MPC Meeting - 4 August 2021
Press Statement by the Governor

1. Ladies and gentlemen, members of the media, good afternoon.
2. Welcome to this press briefing on the 59th Monetary Policy Committee (MPC) meeting held today.
3. The meeting was held against the backdrop of firming global economic recovery and gradual re-opening of the national borders for international travel.
4. I will first comment on latest international economic developments before elaborating on domestic economic conditions.

International economic developments

5. When the MPC last met in February 2021, the green shoots of global economic recovery were already visible. They are now confirmed by latest economic data releases and reports. The increased pace of vaccination worldwide, easing of COVID-19 restrictions, and continued fiscal and monetary support across the globe are all contributing to the rebound in global growth.
6. In its July 2021 World Economic Outlook (WEO) Update, the IMF has forecast the global economy to grow at 6.0 per cent for 2021. This represents an upgrade from the figure of 5.5 per cent reported in its January 2021 WEO Update that we considered at our February meeting. More significantly, global growth projections for 2022 have continued to improve, and now stand at 4.9 per cent.
7. There are divergences in the pace of recovery among advanced economies as well as emerging and developing economies, mainly due to different experiences on the spread of variants and access to vaccines. The US and Europe, which are among our key markets, have seen economic conditions strengthen amid vigorous vaccination campaigns and improved business and consumer confidence.
8. The J.P. Morgan PMI indicators also point to robust global economic activity being sustained in the short term as the pandemic headwinds fade.
9. World trade continues to recover from pandemic-related disruptions. The upturn in merchandise trade is set to accelerate and trade in services is catching up, albeit at a slower pace.
10. Global tourism travel has been picking up since January 2021. This is a positive sign for tourism-dependent economies.
11. Global inflation has increased, mostly reflecting transient supply-demand mismatches. These mismatches are expected to fade with the easing of supply constraints and production bottlenecks.

12. Major central banks have looked beyond the spike in inflation and maintained their accommodative monetary policy stance to continue to provide support to their respective economies.
13. While COVID-19 remains a threat to the global economy, latest developments have shown that vaccination is a key element behind further normalization of global economic activity. There seems to be a positive correlation between vaccination rate and growth rate. International organisations and central banks are of the view that monetary and fiscal support must remain firmly in place to sustain the economic recovery.

Domestic economic developments

14. Turning to the domestic economy, the Mauritian economy is gradually recovering against this improved global backdrop.
15. Since the last MPC meeting, three major developments have taken place. The successful rollout of the ongoing vaccination campaign, the gradual re-opening of borders to international travel and the announcement of the upcoming FATF on-site visit have propped up confidence in the economic outlook of the country.
16. With the ongoing mass vaccination campaign, as at the beginning of August 2021 more than 55 per cent of the population have already received at least one dose of vaccine. This level of immunisation will foster a normalisation of economic activity and further bolster confidence in the economic recovery phase.
17. The re-opening of borders is expected to revive the tourism sector in the second half of 2021 and beyond. This would provide a fresh impetus to the *'Accommodation and food service activities'* and *'Transport'* sectors, with positive ripple effects on other sectors. Going forward, labour market conditions are expected to improve.
18. Economic activity in 2021Q1 suffered from the resurgence of COVID-19 cases and the imposition of a second lockdown in March 2021. However, the preparedness of individuals and corporates to face the second lockdown and the phased lifting of restrictions helped to limit the damage to overall output. The contraction of the domestic economy by 8.4 per cent in 2021Q1 was lower than in the last two quarters of 2020.
19. Some sectors, such as *'Accommodation and food service activities'*, *'Manufacturing'* and *'Transport'* continued to be impacted by the pandemic. Other key sectors including '*Wholesale and retail trade*', '*Construction*', '*Information and communication'* and '*Real estate activities'* showed signs of broader recovery. The '*Financial services'* sector has sustained its growth momentum.
20. The current account deficit as a percentage of GDP deteriorated further to 16.1 per cent in 2021Q1. The deficit on the goods account widened while the services account remained negative due to the shortfall in tourism earnings.
21. The re-opening of borders domestically and abroad and the rebound in external demand are having a positive influence on domestic economic activity. As a percentage of GDP, the current account deficit is projected to improve to about 10.2 per cent in 2021 compared to 12.7 per cent in 2020.

22. With consumer confidence and optimism strengthening, a rebound in domestic demand appears to be underway and growth in 2021 is projected to be positive. This is what comes out from the regular meetings that I have had with real sector stakeholders to assess the sentiment of the business community. From these discussions, the outlook for the export sector is positive, in particular for textiles and medical devices. The prospects for the tourism sector are also favourable based on advanced hotel bookings.

Inflation

23. Headline inflation has picked up in June 2021 to 2.2 per cent from 1.8 per cent in June 2020.
24. This rise in headline inflation, just like in many countries around the world, is mainly due to transitory supply shocks. This increase emanated primarily from higher freight costs and prices of imported goods. Freight cost, as proxied by the Baltic Dry Index, went up by 156 per cent from June 2020 to June 2021. The FAO food price index averaged 124.6 points in June 2021, an increase of nearly 34 per cent between June 2020 and June 2021.
25. There is still significant uncertainty on price dynamics worldwide due to such unexpected supply shocks.

Money market

26. I now turn to money market developments.
27. The Bank has been managing excess rupee liquidity in line with its monetary policy stance. Short-term yields moved back within the interest rate corridor.
28. As part of its monetary operations, the Bank issued securities totaling Rs53 billion since January 2021 up to 30 July 2021. The level of rupee excess liquidity in the banking system dropped on the back of these open market operations as well as foreign exchange interventions by the Bank. As at today, excess liquidity is estimated at around Rs26 billion. The Bank is committed to pursue active liquidity management to normalise liquidity conditions as economic recovery gathers momentum.
29. I wish to reiterate that the Bank's balance sheet remains sound for the effective conduct of its monetary policy operations.

Foreign exchange market

30. 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.
31. The Bank continued to intervene on a regular basis to smoothen exchange rate volatility and ensure an adequate supply of foreign exchange to the market. Since January 2021, the Bank has sold to banks, FX dealers and the State Trading Corporation a total amount of USD950 million, equivalent to around Rs39 billion. Since March 2020, the Bank has sold an aggregate of USD2.1 billion.
32. I have to reiterate that the Bank conducts its FX interventions at exchange rates based on bids received from banks at its FX auctions. Banks bid at the auctions taking into consideration local

and international FX developments. All intervention rates are determined within the exchange rates quotes provided by banks.

33. In delivering on its price stability mandate, the Bank continues to bridge the significant shortfall of foreign exchange inflows by regularly supplying foreign exchange to the market. In this way, the Bank has been able to avoid heightened economic and financial vulnerabilities that would have posed a major risk to price stability.
34. The Bank continues to closely monitor the FX market and is committed to maintaining orderly conditions and retaining a floating exchange rate regime.
35. The gross official FX reserves of the country remained at comfortable levels, standing at around USD7.3 billion as at end-July 2021, representing 18.2 months of imports, up from 17.9 months of imports as at end-July 2020. It is pointed out that this import cover is based on the lower import base of 2020 as a result of the pandemic.
36. The level of the gross official FX reserves remains adequate according to the stringent Assessing Reserve Adequacy (ARA) metrics of the IMF. It stands within the recommended range of 100 to 150 per cent.

New Monetary Policy Framework

37. The Bank is currently revamping its monetary policy framework in collaboration with the IMF. The new framework will be forward-looking and will provide greater transparency on the monetary policy strategy. Its design will further strengthen monetary policy operations and the monetary policy transmission mechanism.
38. The new framework will look into key aspects of monetary policy such as the tolerable inflation, instruments of monetary policy and operational target.
39. The Bank will embark on a consultation process in October 2021 to discuss the operational aspects of its proposed new monetary policy framework. Further to this exercise, the monetary policy framework will be rolled out before the end of 2021.
40. The Bank has also reviewed the *Guideline on the Operational Framework for Primary Dealers* to bolster activity on the secondary market for securities and ultimately enhance the transmission of monetary policy signals. The Bank will engage with stakeholders this week to finalise and rollout this Guideline.

Financial stability

41. With respect to financial stability, the banking sector has remained sound and stable. The aggregate Capital Adequacy Ratio stood at 18.7 per cent at end-March 2021, well above the minimum regulatory limit. The Liquidity Coverage Ratio stood at 228 per cent, with banks holding high levels of liquid assets in excess of the regulatory limit of 100 per cent.
42. COVID-19 support measures taken by the Bank continue to ensure the flow of credit to the economy. The annual growth rate of bank credit to the private sector rose to 4.7 per cent in June 2021, up from 3.9 per cent in December 2020. The credit growth momentum to corporates and households was sustained at 4.1 per cent and 5.5 per cent, respectively, in June 2021.

43. The asset quality of banks remains sound, with the ratio of non-performing loans to total loans improving to 5.0 per cent in March 2021 compared to 5.4 per cent in December 2020. In parallel, the moratoriums and other support measures proposed by the authorities have provided a financial respite to borrowers, especially those adversely impacted by the pandemic.
44. In line with its mandate to maintain price stability and promote orderly and balanced economic development as well as to ensure the stability and soundness of the financial system of Mauritius, the Bank has rolled out a series of measures, both conventional and unconventional, to support the economy. In the absence of such bold measures, the impact of the crisis would have been much more sizeable and protracted, notably on households and firms and consequently on the financial sector.
45. It has extended some of its COVID-19 relief measures up to June 2022. The total outstanding amount of loans to economic operators, SMEs, households and individuals which have been granted moratorium due to COVID-19 peaked at Rs64.1 billion at end-September 2020 and stands at Rs42.5 billion at end-June 2021. The decline in the outstanding value indicates that businesses and households are now in a better position to service their debts.
46. The MIC continues to contribute to maintain financial stability and prevent contagion from the real sector to the banking sector by helping COVID-19 impacted systemic companies to remain afloat while preserving jobs.
47. The Bank, as the sole shareholder of the MIC, has taken note of the recent allegations that have been made against its subsidiary. I wish to bring the following clarifications.
    a. The Bank has established the MIC in the midst of the pandemic with a dual purpose.
    b. The first one being to financially support systemic Mauritian companies that have been negatively impacted by COVID-19. The second is to invest in the future of Mauritius, through its Future Generations Portfolio and in return-generating strategic assets.
    c. In accordance with its constitution, the MIC has submitted a report to the Board of the Bank detailing the procedures and processes for approving projects. I can reassure you that the MIC's Investment Charter and the principles of good governance have been adhered to.
48. The Bank continues to closely monitor the resilience of the banking sector and conducts regular stress testing exercises. The results indicate that the effects of real economic shocks on the banking system in Mauritius have, so far, been contained.

MPC decision

49. I now come to the decision of the MPC.
50. The MPC discussed the global economic context and the performance of the domestic economy.
51. The domestic economy is showing better resilience. With the recovery in global and domestic economic activities, Bank staff project real GDP growth of 5.5 per cent for 2021. The revision

to the growth forecast of the last MPC meeting is primarily due to the impact of the second lockdown and its economic repercussions.

52. Domestic inflation continues to be subject to supply-side pressures. In the absence of further external shocks, Bank staff project headline inflation to stand at about 3.5 per cent for 2021. The supply-side shocks emanating primarily from higher freight costs and prices of imported goods explain the upward revision to the inflation forecast. However, these factors are transitory in nature.
53. The MPC took note of the latest measures under the Bank of Mauritius COVID-19 Support Programme and its extension up to June 2022. These measures have complemented the accommodative monetary policy stance.
54. The MPC considers that the current monetary policy stance is appropriate and supportive of economic recovery. Accordingly, the MPC has unanimously decided to maintain the Key Repo Rate at 1.85 per cent per annum.
55. I hereby reiterate the commitment of the Bank of Mauritius to deliver on its mandate of maintaining price stability, promoting orderly and balanced economic development, and ensuring the stability and soundness of the financial system of Mauritius.
56. The next meeting of the MPC is scheduled for 6 October 2021.
57. The MPC will continue to monitor the economic situation closely and stands ready to meet in between its regular meetings, if the need arises.
58. Thank you.