

6. MONETARY POLICY DECISIONS

Since the April 2013 Inflation Report, the MPC has eased its monetary policy stance by cutting the Key Repo Rate by 25 basis points to 4.65 per cent per annum at the MPC meeting held on 17 June 2013. At the September 2013 meeting, the Key Repo Rate was left unchanged at 4.65 per cent per annum as a majority on the Committee viewed that downside risks to growth in the domestic economy remained important.

At its meeting on 17 June 2013, the MPC noted that global economic conditions had remained weak and uneven since the March 2013 MPC meeting. While the US economy had continued to recover slowly, activity in the UK had remained lacklustre and output in the euro area had fallen for the sixth consecutive quarter in 2013Q1, with France back in recession. Growth had slowed in a number of emerging economies as a result of persistent external headwinds.

The domestic economy continued to be vulnerable to the subdued external environment. Economic performance had been below trend, with slow growth recorded in major export sectors despite diversification efforts, while a significant contraction was noted in the construction sector. Given the generally softer conditions in main trading-partner countries and downside risks to the economic outlook, the Bank's growth forecast for 2013 had been revised downward to a range of 3.2-3.7 per cent as against a range of 3.4-3.9 per cent forecast at the previous MPC meeting.

The MPC noted that the global inflation outlook had been benign as a result of significant economic slack and slower growth in commodity prices. On the domestic side, inflation indicators had remained broadly unchanged since the March 2013 MPC meeting. However, upside risks to the inflation outlook arising mainly from the public sector wage award and possible spillovers to private sector wages remained significant. On a no-policy change basis, y-o-y inflation was forecast within a range of 5.3-5.8 per cent by December 2013, equivalent to headline inflation of 4.1-4.3 per cent. In the light of the continuing weak economic conditions, the Committee voted with a majority of 5-3 to cut the KRR by 25 basis points to 4.65 per cent per annum.

At their meeting on 30 September 2013, the MPC noted that the global economy had improved slightly. Growth was expected to remain moderate in the US

although the outlook remained clouded by the fiscal deadlock. The UK was picking up some momentum and the euro area and Japan had returned to positive growth. However, in several major emerging economies, including China and India, growth had slowed and looked unlikely to return to previous highs.

In September 2013, Statistics Mauritius revised its growth forecast downward for the year from 3.3-3.2 per cent. The Bank also revised its forecast downward from a range of 3.2-3.7 per cent to 3.1-3.5 per cent.

The MPC noted that global inflation had continued to be broadly benign and below target inflation rates in developed economies although some emerging economies had recorded an increase in inflation as a result of their depreciating currencies. Domestic inflation had declined sharply to 3.1 per cent in August 2013 after hovering around 3.6 per cent since February 2013, helped by stable food and fuel prices. Wage developments in excess of inflation and productivity gains remained the main upside risk to inflation in the medium term.

A majority on the Committee believed that the risks to growth outweighed the upside risks to inflation. Some members, however, were of the view that it was time to start normalizing interest rates to address the vulnerabilities facing the Mauritian economy and offer attractive rates of interest to savers.

The Committee voted with a majority of 5 to 3 to keep the KRR unchanged at 4.65 per cent per annum (Table 6.1).

Table 6.1: MPC Decisions on the Key Repo Rate

Date of MPC meeting and effective date of decision	Decision on the Key Repo Rate	Key Repo Rate <i>(post-decision level, per cent per annum)</i>	Voting pattern
17 June 2013	Cut of 25 basis points	4.65	Majority of 5-3
30 September 2013	Unchanged	4.65	Majority of 5-3