BANK OF MAURITIUS

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Minutes of the 34th Monetary Policy Committee Meeting

14 July 2014

The 34th meeting of the Monetary Policy Committee was held on 14 July 2014 at 09:30 hours at the Bank of Mauritius, with Mr Rundheersing Bheenick, Governor, in the chair.

Members present: Mr Yandraduth Googoolye, First Deputy Governor; Mr Issa Soormally, Second Deputy Governor; Mr Nishan Degnarain, Mr Pierre Dinan, and Mr Hemraz Oopuddhye Jankee, External Members.

Professor Jeffrey Frankel and Professor Silvana Tenreyro, External Members, attended the meeting via video-conference.

Observers: Dr Streevarsen Narrainen, Senior Economic Adviser, Ministry of Finance and Economic Development, and Mr Neetyanand Kowlessur, Chief-Economic Research Division, Bank of Mauritius.

Summary of Staff Reports on Economic and Financial Developments

The Staff reported on economic and financial developments since the 33rd MPC meeting held on 28 April 2014.

International Economic Environment

1. The global economy had remained on its path of recovery since the April 2014 MPC meeting. Latest global PMI data for June 2014 had indicated expansion in world economic activity although there were strong disparities underpinning divergent regional trends. The US was rebounding from the contraction it experienced in 2014Q1 and the UK was set to continue growing robustly. Labour market conditions had improved in both economies. In contrast, prospects for the Eurozone and emerging market economies had stayed modest as a result of enduring macroeconomic imbalances. Downside risks to the global growth outlook persisted, notably from generally low inflation in advanced economies and potential disorderly financial markets developments linked with the US Fed tapering process.

2. Sluggish global demand and stabilising commodity prices had contributed to moderate global inflation although there were some signs that inflation had picked up in the US and that it had remained high in some emerging market economies. Food prices had fallen during 2014Q2, reflecting an improving production outlook. Oil prices had been somewhat higher than at the last MPC meeting on geopolitical concerns, but any further rises were expected to be contained.

3. Financial markets volatility had been subdued amid growing investor risk appetite. Global stock markets had remained supported by increasing evidence of recovery in developed economies. Positive US and UK economic data had helped to strengthen the US dollar and Pound sterling, and had underpinned anticipations for a gradual process of interest rate normalisation in those economies. In contrast, the euro had suffered on the back of rising expectations that the ECB would ease monetary policy to further support the economic recovery and combat low inflation. A number of emerging market currencies, including the Turkish lira, South African rand, Indian rupee and Brazilian real, had also been weak against the US dollar.

Domestic Economic Developments

4. The MPC took note that the domestic economy had picked up some momentum in 2014Q1, with a slight increase in the seasonally-adjusted q-o-q growth to 0.5 per cent, from 0.3 per cent in 2013Q4. Nonetheless, on a year-on-year basis, economic activity had grown by 2.4 per cent compared to 3.8 per cent in 2013Q1, reflecting a contraction in both 'manufacturing' and 'accommodation and food service activities'.

5. The lacklustre performance of some key sectors in 2014Q1 had prompted Statistics Mauritius to revise its growth forecast for 2014 downward to 3.5 per cent, from 3.7 per cent previously. It expected lower growth than initially forecast in 'manufacturing' and a larger contraction in the 'construction' sector. However, it projected 'accommodation and food service activities' to grow at a faster pace of 3.5 per cent in 2014 based on an estimate of 1,030,000 tourist arrivals.

6. 'Final consumption expenditure' growth had slowed to 1.5 per cent in 2014Q1, from 2.8 per cent a year ago. *'Household consumption'* had expanded by 1.6 per cent compared to 2.8 per cent in 2013Q1 and *'government consumption'* had picked up by 1.1 per cent. Statistics Mauritius projected 'final consumption expenditure' to grow at a slightly higher pace of 2.6 per cent in 2014 compared to 2.3 per cent in 2013.

7. Investment activity had remained subdued, with Gross Domestic Fixed Capital Formation (GDFCF) expanding by 1.4 per cent in 2014Q1. During the year, GDFCF was projected to increase marginally by 0.4 per cent, reflecting a jump of 13.7 per cent in public investment mostly offset by negative growth of 3.7 per cent in private investment. Exclusive of *'aircraft and marine vessel'*, however, GDFCF could contract by 0.8 per cent during the year. The

investment rate was projected to decline further to 20.7 per cent in 2014 while, at 12.8 per cent, the savings rate would be at around its lowest for the past thirty years or so.

8. Somewhat suggestive of the economic environment, imports of goods *f.o.b.* had decreased by 5.5 per cent y-o-y during 2014Q1 as against a modest growth in 2013Q1 due to a combined drop in both price and volume. Y-o-y exports growth had remained sluggish at 5.0 per cent relative to the strong growth of 13.1 per cent recorded in 2013Q1.

9. Tourist arrivals had increased by 3.3 per cent y-o-y during the first five months of 2014, partly reflecting continued improvement in the Chinese market. However, tourist earnings had fallen by 2.1 per cent y-o-y during the same period. The outlook for the sector remained positive, with Statistics Mauritius forecasting tourist arrivals to increase by 3.7 per cent for 2014 while tourist earnings were projected to grow by 9.7 per cent y-o-y to Rs44.5 billion.

10. The MPC noted that the current account had recorded a lower deficit of Rs5.4 billion in 2014Q1 compared to a deficit of Rs7.3 billion in 2013Q1. This resulted from an improvement in the trade balance associated with the contraction in the value of merchandise imports while net services surplus had narrowed given the weak performance of inbound tourism. Net inflows in the capital and financial accounts of the balance of payments had been adequate to finance the current account deficit.

11. The unemployment rate, which had reached 7.5 per cent in 2013Q4, edged back up to 8.0 per cent in 2014Q1 as temporary end-of-year employment receded. Statistics Mauritius estimated that the unemployment rate for 2014 would remain unchanged at 8.0 per cent. Reflective of labour market conditions, and as the impact of higher government wages in 2013Q1 wore out, nominal wage growth slowed to 6.7 per cent y-o-y in 2014Q1 relative to 8.8 per cent a year ago.

12. Monetary expansion had remained subdued despite the prevailing high liquidity conditions. Broad Money Liabilities had risen from 7.0 per cent in February 2014 to 8.0 per cent in May 2014 while the pace of growth in depository corporations' loans to private financial and non-financial corporations and households had receded from 10.3 per cent to 9.6 per cent.

13. Y-o-y inflation had continued to decline, from 4.5 per cent in March 2014 to 4.2 per cent in April 2014 and further to 3.3 per cent in June 2014, mainly on account of downward movements in the price of fresh vegetables. In absolute terms, the CPI had fallen over the second quarter, with the *'food and non-alcoholic beverages'* division continuing to be the major contributor to overall CPI inflation in June 2014. The core measures of inflation had remained at moderate levels since the April 2014 MPC meeting.

14. The Bank's Inflation Expectations Survey carried out in May 2014 had shown that a majority of the respondents had expected inflation to go up over the next twelve months. Respondents

had expected mean inflation rates of 4.4 per cent by December 2014 and 4.6 per cent a year ahead.

Domestic Financial Market Developments

15. Members were briefed that despite a decrease noted since the April 2014 MPC meeting, the overall excess liquidity in the banking system had remained high at an average of Rs9.9 billion through to end-June 2014. Money market interest rates had consequently maintained their decline. The weighted overnight interbank interest rate had reached a low of 1.25 per cent while the weighted yield on the 364-Day Government of Mauritius Treasury Bill had moved to 2.38 per cent before the meeting.

16. The Bank had intervened on the domestic foreign exchange market to build up reserves under the Operation Reserves Reconstitution programme and had partially sterilised its intervention through the issue of Bank of Mauritius securities for a net amount of Rs3.0 billion. This had brought the total outstanding amount of Bank of Mauritius securities to almost Rs24 billion as at end-June 2014. To reduce further the excess liquidity, the Bank had also raised the cash ratio on rupee deposits to 9 per cent effective 2 May 2014 while Government had front-loaded some Rs4 billion of medium- to long-term Government securities.

17. The weighted average interest rates on rupee deposits and advances stood at 3.38 per cent and 8.11 per cent, respectively, as at end-May 2014. The real weighted savings deposits rate had remained in negative territory, at minus 0.22 per cent. In June 2014, however, two banks had reduced their savings deposit rates and one bank had reduced both its savings deposits rate and prime lending rate. Those changes without a similar change in the KRR had contributed to indicate a breakdown in the transmission of the policy rate to market interest rates.

18. Exchange rate developments had been mild, with the rupee mostly stable in nominal effective terms. The rupee had, on a dealt basis, depreciated against the US dollar and Pound sterling, but appreciated against the euro.

Staff Economic Outlook

19. Staff noted that domestic growth in 2014Q1 had been lower than expected on the back of subdued domestic and external demand conditions. It was assessed that the economy had continued to operate below potential. Looking ahead, the economy was set to improve in 2014H2 and post a better performance for the year relative to 2013, in line with the recovery expected in main-trading partner countries and the continued process of market diversification. However, downside risks remained, in particular from prolonged fragile Eurozone growth and the possibility that the US Fed tapering process might turn disorderly. In parallel, there was a pressing need to accelerate the structural reform agenda, including market diversification, to achieve higher income growth. In view of the latest national accounts data released, Staff had

reviewed the domestic growth forecast for 2014 downward to a range of 3.4-3.6 per cent compared to 3.7-4.0 per cent previously.

20. Staff remarked that the impact of the supply shock to food on account of adverse climatic conditions had faded much faster than had been initially anticipated. By June 2014, the impact of the temporary shock had disappeared. With vegetable prices having run their course of seasonal correction, it was anticipated that the pace of decline in y-o-y CPI inflation might come off. Tame global commodity prices, stable rupee exchange rates and weak domestic demand conditions mirrored by downward revisions to the growth forecasts suggested mild upside risks to the inflation outlook. On the basis of current trends and barring any other shock, it had become less likely that inflation would reach levels forecast in February and April 2014. Based on a range of models, Staff forecast that y-o-y inflation could average between 3.7 – 4.2 per cent for the year 2014.

Representations and External Presentations to the MPC

21. The MPC is required by law to take into account the views of the Bank, the Finance Ministry and such other institution or organization as it considers appropriate in the discharge of its duties. In compliance with this mandate, the Ag. Deputy Financial Secretary, Mr Patrick Yip, presented the views of the Ministry of Finance and Economic Development to the MPC. He argued that there should be a very careful approach to monetary policy in an uncertain economic environment, where growth forecasts had been brought down and inflationary pressures had been subdued. The Ministry viewed that, in this setting, monetary policy should continue to be accommodative and that the KRR should be kept at its current level.

22. The MPC also heard from Mr Sen Ramsamy, Managing Director of Tourism Business Intelligence, who had been invited to make a presentation on the prospects and challenges of Tourism in Mauritius. Mr Ramsamy stressed the need to design a new business model for Mauritius Tourism. The sector was benefiting from positive developments, such as market diversification and direct air links with China, but its growth and profitability were hindered by a number of factors, including the lack of a professional planning body. A clear and long-term vision on the future direction of Tourism was required for its transformation as well as for market consolidation and diversification. This vision implied a synergy between public and private sectors together with strong leadership.

23. The MPC took note of a representation to the MPC by two staff members, Mr Dooneshsingh Audit and Mr Fadil Dookhy, on behalf of the Bank of Mauritius on the need for interest rate normalisation given the changing global setting. It was argued that the turnaround in monetary policy had already started globally amid improving economic activity and risk appetite. With rising concerns about the impact of persistent low interest rates on asset prices, there had been calls, notably from the BIS, for central banks to turn their focus to the risks of normalising too slowly and too late. In Mauritius, where it would be important to restore the mandated

influence of the monetary authority on the banking sector, the MPC should start thinking about a smooth exit strategy from the current accommodative monetary policy and provide an indication of the future interest rate path to economic agents.

24. Mr Suttyhudeo Tengur, President of the Association for the Protection of the Environment and the Consumers, addressed a Memorandum to the MPC whereby he put forth arguments in favour of a rise in the KRR and expressed some concerns about the real independence of the MPC. Some members objected strongly to these comments by APEC, which were seen as an attack on their professional integrity.

25. All external presentations are summarised in Annex 1. The full set of presentations made at the MPC meeting is now available on the Bank's website at *https://www.bom.mu*.

The Monetary Policy Decision

26. Members shared the view that the global economy had strengthened since the April 2014 MPC meeting though the extent of the recovery was still uncertain and uneven across main trading partners. They took note of the divergence in the expected growth paths of advanced economies, notably the underperformance of the Eurozone relative to the US and UK, while emerging economies had been expanding at slower rates than previously. Global inflation had remained muted, partly as a result of the moderate evolution of food and energy prices, and was projected to remain soft in the foreseeable future. Members also took note of the issues faced by the US Fed and BoE in assessing the timing and pace of interest rate normalisation in the current environment, while the ECB might need to engage in additional easing of monetary policy.

27. The MPC considered that due to lasting global headwinds in 2014Q1, the domestic economy had recorded its worst first-quarter performance of the last 5 years. Going forward, however, there were expectations that improving economic conditions in main trading-partner economies might provide support to domestic growth. It was pointed out that order books were expanding in the manufacturing sector. Downside risks to the domestic growth outlook persisted. Members expressed worries about low labour and capital productivity in the economy, which they saw as constraining the goal of higher income growth. Nevertheless, those issues could not be dealt with an accommodative monetary policy.

28. Members were concerned about weak private investment and low savings rate, which were seen to have impacted on the current account deficit. Some members highlighted the continued negative real interest rate on savings deposits and emphasised the need to incentivise savings. They welcomed the issue of savings instruments by the Ministry of Finance and Economic Development although they considered that the individual ceiling of Rs500,000 might be too low. Members noted that the Bank was considering the implementation of some measures at its end to support the Ministry's efforts. One member commented that once GBC1s data had been

considered, the savings rate had turned out to be slightly higher in 2012 and might be for 2013 as well.

29. Taking note of the Statistics Mauritius forecast that the unemployment rate for 2014 would remain unchanged relative to 2013, some on the Committee took the view that this level might represent a new normal. Members agreed that measures to tackle unemployment, including the problem of youth unemployment, were mostly related to structural and other manpower policies and, as such, beyond the scope of monetary policy.

30. Members noted that y-o-y inflation had declined since the April 2014 MPC meeting while inflation expectations had remained relatively well-anchored. Taking into account the relatively stable international commodity prices and rupee exchange rate, as well as the moderate domestic demand and supply pressures, members assessed that domestic inflation would remain benign over the forecast horizon. Some members put forth that y-o-y inflation would remain at around the current level and reach about 3.5 per cent by year-end.

31. The MPC extensively discussed interest rate normalisation. A majority was of the view that this process needed to be started, although there was some disagreement on its pace and timing. Other members questioned the relevance of normalisation for Mauritius and judged that it might be too early to begin this process. While a negative real policy rate underpinned the normalisation process in some countries, this was not the case for Mauritius where the KRR was still positive in real terms. They further argued that starting normalisation now might result in a hard-landing of the economy given the current demand and supply context.

32. Other members viewed that the trend was in favour of normalisation at the international level, with some economies having already embarked on policy rate increases. In Mauritius, interest rates should have by now been raised to avoid the negative consequences of prolonged low interest rates on savings and the banking sector. Accommodative monetary policy had lasted for too long and needed to be removed gradually. It was argued that the real savings deposits rate, which had been in negative territory for some time, was the most appropriate rate to use in assessing whether, and when, normalisation should start.

33. These members, moreover, assessed that the banking sector was showing signs of stress. Credit had been misallocated to some sectors, like construction for instance, while many firms had become over-leveraged in the process of restructuring their operations. It was pointed out that the primary tool available to the central bank to mitigate vulnerabilities in the banking sector was not under its control. The Bank, thus, had to increase the cash ratio and introduce macroprudential measures to address banking sector weaknesses and compensate for the MPC leaving the KRR unchanged. However, it would take time for the macroprudential measures, in particular, to work their way through the economy.

34. Members broadly agreed that there could be a signal on their part that normalisation would occur at some stage. This approach would sensitise the public to the possibility of interest rate increases in the future and would help to make the process gradual and orderly. However, there was some debate on whether this signal should come in the form of a forward guidance on monetary policy. Some members did not wish to use explicit forward guidance, pointing out that some central banks had recently been forced to review their forward guidance in light of new economic developments. Since responding to unanticipated demand or supply shocks could undermine the credibility of the policymaker, there was need to think carefully about the macroeconomic variables to be used and the levels to be communicated as benchmarks to the public before proceeding with forward guidance.

35. Other members, however, were of the opinion that conditions in the economic and political spheres were right to dissipate as much of domestic uncertainty as possible from the monetary policy side and send a strong signal about the future path of interest rates. Mild inflation pressures, factoring in broadly stable commodity prices, made it possible to provide strong guidance that the KRR would stay unchanged up to the end of the year. Thereafter, the stance of monetary policy would need to be reviewed in light of inflation developments, with a rise of at least 25 basis points in the KRR in the wake of Budget 2015.

36. Members were concerned about the breakdown of the monetary policy transmission mechanism as a result of the high excess liquidity in the banking system. They welcomed the change in the stance of the Ministry of Finance and Economic Development with regard to supporting the Bank in removing the excess liquidity from the system. Some members viewed that the signature of a Memorandum of Understanding with the Ministry to reduce the excess liquidity, among others, might help to improve the effectiveness of the transmission mechanism. Some members also believed that it was necessary to re-align interbank interest rates with the KRR for orderly market conditions. Other members, however, were of the opinion that the domestic interbank market did not function like in other more developed economies. The domestic banking system was faced with a systemic risk of 2 banks controlling around 70 per cent of rupee deposits. Following the April 2014 MPC meeting, some banks had adjusted their savings deposits rates downward, thus widening their interest rate spreads, while the KRR had remained unchanged. It was underscored that efforts to improve the transmission mechanism were linked with the Bank's attempts to deepen the money market by enhancing the primary dealer system and developing secondary market trading.

37. The Committee weighed the risks to the growth and inflation outlook over the policy-relevant horizon and discussed alternative interest rate scenarios. Against a background of subdued global and domestic inflationary pressures, the MPC unanimously decided to leave the KRR unchanged. The MPC foresaw maintaining this monetary policy stance up to the end of this year on the assumption that headline inflation would stay at or below 4 per cent and y-o-y inflation at or below 3.5 per cent, leaving aside unexpected supply shocks. The MPC would

meet to review its stance in case of unexpected price and real sector developments. Some members took the view that the KRR would need to be raised by at least 25 basis points at the first meeting of 2015 in the aftermath of the Budget 2015.

38. Some members were of the opinion that this approach of signalling the interest rate path over the foreseeable future would reduce uncertainty among economic operators and provide them guidance on their savings, investment and consumption decisions.

Voting Pattern

39. At the first round of voting after the discussion, Mr Pierre Dinan, Professor Jeffrey Frankel, Mr Hemraz Oopuddhye Jankee and Professor Silvana Tenreyro voted to keep the KRR unchanged on overriding growth concerns. Mr Nishan Degnarain voted to increase the KRR by 10 basis points while Mr Yandraduth Googoolye and Mr Issa Soormally both voted to increase the KRR by 25 basis points to start the normalisation process. Mr Rundheersing Bheenick indicated that he would have preferred to initiate the normalisation process with a 25 basis points increase in the KRR. However, given muted inflationary pressures and the need to dissipate economic uncertainty, he would be in favour of keeping the KRR unchanged at 4.65 per cent provided there was strong commitment that interest rates (i) would remain unchanged up to the end of the year assuming inflation remained on its projected trajectory; and (ii) would need to be raised at the MPC meeting following Budget 2015.

40. After further discussion, at a second round of voting, Professor Silvana Tenreyro voted to increase the KRR by 10 basis points in an effort to reach consensus while signalling the end of the easing cycle. The remaining members maintained their initial positions.

41. During the third round of voting, the Committee concurred on the need to build a consensus about the monetary policy stance while giving time to economic operators to adjust. Mr Yandraduth Googoolye and Mr Issa Soormally voted to leave the KRR unchanged provided there was strong guidance that interest rates would be raised following Budget 2015. Professor Silvana Tenreyro reverted to voting for an unchanged KRR while Mr Nishan Degnarain agreed that the gradual normalisation of monetary policy could start at a later stage and voted to leave the KRR unchanged. Other members maintained their initial voting patterns, with Mr Rundheersing Bheenick underlining that interest rates would be expected to be raised subsequent to Budget 2015.

42. After three rounds of voting, the Committee unanimously voted to keep the KRR unchanged at 4.65 per cent per annum.

43. The MPC will maintain strong vigilance in monitoring economic and financial developments and stands ready to meet in between its regular meetings if the need arises.

44. The meeting adjourned at 18.15 hours. The next MPC meeting is scheduled on Monday 27 October 2014.

45. **Voting for the MPC action:** Mr Rundheersing Bheenick, Mr Yandraduth Googoolye, Mr Issa Soormally, Mr Nishan Degnarain, Mr Pierre Dinan, Professor Jeffrey Frankel, Mr Hemraz Oopuddhye Jankee and Professor Silvana Tenreyro.

46. **Voting against the MPC action:** None

Bank of Mauritius
28 July 2014

Annex 1

Summary of the presentation by the Ministry of Finance and Economic Development, including responses to questions from MPC members

The Ministry was represented by Mr Patrick Yip, Ag. Deputy Financial Secretary. The main thrust of his submission was as follows:

1. Mr Yip highlighted the government's resolve to embark on a transformation agenda underpinned by the objectives of high income, inclusiveness and sustainability. The country would require fundamental reforms in key areas of the economy and society, well-focused structural policies to boost productivity and competitiveness, and strong and effective macroeconomic policies. In this context, the Ministry had already initiated a series of consultations with key stakeholders in all sectors of the economy.

2. The Ministry was of the view that an explicit inflation target would help to better anchor inflation expectations while factoring in other economic considerations such as growth and employment. This should also facilitate the work of the Monetary Policy Committee. On excess liquidity, it was noted that some Rs4 billion of Government borrowings had already been frontloaded to mop up excess liquidity. MOFED would shortly be frontloading an additional amount of Rs2 billion by issuing 5-Year Bonds on a retail basis to provide an opportunity for small savers to get higher return on their savings.

3. The Ministry viewed that performance of the global economy in the first quarter had been disappointing. Although growth in advanced economies accelerated during the second quarter and would most likely continue during the rest of the year, the recovery remained tepid and uneven. Growth for the domestic economy in 2014 would be lower than initially forecast. Inflation was now forecast to be closer to the lower bound of 4 per cent and recent developments confirmed that expectations of lower inflation remained well anchored.

4. Sluggish private investment in Mauritius remained an area of concern although public sector investment had been partly able to make up for the fall in private investment. The Ministry would continue to address project preparation and execution constraints, including public procurement procedures and processes. Moreover, a Mauritius Infrastructure Fund Ltd would be set up as part of a strategy to turn to innovative funding structures and instruments for speedier implementation of large infrastructure projects.

5. On the budget front, it was noted that Government had made further progress towards fiscal consolidation this year. First semester performance showed that both the budget deficit and Government borrowing requirements by end-2014 would be lower than forecast by about 0.3 to 0.5 percentage point of GDP.

6. The Ministry was of the view that the situation warranted a very careful approach to monetary policy. There was still uncertainty with GDP growth forecast being lowered. Therefore, it was hoping that monetary policy would continue to be accommodative and the KRR kept at its current level.

Summary of the presentation by Mr Sen Ramsamy, including responses to questions from MPC members

7. Mr Ramsamy gave a global picture of the tourism industry with particular emphasis on Mauritius and its major competitors. In 2008, Mauritius attracted nearly 1 million tourists whereas countries like Sri Lanka and Maldives received around 430,000 and 680,000 tourists, respectively. In 2013, however, Sri Lanka and Maldives had exceeded 1 million tourist arrivals while Mauritius was still struggling to cross that benchmark.

8. There were a number of factors constraining the growth and profitability of the tourism sector. These included constant room capacity expansion, poor market visibility and destination planning, lack of air seats, a euro-centric tourism product, declining service standards, stifling all-inclusive packages in hotels, low business profitability and an unprecedented level of hotel indebtedness. There was also a mismatch between product offering and new customer expectations, which were more than just ‘sand, sun and sea’.

9. Although several measures had been taken to promote the tourism industry, such as market diversification and direct air links from China, some major challenges especially at the institutional level remained. There was currently no professional body for air access policy, planning and management. The Mauritius Tourism Promotion Authority (MTPA) needed to be restructured.

10. There was need for more synergy between the public and private sectors to shape a better future for the tourism industry, which had been at the cross-road for too long. We should move from a hotel industry to a tourism sector. This required a business transformation plan with market consolidation and diversification; there should be development of future tourism potentials; local authorities needed a tourism development agenda.

11. Among comments received, it was pointed out that the tourism sector was overleveraged and that operators favoured prolonged low interest rates to service their debts. However, low interest rates would not lead to any improvement of the sector as its problems emanated from the supply side.

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. The MPC meets on a regular quarterly basis.

In line with amendments brought to the Bank of Mauritius Act 2004 in December 2012, the MPC was reconstituted in March 2013. Members of the MPC comprise the Governor (Chairperson), the 2 Deputy Governors, 2 other persons appointed by the Prime Minister and 3 other persons, not being Directors or employees of the Bank, appointed by the Finance Minister.

When the MPC met on 14 July 2014, the last available data on national accounts, employment and external trade were for 2014Q1. The last data available on CPI and inflation were for June 2014 while monetary data were available up to May 2014.

Abbreviations and Definitions

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

Y-o-y inflation is measured by the change in the CPI for a given month compared with the corresponding month of the preceding year.

CORE1 inflation excludes food, beverages and tobacco and mortgage interest on housing loan from the CPI basket. Both headline and y-o-y CORE1 inflation measures are available.

CORE2 inflation excludes food, beverages and tobacco, mortgage interest, energy prices and administered prices from the CPI basket. Both headline and y-o-y CORE2 inflation measures are available.

Dealt exchange rate is the weighted average rupee selling rate derived from transactions of US$30,000, and above, or equivalent.

KRR refers to the Key Repo Rate.

PMI refers to the Purchasing Managers' Index of financial activity, reflecting purchasing managers' acquisition of goods and services.

Y-o-y refers to year-on-year changes.

Q-o-q refers to quarter-on-quarter changes.