



MPC Meeting - 4 February 2021

Press Statement by the Governor

1. Ladies and gentlemen, good afternoon.
2. We are pleased to welcome you all to this press conference to brief you on the gist of the 58th Monetary Policy Committee (MPC) meeting held today.
3. This first meeting of the MPC in 2021 was held amidst signs of global economic recovery from the severe economic recession in 2020. Since the start of 2021, several central banks have met and maintained their accommodative monetary policy stance to support economic recovery.

International economic developments

4. While the International Monetary Fund (IMF) estimated that the COVID-19 pandemic led to a contraction of 3.5 per cent in world output in 2020, global economic prospects so far appear brighter in the light of the roll out of vaccination programmes and stimulus measures.
5. For the second half of 2020, the J.P. Morgan PMI indicated a pickup in global economic activity. This reflected the strengthening of economic conditions in most major economies, except the Eurozone and the UK where renewed confinement measures weighed heavily on output of the services sector.
6. World trade expanded in November 2020 on account of higher exports.
7. In its January 2021 World Economic Outlook update, the IMF has projected global output to grow by 5.5 per cent in 2021 and by 4.2 per cent in 2022. The upward revision for 2021 is based on vaccine-related developments and additional fiscal support in some large economies.
8. In its January 2021 issue of Global Economic Prospects, the World Bank projected the world economy to grow by 4.0 per cent in 2021. The OECD, in its Economic Outlook released in December 2020, estimated the global economy to expand by 4.2 per cent.
9. Even though economic conditions remain challenging globally, economic recovery is under way. To boost recovery, it remains essential for authorities not to prematurely withdraw fiscal and monetary support.

10. Global inflationary pressures remain contained. Negative output gaps in most economies, coupled with persistent labour market slack, are mitigating inflationary pressures. Upside risks to inflation could stem from rising global commodity prices. The FAO Food Price Index reached a 3-year high in December 2020, mostly due to supply concerns.
11. Central banks across the world are expected to maintain accommodative monetary policy given the low inflation environment. Interest rates are projected to remain low, while countries still having room to ease monetary policy may further reduce rates to support economic recovery.
12. While recent developments bring more optimism, we must remain focused and vigilant in view of the ongoing uncertainties posed by the threats of new strains of COVID-19.

Domestic economic developments

13. In Mauritius, the economic fallout from the pandemic has been severe in 2020. Statistics Mauritius estimated an output contraction of 15.2 per cent, associated primarily with the unprecedented downturn in the tourism sector, and significant output loss in other key sectors such as manufacturing, trade, construction and transport. On the expenditure side, on an annual basis, consumption is estimated to have declined by 14.2 per cent and investment by 26.7 per cent.
14. Economic disruptions associated with the COVID-19 pandemic have altered labour market dynamics. As reported by Statistics Mauritius, the unemployment rate would stand at 10.9 per cent in September 2020.
15. The current account deficit has worsened mainly due to the lack of tourism earnings in 2020. During 2020Q3, the goods account deficit narrowed significantly, as a result of higher contraction in nominal imports relative to nominal exports. The services account remained in deficit for 2020Q3 as well, directly impacted by travel restrictions. The current account deficit as a percentage of GDP is estimated at about 13 per cent in 2020. However, latest trends show exports would pick up as order books for the textile sector are filled for the first quarter of 2021.
16. Prospects for growth are tangible. This is reflected in the latest Moody's rating for Mauritius which has remained unchanged at Baa2.
17. Various global institutions have given an upbeat outlook on the Mauritian economy. In January 2021, Moody's estimated domestic economic growth at 7.8 per cent for 2021 while the UN World Economic Situation and Prospects projects growth of 8.5 per cent. The World Bank's growth projection was more conservative at 5.3 per cent.
18. While the near-term outlook is still subject to uncertainty, the global vaccination programme has lifted sentiment and there remains upside potential to growth. Bank staff projects real GDP growth at 7.9 per cent for 2021.

19. The impact of the Mauritius Investment Corporation Ltd (MIC) in the local economy will be manifold. Through its financing of COVID-19 impacted systemic enterprises, the MIC is contributing to uphold consumption expenditure. Furthermore, the MIC is equally focusing on future generation projects by investing in growth-enhancing industries.

Money market

20. The Bank has been managing liquidity in line with its monetary policy stance. Yields on the money market instruments remained low across all tenors, in line with international tendencies.

21. The Bank issued a gross amount of Rs88 billion of its securities from March 2020 to date. As a result of these operations, the average excess liquidity dropped in January 2021, from a seasonal peak in December 2020.

22. Excess liquidity currently averages around Rs40 billion. The Bank is intensifying its market operations to enhance liquidity management.

Foreign exchange market

23. Conditions on the foreign exchange (FX) market remain stable. Domestic demand and supply factors still impact the FX market the most. Exchange rate movements of the rupee have broadly reflected international currency fluctuations.

24. The Bank of Mauritius has continued to provide support to the FX market to sustain economic activity.

- a. In 2020, the Bank sold a total of USD977.4 million to banks and foreign exchange dealers.
- b. Since the beginning of 2021 to date, the Bank has supplied the FX market a total of USD100 million.
- c. Since March 2020, the Bank also provided foreign exchange for an amount of USD210 million to State Trading Corporation to meet the country's import bills requirement.

25. The gross official FX reserves stood at USD7.8 billion as the end of January 2021, representing over 14 months of imports which is largely adequate by IMF standards.

26. The Bank continues to closely monitor the FX market. It is committed to maintaining orderly conditions and retain a floating regime.

Inflation

27. Domestic inflation was subdued in 2020. Upward price pressures stemming from supply-side disruptions were partly offset by weak demand-side pressures.

28. Headline and year-on-year inflation were 2.5 per cent and 2.7 per cent, respectively, in December 2020.

Financial stability

29. The banking sector is sound and stable, notwithstanding the current challenging economic context.

30. The annual growth rate of bank loans to the private sector accelerated to 4 per cent in December 2020, recouping from the low of 1 per cent in September 2020, reflecting additional credit granted to both corporates and households.

31. The capital adequacy ratio of the banking sector was 18.7 per cent at end-September 2020, well above the minimum regulatory limit. The Liquidity Coverage Ratio stood at 248.7 per cent, above the regulatory limit, as banks have been holding a relatively high level of liquid assets.

32. The asset quality of banks remains sound. The ratio of non-performing loans to total loans of banks was 5.5 per cent at end-September 2020 and was covered with adequate provisions. The moratoriums and other support measures proposed by the authorities appear, so far, to have provided a financial respite to borrowers. The effects of real economic shocks on the financial sector appear to have been contained.

33. Stress tests results show that, so far, the banking system in Mauritius is able to withstand the shockwaves of the pandemic. However, much uncertainty lies about the shape of economic recovery, both domestically and globally, and upon the duration of the pandemic globally.

34. Should the recession be more protracted, banks have enough buffers to be able to weather the headwinds. In addition, some banks are also securing alternative sources of funding from regional and international institutions.

35. The Bank continues to deploy its financial stability assessment toolkits to monitor the financial situation of banks.

36. The Task Force on Banking Sector Resilience, set up by the Bank, meets regularly to assess the soundness of banks.

37. The Bank is discussing with its regulatees the transition process from LIBOR to alternative reference rates. The Bank will issue a guidance note in 2021Q2 to the banking sector to facilitate the transition process.

Bank of Mauritius Support Programme

38. The measures under the Bank of Mauritius Support Programme have sustained the flow of credit to the economy and alleviated the financial burden of businesses, households and individuals.

39. To assist economic operators, SMEs and Mauritian households impacted by COVID-19, the Bank has put around Rs63 billion at their disposal through the various measures introduced under its Support Programme. Nearly 75 per cent of the funds released through the reduction in the cash reserve ratio have been disbursed by banks.
40. Moratorium facilities have been extended to the 30th of June 2021. The Bank has also taken the decision to bear the interest payable on the outstanding household loans with commercial banks for the period 1st January 2021 to 31st March 2021. You may recall that the Bank had also paid interest on outstanding household loans with commercial banks before for the period April to June 2020—that is, twice during this pandemic.
- a. Since its introduction in March 2020, the moratorium on loans has reached a total of Rs10.8 billion for economic operators, including Rs810 million for SMEs.
 - b. For households and individuals, the total amount of capital and interest repayments for the moratorium period peaked at Rs254 million at end-September 2020. As at end-December 2020, total amount of capital and interest repayments was Rs136 million. This decline is indicative of the fact that households and individuals have resumed repayments on their loans, as confidence improved.
41. The Bank stands ready to further support economic operators, SMEs and Mauritian households impacted by COVID-19 by rolling out appropriate supportive measures. The Task Force on COVID-19 Measures, set up by the Bank, meets regularly to assess, review and make recommendations on COVID-19 measures.

MPC decision

42. I now come to the decision of the MPC.
43. The MPC discussed the global economic context and the performance of the domestic economy.
44. There are signs of recovery in global economic activity. The recovery would remain dependent on the effectiveness of the vaccination campaigns to curtail the course of the COVID-19 virus. Global inflationary pressures are projected to remain contained in the near term.
45. The domestic economy started showing better resilience in 2020Q3, as both consumption expenditure and investment increased during the quarter. Bank staff projects real GDP growth of 7.9 per cent for 2021.
46. Domestic inflation continues to be subject to supply-side pressures. In the absence of further external shocks, Bank staff is forecasting headline inflation at about 3 per cent for 2021.
47. Based on these projections, the MPC considers that the current monetary policy stance is appropriate and supportive of economic recovery. Accordingly, the MPC has unanimously decided to maintain the KRR at 1.85 per cent per annum.

48. I hereby reiterate the commitment of the Bank of Mauritius to deliver on its mandate of maintaining price stability, promoting orderly and balanced economic development, and ensuring the stability and soundness of the financial system of Mauritius.
49. The MPC will continue to monitor the economic situation closely and stands ready to meet in between its regular meetings, if the need arises.
50. I now welcome your questions.