Statement by the Governor Harvesh Seegolam

at the

Post Monetary Policy Committee Press Conference

Friday 20 September 2024

1. Ladies and gentlemen, members of the media, good afternoon.

2. Welcome to this press briefing for the third Monetary Policy Committee (MPC) meeting of the year.

3. At its meeting today, the MPC reviewed both global and domestic economic prospects and their implications for the Mauritian economy. I shall now give an overview of those elements covered in the MPC policy deliberations.

INTERNATIONAL ECONOMIC DEVELOPMENTS

4. Global growth continues to be resilient. In its July 2024 World Economic Outlook (WEO) Update, the IMF projected global growth to remain stable at 3.2 per cent in 2024 and 3.3 per cent in 2025. Growth performances across key advanced economies were encouraging in 2024Q2. The US economy grew faster than expected on the back of solid gains in consumer spending and business investment. The euro area was well on a recovery track in 2024Q2, helped by robust services activity and higher consumer spending. The UK economy also remained buoyant, owing to stronger government expenditure and household consumption.

5. Leading economic indicators pointed towards sustained expansion in economic activity during 2024Q3, with the J. P. Morgan Global Composite Output Index rising to 52.8 in August 2024. This was mainly supported by positive performance in the services sector on account of rising new order intakes and improved new export business.

6. Global inflation remains on a downtrend, gradually converging towards major central banks' respective targets. This reflected largely favourable global commodity price developments and the effect of past monetary policy tightening. Since the last MPC meeting, global food prices have declined, while the Freightos Baltic Global Index, a measure of freight costs, showed some signs of stabilisation. Oil prices exhibited some volatility, moving in line with the decision of OPEC+ production cuts and economic concerns. The IMF, in its July 2024 WEO Update, forecast global inflation to fall from 6.7 per cent in 2023 to 5.9 per cent in 2024 and further to 4.4 per cent in 2025.

7. In view of these favourable outturns, interest rate cuts from major central banks are well underway. Since the last MPC meeting, 47 decisions of monetary policy committee meetings globally have been to maintain the status quo, 44 decisions were about cutting rates as opposed to 5 decisions to raise rates. The US Fed and the European Central Bank have lowered their respective policy rates by 50 basis points and 25 basis points at their September 2024 meetings. The US Fed will be convening two more meetings till the end of this year, and the market expects two further policy rate declines of 25 basis points each. The tendency globally has been to move towards a policy rate decline, as evidenced by around 120 decisions from central banks around the world to lower their respective policy rate since the start of 2024.

DOMESTIC ECONOMIC DEVELOPMENTS

8. On the domestic front, first-quarter GDP growth stood at 6.4 per cent, led by robust performances of main economic sectors, including *'Accommodation and food service activities'*, *'Construction'*, *'Financial and insurance activities'*, *'Transportation'* and *'Wholesale and retail trade'*. Domestic consumption and investment continued to rise at a solid pace, supported to a large extent by ongoing capital projects and buoyant household spending.

9. The tourism sector continues to be a key engine of growth, largely reflecting upbeat demand for travel and tourism and effective promotional campaigns. Tourist arrivals aggregated 865,523 for the period January to August 2024, constituting a recovery rate of 99.2 per cent relative to the 2019 level. Arrivals were up by 7.7 per cent compared to January-August 2023. Tourism earnings were also buoyant, totalling Rs51.3 billion over the period January to July 2024, higher by 42.5 per cent and 6.6 per cent compared to the corresponding periods of 2019 and 2023, respectively.

10. The current account deficit is projected to improve from 4.5 per cent of GDP in 2023 to 4.3 per cent of GDP in 2024, on account of healthy tourism earnings and higher interest income. Gross Official International Reserves of the country remained comfortable at USD7.9 billion as at 17 September 2024, representing around 12 months of import cover, thus providing adequate buffers against potential external shocks. The banking sector remains resilient with strong capital and liquidity buffers.

INFLATION

11. Inflation in Mauritius has continued to decline, mostly reflecting the benign global food and energy price environment, lower shipping costs as well as the fading out of domestic shocks. Headline inflation fell from a peak of 11.3 per cent in February 2023 to 4.0 per cent in August 2024, marking 18 months of successive decline and stayed within the inflation target range of 2 to 5 per cent since the last four months. Core measures of inflation also remained engaged on a firm downward trend, standing at 2.3 per cent in August.

12. A more granular analysis reveals that the proportion of pro-inflation items in the CPI basket has been gradually decreasing. In particular, the share of CPI items that were generating inflation of more than 7 per cent, shrunk from 42 per cent in June 2024 to around 24 per cent in August 2024. Concurrently, the share of items with appreciable inflation rates (in the range of 0 to 5 per cent) worked out to 44 per cent in August 2024, while the share of items that were deflationary (less than 0 per cent) was relatively unchanged at 19 per cent. These dynamics provide concrete evidence that inflation will stay within the target range of 2 to 5 per cent, and converge towards the Bank's mid-point target for inflation, namely 3.5 per cent.

MONEY MARKET

13. The Bank maintained its open market operations to prevent the build-up of rupee excess liquidity in the banking system. However, in 2024Q3 the Bank reduced the amount of Bank of Mauritius (BoM) Bills issued in the 91-Day, 182-Day and 364-Day given that a significant amount of rupee excess prevailing on the domestic market was being absorbed through regular FX interventions.

14. BoM Bills for an aggregate amount of Rs12.85 billion were issued between 11 July to 13 September 2024, in addition to the weekly issuances of Rs1.0 billion in the 7-Day tenor. While a rupee equivalent of Rs12.5 billion was mopped up through sale of foreign currency on the market.

15. Surplus funds at the end of the day were placed with the Bank under the Overnight Deposits Facility at the rate of 3.00 per cent per annum, effectively containing the rupee excess at a daily average of Rs3.0 billion since the last MPC.

16. Consequently, the outstanding amount of BoM securities issued to manage excess liquidity decreased from Rs144.8 billion as at 11 July 2024 to Rs135.8 billion as at 13 September 2024, of which 54 per cent maturing within one year.

17. The weighted average overnight interbank rate hovered closer to the lower bound of the interest rate corridor ranging between 3.10 per cent and 3.15 per cent since last MPC.

FOREIGN EXCHANGE MARKET

18. The domestic market remained driven by the high volume of transactions by the financial sector, importers of goods as well as tourism operators. From 11 July to 18 September 2024, FX turnover stood at USD8.9 billion and net sales of USD202 million were registered.

19. In order to cater to the FX requirements of importers building their stocks ahead of the end-of-year period, the Bank intervened on a regular basis since 08 July 2024. A total amount of USD270 million was sold to banks between July and 18 September 2024.

20. The rupee continues to reflect key economic fundamentals of demand and supply, as well as international currency movements. Between 11 July and 18 September 2024, the rupee has appreciated by 2.2 per cent against the US dollar.

FINANCIAL STABILITY

21. I will now share with you key developments on the soundness of the banking and financial system.

22. Risks to financial stability have continued to subside, driven mainly by improving macrofinancial conditions. Debt sustainability and serviceability metrics have stabilised as household income and corporate earnings grew steadily. The asset quality of banks stayed sound with no signs of debt servicing distress.

23. Credit flow by the banking sector to the economy has remained on a steady upward trend since the beginning of the year. Bank credit to the private sector grew annually by 7.6 per cent in July 2024. Household credit – a major contributor to the demand for bank credit – expanded at an annual rate of 11.0 per cent in July 2024. Similarly, bank credit to non-financial corporations in Mauritius registered a yearly growth of 5.1 per cent in July 2024.

24. The banking sector maintained its resilience, supported by robust capital and liquidity buffers. The Capital Adequacy Ratio was 20.9 per cent as at end-June 2024 and the Liquidity Coverage Ratio (LCR) improved to 328.5 per cent in July 2024.

25. The stress test results, based on June 2024 data, showed improved resilience of the banking sector as the number of banks showing vulnerabilities has been declining. The banking sector held robust solvency and liquidity buffers to withstand the series of shocks applied under the various scenarios, including in the forward-looking scenarios.

26. The Bank continues to monitor risks to the stability of the financial system while ensuring price stability.

MPC DECISION

27. I now come to the decision of the MPC.

28. Recent price dynamics confirm that the Mauritian economy is firmly engaged on a disinflationary path – helped by some favourable driving forces, notably limited pressures on international commodity prices, normalisation of freight costs and weaker-than-expected passthrough to domestic prices as well as fading domestic demand and supply imbalances. In the absence of any shock, headline inflation is projected to be around 4.0 per cent at by the end of 2024 – settling within the inflation target range. As I mentioned before, inflation has been declining over the past 18 months and has, over the past four months, remained within the target range. Going forward, this trend is expected to continue.

29. With regards to the growth outlook, it is expected that the domestic economy will sustain its robust momentum. The tourism sector is expected to maintain its strength, benefitting from increased demand for travel and tourism, enhanced connectivity, diversification of the tourism base, with the target of 1.4 million tourists maintained for 2024. Activity in the construction sector will be underpinned by major public infrastructural projects such as building of social housing units and enhancement of road networks. The financial sector will also be supportive of growth leveraging on the remarkable reputation of the Mauritian IFC. The Bank maintains its projection for real GDP growth at 6.5 per cent for the year.

30. The MPC deliberated that, while growth remains consistent, the ongoing disinflationary process is well entrenched in 2024 and looks set to achieve the medium-term target of 3.5 per cent, with upside risks to the inflation outlook subsiding. The MPC was thus of view that this environment creates space for a lower policy rate, without compromising on other macroeconomic objectives.

31. The MPC decided unanimously to lower the Key Rate by 50 basis points from 4.5 per cent to 4.0 per cent.

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

33. The next meeting of the MPC will be announced in due course.

34. On this note, I conclude my intervention. I will now be pleased to address your questions, if any. Thank you.

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