Interview
Eric Ng Ping Cheun, economist

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Photographer: Nasurudin Keramuth

Title: The overall unemployment rate of 8.0% is not alarming

Weekly speaks to Eric Ng to find out his views on the economic performance of the country, its strengths and challenges, where he stands on the repo rate debate and which party has had the best economic track record in recent years.

Could you start by shedding some light on the on-going debate between the Bank of Mauritius (BoM) and the minister of finance? Is it constructive or destructive?

I think that there is a need to have a public debate. The minister and the governor have said that they would meet once a month to thrash out all issues, so I don't understand why there should be statements and communications through communiqués in the press.

The debate – whether in meetings or in the press – is about an acceptable percentage of both inflation and growth. Where do you stand in this debate?

For Mauritius, we should aim for a headline inflation rate that is well below 4.0%. We are not there yet. In the year to April, headline inflation was 4.0%. It will only get worse in the coming months but we need to be proactive. Growth, on the other hand, is forecasted to be 3.7%.

Is that acceptable?

This growth rate is not acceptable for a developing country like Mauritius because we need to aim at 5-6% to reduce unemployment, but in the context of a world economic crisis, I think that 3-4% growth is quite reasonable. Our export sector is doing well: the textile sector is recruiting people and expanding production. Of course, exporters would like to see the euro below Rs38, but it has settled at above Rs40.

Can we just open a little bracket to talk about employment? Is the unemployment rate alarming?

No. The overall unemployment rate of 8.0% is not alarming; it becomes alarming when it goes into double digits. The figures show that unemployment is stabilising at 8.0%, which is the same as last year, so it's not an alarming situation. What is alarming is the youth and female unemployment rates at over 20% and 12% respectively. This is something structural within the labour market which has nothing to do with monetary policy. I don't see how decreasing the interest rate would boost youth employment.

What needs to be done then to attenuate the situation?

There should be facilities and incentives to hire youth. Firms are not going to hire inexperienced youth unless they have enough fiscal incentives to do so.

What about the Youth Employment Programme?

It's a good initiative, but it's not enough. I think in general, you must be able to encourage firms to recruit young people and train them and eventually employ them on a permanent basis. Okay, you can have temporary programmes where government pays half the stipend for each company which takes on a young graduate, but this is not sustainable. There is also the growing skills mismatch. Something needs to be done at the level of tertiary education.

What kind of 'something'?

Something like taking another look at the programmes; they are too general. But this is a vicious circle because if you want specialised programmes, you need lecturers from overseas, and the university needs to have the resources to pay them in which case tertiary education cannot be free. If you continue to have relatively free tertiary education… (*Long silence)*

…you will get the quality that you pay for.

(*Laughs*) I am not saying our local lecturers are bad, but if you want to have specialist programmes, you need foreign support. The local lecturers are not sufficiently trained to give out specialised courses. In the finance and banking industry, we lack specialists. Also, there are jobs for skilled people in manufacturing and construction. The skills problem is structural.

That brings us back to the interest rate debate and the choice between inflation and growth. Which worries you more?

I worry about both but, at the same time, you cannot say that inflation is not a priority. I have always pointed out that we cannot just pump money into the economy and qualify this as growth. What is important is the purchasing power and standard of living of people.

But what standard of living will they have if they remain unemployed?

Yes, but you cannot simply be content with employing people in an environment where prices are going up because then there is monetary instability. Also, it's difficult for firms to make economic calculations when prices are unstable.

So what you are saying is that the repo rate should be raised to protect people's standard of living?

Yes, I think the repo rate should be raised in the coming months to send a signal that the BoM is fighting against inflation.

By how much?

It should go up in steps by a total of 50 basis points by the first quarter of 2015. We should be at 5.15%. No less.

How many exporters will you have on your back after this statement?

(*Laughs)* Quite a few but let's not forget that the repo rate was at 9.75% in 2007 and there has been a fall of more than 500 basis points since. Now the BoM is trying to raise it by peanuts, they are saying it will affect their enterprises. The issue is that the inflation rate is higher than the nominal interest rates on savings! This is one reason why national savings have gone down to less than 13% of the Gross Domestic Product (GDP).

What does that mean for the economy?

It means that there is a resource gap between savings and investment, and this difference is being met by foreign savings. As more foreign currency comes into the country, the rupee tends to appreciate, which encourages people to spend more and savings fall further. In such a situation, our economy may seem to boom but, at some point in time, the bubble will burst. In fact, the production of an economy is driven by savings. A country needs to save first in order to have the financial capacity to invest; it cannot invest without saving, unless banks create credit out of thin air. That's a basic principle in economics.

Does the Ministry of Finance not understand this or is it not in their interest to understand it?

(*Laughs*) Those are *your* words! They understand it of course, but politicians have to create an atmosphere where everyone is employed and happy. I understand that but, as a professional, I also see the other side of the coin. There are many emerging countries where interest rates have been raised. So steering the same course here would not be out of the ordinary.

Do you think the Monetary Policy Committee will manage to do that?

I believe the external members are not against a rise in the repo rate, but for them it would be premature now. By the end of this year, though, I think they will need to reverse the cycle.

Are you worried about the public debt?

As a percentage of GDP, the public sector debt has gone just over the 60% mark, which is symbolic because we have always aimed at staying below 60%. Now, according to law, our public sector debt should be brought down to 50% of GDP by 2018. Our tax revenues have continued to increase despite the crisis but so has our expenditure, due to generous salary increase, cost overrun and wasting of public funds. We badly need reforms in the public sector to meet our debt target.

Vice-Prime Minister Xavier Duval has announced that reforms of parastatals will be the government's next priority. How far do you think these reforms should go?

Through privatisation…

How will people react to seeing their public bodies going to the private sector?

This is a question of good financial management. If you are loss-making, taxpayers cannot continue to subsidise you forever.

But shouldn't the government subsidise some services for the benefit of citizens? Take transport for example: if you privatise the bus service, prices will go up affecting the consumers who are on the lower-end of the economic ladder. Is that fair?

What matters is the quality of service. Private bus companies provide wireless services and air conditioning.

But at the same time, the unprofitable routes may not have any buses serving them. Isn't that a possibility?

Public service may step in where the private sector fears to go…

Are you saying not every parastatal can be privatised?

I still believe that the National Transport Corporation is eating up too much public money.

Yes, but at the same time isn't it providing a service at a low cost to the taxpayer?

There is a certain category of people that use those services to the detriment of all the taxpayers.

Isn't it this category which needs subsidy?

But we can devise a formula of direct income support for them. Finally, it is all a question of economic efficiency and sound financial management.

Okay, I will now ask you an unfair question: with the election a few months – at most a year – away, each party will boast about its track record while trying to demolish the achievements of the other. Which party in your opinion has done the most for the economy, bearing the economic context in mind?

One major change in the last four years is the strategy initiated to better tap the African market, in the financial services, sugar and food sectors. Mauritius is becoming a gateway to Africa. Chinese and Indian investors are now seeing Mauritius as a good place through which to invest into Africa. We should try to make our presence felt more aggressively, in every sector.

What about the major pillars of the economy?

The financial sector has definitely become a lot stronger. For example, according to the Mauritius Commercial Bank sources, half of its income is from overseas. We have many investment banks and remote custodian banks – banks that do not have a physical presence in Mauritius. If fact, our banks benefit from trade finance and now provide regional treasury services. Textiles too have gained a lot, doubling their export to South Africa in the last three years. Tourism, however, has stagnated, but this is understandable because of the crisis in the Eurozone on which we are over-dependent. Tourist arrivals from France have been steadily decreasing since 2009.

Which means the sector did not succeed in penetrating other markets, does it?

We have seen an effort to diversify into Asia, Russia and the Middle East. But this will take time because we are starting from a very low base. Even if we double the number of our Chinese tourists to 100,000, the fall in revenue from European tourists will not be sufficient to compensate for the gains from China.

So what you are saying is that the financial sector is doing well, textile is doing better but tourism has been stagnant. What about the cane industry?

I think the industry has been able to reinvent itself as a modern cane cluster. We have been able to produce energy and value-added sugars.

Information and Communication Technology?

The ICT sector over the past five years has expanded tremendously. Today, it accounts for 6.4% of the GDP. I think that, over the next five years, it can become the second economic pillar after financial services.

Can you translate all this economic speak into layman's terms so that I can give the government a pass or a fail?

(*Laughs*) Okay, financial services have done very well; in textiles there is still growth; we have transformed the sugar industry into a cane cluster and it has not died out in spite of the end of the Sugar Protocol and now sugar companies have invested in African countries like Kenya and Tanzania. That's an achievement. ICT has made leaps and bounds: it has doubled its contribution to the national output and now employs 20,000 people. Tourism is affected by the international crisis, and market diversification will take time if air access is not liberalised further. As for infrastructure, the road network has been modernised and we have a new state-of-the-art international airport. But that's hard infrastructure. We need soft infrastructure too, in terms of customer care and service delivery. They both go hand in hand.

So who are you going to vote for?

I will vote for the party which proposes the best programme for reform in the public sector.