



MPC Meeting - 28 September 2022

Press Statement by the Governor

1. Ladies and gentlemen, members of the media, good morning.
2. Welcome to this press briefing for the Monetary Policy Committee (MPC) meeting, the third for 2022, held today and marking the 64th sitting of this Committee.
3. As usual, I shall provide an overview of the international and domestic economic developments and outlook, before coming to the MPC decision taken today.

International Economic Developments

4. While most economies are returning to their pre-pandemic level, the pace of growth has slowed down on the back of continuing uncertainties surrounding the ongoing Russia-Ukraine war, high global inflation, and recurring COVID-19 restrictions in China leading to sustained supply chain disruptions.

5. International organisations do take into account global developments and the geopolitical situation in their assessments of the global economy. In its latest World Economic Outlook of July 2022, the IMF has projected global growth at 3.2 per cent instead of 3.6 per cent as in its April 2022 projection. This week, the OECD, in its Interim Report, has forecast global growth at 3 per cent for 2022.
6. Inflation has climbed to high territories in many countries mostly on account of high energy and food prices as well as supply chain issues associated with the Russia-Ukraine war and China's zero COVID-19 policy. In August 2022, year-on-year inflation stood at 8.3 per cent in the US, 9.1 per cent in the euro area and 9.9 per cent in the UK.
7. To allow the full completion of the recovery process, while containing inflationary pressures, central banks in both advanced and emerging economies have engaged in a normalisation process of their monetary policy stance. Around 60 central banks – both from advanced as well as emerging market economies – have increased interest rates since June 2022.
8. However, it is noteworthy that prices of many key commodities such as oil, wheat and copper have fallen in recent months. Brent crude oil prices averaged US\$98 per barrel in August 2022 compared to US\$105 per barrel in the previous month. The Food and Agriculture Organisation Food Price

Index also dropped for the fifth consecutive month in August 2022, with a decline noted in all of its sub-indices.

Domestic Economic Developments

9. On the domestic front, the economy continues to recover, supported by greater dynamism across key sectors of the economy. The recovery in tourism activity is having positive spillover effects on other sectors of our economy.
10. The country has welcomed 557,245 tourists during the period January to August 2022. Tourist arrivals reached 94,084 in July, the highest monthly figure since the full re-opening of the national borders, and 86,605 in August 2022. On this trajectory, the Bank and the stakeholders remain confident that the target of 1 million tourists will be met. Gross tourism earnings amounted to Rs4.1 billion in August 2022. Since the start this year, gross tourism earnings amounted to Rs34.5 billion. The length of stay has gone up further to 12.8 nights in August, compared to 11.9 nights in June. Flights to Mauritius and hotel rooms are fully booked. Additional flights and new airlines will be operating by the end of 2022.
11. The ongoing investments in large infrastructural projects are providing impetus to the economy as well.

12. The performance across most economic sectors is expected to be sustained in the last quarter of this year. The manufacturing, financial services, construction and wholesale and retail trade sectors continue to maintain good momentum and prospects until the end of the year are promising.
13. Labour market conditions continue to improve amidst the sustained recovery in economic activity. The unemployment rate fell to 8.7 per cent in 2022Q1, from 9.8 per cent in 2021Q1. Further progress in labour market dynamics would ensue in line with the ongoing momentum in economic activity in 2022.
14. The current account deficit is projected at 14.7 per cent of GDP in 2022 compared to 13.3 per cent of GDP in 2021, mostly due to a higher estimated trade deficit.

Inflation

15. Price dynamics in Mauritius remain under the influence of external factors, notably the Russia-Ukraine war that continues to affect global food and energy prices, protracted supply-chain disruptions and freight costs. The Baltic Dry Index showed an improvement from May 2022 till August end. As from September, we are noting a significant pick-up in the index. This also implies still high freight costs. This being said, the Russia-Ukraine

conflict is not being seen as affecting key economic sectors, amongst which tourism. Despite the conflict and the international context, it comforts us to note that confidence is prevalent locally.

16. Since the last MPC meeting in June 2022, headline inflation, which is the primary measure used to gauge inflationary pressures for the formulation of monetary policy, has accelerated further in July and August 2022. Headline inflation reached 8.8 per cent in August 2022 while year-on-year inflation rose to 11.5 per cent.
17. I wish to point out that inflation is largely imported, stemming mainly from the rise in energy prices across the world in the wake of the Russia- Ukraine conflict.

Money Market

18. As from mid-June 2022, the Bank's operating target under the current monetary policy framework, the 91-day Treasury Bill, moved to 1.00 per cent, up from 0.75 per cent, in line with the 25 basis points hike in the Key Repo Rate (KRR) at the MPC meeting held on 3 June 2022. Short-term yields remained within the lower bound of the interest rate corridor.

19. Excess liquidity in the banking system is closely managed to ensure that the monetary policy stance of the Bank is transmitted to market interest rates. The level of excess liquidity has hovered at an average of Rs26 billion for the period 1st June to date.
20. With the net issuance of Bank of Mauritius securities, the outstanding Bank of Mauritius securities was at Rs113 billion as at 23 September 2022, compared to Rs112.2 billion as at 3 June 2022. Since the last MPC meeting, the Bank has issued a gross amount of Rs67 billion of securities to conduct monetary policy.
21. Concurrently, foreign exchange interventions by the Bank absorbed rupee excess liquidity equivalent to around Rs5.9 billion.
22. As part of the phased introduction of the new Monetary Policy Framework, the Bank has started the issuance of a 7-Day Bank of Mauritius Bill to all banks, with effect from the 4th of August 2022.
23. The issuance of 4.0 per cent Five-Year Bank of Mauritius Emerald Jubilee Bond has been a success with an amount of Rs7.2 billion issued. The Bank is closing the sale of the Bond as from the 30th of September 2022.

Foreign Exchange Market

24. Activity on the FX market remained on an uptrend. For the first eight months of 2022, FX inflows amounted to USD2.7 billion, 27 per cent higher than the same period in 2021. Given that we are approaching the end of year period, it is widely expected that market activity will further pick up as we hit the peak season for tourist arrivals, as well as importers begin to build their inventories ahead of the festive season.
25. From January 2022 to date, the Bank has sold a total of US\$622 million to the market. Our last intervention dates back to last week, whereby the Bank sold an amount of US\$10 million at the rate of Rs43.90 per US dollar. The evolution of the exchange rate continues to reflect domestic economic fundamentals as well as international exchange rates.
26. As I had mentioned at the last post-MPC press briefing, the Bank is embarking on the development of a new FX intervention strategy. I am pleased to inform you that much progress has been made so far. We currently have a team of experts from the IMF providing us with technical assistance in this endeavour.
27. The Gross Official International Reserves (GOIR) remains at a level which is sufficient to provide a buffer against adverse external conditions. The GOIR stood at US\$7.1 billion as at end-August 2022, representing 15 months

of imports. The Bank is also actively working on its strategy to further increase its reserves to provide additional buffer for any unexpected external shock.

Financial Stability

28. From a financial stability perspective, the banking sector continues to remain sound and stable. Capital buffers remain at a comfortable level, with the aggregate Capital Adequacy Ratio standing at 19.2 per cent at end-June 2022, well above the minimum regulatory limit. Liquidity buffers remain robust. The Liquidity Coverage Ratio of banks was at 265 per cent in July 2022, considerably 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 provides a buffer against external vulnerabilities and stood at around 194.2 per cent.

29. The annual growth rate of bank credit to the private sector accelerated to 3.1 per cent in July 2022, from 1.8 per cent in April 2022. Bank credit to households continued to expand strongly, reaching 14.5 per cent in July 2022, up from 11.8 per cent in April 2022. Credit to the corporate sector contracted by 3.5 per cent in July 2022, at a slower pace than the 3.9 per cent contraction recorded in April 2022.

30. The asset quality of banks remains sound. The ratio of non-performing loans to total loans dropped to 4.6 per cent in June 2022, from 4.9 per cent in the previous quarter.
31. The COVID-19 support measures have sustained the flow of credit to the economy, thereby supporting the recovery of the economy. The unwinding of moratoria on loans granted to economic operators, SMEs, households and individuals impacted by the pandemic was completed on the 30th of June 2022. Loans on moratoria, as part of the Bank of Mauritius relief package, stood at Rs16.2 billion as at end-June 2022, the lowest level since August 2020. This decline in the outstanding value of moratoria is a positive indication that the economic recovery is well under way. It may be recalled that moratoria on loans reached a peak of Rs93.4 billion in December 2020. A further sign of recovery is the drop in the amount of restructured loans of the banking sector to Rs70.2 billion in June 2022 from Rs79.2 billion in December 2021.
32. The banking sector remained resilient amidst the real economic shocks caused by the pandemic and the ongoing Russia-Ukraine war. The results of the latest stress test exercise, based on March 2022 data, suggest that the banking sector still maintains prudent capital and liquidity buffers to be able to withstand any potential shocks going forward. The Bank will continue to deploy its assessment toolkits to monitor financial stability and adopt

proactive measures in light of ongoing uncertainties to global economic prospects.

33. As regards the MIC, which may be considered as domestic investment portfolio, the entity is performing well. I understand that the MIC is expected to generate higher profits for FY 2021-2022 compared to the previous financial year. I must highlight that the MIC is playing three critical roles. First, it has been a key tool in the recovery process. Second, it has contributed to ensure financial stability. Third, it plays a crucial role in the investment strategy and diversification of the Bank's portfolio.

MPC Decision

34. Before I announce the MPC decision, let me briefly touch upon our new monetary policy framework. We have already completed a series of consultations with key stakeholders, including CEOs of banks, treasurers of banks, as well as MPC members. We shall pursue discussions with other stakeholders going forward, until the new framework is rolled out by the end of the year.

35. I will now focus on the decision of the MPC.

36. Let me first reiterate that, in light of post-COVID economic recovery, and based on various growth scenarios, we have already made significant progress on our journey towards normalisation of economic activities. Even if we are witnessing increases in rate, the KRR is still far from the one of the pre-COVID times, that is a KRR of 3.35%. (November 2019).
37. We have embarked on a normalisation process since the beginning of this year. We shall be intensifying this normalisation process until such time that we reach a neutral rate. While the MPC has been cautious in its decision since the beginning of the year, leading indicators now point towards the economic momentum being back on track. We should be mindful of any potential effects of risk-adjusted interest differentials.
38. The MPC carefully reviewed the recent global economic developments and outlooks and assessed their potential impact on the domestic economy.
39. In view of the continued upturn in economic activity following a more buoyant tourism industry and the momentum in other sectors, Bank staff maintained their real GDP growth forecast to around 7.4 per cent for the year. The economy is forecast to grow by around 5.5 per cent in 2023. The MPC noted that these growth projections remain subject to headwinds stemming from current global uncertainties.

40. Bank staff revised their projection for headline inflation to 10.6 per cent in 2022, largely attributed to supply-side factors stemming from outside Mauritius and second-round effects. The inflation trajectory will depend on the evolution of the ongoing war and its impact on global commodity and fuel prices, as well as freight costs. In the medium term, Bank staff expect inflation to recede. For 2023, Bank staff forecast inflation to be around 5 per cent.
41. The MPC took note of the normalisation of economic conditions and that economic recovery is firmly under way. Major sectors have gained sustained momentum. The MPC also took into consideration the outlook for inflation and the need to anchor inflation expectations.
42. Accordingly, the MPC has decided to pursue the withdrawal of accommodative monetary policy so as to avoid a de-anchoring of inflationary expectations. Accordingly, the MPC has today unanimously decided to raise the Key Repo Rate by 75 basis points to 3%.
43. The next meeting of the MPC is scheduled for December 2022.
44. The MPC will continue to monitor the economic situation closely and stands ready to convene between its regular meetings, if the need arises.
45. Thank you.

46. I now welcome your questions.
