ISSN 2347-4289

A Broadened Philosophy For Savings In Mauritius

Dr Nirmal Kumar Betchoo
Departmentof Management, Université des Mascareignes,Pamlemousses, Mauritius
Email: nbetchoo@udm.ac.mu

ABSTRACT: The objective of this article titled “A broadened philosophy for savings in Mauritius” firstly explains how Mauritius, an island nation in the Indian Ocean, positions itself as an emerging market with a population having the capability of spending more than saving. Although this reflects a positive sign concerning spending, it also echoes a major concern for the domestic economy that relies extensively on imports. The imbalance of trade puts the Mauritian economy to test since personal savings have not improved over the past. There have been earlier initiatives to stimulate savings in order to improve the liquidity asset of the Central Bank of Mauritius - hence the country-but these have not improved when the economy suffered from local and international negative economic cycles. This research paper, which is essentially a case study report, claims that the policy of bringing again savings as a central issue for better cash flow and reserves will be important to Mauritius. A fragile economy that is overly dependent on imports which outweigh considerably its exports might find it salutary to initiate public’s awareness on savings and these need to be precautionary.

Keywords: Mauritius, savings, economic growth

1 INTRODUCTION

EMERGINGand developing economies are often transitional economies, shifting from closed economies to open market economies [1]. They are thoseeconomies are those nations that are actually better performing than their western counterparts. Over the years, such countries have become important powerhouses for economic development with acronyms like BRICS for Brazil, Russia, India, China and South Africa and more recently, MINT for Mexico, Indonesia, Nigeria and Turkey as the upcoming markets that will come to the forefront of global business [2]. All these nations have an average growth of 6% or above while some like China and India have steadily grown by 150% over the past two decades compared to Europe that has grown up to 25% on average. When it comes to speaking of the lesser developed part of the world, hence the poorer parts of the global economy where more than 60% of the population survives on less than $2 per day [3], it would be wise to think that there are exceptional cases where developing economies have progressed and offer to potential investors a different image from what one would perceive of emerging nations.

2 SETTING MAURITIUS IN THE PICTURE

Mauritius, situated in the Indian Ocean, with an area of roughly 2045 square kilometres [4], stands out as a different example from those cited earlier. Benefitting from its small size and strategic location, Mauritius is part of the emerging markets but is pictured as a very small partner due to its weak Gross Domestic Product (GDP) $20.9 billion- compared with giants like India and China with trillions of dollars in GDP terms compared to Mauritius [5]. Adherence to stable fiscal policy and openness to global trade and investment have established Mauritius as one of the world’s ten freest economies [6]. The success of Mauritius is perceived as a miracle. Joseph Stiglitz, a Nobel Laureate in Economics, considered the island nation as a model for economic development not only to the developing world but equally to the western world with successful implementation of policies like free and compulsory education up to the secondary school level, free transport for students, free health services and a pension scheme to its elder citizens that have nothing to compare with several other economies. Nonetheless, it has spent the last decades successfully building a diverse economy, a democratic political system and a strong social safety net [7]. Being a small player in the global economic arena, Mauritius cannot rest on its laurels. Considered as a special case in sub-Saharan Africa, the country has its own impending problems linked with its development. Unemployment has been steady since the last ten years ranging between 8 to 10% with some 42, 000 unemployed according to Statistics Mauritius [8]. The economic deficit keeps rising with an economy depending much on imports and lower exports as a result of the weakened Eurozone, the main partner of Mauritius in its international trade and an ailing American economy –another major business partner– following the Financial Crisis in 2008. With an economic growth averaging 3.5% annually, Mauritius has to face its future in a more comprehensive manner. Projections show a rebound to 3.5% in 2014 and 4.1% in 2015 on the back of continued strong performance in financial intermediation, information and communications technology (ICT) and a modest recovery in tourism [9].The Government of Mauritius has been sensitising the population of future issues namely food security, sustainable development and stimulating local production as long-term incentives to boost the economy. Benefiting from strong institutions that have helped the economy to withstand a protracted global slowdown, the country’s sovereign credit rating at Baa1 further strengthens its competitiveness [10]. These philosophies come in line with the population’s purchasing power along with its ability to spend on imported goods. If on the one hand the economy relies more on exports than imports, on the other hand, the population is keener to think about spending more than saving. This might equally be the case for economies like BRICS or MINT where new wealth prosperity from the middle-class might be more tempting than saving. The Mauritian economy is already overburdened by high levels of expenditure mainly linked with imports of commodity products and the development of high-scale infrastructure namely the forthcoming development of road networks, and the creation of an ocean economy. Alongside, there is a higher urge for spending from the local population whose interests are more focused on benefitting from higher luxuries than ever before. In an era of digitalisation of media and services and the intention of pursuing the knowledge economy under the improvement of e-services, personal spending per household is on the rise.

2.1A weak progression in domestic growth

The first argument that one would question would be the decline in the growth rate of the domestic economy or the Gross Domestic Product. Investment has slowed down since last year because potential investors from China and India prefer venturing on mainland Africa to doing business with Mauritius. The status quo regarding the development of the Jin Fei busi-

ISSN 2347-4289

ness park in Riche Terre shows the difficulty of initiating business in a prospective area like offshore business particularly in the manufacturing sector. Investment in other sectors has been weak despite arguments like the recent development of an educational hub or a film industry.However, foreign direct investment in Mauritius jumped 67.3 percent to 7.926 billion rupees ($253 million) in the first six months of 2014 from a year earlier, helped by a flow of money into real estate [11]. Another plausible argument for a decline in economic growth is the imbalance between imports and exports. Mauritius depends on commodity goods for personal consumption for its population while exports have been maintained at a stable level. The increase in demand for commodities has outweighed the country's capacity for growth as explained by Trade Economics where due to lack of natural resources, Mauritius is dependent on imports of fuels to satisfy energy needs [12]. Next comes the decline in the price of sugar announced since 2004 by the European Union favouring a reduction by 36% of the price of sugar. The threatened 37% fall in the price of sugar could spell economic disaster for Mauritius [13].Under the Multi-Annual Adaptation Strategy (MAAS), the viability of the sugar sector has been put to stake with the current year's decline in the price of sugar exports by 12%. This has led the government subsidise independent small producers by Rs 2000 per tonne in order to encourage production. In a 2012 survey undertaken by Statistics Mauritius, final consumption expenditure of households and government is expected to grow by 2.6%, higher than the 2.3% in 2013 [14]. Saving rate defined as the ratio of Gross National Saving to GDP at market prices, would increase to 13.0% from 12.8% in 2013 [15]. Although the figures speak of progression both in spending and savings, it is likely that personal spending would outpace savings while there will be greater risks that earnings would remain low. It is plausible that lower income groups would be the first to suffer from this scenario with higher spending, greater levels of debt and impending poverty through difficulties of repayment on loans, credit purchase and other ongoing expenses like education, transport and leisure. The argument for savings arise from this standpoint. Seen from a higher dependency on spending in this particular Mauritian case, it is reasonable to think in terms of saving opportunities for the population as remedial action that should be undertaken. Government of Mauritius will try to curb expenditure, tighten its national budget, develop opportunities for job creation to boost the economy but it should not underestimate the population's power to save or economically speaking the population's marginal propensity to save.

3 When Personal Savings becomes a priority

The Bank of Mauritius Governor's speech in June2014 regarding the maintenance of the Repo Rate —monetary mass— at 4.65% was expected from most corners of local business although there were concerns from some partners concerning the weak growth rate of the Mauritian economy in general [16]. Since the last meeting of the Monetary Policy Committee, efforts were made from the Bank of Mauritius to encourage private companies to better meet their exports with favourable conditions regarding the exchange rate for transactions. GDP Annual Growth Rate in Mauritius averaged 3.89 percent from 2001 until 2014, reaching an all-time high of 9.80 percent in the first quarter of 2003 and a record low of -0.80 percent in the first quarter of 2005 [17]. It might be recalled that the growth rate of the domestic economy has been the weakest since a long time with a sluggish evolution of 2.4% during the previous semester 2014 compared with 3.8% in the same term in 2013.

3.1 Personal Savings as a growth therapy

The concept of placing personal savings as a priority by the Bank of Mauritius becomes a major step that Mauritius will have to consider with regards to the all-time lowest growth rate accounted this year. Basically, an economy progresses when there is more money in the coffers than capital being spent on investment. In an open economy, however, investment can surge at the same time that a nation's saving is low because a country can borrow the resources necessary to invest from neighbouring countries [18]. At a time when the repo rate is being upheld, there comes the need to sensitise public opinion on savings. The policy of personal savings dates back to the early days of the Bank of Mauritius. Through the Post Office Savings Bank (POSB) now MPCB, government encouraged savings in primary schools since the 1970s. Although this initiative could amount to minimally increasing the reserves of the Central Bank, it was a salutary effort to encourage savings, retain capital at hand in bank reserves but equally reducing the risk of black money. Today's scenario is all too different with a sophistication of the banking tools along with a panoply of products and services likely to boost savings. Direct bank savings offer a low amount of risk due to the good credit rating of most commercial banks since more than a decade. There are also derivatives that stimulate investment but which bear a higher amount of risk. Though the derivative is merely a contract between two or more parties, its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes [19].

3.2 Making Savings attractive

Given that bank loans have been made attractive with personal loans ranging from 6 to 18% on average and reasonable repayment terms, little has been told on the improvement of savings. The traditional 7.5% savings rate has declined over the past decade and the fixed one-year term savings of 10% for retail customers has been since long repealed leaving the population to think that investment on property (land or building) and liabilities like automobiles and household appliances including travel would be appropriate channels to cope with.It is stated that exorbitant consumption spending can counter low economic growth in the short-run but in the long-run the growth solution for any country crucially resides in adequate saving [20]. Unfortunately, liabilities keep increasing with the lure for better quality of life like satellite television, quality consumption offered by hypermarkets, direct debits on high spending areas like gambling or the Internet. There is no political moral behind curbing this expenditure since it pertains to personal spending decisions. However, by readjusting personal savings to a reasonable rate, keeping the exchange rate stable so that foreign currency investment would be a secure alternative of keeping capital in other baskets and rewarding personal savings through bonuses — this is what insurers tend to say — in a similar way to bank saving bonds in the 1990s with a triple repayment on savings in 7 years, the current wish of the Central Bank could be fulfilled. By the way, National and regional banks are wooing consumers with more cash rewards and incentives [21].

ISSN 2347-4289

4 IMMEDIATE REMEDIAL ACTIONS

Following the consternation from low level of savings, the Bank of Mauritius along with the Cabinet undertook some bold decisions regarding the promotion of savings. The main objectives were to promote a national savings culture and offer households, especially those depending on interest income, a higher rate of interest on their lifelong savings. Creating a savings culture therefore becomes a fundamental economic and social objective, especially for our young people who are the future leaders [22]. In this perspective, the interest rate was raised to 4.65% higher than the inflation rate to stimulate savings. Other objectives associated with the Cabinet decision were to protect their interest income from inflation and earn a positive real return; and help mop up excess liquidity in the banking system which is causing interest rates on savings to fall to low levels. Two types of saving bonds were offered as from 23rd July 2014 namely a Five-Year Government of Mauritius Savings Bonds at a fixed coupon rate of 6 percent per annum; and Five-Year Government of Mauritius Inflation Index-linked Savings Bonds at a fixed interest rate of 2 percent per annum plus the annual headline inflation rate [23]. Although the immediate financial medic was positively received by the media and stakeholders involving the population, what remains to be seen was how this financial strategy would become a contributor to the promotion of savings for the medium and long-term. The winning formula is to keep more money in the coffers, stabilise the cash ratio and let the economy grow. It is the existence of bank credit that makes the money stock larger than the monetary base, also known as "high-powered money". High-powered money consists of currency and bank deposits in the Central Bank's reserves and ultimately, the national economy [24]. What leaves to be understood is whether the past financial instruments are workable in today's more unstable and volatile financial market. What the public likes is a risk-averse culture to savings although it is known that the rewards might be attractive in sectors with a relative latent growth like shareholding, investment in unit trusts or simply investing as entrepreneurs. Equally, when demand and supply conditions are improving, taking note of the precautionary saving motives justifies "leaning against the wind" [25].

6 CONCLUSION

Prior to ending this research, it would be worth noting that the Mauritian public showed keen interest in savings in the form of investment but, in this case, that was too risky. A financial scandal in 2015 linked Mauritian customers to adhere to an attractive Savings Scheme offered by a private company, the British American Insurance which lured several people to invest heavily in return for a Super Cash Back Gold Plan. It offered potential customers excellent value for money by combining high yield savings with insurance [26]. The Minister of Good Governance stated that this was a bait to attract customers by promising them big interest on their investment, then to convince investors they run very little or no hazard [27].When the scandal was declared, government took the decision to repeal the savings programme and partly reimburse the investors. This is where national savings at the bank level have become a more secure opportunity than "risk-prone"savings. Otherwise, it is a compelling government policy to instruct Mauritian citizens on savings at a time when promotion of the country to a high-income economy and eventually to a first-world state in sub-Saharan Africa still remains a myth.

REFERENCES

[1] Economy watch (2010) emerging markets economy, economy watch.com.

[2] wright, c. (2014) after the brics are the mints, but can you make any money from them? forbes, 01 july 2014.

[3] world bank (2014) poverty headcount ratio at $2 a day (ppp) (% of population), world bank group.

[4] encyclopaedia of the nations (2015) mauritius –location, size and extent, advameg, inc.

[5] the heritage foundation (2015) mauritius, 2015 index of economic freedom.ibid.

[6] the guardian (2011) the mauritius miracle, or how to make a big success of a small economy, project syndicate.

[7] statistics mauritius (2015) economy of mauritius, www.gov.mu

[8] kannan, a. and phiri, m. (2015) mauritius, african economy outlook. ibid.

[9] arouff, j.p (2014) foreign investment in mauritius jumps, real estate gets most, www.reuters.com.

[10] trading economics (2014) mauritius, balance of trade, tradingeconomics.com.

[11] etienne, p. (2004) the threatened 37% fall in the price of sugar could spell economic disaster for mauritius.allafrica.com

[12] statistics mauritius (2012) consumption expenditure of households and government, www.gov.muibid.

[13] bank of mauritius (2014) governor's speech on budget, bank of mauritius.

[14] trading economics (2015) mauritius annual gdp growth rate, tradingeconomics.com.

[15] hassett, k.a. (2008) investment, the concise encyclopaedia of economics.

[16] investopedia (2015) definition of derivatives, investopedia.com

[17] khadaroo, a.j. (2014) tackling the faltering national savings rate in mauritius, university of mauritius.

[18] gustke, c. (2015) is a rewards savings account worth it? bankrate.com.

[19] southern eye (2014) national savings culture can be a boon for the economy, 23rd july 2014, southern eye co. zimbabwe.

[20] bank of mauritius (2014) government savings bonds, report, bank of mauritius.

ISSN 2347-4289

[21] CLOUTIER, R. (2015) HOW THE FEDERAL RESERVE MANAGES MONEY SUPPLY, INVESTOPEDIA.COM.

[22] DE PAOLI, B. AND ZABCZYK, P. (2012) CYCLICAL RISK AVERSION, PRECAUTIONARY SAVING AND MONETARY POLICY, FEDERAL RESERVE BANK OF NEW YORK AND CENTRE FOR ECONOMIC PERFORMANCE, LSE.

[23] BAI SUPER CASH BACK GOLD PLAN (2014), BRITISH AMERICAN INSURANCE MAURITIUS.

[24] "AFFAIRE BAI", L'EXPRESS, 24TH APRIL 2015.