

Interview

with

Eric Ng

Economist



“I predict that sooner or later some members of the eurozone will dump the euro.”

Eric Ng, economist and ex-Chairman of the Development Bank of Mauritius (DBM), gives his views on the precarious state of the Mauritian economy and the measures the government is introducing in an attempt to keep damage to a minimum. He comments in particular on the crisis affecting the euro.

■ **What is the philosophy behind the Economic Restructuring and Competitiveness Programme (ERCP)?**

To encourage deleveraging among firms that are heavily indebted to banks.

■ **And why are some companies so heavily indebted?**

Many choose to finance their investments through bank loans rather than raising money on the capital markets.

■ **Which, I suppose, is not a bad idea when interest rates are low...**

Yes, but even when lending rates are high, enterprises keep having recourse to borrowing when the cost of capital on the stock market is more appealing.

■ **But is this strategy sustainable?**

Yes, as long as they get a reasonable return on investment that allows them to repay their debts without putting stress on the cash flow. But today, we are deep in an economic crisis. Our enterprises are not getting sufficient business and are unable to achieve the same level of profitability as before. Excessive borrowing has led to a situation where finance costs represent a big chunk of the expenses of the company. When the gearing ratio is high, a company should reduce its debts and find other ways of raising finance rather than borrowing from banks. For instance, it can sell debentures or increase its capital through public floating on the stock market.

■ **But the ERCP sounds very much like the Additional Stimulus Package. Is there a difference?**

The ERCP is not so different from the Additional Stimulus Package (ASP). Some adjustments have been brought to the schemes related to the mechanism for transitional support to make them more workable. Many of the schemes have been extended for one year to December 2011, in line with the expectations of the private sector.

■ **What is the urgency of presenting an economic programme three months prior to the national budget? Is it to cater for the most urgent issues?**

That's what I would have expected but in fact it is not the case. I would qualify the ERCP document as a sort of pre-budget report indicating the policy direction of the government in the forthcoming budget.

■ **We have been hearing a lot about the Repo rate. How exactly does it affect the consumer?**

The Repo rate is the key interest rate by which the Bank of Mauritius indicates its monetary stance. When the monetary policy committee brings a change to the Repo rate, all commercial banks are called upon to follow suit by adjusting their Prime Lending Rate (PLR) accordingly. Since all interest rates are linked to the PLR, the whole interest rate structure is affected by a variation in the key Repo rate. If the latter increases, the deposit interest rates go up, which encourages saving.

■ **And the private sector is lobbying for the Repo rate to go down to lower their financial costs?**

Yes, when the Repo rate goes up, the lending interest rates also rise. And, as we said, companies live on borrowed money.

■ **But it is not only companies which are affected by a high repo rate, is it?**

No, consumers who live on debt through credit cards or personal loans will pay more interest charges too.

■ **Is the Repo rate entirely the responsibility of the Bank of Mauritius?**

The Repo rate is determined on a quarterly basis by a Monetary Policy Committee (MPC).

■ **Talking about the MPC, there has been a lot of criticism of some of its members. Nita Deerpalsing, for example, criticized the presence of**