Minutes of the 61st Monetary Policy Committee Meeting held on 15 December 2021

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The 61st meeting of the Monetary Policy Committee (MPC) was held on Wednesday 15 December 2021 at 10:30 hours at the Bank of Mauritius. The following members attended the meeting:

- Mr. Harvesh Kumar Seegolam (Governor and Chairman)
- Mr. Mardayah Kona Yerukunondu (First Deputy Governor)
- Mrs. Hemlata Sadhna Sewraj-Gopal (Second Deputy Governor)

External Members

- Mr. Lim Chan Kwong Lam Thuon Mine
- Mr. Mohammad Mushtaq Namdarkhan
- Dr Streevarsen Narrainen
- Mrs. Christine Marie Isabelle Sauzier
- Professor Sanjeev Kumar Sobhee

Summary of Staff Report on Economic and Financial Developments

1. Bank staff briefed MPC members on global and domestic economic developments that took place since the 60th MPC meeting held on 20 October 2021. The MPC took note of the latest macroeconomic projections and assessed risks to the domestic economic outlook.

Global Economic Developments

2. The global economy continues to recover and has shown resilience against the challenges posed by the pandemic. The latest high frequency indicators such as the PMI data, in particular the JPMorgan Global Composite Output Index, confirm this recovery process. Globally, orders have been picking up. Trade activities have been on the rise. This positive momentum has been supported by the strong policy support measures implemented globally and which have begun to yield positive outturns. This pace of recovery is somewhat uneven across different regions of the world. Indeed, different countries are at different phases of their vaccination programs, including the deployment of booster jabs. Furthermore, some countries are now entering a new cycle which consists of putting restrictions to their borders due to the new variant, Omicron, whereas others are dealing with this situation with minimum restrictions. The OECD, in its December 2021 Economic Outlook Report, now projects 2021 global growth rate to stand at 5.6 per cent. This comes close to the IMF's projection for 2021 which, in its October 2021 World Economic Outlook Report, stood at 5.9 per cent. Many countries in the advanced world look set to recoup their pandemic-induced output losses in less than two years. For 2022, the OECD projects a global growth rate of 4.5 per cent, assuming that all travel restrictions are lifted.

3. Global inflation dynamics continue to be influenced by supply-side disruptions and by the shift in the nature of consumer spending from services towards goods. High shipping costs and prices of energy and of commodities continue to sustain global inflationary pressures. In some countries in the advanced world and in some emerging market economies, there are already signs that inflation is on the rise, as evidenced by the upward trends in their core inflation metrics.

4. While accommodative monetary policy has been the norm in many parts of the world since the beginning of the pandemic in 2020, central banks in several emerging economies have now begun to adopt a hawkish stance by raising their policy rates in order to contain entrenched inflation. In the advanced world, central banks have so far kept their policy rates unchanged but have started to taper their asset purchase programs, thus hinting at possible rate hikes in the future, should their higher inflation rates become more permanent.

Domestic Economic Developments

5. On the domestic front, the economic dashboard is showing positive signals. Confidence continues to be maintained through ongoing progress in the vaccination campaign and deployment of booster doses. The opening of borders effective since 01 October 2021 has given much-needed impetus to the tourism sector and to the travel industry at large. From the beginning of the year to end-November, Mauritius has welcomed around 130,000 tourists, with the majority coming from European countries such as France and the UK. The positive momentum given to the tourism sector has also benefited other economic sectors and helped uplift sentiment. The manufacturing sector is already showing encouraging signs amid the recovery in external demand, with strong orders for textile. Retail activity has been picking up in the last quarter of the year and is set to accelerate as the festive season draws closer. The decision by the FATF to remove Mauritius from its list of countries under increased monitoring is expected to give a strong boost to the financial services sector. Sectors such as construction and information technology are likewise expected to contribute positively to the growth momentum and to support the recovery process. These developments are also mirrored by encouraging figures on the demand side as investment activity has been sustained in the second quarter of 2021 and is set to rise in the last two quarters of year 2021 with ongoing infrastructure projects. The momentum witnessed in the tourism and manufacturing sectors is expected to augur well for the external sector and to bring foreign exchange to the market. As a result of these positive developments, the current account deficit-to-GDP ratio is projected to decline to 10.8 per cent in 2021, compared to 12.6 per cent in 2020.

6. Given the open economic structure of Mauritius, domestic inflation remains influenced by supply-side disturbances stemming from outside. The rise in freight costs, as well as in energy and commodity prices at a global level, has helped contribute towards the recently observed upward trend in headline inflation which stood at 3.7 per cent in November 2021. While the domestic economy is gradually recovering, domestic output still remains below the pre-pandemic level. Demand-side pressures on inflation are therefore expected to remain contained. As a result, with the supply-side disturbances expected to subside in the medium term, the recently observed rise in domestic inflation rate is likely to taper off in the coming quarters.

7. The Bank continues to pursue active liquidity management so as to ensure appropriate liquidity conditions in the market. The various open market operations and foreign exchange (FX) interventions conducted by the Bank were supportive of its monetary policy stance and helped keep the excess liquidity situation under control. Following these series of interventions, undue volatility in the exchange rate has been avoided and the Bank has ensured adequate provision of FX to the market. The opening of frontiers has helped to ease, to some extent, the depreciating pressures on the rupee as well as the need for the Bank's intervention in the FX market. Short-term money market yields have remained within the interest rate corridor. The gross official FX reserves of the country stood at around USD7.8 billion as at end-November 2021, representing 19.7 months of imports. Reserves have thus remained at a level that is largely adequate to shield the economy against external vulnerabilities.

8. The COVID-19 measures are sustaining the flow of credit to households and corporates. Total credit has accelerated in the third quarter of the year, against a backdrop of lower demand for loan moratoria and restructurings. Mirroring this healthy expansion of credit is better asset quality of banks. The NPL ratio has been declining since March 2021. These are tell-tale signs of recovery being under way as households and corporates face an easing of their cash flow constraints and are better able to service their debt. This improvement in the indebtedness situation bodes well for the banking system. The latter has remained resilient over the year, as evidenced by the robust figures for the capital adequacy ratio which stood at 19.7 per cent at end-September 2021 and for liquidity buffers (Liquidity Coverage Ratio (LCR)) which stood at 251 per cent in October 2021. Both, capital adequacy ratio and the LCR were well above the regulatory limits imposed by the Bank. Latest stress test results show that, in general, the banking system in Mauritius continues to remain strong, sound and resilient and can withstand severe but plausible shocks.

Staff Economic Outlook

9. Momentum has been building up with ongoing progress in vaccination campaign and with the full re-opening of frontiers to international travel effective in October 2021. Economic indicators are signaling a pick-up in economic activity. The tourism sector has

rebounded with positive spillover effects on other sectors. Performance of the manufacturing sector is encouraging with promising order books. Other sectors such as construction, financial services and information technology look set to contribute positively to economic recovery. While this *'feel good'* factor is expected to continue, the onset of the new Omicron variant in late 2021 has brought some uncertainty to the tourism sector. As a result, the Bank has revised its growth projection for 2021 to around 5.0 per cent.

10. The Bank has assessed the risks to the inflation outlook, while taking into consideration those developments taking place at the international level and that are affecting global inflation dynamics. Given the openness of the Mauritian economy and the fact that an important share of consumption goods is imported from abroad, the domestic inflation rate may continue to reflect, for some time, the effects of supply-side disturbances stemming from abroad, namely higher freight costs and higher food and energy prices. Demand-side pressures on inflation which tend to be more permanent in nature are expected to remain contained so long as output remains below its potential level. As a result, the Bank is projecting headline inflation at about 4.0 per cent for 2021, which remains at a manageable level as per historical data.

MPC Decision

11. The MPC took cognizance of developments taking place at the global level and noted that there are positive signs of global recovery under way. The rebound in economic performance of the major trading partners of Mauritius is encouraging. The pace of growth somewhat differs from country to country depending on the stage they currently are in the rollout of their vaccination program. The MPC also noted that global inflation is currently on the rise in many parts of the world. In many countries which are witnessing entrenched hikes in inflation rates, central banks have responded by raising policy rates. In others, central banks have kept rates unchanged since there are no signs yet that their observed inflation hikes are permanent.

12. On the domestic front, the MPC noted that there are many positive signs of economic recovery taking place. Sectors such as manufacturing, construction, financial services and information technology are performing well. The ongoing vaccination program in Mauritius

has yielded encouraging results in that it has helped sustain economic activity. However, the onset of the new Omicron variant in November 2021 has created some uncertainty for the tourism sector which was already gathering momentum since borders were open to international travel in October 2021. The MPC also noted that the rise in domestic inflation in Mauritius mirrors global trends and is more reflective of supply-side disturbances.

13. The MPC balanced the risks to the growth and inflation outlook in the light of recent global and domestic developments and unanimously decided to keep the Key Repo Rate unchanged at 1.85 per cent per annum. The MPC considers that the current monetary policy stance is appropriate and supportive of economic recovery. The MPC will continue to monitor the economic situation closely and stands ready to meet in between its regular meetings, if the need arises.

14. The next meeting of the MPC is scheduled for March 2022. The date will be communicated in due course.

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Editor's Note

According to the Bank of Mauritius Act 2004, the primary object of the Bank shall be to maintain price stability and to promote orderly and balanced economic development. The Act gives the Monetary Policy Committee (MPC) responsibility to formulate and determine the monetary policy to be conducted by the Bank.

Headline inflation is measured by the change in the average CPI over a twelve-month period compared with the corresponding previous twelve-month period.

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