

MAURITIUS

Fifth National Assembly

FIRST SESSION

Debate No. 2 of 2011

Sitting of Tuesday 29 March 2011

The Assembly met in the Assembly House, Port Louis,

at 11.30 a.m

ORAL ANSWERS TO QUESTIONS

INFLATION

The Leader of the Opposition (Mr P. Bérenger) (*By Private Notice*) asked the Vice-Prime Minister, Minister of Finance and Economic Development whether, in regard to price increases since the beginning of the year, he will state if Government proposes to take new urgent measures to control inflation and support the population's purchasing power, including –

- (a) changes to the Value Added Tax regime;
- (b) subsidies on rice, flour and cooking gas to be provided for, in the budget;
- (c) an increase of the additional remuneration that took effect as from 01 January 2011;
- (d) boosting food production, and
- (e) strengthening the Competition Commission and the Monetary Policy Committee.

The vice-Prime Minister, Minister of Finance & Economic Development (Mr P. Jugnauth): Mr Speaker, Sir, the whole world is living through a period of inflation induced by rising food, energy and commodity prices. Moreover, unexpected geopolitical developments and the situation in Japan are adding to the inflationary pressures. Both advanced and emerging economies are facing inflationary pressures. Mauritius is very

exposed to such pressures as we import most of the commodities we consume. These include mainly food and energy products. As a result, headline inflation in Mauritius has very closely followed the global trend rising to 3.6% in February 2011.

Government is closely following price developments at international and domestic level and has been consulting the relevant stakeholders on the appropriate course of action that needs to be taken in the short-term and in the longer-term. As the House is aware, we have already taken mitigating measures.

First, the Ministry of Business, Enterprise, Cooperatives and Consumer Protection, has set up an '*Observatoire des Prix*' to provide consumers with information on prices at different selling outlets on a comparative basis so as to help them to make the best buying choices cost-wise.

Second, the Ministry of Industry and Commerce has had meetings with different importers and local manufacturers to see how the prices of goods which are regularly consumed by people are reduced or at least not increased in the short-term. These importers and manufacturers reacted very positively by compressing their margins and consequently the retail prices of some 132 items have so far been reduced. The reduction has reached up to 28%. These include rice, milk powder, pulses, noodles, canned vegetables and cheese. These initiatives are helping to alleviate the burden of consumers, more particularly those of the lower income groups.

Third, an Advisory Committee has been set up by the Ministry of Industry and Commerce under the Chair of Mr Pierre Dinan to come up with recommendations about pricing policies and strategies that could be adopted by Government to effectively deal with price increases of goods of regular consumption. The Committee consists of members from the private sector, the consumers' Associations and the public sector.

Fourth, a Ministerial Committee under the Chair of my colleague, the Minister for Social Integration and Economic Empowerment, has been set up to follow up the issue of prices, particularly the pricing of essential commodities. The Committee also includes the Minister of Industry and Commerce, the Minister for Business, Enterprise, Cooperatives and Consumer Protection, the Minister of Tertiary Education, the Minister of Agriculture and myself.

Fifth, we have significantly increased the level of subsidies on rice, flour and cooking gas. These subsidies would reach an estimated amount of Rs1.45 billion this year against Rs800 m. last year.

Had we not provided these subsidies -

- the price of one pound of rice would have been Rs2.95 higher;
- the price of one pound of flour would have been Rs2.50 higher;
- the price of '*pain maison*' would have been 60 cents higher, and
- the price of cooking gas cylinder of 12 kilos would have been Rs200 higher.

Sixth, as I announced on 18 March 2011, the monthly income support for our vulnerable citizens has been doubled to Rs246 per head. For an average family of four persons the total annual income support from Government will amount to Rs12,792. This is an unprecedented measure which speaks volumes of this Government's determination to provide support to our most vulnerable citizens and promote the cause of social justice.

Seventh, as regards part (e), I have announced in the Budget Speech at paragraph 23, I quote "the Monetary Policy Committee has been operating for over three years now. And it has, along with fiscal policy, an increasingly important role to guarantee macroeconomic stability. To ensure that the MPC plays this role with even greater effectiveness and review of its functions will be carried out by an independent consultant".

Sir Alan Budd has been appointed as independent consultant to carry out a comprehensive assessment of the role and performance of the MPC. He has already had consultations in Mauritius with stakeholders. He is planning to submit his report to Government by the end of April.

Eighth, regarding the Competition Commission, I am advised that the legal framework is in line with international norms and duly empowers the Commission to effectively investigate and check cartels, monopoly abuses and mergers resulting in substantial lessening of competition. The Commission, with a budget of Rs35 m., has been endowed with adequate resources to fulfill its mission. The Commission is currently strengthening its human resources and capacity for analysis, investigation and enforcement.

Ninth, the various components of the Food Security strategy are being implemented. In this year's budget an amount of nearly Rs200 m. has been provided for the various subsidy

and loan schemes, investments and other incentives. Out of the 1,000 *arpents* earmarked from the sugar estates, some 200 *arpents* are being prepared for various activities, including potatoes, onions, other crops and livestock production. As regards rice, which is a staple commodity, I am informed that Vita Rice has put 125 hectares of land leased from Rose Belle under cultivation and the first harvest will amount to about 700 tonnes.

Tenth, regarding the additional remuneration, it has always been the practice to provide the yearly wage compensation on the basis of loss of purchasing power for the preceding financial year. For the financial year 2010, the rate of inflation estimated by the CSO at the time of tripartite discussions was 2.7%. In spite of the difficult economic times, Government has in 2011 provided compensation at the rate of 3.2% for all those earning up to Rs5,000 per month, which is well above the inflation rate. The same higher rate of compensation of 3.2% has been granted to all old age pensioners and all recipients of basic invalidity pensions, basic widows' pension and social aid. For any loss in the purchasing power in the current financial year, compensation will be determined by the National Tripartite Mechanism for implementation as from 01 January 2012.

As regards the VAT regime, its rate has remained unchanged since the 2001/02 and 2002/03 Budgets when the rate of VAT was increased from 10 to 12 per cent and from 12 to 15 per cent respectively. These increases were applied at a time when the rate of inflation was 4.4 per cent and 6.3 per cent. Additionally, the VAT which was levied on petroleum products at wholesale stage only was extended to the retail price as from October 2002. We could also have increased VAT to reduce the budget deficit and Government debt. But we precisely chose not to do so as to avoid further pressures on the purchasing power of the consumer.

Mr Speaker, Sir, in addition to all these measures already taken by Government to alleviate the price burden on the population, I have the pleasure to announce on behalf of Government that we are taking yet another significant measure. It concerns the price of Mogas (*l'Essence*) and gas oil (Diesel). This will have an important impact on curtailing the price increases and contain inflationary pressures.

Despite the fact that international oil prices have continued to soar in the past five months, Government has decided to temporarily reduce the charge in the petroleum price structure for refund of hedging losses as follows -

from Rs3.00/L to Rs1.00/L for diesel, and

from Rs3.00/L to Rs1.25/L for Mogas.

After taking into account the VAT impact, this measure would be translated into a price reduction as follows -

For diesel from Rs43.50/L to Rs41.20/L - (a reduction of 5.3%)

For *l'essence* from Rs51.30/L to Rs49.30/L – (a reduction of 3.9%)

Mr Speaker, Sir, Government will closely monitor the situation as regards petroleum prices and make adjustments accordingly.

Mr Bérenger: Mr Speaker, Sir, if I can start with the Value Added Tax regime. Only last week, MRA put out official figures that showed that total VAT revenue to Government in 2010 increased by more than 10%. Therefore, Government clearly has room to manoeuvre. Instead of that, in the last Budget, excise duty on petroleum products were increased by 10%. With that kind of VAT revenue increasing by more than 10% in 2010, will Government consider bringing down the excise duty and bringing down VAT which is *frappé* even on the hedging losses? Will Government consider bringing down excise duty to where it was on petroleum products and bringing down VAT?

Mr Jugnauth: Mr Speaker, Sir, now that the hon. Leader of the Opposition is in the Opposition, he is asking this Government to reduce VAT and excise duties. But, in June 2001, let's see the rate of inflation....

(Interruptions)

The rate of inflation was 4.4%; VAT was 10%. The Government of that day increased VAT from 10% to 12% in July 2001...

(Interruptions)

Mr Speaker: Order! Hon. Bhagwan!

Mr Jugnauth: ...having an impact of plus point 9 percentage point on inflation rate for 2002 to 2003. That was not all, Mr Speaker, Sir. The rate of inflation climbed from 4.4% to 6.3% in June 2002. In spite of that, the Minister of Finance of that day increased VAT from 12% to 15%, having an impact of 1.4% percentage point on inflation rate.

(Interruptions)

Now the hon. Leader of the Opposition is asking Government ...

Mr Speaker: Order!

Mr Jugnauth: ... when the rate of inflation that has been established as at end of February to be 3.6 %, to reduce VAT and excise duty. I think this is very contradictory of the hon. Leader of the Opposition.

Mr Bérenger: Mr Speaker, Sir, being given that Government now confirms that we will not bring down excise duty or VAT on petroleum products as far as products in general are concerned, with that kind of room to manoeuvre - which I have just quoted, more than 10% increase in VAT revenue from one year to the next - is Government prepared to consider changing that regime, either to have a variable VAT rate according to different products or removing VAT from the essential products which are still hit by that?

Mr Jugnauth: Well, again, I don't understand the hon. Leader of the Opposition. He says 'removing VAT on essential products' when he, himself - it is good to quote what he said with regard to the VAT Amendment Bill ...

Mr Speaker: No! Can I inform the hon. vice-Prime Minister and Minister of Finance that he has some latitude in answering the question, but he cannot go on quoting? He must just give the gist of what was said at that time.

Mr Jugnauth: What I am saying, Mr Speaker, Sir, is the contradiction of the hon. Leader of the Opposition. The hon. Leader of the Opposition himself said that it would have to extend the purview of the VAT on a number of commodities. Therefore, the issue does not arise today. As I said, we are in a very difficult situation. The hon. Leader of the Opposition is saying that we have room to manoeuvre. I don't see how and where is the room to manoeuvre. In fact, we are in a very tight situation. Inflation is ...

(Interruptions)

Mr Speaker: Hon. Bhagwan, could you please stop interrupting the hon. vice-Prime Minister and Minister of Finance when he is answering? He is explaining his position, that's all.

Mr Jugnauth: Mr Speaker, Sir, I don't see the remark of the hon. Leader of the Opposition saying about Rs144 m. ...

(Interruptions)

Mr Speaker: I will not allow one single more minute on this PNQ if Members continue like this! Let the hon. vice-Prime Minister answer!

Mr Bérenger: He is wasting our time

(Interruptions)

Mr Speaker: No! Can I for the times state in the House that I have no control on the answers given by Ministers? I can just draw the attention of the vice-Prime Minister and

Minister of Finance that he cannot go on quoting, he has to state the gist of what he has said, that's all. I have already called the Minister's attention to that effect.

Mr Jugnauth: Mr Speaker, Sir, I was saying that we are in a very difficult situation today as the world is witnessing inflation. For example countries, like China, where there was deflation, is experiencing and forecasting inflation. India, Europe, worldwide, countries are experiencing inflation and Mauritius, as we know, is no exception. Therefore, taking into consideration that a number of food commodity prices are going up, taking into consideration that price of petroleum has been soaring and has been going up, it would be irresponsible for the Government just to come and review the VAT and the excise duty. Of course, as I said in my answer, we are going to monitor. We will look at the situation and, just as I have announced, Government has decided, therefore, we will, in fact, reduce that part of the hedging loss in order to alleviate the burden on the population.

(Interruptions)

Mr Bérenger: ... the vice-Prime Minister to break here and not replying to my question where I asked whether he would provide for subsidies on rice/flour and cooking gas in the Budget, and for good reason. But why will he try keeping on fooling the people by giving the impression that Government is giving so much subsidy on rice/flour and cooking gas when it is, in fact, the consumers of petroleum products who are paying for that? If it was provided for in the Budget, it would allow us to bring down the prices of petroleum products by so much.

Mr Jugnauth: Again, I don't understand. Mr Speaker, Sir, let us be clear. STC is charging a fee in order to cross-subsidise for the price of flour, rice and Mogas. Why is that so? Because STC is importing those commodities! I don't ...

(Interruptions)

Mr Speaker: Is the hon. Member answering? Please, keep quiet!

Mr Jugnauth: According to the Leader of the Opposition - we could have done that - we could have increased excise duties up to that amount, that money would have gone into the Consolidated Fund and then we would have removed that money again to give to STC for the purchase of rice, flour and Mogas. I would say, this is not new, Mr Speaker, Sir. Let's look at 2003 and 2004. That was the time again - that is why I don't understand. The hon. Leader of the Opposition is complaining why we are going like this today but, at his time also, there was a surplus from STC - Rs76 m. - that was used to cross-subsidise with relation to prices.

(Interruptions)

It does not stand to me! I think it is childish to say that we should have taken the money and given it back to STC.

Mr Bérenger: Sir, it is the consumers that are subsidising rice, flour and cooking gas. On part (c) of my question, Mr Speaker, Sir, increasing the additional remuneration that took effect as from 01 January 2011, in two months, January and February, the cost of living has gone up by 1.8%. In two months! Therefore, 60% of that meagre 3.2% that was granted as from 01 January has already evaporated and we know that inflation is going to be above 7%. The hon. Minister is presenting the doubling of the income support as help to those who are affected by these recent price increases. Has he forgotten that, that measure - doubling the income support for about 100,000 beneficiaries - was announced in the December 2009 Budget by the then Minister of Finance, hon. Sithanen? It was not implemented. It is implemented now when the cost of living has got up at 1.8%.

(Interruptions)

Mr Speaker: Order!

Mr Bérenger: In the same logic, why are not *les pensionnés*, all those benefiting from social aid, *les handicapés* not benefit also from an increase in their allowances, being given the rate of inflation since January?

Mr Jugnauth: When we gave salary compensation of 3.2%, we have increased the social benefits also as from January. It is only the regulation that appeared that was signed recently, but I must say that this has always been the tradition.

(Interruptions)

Mr Speaker: Order!

Mr Jugnauth: This has always been the case. In fact, I don't know if I have the details, but I can tell the House that every time there has been salary increase, it has taken a few months after, before the Minister signs the regulation. Now, with regard to income support, I can answer for this Government under the leadership of the hon. Prime Minister. I can't answer for what has been done before. Just to compare, Mr Speaker, Sir, this Government has doubled the income support to Rs246 per individual per month, but when inflation was on the rise in 2001/2002, it was not income support at that time, it was food aid. It was Rs30 and for three years. The hon. Leader of the Opposition was Minister of Finance and he did not

(Interruptions)

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

Mr Bérenger: On part (d), boosting food production, which is an obvious way of helping, keeping prices of food products down, the Minister gave the impression that *tout va très bien madame la marquise*. Is he aware that the last figures from the CSO are the following: 8% decrease in vegetables over one year in 2010, Mr Speaker, Sir; 20% decrease in fish production and fish from the banks has gone down by 25%. We are heading for catastrophe. So, can I know what new measures are going to be taken? Instead of allowing food production to keep on decreasing, as official figures show, what new measures will be taken on? In the same breath, reference has been made to Vita rice; can I know what kind of support - if Government is convinced that this is un projet *d'avenir* - is being given? I understand that first crop will be sold at a price of some 15% more than imported rice. Can I know what new measures will be taken to boost food production in general, instead of food production going down and down and what special assistance will be extended to Vita rice if Government is convinced that this is a *projet d'avenir*?

Mr Jugnauth: What the hon. Leader of the Opposition has said, in fact, stands to reason in one aspect because we have to be careful. We want to increase production as much as we can, but that production must be cost-effective also. It must be economical. What happens when you give support to people who engage themselves into an economic activity is that they produce a product which is, after all, not competitive with regard to importation. We have to be very careful. We have to see to it that whatever support we give - because it's public funds - that we use it judiciously. Therefore, we are looking at a number of products that can be either cultivated, or produced in Mauritius. That is why I have said that out of the 1,000 *arpents* of land, 200 *arpents* have already been prepared for a number of activities like potatoes, onions, some of the crops and livestock production. Of course, Government stands to assist in whatever way it can, those who are going to engage in those activities. As regards rice, there is a private operator who has, in fact, started on a pilot basis, the cultivation of rice, and Government has given maximum support because we consume rice. It is a staple commodity and, of course, with bigger production, we hope that there will be economies of scale. We are not looking at production locally, we have, in fact, been looking at production in some neighbouring countries. Of course, I won't give the details now, but there are discussions that are ongoing so that, at the end of the day, rice can be produced at an economic price.

Mr Bérenger: The last part of my question, Mr Speaker, Sir: the Competition Commission and the Monetary Policy Committee. We know that consumers suffer because of certain monopolies, cartels and also some unhealthy - not all of the importers - arrangements between importers and their own distributors. I heard the Minister saying that the Competition Commission has the required staff? It doesn't to really do a good job. They are doing a great job, but to really do a good job as far as consumer goods are concerned, will the Minister agree with me that they need an increase in staff. As far as the Monetary Policy Committee is concerned, can I know from the hon. Minister whether he agrees with the definition? Unfortunately, in the law, there is no definition of monetary policy. The Governor defines monetary policy as interest rate policy and excludes foreign currency, foreign exchange rate policy. Therefore, what we do on that side, we can undo on the other side. Can I know from the Minister whether he agrees that there is need to see to it that monetary policy includes exchange rate policy?

Mr Jugnauth: Well, the Competition Commission, in fact, has been set up under the hon. Prime Minister. I must say that is an independent Commission. We cannot interfere with the work of the Commission. I understand that they have about 15 analysts and they are, as I said, looking at strengthening the human resources that they have. With regard to the Monetary Policy Committee, I have just answered, Mr Speaker, Sir. *Je ne vais pas usurper le travail qu'on a demandé à Sir Alan Budd de faire parce qu'il est en train de revoir le fonctionnement après plusieurs années d'expérience.* He is a person who has great experience. In fact, he was so much involved in the Monetary Policy Committee in England and, of course, we will be looking at his recommendations and, eventually, Government will have to act on them. But, I know consultations are being held by Sir Alan Budd.

Mr Speaker: Last question!

Mr Bérenger: The Minister has referred to the past in different situations. He has also referred to the whole world experiencing problems and so on. Will he agree with me that the right mix of fiscal monetary and other measures will allow us to perform like, for example, Singapore? The hon. Prime Minister likes quoting Singapore. It is a small island like us. It imports everything like us. Is the hon. Minister aware that this week Singapore's estimates of its inflation rate for 2011 is 3.2% only with the right mix of policies? Is he aware that in the UK, precisely VAT on petrol products has just been brought down? In India, all sorts of measures have been taken along the lines that I have suggested, that there is room to better control inflation and, at the same time, increase the purchasing power of the population.

Mr Jugnauth: The hon. Leader of the Opposition is mentioning India. Mr Speaker, Sir, the tax on gasoline in India is 44 per cent and Singapore has got a different economic structure than Mauritius. We can't just compare like that. Therefore, I will again ask the hon. Leader of the Opposition to be patient. Sir Alan Budd is doing the study and will come up with recommendations and then we will see.

Mr Speaker: Thank you. The Table has been advised that Parliamentary Question No. B/96 with regard to Freedom of Information Bill will be answered by Dr. the hon. Prime Minister. Questions addressed to Dr. the hon. Prime Minister! Hon. Ameer Meea!