Minutes of the 60th Monetary Policy Committee Meeting held on 20 October 2021

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The 60th meeting of the Monetary Policy Committee (MPC) was held on Wednesday 20 October 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

- Professor Sanjeev Kumar Sobhee
- Mr. Mohammad Mushtaq Namdarkhan
- Dr Streevarsen Narrainen
- Mr. Lim Chan Kwong Lam Thuon Mine (*via Video Conference*);
- Mrs. Christine Marie Isabelle Sauzier.

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 59th MPC meeting held on 04 August 2021. The MPC took note of macroeconomic projections and assessed risks to the domestic economic outlook.

Global Economic Developments

2. Global economic recovery is assessed to be under way. There are signs of economic activity gathering momentum in several parts of the world, including among the major trading partners of Mauritius. Policy measures – both, monetary and fiscal - deployed by the authorities in these countries have helped support the recovery process. The rollout of vaccine campaigns has also helped countries gradually lift their restrictions to foreign travel, thereby improving sentiment. The outlook for global tourism looks promising. Global manufacturing and trade also look set to gather further impetus, closer to the end of 2021. The International Monetary Fund (IMF), in its latest edition of the World Economic Outlook (WEO) report, is projecting the global growth to stand at 5.9 percent in 2021. Growth in advanced economies is projected to stand at 5.2 percent, with both, the USA and the UK recovering to their pre-pandemic levels in less than two years. Emerging market economies are projected to grow at a faster pace at 6.4 percent. For low income economies, growth rate is projected at 3.0 percent for 2021.

3. Inflation trajectories diverged across major economies, with price pressures somewhat easing in the US, China and India, notwithstanding high shipping costs and supply chain disruptions for consumer goods. To illustrate, the Baltic Dry Index, a measure of freight costs, has increased by over 200 percent from September 2020 to September 2021. Similarly, global food prices have been picking up, as evidenced by the FAO Food Price Index which has increased by over 30 percent over the same period. The IMF estimates the global inflation hike observed in recent months to be of temporary nature and that it is likely to disappear at the turn of the year.

4. Central banks in advanced economies continue to pursue accommodative monetary policy, interpreting recent inflation spikes as transitory in nature, while some central banks in emerging economies raised policy rates to tackle rapidly rising inflation deemed to be more entrenched.

Domestic Economic Developments

5. On the domestic front, economic performance has been encouraging, as evidenced by the rebound of 19.3 percent seen in 2021Q2, after an initial contraction in 2021Q1. Progress in the vaccination campaign, with about 88 percent of the population already inoculated against the Covid-19, has given a fillip to consumer and business confidence. Exports of goods turned positive, lifted by the recovery in economic activity in the island's major trading partners. Imports of goods remained strong due to sustained domestic demand. Most economic sectors, including manufacturing, construction, information technology and financial services, have registered good outturns so far. With the opening of national frontiers without restrictions on 01 October 2021, the tourism sector is set to gather momentum, going forward. Mauritius received the visit of nearly 25,000 foreigners in the first two weeks following the opening of frontiers. The positive spillover effect of a revival in the tourism sector has already begun to trickle down to other sectors of the economy. Retail activity is expected to pick up in the last quarter of the year. Order books for manufacturing are already looking encouraging. The positive outlook for the tourism sector is likely to support the external sector, as well as bring foreign currency inflows into the country, as the services component begin to gather pace. The Bank projects the current account-to-GDP ratio to decline to 10.2 percent in 2021, compared to 12.6 percent in 2020.

6. Headline inflation in Mauritius stood at 3.2 percent in September 2021. The recent rise in prices of alcoholic beverages, tobacco and retail petroleum products rationalize the uptick in inflation observed in the recent months. However, Mauritius, like many countries in the world, has been facing uncontrollable factors such as rises in freight costs, as well as in global commodity prices, both of which are mostly transitory in nature. While the price dynamics may be subject to unforeseen supply shocks, the recently observed rise in the domestic inflation rate is likely to taper off at the turn of the year.

7. The Bank continues to manage excess rupee liquidity in line with its monetary policy stance through a series of open market operations and foreign exchange interventions. These interventions are undertaken to avoid undue volatility in the exchange rate as well as to ensure adequate supply of foreign exchange in the market. With frontiers opening, the flow of foreign exchange into the Mauritian economy should gather pace. In the money market,

short-term yields have remained within the interest rate corridor in 2021-Q3. In the foreign exchange market, the exchange rate of the rupee was affected by both domestic demand and supply conditions as well as by international movements in currencies. The Gross Official International Reserves of the country stood at USD 7.84 billion as at end-September 2021, representing 19.6 months of imports, and as thus, remain adequate as per the IMF's Assessing Reserves Adequacy metric.

8. The banking system in Mauritius is assessed to be stable and resilient, as evidenced by the latest capital adequacy buffers and liquidity buffers which remain robust. This is also evidenced by stress testing results. The flow of credit to the economy has been sustained due to the deployment of the Covid-19 support measures. Asset quality of banks has remained sound, as evidenced by the recently observed decline in the ratio of non-performing loans to total loans. The extension of moratoriums up to June 2022 has provided and will continue to provide a financial breather to borrowers until these measures are phased out. With economic activity gathering pace, households and businesses are likely to be in a much better position to service their debt.

Staff Economic Outlook

9. Progress in vaccination and the re-opening of frontiers to international travel effective from 01 October 2021 is expected to support the tourism sector. This is likely to result in positive spillover effects on numerous other sectors. With economic activity already being supported by consumption so far during the year and with promising order books for manufacturing and encouraging numbers for tourist arrivals, economic recovery looks to be well underway. As a result, the Bank has maintained real GDP growth to stand at 5.5 per cent in 2021.

10. The Bank has assessed the risks to the inflation outlook, taking into consideration domestic growth which is gathering pace, international developments in the form of rising global commodity prices which are mostly transient in nature, as well as recently observed uncontrollable factors which have recently helped rationalize the hikes in inflation in many countries of the world, namely the rise in freight costs. The Bank has revised its projection for headline inflation to about 3.8 per cent in 2021, mainly due to the uncontrollable external

factors, while acknowledging that these pressures are likely to disappear over the medium-term.

MPC Decision

11. The MPC took cognizance of the global economic context and noted that global growth was under way. There are already signs of trade strengthening globally. The main trading partners of Mauritius are recovering from pandemic-related disruptions. Furthermore, vaccination campaigns worldwide are enabling economies to gradually lift their travel restrictions. This is expected to bolster sentiment and support global travel which will benefit tourism-dependent economies such as Mauritius. On the other hand, global inflation has been on the rise due to factors such as hikes in freight costs and in commodity prices. This rise is expected to be of temporary nature.

12. On the domestic front, the MPC took note that the measures taken by the fiscal and monetary authorities in Mauritius are supporting the recovery process, as evidenced by positive growth achieved in the second quarter of year 2021. The growth momentum is expected to gather pace in the second half of 2021 with the ongoing vaccination program, and with the opening of borders effective since 01 October 2021. The MPC also noted that the rise in inflation observed in recent months reflects global trends and is expected to be transient in nature.

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 (KRR) 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 15 December 2021.

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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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