BANK OF MAURITIUS

Monetary Policy

Monetary policy refers to the set of actions taken by the central bank to influence the amount of money and credit in the economy. It largely affects the economic and financial decisions of consumers and businesses and ultimately influences demand across the economy—that is, the willingness of households and firms to spend on goods and services as well as their expectations of movements in key economic and financial factors.

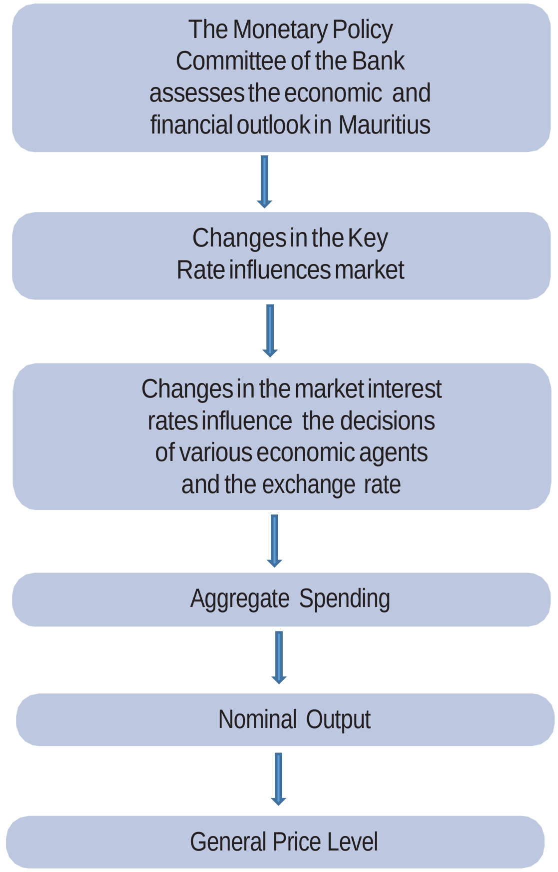
Monetary policy is conducted by the Bank of Mauritius. Section 4 of the Bank of Mauritius Act 2004 defines the primary objective of the Bank as that of maintaining price stability and of promoting orderly and balanced economic development. When prices are stable and expected to remain stable in future, inflation is no longer considered a factor for price and wage-setting in the economy. A low inflation rate helps retain the value and confidence in the domestic currency. Price stability also forms a sound basis for macroeconomic stability and long-term growth of the economy.

The Bank of Mauritius currently uses the Key Rate as its policy interest rate to signal changes in its monetary policy stance. When it raises/lowers its Key Rate, it tightens/loosens monetary policy, which has a contractionary/expansionary effect on economic activity in the short to medium term.

Why is high inflation undesirable?

A relatively high level of inflation rate has a number of costs. High inflation impedes economic growth, given the uncertainty it creates and its adverse impact on planning by firms and people. Inflation can be anticipated or unanticipated. In periods of high anticipated inflation, people tend to protect their existing wealth and resources by investing in unproductive activities like real estate and gold. When inflation is unanticipated, wealth is transferred from creditors to debtors, Furthermore, fixed income earners, like pensioners, suffer reductions in the real value of their income.

How does monetary policy work?



Tools of Monetary Policy

The principal tools used by the Bank of Mauritius to conduct monetary policy are outlined below:

- **Open Market Operations (OMOs)** are broadly defined as the purchase or sale of securities by the central bank to influence liquidity in the system. By purchasing securities, the Bank of Mauritius injects funds and conversely, by selling securities it removes funds from the monetary system. These operations allow the Bank of Mauritius to manage liquidity in the money market.

- The Bank of Mauritius also engages in repurchase (repo) and reverse repurchase (reverse repo) agreements to manage the liquidity situation in the money market. Under a repo/reverse repo, the Bank supplies/absorbs liquidity to/from the market by purchasing/selling eligible securities from/to banks with an agreement to resell/repurchase them at a specified time on a given future date.

- **Reserve Requirements**: Banks are legally required to hold specified reserve assets in the form of balances with the central bank equal to some minimum percentage, known as the cash ratio, of their total deposits. A rise in reserve requirements leads to a contraction of the money supply and vice versa.

How long does it take monetary policy to attain its objective?

Monetary policy has an impact on the different sectors of the economy with lags that vary across sectors and ultimately on inflation. The task of decision makers on monetary policy is rendered difficult by uncertainties related to how changes in monetary policy are transmitted to different sectors of the economy, as well as changing expectations of people. The implementation of monetary policy is further complicated by economic shocks like a surge in oil and other commodity prices, and bad weather conditions.

The Monetary Policy Committee

The Monetary Policy Committee (MPC), set up in April 2007, formulates and determines monetary policy. MPC members include: the Governor, the two Deputy Governors, two members appointed by the Prime Minister and three members appointed by the Minister of Finance and Economic Development. The Governor is the Chairperson of the MPC.

Frequency of meetings

The MPC normally holds its meetings on a quarterly basis. Interim MPC meetings may be convened as and when the need arises.

Voting at the MPC

Each member of the MPC has a vote to set policy rates at the level he/she believes is consistent with the objects of the Bank. In case of a vote tie, the Chairperson of the MPC has a casting vote.

Decision of the MPC

The decision of the MPC is based on a thorough review of global and domestic economic and financial developments and an assessment of risks to the inflation and growth outlook.

A press conference is held by the Governor after each MPC meeting to provide an assessment of the economic and financial conditions and outlook and the monetary policy decision.

The Bank publishes on the same day a Media Release that provides the gist of the monetary policy decision. The Media Release announces the decision of the MPC on the level of the KRR. It also reveals whether the decision was unanimous or by majority vote. A gist of the main factors assessed by the MPC that led to the monetary policy decision are outlined.

The minutes of MPC meetings are released on the Bank’s website two weeks after the MPC meeting. The minutes contain information about global and domestic economic developments since the previous MPC meeting as well as an assessment of risks to the growth and inflation outlook. It reveals MPC members’ perspectives and concerns on specific issues, thus indicating the main factors underlying the MPC’s decision on the KRR. Moreover, the voting pattern of MPC members is also made public.

Last updated on 19 July 2016