MPC Meeting - 15 December 2021

Press Statement by the Governor

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

2. Welcome to this press briefing for the Monetary Policy Committee (MPC) meeting held today, the fourth and last one scheduled for this year.

3. Before I move on to the decision of today's MPC, I shall give you a general overview of recent economic developments, both, on the international and on the domestic front.

International Economic Developments

4. During the last MPC meeting held in October 2021, I pointed out that global economic recovery had been strengthening. Latest data confirm that this is indeed the case. The momentum is still positive.

5. The J.P. Morgan Global Composite Output Index rose for the third consecutive month to stand at 54.8 in November 2021. It is encouraging to note that there are higher intakes of new business, rising new export orders

and continued job creation. Most recent PMI data indicate that global economic conditions have improved steadily and continue to do so.

6. This economic recovery, however, remains uneven, largely reflecting progress at different speeds in vaccination programmes and the pace of deployment of booster doses across countries. Most advanced economies and some of the large emerging economies have almost recouped the pandemic-induced output loss, while low-income economies are still grappling with the economic challenges of the pandemic.

7. The OECD, in its December 2021 Economic Outlook Report, has projected global growth at 5.6 per cent in 2021 and 4.5 per cent in 2022, under the assumption that travel restrictions are completely withdrawn by end 2022, and that monetary policy remains accommodative in the advanced world.

8. Transient supply shortages and resurgent demand for commodities continue to influence inflation dynamics in several countries. It has been noted that core inflation has risen in advanced economies such as the USA, the UK and Canada, but less so in the Eurozone. There are some signs of core inflation picking up in China and Japan as well. According to the IMF, factors such as rising energy and food prices may continue to add to global inflation pressures going forward.

9. It is fitting at this stage to summarize what we have learnt over the past twenty-one months, that is since the onset of the pandemic.

- First, vaccination rollout remains a top policy priority. A fully vaccinated population is more likely to limit disruptions to economic activity.
- Second, the degree of uncertainty will remain elevated over economic outcomes and growth trajectories as long as the pandemic is not overcome, as we just witnessed with the onset of the Omicron variant already detected in 57 countries according to the WHO.
- Third, only the resilience and sustainability of our economic model will enable us to keep moving forward.

Domestic Economic Developments

10. On the domestic front, the Mauritian economy continues to recover as a result of strengthening economic activity, continued policy support, re-opening of borders, as well as ongoing vaccination programmes and deployment of booster doses.

11. As at date, 92 per cent of the adult population has been fully vaccinated. Progress in the vaccination campaign continues with the inoculation of the third dose – the booster dose. This sustained progress in vaccination of the adult population has bolstered business and consumer confidence levels.

12. With the opening of national frontiers without restrictions in October 2021, the tourism sector gained further momentum in November 2021. From January to November end this year, Mauritius has welcomed around 130,000 tourists, with France and UK taking the top spot as source countries. The positive spillover effects of a recovery in the tourism sector have already started benefitting other sectors of the economy.

13. Mauritius is able to welcome fully vaccinated French tourists again on its territory, which will help to sustain the sectoral rebound.

14. Economic performance within the manufacturing sector has been very encouraging, helped by improved external demand, as it already hovers above the pre-pandemic levels. Activity in the export sector has also picked up, boosted by strong orders in the textile segment, although supply disruptions and labour shortages are acting as a drag on production capacity. As I mentioned in my last MPC press briefing, the Bank consulted representatives of the AHRIM and of the MEXA in order to monitor developments taking place in these sectors, and will continue to do so in the future. We want to make sure that we remain pro-active and ready to take appropriate actions in line with our mandate to steer the economy in the appropriate direction.

15. Other key economic sectors, notably financial services, construction and information technology are estimated to contribute positively to growth. Data available about investment, which come with a lag, pointed towards a rebound of 123.2 per cent in 2021Q2, mostly underpinned by higher expenditure in both *'building and construction work'* and *'machinery and equipment'*. In the last two quarters of 2021, investment activity is expected to continue rising with ongoing capital spending in infrastructure projects.

16. The external sector is projected to recover to some extent in 2021 with the current account deficit to GDP ratio projected to decline to around 10.8 per cent compared to 12.6 per cent in 2020.

Inflation

17. Since the last MPC meeting in October 2021, domestic inflation has maintained its upward momentum on the back of upward price pressures emanating from both food and non-food products. Headline inflation stood at 3.7 per cent in November 2021.

18. Like many other small island open countries, inflation in Mauritius has so far been driven by transitory supply shocks, in particular higher freight costs, higher energy, food and other commodity prices. These price pressures have been stemming on the back of lingering supply-chain disruptions amid new COVID-19 waves and emergence of new variants.

Like in many parts of the world, the recently observed inflationary rise in Mauritius has been due to external factors and these are expected to subside in coming quarters.

Money Market

19. I now turn to money market developments.

20. In line with its monetary policy stance, the Bank has been managing the excess rupee liquidity situation to ensure that short-term yields remain within the interest rate corridor.

21. The Bank remains committed to pursue active liquidity management to ensure appropriate liquidity conditions as economic recovery gathers momentum. Since the last MPC in October 2021 to date, the Bank has issued securities aggregating Rs9.5 billion. Effective beginning of 2021, the Bank has issued a total of Rs97.4 billion securities. Over the period 20 October until 13 December 2021, the level of rupee excess liquidity in the banking system averaged Rs26.9 billion, as compared to Rs29.4 billion from 4 August to 20 October 2021. This decline in excess liquidity reflects a combination of open market operations and FX interventions by the Bank.

Foreign Exchange Market

22. Domestic FX interventions have been conducted by the Bank on a regular basis to address excessive exchange rate volatility and ensure an adequate supply of FX to the market. Let me provide you with some of the latest figures to reflect the scale of our interventions in the FX market. The Bank has sold to the market a total amount of USD1.5 billion since January 2021, equivalent to around Rs62 billion. The Bank has sold an aggregate of USD2.6 billion since the beginning of the pandemic in March 2020.

23. The Bank remains committed to maintaining a floating exchange rate regime. This is reflected in the exchange rate movements of the rupee which continue to reflect fluctuations among the major currencies in international markets as well as domestic market conditions influencing rupee vs dollar liquidity.

24. The gross official FX reserves of the country remained at comfortable levels, standing at around USD7.8 billion as at end-November 2021, representing 19.7 months of imports. The reserves have remained at a level that satisfies various stringent international adequacy assessment metrics, indicating that the current level of reserves is still adequate to shield the economy against external vulnerabilities. It is important to highlight that

the Bank of Mauritius compiles the monetary and external sector statistics in accordance with the IMF's statistical principles and in line with the IMF's Special Data Dissemination Standards (SDDS), which are global benchmarks. As I had shared last time, the Bank has been engaging with the IMF on the assessment of reserve adequacy. The IMF will be revising upwards its assessment.

Financial Stability

25. From a financial stability perspective, the banking sector continues to remain sound and stable. The sector has comfortable capital buffers, with the aggregate Capital Adequacy Ratio at 19.7 per cent at end-September 2021, well above the minimum regulatory limit. Liquidity buffers are robust. The Liquidity Coverage Ratio of banks stood at 251 per cent in October 2021, well above the regulatory limit of 100 per cent, as banks have been holding a relatively high level of liquid assets. The Liquidity Coverage Ratio in FX also provides a buffer against external vulnerabilities and was at 178 per cent.

26. The COVID-19 support measures are sustaining the flow of credit to the economy, thereby supporting demand from both the household and corporate sectors. The annual growth rate of bank credit to the private sector accelerated to 10.1 per cent in October 2021, from 3.9 per cent in December 2020. Bank credit to corporates and households reached a high

of 11.1 per cent and 7.9 per cent, respectively, in October 2021, against a backdrop of lower demand for loan moratoriums and restructuring. These are clear signs of economic recovery taking place.

27. The asset quality of banks remains sound and has continued to improve since December 2020. The ratio of non-performing loans to total loans declined further to 4.5 per cent in September 2021, from 4.8 per cent in June and 5.0 per cent in March.

28. The extension of the moratoria and some of the COVID-19 relief measures up to June 2022 continue to provide financial respite to borrowers, especially those severely impacted by the pandemic. The total outstanding amount of loans to economic operators, SMEs, households and individuals which have been granted moratorium due to Covid-19 declined to stand at Rs34.4 billion at end-September 2021, from Rs64.1 billion at end-September 2020.

29. This decline in the outstanding value of moratoria is a positive indication that the economic recovery is well under way and that businesses as well as households are in a better position to service their debts. This drop also alleviates risks to financial stability. A further sign of recovery is the drop in the amount of restructured loans since December 2020.

30. The banking sector remained resilient amidst the real economic shocks caused by the pandemic. The results of the latest stress test exercise, based on September 2021 data, suggest that the banking sector still maintains prudent capital and liquidity buffers to be able to withstand any potential shocks going forward. Moreover, the resilience of the banking sector has improved with the consolidation of these buffers since March 2021.

MPC Decision

31. I will now discuss the decision of the MPC.

32. The MPC reviewed latest trends defining the current global economic landscape and their resulting impact on the domestic front.

33. The global economy continues to recover, even if it is grappling with the new variant. The domestic economy is also showing better resilience with the full re-opening of national borders, which has given impetus to the tourism sector with positive ripple effects on other economic sectors. Economic sentiment remains high in the country in the aftermath of the rollout of strong vaccine booster programmes.

34. The export sector is also portraying a brighter outlook although supply disruptions and labour shortages, assessed to be rather temporary, are constraining firms from keeping pace with orders.

35. In light of latest developments, Bank staff is projecting the real GDP growth for 2021 at around 5.0 per cent. We are at a stage where the economy is picking up but it is yet to reach its pre-pandemic level.

36. Headline inflation is expected to be sustained in the near term amidst upward price pressures stemming from external sources. Supply-chain disruptions are expected to outweigh any dampening effect of the new variant on global demand. Due to the fact that Mauritius imports a large proportion of what it consumes, it is expected that higher energy, food and other commodity prices as well as higher freight and other input costs, could present some upside risks to inflation. Barring no further exogenous shocks, Bank staff forecast headline inflation at about 4.0 per cent in 2021, which remains within an acceptable range based on historical data.

37. As the IMF recently mentioned, it is evident that the strength of economic recovery and the magnitude of underlying inflationary pressures vary from country to country. As a result, policy measures must be well-calibrated to reflect each country's individual circumstances.

38. Thus, the MPC considers that the current monetary policy stance is appropriate. Accordingly, the MPC has unanimously decided to keep the Key Repo Rate unchanged at 1.85 per cent per annum.

39. The next meeting of the MPC is scheduled for early March 2022.

40. As usual, I would like to reiterate the commitment of the Bank of Mauritius to deliver on its mandate of maintaining price stability, promoting orderly and balanced economic development, whilst ensuring the stability and soundness of the financial system of Mauritius.

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

42. As we all are looking forward to the festive period, I convey to you and your close ones my best wishes and appeal to everyone to comply with sanitary protocols. I seize this occasion to wish you all a Merry Christmas and a very Happy New Year 2022.

43. I thank you for your attention.