Minutes of the 69th Monetary Policy Committee Meeting held on 28 November 2023

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The 69th meeting of the Monetary Policy Committee (MPC) was held on Tuesday 28 November 2023 at 11:30 hours at the Bank of Mauritius. The following members attended the meeting:

- Mr. Harvesh Kumar Seegolam (Governor and Chairman)
- Mr. Mardayah Kona Yerukunondu (First Deputy Governor)
- Mrs. Hemlata Sadhna Sewraj-Gopal (Second Deputy Governor)

External Members

- Mr. Lim Chan Kwong Lam Thuon Mine
- Mr. Mohammad Mushtaq Namdarkhan
- Mrs. Christine Marie Isabelle Sauzier
- Professor Sanjeev Kumar Sobhee

Summary of Staff Report on Economic and Financial Developments

1. Bank staff briefed MPC members on global and domestic economic and financial market developments that have taken place since the last MPC meeting held on 15 September 2023. MPC members were also apprised of the latest macroeconomic projections before deliberating on the policy rate.

Global Economic Developments

2. The global economy is well saddled on its growth trajectory, albeit the growth momentum has slighted waned. The pace of growth has largely varied across different economies largely reflecting their heterogeneity. The US economy, the world's leading engine of economic growth, has grown at its fastest pace in 2023Q3 with notable increases in

consumption and government spending providing the fillip, against a backdrop of improved labour market conditions. The euro area has contracted in 2023Q3 on the back of weak domestic demand and largely reflecting the economic contraction of its largest economy, Germany. Sluggish demand conditions have also contributed to the slow pace of recovery of the UK economy. Elsewhere, the economic situation appeared to be more encouraging. The Chinese economy recovered strongly in 2023Q3 due to impetus provided by measures taken by the authorities to buttress consumption and investment. Growth performance continues to be positive for India and among the strongest relative to other major economies with signs of sustained economic activity which helped support consumption. As for South Africa, growth reached 0.6 per cent in 2023Q2, supported by its manufacturing and financial sectors.

3. In its World Economic Outlook of October 2023, the IMF forecasts global growth for 2023 at 3.0 per cent in 2023, unchanged from the last projection made in July 2023, and higher by 0.2 percentage point compared to the April 2023 projections. For 2024, global growth projection was revised downwards by 0.1 percentage point at 2.9 per cent compared to July 2023. For advanced economies, growth is expected to slow from 2.6 per cent in 2022 to 1.5 per cent in 2023 and 1.4 per cent in 2024, while for emerging market and developing economies, growth is projected to decline modestly from 4.1 per cent in 2022 to 4.0 per cent in both 2023 and 2024, with a downward revision by 0.1 percentage point for 2024.

4. Leading economic indicators, notably the Purchasing Managers' Indices (PMI), pointed towards continued expansion in economic activity in 2023Q3, albeit at a slower pace. The J. P. Morgan Global Composite Output index declined from 51.6 in July 2023 to 50.5 in September 2023, and further to the 50.0 benchmark in October 2023, reflecting the slower pace of growth in global services due to declining new order intakes and downturn in global manufacturing.

5. Global inflation has declined during 2023Q3 due to continued fall in food prices and easing supply chain conditions. The Food and Agricultural Organisation Food Price Index fell from 124.1 in July 2023 to 120.6 in October 2023, with the decline reflecting more intensified competition among exporting countries to enhance supplies. Consequentially, the global prices of sugar, meat, cereals and vegetable oil nosedived and largely offset the slight rebound in the prices for dairy products. Brent crude oil prices rose from US$80.1 per barrel in July 2023 to $94.0 per barrel in September 2023, but retreated to $91.1 per barrel in October 2023. However, the ongoing production cuts from the OPEC+ together with fears over the new geopolitical conflicts in the middle-east may coalesce to keep global energy

prices high for some time. The November 2023 Short-Term Energy Outlook issued by the US Energy Information Administration forecasts Brent crude oil to average US$90.3 per barrel in the fourth quarter of 2023, and to average US$93.2 for the year 2024. Gold prices retreated in 2023Q3 as investors switched away from gold towards the dollar as 'safe haven'. This behavior grew more entrenched as expectations that the US interest rates are likely to remain high for a relatively long period became more pronounced and uplifted the greenback.

6. The IMF, in its World Economic Outlook of October 2023, projects global inflation to fall from 8.7 per cent in 2022 to 6.9 per cent in 2023 and further to 5.8 per cent in 2024. Core inflation is declining at a more gradual pace as a result of the tight labour market conditions in major advanced economies and stickier services inflation across many countries. Global core inflation is projected to decline gradually from 6.4 per cent in 2022 to 6.3 and 5.3 per cent in 2023 and 2024, respectively. Nonetheless, despite these declines in global prices, the IMF has also asserted that risks to food prices are tilted to the upside and can emanate from a variety of factors including: food security concerns in light of extreme weather conditions, trade restrictions, ban on food exports and Russia's withdrawal from the Black Sea Grain Initiative which has reduced the supply on wheat in world markets.

7. With inflation on the decline, there are expectations that the policy tightening cycle might be ending in most economies globally, including in the major ones. The US Fed kept its policy rate unchanged since September 2023 in the range of 5.25 to 5.50 per cent, while the policy rate of the Bank of England remained unchanged at 5.25 per cent. The ECB maintained its policy rate unchanged at 4.5 per cent in October 2023. Since the beginning of the year, out of 481 MPC decisions globally, 263 decisions (representing roughly 55 per cent) have been to leave policy rates unchanged. This tendency was maintained since the third quarter of 2023 with 77 decisions out of 137 (56 per cent) representing unchanged policy rate decisions and has even accelerated since the 15 September 2023 (date of last MPC in Mauritius) with 67 out of 101 global policy rate decisions (66 per cent) representing an unchanged monetary policy stance. Going forward, the US Fed is likely to keep its policy rate unchanged till 2024Q1, while for the UK and euro area, policy rates are expected to remain at their current levels up to 2024Q2.

Domestic Economic Developments

8. The domestic economy is firmly engaged on a solid and steady growth pathway. Following robust performances in 2022Q4 and in 2023Q1, the economy expanded by 6.0 per cent in 2023Q2, with the *'Accommodation and food service activities'*, *'Construction'* and

'Transport and storage' sectors providing thrust to the growth momentum. On the demand side, growth was, to a large extent, bolstered by the resilience in domestic absorption in 2023Q2, with notable increases in consumption spending and investment, with the latter alone expanding by 10.5 per cent in 2023Q2, buttressed by ongoing infrastructural and construction projects.

9. Strong demand for the Mauritius destination continues to provide solid impetus to the tourism sector. For the period January to October 2023, tourist arrivals reached 1,026,771 compared to 1,102,660 for the period January to October 2019, representing a recovery rate of 93.1 per cent. The European continent remained the main source market for Mauritius, accounting for nearly 64 per cent of total tourist arrivals for the period January to October 2023. In line with the resurgence in tourist arrivals, tourism earnings were also buoyant, aggregating Rs60,798 million during the period January to September 2023, higher by 46 per cent compared to the corresponding period of 2022. The tourist average length of stay stood at 11.3 nights over the period January to October 2023, well above the 10.6 nights in 2019. Tourism earnings are projected at Rs85.0 billion for 2023, significantly higher than the 2022 level of Rs64.8 billion. Going forward, the tourism sector is expected to maintain its momentum, benefitting from pent-up demand for holiday travel, aggressive marketing campaigns, increased flight connectivity and diversification of markets.

10. Labour market conditions remained robust in 2023Q2. The unemployment rate maintained a gradual decline and dropped further to 6.4 per cent in 2023Q2. This was supported by sustained employment gains following a gradual return of individuals into the labour market, after having been classified into the inactive portion of the working age population during the COVID-19 crisis. The labour participation rate also maintained its momentum, standing at around 58 per cent in the first half of 2023, converging towards the pre-pandemic average of around 60 per cent. The female unemployment rate rose slightly to 9.1 per cent in 2023Q2, while youth unemployment rate declined to 18.1 per cent – the lowest reading since 2010. Labour market conditions are expected to improve further going forward. Moreover, measures announced in the 2023-24 Budget speech are expected to address the structural labour market bottlenecks on a sustainable basis.

11. The current account deficit as a ratio to GDP declined to 11.5 per cent in 2022, from 13.1 per cent registered in 2021. The current account deficit further improved during 2023 to reach 7.1 per cent of GDP in 2023Q2, after having fallen to a trough of 2.9 per cent of GDP in 2023Q1, the lowest since 2018Q1. Remarkably higher surpluses in the income and services

accounts in the first three quarters of 2023 as well as a contraction of the trade deficit in 2023Q3 accounted for the improvement registered during 2023. The services and income accounts, respectively, benefited from the dynamism in the tourism sector and elevated global interest rates. Gross Tourism earnings have significantly improved, with the period January to September 2023 registering Rs60.8 billion compared to Rs41.6 billion (46 per cent increase) during the corresponding period a year ago. Moreover, for the fiscal year 2022-23 gross tourism earnings reached a record high of Rs81.3 billion compared to Rs39.6 billion in the previous fiscal year. The current account deficit has been projected to improve to 5.6 per cent of GDP in 2023 on account of continued healthy performance of the tourism sector as well as larger surplus in the primary income account, which is expected to benefit from the elevated global interest rates and continued growth in residents net foreign assets.

12. The Mauritius International Financial Centre (IFC) is projected to continue to attract robust financial flows as global cross-border investment activities remain resilient in spite of the challenging global conditions brought about by the lingering Russia-Ukraine war and heightened tensions in the Middle East. The country recorded a 34 per cent increase in gross foreign direct investment (FDI) flows to the tune of Rs13.5 billion in the first semester of 2023, mainly directed to the *‘real estate’* and *‘food and accommodation’* sectors. In the aftermath of the country’s exit from the FATF and EU lists amongst others, and the favourable decisions by the two international credit rating agencies during 2023, the Mauritius IFC is poised to remain a jurisdiction of choice for global investors. The country is also expected to keep on attracting significant gross FDI, primarily, into the real estate sector while the other sectors would also benefit from the growing investor appetite and upbeat business sentiment in Mauritius.

13. Gross Official International Reserves (GOIR) as at end-October 2023 remained at a comfortable level as a buffer against external shocks. The GOIR stood at Rs297.0 billion (USD6.7 billion) as at end-October 2023, compared to Rs286.8 billion (USD6.5 billion) as at end-October 2022. Based on the imports of goods (f.o.b.) and services for calendar year 2022, GOIR represented 10.0 months of imports as at end-October 2023. An overall balance of payments surplus of Rs9.8 billion (1.5 per cent of GDP) has been projected for 2023, as against a deficit of Rs13.9 billion (2.4 per cent of GDP) in 2022. The robust financial flows in the financial account along with a lower current account deficit projected for 2023 is expected to buttress the domestic currency over the medium term and will, to some extent, help mitigate the negative impact triggered by the positive interest rate differentials in favour of the US dollar.

14. Inflation in Mauritius continued its retreat in October 2023 with headline inflation declining from 9.6 per cent in August 2023 to 8.4 per cent in October 2023 and year-on-year (y-o-y) inflation declining as well from 5.9 per cent in August 2023 to 4.6 per cent in October 2023. A decomposition of the CPI basket across its main divisions showed that the brunt of the decline in headline inflation in October 2023 was due to items that account for relatively important shares of the CPI basket, namely: *'Food and non-alcoholic beverages'*, '*Transport'* and *'Housing, water, electricity, gas and other fuel'.* Barring the materialization of any supply shocks, the decline in inflation may persist through the end of 2023 on two grounds: First, a micro-analysis of the price dynamics of items that constitute the CPI basket confirmed that items in the CPI basket that were viewed as *'highly inflationary'*, i.e. generating above target range inflation of more than 5 per cent, have dropped from around 68.1 per cent in March 2023 to around 46.3 per cent of the CPI basket in October 2023. In contrast, items that were *'deflationary'*, i.e. having less than 0 per cent inflation, have increased from 5.1 per cent to 13.7 per cent over the same period; secondly, the underlying inflationary pressures, as gauged by the Core measures, further eased in October 2023, reflecting the dissipation of the second-round effects of the supply shocks witnessed during year 2022. On a 12-month average basis, CORE1 inflation fell from 7.4 per cent in August 2023 to 6.3 per cent in October 2023, while CORE2 inflation also went down from 6.3 per cent to 5.8 per cent. On a y-o-y basis, CORE1 inflation inched down from 3.3 per cent in August 2023 to 3.2 per cent in October 2023 while CORE2 inflation went down from 4.5 per cent to 4.0 per cent. The August 2023 Bank of Mauritius survey showed that inflation expectations for 2023 were skewed to the downside.

15. The Bank continues to conduct open market operations in line with the new Monetary Policy Framework implemented since the beginning of the year. The main tool for monetary policy operations, namely the 7-Day BoM Bill, is issued at the Key Rate of 4.50 per cent, while banks avail of the Overnight Deposits Facility at their discretion.

16. Since the last MPC, weekly issuance of 7-Day BoM Bills averaged Rs1.7 billion, and Overnight Deposit Facility placed with the Bank averaged Rs23.2 billion. As part of longer-term operations, the Bank also issued BoM Bills for an aggregate amount of Rs24 billion in the 91-Day, 182-Day and 364-Day tenors between 15 September and 27 November 2023. The Bank issued Two-Year BoM Notes for a total amount of Rs12.2 billion up to mid-October 2023 in order to mop up structural excel liquidity from the system. A significant decline in rupee excess liquidity to a daily average of Rs3.5 billion has been recorded over the period 15 September to 27 November 2023. Foreign exchange (FX) interventions conducted by the Bank helped mop up an amount of Rs8.9 billion since the last MPC meeting. Over the same period,

the net issuance of government securities has also contributed to reduce excess liquidity by around Rs11.5 billion. The level of outstanding Bank of Mauritius instruments issued to manage excess liquidity dropped from Rs140.5 billion as at 15 September 2023 to reach Rs128.3 billion as at 27 November 2023, with around 51 per cent maturing within one year. The Bank's new operating target, the overnight interbank rate, hovered close to the lower bound of the interest rate corridor since the last MPC was conducted.

17. The recovery of the domestic FX market is ongoing. Over the period 15 September to 27 November 2023, total turnover stood at USD2.4 billion, constituting an increase of 9 per cent relative to USD2.2 billion registered in the corresponding period of 2022.The Bank also resumed its regular interventions since the beginning of September 2023, to ensure adequate supply of FX on the market in view of end-of-year stock building by importers.

18. The rupee exchange rate continued to be influenced by domestic supply and demand factors, as well as by international movements. Since the last MPC meeting on 15 September, the rupee stayed on an appreciating trend, notwithstanding strength of the US dollar in international markets. Intervention by the Bank on the domestic FX market became more regular as from the beginning of September 2023. The rupee gained 1.7 per cent against the US dollar since the last MPC meeting but depreciated by 1.1 per cent against the euro and 0.1 per cent against the Pound sterling. Going forward, it is expected that the exchange rate of the rupee will continue to be reflective of market forces and will be congruent with domestic macroeconomic fundamentals over the medium-term.

19. The banking sector is assessed to be resilient, sound and robust. Solvency and liquidity buffers have remained strong during 2023Q3. At 20.3 per cent as at end-September 2023, the Capital Adequacy Ratio (CAR) of the banking sector as a whole stood well-above the minimum regulatory requirements imposed by the Bank. Liquidity Coverage Ratio (LCR), both, aggregate and in material foreign currencies, stood at 278.9 and 213.1 per cent respectively in September 2023, largely exceeding the safety floor of 100 per cent. Both the capital and liquidity situations of the banking system as a whole have improved relative to their levels in June 2023 when the CAR stood at 19.9 per cent and LCR in domestic and material foreign currencies stood at 257.1 and 191.9 per cent respectively. Banks in Mauritius are therefore assessed to have enough buffer to self-immunize against the materialization of potential downside risks that could affect their balance sheets and to be sufficiently resilient to withstand liquidity stresses, both, domestically and from outside.

20. The macro-financial landscape continued to improve in 2023Q3, in sync with robust overall economic activity in Mauritius. Banks continue to play a key role in buttressing key sectors of the economy by ensuring constant flow of credit. Credit to the private sector expanded at an annual rate of 6.5 per cent in September 2023, compared to 7.5 per cent in July 2023, on the back of growing optimism and betterment of economic situation of households and enhanced earnings for the corporate sector. Despite the cumulative hike in the Bank's policy rate of 265 basis points in 2022, the household and corporate sectors have demonstrated remarkable resilience. With receding inflation and enhanced economic activity in the backdrop, financial stability concerns from both sectors are largely assuaged. This is demonstrated through improved macroprudential metrics pertaining to indebtedness. The restructuring of debt by banks has played an important role in easing the financial burden of borrowers who were impacted by the pandemic. The household debt service cost-to-income and the household debt-to-GDP metrics have improved and now hover close to pre-pandemic levels. Similarly, the corporate debt-to-GDP ratio has fallen on the back of improved earnings and lower inflation risk. The asset quality of the household and corporate sectors is assessed to remain sound. Overall, the credit portfolio of the banking sector remained sound. The Non-Performing Loans (NPL) ratio of the banking sector was estimated at 4.7 per cent in September 2023, up from 4.6 per cent in June 2023. The NPL coverage ratio stood at 53.2 per cent in September 2023.

21. Latest stress test results confirm continued resilience of the banking sector to severe but plausible downside macro-financial events.

Staff Economic Outlook

22. Broad-based expansions across the main engines of economic activity, notably *'Accommodation and food service activities'*, *'Construction'* and *'Financial services'* sectors are expected to provide fillip to the growth momentum in 2023. These growth dynamics are likely to persist through 2024, as these main sectors display remarkable resilience. Tourist arrivals are expected to reach back to pre-pandemic levels in 2023, with positive spillover effects onto related sectors. Tourism earnings for 2023 are projected at one of the highest levels ever recorded, and are expected to contribute significantly towards lowering the current account deficit in 2023. *'Construction'* will be a key contributor to growth, with important infrastructure development projects going into full swing and expected to firm up growth dynamics in vertically connected sectors such as retail and real estate. Firmer growth performance for *'Financial and insurance activities'* is expected to enhance the share of the sector as a contributor to overall growth rate for 2023 on account of proactive efforts by

relevant authorities to further consolidate the status of Mauritius as an IFC of repute. On the demand front, renewed optimism is expected to support domestic activity, with positive dashboard for all aggregate demand indicators. Household consumption spending will further improve with support schemes by the government and increases in wages. Enhanced investment, strengthened fiscal impulse and improved external sector situation are all expected to favorably contribute to the growth impetus. The Bank projects growth for 2023 to be above 7.0 per cent. However, as a small open economy, the growth outlook in Mauritius is scenario-based and is contingent on global developments. Risk factors stemming from outside may cloud the growth outlook, with the balance of risks tilted to the downside.

23. A mix of domestic and international factors are expected to contribute to downward pressures on inflation. Easing pressures from global commodity prices, as well as the easing of global logistical disturbances, are expected to support the normalization in domestic prices. The improved global inflationary environment is expected to lower the contribution of imported inflation in the projected inflation figure for 2023. Furthermore, improved domestic supply conditions of domestically produced food items are expected to contribute favorably to inflationary conditions. The hawkish stance of monetary policy in the form of a cumulative rate hike of 265 basis points engineered during 2022 by the Bank of Mauritius is expected to continue to work through the economy and to keep core inflation from gaining traction. Inflation expectations are expected to continue to remain well anchored. The Bank projects inflation for 2023 at around 7.0 per cent and for 2024 at 4.0 per cent, barring no supply shocks. Disruptions stemming from global price shocks could nonetheless tilt the balance of risks to inflation to the upside, should they materialize.

MPC Decision

24. The MPC took cognizance of the latest international and domestic developments that have taken place since the last MPC meeting held in September 2023.

25. Growth developments so far during year 2023 have been very encouraging across all major economic sectors. Inflationary pressures are rapidly easing and look set to continue through 2024. The MPC took note that, while dis-inflation in Mauritius did not entail any adverse consequences on output, there are nonetheless important risk factors to consider, most of which stem from outside, and which could adversely impact the growth and inflation trajectories in the short-to-medium terms, should they materialize.

26. The MPC carefully balanced the risks to the growth and to the inflation outlooks and considered that the Bank's decision to hike policy rates during 2022 still needed time to work through the economy, solidly anchor inflation expectations and ensure that the inflation target is attained in 2024.

27. Consequentially, the MPC decided that changing the Key Rate is not warranted at this stage and unanimously decided to keep the Key Rate unchanged at its current level of 4.50 per cent per annum.

28. The next MPC meeting will be announced in due course.

29. The MPC will continue to monitor the economic situation closely and stands ready to meet in between its regular meetings, if the need arises.

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