Statement by Governor Harvesh Seegolam, G.C.S.K.,

at the

Post-Monetary Policy Committee Press Conference.

Wednesday 3 April 2024

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

2. I welcome you all to this press briefing for the 70th sitting of the Monetary Policy Committee, the first for 2024.

3. This year shall be remembered for many reasons. The efforts spearheaded by the authorities in the previous years to overcome the crisis, to further consolidate our underlying economic structure and to top it up with the right policy mix, have borne fruits. Our economic agility and recent performance have been largely praised by international organisations. Let me share some of the upshots of the latest reports of the Mauritian economy undertaken by major international institutions:

    a. The IMF, following the 2024 Article IV Consultations, stated in its press release that the prompt deployment of pre-pandemic buffers has helped the Mauritian economy rebound strongly from the pandemic and that growth prospects remain favourable. Inflationary impulses have subsided in 2023 and are projected to ease further this year.

    b. Moody's, in its January 2024 Credit Opinion, has maintained the country's Baa3 credit rating with a stable outlook. This stable rating outlook reflected mainly the agency's favourable assessment of the country's fiscal and debt metrics as well as sizeable foreign reserves which provide a cushion against external vulnerability risks.

    c. The March 2024 country report of the Economist Intelligence Unit also paints a very optimist outlook for Mauritius, with growth expected to remain buoyant in the near term and inflation maintaining a downtrend.

    d. Fitch Ratings, in its 2024Q1 Banking and Financial Services Report, assessed that Mauritius ranks high relative to its regional peers for being politically stable, coupled with an improving internal balance amidst recovery in the tourism sector and subsiding price pressures.

4. These plaudits have one common thread. They all point towards favourable growth and inflation outlooks for 2024. They also enunciate on the key role played by the Bank of Mauritius in macroeconomic stabilisation and safeguarding our financial system.

5. Before I zero-in on our diagnosis for 2024, let me first walk you through the latest global and domestic economic and financial developments. After that, I shall conclude with the decision taken by the MPC today, based on our own assessment regarding the outlook for 2024.

INTERNATIONAL ECONOMIC DEVELOPMENTS

6. The global economy has continued to show resilience, with growth estimated to have been stronger than expected, reflecting robust consumer and government spending. The IMF, in its January 2024 World Economic Outlook Update, projects global growth at 3.1 per cent in 2024

and slightly higher at 3.2 per cent in 2025. Growth forecast for 2024 has been revised upwards on account of greater-than-expected resilience in the United States and several large emerging market and developing economies, as well as fiscal support in China.

7. Divergences in economic activity continued to persist at the end of 2023, with sustained resilience of the US economy, while the euro area stagnated and the UK economy slipped into recession. India, on its part, preserved its status as the world's fastest growing economy and the Chinese economy remained buoyant despite lingering woes in the property sector.

8. Leading indicators of global economic activity pointed towards sustained expansion in the first two months of 2024. This reflected mainly continued growth in the services sector while the manufacturing sector has begun to pick up, supported by improved order books and efforts to complete backlogs of work.

9. The global disinflation process has also been faster than expected, with the lagged effects of monetary policy tightening and favourable global supply developments contributing to keep inflationary pressures at bay. The IMF forecast global inflation to drop to 5.8 per cent in 2024 and further to 4.4 per cent in 2025 on the back of lower food prices, softening labour market conditions and lower core inflation.

10. Oil price movement remains highly uncertain as increased risks regarding the attacks of commercial ships in the Red Sea and geopolitical tensions in the Middle East have contributed to the build-up of price pressures since December 2023. The announcement of an anticipated extension to voluntary OPEC+ production cuts through 2024Q2 as well as additional voluntary production cuts by Russia are expected to further weigh on demand-supply imbalances.

11. By contrast, global food prices maintained their declining trend owing to higher supplies on the back of favourable harvesting conditions and strong competition among exporting countries as well as subdued global import demand.

12. Global monetary policy has embarked on a new cycle, with policymakers switching to a more dovish stance. While some advanced economies are holding their rates steady to ensure that inflation pressures have fully eased and that disinflation is fully entrenched, some emerging market economies have already started to cut policy rates. Since the beginning of the year, out of 114 MPC decisions globally, 70 decisions (representing roughly 60 per cent) have been to leave policy rates unchanged.

DOMESTIC ECONOMIC DEVELOPMENTS

13. The domestic economy sustained its growth momentum, expanding by 7.3 per cent in 2023Q4 and by 7.0 per cent for the year 2023. Key sectors which supported domestic economic activity were '*Construction*' and '*Accommodation and food service activities'* on account of ongoing major infrastructural projects and robust tourist arrivals. Growth was also bolstered by the resilience in consumption and investment spending.

14. The tourism sector remains on a strong footing, supported by robust global demand for travel and tourism. In addition, the appeal for the Mauritian destination remains high, especially amongst European countries. The target of 1.3 million tourist arrivals for 2023 was almost achieved, with tourism earnings reaching Rs86 billion, the highest on record. Going forward, the tourism sector is expected to maintain its momentum, continuing to benefit from strong demand for holiday travel, improved flight connectivity and ongoing efforts to diversify the tourism base.

15. Investment, as measured by the Gross Fixed Capital Formation (GFCF), grew by 30.9 per cent in 2023, supported by FDIs reaching the record-high level of Rs35 billion for the past year.

16. Labour market dynamics strengthened further in 2023Q4, with a decline in the unemployment rate to 6.1 per cent, its lowest rate over the past 25 years. Female and youth unemployment rates are also near historically low levels. Looking ahead, further expansion in economic activity and policy measures to tackle pertinent structural rigidities are projected to enhance labour market conditions.

17. The current account deficit significantly improved to 4.5 per cent of GDP in 2023, as a result of higher surpluses of the services and primary income accounts which mitigated the widening trade deficit. For 2024, the current account deficit is projected to improve further to 4.0 per cent of GDP as robust tourism earnings and higher income earned on external assets of residents would outweigh a rise in the trade deficit.

18. The Mauritius IFC continues to attract robust financial flows as global cross-border investment activities remain resilient despite challenging global conditions brought about by the lingering Russia-Ukraine war, high global interest rates and heightened tensions in the Middle East. With respect to non-GBC financial flows, the country recorded robust growth in gross foreign direct investment flows in 2022 and 2023.

19. The country’s Gross Official International Reserves remain comfortable, providing adequate buffer against external shocks. The GOIR stood at US$7.2 billion as at end-March 2024, representing more than 11 months of imports.

INFLATION

20. Inflation maintained its downward trajectory, with headline inflation easing to 6.1 per cent in February 2024, due to favourable global commodity price developments. However, year-on-year inflation, which subsided progressively throughout 2023, increased to 6.2 per cent over the same period. Heightened volatility in food prices, associated with domestic supply disturbances due to adverse weather conditions, largely underpinned the reversal in year-on-year inflation.

21. Core measures of inflation, which provide a better assessment of underlying demand pressures by controlling for volatile energy and food components, softened further. The lasting effects of past monetary policy tightening as well as the absorption of a significant amount of rupee

excess liquidity from the banking system under the new monetary policy framework, continue to work through the economy, while keeping inflation expectations well-anchored.

22. A more granular analysis reveals that the proportion of pro-inflation items in the CPI basket has been gradually decreasing. 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 halved from almost 70 per cent in February 2023 to around 35 per cent in February 2024. In contrast, items that were *'deflationary'*, i.e. having less than 0 per cent inflation, increased to roughly 18 per cent. These dynamics serve as a litmus test that inflation is gradually converging towards the Bank's target range for inflation.

MONEY MARKET

23. The Bank continues to conduct open market operations in line with the new monetary policy framework implemented since January 2023, with some operational changes brought to the conduct of the main monetary operations. The 7-Day BoM Bills are issued at pre-determined tender amounts at the Key Rate of 4.50 per cent. The interest rate corridor has been widened from 200 basis points to 300 basis points. Consequently, banks avail of the Overnight Deposit Facility at 3.00 per cent.

24. Since the last MPC meeting, 7-Day BoM Bills for an amount of Rs1.0 billion have been issued weekly to all banks on tender basis. As part of longer-term operations, the Bank issued BoM Bills for an aggregate amount of Rs25.1 billion in the 91-Day, 182-Day and 364-Day tenors between 28 November 2023 and 28 March 2024. Overnight Deposit Facility placed with the Bank averaged Rs23.7 billion over the same period.

25. In order to mop up the structural excess liquidity from the banking system, the Bank issued Two-Year BoM Notes for a total amount of Rs7.0 billion.

26. These operations by the Bank have resulted in a significant decline in rupee excess liquidity to a daily average of Rs3.0 billion over the period 28 November 2023 to 28 March 2024. The Bank has also mopped up a net amount of Rs1.9 billion through FX interventions since the previous MPC meeting.

27. The outstanding amount of BoM securities issued to manage excess liquidity, which stood at Rs133.4 billion as at 28 November 2023, dropped to Rs121.3 billion as at end-December 2023, thereafter increasing to Rs138.4 billion as at 28 March 2024, of which more than 50 per cent maturing within one year.

28. The new operating target, the weighted average overnight interbank rate, ranged between 3.10 per cent and 3.15 per cent over the period 28 November 2023 to 28 March 2024, hovering closer to the lower bound of the interest rate corridor of the new monetary policy framework.

FOREIGN EXCHANGE MARKET

29. The domestic FX market remained upbeat, benefitting from robust tourist arrivals in 2023. Over the period 28 November 2023 to 27 March 2024, total turnover stood at US$4.5 billion, with an almost perfect balance between inflows and outflows.

30. You would recall that the Bank had resumed its regular FX interventions between September and early-December 2023 in order to ensure an adequate supply of FX on the market, particularly with respect to importers building up end-of-year stocks. The signs of recovery were largely satisfactory. This year, the Bank intervened on the domestic foreign market on 1 April 2024 to sell USD5 million at the rate of Rs46.40/USD with a view to smooth excess volatility in the exchange rate of the rupee. The Bank has also purchased FX from banks to the tune of US$7.8 million in December 2023.

31. The Bank continues to closely monitor the FX market to prevent any manipulation of exchange rates by unethical participants. The rupee continues to reflect key economic fundamentals of demand and supply, as well as international currency movements.

FINANCIAL STABILITY

32. I will now provide you with key insights on the stability of the banking and financial system.

33. Financial stability concerns have subsided considerably over the past year. In particular, a consistent drop in banking sector vulnerabilities has been noted. The improvement in macroeconomic conditions together with enhanced resilience of the banking sector have helped to contain macrofinancial risks.

34. The Systemic Risk Indicator (SRI) – the barometer of systemic risk used by the Bank – confirms that risks have moderated across the macrofinancial landscape. The decline in inflation is one of the key contributors. On the external front, the rise in the FX reserves of the country to US$7.3 billion as at end-December 2023 has helped to consolidate the country`s resilience against external shocks. Risks from the banking sector have fallen considerably with strong capital and liquidity buffers. At the aggregate level, both the household and corporate sectors have been exhibiting sound financial positions, despite relatively high interest rates and inflation.

35. Risks to financial stability from the household sector have subsided. Key debt serviceability metrics of the household sector have improved. In particular, the ratio of debt servicing cost to income and to GDP are below pre-pandemic levels – at 16.8 per cent and 6.0 per cent respectively, in December 2023. In addition, household indebtedness relative to GDP has gradually declined, as the economy expands. The financial resilience of the household sector is further evidenced by its robust asset quality. The ratio of non-performing loans to total loans of the sector with banks fell to a multi-year low to reach 1.8 per cent in December 2023.

36. Corporate sector activities maintained good momentum amid a favourable macroeconomic landscape. Corporate indebtedness to banks relative to GDP dwindled further while earnings grew in tandem with the sustained economic expansion. Credit risk from the corporate sector stayed relatively low, demonstrating benign risk from the business environment.

37. The banking sector ensured continuous flow of credit to the economy. The annual growth of credit to the private sector reached 5.1 per cent in January 2024, from 6.5 per cent in September 2023. The growth was primarily led by the expansion of household credit at an annual rate of 10.5 per cent in January 2024, as against 11.8 per cent in September 2023. Corporate credit grew at an annual rate of 1.5 per cent in January 2024, relative to 2.8 per cent in September 2023.

38. The asset quality of the banking sector improved in the last quarter of 2023. The overall non-performing loan (NPL) ratio dropped to 4.4 per cent in December 2023, from 4.8 per cent in September 2023. This decline was prompted by an improvement in the asset quality of banks' credit portfolio allotted to the domestic segment. Non-performing loans were adequately provided for, with the coverage ratio at 46.7 per cent in December 2023.

39. Banks held strong capital and liquidity buffers. The Capital Adequacy Ratio of the banking sector rose to 21.0 per cent as at end-December 2023, well above the minimum regulatory requirement set by the Bank. The Liquidity Coverage Ratio (LCR) also stood above the regulatory floor of 100 per cent, with aggregated LCR at 298.6 per cent and the LCR for material foreign currencies at 232.0 per cent in December 2023.

40. The resilience of the banking sector progressed further in the second half of 2023, as banks consolidated their capital and liquidity buffers. The new stress testing framework – upgraded to cater for the evolving macrofinancial environment – demonstrated the robustness of banks to weather exogenous shocks. Risks emanating from the global economy did not induce strains on the banking sector. As the domestic economy paves its way to solid growth, banks are expected to continue consolidating their buffers to cushion potential shocks.

41. The Bank maintains its focus on promoting price and financial stability with the aim of supporting sustainable economic growth.

MPC DECISION

42. I will now elaborate on the decision of the MPC and the motivations behind this decision.

43. The MPC carefully reviewed the recent global economic developments and outlooks and assessed their potential impact on the domestic economy.

44. Inflation is projected to maintain its downward trend this year and be within the Bank's target range of 2% - 5% for inflation. Barring any shocks, headline inflation is forecast to close 2024 at 4.9 per cent. The downward adjustment in inflation is likely to be driven by the continued decline in global food prices and trading partner inflation that would percolate through to

domestic prices. The effects of past policy rate hikes are also expected to continue to work through the economy and keep core inflation at bay and ensure that inflation expectations remain well-anchored.

45. Across-the-board buoyancy in main economic sectors of activity is expected to sustain the domestic growth momentum this year as well. Incoming data are already painting a bright outlook for the economy. As such, Bank staff projects real GDP growth at 6.5 per cent in 2024.

46. Based on these outlooks, the MPC has unanimously decided to keep the Key Rate unchanged at 4.50 per cent.

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

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

49. Thank you. I now welcome your questions.