Minutes of the Monetary Policy Committee Meeting held on 04 November 2022

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A special meeting of the Monetary Policy Committee (MPC) was held on Friday 04 November 2022 at 09:30 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 (via videoconference)

MPC members were apprised of the latest global and domestic economic developments that took place since the 64th MPC meeting held on 28 September 2022, and took note of updated macroeconomic projections, before deliberating on the policy rate.

Latest Macroeconomic Developments

1. Inflation continues to be a major concern globally. Consumer prices have remained stubbornly high in many countries across the globe and have overshot their central bank's inflation targets. The rationale behind the high inflation levels is tied to a common set of factors, prominent among which is the ongoing geopolitical conflict, and the resulting disruptions to global commodity and energy prices. In the euro area, year-on-year inflation rose from 8.6 per cent in June 2022 to stand at 9.9 per cent in September 2022. UK inflation rose from 9.4 per cent to 10.1 per cent over the same period. In the US, inflation peaked at 9.1 per cent in June 2022, before subsiding to 8.2 per cent, but continues to be a major concern for the US Federal Reserve Bank. Similar trends were observed amongst emerging market developing economies, namely India, Brazil and South Africa. The IMF projects global inflation at 8.8 per cent for 2022, up from 4.7 per cent in 2021.

2. The responses by central banks have been similar and largely synchronised. Major central banks have, in recent months, become more aggressive in tightening their monetary policy, viewing risks to their domestic inflation outlook as the overriding factor to contain. The US Fed raised the target range for the Federal Funds Rate by 75 basis points to 3.75-4.00 per cent at its November 2022 Federal Open Market Committee meeting. The Bank of England raised the Bank Rate by 75 basis points to 3.00 per cent at its November 2022 MPC meeting. The European Central Bank also increased its policy interest rate by 75 basis points to 2.00 per cent at its October 2022 MPC meeting. Several central banks in emerging market developing economies have also raised their rates in response to growing inflationary pressures, albeit the magnitudes of hikes have differed based on their domestic economic circumstances. Globally, central banks are leaving no stone unturned in order to take appropriate policy decisions that would enable them contain inflationary pressures.

3. The hawkish stance taken by major central banks has generated volatility in global currency markets with potential spillover effects across borders as economic events and policy decisions taken in large economies affect small open and price-taking economies. For instance, the strength of the US dollar against other currencies has, to a certain extent, been driven by favourable interest rate differentials for investing in dollar-denominated assets. As a result, currencies of many economies have weakened, with potential inflationary pressures in these economies. Central banks globally have been reacting to this (and to hawkish decisions taken by other major central banks) by accelerating their tightening stances as they become increasingly aware of the potential impact that negative interest rate differentials vis-à-vis the US dollar (and other major currencies) may have on their currencies, and consequentially on their inflation rates, through potential capital flow reversals.

MPC Decision

4. The MPC carefully reviewed the recent economic developments taking place at the global level and assessed their potential impact on the Mauritian economy.

5. The MPC deliberated that growth in Mauritius is solidly anchored with positive performance across all major economic sectors. The domestic growth momentum during the first two quarters of 2022 was supported by broad-based and sustained recovery across major sectors and a pick-up in domestic demand. In particular, the manufacturing sector has benefited from the lifting of sanitary measures across trading partners and pickup in global demand. The ongoing infrastructural developmental projects have given a fillip to the construction sector. The financial services sector has drawn impetus from the country's exit from the list of countries under enhanced monitoring of the Financial Action Task Force (FATF) and from the EU and UK lists and is set to grow more sustainably. The tourism sector continues to thrive. From January to September 2022, tourist arrivals reached 638,332, i.e., 66 per cent of 2019 levels. Tourism earnings, from January to September 2022, amounted to MUR41,607 billion, that is almost the same level as the corresponding 2019 level. The recovery in the tourism sector since the opening of borders in October 2021 has had significant spillover effects on other sectors of the economy and this impetus is set to continue through the last two quarters of 2022. These positive developments have also

trickled down various aggregate demand indicators which are also showing sustained improvements and have helped lower the unemployment rate to 8.1 per cent in the second quarter of 2022 from 8.7 per cent in the first quarter of 2022. As a result, the Bank maintains its growth projection at above 7 per cent for 2022. The MPC took note that this strong performance on the growth side has given it more room to maneuver on the inflation side.

6. The relatively high degree of openness of the Mauritian economy, together with rather elevated propensity to import, means that inflation in Mauritius is largely impacted by external events.

7. The recent decisions by major central banks to hike their policy rates may result in prolonged negative interest differentials for those economies whose central banks do not react swiftly and appropriately. This could bring their local currency under stress and trigger further inflationary pressures.

8. Accordingly, the MPC decided to raise the Key Repo Rate (KRR) by 100 basis points and considered that this response was needed to close interest rate differentials whilst limiting volatility and bringing confidence in the foreign exchange market. The MPC deliberated that this rate hike, the fourth consecutive during 2022, would prevent de-anchoring of inflationary expectations in Mauritius, while bringing inflation below double-digit figures at around 9.5 per cent for 2022. So far, the cumulative policy rate hike by the MPC since the beginning of the year stands at 215 basis points.

9. Inflationary pressures in Mauritius are expected to recede during the course of 2023, reflecting the combined effects of monetary policy tightening, an expected reduction in international supply-demand mismatches, progressive normalisation of commodity prices globally and favourable base effects. The outlook nonetheless remains subject to uncertainty largely related to the fallouts of the Russia-Ukraine war. The Bank projects inflation in 2023 to stand in the range of 5-6 per cent.

10. The next meeting of the MPC is scheduled for December 2022. The MPC remains committed to taking appropriate policy decisions to achieve the Bank’s price stability objective.

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