Minutes of the 72nd Monetary Policy Committee Meeting held on 20 September 2024

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The 72nd meeting of the Monetary Policy Committee (MPC) was held on Friday 20 September 2024 at 12:30 hours at the Bank of Mauritius. The following members attended the meeting:

- Mr. Harvesh Kumar Seegolam, G.C.S.K. (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
- Mr. Sanroy Seechurn
- Professor Sanjeev Kumar Sobhee

Apologies

- Mrs. Christine Marie Isabelle Sauzier

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 11 July 2024. MPC members were also apprised of the latest macroeconomic projections before deliberating on the policy rate.

Global Economic Developments

2. The global growth momentum is being maintained. Advanced economies continued to grow solidly in 2024Q2 with greater convergence among growth performances of leading economies. In the US, consumption and investment growth supported faster-than-expected GDP growth in 2024Q2. However, softer labour market conditions have begun to stall the positive growth impulse with unemployment picking up and monthly payroll gains slowing. Growth was also encouraging in the Euro area, with France and Italy leading the pack with encouraging performances of the services sector and resilient consumption. Germany, the largest economy in

the Euro area, saw its growth plummeting on the back of slower consumption growth and subpar performance of the construction sector. Outside the Euro area, the UK economy recovered well with positive growth momentum on the consumption and investment sides. Favourable prospects for the manufacturing sector also helped support the UK economy.

3. Growth performances diverged among the Emerging Market and Developing Economies (EMDEs). In China, protracted property market slowdown resulted in an easing of the country's growth rate in 2024Q2. The Indian economy slowed down in 2024Q2 on the back of lower manufacturing activity and declining consumer confidence and government spending. In South Africa, growth recovered in 2024Q2 after a slowdown in Q1 due to strong performance of the utilities sector and buoyant consumption.

4. The Purchasing Managers' Indices (PMI) pointed towards sustained expansion in global economic activity. The J. P. Morgan Global Composite Output Index rose from 52.5 in July 2024 to 52.8 in August 2024 on the back of positive performance in the global services sector. The manufacturing sector, on the other hand, reversed trend by moving below the 50-benchmark level in July and August 2024, due to declining new export orders and higher input costs. The IMF, in its July 2024 World Economic Outlook (WEO) update, projects global growth at 3.2 per cent in 2024 and at 3.3 per cent in 2025. The projection for 2024 has remained stable while that for 2025 was upgraded by 0.1 percentage point (pp) compared to the projection made in April 2024. Growth projection for advanced economies remained unchanged at 1.7 per cent for 2024, while growth of EMDEs was revised upwards by 0.1 pp to 4.3 per cent for 2024.

5. Favourable global commodity prices and the effects of past monetary policy tightening by central banks globally continue to weigh down on global inflation. The Food and Agriculture Organisation Food Price Index declined marginally from 121.2 in June 2024 to 120.7 in August 2024, due to a combination of slower-than-expected demand growth and favourable supply conditions. Brent crude oil prices dropped from US$85.3 per barrel in July 2024 to US$80.9 per barrel in August 2024, mainly due to slowing economic activity, reduced fuel demand in China and signs of lower job growth in the US. The Freightos Baltic Global Index showed some signs of stabilisation since the last MPC meeting. Ocean rates on the world's major trade lanes started to ease in August 2024 despite remaining well above their historical value, after bottlenecks including Red Sea congestion subsided. Headline inflation has continued to fall this year in most G20 countries. The IMF, in its July 2024 WEO Update, forecasts 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. Core inflation continued to show some stickiness in some economies amidst still elevated services inflation.

6. Inflation is now at or close to target in about four-fifths of OECD economies, providing space for monetary policy loosening. Policy rate cuts by central banks globally are well under way and look set to continue during the second half of 2024. 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 lowered its policy rate by 50 basis points at its September 2024 meeting in the range of 4.75-5.00 per cent. The European Central Bank, for the second time in 2024, lowered its deposit facility rate by 25 basis points to 3.50 per cent at its September 2024 meeting. The Bank of England also cut the Bank rate by 25 basis points to 5.00 per cent at its August 2024 meeting. Among emerging economies, the central bank of Brazil was at the frontline of the easing cycle, with a cumulative 325 basis points cut between July 2023 and August 2024. The US dollar, which was picking up since mid-July 2024, depreciated in August 2024 on signs of a cooling US economy and expectations of policy rate cuts in September which contributed to narrowing interest rate differentials.

Domestic Economic Developments

7. On the domestic front, first-quarter GDP growth was broad-based and stood at 6.4 per cent. Favourable performances of main economic sectors, many of which - including *'Accommodation and food service activities'*, '*Construction*', *'Financial and insurance activities'*, *'Transportation'* and *'Wholesale and retail trade'* - are vertically or laterally integrated, helped explain this positive growth performance. Domestic consumption and investment continued to remain buoyant rising at a solid pace, with wage increases supporting the former and ongoing capital projects supporting the latter.

8. The tourism sector is well-saddled on a solid growth trajectory and looks set to register upbeat performance in 2024. Tourist arrivals aggregated 867,130 for the period January to August 2024, constituting a recovery rate of 99.3 per cent relative to the 2019 level. Europe remains the leading source market for Mauritius. Arrivals were up by 7.9 per cent compared to January-August 2023. Tourism earnings were also buoyant, reaching Rs51.3 billion from 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. The average length of stay of tourists stood at 11.8 nights from January to August 2024, up from 11.5 nights for same period during year 2023. Increased global demand for travel, improved connectivity and greater diversification of the tourism base are expected to support the sector in 2024, with 1.4 million target arrivals maintained as projection for the year.

9. Inflation in Mauritius is well-set on a downward trend in line with benign global food and energy prices, easing of shipping costs and the fading out of domestic price shocks associated with vegetable prices. Headline inflation has been falling steadily 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. Similarly, core measures of inflation have been declining, reflecting the lagged success of past inflation-mitigation decisions taken by the Bank in hiking policy rates in 2022. A micro-decomposition of the CPI basket depicting underlying price dynamics shows that the share of pro-inflation items has been gradually declining. 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 inflation rates ranging from 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.

10. The current account deficit is projected to improve from 4.5 per cent of GDP in 2023 to 4.3 per cent in 2024, on the back of improved performance of the services sector, including tourism, and positive net income. Gross Official International Reserves (GOIR) of the country remained largely adequate as buffers against potential external shocks. The GOIR stood at USD7.9 billion as at 17 September 2024. Based on the imports of goods (f.o.b.) and services for calendar year 2023, GOIR represented around 12.0 months of imports – a buffer which continues to remain safe compared to benchmarks utilized by regional trading blocs in Africa.

11. The Bank pursued its open market operations to manage the rupee excess in the banking system. With regular FX interventions conducted in 2024Q3, the Bank reduced its issuances in the 91-Day, 182-Day and 364-Day maturity spectrum. Between last MPC date and 13 September 2024, BOM bills to the tune of Rs12.85 billion were issued, on top of weekly issuances of Rs1 billion in the 7-day tenor. FX interventions, through the sale of dollars by the Bank, helped mop up an equivalent of Rs12.5 billion. The Bank's Overnight Deposits Facility allowed banks park surplus funds at the end of the day at the rate of 3.00 per cent per annum, containing the rupee excess liquidity at a daily average of Rs3.0 billion. Outstanding BoM securities 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. The weighted average overnight interbank rate hovered close to the lower bound of the corridor. The Bank intervened in the domestic FX market to meet inventory build-up requirements of importers ahead of year-end activities, selling USD270 million to banks between 01 July and 18 September 2024. The rupee appreciated against the US dollar by 2.2 per cent since the last MPC meeting and continues to be influenced by global macro-financial developments, whilst being in synch with domestic macroeconomic fundamentals.

12. Improved domestic macro-financial conditions helped contain risks to financial stability. The banking sector remains an important source of funding to households and corporates. Credit to the private sector has remained on an upward trend, growing at 7.6 per cent in July 2024. Household credit expanded by 11.0 per cent in July 2024 while corporate credit grew by 5.1 per cent. Improved economic activity and macroeconomic conditions largely helped keep debt sustainability and serviceability metrics at comfortable levels.

13. Robust capital and liquidity buffers continue to support the resilience of the banking sector. The Capital Adequacy Ratio stood at 20.9 per cent as at end-June 2024 and the Liquidity Coverage Ratio improved to 328.5 per cent in July 2024. The asset quality of banks stayed sound with no

signs of debt servicing distress. 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 under various scenarios, including forward-looking scenarios, featuring severe but plausible hypothetical shocks.

Staff Economic Outlook

14. The domestic economy is expected to remain resilient in 2024, with strong broad-based expansion in key sectors of the economy and positive fiscal impulse. Two sectors with positive spillover economy-wide effects, namely construction and tourism, are expected to continue to provide impetus to the growth momentum. The tourism sector is expected to maintain its strength with a target of 1.4 million arrivals maintained for 2024 and positively influence all laterally integrated sectors such as retail trade, transport and agriculture. The building of social housing units and extension of road infrastructural networks are expected to support activity in the construction sector. The growth momentum in the financial sector will persist as authorities consolidate efforts to cement the international reputation of the Mauritian International Financial Centre. On the expenditure side, aggregate demand is expected to be backed by increasing household consumption due to wage increases and manifold policy support announced in the Budget 2024-25, buoyant investment expenditure on the basis of large-scale capital projects by the public and private sectors, and positive fiscal impulse. The Bank maintains its projection for real GDP growth at 6.5 per cent for the year.

15. Inflation which is already within the Bank's target range of 2–5 per cent since the past four months is expected to continue subsiding towards the Bank's midpoint target owing to favourable global commodity price environment and well-anchored medium-term inflation expectations. Inflation is forecast to close at around 4.0 per cent by end-2024. Going forward, risks to the inflation outlook can still materialize on either side, with potential upside risks manifesting in the form of potential supply shocks tied to geopolitical events or climate-related events and downside risks in the form of further decline in global commodity prices. It is expected that the balance of risks is tilting more towards the downside risks than towards the upside ones.

MPC Decision

16. The MPC took cognizance of the latest international and domestic developments that have taken place since the last MPC meeting held in July 2024.

17. Growth developments so far during 2024 continue to be encouraging across all major economic sectors. Inflationary pressures in Mauritius are rapidly easing and look set to continue declining through 2024.

18. The MPC carefully balanced the risks to the growth and to the inflation outlooks and considered that inflation expectations are well-anchored and that the goal of meeting the Bank's medium-term objective of 3.5 per cent will largely be met, given that inflation is already within the Bank's range and looks set to pursue its declining trend.

19. Consequentially, the MPC decided that the current macroeconomic environment in Mauritius allows space for engineering a policy rate cut of 50 basis points from 4.50 per cent to 4.00 per cent, without compromising on the Bank's other macroeconomic objectives.

20. 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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