

ORAL ANSWERS TO QUESTIONS

The Leader of the Opposition (Mr P. Bérenger) (*By Private Notice*) asked the Deputy Prime Minister, Minister of Finance and Economic Development whether, in regard to inflation, he will state –

- (a) the estimated rate for 2007 – 2008, following the recent increases in Central Electricity Board tariffs and prices in general;
- (b) if new increases are expected in freight rates, bus fares and in prices of flour, ration rice and other commodities;
- (c) if a full wage compensation will be paid as from 01 July 2008, and
- (d) the private enterprises, parastatal bodies and Government companies which have paid a full 10.7% wage compensation since July 2007.

The Deputy Prime Minister, Minister of Finance and Economic Development (Mr R. Sithanen): Mr Speaker, Sir, it is extremely important to understand the factors leading to the inflationary pressures that we currently face.

As I explained to this House in June 2007, when this Government took office, all the conditions were right for an economic decline and a surge in inflation. Let me list them so that we can get a good understanding of the factors underlying the current spike in inflation that we are having to deal with.

Mr Speaker, Sir, in line with my statement last year, notwithstanding the extremely difficult international context and the precarious situation we inherited, we have kept our promise to the nation to reverse the declining trend of the economy and put the economy back on the path of robust, balanced and sustained economic growth.

The recent international news is peppered with stories from countries with more resources, higher income and greater resilience than Mauritius, nevertheless they are facing enormous pressures from the sharp rise in commodity and food prices and also from rising freight costs. Mr Speaker, Sir, we listen to them, we read them and we watch them unfold everyday and in many cases with devastating social, economic and political consequences for these countries.

Mr Speaker, Sir, even the most powerful economy on the planet, the US is facing a rare combination of declining growth/recession with rising inflation, what most economists call 'stagflation'. It is the first time since the 1970's that the US is facing the double woes and despite election promises, the Government of France is finding it impossible to protect, let alone raise purchasing power. In addition, rising prices are a problem across the world, from Argentina to Egypt, from France to India, from Pakistan to Syria, from Australia to Thailand and from the UK to Haiti. It is unfortunately, Mr Speaker, Sir, a truly global phenomenon affecting all countries.

Moreover, some of our traditional suppliers of food are becoming very concerned enough to limit or even ban some exports and/or impose export taxes. All these factors come on top of the rise in fuel prices and the negative impact of drought and global warming on food production. The result is continued international pressure on prices of food, energy and other commodities.

Indeed, the continued pressure on international prices that we face reflects a rare combination of the following –

First, supply and demand imbalances driven by the fastest rate of growth in the world economy in history, more particularly rapidly growing demand in the two emerging economies of India and China.

Second, speculation over persistent shortages and fears that these will aggravate.

Third, a shift to biofuels from food production.

Fourth, the negative impact of global warming on weather conditions including in important suppliers such as Australia hit by unprecedented drought.

Fifth, geopolitical instability which fuels high energy prices.

Sixth, a worrying new phenomenon is the propensity of some countries to panic over food supplies.

Let me also remind the House that we inherited an economy suffering from the failure to respond to the largely permanent decline in the terms of trade by 17 percent and that cost the country the equivalent of a cumulative loss of income of some 4 percent of GDP. Moreover, the reform of the European Union (EU) sugar protocol will lower sugar export prices by 36 percent during 2006–10, further deteriorating the terms of trade by about 9 percent and leading to a further cumulative loss of income of some 3 percent over 4 years.

The failure to deal with competitiveness has further hurt purchasing power of our citizens. We had to pay off more than Rs3 billion to deal with the impact on the STC from the failure to adjust petroleum prices in time. The subsequent adjustments had to be higher than if the APM had been allowed to work, resulting in fuelling inflation in an unfavourable international setting.

Second, Government was left with a high deficit. It is well known that high deficits lead to high public borrowing and therefore to rising interest rates and rising inflation. The quality of the deficit was appalling. It was a high deficit based on poor budgetary decisions. There were also many skeletons left in the cupboard

Third, the previous government had taken the public debt to an unsustainably high level and everybody knows the impact of rising debt on inflation. The doubling of the public debt in five years, with an average of Rs10 billion being added annually to the debt stock during the period 2001 to 2005 was itself, Mr Speaker, Sir, a time bomb on interest rates and prices. Moreover, as pointed out by both Moody's and the IMF, the structure of the debt was poor and deteriorating with an overreliance on short-term domestic debt relative to long-term borrowing.

Mr Speaker, Sir, on the basis of the extremely poor legacy that we inherited, the right policies had to be taken to put the economy back on track and to create the right macroeconomic conditions for economic prosperity and recovery. The choice to us was clear. Either to continue on the same policy thrust we inherited and let the economic situation rot further. Or take bold actions that will bring the economy back to equilibrium and work responsibly on long term solutions to improve and protect purchasing power, while, at the same time, protect the vulnerable groups from the harsh impact of higher inflation. Mr Speaker, Sir, we have made our choice. One that reflects responsible stewardship of the economy while caring for the most vulnerable.

Mr Speaker, Sir, despite the continuously negative international shocks that I have mentioned and that should be well known to everybody in this House, the Central Statistical Office is projecting inflation for 2007/08 to fall to 8.7 percent, compared to a peak of 10.7 percent in 2006/07. I repeat, Mr Speaker, Sir, the CSO is projecting that inflation will fall to 8.7 percent, compared to a peak of 10.7 percent in 2006/07.

Mr Speaker, Sir, in spite of continuously rising prices of oil and food internationally, we have been able to achieve this fall in inflation by -

- (i) increasing the subsidy on rice and flour from Rs400 m to Rs700 m, i.e. an increase of 75 %;
- (ii) by doubling the subsidy on cooking gas from Rs300 m. to Rs 600 m;
- (iii) by reaping the benefits of the economic reforms that have led to a strengthening of the value of the rupee
- (iv) the recent fall in interest rates have marginally helped.

Mr Speaker, Sir, this House is no doubt aware of the recent reduction in the price of fuel oil and the stability in the price of petroleum products. Prices of medicines and cement have also fallen. The prices of many other commodities have also decreased. In other cases, the strengthening of the value of the rupee has prevented prices from rising.

Clearly, international conditions mean that the pressure on prices persists despite our partial successes. However, Mr Speaker, Sir, the strengthening of the rupee in response to our policy reforms has clearly protected our citizens compared to the impact we see everyday in other countries.

Mr Speaker, Sir, in regard to part (b) of the question, in view of the extremely volatile international context it is very difficult to accurately forecast what will happen to commodity prices and to freight rates. However, the movement of trends is not under our control.

Concerning flour and rice, I am informed that prices ought to be constant in the short term. We have been able to stabilize these prices so far for two reasons: one, the appreciation of the rupee and two, rising subsidies, as I indicated earlier on, from Rs400 m. to Rs700 m., Mr Speaker, Sir.

Concerning bus fares, the bus companies have made several requests since 2007 for an adjustment. These are being studied. Regarding other commodities, these prices are set internationally and the volatility in the market makes it difficult to predict which will rise and which will fall. The exchange rate of the rupee will also have a bearing on these prices.

Mr Speaker, Sir, concerning part (c) of the question, there is a system in place to determine wage compensation. Concerning public sector pay, the Pay Research Bureau, in line with past practice, will submit its recommendations, I understand, next month. These usually incorporate compensation for the current year. For the private sector, the National Pay Council will make the appropriate recommendations taking into account four specific criteria, namely –

- (1) Rise in consumer price index
- (2) National ability to pay
- (3) National productivity and competitiveness
- (4) Employment and unemployment rates.

Mr Speaker, Sir, the House is no doubt aware that, in the past, even when inflation was in double digits, previous Governments did not grant a full compensation most of the time. Indeed, in 1982/83 inflation was 13.4 percent; in 1988/89 it skyrocketed to 16 percent; in 1990/91 inflation was 12.8 percent.

In none of these years, Mr Speaker, Sir, was full compensation provided. In fact, compensation for these three years varied between 49 percent to 73 percent. Indeed, full

compensation has rarely been provided in the past, due to the need to protect jobs in the weaker sectors and the tapering of the wage increases formula granted.

Mr Speaker, Sir, concerning part (d) of the question, according to a survey carried out by the Mauritius Employers Federation, some 56 percent of enterprises granted a pay increase higher than the salary compensation. In the case of the public sector, those enterprises with a capacity to pay have paid above the prescribed compensation. These, I understand, Mr Speaker, Sir, include Mauritius Telecom, Airports of Mauritius Ltd, SICOM, State Bank of Mauritius, Mauritius Ports Authority, State Investment Corporation; Financial Services Commission, Mauritius Duty-Free Paradise and Mauritius Housing Company.

Mr Bérenger: Mr Speaker, Sir, everybody knows, and I think the hon. Minister will agree with me, that Zimbabwe apart, there is no other country that more than doubled the rate of inflation when he was Minister of Finance, when the rate of inflation moved from 5% to 10.7% from one year to the next financial year 2005/2006 as compared to 2006/2007. Would he agree with me that, apart from imported inflation, the major causes was the abrupt abolition of all subsidies on rice, flour and cooking gas, reintroduced afterwards, and the then managed depreciation of the rupee?

Mr Sithanen: Mr Speaker, Sir, I think the hon. Leader of the Opposition knows very well that there are many countries in the world – we are not going to speak about the case of Zimbabwe with inflation of 100,000%, I don't even know how they count it - where inflation has more than doubled. I know the hon. Leader of the Opposition watches TV and reads a lot. He would have seen what has happened in countries like Haiti, Thailand, even in France. I was reading an article to see the psychological impact in Italy of a doubling in the price of pasta, of fish and chips in the UK, of *la baguette* in France, of tortilla in Mexico, of rice in Thailand where it has increased dramatically, Mr Speaker, Sir. The other point that the hon. Member is making – he fails to realise that most of the increases that have happened are basically from imported prices. The price of oil, Mr Speaker, Sir, was 40 dollars a barrel in 2005; today it has more than tripled. I think the Leader of the Opposition is not right when he said that we changed our subsidy policy on cooking gas. In fact, on cooking gas, it was never touched. If anything, the subsidy on cooking gas has doubled from Rs300 m. to Rs600 m. and on rice and flour it is true that initially there was an adjustment, but we gave the income support to 120,000 of the compatriots. And then it was reintroduced because, Mr Speaker, Sir...

(Interruptions)

The hon. Member knows very well that for two years in a row - this has never happened - there was a massive drought in Australia and this has led to a reduced crop for wheat. Immediately after we changed the basis of the subsidy, the price went up again and we reintroduced a subsidy. Not only we have reintroduced a subsidy on flour, Mr Speaker, Sir, but we have increased the subsidy from Rs400 m. to Rs700 m. What we are saying, Mr Speaker, Sir, is that we are doing whatever is possible within the means of the

Government to mitigate the adverse impact of the price of commodity and the price of fuel on the population.

Mr Bérenger: Wouldn't the Minister of Finance agree with me that inflation at the rate that we have been knowing is a cruel tax on consumers in general and that it hits the lowest wage earners and those benefiting from the social security payments worse?

Mr Sithanen: Mr Speaker, Sir, I agree with the hon. Member that inflation is a tax on everybody. It falls disproportionately on the poor and that is why we are saying in this Government that not only we need to have economic growth, but that this growth must be socially inclusive. But let me remind the hon. Member that he has to look at the entire economic landscape and inflation is only one variable amongst others, Mr Speaker, Sir. True it is that fall in prices help people but, more importantly, creating jobs is crucial Mr Speaker, Sir. This Government is creating 250% more jobs than what was created before. We are having, Mr Speaker, Sir, a balanced and sustained economic growth. There are six sectors that are booming, Mr Speaker, Sir. We have turned the corner as far as the economic decline is concerned. Mr Speaker, Sir, true it is that fall in prices help people, but giving access to jobs also help poor people. We are saying that we have to give jobs to poor people; we have to give a second job to people who live in a family, Mr Speaker, Sir, so that they can meet rising prices. The hon. Member has been Minister of Finance for four years, Mr Speaker, Sir. He knows it. Unfortunately - and I weigh my word when I say this Mr Speaker, Sir - the world will have to learn to live with rising prices. It is a sad predicament. There are some policy responses to that, Mr Speaker, Sir.

(Interruptions)

Mr Speaker: Order, order! Order, please!

Mr Sithanen: The policy responses, Mr Speaker, Sir, is to see what can be done in order to increase food security and to encourage the use of renewable energy. But because of soaring demand from countries like China and India, because of the effect of climatic conditions, Mr Speaker, Sir...

(Interruptions)

It is not bla-bla-bla; the hon. Leader of the Opposition knows very well.

Mr Bérenger: The hon. Minister should reply to my question.

Mr Sithanen: The hon. Leader of the Opposition would be given more time, if he wants. Let us have a debate on TV tonight.

(Interruptions)

Mr Speaker: Order! Order!

Mr Sithanen: The hon. Leader of the Opposition wants more time. Let us have a debate tonight on TV with the Leader of the Opposition and me!

Mr Speaker: Order, please!

Mr Bérenger: Mr Speaker, Sir, since we have a new basket for the Consumer Price Index, would the hon. Deputy Prime Minister agree that with the food inflation hitting us, the new basket is not measuring the impact of the lowest paid. Because, as we know, the lower we go, the more the percentage of salaries earned goes into food. Now, we have intense food inflation. Will the hon. Deputy Prime Minister agree with me that there is need to look at that?

Mr Sithanen: Mr Speaker, Sir, again, the hon. Leader of the Opposition has been Minister of Finance for four years. It is my eighth year as Minister of Finance on a cumulative basis. Mr Speaker, Sir, every five years, the CSO, independently and scientifically, carries out a survey to ascertain what is the composition of the basket and everybody knows all things constant, there will be a change in the basket. This study is carried out every five years and we are just implementing what has been recommended by the CSO and it is on that basis that CPI prices are computed and compensation will be paid as one of the criteria for 2007/2008.

Mr Bérenger: Mr Speaker, Sir, may I know from the hon. Deputy Prime Minister whether the recent CEB tariff increases of more than 20% will impact on the CPI?

Mr Sithanen: Mr Speaker, Sir, I have checked with three institutions that usually do this exercise. The CSO is the one on which all Ministers of Finance and Governments have to rely. But the MCB and the Bank of Mauritius also do their estimation of not only inflation but also the other macroeconomic aggregates. The IMF also uses the figures from these three sources. I have checked with all three of them because I am equally concerned about what is happening on inflation even though, I must say, it has fallen compared to the peak of last year, and all three tell me that the impact for the remaining period is about 0.2%. That is why the initial estimate was about 8.5% and as a result of the rise in the price of electricity, it will be about 8.7%. But they have not taken into account the drop in the price of fuel oil and, probably, what is uncertain, Mr Speaker, Sir, is what is going to happen to the trend in the rupee for the next six weeks and also after 01 July. Mr Speaker, Sir, let me inform the House that it is a difficult policy choice - and I am sure the hon. Leader of the Opposition understands that very well. You create a policy environment to fight inflation, but then it may pose a risk of economic decline. I am sure all Members in this House are following what is happening between the United States and Europe. In the US, the balance of risk is tilted against an economic downturn. They are very aggressive on dropping the interest rate, whereas in Europe, notwithstanding political pressure on Mr Trichet, they are keeping a close eye on inflation because inflation is higher. It is not an easy decision in terms of policy mix. Whether it is monetary policy or fiscal policy, Mr Speaker, Sir, what do you do? My own view as Minister of Finance, Mr Speaker, Sir, is that the best thing is to have

sustained economic growth with moderate inflation. All of us would like to have zero inflation, but this is extremely difficult. Nobody in the world is getting it right. The great thing we have done is that we have reversed the economic decline. All the major macroeconomic indicators are in the black, Mr Speaker, Sir.

Mr Bérenger: Mr Speaker, Sir, the hon. Deputy Prime Minister confirmed that there will not be full compensation for the lowest paid and for the social security payments, although the rate of inflation is still very high, at nearly 9%. When we have this kind of inflation rate and we do not have full compensation, everybody knows *que le pouvoir d'achats recule* even if GDP figures increase on their side. Is the hon. Deputy Prime Minister telling us that Government has decided, in spite of what the *Bureau International du Travail* has said concerning the National Pay Council, that they are going ahead with *ce machin* again this year - and I understand that it will be meeting tomorrow with the same so-called trade unionists picked by Government and with the same criteria. Is he saying that? Refusing to give full compensation and going ahead, in spite of what the *Bureau International du Travail* said, with this gimmick before the NPC.

Mr Sithanen: Mr Speaker, Sir, let me state four things to my hon. friend. Firstly, I have not said what is going to be the compensation, Mr Speaker, Sir.

(Interruptions)

Unless the hon. Member is becoming Minister of Finance! Nobody knows what is going to be the recommendation of the National Pay Council. With respect to social aid, Government has the last word. Mr Speaker, Sir, it is not Budget time. I think the hon. Leader of the Opposition knows very well ...

(Interruptions)

Mr Speaker: Hon. Members, we are losing time!

Mr Sithanen: Mr Speaker, Sir, I have not said what is going to be the compensation and what is the policy of Government. For compensation, we will have to wait for the recommendation of the NPC and for social aid and social protection, we will have to wait for the Budget. Mr Speaker, Sir, it's ironic that the hon. Leader of the Opposition with such an excellent memory seems to forget. I gave examples ...

(Interruptions)

Mr Speaker: Order!

Mr Sithanen: In 1982/83, the rate of inflation was 13.4%. I don't want to take him down memory lane, Mr Speaker, Sir. You know what happened, Mr Speaker, Sir. I must say in his favour that, subsequently, when he became Minister of Finance, he refused to meet *les syndicalists*. In 1982/1983, he met them. It was 5% before, 5% during and 5% after the discussion when inflation, Mr Speaker, Sir, was 13.4%. In 1989/1990, inflation was 16%, Mr Speaker, Sir.

(Interruptions)

I will ask him to check who was Minister of Finance in 1989-90. He should go and check what was the rate of inflation in 1990-91. Mr Speaker, Sir, such type of populist demagoguery does not fit someone who wants to become Prime Minister of this country. The hon. Leader of the Opposition has been there before and he did not give it, Mr Speaker, Sir,

(Interruptions)

Mr Speaker: Order! Order, please! Let me remind the House that we are left with five minutes.

Dr. Boolell: On a point of order, Mr Speaker, Sir, the hon. Leader of the Opposition has used the word '*bourrique*' and he should withdraw it with apologies.

Mr Bérenger: I withdraw with apologies. I said '*petit bourrique*' and I withdraw.

(Interruptions)

Mr Speaker: Order! Order, please!

(Interruptions)

Mr Speaker: The hon. Leader of Opposition has withdrawn the word.

Mr Bérenger: They are wasting our time again. I ask which parastatals, which Government owned-companies and which private companies pay the full 10.7% and the answer was – from what I heard – none of the parastatals, none of the Government companies paid the full 10.7%. And I am surprised that, as far as the private sector is concerned, the hon. Deputy Prime Minister relies on no inquiry from Government side on the Mauritius Employees Federation which says – I listened – that 56% have paid more than 8.7%. How many have paid 10.7%? I expected names and figures. Can I know from the hon. Deputy Prime Minister why hasn't Government, at least, enquired and left it to the MEF to give figures?

Mr Sithanen: Mr Speaker, Sir, there are three things. First, the hon. Leader of the Opposition should stop insulting people. It is very unfair.

Mr Speaker: He has withdrawn the word.

Mr Sithanen: Even if he has withdrawn! Mr Speaker, Sir, I have tried to be fair. I can insult also, Mr Speaker, Sir.

(Interruptions)

Mr Speaker: Order!

Mr Sithanen: He should not try to intellectually belittle people, Mr Speaker, Sir.

Mr Speaker: The hon. Minister has made his point.

(Interruptions)

Order!

Mr Sithanen: The hon Leader of the Opposition should not think that he is the only one who knows, Mr Speaker, Sir.

Mr Speaker: The hon. Minister has made his point.

(Interruptions)

Mr Speaker : Order ! Order, please !

(Interruptions)

Mr Sithanen: The hon. Leader of the Opposition must go and do that with his people!

Mr Speaker: Order, please, hon. Minister! He has withdrawn the word!

(Interruptions)

Order!

Mr Sithanen: Second, Mr Speaker, Sir, the hon. of the Opposition knows, he has been the Minister of Finance. Because of the structure

(Interruptions)

Mr Speaker: Order! I said order!

Mr Sithanen: Mr Speaker, Sir, everybody who follows the link between inflation and compensation should know two things. One, the basis on which the tapering takes place always ensure that only the first 10% gets full compensation. Even within this category, Mr Speaker, Sir, there is a proviso for the EPZ.

(Interruptions)

Mr Speaker: Order!

Mr Sithanen: In the case of the EPZ, because of the historically sensitive nature with regard to the competitiveness of that sector, the compensation has always been paid on basic wage and not on totality of wages. The hon. Leader of the Opposition should know very well, Mr Speaker, Sir, that even in the previous formula, very few people were getting full compensation. However, what has happened in the current system is that those who can afford to pay have done it. We have checked, Mr Speaker, Sir. It is not right when the hon. Leader of the Opposition said that we have not checked. The hotel industry, in many cases, has paid more than 10.7%. In banking sector, Mr Speaker, Sir, they have paid more than the 10.7%. In some financial services sector, they have paid more. In fact, Mr Speaker, Sir, this is what should be the trend. The trend should be based on ability to pay and that is why, Mr Speaker, Sir, this Government would like to switch resources from sectors that do not pay well to sectors that pay well.

Mr Bérenger: Being given that it is clear that full compensation is not going to be paid as was the case last year, can I ask whether Government is considering other measures to bring down the rate of inflation which would be around 9% - very high – measures like action on certain items that pay VAT, excise duties and especially what the STC calls expenses incurred in connection with importation of petroleum products and which is additional tax on consumers. Is Government considering action in those areas to bring down the rate of inflation?

Mr Sithanen: Of course, Mr Speaker, Sir, but, as I explained initially, it is a difficult choice. We have done what is possible with the increased subsidy on rice and flour from Rs400m to Rs700m. We have raised subsidy on gas from Rs300m. to Rs600m. We are doing some cross-subsidization, The hon. Leader of the Opposition himself says that inflation is a tax and it is a higher tax on the poor and here is a Government that is using cross-subsidization to protect the poor.

(Interruptions)

What has happened, Mr Speaker, Sir? If you look at the structure of pricing of the STC, there is a slight tax on those who have ability to pay with a view to protecting those whose ability to pay is less, Mr Speaker, Sir. Then, there is fiscal policy. We will do our best to use a combination of fiscal and monetary policy to do it, but you can imagine the policy dilemma that most policy makers have to face, Mr Speaker, Sir, because if you bring down interest rate, you give some leeway to people, at the same time, it can create other problems. With respect to interest rate and exchange rate – I have looked at the exchange rate, Mr Speaker, Sir – we can see what is happening. Those who are affected by the export competitiveness are shouting, whereas the rising rupee has helped to a large extent to do two things. One to bring down the price of some commodities and two to arrest the increase in the prices of many of the commodities, Mr Speaker, Sir.

Mr Speaker: Last question!

Mr Bérenger: Being given that the hon. Minister of Finance goes on and on with capacity to pay, supposedly the employees and the workers of the country are not getting full compensation because of the capacity to pay of certain weaker sections of the economy, can I ask him where does capacity to pay come in when we are talking about civil servants and especially poor families earning social security benefits? In that case, the argument that capacity to pay is not there, simply does not exist, especially, I repeat, in the case of the poor people, les *pensionnés*, the old people earning social security benefits. Why can't they, at least, get full compensation?

Mr Sithanen: Mr Speaker, Sir, I am very sad to hear what the hon. Leader of the Opposition said. Surely, he would appreciate two things. One, this Government is doing everything possible in order to protect the low income group. We have given an income support, Mr Speaker, Sir. We are doing cross-subsidization in order to help the poorest segment of the population, and they come in this House and say that increase in wages or social policies do not have an impact. It impacts on the budget deficit. It is the same Government, Mr Speaker, Sir, that left us with a deficit of 6%. It is the same Government that left us with Rs6 billion in the cupboard and now the Leader of the Opposition is telling us that we need to do more.

Having said that, Mr Speaker, Sir, let me conclude by saying the following: I have not said what the Leader of the Opposition is saying. What I have said, Mr Speaker, Sir, I believe in institutions. These institutions will make the recommendations as far as salary increase is concerned for the private sector. With respect to the public sector, the PRB, in full independence, will make its policy recommendation and with respect to those who are on social aid, Mr Speaker, Sir, we will announce our measures when the time comes for the Budget.

Mr Speaker: Time is over! Questions addressed to the hon. Prime Minister.