



MEDIA RELEASE

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The Monetary Policy Committee of the Bank of Mauritius cuts the Key Repo Rate by 40 basis points to 4.00 per cent

The Monetary Policy Committee (MPC) of the Bank of Mauritius has unanimously decided to cut the Key Repo Rate (KRR) by 40 basis points to 4.00 per cent per annum at its meeting today.

Downside risks to the global economic outlook have increased in the wake of the UK's referendum in favour of *Brexit*. In its latest World Economic Outlook update released on 19 July 2016, the IMF revised down global growth further to 3.1 per cent for 2016 amidst increased uncertainty. Financial markets are expected to remain volatile. Interest rates in advanced economies are expected to remain at low levels. Against a backdrop of subdued global demand and commodity prices, global inflation risks are also expected to remain low in the near to medium term.

Growth in the domestic economy increased to 3.7 per cent in 2016Q1, driven by key services sectors. However, the economy continues to suffer from weak private investment and relatively sluggish export performance. Bank staff lowered their projection for real GDP growth to 3.6 per cent for 2016. Latest global developments, especially in the aftermath of *Brexit*, point to heightened downside risks to domestic growth. For 2017, growth is expected to improve to 3.8 per cent.

Since the last MPC meeting, domestic inflation has remained low against the backdrop of moderate international commodity prices, weak global economic activity and muted domestic demand. Headline inflation retreated from 1.3 per cent in January 2016 to 0.9 per cent in June 2016, while year-on-year inflation rose from 0.4 per cent to 1.1 per cent over the same period. The various core inflation indicators also remained at relatively low levels. Headline inflation is projected at around 1.5 per cent for 2016 and around 3.0 per cent in 2017, slightly lower than what was anticipated at the February 2016 MPC meeting.

The MPC took note of the significant amount of open market operations undertaken by the Bank to reduce the level of excess liquidity in the money market and viewed that this would help in the monetary policy transmission mechanism.

The MPC weighed the risks to the growth and inflation outlook and considered that the downside risks to the domestic growth outlook outweighed the risks to the inflation outlook. Taking into account the uncertainty created by *Brexit* and potential for the US November elections to increase market volatility, the MPC deemed it important to support investment activity in the country and raise the growth potential of the economy. A cut in the Key Repo Rate is warranted at this juncture to support the economy.

The MPC will issue the Minutes of its meeting at 13:00 hours on Wednesday 3 August 2016.