Statement by the Governor Harvesh Seegolam

at the

Post Monetary Policy Committee Press Conference

Friday 15th September 2023

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

2. Welcome to this press briefing for the Monetary Policy Committee (MPC) meeting, marking the 68th sitting of this Committee and the second meeting of the year.

3. Over the last few months, we have been actively monitoring the operational implementation of our new Monetary Policy Framework (MPF) across banks since it was launched.

4. I want to reassure the public that we have been working hard to beef up our framework and have left no stone unturned to ensure that we have a modern monetary policy framework that allows our monetary policy signals to be properly transmitted for desired effects. This is no easy task. It involves a series of repeated interactions with our stakeholders and with the financial market at large and we need to give them time to factor in the operational aspects of our framework whenever we are bringing in some amendments.

5. I will now provide you with an overview of the latest global and domestic economic and financial developments and outlook before announcing the MPC decision taken today.

INTERNATIONAL ECONOMIC DEVELOPMENTS

6. The global economy recovery is well underway, but numerous divergences across economic sectors and regions have been noted. The IMF, in its July 2023 World Economic Outlook update, has upgraded the global growth projection for 2023 by 0.2 percentage point (pp.) to 3.0 per cent compared to its April 2023 projections of 2.8 per cent. This reflected mostly waning adverse risks to the outlook, on account of the recent resolution of the US debt ceiling standoff and the swift actions taken by the US authorities to contain the banking sector turmoil. This has been re-affirmed at the G20 New Delhi Leaders' Declaration.

7. Leading economic indicators, such as the Purchasing Managers Indices (PMIs), which have been pointing towards an improvement in global economic activity in 2023Q1 and 2023Q2, continued to do so in the first two months of 2023Q3.

8. The decisions by major central banks to pursue hawkish policies during 2022 and the first half of 2023, coupled with falling international commodity prices and normalisation of supply chains have started to bear fruit with declining inflation in many countries. However, despite this downward trajectory, inflation continues to remain elevated and above central banks' targets in many countries.

9. In its World Economic Outlook July 2023 release, the IMF forecast global inflation to fall from 8.7 per cent in 2022 to 6.8 per cent in 2023 while core inflation will decline more gradually from an annual average of 6.5 per cent in 2022 to 6.0 per cent in 2023.

10. Global energy prices have increased so far during 2023Q3, after having pursued a general downward trajectory since mid-2022. This reflected mostly the extended voluntary cuts to Saudi Arabia's crude oil production as well as increasing global demand associated with global recovery. Food prices, on the other hand, declined in August 2023 on the back of ample world supplies. The Freightos Baltic Index, which measures global container freight rates worldwide and used as a proxy for shipping stocks, has remained on a downward path.

11. The pace of monetary policy tightening has waned so far during 2023Q3, with relatively more central banks opting to keep their monetary policy stance unchanged amidst lower inflationary pressures so as to ensure there is no de-anchoring of inflationary expectations. To illustrate, since the beginning of the year, out of 367 MPC decisions globally, 192 (representing about 52 per cent) decisions have been to leave interest rate unchanged. We note that this tendency to leave rates unchanged has accelerated since June 2023 with about 80 decisions out of 143 being to maintain the status quo (representing 56 per cent).

12. We, however, also observe that central banks of advanced economies, on the other hand, have continued to raise their policy rates at their respective meetings to ensure that they successfully dis-inflate whilst aiming to minimize disruptions to output in what is famously called a soft landing. It is, however, expected that as the last quarter of 2023 draws in, a growing proportion of central banks globally will move away from policy tightening stance, in the absence of shocks.

DOMESTIC ECONOMIC DEVELOPMENTS

13. The domestic economy continued to grow solidly in 2023Q1, buoyed by sustained dynamism in key economic sectors, including services and construction. The tourism sector remained strong and supported the momentum in economic activity. Around 803,300 tourists visited the island from January to August 2023, representing 92 per cent of the 2019 level, and almost 45 per cent higher compared to the same period of 2022. Tourism earnings aggregated Rs48.1 billion during the period January to July 2023 – higher by 58 per cent compared to the same period of 2022 and well above 2019 level. We project tourism earnings at Rs84 billion for 2023, which represents a marked improvement relative to 2022 when earnings stood at Rs 64.8 billion.

14. The tourism sector is benefiting from continued strong travel appetite and around 1.3 million tourists are expected to visit the island this year. Increased flight connectivity will help towards achieving this target. Frequent direct flights serving the main Indian cities through Vistara and Air Mauritius will assist domestic operators in tapping into the Indian market. Negotiations to re-introduce flights on the Chinese destination are under way and, if they materialise, will add further momentum to the sector's prospects. In addition, forward bookings, based on hotel occupancy rates for the remaining months of 2023, support the optimistic outlook and indicate that the sector is likely to maintain a robust performance over the near-term.

15. Labour market conditions continued to improve in 2023Q1. The unemployment rate maintained its gradual decline and dropped to 6.7 per cent in 2023Q1. The female unemployment rate has set a new record low, standing at 8.5 per cent in 2023Q1, while youth unemployment rate declined to 20.0 per cent – the lowest reading since 2010. Labour market conditions are expected to improve further as the domestic economy sustains its growth momentum.

16. The current account deficit as a ratio to GDP was estimated at 11.5 per cent for 2022, down from 13.1 per cent registered in 2021. The improvement largely reflected the considerably better performance of the services account. The improvement in the current account persisted in the first half of 2023, with 2023Q1 registering a deficit of only 2.9 per cent of GDP, the lowest since 2018Q1.

17. Based on current trends, the current account deficit is projected to show significant improvements over 2023. In particular, it is projected to narrow significantly to 6.9 per cent of GDP in 2023 on account of continued healthy performance of the tourism sector, as well as larger surplus on the primary income account which is expected to benefit from the elevated global interest rates.

18. The Mauritius International Financial Centre (IFC) continues to attract robust financial flows as global cross-border investment activities remain resilient despite challenging global geopolitical environment. With respect to the non-GBC financial flows, the country recorded a 37.9 per cent increase in gross foreign direct investment (FDI) flows to the tune of Rs7.2 billion in 2023Q1, led primarily by the '*real estate'* and *'food and accommodation'* sectors, reflecting positive dynamics and buoyant investor sentiment in these sectors.

19. This positive momentum is expected to be sustained in the short-to-medium term and confirm the attractiveness of the Mauritian jurisdiction to the eyes of potential investors. In the aftermath of the country's exit from the FATF and EU lists, amongst others, that has consolidated its position as an IFC of repute, we have welcomed two important decisions that have been taken in July 2023 by international credit rating agencies that will reinforce the country's image, going forward, namely: the decision taken by Standard & Poor's that confirms the '*Investment Grade'* status of Mauritius - the only IFC with such a rating across Africa - and the release of a Credit Opinion by Moody's upgrading the Scorecard-indicated outcome of Mauritius from Baa3-Ba2 in May 2023 to currently Baa1-Baa3. Going forward, we can only expect a better outlook for the country's balance of payments and for its international liquidity position.

INFLATION

20. Domestic inflation further eased in August 2023, supported by the normalisation of global supply chains and easing global commodity prices. Headline inflation has been on a downward trend for six consecutive months, moving from 11.1 per cent in March 2023 to 9.6 per cent in August 2023. Similarly, year-on-year inflation fell from a peak of 12.2 per cent in December 2022 to 5.9 per cent in August 2023. The lower year-on-year inflation figures augur well for inflation dynamics for the rest of the year since they entail that the downward trend in headline inflation will continue for some time, barring materialization of shocks from outside.

21. It is also encouraging to note that the underlying inflationary pressures, as gauged by the Core measures, subsided in the recent months, reflecting to some extent the dissipation of the second-round effects of the supply shocks witnessed earlier.

22. A detailed micro analysis of the price dynamics of items that constitute the CPI basket also sheds light on encouraging prospects for inflation until the end of the year. Items in the CPI basket that were viewed as *'highly inflationary'*, i.e. generating above target range inflation of more than 5 per cent, have dropped from nearly 70 per cent in January 2023 to around 45 per cent of the CPI basket in August 2023. In contrast, items that were *'deflationary'*, i.e. having less than 0 per cent inflation, have increased from 1.2 per cent to 12.2 per cent over the same period. This micro decomposition analysis of inflationary dynamics provides concrete signs that inflation is gradually converging towards the Bank's target range for inflation.

MONEY MARKET

23. The Bank continues to monitor market developments in light of the new monetary policy framework which has been implemented since 16 January 2023. The Bank conducted open market operations with a view to steering the overnight interbank rate close to the Key Rate. The new operating target, the overnight interbank rate, hovered between 3.10 per cent and 4.50 per cent, over the period 16 January to date.

24. Since January 2023, the weekly issuance of 7-Day BOM Bills averaged Rs47.2 billion. Banks also availed of Overnight Deposit Facility for a daily average of Rs26.6 billion.

25. Whilst these operations resulted in a significant decline in rupee excess liquidity in the banking system, the structural excess remains a major concern. As part of the monetary policy toolkit, the Bank has issued

longer term instruments of maturities up to three years, to address the structural excess liquidity in the banking system.

26. The Gross Official International Reserves (GOIR) remain comfortable, providing adequate buffer against external shocks. The GOIR stood at US$6.8 billion as at end-August 2023, representing 10.5 months of import cover. This represents an improvement over the situation that prevailed at end-May 2023 when the GOIR stood at US$6.4 billion and represented 10 months of imports cover.

FOREIGN EXCHANGE MARKET

27. The recovery of the domestic FX market remained strong in 2023. I am pleased to report that the FX market is operating in a more orderly manner now. Total turnover stood at USD8.2 billion as at 5 September 2023, representing an increase of 38 per cent compared to USD6.0 billion registered in the corresponding period of 2022.

28. FX injections by the Bank amounted to USD114 million since beginning of the year. This represented an important reduction compared to injections totalling USD611.8 million during the same period last year.

29. The Bank has intervened on two occasions this month for an aggregate amount of USD 50 million to alleviate pressures in the domestic FX market and will not hesitate to continue to do so as we approach the end of the year period which is usually characterised by rising imports commitments, and hence, growing demand for FX by the market.

30. I wish to inform the market that the Bank has enough firepower to intervene in the FX market, if it so feels necessary, to address any shortfalls. Effective since May 2023, there has been an appreciation of the rupee. Our last two interventions confirm this appreciation and this trend will no doubt continue as FX market conditions normalize.

31. You will recall I mentioned in my last MPC press statement that we had imposed fines on several banks for speculation in the FX market. The situation has improved since then and our exchange rate is now in sync with actual market conditions. The exchange rate of the rupee reflects movements in exchange rates of major currencies and evolves in line with domestic economic fundamentals as well.

32. Let my message be loud and clear: we are diligently and continuously monitoring the situation in the FX market and shall not tolerate any stakeholder deliberately trying to manipulate the exchange rate for speculative purposes and for their vested gains. The Bank champions good market practices in the FX market and stands ready to take even harsher actions it deems appropriate for any deviation from best practices by stakeholders.

FINANCIAL STABILITY

33. I will now share with you a few highlights on the stability of the banking and financial system.

34. The relatively high levels of interest rates and inflation worldwide have posed trade-offs (and continue to do so) for many central banks around the globe as they juggle between containing inflationary pressures and preserving financial stability. At the domestic level, risks to the stability of the financial system are being closely monitored and any trade-offs resulting from past rate hikes are being managed with appropriate policy responses. We have noted that the household and corporate sectors have stayed resilient to higher debt servicing costs and high inflation. These sectors altogether have not exhibited signs of financial distress so far.

35. The strength of the household sector is revealed by key macroprudential indicators – such as household debt-service-to-income and household debt-to-GDP – which are within a range that suggests any financial strains can be absorbed by the sector. Moreover, the quality of the household credit portfolio has improved further, with the non-performing loan ratio falling to 1.9 per cent in June 2023, reaching a multi-year low.

36. Still, we are mindful that a segment of the household sector is enduring financial hardships, in particular those with comparatively low income and high debt levels. Several targeted measures have been put in place to alleviate the financial burden of those households, including by banks and the fiscal authority.

37. The corporate sector has benefitted from strong economic momentum, with improved earnings and broadly stable indebtedness relative to GDP. The level of asset quality for bank credit to the corporate sector remained generally sound.

38. Buoyant economic activity is well supported by the consistent flow of credit to the economy. Bank credit to the private sector expanded by 7.5 per cent in July 2023, on an annual basis, relative to 9.3 per cent in April 2023. This increase was primarily led by household credit growth of 12.2 per cent in July 2023 compared to 14.1 per cent in April 2023. Corporate credit rose by 4.4 per cent in July 2023, mostly driven by credit extended in Rupees.

39. The banking system remains sound, with robust solvency and liquidity buffers to sustain its core functions to the economy even in the event of macro-financial strains. Based on the findings of the latest stress test exercise, vulnerabilities in the banking system have receded in the first half of 2023 relative to 2022. While risks to financial stability are present including from global developments, the domestic macro-financial environment is not expected to cause further rise in risks over the next few quarters.

40. The banking sector held adequate capital and liquidity buffers. The Capital Adequacy Ratio for the banking sector was 19.9 per cent as at end-June 2023, with adequate headroom above the prudential limit set by the Bank. The aggregate Liquidity Coverage Ratio (LCR) reached 257.1 per cent in June 2023 while the LCR for material foreign currencies was 191.9 per cent, well above the regulatory floor of 100 per cent. The level of high-quality liquid assets shields the banking system from liquidity strains.

41. Economic dynamism and business confidence in Mauritius have supported the improvement in the quality of banks' domestic assets. However, the quality of foreign assets deteriorated slightly driven by the GBC sector, causing the overall NPL ratio to rise marginally to 4.2 per cent in June 2023, from 4.1 per cent in March 2023. The NPL coverage ratio was at 56.3 per cent in June 2023, compared to 56.4 per cent in March 2023.

42. The Bank continues its regular assessment and monitoring of risks to the stability of the financial system, while pursuing its price stability mandate.

MPC DECISION

43. I will now elaborate on the decision of the MPC.

44. The MPC carefully considered both recent international and domestic developments and assessed their potential impact on the growth and inflation outlook for 2023.

45. Inflation is anticipated to maintain its downward trend in the second half of 2023 and reach around 7.0 per cent by December 2023, supported by the decline in global commodity prices and the easing of global supply and logistics disturbances which, together, will augur well for inflation prospects for 2023. The

gradual normalisation of monetary policy is expected to work through the economy and keep core inflation from gaining traction. This policy normalisation is also expected to keep inflation expectations well anchored and bring inflation within the inflation target range within the first half of 2024.

46. The economic dynamism is likely to be broad-based in 2023 with the tourism sector prognosed as the engine of growth while acting as a drive shaft to other key sectors of the economy. The financial sector will also maintain a solid performance, as Mauritius consolidates its position as an IFC of repute. Domestic demand will be driven by robust consumption expenditure amidst healthy growth in wages and the various social measures announced in the 2023-24 Budget Speech as well as the overhauling of the personal income tax regime. Moreover, the various private sector construction projects as well as the extension of the Metro Express project and expansion of road networks are also expected to support private and public sector investment expenditure. As a result, the bank forecasts economic growth to remain in the range of 6.5 to 7.5 per cent for 2023.

47. The MPC acknowledged that, although the domestic economic recovery is firmly under way, the growth outlook remains nonetheless subject to plausible risk factors, especially those stemming from abroad. The Committee also analysed alternative scenarios which rest on the premise of a more challenging outlook for the external sector.

48. The MPC balanced risks to the growth and to the inflation outlook carefully under various scenarios and decided that the current stance is appropriate and that sufficient time should be allowed for the effects of past rate hikes to work through the economy for desired effects. As a result, the MPC unanimously decided to maintain the Key Rate at 4.50 per cent.

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

50. The next meeting of the MPC will be announced in due course.

51. Thank you. I now welcome your questions.

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