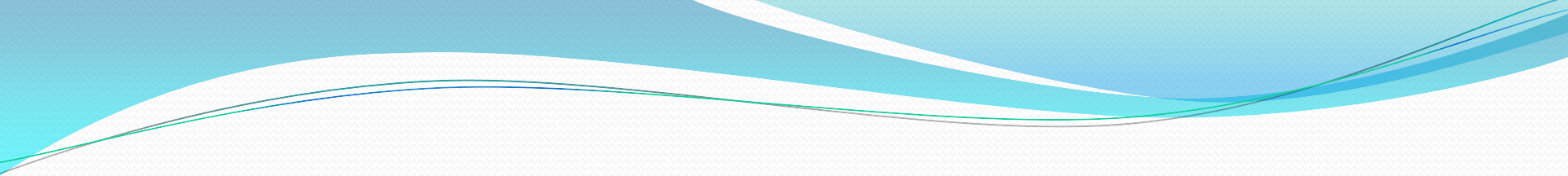
- Downturn in the savings trend
  - Savings rate in 2007 – 21.5%
  - Savings rate in 2012- 15.1%
  - Savings rate in 2007- 14%
- When the expected y-o-y inflation is increasing and real interest rate will fall down, who would wish to save?



- 
- Short-term interest rates are moving up
  - In June 2013, cut in the Key Repo Rate – a rise in weighted average yields on treasury by 100 basis points
  - Thus, there is demand for higher return on government securities.

- 
- Private Investment has been slowing down over past few years
  - Growth rate has been maintained with high government investment in public infrastructure
  - Private firms have been investing abroad

- 
- The voice of consumers, pensioners and other fixed-income earners has been ignored.
  - Wanted to maintain low-interest rate
  - Persistent current account deficit- Imbalance in financial sector

- 
- Increase in interest rate will decrease consumption
  - Thus reducing the balance of trade deficit
  - And encourage savings



Thank You