**BANK OF MAURITIUS**

# Minutes of the 58th Monetary Policy Committee Meeting held on 04 February 2021

The 58th meeting of the Monetary Policy Committee (MPC) was held on Thursday 04 February 2021 at 10:30 hours at the Bank of Mauritius under the chairmanship of Governor Harvesh Kumar Seegolam. The following members attended the meeting: Mr. Mardayah Kona Yerukunondu (First Deputy Governor); Mrs. Hemlata Sadhna Sewraj-Gopal (Second Deputy Governor); Mr. Lim Chan Kwong Lam Thuon Mine; Mr. Mohammad Mushtaq Namdarkhan; Dr Streevarsen Narrainen; and Mrs. Christine Marie Isabelle Sauzier (External Members). Professor Sanjeev Kumar Sobhee (External Member) participated by teleconference.

## Summary of Staff Report on Economic and Financial Developments

Bank staff briefed MPC members on global and domestic economic developments that took place since the 57th MPC meeting held on 23 September 2020. The MPC took note of staff's macroeconomic projections and assessed risks to the domestic economic outlook.

### Global economic developments

1. **The outlook for the global economy has improved following the successful development and rollout of COVID-19 vaccines**. The International Monetary Fund, in its January 2021 World Economic Outlook Update, projected global output to grow by 5.5 per cent in 2021, 0.3 percentage point higher compared to its October 2020 forecast, and by 4.2 per cent in 2022. The upward revision for 2021 was based on vaccine-related developments and additional fiscal support in some large countries. However, the recovery in economic activity could remain uneven, depending on the effectiveness of measures to combat the spread of the pandemic or mitigate the risk of new COVID variants, country specificities and exposure to cross-country spill-overs.

2. **Purchasing Managers' Indices (PMIs), the key leading indicators of world economic activity, continued to gain momentum.** The J.P. Morgan's Composite PMI rose to 52.7 in December 2020, from 52.5 in September 2020. Output rose across the manufacturing and services sectors, with the manufacturing sector outperforming the services sector for the sixth consecutive month. Output expanded the most in the US, China and Australia, followed by Germany, India, UK and Brazil. But, contractions were noted in the rest of the euro area, Japan and Russia.

3. **The resurgence in COVID-19 infection cases and the re-instatement of containment measures as well as global economic uncertainty weighed on oil price developments, and added to oil price volatility**. Crude oil prices declined from US$39.9 per barrel on 23 September 2020 to

US$35.8 per barrel on 30 October 2020, before increasing steadily to cross the US$50 mark in January 2021, reaching US$52.4 per barrel on 15 January 2020. According to the Energy Information Administration's January 2021 Short Term Energy Outlook, Brent crude oil prices are projected to average US$52.7 per barrel in 2021, compared to US$41.7 per barrel in 2020.

4. **Food prices maintained their gradual ascent.** The FAO *Food Price Index* edged up from 105.2 points in November 2020 to 107.5 points in December 2020. The main drivers were sub-indices of vegetable oil, dairy, meat and cereals. The International Grains Council's *Grains and Oilseed Index* stood at 259 points in December 2020, up by 5.4 per cent compared to a year ago, driven by increases in all sub-indices, with soyabeans depicting the highest gain.

5. **Global inflation remained subdued and below targets.** In the US, inflation rose from 1.2 per cent in November 2020 to 1.4 per cent in December 2020, reflecting higher gasoline prices. The euro area continued to experience deflation, registering an inflation rate of -0.3 per cent for the third consecutive month in December 2020. In the UK, inflation increased to 0.8 per cent in December 2020, from 0.6 per cent in November 2020, with 'recreation and culture' and 'transport cost' as main contributors. China's inflation rate stood at 0.2 per cent in December 2020, after a 0.5 per cent drop in November 2020. Inflation in India fell to 3.7 per cent in December 2020, from 5.3 per cent in November 2020, led by easing prices of some food items. Inflationary pressures are projected to remain muted through 2022. Inflation in advanced economies is estimated at 1.3 per cent in 2021 while inflation in emerging market and developing economies is projected at 4 per cent in 2021, lower than their historical average.

6. **Central banks pursued their accommodative monetary policy stance to support the growth momentum.** The Federal Open Market Committee of the US Federal Reserve Board of Governors maintained the target range for the federal funds rate at 0.00-0.25 per cent at its meeting held on 16 December 2020, on account of a moderate rise in economic activity and improved labour market conditions. The Bank of England maintained the Bank Rate at 0.1 per cent on 16 December 2020. The Governing Council of the European Central Bank, at its meeting held on 21 January 2021, left interest rates on the main refinancing operations; the marginal lending facility and the deposit facility unchanged at 0.00 per cent, 0.25 per cent and -0.50 per cent, respectively. The Pandemic Emergency Purchase Programme was maintained at €1,850 billion while the horizon for net purchases under the programme was extended to end March-2022.

## Domestic economic developments

7. **In Mauritius, inflationary pressures were broadly contained, while inflation expectations remained adequately anchored.** The CPI rose by 0.8 index point from 105.3 in August 2020 to 106.1 in December 2020, reflecting mainly increases in the prices of vegetables (0.3 index point) and other goods and services (0.3 index point), more than offsetting the decline in the price of traders' rice, motor vehicles and goods for personal care (0.1 index point each). Y-o-y inflation rate accelerated from 1.5 per cent in August 2020 to 2.7 per cent in December 2020 while the 12-month average inflation rate increased from 1.8 per cent to 2.5 per cent over the same period.

8. **Most economic sectors recorded an improvement in activity during 2020Q3 in line with the re-opening of the economy following earlier COVID-19 containment measures, as activity in the services sector recovered the most, with the notable exception of the tourism sector.** The domestic economy contracted at a slower rate of 13.1 per cent in 2020Q3, compared to 33.0 per cent in 2020Q2. On the expenditure side, domestic demand recorded a smaller decline in 2020Q3, as consumption and investment expenditure improved. Net external demand remained the drag on real GDP growth, although lower in magnitude.

9. **Labour market conditions broadly reflected the sequels of the economic impact of the pandemic.** The unemployment rate rose from 10.3 per cent in July 2020 to 10.9 per cent in September 2020. The outlook for the labour market remains fraught with uncertainties and largely conditional on the full recovery of economic activity and the financial health of corporates. The Government, through the various measures rolled out and the extension of the Wage Assistance Scheme, has been able to avert layoffs which would have had a significant social impact.

10. **Preliminary estimates of the balance of payments for 2020Q3 have pointed to a higher current account deficit relative to 2019Q3, stemming from a deficit in the services account and lower surplus in the primary income account**. The current account deficit is estimated at Rs14.8 billion (or 13.7 per cent of GDP) in 2020Q3 compared to Rs7.9 billion (or 6.4 per cent of GDP) in 2019Q3. The goods account deficit improved significantly, reflecting a higher contraction in nominal imports relative to nominal exports. As a ratio to GDP, the current account deficit is estimated to have widened from 5.4 per cent in 2019 to about 12.5 per cent in 2020 and has been projected at about 10.5 per cent in 2021.

11. **Both the Bank and Government have resumed the issuance of securities.** The Bank resumed its open market operations to mop up part of prevailing excess liquidity on the market, besides intervening on a regular basis to ensure an adequate supply of foreign exchange to the market. Government, on its part, resumed issuances of its securities, to meet its financing requirements as from 06 November 2020. The level of rupee excess reserves in the banking system increased significantly, attaining a peak of Rs58.6 billion on 17 December 2020, broadly reflecting net Government expenditure. Given the amount of rupee excess liquidity, weighted average yields dropped significantly across all tenors.

12. **The rupee depreciated, both on nominal and real effective exchange rate basis.** On an annual basis, the rupee, on a nominal effective exchange rate basis, depreciated by 11.5 per cent in December 2020, reflecting both domestic and international financial conditions. On a real effective exchange rate basis, the rupee was lower by about 10 per cent y-o-y in December 2020.

13. **The pace of Broad Money Liabilities (BML) gained further momentum.** The annual growth rate of BML stood at 17.2 per cent in November 2020, up from 12.3 per cent in July 2020. Bank loans to the private sector (excluding GBCs) moderated since the last MPC meeting. Bank lending ticked up by 0.1 per cent from Rs319.4 billion as at end-July 2020 to Rs319.7 billion as at end-

November 2020. The rise in bank lending largely reflected additional borrowings availed by the '*Other Nonfinancial Corporations*' (Rs8.4 billion) and '*Households*' (Rs2.8 billion) sectors.

## Staff economic outlook

14. **Headline inflation in the baseline scenario is projected to increase slightly, mainly due to supply conditions as demand conditions remained broadly muted.** Weather-related disturbances are expected to exert moderate inflationary pressures during 2021Q1, thereby changing to some extent price dynamics during the first quarter of the year. Any temporary increase in the prices of fresh vegetables, a major contributor to CPI inflation, is expected to normalise once demand and supply forces stabilise. Global oil prices are foreseen to stabilise at current levels over the near-term with fears of reduced global oil demand emanating from the negative economic impact of COVID-19. In the absence of unforeseen exogenous shocks, Bank staff forecast headline inflation at about 3.0 per cent for 2021. Given the rather high degree of uncertainty, the path of domestic inflation is expected to remain subject to supply disturbances as demand-side pressures are projected to be minimal.

15. **The domestic growth outlook points towards a broad recovery, after having shown some signs of resiliency in 2020Q3.** The baseline scenario assumes that there would be no additional COVID-19 outbreaks and accompanying strict containment measures. Policy support measures, especially regarding the labour market, are also projected to be working out their way to support the economy. The economic recovery is set to be supported by substantial monetary and fiscal stimulus. Continued public spending in infrastructure projects is expected to sustain domestic economic activity. Real GDP growth forecasts from various domestic and international institutions for 2021 range from 2.4 per cent to 8.5 per cent. While vaccine news is clearly encouraging, a rapid return to normality is not being considered in the near term. Bank staff project real GDP to expand by around 7.9 per cent in 2021, mainly due to favourable base effects and a gradual reprise in some key sectors amidst policy support.

## Monetary Policy Decision

16. **Members reviewed global economic and financial developments, noting that the outlook for the global economy was improving following the successful development and rollout of COVID-19 vaccines**. The spread of the virus and the speed of vaccine distribution remained key determinants of the outlook. The accommodative policy measures have been supporting economies worldwide. Growth forecasts for the global economy and for some of Mauritius' major trading partners had been revised upwards. However, members acknowledged that the global economic environment remained subject to uncertainty and a majority of economies were expected to remain short of their pre-pandemic paths in the near term. Subdued inflationary pressures were deemed to persist, given that most economies would be operating with spare capacity.

17. **Turning to the domestic economy, members noted that the economy recovered during the third quarter of 2020, with the lifting of confinement measures which boosted activity**. Consumption expenditure had rebounded. In discussing the outlook for real GDP growth, members

noted that the forecasts under the baseline scenario have been revised up, reflecting the improving global economic outlook and the resiliency of the domestic economy.

18. **With regards to the outlook for inflation, members noted that underlying inflationary pressures were expected to remain subdued** and inflation would remain contained around 3 per cent in 2021. They deliberated on the importance of core inflation measures and on the merit for targeting core inflation. They also discussed on open market operations strategies and on the panoply of measures that the Bank had taken to support the socio-economic environment. Members viewed that the current policy stance supported economic development.

19. **All members of the MPC unanimously voted for keeping the Key Repo Rate unchanged at 1.85 per cent per annum at the conclusion of the discussions.** The MPC remains vigilant in monitoring the economic situation and stands ready to meet in between its regular meetings, if the need arises.

20. **The next MPC meeting is scheduled on Thursday 20 May 2021.**

| **Editor's Note** |
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| 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. |
| When the MPC met on 4 February 2021, the last available data on national accounts were for 2020Q3. Data pertaining to external trade and balance of payments were also for 2020Q3. The last data available on Consumer Price Index (CPI) and inflation were for December 2020. |
| Headline inflation is measured by the change in the average 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. |
| CORE2 inflation excludes food, beverages and tobacco, mortgage interest, energy prices and administered prices from the CPI basket. |
| Y-o-y refers to year-on-year. |
| Q-o-q refers to quarter-on-quarter. |
| M-o-m refers to month-on-month. |