MPC Meeting - 20 October 2021

Press Statement by the Governor

1. Ladies and gentlemen, members of the media, good afternoon.

2. Welcome to this press briefing for the Monetary Policy Committee (MPC) meeting held today, marking the 60th sitting of this Committee.

3. This is the first MPC meeting since the opening of the borders, which marks a crucial turning point in our economic recovery process.

International Economic Developments

4. During the last MPC meeting held in August 2021, there were already strong signs of global economic recovery. Developments over the past few months have further confirmed this trajectory.

5. Economic activities picked up in many parts of the world, helped by the roll-out of effective vaccine campaigns and the extension of strong policy support by both monetary and fiscal authorities. We are seeing demand picking up as economies reopen and sentiment improves.

6. The IMF, in its recent October 2021 World Economic Outlook Report (WEO), has projected global growth at 5.9 per cent in 2021 and 4.9 per cent in 2022, assuming that further progress in vaccine coverage and accommodative fiscal and monetary support will remain in place.

7. Travel sentiment has been improving lately. With more economies adopting testing and no quarantine approach, the outlook for global tourism looks promising as well.

8. Global trade continued to expand even though the pace of growth has moderated, with supply constraints and freight costs acting as a drag.

9. Global inflation remains above pre-pandemic levels and emanates largely from temporary factors that are likely to start fading away at the turn of the year. The Baltic Dry Index went up by 204 per cent from September 2020 to September 2021. The FAO Food Price Index averaged 130 points in September 2021, rising by 33 per cent from a year ago.

10. As economic activity intensifies and markets become more buoyant, growth in advanced economies is projected to reach 5.2 per cent in 2021. Growth in the US is forecast to stand at 6.0 per cent, while that of the UK at 6.8 per cent for 2021. With these growth rates, both the US and the UK are expected to recover to pre-pandemic output levels within the next two years. Growth in emerging market economies is now projected at 6.4 per cent. For low income countries, the IMF estimates growth at 3.0 per cent.

Domestic Economic Developments

11. On the domestic front, despite the second lockdown, the economy rebounded by 19.3 per cent in 2021Q2 as against a contraction of 8.7 per cent in the previous quarter. The high growth mostly reflected continued policy support by the monetary and fiscal authorities, as well as buoyancy of some sectors.

12. In terms of sectoral performance, all economic sectors registered an improvement, particularly the manufacturing and construction sectors. On the expenditure side, growth was driven by higher private consumption spending and strong investment activity. Exports of goods turned positive amid higher external demand and domestic manufacturing activity while exports of services remained subdued. Imports of goods also picked up mainly due to stronger domestic demand.

13. With more than 88 per cent of the adult population vaccinated against Covid-19 as at this week, economic activity is expected to strengthen further, thus boosting business and consumer confidence in the economy.

14. Key economic sectors, notably manufacturing, financial services, construction and information technology are estimated to contribute positively to growth this year. Here, I would like to emphasize that the Bank is keeping a close eye on sectoral developments and that I have

personally met with the representatives of the Association des Hoteliers et Restaurateurs de l'Ile Maurice (AHRIM) and of the Mauritius Export Association (MEXA) to be apprised of developments in these sectors. Activity has been picking up in the second half of the year and this positive momentum is likely to continue.

15. The full re-opening of national borders as from the beginning of this month is already showing key signs of revival of the tourism sector. From 1 to 15 of October, it is estimated that Mauritius has welcomed 30,000 in-bound passengers out of which 82 per cent are foreigners. This is already creating positive ripple effects on the economy. Similarly, the manufacturing sector is seeing good order books, even comparable to the pre-pandemic levels. Going forward, the Bank will continue to foster dialogue with key stakeholders of the economy for effective monitoring of real sector developments.

16. The external sector is projected to recover in 2021 with the current account deficit as a share to GDP forecast to decline to about 10.2 per cent compared to 12.6 per cent in 2020.

Inflation

17. Inflation remains contained, despite the recent increase in administered prices such as for alcoholic beverages and tobacco and domestic petroleum products. Headline inflation stood at 3.2 per cent in September 2021.

18. As I alluded in my last MPC Statement, we are in the same situation as many countries in the world. Inflation in Mauritius is driven by transitory supply shocks, in particular higher freight costs and commodity prices. There is still significant uncertainty on price dynamics worldwide due to such unexpected supply shocks, though global inflation is expected to fall in 2022.

Money Market

19. I now turn to money market developments.

20. The Bank continues to manage excess rupee liquidity in line with its monetary policy stance. Short-term yields have remained within the interest rate corridor in 2021-Q3.

21. Since the last MPC on the 4th of August 2021 to date, the Bank has issued securities aggregating Rs36.1 billion. In comparison, since the beginning of 2021, the Bank has issued a total of Rs80.9 billion securities. The level

of rupee excess liquidity in the banking system evolved around an average of Rs26.5 billion over the past three months, reflecting open market operations as well as foreign exchange interventions by the Bank. The Bank remains committed to pursue active liquidity management to ensure appropriate liquidity conditions as economic recovery gathers momentum.

Foreign Exchange Market

22. On the foreign exchange market, conditions continue to be mostly driven by domestic demand and supply factors. Exchange rate movements of the rupee also reflected international currency fluctuations.

23. The Bank continued to intervene on a regular basis to address undue exchange rate volatility and ensure an adequate supply of foreign exchange to the market. It has sold to banks, FX dealers and the State Trading Corporation a total amount of USD1.1 billion since January 2021, equivalent to around Rs46 billion. The Bank has sold an aggregate of USD2.4 billion since March 2020.

24. The Bank continues to closely monitor conditions on the FX market and is committed to maintaining orderly conditions and retaining a floating exchange rate regime.

25. The gross official FX reserves of the country remained at comfortable levels, standing at around USD7.84 billion as at end-September 2021, representing 19.6 months of imports. As borders reopen, with tourism arrival gathering pace and FDI flows increasing, we expect FX inflows to increase.

26. The level of the gross official FX reserves remains adequate according to the stringent Assessing Reserve Adequacy (ARA) metrics of the IMF. It stands well within the recommended range of 100 to 150 per cent. I would like to highlight that the Bank has been engaging with the IMF in recent weeks on the assessment of reserve adequacy. The IMF will be revising upwards its assessment.

New Monetary Policy Framework

27. I also wish to provide an update on the new monetary policy framework, which I mentioned at the last MPC Press Conference. I am pleased to inform you that the new framework has been worked out and has been shared with the IMF. Discussions are ongoing on the technical aspects of the new framework.

Financial Stability

28. From the perspective of financial stability, the banking sector continues to remain sound and stable. The sector has comfortable capital buffers, with the aggregate Capital Adequacy Ratio at 18.6 per cent at end-June 2021, well above the minimum regulatory limit. Liquidity buffers are robust, with the Liquidity Coverage Ratio of banks standing at 246.1 per cent, well above the regulatory limit of 100 per cent, as banks have been holding a relatively high level of liquid assets.

29. The Covid-19 support measures are encouraging the flow of credit to the economy and economic recovery. The annual growth rate of bank credit to the private sector accelerated to 5.3 per cent in July 2021, from 3.9 per cent in December 2020, thus signifying enhanced activities. The credit growth momentum to corporates and households was sustained at 5.2 per cent and 5.5 per cent, respectively, in July 2021.

30. The asset quality of banks remains sound and has improved further since December 2020. The ratio of non-performing loans to total loans declined to 4.8 per cent in June 2021, from to 5.0 per cent in March 2021 and 5.4 per cent in December 2020.

31. The extension of the moratoriums and some of the Covid-19 relief measures up to June 2022 continue to provide financial respite to borrowers, especially those severely impacted by the pandemic. The total outstanding amount of loans to economic operators, SMEs, households and individuals which have been granted moratorium due to Covid-19 decreased to stand at Rs41.6 billion at end-August 2021, after reaching a peak of Rs93.4 billion at end-December 2020.

32. This decline in the outstanding value is a positive indication that the economic recovery is well under way and businesses as well as households are in a better position to service their debts. This drop also alleviates risks to financial stability. A further evidence of positive recovery is the drop in the amount of restructured loans since December 2020.

33. The results of the latest stress test exercise suggest that the banking sector still maintains prudent capital and liquidity buffers to be able to withstand any potential shocks. The banking sector has successfully borne the effects of real economic shocks caused by the pandemic. The Bank continues to closely monitor the resilience of the banking sector and conducts regular stress testing exercises and sensitivity analyses.

MPC Decision

34. I will now discuss the decision of the MPC.

35. The MPC reflected on main developments shaping the current global and domestic economic landscape.

36. Economic recovery is underway and the growth momentum is expected to improve throughout the remainder of 2021, especially with the resumption of tourism-related activities. Economic sentiment has improved considerably amidst vaccination progress and reopening of borders.

37. In particular, the anticipated rebound in the tourism sector has lifted optimism over activity prospects, with economic operators expecting better prospects. Positive developments such as new flights announcements, increased seat capacity and advanced hotel bookings are pointing to a commendable outlook for the sector.

38. In view of the continued activity upturn across both the global and domestic fronts, Bank staff has maintained their real GDP growth of 5.5 per cent for 2021.

39. Bank Staff has revised its projection for headline inflation to about 3.8 per cent in 2021, largely attributed to supply-side factors including freight costs. With key trading partners purporting the recent rise in prices as

transient, imported inflation would recede alongside an improvement in global supply chains. In the medium term, domestic inflationary pressures are expected to remain at bay.

40. The MPC considers that the current monetary policy stance is appropriate. Accordingly, the MPC has unanimously decided to keep the Key Repo Rate unchanged at 1.85 per cent per annum.

41. The next meeting of the MPC is scheduled for 15 December 2021.

42. As usual, I would like to underscore the commitment of the Bank of Mauritius to maintaining price stability, and to achieving an orderly and balanced economic development, whilst ensuring the stability and soundness of the financial system of Mauritius.

43. The MPC will continue to monitor the economic situation closely and stands ready to meet in between its regular meetings, if the need arises.

44. Thank you.

45. I now welcome your questions.

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