BANK OF MAURITIUS

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The 53rd meeting of the Monetary Policy Committee (MPC) was held on Wednesday 27 November at 10:00 hours at the Bank of Mauritius and was chaired by Mr. Yandraduth Googoolye, Governor.

Members present: Mr. Mahendra Vikramdass Punchoo (Second Deputy Governor); Mr. Lim Chan Kwong Lam Thuon Mine; Mr. Mohammad Mushtaq Namdarkhan; Dr Streevarsen Narrainen; Ms. Marie Rosy Priscilla Pattoo; and Professor Sanjeev Kumar Sobhee (External Members).

Summary of Staff Report on Economic and Financial Developments

The Bank's staff reported on economic and financial developments, which took place since the 52nd MPC meeting held on 9 August 2019. The MPC also assessed staff's macroeconomic projections and evaluated risks to the domestic economic outlook.

Global economic and financial developments

1. **The MPC reviewed economic and financial developments since the August 2019 MPC meeting and noted that global growth and inflation projections, including for Mauritius major trading partners, has been revised down.** Trade tensions have been the key factor in the current global downturn, causing higher business uncertainty worldwide manufacturing activity and global trade. The IMF, in its October 2019 World Economic Outlook (WEO), again lowered its global growth projection for 2019 to 3.0 per cent, 0.3 percentage point lower than projected in its April 2019 WEO. In its November 2019 Economic Outlook, the OECD has forecast world GDP to grow at 2.9 per cent in 2019, its lowest annual rate since the global financial crisis.

2. **The decline in economic activity was broad-based affecting both advanced economies and emerging market and developing economies (EMDEs).** In the US, growth has been trending towards the 2 per cent level as the impact of fiscal stimulus faded. In the euro area, growth remained sluggish, partly due to the contraction of Germany in 2019Q2. Brexit-related uncertainties continued to dent UK's economic growth as investment stagnated. In China, growth receded due to lower domestic demand. In India, the economy decelerated further in 2019Q2, amid sectoral weakness in the automobile sector and real estate and lingering uncertainty with regard to the health of nonbank financial institutions. Growth also slowed in some major emerging economies like Brazil, Mexico, Russia and South Africa on country specific issues.

3. **IHS Markit PMIs, the global survey indicators of economic growth, maintained their downtrend and the manufacturing PMI has remained in contractionary territory since April 2019.** J.P.Morgan's Composite PMI dropped to 50.8 in October 2019, from 51.1 in September 2019. The October PMIs could signal a further slowdown in the rate of global economic growth, as weaker services activity would offset the modest improvement in the manufacturing sector. Both manufacturers and service providers recorded a drop in new export business.

4. **Inflationary pressures in major economies remained broadly muted partly driven by lower energy price inflation and inflation remained below major central banks' targets.** In the US, inflation remained within tight ranges, rising to 1.7 per cent in September 2019, from 1.6 per cent in June 2019. In the UK, inflation fell to 1.7 per cent in September after having hovered around the central bank's target of 2.0 per cent in June. In the Eurozone, inflation dropped further to 1.2 per cent in September 2019, from 1.6 per cent in June. In contrast, inflation in China increased from 2.7 per cent to 3.0 per cent over the same period. In India, inflationary pressures retreated as inflation fell from 8.6 per cent in June to 7.0 per cent in September. Even for our major trading partners, inflation remained broadly subdued.

5. **Crude oil prices have been influenced by weakening demand, and the agreement between OPEC and its partners to continue with production cuts**. Brent crude oil rose from US$59.5 per barrel in August 2019 to US$62.3 per barrel in September 2019, but reverted to US$59.6 per barrel in October 2019. NYMEX WTI went up from US$54.8 per barrel in August 2019 to US$57.0 per barrel in September 2019 before declining to US$54.0 per barrel in October 2019. Extension of OPEC's agreement through 2020Q1, US sanctions on Iran's and Venezuela's crude oil exports and Saudi Arabia's continued over-compliance with the existing OPEC's agreement supported oil prices.

6. **Prices of major agricultural commodities have stabilised lately, but are still subject to downside risks.** In the short-term, multi-year-high stock levels, favourable weather conditions in key producing regions, low energy costs, and weakening demand for some specific commodities would contain non-oil commodity prices. The FAO Food Price Index stood at 172.7 in October 2019, almost unchanged from October 2018, but up from 169.7 in September 2019 due to higher prices of most of its constituents. The International Grains Council's Grains and Oilseed Index rose in October 2019 by 4.1 per cent m-o-m, but was lower by 4.8 per cent compared to October 2018. In its Commodity Markets Outlook released in October 2019, the World Bank projected prices of food commodities to broadly stabilise in 2020.

7. **Major advanced economies' central banks have continued to provide policy support by further easing their respective monetary policy stance.** Since the August 2019 MPC meeting, the Federal Open Market Committee (FOMC) cut the Federal Funds rate twice by 25 basis points to a range of 1.50-1.75 per cent given softening global growth and muted domestic inflationary pressures. The US Fed also signalled its intention to purchase treasury bills until 2020Q1. The Governing Council of the European Central Bank (ECB) left key policy rates unchanged at its October 2019 meeting after having reduced the interest rate on its deposit facility by 10 basis points to -0.50 per cent. The ECB would restart its asset purchase programme by purchasing EUR20 billion as from 01 November 2019 monthly. The ECB would maintain an accommodative monetary policy stance until inflation converges sufficiently

close to the target of 2 per cent. The Bank of England maintained the Bank rate at 0.75 per cent, after the risks of a no-deal Brexit declined.

Domestic economic developments

8. **Headline inflation remained at low levels, reflecting broadly favourable domestic supply conditions, subdued domestic price pressures in most of the CPI components and low global inflation.** Headline inflation systematically dropped from 0.9 per cent in July 2019 to 0.7 per cent in October 2019, while y-o-y inflation, reflecting the inherent dynamics in the CPI from base effects, rose from 0.8 per cent in July 2019 to 1.8 per cent in August 2019 before dipping to 0.4 per cent in October 2019. Core inflation measures, as reflected in the Bank's CORE1 and CORE2 measures, remained contained below 2 per cent. On a 12-month average period, CORE1 inflation went down from 1.3 per cent to 0.8 per cent whereas CORE2 inflation edged up from 1.8 per cent to 1.9 per cent in October 2019. The majority of the other inflation measures also depicted stability and subdued price pressures.

9. **The domestic economy was supported by the continuous growth across all major economic sectors in 2019Q2.** Real GDP at basic prices grew by 3.6 per cent y-o-y in 2019Q2, higher compared to 3.4 per cent and 3.3 per cent in 2019Q1 and 2018Q2, respectively. On a quarter-on-quarter seasonally adjusted basis, real GDP rose by 0.9 per cent in 2019Q2 compared to 0.3 per cent in 2019Q1. Key services sectors grew strongly in 2019Q2: '*information and communication*' (5.6 per cent), '*financial and insurance activities*' (5.4 per cent), '*professional, scientific and technical activities*' (4.9 per cent) and '*wholesale and retail trade*' (3.5 per cent). Growth in the '*accommodation and food service activities*' sector rebounded by 2.5 per cent in 2019Q2 from a contraction of 1.1 per cent in 2019Q1, reflecting the increase in tourist arrivals during the quarter. Growth in the '*construction*' sector remained robust at 8.6 per cent in 2019Q2. However, growth in the '*real estate*' sector slowed to 2.4 per cent in 2019Q2, from 3.5 per cent in 2018Q2. The '*manufacturing*' sector grew by 1.2 per cent in 2019Q2, compared to a lower growth of 0.2 per cent a year earlier, reflecting mainly the recovery in '*sugar*' and '*textile*' subsectors.

10. **On the expenditure side, household consumption was solid; net external demand was positive while investment expenditure moderated**. Household consumption expenditure growth was firm at 3.2 per cent in 2019Q2, while general government consumption expenditure contracted by 0.1 per cent. The growth of Gross Fixed Capital Formation slowed sharply from 10.3 per cent in 2019Q1 to 2.8 per cent in 2019Q2, reflecting the contraction in '*machinery and equipment*' by 5.8 per cent in 2019Q2, following double-digit growths since 2018Q2. Growth in '*building and construction work*' slowed down to 8.7 per cent in 2019Q2, from 11.5 per cent a year earlier. On the external front, domestic export performance improved by 0.5 per cent in 2019Q2 following contractions of 2.6 per cent and 1.1 per cent in 2019Q1 and 2018Q2, respectively, on the back of a rebound of 0.4 per cent in exports of services and rise of 0.5 per cent in exports of goods. Imports of goods and services declined by 0.9 per cent in 2019Q2, due to the fall in goods' imports.

11. **Preliminary estimates of Mauritius' balance of payments (BoP) indicated an improvement of the current account deficit in 2019Q2 compared to 2018Q2, thanks to a better performance of the primary income account, while the country recorded a higher overall BoP surplus**. The current account

deficit has been estimated at Rs4.9 billion or 3.9 per cent of GDP in 2019Q2 compared to Rs7.9 billion or 6.6 per cent of GDP in 2018Q2. The deficit in the goods account widened, marginally, from Rs25.5 billion (or 21.3 per cent of GDP) in 2018Q2 to Rs25.6 billion (or 20.5 per cent of GDP) in 2019Q2. The services account posted a lower surplus of Rs6.7 billion in 2019Q2 compared to Rs7.3 billion in 2018Q2 as a result of a lower net surplus registered on the 'travel' sub-account. The surplus on the primary income account is estimated to have accrued to Rs15.8 billion in 2019Q2 from Rs12.6 billion in 2018Q2. The deficit on the secondary income account has been estimated at Rs1.8 billion in 2019Q2 compared to Rs2.2 billion in 2018Q2. The net borrowing from the financial account, inclusive of reserve assets, has been estimated at Rs6.4 billion in 2019Q2 compared to Rs10.2 billion in 2018Q2. The country recorded an overall balance of payments surplus of Rs19.2 billion in 2019Q2 compared to a surplus of Rs18.9 billion in 2018Q2. As a percentage to GDP, the current account deficit is estimated to increase from 5.8 per cent in 2018 to 6.3 per cent in 2019 mostly due to the widening goods account deficit.

12. **The unemployment rate declined further in 2019Q2, while the Wage Rate Index (WRI) continued its uptrend.** The unemployment rate fell from 7.0 per cent in 2018Q2 to 6.6 per cent in 2019Q2, with a fall of 1,400 in the number of unemployed attributed to a rise in employment of 12,300 which more than offset the increase of 10,900 in the labour force. The unemployment rate for 2019 is projected to fall marginally to 6.8 per cent, from 6.9 per cent in 2018. In 2019Q2, the WRI rose by 4.1 per cent y-o-y, attributed primarily to the marked increase in private sector wages by 5.1 per cent. The latter's increase resulted from rises of 6 per cent and over in sectors such as manufacturing, distributive trade, transports, ICT and administrative services.

13. **The exchange rate of the rupee moved largely in consonance with major currencies on the international foreign exchange market as well as demand and supply conditions on the domestic market.** The rupee was also influenced, to some extent, by the Bank's intervention on the domestic foreign exchange market. Based on the nominal effective exchange rate, as measured by MERI1, the rupee depreciated m-o-m for the second consecutive month by 0.5 per cent in October 2019. However, when computed on a real effective exchange rate basis, the rupee appreciated by 1.0 per cent m-o-m in September 2019 as against a depreciation of 0.9 per cent in August 2019, reflecting the positive inflation differential between Mauritius and its main trading partners.

14. **The Bank's open market operations helped to contain rupee excess liquidity while its intervention on the domestic foreign exchange market focused on keeping orderly and balanced conditions.** Banks' average rupee excess liquidity dropped by Rs2.2 billion to an average of Rs10.7 billion between 09 August and 15 November 2019, against an average of Rs12.9 billion between 17 May 2019 to 8 August 2019. The Bank issued securities for a total amount of Rs32.8 billion since the August 2019 MPC meeting against total maturing BoM securities of Rs31.3 billion. The Bank sold USD76.8 million on the domestic foreign exchange market since the last MPC meeting. Outstanding BoM securities stood at Rs119.8 billion on 15 November 2019.

15. **Short-term yields continued to evolve within the interest rate corridor of the operational framework for monetary policy.** The weighted average 91-Day yield dropped from 3.01 per cent on 09 August 2019 to a low of 2.33 per cent in early-November but recovered to 2.66 per cent on 15

November. Mirroring the 91-Day Bill, the weighted average yields on the 182-Day and 364-Day Bills declined by about 35 basis points to 2.83 per cent and 2.97 per cent, respectively between 09 August and 15 November 2019. The Bank also proceeded, as from 25 September 2019, with the issue of 28-Day Bills to manage liquidity.

16. **Broad Money supply maintained its growth momentum ensuring an adequate availability of liquidity.** Y-o-y, Broad Money Liabilities (BML) grew by 7.4 per cent in September 2019, up from 6.4 per cent in June 2019. The contribution of rupee deposits in the y-o-y growth in BML edged down from 3.6 percentage points in June 2019 to 3.5 percentage points in September 2019 while the contribution of foreign currency deposits in y-o-y BML rose from 1.4 percentage points to 2.8 percentage points over the same period. Excluding foreign currency deposits, the y-o-y growth rate of BML fell from 6.0 per cent in June 2019 to 5.5 per cent in September 2019. Y-o-y, the monetary base grew by 6.0 per cent in September 2019, recovering from the contraction of 3.0 per cent in June 2019.

Staff economic outlook

17. **Global inflationary pressures have been projected to remain more or less moderate in 2020 amidst estimated lower oil prices**. According to the EIA November 2019 Short Term Energy Outlook, global oil demand growth in 2020 would be broadly unchanged and amidst improved supply, oil prices could trend lower in 2020. The IMF October 2019 WEO has projected inflation in advanced economies to increase from 1.5 per cent in 2019 to 1.8 per cent in 2020. Inflation in emerging economies is forecast to rise from 4.7 per cent in 2019 to 4.8 per cent in 2020.

18. **The lingering period of trade tensions is bringing about a cyclical slowdown in global economic activity and industrial production as well as a deceleration in world trade growth**. Both the United States and China, the world's two largest economies, have seen a pronounced cooling in commercial activity in recent months. The IMF has projected global growth to recover from its lowest reading of 3.0 per cent in 2019 to 3.4 per cent in 2020. According to the OECD, the global economy would grow at about 2.9 per cent in both 2019 and 2020. Among the challenging headwinds that the global economy would face in the near term include weaker trade flows, lack of clarity with regard to UK's exit from the European Union; the outcome of the British elections in December 2019 and geopolitical tensions.

19. **In projecting inflation and real GDP growth in Mauritius for 2020, Bank staff have assumed the following:** (i) prices of domestic petroleum products would remain unchanged over the forecast horizon based on global projections of food and oil prices for 2020; (ii) prices of other administered products would also be kept unchanged; (iii) the implementation of public sector infrastructure projects as per the Public Sector Investment Programme to remain on target; (iv) inflation expectations to continue to be well-anchored; (v) business and consumer confidence indicators to remain at current levels; and (v) the absence of significant supply shocks.

20. **Bank staff have estimated that subdued inflationary conditions would continue to prevail by December 2020.** Headline inflation is not anticipated to pick-up significantly over the forthcoming quarters as both demand-side and cost-push pressures would remain somewhat weak. Barring

unexpected shocks, Bank staff has maintained the previously announced inflation forecast of 0.5 per cent in 2019 and about 1.5 per cent in 2020. The combination of a relatively weaker exchange rate pass-through to the CPI and subdued imported inflation would be expected to contain domestic price pressures. On the demand side, the contribution of a negative output gap would continue to weigh on domestic prices. Thus, the balance of risks to the inflation outlook appears tilted on the downside in the absence of major supply shocks.

21. **Favourable economic conditions arising from strong capital investment in infrastructure projects, pro-growth fiscal policies and an accommodative monetary policy stance are anticipated to persist in 2020**. The contribution of key sectors such as construction, financial and insurance activities and real estate activities to domestic output remains vital for sustaining the economic growth momentum. Household consumption expenditure continues to remain a major driver of domestic growth. Positive consumer and business sentiments also remain critical for maintaining the economic growth momentum. However, some specific sectoral issues continue to act as a drag on domestic output. Fears over dwindling tourist arrivals, the closure of a few textile companies, and subdued growth in sugar production could weigh on the growth performance. Conditional on headwinds facing the domestic economy specifically from the tourism and textiles sectors, Bank staff have projected real GDP growth at 3.7 per cent for 2019. For the year 2020, real GDP has been maintained at about 4 per cent.

Monetary Policy Decision

22. **During their discussions on the global economic environment, Members assessed that the global economy remains fraught with uncertainty over the near-term and that global economic activity would warrant careful monitoring.** The MPC noted that global economic conditions remained fragile and Mauritius, as a small open economy, is exposed to external developments. Members remarked that various central banks have taken appropriate actions to sustain growth momentum amidst subdued inflationary pressures.

23. **MPC Members viewed that domestic economic activity was expected to remain resilient in the short-term, despite a highly uncertain global economic environment**. Private consumption expenditure and public sector investment activity would remain supportive of aggregate demand. The MPC Members discussed the lower domestic GDP growth in 2019Q1 and the potential impact of slowing global demand on the domestic economy through the trade and confidence channels.

24. **The MPC viewed that inflation was currently being projected to remain low in the short term**. Members noted the continued downward trend in inflation and the moderation in inflation expectations. Demand side pressures remained subdued. Members discussed lengthily on low inflation in Mauritius as well as the weakening link between wages and prices. It was viewed that the low inflation environment was not a structural issue but rather a temporary phenomenon. Members also noted that central banks have been easing monetary policy to support their economies. They commented that low inflation reflected lower imported inflation and slack in the economy. Some members even reviewed the impact of low interest rates on asset prices and that it was important not to fuel asset price inflation in Mauritius.

25. **The MPC noted that the domestic economy maintained its growth momentum in 2019Q2 as key sectors continued to grow and commented on the resilience of the economy**. However, since the last MPC meeting, economic developments, both on the international and domestic fronts, have been less favourable than expected and downside risks to the growth outlook have increased. The majority of Members agreed to wait for the full impact of the last cut of 15 basis points to be fully transmitted to the economy.

26. **Six out of seven Members voted to keep the Key Repo Rate unchanged.** At the conclusion of the discussions, the Committee, by a majority of 6 votes, voted to keep the Key Repo Rate unchanged at 3.35 per cent per annum. One Member argued for a cut of 10 basis points in the KRR in order to maintain policy interest rate differential and our growth prospects, in line with the decision of a cut of 15 basis points in the KRR at the August 2019 MPC meeting.

Voting Pattern

27. **Voting for the MPC action (keeping the Key Repo Rate unchanged):** Mr. Yandraduth Googoolye; Mr. Mahendra Vikramdass Punchoo; Mr. Mohammad Mushtaq Namdarkhan; Dr Streevarsen Narrainen; Ms. Marie Rosy Priscilla Pattoo and Professor Sanjeev Kumar Sobhee.

28. **Voting against the MPC action:** Mr. Lim Chan Kwong Lam Thuon Mine voted to cut the Key Repo Rate by 10 basis points.

29. **The Committee stands ready to meet in between its regular meetings, if the need arises**.

30. **The next MPC meeting is scheduled on Wednesday 26 February 2020.**

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.

When the MPC met on 26 November 2019, the last available data on national accounts, employment, external trade and balance of payments were for 2019Q2. The last data available on Consumer Price Index (CPI) and inflation were for October 2019.

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.

GMTBs refer to Government of Mauritius Treasury Bills.