



Inflation Report of the Bank of Mauritius - Third issue

In compliance with section 33(2)(b) of the Bank of Mauritius Act 2004, the Bank has today released the third issue of the bi-annual *Inflation Report*. The Report reviews developments in the first semester of 2009 and concludes with the inflation outlook.

Global economic and financial conditions remained weak in the first half of 2009. Most major economies were still in economic recession, although some started recording positive growth in the second quarter of 2009. The contraction in economic activity and trade severely undermined labour market conditions as well as business and consumer confidence worldwide. Unprecedented intervention by governments and central banks contributed to a gradual improvement in economic and financial conditions.

Disinflationary pressures stabilised around the second quarter of 2009 with the consequence that the fall in inflation in most economies slowed down. Rising oil and food prices on international markets in the second quarter of 2009 had but a limited impact on global inflation.

Domestic economic conditions faltered in the first semester of 2009. After reaching a trough in the first quarter, the economy improved in the second quarter. The export sector, specifically textile and tourism, was hard hit as demand from main export markets weakened significantly. In the face of weak economic prospects and an improved inflation outlook, the Bank and the government pursued expansionary economic policies in a coordinated response to shore up the domestic economy. Monetary policy was eased in March 2009.

Inflation in Mauritius fell considerably benefiting, *inter alia*, from lower international commodity prices compared to a year earlier and developments in domestic demand conditions. The risks to the inflation outlook appear broadly balanced in the short term. Looking further ahead, however, there are potential upside risks to the inflation outlook.

The Report is available in PDF format on the website of the Bank at <http://bom.intnet.mu> under the menu item *Research and Publications/Inflation Report*.