BANK OF MAURITIUS

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MONETARY POLICY STATEMENT

The Monetary Policy Committee (MPC) of the Bank of Mauritius met on 8 December 2008 and unanimously decided to reduce the key Repo Rate by 100 basis points to 6.75 per cent per annum. The interest rate chargeable on the Special Deposits Facility, set at 100 basis points below the key Repo Rate, drops to 5.75 per cent per annum while that on the Overnight Facility, set at 150 basis points above the key Repo Rate, falls to 8.25 per cent per annum. The interest rate payable on the Standing Facility, set at 400 basis points above the key Repo Rate, declines to 10.75 per cent per annum.

The MPC discussed international and domestic economic as well as financial developments and benefited extensively from the views and insights of Dr M. Blejer, Honorary Adviser to the MPC, on the global situation and outlook. The consequences of the international financial crisis are still unfolding and the economic downturn could be deeper and longer than initially anticipated. The MPC noted that the global growth outlook has aggravated and that several major international institutions have downgraded their growth forecast for 2009. According to the November 2008 International Monetary Fund's World Economic Outlook update, advanced economies are projected to contract by 0.3 per cent while emerging market and developing economies are forecast to grow at a lower rate of 5.1 per cent in 2009. With most G-7 economies in recession for most of 2009, a global economic recovery is only expected in the last quarter of 2009 at the earliest.

Inflation has been coming down worldwide, as food and crude oil prices have plummeted. Freight charges are also falling. Oil prices have dropped to around US$40 per barrel on 5 December 2008 and could remain relatively weak over the next few quarters. Food prices, according to the Food and Agricultural Organisation Food Price Index, have fallen significantly since June 2008 and are anticipated to decline further over the medium-term, bolstered by a bumper harvest in food-producing countries.

The MPC noted that central banks had generally been cutting interest rates significantly to mitigate the worldwide financial crisis and support recovery from the economic recession. The interest rate outlook suggests that the easing bias will continue to persist. Several central banks, including the European Central Bank and the Bank of England, further reduced interest rates in the first week of December 2008 in the context of falling inflation and weaker economic conditions.

The global economic slowdown is already affecting the Mauritian economy, as demand conditions in the country's main export markets falter. Against this backdrop, export-oriented sectors would face serious downside growth risks, which could be aggravated should the crisis deepen further. The spill-over effects would be felt across different sectors of the economy. The published growth forecast of 5.6 per cent for 2008 is expected to be revised downward again. In addition, there is an intensification of the downside risks to growth for 2009.

Recent monetary developments, characterised by high growth rates in both money supply and credit, could be interpreted as being accommodative to the current high inflation level. Although there is evidence of a slight deceleration in the growth of monetary aggregates, credit expansion remains buoyant with bank credit to the private sector growing by 23 per cent in the twelve-month period ended October 2008.

Headline inflation for the twelve-month period ended November 2008 remained at 9.9 per cent. However, year-on-year inflation fell rapidly to 8.3 per cent from a peak of 11.7 per cent attained in August 2008.[1] Declining food as well as crude oil prices on the international market are likely to reduce domestic inflationary pressures significantly. The Bank of Mauritius forecasts that inflation would decline relatively fast over the next four quarters from current high levels. The MPC judged that, based on recent trends in commodity prices on the international market and the global economic slowdown, there are strong indications that domestic inflationary pressures are abating. The MPC remains concerned about the widening current account deficit and the slowdown in private capital flows.

Overall, the combination of lower international commodity prices and increasing economic slack would help contain externally- as well as domestically-generated inflationary pressures. In the light of its assessment, the MPC determined that monetary policy could be eased further. This will support the government's policy to stimulate the domestic economy in the face of the global economic downturn.

The MPC will continue to monitor economic and financial developments and remains committed, as per its mandate, to formulate and determine monetary policy taking into account the orderly and balanced economic development of Mauritius.

Voting Pattern

The MPC voted unanimously to reduce the key Repo Rate by 100 basis points to 6.75 per cent per annum.

Bank of Mauritius
8 December 2008

[1] The year-on-year inflation is measured as the percentage change in the Consumer Price Index (CPI) for a given month compared with the same month of the preceding year.